



Macy's: A National Brand

1.0 Executive Summary

Federated Department Stores, owners of over 850 nationwide departments stores, is consolidating its regional brands, with the exception of Bloomingdale's, into a national brand – Macy's.

In this paper, we will look at the larger department store industry, today's competition and the strengths and potential weaknesses of Federated's national Macy's strategy.

2.0 History

Macy's has a long and rich history dating back to 1858 and its first store on 14th Street and 6th Avenue in New York City. After several unsuccessful retail ventures, Rowland Hussey Macy launched what is now one of one of the most recognizable department store brands. Macy's grew from its meager beginnings into America's department store. In fact, the Macy's brand is ingrained into Americana. Since 1924 Macy's name has been attached to the time honored tradition of the annual Macy's Thanksgiving Day Parade. Macy's also played prominently in the movie "Miracle on 34th Street".



In 1994, Macy's merged with Federated Department Stores creating the world's largest department store company. After the merger, Federated began operating more than 850 department stores in 45 states under the names of Macy's, Bloomingdale's, Famous-Barr, Filene's, Foley's, Hecht's, Kaufmann's, L.S. Ayres, Marshall Field's, Meier & Frank, Robinsons-May, Strawbridge's and The Jones Store.

3.0 Situation Analysis

Over the last decade, Federated Department Stores has expanded the Macy's brand into select markets. Federated's acquisitions and experiment of co-branding Macy's with regional nameplates has led to the current effort – the complete conversion of Federated department stores, with the exception of Bloomingdale's, into the Macy's brand. This effort will be complete when approximately 400 May Department Stores are converted to the Macy's name in September of this year.

3.1 Overview of Industry Trends

Department stores are in a period of decline and consolidation. Their relevancy has waned as competition has increased. Department stores find themselves being



forced to compete with discounters, luxury chains, specialty stores and Internet outlets. They're being squeezed from all sides.

A half a century ago, most department stores were freestanding retail establishments offering one-stop shopping for consumers. Over a short period of time, these flagship downtown department stores would gradually give way to a new environment of retailing – the suburban shopping mall. Today department stores “anchor” some 1200 suburban shopping malls and sit side by side with a host of competitors.

Today's department stores are an endangered species. In 1980 there were 35 major department store chains. Today there are only 13 left.¹ In 1990, conventional department stores accounted for 2.5% of total household income in America. A decade later, their share had tumbled to 1.6%.² As a result of this contraction, department stores have been forced to reinvent themselves or risk the prospects of going out of business.

Two distinct models of success for the beleaguered department store industry have emerged.

The first is the “**strong retail brand**” approach. In this approach, department stores have found success creating and promoting their in-house merchandise brands. Assuming in-house brands reach a certain level of popularity, the department store can promote itself and its brands as opposed to any individual third party brand within. This approach has higher operating costs but can also produce higher margins. The success of the Marks & Spencer label is an example of the strong retail brand approach.

The second model for success is the “**showcase**” approach. In this approach, the department store not only sells other brands, they leverage vendors of those brands to take responsibility for an increasing part of the retail process. Department stores have vendors active in stocking, staffing and other essential retail functions. Showcase department stores often sell floor space. The key for showcase department stores then becomes promoting the attraction of the shopping experience. This approach may lead to lower margins but the tradeoff is lower operating costs. A good example of the showcase model is Selfridges, which positions itself as a retail theme-park.

3.2 SWOT Analysis

3.2.1 Strengths

THE MACY'S BRAND. The Macy's brand is one of its strongest assets. According to Federated CEO Terry Lundgren “The Macy's brand is one of the most recognizable names in the retail department store industry”. From the movie “Miracle on 34th Street” to the Macy's Thanksgiving Day Parade (the second most watched event after the Super Bowl³), Macy's has integrated itself into the cultural fabric of America.





ECONOMIES OF SCALE. By converting many regional chains into the singular Macy's brand, Federated is expecting to realize greater economies of scale. Redundancies will be eliminated and everyday business functions can be streamlined.

PURCHASING POWER. One of Macy's newfound strengths will be its size. In terms of purchasing power, Macy's may rival Walmart in its ability to use sheer volume to secure the best prices. Additionally, Macy's will have greater leverage in making sure that it secures the hottest merchandise.

MARKETING EFFICIENCIES. Macy's, as a single entity, will allow Federated to better focus on its core assets and implement marketing efficiencies through national marketing campaigns. As opposed to splitting resources for regional campaigns, Macy's will be able to buy more national advertising.

MIX NEW WITH OLD CHANNELS. To compete with pure play internet retailers, Macy's is in the stronger position of being able to leverage the storefront and the internet. Nationwide storefronts allow Macy's to cross promote the internet with its physical presence. Customers can research online at Macys.com and then come into a store and buy. Customers can also buy items at Macys.com with the security of knowing a return can be handled at the local store. This unique position allows Macy's a competitive advantage over internet only retailers.

3.2.2 Weaknesses

TRANSITION PERIOD. In making a change from regional brands to the Macy's brand, there will be an inevitable transition period that presents both opportunities and challenges. How Macy's handles this initial transition period will be of the utmost importance to the overall success or failure of this nationwide rollout. Macy's must learn from each rollout and continually improve. For instance, Macy's should be keen to evaluate the experience in Columbus, Ohio. According to Scarborough Research, the number of customers walking into Macy's stores in the Columbus area fell 4.5 percent after the name change from the regional Lazarus brand.⁴

Customers are initially resistant to change and the transition period will indeed serve to influence many customers' first impression. If customers have a negative initial experience, Macy's will have difficulty erasing that perception.

