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Off-Price vs. Department Store Retailing

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Abstract

There are multiple forms of retailing in the United States – two of the most common forms are department store retailing and off-price retailing. Both types of retailers are looking to create profits by negotiating costs with vendors to create suitable gross margins; however, they go about doing so in very different ways. Because I have interned at both types of corporations, my Capstone is to identify which, if either model, is more sustainable in today's conditions.

Department store retailing is the most well-known form of retailing, and is currently the largest sector of retailing in the United States. They have been successful in the United States since the middle of the 1800's, and continue to exceed in the market because they are household names that people trust, and they cater to the middle and upper classes, who place a value on convenience. Off-price retailers are best known for offering designer goods at prices that can be between 20% and 60% lower than their department store prices. It's a far newer concept that tailors its assortment to people who want to buy name brands, but who can't afford or don't want to pay department store prices. There is a place in the market for these retailers because of the growing concern of value. Off-price retailing has been growing at extremely rapid rates in recent years.

My internships, and observations from these internships, at Macy's and Ross Stores is my primary form of research for this paper. I also conducted interviews with industry insiders and consulted secondary sources on the subject.

In order to begin this process, I analyzed the two organizations that I interned at, Macy's and Ross Stores. I assessed each stores strengths, weaknesses, opportunities and threats that I witnessed throughout my time at each company. Taking what I learned from my analysis of the two organizations I had personal experience with, and my interviews from professionals working in the industry, I identified the major similarities and differences in the two business models. After analyzing the similarities and differences, I looked at how the political, economic, socio-cultural and technological externalities affected retailing in general.

Based on all of my primary and secondary research, I believe there is a place in the market for both models of retailing. Because Americans are increasingly price-conscious, off-price stores do have a slight edge in today's market. Off-price stores appeal to a wide variety of customers and offer excellent value to their customers. The stores have been showing incredible growth from year to year, and their customers often leave satisfied, even though the stores lack the "glamour" of department stores.

However, this doesn't negate the fact that department stores still do appeal to a very specific customer that is not going away. The wealthier part of the society still enjoys shopping at department stores for their excellent customer service, their wide assortment and the "feeling" they get when in the stores. Department stores have been successful in the American market for a long time, and even though they have been declining in growth to some extent, they have always managed to come back from these declines in the past. As long as they continue to respond to their loyal customer's wants and needs, there will continue to be a place for them in the market.

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Introduction

Stores and shopping take people and transport them into a world of possibilities, whether they purchase the perfect pair of shoes or a little black dress, the price of which might feed a family of four for a month. Certain stores are known for the elaborate presentation of their merchandise, which can make consumers feel as if they are in a museum. Stores throughout Europe, such as Selfridges, Au Printemps and Harrod's are well known for their visual presentation skills. There are many stores in the United States that are also tourist destinations. Macy's Herald Square is perhaps the best known; however, there was also the Macy's on State Street in Chicago, which was the original Marshall Field's. The flagship Saks Fifth Avenue store in New York City has a shoe department so large that it has its own zip code. All stores want to create a feeling of desire; the feeling that they will be more successful, more desirable if they could only have this bag or those jeans. There is a large variety of activities that are perfected to create this feeling – these activities are what is known as retailing.

Retailing can be described as the set of business activities that adds value to the products and services sold to consumers for their personal or family use (Levy and Weitz 647). All activities associated with retailing are done in order to create profits for the key stakeholders in companies. There are multiple forms of retailing in the United States – two of the most common forms are department store retailing and off-price retailing. Both these types of retailers are looking to create profits by negotiating costs with vendors to create suitable gross margins; however, they go about doing so in very different ways.

Off-price retailing has been growing at extremely rapid rates in recent years with strong results for companies using the off price strategies. Examples are Ross Stores and TJX companies, which produced net profit margins of 8.09% (ROST: Summary for Ross Stores, Inc.) and 7.37% (TJX: Summary for TJX Companies, Inc.), respectively in the 2012 fiscal year. However, department stores have been showing successful results for more than a century. In 2012, the department store group, Macy's, Inc., which includes both Macy's and Bloomingdale's, had a profit margin of 4.82% (M: Summary for Macy's Inc. Common Stock), while Nordstrom's profit margin was 6.05% (JWN: Summary for Nordstrom, Inc. Common Stock). It may not seem like there is a huge difference between 6.05% and 7.37%; however, because these companies have such a high volume of sales, the 1% difference in profit margin leads to a big difference in terms of actual dollars.

During my time at Syracuse University, I have had the opportunity to work as an intern with both Ross Stores and Macy's, which has allowed me to see firsthand the similarities and differences between the two formats of retailing. My observations from both of these internships are my primary form of research for this work. I will explore these differences and similarities, as well as assess both company's strengths and weaknesses. By the end of the project, I will come to a conclusion about which business model is more advantageous in the current climate and for the foreseeable future.

My Experience

Macy's, Inc.

During the summer of 2012, I worked as a planning intern in the Utility Bedding department at Macy's, Inc. at their corporate offices in New York City. Utility Bedding is the area that focuses on all of the white bedding. It includes product categories such as pillow, mattress pads, and down comforters. I worked directly for a planner, but for the first half of the summer, I was also given projects from her associate planner. The buyers and planners have an extremely close relationship in order to make the most informed decisions possible for their business.

Part of my job as an intern was to learn as much about Macy's as possible. There were scheduled events once or twice a week in order for us to get an overview of the company. We had days that were focused on different areas of the business, such as Macy's Merchandising Group, the marketing department and Macys.com, so that we could learn about the different divisions. During these events, there would be an activity for us to complete, as well as presentations from executives within the different areas. There were also events specifically tailored for the buying/planning interns, such as a retail math class and a leadership workshop.

Because "giving back" to the community is a company-wide initiative at Macy's, the interns also participated in a Give Back Day so we could experience this first-hand. I spent one of the days of the internship program volunteering at a camp for underprivileged children, where we helped their staff run a field day.

Additionally, halfway through the internship, the interns attended a presentation given by the chief executive officer of Macy’s, Terry Lundgren, and had the opportunity to ask him questions about his career, as well as his plans for the company.

On days that we were in our respective assigned departments, my job was to assist my planner in any way I could. During this time period, the Utility Bedding department was planning their buy for the Spring 2013 season. I had the opportunity to see and help with many of the pre-planning processes. I also helped my planner manage the current season’s business.

Department stores plan the merchandise that will be in their stores about eight months to one year before the start of each season. When I was working at Macy’s in the summer of 2012, my planner was beginning to plan for Spring 2013. The first step in the process was to create buy sheets for each class within each department. These are the sheets that will eventually become the buy. One of my ongoing projects all summer was to create buy sheets for the Spring 2013 season, using the Fall 2012 sheets. Once they were created, I linked the buy sheets to other reports in our system so that once Spring 2012 inventory and numbers were finalized, the buy sheets would automatically update and redistribute the units that needed to be purchased for the upcoming season.

I was also given the task of updating by month how many receipt dollars each class of goods in our spring 2013 assortment should be allocated. I updated this number on what is known as the C1 report, which is the report that the planners use to allocate how much money the buyers can spend each month in each department on inventory. In order to do this, I analyzed last year's receipts, sales and stock numbers to arrive at a number that I thought would be appropriate for Spring 2013's receipts.

In addition to helping plan for Spring 2013, I helped my planner manage the current in-season business. I was tasked weekly with reading and analyzing the sales reports in order to find trends within our business and determine the best sellers. This information helped my planner manage her departments as effectively as possible. At Macy's, the planners enter the purchase orders into the system. Even though Fall 2012 was already planned, I entered many of the purchase orders for the fall deliveries into the system. This was a time-consuming activity, but it helped me to better understand the order and delivery process.

Ross Stores

During the summer of 2011, I worked as a buying intern for Ross Stores. I was placed with the buyer for men's Moderate Athletic Wear. Athletic wear includes brands such as Nike and Under Armour; however because I was buying in the moderate category, we were working with lower-priced brands such as Champion and Fila Sport. My desk was in my buyer's office, which meant that I got to see first-hand everything that she did. I learned about and assisted her with her morning routine, listened to her phone calls with vendors, sat in on divisional meetings and sat in on meetings with the planner in her area. I learned how to pull general reports from the system, and then how to present them to my buyer, highlighting the specific information that she needed to know in order to make informed decisions. Another job that I was given throughout the summer was to track shipments on the different purchase orders.

One of the challenges of being a buyer at an off-price store is keeping your area's floor full because the buying is done throughout the season, and the amount of merchandise available to off-price stores is dependent on how much leftover merchandise vendors have to sell. This instability makes it even more important that each area keep track of its shipments in order to ensure they arrive on time, and to keep their section well-balanced.

One of the most interesting parts of the job was attending market appointments, both with my buyer and other buyers. I watched them execute relationship buying, because an off-price store has to maintain great relationships with their vendors in order to be considered as the first organization to call when there is merchandise for sale. Each buyer had a different negotiation style, and I took something different away from each market appointment. I also learned how to pull the right reports on selling, in order to prepare buyers for market appointments, so that they were ready to make informed and profitable decisions for their department.

In addition to shadowing my buyer and her assistant, I was also part of the Ross intern program. With the other interns, I listened to executive panels where people at all levels in the company talked to us about their jobs and responsibilities within the company. They would answer any and all questions that we had. I also attended many different training classes that taught the interns about different parts of the business, such as the definitions of off-price retailing, relationship buying and retail math, and experienced the different reports. We had a series of classes that trained us in the different computer systems. We also had the opportunity to meet one-on-one with buyers and planners at all different levels, in order more about specific topics. It was helpful and interesting to meet buyers and planners from different areas because they all had different experiences and strategies to share. It was a good way to get multiple perspectives on the same topic.

As a part of our intern program, I completed a project on the Best and Worst Selling Items of the Spring 2012 season for my area of men's moderate athletic wear. Assistant buyers have best-seller meetings once a month with the different Divisional Merchandise Managers, and as interns, we sat in on all of these meetings. This helps everyone in the company to stay current on trends because there is often crossover between areas. After sitting in on two of these meetings throughout the course of our internship, we were given the opportunity to present to top executives within the company the best and worst sellers, and to describe any trends we identified within our area. We used all we had learned about pulling reports and analyzing them to succeed in this task. I also had to use the public speaking skills that I learned in my classes at Syracuse in order to articulate what I wanted to say in a roomful of people.

History of Department Store Retailing

The article, “Department Stores” in Highbeam Business gives a comprehensive history of the history of department stores in America, the research of which is summarized throughout this section. Today, department stores are for everyone; however, when the first department stores opened in 1846 in New York City, they primarily catered to the city’s elite. The concept for the department stores that consumers are familiar with today was created to make them accessible to women and men of all classes. In order to do this, department stores decided to openly display merchandise on the sales floor in order to encourage browsing as opposed to keeping the merchandise behind the counter. At their core, department stores with elaborate décor and fancy window displays created a new form of entertainment for consumers of all classes. People came to peer into the windows to see what could perhaps be theirs.

