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Macy's Inc.: TURNAROUND STRATEGy IN CRISIS[[1]](#endnote-1)

Won-Yong Oh, Ratchel Zeng, and Jessica Schuldhaus wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In March 2017, Jeff Gennette was elected chief executive officer (CEO) of Macy’s Inc. (Macy’s), headquartered in Cincinnati, Ohio. When he succeeded Terry Lundgren, who had served as Macy’s CEO since 2003, Gennette shouldered the responsibility for turning Macy’s strategic and financial position around. At the beginning of 2017, Macy’s had announced a plan to close approximately 100 stores over the year due to poor sales, but this plan still did not solve all of the problems the company faced. Macy’s sales had fallen for eight straight quarters, causing investors to fear that the company was continuing to lose market share.[[2]](#endnote-2) In recent years, Macy’s had struggled against fierce competition due to the rise in online competition, an increased number of off-price outlets, and the growth of fast-fashion retailers, in addition to traditional department store competitors.[[3]](#endnote-3) Now, in June 2017, Gennette needed to increase sales, deal with competition, and regain investor’s confidence. Could Macy’s meet these challenges and turn itself around?

COMPANY OVERVIEW

Macy’s Inc. was one of the world’s largest premier department stores, operating under the major nameplates of “Macy’s,” Bloomingdale’s, and Bluemercury (see Exhibit 1).[[4]](#endnote-4) Functioning as a multi-channel retailer, Macy’s sold a variety of merchandise in stores, online, and via mobile phone applications (apps). This merchandise included a wide variety of consumer goods such as apparel and accessories (for men, women, and children), home furnishings, cosmetics, jewellery, and footwear (see Exhibit 2).[[5]](#endnote-5) As of January 2017, Macy’s had 829 stores in 45 states, Puerto Rico, and Guam. During the 2016 fiscal year, the corporation recorded sales of US$25.778 billion,[[6]](#endnote-6) and employed approximately 140,000 people.

According to Macy’s annual report filed in January 2017, one of Macy’s focal areas was developing omnichannel services and enhancing the consumer experience.[[7]](#endnote-7) The company was able to reach a large consumer base with its three main retail stores—“Macy’s” (673 locations), Bloomingdale’s (55 locations), and Bluemercury (101 locations)—but “Macy’s” was the company’s largest and most iconic brand. The store had established itself not only as a retailer but also as a symbol of American culture, particularly through its long-standing Thanksgiving Day parade and other holiday events.[[8]](#endnote-8) Bloomingdale’s was tailored to more upscale consumers, and represented Macy’s only operations outside of the United States since two stores were opened in the Middle East under special licensing agreements. Bluemercury was Macy’s newest brand addition, joining in 2015 through an acquisition. Expanding outside of the corporation’s traditional retail market, Bluemercury was a luxury beauty and spa retailer. Operating both within “Macy’s” stores and in freestanding locations, Bluemercury was becoming Macy’s fastest-growing brand.[[9]](#endnote-9)

With the competitive landscape of the retail industry quickly changing from traditional brick-and-mortar stores to online and mobile app-focused and specialty retailers, Macy’s business model had been forced to evolve. In 2009, Macy’s launched its My Macy’s, Omnichannel, and Magic Selling (M.O.M.) initiative in order to react to the changing business environment.[[10]](#endnote-10) The My Macy’s aspect of the initiative focused on having store locations carry specific merchandise and brands that would appeal to the needs and interests of consumers in that geographic area. Omnichannel integration was implemented to integrate Macy’s in‑store and online platforms to maximize customer satisfaction and the speed with which web or mobile orders could be fulfilled. The Magic Selling component consisted of training sales associates to engage customers in the sales process to provide a more caring and satisfying customer experience.[[11]](#endnote-11)

**Company History**

In 1858, Rowland Hussey Macy founded a small, upscale, dry goods store in downtown New York City that grew to achieve approximately $85,000 in annual sales in its first year. By 1877, the store he founded, which was named R.H. Macy & Co., had developed into a department store, occupying the ground floors of 11 surrounding buildings. In 1902, the company had expanded its downtown store and gained attraction from shoppers around the world as it opened the “World’s Largest Store,” with more than 1 million square feet of retail space, in New York City’s Herald Square.[[12]](#endnote-12)

