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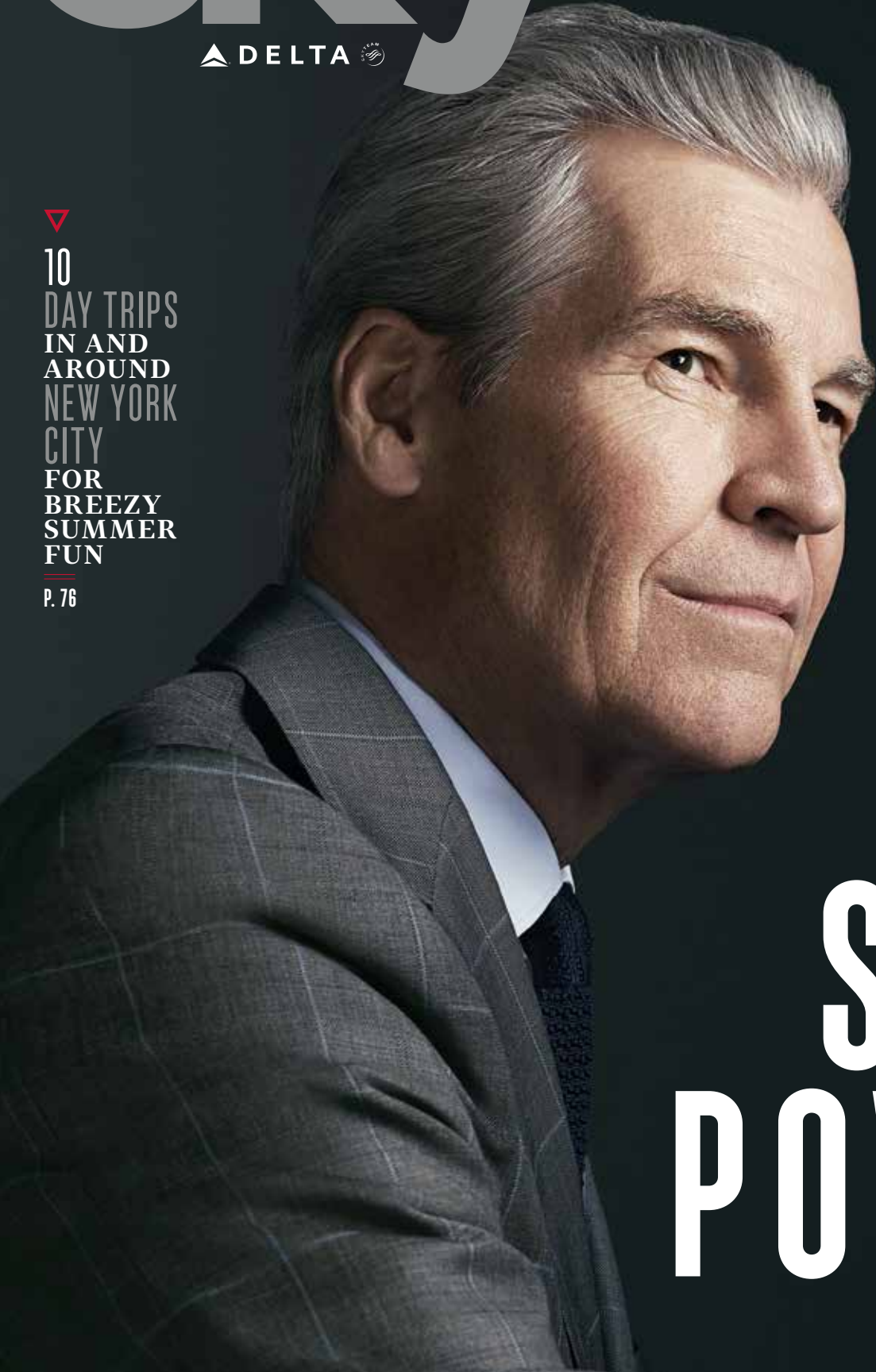
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THE
MERCHANT OF
NEW YORK:
**TERRY
LUNDGREN**
ON WHY
THE
FASHION
WORLD LOVES
MACY'S



STAR POWER

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Terry Lundgren
photographed
in April on the
roof of Macy's
Herald Square in
Manhattan.