Early American department stores sold three major categories of merchandise: “soft goods,” “hard goods,” and “notions.” “Soft goods” included apparel and linens, while “hard goods” included furniture, appliances, and housewares. At this time, department stores also had a “notions aisle,” which consisted of buttonhooks, thread, sewing needles, linens, laces and silks.

Department stores started many trends, and have had a large impact on American society throughout the years. One of their first innovations was the budget floor. Filene’s was the first store to enter this discount market by opening the Automatic Bargain Basement, which sold cashmere sweaters that had been salvaged from a fire at Neiman Marcus and Schiaparelli and Chanel gowns that were salvaged from Paris showrooms in the beginning of World War II.

Sears Roebuck officially invented credit in 1911 when the organization offered farmers payment plans for large mail-order purchases. “Layaway” installment plans became common by the 1920’s, and they were popular because it was the only form of credit available at the time. This helped increase customer loyalty.

Department stores have always catered mainly to women. In 1915, nearly 90% of all department store customers were female; and women began to replace men on the sales floor as well. Today, you can see this trend continue, as many department stores refer to their customers as “she.” They know that women do the majority of the household shopping and therefore the advertisements, displays and store layouts must appeal to women.

Department stores have also had major impacts on holidays, such as Christmas and Thanksgiving. Stores always had very elaborate Christmas décor. Rudolph the red-nosed reindeer became famous when Montgomery Ward gave away a book featuring the character in 1939. However, they had an even more visible impact on Thanksgiving. Until the early 20th century, Thanksgiving was always on the last Thursday in November. However, when the holiday was on November 30th in 1939, an Ohio merchant, Fred Lazarus Jr. campaigned to change the holiday so it was always on the fourth Thursday in November, thus increasing the amount of shopping time between Thanksgiving and Christmas.

Department stores expanded into the suburbs after World War II, when many of their customers moved to the suburbs and the regional and suburban malls began to spring up across the country. During this time, several of the department stores began to focus more on upscale clients and merchandise and many got rid of their discount floor. This allowed for discount stores, like Kmart to enter the market. When banks began to offer general credit cards in the 1960's, customer loyalty quickly decreased. Many department stores were struggling by the 1980's due to the increased competition from discount stores, specialty stores and mail-order stores.

Another change for department stores occurred in the mid-1990's, when department stores started focusing more on apparel and less on appliances. However, customers still were not spending to the same extent because they were trying to "maintain their lifestyles on a smaller budget. Since consumer confidence remained relatively low, many retailers kept markups just high enough to maintain market share" ("Department Stores"). Department store retailers were also challenged in the 1990's due to a change in demographics. The baby boomer generation was getting older and shopping less. Also, the 65+ generation continued to grow, which is a problem for department stores because this generation spends less on apparel goods.

However as the economy improved in 1996, the department stores were able to rebound. In order to come back, the department stores focused on women's clothing, as it has always been successful. The combination of increased demand to the improving economy and higher quality in women's fashions helped to increase sales. Department stores also began focusing on their improved private brands, which have been proven to help increase customer loyalty

However, department stores were not yet completely out of danger. These stores now had to find a way to compete with the discount mass retailers, who were growing in popularity. Some department stores continued to do well in the market, while others could not compete. A new tool that department store retailers had at their disposal was technology. Stores used new technologies such as inventory management systems, replenishment systems and point-of-sale bar code scanning to compete in the market. Some retailers also began to sell their products online.

Another trend in the industry was consolidation, leaving the “industry with a handful of larger, powerful competitors whose focus in the late 1990s was growth through acquisition” (“Department Stores”). In the early 2000’s, the department store chains were struggling again to maintain their place in the market. It was proven that they could not compete with the discount stores on price, as it compromised the quality of merchandise. Therefore, they began to focus more on fashion, like the trendier specialty stores were doing. However, they were still losing sales. “According to NPD Group, a market research organization, department stores lost a collective $2.5 billion in sales to discounters and specialty retailers” (“Department Stores”).

Department stores did begin to rebound again in 2006. In 2007, Federated Inc. changed its name to Macy’s, Inc., as it was now their most successful and most well-known retailer. These were especially good years for the department stores in high-end sector such as Saks Fifth Avenue, Neiman Marcus and Nordstrom.

However, this upward trend did not last long, as department stores such as Macy's, Saks Fifth Avenue and Neiman Marcus were began to close stores and go through mass lay-offs by 2008 due to a decline in sales. Because the economy was not rebounding, department stores executives began to execute changes, such as offering a "'good-better-best mix of brands' targeting every type of potential shopper who walks into their store" ("Department Stores"). They also began to focus more on their online stores, as customers were utilizing these sites to find the best price. In the first quarter of 2010, department store sales began to rebound again. The industry remains quite competitive, and retailers must continue to be innovative in terms of their merchandise and technology ("Department Stores").

Macy’s, Inc.

Organization’s History & Profile

Past

The Macy’s website offers a comprehensive history of the Macy’s organization, which is summarized in this section. In 1858, Rowland Hussey Macy opened R. H. Macy & Co. in New York City as a fancy dry goods store on 14th Street and Sixth Avenue. The sales on their first day were $11.06, and the sales of their first full year were just shy of $90,000. The stores grew at this location until it occupied 11 storefronts. In November of 1902, Macy's relocated to Herald Square on Broadway and 34th Street and became a worldwide attraction for shoppers. In 1924 the store completed its expansion to Seventh Avenue and it became the "World's Largest Store," occupying more than one million square feet of retail space. It became a publicly owned company in 1922, and shortly afterwards, Macy’s began to open more stores and acquire competing retailers. It continued to do this well into the 1990's.

In 1994, Federated Department Stores, Inc. acquired R.H. Macy & Co, creating "the world's largest premier department store company." Federated changed the nameplates of some of their other chains to Macy's throughout the next few years. In 2005, Federated changed all of their regional store nameplates to Macy's, and in June of 2007, Federated Department Stores, Inc. changed its name to Macy’s, Inc. This is around the time when Federated, Inc. bought May Company, expanding the number of stores within the company from about 400 to 800. Since then, Macy’s, Inc. has continued its expansion, and continues to operate stores under both the Macy’s and Bloomingdale’s names (Macy’s: A History - Macy's, Inc.; Macy's, Inc. History - Macy's, Inc.).

Present

Currently, Macy’s operates about 800 stores in 45 different states, Washington, D.C.; Guam; and Puerto Rico, in addition to Macys.com (About Us - Macy's, Inc). Macy’s, Inc. also owns the Bloomingdale’s name, which operates 37 stores in 11 different states, as well as 7 outlet stores and a licensed store in Dubai (About Us - Macy's, Inc.). In total, Macy’s Inc. employs about 171,000 people (About Us - Macy's, Inc.), and their total revenue for 2011 was $26.84 billion (M: Summary for Macy's Inc. Common Stock).

The company is currently expanding its flagship location, Herald Square, which has become a destination for tourists visiting New York City. Macy’s has developed into “America’s Department Store,” reaching people with stores located throughout the United States and through public events such as the Macy’s Thanksgiving Day Parade and the Fourth of July Fireworks. It has responded to a challenging economic climate by providing its employees with a clear business strategy, enabling them to always act within Macy’s best interest.

Future

In the future, Macy’s plans to continue growing and improving their business operations. A huge initiative right now is attracting the millennial generation into their stores. Macy’s executives know that the Baby Boomer generation likes to shop at Macy’s and that Macy’s is often their destination when shopping for their families and homes. However, they have also realized that the millennial generation, which is the generation aged between 12 and 30, do not really shop at Macy's because it is " not cool enough" for them. Macy's Merchandising Group, which is Macy's product development organization, is currently developing private label brands through to specifically appeal to this age group and is partnering with celebrities and television shows that are popular within the age group in order to help change their perception.

Macy's online business, also a focus, is growing rapidly, especially as compared to the rest of the company. Last year, the online business showed a 52% increase in December sales, and in 2012, Macy's had more than $2 billion in sales online (Macy's shows it can make big bucks online). Focusing on online sales and further developing it's website and applications will continue to be ongoing initiatives.

SWOT Analysis

Strengths

One of Macy's strengths is the fact that it has a clear strategy, known as MOMM. Every employee is aware of this strategy and bases their decisions upon. MOMM stands for:

My Macy's

Omni-channel

MAGIC Selling

Millennial Generation

My Macy's is a localization strategy that was developed and piloted in 2005. It tailors each store to the specific needs of the customers in a particular region, in order to capitalize on all opportunities. Their omni-channel focus means contacting their customers, not only through physical stores but also through their online website, smart phones and tablets. MAGIC selling is the method their employees use to sell to customers in-store and on-line. Finally, Macy's will focus more on appealing to the millennial generation as they are growing at the fastest rate and spending the most money. Macy's strategy is clear-cut and will help the company generate more revenue and attract more customers to the store.

Another one of Macy's strengths is its product development organization, Macy's Merchandising Group. The employees at MMG develop new proprietary brands that do not exist within Macy's current product offerings or ones that cater to a certain market that Macy's does not yet serve. These brands are exclusive to the company, meaning once customers become loyal to one of these brands, they will come to Macy's in order to find merchandise from that brand. In addition to providing exclusivity for Macy's, private labels allow Macy's to offer the same trends as designer brands at much lower prices. Cutting out a step in the value chain means there is less total mark-up on these products, which means Macy's can price them lower than competing designer brands and also earn higher margins. Today, their private brands make up between 35 and 40% of their total business.

Product development is an important initiative for Macy's as it is one of the strategies they are using to attract the millennial generation. In the article, "Macy's Millennials Strategy Grows Private Brands," Macy's Chief Merchandising Officer, Jeffrey Genette is quoted saying, "We have identified

Millenials as a priority customer for Macy's, and we know that growing our relevance for this customer will start with product. Over this season and spring 2013, we will be introducing 13 new brands targeted to a cross-section of lifestyles, as well as growing those within our current portfolio that are already passion brands for this customer. This product investment and repositioning is the first phase of our Millennial strategy and will help strengthen Macy's credentials and credibility with this customer by offering them newness, fashion and innovation across product categories and lifestyles" (Durham). This shows that Macy's leadership is well aware of their customers, as well as the flaws within their organization, allowing them to find improvements.

