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This case is written by the Partnership for Innovation in Education with Hughes STEM School students. This format is based upon the Case Method. ©2015

MACY'S JUNIOR DEPARTMENT STORE

Macy's Department Stores has an interest in attracting more teen-aged consumers into its stores. Macy's has determined its new mall stores must feature a department where teens will want to stay, shop and "hang out" with friends, accompanied by a rich social media experience. Are you ready to join the team, and help create a plan for Macy's new retail venture?

Situation

Cara Jennings was thrilled to start her project manager internship at Macy's Department Store. Founded in 1858, the Company represented the best in innovative and intuitive retail practices. With over 800 Macy's Department Stores, its global Macys.com electronic retail channel, and acquisitions of Bloomingdales and Bluemercury, a luxury skincare, cosmetics and spa retailer, Macy's was a fixture in the global retail industry. Reaching 50 million nationally, Macy's sponsors the Thanksgiving Day Parade, featuring its flagship stores in New York City.

But Cara's first day was not going as planned. The University of Cincinnati student imagined she would be spending her first day learning about retail building design, and getting her desk organized. She was a bit surprised when the Vice President of Development and her boss, Alex Lincoln, called her into the boardroom. When she arrived, the pair was standing with a group of strangers.

"Cara, Alex shared some exciting news with us today," said Vice President Adrian Miller. "In a few months, he'll be taking some time off for paternity leave. That puts us in a difficult situation. He has been working on developing a teen store, but it won't be finished before the baby arrives."

"I'll be working on finishing up some other projects before I go," said Alex, "so

I'd like you to work with my store design team now before my leave. You can keep me informed on with the project while I'm gone. Does that sound good?"

Cara had never had this much responsibility, but she enjoyed a challenge and wanted to make a good impression.

"That sounds wonderful!" she replied.

The crowd around her cheered, while Adrian laughed. "Alex, now that she's accepted, why don't you introduce the rest of the team?"

"Sounds like a plan! Hey everyone, why don't you introduce yourself and what you do on the project so Cara can see what a great team we have established."

Company Roles

Area Research

A woman stood up.

"I'll go first!" she excitedly said. "My name is Bina Chatterjee and I'm in charge of area research. I'm trying to find the best location for our new store through geographic, demographic, sales forecasting and competitive assessments."

"How do you do that?" asked Cara.

"We find a place where our target market is located, or where they can easily travel to. One of the criteria that I assess is community and regional infrastructure." She pulled up a map on her laptop, and projected it so everyone could see.

"Here are some places where there have been successful shopping locations. One is Kenwood Towne Centre. It's right off of I-71, Galbraith, Kenwood, and Montgomery road. That means there are many ways to get there and lots of people pass by during the day.

"We already have a successful Macy's store there, but I'll also need to see the demographics of the people who shop at the center. If it's mostly adults, then that might be a problem, unless we can figure out a way to encourage teens to tag along. In addition to the average customer age, we want to consider their income and what they want from a shopping experience.

"We also have had great luck with our downtown Macy's location. There are lots of business people who work or live in the area, and shop after work. But this might not be as attractive for teens who would need to pay for parking or shop in a trendier area like Vine Street."

"How else can you narrow the possible areas down?" Cara asked.

“A big factor is how much we project we can make in sales. If the store won’t be profitable, then we can’t build it. A lot of how we do this is by looking at the stores in the surrounding area and how much revenue they deliver. We also look at how many stores would have similar customers to us. We call those groups of customers “target markets”.

“If several other stores in the same area have similar target markets, we will have to work very hard to get their customers. Sometimes it can be profitable, but typically, we spend quite a bit of money to get those customers, and they aren’t as loyal to the store.

“If our targeted region has very few similar competitors, we have a great chance in cornering that market. But we want to make sure there are enough customers to make it worth our while. Building and staffing new department store locations is very expensive, and we want to make sure we can sustain those stores with new and repeat customers. If these stores don’t have great sales, then it might show that it’s the wrong area for a teen store. On the other hand, if there are too many similar stores, then we won’t be able to make much of a profit.

“You also have to consider how much it will cost to build or rent in different neighborhoods, because some may be cheaper, but they may or may not have the right feel for our target market.

“Let me know if you have any more questions! Now Ryan, why don’t you introduce yourself?”

Store Design and Construction

“Great to meet you, Cara! I’m Ryan McLaughlin and I’m in charge of store design and construction.

