J.C. Penney’s “Fair and Square” Pricing Strategy

Retailing is hard, and that’s what Steve [Jobs] said to me when we started stores at Apple.

— Ron Johnson, CEO, J.C. Penney

It was August 2012 and the release of second quarter earnings was looming for Ron Johnson, the chief executive officer of J.C. Penney, one of America’s first department stores. Johnson, HBS ’84, had intimated to Wall Street that the retailer’s second quarter results were likely to miss expectations again, following dismal first quarter results that had sent the company’s stock price careening to less than half of its February 2012 value of $43 a share. The Q1 news released in May was grim: a $163 million loss, same store revenue down 19%, and the number of customers shopping in J.C. Penney stores down 10%. These results were particularly disheartening given the company’s radical repositioning of its business model and its brand in February 2012.

The centerpiece of the repositioning initiative was a switch from J.C. Penney’s existing high-low pricing strategy, in which the retailer ran frequent sales to offer customers deep discounts off of its higher list prices, to a new strategy the company dubbed “Fair and Square” pricing. “Fair and Square” pricing was meant to simplify J.C. Penney’s pricing structure and make it more straightforward for customers to shop. It offered great prices every day, with less frequent price promotions. The company touted its new pricing strategy as offering “no games, no gimmicks” and invited consumers to “do the math” to see how it offered them cheaper prices on a regular basis with less hassle.

Moving away from high-low pricing was a massive shift for J.C. Penney. In 2011, the retailer spent $1.2 billion to execute 590 different sales events and promotions and generated 72% of its $17.3 billion in annual revenue from products sold at steep discounts of more than 50% off of the initial list price. Wall Street was initially supportive of the company’s plans for change. Investors, who sent J.C. Penney’s stock soaring up 24% following the announcement of the new pricing plan, viewed it as a way for J.C. Penney to escape the ruthless downward spiral of escalating price promotions that gripped America’s retailers struggling to survive the economic recession.

But by mid-summer 2012, customers and shareholders appeared to be voting with their feet, leaving the retailer in droves. Was Johnson’s new pricing strategy misguided or was it just a matter of time before customers fully embraced it? Johnson was under enormous pressure to turn things around quickly as the all-important back-to-school and holiday shopping seasons were imminent. Many voices were calling on him to consider changing the pricing strategy again.
Company Background

Johnson was at the helm of what at one time was considered America’s most venerated department store. Once the largest department store chain in the country with over 2,000 stores, as of 2012, the 110 year old retailer operated 1,100 stores, claiming to serve more than half of America’s households with 41 million square feet of retail space. Founded by James Cash Penney in 1902, the company’s first outlet was opened in a Wyoming mining town under the name “The Golden Rule,” that signified its philosophy of treating customers the way Penney himself wished to be treated. Johnson believed that his “Fair and Square” pricing plan corresponded to the founder’s beliefs, “Now if you go back to the founding of this company, James Cash Penney believed in everyday fair prices. He said, ‘We don’t mark goods up just to mark them down. We don’t believe in sales.’”

The company enjoyed years of rapid growth and expansion. By its 50th anniversary, annual sales exceeded $1 billion. It initially offered consumers one stop shopping as a mass merchandiser, selling soft goods, such as clothing, as well as hard goods, such as appliances, hardware, electronics, and sporting goods. Its retail business was joined by a mail order catalog in 1963 and an ecommerce website in 1998. However, following tough times in the 1980’s, the company reorganized, phasing out its hard goods lines and refocusing on its soft goods to become a fashion oriented department store.

But by its 100th anniversary, the company appeared to be running out of steam. Price-oriented mass merchandisers, such as Walmart and Target, had garnered the lower end of the market, while higher end department stores, such as Macy’s and Nordstrom’s, were catering to the upwardly mobile middle class. Although the economic recession of 2008 was difficult for all retailers due to consumers’ increasing frugality, middle market retailers, like J.C. Penney and Sears, were hit the hardest. By 2011, J.C. Penney’s stores were old, often disorganized, and faded, and the brand and its merchandise were starting to feel dated. About 400 of its stores were located in small towns, such as Alpena, Michigan with a population of a little over 10,000. In such towns, there were often only few, if any, other department stores. The remaining 700 or so stores were located in major metropolitan areas, often in suburban malls, such as the Northshore Mall in Peabody, Massachusetts (15 miles north of Boston).

Following years of store closings, sales malaise, declining market share, slumping earnings, and weak stock market performance, activist investor and hedge fund manager, William Ackman (HBS ’92) obtained an 18% majority shareholder position in the company in 2010–2011. He was determined to turn J.C Penney around and extract its value, much of which was locked up in its vast real estate holdings that were estimated to be worth $11 billion. J.C. Penney owned 400 of its retail stores and paid low rents (an average of less than $5 per square foot) for the remainder. Specialty stores like Gap paid much higher rents (around $40 per square foot) for their retail space. Looking to shake up the company, Ackman was instrumental in luring Johnson to take the CEO position.

Johnson was a big catch. In the 1990s, he was vice president of merchandising at Target where he helped transform the mass merchandiser into a hot retail brand selling stylish yet affordable products. During his time there, Johnson negotiated a contract with designer Michael Graves, beginning Target’s profitable partnerships with high end designers, which enhanced its brand image as a chic, fashion-forward retailer. Starting in 2000, he worked with Steve Jobs to develop the wildly successful Apple retail stores. Johnson was the brainchild behind the “Genius Bars” concept, a free technical help and support area staffed by knowledgeable customer service representatives, widely touted as one of the most innovative retail concepts of the last decade. Johnson was regarded by many as creative and determined; according to a friend, “What people loved more about him than his talent was his persistence. He was just relentless.‘’ Johnson’s deep retail experience combined with...
his wholesome charisma and boyish enthusiasm made him the perfect change agent. The media dubbed him the “Steve Jobs of the retail industry” and on the day his appointment was announced, J.C. Penney’s stock jumped 18%. (See Exhibit 1 for J.C. Penney’s stock market performance).

