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CEO SPOTLIGHT | SATURDAY, DECEMBER 29, 2012

The Maestro of Macy's

By DYAN MACHAN

CEO Terry Lundgren has defied the skeptics to lift Macy's revenue, profit and market share. A retail legend in his own right, he was groomed by some of the best.

In the heart-warming 1947 movie classic *Miracle on 34th Street*, a nice man claiming to be Santa Claus at Macy's is institutionalized as insane. Terry Lundgren, **Macy's** CEO, knows what it's like to have doubters, too

When Lundgren, 60, took the reins of the retailing giant almost 10 years ago, the prevailing view was that department stores were dying, if not already dead. Yet today the nation's largest department-store operator, with an estimated \$27.7 billion in 2012 sales, is experiencing one of the best periods in its 154-year history. Lundgren has even engineered his own miracle on 34th Street, site of Macy's flagship New York store, by ensuring that Macy's (ticker: M) keeps winning market share, even against a backdrop of sluggish consumer spending and entrenched department-store decline.

The Armani-clad CEO resembles James Bond actor Pierce Brosnan, without the gun and martini. When he enters the same wood-paneled room used in filming *Miracle* at Macy's Herald Square store, it is easy to see why, as Bachelor No. 2, he won the date as a contestant on the TV show *Dating Game* back in 1972. Amiable, charming, and blessed with fashion antennae, he hardly seems a guy with the grit to cut 7,000 jobs to save the company. But save it he did, in 2009, at the depths of the Great Recession, and Macy's has been thriving ever since.



Brad Trent for Barron's

Lundgren has defied legions of skeptics by lifting Macy's sales, profit, and market share.

After three years of strong operating performance and a record black Friday in 2012, Lundgren says chances are "good" that the company will smash previous holiday sales levels. Even after a slow November overall, he is expecting Macy's to report a 4.2% uptick in sales in the fiscal fourth quarter ending Jan. 28 in stores open at least a year.

MACY'S HAS COME A LONG way since 2008, when same-store sales declined by 4.6%. Lundgren, who has spent his entire career in retailing, pushed through a massive reorganization the following year, dismantling the company's regional structure to emphasize local decision-making. "Not everyone agreed with me, but my stomach told me it was right," he says.

To those around him, Lundgren appeared unflappable and committed. "He looks like 007 for a reason," says Sean "Diddy" Combs, the rapper turned haberdasher, who founded the Sean Jean clothing line sold at Macy's. When sales dropped and it didn't look like they'd bounce back, Lundgren was "able to keep the same game face," says Combs. "He comes through."

Adds Allen Questrom, former chairman of Macy's (then known as Federated Department Stores) and an advisor to New York's Lee Equity Partners. "This industry eats its young. Macy's ability to grow and thrive is due to Lundgren's ability to continually reinvent."

Just now, in fact, the company is reinventing the Herald Square store, adding a much-needed dash of glamour via a \$400 million face-lift, due to be completed in 2015.

MACY'S OPERATES 798 Macy's and 49 Bloomingdale's stores from joint headquarters in New York and Cincinnati. Federated purchased R.H. Macy in 1994, and May Department Stores in 2005. The consolidated company was rebranded as Macy's in 2007.

Under Lundgren, who has run the show since 2003, sales have increased by more than 80%, and net income has doubled. Macy's is expected to earn \$1.4 billion, or \$3.40 a share, in the current fiscal year, rising to \$3.76 a share in fiscal 2014. The company's stock-

market value has more than doubled during his tenure, to \$14.7 billion, and the shares, at \$37, are up 15% this year. Macy's trades for about 10 times earnings, a discount to the Standard & Poor's Retail Select Industry index.

This year's holiday season was helped by an extra weekend in the pre-Christmas calendar. In addition, Lundgren's localization program, called My Macy's, empowered buyers to order what local customers want, whether it was extra-large cooking pots in Utah or more glittery apparel in Miami Beach. Macy's also made a big effort to boost online sales, with orders filled for the first time from inventory at 322 stores and a new West Virginia warehouse as large as 46 football fields. Then, there was extra training for the sales staff.

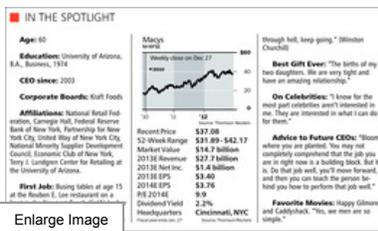
Exclusivity is one thing that has helped Macy's stand out in a market pressured from above by upscale department stores and boutiques, and from below by the likes of J.C. Penney (JCP), Kohl's (KSS), and Target (TGT). The company has long been a leader in private-label merchandising, and has a strong store-brand program as well as exclusive arrangements with designers. As a result, it claims that 43% of its products are unique. Store-brand goods also carry higher profit margins.