Once Bina’s figured out the best place for our new Macy’s, I figure out how it should look. First, I have to design it. Here are some past blue prints we’ve used,” said Ryan while projecting some examples.

“First, I have to design the layout that will maximize available retail space while working within the location confines. It also has to logically make sense, so male clothing may be in one section or floor with female clothing in another and accessories or formal wear in a third.

“Some other items I need to consider are fitting room locations and bathrooms, and how to make the store accessible to people who may have mobility issues. In many cases, department stores have a similar layout to grocery stores and casinos. We want customers to feel comfortable browsing in our stores, and forget their workaday lives and timetables. So, we don’t place clocks on the

walls, and check out locations are harder to find. We want customers to explore our store as they are search for areas to purchase our products.”

“Once I’ve designed the general layout, I need to create the proper atmosphere that will complement the existing Macy’s brand. But it also must be a place where teens will want to spend some time. This also involves the building material selections that we use. As a store designer, my job is to ‘set the stage’ for our products to be purchased by our consumers. I have to decide what types of furniture, drapes, paint colors and lighting will best highlight our products.

“So, I put together my wish list, and total up all the costs. If the cost is too high, then I have to cut back on my design budget. For instance, although a technology ‘café’ and some electronic gaming or pool tables would be great to entice and keep a teen market, the cost is prohibitive! Other options might be less expensive, but they also might wear out quicker. I have to weigh all the options. It’s all a balance between creating the best environment, and staying within our budget.

“Now let me ask you a question. When you are in a supermarket, which way do you go after entering the store?”

Cara thought for a moment before replying, “I guess I normally go to the right.”

“Exactly!” Ryan smiled. “Most supermarkets are designed so that you automatically go to the right where there are produce and baked goods. We also use psychology to create the right atmosphere and to put shoppers in the right mindset to spend more. What do you know about color psychology?”

“Well, red helps stimulate people’s spending and warm tones and earth tones often encourage people to talk.”

“You’ve got it, Cara! There are also other tricks we can use to make the space more appealing too. Some design elements make the area hipper, but might not allow us to have as much floor space. It’s all a trade off.”

“But how does everything actually get put together?” Cara asked.

“My team is also in charge of hiring construction crews, which is definitely intertwined with the design of the building. The more intricate the design, the more labor it will need, which means the more it will cost. And just like with the design material, I have to think of how much different construction crews will cost. Some may have specialties that mean they’ll be the best at a specific task, but they may charge more for a superior product. Other crews may be more generalists who can do everything pretty well, but not excellently, and might be cheaper.”

“That’s a lot of things to consider at once!” Cara exclaimed.

“I know!” Ryan laughed. “You’ll definitely want to read up on consumer psychology. But until then, let me introduce you to Aliyah Williams, our excellent merchandise procurer.”

Merchandise Procurement

Aliyah smiled. “Ryan is quite kind, but yes, I’m in charge of filling our store with all sorts of wonderful merchandise. Every item of clothing, shoes, accessories, is purchased through my department.”

“How do you know what to buy?”

“Because there is so much to buy, everyone in the department has a different specialty. I’m responsible for purchasing female shoes. I have to look at all sorts of trends and data to figure out not only what is popular now, but also what will be popular next season. I have to see what types of shoes teens will want, which established designers will be desirable, and find ‘up-and-comers’ who may have innovative ideas that will spark a new trend.

“I also work with our market research team, so I understand the demographic information about our ideal customer. What is their budget? What types of prints do they like? Do they want shoes that are expensive but long lasting, or shoes that are cheap but will only last only one season? Another important thing to look at is how many items of different sizes I should order. For instance, lots of teen girls’ feet are between size 7 and 9, so I order more of those sizes than I do in 10.5 wide.

“Once I know what type of items the store should sell, I ask for proposals from different suppliers and then I negotiate on price points, acceptable quality, shipping times, and more. The general goal is to negotiate for the highest quality for the lowest price, but we also have to consider established relationships and the switching costs of moving to different vendors.”

“I never thought about how much work happened so I could get my high-heels!” Cara exclaimed.

“Yes,” Aliya smiled. “You think you chose those heels all by yourself, but someone like me figured out what someone like you would want. Then someone like Isaiah figures out where to put it so that you’ll buy it!”

Merchandise Placement

“Hey! My job is more complicated than that!” joked Isaiah. “Isaiah Jones, at your service. But in the most general terms possible, I figure out where things should go. I bet last time you were in Macy’s you stopped by a display of decently priced accessories before you checked out.”