ANOTHER

MIRACLE

ON

34TH

STREET

IT WAS SUPPOSED TO BE THE END OF THE DEPARTMENT STORE ERA . . . AND THEN THERE WAS MACY'S. THE COMPANY NOW HAS 775 STORES NATIONWIDE, AND CEO TERRY LUNDGREN IS REGARDED AS A BUSINESS SUPERSTAR AND THE DARLING OF NYC'S FASHION WORLD. **BY STEVE MARSH**

PHOTOGRAPH BY GAVIN BOND





MOONACHIE, NEW JERSEY, is only 25 minutes away from Macy's famous flagship store on 34th Street in Midtown Manhattan. But as you pass by swamps and football stadiums, it feels farther than a mere Uber ride away: All those elegant skyscrapers and smartly dressed people spilling in and out of Macy's Herald Square could be in another country. But it's out here, tucked away in a gray industrial park, where the Macy's magic is manufactured.

Macy's Parade Studio is a 140,000-square-foot facility with 50-foot ceilings and a five-ton indoor crane. Twenty-seven employees work year-round on all the scenic elements for both local and national events: Macy's Flower Show, Macy's Fourth of July Fireworks (the biggest fireworks display in the country), Macy's Santaland and the crown jewel of Macy's extravagant event calendar: the Macy's Thanksgiving Day Parade.

The studio is a massive operation, but it's basically run as an oversized Broadway theater scenery shop. On the production floor, John Piper, Macy's vice president in charge of the studio, walks us past Santa's float, which is getting refurbished with small repairs and a new coat of paint. "We have to get all the floats through the Lincoln Tunnel," he says. "So we do all kinds of Macy's magic—some of them fold into themselves, some of them hinge, some of them come apart." We pass painted scale models of balloons—Spider Man, Mickey Mouse, Wimpy Kid, Big Bird, Snoopy—and he explains the process of designing them, testing them, modeling them, building them and testing them again.

In 2005, Macy's acquired May Department Store Company, becoming a national chain that now has about 775 Macy's and 50 Bloomingdale's stores across the country. So the Parade Studio works on a truly national basis: building a new tree to go on the roof of a Macy's in Atlanta, an 80-foot Christmas tree next to the skating rink for the Macy's in San Francisco, a nine-story holiday light show at Macy's City Center in Philadelphia. It's obviously burning through millions of dollars, which must be a record retail marketing expenditure. The Macy's parade—with its roughly two dozen floats, 800 clowns, 5,000 volunteers—brings 3.5 million people out along the parade route, basically shutting down New York City from Central Park West to 34th Street. True, more than 50 million people also watch it on TV nationwide, but that's an extraordinarily expensive commercial. I ask Piper how much money Macy's CEO Terry Lundgren devotes to the parade each year. A PR rep steps in to politely demur, explaining that the company never discusses the parade's budget: "It's our gift to the city of New York." But Piper beckons for me to follow him into an office. "Here it is," he says, pointing to a framed picture of Santa Claus. "We have about the same budget as this guy."

BACK ON 34TH STREET, I wait for Lundgren outside his office—in the same wood-paneled conference room on the 13th floor that was made famous in the 1947 Christmas classic, *Miracle on 34th Street*. This is where R. H. Macy, portrayed by the vaudevillian Harry Antrim, gives his impassioned "store with a heart" speech in defense of Santa Claus's counter-intuitive sales techniques in *Miracle*. The real R.H. Macy, who founded Macy's in 1858, died in 1877—he never saw the approximately 2.2 million-square-foot Herald Square store open in 1902. It became the largest store in the world when it expanded in 1924, and it still claims the title

(there is a store in South Korea that may be bigger, but Macy's argues it's more of a mall situation and not really a single enclosed store). New York legend Ralph Lauren grew up dreaming his first fashion dreams in this place. "As a kid, the sheer size of it made it more than a department store," Lauren says. "And it still is."

Lundgren understands how important New York is to his company. His brand is one of the city's largest employers, with 31,000 employees in the metro New York area. With 20 million annual visitors, the flagship store is reportedly second only to the nearby Empire State Building as a Manhattan tourist destina-

tion. Lundgren has plans to expand Macy's internationally—Abu Dhabi is confirmed for 2018. And he knows that a huge percentage of his global audience first encounters his brand at the Herald Square store. He has made restoring its twinkle a priority: The store is in the final phase of a four-year, \$400 million renovation.

When Lundgren enters the room, it's obvious why the leader of perhaps the most middle-American brand of all time—the first store to offer all things to all people—has been embraced by everyone from sharks on Wall Street (not only did Macy's survive the recession, its share price has grown sevenfold since the spring of 2009) to the celebrity and fashion elite. It's his 63rd birthday, and the man is a silver fox. He's tall and lean in a gray Ralph Lauren suit and a dark Calvin Klein tie. He looks like a guy who belongs in the front row at Fashion Week. "We're the biggest buyer for most of these brands," he says. (Macy's sells more Ralph Lauren, Tommy Hilfiger and Calvin Klein than any other retailer.) "I'm friendly with several of them, but the real reason I get a good seat and they smile at me is because of the amount of business we do—and I clearly get that message."