An Industry under Pressure

J.C. Penney’s 2011 sales were lower than they were in the 1990s and the retail landscape was getting more competitive. Department stores, in particular, were under increased pressure. New retail formats, such as big box retailers like Walmart that operated free standing supercenters selling mass merchandise and small specialty stores like Gap and J. Crew that were located in shopping malls and offered specialized merchandise, were squeezing department stores out of the market (see Exhibit 2). An emerging challenge came from large international clothing retailers, such as H&M and ZARA, that were aggressively entering the U.S. market. These retailers relied on shorter product life cycles and partnerships with top designers to offer fast-fashion merchandise at relatively low prices. Johnson explained the challenge as he stepped into his new role:

Over the past 30 years the department store has become a less relevant part of the retail infrastructure, largely because of decisions the stores have made. As America exploded with big box and specialty stores and new shopping formats, department stores abdicated their unique role instead of engaging the competition. They retreated from categories and assortments that made them distinctive.

Department stores were once the most popular places for Americans to shop, offering distinctive merchandise in elegant settings that provided special services, such as tearooms, salons, and on-site tailoring, and served as social hubs. Johnson reminisced, “In the golden age of department stores, America’s families came for more than just to shop. They were able to have fun experiences and were offered a range of useful services. . . . If we want to transform the department store, we have to understand what happened. These stores were a pillar of the community.”

Johnson, unlike others, believed that department stores could be revived. “There’s no reason department stores can’t flourish. They can be people’s favorite place to shop. They’ve got all these strategic advantages—the lowest cost of real estate, exceptional access to merchandise, scale to create enormous marketing power, colocation with specialty stores. And people like stores with huge assortments and one-stop shopping.”

J.C. Penney’s performance had been lackluster for quite some time, and the retailer was losing market share even within the shrinking department store channel (see Exhibits 3 and 4). Competitors Macy’s and Kohl’s were nipping at J.C. Penney’s business from both the high and low end. The average J.C. Penney customer only visited a store four times per year and sales per square foot ($156) were low compared to those of its competitors and the specialty stores Johnson hoped to emulate (Gap $300, Apple $5,626 in sales per square foot). Department stores and big box stores had increased their promotional budgets since the outbreak of the Great Recession in 2007 and most used blockbuster sales, coupons, and frequent price promotion to drive purchases. According to consulting firm A.T. Kearney, more than 40% of the items Americans bought in 2011 were bought on sale, up from 10% in 1990. Many retailers were eager to wean shoppers off of the big discounts that had become commonplace.

Competition was also increasing from online retailing. Yet Johnson believed brick and mortar stores were still relevant, “Physical stores are still the primary way people acquire merchandise and I think that will be true 50 years from now. . . . A store has got to be much more than a place to acquire
merchandise. It’s got to help people enrich their lives. If the store just fulfills a specific product need, it’s not creating new types of value for the consumer. It’s transacting. Any website can do that.”

Many of J.C. Penney’s largest competitors, such as Macy’s, seemed to have a different view and were investing heavily in their e-commerce operations and in catering to what they called the “omni-channel” consumer, who accessed the retailer through the web, on mobile devices or in physical stores (often as part of the same purchase decision). Although it had been a pioneer in multi-channel commerce, with 2001 combined catalog and web sales of nearly $3.4 billion, J.C. Penney’s e-commerce sales had stagnated over the last three years while those of Macy’s and Kohl’s had grown substantially during the same time frame. (See Exhibit 5 for E-commerce sales growth).

**J.C. Penney’s Radical Makeover**

Following his appointment in November 2011, Johnson determined that nothing short of a complete overhaul would solve J.C. Penney’s problems. Just two months after taking the helm, Johnson and his newly recruited leadership team, culled largely from Apple and Target, announced a radical repositioning of the J.C. Penney business model and brand. Following the announcement, Forbes magazine dubbed J.C. Penney the most interesting retail story of the year, proclaiming, “This week, Johnson took a sledgehammer to the J.C. Penney way of doing business. It’s the most exciting thing I’ve seen in retail since Apple opened stores, again with Johnson at the helm.”

The turnaround plan evoked J.C. Penney’s founding spirit, and Johnson declared it a reclamation of the company’s heritage. J.C. Penney’s website announced, “Over 100 years ago, James Cash Penney founded his company on the principle of treating customers the way he wanted to be treated himself: fair and square. Today, rooted in its rich heritage, J.C. Penney Company, Inc. is re-imagining every aspect of its business in order to reclaim its birthright and become America’s favorite store. . . . At every visit, customers will discover straightforward Fair and Square Pricing.”

The four-year plan involved several distinct, yet integrated elements that touched every part of the business and were designed to recreate a golden age department store that appealed to all Americans, across age, income, and geographic demographics. As Johnson explained, “We are going to rethink every aspect of our business, boldly pursue change, and create long-term shareholder value, as we become America’s favorite store. Every initiative we pursue will be guided by our core value to treat customers as we would like to be treated – fair and square.”

**New Logo**

J.C. Penney had been tinkering with its brand logo, changing it three times in three years. In 2011, the company asked the public for help in redesigning the logo in a crowd-sourcing experiment. The winning design was submitted by a University of Cincinnati student and was unveiled with much fanfare via social media. In 2012, Johnson scrapped this design and hired an agency to redesign the logo once again. The new logo evoked the American flag with red, white, and blue colors and the letters “jcp” in lower case font within a square that represented the new “Fair and Square” mantra. J.C. Penney, which many affectionately called “Penney’s” would now be known as “jcp.” (See Exhibit 6 for the new logo.)

**New Brand Spokesperson**

One of the most exciting and controversial developments of the plan was the announcement of comedian and talk show host Ellen DeGeneres as the new brand spokesperson. DeGeneres, who once worked at a J.C. Penney store as a teenager in Louisiana, appeared in television advertising,
developed J.C. Penney themed skits for her popular talk show, and tweeted about the company on Twitter. Johnson proclaimed DeGeneres to be “one of the most fun and vibrant people in entertainment today, with great warmth and a down-to-earth attitude. . . . Importantly, we share the same fundamental values as Ellen.”

Shortly after DeGeneres’ advertising debut, the conservative Christian group One Million Moms took offense, citing DeGeneres’ homosexuality as problematic for the brand’s image and its traditional family shopper demographic. The group asked its members to boycott J.C. Penney and to call their local store manager to ask for DeGeneres’ removal as spokesperson. DeGeneres went on the offensive to defend her personal values and to reassert her relationship with her fans and with J.C. Penney, producing a witty, yet heartfelt response delivered on her talk show that quickly went viral on the social web. A firestorm erupted and played out on J.C. Penney’s Facebook page, where both pro- and anti-gay posters pledged their support for and/or rejection of the retailer.