Macy's is fully aware of its customer demographics and excels at catering to its customers in different areas. The My Macy's program is a localization initiative that strives to reach customers in ways that appeal specifically to them. Their goal is to use data collected at a regional level to stock stores in different regions differently. Buyers and planners work with the regional and district planning managers to identify trends that they can capitalize on. Because the buyers and planners are located in New York City, they do not often visit all of the 800+ of the stores located around the country. However, the district and regional planning managers do, which allows them to identify trends and develop insights into what customers in specific areas want. This information helps the buyers and planners stock the stores accurately, which has led to a significant increase in sales. For example, in Arizona they did not offer slippers in their stores year-round because Arizona is classified a "warm weather" state. However, in a Macy's store located near an assisted living facility, many of the people who lived there came to Macy's asking them for slippers even in the summer. When this was discovered, Macy's stocked slippers in that particular Macy's year-round, and saw a noticeable increase in sales (This information was shared with all the interns during the summer of 2012).

Weaknesses

One of Macy's biggest weaknesses is the lack of maintenance of their physical stores. The store that they use for their advertisements is kept neat and organized, but this is not the norm. In many stores, there is often too much merchandise for the amount of space. As a result, the stores get extremely messy and disorganized particularly in the clothing departments, where the merchandise is frequently put back by customers and/or employees in the wrong place. It causes confusion for shoppers and when they find something they like, but can't find it in the right color and size, leading to a loss of sales. If Macy's were to 'clean up' their stores and keep them as organized as the prototype in Jersey City, customers would enjoy shopping there more, which would lead to more frequent visits and increased profitability.

Similarly, the online website is also not well organized. Items do not always show up in the subcategories that consumers would expect, which makes it difficult to shop for something in particular without being forced to look at every single item in the category of business. For example, if customers are looking for an evening shoe, they have to look through all the shoes if they want to be sure not to miss something that they like. This is very time consuming for shoppers and does not encourage frequent visits to the website. Along the same lines, online customer searches often return too many results, which means that it takes too much time to sift through the results to find what one needs. These factors impeded the shopping process, and reduce the customer's motivation to make a return visit.

Another weakness is the process that each buyer and his or her assistants must go through to get their products into the Macy's print ads. Each week, the Macy's staff is working on ads for different marketing events that are planned three to six months in the future. The process to get products into an ad requires multiple steps that are overly complicated and often take a long time to complete. Because there are so many steps, and different approvals needed from different people at various points in the process, the lead time can be up to six months before the marketing event. Moreover, the system does not allow for flexibility and the opportunity to capitalize on current trends.

Opportunities

One big opportunity that Macy's has is to 'clean up' their stores. The stores have been known to respond well to challenges and contests initiated by some of the buying and planning teams. This shows a motivation within the employees to help the corporate office when they can, and this may also suggest hiring more people in their stores. Often, the stores seem understaffed for their size. If more people were hired, it would be much easier to keep the stores clean as each associate's area of responsibility will shrink, allowing them to help their customers and maintain a certain level of cleanliness and organization. If Macy's hired more people and challenged their associates at each location to clean their stores and keep them organized and easy to shop at throughout the day, Macy's would doubtlessly increase their sales. When products are easier to find and see on the floor, customers will be less likely to get overwhelmed and walk out without making a purchase. While hiring more employees would be an increased cost to Macy's, the benefits would most likely exceed these costs, as cleaner stores would mean losing less customers and attracting a higher caliber of customers who would spend more in the stores.

Macys.com has already been experiencing a rapid growth in sales, but they too have the opportunity to further expand. In 2012, Macy's online sales passed the two billion dollar mark for the first time (Pasquarelli). With net sales in total at about $26 billion in 2012, this means that online sales accounted for at least about 7.7% of total sales. With the ongoing trend in online shopping, Macy's has the opportunity to reach wider demographics than ever before. Research has proven that customers who shop through multiple channels of distribution spend more money with a company than those who only shop at one channel. This is proven by a study done by PWC on multi-channel retailing. They found that, "when consumers use multiple channels, the majority spend more at their favorite retailers. Nearly one in five says they're spending at least 25% more" (Maxwell).

One way to grow their on-line customers and increase loyalty is to improve the website. If the online shopping experience was more pleasant and efficient, customer retention would likely increase, and the number of repeat visitors would be likely to increase as well.

Macy’s also has an opportunity to grow their business by creating additional lines within Macy’s Merchandising Group (MMG) that target the millennial generation. Proprietary research that Macy’s executed indicates that almost 75% of girls in the millennial generation identify with the Girl Next Door image (This information was shared with all the interns during the summer of 2012). This is the girl who wants to look cute and fun, yet have her wardrobe be practical for all facets of her life at the same time. Other stores, such as Target, Uniqlo, H&M and Zara have all managed to provide clothes that fit this description at competitive prices. However, this type of merchandise remains mostly unrepresented on the Macy’s floor. If they created a line within MMG that catered to this customer, they could expand their customer base.

Threats

Macy’s primary threat is competition coming from both the off-price and regular-priced retailers. While Macy’s has extremely strong brand recognition, they are in an industry that is highly competitive, with little customer loyalty. There is fierce competition in the United States retail world. According to the 2007 Economic Census, there were 1,122,703 retail establishments occupying 14.2 billion square feet of retail space. This means that there is 46.6 square feet of retail per person in the United States. Comparatively, this is almost exactly double the amount of square feet in the UK, and most have even less than this. Canada has 13 square feet per capita, while Australia has only 6.5 square feet per capita (“Country by Country Per Capita Retail Space Comparison”).

Many customers will buy from the store that offers them the best value, especially in a difficult economy. Off-price retailers have been growing consistently in recent years, and even though the product mix between off-price retailers and Macy’s differs, competition from this sector cannot be overlooked. Off-price retailers, including TJ Maxx, Marshall’s and Ross Stores, are offering some designers that sell to Macy’s as well, but off-price retailers sell this merchandise at deeply discounted prices. Customers who are price-conscious can look to see which store offers better deals on the same or similar merchandise.

Other competitors of Macy’s include Target, Kohl’s and JC Penneys. These stores may not offer the same brands and designers that Macy’s carries, but the product mix and quality is similar, making the competition among these stores fierce. All three of these retailers also offer proprietary brands, just as Macy’s does, in an effort to create brand loyalty.

Currently, Macy’s research indicates that the Baby Boomer generation is their most loyal customer. The threat, however, is that this generation is starting to retire. When the age of your main consumer group gets older, naturally there is a threat to the retailer because with fewer shoppers, sales revenues are likely to decrease. According to the article, “Baby Boomer Spending Habits: Here’s What’s Really Hurting their Retirement,” the baby boomer generation is spending less money than ever before on apparel, for many reasons including mortgage debt and increased cost of a college education for their children. Food purchases declined 18% and spending on household furnishings fell by nearly one-third for 45-54 year olds; however, apparel suffered the most. It fell 42% for 45-54 year olds and 70% for 55-64 year olds (Touryalai).

People of the baby boomer generation are spending less money on apparel, most likely because they have acquired a lot of clothing throughout the years that still fits and is in good shape, and they want to save their money for more important things. Because apparel is Macy's main category, this decline in apparel spending is a big threat for them. Macy's is working hard to develop relationships among the younger generations.

Another threat that could affect Macy's in the future is the product development cycle within Macy's Merchandising Group. The vast majority of the materials and factories are located in foreign countries, such as China. If there were ever a national security crisis that stopped trading/shipping or a problem with a specific country, Macy's would certainly suffer because they would not be able to get their inventory back into the United States.

Competitive Advantage

Macy's has a strong brand reputation. Because of its vast advertising efforts and well-known name, almost all Americans know about Macy's. The Macy's Thanksgiving Day Parade and the Macy's Fireworks display on the Fourth of July have brought recognition to the Macy's brand. Because of their strong reputation, Macy's has marketed itself as "America's Department Store." This is a highly prestigious (if self-endowed) title, and is one that has helped to make Macy's a must-see tourist destination, especially the Herald Square location. The Herald Square flagship store is a fixture in Manhattan, and people come from all over the world to shop there.

In addition to having a good reputation with customers, Macy's also holds a lot of influence within the retail world. Because it is such a large chain, operating about 800 stores in the United States, it has a lot of buying power over their suppliers and their competition. Macy's key vendors rely on Macy's to make very large purchases in order to keep them in business each season. This means that they are forced to be very flexible in their prices because they cannot afford to lose the Macy's business. Macy's has power over their competition because it has the ability to set their prices. No store wants to be priced higher than Macy's on a certain item because consumers are not loyal. Due to this power, many retailers consider Macy's to be their fiercest competition.

Another competitive advantage that Macy's has is extremely popular brands that are exclusive to Macy's. Macy's Merchandising Group attempts to design, often successfully, brands and products that fill a void in the marketplace, and it offers these products at a good value to the customer. An example of this is INC, which provides basic pieces that are essential to people's wardrobes. The merchandise is similar to that of Jones New York; however, the brand yields higher gross margins for Macy's. Bar III is another highly successful example of this. The brand is designed for the millennial generation, which is a generation that Macy's must attract in order to retain their success in the marketplace. It is fast fashion, and the pieces that Bar III offers are trendy and affordable, which is exactly what many people in this generation want.

Along with offering innovative brands, Macy's has found a lot of success in its celebrity partnerships. Partnering with celebrities has given Macy's an edge up from their competition because consumers today worship these celebrities and want to be just like them. Buying clothes from their line at Macy's is one way that people can emulate their favorite stars. One highly successful example is their partnership with Martha Stewart in the home department.

Macy's in-depth research on their customers is also one of its key competitive advantages. Very few retail stores have localization strategies that are as developed as the My Macy's program. Macy's has increased its revenue using this program by capitalizing on trends that only affect certain locations. This requires a strong partnership between the regional and district managers and the buyers and planners in New York City. Without the help of the regional and district managers, it would be much harder for the buyers and planners to find and capitalize on local trends. Macy's has worked hard to establish systems that make this communication easier.

A final advantage that Macy's has over its competitors is its clear strategy and goals. The executives at Macy's know exactly what Macy's short-term goals, long-term goals and strategy are, and they are committed to making decisions that align with Macy's strategy and that will help Macy's accomplish these goals.

Ross Stores

Organization's History & Profile

Past

The Ross Stores website gives a summary of its history, which is summarized in this section. Ross Stores was founded in the San Francisco Bay Area. Six department stores selling junior apparel were converted into the off-price format in August 1982. In August 1985, Ross Stores went public with its first IPO. By 1986, the company had expanded to 121 stores in 16 different states. Total sales that year amounted to $534 million. Between 1987 and 1989, expansion slowed down to manage growth. Ross Stores grew throughout the 1990's, and by the end of 2000, the organization had expanded from apparel to home, and they had total revenues amounting to $2.7 billion in a total of 409 stores. In 2004, Ross Stores launched dd's Discounts. This new format offers customers more moderately priced brands at even heavier discounts. dd's Discounts had a much narrower target market than Ross Stores; it is more focused on targeting a more urban, Hispanic population with an even smaller disposable income. Throughout the years, Ross Stores has been the most successful when focusing on its core, off-price strategy ("Historical Highlights").

