Luxury Daily®

The News and Intelligence You Need on Luxury

COMMERCE

Do Saks' woes signal luxury retail shift?

February 28, 2013

By TRICIA CARR

Saks Fifth Avenue is offering cues for fellow luxury retailers as it revamps its bricks-and-mortar strategy and gears up for a comeback from weak 2012 profits by marrying the in-store and ecommerce experiences.

This week the department store chain reported poor fourth-quarter profits - a result of Superstorm Sandy - and anemic full-year earnings likely due to the unstable U.S. economic setting. The retailer is switching up its bricks-and-mortar presence with several store closings and outlet openings this year in addition to a larger focus on linking the physical and digital shopping journey.

"As we look ahead to 2013, we expect the external environment to remain somewhat volatile," said Julia Bentley, senior vice president of investor relations and communications at Saks Fifth Avenue, New York.

"There are several macro factors such as higher tax rates on the more affluent and the unknown resolution of pending fiscal matters than could create additional uncertainty," she said. "Having said that, we expect that our comparable store sales will grow in the 3-5 percent range for the year."

Calm after the storm

Saks' fourth-quarter sales for the 14 weeks ended Feb. 2 increased 5.6 percent to $976.6

million from $925.1 million in the year-ago period.

Despite the increase, profits fell 45 percent during this time due to higher expenses, according to a report by The Wall Street Journal.

Saks reported a fourth-quarter profit of $20.4 million, down from $37 million in the year-ago period.

Also, Superstorm Sandy affected approximately 55 percent of Saks total company store revenue base, per the Journal.

“Due to the storm and its severe flooding and power outages, 11 of the 45 Saks Fifth Avenue stores were closed from one to seven days, including the New York flagship, which was closed for two days,” the report stated.

Saks was disproportionately affected by the storm since the department store chain relies so heavily on sales from consumers and tourists in New York as well as shoppers located in other cities hit by the storm, per Milton Pedraza, CEO of the Luxury Institute, New York.

In contrast, Neiman Marcus and Nordstrom do not operate New York flagship stores.

“Saks' flagship store is a big part of their business,” Mr. Pedraza said.

“All of the impact from the storm was on not only locals but tourists,” he said. “That loss in tourism is hard to recuperate from.”

For the fiscal year, the retailer experienced a 4.4 percent sales increase during the 53 weeks ended Feb. 2 to $3.147 billion from $3.013 billion.

Stephen Sadove, chairman/CEO of Saks, stated in a corporate press release, “For the year, sales and earnings were below our initial expectations as continued macroeconomic concerns, election and fiscal cliff distractions, and Hurricane Sandy weighed on our results, particularly in the second half of the year.”

Outside factors will undeniably influence how much affluent consumers are willing to spend this year.

“Mr. Sadove’s prescient comments reflect the elephant in the corner,” said Chris Ramey, president of Affluent Insights, Miami. “All marketers should be concerned when there is a target on the back of your best prospects.”

Indeed, luxury retailers will have to continue to fight for sales in 2013.

“The higher tax rates on the wealthy and the uncertainty of future tax rates have definitely hurt high-end retail sales, although I think we will have a clearer picture of the financial future in the next month or so,” per Al Ries, cofounder and chairman of marketing strategy consultancy Ries & Ries, Roswell, GA.

In addition to wealthy consumers’ economic concerns, many of them have reached the age of 45 or older.

These consumers have accumulated a lifetime of luxury goods and are weary to spend.

Therefore, luxury retailers must work hard this year to convince them to buy, per Pam Danziger, president of Unity Marketing, Stephens, PA.

“The industry is no longer immune to the economy’s ups and downs,” Ms. Danziger said. “Affluents are under the gun now and being targeted by the Obama administration as the solution to the country’s debt woes.

“Marketers must remember that the affluent do not need any of the luxuries that they sell,” she said. “Luxury purchases are purely discretionary.”