J.C. Penney survived the controversy by standing firmly behind its choice of spokesperson. The protest event generated significant positive press for the company and Facebook feedback was more positive than negative. Riding the wave of publicity, J.C. Penney went on to feature two gay dads in a widely touted Father’s Day advertising campaign.

New Store Design

While the new logo and spokesperson were short-term fixes that could be executed quickly, Johnson knew from his experience at Apple that, to really make a difference, he had to make significant changes to the product offering, a longer term proposition. He embarked on a multi-year plan to re-energize and redesign J.C. Penney’s product offering and its merchandising at retail.

He began by forging new supplier relationships with top brands like Martha Stewart and hot designers like Nanette Lepore to create J.C. Penney-specific merchandise lines, a strategy reminiscent of Target. He then went to work to improve the quality of J.C. Penney’s sagging and dated private label brands, Worthington, St. John’s Bay, The Original Arizona Jeans Co, and Stafford, to reinvigorate them and restore their brand integrity. These efforts could also build on J.C. Penney’s recent purchase of the Liz Claiborne brands (which, among others, included Liz Claiborne branded apparel, Lucky Jeans, Kate Spade and Juicy Couture) and the ongoing opening of about 300 Sephora locations inside J.C. Penney stores, which offered a select set of Sephora beauty care products.

He envisioned the in-store retail environment as a series of interactive specialty “Shops,” along a visually engaging and vibrant “Street,” with a central “Square” that would serve as the social hub of the store. J.C. Penney’s vast array of merchandise, currently hung on crowded racks and shelves, would be regrouped and merchandised in 80-100 “stores-within-a-store,” each meant to simulate the buying experience of a specialty shop. The first shop to appear was devoted to jeans and featured a denim bar, trained fit specialists, and Levi’s innovative Curve ID program that helped women find the right jeans for their body type (see Exhibit 7). Plans for future shops included Joe Fresh and Mango. The company planned to install two to three new shops each month, beginning in August 2012, over a four year period. Many of the shops were designed to pull in younger shoppers, a deficit in J.C. Penney’s current customer base.

The “Street” would consist of wider aisles with a fresh, clean look, more streamlined with less signage and bold, colorful, upscale graphics featuring the square from the new logo (see Exhibit 8). Each month would have its own unique personality and color-coded signage that changed the look of the store to freshen its appeal. Ten thousand square feet at the center of the store would be designated for the “Town Square.” In this area, J.C. Penney planned to offer complimentary services,
such as gift wrapping, and special promotional events to create fun and excitement. During the
summer of 2012, the company offered free hot dogs and ice cream, free “Go USA” Olympic t-shirts
during the Summer Olympics, and free back-to-school haircuts for school children.

Johnson summarized his vision for the new environment, “We are going to make the store a place
people love to come-just to come. We’ll transform the buying experience not unlike what we did at
Apple.”

New Sales Structure

To support the new retail environment, Johnson needed to re-energize J.C. Penney’s sales force.
His goal was to create a team of specialists who were product experts, much like Apple’s Geniuses.
J.C. Penney sales clerks had always been paid commissions based on how much they sold. This
system encouraged sales clerks to sell aggressively to customers. Johnson felt that this aggressive
sales culture did not fit with the new “Fair and Square” positioning and set out to change it by
eliminating all sales commissions. It was a controversial decision, especially among the sales
employees, many of whom had just been through a wave of layoffs and were nervous about keeping
their jobs. Johnson explained his rationale for the change, “A lot of great retailers don’t use
commissions. We never used them at Apple. . . . And I think it’s a better thing to do to pay people in
advance for what you want them to do and let them look in the customers’ hearts and try to help
them. . . . We think we’ve got a great way to do business for the middle class, where we really put a
big bear hug around the middle class and help them look better and live better every day.”

But some employees expressed dissatisfaction, “I must take offense at Ron Johnson’s reason for
eliminating commission. Ron Johnson should remember that J.C. Penney is not Target, we are better.
When people come into our store they expect to be greeted, they expect someone to be available to
help, they expect good service,” said a sales associate. Another associate claimed, “I lost about $250
per pay period and Mr. Johnson thinks this is FAIR and SQUARE. From all of J.C. Penney’s little
workers, this stinks.” Another lamented, “We long-term employees are heartbroken at what we see
around us. Ron Johnson may have a grand plan, and it may work, but we feel like he is destroying
‘us’ in the process of implementation. It has become an awful place to work, short-staffed to the point
that we struggle to properly service what customers we do have.”

But without a doubt, the cornerstone of the change program was a new pricing scheme that many
believed to be the riskiest part of the strategy.

The New Pricing Strategy

Looking at the numbers, Johnson believed that he needed to address the existing high-low pricing
structure that had gotten out of control. J.C. Penney’s customers had become hooked on the deals;
over the past ten years, the average discount to get customers to buy went from 38% to 60%. “At
some point you, as a brand, just look desperate. J.C. Penney spent over $1 billion [on price
promotion], and the customer didn’t even pay attention,” he agonized. In his first report to
shareholders, he spoke about the detrimental long term effects of excessive price promotions,
“Plagued by the ‘games’ of the industry over the last several decades, retailers-including J.C. Penney-
barraged customers with a constant stream of promotions that proved to be ineffective. Each time we
participated in this pricing war, we were discounting our brand and eroding the trust and loyalty of
our customers.”
The company announced its “Fair and Square” pricing plan in January 2012. The plan had three pricing tiers. First, the company reduced prices by an average of 40% to offer consumers an “Every Day Fair and Square” price. Second, every month the company ran a “Month Long Values Event” with special pricing on seasonal items, marked down an additional 20-29%, meant to coincide with events such as Back-to-School and Father’s Day. Third, every first and third Friday of each month (paydays for many working Americans) were designated “Best Price Fridays,” where J.C. Penney would offer special deals on items it was looking to liquidate, about 20% of the store’s stock, at deals of about 1/3 off of the every day price. Each price point was supported by unique signage at retail, (see Exhibit 9). J.C. Penney eliminated its famous “Doorbuster” sales, such as those that it traditionally held on Black Friday, the day after Thanksgiving and the busiest shopping day of the year, that featured outrageously low prices on over 500 items from 4:00 a.m. to 1:00 p.m. Exhibit 10 shows an example of the different price tiers.