Present

The Ross Stores website gives the current state of the company, the findings of which are summarized in this section. The Currently, Ross Stores is the second largest off-price apparel and home goods chain in the United States. Its headquarters are in Pleasanton, California, and the chain has buying offices in both New York and Los Angeles. There are currently 1097 different Ross locations in 33 different states, Washington, D.C., and Guam. In addition, there are 108 dd's Discounts in eight different states. Because these are off-price stores, they offer all of the same brands that people know and love from department stores at prices that are about 20% to 60% less than the department store and specialty store prices. In 2011, Ross Stores total revenue grew to $8.6 billion dollars, and they are 299 on the current Fortune 500 company list. Ross Stores has strong leadership, which comes from its current Chief Executive Officer, Michael Balmuth. He provides a strong vision and goals for Ross Stores and he understands how to execute them in the market ("Corporate Profile").

Future

Ross is continuing to expand its presence around the country. In 2011, Ross Stores entered the Midwest market by opening 12 stores in the Chicago area. It has plans for continued expansion of both Ross Stores and dd's Discount's. They plan to continue using the same formula of offering brand name clothes at bargain prices, which has been proved to be successful through the years.

SWOT Analysis

Strengths

The main strength of Ross Stores is the high value of its merchandise. All of its merchandise is of high quality, yet is priced between 20-60% less than at a department store. Ross Stores carries name brands that everyone knows, such as Nike, Ralph Lauren, Tommy Hilfiger and Quiksilver, to name just a few. Many of these vendors sell leftover or returned merchandise from their department store buys to off-price stores at heavily reduced prices. These are called close-outs, and they are the reason that Ross can price its merchandise so low.

Depending on the department, these ‘closeouts’ make up anywhere between 30% and 80% of the buy each season. However, sometimes the buyers work with their vendors to create pieces exclusively for Ross Stores with the brand name attached to them. These goods are always high quality, sometimes even higher quality than what was leftover from a department store’s order. These are called ‘make-ups,’ and depending on the department, they can make up anywhere between 20% and 70% of the buy. Departments with a lower percentage of ‘make-ups’ often have higher gross margins, as make-ups are more expensive than ‘closeouts.’

Another strength and core competency is Ross’ extensive training program for new employees. During the first six weeks, even though new employees are given an area of responsibility, they also participate in an orientation schedule that familiarizes with different aspects of the company. Like interns, they participate in classes taught by two former General Merchandise Managers. They cover topics that will be important to them when managing their business, such as analyzing reports, using retail math and deploying effective negotiation strategies. They also get extensive training on Ross’ computer system, such as how to pull reports from the system and enter purchase orders. The extensive training that new employees go through gives them the skills, and the confidence that they need to run their business successfully.

The independence that Ross gives to its buyers is another strength of Ross

Stores. Once the buyers are trained, they have the freedom to run their own business within the company, within certain constraints. They are given goals in terms of revenues and gross margins that the company wants them to hit, but they have the power to make decisions regarding their assortment, prices, markdowns, etc…This level of freedom has helped Ross Stores to maintain a very positive corporate culture within their organization. Employees stay with Ross Stores and grow within the company because they feel valued, and they enjoy going into work every day. Giving buyers this freedom also benefits the company, because when people feel a sense of responsibility and ownership of a business, they are motivated to work even harder, as their work is a reflection of themselves. This also gives them the chance to build lasting relationships with their vendors. This is a major asset for Ross Stores as it has the potential to get better merchandise for better prices than other off-price companies.

Another key asset that Ross Stores has is the location of its buying office in New York City's garment district. This location is what gives buyers the ability to be in the market all the time, instead of a few specified times each year. Buyers receive calls about merchandise that vendors have available, and if their schedule allows, they can be in market later that day. TJ Maxx and Marshall's primary buying offices are located in Boston, making it harder for them to be in the market as often, as it requires flying into New York City. Because they are Ross' greatest competition within the off-price world, having a primary buying office in New York City is a huge advantage.

Weaknesses

One of Ross Stores' weaknesses is the condition of its physical storefronts. Many are very run-down. While there are definitely customers that do not mind their condition, this can be unattractive to some customers and possibly deter them from coming back. Another problem with their physical stores is that they are disorganized. Throughout the day, things within the stores get picked up by customers and then put down in different places. The misplaced merchandise does not really get reorganized throughout the day, and it does not even always get put back before the next business day. Again, this is because Ross' business plan does not support money being spent on extra staff to do this, so that they can keep their prices lower. However, this means that if people go in to look for a dress, they have to sift through all of the merchandise, instead of just one section, to make sure they are not missing anything. The shopping experience at Ross is described as a "treasure hunt," and while this definitely has an appeal to some customers, it could be a reason that they lose other customers who do not want to spend the time it takes to shop there.

Another weakness of Ross Stores, in some areas, is the large number of 'make-ups' that they do. Much of their merchandise is 'closeouts,' which is merchandise that vendors have left over from other orders that they over-cut for, or for orders that stores place and then return for some reason. However, sometimes there are not enough 'closeouts' available to fill the racks of the stores, and so they have to do 'make-ups.' These are pieces that are designed solely for Ross Stores by the vendors, and while they are still of high quality and have a brand name, they are more expensive because they are made specifically for Ross. The buyers can get better prices on 'closeouts' because the vendors are looking to get rid of their merchandise. However, some buyers still do a majority of their business in 'make-ups.' Although these guarantee a fuller floor, the items are not as valuable to the customer or the store because they are either priced higher or are being sold at a lower gross margin than other goods.

Opportunities

A big opportunity that Ross Stores could capitalize on is expansion outside of the United States. Their largest competitor, TJX Companies, which operates TJ Maxx and Marshall's, has opened Winners in Canada and TK Maxx in multiple European countries, including: England, Ireland, Germany and Poland. Marshall's also has locations in Canada and Europe. These stores have been successful, which proves that there is a market for off-price retailing in Canada and Europe. Expanding outside of the US would create endless new markets for Ross, and also give them easy access to European vendors.

Another opportunity for Ross Stores would be to create a website where consumers can shop online. Regular-priced retail stores, such as Macy's and Kohl's, have found that having multiple channels where consumers can shop increases their spending, and as a result, the company's total profits. While the off-price model is different, their largest off-price competitor, TJX, has an online store, showing that an on-line store can work in this format. Creating a website where consumers can shop from their homes would definitely increase awareness for the store, as well as expand the scope of their market to states where they do not have physical stores. An online store would also be an asset for Ross Stores, as its merchandise is changing daily, and shopping at a store daily online is much easier than physically visiting the same store every day.

Threats

One of Ross Stores' biggest threats is their competition, specifically with their largest competitor, TJX Companies, which owns TJ Maxx and Marshall's. Many Ross customers also shop at TJ Maxx and Marshall's because they are very price-conscious and want to get the best deal possible, but also want to be on trend and are driven by brands. These customers are shoppers, and they want to go to the store that always gives them the best prices. This means that competitive shopping is important to Ross Stores, so they can make sure that their price on item X is as low or lower than item X's price at TJ Maxx and Marshall's. If TJ Maxx or Marshall's prices its comparable goods lower than Ross Stores, Ross is in danger of losing these very price-conscious, yet also brand-conscious customers.

In addition to competing for the lowest price on goods, TJX is also in the same market for merchandise that Ross is. The two companies often work with the same vendors, and therefore, Ross Stores is constantly competing for better and closer relationships with their vendors than TJX, so they can be assured of getting the first call if the vendor has leftover merchandise that they are willing to sell at a discount.

However, in addition to other off-price stores, Ross competes with mid-level department stores, such as Kohl's, JC Penney and Macy's. Ross' customers are often frequent bargain shoppers. They shop a lot, and are always looking for the best deal. This is why stores like Macy's, JC Penney and Kohl's are also important to watch. These stores often run sales that can be 50% or more of the original price. In addition to some of their annual sales, they send coupons through the mail for a percentage or dollar amount off of one purchase. Kohl's offers Kohl's cash, which acts like cash towards a purchase and accumulates as you spend money in the store. Because prices have often become so low at department stores, customers may not see the need to shop at off-price locations to find a deal anymore.

Another threat that Ross Stores could potentially face is a lack of vendors. This is why it is so important for Ross' buyers to develop strong relationships with all of their vendors. Ross Stores needs to be the vendor's first call every time a vendor has extra merchandise that they are trying to sell off at lower prices. This would mean that they will have better merchandise than their competitors. Ross' customers are often savvy and are always looking for a deal, making it important for Ross to always have the best merchandise on the floor. If there is a lack of merchandise for even one season, it could threaten their reputation with their customers, causing a decrease in profits.

Competitive Advantage

One of Ross' competitive advantages is its pricing strategy coupled with their delivery strategy. The prices, which are consistently low, attract customers to the store. However, as opposed to many regular-priced stores, their merchandise is always changing. The individual stores get multiple shipments per week. This means that there is always new merchandise on the floor, encouraging shoppers to come back several times in a month. Also, because the prices on all of the items are so low, many people do not walk out of the store buying only one item. The low prices encourage shoppers to buy more goods.

Another competitive advantage that Ross has is its human talent. Ross spends a large amount of time and money hiring capable people and then training them to think like Ross employees. They also spend a lot of time on performance reviews, so that their employees know their strengths and weaknesses. Because the employees feel that they are important, they tend to stay with the company for long periods of time. It is not uncommon to find a Department Merchandise Manager who has been with the company since he or she started as an assistant buyer. Another reason these employees stay with the company for so long is that they feel trusted. Upper level management trusts buyers to make million-dollar decisions for their departments and businesses on a daily basis. This freedom is important because employees feel that their opinions are valued and respected.

This freedom that employees have also helps to create another competitive advantage for Ross Stores: their company culture. An Assistant Buyer describes Ross' company culture as "entrepreneurial and opportunistic" (Ciatto). Ross' employees enjoy coming to work everyday because they feel responsible for their department and want to see it performed well. The employees also feel challenged and motivated by the goals they set at the beginning of each season for net sales and gross margin. Because of this positive culture, employees stay with Ross Stores for a long time, and grow within the company; which is a huge asset for the company. The company culture at Ross Stores allows them to retain their talent and also helps them to attract new talent.

Similarities

Both retail business models have a similar consumer that they must please.

In retail, nothing is more important than customers. Without customers, retail stores would not be able to profit because they would have no one to consume the goods and services that they are providing. The low-middle end department stores and off-price stores have a huge overlap in customers. Many customers who shop at Ross and TJ Maxx also shop at Macy's, Kohl's, Target, JC Penney and Dillard's. Consumers are becoming smarter; they know that all stores have sales and are aware of the high mark-ups in certain stores. They shop frequently, and are constantly in the market looking for the best deal whether in-store or online. Customers today are cross-shopping, meaning that they are not loyal to a single store anymore, or even to a certain business model. They will buy what they need from whichever store is giving them the best value. This is partly why many of the department stores should be looking at off-prices stores as their competition and vice-versa.

