JCP 2017: A Light at the end of the Tunnel or a Train?

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ABSTRACT

J. C. Penney Company, Inc., sells merchandise through department stores in the United States. The company sells family apparel and footwear, accessories, fine and fashion jewelry, beauty products, and home furnishings, as well as provides various services, including styling salon, optical, portrait photography, and custom decorating. As of January 2016, it operated approximately 1021 department stores in 49 states and Puerto Rico. The company also sells its products through its website, jcpenney.com. Its headquarters is in Plano, Texas. They currently have approximately 105,000 full-time employees.

Following the recession of 2009, J. C. Penney was a stable, but struggling retail chain. In an effort to reverse course, the company’s Board brought in a new CEO, Ron Johnson. His tenure (2011-13) and vision for revamping the company proved to be a failure, with sales falling to $13 billion a year from a previous $17 billion. In 2013, the Board brought back the previous CEO, Mark Ullman, who immediately reinstated old strategies. His appointment was to be a temporary fix until a new permanent CEO could be found. In 2015, Marvin Ellison assumed the CEO’s role. This case gives students the opportunity to evaluate the company’s turnaround strategies implemented by Ellison.

Keywords: Strategic analysis, SWOT analysis, Marketing, Retailing, Promotion
A BRIEF HISTORY OF J. C. PENNEY

J. C. Penney has a long history going back to its beginning in 1902 with a single store in a small Wyoming town. By the 21st Century, it had truly become an American icon and a dominant force in the retail business. In 2011, the company had over 1,100 stores, $17+ billion in sales, and 160,000 employees (J.C. Penney, 2011), (Steffy, 2013).

But starting in the early in the 2000's, the company found itself struggling to find a niche in the retail apparel industry. Competition was heating up, from both brick and mortar retailers to the rapidly increasing internet industry. Wal-Mart and Target were attracting discount shoppers and Macy’s and Kohl’s were attracting the more affluent shoppers squeezing J. C. Penney’s profit. Their sales were stagnating and the company stock was going nowhere, leaving shareholders unhappy. Many retail analysts and even their own customers, particularly the younger ones, often described the company as having evolved into one with a dowdy, stodgy, boring image. To draw in customers, the company had begun using ever increasing promotional discounts to attract customers. By 2011, over 75% of their revenue was from merchandise that had been discounted by 50%. The target market could best be described as a middle-class, price-conscious shopper who as a Morgan Stanly analyst observed “is triggered by perceived discounts or percent’s off, not absolute price points.” (Cheng, 2012). Many of these customers shopped for the thrill of the deal. J. C. Penney had become so dependent upon sales to drive traffic in the stores, they were conducting up to 600 sales per year. Management knew they needed to wean customers off of constant sales, but were unsure of how to do it. They were also losing money with their 400-page catalog and in early 2011, discontinued the catalog to reduce costs. The one bright spot was the store’s popular brands such as St. John's Bay, Worthington, and Cabin Creek that accounted for more than 50% of its sales.

THE RON JOHNSON ERA (2011-2013)

By the summer of 2011, Penney’s Board of Directors came under strong pressure to do something. William Ackman had joined the board earlier that year. Ackman had a long history of being a “hedge fund guy” – a wealthy individual who seeks to buy a large share in a company usually with the objective of using his influence on the Board for a turnaround. Mr. Ackman encouraged the Board to hire Ron Johnson as CEO in late 2011. Johnson had a degree from Stanford and a MBA from Harvard. He had served as the CEO of Target and had worked directly under Steve Jobs as the Vice President of Retailing at Apple. (Reingold, 2012). Johnson's vision for J. C. Penney was to transform its current boring image to one of being a cool place to shop. Within weeks of his hire, without research or testing, he unveiled his vision which encompassed every area of the store including the target market, products, pricing, promotion and store layout.

