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J.C. Penney Chief Thinks Different

With Apple in His Head, New CEO Tosses Out Old Pricing Models and Formats at Department Store

By [DANA MATTIOLI](#)

Shortly after taking the top job at [J.C. Penney](#) Co. last fall, Chief Executive Ron Johnson signed up for the company's email alerts. He was shocked by what landed in his inbox.

The former [Apple](#) Inc. retail executive was deluged by sales announcements, sometimes two a day. He and his team counted 590 separate sales last year. They didn't bring in shoppers—Mr. Johnson's team found the average customer purchased only four times a year—but they did crush prices. Alarmingly, he learned nearly three-quarters of Penney's products sold at discounts of 50% or more.



Three months into the job, J.C. Penney Chief Executive Ron Johnson is planning a far-reaching but risky overhaul of the department store format. Dana Mattioli has details on The News Hub. Photo: AP



"I thought to myself, 'This is desperation,'" Mr. Johnson said.

Now three months into his job, the new chief executive is hoping to turn things around with a far-reaching but risky overhaul of the department store format in an effort to lure consumers back to a chain that's often criticized as dowdy.

Mr. Johnson, who won plaudits for reinventing the retail experience with Apple stores' clean lines and empty space, laid out an ambitious plan Wednesday that involves carving stores into a warren of specialty shops, turning the high-traffic center selling space into an entertainment and hang-out area, and eschewing constant "sales" in favor of lower prices every day.

The idea is to make stores more inviting, highlight brand names and gain more control over pricing.

"Some may call it crazy, but I don't think there is an alternative," Mr. Johnson said in an interview. "In an Internet age where you can have exactly what you want with one keyword, people won't tolerate big stores. You have to break it down for them."

But overhauling the chain's fleet of 1,100 stores will pose costly challenges, and consumers have been reluctant to spend without the incentive of big markdowns.

Penney's Changes

Beginning in February, Penney will **lower the initial price** for items by about 40% from where they start now. In tandem, he plans to sharply reduce the number of sales at the chain.

Penney has been battered in recent years by competition from rivals like [Macy's Inc.](#) and [Kohl's Corp.](#) Under former Chief Executive [Myron Ullman](#), Penney shed its catalog business and invested in exclusive brands and partnerships with hot sellers

A number of in-season items will be on sale for an entire month. There will have **two clearance sales**, on the first and third Fridays of the month, called "Best Price Fridays."

The center of the store—where department stores typically concentrate cosmetics, accessories and other high-margin impulse buys—will be **turned into a "Town Square,"** where shoppers can hang out amid seasonal events and other attractions.

Floor space will be carved into **as many as 100 "stores within a store"**—including branded spaces like "Martha Stewart's Kitchen," space for the company's Liz Claiborne line, and thematic stores geared toward seasons and trends.

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wants to set up as many as 100 of them—including branded spaces like a new Nanette Lepore shop and "Martha Stewart's Kitchen," private-label stores for the company's Liz Claiborne line, and themed areas for seasons and trends.



Ramin Talaie for The Wall Street Journal

Arizona, one of the store's featured brands, on display Wednesday at a Penney media event in New York.

Town Square," he says.

Two things Mr. Johnson isn't interested in are celebrity lines and private label apparel. Mr. Johnson, a believer in brands, says in-house labels lack distinctiveness and pricing power.

like fast-fashion line Mango and Sephora cosmetics. But it continued to struggle with lackluster sales and the need to discount heavily to clear merchandise.

At an interview at the Plano, Texas, headquarters last week, Mr. Johnson said he determined that the store's initial prices needed to be realigned with what customers feel comfortable paying. Beginning in February, Penney will lower the initial price for items by about 40% from where they start now.

He also plans to sharply reduce the number of promotions. Penney will pick a number of in-season items that will be on sale for an entire month. It will have two clearance sales, on the first and third Fridays of the month, called "Best Price Fridays," an idea he picked up while working at Mervyn's, a now-defunct regional department store. Prices will be expressed in flat dollar amounts without cents.

Penney plans to spend \$80 million a month on the program.

The move is risky, as shoppers have become rabid bargain hunters. But the old strategy wasn't working. Sales at stores open at least a year, a key measure of a retailer's ability to draw customers, rose a thin 0.7% in the 11 months through December, down from a 2.7% increase the year before and well behind Macy's 5.4% gain.

A poor holiday showing led Penney to sharply cut its profit outlook for the fourth quarter. Its shares are up about 6.7% in the past year, but that's compared with Macy's gain of nearly 47%. On Wednesday, Penney's shares fell 1%. Macy's fell 3.1%.

Department stores increasingly are setting up "stores in a store" and carving out areas for specific brands. Mr. Johnson, however,

Penney's plans to launch 10 new shops in the fall and add new stores monthly until it reaches its goal by 2015.

The new CEO also plans to replace the "center core"—the highest traffic middle area where department stores typically concentrate cosmetics, accessories and other high-margin impulse buys—with what he calls "Town Square." The section will be a minimum of 10,000 square feet and rotate monthly attractions and services, such as free haircuts during back-to-school season or free hot dogs and ice cream in July.

Mr. Johnson equates Town Square with Apple's "Genius Bar," where customers have their products serviced. "Just like in the Apple store, you have to walk through the products to get to the

As a result, Penney is slashing the number of private-label lines it has from hundreds to a few strong ones, Chief Operating Officer Mike Kramer said.

The company acknowledges that the changes will require investments, but Mr. Johnson says cost cutting and the elimination of sales have been "engineered to pay for it."

"It's going to be funded internally from our own cash flow from operations, but it's going to be on steroids, because we're becoming more efficient and cutting out a lot of cost," says Mr. Kramer, whose major task is funding the changes.

Mr. Kramer says the new strategy is simpler and will save money. For instance, Penney will cut the number of promotional packs it sends to stores to just one a month from three a week.. It also will eliminate jobs related to retagging merchandise for perpetual sales.

Mr. Kramer, who reported to Mr. Johnson at Apple, recalls phone conversations the two men had years ago when Mr. Kramer was at the helm of Kellwood Co., an apparel manufacturer. Mr. Kramer says he'd vent his frustrations about working with department stores, and the two would mull ideas for transforming them, Mr. Kramer says.

Mr. Johnson says he became intrigued by the decline of department stores during his Apple days, noting on mall trips he could park easily near department stores while spots were taken near specialty stores.

"I kept going, 'Department stores have all the competitive advantages: low real estate, big marketing budgets, lots of space, he said. "Something is fundamentally wrong here."

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