Both retail business models have to make a profit.

While all off-price stores and department stores have fundamentally different business models, they still have certain things in common because both share the common goal of making a profit by providing goods and services to their customers. The ultimate goal of every business, off-priced or regularly priced, is to make money. In order to do this, they must earn more money than spend. This is why both types of retail companies place importance on having a sufficiently high gross margin (revenue minus cost of goods sold). While the gross margin goals differ from company to company, they are equally important, and often the most important goal that buyers and planners are required to meet each season.

Both retail business models are bound by a certain set of rules.

Many retail companies, both off-price stores and department stores, are publicly traded companies. TJ Maxx, Kohl's, Ross Stores, Macy's, JC Penney and Nordstrom are all publicly traded retail corporations. Because they are publicly traded, they have to follow another set of laws in addition to the ones in the uniform commercial code. Publicly traded companies are legally bound to release information regarding their financial state to their investors and potential investors. Along these same lines, both types of companies are retail businesses, meaning they must comply with all federal and state regulations. One important body of law is the Uniform Commercial Code, which provides retail organizations with laws that ensure fairness in all business transactions, with customers as well as other businesses.

Branding.

All companies have to build their brand so that customers know what they are getting when they walk into a store. One way to do this is consistency. Because they have different business models, each store is trying to build a different brand. For Ross Stores, TJ Maxx and Marshall's this means that they must offer their customers the best value and the best "deals," every time they walk into the store. For Macy's, this means that they must make their customers "feel the magic" every time they enter the store. This means not only having great merchandise all the time, but also that immeasurable quality that comes from service, or Christmas decorations, or a great sale. For Nordstrom, it means always providing each and every customer with impeccable service, inspiring them to buy. If stores can build a reliable brand, they are more likely to get regular customers who come to shop at their stores more, and therefore spend more. In retail, the customers mean everything. However, stores must build a reliable reputation with their suppliers as well. This means placing orders often, paying on time, and representing their vendors' brands in the best possible way on their sales floor.

Planning.

Even though off-price stores and department stores purchase their goods differently, both types of organizations have to plan their seasons carefully in order to ensure that they hit certain goals each season, and of course, stay cash-positive. Most retail organizations have planners who work with each buyer in their business. The role of a planner is to tell the buyer how much money they can spend for each class of goods in each department, and how much gross margin they must be getting from each class of goods and each department that they manage. Broadly speaking, the planners manage the buyers' checkbooks, in order to ensure that the buyers are doing their part to help the company meet profit and gross margin goals.

Differences

There are significant differences between the traditional model and off-price model of retailing. Listed below are the major differences, in order of importance.

Vision Statements

Off-price Stores

“Our mission is to deliver an exciting, fresh and rapidly changing assortment of brand-name merchandise at excellent values to our customers. We define value as the combination of quality, fashion and price.” (“The TJX Companies, Inc. History”).

“Ross Stores' mission is to offer competitive values to customers by focusing on the following key objectives: achieve an appropriate level of brands and labels at strong discounts throughout the store; meet customer needs on a more regional basis; deliver an in-store shopping experience that reflects the expectations of the off-price customer...” (“Ross Stores, Inc. History”).

Department Stores

“In store or online, wherever new opportunities arise—Nordstrom works relentlessly to give customers the most compelling shopping experience possible. The one constant? John W. Nordstrom's founding philosophy: offer the customer the best possible service, selection, quality and value.” (“Company History”).

“Macy’s, Inc. is a premier national omnichannel retailer with iconic brands that each operate outstanding stores and dynamic online sites. Both Macy’s and Bloomingdale’s are known worldwide, and each has its own unique identity and customer focus. Macy’s, Inc. clearly recognizes that the customer is paramount and that all actions and strategies must be directed toward providing a localized merchandise offering and shopping experience to targeted consumers through dynamic department stores and online sites.” (“Corporate Vision, Philosophy and Financial Objectives”).

“At Saks Fifth Avenue, we promise a distinctive service experience and product offering that will enable each customer to look and feel their best” (“About Us”).

Analysis

As both of the vision statements for the two largest off-price chains operating in the United States convey, off-price companies place a huge emphasis on name brands and good values, namely offering designer brands to their customers at very high discounts. Their focus is on the merchandise – their customer wants quality merchandise, from labels that she knows; however, she will not pay full price for these items. Off-price stores acknowledge that their customer is willing to come back often, and hunt for what she is looking for.

This is in stark contrast of the department store's vision statements, which are largely centered on a high quality experience, and how the customer feels when she is shopping. The department stores are as focused on servicing the customer in the best way possible as they are with offering their customers high quality merchandise. The difference in the visions for each company is why many of the differences between the two business models exist.

By the Numbers…

Off-Price Stores

	TJX	Ross Stores
Net Sales, 2012	$25,880,000,000	$9,720,000,000
Net Sales, 2011	$21,942,193,000	$8,608,291,000
Growth in sales ('11-'12)	17.95%	12.91%
Number of Doors	1864	1199
Sales per door	$13,884,120	$8,106,756
Profit Margin	7.37%	8.09%
Gross Profit	$6,340,000,000	$2,370,000,000
Net Income	$1,910,000,000	$786,760,000

Figure 1 – Comparative Statistics of leading off-price retailers ("Yahoo! Finance")

Department Stores

	Macy's, Inc.	Nordstrom	Saks
Net Sales, 2012	$27,690,000,000	$12,150,000,000	$3,150,000,000
Net Sales, 2011	$26,405,000,000	$10,877,000,000	$2,785,745,000
Growth in sales ('11-'12)	4.87%	11.70%	13.08%
Number of Doors	848*	240**	46***
Sales per door	$32,653,301.89	$50,625,000.00	$68,478,260.87
Profit Margin	4.82%	6.05%	2%
Gross Profit	$10,670,000,000	$4,720,000,000	$1,280,000,000
Net Income	$1,340,000,000	$735,000,000	$62,880,000

Figure 2 – Comparative statistics of leading department store retailers
**Includes both Macy's and Bloomingdales*
***Includes both Nordstrom Rack*
****Includes both Saks Fifth Avenue and Saks Off Fifth*
("Yahoo! Finance")

Analysis

As seen in the figures above, off-price stores tend to have a greater volume of net sales than department stores, aside from Macy's. This is because Macy's is the largest department store chain within the United States, and it is the exception to the rule. Because many department stores are focused towards the middle-upper classes, they are placed more sparingly throughout the country, in areas where stores know that these demographics exist.

The fact that the off-price chains tend to be larger than department store chains can also be seen in the statistic for number of doors. TJX Companies and Ross Stores operate 1894 stores and 1199 stores, respectively. Macy's, the largest chain of department stores, does not even come close to this figure, as they are only currently operating about 848 stores. Nordstrom is much smaller, operating 240 stores; while Saks is even smaller, operating only 46 stores. An advantage that department stores have over off-price stores is the amount of sales per door.

Macy's, the lowest in the department store category, is averaging about $32 million in net sales per door. Nordstrom is averaging about $50 million in net sales per door, while Saks Fifth Avenue is averaging about $68 million in net sales per door. This is much larger than the $14 million per door that TJX Companies does, and the $8 million that Ross Stores accumulates per door.

Another interesting statistic to analyze is the growth in sales from fiscal 2011 to fiscal 2012. The off-price stores seem to be growing at generally faster rates than department stores. The exception to this is Saks Fifth Avenue, which experienced a growth from 2011-2012 similar to the off-price growth numbers. However, this growth can mostly be attributed to the continued growth of Saks Off Fifth, which is Saks' response to the customers' desire for value, and their off-price competition.

One of the key statistics that companies must measure is their profit margin. As seen in the figures above, the profit margins from off-price stores are generally higher than their department store counterparts. This is beneficial for off-price stores because it means that they are making a larger percentage of profit as compared to their net sales than department stores. This could be because they have a lower cost of goods sold or because their operating expenses are a smaller percentage of their overall sales.

Buying

Opportunistic Buying (Off-Price Stores)	Department Stores
Daily purchasing in markets	Season markets (about 6 per year)
Lower initial cost	Higher initial cost
Lower initial price	Higher initial markup
No returns to vendor or markdown money can be negotiated	Markdown money and return to vendors are negotiated

Figure 3 – Comparing off-prices stores' practices to department stores' practices

Analysis

As shown in the figure above, the main difference in the buying practices of off-price stores and department stores is when each model goes to market. Off-price buyers buy throughout each season, and are in the market constantly looking for deals that are a good value to the company and their customers. This differs from department stores buyers, who only go to market about six times per year, and do all of their buying during these market weeks. The time in between is spent managing their current business, planning for upcoming seasons and analyzing their progress.

Off-price stores have a lower initial cost, and therefore price their goods lower initially. Their goal is to sell through all of their goods at their first price, as it is already a good value for the customer. On average, goods are priced between 20%-60% lower at off-price stores than they would be priced at department stores. Because vendor relationships are so important in opportunistic (relationship) buying, returns to vendor or markdown money on non-selling items is not an option. Department store buyers can negotiate markdown money and return to vendors with certain vendors.

Sales/Markdowns

Off-price Stores

In many off-price stores, markdowns are taken once a month on low-performing items. Ross Stores has a calendar for markdowns by department that they use to determine which departments take markdowns each week (Ciatto). At TJX Companies, which encompasses both Marshall's and TJ Maxx, markdowns get taken at the end of each month (Fleischer). Each buyer is typically in control of the markdowns in his or her department. However, markdowns usually need to be approved by the Divisional Merchandise Manager. There are rarely store-wide sales or coupons because items are already so heavily marked down from their department store prices.

No markdown money is ever collected from vendors, and returns to vendors rarely occur. Once off-price stores own merchandise, it is their property, and their problem. This is largely due to the off-price philosophy of relationship buying. Because buyers want to develop relationships with their vendors, and receive the first call when there is merchandise available for closeouts, they need their vendors to be able to trust them.

Department Stores

Department stores use a large variety of storewide sales, coupons and markdowns on slow-moving merchandise. However, department stores vary from lower-end to high-end. Lower-end department stores take markdowns often, send coupons to their customers, and occasionally will have a storewide sale. Higher-end department stores do not use coupons or take markdowns as often. Many of these stores do have storewide sales such as the Nordstrom Anniversary Sale and Bloomingdale's Friends and Family weekend.

When certain items or vendors are not doing well in the merchandise mix, the buyers will often negotiate with the vendors to receive markdown money or to return the merchandise to the vendors. This helps to keep the department stores gross margin higher if they were not planning on the markdowns.