Cara nodded and Isaiah grinned.

“That was one of my predecessor’s ideas. It makes people less likely to get bored or impatient while they are waiting and also makes them more likely add an impulse buy before they check out.

“To get more into the specifics of my job, I do a lot of work with Ryan. After we identify our target customer for each area, I calculate the amount of floor space each department receives. So if teen girls buy more formal clothes than teen boys, I’ll give them more space, and if teen boys spend more on buy shoes or hats, then they’ll get more space.

“After that comes my favorite part -- determining where each product sits within the store. The best part of course is designing displays for products and brands we’re promoting. Some things are simple, like mannequins, but there are also window displays and jewelry, cosmetics, and perfume counters!

“Of course on the opposite end of the spectrum is designing the clearance sections. You don’t want it to take up too much space because hopefully you’ll be taking square footage away from full-price merchandise, but we still make money on discounted merchandise, so we have to factor in those issues. Some potential customers only buy on sale or at a certain price point, so it still has to be attractive.“

“How do you know which customers are price sensitive, and which ones care more about high-end brands?”

Marketing

“That’s where I come in. I’m Seung Park. Part of my team is focused on market research and figuring out who our ideal customer is and what they want. We use surveys, research, and interviews to determine budgets, desired brands, quality levels, and what our customers want from a shopping trip. Then the creative side works to develop a brand image. It has to at least partially align with the brand image of a regular Macy’s so that parents feel comfortable buying items, and teenagers will want to continue shopping at Macy’s once they age out of the junior’s store.”

“But teenagers won’t want to shop at a place like their parents shop, so how do you appeal to them?” asked Cara.

“That’s a great question. It’s based on that old saying, ‘location, location, location.’ We have innovative methods that specifically target teens. Teens love social media, but they are more likely to use some platforms more than others. They are also more likely to read different magazines, watch different television shows, and go to different websites than adults. So, if the marketing research

team figures out where these locations are, our creative team can get the right type of message to them.

“Our creative team then designs ads and promotions that will appeal to our target market, while still being within our budget. We also want to build our social message, so we have a team who prepares online content and interacts with our customers. We hope to have several digital promotions where we can offer the chance of a shopping spree in return for using our hash tag or tagging us in a photo of their favorite Macy’s clothing so we can build a larger audience and create a better connection with our existing fans.

“We also would love to have the dressing room attendants have old-school Polaroid cameras to take photos of people who have chosen their prom outfits from Macy’s.”

Human Resources

“Seung, I don’t think you’ve thought about how much extra time that would add to the dressing attendant’s schedules,” interjected a woman. “And who would be paying for all of the overtime needed? Marketing?”

“I think that’s more of your department!” Seung winked.

“I’m Kala Wellington, head of Human Resources. My team determines how many people each store needs, in what positions, and who actually gets hired. After they’re hired, we train them on their duties, company culture, how to best represent Macy’s, and everything that will make their time at the company a success. You should have received a policies and procedures booklet this morning.”

Cara nodded.

“Good! It looks like Alex is doing his job right! The HR team also helps employees deal with issues they may have with other employees or their boss. So if someone is making inappropriate comments about your gender, race, or religion, you can talk to a HR representative who will take the proper actions, because Macy’s greatly values our diversity.

“Of course not all of the things I do involve rules or punishments! I also make sure Macy’s is a place where people want to work and stay. Sure, we could offer the lowest wages possible, but then we wouldn’t get high-quality recruits, and we would have a large turnover rate, which means more time and money spent recruiting, interviewing, and training.

“Our team does performance evaluations, so that good employees are rewarded and people are placed in positions where their talents are used in the best way possible.

“We’ll need lots of help recruiting a whole store’s worth of staff, so I’m glad Alex has brought you a long!”

Kala’s phone went off.

“Well, I need to interview a possible recruit for the store’s General Manager. Nice meeting you!”

Finance/Accounting

Cara thought about what she had heard. There had been a lot of talk about sales and budgets, and there must be someone here who was in charge of it. As if reading her mind, the last unknown person stood up and offered Cara a handshake.

“I’m Gabriela Juarez and I’m the liaison between the finance and accounting departments. I also work with every single one of the people here so they know how much they have in their budget and what financial results we expect from them.

