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Meet the man trying to shake up luxury retail in Canada

By Marina Strauss

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Richard Baker jumps out of his chauffeur-driven SUV in front of the Hudson's Bay store at Bloor and Yonge Streets in Toronto. He takes one look at the concrete-encrusted building and deems it "ugly." Baker, the majority owner of Hudson's Bay Co. (HBC), suddenly produces an architect's rendering of a revamp for the store. It shows the place sleekly redesigned, with a white façade and large sheets of glass at the front. And it prominently displays a new name: Saks Fifth Avenue.

"This will be the second-largest Saks in the world," Baker proclaims with a wave of his hand. "Ground zero for luxury goods in Canada." And with a nod to Holt Renfrew & Co., the country's dominant luxury player-whose flagship stands guard a block to the west-he adds: "Did I say it will be double the size of Holt's?"

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Baker, you see, is not short on ambition. It's a cold hard fact that department stores have been in decline for many years. But he sees potential where others see disaster.

A real estate tycoon by virtue of his family background, Baker caught the retail bug somewhere on the way to Fifth Avenue. During the boom times before the Great Recession, his private-equity firm bought up dusty retailers for their valuable real estate. In 2006, he acquired the U.S. chain Lord & Taylor for $1.2 billion (U.S.) and, two years later, HBC, for just a little more, most of it with debt, merging much of their backroom operations. Today those chains, two of the oldest names in North American retail, are showing signs of new life, thanks in part to Baker's habit of hiring seasoned merchants to spearhead a transformation.

With HBC, Baker also got its discount chain, Zellers. His biggest coup in Canada is still in real estate: selling off most of Zellers' leases to U.S. invader Target Corp. in 2011. The $1.8-billion transaction eliminated a headache for Baker: Zellers was not well. But the deal also turned the entire Canadian retailing scene on its head by paving the way for Target to set up shop in this country, putting pressure on incumbent chains-including Baker's own Hudson's Bay.

Now, with Saks, which he acquired for $2.4 billion (Canadian) in November, Baker is betting that there's more of a luxury market in Canada than some experts suggest. Is he a visionary-or just someone with a lot of money who's in over his head? To help find out, we spent a whirlwind day touring stores on both sides of the border with the unstoppable Richard Baker.

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With youthful good looks, Baker, who just turned 48, speaks in exclamatory sentences-"This is unbelievable!" and "This is awesome!" Understatement is not his style. As we tour the Bay's remodelled downtown Toronto flagship store on Queen Street, I realize he comes by a passion for retailing naturally, because he's a passionate shopper himself. He regularly slips on samples of Hudson's Bay's own Black Brown 1826 menswear before they make it to the floor. Passing by a display of the jackets, he quickly takes off his own and models an army camouflage blazer ($250) and other items on the racks that he also has in his own wardrobe. "He loves clothes," says Joseph Abboud, designer of Black Brown 1826.

The "governor" (chairman) and chief executive officer of HBC keeps a close eye on stores, his own and his rivals', walking them weekly. At his own stores, he's quick to call a manager with suggestions. Indeed, he's constantly pulling out his iPhone from a slim, made-to-measure blue suit.

Baker heads to one of his latest tests: a display of "pre-owned" Rolex watches, at $2,000 to $10,000 a pop, half the original prices. ("I'm buying one for myself!") He gets on the phone to ask the department manager about adding the original cost to the tag's "pre-owned" price. "The natural question of customers is going to be: 'What would that be if it were new?' " In the men's section, as he tries on jackets, he mentions to the store manager that more mirrors are needed, including some placed low to afford shoe views.

Baker's real estate savvy taught him a few tricks. In the revamp, only sections of the main floor were redone in white marble, leaving the dull beige in place elsewhere. "Hudson's Bay is too big to renovate every square inch of it," he says. "We carve pieces out-we make improvements that make the entire store look renovated. It's pretty clever."

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In the late morning at Toronto's suburban Yorkdale Shopping Centre, one of Canada's top malls, Baker strides through Hudson's Bay's enlarged shoe department, impressed with the redesign but feeling uneasy. He calls the head of stores. The salespeople "are in slow motion," he tells her. "The energy level in the women's shoe department at Yonge and Queen was totally different than here. Why is that?"

Bonnie Brooks, a former Holt's executive, led Hudson's Bay's revival efforts, beginning in 2008. She shed about 900 underperforming brands and lured 330 others, such as the high-end Burberry and Coach, while using the retailer's status as official Canadian Olympics team outfitter in 2010 to gain global exposure. She resurrected the in-store luxury boutique The Room at two key locations, renovated stores and teamed up with affordable British powerhouse Topshop for licensed in-store shops.