In a drastic attempt to totally revamp the struggling retailer during a Great Recession (Aisner, 2013), Johnson, not only eliminated 40,000 jobs (Wahba, 2016b), but immediately abolished a promotion policy that customers had grown accustomed to for decades (Ailawadi, 2013). For example, the traditional J.C. Penney customer habitually waited until merchandise was reduced reasonably before making a purchase. While this was conscientious and astute on the part of the customer, because 50 to 70 percent of J.C. Penney’s sales were discounted prices (Aisner, 2013), Johnson believed that merchandise should be sold at the markdown price from the beginning. Known as “value pricing”, Johnson cut promotions and coupons and advertised “fair and square” pricing and customers revolted (Ailawadi, 2013; Mourdoukoutas, 2013).
Johnson also wanted to create an environment for a more modern customer which disrupted the monotony of J.C. Penney as it historically competed against Walmart and other low-end discounters like TJ Maxx, Kohl’s, Macy’s, and Target (Aisner, 2013) and, now, Amazon (Ailawadi, 2013). Instead of continuing to focus on its core customers comprised of low- to middle-income families, or the “modern American mom” (Purdy, 2016), Johnson aggressively pursued a more affluent, modern demographic who desired unique boutiques, wi-fi, and nail shops (Aisner, 2013; Mourdoukoutas, 2013). While his perservance, ambition, and imagination lead to success at Apple and Target, the application of the same business model proved detrimental for J.C. Penney as it reported a $552 million reported Q4 loss in 2012 while simultaneously losing its core customers to other competitors (Gibson, n.d.). Sales dropped from $17 billion to $11 billion in the 17 months of his tenure at J.C. Penney. In April 2013, the Board terminated Ron Johnson.

THE RETURN OF MARK ULLMAN (2013-15)

Following the ousting of Johnson after 18 months as CEO, J.C. Penney’s Board decided to reinstate their former CEO, Mike Ullman, in an attempt to secure its future. His main goal from day one was to undo almost all of Johnson’s changes (Townsend, 2015). Before Ullman’s departure in November 2011, he had been a strong proponent for discounting and couponing, while Ron Johnson viewed it as a major problem for the retailer. Johnson’s efforts to totally overhaul J.C. Penney’s staid image to attract new customers by using “mini shops” failed to move the financial needle. Ullman returned during a time in which the once prominent retailer found itself facing financial ruin. During his comeback tenure, he was expected to serve as a stabilizing force during an unsteady transitional period, and which did not include the responsibility of completely turning the company around (d’Innocenzio, 2013). This was an overt indication that Ullman’s tenure would be short-lived. As stated by Craig Johnson, president of Customer Growth Partners, “What they (J.C. Penney) need is a little bit of stability and essentially adult supervision. Ullman was to do some nip-and-tuck surgery, but ultimately this was a place that needed radical surgery” (d’Innocenzio, 2013).

THE TURNAround STRATEGY OF MARVIN ELLISON (2015 – PRESENT)

Following Mike Ullman, Marvin Ellison became the company’s CEO in 2015. Ellison was 51 at the time and had earned a MBA from Emory in 2005. He had built his reputation in retail at Home Depot where he had helped engineer their turnaround by focusing on the supply chain and the integration of stores and e-commerce. In 2014, he was passed over in the CEO’s slot for Home Depot by Craig Menear, who the company felt had more merchandising experience.

With Ellison as CEO, the company’s goal became winning back its core constituency of customers. This was to be accomplished in part by reinstating sales promotions and couponing, as well as bringing back its private-labeled brands which had been ousted by Johnson (J.C. Penney unveils turnaround strategy as it warns of weak sales, 2014). Ellison felt strongly that J.C. Penney’s resurgence would be contingent upon the continued loyalty of their core customer base.

As stated in Tables 1 and 2 (Appendix) that revenue was declining before Johnson assumed the role of CEO in 2011. During Johnson’s tenure between 2011 and 2013, year over year growth dramatically declined by approximately 25%. In 2014, the company experienced a net income loss of almost $1.3 billion. By 2016, net income loss had narrowed to a little over half a billion.
J.C. Penney stock had been as high as the mid $70 range in 2007, by 2013 it was $20 and by 2015 had dipped to as low as $6. Under Ellison it has risen as high as $11.