Importantly, J.C. Penney avoided using the words “sale” and “clearance” in its messaging of the new program to consumers. Said Johnson, “Sale is not in our vocabulary. . . . Every item in the store is priced to be its best price every day.”27 The “Fair and Square” price was the only price listed on the price tag, moving J.C. Penney away from the practice of listing the manufacturer’s suggested retail price (MSRP) and the sale price, which was intended to show customers how much they were saving relative to somewhat fictitious list price. In the highly competitive world of retailing, nearly no one priced goods at the MSRP. Breaking with another retailing best-practice, J.C. Penney ended all of its “Fair and Square” prices with .00 instead of .99, rounding up to the nearest dollar. Johnson also instituted a no restrictions “Happy Returns” return policy, designed to take the hassle out of returning items, even without a receipt.

In effect, the new plan combined elements of two traditional pricing strategies. The “Every Day Fair and Square” prices represented an everyday-low-price (EDLP) strategy, while the “Month Long Values” and “Best Price Fridays” maintained some emphasis on high-low pricing.

High-low pricing strategies are intended to allow retailers to use price discrimination to maximize the average price paid by customers who differ in their willingness to pay. Customers who are highly price sensitive wait for sale days to purchase, use coupons and rebates, scour the crowded clearance racks to find a bargain, and take advantage of retailer’s door buster specials on big shopping days like Black Friday. Customers who are less price sensitive buy when it is convenient for them, tend not to use coupons and rebates due to the time it takes to clip and organize them, and rarely join in on door buster specials or clearance sales. Thus, the retailer reaps higher non-sale prices from many of their purchases. However, given the predominance of high-low pricing strategies across retailers in today’s marketplace, even less price-sensitive consumers had become savvy about waiting for sales to buy or comparing across retailers to find the store offering the best prices that week. Instantaneous price comparisons were getting easier, given the rise of mobile applications that allowed a consumer to scan a bar code on a product and find the lowest price for it at online retailers and nearby stores.

Kohl’s was an aggressive high-low retailer, featuring small electronic signs on shelves throughout the store that displayed original prices and discounted prices. These signs allowed Kohl’s the flexibility to change prices instantly, to facilitate frequent, short-term sales. Marketing consultant Jonathan Salem Baskin offered his thoughts on the high-low practice retailers engage in, “When no price is ‘the’ price for an item, it means that instead retailers engage customers in a constant cat-and-mouse game in pursuit of the truth. No individual store can own sale pricing; each simply participates in a round-robin of discounted offers that its competitors have and/or will again match.”28 Johnson felt that today’s retail customer was savvy, “The customer knows the right price. To think you can fool a customer is kind of crazy.”29
EDLP pricing strategies, such as that offered by Walmart, promise consumers that they will pay the same, low price every day. This frees customers from waiting for sale periods to purchase, and eliminates the need for retailers to offer coupons to drive purchase or to engage in constant advertising of price promotions via weekly newspaper circulars. EDLP is designed to make customers feel comfortable purchasing at the retailer without worrying that they could be getting a better deal somewhere else or at another time. In general, most department store retailers used high/low pricing strategies. Macy’s and Sears had flirted with EDLP pricing in the past; but both had largely abandoned it once they realized how addicted department store customers were to sales, coupons, and other discount programs. Although Macy’s still offered a limited set of items at an “everyday value” price, it heavily supplemented this practice with aggressive coupons and frequent sales events for the majority of the goods it carried. Macy’s customer Marietta Landon summarized the promotion addicted retail climate, “Especially Macy’s—they make every weekend a sale with saving passes and advertising galore.”

The new pricing strategy was a big shift for J.C. Penney, a company known and loved for its JCP Cash coupons distributed to customers via direct mail and email, its RedZone Clearance aisles, and its weekly circulars advertising that week’s price specials. The “Fair and Square” pricing program would eliminate all coupons and weekly circulars; instead the company would distribute a high quality, editorial content-heavy glossy magazine each month to highlight its Monthly Values. The 96-page magazine was as much a branding vehicle as it was a promotional one. $80 million in promotional funding would support each Monthly Value event.

J.C. Penney now promised its customers that they would not have to “jump through hoops to get a good price”. Johnson hailed the strategy for its simplicity and transparency and the way it respected customers, “People are disgusted with the lack of integrity on pricing,” adding that “We want shoppers to shop on their terms, not ours.” Johnson intimated that “By setting our store monthly and maintaining our best prices for an entire month, we feel confident that customers will love shopping when it is convenient for them, rather than when it is expedient for us.”

Michael Francis, J.C. Penney’s new president, was excited about the new pricing moves, “We are redefining the J.C. Penney brand so we become a store for all Americans, by offering an experience they cannot get anywhere else. This will start by freeing consumers from the barrage of promotions and undifferentiated shopping experiences they have become used to and replacing it with something entirely fresh and new that is evident in every aspect of our store.” He added, “It will be a breath of much-needed fresh air and give [customers] reasons to visit J.C. Penney more often than ever before. Our objective is to make our customers love to shop again.” Francis was recruited by Johnson from Target and offered a signing bonus of $12 million and a total compensation package worth $44.7 million. He was charged with managing the marketing and merchandising efforts.

**Reactions to “Fair and Square” Pricing**

Industry observers could not contain their strong opinions on the new pricing strategy. Some called the move “refreshing, daring and probably exactly what the retailer needs,” noting that “it’s a shocking move for any retailer, let alone a department store where high-low pricing and promotions have long been the norm.” But others were far more skeptical. Pricing consultant Rafi Mohammed proclaimed, “J.C. Penney lacks the differentiation to make this pricing strategy successful. . . . When selling a relatively undifferentiated product, the only lever to generate higher sales is discounts. Even worse, if competitors drop prices on comparable products, J.C. Penney’s hands are tied—it’s a sitting duck that can’t respond.” Mohammed also noted, “J.C. Penney’s Every Day prices will not be as low
as the biggest discounts that it once offered. Instead, its pitch to customers is why play the “wait for the rock-bottom price” game when Penney offers “pretty good” prices every day?”

Ignoring the skeptics, Johnson was committed to his new pricing plan, rolling it out across all stores on February 1st, after deciding not to conduct market research to test its appeal with customers, “We debated whether there was a way to test. . . . We would have needed everyone to run the old business model and would have had to add new people to run a test in 10 percent of our stores. . . . We knew the customer would love the new strategy. We decided to get on with our future.”

