Chief Talks of Mistakes and Big Loss at J.C. Penney

By Stephanie Clifford
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J. C. Penney's chief executive admitted on Wednesday that he had made “big mistakes” in his turnaround effort, as the retailer reported a startling fourth-quarter loss of $2.51 a share, compared with the 24-cent-a-share loss analysts had expected.

In the year since the chief, Ron Johnson, introduced his ambitious new strategy, the company has lost $4.28 billion in sales and its stock is down about 55 percent. In his quest to “be the favorite store for everyone,” Mr. Johnson said the retailer had gotten some areas wrong, including marketing and an assessment that customers wanted simple pricing without constant sales.

Penney’s quarterly sales reflected little customer enthusiasm for the new approach. Revenue in the quarter, including the crucial holiday shopping season, fell 28.4 percent to $3.8 billion. Its net loss amounted to $552 million compared with $87 million in the year-ago period.

Sales at stores open at least a year, a measure retailers use to gauge like-for-like demand, fell by 31.7 percent. And Internet sales, which have been increasing at a fast clip industrywide, fell by 34.4 percent.

While Mr. Johnson’s strategy makes “great intellectual sense,” he is running out of time, said Chris DeRose, co-author of the business book “Judgment on the Front Line,” in an e-mail message. “If customers don’t embrace the changes in the next two quarters, the key investors will need to decide if they’re willing to sign up for another questionable holiday season,” he said.

In January 2012, just months after he took over the struggling department store chain after running Apple’s retail operations, Mr. Johnson outlined a turnaround that would add stores-within-a-store, step away from sales and promotions, and adhere to a three-tiered pricing plan. He suggested then that Penney needed a little bit of Apple’s magic.

From the start, there were questions then about whether Penney’s customers, who were used to sales and coupons, would be willing to give them up.

“Apple stores are destinations with must-have merchandise; JCP doesn't have those benefits,” Mr. DeRose wrote.

Since then, Mr. Johnson has backed away from some of those goals, saying that Penney will hold some sales and admitting that the pricing plan confused shoppers.

On Wednesday, he went even further.

“I had a personal conviction to deliver everyday value beginning with truth on the price tag,” Mr. Johnson said. “We worked really hard and tried many things to make the customer understand that she could shop anytime on her terms.

“But we learned she prefers a sale, at times she loves a coupon, and always, she needs a reference price,” he said, referring to items like “compare to” prices on price tags.

He said the company would be running sales “each and every week” going forward, along with offering coupons.
He also said that the company’s marketing last year “failed to communicate our unique value proposition,” but that new ads, which started last week and focus on price comparisons, led to an immediate jump in traffic and sales.

“We are highly confident that as we return to some level of promotion, we’ll get the customer back in the store,” Mr. Johnson said.

Shares of the company, which reported the loss after markets closed, dropped 14 percent, or about $3, to $18.19 from $21.16 in after-hours trading. The stock is down 55 percent since the announcement of the turnaround plan.

Penney had been trying to cut down on inventory, and that was a success, with inventories declining almost 20 percent from a year ago.

The company said that its adjusted loss, which excluded charges for restructuring, management transition and some pension plan expenses, was $1.95 a share. On that basis, analysts expected a loss of 18 cents a share, according to Bloomberg data.

Gross margin also plummeted, to 23.8 percent of sales from 30.2 percent of sales from the same quarter a year ago, as Penney made aggressive merchandise markdowns.

In a news release on Wednesday, Mr. Johnson focused on the future, saying that the “ambitious transformation plan” remained under way. A key part of that is the stores-within-a-store approach, with dedicated floor space and signs and shelves designed by a brand. The strategy is popular with other retailers, and last year Penney added boutiques for Levi’s, Arizona and other brands.

Mr. Johnson said the company would open 20 new shops-within-shops in spring 2013, focusing on the home department.

Last year, we “learned that shops work, and we have more on the way,” he told investors on Wednesday.

Ken Hannah, chief financial officer, said that the shops-within-a-shop were outperforming the company as a whole.

Investors were eager to hear about the first weeks of the current quarter, where “the company is now cycling these changes in pricing,” as the Citi analyst Deborah Weinswig wrote. Mr. Johnson, however, said the company would not comment on current sales trends.

He did say that the company was “thrilled” with the visits to stores on recent holidays, saying there had been more traffic on Valentine’s Day this year, and that Presidents’ Day had traffic similar to a year earlier. In the fourth quarter, traffic dropped 17 percent from a year earlier.

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