PRIVATE BRANDS

Private or exclusive brands allow a company to differentiate itself while offering products that typically sell for lower prices and generate higher gross margins than national brands. For stores that focus on providing value to its customers, they can play an important role. In 2015, 52% of J. C. Penney’s sales came from private brands. Ellison goal is to increase this percentage to 70% by the year 2019. This 18% of additional sales in private brands represents more than $2 billion in possible sales. Getting the proper mix of private and national brands can be a tricky thing. Kohl’s tried recently to raise its percent of private brands from 30% to over 50% which turned out to be too high. Sales actually decreased as customers are often attracted to the store by national brands.

A FOCUS ON MERCHANDISING MIX

“We are doing the equivalent of an Oreo display”, says J.C. Penney’s Chief Marketing Officer Mary Beth West regarding the basic standardization of their redirected approach to merchandising (Purdy, 2016). The shift from employing “gut feeling” decisions as opposed to evidence-based decisions comes as no surprise given Ellison’s methodical approach to electing recourses that closely match customers’ shopping patterns. As mentioned, sales per square foot has dramatically declined since its peak in 2006. Ellison’s focus on strategically shifting the merchandising mix will better correlate with where customers are spending the greater percent of their dollars. For example, Ellison tested the selling of men’s shoes next to women’s footwear and actually found that men’s shoes sold faster next to men’s suits. Consequently, J.C. Penney saw a double-digit increase in footwear simply by responding to shopping patterns and entrusting men to buy their own shoes instead of women who make up 80 percent of their clientele (Wahba, 2016). The retailer is also seeing a favorable increase in the relaunch of Liz Claiborne handbags. In projecting future growth, capturing big data will be instrumental in learning from current buying patterns and in anticipating future buying behaviors (Garcia, T., 2016).

THE REVITALIZATION OF JCPENNEY HAIR SALON

Ellison decided to reinvigorate J.C. Penney’s once thriving hair salons. Still hailed as the largest salon chains in the country, J.C. Penney salons generate approximately 5% of sales and and had become the premier destination for proms and weddings (Wahba, 2016). Interestingly, salon customers contribute two times the revenue of the average customer while visiting the store eight times a year. Unfortunately, the majority of their salons lacked the luster needed to attract new customers; thus losing out on an opportunity to increase foot traffic and compliment other in-store franchises like Sephora.

THE NECESSITY OF E-COMMERCE

J.C. Penney and other retailers are feeling the pressure of alternate substitutes, mainly in the form of online sales. What is more, the overall decline of American malls with the projection that a third of them will close soon, only heightens the hurdle. About 635 of J.C. Penney’s 1,020
stores are in traditional malls which are characterized as C- and D-malls (Wahba, 2016b). Meaning, these malls have a lot of unoccupied real estate. Accordingly, the absence of viable tenants and the lower-grade integrity of the mall adversely affects neighboring incumbents. If the diminution of foot traffic was not enough, adding Amazon.com to the retail equation only burdens traditional apparel retailers.

Ellison has plans to dedicate 29% of its capital expense budget to revitalizing its online procurement (Wahba, 2015). Moreover, Ellison corroborates his commitment to improving online viability by stating, “We went out and we recruited one of the best e-commerce executives in retail…” (Garcia, D., 2016). With the addition of Michael Amend, Executive Vice President of Omnichannel, and Ellison’s supply chain management experience, the company is looking to find the delicate balance between digital and physical shopping (Nash, 2015). However, J.C. Penney continues to trails the retail industry by failing to execute “same-day pick up” like Walmart and other competitors.

A LUCRATIVE PARTNERSHIP BETWEEN J.C. PENNEY AND SEPHORA

The partnership between J.C. Penney and the European beauty retailer, Sephora, began in 2006 during Mike Ullman’s tenure. In a continuing effort to appeal to their core customers, Ullman believed that Sephora would add a degree of excitement, prestige, and inspiration to J.C. Penney’s brand while attracting new customers in the process. As of 2015, J.C. Penney housed 518 Sephora boutiques despite plummeting sales and rumors of stores closing (Levine-Weinberg, 2016). The decision to open 60 additional Sephora shops in small and rural areas comes at no surprise given that the boutiques constantly outperform the entire store.

