

# Macy's (M) of the future: Smaller box, bigger wow factor

## Macy's CFO: We may build smaller

Posted: 04/10/2013



• [By: Dan Monk, WCPO Digital](#)

CINCINNATI - Macy's Inc., the nation's No. 1 department store chain, is thinking small -- smaller stores, that is, which would carry less merchandise in the future, Chief Financial Officer Karen Hoguet recently told Wall Street analysts in New York.

The move is part of a global shift toward online commerce that experts say will have major implications for retail investors and developers, not to mention cities that depend on retail traffic for revenue.

"There are big question marks about the future of the department store as it currently exists," said Shaun Bond, chairman of the real estate department at the University of Cincinnati's College of Business. "They're going to need less space in the future. I don't think there's any doubt about that."



And the department store of the future is already morphing from a place to buy goods into a hub of entertainment and expertise with technology front and center, according to industry experts.

For Macy's the shift could eventually mean fewer stores, even in its headquarters town of Cincinnati.

One expert predicts Macy's could shrink from seven stores to four in the Tri-State, with Tri-County and Northgate the most threatened.

A Macy's spokesman said there are no current plans to close any local stores.

In her remarks to the UBS Global Consumer Conference in New York last month, Hoguet stressed "in the fashion business, having stores is always going to be a competitive advantage."



She conceded that smaller might be better in the future.

"We may need less inventory in our stores going forward," Hoguet said. "We're not there yet. Our systems aren't compatible enough today to know how much less, but our theory is that we could, in some places, build smaller stores. It's not significantly smaller, but smaller."

### **The shrinking department store**

With more than 800 stores and nearly 152 million square feet of retail space, 1.4 million of it in Cincinnati, even a subtle shift in Macy's real estate needs can have big impact on the industry.

Just ask the cities of St. Paul, Minn. and Houston, Texas, which will have to fill a combined 1.1 million square feet of downtown retail space due to Macy's announcement in January to close those stores. The company announced six store

closings and four openings Jan. 3. The average size of the closed stores was 260,000 square feet. The average size of the four new stores will be 150,000 square feet.

"Each year we expect that we will decide to close a small number of stores and open a small number of new ones to fill in markets (and) adjust to shifts in customer shopping patterns," said Macy's spokesman Jim Sluzewski. "The plan is to maintain essentially a flat amount of store square footage over time."

Several experts said all department stores will shrink over time and many industry competitors – including Macy's – will have to reduce store count.

In the next 10 years, one expert predicted that the Cincinnati area would have fewer Macy's stores than the six department stores and two home stores that exist today.

"I would guess three to five stores in Cincinnati, one of which is the flagship in Kenwood, which could be 100,000 square feet bigger than it is today," said Kenneth Nisch, chairman of JGA Inc., a retail design and branding firm based in Southfield, Mich.

Nisch was recognized as a "retail design influencer" by the Nielsen-owned retail design publication, DDI Magazine . He has never worked for Macy's, but his firm has.

"They might close their store in Tri-County, but open a 70,000 square-foot lifestyle store in Hyde Park," he said. "They might change the nature of the store downtown to include food and a made-to-order department that appeals to the downtown millennials."

Chicago architect Bill Bishop agreed that smaller stores are inevitable for Macy's and its rivals.

"The retailers who made the largest commitment to brick and mortar are going to have to react the most," said Bishop, founder of Brick Meets Click, a research firm that tracks how technology is changing the retail environment.

Macy's is "going to have to figure out how to extract themselves from some of those monolithic things they've got going. It's just absolutely in the cards," Bishop said.

Local retail broker John Heekin predicts Macy's will close larger stores in under-performing malls, which are plentiful in today's retail environment.

"Early in the recession, I saw a study that said 60 percent of the centers Macy's were in were in some kind of trouble," said Heekin, senior vice president for Cassidy Turley Real Estate. "They're really going to have to abandon some of those stores and build new, smaller stores elsewhere."

## **Boosting the “wow factor”**

Global retail consultant Stan Eichelbaum, known for his local work in reviving retail districts in Florence, Ky. and Springdale, Ohio said the changes would not end with smaller stores. He looks for all department stores to incorporate technologies that will allow customers to check out on their smart phones and try on clothes virtually.