Lundgren has been described as the last true merchant. Unlike many of his executive rivals who started in finance or operations, Lundgren

actually came up in retail, getting hired at Bullock's department store in Los Angeles after putting himself through college waiting tables (his dad cut him off as a sophomore). He worked his way up, first as a buyer, then as a store manager, then as talent recruiter, before getting bounced from Federated and popping up as the CEO of Neiman Marcus. He returned to Federated as CEO of Federated Merchandising Group (the company's private brand operation) in 1994 and then in 2003 became CEO of Macy's Inc. (which also owns the Bloomingdale's chain), known at the time as Federated Department Stores Inc. I mention that there's something ancient sounding about the word *merchant*—echoes of bazaars and souks of antiquity. "I started out as a lamp buyer," he says, "so I'm kinda right in there!"

There is something magical about the art of selling, something beyond spreadsheets and market analyses and bottom lines, something Lundgren seems to intuitively get. Making the sale is as primal an art as there is in the business world, and it remains liquid. Marshal Cohen, the chief industry analyst at NPD Group, says that in the online era the game has changed dramatically. "It used to be that the consumer would try to keep pace with the retailer," Cohen says. "Well, those days are long gone." On the elevator to Macy's corporate of-

fices, there's a quote from Winston Churchill: "To improve is to change, to be perfect is to change often." According to Cohen, Lundgren's strength is the restlessness of his innovation, his desire to keep on trying new things. "It's like a hockey game," Cohen says. "You gotta skate to where the puck is going to be, not where the puck is now. Because by the time you get there—especially with almost 800 stores—it's over. Most retailers are constantly playing catch up. Macy's is trying to stay ahead."

Next to the door outside Lundgren's office is a placard that reads, "Chief Customer Officer." It could be perceived as a cheesy Trumanesque "Buck Stops Here" touch, but it really is the key to his merchant strategy. "I start with, How would the customer feel about this decision?" he says. "And then I figure out, OK, after that, how are we going to make money?" Lundgren was one of the first to recognize that most of Macy's sales don't even originate in the stores anymore. "Two-thirds of our customers start with their desktop or their iPad or their phone," he says. "Then they decide, 'What do I want to buy today? And where do I want to buy it?'" Lundgren bet big on his experiment with omnichannel strategies, introducing "buy online/pick up in store."

Lundgren's biggest talent might be his ability to recognize a mistake and to quickly change course. He learned how to do this early in his life, as a second-year veterinary student at the University of Arizona. Now he has the best (and certainly only) cow artificial insemination story in retail.

"I literally have my left arm up the back of the cow, with the glove on, searching for the ovary, and my buddy behind me says, 'Terry, see that guy over there?' There was a ranch hand who had a pail of oats in his right hand, walking 50 feet away from us, and, unfortunately, his left arm was amputated. And my buddy says, 'He lost his arm doing exactly what you're doing!' I started laughing hysterically. Like it was a joke. And then I just said to myself, 'What am I doing? I don't want to do this for the rest of my life.'"

His hand-up-the-cow moment at Macy's happened after the acquisition of May. "We had 14 different names," he says. "Marshall Field's in the Upper Midwest. Filene's in Boston. Foley's in Texas. All family names. All of them mercantile exchanges that started in their downtowns, just like Macy's and Bloomingdale's. But I knew the regional stores were not working. There was emotional attachment to those stores, but there's a difference between emotional attachment and actually shopping at the store." In 2006, Lundgren changed all 400 of them into Macy's, betting that by extending his national clout he could trump local resentment. "That was a business decision that was crystal clear," he says. But he didn't stop there. With My Macy's, he updated in-store technology so it could more nimbly respond to the different regional demands. Then, in 2009, realizing he needed his marketing to speak with even more of a singular voice, he consolidated divisions, revised in-house communication and beefed up marketing.

"Macy's was always a good company," says Ralph Lauren. "But they became a great company when they brought all their divisions and regions together without sacrificing their identity. They have created a brand that people know and trust, no matter where they are located."

But to truly understand why Terry Lundgren is so good at what he does, you need to visit his dojo: I ask him if he can take me on one of his famous surprise walk-throughs.

"Love to," he says.

After riding down in the Churchill quote elevator, packed full of corporate women leaving for the day—all of whom seem to be delighted by this opportunity to chat with their leader—we start out on the second floor, in women's shoes. I hold my position just off his right wing and ask what exactly he's looking for.