Although Johnson, during his stint as CEO, attempted to change J.C. Penney’s value proposition by focusing on affluent customers, Sephora reflects this agenda but in a different perspective. More concretely, J.C. Penney is attracting Millennials. And, while these new customers are entering into the store for an aspirational experience, their stay is temporal with no additional money spent in other areas. Ellison attributes this failure to poor product departmentalization. To combat this, J.C. Penney, through its adoption of the “cross shop” concept, hopes to compliment Sephora sales through better product presentation in categories such as accessories and handbags (Levine-Weinberg, 2016) to increase the likelihood of cross-selling opportunities (Bailey, 2015). Table 3 vividly depicts the positive correlation between Sephora as it relates to proportionate sales of women’s accessories. Ending 2015, net sales increased to 12% as opposed to 11% and 10% in 2013 and 2012, respectively. In a cluster of closely-related substitutes, J.C. Penney is heavily dependent on Sephora to assist in offering amenities that will encourage customers to stay longer and shop.

THE RELAUNCHING OF THE APPLIANCE BUSINESS

Following a 33 year hiatus, J.C. Penney became a direct rival with Sears, Home Depot, Lowes and several others by relaunching appliances to their product mix. The appliance industry is expected to grow by 32% to over $50 billion by the year 2020. As a result of those projections, J.C. Penney’s goal was to capture and improve sales per square footage with this product addition (Wahba, 2016a). To outperform other rivals, J.C. Penney aggressively lowered prices in an attempt to articulate to its customers that appliances were now available, including on the jcp.com web site. What is interesting is the extent to which the retailer offers price-matching, free delivery and installation on appliances $299 or more (Wahba, 2016a). Not only is J.C. Penney looking to
revive its sluggish sales, but also hoping that customers will apply for J. C. Penney credit cards since appliances are big ticket items.

**ADDITIONAL EFFORTS TO SURVIVE AND THRIVE**

J.C. Penney under Ellison’s direction is undertaking several additional measures in an attempt to return to its glory days. They have created a partnership with Ashley Furniture to sell their products in certain Penney stores. Another partnership with Empire Flooring will gain the company sales in an effort to be a place to furnish your home. In their apparel line, they are emphasizing becoming the place for special sizes to shop. Sizes like Junior Plus, Husky, Girl’s Plus are examples. Currently, the special size community is 38% of the U.S. population and is expected to grow to 50% in the next ten years. They have even changed their mission from being “America’s favorite store” to that of “helping our customers find what she loves for less time, money, and effort.” Note the “she” in the new mission, 72% of J.C. Penney’s customers are females.

**THE EXTERNAL ENVIRONMENT**

While an argument can be made both ways, a large group of proponents including Harvard professor of strategy, Michael Porter, contend that organizational performance will be primarily determined by industry forces. The retail industry is being impacted by various economic, technological and social changes which have created a challenging environment for J.C. Penney and its competitors.

**THE 2009 RECESSION**

Traditional department stores were hit hard during the 2009 recession as consumers cut back their spending, especially on apparel such as clothing and shoes. Consumer expenditures on clothing and apparel dropped from $1881 per household before the recession in 2007 to a low of $1700 in 2010. It took until 2015 for consumer spending to reach prerecession levels at $1846 per household (Consumer Expenditures--2015, 2016). The recession and the resulting slow economy have made consumers more price-conscious. Even years after the recession, U.S. consumers are uncertain about the economy and holding tight to their wallets. A recent survey found that approximately 73% of shoppers considered sales and price discounts important factors when choosing where to shop (Allen, 2015).

**TECHNOLOGY**

Technology has also played a major role in changing consumers’ shopping habits. Consumers are connected with their mobile phones and social media. A recent survey found that 79% of smartphone owners used their smartphone to shop (How Mobile is Transforming the Shopping Experience in Stores, 2013). With 67% of U.S. consumers now owning a smartphone (Smith, 2015), consumers can purchase products whenever and wherever they want using a desktop, laptop, smartphone or tablet. They also expect brick-and-mortar stores to offer online shopping along with free home delivery or in-store pickup with easy return policies. Most of the major retailers are investing heavily in technology improvements and infrastructure to meet those expectations.
Millennials, at 75 million strong, are finally overtaking the Baby Boomers as the largest generational group and their influence will be felt for years to come. Millennials, defined as adults under 35, are digital savvy and more likely to purchase experiences than things. (Lee, 2016).

