

## Case 1 - Macy's, Inc. (M) – 2018 – Teachers' Note by Forest R. David

### Case Abstract

As of March 2018, Macy's, Inc. operates 690 department stores in 45 states, Washington DC, and outside the USA in Colombia, Guam, Puerto Rico, China, United Arab Emirates, and Kuwait with third party license agreements. Headquartered in Cincinnati, Ohio, the company's brands include Macy's, Bloomingdales, and Bluemercury. Most stores are located in urban or suburban areas and include a mix of apparel, accessories, cosmetics, home furnishings, and various other consumer goods. Macy's reported revenues in excess of \$25 billion in the year ending January 2017 deriving from 382 company-owned stores and the rest being leased.

Approximately 600 stores are department stores operating under the names Macy's and Bloomingdale's, and the remainder are specialty stores that include Bloomingdale's The Outlet, Bluemercury, Macy's Backstage, and Last Act. Macy's divested 66 stores in the year ending January 2017 and 43 year-end January 2016, with plans to continue reducing total store numbers by approximately 30 as leases expire.

Macy's, Inc. employs 148,300 full-time and part-time employees with 10 percent represented by unions. Closing more and more stores every year, Macy's, Inc. is struggling financially and needs a clear strategic plan. During the month of December 2017, Macy's spent \$32 million on television advertising, compared to J.C. Penney that spend \$27 million that month.

### Vision Statement Analysis

Effective vision statements exhibit five characteristics that can be used as guidelines for writing or evaluating vision statements. Any vision statement that scores a 5 out of 5 on these characteristics is exemplary. In Chapter 2, this vision statement assessment technique is referred to as "The 5 out of 5 Test."

1. Clear: reveals type of industry and what firm strives to become
2. Futuristic: reveals what the firm strives to become or accomplish within 5 years
3. Concise: one sentence in length
4. Unique: reveals the firm's competitive advantage
5. Inspiring: motivates readers to support the firm

Macy's provides a quite lengthy vision statement on their website, but it reads like a mission statement. At the corporate website, simply click on About Us then click on Corporate Vision. It is a five-paragraph vision that does meet some of the characteristics. The statement is clear, unique, and inspiring, but is not futuristic and certainly is not concise. The exact URL for the corporate vision is:

<http://www.macysinc.com/about-us/corporate-vision-philosophy-financial-objectives/default.aspx>

An improved vision statement for Macy's could read as follows:

“We strive to continually improve our personalized, retail and online shopping experience for premier apparel, footwear, and beauty products through our Macy’s, Bloomingdales, and Bluemercury stores.”

## Mission Statement Analysis

The 10 desired **characteristics** of an effective mission statement are as follows:

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1. Broad in scope; does not include monetary amounts, numbers, percentages, ratios, or objectives
  2. Concise; fewer than one hundred words in length
  3. Inspiring
  4. Identifies the utility of a firm’s products
  5. Reveals that the firm is socially responsible
  6. Reveals that the firm is environmentally responsible
  7. Includes nine components: customers, products or services, markets, technology, concern for survival/growth/profits, philosophy, distinctive competence, concern for public image, concern for employees
  8. Reconciliatory; resolves divergent views among stakeholders
  9. Enduring but never cast in stone
  10. Attracts customers; is written from a customer perspective
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The 9 desired **components** of an effective mission statement are as follows:

1. *Customers*—Who are the firm’s present and potential customers?
2. *Products or services*—What are the firm’s major products or services?
3. *Markets*—Geographically, where does the firm compete?
4. *Technology*—Is the firm technologically current?
5. *Concern for survival, growth, and profitability*—Is the firm committed to growth and financial soundness?
6. *Philosophy*—What are the basic beliefs, values, aspirations, and ethical priorities of the firm?
7. *Distinctive competence*—What is the firm’s major competitive advantage?
8. *Concern for public image*—Is the firm responsive to social, community, and environmental concerns?
9. *Concern for employees*—Are employees a valuable asset of the firm?

As indicated in the case, Macy’s provides no mission statement, but a student-generated mission statement is provided. The authors’ critique of this statement is as follows:

At Macy’s, we aspire to provide our worldwide shoppers (1, 3) an experience that gives them the confidence to be the best version of themselves. Whether utilizing the unsurpassed expertise of our employees (9) in store, or shopping online (4), we want to provide our customers with open and honest communication (6), while they shop for clothing and accessories (2) that makes them life-long members of our family (7).

As indicated by the numbers in parentheses, the student statement lacks the #5 and #8 components. Regarding the ten characteristics, the student statement lacks #5, #6, #7, and #8.

A proposed mission statement for Macy’s that is less than 100 words and includes the nine components and meets the ten characteristics is given below:

Macy’s, Inc. is a premier omnichannel retailer that serves shoppers (1) through retail stores, online websites, and mobile apps (4). Macy’s and Bloomingdale’s are iconic brands known worldwide (3) for providing distinctive clothing, while Bluemercury is a fast-growing luxury beauty products and spa retail chain (2). Our greatest strength is the expertise, judgment, and talent of our knowledgeable workforce (7, 9). We are committed to open and honest communication (6) with all, as we grow, prosper, and give back to communities (5, 8). (71 words)

### External Factor Evaluation (EFE) Matrix

	Opportunities	Weight	Rating	Weighted Score
1	New 21% corporate tax rate in the US.	0.09	4	0.36
2	Disposable income expected to increase 7.1% over next three years.	0.08	3	0.24
3	Customers are increasingly purchasing online; web purchasing is expected to exceed 10 percent annually through 2023.	0.07	2	0.14
4	Brick-and-mortar stores despite significantly higher expenses and often higher priced items still hold the distinct advantage of customers being able to hold, feel, and try on items before purchasing, as well as talk to knowledgeable salespeople at higher quality stores.	0.06	2	0.12
5	Lobby efforts in place to collect sales tax on all Internet purchases, potentially eliminating an advantage currently in place for online purchases.	0.05	2	0.1
6	2017 retail sales over the Christmas holiday season were up \$33 billion to \$598 billion; about 30% of annual sales of US retail chains are derived from the Christmas holiday season.	0.05	3	0.15
7	Customers are increasingly attracted to stores-within-a-store concepts.	0.05	4	0.2
8	The entire department store industry is valued at over \$150 billion with profits in excess of \$4 billion.	0.04	3	0.12
9	E-commerce sales are expected to account for 17% of all retail sales by 2022.	0.03	2	0.06
10	The US economy grew at 2.3% in 2017 up from 1.5% in 2016.	0.03	2	0.06