Based on his experience at Apple, Johnson also believed that customers didn’t always know what they wanted; it was up to companies to lead the way, “You can’t follow the customer. You’ve got to lead your customers—anticipate their needs and meet those needs, even before they know what they want.”

A lot was riding on the decision. COO Mike Kramer explained, “We are fundamentally re-imagining every aspect of our business and we fully expect the bold and strategic changes we are making to our operations will result in improved profitability. This should enable us to fund the transformation of J.C. Penney’s store experience, while at the same time returning value to shareholders with steady earnings growth.”

**Communicating “Fair and Square”**

DeGeneres was featured in a new advertising campaign to usher in the new “Fair and Square” positioning. Bearing the tagline “Enough. Is. Enough,” the campaign encouraged consumers to revolt against complex pricing structures, never-ending sales, an overabundance of direct mail circulars and coupons cluttering their mailboxes, and the hassles of returning unwanted products without a receipt. In the ads, DeGeneres travels back in time to ancient Rome, Edwardian England, and the Wild West to learn if today’s confusing price environment was always the norm. She encourages customers to reject the crazy price environment. The creative campaign was witty and contemporary; many found it reminiscent of Target’s award-winning advertising. It was quite a departure from J.C. Penney’s previous campaigns that were more typical of department store messaging.

Launched during the Academy Awards broadcast, the ads appeared to be a hit with consumers. Ace Metrix reported that the ads scored well above average on persuasion and watchability metrics and achieved a personal best score for J.C. Penney.

**Initial Results**

In the first three months following the launch, 67% of products sold at J.C. Penney were purchased at the “Fair and Square” price, the highest price the retailer listed. Johnson could not hold back his satisfaction, “This is profound. People are now buying at the first price, [the] right price. That’s the dream of every retailer.”

However, trouble was looming on the horizon. Through mid-March, mothers, a critically important target market for most department stores, steadily scored J.C. Penney lower on value-perception scores. These women, suddenly not receiving coupons and not seeing the weekly price promotions in the circulars, were downgrading their opinion of whether J.C. Penney offered good value for the money. This was despite the fact that J.C. Penney’s prices during the time period were actually quite competitive. A Deutsche Bank analyst report showed that for a random basket of 50 identical items, J.C. Penney was 9% cheaper than Macy’s, and 26% cheaper than Kohl’s.
Consumer research firm BIGInsight reported negativity among adults 18+ for whether J.C. Penney’s advertising campaign was “Hot or Not?” and showed Macy’s gaining ground on J.C. Penney in women’s apparel shopping trips following the launch (See Exhibit 11).

Morgan Stanley’s Michelle Clark reported consumer survey results revealing that “Shoppers think that the J.C. Penney of old actually offered better value than the “fair and square” model introduced a few months ago. Of the consumers who had been inside a J.C. Penney store since February, more cited higher prices (rather than lower) at the department store. In fact, only 16% of shoppers associated “Best Prices” with JCP. Furthermore, customers cited that bargains were harder to find and fewer aisles with deals were evident (see Exhibit 12).

Loyal J.C. Penney customers were moving away from the retailer. One shopper, Wendy Ruud, complained that she was no longer receiving coupons from J.C. Penney and was shopping more frequently at Target and Walmart, “The closest J.C. Penney is about a half hour away from me. If I don’t get a special discount, it’s not worth the trip,” she said. Another shopper e-mailed the Huffington Post saying, “They are catering to the younger shopper, and it isn’t the younger shopper that kept them afloat.” A third who considered herself “frumpy and proud,” commented, “He’s working hard to ‘de-frump’ the store without considering that many if not most of its customers might have shopped there precisely because they like the more conservative frumpy look.”

These early indicators played out in J.C. Penney’s first earnings report following the launch of the new plan. Johnson had to announce a significant earnings loss ($163 million) based on plummeting sales revenues (-19% overall, with e-commerce sales dropping 28%), gross margin compression (from 40.5% to 37.6%), and decreasing customer conversion. Johnson asked investors to be patient, calling the first quarter sales drop “the price we’re paying to get integrity back.” He held fast to his convictions, “We had to make the bold step. It’s one big year we have to go through. It’s really hard but we’ll get through it.” Investors showed no patience, sending the company’s stock down 20%, the biggest single day drop in over four decades.

The critics did not waste time to pile on Johnson. Time columnist Brad Tuttle wrote, JC Penney’s message seems to be one that some shoppers don’t want to hear. They like playing games and hunting for deals, and the markdown from the original price is how they keep score. By eliminating coupons and most “sales,” JC Penney has been saying it doesn’t want to play games anymore. That sounds wonderful, but among certain shoppers, it’s the equivalent of grabbing the ball and taking it home. No more games, no more fun-and not much reason to visit JC Penney on a regular basis anymore. If, for the most part, a store’s prices are going to remain the same tomorrow, and next week, and the month after that, there’s not much incentive to browse the aisles for special deals today.

A Forbes columnist concurred, “By taking away the weekly sales customers loved, Johnson abandoned his core JCP shopping enthusiasts. In effect, signaling to the core JCP enthusiast-shoppers who have sustained J.C. Penney through its years of retail muddling, that they no longer mattered. He confused them, and he pissed them off.” The Motley Fool sarcastically quipped, “The silver lining in J.C. Penney’s awful report is that Sears [struggling with its own dismal results] has someone it can laugh at now.”