“So given Bina’s location information, we plan how much we expect in sales. Then we work with Ryan so he knows how much money he’ll have to actually build and design the store so it can maximize profit. After that, Aliya, her procurement department, and I talk about what price we can buy merchandise for so that we can sell it at a profit. To figure out the selling price, we need to factor in the cost to sell the merchandise, including the original item cost, how much we spend advertising, how much it costs to run the store, what wages HR determines for employees, and a whole lot of other stuff. And on top of that, we have to make a profit!”

“Wow! You really do work with everyone,” said Cara, amazed.

“I really do. Now you don’t be afraid to ask any of these people if their ideas are within the budget. A lot of the team are dreamers, which is a great thing, but I’ve got to be the person who makes sure that we are still anchored in reality so we can be profitable.

Everyone laughed.

Then Alex stood up. “OK everyone! Let’s end this meeting and go grab some lunch with our new favorite intern.”

As everyone packed up, he turned to Cara and asked, “I know that was an incredible amount of information to take in, but how do you feel about all of this?”

Cara grinned. “I can’t wait to get started!”

Additional Information and Data:

Over the next few months Cara met with each member of the team to see how new information and data they had to make decisions. Here are some of her findings.

Area Research

“I have more information about our Cincinnati consumers and our intended target market,” Bina told Cara. “We have narrowed down our search to two possible locations. The first is in the Kenwood Towne Center. The other is in Rookwood Commons. They both are in shopping malls with a large amount of foot traffic and are near highways. However, Rookwood is a drive up mall where the stores line the parking lot while Kenwood is self-contained with a separate parking area.”

“How will you determine whether to go with Kenwood or Rookwood?”

“I have some major numbers to crunch. Shopping centers get different grades based on their target market and the maximum expected amount spent per square foot. Kenwood has an A rating, which theoretically means we could expect at most \$925 per square foot while Rookwood is rated a B+ which would mean we’d expect at most \$825 per square foot. However there are tons of other variables I need to consider. Can you think of any?”

Cara thought for a moment before responding. “Well you’d need to consider the store area that you have available and the rent cost for starters.”

“Good,” Bina replied. “At Kenwood we have two different store spaces available. The first is a 4,000 square feet for \$7,000 per month and is on one story. The second is two stories tall and is 2,500 square feet on the first floor, 2,175 square feet on the second, and costs \$11,000 a month for the space alone. That second store would also definitely need an elevator and would need either an escalator or a staircase, which also would decrease the amount of square footage.”

“What about at Rookwood?” Cara inquired.

“Rookwood only has one location available and it would be 4,500 square feet for \$6,500 a month. But of course there are lots more things we’ll need to think about, like the surrounding stores. For every store in the mall that has the same target market as us, we expect sales to decrease by 0.15%. Kenwood has 8 similar stores while Rookwood has 5. Additionally, for every department store with a teen section, we expect a 0.2% decrease in sales.

“There are 3 of these stores in Kenwood and 2 in Rookwood. Some other things we’ve found correlations with is a 0.27% increase in sales for each accessory store the mall contains (Rookwood has 2 Kenwood as 4), a 0.33% increase for each electronics store (Kenwood has 3, Rookwood has 0), and 0.29% increase for each beauty store in the mall (Kenwood has 5 while Rookwood has 3).”

Cara scribbled down these numbers ready to work out expected amount of sales.

“Okay Cara, that’s all I’ve got for you now, but you should talk to Ryan to see what he’s worked out for possible designs.”

Store Design, Construction, and Merchandise Placing

“Howdy, partner!” Ryan said as Cara entered his office. “I bet Bina sent you down to get some more information from me.”

Cara nodded.

