

At C Level:

Terry J. Lundgren
CEO, Chairman of the Board,
and President



By Tony Bingham
and Pat Galagan

Massive training effort reinforces culture change on the store floors.

Store Way to the

Terry Lundgren started out in retail in 1975 as a trainee in a Los Angeles department store that was part of the Federated Department Stores empire. A little more than 30 years later, he is the top officer, presiding over more than 850 stores and nearly 190,000 employees of the largest department store company in the United States.

In 2006, the company generated \$27 billion in revenue. In mid-2007, Federated changed its name to Macy's, Inc. to reflect what is arguably the most recognized brand in a group that includes such stores as Foley's, Filene's, and Marshall Field's. Lundgren is credited with leading the effort to re-brand all of the regional stores acquired by Federated under a single name. Macy's red star logo appeared in malls across the country last fall. (Macy's also owns Bloomingdale's.)



Stars



Thanks to the classic holiday movie, *Miracle on 34th Street*, Macy's flagship New York store is known as the place to see the real Santa Claus. Lundgren's office also is here, a dozen floors above teeming Herald Square, the hub of the U.S. fashion industry. *T+D* met him in his office to talk about Macy's top priorities and how employee learning will support them.

Q Let's start with the recent growth of the company. In 2005, Federated acquired the May Company, adding nearly 400 stores to the organization. Can you comment on the role learning played in integrating close to 190,000 employees from both companies into one culture?

A Learning played a big role. Both companies were in the retailing business and in the same shopping centers in many instances, but we had very different cultures.

We knew that we had to be very clear about what our new culture was going to be like. And the only way to do that was to over-communicate to make the strategy clear. We communicated who we were and what we were about, and we gave people the choice to be part of the new culture, knowing that it was probably going to be different than in the past. Ours is a culture of listening to consumers and our sales associates on the floor and trying to be responsive to them both.

We spent time defining roles and responsibilities, particularly in the stores. In the past, one person was responsible for moving the merchandise and presenting it, another was responsible for getting it out of the stockroom and onto the selling floor, and a third person was responsible for selling it. In the May Company environment, many people were responsible for all of those things, so the tendency was for people to migrate to the things they liked doing the most, and unfortunately, it wasn't always sales.

So that whole shift to new jobs, new roles, and new responsibilities was a gigantic change for people, particularly in the stores. There was a tremendous amount of training about what is important to us and what level of customer service we expect. It was a massive effort.

Communication starts with me and continues through all levels of our organization. It is a regular part of what we

do. I meet face-to-face every month with the top 50 people in our company. We spend a full day going through all the business issues. After meeting with me, they have their own division meetings to cover the priorities we're focusing on.

At the time of the acquisition, we brought about 600 May Company executives together for three days to share our strategies in detail. We covered our four core priorities, the guiding principles of the organization, and our values. At the end there was a question-and-answer session. Some people were surprised to discover that they could ask questions and not risk losing their jobs.

And then they just opened up, and we loved that. If we didn't know the answer to a question, we would figure it out and get back to them. I find that if you tell people what the objectives and the goals are, they typically want to help you accomplish them. So I try to keep the list narrow and the communication frequent and clear, and I find people rally behind that.

Q Would you share the four priorities?

A The number 1 priority is differentiating assortments (of products). Consumers tell us they're looking for unique things in our stores that they can't find anywhere else. For example, we just launched a new Martha Stewart Collection of items for the home, and we want to be sure the collection is presented in a way that clearly shows why it's special and different.

The second priority is to simplify our pricing. Customers are giving us very clear feedback that combinations of sales and coupons confuse them about what the prices really are. So we want to simplify the pricing message. And that's really about marketing, which is the next priority.

This third priority is about creative marketing. That means figuring out how to have effective sale and promotional events, but also how to build the Macy's brand. I can argue that it's the most compelling and well-known department store brand in the world because it's nearly 150 years old. The movie *Miracle on 34th Street* and the Macy's Thanksgiving Day Parade have made the name known around the world, and while it has that exposure, it has so much more potential as a national brand.

