

RUNNING HEAD: MACY'S VIRTUAL CLOSET

Macy's Virtual Closet

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February 21, 2017

Abstract

In this fast paced evolving marketplace companies need to exist in both the physical and digital worlds. Before finding the balance and fusion of both, the company first needs to understand a few major concepts such as: what do they stand for, who is their target audience, and most importantly they need to be able to talk to that audience. In reviewing Macy's current position and approach toward the digital world and their customers, we identify several weaknesses that need to be addressed. In this paper will highlight these weaknesses and make recommendations for the company to successfully reposition themselves in this new age.

Introduction

Macy's is a large department store today with 730 physical locations throughout the continental United States offering clothes, shoes, accessories, and houseware for every age group and demographic. The department store also serves customers through their online platform at macys.com. Founded in 1858 in New York City, by 1922, the company had gone public, generating over \$36 million dollars in sales every year. The store has always been known as an innovator amongst a great deal of competition (Macy's, 2017).

Macy's has always been known as more of a high end department store when compared to its competition. Fifteen years ago when perusing the store, one might have felt scared to touch many of the displays given the high ticket price of many items. Clothes, shoes and accessories were neatly organized and always presented in an orderly display. It was a special treat for many women to spend their time shopping at Macy's.

In more recent years, the news has been plagued with stories of Macy's locations closing and declining online sales. It seems that Macy's has not been able to keep up with consumers changing needs. Most recently after a failed holiday season, Macy's announced it will close another 100 stores. The cost of operating many of these stores simply does not outweigh the sales they produce (Gustafson, 2017). Consumers' preferences are changing rapidly and it is difficult to turn an old ship rapidly enough.

Given the issues, we suggest bringing Macy's a modern makeover and introducing several digital strategies to complement physical locations and make Macy's appealing again, especially for millennials. We will explore what millennials are looking for and how Macy's can provide the experience customers are looking for in a high end department store.

Business Review

Market Position and Competition

Macy's is a middle tier department store chain and has come to symbolize the industry's "middle market squeeze, not exclusive enough to attract high-end shoppers and not cheap enough for bargain hunters" (Dobrzynski, 2009). Macy's faces competitive pressures from higher end department stores like Saks 5th Avenue with their premium brands and tailored service, in addition to pressures from similar department stores like Dillard's and JC Penney (who is also trying to reinventing themselves). Not to mention pressures from off-price and discount stores even Wal-Mart, with their extreme price competition which was effective during the economic crisis, and lastly let's not forget online retailers (Singh, 2012).

Macy's has been attempting to repair its decaying image for a long time. In 2006 they released a celebrity filled advertising campaign in the hopes it could rebuild its image as a national brand. With Donald Trump, Martha Stewart, Tommy Hilfiger and many more it may have been successful in creating store offering awareness, but not enough to have customers fully embrace the brand based on the disappointing sales (Cornwell, 2007).

Last year Macy's released their Last Act, in-store clearance sections as well as Macy's Backstage stores, an off-price standalone concept. Getting into the discounting game may be a quick way to capitalize on off-price business trends, similar to Nordstrom Rack, but for Macy's position in the consumer's mind, it was sending mixed messages. Releasing off-price concepts, while supposedly trying to repair their image and move towards the higher end of the spectrum, is confusing (Schlossberg, 2016), especially when it is within the same physical space.

In looking at Harris Interactive's, a top market research firm, ranking of the Reputations of the Most Visible Companies we will see that from 2012 to 2015 Macy's dropped from 30th position to 52nd. If we look more specifically at ranking of the Most Valuable US Retail Brands

by Interbrand, we get a slightly different picture. From 2010 to 2014 Macy's has been improving, signifying the company's efforts to reposition itself as a top retail company (Macy's, n.d.).

Customer Base

Historically, Macy's core customer has been baby boomers. In more recent years, the company has attempted to revamp its market position to target millennials, who have increased spending power (Lutz 2012) and may allow Macy's to expand. Millennials spend approximately \$430 billion in discretionary products each year (Bailey 2015). As baby boomers become less relevant, Macy's needs to look to this growing client base. Currently Macy's has acquired several brands in an attempt to attract millennials, who gravitate toward cheaper high fashion brands such as H&M. The major issue has been that millennials are not prone to visiting an actual department store and Macy's digitization does not live up to the high demands of millennials (Berry 2013).