The results at HBC so far are encouraging, although it still isn't out of the woods. In the first half of 2013, sales at stores open a year or more, a key retail measure, grew 6.9%. But those at its smaller chain, Lord & Taylor, fell 1.3%; it has struggled, like its U.S. Northeast rivals, from the effects of last year's Hurricane Sandy, which led consumers to spend on fixing their homes and cars rather than on fashions.

Lord & Taylor also has suffered from some women's fashion misses that have hit the entire industry, among them a surfeit of coloured denims-a fad that faded quickly. Another snag for HBC this year was an effort to increase sales quickly by investing aggressively in inventory. The stores ended up with too much end-of-season merchandise to clear at a discount. As a result, the company's gross profit margins dipped to 39.5% of sales from 40.1% in the first half of 2013. That doesn't sound like a lot, but HBC doesn't have much room for slippage. After that misstep, "We're trying to be more conservative with our investments," says Baker.

Other initiatives are paying off more readily. The Hudson's Bay Vancouver flagship, which got a major makeover, enjoyed a 35% sales increase in the first half of 2013 from a year earlier, Baker says. Topshop stores-within-stores are bringing in new, younger customers who are staying to shop in other departments of the store as well, he says. Online sales increased about 45% to $68.4 million in the first half of the year.

Excluding one-time items, HBC's profit from continuing operations in the second quarter grew to $3.9 million from a loss of $2 million a year ago. When one-time expenses, most of them stemming from the Saks deal, are counted, there's a loss of $82.3 million, compared to a profit of $22.2 million a year earlier. Sales rose almost 4% to $947.7 million.

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Baker settles into his seat on his family's Gulfstream jet. He eschews a bowl of chips on the window sill-he's watching his calories. Baker usually charters planes to and from New York, where many of his executives work, shuttling back and forth to Toronto. He needs the family jet today as he's travelling at an unusual time. Days comprised of store visits are not unusual, however-Baker used the family jet a few days earlier for such a mission to Montreal and Toronto.

The Westchester airport is about 15 minutes from his home, where he lives with his wife, Lisa, and three teenage children, the oldest of whom is off at Cornell University, his father's alma mater, most of the time now. The Bakers' 10-acre spread in Greenwich, Connecticut, boasts a contemporary art collection and two swimming pools, one designed by artist James Turell. The family also has houses in Telluride, Colorado, and on the North Fork of Long Island.

In less than an hour, we've jetted from Toronto to Westchester. Baker gets into his black chauffeur-driven Lincoln SUV, rubbing his ears. "I'm not a great flier, unfortunately," he says.

Growing up as the son of U.S. shopping-centre magnate Robert Baker helped the younger Baker gain retail insights; they often inspected malls and stores together, as Baker does now with his own sons.

Baker's entrepreneurial side showed up at an early age. As a teenager, he ran a catering business, convincing his private-school friends to help serve at parties. He attended cooking school in Paris and Cornell University's School of Hotel Administration. But his father persuaded him to join the family business rather than launch a restaurant.

And as an executive at the family business, Baker came to understand the urgency of putting every square inch of retail space to effective use.

While he thinks real estate was always in his blood, Baker learned from studying the hospitality sector to treat the customer-in real estate, the tenant-with kid gloves, something that wasn't common among developers in those days, he says. At the family business, it helped him make his mark early, in 1990, by bringing the already mighty Wal-Mart Stores Inc. to the company's shopping centres.

But by 2004, the market for new malls began to dry up. So Baker started to look for his next venture. He joined forces with his father and former private equity executives to form NRDC Equity Partners, and zeroed in on retail. Why retail? "You sound like my father," he told me when I put the question to him in 2008. Then he launched into an imitation of his father: "'What are you doing?'"

His reply: "'My career has been spent working with retailers and helping them grow and expand. It's a very natural progression for me to be involved in retail.'"

But the experts considered department stores to be dinosaurs, too large and unwieldy to take on fast-growing specialty stores and discounters. From Eaton's to Simpsons in Canada and Filene's in the U.S., they vanished from the landscape, or, in the case of Macy's and Bloomingdale's, went through a period of bankruptcy. Among the survivors, some, like Sears, are struggling. "I'm not a big believer in listening to all the experts," says Baker. "We wouldn't be here if we listened to the experts because according to the experts you couldn't do what we've already done."