The fourth priority is to make the in-store shopping experience much better than what consumers are experiencing anywhere else. That includes the way our stores look and the service our associates provide.

Q How does learning fit into those priorities?

A It's critical because of what we stand for. I have a passionate belief that we'll find our greatest success when everyone in our entire company knows what those four priorities are and understands what they mean. And so I talk about the four priorities basically every time I get an audience.

The four priorities are integrated into every formal training program that we do from the time you start your job. We find ways to weave them into almost every sizeable meeting that we have. Every month I do webcasts for about 2,000 senior executives and store managers, and I talk about the priorities. Last summer we took those 2,000 people offsite and talked about the four priorities for three days. We gave them customer feedback and asked them to help us figure out how to take our efforts to support the four priorities to the next level.

Last week I spoke to a training class for new employees in the Macy's merchandising group—about 40 people just out of college. I told them, "If you are not working on one of these four priorities every single day, you're probably not using your time as well as you could."

Q Many of the organizations that ASTD recognizes as the best at linking learning and organizational results use their leaders to teach other leaders. Does that happen here?

A Very much so. That happens at our Leadership Institute in Cincinnati. This year about 650 of our top people will go through the Leadership Institute. When I talk to them about leadership, I will tell them that I believe that good leaders are judged by how their employees feel about them, whether their peers respect them as leaders, and by the satisfaction scores from store customers.

On that front, I know exactly how people are doing. Last year, we had 600,000 communications from our customers and they were very specific about stores where our associates had made them happy and where they hadn't. Performance reviews for store managers are partially based

on the levels of customer service in their stores and by customer feedback. And of course we look at sales results.

Q What is Macy's doing to ensure that it will have the talent it needs to be able to deliver on future strategies and goals?

A I think you have to start at the ground level. I sit on the retail development board at the Wharton School of Business. I'm very involved in the Retail School at the University of Arizona. Recently I've spoken at Dartmouth and Columbia and at the Fashion Institute of Technology and many other campuses. The feedback about our visits has been fantastic. I think that the CEO's personal involvement helps us attract the really good graduates. I'm able to convey some of the passion we have about the business and get them interested in us.

Also this year I started meeting formally once a week for breakfast with some of the high potential young people in our company. In a company with 200,000 employees it's easy to get lost, and while I can't touch all of them, I try to make some connections when I visit the stores.

At the Leadership Institute, we have two accelerated leadership programs. One is for the top 0.5 percent of our leaders, and the other is for the buyers whom we think will be the future leaders of merchandising.

Q What about succession planning?

A With the leadership team, I take part in formal succession planning twice a year. We look at the org charts for every division to see who is at the top and who the backups are for various roles. In some cases, we go down three levels. Then we drill down into their qualifications.

The information we use is all electronic now, starting with the organizational charts and including the whole history of the people we are looking at—their bios, their

job histories, and their strengths and developmental needs. We can click our way through it all and easily fine-tune potential teams. It's very cool.

One of our challenges, as we grow larger, is to maintain the ability to know what people can do so that we can encourage their careers, give them developmental opportunities, and put them in the right jobs at the right time.

Q Are these and other metrics part of a corporate scorecard?

A Yes, we start many meetings by asking, "How are you doing on the scorecard?" You only have to ask that one time, and next time they're ready for you. Either they've fixed their problem, or they've got a really good excuse.

Q What are some of the key metrics for the organization? You talked about customer service. You talked about sales. What else?

A We measure ourselves every day on sales. We get preliminary numbers at about 6 a.m. every day. They're very detailed. If I want to, I can see how many Coach handbags were sold at the Palisades, New York store. So while I'm looking at the total corporation by division, the handbag manager in the Palisades store is looking at detail. That's what we focus on every morning, because if we're achieving our sales plan, everything else kind of falls into place.

