Penney records bigger-than-expected loss in 2Q

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Six months after J.C. Penney Co. launched a new pricing plan, customers still aren't buying it.

The mid-price department store chain reported a bigger-than-expected loss and plummeting sales during the second quarter, as its customers remain confused by the new pricing strategy that ditched hundreds of sales in favor of every day lower prices. The plan was introduced Feb. 1.

It also withdrew its profit guidance for the year. Its shares tumbled more than 6 percent in premarket trading.

Penney's results, released Friday, underscore how difficult it is for a company to change the way consumer behave. It also tests the patience of investors and adds more pressure on its new CEO and former Apple Inc. executive Ron Johnson to turn things around at the retailer.

"'We have now completed the first six months of our transformation, and while business continues to be softer than anticipated, we are confident the transformation is on track," said Johnson in a statement." The transition from a highly promotional business model to one based on everyday value will take time and we will stay the course."

In May, Penney's stock plunged 20 percent in its biggest decline in four decades after the retailer posted a larger-than expected quarterly loss and a 20 percent drop in revenue in its first quarter because of the poor reception from shoppers.

Things got even worse in the second quarter.

The department store, based in Plano, Texas, says that it lost $147 million, or 67 cents per share, in the quarter ended July 28. That compares with net income of $14 million, or 7 cents per share, in the year-ago period.

Sales tumbled almost 23 percent to $3.02 billion. Revenue at stores opened at least a year fell 21.7 fell, worse than the 18.9 percent drop in the first quarter.

Its adjusted loss excluding unusual items was 37 cents per share. Analysts had expected a 26 cent loss on revenue of $3.2 billion.

Its shares dropped $1.35, or 6.1 percent, to $20.75 in premarket trading.

Penney on Feb. 1 began using a three-tiered pricing approach that called for consistently lower daily prices that were 40 percent below last year, month-long sales and periodic deeper discounts throughout the year. But starting Aug. 1, Penney has eliminated the monthly sales events and increased the frequency of the periodic sales to every Friday. These had been called "Best Price" sales but are now being called "clearance." It's tweaking its advertising to better explain the pricing change.

Johnson had said the new approach should make the pricing plan easier for customers to understand.

"We thought, 'Why are we trying to teach customers new language to shop?" Johnson said in a recent interview with The Associated Press. "We're just trying to be straightforward."

Under the new system, Penney is keeping "Every Day" low prices that are consistently 40 percent lower than regular prices before the company eliminated sales. That level of pricing has accounted for about 70 percent of sales since the company began the new strategy. As for periodic discounting, it will increase their frequency.

To go along with the new pricing, Penney will tweak its ads. That will include inserts in newspapers every Friday during the back-to-school season that will highlight specific products like jeans. TV ads have been airing that tout free haircuts that the stores are offering for students during August.

The new ads are in stark contrast to the spots that Penney rolled out at first to introduce its new pricing plan. The "fair and square" brand campaign featured TV ads with dogs, kids and bright colors — but little explanation of Penney's pricing

The company said Friday it no longer expects to meet its earnings guidance for 2012. It had expected a profit of $2.16 per share. Analysts expected the company to earn $1.26 per share for the year.

Investors, who initially sent Penney shares soaring 24 percent to about $43 after Johnson announced the pricing plan in late January, since have pushed them down almost 50 percent since then.