

RETAIL

Do Neiman Marcus, Saks and Nordstrom discount outlets draw customers to their full-priced luxury stores?

December 4, 2019



Thinking out of the box. Image credit: Neiman Marcus

By A LUXURY DAILY COLUMNIST

By [Pamela N. Danziger](#)

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

Luxury department stores such as Neiman Marcus, Nordstrom and Saks have long been plagued by the problem of how to get rid of last season's unsold merchandise without cluttering up their stores with too many sales signs and off-priced racks. It hurts the luxury brand image.

While they could sell it through to liquidation wholesalers, the solution these retailers came up with was to establish a separate brand to operate under the full-priced store's luxury halo.

Nordstrom Rack started as the bargain basement of Nordstrom's Seattle store, then went national through the 1980s and 1990s. Saks Off 5th started in the 1990s too, with Neiman Marcus trying its hand at off-price retail in 1988 with its Last Call stores.

"From a modest out-of-sight, out-of-mind liquidation tool, it has now really morphed into a strategic and financial necessity for those companies," Arnold Aronson, Kurt Salmon Associates' managing director for retail strategies, told the *New York Times* in 2010. "It's especially driven since the recession in response to the customer's demand for much more value."

Now a decade removed from the recession, these off-price brands seem to have become the proverbial "tail that wags the dog." The discount outlets have proliferated, while the number of full-price stores has declined.

The reason is obvious. The off-priced stores are smaller in size, can be located in less tony shopping areas, and offer less customer service. All that adds up to stores that are cheaper to operate and they can also sell more made-for-outlet products, adding to items that came out of their full-priced store inventory.

Nordstrom currently has 243 Rack off-price stores to 110 full-price stores in the United States. There are 128 Saks Off 5th stores to 42 Saks Fifth Avenue stores. Neiman Marcus has been more constrained, with 24 Last Call stores

compared with 44 Neiman Marcus and Bergdorf Goodman stores. More about that later.

The off-price stores brought in new customers and gave a lift to otherwise lagging sales in the full-priced flagships. The wish had always been that customers introduced to Neiman Marcus, Saks and Nordstrom in their discount outlets would trade up to the full-priced stores eventually.

Of the companies, Nordstrom has been most forthcoming about that strategy.

"Our off-price businesses are [a] great vehicle for customer acquisition for us," said [Erik Nordstrom](#), co-president, in an October 2019 presentation about the company's local market strategy.

The company later added the following statement: "Our Off-Price business is our largest source of customer acquisition to Nordstrom, attracting more than seven million new customers in 2018. This is impactful because around one-third of these customers are expected to cross shop in our full-price business within a year."

That may be the hope for each of these companies, but I wanted to test the hypothesis and see whether Neiman Marcus, Saks and Nordstrom off-price stores actually drive traffic to their full-priced stores.

[Ubimo, a location-intelligence company](#), obliged by studying the foot traffic patterns over the last 90 days in 10 major markets (DMAs) where both a flagship Neiman Marcus, Saks Fifth Avenue and Nordstrom store is located alongside one or more of their off-price discount outlets.

Ubimo's Pola Zen, vice president of marketing, and Greer Bingham, marketing insights manager, took me through the results.

"We give retailers the opportunity to use technology to understand their audiences," Ms. Zen explains. "By understanding their foot traffic patterns, the efficiency of each store and the overlap between full-price and off-price outlets, the companies can make better decisions about locations and their marketing campaigns to attract the right kind of customers. Retailers really need to understand their audiences."

The conclusion: Neiman Marcus gets it right. It has more exclusive traffic to its full-price stores and more overlap between full-priced and off-price traffic. Nordstrom and Saks trail far behind on both measures.

Neither Neiman Marcus nor Saks responded to my request for comment.

Neiman Marcus leads in attracting shoppers to its full-price stores

Since full-price luxury retail is where the real money is for all of these brands, then Neiman Marcus wins. In the 10 DMAs studied, 69 percent of Neiman Marcus visits are to its premium stores, only 31 percent to Last Call.

For Nordstrom and Saks, their discount stores get much greater share of traffic. Nearly two-thirds (64 percent) of total Nordstrom traffic is to its Rack stores and 81 percent of Saks total traffic to Off 5th stores.

Neiman Marcus Last Call also does well with the younger HENRYs (high-earner-not-rich-yet customers, \$100,000-\$249,900 income) who are likely to graduate to Neiman Marcus stores as their income rises along with their age. Nordstrom Rack, by comparison, attracts more middle-income shoppers, \$50,000-\$75,000, as does Saks Off 5th.

In terms of the highest-income ultra-affluents (\$250,000-plus), Neiman Marcus does better than Nordstrom, which does better than Saks Fifth Avenue.

There are interesting findings around the age of shoppers as well.

Leading-edge millennials and trailing-edge Gen Xers (35-44 years) prefer the Neiman Marcus and Nordstrom flagship stores and these customers are also likely to see their incomes grow as they progress into the next age range.

On the other hand, these high-potential 35-44 year-old customers favor the discount Off 5th stores. Saks Fifth Avenue is also the most popular of the other two premium stores with the Baby Boomers (65-plus), which is not a particularly good sign for Saks as it looks to the future.

About half of Last Call shoppers also shop at Neiman Marcus

If co-locating off-priced stores near full-priced flagships is intended to build overlap traffic, then Neiman Marcus wins again. Nearly half (48 percent) of shoppers to a Last Call store also visited their local Neiman Marcus flagship store. Only 1 percent were exclusively Last Call customers and 51 percent were exclusively premium shoppers.