LUNDGREN GREW UP IN Long Beach, Calif., and was the first of his family's six children to graduate from college. His first taste of retailing was carting expensive suits of the sort he would one day wear between a tailor and a menswear store. School came easily at the University of Arizona—too easily at first. His grades slipped because he was having "too good of a time," he recalls, at his fraternity.

At that point Lundgren's father, who worked two jobs, one assembling factory speakers and another selling real estate, cut him off financially. "I told my dad he was ruining my life," says Lundgren. "And my Dad said, 'No, son, *you* are ruining your life.'"

Lundgren found a job shucking oysters, obtained a student loan, and started getting his act together. "I found that when I had a lot of time on my hands, I wasted it," he says. "When I had no time, I could be very productive."

He lifted his grades to As, was elevated to restaurant manager, and switched his major to business from pre-veterinary studies after participating in a project to artificially inseminate a cow.



After college, Lundgren was hired as an assistant buyer in the stationery department at Bullock's, an upscale Los Angeles department-store chain owned by Federated. He hustled to hit sales goals, once stuffing boxes of Lenox Eternal china, which Macy's still carries, in the back seat of his Volkswagen to carry to a store that had run out.

Lundgren also sought out people he could learn from and found a mentor in Questrom, a retailing legend with whom his career has been intertwined. Management took note of Lundgren's work ethic, and he eventually was promoted to president and CEO of Bullock's Wilshire, Federated's most upscale Los Angeles store. With his prior

experience limited to housewares, he says, "I thought, 'Oh, my God, what am I going to do?'"

It wasn't the first time Lundgren would be promoted to a position for which he felt unqualified. But each time, he succeeded, by both seeking advice and motivating those below him. He made a favorite saying, "bloom where planted," emblematic of his own career.

Lundgren's accomplishments piled up until Canadian financier Robert Campeau bought Federated in 1988 and forced the sale of the Bullock's division to Macy's. His phone rang at seven one morning during that fateful year, and the caller, from Women's Wear Daily, asked, "How does it feel to be replaced?"

Hours later, Lundgren was summoned to a meeting with Macy's CEO Ed Finkelstein to make a presentation. When asked if he was, indeed, to be ousted, Finkelstein, he reports, looked around the room and asked sheepishly, "Oh, is that out?"

Lundgren made the presentation anyway, "because it was right" to do.

LUNDGREN WASN'T OUT OF work for long. Questrom, his mentor, had since become CEO of Neiman Marcus, which Lundgren joined as executive vice president. He soon forged a close relationship with retired chairman Stanley Marcus, whom he calls "the greatest retailer of all time." From Marcus, he says, he learned how to balance putting the customer first while still meeting earnings goals, a skill that eluded many lesser and long-gone merchants.

By 1990, Federated was listing under the debt Campeau had piled on. Questrom joined the company to try to fix it, and Lundgren, at age 37, stepped into his mentor's shoes as CEO of Neiman Marcus. There he perpetuated Questrom's goals of improving customer service and offering a dazzling assortment of goods.

Questrom lured Lundgren to Federated in 1994, and charged him with integrating the private-label businesses of Macy's and Federated. Some he strengthened, including INC, a women's fashion brand. Others he started from scratch, such as American Rag for young men, and the Hotel Collection, a line of premium linens. The company's 16 in-house brands have grown to 20% of sales today

from just 5% in 1994.

More recently, Lundgren has tackled another branding headache stemming from the May acquisition, which brought into the fold multiple department-store chains. But, without a unified brand and platform across which to assign costs, Lundgren had trouble justifying national advertising campaigns. The solution was to rebrand as Macy's venerated retailers such as Chicago's Marshall Field's, a move that caused the predictable uproar in local communities. Lundgren flew around the country smoothing feathers, and even won the support of Chicago Mayor Richard Daley. A single platform has helped the company since in negotiating exclusive contracts with designers such as Tommy Hilfiger, Martha Stewart, and Combs.

In the early 2000s Combs came to Lundgren with an idea for an aspirational brand of suits for a younger audience. "He was the first person to believe in me," says Combs. "He was like a godfather."

FROM ITS FLAGSHIP STORE TO its famous Thanksgiving parade, Macy's is a New York icon, and Lundgren's perch has made him a player in the city's economic and cultural life. He dines with the fabled restaurateur Danny Meyer, serves as a director of the Federal Reserve Bank of New York, and sits on the boards of the United Way of New York City and Carnegie Hall. But he doesn't make the social scene with his star-studded business associates unless it benefits Macy's; that's a personal rule.

Even closer to his heart than his public obligations is mentoring Macy's high-performing managers, with whom he meets in groups for breakfast at least once a month. Ideas generated at Breakfast Club gatherings often get fast-tracked; a suggestion for a Macy's app that helps shoppers navigate stores and find discounted items was one. Managers also have nudged Lundgren to enact better recycling and energy-saving policies, which he has done. "I love listening to their ideas," he says. "They end up mentoring me."

At the end of *Miracle on 34th Street*, Santa is released from the insane asylum. After 10 successful years at Macy's helm, Lundgren has silenced doubters, too.

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