Another issue with Macy's push to millennials, is that millennials are in search of experiences, not simply buying clothes. They like activities such as outdoor shopping, not your traditional indoor brick and mortar malls. Also, millennials want to capture these experiences and share them with the world. Macy's will need to look at how to enhance this experience in order to attract more of this customer base (Schlossber, Mallory).

Decline and Challenges

Decline. It is known for some time now that Macy's is facing serious problems generating profits and is struggling to survive in the department store business. Macy's sales in 2014 were \$28.1 billion versus \$27.1 billion in 2015, a decline of 3.7%. (Loeb, 2016)

Due to the new customer habits of buying more online, the stores' traffic have reduced significantly. Fast fashion like Zara, H&M and Forever21, have been attracting the Macy's customer due to its low cost stylish clothes. Companies like TJ Maxx and Nordstrom Rack sell premium merchandise for lower prices, are also captivating the customers (Paridhi, 2016). So in such competitive and difficult conditions, the issues of: low foot traffic, loss of premiere positioning and excessive discounting must be reevaluated (Schlossberg, 2016). Recently, Macy's announced a plan to close 100 stores in the years to come, but to get productivity back on track more actions need to be taken such as investing in more inbound marketing and innovative merchandising. (Loeb, 2016)

Challenges. The main issues previously mentioned, were caused by a change in consumer behavior and fierce e-commerce competition. The consumer behavior shift is the hallmark of the Millennials, also called the Y Generation that favors friendly sales, customer experience and customer service approach. (Solomon, 2015) They are 80 million in the US, in their 20s to 30s, and represent 30% of the total retail sales. That being said, it's possible to see the great economic impact they have on the market, along with a trend where the millennials prefer to spend on services and experiences rather than on material or tangible products (Paridhi, 2016). Furthermore, in order to attend to this target customer the Marketing team must always be aware of their needs, the new trends and adapt the business model as required. Macy's faces big challenges and we'll focus on remodeling the innovative techniques and make it more creative in order to recover the business from the sales problems.

Strategy and Recommendation

New Business Focus and Target

As mentioned before, over the last decades the digital era has affected people's relationship and many businesses. As a result of that, most of the companies had to adapt, innovate and set new strategies for their businesses.

Macy's has done some changes in order to remodel the business, and the actual strategy is still based in developing licensed department partnerships, with retailers providing many categories of products combined with service and support at stores. They believe it strengthens the shopping experience, also boosting the sales in-store and online (Macy's Inc, 2015). Furthermore, Macy's core business strategies include My Macy's, omnichannel and M,O,M. (known by Magic Selling). (Yessayan, 2015) In reference to the omnichannel strategy, it offers a new way of buying goods, the consumer has the opportunity to make purchases in any channel the brand offers and the product can be delivered in a different channel (Melsted, 2015).

With that being said, technology is now seeing as an integral part of the customers' lives, therefore it needs to be part of Macy's value proposition and culture. Using technology to allow customers to precisely measure their body for perfect clothing size and easier online ordering is important, as it allows for customized service, a unique experience and should improve online sales. In addition to a better mobile wallet, RFID logistics and the Magic Mirror for clients to virtually try on clothes and style will increase attractiveness to Macy's and set a new image that would lead to higher profits.

Technology Upgrades

Although Macy's already has an omnichannel approach in place, their digital transformation is incomplete. Connecting with the millennials on social and digital level is required and with such a tech savvy consumer segment, a digital socially immersed experience is necessary.

Mobile Wallet. Macy's has a mobile wallet that allows for payment and promotions; a good step into the digital. It provides consumers to use previously saved credit cards for quick payments in store and online, as well as add promotions to the app, a user friendly notion (What is My Wallet and how does it work?, n.d.). However, to truly integrate digital millennials alternative digital payment methods like PayPal and Apple Pay should be an option in the Wallet. Not all coupons can be added to the wallet, so giving the consumer the ability to just snap a picture or scan a coupon from a printed magazine or billboard ad should be considered. Since the wallet allows Macy's to track customer purchases and determine style, promotions should be relevant to the customer experience. So if a customer is in store with their Wallet, using the smartphone's geolocation (using the phone's GPS chip and IP address to determine location), Macy's identifies that they just walked in and alert them to the promotions on items they may be interested in (Ionescu, 2010). As part of minor sales blitz, stores can have temporary sales with promos applicable to in store customers through their app. This should aid in the penetration and use of the Wallet, but also deliver deals directly to interested parties without major discount marketing that affects the brand's image. What goes without saying is that security of all customer information is of the utmost importance and gaining their trust and getting them comfortable with using these features.