By 1918, R.H. Macy & Co. was generating $36 million in annual net sales, but this was only the beginning of the company’s growth. In 1922, it went public on the New York Stock Exchange and began its aggressive growth. During the mid-1900s, the firm opened its own regional stores across the United States, acquiring several other department store brands along the way, including Lasalle & Koch, Bamberger’s, and O’Connor Moffatt & Company.[[13]](#endnote-13)

However, in 1992, R.H. Macy & Co. filed for protection under Chapter 11 bankruptcy, making it a target for a potential acquisition. Shortly after, in early 1994, the company was acquired by Federated Department Stores Inc. (Federated). This acquisition made Federated the world’s largest premier department store company, operating more than 400 stores in 37 states.[[14]](#endnote-14)

Federated was formed in 1929 as a holding company for several large, family-owned department stores. The main brands operating under Federated at the time of its inception were Abraham & Straus and F&R Lazarus.[[15]](#endnote-15) In 1930, Bloomingdale’s also joined Federated, which had generated $112 million in sales during its first year.[[16]](#endnote-16) By the time R.H. Macy & Co. was acquired by Federated, Bloomingdale’s was at the forefront of the retail industry and one of Federated’s strongest brands.[[17]](#endnote-17) Over the next 10 years, Federated slowly restructured its operations to rename and open all new stores under two nameplates: “Macy’s” and Bloomingdale’s. In 2007, Federated’s shareholders voted in favour of changing the entire corporation’s name to Macy’s Inc.[[18]](#endnote-18)

Starting in 2005, Macy’s started to revamp its customer loyalty program and advertisements in order to further increase its presence in the retail marketplace. Macy’s started to issue customers branded credit cards, launched its first national advertising campaign, and opened more “Macy’s” stores to create a nationwide brand that shoppers could depend on for fashionable and affordable luxury.[[19]](#endnote-19) Due to these efforts and other effective initiatives piloted by the company, Macy’s stock price steadily increased until the 2007/08 global financial crisis. During the financial crisis, the retail downturn severely affected Macy’s. Its stock price was below $5.82 in November 2008—the lowest price since the early 1990s.[[20]](#endnote-20)

After the financial crisis, Macy’s was able to recover and regain growth by increasing its online and social media presence, with the company gaining over 1.2 million Facebook friends during 2010. By 2011, Macy’s and Bloomingdale’s were offering international shipping to over 100 countries through online channels. In the same year, to continue its evolution and growth, Macy’s announced a four-year, $400 million renovation of its Herald Square flagship store in Manhattan, New York City. By 2013, Macy’s had recorded five consecutive years of double-digit increases in its earning per share.[[21]](#endnote-21)

**Performance Decline**

After consistently rising between 2009 and 2014, Macy’s stock took a sudden plummet in 2015.[[22]](#endnote-22) Analysts had expected the company’s earnings per share (EPS) for the second quarter of 2015 to be $0.76 on sales of $6.22 billion, but Macy’s only recorded $0.64 EPS with $6.1 billion in sales.[[23]](#endnote-23)

This poor performance was blamed on unexpectedly weak tourist spending and a labour dispute at major West Coast ports, which harmed operations. Nevertheless, investors were becoming wary of Macy’s future. With the company’s stock dropping 26 per cent during the second quarter of 2015, it was obvious that Macy’s management needed to implement new strategic initiatives to regain lost sales and improve efficiency (see Exhibit 3).[[24]](#endnote-24)

By early 2017, Macy’s stock price had not improved, and the company was still falling short of investors’ expectations in terms of its sales and earnings. During the first quarter of 2017, same-store sales dropped a staggering 4.6 per cent, rather than the estimated 2.7 per cent drop, and adjusted EPS was only $0.24, rather than the estimated $0.35. Further, Macy’s reported a 17 per cent drop in quarterly profits, caused by a decline in sales and higher-than-expected inventory, which led to its stock dropping over 17 per cent in just one day in early 2017.[[25]](#endnote-25)

As competition within the department store industry became increasingly intense, Macy’s lowered stock price and uncertain strategic future made it a candidate for a potential takeover. In early 2017, there were several reports that Canadian retailer The Hudson’s Bay Company had approached Macy’s to discuss an acquisition.[[26]](#endnote-26) Although The Hudson’s Bay Company never confirmed the rumours, Macy’s stock surged over 6 per cent when news of the acquisition came out; however, talks soon broke down as Macy’s price was evidently too steep for the Canadian company.[[27]](#endnote-27) With Macy’s 2017 sales and stock price expected to continue dropping, it was time for the firm to review its strategic position.

