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Digital Transformation Strategy of Macy's: Addressing Challenges and Achieving Revival

Tengye Xing[1,a,*]

[1]*School of Economics and Management, Shanghai University of Electric Power, Shanghai, 200090, China*
a. jackyxing@mail.sheip.edu.cn
**corresponding author*

Abstract: This study explores the challenges faced by Macy's in the United States and its strategy for digital transformation. Firstly, it introduces the rise and fall of the U.S. department store industry and the challenges Macy's faces as a representative of the traditional department store industry, such as the rise of e-commerce and changes in consumer shopping habits. Then, taking Macy's as a case study, it describes its digital transformation strategy, 'Polaris', including cost reduction, accelerated digitization, reshaping the supply chain and other initiatives and the results achieved. It then proposes specific plans for staffing adjustments, enterprise transaction process optimization and online business model modifications. Finally, the challenges that may be faced in implementing digital transformation programs, such as data silos, change management and financial overheads, are analyzed, and solutions are proposed. By summarizing and learning from the successful experiences of modern enterprises, this study proposes a series of feasible digital transformation plans for Macy's to emerge from the predicament of the traditional department store industry, meet the challenges of the digital era, and achieve a renaissance.

Keywords: Digital transformation, Retail industry, Omnichannel strategy, Organizational restructuring, Macy's

1. Introduction

The rise and fall of the U.S. department store industry is a multifaceted business story that involves changes in retail, shifts in consumer behavior, the impact of e-commerce, and fluctuations in the economic environment. The department store industry in the United States began in the mid-19th century. In 1875, John Wanamaker bought an abandoned railroad warehouse in New York. He converted it into a large shopping mall - The Grand Depot, which is generally considered the first department store in the United States. This marked the birth of modern retail in the United States. With their spacious shopping environment, a wide variety of goods, and one-stop shopping, department stores quickly become popular with consumers. With the development of the economy and the rise of consumer culture, the department store industry has ushered in a golden age and become an important part of the American retail industry. However, after entering the 21st century, the traditional department store industry began to face huge challenges with the rise of e-commerce and the change in consumers' shopping habits [1, 2]. The operation cost of physical stores was high. At the same time, e-commerce provided a more convenient and possibly more favorable shopping

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method, leading to the decline of sales and profit of many department stores [3]. For example, Macy's department store, as one of the representatives of the US department store industry, has had to adjust its business structure in recent years by closing underperforming stores to reduce cost pressure.

In addition to the impact of e-commerce, the department store industry faces competition from other retail formats, such as discount stores, specialty stores and other emerging retail models [4]. These competitors often provide products and services that align with the needs of specific consumer groups, thus attracting a part of the customer base that originally belonged to department stores. Faced with the fierce competition and the diversification of consumer demand, the US department store industry giants are seeking transformation and upgrading. On the one hand, it has begun to strengthen the expansion of online business to make up for the lack of physical store traffic. On the other hand, it is also trying to rebuild its brand image to provide more personalized and differentiated shopping experiences. The department store industry in the United States is transforming from the traditional retail model to the direction of more emphasis on experience and service, and their eyes are focused on omnichannel retail that integrates online and offline.

2. Case Description

Macy's, an iconic American department store, has been under the ownership of United Department Stores since its acquisition in 1994. Located at Herald Square in New York City, Macy's flagship store was once dubbed the "world's largest store" upon its grand opening on 7th Avenue in 1924. Macy's operates across 45 states, the District of Columbia, Guam, and Puerto Rico, specializing in clothing, shoes, hats, and home decor. It also owns prominent online platforms such as macys.com, bloomingdales.com, and bluemercury.com.

Despite its storied history and widespread presence, Macy's faced challenges recently. From 2018 onwards, the company saw negative or minimal gross profit growth for four consecutive years. The COVID-19 pandemic further exacerbated these challenges, causing a significant downturn in 2020. That year, offline sales plummeted, resulting in a gross profit of just $5.811 billion, marking a 42.81% decline from 2019.

In response to these difficulties, Macy's launched the "Polaris" strategy in February 2020. This transformative initiative aimed to reposition the company for growth by focusing on cost reduction, accelerating digitization, and revamping its supply chain to enhance omnichannel sales. Christina Boni, Macy's vice president and principal analyst at Moody's, noted that Macy's was taking "significant steps to reduce costs and drive change". Jeff Gennett expressed confidence in the "Polaris" strategy, emphasizing its potential to restore Macy's to sustainable profitability.

