

SHOP

***AMERICA'S GO-TO DEPA
HAS A PLAN TO SUR***

BY SUSAN BERFIELD

48

TODAY

**RTMENT STORE SAYS IT
VIVE THE CARNAGE**

AND LINDSEY RUPP

Can you get me out of the line faster? Can you do that? Why, when I go to Herald Square, do I have this glorious experience, and when I go to this other store I don't? Why doesn't your app show me where I can go get that item that I've already put into my basket? I just want to feel the fabric. I just want to try it on. How do I get a sales associate faster? Where are your sales associates? Why does your restroom feel like it's from 10 years ago, or 20 years ago?"

That's Jeff Gennette, who's been with Macy's for three decades, was promoted to chief executive officer this spring, and has heard all your complaints about his stores, assuming you still shop there. He's cautious about offering opinions, less of a public figure than his voluble predecessor, Terry Lundgren, and calm as he faces what's become known on Wall Street as the retail apocalypse. With a few exceptions, stores everywhere are hurting—especially department stores such as Macy's. Gennette has one of those increasingly familiar corporate career arcs: He worked himself to the top only to find that he's on the edge of a cliff.

Sales in Macy's established stores have been declining every quarter for the past 11. On Nov. 9 the company reported a 3.6 percent drop in same-store sales for the third quarter from the previous year and blamed the hurricanes in Florida and Texas. Executives said that if the holiday season proves as good as they hope, Macy's will meet its meager goal for the year: no more than a 3 percent reduction in sales. Over the past three years, revenue has fallen from \$27.5 billion to \$24.6 billion, profits have been cut by almost half, and the company's market value is down by about two-thirds.

Blame Amazon.com, blame Apple, blame Everlane and Zara and T.J. Maxx. In one way or another, they've taken some of Macy's customers by offering no service instead of poor service, gadgets instead of clothes, reasonable prices instead of weekly discounts, scarcity rather than glut, as well as convenience, speed, and the sheen of good taste. Most of all, they feel modern, without the whiff of decline around them.

A few months after his chief financial officer, Karen Hoguet, told the *Wall Street Journal*, "Don't count us out, we're not dead," Gennette agreed to talk about what he's done so far to revive Macy's, the largest department-store chain in the U.S. He met us at Stella 34 Trattoria on the sixth floor of Macy's Herald Square, still the single biggest store in the world, a bewildering 1.2 million square feet of selling space spread among 10 floors and extending over almost an entire city block. The restaurant, part of a \$400 million Lundgren-era renovation, opened in 2013 in what was once a storage area. On a late Thursday morning in mid-October, it's the busiest part of the store, a place where it's possible to imagine a prosperous future for Macy's.

"It may be smaller, it may be more virtual," Gennette says as he sips from a glass of water. "But I'm committed to bricks"—that is, stores—"and it's our job to figure out what to do with them."

The original R.H. Macy & Co. was a dry goods emporium that opened in downtown Manhattan not long before the Civil War. But—skipping over many decades of convoluted corporate history—what's now known as Macy's was once Federated Department Stores Inc., which had acquired many of the department stores that might sound familiar to people born before



Macy's iconic Herald Square store, back in the day

1970 or so: Burdines, Bullock's, I. Magnin & Co., and Lazarus, to name a few. The company bought Macy's in 1994 and a decade later took its name and rebranded its other department stores with the Macy's name, too. There went Stern's and Abraham & Straus. Only Bloomingdale's retained its identity. Lundgren, who took over as CEO in 2003, made one more big purchase that doubled the size of the company: In 2005 he bought May Department Stores Co., which owned Marshall Field's & Co. and Filene's, as well as some smaller chains. They all got the Macy's name, too, and Lundgren got to be head of what he called the Great American Department Store. "Today sets us on a broader mission of reinventing the department store in the United States," he said at the time.

Back-office efficiencies, vendor synergies, and national marketing budgets may have excited investors, but none of that mattered much to customers. A few years later, Lundgren attempted to "localise" merchandise in stores that he'd essentially just centralised and personalise stores whose decades-old identities he'd just erased. He called the strategy "My Macy's."