**Causes of Organizational Decline**

In a changing retail industry environment, it became imperative for retailers to create strong customer relationships to protect profits and guard against new competitors.[[28]](#endnote-28) Macy’s, whose brand was built on being the ultimate department store, had started to lose some of that customer focus. One journalist described a trip to Macy’s during the 2016 holiday season as a visit into a teenager’s bedroom, with items strewn everywhere and no useful answers for consumers.[[29]](#endnote-29) Even in stores that were tidier, there was another pressing problem: most brands carried by Macy’s could be found at other retailers, and Macy’s was losing its ability to convince consumers that its shopping experience was better than that offered by emerging competitors. Traditional department stores started to have 40 per cent product overlap, and with many of these stores located within close proximity of one another, customers no longer had strong brand loyalty to a single department store.[[30]](#endnote-30)

To entice consumers into stores, Macy’s—and many other department stores—started offering heavy discounts year-round.[[31]](#endnote-31) Once these expectations for discounts were established, consumers were less likely to buy any item without a discount on the price tag.[[32]](#endnote-32) This habit caused department stores to settle for smaller margins than in the past, causing operating profits to decline further. In addition, many luxury brands chose to pull their merchandise out of department store settings due to such discounting, which they feared could harm their luxury brand image; some elected to open their own stores instead. As a result, Macy’s not only lost vendors but was faced with more competition from luxury retailers. Its high-end brand, Bloomingdale’s, was especially affected by this competition.[[33]](#endnote-33)

Furthermore, with the emergence and rapid growth of online and mobile shopping, foot traffic to retail stores was falling drastically. Between 2009 and 2013, overall foot traffic to retail stores in the United States fell from 35 billion to 17 billion, which caused a drastic change in the sales per square foot generated by many retail locations.[[34]](#endnote-34) Macy’s had spent years building a real estate portfolio worth approximately $21 billion, but its enterprise value in 2017 was only valued at $17.3 billion.[[35]](#endnote-35) Macy’s could not afford to own this amount of retail space unless it generated the expected returns, and major shareholders, such as activist hedge fund Starboard Value, were becoming impatient with the retailer’s financial performance.[[36]](#endnote-36)

COMPETITIVE CHALLENGES

While Macy’s had been an industry leader within the retail environment for years, the industry steadily evolved to include online competitors such as Amazon.com, Inc. (Amazon), which offered both convenience and flexibility, as well as off-price rivals like TJX Companies, Inc. (TJ Maxx), Burlington Stores Inc. (Burlington) and Ross Stores, Inc. (Ross), which allowed consumers to get similar high-end products at discounted prices. Other traditional brick-and-mortar stores, such as Nordstrom Inc. (Nordstrom) and J. C. Penney Company Inc. (J. C. Penney), did not show promising financial outcomes, whereas off‑price retailer TJ Maxx continuously improved its operating performance (see Exhibit 4).

**Online Competition**

Millennials represented the largest demographic segment in U.S. history, and their impact on the economy was significant.[[37]](#endnote-37) Their increased use of convenient technologies (i.e., those associated with computers and mobile devices) was changing the way the retail industry operated and creating new pressures for traditional retailers.