The Polaris strategy led to several decisive actions, including the closure of approximately 125 underperforming stores by the end of 2022 and a reduction of about 2,000 head office and aftersales positions. Macy's also bolstered its e-commerce efforts by introducing a digital platform for third-party merchants, aiming to achieve $10 billion in online revenue by 2023.

By August 2021, the Polaris strategy began yielding positive results. Year-over-year sales grew by 28.3%, with digital sales increasing by 12%. Overall, Macy's reported a 43% sales growth in 2021 compared to the previous year, with e-commerce accounting for 12% of sales and a digital penetration rate of 35%.

Complementing the Polaris strategy, Macy's loyalty program became another cornerstone of its turnaround efforts. In the last quarter of 2021 alone, over 3.5 million new members joined the Star Rewards program at the Bronze level. Loyalty strategies played a pivotal role in Macy's business, with over 70% of transactions in 2021 involving loyalty members. Nearly 20 million new customers made their first Macy's purchase that year, underscoring the appeal of the four-tier Star Rewards program.

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Adrian Mitchell, Macy's Chief Financial Officer, highlighted the growing importance of the Star Rewards program, emphasizing its role in enhancing customer engagement and brand perception. To further strengthen this loyalty strategy, Macy's plans to invest approximately $3 billion in digital technology and personalized marketing to provide superior customer experiences.

In addition to its focus on loyalty, Macy's is committed to expanding its private-label offerings. To increase private label sales to 25% of total revenue by 2025, Macy's currently boasts four private label brands: International Concepts, Alfani, Style&Co., and Charter Club. The company aims to achieve $100 million in sales from a single brand.

In conclusion, Macy's journey from a revered American department store to a struggling retailer and its subsequent resurgence is a testament to its adaptability and resilience.

At the same time another case is Amazon, an American multinational technology company founded in 1994 by Jeff Bezos. Initially, Amazon started as an online bookstore. However, it rapidly evolved and emerged as one of the world's largest e-commerce platforms. During its early days, Amazon faced intense competition in the online retail sector and struggled to achieve profitability. As digital customer expectations evolved, demanding convenience, personalization, transparency, and multi-channel consistency, Amazon had to scale its operations while ensuring high customer satisfaction and operational efficiency.

Beyond online retail, Amazon has diversified into cloud computing, artificial intelligence, digital streaming, electronics, and logistics. Amazon's online sales strength lies in its vast product inventory, efficient logistics, and continuous investment in technological innovation and enhancing user experience.

In 2015, Amazon introduced "Amazon Enterprise Edition", offering businesses access to over 250 million products. They also rolled out features like free two-day shipping on orders over $49, exclusive discounts, integration with procurement systems, duty-free purchases for eligible customers, shared payment methods, order approval workflows, and advanced order reporting. Amazon has prioritized leveraging cutting-edge technology throughout its digital transformation journey to deliver seamless customer experiences. They have revamped their operations by bypassing traditional retail channels, utilizing the Internet and comprehensive software to connect directly with suppliers. This offers customers more competitive prices and convenience and aids suppliers in accessing global markets.

From a financial perspective, Amazon's gross profit has consistently grown since 2004, with no negative growth in any year. Even during the COVID-19 pandemic from 2020 to 2022, its annual gross profit remained above 2%. This resilience underscores the strength of the online department store sales model anchored in digital transformation.

Given this backdrop, this study proposes developing a digital transformation plan for Macy's Department Store. Drawing inspiration from successful digital transformation strategies other companies employ, the primary objective is to bolster Macy's online and offline sales. This study aims to enhance the company's overall revenue and flexibility.

3. Concrete Plan

3.1. Personnel Adjustment

This study recommends fine-tuning the existing staff and organizational structures to improve Macy's offline stores' management efficiency and operational responsiveness. Currently, Macy's has many layers of management, which leads to cumbersome decision-making processes, affecting operational efficiency. This part plans to reduce middle management and simplify decision-making, improving efficiency and reducing costs. Merging or optimizing some management positions aims to build a flatter, more efficient management structure to enhance employee motivation and responsibility [5].

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Introducing regional managers as a new management level is also a core part of the program. The regional manager will manage and coordinate all stores in a specific region, helping to unify the operating standards of each region and improve business consistency and efficiency.

Walmart is a good example. Walmart has significantly improved operational efficiency through organizational restructuring during its global expansion. It has succeeded in reducing middle management and devolving decision-making closer to the grassroots, making more rapid and flexible decisions. At the same time, Walmart added more regional managers responsible for managing stores in specific regions, and this regional management mode enables Walmart to meet the market demand and operation conditions in each region more accurately. Through these organizational optimizations, Walmart improved decision speed by approximately 25% and improved overall operational efficiency.