**COMPETITION**

Traditional department store retailers such as J.C. Penney, Macy’s and Kohl’s are not only competing with each other, they are fighting for an increasingly smaller piece of the retail pie with online retailers such as Amazon and off-price discounters such as TJMaxx and Ross Dress for Less. Competition is intense and some analysts believe that the retail space is oversaturated. According to Morningstar analysts, "The abundance of space, the growth of e-commerce, and other factors are forcing retailers to reconsider their physical store strategy," (Peterson, 2016). The analysts are concerned that if Sears, Macy’s and J.C. Penney continue to close anchor stores, the other tenants will leave, leaving the malls deserted with massive losses.

Macy’s is an upscale department store with over 880 stores including Bloomingdales, Backstage and Bluemercury. Since 2012, Macy’s sales have stagnated around $27 billion. In 2015, they closed 36 stores and plan to close another 100 to remain profitable while increasing their multi-channel fulfillment strategies. In 2015, in order to better compete with off-price stores, Macy’s opened six off-price stores, under the Backstage name. They plan to expand this concept in 2016, including locating the Backstage stores within selected Macy’s stores. They also are entering into an agreement with BestBuy to sell electronics within Macy’s (Macy's Inc., 2016).

Kohl’s has approximately 1150 department stores, 773 stores are located in strip malls and 293 stores that are freestanding. Only 84 stores are in community or regional malls. Their sales have increased from $18.8 billion in 2012 to 19.2 billion in 2016. They plan to close 18 unprofitable stores in 2016 (Kohl's, 2016).

Sears operates 705 full-line Sears stores located mostly in mall settings. Their sales have plummeted from $40 billion in 2012 to just over $25 billion in 2016. Recently, they have closed 68 of their Kmart stores and 10 Sears stores (Sears, 2015).

Amazon represents 26% of all online sales in the United States (Loeb, 2016). Online sales have been increasing every year and in 2016, Amazon became the number two seller of apparel in the United States. In a recent consumer survey, 46% of shoppers said their holiday browsing and buying would be conducted online (Allen, 2015). Amazon is the most popular website for online searches with over 55% of online searches beginning at their website (Bloomreach, 2016).

Off-price discount stores are one of the fastest growing segments in the retail space. TJMaxx and Ross Dress for Less stores offer national brands at discounts of 20% to 60% along with their own exclusive brands. Since the recession, their sales have increased in the high digits as shoppers looked for bargains. TJX is the largest off-price retailer with sales increasing from $23.19 billion in 2012 to over $30 billion in 2016. Currently operating over 2,600 stores in the United States under the names T.J. Maxx, Marshalls, and HomeGoods, they plan to open another 2,000 stores. Ross stores sales have increased from $8.61 billion in 2012 to $11.9 Billion in 2016. They operate over 1200 stores in the United States.

**J. C. PENNEY’S FUTURE GOALS**

J. C. Penney’s future looks much brighter now than it did following Johnson’s tenure. Sales are up, costs are down, and customers are returning. However, the company lost $513
million last year and over $3.5 billion in the last 4 years, while at the same time carrying nearly $5 billion in long-term debt. Obviously, what the company can do in the future is financially limited. The company has an ambitious long-term plan with specific strategies to return the company to profitability. The goal is to grow comparable sales by 3% annually through 2019, improve gross margins by 75-100 basis points, reduce SG&A expenses as a percentage of revenue by 215 to 240 basis points, and produce as much as $500 million in net income by 2019.

CASE QUESTIONS

It is still unclear if Marvin Ellison’s turnaround plan will work or fail as miserably as Ron Johnson’s plan. Based on the case answer the following questions.

1. What is your assessment of the individual turnaround strategies CEO Marvin Ellison has put into place?

2. What other possible strategies do you think they might employ?

3. Regardless of what Ellison does at J.C. Penney, is it possible that the company’s fate rests more in the hands of what transpires in the industry?

