



Macy's Differentiation Strategy

An Interview with Terry J. Lundgren, Chairman, President, and Chief Executive Officer, Macy's, Inc.

EDITORS' NOTE Terry J. Lundgren assumed his current title in January 2004. Prior to this, he served as President and Chief Operating Officer, a title he assumed in March 2003 after having served as President and Chief Merchandising Officer since May 1997. Lundgren began his retailing career in 1975 as a trainee with Bullock's, a Los Angeles-based division of Federated Department Stores, and held positions of increasing responsibility with the company over the next decade, ultimately becoming Senior Vice President and General Merchandising Manager in 1984. In 1987, he was named President and CEO of Bullock's Wilshire, an upscale chain of specialty department stores owned by Federated. Lundgren left Federated in 1988 to join Neiman Marcus, where he served as Executive Vice President and, shortly thereafter, was named Chairman and CEO. He returned to Federated in April 1994 as Chairman and CEO of the Federated Merchandising Group. Lundgren holds a BA degree from the University of Arizona, where he is also namesake of the Terry J. Lundgren Center for Retailing.



Terry J. Lundgren

COMPANY BRIEF Headquartered in Cincinnati and New York, Macy's, Inc. (www.macysinc.com), is one of America's premier national retailers, operating 40 Bloomingdale's stores and more than 810 Macy's stores in 45 states, the District of Columbia, Guam, and Puerto Rico. The company also operates macys.com, bloomingdales.com, and Bloomingdale's By Mail. The company's workforce includes approximately 182,000 employees.

What effect has the recent economic downturn had on Macy's business?

In a time like this, there's only so much you can do to change consumer sentiment. But we don't need consumers to spend more. We need to convince customers to buy more of what they buy from Macy's. This also is a great time to position the company to be an even better and more attractive place for consumers to shop over the long term. For instance, we have begun to implement a well-noted strategy called My Macy's, which localizes each store's merchandise and shopping experience.

In a challenging market, how do you demonstrate what makes Macy's stores unique among retailers?

We've been outperforming most of our competitors for the past several quarters, and while it's a complicated business environment, we're taking market share because of our differentiation strategy. This fall season, Macy's will be the only department store selling Tommy Hilfiger apparel – that's a gigantic brand and a gigantic opportunity. We're also launching more than 250 FAO Schwarz

shops inside Macy's stores this holiday season, bringing us into the toy business. So those are ways to differentiate our brand with product offerings that are unique to us and targeted to our core customer.

Will you open additional stores?

We now have 40 Bloomingdale's stores, having added five over the past 18 months. Macy's made a gigantic transition, from 225 stores three years ago to 800 stores in the fall of 2006. Right now, we are in a very good position in the United States. There are clearly more opportunities for Bloomingdale's, and we are looking for appropriate sites, but that store appeals to a more high-end customer. We recently appointed a President of International Retail Development to help us think through our international potential, and that is another phase of growth that both Macy's and Bloomingdale's will experience in years to come.

Do your Web sites drive sales for the company?

Our direct-to-consumer businesses, such as macys.com, will do \$1 billion in sales this year. We still have a lot of runway ahead for the growth of macys.com and bloomingdales.com. The future for us is a seamless, multichannel shopping experience for our customers. Many customers do a lot of research online, and they print out information and come into the store to feel the product before they make a purchase. Others simply like to shop, select, and buy online. Our best customers are those who use multiple channels, so we'll continue to push the multichannel experience.

Your stores are often landmarks within their communities. Are you focused on building a sense of corporate social responsibility within the company?

That's very important. Customers want to



know that the company they're doing business with is responsible in their community, not just nationally or generally, but also locally. So we try very hard to make sure that our employees are involved locally, and that our contributions are focused in the areas that are important to both our employees and our customers. We have an extensive, nationally recognized contribution program. Last year, we contributed close to \$80 million through our foundation, through employee giving, and through our customer programs. So we're a pretty significant contributor and the communities feel that.

You currently serve as Vice Chair for the Partnership for New York City. Why is that organization an important one to be involved in?

A city needs leadership that is interested in what the business community has to offer and has to say. That doesn't mean we have to agree, but we are extremely fortunate to have a Mayor who listens to what's on the minds of the business leadership and balances that with other input he receives. He makes sure to get all points of view in order to make New York a great place to live, to work, and to educate our kids. We have his ear, and if we share what's on our minds, ultimately he'll make the right decisions for the community. So the partnership serves a very important purpose.

Do you encourage your employees to strike a balance between work and their personal lives?

They should do everything they can to make sure that they manage their work/life balance. It is up to the individual, because you have to take charge of that subject yourself; you cannot wait for a company to send you home and tell you to take more time off. A lot of people are almost too responsible; they don't want to take time off. But I would say they need to make sure that they work very hard while they're at work, but during their time off, they should absolutely do things that are non-work-related to make sure they have that balance. ●

Macy's flagship store in New York