

The JCPenney logo is displayed in a bold, red, sans-serif font. The 'J' and 'C' are joined together, and the 'P' is also joined to the 'C'. The 'e' and 'n' are separate, and the 'y' has a long, thin tail that extends downwards and to the right.

JCPenney

Fair and Square Strategy Review & Recommendations

J. C. Penney Company, Inc.

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About this Presentation

- ▶ This short presentation was originally prepared for my College Business Thesis class in December 2018. The presentation is based off several papers that I wrote for the class.
- ▶ It covers the implementation of the “Fair & Square” strategy in 2012 and why it was a faulty strategy that led the company into a downward spiral.
- ▶ Since December of 2018, J. C. Penney Company, Inc has seen its stock price continue to decline and has continued to report losses and sales declines (October 2019).
- ▶ Much of the information, analysis, and recommendations contained in this presentation are still relevant to current situation that JCPenney is in (October 2019).
- ▶ This presentation was not developed by JCPenney and I am not affiliated with the company.

Company History

J. C. Penney Company, Inc.

- ▶ Found in 1902 as the Golden Rule store by James Cash Penney (Ofek & Avery, 2013, p. 2).
- ▶ 34 stores and \$2 million in sales in 1912 (Pederson, 2016).
- ▶ 50 years in operations: \$1 billion in sales (Ofek & Avery, 2013, p. 2).
- ▶ 1974: 2,053 department stores in operation (Pederson, 2016).
- ▶ 1970 to 2000s: Sold hard goods, had a financial services division, insurance business, and operated Thrift Drug stores. All were discontinued from 1980 to the mid-2000s (Pederson, 2016).
- ▶ 2008: J.C. Penney was affected by the Great Recession. Company was able to make it out in a decent condition (Pederson, 2016).
- ▶ 2011-2012: Company hit by stagnating sales. Launches Fair & Square Strategy (Ofek & Avery, 2013, p. 4).



Photo: (Bernd00, 2008)



Photo: (NewspaperARCHIVE, n.d.)

Company Overview

J. C. Penney Company, Inc.

- ▶ National omnichannel department store retailer. Sells home furnishings, clothing, accessories, small appliances and more (Pederson, 2016).
- ▶ Operates 860 stores in 49 states and Puerto Rico (J.C. Penney Company, Inc., 2018).
- ▶ Many stores are located within malls (J.C. Penney Company, Inc, n.d.).
- ▶ Company's Values: The Golden Rule & The Penney Idea.
- ▶ Golden Rule: Treat others the way you want to be treated (Ofek & Avery, 2013, p. 2).
- ▶ The Penney Idea: pack every dollar with value & quality (J.C. Penney Company, Inc., 2018).
- ▶ Private Brands are a key part of its operations (Thompson, Ferris, & Wilcox, 2012, p. 3).
- ▶ Fair & Square: A major change.



Photo: (Plana96, 2018)



Photo: (Tyler, 2018)



Photo: (J.C Penney Company, Inc., 2018)

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Fair & Square: 2011/2012

2011

- ▶ Slowing sales and negative net income (Thompson, Ferris, & Wilcox, 2012).
- ▶ Activist investor William “Bill” Ackman acquires 18% of company & gains seat on the board (Ofek & Avery, 2013, p. 2).
- ▶ Requests changes that include hiring of Ron Johnson as CEO (Ofek & Avery, 2013, p. 2).
- ▶ Board of Directors agrees to changes (Thompson, Ferris, & Wilcox, 2012, p. 6).

2012

- ▶ Ron Johnson and his team create “Fair & Square” as a new strategy. Announced January 2012 (J.C. Penney Company, Inc., 2012).
- ▶ New pricing strategy, store format, logo, spokesperson, & sales methods (Ofek & Avery, 2013, p. 4-6).
- ▶ Pricing strategy based on three tiers (Ofek & Avery, 2013, p. 4-6).
- ▶ No coupons or sales (Ofek & Avery, 2013, p. 4-6).
- ▶ New store format based on a town square with stores within a store (Ofek & Avery, 2013, p. 4-6).
- ▶ Major change in operations.