Threats		Weight	Rating	Weighted Score
1	New minimum wage laws increased wages to \$12 or higher in 13 US cities.	0.06	2	0.12
2	Cyber-attacks were up 30% in 2017.	0.05	2	0.10
3	Online department stores offering similar products simply do not incur the overhead cost of traditional stores like Macy's that incur really high rent, tax, utilities, and labor expenses in areas such as New York City.	0.05	1	0.05
4	Being forced to enter pricing wars with online providers is a huge threat facing all brick and mortar providers, and one they are likely unable to win. Simply offering online products themselves is a viable strategy although it is likely unwise to undercut in-store prices; customers can simply shop in the store and then order online often referred to as "show-rooming".	0.05	2	0.10
5	Interest rates in the USA have climbed to 5+ percent on loans within the last 12 months.	0.05	2	0.10
6	Online sales are rising around 5% annually.	0.05	2	0.10
7	Ulta Beauty is a much larger competitor with a similar profile and target customer as Bluemercury with a market cap of over \$14 billion to Bluemercury's \$1 billion	0.04	1	0.04
8	Consumers are increasingly spending disposable income on automobiles and electronics at around 4% annually compared to department stores down 2%.	0.04	1	0.04
9	Off priced retailers such as TJX, Ross, and Burlington Stores are increasingly popular with price conscious consumers.	0.04	2	0.08
10	Rising inflation in the USA that some analysts warn of a pending drastic drop in real estate and stock market prices.	0.02	2	0.04
<b>Total EFE Score</b>		<b>1.00</b>		<b>2.32</b>

## Competitive Profile Matrix

Critical Success Factors	Macy's			TJX		Ross	
	Weight	Rating	Score	Rating	Score	Rating	Score
Advertising	0.07	1	0.07	3	0.21	2	0.14
Domestic Market Penetration	0.09	2	0.18	4	0.36	3	0.27
Customer Service	0.07	3	0.21	4	0.28	2	0.14
Product Variety	0.10	4	0.40	3	0.30	2	0.20
International Market Penetration	0.07	1	0.07	4	0.28	2	0.14
Employee Dedication	0.04	2	0.08	4	0.16	3	0.12
Financial Profit	0.15	3	0.45	4	0.60	2	0.30
Customer Loyalty	0.06	3	0.18	4	0.24	2	0.12
Market Share	0.05	2	0.10	4	0.20	3	0.15
Product Quality	0.05	4	0.20	3	0.15	1	0.05
Top Management	0.15	4	0.60	3	0.45	2	0.30
Price Competitiveness	0.10	2	0.20	3	0.30	4	0.40
<b>Totals</b>	<b>1.00</b>		<b>2.74</b>		<b>3.53</b>		<b>2.33</b>

## Financial Ratio Analysis

	Historical Ratios	
	1/28/17	2/3/18
Current Ratio	1.35	1.47
Quick Ratio	0.39	0.45
Total Debt-to-Total-Assets Ratio	0.78	0.71
Total Debt-to-Equity Ratio	3.59	2.42
Times-Interest-Earned Ratio	4	6
Inventory Turnover	2.89	2.93
Fixed Assets Turnover	3.67	3.72
Total Assets Turnover	1.30	1.28
Accounts Receivable Turnover	49	68
Average Collection Period	7.39	5.33
Gross Profit Margin %	39%	39%
Operating Profit Margin %	5%	7%
ROA %	3%	8%
ROE %	14%	27%

### Internal Factor Evaluation (IFE) Matrix

	Strengths	Weight	Rating	Weighted Score
1	The company is using a retrenchment strategy by recently closing 100 Macy's stores, with plans to close another 30 stores by year end 2018.	0.10	4	0.40
2	Women account for the bulk of the business and Macy's, Inc. is no exception with over 60 percent of revenues derived from products exclusively for women.	0.10	4	0.40
3	Under the leadership of the new CEO, Macy's market capitalization doubled from late 2017 to late 2018 partly from a major restructuring strategy that involved replacing 8 key executives.	0.10	4	0.40
4	The firm is diversified with Macy's, Bloomingdale's and Bluemercury stores all under the Macy's umbrella but 80% of the stores are Macy's with 14% Bluemercury and 6% Bloomingdale's; the firm plans to add 55 new Bluemercury stores through 2019.	0.07	3	0.21
5	Macy's is moving its Bluemercury stores inside Macy's department stores to attract new customers.	0.04	3	0.12
6	Macy's purchases its products from many different suppliers with no single supplier accounting for more than 5% of the firm's net purchases and no formal long-term commitments with any of the suppliers.	0.03	3	0.09
7	Macy's opened 20 Backstage locations between mid-2017 and mid-2018 inside existing store locations and has plans to add 100 further by the end of 2018 to aid in targeting price-conscious customers.	0.03	3	0.09
8	Macy's has entered into an agreement with Best Buy to occupy space in 10 Macy's stores, staffed by Best Buy employees, to offer electronic equipment.	0.02	2	0.04
9	Macy's offers same day delivery service in over 17 markets for both Macy's and Bloomingdale's.	0.02	2	0.04
10	Macy's is ranked in the top 5 largest American enterprises for installed solar capacity; the company sells most of the solar power it generates to others.	0.01	2	0.02