In addition, retailers will use new tech tools to analyze shopper buying patterns and behavior inside stores. Retailers will increasingly change pricing and store windows several times daily, attracting different kinds of shoppers during different times during the day.

“The wow factor is going to have to get much higher than it is today,” said Eichelbaum, president and founder of Planning Developments Inc./Marketing Developments Inc. in Ft Lauderdale, Fla. “If they are to survive, there will have to be much more theater to the display of their leading products. You will have food integrated into the environment, so that (shoppers) stay longer and enjoy the experience.”

Hoguet hinted at those kinds of changes during the New York conference.

“All of the research shows that lots of customers like to shop; it's social, it's fun, and it's sometimes hard to do online,” she said. “But we'll often find somebody buying something online, returning it in the store, trying on different things. It all sort of works together, but we find with fashion, people really do like coming into the store.”

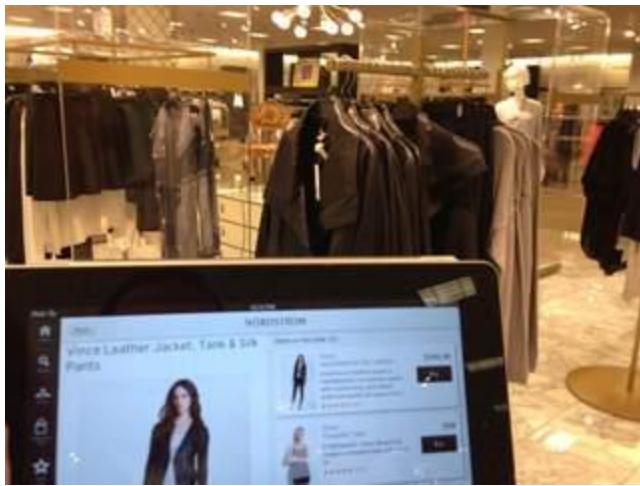
Hoguet pointed to the [\\$400 million renovation of its iconic Herald Square store](#) in New York as a kind of incubator for new-store ideas.

The store in Manhattan was already the world's largest when the project began last February. It will have 100,000 square feet more in selling space and the world's largest shoe department with as many as 300,000 pairs of shoes and a coffee, wine and chocolate bar. The store will also include 22 food-service locations when the remodel is finished in 2015.

“We opened the new restaurant on the sixth floor called Stella,” she said. “We opened all the windows on the Broadway side. You can see the Empire State Building. We're hoping it becomes a very cool, hip place.”

The four-year retrofit will also add 300 new fitting rooms and a “millennial shopping environment” targeting customers who are 13 to 30 years old.

“It's a lot of work still to be done, but we're very encouraged based on the spaces that have completed, what it's doing for the store,” Hoguet said. “Everything we've re-opened is actually exceeding our expectation.”



Hoguet said Macy's would soon start testing technology to let customers check themselves out using smart phones. Macy's has been testing various technologies for wireless interactions with in-store customers since 2011.

As part of its "omnichannel" initiative, Macy's has converted 290 of its stores to fulfillment centers, so shoppers who can't find an item in the store can get their merchandise delivered to them from another store. Macy's Tri-County is the only local fulfillment store, but others are expected as Macy's expands the concept to 500 stores by year end.

"I'm not as fixated on Internet versus bricks and mortar," Hoguet told analysts. "How do you account for somebody who shopped all day, didn't want to carry shopping bags home on the train, went home and bought it all on macys.com? I really think it's sort of an old way of thinking about the business. The way we're looking at it is sort of the total. And how do we transform our stores to be relevant in a world with all of this technology available to her?"

### **Going to get personal**



At Macy's Kenwood store recently, Indian Hill resident Ellen Slattery said it's the deals and not the entertainment that draws her in. She described herself as a regular customer of Macy's and Nordstrom, where she likes to visit its second-floor Café Bistro.

"Macy's has more of a selection," she said. "I always get pretty good deals there."

For More: [http://www.wcpo.com/dpp/money/business\\_news/macys-of-the-future-smaller-box-bigger-wow-factor](http://www.wcpo.com/dpp/money/business_news/macys-of-the-future-smaller-box-bigger-wow-factor)