That said, Baker has suffered some defeats. In an attempt to save it, he bought the bankrupt U.S. home and jewellery chain Fortunoff in 2008, only to see it collapse again a year later in the economic downturn. He had a minority stake in retailer Linens 'n Things, which also went bankrupt. And the recession pushed him to drop his in-house fashion incubator.

Milton Pedraza, CEO of consultancy the Luxury Institute in New York, says Baker is part of the "working rich, not the dolce vita rich....Many times, children of the wealthy have a big challenge, in that they have to come back out of the shadow of their parents. He has done that formidably."

Baker says he was interested in Saks as early as 2006, when he acquired Lord & Taylor. He talked with Saks executives four years later about their firm being purchased by HBC, but they were worried about its struggling Zellers division. And Baker was about to get busy with the Zellers transaction.

"We stalk companies," he says on the plane, picking up a sandwich from a platter and placing it on the china plate on the table between us, where he'll strip away some of the bread. "We don't just come and buy them one day. ...Sometimes we hire from those companies to better understand the company we want to buy."

Some of his closest corporate lieutenants worked previously at Saks. Indeed, personnel changes have swept through HBC under Baker: In 2008, he says, he replaced 96 of the top 100 executives at Hudson's Bay and Lord & Taylor after he merged them.

Last year, Baker spoke with top management at high-end Bloomingdale's about forming a joint venture that would introduce Bloomingdale's stores-within-stores at Baker's key Canadian stores. But the talks never went far, he says, adding, "we've had conversations with retailers from all over the world." In any case, Bloomingdale's was "never for sale," he says. "Our real goal was to buy Saks."

Some talks did go further. In 2014, Hudson's Bay will launch the Kleinfeld Bridal shop in its downtown Toronto flagship store, under a licensing agreement with the retailer, which Baker considered buying several years ago.

Since February of this year, he has focused almost solely on Saks, in what was internally code-named Project Sally. It's a reference to When Harry Met Sally, with Hudson's Bay (H) and Saks (S) in the starring roles.

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Saks Fifth Avenue, in the heart of Manhattan, is the trophy property in Baker's high-stakes shopping spree. At 4:30 p.m., it's bustling with people, in stark contrast to our previous store visits on this Tuesday. Saks isn't broken, the way Hudson's Bay was; it just needs some fixes-"a little pick-me-up," Baker says. "Can you imagine better lighting, better cosmetic units?" he enthuses as we move through the main floor. The Chanel handbag shop alone generates more than $30 million (U.S.) of annual sales, industry insiders estimate. Baker thinks he can double those sales by extending the boutique to the floor beneath or the one above with a staircase.

As we walk through the Jimmy Choo handbags (up to $5,850 a bag) section, he sighs: "This is sad. This breaks my heart. These poor handbags have to be squished in here like this. It's really not fair." Jewellery displays of items worth hundreds of thousands of dollars each are "trapped" in cramped quarters, he laments. They need to be expanded to another floor to give shoppers a chance to view them, he says.

"The main floor is too tight," he says. "Those are the big-money items. Maybe handbags go on the ninth floor, attached to the eighth-floor shoes. I don't know. The point is, we've got to keep challenging ourselves."

He faces no shortage of challenges by picking the luxury niche. In Canada, the luxury market is changing quickly: Seattle-based Nordstrom Inc., which will open its first Canadian store in Calgary in 2014, foresees as many as 10 locations and sales of about $1 billion in Canada, with the help of up to 20 of its discount Rack outlets. Holt's, with nine full-line stores, is expanding its space by 40% by 2015 and budgeting $300 million for its largest expansion ever, also targeting $1 billion in sales. It launched its lower-priced hr2 chain in March, envisioning as many as 20 more locations. Even Harry Rosen, a luxury menswear institution, and La Maison Simons, a Quebec fashion destination, are expanding. Meanwhile, some of the retailers' most important suppliers, from Stuart Weitzman to Hermès, are bolstering their own stores and online sites, providing competition for their own customers, the likes of Holt's, Saks and Nordstrom.

Where will all the customers come from? "Canadians have been notoriously resistant to luxury department-store environments and merchandise, which is exactly why there are so few in the country today," Perry Caicco, retail analyst at CIBC World Markets, says in a recent report.

Baker may be banking on the fact that the ranks of the big spenders are swelling. But their spending is showing signs of a slowdown. In Canada, the number of households with an income of more than

$200,000 rose four times as fast as that of households with average incomes since 2007, according to Environics Analytics. The number of households in the top income bracket-over $250,000-has jumped 34.2% since 2008, with 14.9% growth in the past year alone, it found.

