



INTELLIGENCE

Inside the Reinvention of Saks Fifth Avenue

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Can the 92-year-old department store win back high-spending shoppers after years of inching downmarket?

NEW YORK, United States — Brookfield Place is a shiny new shopping centre in Battery Park City, an increasingly residential enclave that was recently described by a local as “Darien, Connecticut, on the southern tip of Manhattan.” The thoroughly modern mall is home to a French grocery store and an Hermès outpost dedicated to the brand’s suite of perfumes, and conveniently connected via underground passage to One World Trade

Center, where companies including Condé Nast and High 5 Games are headquartered. It's also just across the street from Goldman Sachs, which moved to 200 West Street in 2009 in the wake of the financial crisis.

Like [Gucci](#) and Lululemon, which came before it, Brookfield's newest tenant, Saks Fifth Avenue, is hoping that an advantageous mix of foot-traffic — executives and tourists on the weekdays; local residents, tourists and “bridge-and-tunnel” day trippers on the weekends — will make it Lower Manhattan's preeminent luxury department store when it opens here on September 9, 2016.

But to achieve this goal, the 92-year-old retailer, which was bought by Hudson's Bay Company (HBC) in 2013 for \$2.4 billion, is counting on much more than its new location, where it has also moved its corporate offices in a widely covered deal that includes plans to open a Saks Off 5th outpost at One [Liberty](#) Plaza in 2017. For one, president Marc Metrick and his carefully assembled team have enlisted the architect Richard Found to construct a platform for retail theatre.

Just consider the white polished-plaster tower that anchors the rotunda space, an escalator slicing up its centre. Found — known for concepts that entice people to actually shop — says he was essentially given *carte blanche* to do what he wanted with the project, using soft pink furnishings from Hay and Knoll coffee tables, accented with finned brass fixtures and a swirling Barry Reigate mural.

But while the plaster tower may lure them in, like any retail business, Saks will live or die by its product mix. “The product is the most important element,” agrees Metrick. There is plenty to see in the 86,000-square-foot, three-floor women's store, which is located nearby the 16,750-square-foot men's store slated to open next spring. Here, there are more than 200 beauty, apparel and accessories brands, including new-to-Saks labels like Vetements and Romance Was Born, and standards like [Saint Laurent](#) and Alexander McQueen, as well as a 70-foot long floor-to-ceiling mirrored display featuring 800 different styles of sunglasses. A handful of designers have created exclusive items for a 25-piece capsule collection to celebrate the launch, including an Opening Ceremony varsity jacket, a [Public](#)

School hoodie and a Rag & Bone embroidered tee. Each item's design is linked to New York City, the metropolis that both defined Saks' origin story and, in many ways, will determine its future.

As competitors Neiman Marcus and Nordstrom ready themselves for their first-ever Manhattan outposts, set to open over the next two years, Saks is facing greater competition than ever. That's why owning Manhattan from top-to-bottom — and having a head start on the new arrivals — is crucial. “Twenty-five years ago, Fifth Avenue was the centre of luxury. Now it's downtown,” Metrick says. “It's important for us to come and create this both ends of the balance. This ensures that Saks is first and foremost on everyone's mind. Being here is really a no-brainer.”

It's also an indication that the retailer is not backing down in the face of a general decline in retail foot-traffic, a slowdown in luxury spending, the rise of direct-to-consumer strategies and the shift to e-commerce. All challenges that have made selling fashion — especially at American department stores — so difficult. Saks has also suffered from an image problem: while Barneys New York has maintained its austere cool, Bergdorf Goodman continued to cater to the ladies who lunch and Net-a-Porter emerged in the early 2000s as a playful, modern way to shop high fashion online, Saks' place in the upscale world seemed less certain. The safe merchandising — expected styles from middle-of-the-road brands — moved the retailer further and further away from its glamorous roots, and further downmarket, relying heavily on discounts and promotions in order to lure in consumers.

The culmination of these factors have contributed to a decrease in sales. In the first quarter of 2016, comparable store sales were down 5.7 percent year over year. However, previews of HBC's second-quarter 2016 earnings, which will be announced on September 7, suggest that the downward trend is perhaps poised to reverse itself. In this most recent quarter, sales at Saks stores open at least one year were virtually flat, down 1.3 percent on a constant-currency basis when compared with the same period in 2015.

But Saks' new emphasis on Lower Manhattan, however significant, is only one bullet point in the retailer's multi-pronged plan to win back high-net-worth consumers after years of inching downmarket. “You can go to any part of the world and people know Saks Fifth

Avenue,” says [Richard Baker](#), the governor and executive chairman of HBC. “We’ve always believed that the brand is bigger than the business.”

