MANAGERIAL ECONOMICS

MAY

THE MAY DEPARTMENT STORES COMPANY

Lord & Taylor
Famous-Barr
Filenes'
Foley's
Hecht's
Kaufmann's
Meier & Frank
Robinsons-May
Strawbridges
The Jones Store
David's Bridal
After Hours
Priscilla of Boston

THE RIGHT CHOICES MAKE ALL THE DIFFERENCE

What are the expansion strategies employed by MAY Department stores to continue to sustain financial growth? Will they make the Right Choices?

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MAY Department Stores
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Introduction

The MAY Department Stores Company is currently one of the country's leading department stores companies. It is a $14 billion dollar retailer operating six quality regional department store divisions using eleven trade names and a bridal group. The retailer is currently ranked 143 on the Fortune 500 and is the #2 upscale department store operator in the US, behind Federated Department Stores. MAY operates almost 440 department stores coast-to-coast under a dozen names including Lord & Taylor, Foley's, Filene's, and Hecht's. The company primarily sells designer-label apparel, shoes, cosmetics, and home furnishings to middle- and upper-middle income female buyers. May currently has a couple of concerns to address before they can continue to maintain financial growth for the future. First, what options can May explore in forms of expansion? How can MAY compete with the rising competition from specialty stores and other department stores? And most importantly, the baby boomers are getting older, how can MAY appeal to the younger customer? MAY is striving to reach out to younger customers with hip brands and a matrimonial division that includes After Hours Formalwear, David's Bridal, and Priscilla of Boston.[1] In a presentation from the CEO Eugene Kahn, he states that MAY is trying to appeal to the younger customer without neglecting their older customer base.[2] We think this is the strategy MAY needs to employ to further financial growth. They need to tap into the younger age customer but they cannot afford to loose their older customer base either. This is truly the hard task.

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[1] www.hoovers.com

[2] The May Department Stores Company: 2001 Annual Report

Company Background[3]

The May Department Stores Company was founded in 1877 when David May opened his first store in Leadville, Colorado. In 1892, May and his partners made their first of numerous acquisitions when they purchased the Famous Clothing Store in St. Louis. Over the next century, May Department Stores would grow through more than a dozen acquisitions. By 2000 May would have 440 stores in all of the major regions of the US, top over $14 billion dollars in sales revenue, and have a small monopoly in a growing wedding industry.

Industry Analysis

Barriers of Entry:

In the Department Store Industry there are some barriers that effect new entrants. First new entrants will require a lot of monetary investment and capital. Entrants will have to build stores, hire lots of employees, buy apparel and other merchandise, and will require lots of advertisement. May spends millions each year on T.V. and newspaper ads. An entrant will also require Buyers or Merchants, people who analyze the industry to determine what new fashion trends to buy. Entrants will also have to deal with consumer *switching costs*. Many department store consumers have well defined loyalties. For example, some people only shop at Dillard's, Macy's, or Foley's. So department stores in certain markets have well defined *first mover advantages*. But product differentiation is often not a factor because, besides private proprietary brands, department stores carry

[3] http://www.mayco.com/common/investorHistory.jsp

many of the same popular national brand labels (Tommy Hillfiger, Polo, Liz Claiborne, etc.) So substitutes for merchandise are extremely high.

Complements/ Synergies:

Essentially all department stores have strong complements and synergies. May in particular along with apparel has a home store that includes; china, furniture, beddings, and cookware. A consumer could shop for almost all of their household needs in one department store. What separates May from other department stores is their newly acquired bridal group. Women who shop at David's Bridal are referred to May's online and in-store wedding registry. Women can set-up a wedding registry and friends that are in other states can still access the registry from stores across the nation.