"One of the five greatest retail mistakes in history was Macy's buying all that it did," says Nick Egelanian, president of SiteWorks Retail Real Estate Services, a retail consulting firm. "Macy's bought department stores that were already failing. They were buyers when they should have been sellers. If they were going to buy, then they had to reinvent, but they didn't."

In the middle of last year, Macy's decided to close 100 of its 730 stores, eliminating 3,900 jobs. (After a disappointing 2016 holiday season, Macy's said it would cut 6,200 more jobs.) About half of the 70 stores it's shut down this year are within 10 miles of another Macy's. Those might seem obvious choices, but the company had to make another, counterintuitive calculation as it selected locations to shutter. When a store disappears, online revenue also shrinks: At traditional retailers, online and offline sales tend to be correlated. For example, customers can pick up online orders at stores, and once they're inside, they might end up with more than they came for. Some shoppers will seek out another Macy's if the nearest one is closed, but most don't. "Almost at the ZIP code level, you can predict what you can retain when you close a store and what you can't," Gennette



A Macy's in Lynchburg, Va., that closed this year

says. Macy's has retained about 12 percent of sales so far.

Some of the well-situated stores are being "monetised," which is Wall Street jargon for "sold off for cash." The company got rid of its downtown Minneapolis flagship for \$59 million in March. One hundred years ago the store was a Dayton's, then it became a Marshall Field's, and since 2006 it had been a Macy's. Soon it will be offices. The men's store in San Francisco's Union Square went for \$250 million. In an irony lost on no one, Amazon.com is leasing the top six floors of the Macy's building in Seattle, while Macy's keeps the ground floor and basement. The company wants to make similar arrangements for its downtown Chicago store, though maybe with a different tenant.

Then there's Herald Square. It's estimated to be worth almost \$4 billion; Macy's entire value on the stock market in mid-November was \$6.2 billion. The company says it won't sell Herald Square but wants to find ways to do some monetising there, too. "It's a very high priority for all of us," Hogue, the CFO, said at a recent Morgan Stanley retail conference full of analysts who agree that it should be a high priority.

Macy's has a partnership with Brookfield Asset Management Inc. to potentially redevelop 50 additional locations. Yet the retailer still may have too many stores. At the same conference, Hogue said that when executives considered which locations would be critical to keep if Macy's were to somehow start over, they counted 245.

The premise of a department store—to be able to buy a mattress and pajamas in the same place—is still valuable. But today that place is called Amazon, and there you can buy toothpaste, too, and have it all delivered in two days. So the question is: What do department stores have that Amazon doesn't? Actual salespeople.

In the age of digital retail, the desire for human connection may still be profound, but the interaction has to be pleasant and helpful. Experts have no shortage of suggestions here. "Macy's has worked very hard to kill their point of difference—sales help," says Kate Newlin, a brand consultant who has her own firm. As the company centralised its merchandising over the years, its professional sales staff became almost obsolete. "The sales professionals who knew their customers got trashed in the name of efficiency," Newlin says. Nordstrom and Saks Fifth Avenue are smaller than Macy's and offer more high-end fashion, so direct comparisons can be tough. But, Newlin says, Nordstrom wants "customers to feel treasured." She suggests an easy way Macy's could get started: Train salespeople to put away their own cellphones.

"Macy's needs to turn its associates into Apple geniuses who can engage and have personal information about their customers on their iPads," says Robin Lewis, who publishes a retail strategy newsletter. "If Gennette can get personal profiles on the 10 percent of his customers who account for over 50 percent of his business, he can market to people individually, as Amazon does."

Some typically frustrating department-store sales methods are being replaced at Macy's. The cosmetics department staff is no longer trained to sell just one brand, for example. "If our associates aren't trained in everything, [customers] will find someone who is, on their phone," says Nata Dvir, head of beauty at Macy's. And for those in a rush or uninterested in interaction, Macy's has put together a section of so-called impulse brands, such as Smashbox and Urban Decay, where shoppers can help themselves. Sephora has operated this way for decades.