Weaknesses		Weight	Rating	Weighted Score
1	Some Macy's stores, while profitable, are not making enough money to pay for the opportunity cost of what the real estate would be worth if it were to be sold. For example, Macy's has numerous downtown stores in really hot real estate markets like New York City, San Francisco, and Chicago.	0.07	2	0.14
2	Macy's new North Star Strategy displayed on its website is vague to the extent virtually any firm could post the same strategy and claim it as their own.	0.07	1	0.07
3	Macy's is almost 100% a US-based business.	0.06	2	0.12
4	Macy's is fairly well positioned across the USA, but in reality the firm is primarily focused in the east with over 500 of the firm's 850 stores in this region.	0.05	3	0.15
5	Men's and children's sales only account for 23% of sales at Macy's.	0.05	2	0.10
6	Macy's has closed over 100 Macy's branded stores over the last 3 years but has increased Bluemercury stores from 0 to 101 over the same period.	0.05	3	0.15
7	Some estimates indicate Macy's has experienced upwards of 25% reduced foot traffic in stores over the last 5 years.	0.04	2	0.08
8	Macy's cost of goods sold is about 60%.	0.03	2	0.06
9	Macy's customer loyalty programs are predominantly tied to holding a Macy's credit card compared to more flexible plans by rivals not requiring a company credit card.	0.03	2	0.06
10	Macy's inventory turnover is less than 3 compared to rival Gap Inc. and other rivals at 5.	0.03	1	0.03
<b>Total IFE Score</b>		<b>1.00</b>		<b>2.77</b>

## Strength-Weakness-Opportunity-Threat (SWOT) Matrix

### SO Strategies

1. Create 4 new lines of clothing for women; one for each season of the year (S1, S2, O2, O8, O10).
2. Build 2 new warehouses tailored to online shopping where customers can order and return items easily (S1, S2, O2, O3, O4, O5, O9).
3. Add 100 additional Backstage stores inside existing Macy's stores (S7, O7).
4. Add 200 additional Bluemercury stores inside existing Macy's stores (S5, O7).

### WO Strategies

1. Build 2 new warehouses tailored to online shopping where customers can order and return items easily (W1, W2, W3, O2, O3, O4, O5, O9).
2. Invest in a new national advertising campaign to attract men into Macy's stores (W5, O2).
3. Add 200 additional Bluemercury stores inside existing Macy's stores (W6, O7).
4. Develop an exclusive rewards card for online purchases only (W9, O3, O9).

### ST Strategies

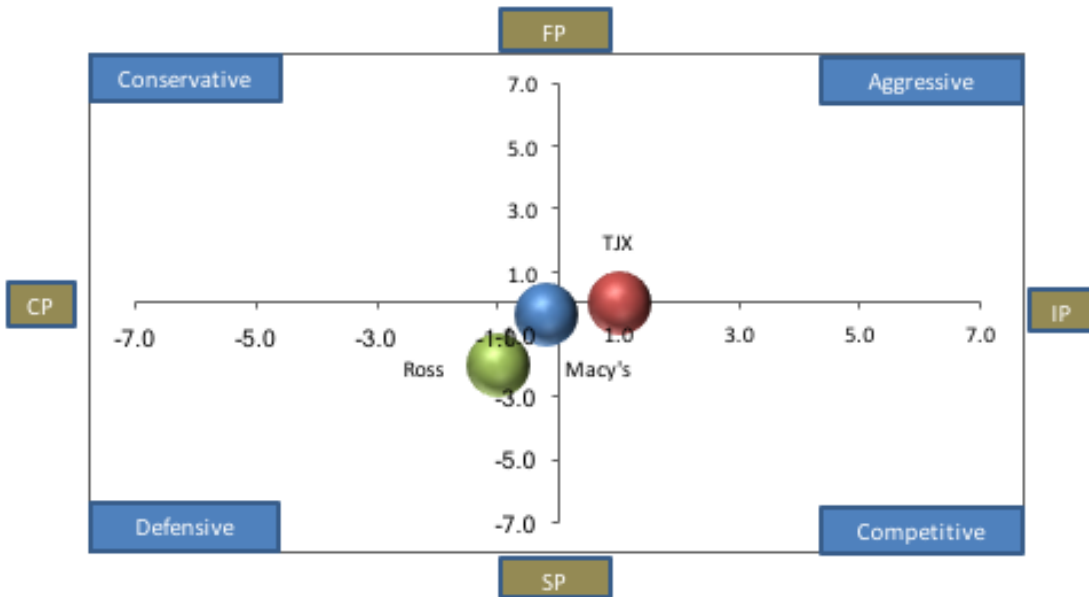
1. Build 2 new warehouses tailored to online shopping where customers can order and return items easily (S1, S2, T3, T4, T6).
2. Add 100 additional Backstage stores inside existing Macy's stores (S7, T9).

- Offer customers 15% off coupons for select services at newly built Bluemercury stores for 3 months after opening (S4, S5, T7).
- Increase same day delivery to 40 markets (S9, T3, T4, T6).

**WT Strategies**

- Develop a new detailed strategy to replace the North Star Strategy currently posted on Macy’s website (W2, T3, T7, T9).
- Hire 50 new market researchers to more efficiently determine demand for products (W1, W5, W10, T3, T4, T7, T9).
- Close 25 of the weakest performing Macy’s stores over the next 2 years (W6, W7, T1, T2).
- Hire away 2 top executives from Gap, Inc. to focus on increasing product lines for male customers (W1, W5, W6, W7, W10, T9).

