Patricia Seybold Group

Customers.com® Case Study

Macys.com Delivers Department Store Experience via the Web

Yes Virginia, there is a CyberSpace

By David S. Marshak
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Executive Summary

Macy's is the premium name in department stores. In November 1998 Macy's parent company, Federated Department Stores, launched a full-scale e-commerce version of Macys.com. The initial results exceeded expectations; the site was overwhelmed with shoppers buying high-ticket items and spending more than they would at the retail store. In addition, the site has extended the Macy's core customer base to new geographies and new demographics, particularly attracting more men than traditionally shop in the store.

Macys.com and Federated Department Stores made several key decisions to ensure the success of this major venture into the online retailing world. These include creating Macys.com as a separate entity, leveraging the Macy's brand and physical stores, and choosing IBM as the partner to build an e-commerce system that would scale with future technology and business demands.

Customers.com® **Critical Success Factors in the Macys.com Story**			
✓	Target the right customers	☆	Let customers help themselves
☆	Own the customer's total experience		Help customers do their jobs
	Streamline business processes that impact the customer	☆	Deliver personalized service
	Provide a 360º view of the customer relationship		Foster Community
☆	= Featured in this discussion	✓	= Touched on in this discussion

✓ Target the Right Customers

Macys.com clearly identified the first set of customers for its site: brides and wedding gift givers. This was extended during the Christmas season to gift givers in general. While designing its site for its core store customers, Macys.com is using the site to extend this core by age and gender.

☆ Own the Customer's Total Experience

Macys.com enhances the Macy's in-store presence to provide a branded and comfortable experience across both shopping methods. This is emphasized by the customers' ability to purchase goods online and return or exchange them in a store. Macys.com also extends this experience to shopping for flowers and gifts by integrating PC Flowers and electronics with Roxy.com within the site.

✰ Let Customers Help Themselves

Macys.com takes the department store experience and extends it to a 24 x 7 service. Customers can search or shop by category and can do all of their ordering on the Web site.

✰ Deliver Personalized Service

The Macys.com Bridal Registry is all about a personalized environment for the bride and people shopping for her. In addition, the Macys.com eClub allows shoppers to personalize their shopping experience.

THE MACYS.COM STORY

Macys.com has taken its dominant brand in department store shopping and created a compelling and convenient Web experience. Macys.com has achieved extremely high traffic and Web sales and has extended its core market both geographically and demographically.

Business Context

Background on Macys.com

Macy's is perhaps the best known brand name in upscale department stores. From its famed location in Herald Square to its almost 200 stores across the United States and annual sales of over eight billion dollars, Macy's is a cultural icon denoting quality, service, and the claim of the biggest store in the world.

FEDERATED DEPARTMENT STORES. Macy's is part of the retail empire of Federated Department Stores (FDS), which numbers over 400 major department stores and 160 specialty stores in 36 states and has annual revenue of more than 15.6 billion dollars. The name Macy's actually refers to two separate entities (Macy's East and Macy's West) that are joined in the FDS family by Rich's/Lazarus/Goldsmith's; Bloomingdale's; Bloomingdale's By Mail, Ltd.; Macy's By Mail; Burdines, The Bon Marché; and Sterns.

The Business Environment

The core of Macy's customer base is made up of upper to moderate income-level women between 30 and 55 years old with fashion awareness and a desire for key fashion trends. The Macy's style is a blend of urban contemporary and traditional with status brands being important. Macy's also sells other goods, such as housewares, tabletop, home textiles, rugs, and furniture in its Home Store department. Macy's is considered upscale, with a higher average sale than most department stores.

Macy's is also well known for its bridal registry, with fine china, crystal, and flatware being the predominant purchases.

The e-business Initiative

Initial Foray: An Online Bridal Registry

Although Macy's was interested in the Internet at an early stage (the company registered the macys.com URL in 1993), its road to e-business began rather modestly with an online bridal registry. In late 1996 the bridal registry venture was developed and maintained by Macy's West as macysbridal.com. It provided a viewable text site for people looking for wedding gifts. The gift giver could find the list of desired items online, but then had to either call a toll-free number or go to the store to actually purchase the item. Once purchases were made at the store, the online list was updated, so other gift givers (and the bride) could see what had been purchased.