RFID. Part of the problems mentioned was the user's experience in store, with comments like poorly merchandised and hard to shop standing out. By outfitting store locations with RFID (radio-frequency identification), Macy's will have control over what items are in store and where in store. With real time tracking and digital payment Macy's can service the customer more efficiently, with quick location of the products and fast checkouts, as millennials grow impatient with waiting in long cashier lineups.

Customers will also enjoy a more accurate buy-online and pick up in store (BOPIS) experience, as they would know with certainty that the item is actually in store. Going through the online purchase process and then not knowing that the item is in store really does affect sales. With RFID one clothing retailer was able to decrease online order cancellations by 60% (Laney, 2015).

RFID carries more benefits on the backend that customers don't see. They allow for superior inventory accuracy, which lead to better sales, and better service, for example reduction of out-of-stock items and expedited returns. Taking a look at Zara, the retailer can conduct physical inventory in their stores in about 15% of the time that it used to (Laney, 2015).

Social Implementations

Slogan. To jumpstart many of the initiatives we have discussed and aid in remaking the brand, we suggest Macy's take a spin on their famous slogan, "Way to Shop." To attract millennials to share their new experience with shopping at Macy's and bring in additional consumers to try the new digital services offered, Macy's will have a month long campaign #Way2Shop. The campaign will encourage consumers to post pictures of him/herself at Macy's, wearing clothes from Macy's, trying on new clothes from Macy's (online or in store) etc. and post these photos on social media (Facebook and Instagram) using the hashtag: "#Way2Shop." At the end of the month, the top twenty posts will be chosen for a drawing, where five winners will be awarded a trip to Macy's Herald Square in New York City.

Runway Shows. Part of the renewed communication with millennials, is to have an interactive social communication. One way is to host runway shows in their flagship store that are streamed live online, where customers online and in store can rate, review and comment on the cloths through Twitter, Facebook and the Macy's app. Customers can also purchase anything

they see during the show through their mobile app as well. This event would help bring Macy's into a more active social stage as well as solicit feedback on product trends.

Virtual Closet. As Macy's attempts to remain relevant with their digital strategy, it is critical that they attract millennial women. . Most especially, millennial women want their clothing choices to make them feel inspired (Swartz 2015). As in which experience or future adventure will my new favorite shirt accompany me on, and how will I be perceived wearing that shirt.

In order for Macy's to help facilitate this possibility, we suggest a tool similar to a magic mirror. The mirror would be an enhancement to the online shopping experience by allowing one to use their camera on their computer/phone or upload a photo of themselves in order to see what the clothing would look like on, prior to making a purchase. Technology is available now for this called the Memory Mirror. Consumers will be encouraged to share the photos they take of him/herself and share it on social media for feedback before purchasing the clothing, with hashtags #Way2Shop and #VirtualCloset (Dove 2015). We would also tailor the application to allow users to change the backgrounds they were wearing the clothes in, in order to allow him/herself to imagine the experience they foresee wearing the outfit in. The concept plays to millennials desires at heart.

Another similar option that would be successful for Macy's to leverage the amount of foot traffic they receive into future online sales is a partnership with Meality. Meality uses body scanning technology to map out every lump and bump to determine your exact size (Huffington Post 2012). Macy's could install Meality machines in their stores and save user preferences within their Macy's online profile. A photo of the customer, previously taken at the store, would be inserted automatically as the user was looking at a particular coat for example. The user

could then see him/herself in the item they were interested. This would assist in creating that visual experience millennial shoppers are looking for and improve Macy's digital strategy by leveraging their physical spaces.

Conclusion

In years past, Macy's had to worry about other department stores such as Dillard's and what this competitor could come up with next. As we have outlaid, Macy's has much more to worry about now in the digital age of rapidly changing preferences. Macy's should be even more concerned about what they do not know. New designers are popping up everywhere. All it takes is a simple website and a cool video to start generating business.

If Macy's hopes to stay relevant and grow, they will need to embrace the future, including future generations desires. The #Way2Shop campaign and #VirtualCloset initiatives will allow Macy's to measure success of the new strategies and identify new areas to innovate through user feedback and usage.

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