Macy's is also trying to distinguish itself by offering less merchandise rather than more. Eventually there could be 30 percent fewer items in the stores. Cassandra Jones is the one who ultimately will decide what clothes Macy's should sell. "Two years ago we wouldn't have told you we were focused on fashion," she says. Instead, Macy's was focused on price. Jones, who's wearing an of-the-moment plaid sleeveless top and matching wide-leg trousers, points out that the store now offers an "It List" on its website and just ran its first fashion-focused television commercial in the decade she's been with the company.

In some of its empty space, Macy's is trying to mimic the success of the one kind of retailer that's not suited to selling online and has been among the most profitable: off-price. Because buyers at stores such as T.J. Maxx, Marshalls, and Ross Stores buy merchandise when they spot an opportunity—a designer made too much, a department store bought too much—they offer pieces, not full lines, and not much is predictable. Merchandise turns over fast, and the point is for customers to feel like they got lucky.

Macy's opened its first off-price department, called Backstage, in 2015. That's six years after initially considering ▶

**"ONE OF THE FIVE GREATEST RETAIL MISTAKES
IN HISTORY WAS MACY'S BUYING...DEPARTMENT
STORES THAT WERE ALREADY FAILING"**

WHERE MACY'S CAME FROM

Region where the store was founded
 ■ Midwest ■ Northeast ■ South ■ West and Pacific

Bamberger's

O'CONNOR, MOFFATT & CO.
 The New Store • STOCKTON AT O'FARRELL STREET • SUTTER 1899

H. HACKFELD & CO.

I. Magnin

O'CONNOR, MOFFATT & CO., SAN FRANCISCO

BAMBERGER'S, NEWARK, N.J.

DAVISON & DOUGLAS CO., ATLANTA

R.H. MACY & CO., NEW YORK

H. HACKFELD & CO., HONOLULU

LIBERTY HOUSE

I. MAGNIN & CO., LOS ANGELES

BULLOCK'S, LOS ANGELES

RICH'S, ATLANTA

GOLDSMITH'S, MEMPHIS

RIKE'S, DAYTON

BLOOMINGDALE BROS., NEW YORK

FILENE'S, BOSTON

WECHSLER & ABRAHAM, BROOKLYN, N.Y.

ABRAHAM & STRAUS

JOHN SHILLITO & CO., CINCINNATI

F&R LAZARUS & CO., COLUMBUS

FOLEY'S, HOUSTON

SANGER BROTHERS, DALLAS

BURDINE'S, MIAMI

A. HARRIS AND CO., DALLAS

JOSEPH HORNE CO.

JOSEPH HORNE CO., PITTSBURGH

MAAS BROTHERS, FLORIDA

THE BON MARCHE, SEATTLE

JORDAN MARSH & CO., BOSTON

D.M. READ CO., BRIDGEPORT, CONN.

STERN BROTHERS & CO., BUFFALO

the BROADWAY

the Wm. H. Block Co.

WILLIAM H. BLOCK CO., INDIANAPOLIS

THE EMPORIUM, SAN FRANCISCO

THE BROADWAY, LOS ANGELES

WEINSTOCK'S, SACRAMENTO, CALIF.

ZIONS COOPERATIVE MERCANTILE INSTITUTION, UTAH

STRAWBRIDGE & CLOTHIER, PHILADELPHIA

WANAMAKER'S, PHILADELPHIA

J.W. ROBINSON CO., LOS ANGELES

HECHT'S, BALTIMORE

MEIER & FRANK CO., PORTLAND, ORE.

G. FOX & CO., HARTFORD

BERNHEIMER'S, BALTIMORE

THE LEADER, BALTIMORE

A. HAMBURGER & SONS, LOS ANGELES

HOLCOMB, MAY & DEAN, LEADVILLE, COLO.

MAY DEPARTMENT STORES CO.

