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Caso Macy's

Overview

The traditional department store was the dominant player of the American retail scene in the first half of the 20th century. Often distinguished by elaborate architecture, a large variety of merchandise, the latest fashions and affordable prices, the department store aimed to provide a unique shopping experience for consumers

However, only 50 years later, department stores were experiencing consistently declining sales and market share, and serious questions were being raised to whether the end of the traditional department store was inevitable

Overview

In the period 2005-2006 borned one of the major players in the traditional department store industry, Macy's, and the company's attempts to counter industry trends. In a bold move, Federated Department Stores consolidated 15 regional department store chains – and 810 store locations – under the Macy's brand, and repositioned the newly-expanded company in the overall retail landscape in attempt to differentiate Macy's from its competitors

In the period 2006-2011, after the Macy's consolidation, the department store industry is in decline and competition (sobstitutes formats and products) is growing rapidly. Macy's has recently instituted a bold strategy to compete in a tough market. How successful will this new strategy be? Does Macy's need to make further changes to remain viable? If so, what changes?

Understanding the «big picture»: the rules and the environment

- **STEEP analysis**
  - **Social:** heterogeneous consumer market. Each consumer "area" has its own needs and demands according to their culture, influence of the city, the weather, the preferences
  - **Technological:** popular technological trend represented by the «on-line shopping», which threatened all physical «brick and mortar» stores, including department stores
  - **Economical:** general economic conditions were quite positive for the retail business at th time of Macy's consolidation. Significant recession started from 2008 and continued throughout 2010 and 2011, with the increase in the price of gasoline and cotton

Understanding the «big picture»: the rules and the environment

- **STEEP analysis**
  - **Ecological:** no information from the text
  - **Political:** no information from the text

Understanding the «customer»: who is buying the product/service

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- Woman had long been the primary consumer group for traditional department stores and this was directly reflected in the merchandise, which consisted primarily of women's clothes, accessories and household goods

- **The target customer age group of traditional department store was women between 25 and 55 and senior citizens over 55, who tend to favor traditional clothing and style**

- Youngers between 18 and 25, despite most traditional department stores carried merchandise for them, tend to prefer speciality shops

Understanding the «competitors»: who is playing against me

- The industry was segmented as in the following:

  - **High-end Luxury**: Saks Fifth Avenue, Nieman Marcus and Barneys New York
  - **High-end General**: Nordstrom, Lord and Taylor and Bloomingdale's
  - **Upper Middle**: Macy's and Dillard's
  - **Lower Middle**: JCPenney, Sears, Carson's, Bon-Ton and Kohl's
  - **Low-end**: most traditional low-end department stores had gradually disappeared, replaced by discount stores such as Wal-Mart and Target

- **Macy's, being in the Upper-Middle segment, is mainly threatened by companies in the segments closer to it**

Understanding the «competitors»: who is playing against me

Understanding the «competitors»: who is playing against me

- **Rivalry (-)**
  - Extreme competition
  - Price competition
  - Declining industry

- **New entrants**
  - Not expected (high capital to start)

- **Bargaining power of suppliers**
  - High of branded names
  - Low of volume products

- **Bargaining power of customers**
  - High/many opprtunities for customers

- **Substitutes**
  - Threat of discounters/on-line

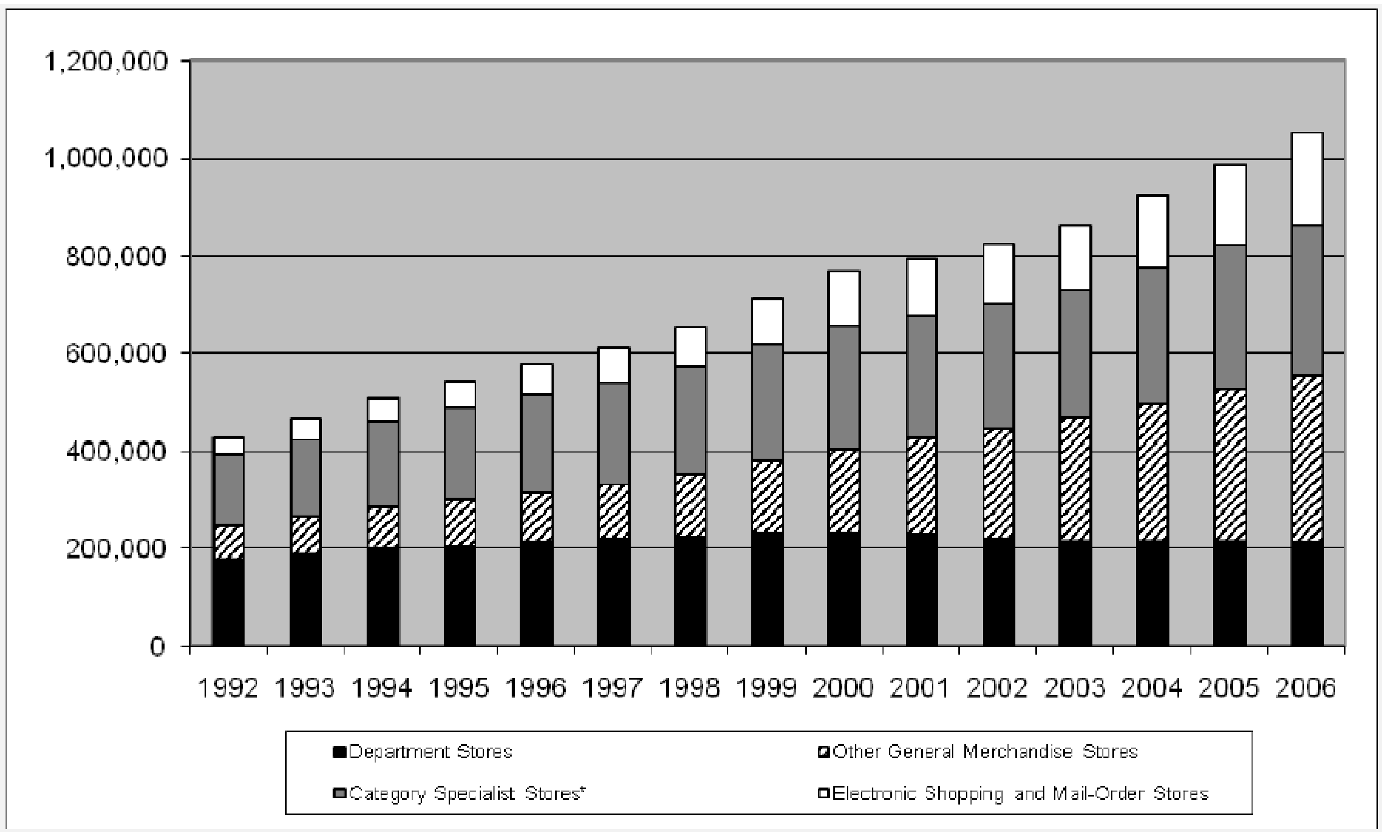
Understanding the «competitors»: who is playing against me