Planning

Off-price Stores

In off-price stores, buyers are in the market throughout the season. Therefore, plans and goals are made by planners at the beginning of each season in order to give guidelines and goals for each department's net sales, gross margin and receipts. However, these plans are very flexible and the plans can change weekly due to certain opportunities in the market. The most important part of planning in off-price stores is measuring the amount of open-to-buy that each buyer should have in each department. Having money available at all times is important for buyers of these stores because they are in the market so often.

Department Stores

The department store planning process is far less flexible than the off-price process. In department stores, planners make plans for each season, typically between 4-8 months prior to the start of that season. Plans include planned receipt dollars per department and item by month, based on last years sales, BOM stock and EOM stock. Plans also include gross margin, sales and markdown goals for each department and item in each department. Once these plans are made and approved by upper management, they are not flexible, unless there are extenuating circumstances.

Advertising/Marketing

Off-Price Stores	Department Stores
Small Budget	Large budget
Television campaigns	Occasional television campaigns
Occasional ads in newspapers	Email and direct mail campaigns
No loyalty programs	Loyalty programs

Figure 4 – Comparing off-prices stores' practices to department stores' practices

Off-price Stores

Off-price stores have a very small budget allocated for advertising and marketing. The majority of advertising tactics that they employ are television campaigns. One of the most recent campaigns from these stores are the TJ Maxxinista Series. Ross Stores and Burlington Coat Factory also advertise their stores, especially their low prices, on television. These stores will also sometimes advertise in newspapers, and through e-mails. Off-price stores engage in less advertising than their department store counterparts; they let their merchandise and low prices speak for themselves.

Department Stores

On the contrary, department stores do a lot of advertising and advertising makes up a much higher percentage of sales. While off-price stores focus on television campaigns, department stores do less advertising through this medium. Department stores do many email campaigns to inform their customers of upcoming sales and events, trendy items, as well as new offerings. These emails keep their customers informed and thinking about the store. Department stores also engage in direct mail campaigns. Many stores send out booklets each season or before big events that present their new merchandise to their valued customers. Department stores also use loyalty programs to market themselves to their customers. These programs encourage repeat shopping and sometimes will give members discounts.

Private Brand Development

Off-price Stores

For the most part, private brand development does not exist in the off-price world. Their mission is to sell designer brands for less. Private brand development does not fit their mission because their customers are often at stores looking for the brand names that they know. Private brand development is normally only implemented if there are not enough designer goods in the market at a certain time (Fleischer).

Department Stores

On the contrary, department stores use private brand development as a key strategy in their assortment year-round. Many department stores have created brands that will attract certain customers into their stores. They have found success in these private brands because they often allow stores to offer higher quality merchandise for less money to the customer. Private brands also typically yield a higher gross margin, meaning they are more profitable for the stores. These brands are also used to help build customer loyalty because customers can only find these specific brands in their stores.

Store Experience

Off-price Stores

Off-price stores often compare the shopping experience as a "treasure hunt." Customers like coming to these stores because their merchandise is always different and they enjoy searching through the racks for a bargain, even though merchandise is often very disorganized and misplaced. There are also very few store associates on hand to help customers. However, this is just a part of the off-price philosophy. Customers of these stores do not care as much about ease of shopping or customer service; they are far more concerned with value, which off-price stores do provide.

Department Stores

The customer experience and customer service is very different at department stores. They keep their merchandise far more organized than the off-price stores so that customers do not have to dig through their racks to find what they are looking for. Personal customer service is also valued by department stores; their success depends on customers returning, so employees are encouraged to help the customers in every way they can.

Nordstrom has a Never Say No policy, meaning that the sales associates are enabled to do everything they can for their customers. One of Macy's core strategies, MAGIC, is the way that sales associates are taught to approach customers and help them find what they are looking for. It stands for Meet the customer, approach the customer, give suggestions, inspire to buy and celebrate the purchase. These policies at Nordstrom and Macy's, as well as similar policies at other department stores such as Bloomingdale's, Saks Fifth Avenue and Lord & Taylor show how valued customer service is to a department store customer.

Externalities

As shown above, these two models, the department store and off-price store formats, have definite similarities, as well as many differences, in their organization systems, daily operations, measures of success, and overall philosophies. Another similarity is that they are both affected by certain externalities in today's political and economic climate, socio-cultural attitudes, and technological advances.

Political Climate

Of all the external forces affecting both models of retail corporations, the political force has the least amount of influence. The Uniform Commercial Code and other bodies of law that affect retail corporations do not change that much over time. Both business models are operating in the United States and therefore have the same political and legal environment. They are required to be fair in their transactions with customers and suppliers, and to act fairly towards their competition. Another political issue that is affecting retail corporations nation-wide is sales taxes. The increasing sales tax laws that are in place mean that consumers have less money to spend in the economy, as they are now giving a larger percentage of income to the government.

Economic Climate

Today's current economic climate has one of the greatest, if not the greatest, effects on retail stores, including the department and off-price models. The United States is currently experiencing the after-effects of a recession. The stock market is still relatively down, and unemployment is relatively high. The

United States is also experiencing a huge budget deficit, meaning that interest rates are abnormally high. The United States is still the largest economy in the world; however, it is likely that China and India will surpass the United States in the future because they produce and export more than the United States. An economy that is in distress is not good for any type of retail corporation because less money means less spending by everyone.

Socio-cultural Climate

The attitudes of the American people about the political and economic state of the nation, and personal finances, also affect both types of retail corporations. Although the United States is not currently in a period of recession, many Americans are still reluctant to spend money. They are nervous of the stock market, or that their companies will fail and they will lose their job and income. Instead of spending and investing in the American economy, they are saving their money for future uncertainties. While this is good for personal bank accounts, it means that it is taking the economy longer to completely rebound from this recession.

This attitude is also not good for either retail model because it means that unless items are necessary, most Americans are not willing to purchase as much. When they do purchase, they are very price-conscious and looking for a good value. Off-price stores do benefit from the consumer’s desire for a value or “deal”; however, department stores have the ability to attract customers using the more traditional sale format.

Technological Advances

Another force that has considerable influence on all types of retail corporations today is technology. Technology is growing rapidly and becoming accessible to almost everyone in the United States. Online shopping is a trend that is continually growing in popularity. Many retail stores are responding to this trend by creating an online counterpart to their bricks and mortar store. This format works well for department stores because they have wide breadth and great depth in their merchandise. Shopping online makes it easier for shoppers to sift through what they want. Department stores also normally have a large stock of most of their merchandise because they are serving so many people, which is important for an online business.

It has proven to be harder for off-price stores to capitalize on this trend because their merchandise is changing at such a rapid pace. It is harder for an on-line store to keep up with merchandise constantly selling out and coming in. In off-price stores, buyers are continually buying merchandise from their vendors, sometimes in very small quantities. This means that by the time the merchandise registers on-line, it could already be sold out in stores. Creating an effective website would require a huge investment in very sophisticated technology.

Department stores are also finding ways to capitalize on the smart phone trend. Many department stores, such as Macy’s, Bloomingdale’s, Saks Fifth Avenue and Nordstrom, have all created applications that smart phone users can download and use to shop directly from their phones. This means that in addition to in-stores and online, people can now shop right from their phones and tablets and have access to these stores all day long. “According to Macy's CMO Martine Reardon, by putting rich content behind QR codes and helping shoppers use smart phones to unlock special content, the mobile channel becomes a kind of “silent salesperson.” In a Tuesday session, she revealed that Macy’s achieved a 19% growth in its mobile user base after updating the retailer's mobile app.” (“Best of NRF 2013: Top 10 Takeaways”). Again, this is a trend that will be harder for off-price stores to capitalize on. Overall, technology has the potential to increase sales at retail stores; but the individual companies must have the resources necessary to implement them into their core strategies.

Conclusion

While it would be easy to assume that off-price stores are more sustainable and advantageous because the value they provide appeals to the customer, this may not be necessarily true. While off-price stores do often ‘win’ in the price category, department stores typically ‘win’ in assortment, selection, customer service and ease of use. The question becomes: what do customers value the most? The answer to this question is always changing, and it depends on the countries economic state, cultural changes, demographic changes and sometimes, technology. Is there room in the retail industry for both of these models to succeed?

Consumers are constantly changing: their needs are changing and their wants are changing. Liebmann addresses this change in the article, “Retailing on the Brink,” by saying, “consumers have been telling us…that they have changed; that their attitudes to shopping have changed; that they have other priorities; that they are smarter and more discerning shoppers than their parents and grandparents” (Liebmann). Shoppers today do not want to pay full price for items. They are savvy; they want to find deals and value, and they will shop more to do so. However, shopping more has not coincided with spending more. Department stores have responded to this change in consumer with an increase in the number of sale days per year (Liebmann).

The article, “Department Stores Streamline While Outlet Stores Proliferate,” further describes the challenges that department stores are facing in today’s market. The first major problem that department stores have is that they essentially trained their customers to wait for merchandise to go on sale before buying. Also, department stores have become increasingly inconvenient to shop at. They are often anchor stores in large malls, meaning that customers have to park far away and then walk through a mall to access these stores. Once inside, the stores are increasingly difficult to navigate and it is often hard to find registers and sales assistants. One way that department stores have addressed these challenges is by opening their own off-price outlets. Saks Fifth Avenue opened Saks Off 5th, while Nordstrom opened Nordstrom Rack. Bloomingdale's recently began opening off-price outlets as well. These new stores are helping department stores because they "move merchandise that isn't selling in regular stores and appeal to a much wider range of customers" (Plunkett et al.).

The article, "Retail format change in US Markets," has also addressed which retail formats are most sustainable in today's world. This article notes, "While consumers may develop preferences for certain retail types that tend to satisfy their needs for a particular class of products, patronage may change as new retail formats occur" (Rousey and Morganosky). It outlines research they conducted about consumers shopping habits at ten different formats of retail stores. One important conclusion they made from their research was that customer loyalty is becoming non-existent; "consumers increasingly 'spread their purchases around'" (Rousey and Morganosky).

Based on all of my primary and secondary research, I do believe that there is a place in the market for both models of retailing. Because Americans are increasingly price-conscious, off-price stores do have a slight edge in today's market. Off-price stores appeal to a wide variety of customers and offer excellent value to their customers. The stores have been showing incredible growth from year to year, and their customers often leave satisfied, even though the stores lack the “glamour” of department stores.

However, this does not negate the fact that department stores still do appeal to a very specific customer that is not going away. The wealthier part of the society still enjoys shopping at department stores for their excellent customer service, their wide assortment and the “feeling” they get when in the stores. Department stores have been successful in the American market for a long time, and even though they have been declining in growth to some extent, they have always managed to come back from these declines in the past. As long as they continue to respond to their loyal customer’s wants and needs, there will continue to be a place for them in the market.

Glossary

Assortment

"The number of SKU's within a merchandise category. Also called depth of merchandise" (Levy and Weitz 630).

