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COMMERCE

Leveraged buyout of Saks to weigh on future owner's intentions

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By ERIN SHEA

If Saks Inc. goes through with the leveraged buyout of its company, the result could either spur international growth of the retailer or hollow out the company depending on the buyer's intentions.

The New York-based company is rumored to have hired investment banking firm Goldman Sachs Group Inc. to explore its options and is considering selling itself to a private-equity firm in a leveraged buyout. The future of the retailer would be in the hands of the new owner, which could lead to a number of options depending on the buyer's intentions.

"There are definite advantages to going private," said Paula Rosenblum, managing partner at RSR, Miami, FL. "Less public scrutiny being the largest.

"No matter how you slice it, the department store business is challenging," she said. "Brands are opening their own stores, which is taking business from the department stores, and establishing high-end private label brands is not so easy.

"The pressure is enormous. It is a tough call all the way around."

Ms. Rosenblum is not affiliated with Saks, but agreed to comment as an industry expert.

Saks declined to comment.

Exploring the options

The news of Saks' leveraged buyout comes shortly after the rumors that Saks' competitor Neiman Marcus is considering launching an initial public offering of the company (see story).

In addition, global investment firm KKR & Co. is said to be exploring the decision to invest in Saks and may look to combine Saks with Neiman Marcus, according to Bloomberg.

Neiman Marcus flagship store in Dallas

If the companies were to merge, the new organization would have much power in the retail world and would be able to eventually cut expenses.

"There is no doubt there are opportunities to reduce operating overhead expenses if the companies merge, which is good for both entities," Ms. Rosenblum said.

Since both retailers have a similar customer base, the companies could combine to offer shoppers more selection and better overall experiences.

"In the case of Saks and Neiman Marcus you have two well-recognized brands that appeal to a similar shopper," said Dave Rodgerson, senior management consultant of retail strategy and change at IBM Canada, Toronto.

"As a result, you would expect to see popular merchandise lines cross over from one banner to the other, giving customers a wider selection and a potentially richer customer experience," he said.

However, with the good comes the bad. Merging the companies could also be disastrous on many levels.

"I imagine integrating the various technology portfolios would be nightmarish and take years," RSR's Ms. Rosenblum said. "I think it is a distraction that would look good on a spreadsheet, but be bad for the brand.

"The number of selling and product information channels are proliferating like rabbits and it's hard enough for brands to keep up without also subsuming one of the two brands at the same time."

Another possible issue would come with the combining of real estate of the two companies.

"The other aspect of a deal combining two retailers is the real estate owned by one or the other, often their most valuable asset," IBM's Mr. Rodgerson said.

KKR & Co. declined to comment.

Unknown future

If Saks does continue with the leveraged buyout, the future of the company depends on its new owner.

The retailer could see international growth if purchased by a foreign owner or it could be diminished if the owner wants to revamp the company's image.

"If it was a strategic buyer, someone who believes in luxury and who will help the company grow internationally, then there will be a lot more opportunity to build relationships, sell across categories and improve the morale and capabilities of the sales team," said Milton Pedraza, CEO of The Luxury Institute, New York.

"There are several big opportunities for Saks," he said. "Saks has the opportunity to grow internationally - even if it is a smaller footprint in boutique stores, the retailer would have the opportunity to grow selectively."

Being privately owned could also help the company focus more on long-term profits instead of short-term goals.

"Being privately held, can be beneficial to a company by freeing it from focusing on quarter-by-quarter profits to focusing on long-term results," said Alexander Chernev, professor of marketing at the Kellogg School of Management at Northwestern University, Evanston, IL.

"This is especially important for companies that require long-term investments, such as brand building, where there might be a significant lag between the actual investment and the return on this investment," he said.

However, the buyout could mean the opposite for Saks.

"If [the buyer] is a transactional buyer, it may hollow out the company and put it in debt," Luxury Institute's Mr. Pedraza said. "It is not a good option - being hollowed out is not a good scenario."

Either way, the future owners should strive to be strong leaders just like Stephen Sadove, current chairman and CEO of Saks, if they want to keep up the brand's image.

"I think Mr. Sadove has done a great job and the best he can do, so I think that whoever comes in will have to top that," Mr. Pedraza said.

"Whoever takes over will have to do better than he did," he said.

Final take

Erin Shea, editorial assistant on Luxury Daily, New York