# J.C. Penney gets rid of hundreds of sales

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J.C. Penney is permanently marking down all of its merchandise by at least 40 percent so shoppers will no longer have to wait for a sale to get the lowest prices in its stores.

Penney said Wednesday that it is getting rid of the hundreds of sales it offers each year in favor of a simpler approach to pricing. On Feb. 1, the retailer is rolling out a three-tiered strategy that offers "Every Day" low pricing daily, "Month-Long Value" discounts on select merchandise each month and clearance deals called "Best Prices" during the first and the third Friday of every month when many shoppers get paid.

The plan, the first major move by former Apple executive Ron Johnson since he became Penney's CEO in November, is similar to Wal-Mart's iconic everyday low pricing strategy. The difference is that Penney's goal isn't to undercut competitors, but rather to offer customers more predictable pricing.

"Pricing is actually a pretty simple and straight forward thing," Johnson told the Associated Press during an interview ahead of the announcement at the company's Plano, Tex. headquarters. "Customers will not pay literally a penny more than the true value of the product."

Penney's plan comes as stores are struggling to wean Americans off of the profit-busting bargains that they have come to expect in the weak economy. The move is risky, though, because shoppers who love to bargain-hunt may be turned off by the absence of sales.

"The big question on investors' minds will be: 'How customers will react to a single price point versus a perceived discount under the old strategy?'" says Citi Investment Research analyst Deborah L. Weinswig.

Here's how Penney's pricing strategy will work:

— Sale prices become everyday prices. The company will use sales data from last year to slash prices on all merchandise at least 40 percent or lower than the previous year's prices. So, a woman's St. John's Bay blouse regularly priced at $14.99 could have the "Every Day" price of $7.

— Fewer sales. The retailer will pick items to go on sale each month for a "Month-Long Value." For instance, jewelry and Valentine's Day gifts would go on sale in February, while Christmas decorations would be discounted in November. Items that don't sell well would go on clearance and be tagged "Best Prices," signaling to customers that's the cheapest price.

— New tags. The retailer used to pile stickers on price tags to indicate each time an item was marked down. But now each time an item gets a new price, it gets a new tag too. A red tag indicates an "Every Day" price, a white tag a "Month-Long Value" and a blue tag a "Best Price."

— Simpler pricing. Penney will use whole figures when pricing items. In other words, you won't see jeans with a price tag of $19.99, but rather $19 or $20.

— New advertising. Ads began airing Wednesday with a shopper screaming "No" to discounts as they look in their mailboxes, a pile of coupons and big sales signs. The company also has a new spokeswoman (talk show host Ellen DeGeneres) and logo (a red outline of a box that features JCP in the corner.) And a 96-page colorful catalog will be mailed each month to 14 million customers, along with other promotional efforts.

The strategy, unveiled at Penney's investor meeting on Wednesday, comes as the retailer tries to turn around its business. Heavy discounting has hurt department stores like Penney. The group generates an average of about $200 per square foot, less than half the $550 or $600 stores like Victoria's Secret and Lululemon generate per square foot, according to John Bemis, head of Jones Lang LaSalle Inc.'s retail leasing team.

But Penney has been a laggard even among department stores as its core middle-class customers have been among the hardest hit by the weak economy. It's also failed to attract a younger customer despite its efforts to add hip brands like Mary-Kate and Ashley Olsen's teen clothing collection called Olsenboye.

The stores also lack any "wow" factor. Johnson himself said during Wednesday's meeting that Penney stores are "tired."

For the 11 months through December, Penney's revenue at stores opened at least a year — an indicator of a retailer's health — rose 0.7 percent, while competitors like Macy's Inc. rose 5.4 percent, and Kohl's was up 1.1 percent. Penney posted a loss in the third quarter and cut its fourth-quarter earnings outlook after a disappointing holiday season when it had to heavily discount to attract consumers. Penney's gross profit margin has shrunk for six straight quarters.

The pricing strategy caps months of speculation about what Penney's future might look like under the leadership of Johnson, a former Target Corp executive and the mastermind behind the success at Apple Inc.'s stores.

Johnson, who joined the company's board in August, has begun to put his stamp on the retailer. He has tapped former colleagues at Apple and Target to join him at Penney. That includes Target's top marketing executive Michael Francis to be Penney's president.

Because of the success Johnson has had turning Apple stores into hip places to hang out and shop, many industry watchers were waiting with bated breath to see what he'd do in Penney's stores. In December, Penney announced that it will have

homemaker doyenne Martha Stewart develop mini-shops starting next year.

And during Wednesday's meeting, Penney executives outlined plans to transform its stores in the next four years. That will include Main Street, a series of 80 to 100 brand shops similar to the Sephora cosmetics ones it has in stores to replace the dozens of racks common in department stores. It also plans to open areas in all stores called Town Square, a place that will offer services and expert advice, similar to Apple's Genius bars.

But perhaps the biggest challenge for Johnson and his management team will be to sell shoppers on its new pricing. For years, Penney, like many other stores, has artificially propped up ticketed prices even as costs have come down slightly over the past decade. The intent: to make it look like shoppers are getting great discounts.

Penney has been an especially big promoter. Last year, the company, which offered 590 sales events last year, had about 72 percent of its revenue come from merchandise that was discounted by 50 percent or more.

That's more than double the overall retail industry average. According to an estimate by management consultant firm A.T. Kearney, a typical retailer sells between 40 and 45 percent of its inventory at a promotional price, up from 15 to 20 percent 10 years ago.

The increased discounting has been a vicious cycle that only feeds into shoppers' insatiable appetite for bigger and better discounts. In fact, whereas it took 38 percent off to get shoppers to buy 10 years ago, it now takes discounts of 60 percent, Johnson says.

At Penney, the regular price on an item that costs $10 to make rose 43 percent, from $28 in 2002 to $40 in 2011. But because of all of its sales and other promotions, what it actually ended up selling for rose only 15 cents, from $15.80 to $15.95 during that same period.

"I have been struck by the extraordinary amount of promotional activity, which to me, didn't feel like it was appropriate for a department store," Johnson said during the interview. "My instinct was that it wasn't a good thing. Once you start to promote, the only way to beat a promotion was to make it bigger."

Walter Loeb, a New York-based retail consultant, says Penney's new pricing strategy is "visionary" and revolutionary."

But Charles Grom, a retail analyst at J.P. Morgan, says it will be difficult for Johnson to change shoppers' buying habits. Macy's, for example, cut back on coupons a few years ago, only being forced to ramp it back up after seeing sales suffer.

"Shopper fatigue has been building for several years," Grom says. "He has a lot of wood to chop."

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