Strategic Position and Action Evaluation (SPACE) Analysis

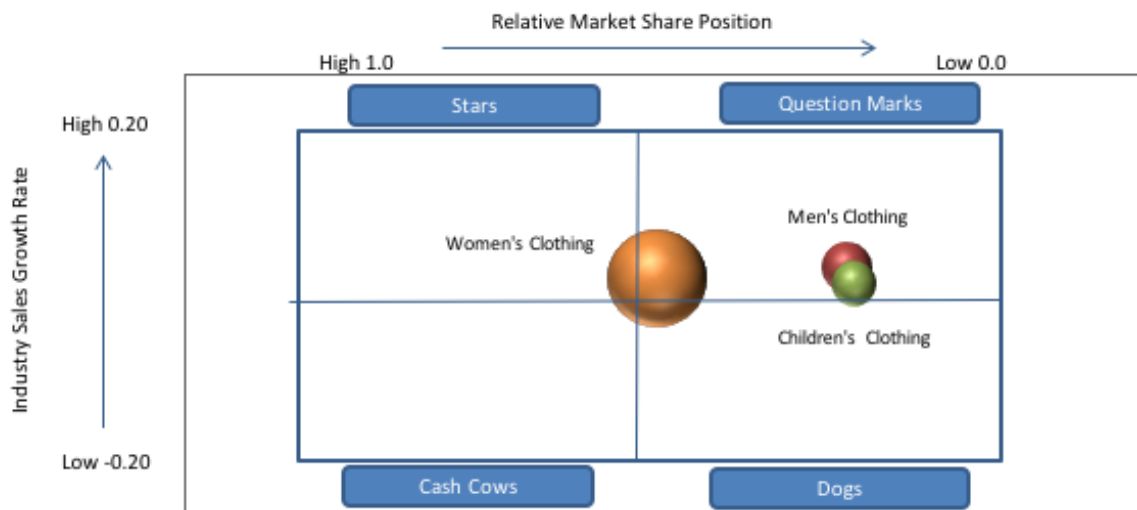


<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<b>Financial Position (FP)</b>		<b>Stability Position (SP)</b>	
Current Ratio	5	Rate of Inflation	-3
Debt to Equity	2	Technological Changes	-1
Net Income	5	Price Elasticity of Demand	-2
Revenue	3	Competitive Pressure	-7
Inventory Turnover	2	Barriers to Entry into Market	-6
<b>Financial Position (FP) Average</b>	<b>3.4</b>	<b>Stability Position (SP) Average</b>	<b>-3.8</b>

<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<b>Competitive Position (CP)</b>		<b>Industry Position (IP)</b>	
Market Share	-3	Growth Potential	2
Product Quality	-3	Financial Stability	3
Customer Loyalty	-3	Ease of Entry into Market	2
Variety of Products Offered	-2	Resource Utilization	3
Control over Suppliers and Distributors	-3	Profit Potential	3
<b>Competitive Position (CP) Average</b>	<b>-2.8</b>	<b>Industry Position (IP) Average</b>	<b>2.6</b>

	Macy's	TJX	Ross
X Axis	-0.2	1.0	-1.0
Y Axis	-0.4	0.0	-2.0

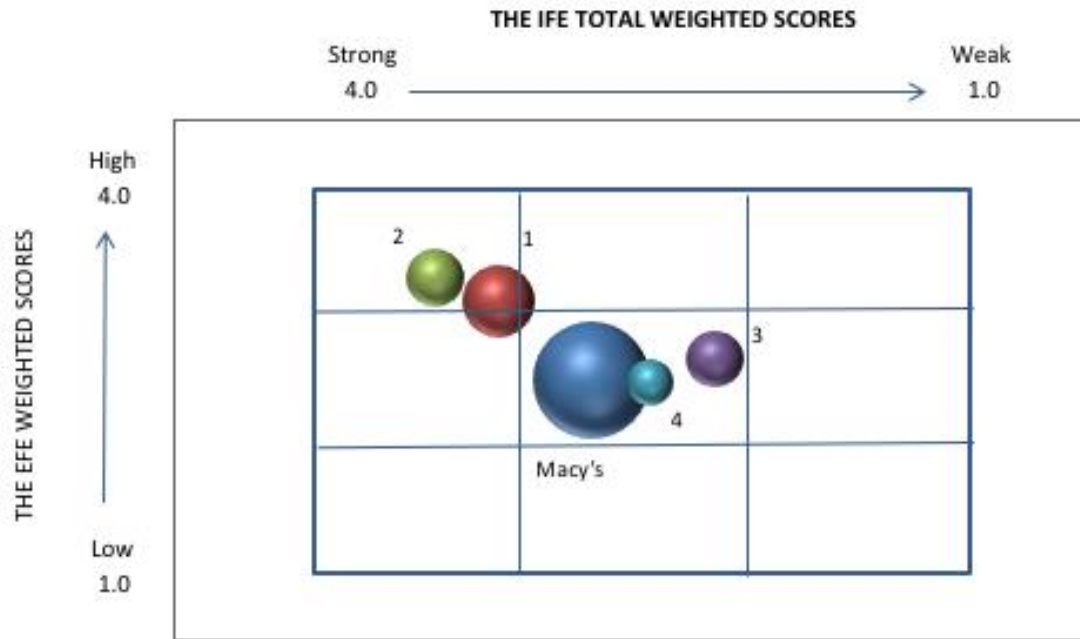
### Boston Consulting Group (BCG) Matrix Analysis



Division	Your Firm's Division Revenues	Top Firm in Industry Division Revenues	Industry Sales Growth Rate	Relative Market Share Position
Women's Clothing	\$12,889	\$25,000	0.03	0.52
Men's Clothing	\$3,350	\$15,000	0.05	0.22
Children's Clothing	\$2,550	\$12,000	0.02	0.21



