

SAKS FIFTH AVENUE'S NYC INVESTMENT

NOTES FROM THE FIELD

2/19

Last week I had the opportunity to visit the newly launched first and second floors of the Saks Fifth Avenue flagship store in New York City. Their corporate parent Hudson's Bay Company refinanced their twenty-year lease and invested almost a quarter of a billion dollars in renovating these two floors, which included breaking through the ceiling, installing two escalators, moving all cosmetics to the second floor, along with a complete repositioning of all luxury handbags/leather to the main floor. Certainly a bold move to maximize the return on investment for this 152-year-old specialty store.

"Hudson's Bay Company Announces US \$1.25 Billion Refinancing," *Business Wire*,
<https://www.businesswire.com/news/home/20141124005200/en/Hudson's-Bay-Company-Announces-US1.25-Billion-Refinancing>

My overall impression is generally quite positive despite two questions I have based on observations that we'll get to in a bit. The main floor is open and spacious with welcoming pathways from each of the four entrances. This contributes to a sensible circulation plan in which customers can explore the broad variety of luxury brands. The preexisting high ceilings are now accented with a central open space containing crisscrossing escalators that lead to and from the second floor. Some consider the multifaceted glass handrail walls a bit distracting from the product, specifically for those items near the escalators, but I don't think it's an issue.

The floor is extremely well lit, which compliments the range of visual merchandising. There is plenty of room for the brands/products, providing for a nice contrast of the older baseline architecture and newer Saks/vendor-related fixtures. A few branded concession shops along the perimeter were still under construction at the time I visited. While I was provided an initial greeting upon entry, the few staff members who weren't with clients appeared to be somewhat distracted and engaged with one another. Some opportunity for improvement there.

I escalated up to the second floor, which upon first impression seemed a bit compartmentalized. Certainly this is the nature of cosmetic floors given the broad range of brands and fixture/counter product requirements. Many of the same aesthetics from the main floor flowed naturally into this selling space, i.e., lighting, old/new design, etc. Perhaps due to a midday lull, the customer traffic seemed unusually light, and most sales associates were involved in a variety of other activities.

As for my two questions . . . First, relating to the main floor, which will certainly contain some of the highest average unit retail (AUR) in the store: Given the sizable open pathways on this level, what is the sales per square foot (SpSF) projection to achieve a meaningful return on

investment (ROI) over the years, particularly the capital expense? I would estimate a minimum starting point of at least \$2500-\$3000 SpSF. The other question relates to the relocation of cosmetics upstairs: What is Saks's plan to drive crucial customer traffic up to this level? While some New York competitors (Bergdorf Goodman, Barneys New York) have relocated this important category to their lower levels with measured success, the adjustment may take time for Saks Fifth Avenue.

Main Floor



A recent mailer sent out announcing the news.



The New York City specialty retail marketplace will become even more competitive with two important new entrants in 2019, the recently opened Nordstrom Men's Store followed by the Women's Store this Fall and Nieman Marcus in Hudson Yards next month.

Saks did not miss a beat in updating and creating a brand-new customer experience in their flagship. With more players arriving this year, it will be critical for the organization to have a sharp understanding of who their customer is, what their preferences are in terms of brands/price points/fashion/etc., and most important (particularly regarding non-tourists), how to build the relationship that will bring them back.