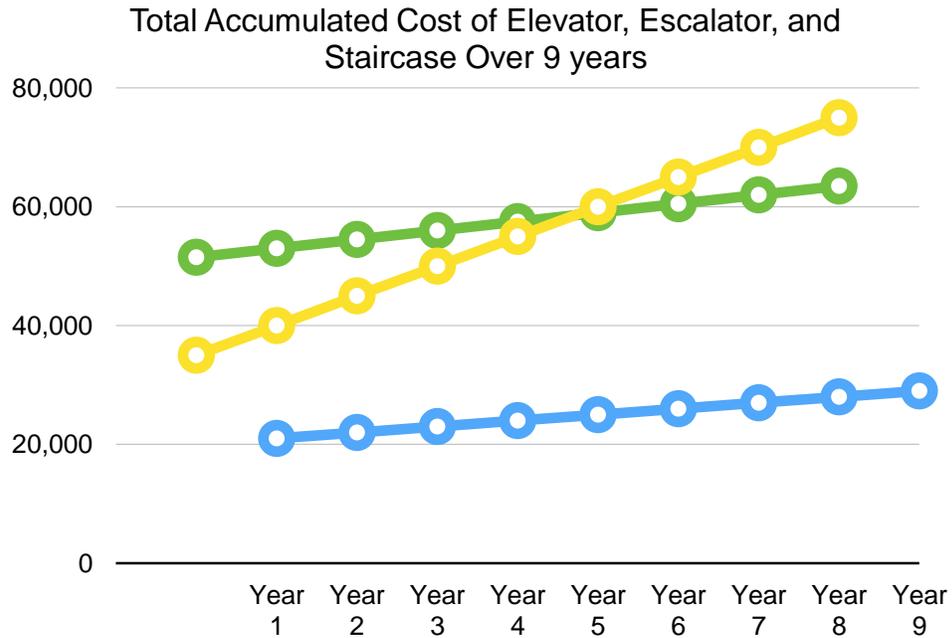
“Ok, then you’ll want to get your notebook out, because I’ve done a ton of work figuring out pricing costs. Here are the ones that Bina will care about most. For that two-story shop in Kenwood, it costs \$50,000 to put in an elevator system, which will take up about 120 square feet total and cost \$1500 a year on top of that.

“To put in a single escalator will be \$15,000 up front plus \$2,500 a year for maintenance, and will take up 50 square feet, but of course we’ll need two of them. The staircase will be \$20,000 plus \$1,000 a year for maintenance, and require 54 square feet, but in order to be compliant with the ADA, there would also need to be an elevator. I have some more information about different design plans which she’ll want to know about.”

Total cost of one elevator (green), two escalators (yellow), and one staircase (blue) over nine years

“Now I’ve been figuring out how successful some of our different store designs are and there have been some interesting results. I’ve been talking with Aliya, Isaiah, Seung, and Gabriela and we’ve narrowed it down to three designs that could appeal to our target market.

“Choice A would sell high-quality, trendy, expensive brands. The store would have a minimalist but glamorous feel, with a fair amount of space between aisles and no clutter. It would take \$10.75 per square foot to set up and would need two sets of dressing rooms, which would reduce the amount of sales space by 400 square feet each, and a sales counter that would be 60 square feet. There would be fewer purchasers who would spend more than



average, but they may not come back as often because their clothes will last longer.

“Choice B is for price-sensitive customers who are looking for a deal. There would be a lot of merchandise that is cheaper, but less high quality, and each square foot would take \$7.43 to set up, with 500 square feet for each dressing room and 100 square feet for the sales counter. While these shoppers may not have as much money as the people who would go to Choice A, there are many more of them.

“Choice C is in the middle of the two, where the store isn’t jam-packed with merchandise, but still has a fair amount of product, some of which is on sale and some of which is from high-quality brands. If we went with this option, it would cost \$9.85 per square foot to set up with 450 square feet for dressing rooms and 75 square feet for the sales counter.”

“Would the different stores bring in different amounts of sales?” Cara asked.

“With the current economic conditions, we’d expect the different choices would bring in approximately the same amount of sales per month, about \$350,000, but the choices would require varying amounts of employees, so when you have the time, stop by Kala’s office.”

Human Resources

Later that week, Cara went to visit Kala.

“Good morning, Kala. Ryan said I should talk to you about how much labor the different store options would require?”

“You’ve come to the right place! There are several types of employees we have to consider. First are the floor workers, next are the fitting room attendants, then registrars, merchandise un-loaders, and finally janitorial staff. I have to run to a meeting now, so I’ll email you the different projected requirements, but if you have any questions, come back after noon.”