Looking at Tesla, this current Fortune 500 company also shows excellent organizational structure design in managing sales positions. Tesla's Chinese Sales management structure is streamlined from top to bottom: general general Manager, District Sales Manager, City Store Manager, and Store Manager. This personnel organization structure and flexible regional manager system make policy and information communication more efficient and convenient. This organizational structure creates a structural advantage for Tesla and lays a solid foundation for its amazing sales performance.

Through the experience of these successful enterprises, the fine-grained adjustment of organizational structure is an effective way to improve management efficiency and operational responsiveness, and it is also the direction that Macy's needs to consider.

3.2. Optimize Corporate Transaction Processes

This part aims to integrate and streamline our transaction processes deeply to enhance Macy's transactional efficiency and eliminate information barriers between departments. Currently, information silos and inefficient processes between departments hinder decision-making, potentially leading to transactional errors and reduced customer satisfaction. Our solutions are designed to address these challenges by integrating information systems and optimizing transactional workflows, fostering efficient inter-departmental collaboration and real-time information sharing.

The plan integrates Macy's information systems to ensure seamless interoperability and data sharing. This encompasses critical systems like ERP (Enterprise Resource Planning), CRM (Customer Relationship Management), and supply chain management. The operators will review and redesign the trading process, eliminating redundant steps and simplifying operations to enhance efficiency and smoothness [6]. The operators will achieve real-time data summarization and sharing across departments through system integration, ensuring decisions are based on timely and accurate information. Additionally, the operators will provide comprehensive training and upskilling to equip our staff with the necessary skills to confidently adapt to the new systems and processes [7].

Amazon serves as an exemplary model of successful transaction process optimization. Amazon has achieved comprehensive transactional efficiency by leveraging a high degree of automation and integrated information systems. Automation technologies like machine learning and artificial intelligence drive Amazon's automated order processing, inventory management, and logistics delivery. Their information systems enable real-time data aggregation and sharing across supply chain, customer service, marketing, and financial management functions, ensuring seamless connectivity and data synchronization.

By adopting similar strategies and leveraging advanced technologies, Macy's aims to achieve comparable improvements in efficiency, decision-making, and customer satisfaction. Our integrated approach will pave the way for Macy's to deliver an enhanced shopping experience while optimizing operational performance.

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3.3. Online Business Model Modification

With the rapid changes in consumer shopping habits, online shopping has become mainstream, and consumers' requirements for shopping experience and service quality are also increasing. To adapt to this change, this study proposes optimizing the online business model to increase efficiency, customer experience, and sales.

3.3.1. Introducing AI Customer Service

This part will introduce AI customer service, which can improve the response speed of customer service and problem-solving efficiency and enhance customer satisfaction. This study believes natural language processing (NLP) and machine learning technologies can automatically answer common questions and provide 24/7 customer support to reduce customer wait times, increase problem resolution rates, and enhance customer loyalty [8].

For example, Bank of America, one of the largest banks in the United States, introduced Erica, an AI-based virtual assistant, to improve customer service quality and efficiency. Using natural language processing (NLP) and machine learning technologies, Erica can understand and parse customer questions and provide relevant answers or solutions. Erica can handle common banking issues such as account balance inquiries, transfers, etc., and provides clients with financial advice and management. With the introduction of Erica, Bank of America has successfully improved customer service responsiveness and problem-solving efficiency. Customers no longer have to wait long for an answer and can get help through Erica anytime. In addition, the introduction of Erica has also enhanced customer satisfaction and loyalty, with many customers stating that they prefer to use Erica for banking operations and consultation.

3.3.2. Implement Online Virtual Fitting Technology

The online virtual fitting technology that has been put into use in NIKE can also be used for reference. The aim is to improve the shopping experience and help consumers choose the right items more accurately. Augmented reality (AR) technology allows consumers to try clothes or shoes online. This can effectively increase the purchase conversion rate, reduce the return rate, and improve customer satisfaction. Nike's "Nike by You" platform allows consumers to customize their shoes to suit their preferences. Through the introduction of AI technology, the platform can provide consumers with personalized product recommendations and design suggestions to improve the shopping experience. Since introducing this technology, Nike's online sales have increased by 15%. In addition, Adidas has a similar technology. Adidas enables consumers to try sportswear and footwear online through virtual fitting technology. This technology improves the accuracy of shopping decisions and greatly enhances customers' shopping experience. Since implementing this technology, Adidas has seen a 10% increase in online sales.