Although a relative newcomer to the fashion retail industry, Amazon had swiftly risen to the top due to these industry changes. The firm first entered the fashion industry in 2006 with its purchase of ShopBop, and in 2009, it bought online shoe retailer Zappos. Following these acquisitions, Amazon increased its investment in fashion, turning its focus to offering more high-end fashion labels, such as Stuart Weitzman and Zac Posen, on its online portal.[[38]](#endnote-38)

In 2012, Amazon’s CEO, Jeff Bezos, stated that his interest in expanding into the retail sector was driven by the fact that the gross dollar profit per unit was much higher on fashion items than on many other items sold by Amazon. The company’s methods seemed to be working, as the company’s apparel sales were expected to grow 30 per cent (to $28 billion) in 2018, whereas Macy’s sales were expected to drop 4 per cent, to $22 billion. With this estimated growth, Amazon was expected to surpass Macy’s as the biggest retail seller in the United States, and to capture 16.2 per cent of the retail market by 2021.[[39]](#endnote-39)

Amazon created a unique consumer experience that consistently enticed customers to choose its service over other online platforms. For example, Amazon Prime, the company’s paid membership service, offered convenient two-day shipping and access to streaming videos and music. The platform also had a large breadth of customer product reviews and an excellent customer service rating, which helped attract more customers.[[40]](#endnote-40) Amazon’s most recent initiatives to gain market share in the fashion industry included launching its own in-house clothing brands and sponsoring the first New York Men’s Fashion Week. These moves continued to make the company an even bigger threat to Macy’s and other traditional retailers.[[41]](#endnote-41)

In order to compete with online retailers like Amazon, Macy’s significantly increased its online presence, shifting some of the resources previously dedicated to traditional stores to its online channels. By injecting more capital into online commerce (or “e-commerce”), marketing data and analytics, and in-store pickups for online orders, the company hoped to fuel growth in its online sectors.[[42]](#endnote-42) Macy’s had already seen some positive growth from its online investments. During 2016, it saw double-digit annual revenue growth on both Macys.com and Bloomingdales.com.[[43]](#endnote-43)

**Off-Price Rivals**

Off-price retailers occupied the middle ground in the fashion industry between full-line stores (stores that offered a variety of product lines, such as clothing, furniture, sporting goods, food, and electrical goods) and discount stores, which offered a number of designer and recognized brands but at prices up to 70 per cent less than those of traditional department stores.[[44]](#endnote-44) These stores were often located at off-mall sites (such as strip malls), making them convenient for customers who needed to shop quickly. As traditional department store sales continued to decrease, off-price stores were beginning to flourish.[[45]](#endnote-45)

TJ Maxx, an off-price retailer that operated a number of other brands (e.g., Marshalls, HomeGoods, HomeSense, and Winners), had created a global presence for its brand with stores in Australia, Austria, Canada, Germany, Ireland, the Netherlands, Poland, and the United Kingdom, as well as the United States.[[46]](#endnote-46) TJ Maxx was able to sell brand-name items at discounted prices because it purchased items after the end of each fashion season and its aggressive inventory management system allowed it to flip inventory quickly. Based on this efficient system, TJ Maxx enjoyed significant growth. The company’s sales increased 6.2 per cent in 2015 to reach $29.1 billion, compared to Macy’s $28.1 billion in the same year.[[47]](#endnote-47) In contrast to many traditional retailers that had been forced to close stores, TJ Maxx was expanding. In 2016, it opened 37 new TJ Maxx stores and 32 new Marshalls stores in the United States. The company also planned to add 432 stores to its HomeGoods division, which comprised 568 stores as of 2017.[[48]](#endnote-48)

Other off-price retailers were also trying to expand their operations. In 2017, Burlington, formerly known as Burlington Coat Factory, a U.S. off-price department store retailer, introduced a long-term plan to reach 1,000 stores. The company opened 25 new stores in 2016 and added another 30 stores in 2017. As of 2017, Ross Stores owned 1,338 Dress for Less locations and 192 dd’s Discounts stores. Ultimately, the company planned to open 2,000 stores and 500 dd’s Discounts stores.[[49]](#endnote-49)

TJ Maxx and other dominant off-price players kept their online presence to a minimum, as their physical store locations were key to creating demand and keeping sales high. Following in TJ Maxx’s footsteps, traditional department stores started to branch out and create their own off-price banners. In 2016, Nordstrom opened 20 off-price stores under the brand Nordstrom Rack; these stores achieved an 8.2 per cent increase in net sales between 2016 and 2017, leading the company to develop 215 Nordstrom Rack locations in comparison to only 123 full-line locations.[[50]](#endnote-50)