Fair & Square: Results

- ▶ Company launched Fair & Square at the beginning of February 2012 (J.C. Penney Company Inc., 2012).
- ▶ First quarter 2012: almost a 20% decline in sales (Olenski, 2012).
- ▶ All of 2012: \$985 million loss and a 25% sales decline (Aisner, 2013).
- ▶ Through April 2013: losses for the past 4 quarters and 27% decline in revenue from 2011 (Wapner, 2013).
- ▶ 2011 to April 2013: Stock declines 52% (Schaefer, 2013).
- ▶ 2013: Ron Johnson removed as CEO (Wapner, 2013).
- ▶ William Ackman: “very close to a disaster” (Wapner, 2013).



Photo: (Covestor, 2012)

Fair & Square: Why Did it Fail?

- ▶ The company selected a strategy that was faulty.
- ▶ Prices were raised under the Fair & Square strategy:
 - ▶ Average selling price for a t-shirt was \$5.99, MSRP \$13.99 (Ofek & Avery, 2013, p. 20). New strategy had a \$7.00 everyday price, \$6.00 monthly value, & \$4.00 best value.
 - ▶ Company sold 67% of items at the everyday price for Q1 2012 (Zumda, 2012a).
 - ▶ Morgan Stanley survey showed that shoppers felt that JCPenney no longer offered deals and great prices (Salzman, 2012).
 - ▶ No value was provided to customers under the strategy.
- ▶ Mostly a faulty strategy. Execution based failures also.
- ▶ Other factors: no market testing (Ofek & Avery, 2013, p. 9), misunderstanding of company position, communication failures, & not willing to change directions.



Photo: (Davis, 2012)

JCPenney

The J. C. Penney of 2018

- ▶ Company has not recovered from the failure of Fair & Square.
- ▶ Reported a loss in every year since 2012, except for 2017 (Nasdaq, 2018b) (MarketWatch, 2018).
- ▶ Stock has declined by 96% since January 2012 (Nasdaq, 2018a).
- ▶ High debt: \$168 million in cash and \$4.16 billion in long-term debt. 4% cash to debt (Duprey, 2018b).
- ▶ Company has work to do to recover.



Chart: (TradingView, 2018)

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Recovery Recommendations

1. Focus On Being a Value Department Store

- ▶ Historically a firm that provided value and quality.
- ▶ Must be known as the department store for low prices.
- ▶ Everyday low prices with frequent sales, a modified “Fair & Square” strategy.
- ▶ Macy’s has tried everyday value with sales. Positive results (Ofek & Avery, 2013, p. 8).
- ▶ Walmart and Amazon.com have succeeded with competitive/low prices (Tenebruso, 2018).
- ▶ Reduce supply chain costs.
- ▶ The Penney Idea is key.

2. Merchandise Expansion

3. Test New Ideas



Founder James Cash Penney

The Penney Idea:

“ To do all in our power to pack the customer’s dollar full of value, quality and satisfaction. ”

Photo: (J.C. Penney Company, Inc., 2018)

Recovery Recommendations

▶ Merchandise Expansion

- ▶ Add more items to attract new customers.
- ▶ Toys “R” Us closed and Sears reducing store counts (Duprey, 2018a) (Thomas, 2018b).
- ▶ Company can gain customers from those stores (Dierickx, 2018).
- ▶ Expand/modify toy section, expand home operations, & add home electronics.

▶ Test New Ideas

- ▶ Will help the company grow.
- ▶ Some ideas are being tested by the company: new salons (Urie, 2018).
- ▶ New innovation division to test ideas.
- ▶ New ideas can help the firm recover quickly.



Photo: (Thomas, 2018a)

Thank You

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