Buyer Bargaining Power:

MAY also has extremely high buyer bargaining power with its vendors/suppliers. Price negotiation is very common. Vendors know the value of having their products in MAY Department Stores; they compete heavily with one another to establish accounts with MAY. Buyers often receive *vendor allowances*, monies that subsidize the store's costs for clothing that does not sale at adequate rates.[4]

Supplier Bargaining Power:

There are some rare instances of supplier bargaining power. These only occur with the very large national accounts such as Ralph Lauren, Liz Claiborne, and Estee Lauder. These companies only have a small amount of bargaining power through their

[4] Cathy Morse interview

strong national brand names. They are able to charge higher prices for similar generic products.

Organizational Design and Incentives:

May normally likes to promote from within. They are in the business of developing and retaining talented people. Executives consistently undergo performance evaluations and training. New training occurs all the time and consists of "friendliness" classes for salesmen to classes on the latest computer application like MS Excel for top executives. Managers, buyers, and top executives have high incentives for doing good work. The top 2,000 managers are eligible for bonuses of 15%-75% of their base salaries depending on how well their division performed against its approved plan. In 1988, almost 50 million was paid out in profit sharing and performance incentive pay to mangers. [5] This commitment to employees obviously set May apart from competitors who often try to persuade employees to switch companies.

Rivalry/Competition:

The May Department Stores currently competes with several different companies along with the lagging economy. They have been experiencing sales losses for the past eight months: *ST. LOUIS, Oct. 10, 2002 — The May Department Stores Company [NYSE: MAY] reported preliminary net retail sales (sales) of $1.14 billion for the five week period ended Oct. 5, 2002, a 2.8% decrease from $1.18 billion in the similar period*

[5] Interview of Ethan Gieb: Mngr. of Exec. Recruiting & Austin Frederick: Buyer in Training (Foley's)

last year. Sales for the first eight months of fiscal 2002 were $8.38 billion, a 1.3% decrease compared with $8.49 billion during the first eight months of fiscal 2001.[6]

May's primary department store competitor's are Dillard's and Federated (Macy's & Bloomingdale's) Department Stores. Federated is currently the number one Department Store and Dillard's is ranked as number three according to sales as indicated in Fortune 500. MAY is also concerned with Kohl's who has started to enter many knew US markets and have been heavily competing with many MAY divisions. Kohl's opened over a 120 new stores since 1997, entering knew markets such as the Southwest, Midwest, and East Coast Regions. Kohl's operates free-standing discount department stores (not in malls) and its stores sell name-brand and private label apparel, shoes, accessories, and house wares. Kohl's competes with both discount and mid-level department stores. It stocks names such as NIKE, Levi's, Oshkosh B'Gosh, and other brands not usually available to discounters, selling them at lower prices than other department stores.[7]

Lastly in the past couple of years MAY has been receiving fierce competition from specialty stores such as *Limited Brands Inc.* and *The Gap* Inc as a result of lower prices, more efficient operating and replenishment systems, and better marketing. More and more consumers are considering shopping in specialty clothing stores. Limited Brands, #209 on the Fortune 500, operates about 4,600 stores in the US, focusing mainly on women's clothing. Its stores include The Limited, Express, Lerner New York, Henri Bendel, and Structure. Limited Brands also owns Intimate Brands, Bath & Body Works

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[6] The May Department Stores Company (ticker: MAY, exchange: New York Stock Exchange) News Release- 10/10/2002

[7] www.kohls.com & interview with Cathy Morse- Buyer @ Foley's

(personal care product stores), and White Barn Candle Co. (candles and fragrances).[8] Limited Brands is currently experiencing 7.3% sales growth, this means they are hitting the female market better than May who is experiencing sales decreases. The Gap has built its brand on basic, casual styles for men, women, and children. The Gap, #149 on the Fortune 500, runs nearly 4,200 stores worldwide. Its other chains include Banana Republic, Gap-Kids, Baby-Gap, and its fastest growing, Old Navy. The Gap is the principle retailer in the young and casual market, a position that May is currently striving to obtain. Although Limited Brands and The Gap are not department stores, they indirectly compete with May because they still are gaining strong sales revenues in many of May's consumer markets.