In addition, Saks Fifth Avenue, which opened its first outlet-branded store, Saks Fifth Avenue OFF 5th, in 1992, continued to increase the number of these stores. In 2015, there were 91 Saks Fifth Avenue OFF 5th stores, and the firm hoped to open 25 new locations across Canada starting in 2016.[[51]](#endnote-51)

Capitalizing on this trend, Macy’s entered the off-price market in 2015 by opening six stores under the nameplate Macy’s Backstage.[[52]](#endnote-52) This unique off-price brand operated on a “store-within-a-store” model, meaning that these stores were located within already exiting “Macy’s” locations instead of opening new standalone locations. To minimize sales cannibalizations, Macy’s Backstage even sold some merchandise that full-line “Macy’s” locations did not carry.[[53]](#endnote-53) As of 2017, Macy’s Backstage had grown to 26 stores with plans to open 19 more.[[54]](#endnote-54)

**Crisis of the Department Store Segment**

Even as increasing competition from online retailers and off-price rivals threatened to sink traditional department stores, rivalry among these department stores continued. With the department store industry hitting new lows by 2016, Macy’s was not the only department store that needed to rethink its strategy. Stock prices for major chain department stores fell 37 per cent during 2015, and many stores were left empty, lowering productivity.[[55]](#endnote-55)

Kohl’s, a department store with approximately 1,200 locations across the United States, reached a desperate point when its stock fell 40 per cent from its high of $79.07 in mid-2015.[[56]](#endnote-56) Rumours circulated that Kohl’s management was considering a sale to a private-equity firm as a strategic response. Another strategic alternative involved adding more brands and expanding women’s cosmetics, accessories, and shoe merchandise to increase sales to $21 billion by the end of 2017.[[57]](#endnote-57) Like Macy’s, Kohl’s was using omnichannel resources to offset the losses incurred by its traditional stores and improve its overall consumer experience (e.g., the company was able to fill e-commerce deliveries within two days 90 per cent of the time, and its app was downloaded over 13 million times during the second quarter of 2016).[[58]](#endnote-58)

The Sears Holdings Corporation (Sears), the holding company headquartered in a suburb of Chicago, Illinois, and the owner of retail store brands Sears and Kmart, experienced a 55 per cent drop in its stock price over the course of 2016 before electing to take a different approach to dealing with the industry downturn.[[59]](#endnote-59) After reporting a $748 million loss during the third quarter of 2016, Sears could not guarantee that it would return to profitability.[[60]](#endnote-60) Therefore, in order to raise capital, the company decided to spin off and sell its assets. Sears sold its Craftsman tool brand to Stanley Black & Decker for approximately $900 million at the beginning of 2017. Sears announced it would also be selling its Kenmore and DieHard brands and closing 150 stores in order to cope with its ongoing losses.[[61]](#endnote-61)

Similarly, after J. C. Penney fell short of its sales forecasts in 2016, the company revealed an optimistic plan designed to increase its sales and profit margins.[[62]](#endnote-62) The three-year strategic plan focused on building value within the company, creating differentiation through private brands, and offering home and beauty products, as well as improving its overall omnichannel experience.[[63]](#endnote-63) Another focal area of the plan was appliances. With the appliance market expected to grow 30 per cent between 2016 and 2019, J. C. Penney hoped to bring appliances into 500 of its stores nationwide in order to capitalize on this opportunity.[[64]](#endnote-64) However, following in the footsteps of many other department stores, J. C. Penney appeared to be preparing to downsize, raising the possibility of closing 700 stores in order to free up cash for investing in its most profitable locations.[[65]](#endnote-65)

NEW STRATEGIC INITIATIVES

To deal with the increased competition and declining financial performance, Macy’s continued to revaluate its strategic position. Returning Macy’s to its previous position would require some significant changes.