However, growth in the $99.5-billion luxury sales market in the Americas isn't exactly stellar: This year, it will be 4%, less than a third of the 14% jump in 2012, an October report from consultancy Bain & Co. forecasts. Nevertheless, Canada's $2.15-billion luxury industry (notably smaller than the usual 10% of the U.S. market) will "become increasingly dynamic" as a result of the U.S. department stores' planned expansions, it predicts.

Mark Cohen, a professor at Columbia Business School, is skeptical. As a former chief executive officer of Sears Canada Inc., Cohen had a bird's-eye view of the high-end market, having inherited seven upmarket Eaton's stores which were faltering and that he pulled the plug on in 2002. "There are not enough customers," he says. "The very wealthy Canadians that I came to know would just as soon get on a plane and shop in New York than shop at home-they do that all the time."

Baker argues the arrival of Saks and Nordstrom in Canada will stem cross-border shopping. In any case, Holt's, as the incumbent, will feel the pinch from new rivals the most, at least initially.

There will be overlap in brands among the chains, especially between Holt's and Saks, which both carry the poshest products, like $40,000 Chanel handbags and $1,400 Theory motorcycle jackets. "The test will be in the customer experience and the loyalty of clients, not in the product differentiation, because that's going to be minimal," Pedraza of the Luxury Institute contends.

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Holt's isn't exactly a pushover**.** It's owned by the Weston family, which controls Selfridges and other chains for the affluent in Europe (and grocer Loblaw Cos. Ltd. in Canada). These people know luxury from the inside.

A few days after my tours with Baker, Holt's president, Mark Derbyshire, showed me around the company's newly remodelled Yorkdale store-at the other end of the mall from a remodelled Hudson's Bay that is more than twice the size of Holt's.

"Bigger isn't better," Derbyshire says. "We want to be the finest." To do that, the chain is paring underperforming lines and bulking up on designer labels such as Gucci and Prada. Like its competitor, it's stepping up its offerings in shoes and menswear, whose industry-wide sales are outpacing those of women's apparel. And it's focusing on full-priced sales, reducing discounting to four times a year in 2013 from 16 in the downturn year of 2009. Overall annual sales at the privately held Holt's, estimated at $800 million, are growing at double-digit rates, Derbyshire says. But the chain conducts virtually no e-commerce.

Suppliers are naturally pleased with the prospect of more business in Canada, but some quietly grapple with how they will serve the new players while also staying loyal to incumbents. Some vendors, who asked not to be named, said they lost Holt's business when they started to ship goods to Hudson's Bay over the past few years. (Derbyshire says that his strategy is to place more "big bets" on fewer lines.) Now that Saks and Nordstrom are coming, "at the beginning, everyone has to walk on eggshells," says one vendor.

Others don't have this concern. Hermès, for one, says it's benefiting from having its fragrances stocked at Holt's and, more recently, in some of the 90 Hudson's Bay stores. "I'm excited for Saks to come here," says Jennifer Carter, president of Hermès Canada. "There is an opportunity to really expand the business," says Andrew Rosen, CEO of high-end fashion purveyor Theory in New York. "It's not all add-on business. Consumers will change their shopping patterns."

While Saks is a fixture on Fifth Avenue and a familiar retail name, in the past few years its performance has trailed some of its peers in the luxury segment. Saks was forced to discount heavily during the recession, diluting its swish image. It has returned to mostly full-price selling and closed unprofitable stores, but lags in sales per square foot: They stood at $437 (U.S.) last year, compared with $629 at Neiman Marcus and $470 at Nordstrom. The latter doesn't have as many top-priced goods as Saks; neither does Lord & Taylor nor Hudson's Bay, whose sales per square foot were $218 (U.S.) and $140 (Canadian), respectively, below the industry average of about $250 (U.S.).

On the other hand, the metric at Holt's is estimated to be as much as $1,400 (Canadian), considerably higher than rivals, due partly to its stocking more opulent merchandise in smaller stores. "It's one of the reasons we're coming," Baker says.

In its latest fiscal year, Saks's profit dipped almost 16% to $62.8 million (U.S.) while sales rose 4% to $3.15 billion from a year earlier-still below the $3.28 billion in the year ended Feb. 3, 2008.

The Luxury Institute's Pedraza says the Saks shopping experience isn't as inviting as that of its rivals. In a recent "customer experience" survey that he conducted, Neiman Marcus came in first, Nordstrom was ranked second, and Saks was third.