Strategy

- Being a nation-wide brand is not unique
- Competition is tough → Fashionable department stores can be strong competitors (Nordstrom)
- Fast fashion clothing retailers (H&M, Zara)

Understanding the «big picture»: the rules and the environment

SALES OF INDUSTRY SEGMENTS IN THE RETAIL SECTOR, 1992-2006



Understanding the «supply chain»

- Suppliers of nationally-advertised fashion brands, such as Ralph Lauren, Anne Klein, Ellen Tracy, Michael Kors and Martha Stewart.

- Well-know designers and «affordable luxury» during post-consolidation period

- Tommy Hilfiger sportswear in 2008, Madonna’s «Material Girl» and Beyonce’s fragrances in 2010, Kurt Lagerfeld, Matthew Williamson and Giambattista Valli in 2011

Understanding the «arena»: entries and exits

- Entry Barriers

Economies of scale	✓
Capital requirements	✓
Brand identity	✓
Switching costs	
Access to distribution channel	
Cost advantages independent of size	
Legislation or government actions	

Understanding the «arena»: entries and exits

- Exit Barriers

Specialized assets	✓
Fixed costs of exit such as labour agreements	
Strategic interrelationship	
Emotional barriers	
Government and social restrictions	

Key success factors (KSFs)

Efficiency

(operational)

Reputation

Location

Competitive advantages: a summary

- Economies of scale
- Brand recognition
- Affordable luxury

Positioning: fashion conscious demographic at less than high end prices; the most trendy dept stores; emphasis on fashion

Broadened target market to customers who are interested in style and fashion

Became the department store that is trendier and less traditional than most, with an emphasis on fashion

Value chain analysis

Firm Infrastructure	Experienced management
Procurement	Large scale purchases

Operations	**Marketing and sales**
Location Efficient stores Store design Store re-modeled	Brand Advertising Promotion Shopping experience

Readapted on the basis of Porter value chain

SWOT analysis

Strengths	Weaknesses
Opportunities	Threats

Strengths	Benefit
Consolidation	Lowered costs in purchasing, signage, administration, merchandise purchased, adverstising, promotion, etc. and eliminated some of the competition In general the size of the company looks appropriate for widespread activities
Development of major national brand	Reinforced the Macy's vision of «America's department store» and gave Macy's a national presence
Prime locations	Increased traffic; convenience for shoppers
Remodeled stores	Provided more pleasent shopping experience
Bridal registry, fashion shows and events	Attracted a younger audience

Weaknesses	Possible Outcome
Excess costs	Many of the acquired stores are too big and too expensive to be efficient, and in poor locations
Standardization versus diverse customer tastes and needs	May have to tailor products to specific geographical areas, which may negate expected cost savings
Question of loyalty	Customers may be loyal to former brands and refuse to shop at Macy's

Opportunities	**Benefit**
Overseas expansion	Introduction of Macy’s brand to others countries using the power of being «America’s department store»

Threats	**Potential Outcome**
On-line shopping	The on-line shopping become an increasingly popular trend that threaten the “brick and mortar” stores, including the department ones.
Discounters and speciality stores	They are experiencing significant gains in sales while department stores are rapidly losing sales.
Department store industry	The industry is declining and shoppers may prefer other retail formats

Prediction

- Moderate success – modest profits – consolidation and repositioning will help
- Bankruptcy
- Extreme success