BOM

"Refers to a fiscal period" (Macy's & Retail Acronyms 2).

Buyer

"Person in a retailing organization responsible for the purchase and profitability of a merchandise category" (Levy and Weitz 631).

Category

"An assortment of items (SKU's) the customer sees as reasonable substitutes for one another." (Levy and Weitz 631). *An example of this could be men's dress shoes, which would be a category in the men's shoes department.*

Closeout

"Merchandise that is available in a vendors warehouse due to department store cancellations or vendor missed selling projection" (Ross Retail/Planning Glossary 2).

Cost of goods sold

"All costs associated with the sale of merchandise such as cost of the inventory (the amount paid to the vendor), markdowns taken, shortage, and employee discounts" (Macy's 2).

Department

"A segment of the store with merchandise that represents a group of classifications the consumer views as being complementary" (Levy and Weitz 635).

Department store

"A retailer that carries a wide variety and deep assortment, offers considerable customer services, and s organized into separate departments for displaying merchandise" (Levy and Weitz 635).

EOM

"Refers to the financial stock level for a department at the close of a month" (Macy's 3).

Gross margin

"The difference between the price the customer pays for merchandise and the cost of the merchandise, (the price the retailer paid the supplier of the merchandise). More specifically, gross margin is net sales minus cost of goods sold" (Levy and Weitz 639).

Keystone Method

"A method of setting retail prices in which retailers simply double the cost of the merchandise to obtain the original selling price" (Levy and Weitz 640).

Make-ups

Orders that vendors make specifically for an off-price store. These goods typically yield lower gross margins.

Markdown

"A reduction in the owned retail price of a piece of merchandise or the resulting dollar difference between the 'before' and 'after' price" (Macy's 5).

Market

"A group of vendors in a concentrated geographic location or even under one roof or over the Internet; also known as a central market" (Levy and Weitz 641).

Markup

"The increase in the retail price of an item after the initial markup percentage has been applied but before the item is placed on the selling floor" (Levy and Weitz 642).

Net profit

"A measure of the overall performance of a firm; revenues (sales) minus expenses and losses for the period" (Levy and Weitz 643).

Net sales

"The total number of dollars received by a retailer after all refunds have been paid to customers for returned merchandise" (Levy and Weitz 643).

Off-price retailer

"A retailer that offers an inconsistent assortment of brand-name, fashion-oriented soft goods at low prices" (Levy and Weitz 643).

Open to Buy

"Dollars to spend by month" (Ross 4).

Planners

"Employees in merchandise management responsible for the financial planning and analysis of the merchandise category and, in some cases, the allocation of merchandise to stores" (Levy and Weitz 644).

Private brand

"A broad category of merchandise designed exclusively for Macy's and marketed for a defined customer base" (Macy's 7).

Private label

"Merchandise designed, manufactured and marketed only by Macy's, Inc. Private label goods are often positioned as a better value than comparable national brands and tend to yield higher gross margins" (Macy's 7).

Profitability

"A company's ability to generate revenues in excess of the costs incurred in producing those revenues" (Levy and Weitz 646).

Profit margin

"Net profit divided by net sales" (Levy and Weitz 646).

Purchase order

"An online or printed document that contains the following: unique order number, department, vendor and shipping information, ship and cancel dates, PIDs, colors and sizes, quantities, and purchase order notes. Each purchase order can specify only one department and vendor. Multiple classes, subclasses, PIDs, colors, and sizes are permitted on one purchase order. A PO is a legally binding contract between the company and vendor" (Macy's 6).

Relational partnership

"Long-term business relationship in which the buyer and vendor have a close, trusting interpersonal relationship" (Levy and Weitz 647). *This is a type of buying that is practiced by off-price retailers, also known as relationship buying or opportunistic buying.*

Return to Vendor

"Goods that are returned to the vendor. Also a process used to charge vendors for merchandise returned to them or for other agreed-upon charges (markdown allowances)" (Macy's 8).

Sell-through

"A measure of the speed at which goods are sold, expressed as a percentage" (Macy's 8).

SKU – Stockkeeping Unit

“The smallest unit available for keeping inventory control” (Levy and Weitz 650). *In soft goods merchandise, an SKU usually means a size, color and style.*

Stock-to-sales ratio

“Specifies the amount of inventory that should be on hand at the beginning of the month to support the sales forecast and maintain the inventory turnover objective. The beginning-of-month (BOM) inventory divided by sales for the month. The average stock-to-sales ratio is 12 divided by planned inventory turnover. This ratio is an integral component of the merchandise budget plan” (Levy and Weitz 650).

Vendor

“Any firm from which a retailer obtains merchandise” (Levy and Weitz 652).

Weeks of Supply

“An inventory management method most similar to the stock-to-sales method. The difference is that everything is expressed in weeks rather than months” (Levy and Weitz 652).

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Appendix A: Interviews

Interview with Jodi Cohen, Saks Fifth Avenue

Describe the company culture at Saks Fifth Avenue.

> *The company culture at Saks is team-driven because there is a lot of interconnectivity between a lot of divisions and other functions of the company, open communication between all the departments is key to success as part of their culture.*

What is the role of buyers vs. the role of planners in the organization?

> *The planners forecast and plan out what the buyers can buy when they go into market. They help them stay on target throughout the season and tell them if they need to contact the vendors if they aren't meeting the plan. They may need to send some items back or receive more of what was working to help them meet plan. The role of the buyers is to use what the planners have forecasted for them to go into market and buy the merchandise from the vendors, which ends up in the stores across the company. Also to work with the planners to make sure they are on target for the season. They also have to go to the New York store and walk the floor to make sure the merchandise is displayed properly.*

What measurement are the buyers responsible for? (Gross margin, revenue, other?)

> *I was in the planning department. The planners are responsible for gross margin, revenue and markdown numbers.*

Are buyers and planners given a lot of freedom to run their businesses as they see fit?

> *Yes, but they have a lot of conversations with upper-level management about what they propose to do before they fully execute. However, upper-level management seems to normally trust their decisions.*

Is there private brand development? How does that affect buying and planning?

> *There is a men's private label; however, I was not in that department so I don't know how that affects buying and planning.*

Is there markdown money collected at the end of the season from their vendors?

They get markdown money occasionally, but I'm not sure when its collected. In my personal experience, we did more return to vendors of certain styles and colors that the vendors were willing to take back.

When are markdowns taken?

There is a calendar for seasons when different sales/promotions are going on. Depending on the time of year, there are different annual promotion. If they see one vendor isn't doing well, they may send in a specialist to sell them before they take markdowns.

How is merchandise put on sale? coupons, store wide promotions, other, combination

Because of the brands represented in Saks, there can't be full store-wide promotions. Many sales and promotions have to be negotiated with the vendors. Upscale brands such as Chanel doesn't get put on sale. There is a licensed Louis Vuitton, and sales in that department are not a decision that is made by Saks. The contemporary and sportswear departments do more sales, but couture and high-end brands have very few sales, and they have to be negotiated with the specific vendors.

Interview with Ali Fleischer, TJX Companies

Describe the company culture at TJX Companies.

It is a very positive and team oriented culture. It is not competitive and everyone helps each other to reach a goal. TJX has a great culture and the associates are happy. They have a very slow turnover of employees and many people have been with the company for many years.

What is the role of buyers vs. the role of planners in the organization?

The buyers by the merchandise for a certain department and the planners strategically allocate the product. The buyers and the planners work together to make the best decisions about where the goods should go and which chains.

What measurement are the buyers responsible for? (Gross margin, revenue, other?)

I am not exactly positive and it varies by department/the buyers position. 100s of thousands of Dollars.

Are buyers and planners given a lot of freedom to run their businesses as they see fit?

Yes they are. The buyers have all the say and are not told what to buy and how to buy by their bosses. All the trust to make the decisions is put on the buyer's judgment.

Is there private brand development? How does that affect buying and planning?

TJX uses private brand development to fill voids in the market. This helps the buyers fill their needs and they help design the merchandise with the product development team. Because TJX is very brand oriented they do not use private labels unless they cant find the goods in the market.

Is there markdown money collected at the end of the season from their vendors?

No there is not. TJX does not ask for markdown compensation from their vendors.

When are markdowns taken?

At the end of every month.

How is merchandise put on sale? coupons, store wide promotions, other, combination

When markdowns are taken, the merchandise goes on clearance.

Interview with Adrienne Ciatto, Ross Stores

Describe the company culture at Ross Stores.

I would describe the culture at Ross as entrepreneurial and opportunistic.

What is the role of buyers vs. the role of planners in the organization?

Buyer - Demonstrates the skillful use of influence to achieve business goals. Effectively demonstrates ability to establish strong relationships with vendors and exercises flexibility in their approach to negotiations. Demonstrates advanced problem solving skills. Objectively assesses merchandise mix in an attempt to continually improve assortments. Anticipates potential problems and risks; generates ideas, insights and solutions. Negotiates for packaway goods to offset additional costs of storing merchandise (e.g. additional dating, vendors holding merchandise etc.).
Planner - Responsible for supporting the buying line utilizing a systemic approach to problem solving through analytical thinking and using sound

judgment. This includes effectively analyzing of sales trends, gross margin, inventory levels and Open-to-Buy levels. Proactively anticipates potential problems and risks, to generate recommendations to "head-off" potential problems.

What measurement are the buyers responsible for? (Gross margin, revenue, other?)

Buyers are measured by TY vs. LY sales, gross margin and EOM.

Are buyers and planners given a lot of freedom to run their businesses as they see fit?

Buyers and planners have to work together to run their department. Buyers have more flexibility within their departments in choosing merchandise, negotiating with vendors and assessing their product mix. Planners are there to analyze sales trend and propose growth and/or reduction in receipts for future business. Overall the freedom has to fit into a total financial department plan.

Is there private brand development? How does that affect buying and planning?

We don't have private brand development.

Is there markdown money collected at the end of the season from their vendors?

We don't ask for MD money or chargebacks from vendors.

When are markdowns taken?

Markdowns are taken once a month. Each department has a schedule ie. Men's, accessories, bed and bath wk 1 of the month. Women's, shoes, jewelry week 2. etc…. The markdowns are entered in our system at the beginning of the week and the stores implement the MDs the following week.

How is merchandise put on sale? coupons, store wide promotions, other, combination

We don't have any sales, coupons or promotions. Our goal is to deliver a bargain price on designer names from the beginning.

