

Saks Chief Cuts Orders to Avoid Stiletto Discounts

By Cotten Timberlake



June 23 (Bloomberg) -- Saks Inc., Neiman Marcus Group Inc. and other luxury retailers are reducing orders this year to limit supply and boost profitability.

The cuts may rein in what Saks Chief Executive Officer Stephen Sadove calls the “enormous excess” that existed last year in stores that cater to the wealthy.

“Across the board you are going to find less of the sizes, less of the availability in almost all of the categories,” Sadove, 57, said yesterday in a telephone interview. “You are probably going to see less aggressive markdowns than you saw last year.” Saks operates 53 Saks Fifth Avenue stores.

The company, based in New York, is aiming to order at least 20 percent less from its vendors in 2009 and forecasts a jump in gross margin. Scarcity drives profit because when consumers fear missing out, chains can sell goods earlier in the season at higher margins, said Antony Karabus, CEO of the retail-consulting firm Karabus Management in Toronto.

Last year, retailers marked down leftover \$3,795 Thom Browne suits and \$520 Ferragamo loafers. This year may give way to emptier shelves, fewer brands and styles, Karabus said.

“People are going to have to come in earlier if they want to make sure they get the items they want,” Karabus said.

Total U.S. retail sales will rise 1.1 percent in the second half of 2009 compared with the same period a year earlier, after dropping 2.6 percent in the first half, estimated the International Council of Shopping Centers, a New York-based trade group.

Shares Recover

Saks shares fell 13 cents to \$3.73 at 4 p.m. in New York Stock Exchange composite trading. The shares have more than doubled from a low of \$1.55 in March. Seattle-based department-store chain Nordstrom Inc., whose inventory reductions have outpaced sales declines, declined 67 cents to \$18.27, after bouncing from \$7.81 in November.

Neiman Marcus, based in Dallas, is owned by Warburg Pincus LLC and TPG. The chain cut orders 25 percent in the quarter ended May 2 and said on June 10 that it is being “conservative” for the rest of the year. Both Neiman and Saks have said they are weeding out underperforming labels.

Nordstrom and Cincinnati-based Macy’s Inc., the owner of Bloomingdale’s, have said they are buying less, too. Executives at Neiman Marcus, Nordstrom and Macy’s declined requests for interviews for this story.

U.S. luxury retailers already have been working for months to align inventories with sales trends by offering more discounts, returning merchandise to vendors and canceling orders. Nordstrom’s inventory per square foot fell 12 percent in the first quarter from the prior year, faster than the company’s sales decline of 9.2 percent, the chain said May 14.

‘Scarcity’

“Luxury has always been about scarcity, about limited distribution, so if you don’t buy it at a certain point in time, there won’t be anymore of it in your size,” Sadove said.

Designer shoes may be hardest to find, according to New York-based research firm Retail Eye Partners. Stores already have cut purchases of new styles, said Sapna Shah, co-founder of Retail Eye.

Jimmy Choo Ltd. is focusing on must-have exceptional styles, such as \$1,395 embroidered stilettos, and on the lowest-priced shoes in the collection, CEO Joshua Schulman said at a Monaco conference this month. New autumn shoes start at \$365, according to its Web site yesterday. The company was founded in London and its shops include locations in New York and Beverly Hills, California.

Gucci, Paris-based PPR SA's biggest luxury label, said it is cutting production and the number of styles.

75 Handbags

"We don't need 75 variations on the same handbag," Gucci CEO Patrizio di Marco said in an interview in Florence, Italy, last month. "Two or three are enough."

In this economy, it is better for retailers to risk missing sales than to have to mark down merchandise as much as they did last year, Karabus said in a June 16 phone interview. His firm is owned by PricewaterhouseCoopers Canada. Discounts reached 70 percent on some items, eroding profitability.

"Our whole industry is trying to get inventory down to a level that scarcity is a part of the equation that the customer is doing," Neiman Marcus CEO Burton Tansky, 71, said on a March 11 conference call.

Neiman Marcus's gross margin -- the share of sales after subtracting the cost of goods sold -- in the quarter ending in January will widen to 26.4 percent from 23.9 percent, estimated Grant Jordan an analyst for Wachovia Capital Markets LLC in Charlotte, North Carolina.

'Very Unusual'

Saks forecast that its gross margin will recover to as much as 37 percent in the second half of 2009. That compares with a margin of 27.5 percent in the same period of 2008, according to third- and fourth-quarter sales data compiled by Bloomberg.

Saks's losses will narrow this year, while Macy's, the second-biggest U.S. department-store chain, will return to profitability, according to analysts surveyed by Bloomberg.

"There was an enormous excess in the system," Sadove, the Saks CEO, said. "That was something that was very unusual, and it is unlikely that you will see levels like that again."

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