To be sure, the Saks Fifth Avenue flagship, which opened in 1924, is as iconic a New York landmark as Rockefeller Center across the street or the Chrysler Building a 10-minute walk away. There’s no doubt that Saks’ real estate holdings — including its landmark building on upper Fifth Avenue in Manhattan, which was appraised at about \$3.7 billion at the time of the transaction — also compelled Baker to bring the company into the HBC portfolio, which includes Canada’s mid-market retailer Hudson’s Bay, Lord & Taylor in the US, Galeria Kaufhof in Germany, Galeria Inno in Belgium, as well as discount outlets Saks Off 5th and Gilt Groupe. “HBC owns real estate portfolio that allows us to have low-cost financing and resources that other retailers don’t have,” Baker says. “It gives us tremendous access to capital. We can make commitments that our competitors can’t because we have financial strength and flexibility.”

Initially, Baker hired Harrods chief merchant [Marigay McKee](#) to lead the Saks reinvention in 2013, effectively replacing long-term executives Stephen Sadove and Ronald Frasch. But within 15 months, McKee had exited the company and Metrick — a 20-year Saks veteran — was moved into the role. Metrick briskly hired Tracy Margolies, who had spent her career volleying between Bergdorf Goodman and Saks, as chief merchant. She subsequently hired Roopal Patel, an old colleague from Bergdorf Goodman and an industry fixture who was running a consulting firm, as fashion director.

It is Metrick and Margolies’ partnership, with assists from more tactical hires like Patel, which is shaping the new Saks. While the strategy has many layers, the reinvention of Saks is largely focused around three areas of the business: space, product and services. “People say department stores are dead,” Metrick says. “I do not think so.”

The first move was to announce a \$250 million, three-year renovation of the company’s flagship store in Midtown Manhattan, made possible by the \$1.25 billion mortgage it took out against the location in 2014. The first stage of the renovation was revealed in August with the opening of the “lifestyle” focused fourth floor, which features a mix of well-known

American designers — [Michael Kors](#) and [Marc Jacobs](#) are the centrepiece — as well as a peppering of new names from across the globe, including Cédric Charlier and Adam Lippes.

One side of the floor also features a string of shop-in-shops from a wide-ranging group including Marni, Derek Lam and [Brunello Cucinelli](#), but also shop-in-shop newcomers [Joseph Altuzarra](#) and [Jason Wu](#). On a Thursday afternoon in late August, the space — which has more natural light than the still-stuffy, yet-to-be-renovated ground floor — was busy with shoppers, somewhat surprising for the middle of the day in the doldrums of summer. Margolies points out that one can see all the way from the emerging-designer cluster near the elevator to the other end of the floor, where an expansive, two-story personal shopping suite now connects the third and fourth floors. “We’ve been diligent about sightlines,” she says.

An outdoor terrace, adjacent to the eighth floor cafe, also opened last month, offering shoppers the chance to nibble on crudité and sip sparkling water while gazing down at the iconic Rockefeller Plaza. But these upgrades are just a hint of what is to come. By 2019, there will be a New York outpost of famous Parisian restaurant L’Avenue and a much-needed re-imagination of the first floor, with plans to sweep beauty and its hawkers of perfume samples up to the second floor, leaving room for more handbags — and a grand spiral staircase — on the first.

But while the Fifth Avenue flagship remains the company’s crown jewel, there are no plans for the renovation to serve as a structural template for the brand’s 40 other locations in the US and Canada. “Our stores’ priorities are different,” Metrick says. “We have to think locally.”

Consider the experiment underway in Greenwich, Connecticut, a leafy, affluent town close to New York, where the company is constructing a village of Saks Fifth Avenue stores. Along with a renovation of the main outpost slated for 2017, there are plans to open a 14,000-square-foot store dedicated to shoes and branded under the company’s successful “10022-SHOE” concept shop, which was first launched by Margolies at the Fifth Avenue flagship in 2007. SAKS 10022-SHOE will bow in October 2016, while “The Collective,” dedicated to “modern designer” — or mid-priced — brands, is still slated to open in

February 2017. An offshoot of “The Vault” — a fine-jewellery concept — arrives in May 2017. What will remain at the main store are handbags, ready-to-wear, beauty and housewares. The idea, of course, is to get consumers circulating from one store to another. “The freestanding concept is very specific [to Greenwich],” Metrick says. “We’re going to have to do things that are different and exciting as we expand our footprint.”

This localised approach will play out once again when the retailer opens a new store in Miami’s Brickell City Centre this November and eventually begins much-needed renovations at its Beverly Hills outpost.

And yet, new and re-imagined stores will not be enough. “Sitting at that moment of truth, are these new physical environments, remodelled or brand new, going to be more than just temples to retail or are they going to actually address the connected customer?” asks Andrea Weiss, co-founder of consulting firm the O Alliance.