Macy’s CFO Karen Hoguet was crowing that her company was benefiting from J.C. Penney’s missteps, reporting that sales in Macy’s stores that shared a mall with J.C. Penney were up significantly since the changes. And J.C. Penney’s apparel suppliers were becoming anxious, as their sales dropped precipitously, some as much as 70% over the prior year. One prominent supplier
indicated that he was increasing his business with Kohl’s to make up for the shortfalls at J.C. Penney.56

These developments were sobering for Johnson yet he remained unfazed, “It’s been tougher than we anticipated... You know, we expected to be down. We are down a little more than we thought, but not enough to change the strategy... We’re treating this company as a startup... We’re inventing a whole new model to do business... It is a one year transition that’s part of a multi-year transformation. But once we get to one year of de-promoting or repurchasing our integrity, I fully expect us to grow. And so we’ve just got to get through that year. And we’ll get through it.”57

Speaking at Fortune magazine’s Brainstorm Tech conference in July, Johnson reiterated his support for the new pricing strategy, claiming that his board was “totally supportive”. When asked if he had a contingency plan whereby the company would revert back to high/low pricing, Johnson swore it was not in the cards, “It won’t happen while I’m here because I know it’s not the right thing to do. And I know this is what connects completely with our own unique heritage. And every longstanding company has a DNA in its core that typically goes back to its founder. And when you reconnect with that, that’s when good things happen. That’s what Wal-Mart has had to do. And it’s really led to great success. That’s what Apple had to do when Steve came back. That’s what we’re going to do.”58

Making Some Adjustments

As J.C. Penney management tried to decipher the disappointing results, much of the blame was put on the marketing execution and on customers’ stubborn reliance on price promotions. Mike Kramer, J.C. Penney’s new chief operating officer expressed his frustration, “Coupons, that drug. We did not realize how deep some of our customers were into this... We have got to wean them off this and educate our consumers.”59 Johnson blamed the marketing execution, claiming that it failed to clearly communicate the new pricing strategy, “Our execution wasn’t what we needed. Our pricing is kind of confusing. Our marketing kind of overreached [Now] the most important thing is to educate consumers on the price changes and make sure the core customer understands J.C. Penney still has products they love, at exceptional value, every day.”60 Francis took the fall for the poor earnings, abruptly leaving the company a mere eight months after he started as president.

Following Francis’ departure, Johnson took responsibility for marketing and merchandising, believing that customers just didn’t understand the story behind “Fair and Square.” He tweaked the marketing plan, adding five additional “Best Price Fridays” to the calendar, including the important Fridays anchoring Memorial Day Weekend and Black Friday. The advertising creative was changed to incorporate a harder-hitting “Do the Math” positioning (See Exhibit 13 for an example). In June, J.C. Penney reintroduced the “S” word “sale” into its advertising to help clarify that its Best Price Friday deals actually extended through the weekend until all inventory was sold.

Under pressure, Johnson speculated what his old mentor, Steve Jobs, who passed away in October 2011, would have advised, “I think Steve’s advice would be don’t worry about what others say. Trust your instincts. Do the right thing... Stay the course. But he would also say the essence is in the simplicity. And so he would have liked where we are going on pricing, but he would have said ‘You’ve got to clean it up. You’ve got to be more direct’.”61 Johnson buckled down, “What you can’t do is chicken out. If you had looked at the data on the Genius Bar after a year and a half, we should have taken it out of the store. But it was something I believed in with every bone in my body.”62 He continued, “The world moves by innovators and innovators have to have the courage to imagine something that hasn’t been done before and the conviction to see it through... It’s really hard. It takes a lot of courage. You’ve got to be able to have a few arrows shot in your back. That’s ok.
You get up every day and you keep working at it and eventually, if the ideas are right, they’ll thrive.”

More Significant Changes

Johnson had a lot to look forward to in the Fall of 2012. The first ten Shops were slated to launch and 47% of the Fall merchandise in the stores would be new, as designers Nanette Lepore, Vivienne Tam and Cynthia Rowley created low cost lines for the retailer. Another twenty Shops were in development, as was a 20,000 square foot prototype concept store that suppliers were invited to visit. Johnson forged a partnership with Nina Garcia, fashion director at Marie Claire magazine and popular judge on the reality television program Project Runway. Garcia would be the resident “Style Voice” for J.C. Penney and help curate its fashion collection.

However, as he stared at the Q2 results he was about to release to Wall Street (Exhibit 14) and with the back-to-school and holiday selling seasons just around the corner, staying the course on the centerpiece of the new plan, the bold pricing moves, appeared to be an untenable proposition. In August 2012, Johnson abruptly decided on a number of changes, eliminating the Monthly Values pricing tier and modifying the name of the Best Price Fridays to “Clearance.” To simplify consumers’ understanding, he eliminated the name “Fair and Square” from the every day price, which was now featured in a black type in the store. He bumped up the promotional spend to run circulars every Friday during the back-to-school period. He explained the changes as a way to simplify the program, “We thought simplifying 590 unique sales events into three types of pricing would be easier, but it turns out . . . customers and others found the pricing a little confusing. Now we’re going from 590 to 3 to 1: The first price is the right price. We had to retrain a customer that for years we taught to look for value through the illusion of savings. And we’re just going to deliver those savings every day.”

The changes were accompanied by a new price-match guarantee program, “We want customers to have the assurance that they are getting low prices every day at J.C. Penney, so if a customer finds a lower price on an identical item at a competitor, we’ll gladly match that price,” said a spokesperson.

Johnson wondered whether he had done the right thing. Were these recent changes enough to turn things around? Did they bump J.C. Penney too far from the course he had set for it? What was the right pricing strategy? Was communication of the program to consumers the problem or was the “Fair and Square” strategy itself flawed? Johnson once again drew upon his past experience, “Apple went through much tougher years than we are going through this year at Penney’s. . . . A transformation is a marathon, not a sprint.”
Exhibit 1  J.C. Penney Stock Performance

1 Year Performance (August 2011 - July 2012)

5 Year Performance (January 2007 - July 2012)

Exhibit 2  The Decline of the Department Store Channel

Percentage of Total Retail Sales Accounted for by Department Stores

Source:  Casewriters with information from Advertising Age, “Retailers Look to the Department Store for Salvation.”
Exhibit 3  J.C. Penney Co. Inc. Financials and Sales by Category

Fiscal Year Income Statement (FY 2007 – 2011) and FY 2012 1st Quarter Results (Millions)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>1st Quarter FY 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>19,860</td>
<td>18,486</td>
<td>17,556</td>
<td>17,759</td>
<td>17,260</td>
<td>3,152</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>7,671</td>
<td>6,915</td>
<td>6,910</td>
<td>6,960</td>
<td>6,218</td>
<td>1,186</td>
</tr>
<tr>
<td>% Margin</td>
<td>38.6%</td>
<td>37.4%</td>
<td>39.4%</td>
<td>39.2%</td>
<td>36.0%</td>
<td>37.6%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>1,879</td>
<td>1,146</td>
<td>680</td>
<td>847</td>
<td>485</td>
<td>(226)</td>
</tr>
<tr>
<td>% Margin</td>
<td>9.5%</td>
<td>6.2%</td>
<td>3.9%</td>
<td>4.8%</td>
<td>2.9%</td>
<td>(7.2%)</td>
</tr>
<tr>
<td>Net Income¹</td>
<td>1,110</td>
<td>572</td>
<td>251</td>
<td>389</td>
<td>(152)</td>
<td>(163)</td>
</tr>
<tr>
<td>% Margin</td>
<td>5.6%</td>
<td>3.1%</td>
<td>1.4%</td>
<td>2.2%</td>
<td>(0.88%)</td>
<td>(5.2%)</td>
</tr>
</tbody>
</table>

¹Net Income measures the residual income that the company receives after all expenses have been accounted for; operating income measures the income that the company realizes from its core business operations.