3.3.3. Optimize Logistics Chain and Strengthen After-sales Service

To improve the order processing speed, reduce the delivery time, and enhance the quality of after-sales service. Massey should work with more logistics providers to implement real-time tracking systems to provide faster and more accurate logistics information. China's SF Express partnered with Suning to optimize the logistics chain and strengthen after-sales services, taking advantage of SF Express's extensive logistics network and efficient delivery capabilities to cover more regions and provide faster delivery services. By integrating SF Express's real-time logistics tracking system into Suning's e-commerce platform, customers can view order status and delivery progress in real time, providing more accurate logistics information [9]. Thanks to the fast and accurate logistics service, it

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is easier for customers to complete their purchases and improve the order fulfillment rate. As a cooperative logistics provider, SF Express's efficient distribution network reduces the possibility of delays and damage, reducing the incidence of logistics problems. By providing faster and more accurate logistics information and improved after-sales service, Suning has enhanced customers' trust and loyalty to the brand.

In fact, before this, the Macy's Department store had already cooperated with UPS (United Parcel Service). It cooperates with more logistics companies with deeper cooperation to provide Macy's with more convenient and accurate logistics information and order status.

4. Challenges

Several challenges and issues may be encountered when implementing Macy's digital transformation program, and they need to be addressed to ensure its success. These challenges cut across technical, operational, cultural and strategic levels.

4.1. Data Silo

Integrating new technology solutions with existing legacy systems is one of the most significant hurdles in digital transformation. Legacy systems at Macy's might include outdated hardware, software, or platforms originally designed for different business environments and technological standards. The challenge arises because these older systems are not typically designed to interact seamlessly with newer, more advanced technologies, potentially leading to issues with data consistency, system stability, and workflow disruption [10]. For example, in the case of data silos that enterprises often encounter when undergoing digital transformation, legacy systems often operate in isolation and are not designed to share data with other systems seamlessly. This can create data silos where information is not accessible across platforms, hampering the effectiveness of analytics and business intelligence tools.

Instead of a full-scale immediate overhaul, Macy's could adopt an incremental approach to integration. This method involves gradually phasing out legacy systems by integrating them module by module with the new technologies. This phased approach can help manage risks and reduce the impact on daily operations.

4.2. Change Management

Resistance from employees and management used to traditional workflows can also hinder the adoption of new digital tools and processes. Many Japanese companies have stalled in their digital transformation since entering the digital age because employees resist policy changes.

Having a comprehensive change management plan that includes ongoing training sessions and robust change management practices is important. Incentivize adoption by demonstrating improved efficiency and increased job satisfaction.

4.3. Financial Overhead

Most importantly, the initial investment required for digital transformation can be substantial, with uncertain short-term returns and risks to financial stability. Macy's has been cutting costs in recent years by closing unprofitable offline stores and laying off workers, indicating its financial health is not particularly strong.

So, it may be necessary to proceed gradually with the transformation plan. Phasing out the transformation process prioritizes high-impact, low-cost initiatives, such as AI customer service, which can quickly improve the efficiency and responsiveness of customer service and increase

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customer satisfaction and loyalty [11]. Second, you can reduce upfront costs by forming partnerships with major software and cloud service providers and leveraging their expertise and technology platforms to accelerate your digitization.

5. Conclusion

Macy's is at a critical point in its history, facing the dual challenges of a rapidly evolving retail environment and the need for internal modernization. The proposed strategic changes in people management, transaction processes and online business models are designed to address these challenges head-on, leveraging proven strategies from industry leaders to improve efficiency, customer experience and operational responsiveness.

Influenced by today's very successful modern enterprises, this study summarized the good experience left by Wal-Mart, Tesla and other companies in digital transformation. It provided some feasible digital transformation plans for Macy's in personnel management, high-tech applications, business model transformation, and other aspects to get Macy out of the dilemma faced by the traditional department store industry today.

However, the process of achieving these changes has been challenging. Issues such as data integration from legacy systems, resistance to change within the organization, and financial constraints will require careful management. Adopting a phased implementation strategy, focusing first on high-impact and cost-effective solutions, can help mitigate these risks while maximizing return on investment.

In conclusion, in today's digital age, Macy's digital transformation is an option and a necessity. With careful planning and execution of the outlined strategy, Macy's can survive the current retail challenges and thrive in a future where flexibility, efficiency and customer focus define the market leader. With technology adoption, structural reform, and strategic vision, Macy's can redefine its heritage and secure its prosperous future in the retail industry.

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