LOSS OF REGIONAL'S BRAND VALUE. Customers have a relationship with their regional department store. These regionals have often spent many years and vast resources cultivating their brand image and affixing it in their customers' psyche. By moving to a single national brand, Macy's negates the regionals' established brand value.

IMPERSONALITY OF A NATIONAL BRAND. Macy's has to overcome the perception that one size doesn't fit all. Macy's must realize that Manhattan isn't small town America. One of the benefits of the regional stores was the ability to serve different markets with regionally appropriate products and experience. Macy's must do likewise and appeal to several distinct regional markets.



REPOSITIONING. Macy's new strategy will be "affordable luxury" which will feature new private labeled brands and brand-names such as Ralph Lauren, Jones New York, Calvin Klein and Liz Claiborne. This "affordable luxury" strategy puts Macy's somewhere in the middle of the department store food chain.

Retailers like Neiman Marcus and Nordstrom have found success catering to affluent customers. And discounters like Wal-Mart have cornered the bargain hunters.

Macy's challenge is to find a viable middle ground.

EVOLVING CUSTOMERS. The vast majority of customers have changed their shopping habits. Today's customers are more inclined to research a purchase online, comparison shop and then visit a store. Today's customers are well informed. Macy's must appeal to this 21st century shopper and meet their needs throughout the entire customer lifecycle.

3.2.3 Opportunities

FIRST IMPRESSIONS. You only get one shot. Macy's greatest opportunity in these new markets will come in the form of a first impression. This first impression will have significant impact on those loyal to their departed regional department store. These new shoppers will come and judge the overall shopping experience and the merchandise behind the Macy's name.

INFLUENCE. Stale merchandise has been a significant problem for department stores. By in large, department stores haven't excited shoppers in some time. As a national store, Macy's will have more influence with suppliers. If properly utilized, this newfound influence can bring in the latest must have products and exclusive merchandise.

STEP OUT FROM THE PACK. In consolidating several regionals into a single national brand, Federated should be able to better distinguish the Macy's brand. Fewer names in the market will mean the Macy's brand has a better opportunity to stand out amongst a smaller crowd.

STRENGTHEN THE FINANCIAL HEALTH. The new acquisitions and transition to Macy's presents an opportunity to strengthen the financial health of Federated. Macy's size should allow it realize economies of scale. Operating costs have the opportunity to decrease. And margins have the opportunity to and should increase.

3.2.4 Threats

THE SQUEEZE. Macy's faces the continued threat of being squeezed from above, below, by specialty shops, internet retailers and middle ground competitors like Kohl's. Should these competitive forces continue to erode Macy's target markets, Macy's national strategy could be seriously jeopardized.

ECONOMY. Gas prices, higher interest rates, a stagnant stock market and fears of terrorism could further contribute to the pain in the pocketbook of every day



consumers. Macy's, as do all retailers, faces a real threat of an economic slowdown.

3.3 Competition

DISCOUNTERS. Discounters like Walmart and warehouse retailers like Costco compete head to head with Macy's on Macy's low end products.

LUXURY STORES. Luxury stores like Neiman Marcus and Nordstrom appeal to high end shoppers by creating a desirable experience and offering exclusive merchandise.

SPECIALTY STORES. Specialty stores focus on a more narrowly grouped set of merchandise. For instance, Circuit City focuses specifically on consumer electronics.

MAIL ORDER. Mail order retailers like JCrew, Plow and Hearth and Crutchfield offer quality merchandise, competitive prices and arrive right or your doorstep.

PURE PLAY INTERNET RETAILERS. Pure play internet retailers like Amazon.com and Buy.com are attacking nearly all department store merchandise lines with the exception of private labels.

4.0 Conclusion

Federated decision to turn Macy's into a national brand was one made out of necessity. Federated had to shake up the department store industry and its holdings to stand a chance in today's every evolving retail environment.

Federated's faces two great challenges: hitting a home run with Macy's and making the department store the retailing center it once was.

Macy's name alone should peak the interest of consumers and get them in the stores. The real problem Macy's faces is making the department store as relevant as they once were.

Resources

¹ Tsiantar, Dody. "Department-Store Superstar." Time.Com. 6 Feb. 2006. 24 June 2006 <<http://www.time.com/time/insidebiz/article/0,9171,1156587-1,00.html>>.

² "Reinventing the Store." Economist.Com. 20 Nov. 2003. 24 June 2006 <http://www.economist.com/displaystory.cfm?story_id=2227401>.

³ Insana, Ron. "Macy's Gets Ready for Miracle of Holidays." USAToday.Com. 1 Nov. 2004. 24 June 2006 <<http://www.usatoday.com/educate/college/careers/profile41.htm>>.

⁴ Anderson, George. "Macy's Takes Hit Over Name Change." RetailWire.Com. 7 June 2006. 24 June 2006 <www.retailwire.com/Discussions/Sngl_Discussion.cfm/11461+macy's+federated+advantage>.