Management in Action

J. C. Penney Is Changing Its Competitive Strategy

Shortly after taking the top job at J. C. Penney Co. last fall, chief executive Ron Johnson signed up for the company's e-mail 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.

"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 store's 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 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 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 consumers 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 Friday's," 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 strength, rose a thin 0.7% in the 11 months through December, down from a 2.7% increase the year before and well below Macy's 5.4% gain. . . .

The new CEO also plans to replace the "center core"—the highest traffic middle area where 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 back-to-school haircuts 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 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.

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."

FOR DISCUSSION

1. Using no more than two sentences, describe J.C. Penney's strategy.
2. Based on Michael Porter's discussion of the characteristics of an effective strategy, does J. C. Penney have a good strategy for growth? Explain.
3. To what extent is Penney following the five steps of the strategic-management process?

4. Conduct an environmental scan or SWOT analysis of Penney's current reality and recommend whether the company's current strategy is poised to succeed.
5. Which of Michael Porter's four competitive strategies is Penney trying to follow? Discuss.
6. What is the greatest takeaway from this case in terms of strategic management?

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Self-Assessment

Core Skills Required in Strategic Planning

OBJECTIVES

1. To assess if you have the skills to be in strategic planning.
2. To see what you think are the important core skill areas in strategic planning.

INTRODUCTION

Strategic planning became important as a method of managing the increasing velocity of change. The business environment no longer evolves at a manageable pace but increasingly through a process Charles Handy calls "discontinuous change"—change that radically alters how we think, work, and often behave. The computer, for instance, has completely changed how we communicate, research, write, and work. To meet this challenge, companies have strategic planners and others knowledgeable about their organizations, culture, and environment to shape strategy. Individuals must develop knowledge about their own abilities so that they formulate their own kind of strategic planning.

INSTRUCTIONS

To see whether you have the required skills needed to be a strategic planner, truthfully and thoughtfully assess your ability level for the following list of 12 skills. Rate each skill by using a five-point scale in which 1 = exceptional, 2 = very high, 3 = high, 4 = low, and 5 = very low.

1. Ability to synthesize	1	2	3	4	5
2. Analytical skills	1	2	3	4	5
3. Computer skills	1	2	3	4	5
4. Decisiveness	1	2	3	4	5
5. Interpersonal skills	1	2	3	4	5
6. Listening skills	1	2	3	4	5
7. Persuasiveness	1	2	3	4	5
8. Problem-solving skills	1	2	3	4	5
9. Research skills	1	2	3	4	5
10. Team skills	1	2	3	4	5
11. Verbal skills	1	2	3	4	5
12. Written skills	1	2	3	4	5

SCORING & INTERPRETATION

According to research conducted at the Ohio State University College of Business, the core required skills for the 12 skills above rate as follows:

Ability to synthesize:	2
Analytical skills:	1
Computer skills:	3
Decisiveness:	3
Interpersonal skills:	1
Listening skills:	2
Persuasiveness:	2
Problem-solving skills:	3
Research skills:	3
Team skills:	2
Verbal skills:	2
Written skills:	3

If you scored mostly 4s and 5s, strategic planning is probably not for you.

If you scored near the "perfect" score, it may be a possible career path.

If you scored all 1s and 2s, you might do extremely well at this type of work and might want to look into it more.

QUESTIONS FOR DISCUSSION

1. Based on your results, do you think you would like to make a career out of strategic planning? Why or why not?
2. What appeals or does not appeal to you about this career? Explain.
3. How might you enhance your strategic skills? Discuss.

Developed by Anne C. Cowden, PhD.

Legal/Ethical Challenge

Should Companies Be Pressured to Recruit Females for Boards of Directors?

A company's board of directors plays a role in the strategic management process. Not only can a board provide input into the planning process, but it ultimately signs off on the intended strategies. Interestingly, a 2011 study by Catalyst, a nonprofit organization, compared financial performance of companies with zero female board members versus those with three or more female members. Results indicated that female representation was associated with (1) 84% higher return on sales, (2) 60% higher return on invested capital, and (3) 46% higher return on equity. This challenge pertains to whether it is appropriate for outside groups to pressure a company to include women on its board of directors.

Small percentages of female board members may be caused by many factors, such as a lack of specific experience (e.g., finance), limited social networks, and negative stereotypes. Regardless of the cause, external groups are sprouting up around the United States that are focused on putting pressure on companies to recruit female directors. One example is a group that calls itself "2020 Women on Boards." This nonprofit group has a goal of mobilizing stakeholders to encourage companies to increase female representation on boards of directors. The group plans to publish a list of the Fortune 1000 companies that have no female directors. Some believe that efforts like this will promote good corporate governance, while others see it as an intrusion into the internal functioning of an organization.

SOLVING THE CHALLENGE

Where do you stand on this issue?

1. It is a great idea to pressure companies to include more females on boards of directors. After all, the Catalyst study showed that female representation was associated with higher financial performance.
2. Companies should be allowed to select people for boards based on their experience, networks, and performance. Gender should not be considered as a relevant criterion for selecting board members. I am not in favor of this type of social pressure because it does not ensure that the most qualified people are placed on boards of directors.