Selling, General and Administrative Expenses (FY 2010 and FY 2011)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total SGA</td>
<td>5,613.0</td>
<td>5,230.0</td>
</tr>
<tr>
<td>Marketing Expenses</td>
<td>1,172.0</td>
<td>1,039.0</td>
</tr>
<tr>
<td>Marketing as % of SGA</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Marketing as % of revenue</td>
<td>7%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Sales/Revenue Breakdown by Category (FY 2010 and FY 2011)

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>%</th>
<th>FY 2011</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>17,759.0</td>
<td>100%</td>
<td>17,260.0</td>
<td>100%</td>
</tr>
<tr>
<td>Women’s Apparel</td>
<td>4,262.16</td>
<td>24%</td>
<td>4,315.0</td>
<td>25%</td>
</tr>
<tr>
<td>Men’s apparel and accessories</td>
<td>3,196.62</td>
<td>18%</td>
<td>3,452.0</td>
<td>20%</td>
</tr>
<tr>
<td>Home</td>
<td>3,551.8</td>
<td>20%</td>
<td>2,589.0</td>
<td>15%</td>
</tr>
<tr>
<td>Children’s apparel</td>
<td>2,131.08</td>
<td>12%</td>
<td>2,071.2</td>
<td>12%</td>
</tr>
<tr>
<td>Women’s accessories</td>
<td>1,953.49</td>
<td>11%</td>
<td>2,071.2</td>
<td>12%</td>
</tr>
<tr>
<td>Family footwear</td>
<td>1,243.13</td>
<td>7%</td>
<td>1,208.2</td>
<td>7%</td>
</tr>
<tr>
<td>Fine jewelry</td>
<td>710.36</td>
<td>4%</td>
<td>690.4</td>
<td>4%</td>
</tr>
<tr>
<td>Services and other</td>
<td>710.36</td>
<td>4%</td>
<td>863.0</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Bloomberg Capital IQ Company and J.C. Penney Co., Inc.
Exhibit 4  Comparative Performance Relative to Primary Competitors

Select Financials FY 2011 (millions)

<table>
<thead>
<tr>
<th>Company Name</th>
<th>J.C. Penney Company</th>
<th>Kohl’s Corp.</th>
<th>Macy’s, Inc.</th>
<th>Sears Holdings Corp.</th>
<th>Target Corp.</th>
<th>Wal-Mart Stores, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>17,260</td>
<td>18,804</td>
<td>26,405</td>
<td>41,567</td>
<td>69,865</td>
<td>446,950</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>6,218</td>
<td>7,179</td>
<td>10,667</td>
<td>10,731</td>
<td>20,893</td>
<td>111,823</td>
</tr>
<tr>
<td>% Margin</td>
<td>36.0%</td>
<td>38.2%</td>
<td>40.4%</td>
<td>25.8%</td>
<td>29.9%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Marketing Expenses</td>
<td>1,039</td>
<td>962</td>
<td>1,136</td>
<td>1,900</td>
<td>1,360</td>
<td>2,300</td>
</tr>
<tr>
<td>SG&amp;A Expenses</td>
<td>5,320</td>
<td>4,243</td>
<td>8,281</td>
<td>10,454</td>
<td>13,440</td>
<td>85,265</td>
</tr>
<tr>
<td>Operating Income</td>
<td>485</td>
<td>2,158</td>
<td>2,386</td>
<td>(568)</td>
<td>5,322</td>
<td>26,558</td>
</tr>
<tr>
<td>% Margin</td>
<td>2.8%</td>
<td>11.5%</td>
<td>9.0%</td>
<td>(1.4%)</td>
<td>7.6%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Net Income</td>
<td>(152)</td>
<td>1,167</td>
<td>1,256</td>
<td>(3,140)</td>
<td>2,929</td>
<td>15,699</td>
</tr>
<tr>
<td>% Margin</td>
<td>(0.88%)</td>
<td>6.2%</td>
<td>4.8%</td>
<td>(7.5%)</td>
<td>4.2%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: Capital IQ Company.

Sales per Retail Square Footage

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JC Penney Co.</td>
<td>$189.41</td>
<td>$170.77</td>
<td>$158.45</td>
<td>$159.06</td>
<td>$154.93</td>
</tr>
<tr>
<td>Kohl’s Corp.</td>
<td>$249.14</td>
<td>$226.24</td>
<td>$233.98</td>
<td>$232.01</td>
<td>$231.62</td>
</tr>
<tr>
<td>Macy’s Inc.</td>
<td>$168.89</td>
<td>$160.85</td>
<td>$152.13</td>
<td>$162.00</td>
<td>$172.52</td>
</tr>
<tr>
<td>Target Corp.</td>
<td>$316.83</td>
<td>$301.71</td>
<td>$287.58</td>
<td>$289.50</td>
<td>$297.72</td>
</tr>
</tbody>
</table>

Source: Bloomberg.

Exhibit 5  E-commerce 2011 Sales and Sales Growth, J.C Penney, Macy’s and Kohl’s

<table>
<thead>
<tr>
<th>Company</th>
<th>2011 ($million)</th>
<th>YoY Change</th>
<th>3-Yr CAGR</th>
<th>5-Yr CAGR</th>
<th>7-Yr CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>JC Penney Co.</td>
<td>$1,523</td>
<td>-0.2%</td>
<td>1.3%</td>
<td>3.3%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Kohl’s Corp.</td>
<td>$1,012</td>
<td>36.2%</td>
<td>41.7%</td>
<td>40.6%</td>
<td>42.7%</td>
</tr>
<tr>
<td>Macy’s Inc.</td>
<td>$1,800</td>
<td>39.6%</td>
<td>29.0%</td>
<td>34.1%</td>
<td>38.5%</td>
</tr>
</tbody>
</table>

1E-Commerce sales include all sales made through the retailer’s online website.

