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THEORY & PRACTICE

Tony Retailers Hope Outlets Fuel Sales

Amid Muted Luxury Spending, High-End Chains Seek a Wider Customer Base Without Discounting at Regular Stores

By **RACHEL DODES**

Chief executives of high-end department stores are betting on off-price outlets to generate growth, even as they curb discounts at their main stores.

Luxury CEOs dislike heavily discounting their regular merchandise—it erodes profit margins and hurts cachet. But tony retailers can't rely solely on full-price shoppers for growth now because luxury spending remains muted.



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Gordon M. Grant for The Wall Street Journal

Saks has opened one new Off 5th outlet this year, plans three more by year end, and is remodeling two existing ones. Above, the Saks Fifth Avenue Off 5th store at Tanger Outlets At The Arches in Deer Park, N.Y.

So more executives are expanding their outlets, which let them sell to a wider range of customers without having to offer big discounts at regular stores. And they're stocking more outlet-only products, not just marked-down leftovers.

Bloomingdale's will open its first outlet store, in Woodbridge, Va., on Aug. 20 and three more by year end. Lord & Taylor opened its first outlet in February, in Elizabeth, N.J., and will open two more this year. In April, Neiman Marcus Group Inc. began testing a new outlet concept called Last Call Studio in Dallas that doesn't sell overstocked merchandise, just outlet-only products.

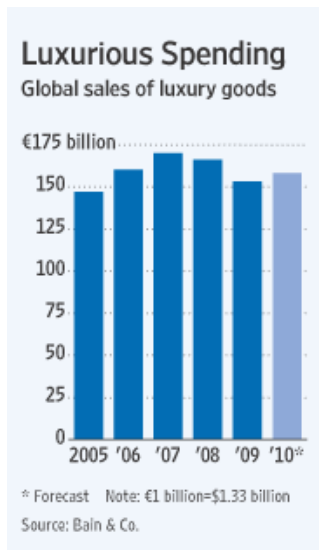
Saks Inc. has opened one new Off 5th outlet this year and plans three more by year end. It is remodeling two existing outlets as well. Saks isn't opening any full-price stores this year.

Nordstrom Inc. opened its first New York City Nordstrom Rack outlet in April, one of 17 that the retailer plans to open this year, up from 13 last year. It will open only three full-price stores this year.

Expansion opportunities for full-price stores has remained limited "since the economy slipped," President Blake Nordstrom said on a May conference call. "On the flip side for Rack growth, [the] economy's actually helped."

Generally, outlet prices run 30% to 70% lower for items also sold at main stores, and about 30% to 50% less for outlet-only goods that are comparable but not identical to regular products.

CEOs are still smarting from late 2008, when a precipitous drop in demand forced heavy markdowns at full-price stores, damaging prestige and margins. Retailers since have worked to wean shoppers off discounting. Luxury spending has rebounded, but not to pre-crisis levels.



Luxury-goods sales are forecast to rise 4% globally this year to €158 billion, following an 8% drop last year, according to a report from consultants at Bain & Co., which reports sales in euros because many luxury-goods producers are based in Europe. But sales this year still would be below the 2006 level, when they totaled €160 billion, and won't return to peak 2007 levels—€170 billion—until 2012, according to Bain.

"Even the affluent don't want to go back to shopping the way they used to," says Candace Corlett, president of WSL Strategic Retail, a New York-based retail consultancy, which found in a recent survey that 75% of people earning more than \$100,000 a year say they are shopping at outlets more now than they used to prior to the recession.

Department-store executives partly are taking a page from high-end manufacturers, who for years have used outlets as a way to liquidate excess goods in a controlled environment. **Polo Ralph Lauren Corp.**, which operates 171 outlets, and **Coach Inc.**, which operates 111 outlets, have both expanded their outlet business without diluting their brands.

In the downturn, outlet shoppers proved more reliable than luxury consumers, and a strong outlet business can help insulate luxury retailers from the ups and downs of a volatile consumer base. In 2009, sales per square foot at **Simon Property Group Inc.**'s 41 premium outlet centers slipped 1.8%, far less than the 7.9% decline seen at the developer's 162 regional malls.

At **Bloomingdale's**, the upscale, 40-store chain owned by **Macy's Inc.**, CEO Michael Gould decided to open outlets after a six-month study last year, when he concluded he was missing out on a big sales opportunity. "The outlet is a different channel and, for the most part, a different customer," said Mr. Gould.

If successful, he plans to open four to five outlets a year for the next several years. To help minimize cannibalization of regular stores, **Bloomingdale's** will limit overstock to no more than 20% of the outlets' merchandise, with the rest being overstock from vendors' previous seasons and, eventually, some products made exclusively for the retailer's outlets., with the rest being outlet only.

Saks has been ramping up its outlet expansion since debuting a sleeker outlet design in 2008. Since then, **Saks** has opened nine stores in the new format. Chief Executive Stephen Sadove says he realized he could expand the outlet channel without tarnishing **Saks's** brand by ordering more outlet-only products rather than mainly overstock.

At **Lord & Taylor**, a 46-store chain in the Northeast and Mid-Atlantic regions, sales at its the company's first outlet were so strong that CEO Brendan Hoffman decided to add two more by the end of the year.

The stores are "a way to further expand your relationship with your existing customer...and to reach out to a new customer, who isn't as affluent and who may be younger," says Mr. Hoffman.

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