In 1997 transactions were added to the bridal registry site. Macy's West posted information, such as availability and selling price, on a daily basis. Customers found the site useful for planning and reserving items, and in 1997 over 70,000 brides registered. The bridal registry site is outsourced to an Internet hosting and software company.

According to Gene Domecus, Vice President of Internet Merchandising, the bridal registry has been considered "very successful, once we added transactional capabilities."

Bridal registry remains a key business for Macy's and FDS. In Fall 1998 a nationwide bridal registry (including Macy's East) came up. As of June 1999, all FDS divisions were available online (excluding Bloomingdale's).

Beginnings of Macys.com

In late 1997 Macy's West brought up the first macys.com site. The site consisted of a few gifts (about 50 items) and was linked to the bridal registry site but was not actively promoted. The site was run by one person: Kim Miller, now Macys.com's vice president of Internet strategies. By the Christmas season, unexpected results were being seen. According to Domecus, "Without really trying, we did lots of business. We were not promoting it. The brand name drove traffic, as did the bridal site link." At the same time the unexpected success of the site created a number of fulfillment issues. "We were getting so much activity and traffic and didn't have the technology to meet the customer needs or the inventory on hand," Domecus added. Macy's was determined not to have this experience repeated in its future e-business initiatives.

Macy's decided in Spring 1998 to completely revamp and re-launch macys.com. The motives for this were two-fold. First, the fulfillment issues had to be addressed. And second, since virtually all business was being driven by the bridal registry, there was a need for macys.com to establish an identity of its own.

To make the new macys.com a success, Macy's and FDS knew that significant organizational and technical strategies would have to be developed and implemented.

Business Benefits

- Macys.com is deriving significant revenue from the site. In addition, the average sale-per-customer is 40% higher online than in the stores.

- Macys.com has extended its core retail market (35–50-year-old women) to an online market of almost 50% men. It has also been able to better reach both younger and older audiences.

- Macys.com has been able to expand the Macys brand into markets in which the name is well known, but retail presence has not yet been established.

Organizational and Technical Decisions

CREATE MACYS.COM AS A SEPARATE ENTITY. The first critical organizational decision was to create Macys.com as a full-fledged division within FDS, with equal billing as Macy's East, Macy's West, Bloomingdale's, and the other divisions. In June 1998 Macys.com left the umbrella of Macy's West to become a separate FDS entity under the leadership of Kent Anderson.

Overall, according to Miller, the main goal for FDS for launching Macys.com was to give customers the ability to purchase and be serviced through another channel. In addition, Macys.com would be designed to extend the Macy's customer base by attracting younger customers and more males.

Macys.com, while independent, is still closely associated with Macy's West; most Macys.com employees came from Macy's West, and both companies are located in San Francisco. However, Macys.com is positioning itself to be able to evolve to complete independence and a more national merchant.

TECHNICAL CONSIDERATIONS. As it was being formed, Macys.com had a set of discussions on the best way to handle the technical infrastructure. The strategy was to leverage as much from its FDS siblings as possible. According to Jake Jacobson, Macys.com's vice president of Internet technology, "We decided to house ourselves in Macy's West to utilize the resources—merchandising, fulfillment (mail and teleservice), and creative assets. We also use the Federated Systems Group (which provides IT solutions for all FDS divisions) for programming services such as integration between systems."

THE ROLE OF IBM. Macys.com also made a set of organizational/technical decisions that culminated in the selection of IBM as its key partner in the launch of the new macys.com site. According to Jacobson,

"We began talking about an e-commerce division for FDS in March 1998. We tried to plan for one year, five years, ten years down the line. We considered three major solutions: Windows NT, Sun/Netscape, and an IBM Net.Commerce e-business solution.

EVOLVING THE TECHNICAL INFRASTRUCTURE: ENABLING TECHNOLOGIES

The new Macys.com site is built on IBM's Net.Commerce. The product database is built on IBM's DB2 relational database. Both are deployed on the IBM RS/6000, which is clustered for high availability and scalability.

High availability is also ensured by the use of Tivoli TME 10 Software, which continually monitors all aspects of the online and back-end transactional systems.

The IBM Global Web Solutions secure, high-availability Web hosting is used by Macys.com to ensure round-the-clock management, technical support, and managed data center services to support fulfillment systems from IBM Global Services.