**Cutting Costs and Closing Stores**

In late 2016, Macy’s announced that it would be closing 100 full-line stores by early 2017. These stores would be ones that the firm had identified as having a higher real estate value than retail store value.[[66]](#endnote-66) In 2016, Macy’s was able to generate $675 million in cash through such real estate transactions. One major transaction, worth $250 million, was the sale of Macy’s flagship men’s store in Union Square, San Francisco.[[67]](#endnote-67) This strategic action was designed to save the company approximately $550 million in costs starting in 2017.[[68]](#endnote-68) However, even with the 100 closures planned for 2017, the market suggested that this was not sufficient to turn the company’s losses around.[[69]](#endnote-69)

In addition to generating revenue through real estate transactions, Macy’s restructuring would allow the company to reduce payroll costs by simultaneously cutting approximately 10,000 jobs—some due to the store closings and others due to a reduction in middle management intended to streamline the company’s decision-making processes.[[70]](#endnote-70) Through these cost-cutting initiatives, Macy’s hoped it would be able to focus on investing more heavily in its online operations and 150 best-performing stores.[[71]](#endnote-71)

**Reinventing the Brand**

Cost-cutting measures alone were not enough: Gennette also needed a unique strategic plan that would rejuvenate Macy’s image and entice consumers back to the department store and away from competitors. Accordingly, in early 2017, Gennette announced several key strategic changes that would be rolled out in all Macy’s stores.

The first initiative was the introduction of “Last Act,” a new section in Macy’s stores that would be specifically for marked-down merchandise.[[72]](#endnote-72) This department would function as a designated clearance section, with no additional price cuts or coupons permitted.[[73]](#endnote-73) Gennette hoped that this section would help improve profits by allowing for the quick removal of old merchandise from the shelves while in-season items could be showcased on the full-priced racks.[[74]](#endnote-74)

The second change was a restructuring of Macy’s coupon system, aimed to benefit both customers and vendors. Instead of discounting specific products, Macy’s planned to adopt a broader coupon system that would enable customers to discount certain dollar amounts off the products of their choice.[[75]](#endnote-75) This type of indirect discounting would allow Macy’s to offer value to its customers in a more creative way, and keep vendors from complaining about the store constantly discounting its products.[[76]](#endnote-76)

In keeping with its strategy to increase margins by lowering payroll, Macy’s third change was self-service shoe departments. More merchandise would be presented on the floor, rather than in back rooms, allowing customers to find products on their own.[[77]](#endnote-77) The idea was intended to save customers time when they did not want to wait for a sales associate.[[78]](#endnote-78)

Finally, Macy’s announced changes in merchandising. Department stores such as J. C. Penney and Kohl’s had been reporting approximately 50 per cent of their sales coming from in-house private labels, compared to Macy’s, which was only reporting 20 per cent from in-house private labels. These exclusive brands tended to carry higher margins, which would benefit Macy’s bottom line and give it more control over the manufacturing and sourcing of the products. Along with the increase of such in-house brands, Macy’s also planned to shift more focus to its beauty section. With Sephora and Ultra Beauty holding much of the market share in this department, Macy’s had an opportunity to expand the number of its Bluemercury stores and increase its private label beauty brand, Impulse.[[79]](#endnote-79)

**Expanding Global Reach**

As the retail e-commerce sector grew rapidly, Macy’s looked to expand its online global presence as well. With the Asia-Pacific region representing over 50 per cent of global retail sales growth, and with China alone expected to account for more than 50 per cent of the world’s online retail market by 2019, there was a large market for Macy’s to capture.[[80]](#endnote-80) Macy’s had been selling products to Chinese customers since 2011 through Macys.com, but in 2015, it expanded its e-commerce operation by starting a pilot with Alibaba’s Tmall platform.[[81]](#endnote-81)

The Tmall platform was Asia’s largest business-to-consumer platform that allowed businesses from around the world to connect with the growing Chinese market without having to operate their own Chinese retail sites.[[82]](#endnote-82) Through Tmall, Macy’s had managed to attract 300,000 customers since it launched, and Tmall reported that Macy’s had become one of the site’s most popular sellers. With the success of this pilot, Macy’s announced it would launch its own Chinese site in 2017 in order to further increase its global e‑commerce presence.[[83]](#endnote-83)

**WHAT NEXT?**

Macy’s had been pursuing an aggressive strategy to optimize all facets of its business with hopes of returning to its former profitability, but had its CEO addressed all of the company’s challenges in an optimal way? Perhaps Macy’s multi-pronged strategy would effectively help reinvent the brand. However, the department store industry was still experiencing an overall decline, and competition from online companies and off-price retailers was severe. Could Macy’s overcome these obstacles and turn itself around?