We have other metrics that are important depending on where you are in the organization. People in merchandising and sales examine margin of profitability, velocity, the turnover of merchandise in the stores, and overall profitability. And of course, service ratings are extremely important.

On the people front, we look at potential. We really focus more on retention than turnover. We want to retain the best and the brightest. We're in an industry that has turnover, so we want to be sure we retain the people who

are providing great customer service and generating sales day after day. Retention is a major metric for us.

Q Macy's is increasing online sales, or what you call direct-to-consumer sales. Does that change the kind of people you need to be successful?

A Yes, for that segment of the business. We just opened a 600,000-square-foot fulfillment center in Portland, Tennessee. We recruited the head of that facility from Amazon.

Because the online sales business is growing dramatically, and because I feel so strongly that this is the right way to go, we're doing a lot of teaching about it. My belief is that our biggest opportunities will come from the customer who browses online and then comes into a store to try something on or experience it in real time. Then we have them in the store where they will be exposed to all of our other products. To me, the best customer of all is the multi-channel shopper.

Q How do you decide what the appropriate learning investment is for your organization?

A I don't think we have put a limitation on that. At this point, if we keep demonstrating that our people are learning and improving as a result of learning, and if we keep demonstrating that our retention is good because of the learning experiences that we're providing, then we'll keep funding those ideas.

You know, it's very expensive to take leaders out of their jobs for several days and fly them to Cincinnati, but it's one of the single best investments we make in the company. There's no hesitation about doing that.

Q Sometimes when companies fall on hard times, they cut back on training almost as a knee-jerk reaction. What do you think about that kind of practice?

A That does happen, but my view is that it depends on the hard time. If you have a business model that is just completely broken, you probably have other issues to work on besides training. But in a company like ours, when we have bumps in the road, we'll get through them, no question about it.

Q Do you feel pressure to deliver shareholder value?

A Sure, always. But I don't feel pressure day to day. We've grown the price of our stock 24 percent and 25 percent back-to-back in the last two years. I focus on doing the right things, setting the right standards, executing effectively, following the four priorities, and making sure we have the best people in the industry. If we do that, we'll get the results. And when we get the results, the stock will take care of itself.

Q If you had to replace your top learning executive, what would you look for?

A I would look for someone very much like Sherry Hollock, our vice president for talent and organizational development. She has a tremendous work ethic and a broad understanding of our business, not just the human resource piece of it. And she's got a tremendous amount of passion for what she does.

Q Is there anything else that you would like to cover?

A I'd like to emphasize that my role with regard to employee learning is really about communication. When I was the CEO of Neiman-Marcus, I was the first nonfamily member to hold the job, and the company had been in business for 100 years. Things were not going well for the business when I came on, and I had to figure out how to get a groundswell of support for the ideas that I wanted to bring to the company. That was when I started setting up communications meetings.

I started with a series of monthly meetings. They were held at a public library in downtown Dallas. Attendance was voluntary. The first month about 50 people showed up, and we talked for about an hour. The next month there were 200 people. Pretty soon it was up to 1,200 people. Eventually we formalized it into a biannual event, and it became a gigantic cheering squad for the business, which by then had turned around. It's a great example of how communication can bring about cultural change.

We continue that approach today at Macy's with our web casts, our off-site meetings with company leaders, and road shows to our divisions around the country. The message has been fine-tuned to focus on where we are, where we are going, what our strategies are, and how people fit into that.

Even with 850 stores and nearly 190,000 employees, I believe that you can definitely get people to feel as though they're in the know, they have a voice, and that you're listening. I think that company size is no longer a reason for not being able to execute a broad and effective communications strategy.

Terry J. Lundgren was interviewed by **Tony Bingham**, president and CEO of ASTD, and **Pat Galagan**, executive editor of ASTD; pgalagan@astd.org.

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