

# Macy's Has a SECRET WEAPON

**BLU MERCURY HAS ALREADY DOUBLED IN SIZE SINCE ITS ACQUISITION BY MACY'S TWO YEARS AGO AND CO-FOUNDER BARRY BECK SEES AN OPPORTUNITY FOR 500 LOCATIONS. > By Mike Troy**

The department store sector faces some highly publicized challenges, but Macy's has one thing going right. It acquired the 60 unit chain of Bluemercury branded beauty stores in March 2015 for \$210 million. The company wasn't well known at the time except to beauty enthusiasts who raved about the product offering, quality of proprietary brands and services offered in smallish stores in urban neighborhoods.

"Macy's realized that's where the action is they wanted to get in on it and that is why they bought Bluemercury," said Barry Beck, COO of the company he co-founded with his wife Marla.

Department stores were losing share in the luxury beauty business, declining from 90 percent 15 years ago to about 60 percent in 2014, according to Beck, as spending shifted to smaller neighborhood stores and freestanding locations. Bluemercury was one of the reasons why, along with large rivals like Ulta and Sephora. The share losses also stemmed from what co-founder and CEO Marla Beck recalled as an unpleasant store experience.

"Everything was still sold behind glass counters and I found the staff to be a little bit snobby, looking you up and down trying to determine if you were going to spend money before deciding whether to help you. As a young woman in my twenties it was intimidating.



▲ Beauty innovators Barry and Marla Beck sold Bluemercury to Macy's in March 2015 for \$210 million.

Shopping for cosmetics was a problem that needed a solution," according to Marla.

The solution she and Barry developed was a retail concept billed as a friendly neighborhood cosmetics store that offers coveted luxury beauty products and expert, honest advice. That combination caught Macy's attention and with the department store sector already showing signs of duress in the spring of 2015 the nation's largest department store chain needed a new growth vehicle.

"Our plan is to operate and significantly expand Bluemercury stores as a standalone business with an enhanced omnichannel component for a seamless customer experience across stores, online and mobile," Macy's noted at the time of the acquisition.

The company has certainly delivered on that promise. From 60 units two years ago, Bluemercury now has about 130 locations including 20 store-within-a-store departments inside Macy's stores.

bluemercury

## BLU MERCURY AT-A-GLANCE

**Headquarters:** Washington, D.C.

**Chief Executive Officer:** Marla Malcolm Beck

**Number of Stores:** 130 (20 locations within Macy's)

**Annual Sales:** \$228 million (est.)

**Year Founded:** 1999

"We are opening more stores than we've ever opened before," said Barry Beck. "We will open between 37 and 40 freestanding stores this year and we are opening them in neighborhoods and embedding ourselves in the lives of customers."

An example of that strategy is the company's plan to have 40 stores in Manhattan, up from 14 currently, in the next 24 months, as Beck has been evaluating real estate opportunities for years, looking for the optimal location.

"We like to create a moat of convenience around customers and I probably look at 100 real estate deals a week," Beck said. "I don't swing at every pitch, but when I swing I swing for the fences."

A case in point is the company's store in the lower Manhattan neighborhood of Tribeca near a high volume Whole Foods store and Target's new Flex Format concept that opened last fall.

"It took five years to get that corner in Tribeca but it is the best corner in lower Manhattan and one of the best performing stores in the country," Beck said.

The disciplined approach to site selection is paying off with strong sales and it doesn't hurt that the company occupies one of the hottest sectors in retail serving core customer segments Beck describes as suburban power moms and urban super women.

"We are probably one of the best performing retailers in the country right now. Our comparable sales are incredible. We are stunned by our performance this year," Beck said, noting that he couldn't share actual numbers because parent company Macy's is publicly held. However, the strength of the company's physical retail business prompted him to say that, "the reports of retail's death are greatly exaggerated."

As for longer term growth, Beck believes Bluemercury's strategy of being a neighborhood retailer has it positioned to capitalize on demographic trends and increasingly dense communities.

"There is an opportunity for more than 300 Bluemercury stores," Beck said, and when pressed he is quick to add, "there is probably an opportunity for even 500 stores."

The Becks weren't always such big believers in physical stores. The original vision for the company was to sell cosmetics online and came about after Marla heard Amazon founder Jeff Bezos speak to her class at Harvard. He had founded Amazon just three years earlier and the first dot com boom was in full swing so she and Barry decided to sell cosmetics online.

"I was always a beauty junky," Marla said.

The couple moved to Washington, D.C., and after raising \$1 million in just two weeks built a Web site and hired a staff of 20 before logging their first sale. Bluemercury was up against larger, better capitalized online competitors and when the bubble burst in early 2000 venture funds stopped investing and Bluemercury was in trouble. The Becks were down to their last \$150,000 and as their company continued to burn cash the end was in sight.

That's when they decided to purchase a store in the Georgetown area followed by a second location in Dupont Circle. Both locations were in urban walkable communities that help generate foot traffic and sales. The turning point for the company was when the Becks sunk all of their cash into a third store in Philadelphia that Barry said was a smashing success.

From there the company refined its store operating model, product assortment and services, attracted new investors, including AOL founder Steve Case, and continued to grow. By 2005, public companies and private equity firms were courting the company, but the Becks held out until Macy's came calling in 2015. Despite Macy's sales difficulties of late, the deal gave Bluemercury the resources and infrastructure to accelerate expansion while staying true to a key operating philosophy Marla contends is the company's secret weapon.

"We gave our staff full time year round work, benefits and a true career path. We gave them a place where they could develop and grow and they became part of the Bluemercury family," Marla said.

That was not the norm in the world of luxury cosmetics dominated by department stores. The majority of employees were part time workers and were only given 15 to 25 hours of work and no work during the low seasons of January and summer time, according to Marla.

"We broke industry rules and created a better experience for our staff and therefore for our customers," Marla said. **RL**