Exhibit 1: DETAILS OF MACY’S INC. STORES (2014–2016)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **2016** | **2015** | **2014** |
| **Number of Stores** | |  |  |  |
| Macy’s |  | 673 | 737 | 773 |
| Bloomingdale’s |  | 55 | 54 | 50 |
| Bluemercury |  | 101 | 77 | – |
| Total |  | 829 | 868 | 823 |
| **Store Count Activity** | |  |  |  |
| Store count at beginning of fiscal year | | 868 | 823 | 840 |
| Stores opened | | 27 | 26 | 5 |
| Bluemercury stores acquired | | – | 62 | – |
| Stores closed or consolidated into existing centres | | (66) | (43) | (22) |
| Store count at end of fiscal year | | 829 | 868 | 823 |

Source: Macy’s Inc., *Annual Report 2016*, 12, accessed May 13, 2018, http://investors.macysinc.com/phoenix.zhtml?c=84477&p=irol-reportsannual.

Exhibit 2: MACY’S INC. SALES BY MERCHANDISE segment (2014–2016)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016 (%)** | **2015 (%)** | **2014 (%)** |
| Women’s accessories, intimate apparel, shoes, cosmetics, & fragrances | 38 | 38 | 38 |
| Women’s apparel | 23 | 23 | 23 |
| Men’s and children’s apparel | 23 | 23 | 23 |
| Home/Miscellaneous | 16 | 16 | 16 |
| Total | 100 | 100 | 100 |

Source: Macy’s Inc., *Annual Report 2016*, 2, accessed May 13, 2018, http://investors.macysinc.com/phoenix.zhtml?c=84477&p=irol-reportsannual.

Exhibit 3: MACY’S INC. financial data

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2017** | **2016** | **2015** | **2014** | **2013** |
| **Per Share Data (in US$)** |  |  |  |  |  |
| Cash flow | 3.39 | 2.85 | 4.17 | 3.38 | 3.54 |
| Earnings | 1.99 | 3.22 | 4.22 | 3.86 | 3.24 |
| Book value | 12.46 | 12.80 | 15.71 | 14.77 | 14.07 |
| **Income Statement Summary (in US$ millions)** | | | | | |
| Revenue | 25,778 | 27,079 | 28,105 | 27,931 | 27,686 |
| Gross profit | 10,157 | 10,583 | 11,242 | 11,206 | 11,148 |
| Total operating expenses | 8,842 | 8,544 | 8,442 | 8,528 | 8,487 |
| Operating income | 1,315 | 2,039 | 2,800 | 2,678 | 2,661 |
| Interest expenses | 384 | 363 | 395 | 390 | 437 |
| Income before taxes | 952 | 1,678 | 2,390 | 2,290 | 2,102 |
| Net income | 619 | 1,072 | 1,526 | 1,486 | 1,335 |
| EBITDA | 2,394 | 3,102 | 3,821 | 3,700 | 3,588 |
| **Balance Sheet Summary (in US$ millions)** | | | | | |
| Cash | 1,297 | 1,109 | 2,246 | 2,273 | 1,836 |
| Current assets | 7,626 | 7,652 | 8,679 | 8,688 | 7,876 |
| Total assets | 19,851 | 20,576 | 21,461 | 21,634 | 20,991 |
| Current liabilities | 5,647 | 5,728 | 5,536 | 5,726 | 5,075 |
| Non-current liabilities | 9,881 | 10,598 | 16,083 | 15,385 | 14,940 |
| Total liabilities | 15,528 | 16,326 | 16,083 | 15,385 | 14,940 |
| Long-term debt | 6,535 | 6,966 | 7,265 | 6,728 | 6,806 |
| Total stockholders’ equity | 4,323 | 4,250 | 5,378 | 6,249 | 6,051 |
| **Financials and Key Ratio Analysis** |  |  |  |  |  |
| Operating cash flow (in US$ millions) | 1,801 | 1,984 | 2,709 | 2,549 | 2,261 |
| Free cash flow (in US$ millions) | 889 | 871 | 1,641 | 1,686 | 1,319 |
| Current ratio | 1.35 | 1.34 | 1.57 | 1.52 | 1.22 |
| Quick ratio | 0.32 | 0.29 | 0.48 | 0.47 | 0.43 |
| Debt-to-equity ratio | 1.52 | 1.65 | 1.35 | 1.08 | 1.12 |
| Asset turnover | 1.28 | 1.29 | 1.30 | 1.31 | 1.29 |
| Gross margin (%) | 39.4 | 39.08 | 40.00 | 40.12 | 40.27 |
| Operating margin (%) | 5.10 | 7.53 | 9.96 | 9.59 | 9.61 |
| Return on assets (%) | 3.06 | 5.10 | 7.08 | 6.97 | 6.20 |
| Return on equity (%) | 13.59 | 14.44 | 22.27 | 26.25 | 24.16 |
| Return on invested capital (%) | 7.48 | 10.58 | 13.59 | 13.15 | 12.08 |