FAMOUS DEPARTMENT STORE, ST. LOUIS

FAMOUS-BARR

WILLIAM BARR DRY GOODS CO., ST. LOUIS

KAUFMANN'S, PITTSBURGH

STROUSS-HIRSBERG CO., YOUNGSTOWN, OHIO

L.S. AYRES & CO., INDIANAPOLIS

THE JONES STORE CO., KANSAS CITY, MO.

MARSHALL FIELD'S, CHICAGO

DAYTON'S, MINNEAPOLIS

HUDSON'S

THE J.L. HUDSON CO., DETROIT

1830

◀ the idea, 30 years after Nordstrom Rack started, and almost 40 years after T.J. Maxx was founded. "Coulda, shoulda, woulda," says Michelle Israel, the newly promoted head of Backstage. "Every opportunity is different. The store within a store is different than our competitors." She'll oversee 45 locations by the end of 2017; seven of those are free-standing, the rest will be housed inside Macy's department stores. The company has plans to expand further in 2018. So does Nordstrom Rack, which has 232 locations, and T.J. Maxx, the fastest-growing retailer in the world, with almost 1,200.

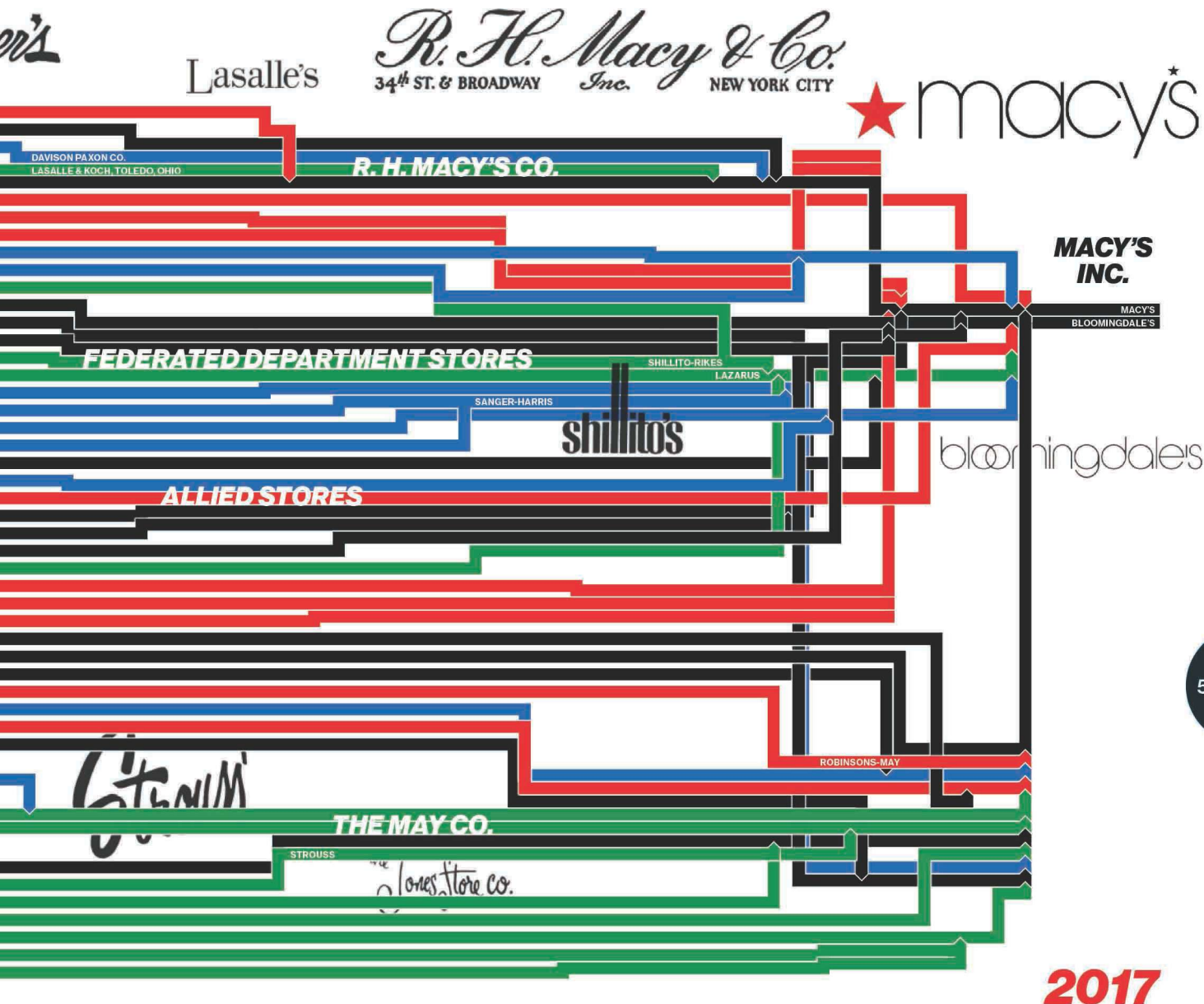
Israel is bright-faced and energetic and uses the word "fun" a lot. Backstage is supposed to be "a gateway" to Macy's for younger shoppers, a fun and lighthearted place with fun products and faster fashion. "It's, 'I need this right now,'" she says. "It's like, 'I have a date in an hour.' It's, 'I hate what I'm wearing right now. Can you help me? My plane is leaving tonight.'"