This contrasts sharply with Nordstrom, where there was only 11 percent overlap and Saks with a mere 4 percent.

These retailers too have significantly higher exclusive traffic to their off-priced stores: Nordstrom Rack at 29 percent and Saks Off 5th 69 percent.

On a positive note, Nordstrom has more exclusive traffic to its full-priced stores (60 percent) than does Neiman Marcus, but both blow Saks Fifth Avenue out of the water. Saks only has 28 percent exclusive traffic to its premium Saks Fifth Avenue store in the markets studied.

"For Saks the strategy of recruiting new visitors to the premium store via the outlets is not working," Ms. Bingham said.

"The high overlaps and low exclusivity to the Last Call indicate that Neiman Marcus is doing a good job driving visitors to their premium Neiman Marcus stores via the Last Call outlets," Ms. Zen says, adding that the overlap is highest in the Los Angeles DMA at 72 percent.

By contrast, Chicago had the highest level of exclusive Neiman Marcus traffic at 74 percent with overlap of 25 percent with its Last Call store.

Neiman Marcus Last Call stores are highly efficient

Efficiency is the relative measure of foot traffic to a store. More efficient stores tend to see higher numbers of customers in a day.

Interestingly, Last Call stores are 12 percent more efficient, on average, than the Neiman Marcus flagship stores, whereas Nordstrom and Saks Fifth Avenue flagship stores are more efficient in drawing traffic than their off-price stores. These efficiency measures compare like-to-like (e.g. Neiman Marcus flagship and Last Call) and do not measure efficiency across brands.

To draw conclusions from these efficiency measures, we also need to factor in the overlap rating. So, while Last Call stores are more efficient (i.e. has more foot traffic) than the Neiman Marcus flagships, Neiman Marcus also has the highest level of overlap. The conclusion is Neiman Marcus Last Call stores are driving visits to the premium stores and it has the opportunity to use the Last Call stores even more effectively to drive local traffic to the flagship store.

On the other hand, Nordstrom and Saks might re-evaluate their outlet strategies since these stores are less efficient than their full-priced stores and also drive significantly less traffic to the premium stores.

What business do you want to be in? Luxury or discount retail?

Nordstrom and Saks are all-in with their discount, off-price presence, having many more outlets than they have full-priced stores. These outlets, however, do not help build the premium luxury brand. Quite the opposite, they encourage customers to think that they can get the same luxury for less at their local Rack or Off 5th store. And worse, their off-price stores do not drive traffic to their flagship stores, based upon this 10-DMA analysis.

If the future of Nordstrom and Saks rests on their premium flagship stores, as it surely should, then both need to do some serious soul-searching to get traffic flowing in the right direction.

Neiman Marcus did just that back **in late 2017 when it closed 10 of its then 37 Last Call stores**, 27 percent of its fleet.

Having taken heat for deceiving customers in its Last Call stores by displaying a compared to' price on the sales tag implying that the item was marked-down from the full-price Neiman Marcus store and **paying \$2.9 million** to settle the resulting class action lawsuit Neiman Marcus recognized that the outlet stores were distracting it from its real business of serving its core luxury customers.

"This decision is about optimizing our Last Call store portfolio to deliver the best customer service and freeing up resources to support new initiatives for our full-line Neiman Marcus and Bergdorf Goodman channels," Elizabeth Allison, senior vice president of Last Call, said in **a statement** explaining the Last Call closings.

Ms. Allison also announced the Last Call stores would give customers greater access to "merchandise sourced from the company's full-line channels."

This analysis from Ubimo suggests that Nordstrom and Saks might need to do a similar rightsizing of their discount outlet fleet. By reducing their outlet fleet, they would have more inventory available to transfer to their outlets, instead of stocking these stores with made-for-discount, poorer quality items that ultimately prove less satisfying for the customer.

By selling more of the real stuff, rather than all the made-for-discount phony stuff, Nordstrom and Saks would actually have something to tease their off-price customers with when they want this season's, not last season's looks.

What is the right full-price to off-price store mix? This analysis suggests that Neiman Marcus has found the right mix, with nearly twice as many full-price as discount outlet stores. Of course, this hasn't fixed all of Neiman Marcus' other problems, but it hasn't added any either.

Currently there are about twice as many Rack stores as there are Nordstrom flagships and three-times as many Off 5th stores to Saks Fifth Avenue.

Both companies need to think seriously about what business they want to be in: Luxury or discount retail. I believe they cannot meaningfully be in both.

Maybe the Nordstrom and Saks luxury name still means something, but will it in the future as more customers are only exposed to Rack and Off 5th stores and never even think about crossing over into the full-priced stores. I am afraid the proliferation of Rack and Off 5th stores is confusing customers and that is likely because the companies are confused as well.

GIVEN HOW their retail footprints stack up, these retailers have not yet decided which business they really want to be in.

I believe there is a supporting role that the off-price outlets can play for these companies, but right now they have the balance seriously out of whack.



Pam Danziger is president of Unity Marketing

*Pamela N. Danziger is Stevens, PA-based president of **Unity Marketing** and Retail Rescue, cofounder of the American Marketing Group, and a luxury marketing expert. Reach her at pam@unitymarketingonline.com.*

© 2020 Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your **feedback** is welcome.