The e-commerce architecture includes:

Software
- Net.Commerce
- DB2
- MQSeries
- Tivoli TME 10

Hardware
- RS/6000

Services
- IBM Global Services
- IBM Global Web Solutions

"Our key issues were scalability and integration with a legacy system. We already had a relationship with IBM and an understanding of where IBM was going to take the technology. IBM, being an enterprise computer manufacturer, software provider, and services company, had the environment to go ahead as our key service provider. We'd have the best chance of getting up, running quickly, and scaling big. We needed someone with the horsepower to get the system up and running to meet the revenue goals.

"When we looked at the pros and cons of each vendor, IBM came out ahead on the major points."

ORGANIZING THE PROJECT. Macys.com started initial concept meetings with IBM in June. In July Macys.com staff began gathering merchandise and creating a product database. By September the databases had been built and the e-commerce processes were being put in place using IBM Net.Commerce. The DB2 database contained 12,000–15,000 new SKUs (a number that was increased to 25,000 by December. This was in addition to the 220,000 SKUs that already existed on the bridal site.

According to Domecus, this was truly a team effort that involved Macys.com, Macy's West, and IBM. "IBM New Media in Atlanta did the site, Macy's West sales promotion did the photography, copy, and branding. Macys.com did all of the data. In the meantime Macy's West buyers were selecting product and working with macys.com to create the site." IBM Global Services led the MQSeries development to enable real-time access to the host (for inventory availability and credit). And IBM Global Web Solutions provided secure, high-availability Web hosting using Tivoli TME 10 Software for application, systems, and network management.

Rolling out the New Macys.com Site

The new Macys.com site was launched in stages between August and December 1998. The first stage was to enhance the existing outsourced site to add products that were not directly related to the bridal registry. This was launched in August as The Cellar, which included housewares, dinnerware, cutlery, and kitchen electronics. The Cellar still had a strong affinity for the bridal registry but, according to Domecus, became the first online business that succeeded outside the registry.

On November 5 the new Macys.com site was launched. The month of November had its ups and downs, as Macys.com and IBM struggled to keep up with the unexpectedly heavy volume of customers visiting and purchasing from the site. The struggle lasted though Thanksgiving, with fixes being made and new hardware being constantly added. Jacobson notes that by Thanksgiving the fixes and new hardware were in place and

"IBM was ultimately able to take the load." And Domecus adds, "In December we had over one million unique visitors to the site and we were running fine. And, post-Christmas volumes continue to pick up and everything is stable."

EVOLVING THE TECHNICAL INFRASTRUCTURE: INFORMATION ASSETS

The products available on the Macys.com site are stored in a DB2 database that contains more than 25,000 SKUs. This is seamlessly integrated with the more than 220,000 SKUs in the Bridal Registry application Information about customers is kept in the Net.Commerce database. Macys.com is planning to mine that data to learn even more about its customers' buying behaviors.

Once a customer places an order, the order goes from Net.Commerce to the internal fulfillment system (Fed-Cat), which was developed for catalogue sales. It then follows the normal mail order fulfillment system.

The Macys.com Site

The Macys.Com site, which features more than 260,000 SKUs, mirrors the department store in merchandise presentation and product offerings. It is designed to make the Macy's shopper feel right at home. The site is still supportive of gift givers, with online Bridal Registry, gift certificates, Gift Wizard, and gift wrap and enclosure options available.

Like the stores, Macys.com sells high-end merchandise with brand names like Calvin Klein, DKNY, and Anne Klein.

THE SHOPPING EXPERIENCE. The customer entering the online store sees the store's various departments:

- at home
- men's
- kids'
- women's
- jewelry
- accessories
- cosmetics
- fragrances
- millennium (everything you need for your Y2K parties)

The customer can use the Search Wizard to find specific products or gifts or enter special promotional areas, such as the Joe Boxer section (see illustration 1).

PERSONALIZATION. Customers can also enter two personalized areas of the site: the Bridal Registry and the eClub.

The eClub is a personalized express checkout service designed to make it easier for frequent customers to shop online at Macys.com. eClub stores the customer's credit card, shipping, and billing information as well as providing a personal address book for storing additional addresses for sending gifts. Macys.com plans to enhance eClub with automatic gift reminders (e.g., of birthdays, anniversaries, or other special events), a personal gift registry, and automatic replenishment of consumable items.