4. What is your opinion as to the future of J.C. Penney?

REFERENCES


### Table 1

**JCPenney**

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<td>Revenue USD MIL</td>
<td>19,903</td>
<td>19,860</td>
<td>18,486</td>
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<td>17260</td>
<td>12985</td>
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<td>Net Income USD Mil</td>
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<td>572</td>
<td>251</td>
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<td>-152</td>
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| Year over year | 5.97 | -0.22 | -6.92 | -5.03 | 1.16 | -2.81 | -24.77 | -8.67 | 3.36 | 3 |

### Table 2

**Stock Performance**

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Table 3

![Proportion of Sales from Women's Accessories, including Sephora](image)

Source: Market Realist

Table 4

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<td>Macy’s</td>
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<td>27.42</td>
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*Source: MarketWatch*
Instructor Notes for:

**JCP 2017: A Light at the End of the Tunnel or a Train?**

**Question 1: What is your assessment of the individual turnaround strategies CEO Marvin Ellison has put into place?**

With the return of Ullman and eventually Ellison, JCP has installed several turnaround strategies that will hopefully allow JCP to not only stop the financial losses but to return it to its better days. The following looks at those individual strategies.

**Private Brands:** There are definitely pros and cons for increasing the percentage of private brands a retailer might sell. JCP’s private brands are affordable and that would appeal to their customer base. They are the ones that most of their sales promotion key on. In addition to being an exclusive offering thus differentiating themselves from other retailers, they provide for a bigger margin. On the other hand, private brands have to appeal to their customers, if customers feel they are second-best, they won’t buy or even shop for them. National brands often are more appealing and are what oftentimes draw customers to your store in the first place. The proper mix of private versus national is often a tricky decision, and only settled through trial and error.

**Merchandising Mix and Sales Promotions:** Part of Ellison’s turnaround strategy involves methodically understanding the attributes of the typical J. C. Penney customer. Their merchandising mix revamp and return to heavy sales promotion would seem to be a necessary ingredient to appeal to their customers. While customers love bargains and many still love the shopping experience, constant promotion can cheapen your brands. A retailer wants to avoid customers who only spend money on sale items and never buy full-price or impulse items.

An additional problem is created with price anchoring, or comparing a sale price to an original price that is never really available. Anchoring itself is fine, as long as the original price is real; but when the retailer doesn’t ever sell its merchandise at that higher original price, it is deceiving to consumers.

The possibilities of innovative merchandising mix, to include location of those items, are endless. Their movement of men’s shoes is but one example of something small yet effective – similar to milk and bread at grocery stores.

**JCP Hair Salons:** While JCP salon sales are only 5% of sales, that represents $600+ million in 2016 alone. Hair salons can definitely draw in potential customers (maybe 8-10 times a year) who might seldom otherwise frequent malls. One cannot get a haircut online, and the key is to get that customer to visit other parts of the store.
**E-Commerce:** Relative to its online business, J.C. Penney continues to follow behind its cohorts, like Nordstrom’s and Macy, who have been aggressively invested heavily in growing online channels. Accordingly, Ellison emphasized a renewed focus on J.C. Penney’s omnichannel strategy which includes affording customers the opportunity to buy products online and pick them up the same day in store. With an acute focus on product assortment, this significant improvement to its online business not only begins the process of closing the gap that existed among other mid-tier retailers, but it generates higher store traffic which can lead to additional purchases and cross-departmental selling.

**Sephora:** Ellison plans to fully leverage J.C. Penney’s relationship with the Sephora shops which generates 3 to 4 times the sales of the rest of the store. This partnership creates a differentiation approach that employs the appeal and product quality of Sephora shops to create distinction among other mid-tier department stores. Sephora is a relevant name in multiple demographics which should benefit JCP. In addition, Ellison has been instrumental in launching a Sephora e-commerce business on the company’s website. This, in turn, will attract a new millennial customer who is an early adopter of technology and are more prone to utilize phone apps and purchasing products online.