For now, though, Backstage mostly attracts customers who

are already shopping in the store, and those stores are located in "what you might call 'challenged malls,'" says Gennette, where Macy's has little to lose and potentially much to gain. Backstage, which offers new kinds of merchandise, such as hair-care products, home décor, and toys, as well as different apparel brands, isn't taking away from regular sales, he says. It's adding to them, typically by 7 percent throughout the store.

"Backstage is probably driving revenue, but they have to be careful about what metrics they use to measure success," says Chris Petersen, a strategic retail consultant and blogger. "They might be getting more revenue, but at what cost to margins? Revenue doesn't pay the bills, margins do." So far, Macy's margins have stayed close to 40 percent.

Taken together, T.J. Maxx, Nordstrom Rack, Zara, and H&M will have opened about 750 stores globally this year in the three businesses that account for most of department stores' sales: apparel, housewares, and cosmetics. "They won't stop opening



at that pace until they put department stores out of business,” says Egelanian, the consultant. “Those brands are eating what’s left of the carcass. That’s stark, but it’s what’s going on.”

Gennette says that about a year ago, he assembled a task force called What’s New, What’s Next. The group has eight executives, several with backgrounds in technology and consumer products. “It’s a dedicated team that is reimagining the future for retail,” he says. “They’re in the thick of reimagining how this brand would fit into the future of retail.” When asked to elaborate, he says, “I’ll get back to you.”

He does tell us that a hint of this future would be coming to Herald Square soon. That turned out to be a 1,000-square-foot Samsung “digital playground,” with phones and tablets as well as TVs that serve as frames, connected smart refrigerators, and virtual-reality chairs (sign a waiver, and you can ride a virtual roller coaster). Last year, Herald Square hosted

an Apple Store, the first department store to do so, and also brought in specially designed Brookstone gadgets such as the Grill Alert Bluetooth Cooking Thermometer (\$69.99). As department-store stunts go, those are tame. Back in the 1930s, Saks had an indoor ski slope powdered with Borax.

Brands wear out, department stores vanish, malls become offices and apartments, technology disrupts: That’s the nature of commerce. But even if Macy’s is indeed doomed—and Gennette, of course, is adamant that it’s not—the final, everything-must-go clearance sale is a ways off. The chain still draws in some 41 million shoppers a year, and Herald Square is the fourth-most-popular tourist destination in New York City. It’s looking up to Nordstrom and its reputed sales staff and down to T.J. Maxx and its no-frills model. “The middle is a good place to be,” he says. The middle, maybe; the average, probably not. So far, Macy’s is making small changes, hoping for rebirth by a thousand measures. **B**