ORDER PROCESS. Ordering from the site is straightforward. Items are placed into the shopping bag, and checkout is done all at once. If an item is chosen for which there is no inventory, an e-mail informs the customer and lets him back order or cancel. In such cases Macys.com wants to be able to offer alternatives and ultimately would like to provide real-time availability information as ordering is done.

The order process also includes automatic shipping via UPS ground with options for faster delivery. Within 24 hours of the order placement (generally much less), the customer receives an e-mail confirmation that the order has been accepted. This order confirmation displays the UPS tracking number and a toll-free phone number for direct support from Macys.com.

Marketing and Merchandising

TWO-PRONGED MARKETING APPROACH. Macys.com's approach to marketing the site is two-fold: first to leverage the Macy's brand with both onsite and online marketing and second to establish key partnerships and affiliations.

Leveraging the Macy's Brand. As early as 1996 Macy's had found that the Macy's name had brand equity on the Web. And Miller notes that "Today the power of the brand (denoting trust and recognition) continues to lend itself online."

Macys.com has actively worked at associating its online business with its overall Macy's brand. Customers in the stores see the site advertised on tear receipts, posters, decals on the door, and shopping bags.

Macys.com has also invested in broad Internet advertising campaigns, with banner ads on high-traffic sites as well as targeted ads and interstitials on more premium sites (such as Martha Stewart, CBS Sportsline, Women.com, and USA today) that match its demographics. As Miller comments, "Leveraging the brand online was the best move we could have made, and it's proved to be just that."

Partnerships and Affiliations. Macys.com has created an affiliates program with Yahoo and Amazon.com, with a unique URL to the Macys.com product page. Some of the brands that Macys.com features (such as Joe Boxer)
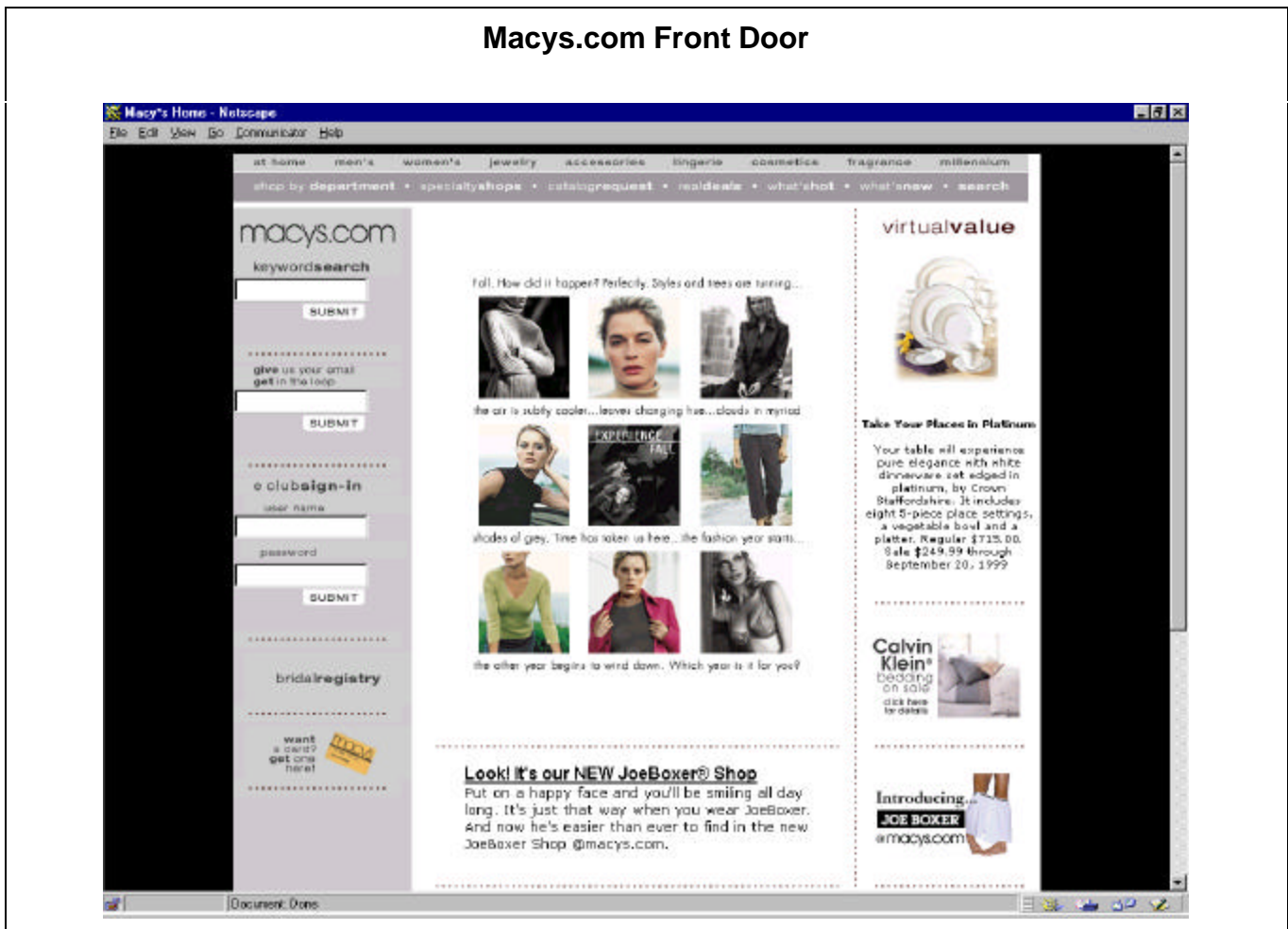
Macys.com Front Door