Cara checked her email and read the following:

Number of Workers Needed January 1 –October 31

	Floor workers per 1,000 square feet	Fitting Room attendants per 1,000 square feet	Registrars per 1,000 square feet	Merchandise un-loaders per 1,000 square feet	Janitorial staff per 1,000 square feet
Choice A	2	4	2	5	.5
Choice B	3	2	6	10	.5
Choice C	2.5	3	4	5	.5

Number of Workers Needed November 1 – December 31

	Floor workers per 1,000 square feet	Fitting Room attendants per 1,000 square feet	Registrars per 1,000 square feet	Merchandise un-loaders per 1,000 square feet	Janitorial staff per 1,000 square feet
Choice A	3	4	4	7	.8
Choice B	3.5	2	7	13	.85
Choice C	3.25	3	5	9	.8

Average Daily Hours per Position January 1 –October 31

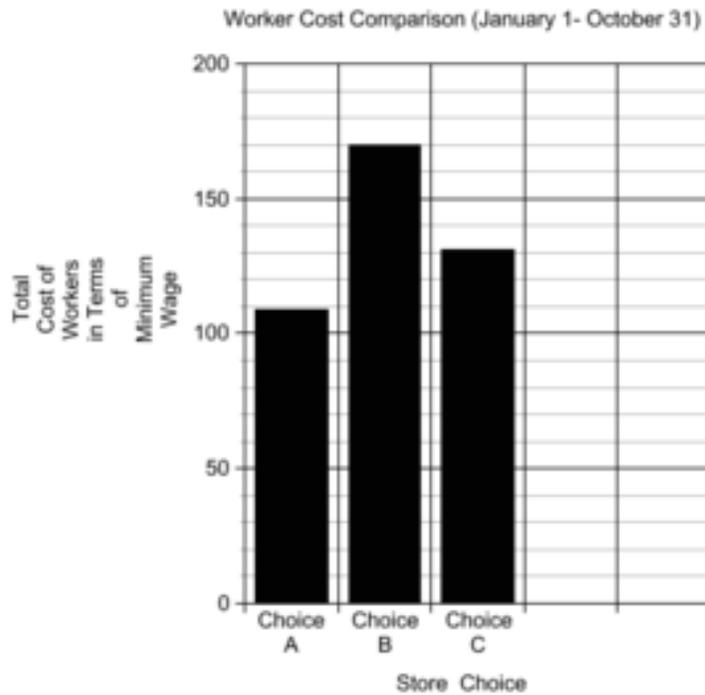
	Floor workers per 1,000 square feet	Fitting Room attendants per 1,000 square feet	Registrars per 1,000 square feet	Merchandise un-loaders per 1,000 square feet	Janitorial staff per 1,000 square feet
Choice A	12	11	11	2	2
Choice B	13	12	12	2.5	2.5
Choice C	12.5	11.5	11.5	2.25	2.25

Average Daily Hours per Position November 1 –December 31

	Floor workers per 1,000 square feet	Fitting Room attendants per 1,000 square feet	Registrars per 1,000 square feet	Merchandise un-loaders per 1,000 square feet	Janitorial staff per 1,000 square feet
Choice A	13	12	12	3	3
Choice B	14	13	13	3.5	3.5
Choice C	13.5	12.5	12.5	3.25	3.25

Average Hourly Wage in terms of Percentage of Minimum Wage per Position

	Floor workers per 1,000 square feet	Fitting Room attendants per 1,000 square feet	Registrars per 1,000 square feet	Merchandise un-loaders per 1,000 square feet	Janitorial staff per 1,000 square feet
Choice A	107.5%	107.5%	107.5%	108%	105.5%
Choice B	104.5%	104.5%	104.5%	110%	105.5%
Choice C	105%	105%	105%	109%	105.5%



Finance and Accounting

“Cara, I have a few things for you to report to Alex.” Gabriela called to the intern.

“Overall, we have a 1.5 million dollar budget to open this store. That includes the design features and the first two months rent, because we’ll need 1.5

months for construction, and 2 weeks of wages. It also includes a 10% contingency fee, so no excuses for going over budget. Got that?"

"I'll email Alex right away!" Cara replied.

At the end of the week, Cara attached all the information to the following email to Alex.

Hi Alex!

Hope everything is going well with the baby. I've attached all the information gathered over the past week about the project. Our first step is determining where we are going to locate the new store, and how we will best attract a teen market – and their parents! Once we've determined those factors, we can discuss merchandise procurement, placement, and marketing.

Have a wonderful weekend, and I hope you are getting some sleep with that new baby!

Cara

The Problem

Your task is to create a new Macy's junior "teen" department store. Use the roles above to determine the most profitable way to perform this task.

QUESTIONS:

- What is your target market?
- Where should your store be located?
- How should your store look?
- What merchandise should be bought and where it should be placed?
- How should the store be advertised to the teen market and their parents?
- How many and what types of employees do you need?
- Itemize your budget, and decide what you must have, and what is "extra".

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