"I want to see who the customers are," | **CONTINUED ON PAGE 110**

MACY'S EXTERIOR PHOTO: RICOWDE/GETTY IMAGES

LUNDGREN AND SHOE DEPARTMENT PHOTOS COURTESY MACY'S

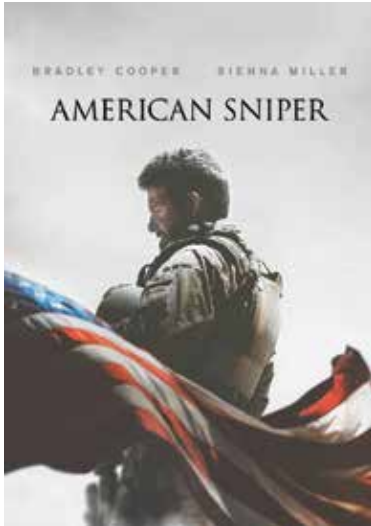


BELOW, CLOCKWISE: Herald Square in Manhattan at night; Women's shoes at Macy's Herald Square; Tommy Hilfiger and Lundgren at the store's 150th anniversary celebration.



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ANOTHER MIRACLE ON 34TH STREET

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he says. “I want to see if they’re being taken care of.” We stop in the Steve Madden section. Lundgren asks the salesperson to demonstrate Macy’s handheld inventory device. She acts as if Lundgren is her GM pausing for a Monday afternoon chat. No biggie.

We go up one of the vintage wooden escalators and cruise by an in-house outlet of Finish Line, the athletic shoe retailer. The guys working are wearing blue Finish Line uniforms. Lundgren explains that this is an example of a partnership with an outside retailer that is unique to Macy’s (at least in North America—evidently this kind of thing is standard in Europe). Macy’s partners with several external retailers, including Sunglass Hut, as well as high-end brands such as Louis Vuitton and Burberry. I ask how this is an advantage: Why not sell Nikes and Gucci sunglasses itself?

“It’s their access to brands,” he says. “Finish Line and Foot Locker both sell more athletic footwear than any other department store has ever sold. So the customer was going there. LeBron James’ shoe would come out, Nike would sell it to Finish Line and Foot Locker, and all the department stores weren’t getting those products until a year later. That’s not our business. We’re in the fashion business—we have to get things first or it doesn’t work. So we tried it with these guys. And they’ve done a spectacular job of bringing new products to the market much faster.”

What’s in it for Finish Line?

“Growth,” he says. “Because, for them, this is a customer that they weren’t seeing before.”

We walk by a one-of-a-kind Starbucks pour-over coffee/Moët & Chandon champagne café. “We’re trying different food and drink concepts,” he says. There are 11 options throughout the store—including a Pinkberry, a McDonald’s and three more standard Starbucks. “On the sixth floor, we just put in a new upscale Italian restaurant,” he says. “Stella 34. I wanted something elegant because we’ve never had that before. And, frankly, the eating environment is not very good around the Herald Square area.”

Every few feet, the entire environment seems to change—the lighting dims, the music shifts and becomes

more or less Euro, the people get younger or older, richer or even richer. We see some young women lingering near one of Macy’s newest in-house brands, a collaboration with the Mexican pop star Thalía. Lundgren says he was just at the New York Stock Exchange to ring the bell with her last week, and everybody blew him off to ask, “Cómo está Thalía!” “There are some good young millennials,” he nods, like he’s campaigning for something, before explaining that Macy’s has offices in 13 different countries due to its need to source global products for its in-house brands, which are designed by its own good young designers.

I notice that a majority of shoppers are women. “Seventy percent of the customers will be women,” he says. “This is a generalization—because there are men who shop like women—but men are more likely to walk into a store and have their mind already made up. They will not look three feet left or right from that Nike visual presentation. Women will come in for a Nike shoe, but they’ll look at a Nike top, they’ll go look at an Under Armour running pant and they’ll look around the whole store, and if they go by the cosmetic department or go by the shoe department, they’ll look there, too. So there’s much more browsing and openness to consider other options.”

Trailing Lundgren, you get the sense that he is serenely confident in his awareness of everything going on in the Macy’s world—the differences between how men and women shop, what cartoon characters will make the best new balloons, how people in Minneapolis shop compared to those in Atlanta, how he needs to partner with x so he can get the latest y. He assures me that the most important part of the gig is actually identifying the best people, hiring them and trusting that they’ll know the things that he can’t. But he seems so chill, so happy with the team that he’s assembled, happy with the suit and tie he’s put together. Maybe it’s because it’s his birthday. Or maybe he’s just always looking forward to everything—to the fireworks in the summer, to the parade in the fall. Maybe even the 2016 parade. He makes the Largest Store in the World feel infinite yet manageable, a microcosm of New York in New York, a global city within a global city. He’s got the whole store in his hands. ▼