Targeting and Positioning

1. May has a history of buying out smaller department store chains, some of which they have consolidated. Often when MAY buys out a smaller corporation in a certain region, they leave that corporation's name intact to keep the current customer base in that region. For an example in 1988 MAY acquired Foley's based in Houston. They kept the name of Foley's because it already had a dominant customer base in the Southwest region of the United States. This reoccurring theme also helps to combat rivals from entering their already established markets thorough this *first mover advantage*. Consequently MAY has been able to maintain regional dominance throughout many of its divisions. [9]
2. The establishment of separate divisions within May allows them to be far less standardized than many of its competitors. Each division has its own buying and

[8] www.hoover.com

[9] Interview with Mark Wiekel- Chairman of Foley's

merchandising organization and its local buying and merchandising programs, as well as corporate-wide efforts. Although this has obviously made May a higher-cost operator, it has provided significant advantages over its competitors. May's local buyers had much more impact on each division's merchandising programs than May's national centralized competitors, but less freedom than its localized competitors. For an example Dillard's and Kohl's operate one national buying office for lets say "women's shoes", but May has several. The separate division buying offices are able to undertake friendly competition and share useful knowledge with one another. An illustration of how this worked occurred in Foley's fall 1990 business plans. Foley's discovered a void in its glassware line. Foley's buyers found a glass jellybean jar that they thought was the solution. They tested the jar in stores before deciding to add it to the buying plans. After one store sold more than 75 per day at $20 each, Foley's decided to buy the jar throughout the division. Soon after the sales results were reported, four other divisions decided to sell jars in the fall 1990.[10]

3. MAY has also traditionally relied heavily on the sales coming from the women of the baby boomer era. Their primary customer base is middle class older women along with many other retailers as indicated by the chart below:

[10] Harvard Business School, May Department Stores Company: 9-391-015

2000 U.S. Apparel Sales By Market Segment
Source: The NPD Group, Inc.

Segment	$ Volume in Millions	% Change vs. 1999	%
Men's	63,300	-0.3	34.7
Women's	96,588	2.1	53.0
Boys'	7,653	-2.2	4.2
Girls'	7,114	1.1	3.9
Infants' and Toddlers'	7,651	13.1	4.2
Total	**182, 306**	**1.5**	**100.0**

4. MAY also prides themselves on the idea that providing the *Right* Merchandise, at the *Right* Time, and at the *Right* Price will drive sales. May feels that responding to consumer demands and needs, will ultimately lead to success.[11]

Goals & Growth Strategies

In his remarks, Gene Kahn, May's chairman and chief executive officer, told shareowners that May is listening – and responding more directly than ever – to what customers are saying. *"We've surveyed and sampled; we've conducted extensive focus groups; we've done market research. We've been in our stores and in our competitors' stores," he said. "We've renewed our commitment to being an intensely merchandising-driven company – for tenacious pursuit of the best merchandise assortments at the best value will be key to our success."* Mr. Kahn also stated that merchandising to drive growth – supported by the following five initiatives – is May's top priority:

1**. Making casual and relaxed lifestyles the cornerstone and hallmark of merchandising to drive growth.** May is rebalancing merchandise assortments – from

[11] Interview with Cathy Morse & Mark Wiekel

shoes to accessories, from apparel to home furnishings – with an emphasis on more casual elements in all areas of the business, including its selling floors and advertising.

2. Crafting younger, more modern assortments to attract a broader customer base. Although the baby boomer remains the critical core customer, May also must better satisfy the needs and wants of younger adult customers, ages 19-to-44-years-old, as well as 'tweens, ages 9-to-12, and teens ages 13-to-18. In addition, May is using the theme "the right choices make all the difference" in its current advertising campaign to promote its brands and stores as well as reinforce the message of a new, younger, more modern look in its assortments.

3. Narrowing and focusing assortments by idea and merchandise classification. May is reducing the number of styles and eliminating unnecessary duplication, so customer choices are significantly more focused and compelling.

