

Repackaging of Macy's

Federated devises a national strategy to broaden appeal

BY ANNE D'INNOCENZIO
Associated Press

NEW YORK — Federated is betting it can change how shoppers feel about department stores as it absorbs former May Co. shops and turns its Macy's chain into a national brand with more than 800 stores.

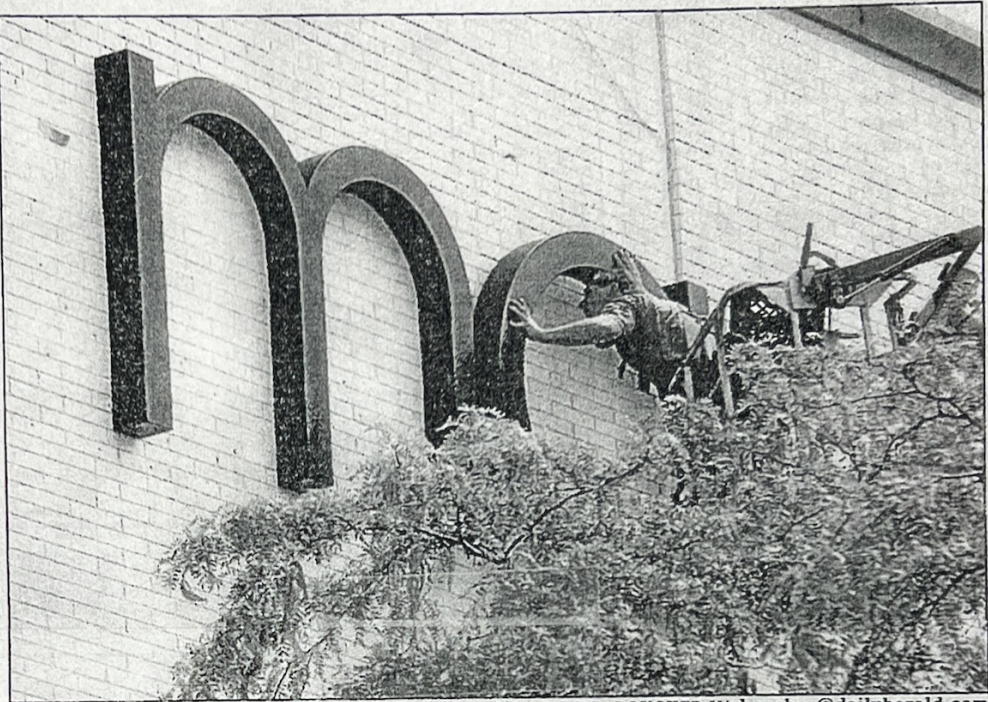
Federated Department Stores Inc., now commanding about 25 percent of the department store business based on figures from the U.S. Census Bureau, is using its increased clout to develop more exclusive merchandise and attract younger shoppers with new features such as robotic vending machines that sell iPods.

Macy's first national TV and print advertising campaign will break Sept. 9 just as more than 400 stores acquired when it bought May Department Stores Co. a year ago — including such homegrown names as Hecht's, Foley's, Filene's and Marshall Field's — are officially converted to Macy's.

So far, the Federated-May combination is on track. Federated, which also operates 40 Bloomingdale's stores, reported on Wednesday better-than-expected second-quarter results and raised its second-half profit forecast.

Still, the behemoth with \$22 billion in sales faces a tough battle on price from discounters including Target Corp. and on customer service from specialty stores such as Chico's FAS Inc. as it seeks to hold on to former May customers and attract new ones.

"The big challenge is to hold on to the local loyalty factor while changing the name and changing the format to achieve success nationwide," said Janet Hoffman, managing partner of the North American



Ward Peters of Olympic Signs replaces a Marshall Field's sign Wednesday at Westfield Hawthorn in Vernon Hills. The new Macy's sign then was covered over to await the official name change.

retail division of Accenture, a consulting firm.

"It's the lack of pizzazz that has hurt department stores," Hoffman noted. Yet, she added, the comfort of having a local store has enabled "department stores to hang on to a thread."

Terry Lundgren, CEO of Federated, says he's unfazed by the challenge.

"Macy's will be the largest seller of all the important brands," said Lundgren, in an interview. "These are affordable luxury. This is not Gucci or Prada. And we are going to be catering to a large cross section of the American population."

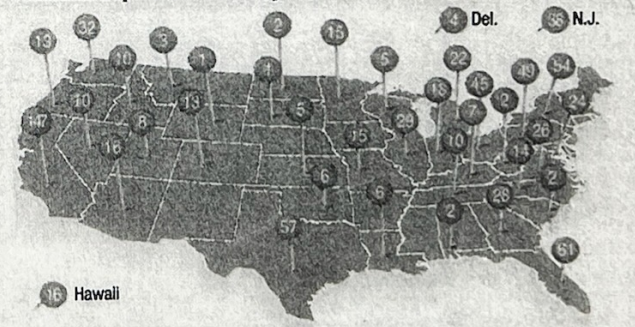
Lundgren emphasized that Federated is not adopting a cookie-cutter approach. Federated's seven regional headquarters will do the buying and planning regionally, but there will be some differences from store to store, Lundgren said.

Federated said Wednesday it expects sales at stores open at least a year to rise between 3 percent and 5 percent in the

Counter-to-counter coverage

Federated Department Stores Inc. expanded its brand to more than 800 stores after buying May Department Stores Co. in 2005.

Federated Department stores by state



Source: Federated Department Stores Inc.

last two quarters of 2006, up from an earlier forecast of 2 percent to 4 percent.

In a conference call with analysts, Karen Hoguet, Federated's chief financial officer, said the company had hoped

for slightly higher sales at the former May stores, whose business has lagged because of all the disruptions. But their performance was within

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