Capstone Summary

Stores and shopping take people and transport them into a world of possibilities, whether they purchase the perfect pair of shoes or a little black dress, the price of which might feed a family of four for a month. Certain stores are known for the elaborate presentation of their merchandise, which can make consumers feel as if they are in a museum. Stores throughout Europe, such as Selfridges, Au Printemps and Harrod's are well known for their visual presentation skills. There are many stores in the United States that are also tourist destinations. Macy's Herald Square is perhaps the best known; however, there was also the Macy's on State Street in Chicago, which was the original Marshall Field's. The flagship Saks Fifth Avenue store in New York City has a shoe department so large that it has its own zip code. All stores want to create a feeling of desire; the feeling that they will be more successful, more desirable if they could only have this bag or those jeans. There is a large variety of activities that are perfected to create this feeling – these activities are what is known as retailing.

Retailing can be described as the set of business activities that adds value to the products and services sold to consumers for their personal or family use (Levy and Weitz 647). All activities associated with retailing are done in order to create profits for the key stakeholders in companies. There are multiple forms of retailing in the United States – two of the most common forms are department store retailing and off-price retailing. Both these types of retailers are looking to create profits by negotiating costs with vendors to create suitable gross margins; however, they go about doing so in very different ways.

Department stores are defined as, “a retailer that carries a wide variety and deep assortment, offers considerable customer services, and is organized into separate departments for displaying merchandise” (Levy and Weitz 635). Department store retailing is the most well-known form of retailing, and is currently the largest sector of retailing in the United States. Stores that fall into this category are Macy’s, Bloomingdale’s, Nordstrom, Saks Fifth Avenue, and Lord & Taylor. Department stores have been successful in the United States since the middle of the 1800’s. They continue to exceed in the market because they are household names that people trust, and they cater to the middle and upper classes, who place a value on convenience.

An off-price retailer is defined as, “a retailer that offers an inconsistent assortment of brand-name, fashion-oriented soft goods at low prices” (Levy and Weitz 643). Off-price retailers are best known for offering designer goods at prices that can be between 20% and 60% lower than their department store prices. This type of retailing is a far newer concept that tailors its assortment to people who want to buy name brands, such as Polo and Michael Kors, but who can’t afford or don’t want to pay department store prices. There is a place in the market for off-price retailers because many customers in today’s world are concerned with value. Examples of off-price retailers include: TJ Maxx, Marshall’s, Ross Stores and Burlington Coat Factory.

Off-price retailing has been growing at extremely rapid rates in recent years with strong results for companies using the off price strategies. Examples are Ross Stores and TJX companies, which produced net profit margins of 8.09%

(ROST: Summary for Ross Stores, Inc.) and 7.37% (TJX: Summary for TJX Companies, Inc.), respectively in the 2012 fiscal year. However, department stores have been showing successful results for more than a century. In 2012, the department store group, Macy's, Inc., which includes both Macy's and Bloomingdale's, had a profit margin of 4.82% (M: Summary for Macy's Inc. Common Stock), while Nordstrom's profit margin was 6.05% (JWN: Summary for Nordstrom, Inc. Common Stock). It may not seem like there is a huge difference between 6.05% and 7.37%; however, because these companies have such a high volume of sales, the 1% difference in profit margin leads to a big difference in terms of actual dollars.

During my time at Syracuse University, I have had the opportunity to work as an intern with both Ross Stores and Macy's, which has allowed me to see firsthand the similarities and differences between the two formats of retailing. My observations from both of these internships is my primary form of research for this work. Another form of research that has been important is interviews that I conducted with people who worked at Ross Stores, TJX Companies, and Saks Fifth Avenue. As a secondary source of research, I also consulted research that professionals have conducted.

My goal for the project was to come to a conclusion about which business model is more advantageous in the current climate and for the foreseeable future. In order to begin this process, I analyzed the two organizations that I interned at, Macy's and Ross Stores. I assessed the strengths, weaknesses, opportunities and threats that I witnessed throughout my time at each company. I also looked at the history of each organization, as well as the history of retailing in general. After this focused review of the two types of retailing, I broadened my analysis to the more general categories of off-price and department store retailing.

Taking what I learned from my analysis of the two organizations I had personal experience with, and my interviews from professionals working in the industry, I identified the major similarities and differences in the two business models. In general, the similarities that I found were that both models must please their respective customers, both models have to make a profit, both models are bound by certain laws, and that its necessary for both companies within both models to brand themselves well and plan their business for upcoming seasons. The key differences that I found were in their vision statements, important statistics such as size and profit margin, their buying and price point strategies, their advertising tactics, the way they run sales and take markdowns, their planning techniques, how buyers and planners analyze their business, their store experience and private brand development.

After analyzing their similarities and differences, I looked at how different externalities were affecting retailing in general. The most important external forces are the nation's political climate, the current economic climate, socio-cultural attitudes and technological advances.

Based on all of my primary and secondary research, I do believe that there is a place in the market for both models of retailing. Because Americans are increasingly price-conscious, off-price stores do have a slight edge in today's market. Off-price stores appeal to a wide variety of customers and offer excellent value to their customers. The stores have been showing incredible growth from year to year, and their customers often leave satisfied, even though the stores lack the "glamour" of department stores.

However, this doesn't negate the fact that department stores still do appeal to a very specific customer that is not going away. The wealthier part of the society still enjoys shopping at department stores for their excellent customer service, their wide assortment and the "feeling" they get when in the stores. Department stores have been successful in the American market for a long time, and even though they have been declining in growth to some extent, they have always managed to come back from these declines in the past. As long as they continue to respond to their loyal customer's wants and needs, there will continue to be a place for them in the market.

Appendix A: Interviews

Interview with Jodi Cohen, Saks Fifth Avenue

Describe the company culture at Saks Fifth Avenue.

> *The company culture at Saks is team-driven because there is a lot of interconnectivity between a lot of divisions and other functions of the company, open communication between all the departments is key to success as part of their culture.*

What is the role of buyers vs. the role of planners in the organization?

> *The planners forecast and plan out what the buyers can buy when they go into market. They help them stay on target throughout the season and tell them if they need to contact the vendors if they aren't meeting the plan. They may need to send some items back or receive more of what was working to help them meet plan. The role of the buyers is to use what the planners have forecasted for them to go into market and buy the merchandise from the vendors, which ends up in the stores across the company. Also to work with the planners to make sure they are on target for the season. They also have to go to the New York store and walk the floor to make sure the merchandise is displayed properly.*

What measurement are the buyers responsible for? (Gross margin, revenue, other?)

> *I was in the planning department. The planners are responsible for gross margin, revenue and markdown numbers.*

Are buyers and planners given a lot of freedom to run their businesses as they see fit?

> *Yes, but they have a lot of conversations with upper-level management about what they propose to do before they fully execute. However, upper-level management seems to normally trust their decisions.*

Is there private brand development? How does that affect buying and planning?

> *There is a men's private label; however, I was not in that department so I don't know how that affects buying and planning.*

Is there markdown money collected at the end of the season from their vendors?

They get markdown money occasionally, but I'm not sure when its collected. In my personal experience, we did more return to vendors of certain styles and colors that the vendors were willing to take back.

When are markdowns taken?

There is a calendar for seasons when different sales/promotions are going on. Depending on the time of year, there are different annual promotion. If they see one vendor isn't doing well, they may send in a specialist to sell them before they take markdowns.

How is merchandise put on sale? coupons, store wide promotions, other, combination

Because of the brands represented in Saks, there can't be full store-wide promotions. Many sales and promotions have to be negotiated with the vendors. Upscale brands such as Chanel doesn't get put on sale. There is a licensed Louis Vuitton, and sales in that department are not a decision that is made by Saks. The contemporary and sportswear departments do more sales, but couture and high-end brands have very few sales, and they have to be negotiated with the specific vendors.

Interview with Ali Fleischer, TJX Companies

Describe the company culture at TJX Companies.

It is a very positive and team oriented culture. It is not competitive and everyone helps each other to reach a goal. TJX has a great culture and the associates are happy. They have a very slow turnover of employees and many people have been with the company for many years.

What is the role of buyers vs. the role of planners in the organization?

The buyers by the merchandise for a certain department and the planners strategically allocate the product. The buyers and the planners work together to make the best decisions about where the goods should go and which chains.

What measurement are the buyers responsible for? (Gross margin, revenue, other?)

I am not exactly positive and it varies by department/the buyers position. 100s of thousands of Dollars.

Are buyers and planners given a lot of freedom to run their businesses as they see fit?

Yes they are. The buyers have all the say and are not told what to buy and how to buy by their bosses. All the trust to make the decisions is put on the buyer's judgment.

Is there private brand development? How does that affect buying and planning?

TJX uses private brand development to fill voids in the market. This helps the buyers fill their needs and they help design the merchandise with the product development team. Because TJX is very brand oriented they do not use private labels unless they cant find the goods in the market.

Is there markdown money collected at the end of the season from their vendors?

No there is not. TJX does not ask for markdown compensation from their vendors.

When are markdowns taken?

At the end of every month.

How is merchandise put on sale? coupons, store wide promotions, other, combination

When markdowns are taken, the merchandise goes on clearance.

Interview with Adrienne Ciatto, Ross Stores

Describe the company culture at Ross Stores.

I would describe the culture at Ross as entrepreneurial and opportunistic.

What is the role of buyers vs. the role of planners in the organization?

Buyer - Demonstrates the skillful use of influence to achieve business goals. Effectively demonstrates ability to establish strong relationships with vendors and exercises flexibility in their approach to negotiations. Demonstrates advanced problem solving skills. Objectively assesses merchandise mix in an attempt to continually improve assortments. Anticipates potential problems and risks; generates ideas, insights and solutions. Negotiates for packaway goods to offset additional costs of storing merchandise (e.g. additional dating, vendors holding merchandise etc.).
Planner - Responsible for supporting the buying line utilizing a systemic approach to problem solving through analytical thinking and using sound

judgment. This includes effectively analyzing of sales trends, gross margin, inventory levels and Open-to-Buy levels. Proactively anticipates potential problems and risks, to generate recommendations to "head-off" potential problems.

What measurement are the buyers responsible for? (Gross margin, revenue, other?)

Buyers are measured by TY vs. LY sales, gross margin and EOM.

Are buyers and planners given a lot of freedom to run their businesses as they see fit?

Buyers and planners have to work together to run their department. Buyers have more flexibility within their departments in choosing merchandise, negotiating with vendors and assessing their product mix. Planners are there to analyze sales trend and propose growth and/or reduction in receipts for future business. Overall the freedom has to fit into a total financial department plan.

Is there private brand development? How does that affect buying and planning?

We don't have private brand development.

Is there markdown money collected at the end of the season from their vendors?

We don't ask for MD money or chargebacks from vendors.

When are markdowns taken?

Markdowns are taken once a month. Each department has a schedule ie. Men's, accessories, bed and bath wk 1 of the month. Women's, shoes, jewelry week 2. etc…. The markdowns are entered in our system at the beginning of the week and the stores implement the MDs the following week.

How is merchandise put on sale? coupons, store wide promotions, other, combination

We don't have any sales, coupons or promotions. Our goal is to deliver a bargain price on designer names from the beginning.