Illustration 1. Macys.com gives the shopper the ability to browse by department or search for specific products or gifts. The front page features promotions and seasonal themes.

have created direct purchasing links to Macys.com from their sites. And Macys.com has partnered with ClickRewards for its incentives program.

Macys.com is also an affiliate for PC Flowers (see Illustration 2). Macys.com customers can order flowers and gifts from PC Flowers or high-tech consumer electronics without ever leaving the Macys.com site. At that time the order is put into a separate shopping basket from the customer's other purchases on the site.

Finally, there is the relationship with AOL. One of the factors driving the early volume was the relationship that Macys.com had established with AOL. According to Domecus, "We were the first anchor department store on

the AOL shopping channel (which acts as front end to the Macys.com system). Almost 70 percent of the initial traffic came from AOL. The traffic was so great that AOL had to take Macys.com down for a day."

MERCHANDISING. Macys.com made several key merchandising decisions when bringing up its new site. The first was how many of the 4.2 million in-store SKUs to make available on the site. Building on the existing bridal registry site, Macys.com decided to launch and maintain around 260,000 SKUs.

The second decision was to add (and remove) products on a continual basis to reflect the best selling merchandise in the stores. Initially this proved difficult, as the
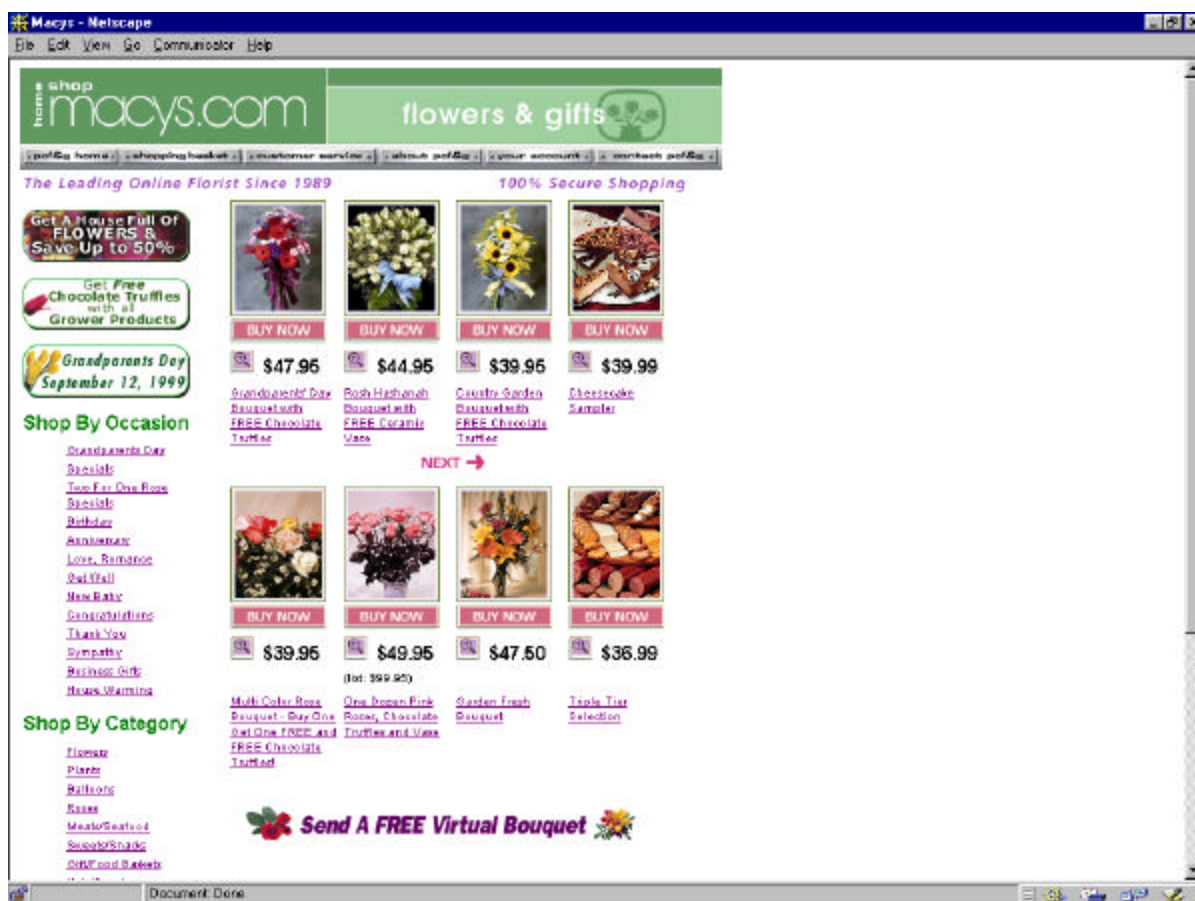