Saks is, in part, answering that by rethinking and upscaling its product mix. “What I want Saks to stand for is style,” Margolies says. “When I think about our customers, no matter what, it’s about a certain niche. It’s about a certain persona. Every person who comes into Saks wants to feel empowered. They want to stand for fashion.”

But for a long time, that wasn’t so, which means that competitors like Bergdorf Goodman and Barneys New York often scored exclusives on brands like Céline or The Row, leaving Saks with the leftovers. To combat that, Margolies has implemented what she calls an aggressive buying culture. “What I mean by that is really getting the [buying] group involved in strategy,” she says. “We’re moving our customer forward, buying with more conviction. We’re buying more fashion, so newer, emerging brands. We’re creating what we call a Saks point of view.”

To woo those brands, Saks has doubled down on its marketing efforts when it comes to partners that might not have the budget to pay for a page in the company’s quarterly magalog or operate a shop-in-shop. For example, a selection of styles from the New York-based advanced-contemporary label Tome are displayed prominently in several of Saks’ regional locations, giving it ample exposure in a market where it would otherwise not have much of a presence, if any at all. That sort of support creates loyalty with vendors, and

gives Saks the approachable-fashion edge it desires. The team seems particularly proud of the womenswear partnership with Vetements at the new downtown store, given the label's cool-kid vibe and industry buzz.

As with competitors, negotiating product exclusives is becoming an increasingly important element of Saks' strategy. "We take time and effort to collaborate with our partners on something special," Margolies says. "It's an incredible call to action for our clients." That being said, "I also believe of course that we have to have the best of the best," she continues. "That we're registering all of the trends."

Honing a clear point of view and finding the right balance between what the customer wants and what the customer doesn't yet know it needs is perhaps the biggest challenge for Saks in a market where a proliferation of multi-brand, digital-first retailers maintain an oh-so-specific focus. Home, art and fashion store The Line deals in minimalist luxury, while beauty retailer Violet Grey only sells products recommended by Hollywood image-makers. Then there are the direct-to-consumer players — from Everlane to Thakoon — and the brands who are increasingly expanding their direct channels in order to distance themselves from the wholesale model. The goal is to forge one-on-one relationships with the consumer, often leaving big-picture retailers like Saks behind.

It's impossible for a retailer of Saks' size to go that narrow. And the bells and whistles of experience — the new restaurants, the grand store designs — will only go so far. Baker says that the retailer's ability to rotate brands in and out, and to expand and contract orders according to market demands, keeps the concept viable. "We believe that department stores are well-positioned for success in the future," he says. "I would much prefer to have the flexibility to grow and shrink brands than to be a vertical retailer that sells one category."

Saks is also investing heavily in personalised services. "Everything we are doing is based on customer service," Margolies says. Along with expanding the personal shopping floor at the Fifth Avenue location, Saks is implementing multiple programmes that a smaller retailer simply could not afford.

At Brookfield, they will introduce a service called “Saks Save Me,” a hotline that will allow clients to drop off items for lunchtime alterations or shoe repairs. In addition to same-day delivery in Manhattan, personal shoppers and makeup artists will also be on hand to make house calls. But the culmination of these efforts may be “Saks at Your Service,” which illustrates how Metrick and his team have chosen to integrate technology into Saks stores. Instead of being routed to an off-site customer-service centre to answer questions, online shoppers with queries are connected directly with in-store sales associates. Metrick likes to call it an “all-channel” approach. “Over its history, the premise of the store was that you had to have a certain amount of money or be somebody to get a [certain] level of service,” Metrick says. “But everyone deserves personal attention at all levels. We can shepherd you through your shopping journey.” What’s more, the programme also allows in-store sales associates the opportunity to form relationships with customers who may never set foot in a brick-and-mortar location, optimising the employees’ value along the way.

Indeed, refining the experience may be the most crucial element of Saks’ strategy.

“Businesses need to be able to support a digitally sophisticated consumer,” Weiss says. “To me, that is the challenge for all of these department stores. They can make the physical store a beautiful place, make it an incredible customer experience, but if they don’t address the connectivity and service issues, then it won’t be enough.”

As the doors swing open on Brookfield Place, Saks is still playing catch up in a fashion market that’s evolving faster than ever. “For the first time in our careers, it really is the first time the consumer has been fully ahead of all of us,” Metrick says. “What you’re seeing here is that the customers have more choices than ever before. Really, online is the best department store. What we’re doing right now to counter that is knowing the customer a lot better, which is important. I think that data has been the greatest equaliser of all time for retail. Creating a more personalised approach is key.”

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