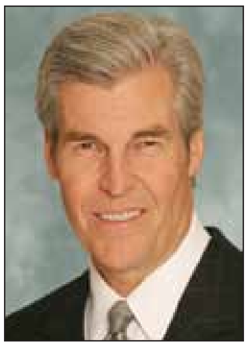
Positioned for Growth

**An Interview with Terry J. Lundgren,
Chairman, President, and Chief Executive Officer, Macy's, Inc.**


Terry J. Lundgren

EDITORS' NOTE *Terry J. Lundgren assumed his current title in January 2004. Prior to this, he served as President and Chief Operating Officer, a title he assumed in March 2003 after having served as President and Chief Merchandising Officer since May 1997. Lundgren began his retailing career in 1975 as a trainee with Bullock's, a Los Angeles-based division of Federated Department Stores, and ultimately became Senior Vice President and General Merchandising Manager in 1984. In 1987, he was named President and CEO of Bullock's Wilshire, an upscale chain of specialty department stores owned by Federated. Lundgren left Federated in 1988 to join Neiman Marcus, where he served briefly as Executive Vice President and, shortly thereafter, was named Chairman and CEO. He returned to Federated in April 1994 as Chairman and CEO of the Federated Merchandising Group. Lundgren holds a B.A. degree from the University of Arizona.*

COMPANY BRIEF *Headquartered in Cincinnati and New York, Macy's, Inc. (www.macysinc.com), is one of America's premier national retailers, operating 40 Bloomingdale's stores and more than 810 Macy's stores in 45 states, the District of Columbia, Guam, and Puerto Rico. The company also operates macys.com, bloomingdales.com, and Bloomingdale's By Mail.*

Were you surprised at how deep the economic crisis became and the speed at which it came about, and where are we today on the road to recovery?

The retail industry felt the impact and the pressure on the consumer almost immediately, via both that consumer drop off and lack of consumer confidence, but also because we order inventory six months in advance. No one was ready for the sharp decline we felt in the last few months of 2008 and early 2009, and we had inventory planned for a slight as opposed to a significant drop off.

Through the downturn, we continued to put pressure on our expenses and tried to manage inventory properly; we also readdressed ideas that we had considered executing in the past, but had not because we were concerned about the negative short-term impact they may have had on the business.

So we consolidated divisions and pushed through aggressive changes in our organization in spring 2008 and spring 2009. That positioned us well for the final quarters of 2009 and 2010.

We accelerated the pace of change in a fairly dramatic way. The timing of the downturn gave us the permission from outside observers to take on all of these massive organizational changes in such a short period of time.

Would you talk about some of the key changes you made, and did employees understand and get on board?

The employees understood that change had to and would occur. We tried to make sure that we were fair with people throughout the process because it was going to mean relocation of more than 1,000 people to different locations. But the response was overwhelmingly positive.

We eliminated division headquarters offices where we had buying, planning, and marketing organizations, as well as a Chairman and a President. We had a full organization structure in seven major cities around the country that were operating regionally and taking care of the stores in their various regions. We went from seven divisions to one consolidated organization.

We now have headquartered all of our buyers as well as our planning and marketing teams into Manhattan at or near the Macy's Herald Square store; we eliminated divisions in six cities; then we relocated former buyers and planning executives to 69 markets around the country and, in each case, anywhere from 18 to 20 people are living in these 69 cities, and their span of control has been reduced dramatically.

As part of a strategy we call My Macy's, we now have locally based merchants and planners with a span of control of 10 to 12 stores. They are fully focused on an area and the 10 to 12 stores they supervise.

That local knowledge is so helpful that we knew My Macy's would be transformational for us, although it was a disruptive risk to the organization in the short term.

How much growth have you seen via macys.com, and are you surprised by the growth many brands are seeing online when you think of what the store experience used to mean?

I was initially skeptical of the business model for the dot-com business, because the large majority of the online businesses had extraordinary multiples because there were no earnings attached to the model. So it was all based on projections.

But the major fallout in 2000 shook the tree of these Internet companies such that what remained were those that did have a sustainable business model that made sense from an earnings as well as a revenue growth model.

So in only a handful of years, macys.com and Bloomingdales.com have gone from a $200-million business to last year exceeding $1 billion online, and this year, we're charging forward to add another $300 million because we're growing at 30 percent-plus so far this year.

But you can't look at it as just an online business in our case because we have such a connection with our customer between the online shopping experience and the store shopping experience, and just one or the other is not good enough.

So the relationship of online and stores is merging and becoming very important. The best customer we have is the one who shops both online and in stores, and more of them are doing both.

During these challenging times, how important is it to maintain the focus on corporate responsibility and how do you balance that need with more limited resources?

We do monthly internal Webcasts to help make our big company act more like a small family-owned company. We make sure we're accessible. The feedback we have received from our employees indicates they realize others are less fortunate and they wanted to continue to give back.

We have become the largest cash donors to the American Heart Association, the Make-A-Wish Foundation, and other charitable organizations.

We have been focusing our attention on the subjects and the charities that our employees and customers have told us they relate to, and that support has been consistent even through these difficult times.

Do you worry New York City is losing its edge to emerging markets as a fashion capital?

I do not. New York City is positioned very well to remain the fashion capital of the world. New York has a combination of that high-end designer level talent but also the broad-based talent that caters to a much broader audience in fashion. Also, the retail component we have is hard to match from the department stores to the specialty store components here. New York is a unique place in design as well as in its retail strengths. ●