Illustration 2. Macys.com customers can order flowers and gifts from PC Flowers without ever leaving the Macys.com site.

products and branding could not be changed quickly and often enough to meet the needs of a dynamic retail business. This has been addressed by internally developing a content/branding management application, and since March Macys.com has been changing content once a week, with the plans to change it daily in the future. Macys.com plans major branding changes six to eight times per year.

New products added since the site launch include women's fashion and swimsuits, and Macys.com is considering adding new product areas, such as furniture and rugs.

Pricing Issues. The third major decision that faced Macys.com was how to handle product pricing on its site vis-à-vis pricing in the Macy's stores. Since it is a separate entity from the physical stores, Macys.com is not bound to the stores pricing policies. However, Domecus emphasizes that Macys.com has made a firm commitment not to undercut store prices: "We will not be Internet discounters; we want to maintain the Macy's brand."

Although the Macy's brand is not discount oriented, retail sales—particularly in the Home Store department—is a highly promotional business, and traffic to the stores is greatly influenced by sale advertising (e.g., one-day sales, weekend promotions, and coupons).

Macys.com has thus decided to go to a best-value approach, eschewing both severe discounting and promotional pricing, such as sales and coupons. An exception to this is when a manufacturer (such as Hanes, Jockey, or Calvin Klein) runs a national sale; this sale is then reflected on the Macys.com site.

IBM's Value

IBM's definition of e-business is IT + Internet, that is, leveraging the power of existing systems and the opportunity of the Internet to transform a company's business.

IBM identifies four specific areas of value that it provides its e-business customers:

✓	It's about business, not just technology.
✓	Start simple. Grow fast.
✓	Build on what you have.
✓	Expertise you can trust.

In the Macys.com case, IBM's contribution spans all four value areas. IBM was closely involved with the planning of the new Macys.com site as well as providing software, hosting, development and creative services. IBM was also instrumental in preserving the existing investment in the Bridal Registry by linking it into the new site. Macys.com sites IBM's products and vision as a key success factor creating the e-commerce site.

Leveraging Physical and Virtual Locations

In addition to benefiting from the brand, Macys.com understands the leverage that having multiple touchpoints to the customer provides. Domecus notes that there is a "huge tie-in to being in stores and being on the Web." And Miller espouses, "A lot of people go online and then into the store, too. And vice versa. Being a retailer online and having stores provides a true comfort level for the customers. They can always go to the store if there are problems. Many customers shop both in the stores and online."

And this is not simply branding. Even though Macys.com is a separate entity from the physical stores, merchandise ordered from Macys.com can be returned or exchanged at any Macy's location. In addition, Macys.com is selling electronic gift cards and certificates online that can only be redeemed in the stores.