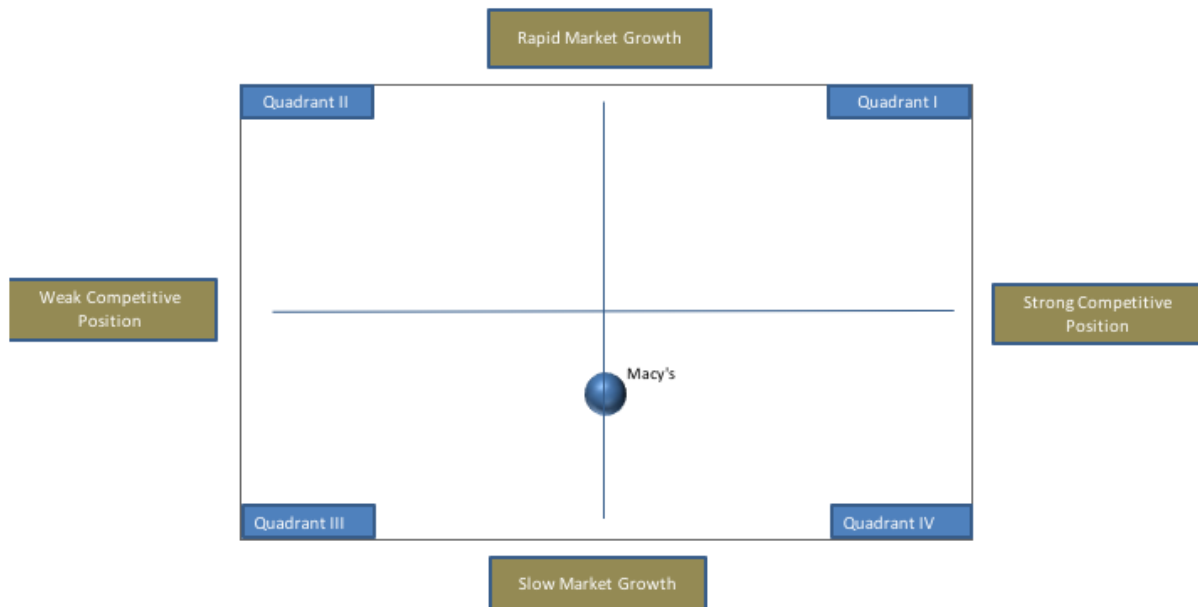
# Internal-External (IE) Matrix Analysis



Division	Percent of Firm's Division Revenues	Estimated IFE Score	Estimated EFE Score
1	38%	3.2	3.0
2	23%	3.5	3.2
3	23%	2.2	2.5
4	16%	2.5	2.3

1.	Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances
2.	Women's Apparel
3.	Men's and Children's
4.	Home/Miscellaneous

## Grand Strategy Matrix Analysis



## Quantitative Strategic Planning Matrix (QSPM) Analysis

Strategy 1: Build 2 new warehouses tailored to online shopping where customers can order and return items easily.

Strategy 2: Hire 50 new market researchers to more efficiently determine demand for products for \$10 million.

		Strategy 1		Strategy 2		
Strengths	Weight	AS	TAS	AS	TAS	
1	The company is using a retrenchment strategy by recently closing 100 Macy's stores, with plans to close another 30 stores by year end 2018.	0.10	1	0.10	4	0.40
2	Women account for the bulk of the business and Macy's, Inc. is no exception with over 60 percent of revenues derived from products exclusively for women.	0.10	3	0.30	2	0.20
3	Under the leadership of the new CEO, Macy's market capitalization doubled from late 2017 to late 2018 partly from a major restructuring strategy that involved replacing 8 key executives.	0.10	0	0.00	0	0.00
4	The firm is diversified with Macy's, Bloomingdale's and Bluemercury stores all under the Macy's umbrella but 80% of the stores are Macy's with 14% Bluemercury and 6% Bloomingdale's; the firm plans to add 55 new Bluemercury stores through 2019.	0.07	0	0.00	0	0.00
5	Macy's is moving its Bluemercury stores inside Macy's department stores to attract new customers.	0.04	1	0.04	3	0.12
6	Macy's purchases its products from many different suppliers with no single supplier accounting for more than 5% of the firm's net purchases and no formal long-term commitments with any of the suppliers.	0.03	4	0.12	2	0.06
7	Macy's opened 20 Backstage locations between mid-2017 and mid-2018 inside existing store locations and has plans to add 100 further by the end of 2018 to aid in targeting price-conscious customers.	0.03	0	0.00	0	0.00
8	Macy's has entered into an agreement with Best Buy to occupy space in 10 Macy's stores, staffed by Best Buy employees, to offer electronic equipment.	0.02	0	0.00	0	0.00
9	Macy's offers same day delivery service in over 17 markets for both Macy's and Bloomingdale's.	0.02	3	0.06	2	0.04
10	Macy's is ranked in the top 5 largest American enterprises for installed solar capacity; the company sells most of the solar power it generates to others.	0.01	0	0.00	0	0.00

		Strategy 1		Strategy 2		
Weaknesses	Weight	AS	TAS	AS	TAS	
1	Some Macy's stores, while profitable, are not making enough money to pay for the opportunity cost of what the real estate would be worth if it were to be sold. For example, Macy's has numerous downtown stores in really hot real estate markets like New York City, San Francisco, and Chicago.	0.07	0	0.00	0	0.00
2	Macy's new North Star Strategy displayed on its website is vague to the extent virtually any firm could post the same strategy and claim it as their own.	0.07	0	0.00	0	0.00
3	Macy's is almost 100% a US-based business.	0.06	0	0.00	0	0.00
4	Macy's is fairly well positioned across the USA, but in reality the firm is primarily focused in the east with over 500 of the firm's 850 stores in this region.	0.05	0	0.00	0	0.00
5	Men's and children's sales only account for 23% of sales at Macy's.	0.05	1	0.05	4	0.20
6	Macy's has closed over 100 Macy's branded stores over the last 3 years but has increased Bluemercury stores from 0 to 101 over the same period.	0.05	0	0.00	0	0.00
7	Some estimates indicate Macy's has experienced upwards of 25% reduced foot traffic in stores over the last 5 years.	0.04	1	0.04	3	0.12
8	Macy's cost of goods sold is about 60%.	0.03	0	0.00	0	0.00
9	Macy's customer loyalty programs are predominantly tied to holding a Macy's credit card compared to more flexible plans by rivals not requiring a company credit card.	0.03	0	0.00	0	0.00
10	Macy's inventory turnover is less than 3 compared to rival Gap Inc. and other rivals at 5.	0.03	1	0.03	4	0.12

