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Reuters

RPT-ANALYSIS-Saks faces dilemma as luxury shoppers stay AWOL

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UNITED STATES -(Repeats analysis initially transmitted late on Friday)

* Saks ramps up lower-priced merchandise, coupons

* Strategy risky, but Saks has little choice, experts say

* Buyers want more price points within top brands-Saks CEO

By Phil Wahba

NEW YORK (Reuters) - Struggling with slumping sales for the past two years, luxury department store operator Saks Inc is beefing up its less expensive offerings at the risk of diluting its brand.

But with even the most affluent shoppers keeping a tight grip on their spending this holiday season, is there really any other choice?

Some brand experts say its strategy of selling lower-priced items, along with offering coupons or gift cards and some straight discounting, all create risks for a company best known for its flagship Saks Fifth Avenue store in Manhattan.

"All these tactics erode the halo effect of a luxury brand," said Milton Pedraza, chief executive of the Luxury Institute, a New York-based consulting company.

Last week, Saks reported that sales at stores open for at least one year, a measure of a retailer's health known as "same-store sales," fell 26.1 percent in November, including the Black Friday weekend that kicked off the holiday season.

To be sure, the comparison was skewed by the near panic levels of discounting in 2008, when prices on many designer clothing brands were slashed by as much as 70 percent in an effort to pump up sales.

But the trend is undeniable and all the more worrisome, given that Saks reported it had seen "weakness across nearly all merchandise categories."

"There is no question that aspirational consumers are out of the market now -- they're gone," Pedraza said.

Saks was hardly alone. Same-store sales at Neiman Marcus' specialty retail stores, its Neiman Marcus and Bergdorf Goodman stores, fell 12.7 percent in November.

Luxury retailers face a long slog back to pre-recession sales levels, analysts said.

"I do think that the level and the expectations for the business are on a much lower level," said Robert Drbul, a Barclays Capital analyst, who estimated that cheaper products accounted for about half of Saks' drop in November sales.

DAMNED IF YOU DON'T

Swooning sales have forced Saks to expand its more affordable lines, given that the mindset of its traditional well-heeled shoppers has been changed by the financial crisis and as a result, they're much more careful spenders now.

While Saks and other luxury purveyors would have once seen discounts, coupons and less expensive lines as beneath them, those incentives for shoppers have become a necessity because of what experts say is a permanent "resetting" of spending levels.

"There's been a redefinition of what luxury is now," said Robert Passikoff, president of Brand Keys, a New York-based consulting firm. "They're backed into a corner. In luxury retail now, the issue is differentiation."

To that end, Saks launched its own collection of men's clothing earlier this year to appeal to affluent men for whom the recession, nonetheless, put top designers such as Ermenegildo Zegna beyond reach. And the luxury retailer has prodded suppliers to broaden their lines to include more affordable products.

Even though last year's fire-sale discounts are long gone, Saks is offering 40 percent discounts on its website for items by high-end designers such as Versace, Burberry and Dior.

What's more, Saks has ramped up the coupons it offers by 52 percent so far this year, while consumer redemptions have risen 14 percent, according to data compiled by coupon site CouponShack.com.

Saks CEO Stephen Sadove acknowledged that customers are looking for lower prices, though he said the retailer has not offered more discounts this year than in a normal year.

"They love their brands -- they don't want to trade down, but they like the entry price points within the brands," Sadove told Reuters in an interview on Friday.

He defended the company's strategy, saying it has had to adapt to the current climate.

Though Sadove declined to give any numbers, he said the men's line has done well, meaning that other private lines could be on the way.

Investors seem to have faith in the approach. The company's stock barely budged on Thursday on the news of the sharp drop in November same-store sales and it has recovered a little more than threefold since the lows of early March. But the stock's price is still down about 70 percent from where it was two years ago.

"There's the potential for the largest upside surprise as the consumer continues to thaw out and the stock market recovery takes hold," Barclays Capital's Drbul said.

For now, Saks appears resigned to being patient.

"The size of our company is smaller than it was before," Sadove said. "I expect to see growth over time, but I don't expect to see it return rapidly to where it was." (Reporting by Phil Wahba in New York; Additional Reporting by Nicole Maestri in San Francisco; Editing by Jan Paschal)