From the store-to-site point of view, there is a series of Macy's branded credit cards that are part of Club Macys. Anyone using one of these to order from the site receives all of the benefits, including free gift wrap, shipping, and early notice of sale events.

Domecus concludes, "Customer perception is that there is one Macy's. Macys.com is an opportunity to extend this."

Future Directions

The plans for the Macys.com site are to continue to growth and change the product assortment. Macys.com also plans more personalization and cross-sell and up-sell capabilities. Macys.com is also working on providing real-time product status and real-time order status inquiry.

In March FDS acquired FingerHut, a leading direct marketer that sells a broad range of products and services through catalogs, direct marketing, telemarketing, and the Internet. While specific integration plans have not been disclosed, according to Bateman Macys.com will "first and foremost benefit from FingerHut's fulfillment acumen."

Ultimately, according to Bateman, the future for Macys.com is to "establish Macy's as an Internet commerce leader and take our current market and extend it, eventually targeting specific new markets."

Results

INCREASED TRAFFIC & REVENUE. As we have seen, the initial traffic to the new site was almost overwhelming. As Jacobson describes, "The volume at Christmas was a huge surprise—over one million unique visitors to the site. This was due to the combination of a critical mass of all these things coming together at Christmas 1998. Our customers were ready. Our marketing, particularly through AOL, was there."

And according to Miller, this did not stop after the holiday, "Traffic and revenue has continued since Christmas. This did not drop off as much as we'd expected after the holiday."

EXTEND TO NEW CUSTOMERS. The second result was to extend Macy's core customer base in both geographic and demographic dimensions.

Geographically the Macy's brand is now able to reach customers who do not live within shopping distance of a Macy's store. Macys.com is finding that this actually enables two groups: (1) previously loyal Macy's customers who have moved and no longer have access to the stores and (2) those who are aware of the brand due to national advertising, have taken trips to New York, or have seen the Thanksgiving Parade or the movie, "Miracle on 34th Street."

Demographically the site is far less skewed to the core store demographics (women between 30 and 55 years old) than anticipated. The Macys.com shopper percentage is closer to 60%-40% females to males than the original predictions, which were based on the store demographics of 70% female. Miller notes that this can actually affect in-store sales, "The percentage of male customers has increased and the age demographic has decreased slightly. We believe that these people are now going into the stores more."

The online shopping experience is also attracting customers who might not want to shop in a store. One example, cited by Domecus, are people who could be embarrassed to shop for large sizes in a store and are more comfortable shopping for these items online.

HIGH TRANSACTIONS, LOW RETURNS. Macys.com is finding that, in addition to the high volumes and new demographics of online shoppers, there is significant impact in the items being purchased. For example, the amount of the average transaction on the site is 40 percent higher than in the store, with the average online transaction being 2.8 units, generally of different items.

Somewhat to their own surprise, Macys.com is proving that people will buy high-ticket items (e.g., fine jewelry) on the site, with frequent purchases of $250, $500, and even $2000, being seen.

Macys.com is also finding that there is also a new mix of goods being purchased. For example, the online Home Store department generates 70 percent of the business vs. 15–20 percent in stores.

Finally, Macys.com is seeing an unexpectedly low return rate (less than 6%) from online orders. This is lower than the return rate for the retail stores.

Keys to Success

For Macys.com the seeds to the success of the site were sown in the original branding, organizational, and implementation decisions made in mid-1998. As Miller emphasizes, "The key to success is leveraging the brand, making customers comfortable, and putting it on a strong e-commerce platform."

LESSONS LEARNED FROM THE MACYS.COM STORY

1. Create a separate organization to be responsible for the online business. While not necessary for every company, this enabled FDS to move far more quickly than it would have had Macys.com remained part of a bricks-and-mortar focused organization.

2. Build on an existing investment, such as the Bridal Registry.

3. Online pricing should not compete with store pricing.

4. Work with a partner that shares your overall e-business vision.

TAKEAWAYS FROM THE MACYS.COM STORY

1. Leverage online and physical presence to create a competitive convenience advantage.

2. Create a Web experience that matches customer expectations of your brand.

3. Integrate with affiliates that complement your products/services and are likely to target your customers.

4. Work with a partner that can ensure the scalability and flexibility required to meet increasing demand and changing business conditions.

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