			Strategy 1		Strategy 2	
<b>Opportunities</b>		<b>Weight</b>	<b>AS</b>	<b>TAS</b>	<b>AS</b>	<b>TAS</b>
1	New 21% corporate tax rate in the US.	0.09	0	0.00	0	0.00
2	Disposable income expected to increase 7.1% over next three years.	0.08	2	0.16	3	0.24
3	Customers are increasingly purchasing online; web purchasing is expected to exceed 10 percent annually through 2023.	0.07	4	0.28	2	0.14
4	Brick-and-mortar stores despite significantly higher expenses and often higher priced items still hold the distinct advantage of customers being able to hold, feel, and try on items before purchasing, as well as talk to knowledgeable salespeople at higher quality stores.	0.06	2	0.12	4	0.24
5	Lobby efforts in place to collect sales tax on all Internet purchases, potentially eliminating an advantage currently in place for online purchases.	0.05	4	0.20	2	0.10
6	2017 retail sales over the Christmas holiday season were up \$33 billion to \$598 billion; about 30% of annual sales of US retail chains are derived from the Christmas holiday season.	0.05	0	0.00	0	0.00
7	Customers are increasingly attracted to stores-within-a-store concepts.	0.05	0	0.00	0	0.00
8	The entire department store industry is valued at over \$150 billion with profits in excess of \$4 billion.	0.04	0	0.00	0	0.00
9	E-commerce sales are expected to account for 17% of all retail sales by 2022.	0.03	4	0.12	2	0.06
10	The US economy grew at 2.3% in 2017 up from 1.5% in 2016.	0.03	0	0.00	0	0.00

			Strategy 1		Strategy 2	
<b>Threats</b>		<b>Weight</b>	<b>AS</b>	<b>TAS</b>	<b>AS</b>	<b>TAS</b>
1	New minimum wage laws increased wages to \$12 or higher in 13 US cities.	0.06	0	0.00	0	0.00
2	Cyber-attacks were up 30% in 2017.	0.05	0	0.00	0	0.00
3	Online department stores offering similar products simply do not incur the overhead cost of traditional stores like Macy's that incur really high rent, tax, utilities, and labor expenses in areas such as New York City.	0.05	4	0.20	2	0.10
4	Being forced to enter pricing wars with online providers is a huge threat facing all brick and mortar providers, and one they are likely unable to win. Simply offering online products themselves is a viable strategy although it is likely unwise to undercut in-store prices; customers can simply shop in the store and then order online often referred to as 'show-rooming'.	0.05	0	0.00	0	0.00
5	Interest rates in the USA have climbed to 5+ percent on loans within the last 12 months.	0.05	0	0.00	0	0.00
6	Online sales are rising around 5% annually.	0.05	4	0.20	2	0.10
7	Ulta Beauty is a much larger competitor with a similar profile and target customer as Bluemercury with a market cap of over \$14 billion to Bluemercury's \$1 billion	0.04	0	0.00	0	0.00
8	Consumers are increasingly spending disposable income on automobiles and electronics at around 4% annually compared to department stores down 2%.	0.04	0	0.00	0	0.00
9	Off priced retailers such as TJX, Ross, and Burlington Stores are increasingly popular with price conscious consumers.	0.04	2	0.08	3	0.12
10	Rising inflation in the USA that some analysts warn of a pending drastic drop in real estate and stock market prices.	0.02	0	0.00	0	0.00
<b>TOTALS</b>				<b>2.10</b>		<b>1.58</b>

## Recommendations with Associated Costs

1. Create 4 new lines of clothing for women, one for each season of the year. \$100 million

- |   |               |
|---|---------------|
| 2. Build 2 new warehouses tailored to online shopping where customers can order and return items easily.  | \$200 million |
| 3. Add 100 additional Backstage stores inside existing Macy's stores.                                     | \$ 30 million |
| 4. Add 200 additional Bluemercury stores inside existing Macy's stores.                                   | \$ 30 million |
| 5. Invest in a new national advertising campaign to attract men into Macy's Stores.                       | \$150 million |
| 6. Develop a new detailed strategy to replace the North Star Strategy currently posted on Macy's website. | \$ 15 million |
| 7. Hire 50 new market researchers to more efficiently determine demand for products.                      | \$ 10 million |
| 8. Hire away 2 top executives from Gap, Inc. to focus on increasing product lines for male customers.     | \$ 9 million  |

Total cost: \$544 million

Statement: Macy's is performing too poorly to become overly aggressive with raising capital.

## Organizational Chart Analysis

### 1. Macy's, Inc. (M)

Chapter 7 presents 15 guidelines for developing an effective organizational chart, as follows:

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1. Instead of *chairman* of the board, make it *chairperson* of the board.
  2. Make sure the board of directors reveals diversity in race, ethnicity, gender, and age.
  3. Make sure the chair of the board is not also the CEO or president of the company.
  4. Make sure the CEO of the firm does not also carry the title *president*.
  5. Reserve the title *president* for the division heads of the firm.
  6. Include a COO if divisions are large or geographically dispersed.
  7. Make sure only presidents of divisions report to the COO.
  8. Make sure functional executives such as CFO, CIO, CMO, CSO, R&D, CLO, CTO, and HRM report to the CEO, not the COO.
  9. Make sure every executive has one boss, so lines in the chart should be drawn accordingly, assuring unity of command.
  10. Make sure span of control is reasonable, probably no more than 10 persons reporting to any other person.
  11. Make sure diversity in race, ethnicity, gender, and age is well represented among corporate executives.
  12. Avoid a functional type structure for all but the smallest firms.
  13. Decentralize, using some form of divisional structure, whenever possible.
  14. Use an SBU type structure for large firms with more than 10 divisions.
  15. Make sure executive titles match product names as best possible in division-by-product and SBU-designated firms.
-

Exhibit 1 provides Macy's organizational structure. Currently 7 of the top 19 executives are female. Mr. Macy would likely take great pride in this; he hired the first women executive in U.S. retail history in the 1920s.