Exhibit 6  “New” Logo


Exhibit 7  The New Denim Bar Shop

Exhibit 8  J.C. Penney New Layout and Store Design

Exhibit 9  J.C. Penney “Fair and Square” Pricing Tags (everyday, monthly (June) value, best price)

Exhibit 10  Cost of a T-shirt at J.C. Penney: Old vs. New Pricing Model

<table>
<thead>
<tr>
<th></th>
<th>Old High/Low Pricing Strategy</th>
<th>New Fair and Square Pricing Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSRP</td>
<td>$13.99</td>
<td>$7.00</td>
</tr>
<tr>
<td>Average Selling Price</td>
<td>$5.99</td>
<td>$6.00</td>
</tr>
<tr>
<td>Every Day Fair Price</td>
<td>$7.00</td>
<td>$6.00</td>
</tr>
<tr>
<td>Monthly Value</td>
<td>$6.00</td>
<td>$4.00</td>
</tr>
<tr>
<td>Best Value</td>
<td>$4.00</td>
<td>$4.00</td>
</tr>
</tbody>
</table>

Source: Casewriters.

Exhibit 11  Consumer Response to the “Fair and Square” Ad Campaign and Shopping Trends

Exhibit 12 Morgan Stanley Consumer Survey Results

In March 2012, Morgan Stanley’s AlphaWise evidence-based research group conducted an online survey with a U.S. national representative sample of 1,000 women who shopped at a department store since February 1, 2012. The findings from their report are offered below.

Historical Reasons for Shopping at J.C. Penney
Value has been the #1 reason consumers shopped at J.C. Penney in the past, and has historically been a point of differentiation for J.C. Penney vs. other department stores.

Observance and Value-Accounting of Changes
- 82% have noticed some changes in the stores
  - 71% have noticed positive changes
    - Biggest positive changes include “neater/cleaner stores” (38%) and improved store layout (28%)
  - 59% have noticed negative changes
    - Biggest negative changes include “harder to find bargain/clearance items” (28%)
  - 49% have noticed something positive and something negative
- 26% thought apparel prices had gone down
- 31% thought apparel prices had gone up

Understanding and Impact of “Best Price” Positioning
- 45% associate “Best Price” signage in stores with J.C. Penny, but this has little impact in driving motivation to shop more at the store
  - 89% of those who associate “Best Price” signage with J.C. Penney are likely to shop “the same” or “less” at J.C. Penney in the future
  - 58% think “Best Prices” are difficult to understand
  - 65% think “Best Prices” offer low value for the money
  - 69% think “Best Prices” are difficult to compare with non-sales prices
  - 71% find “Best Prices” difficult to compare to other promos/deals
- 11% said promotions were easier to understand

Customer Portfolio Composition
- Since February 1, 2012, relative to peers, J.C. Penney tends to have a higher portion of “peripheral shoppers,” those who spend little (< $100 in 3 months) and visit infrequently (<2 times per year) and a smaller portion of “core shoppers,” those who spend a lot (> $100 in 3 months) and visit frequently (>2 times per year)
  - 24% of J.C. Penney’s customers are core (vs. 35% for peer group average) and core shoppers accounted for 66% of the total sales revenue
  - 40% of J.C. Penney’s customers are peripheral (vs. 32% for peer group average) and peripheral shoppers accounted for 9% of the total sales revenue
  - 19% of core shoppers and 44% of peripheral shoppers have shopped less or stopped shopping at J.C. Penney
    - Of those shopping less, 53% are cutting back on spending overall, while among the rest, better promotions (20%) and more promotions (19%) at other stores are driving their behavior
- Relative to peers, J.C. Penney’s customers have the lowest median household income ($65,000 vs. peer group average of $76,000)

Exhibit 13  J.C. Penney Fair and Square Pricing Ad

### Exhibit 14  J.C. Penney Q2 2012 Results (dollar amounts in millions, except per share data and average spend per visit data)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,022</td>
<td>6,174</td>
<td>7,849</td>
</tr>
<tr>
<td>Gross Profit/Loss</td>
<td>1,004</td>
<td>2,190</td>
<td>3,092</td>
</tr>
<tr>
<td>% Gross Margin</td>
<td>33.2%</td>
<td>35.4%</td>
<td>39.4</td>
</tr>
<tr>
<td>Selling, General &amp; Administrative Expenses (including marketing expenses)</td>
<td>1,050</td>
<td>2,210</td>
<td>2,524</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>1,187</td>
<td>2,599</td>
<td>2,850</td>
</tr>
<tr>
<td>Operating Income/(Loss)</td>
<td>(183)</td>
<td>(409)</td>
<td>242</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>(0.67)</td>
<td>(1.42)</td>
<td>0.35</td>
</tr>
<tr>
<td>%Selling Margin¹</td>
<td>42.5%</td>
<td>41.2%</td>
<td>41.9%</td>
</tr>
<tr>
<td>% Revenue Earned from Products Sold at Everyday/Month Long Value Prices</td>
<td>83%</td>
<td>84%</td>
<td>86.5%</td>
</tr>
<tr>
<td>% Revenue Earned from Products Sold on Clearance</td>
<td>17%</td>
<td>16%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Customer Traffic vs. year ago²</td>
<td>(12%)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Customer Conversion³</td>
<td>21.9%</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Average Spend per Visit</td>
<td>$44.2</td>
<td>$44.9</td>
<td>$47.8</td>
</tr>
</tbody>
</table>

¹ Selling Margin in dollar amount ($) captures the difference between average retail price of each unit sold (AUR) less the average cost per unit to the retailer (AUC). As a percentage (%) it is expressed (AUR-AUC)/AUR

²Quarterly comparison of the number of customers shopping in the stores this year vs. last year

³ Reflects the percentage of people who enter a store and buy something.

Endnotes


14 Morse, Gardiner (2012) “Retailing Isn’t Broken. Stores Are.”.


17 www.jcpenney.net/About-Us.aspx, accessed 7/31/12.


37 Ibid.


39 Morse, Gardiner (2012) “Retailing Isn’t Broken. Stores Are.”


44 Ibid.


48 Ibid.


50 Associated Press, “J.C. Penney Pricing Strategy Turns Shoppers Off, Adding to First Quarter Loss.”


58 Ibid.


