

Struggling Dept. Store Brands See Lifeline in Off-Price Stores

Macy's Becomes Latest to Embrace Bargain Bin Strategy By [Mark Heschmeyer](#) February 24, 2016



While department stores ranging from Sears to Nordstrom increasingly struggle

to attract shoppers to their namebrand stores, one area that has consistently pulled in shoppers are off-price stores.

Last fall, after years of resisting calls to launch an off-price store line, Macy's finally debuted Macy's Backstage, raising the curtain simultaneously on three New York City metro area stores opening in Brooklyn, Queens and Long Island, and opening three more by year-end.

"It is exhilarating to create an exciting and entertaining destination for the customer who loves to shop, and loves a bargain even more," says Vanessa LeFebvre, senior vice president/general merchandise manager of Macy's Backstage stores.

Saks Fifth Avenue, which added its highly successful Off Fifth discount line several years ago, is set to open its first Off 5th location in New York City on March 3, which will also feature the first-ever in-store shop of online retailer Gilt. The pairing of these two brands in a physical space marks Gilt's entry into brick and mortar retail and demonstrates the company's plans to bring an all-channel shopping experience to Gilt customers.

The two-level Saks Off 5th store will occupy approximately 47,000 square feet in Tower57 in midtown Manhattan at 57th Street and Lexington Avenue.

Saks Off 5th new location strategy is to be located more in city centers and more urbanized areas, until it will start to distance it from the "border effect," said Jerry Storch, CEO of Hudson's Bay Co., parent company of Saks Fifth Avenue.

The "border effect" refers to a previous strategy of locating stores near Canadian and Mexican borders to attract international shoppers. Those stores have been hurt by the strong dollar and drop off in international tourism and spending in general.

A second Saks Off 5th store is expected to open in downtown Manhattan at One Liberty Plaza in the fall of 2017.

Major retail landlords are increasingly embracing the discount department store concept across the country. On his most recent earnings conference call, Paul Freddo, senior executive vice president of leasing and development of DDR Corp. said the department store model is a very difficult one.

"Those are not guys we're focused on," he said. Instead he likes retailers such as TJ Maxx and Ross Dress for Less.

"Their performance has been incredibly consistent, they want to grow in a big way," Freddo said. "They want to continue to take market share in a big way and we're confident they will."

“Another thing I think is worth thinking about is how we see other retailers continue to go after that business,” he added. “Not that Nordstrom Rack is new to it at all, but very successful with that division of Nordstrom. You have Macy’s with Backstage and Lord and Taylor now. Others see the success and just not the short term success but the longer term sustainable success of TJ and Ross and are going after that business.”

Not everyone is convinced the off-price strategy will work everywhere.

“Opening up lots of “off price” stores seems very similar to Filene’s Basement and Loehmann’s, neither of which survived,” said Soozan Baxter, principal of Soozan Baxter Consulting, a landlord-focused retail advisory firm in New York.

“Coupled with outlet centers, off price department stores, and full price mall locations all converging, having a stellar and unique shopping trip is becoming harder and harder. While everyone loves the “sameness” of Target, that store is for staples, and its customers count on them for that. But what is the difference among Macy’s, Bloomingdale’s, Dillard’s? Figuring out the special sauce is something that still needs to occur.”



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