Bricks-and-shopper

Honing in on comparable store sales, Saks saw an increase of 0.7 percent to $934.6 million for the 13 weeks ended Jan. 26 to $925.1 million from the year-ago period.

Mr. Sadove also stated, “We posted a 0.7 percent comparable store sales gain in the fourth quarter, essentially in line with our expectation of relatively flat comparable store sales.”

He went on to say, “As previously disclosed, our fourth quarter sales were negatively impacted by Hurricane Sandy, which caused significant disruption to our very important Northeastern markets and to Saks.com.”

The retailer is continuing "the rationalization of our Saks Fifth Avenue real estate,” per Mr. Sadove.

Saks closed 10 department stores since 2010 including the three that it shut down in 2012. The company also announced the closure of its Dallas store in June 2013 and Stamford, CT, store in 2014.

The retailer’s most productive stores include flagships in New York, Beverly Hills, Chicago, Bal Harbour, Atlanta and Boston.

Saks’ store closures are likely a result of overexpansion during profitable years, as recently as 2011, when luxury retailers opened department stores in cities that did not have the affluent population to sustain them, per the Luxury Institute’s Mr. Pedraza.

“I think that there will be, and there should be, more closings of unprofitable stores,” Mr. Pedraza said. “It is a rational, logical approach to business.”

Nonetheless, Saks is expanding the bricks-and-mortar presence of its Off 5th outlet segment with seven new stores and one replacement store in 2013. The retailer is also renovating locations this year.

The outward focus on outlet stores signals that Saks and other luxury retailers are facing more deal-seeking affluent consumers.

There is a strong deals market even among the wealthy. The popularity of flash-sale sites and other discounted luxury outlets proves this.

Meanwhile, Neiman Marcus is also closing some department stores. Both Neiman Marcus and Nordstrom are leaning heavily on their off-price, discount outlets for growth,

per Unity Marketing's Ms. Danziger.

"I think the luxury retail market got heavily inflated during the boom years before the recession," Ms. Danziger said. "Now these retailers have to right-size for the new economy, which is undergoing dramatic change.

"Not the least of which is affluent shoppers are very comfortable shopping online, so these companies don't need to invest heavily in building and maintaining a store, when their shoppers can go online," she said. "I expect that even more high-end store closings over the next five or so years."

Digital dominance

Saks is implementing digital utilities to drive sales in 2013. Most luxury retailers are taking this route to attract consumers to their stores and Web site.

The retailer is adding to the product offerings on its ecommerce site, improving the shopping experience, upping digital marketing and improving the mobile experience, per Saks.

Additionally, the department store chain tested the online ship-to-store capability this past fall.

"Over time, this should lead to increased sharing of inventory across channels which should drive sales and result in higher inventory productivity and efficiency," Saks' Ms. Bentley said.

Prominent luxury retailers such as Saks, Neiman Marcus, Barneys New York, Nordstrom, Bloomingdale's and others have taken notable steps to better the 360-degree brand experience.

Like its competitors, Saks is smart to keep its eyes on both the in-store and digital experience, per Affluent Insights' Mr. Ramey.

"Success, in particular for brick-and-mortar companies, requires embracing and leveraging both," Mr. Ramey said. "This is similar to the outlet-versus-mainline-store debate and the digital-versus-print debate.

"Retail and luxury require a delicate balance," he said.

Retailers must also consider that before the digital age, luxury was meant to be purchased in an environment where consumers could take in the quality of the item and be provided with service.

The more expensive the item, the less likely that affluent consumers will want to purchase it via the Internet, per Ries & Ries' Mr. Ries.

"Luxury goods are likely to be primarily purchased in retail outlets, not on the Internet," Mr. Ries said. "On the other hand, the Internet is a great medium for consumers to check availability of merchandise and relative prices, so even a retail outlet that does 100 percent of its business in its stores needs to have an Internet presence.

“A good Web site can be an effective advertisement for a luxury goods brand,” he said.

Final Take

Tricia Carr, editorial assistant on Luxury Daily, New York