Nordstrom is known for giving its salespeople wide latitude to help customers, in the 1970s famously refunding someone for a set of tires bought from a location that Nordstrom had taken over from another retailer.

"It's going to be an uphill battle for Saks," says Pedraza. "But can they do it? Yeah."

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Baker has a long to-do list for Saks. He wants to focus on revamping about 10 of the 41 stores in key markets, including New York, Beverly Hills and Miami. He may convert some other outlets to Lord & Taylor. He plans to pour $1 billion into a Saks facelift, including up to $100 million for the Toronto flagship and up to $250 million for the one in New York. Some $1 billion will go into Hudson's Bay and Lord & Taylor, over the next few years; the company already has spent about $500 million on improvements since 2008.

Baker will shift Saks into even more upper-crust offerings and double or triple the space devoted to high-margin handbags and jewellery. He's hired Marigay McKee as Saks president, a veteran of the high-brow Harrods in London, to work her magic with an already well-established Rolodex of contacts at Louis Vuitton, Céline and other designer labels. Baker has developed his own network of heavy hitters. In January, fashion power broker Anna Wintour is throwing a cocktail party for him in Paris where he'll get to mingle with designer luminaries.

In Canada, besides rolling out the Saks flagship on Toronto's Bloor Street, he is still drawing up his road map. He's thinking of converting Hudson's Bay's The Room to Saks and/or adding Saks to flagship stores. He's also weighing setting up Saks in Calgary, and in suburban Toronto, Montreal and Vancouver-up to seven or eight Canadian Saks in all, he says. He's already negotiating for space in major suburban malls such as Toronto's Sherway Gardens and Yorkdale. He estimates that folding Saks's backroom operations into those of Hudson's Bay will yield $100 million of annual savings within three years.

He'll bring Saks's e-commerce platform to Canada, perhaps as early as next year, and up to 25 of the chain's Off Fifth discount outlets to go toe-to-toe with Holt's fledgling hr2 and Nordstrom's Rack stores.

"We've got a lot to do," Baker says. "But this isn't some real estate guy saying he's got a theory. We've proven it....We've gone through the risky part where we spent money not knowing if it would work. We now know what's going to work so we can spend with a high level of confidence."

With that confidence, he wants eventually to take Saks to Europe and Asia, via acquisitions. (It currently has a handful of franchised stores in such spots as Mexico and Dubai.) "It is my life's ambition to make the Hudson's Bay Company one of the most spectacular companies in the world."

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Baker's retail abilities have evolved, but his real estate prowess-and his negotiating skills-remain his ace in the hole. Don Watros, who joined Baker's private equity firm in 2006 and now is chief operating officer of HBC, says Baker is decisive and a hard bargainer. "That comes from his real estate background," says Watros, who is also a former Saks executive. "Real estate in New York and the Northeast is an extremely difficult business. Everybody is trying to outdo each other in negotiations." Baker finds Canadian landlords more accommodating than their American win-at-all-cost counterparts. "Doing business in Canada is very different."

As early as 2006, when Baker bought a minority stake in HBC, he figured that Zellers could eventually be sold to U.S. retailers, such as Target or Kohl's, that had their eye on Canada, Watros says. Baker got lucky on the timing, because Canadian retailers weathered the recession better than their American counterparts, prompting the latter to view this country as an attractive destination. But prime retail real estate was scarce.

Baker's real-estate deal-making won the day. In September, 2010, when Wal-Mart approached him wanting to buy Zellers, he went to Target and said, '"If you're interested-it's now or never,"' Watros recalls. "It went quickly." Within four months, Baker nabbed the $1.8-billion price he always said he could get for Zellers in what was essentially a real estate transaction.

"He got two bidders, in getting the price he did," adds Gilbert Harrison, chairman of New York investment bank Financo, which has worked with Baker in the past. "He did it without a banker. Being an investment banker, I have to compliment him."

Baker checked out other luxury chains, such as Neiman Marcus, but preferred Saks for its real estate value, he says. "None of these issues are ever just the real estate. It's just one of the factors in anything we do. It is an attraction for us."

But now he's poised to further cash in on the real estate. He had been mulling spinning out HBC's properties into a real estate investment trust for a while, and now with its portfolio of Saks stores, he's ready to do it. The real estate could be worth $4 billion to $5 billion, for a combined Hudson's Bay-Saks company whose sales in 2012 would have been $7.2 billion. The Saks flagship on Fifth Avenue, which takes up an entire block, could alone be worth $1 billion.