4. Providing customers easier, faster and more enjoyable shopping experiences. May is creating more in-store presentations to help customers understand today's fashion stories, as well as providing guidance on how to put together outfits. In eight test stores, May is also introducing express checkouts to determine the right balance between faster express checkout and the traditional customer service model.

5. Positioning May as the go-to store for every gift-giving occasion throughout the year. The company is strengthening its offerings of non-apparel gifts to complement its core strength in apparel. Gift cards, wedding registries, and Internet gift sites further position May toward this goal.

Another key priority for May not mentioned is building the largest, most integrated bridal business in the nation. According to an article in USA Today the

average wedding costs around $19,000 and nearly 2.4 million couples are married each year. David's Bridal, which May acquired two years ago, is the nation's largest retailer of bridal gowns and other bridal-related apparel. After Hours Formalwear, acquired last December, is the largest tuxedo rental and sales retailer in the country. Priscilla of Boston, acquired in late January, is one of the most highly recognized bridal gown retailers in the United States. The Knot, which joined May in a marketing alliance in February, is the nation's largest, on-line wedding planning resource. MAY is attempting to monopolize the wedding industry. *"The strategic implications of our bridal businesses are powerful – particularly the cross-marketing potential among our department stores' wedding registries, our specialty bridal businesses, and The Knot,"* said Mr. Kahn.

Several divisions within MAY will also be refocusing their funds in regards to advertising to incorporate the corporate strategy of appealing to a more youthful audience. Foley's plan to shift advertising resources from Print media towards TV and Radio. The premise is that young adults don't really read the newspaper.

In August MAY also released three new proprietary labels; *be*, *i.e.*, and *i.e. relaxed,* designed to broaden their customer base while still appealing to the baby-boomer.

be is targeted to the 19-30 year old woman with modern fashion sense. MAY is supporting the brand with its first-ever national brand campaign.

i.e. is targeted to the 31-44 year old woman who wants the latest fashion trends. The apparel ranges from tailored to business casual.

i.e. relaxed is a more casual look than *i.e.*[12]

Conclusions

May's current consumer base is the "baby-boomer" who is getting older. In order for MAY to sustain financial growth and prosperity, they must appeal to the younger customer while maintaining their core customer base. This is where the problem lies. How can they fully advertise to a younger audience without alienating their older customer? How hard are they willing to get their younger consumer base and at what costs? Some of their new television ads have been much more geared toward a more youthful consumer, but May will not be able to market to the youth as effectively as the Gap and Limited Brands. The specialty stores have an inherently smaller customer base and operate more efficiently. As far as competition goes amongst other department stores, May is doing a good in differentiating themselves. They appear to be the only major department store actively seeking a younger customer. The new clothing lines, bridal group and marketing approaches appear to be very sound and promising. It is clear that May has made the "Right Choices," but will it make all the difference? That has yet to be seen.

[12] Presentation by John Dunham-President of MAY & Gene Kahn- Chairman/CEO

References

1. www.mayco.com
2. www.hoovers.com
3. The May Department Stores Company: 2001 Annual Report
4. http://www.mayco.com/common/investorHistory.jsp
5. The May Department Stores Company (ticker: MAY, exchange: New York Stock Exchange) News Release- 10/10/2002
6. Interview with Cathy Morse- Buyer Foley's Department Stores
7. Interview with Austin Frederick- Buyer in Training Foley's Department Stores
8. Interview with Ethan Gieb- Manager of Executive Recruitment- Foley's
9. Interview/ Presentation with Mark Wiekel- Chairman of Foley's
10. Presentation by John Dunham & Eugene Kahn- President and Chairman /CEO of MAY respectively.
11. Harvard Business School, May Department Stores Company: 9-391-015
12. Please visit this website for a listing of the corporation subsidiaries. http://www1.mayco.com/common/about_may_files/may_at_a_glance_2002.pdf