Exhibit 1 - Macy's Top Executives and Organizational Chart When Gennette Took Over as CEO in mid-2017

1. Jeff Gennette President, CEO, Director
2. Timothy Baxter, Chief Merchandising Officer
3. Elisa D. Garcia, Chief Legal Officer and Secretary
4. Robert B. Harrison, Chief Omnichannel Operations Officer
5. Karen M. Hoguet, Chief Financial Officer
6. Jeffrey A. Kantor, Chief Stores and Human Resources Officer
7. Molly Langenstein, Chief Private Brands Officer
8. Richard A. Lennox, Chief Marketing Officer
9. Justin S. MacFarlane, Chief Strategy, Analytics and Innovation Officer
10. Patti H. Ongman, Chief Merchandise Planning Officer
11. Tony Spring, Chairman and CEO Bloomingdale's
12. Felicia Williams, EVP, Controller and Enterprise Risk

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2 3 4 5 6 7 8 9 10 11 12

#### **Author Comments on Organizational Chart Presented in the Case**

CEO Jeff Gennette took over as CEO of Macy's Inc. in March 2017 and then took over as Chairman of the Board in February 2018. During his short tenure at Macy's, he has fired and hired top executives liberally. Let's examine what Gennette has done during his first 18 months in office. Note the 12 new individuals in Exhibit 2 as compared to Exhibit 1; the twelve are in bold lettering.

Exhibit 2 - Macy's Top Executives and Organizational Chart in Fall 2018

1. Jeff Gennette President, CEO, Director
2. **Douglas Sesler, EVP, Real Estate**
3. **Naveen Krishna, Chief Technology Officer**
4. **Cheryl Heinonen, EVP, Corporate Communications**
5. Justin MacFarlane, Chief Strategy, Analytics and Innovation Officer
6. Elisa D. Garcia, Chief Legal Officer
7. **Rachel Shechtman, Brand Experience Officer, Founder of STORY**
8. **Jill Ramsey, Chief Product and Digital Revenue Officer**
9. **Paula Price, Chief Financial Officer (CFO)**
10. Jeffrey A. Kantor, Chief Merchandising Officer
11. Richard A. Lennox, Chief Marketing Officer
12. Karen Hoguet, Strategic Advisor
13. Robert Harrison, Chief Operations Officer (COO)

14. Danielle Kirgan, Chief Human Resources Officer
15. Tony Spring, Chairman and CEO Bloomingdale's
16. **Maria Beck, CEO, Co-Founder of Bluemercury, Inc.**
17. **Hal Lawson, President of Macy's**
18. **John Harper, Chief Stores Officer**
19. **Barry Beck, Chief Operating Officer, Co-Founder of Bluemercury, Inc.**

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2 3 4 5 6 7 8 9 10 11 12 13 14

15 16 17 18 19

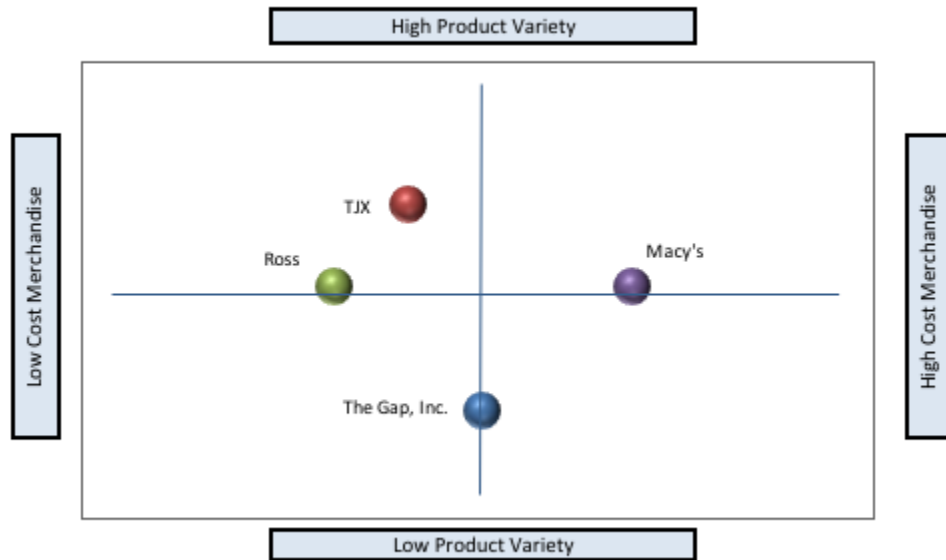
Source: Based on information at <https://www.macysinc.com/press-room/executive-management-team/default.aspx>

(Note: #'s 15 through 19 report to 13; bold indicates newly hired in last 12 months)

As indicated with bold print in Exhibit 2, 10 new executives have been hired at Macy's in the last 12 to 18 months. The bottom line evidenced with the changes is that personality changes do matter in improving an organizational design and performance. Largely the changes made by Gennette have been personality (person) changes rather than position (title) changes. Note the inclusion of Bluemercury that is doing really well for the company. Some additional changes proposed by the authors are as follows:

1. Mr. Gennette should relinquish his position as Chairman.
2. Change Chairman to Chair or Chairperson.

## Perceptual Map Analysis



## Corporate Valuation Analysis

Your Firm's Name	
Stockholders' Equity - (Goodwill + Intangibles)	\$1,288
Net Income x 5	\$7,735
(Share Price/EPS) x Net Income	\$10,842
Number of Shares Outstanding x Share Price	\$10,842
<b>Method Average</b>	<b>\$7,677</b>