**The Appliance Relaunch:** With the appliance market expected to grow 30 percent over the next three years, Ellison believes that adding appliances to its product depth will prove lucrative. As big-ticket items, appliances are likely to be purchased on a credit card, which can be of additional benefit. Moreover, one-third of customers buying appliances are anticipated to be new to J.C. Penney.

J. C. Penney’s relaunch of appliances comes at the same time that Sears is looking to sell its Kenmore brand. Their Kenmore appliances was once an area of dominance. In 2013, Sears held 28% of the US appliance market, nearly as much as Lowes and Home Depot combined. By 2015, Sears had lost $1 billion in appliance revenue and had fell behind both Lowes and Home Depot. It could further complicate JCP’s entry into appliances if Sears sells Kenmore depending on where the brand is sold.

**Additional Turnaround Efforts:** The partnerships with Ashley Furniture and Empire Flooring are highly questionable. They could prove positive additions in an attempt to round out their home furnishing efforts, but both will require added store space, increase their inventory carrying costs, and entail new tasks such as delivery and warranties. The emphasis on special sizes in apparel combined with a renewed effort to appeal to the woman shopper would both seem to be welcome additions.
Question 2: What other possible strategies do you think they might employ?

With other stores, such as Sears and Macy’s, that are closing due to underperformance, J.C. Penney can capitalize on such store closures and proactively implement strategies to ensure that customer traffic flows in their direction to increase market share. Also, J.C. Penney can continue to evaluate stores that are not profitable in order to focus on stores that will help enhance its omnichannel efforts. Because 50 percent of customers who purchase items online actually visit brick-and-mortar locations, this significant outcome proves advantageous for J.C. Penney in that it drives store traffic resulting in customers shopping multiple categories which increases time spent in the store and items purchased per transaction.

Johnson was right about one thing – JCP needed modernization. Written off as their grandmother’s favorite store just a few years ago, the company desperately needs to attract new generations of shoppers. Hopefully their partnership with Sephora will bring in newer, younger, more affluent customers. Upgrading and renovating their salons could prove advantageous. While mall traffic is down, people still have to get their hair cut and styled, and with their many locations and readily accessible side doors to pick up online orders, they can entice people into their stores.

Question 3: Regardless of what Ellison does at J. C. Penney, is it possible that the company’s fate rests more in the hands of what transpires in the industry?

Many believe that the retail industry, particularly apparel, is over-stored with too many locations for existing demand. Aeropostale, Pacific Sunwear, American Apparel, Quicksilver, Sports Authority, and Gander Mountain have all filed for bankruptcy recently. Gap continues to have decreasing sales every quarter. Macy’s, probably JCP’s nearest competitor, is closing multiple stores. Sears is on the verge of going under. Obviously, to some degree, the closing of other chains’ stores bodes well for the survivors.

Stores in malls are especially vulnerable. Experts anticipate that a third of all malls will close soon. What with customers, especially the younger ones, losing interest in browsing at the mall, combined with the onslaught of internet shopping, department stores face an increasingly bleak future.

Question 4: What is your opinion as to the future of J. C. Penney?

Although the figure may be over-inflated, JCP believes that it has some 87 million active shoppers. That combined with the fact that 90% of all retail sales are still made in store, provides a solid base to rebuild on. Customers like to shop online – but more often than not, they like to see and feel first-hand apparel. They also want immediate access to their purchase.

Although they still may need to close some unprofitable stores, they should be very judicious in so doing. Closing more stores could actually hurt their business, both in store and online. JCP’s long-term debt is over a half billion dollars currently, so that is going to limit what
the company can do in the future. They cannot afford massive remodeling nor huge increases in inventory carrying costs like appliances and credit card debt might necessitate.

While department store market share has dropped significantly due to the Internet and fast-fashion retailers, like Forever 21 and H&M, the future of J.C. Penney will depend on 1) using big data to acutely delineate its own millennial customer and associative spending patterns, 2) continuing to monitor store closures of its peers which can possibly increase store traffic, 3) tracking in-store purchases, like appliances, to determine positive correlations with other product categories, 4) vastly improving e-commerce channels to accommodate habitual online spending, 5) improving the merchandising mix and marketing innovations, and 6) creating value by offering high quality private-label brands and its Sephora shops.