

# The Cincinnati Enquirer

## Federated-May merger won't solve all problems

By John Eckberg  
Enquirer staff writer



The Macy's store in New York City, where the Thanksgiving Day parade originates, is part of the Federated portfolio of stores. May Department Stores will be added to the list.  
The Associated Press/Bebeto Matthews

Even by doubling in size, shining up high-end holdings and bringing prices down to woo middle-income shoppers, Federated Department Stores may face an uphill retail battle if it successfully brings May Department Stores under its banner.

The department-store industry has been buffeted in recent years by a new breed of consumers, many of whom no longer shop for the sheer fun of strolling on marble tiles and being waited on by well-dressed and polite-to-a-fault sales associates.

"The department store is supposed to provide a nice shopping experience," said Michael J. Houston, Ecolab-Grieve Chair in international marketing and interim dean of the Curtis L. Carlson School of Management at the University of Minnesota in Minneapolis.

"But every time you turn around, they are reducing prices, mimicking the discount stores, and that detracts from what the department store is all about."

What's more, department stores no longer have the buying power discounters exploit to lower prices on household items, clothing and other needs of the average household.

### Overpriced purchase?

Observers see May's recent problems as rooted in last year's purchase of Target's Marshall Field's department stores as well as nine Mervyn locations for \$3.24 billion.

The buy was led by former May chairman and chief executive Gene Kahn, who analysts believe paid too much.

Kahn was also known for micromanaging and finding economies by slashing payroll. An estimated 1,500 employees were laid off while Kahn was at the helm.

When soft sales and disappointing results hammered May, Kahn was forced to step down within two quarters of the deal, and within days the Federated play for May was in the headlines.

### In need of some help

Of late, May has been drifting and would likely have seen market share erode in the short-term without Federated, suggested retail analyst Kurt Barnard, president of Barnard's Retail Consulting Group, a New York City-based consulting firm.

"They are a rudderless ship - without an image and without an identity," said the economist, who specializes in retail economics. "For them to try to bring in a new chief executive officer and make sure this new CEO would know what to do and how to handle things - well, there was no guarantee he would succeed."

Federated, on the other hand, can grow its top line by focusing some of the more mainstream May holdings at the "Target-customer universe," said Barnard.

"It's a huge market and a market Federated does not have at this time," he said. "They can gain it with one stroke of a pen."

While the Macy's brand is among the most recognizable in the nation, thanks to its annual Thanksgiving Day parade and place in New York retail lore, the days of undying devotion to a department store may have gone away for good, said Peter Sealey, adjunct professor of marketing at the Haas School of Business at the University of California Berkeley and the former chief marketing officer for the Coca-Cola Co.

"What is today's department store experience about?" said Sealey. "That is the question that Federated has to answer."

Chris Ohlinger, chief executive officer of Service Industry Research Systems, a retail analysis firm based in Highland Heights, agreed the Federated-May combination, while compelling, won't rescue the industry from its longer-term problems.

"The merger will certainly buy them both more time," Ohlinger said. "It'll give them more financial stability, but it won't solve their core problems."

"Cornering the market on mediocre department stores is not a winning strategy. It's like having a collection of the best dinosaurs in the zoo."

*Enquirer staff writer Cliff Peale contributed.*

*E-mail [jeckberg@enquirer.com](mailto:jeckberg@enquirer.com)*