The prospect of a REIT, rather than the performance of the operations themselves, seems to have propelled HBC's stock, says analyst ***Kathleen Wong*** at ***Veritas Investment Research***. After its initial public offering at $17 last fall, HBC shares fell as low as $14 in April but got a boost in the summer from the announcement of the Saks deal. That paves the way for the company to spin off its properties, joining Loblaw and Canadian Tire in a rage for REITs that has boosted their shares.

But HBC is late to the game, ***Wong*** says. "The performance of a department store is more vulnerable to an economic downturn compared to a Loblaws grocery store or a Canadian Tire store," she says. "This will affect investors' appetite for an HBC REIT."

Still, a REIT is attractive for HBC because it can generate a higher valuation than the retail operating company, which doesn't necessarily recognize the full value of its properties. The conversion would help HBC pay down debt and pursue its merchandising aspirations. While the jury is out on both the revival of Hudson's Bay and the prospects for Saks, it's already made a clear declaration about Baker's real estate talents.

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We are in Baker's Lincoln SUV, stuck in bumper-to-bumper traffic on Fifth Avenue, just four blocks from Saks. Suddenly Baker jumps out of the car and into the street to snap a photo with his phone.

The object of his admiration is a multiple-window installation at the second storey of a massive fast-fashion Uniqlo store. With a video playing in the background and lights flashing, the display looks like a row of mannequins marching on a runway, rotating like models.

Back in the car, Baker e-mails the photo to the head of Hudson's Bay visual display team, and gets on the phone. He is keen about Uniqlo, the hot Japanese-owned chain that he'd like to bring to Canada in shops within Hudson's Bay stores. "They're awesome," he tells his charge about the Uniqlo windows. "I'm wondering if we can do that on Bloor Street."

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FOR LUXURY RETAILERS, THERE'S NO BUSINESS LIKE SHOE BUSINESS

HBC head Richard Baker is making a beeline for a pair of $4,995 red suede Casadei women's boots, studded with hand-stitched Swarovski crystals. They're the same ones that Beyoncé wore in a recent video. The over-the-knee laced boots are on display at Hudson's Bay's expansive new shoe department at its remodelled downtown Toronto flagship location. Baker already has nabbed a pair for his wife (who finds them too over-the-top).

Like a kid in a candy shop, Baker moves rapidly through the aisles, holding up a pair of $1,995 black crystal-studded Christian Louboutin booties ("one of the hottest shoes in the whole world!"). On the lower floor, he steps into a stockroom equipped with a conveyor belt that ferries shoes to the main-floor shoe department in as little as three minutes. It's aimed at cutting time-pressed shoppers' wait in half, turning them into satisfied customers. So far sales are up more than 60% from a year earlier, according to Baker.

The battle to win the shoe customer is critical. Nordstrom, which will open its first store in Canada next year, is a footwear destination. The chain is dashing to make shopping easier by introducing its own technological upgrades, including mobile checkouts. Holt's, for its part, also recently rolled out a conveyor-belt system for its expanded shoe section at its Yorkdale Shopping Centre store, promising to slash wait times to two minutes from five. Holt's is quadrupling the size of its Yorkdale shoe hall, which features a Christian Louboutin "apartment" fashioned after the designer's Paris abode.

There's good reason for retailers' shoe fetish. In Canada, the mid-to-high-priced women's footwear segment is underdeveloped-while the apparel market is saturated, says Sandy Silva, fashion industry analyst at researcher NPD Group. "Women tend to have an easier time justifying a new pair of shoes to brighten up an outfit as opposed to an entirely new wardrobe."

Pricey shoes can be a lucrative business-it's among the most profitable categories at Saks. Women who have trouble controlling their body shape can still slip into a $1,965 pair of Christian Louboutin pink python platform pumps with a six-inch heel.

At the flagship Saks store in New York, the eighth-floor shoe department is so vast that it has its own zip code-10022-SHOE. This fall, it rang up an eye-popping sale of two pairs of Louis Vuitton crocodile riding boots with the LV logo in gold-$25,000 each-one in brown and the other being ordered in black for the same Texan woman, says store manager John Cruz. "It's beyond delicious," he says of the boots.

At the Hudson's Bay flagship, Baker is now pumping up the shoe space-expanding it by more than 50%. Like Nordstrom, it stocks a wide array of footwear, from $40 Keds sneakers to $5,000 red suede boots. "When Nordstrom comes with its handful of stores, we will certainly have as exciting and as interesting a shoe offering and experience as anyone in the world," declares Baker.