## EPS/EBIT Analysis (in millions)

Amount Needed	\$544
Interest Rate	5%
Tax Rate	21%
# Shares Outstanding	306.0
Additional Shares Outstanding Needed	15.35
Stock Price	\$35.43



	Common Stock Financing			Debt Financing		
	<i>Pessimistic</i>	<i>Realistic</i>	<i>Optimistic</i>	<i>Pessimistic</i>	<i>Realistic</i>	<i>Optimistic</i>
EBIT	\$1,200	\$1,500	\$2,000	\$1,200	\$1,500	\$2,000
Interest	0	0	0	27	27	27
EBT	1,200	1,500	2,000	1,173	1,473	1,973
Taxes	252	315	420	246	309	414
EAT	948	1,185	1,580	927	1,164	1,559
# Shares	321	321	321	306	306	306
EPS	<b>\$2.95</b>	<b>\$3.69</b>	<b>\$4.92</b>	<b>\$3.03</b>	<b>\$3.80</b>	<b>\$5.09</b>

	Stock 80%	Debt 20%	
	<i>Pessimistic</i>	<i>Realistic</i>	<i>Optimistic</i>
EBIT	\$1,200	\$1,500	\$2,000
Interest	5	5	5
EBT	1,195	1,495	1,995
Taxes	251	314	419
EAT	944	1,181	1,576
# Shares	318	318	318
EPS	<b>\$2.96</b>	<b>\$3.71</b>	<b>\$4.95</b>

## Projected Financial Statements

Projected Income Statement	2/3/19	2/3/20	2/3/21
Revenues	\$26,079	\$27,383	\$28,752
Cost of Goods Sold	15,908	16,704	17,539
Gross Profit	10,171	10,679	11,213
Operating Expenses	8,345	8,762	9,201
EBIT	1,826	1,917	2,013
Interest Expense	321	321	321
EBT	1,505	1,596	1,692
Tax	316	335	355
Non-Recurring Events	0	0	0
Net Income	1,189	1,261	1,336

Projected Balance Sheet	2/3/19	2/3/20	2/3/21
<b>Assets</b>			
Cash and Equivalents	\$2,532	\$2,288	\$3,739
Accounts Receivable	261	548	575
Inventory	5,737	6,024	6,325
Other Current Assets	522	821	863
Total Current Assets	9,051	9,682	11,502
Property Plant & Equipment	6,932	6,932	6,932
Goodwill	3,897	3,897	3,897
Intangibles	488	488	488
Other Long-Term Assets	1,304	1,369	1,438
Total Assets	21,672	22,368	24,256
<b>Liabilities</b>			
Accounts Payable	5,737	5,477	5,750
Other Current Liabilities	0	0	0
Total Current Liabilities	5,737	5,477	5,750
Long-Term Debt	6,405	6,405	6,405
Other Long-Term Liabilities	3,129	3,286	4,025
Total Liabilities	15,272	15,167	16,181
<b>Equity</b>			
Common Stock	3	3	3
Retained Earnings	7,902	8,701	9,577
Treasury Stock	(1,456)	(1,456)	(1,456)
Paid in Capital & Other	(48)	(48)	(48)
Total Equity	6,401	7,200	8,076
<b>Total Liabilities and Equity</b>	<b>21,672</b>	<b>22,368</b>	<b>24,256</b>

### Retained Earnings Table

As indicated in Chapter 8, the key link between a projected income statement and balance sheet is the annual transfer of a firm's net income less dividends = retained earnings (RE) to the firm's balance sheet equity section. In light of the importance of this transaction, a retained earnings table is often included in strategic plan documents. A retained earnings table for Macy's Inc. is given below:

	Dividend Information			Balance Sheet Information	
Steps	1	2	3	4	5
Year	Current Year's Net Income	Less Current Year's Dividends Paid	New RE	Plus Prior Year's RE	Current Year's Balance Sheet RE
2/3/19	\$1,189	\$461	\$728	\$7,174	\$7,902
2/3/20	\$1,261	\$461	\$800	\$7,902	\$8,702
2/3/21	\$1,336	\$461	\$875	\$8,701	\$9,576

### Projected Financial Ratio Analysis

	Projected Ratios		
	2/3/19	2/3/20	2/3/21
Current Ratio	1.58	1.77	2.00
Quick Ratio	0.58	0.67	0.90
Debt-to-Total-Assets Ratio	0.70	0.68	0.67
Debt-to-Equity Ratio	2.39	2.11	2.00
Times-Interest-Earned Ratio	6	6	6
Inventory Turnover	2.77	2.77	2.77
Fixed Assets Turnover	3.76	3.95	4.15
Total Assets Turnover	1.20	1.22	1.19
Accounts Receivable Turnover	100	50	50
Average Collection Period	3.65	7.30	7.30
Gross Profit Margin %	39%	39%	39%
Operating Profit Margin %	7%	7%	7%
ROA %	5%	6%	6%
ROE %	19%	18%	17%

### Epilogue

On August 15, 2018, Macy's released their Q2 2018 financial report and the price of their common stock dropped about 15 percent on bad news. Comparable store sales on an owned basis declined, compared to the same quarter the prior year. Specifically, sales in Q2 2018 totaled \$5.572 billion, a decrease of 1.1 percent from the prior year period. Macy's, Inc. operating income for Q2 2018 totaled \$303 million, or 5.4 percent of sales, compared to \$282 million, or 5.0 percent of sales the prior year. For Q2, the company's net income was \$166 million, or 3.0 percent of sales, compared to \$111 million the prior year period.

On the date mentioned, the company gave guidance for the full year saying they expect total sales to range from growing 0.0 to 0.7 percent. The press release did not give any information by segment, but the company operates about 690 department stores under the

nameplates Macy's and Bloomingdale's, and more than 170 specialty stores that include Bloomingdale's The Outlet, Bluemercury, Macy's Backstage, and STORY. Macy's, Inc. operates stores in 44 states, the District of Columbia, Guam and Puerto Rico, and online.