Source: Macy’s Inc., “Income Statement,” Morningstar Financials, accessed May 15, 2018, http://financials.morningstar.com/income-statement/is.html?t=0P00000246&culture=en-US&platform=sal.

Exhibit 4: MACY’S INC. and peer companies: FINANCIAL DATA (2017)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Macy’s** | **Nordstrom** | **J. C. Penney** | **TJ Maxx** |
| **Income Statement Summary (in US$ millions)** |  |  |  |  |
| Revenue | 25,778 | 14,757 | 12,547 | 33,184 |
| Gross profit | 10,157 | 5,317 | 4,476 | 9,618 |
| Operating income | 1,315 | 1,002 | 395 | 3,850 |
| Net income | 619 | 354 | 1 | 2,298 |
| EBITDA | 2,394 | 1,451 | 1,004 | 4,444 |
| **Balance Sheet Summary (in US$ millions)** |  |  |  |  |
| Cash | 1,297 | 1,007 | 887 | 3,473 |
| Total assets | 19,851 | 7,858 | 9,314 | 12,884 |
| Total liabilities | 15,528 | 6,988 | 7,960 | 8,373 |
| Long-term debt | 6,535 | 2,73 | 4,339 | 2,228 |
| Total stockholders’ equity | 4,323 | 870 | 1,354 | 4,511 |
| **Financials and Key Ratio Analysis** |  |  |  |  |
| Operating cash flow (in US$ millions) | 1,801 | 1,648 | 334 | 3,602 |
| Free cash flow (in US$ millions) | 889 | 802 | −93 | 2,577 |
| Current ratio | 1.35 | 1.07 | 1.69 | 1.63 |
| Quick ratio | 0.32 | 0.40 | 0.37 | 0.78 |
| Debt-to-equity ratio | 1.52 | 3.18 | 3.37 | 0.53 |
| Gross margin (%) | 39.4 | 36.03 | 35.7 | 29.0 |
| Operating margin (%) | 5.10 | 6.8 | 3.1 | 11.6 |

Source: Macy’s Inc., “Income Statement,” Morningstar Financials, accessed May 15, 2018, http://financials.morningstar.com/income-statement/is.html?t=0P00000246&culture=en-US&platform=sal; Nordstrom Inc., “Income Statement,” Morningstar Financials, accessed May 13, 2018, http://financials.morningstar.com/income-statement/is.html?t=0P000003XP&culture=en-US&platform=sal**;** JC Penney Co. Inc., “Income Statement,” Morningstar Financials, accessed May 13, 2018, http://financials.morningstar.com/income-statement/is.html?t=0P00000319&culture=en-US&platform=sal; TJX Companies Inc., “Income Statement,” Morningstar Financials, accessed May 13, 2018, http://financials.morningstar.com/income-statement/is.html?t=TJX&region=usa&culture=en-US&platform=sal.

endnotes

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