

They're back: J. C. Penney adds sales

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J.C. Penney is bringing back sales.

The struggling department store chain this week will begin adding back some of the hundreds of sales it ditched last year in hopes of luring shoppers who were turned off when the discounts disappeared.

Penney also plans to add price tags or signs for more than half of its merchandise to show customers how much they're saving by shopping at the mid-priced chain — a strategy used by a few other retailers such as home decor chain Crate and Barrel and the company that owns TJ Maxx, HomeGoods and Marshalls. For store branded items such as Arizona, Penney will show comparison prices from competitors.

The moves are a departure for Penney on the eve of the one-year anniversary when it vowed to almost completely get rid of the sales that Americans covet but that cut into a store's profits. The idea was to offer everyday low prices that customers could count on rather than the nearly 600 fleeting discounts, coupons and sales it once offered.

The bold plan has been closely watched by others in the retail industry, which is notorious for offering deep discounts to draw shoppers. But so far the experiment has served as a cautionary tale of how difficult it is to change shoppers' habits: Penney next month is expected to report its fourth consecutive quarter of big sales drops and profit losses. After losing more than half of its value, Penney stock is trading at around \$18. And the company's credit ratings are in junk status.

CEO Ron Johnson, who rolled out the pricing plan shortly after taking the top job in November 2011, told The Associated Press last week that the latest moves are not a "deviation" from his strategy but rather an "evolution."

"Our sales have gone backward a little more than we expected, but that doesn't change the vision or the strategy," says Johnson, who previously masterminded Apple Inc.'s retail stores and Target Corp.'s cheap chic fashion strategy. "We made changes and we learned an incredible amount. That is what's informing our tactics as we go forward."

But critics say that Johnson is backpedaling. Walter Loeb, a New York-based retail consultant, says Johnson "is now realizing that he has to be more promotional to attract shoppers."

The pricing strategy has been a key part of Johnson's plan to reinvent Penney from the ground up. The plan includes adding hip new brands such as Joe Fresh and replacing racks of clothing with small shops-within-stores by 2015. But this isn't the first time the pricing strategy has been tweaked.

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Published on Electronic Component News (<http://www.ecnmag.com>)

When it was rolled out in February 2012, the plan entailed permanently slashing prices on everything in the store by 40 percent. Instead of the 600 or so sales and coupons it used to offer, Penney decided to have just 12 monthlong sales events on some merchandise. And there would be periodic clearance events throughout the year.

But the new pricing plan wasn't well received on Wall Street or Main Street, so six months after launching it, Johnson ditched the monthlong sales, saying that they were too confusing to shoppers. Johnson says Penney has learned that people don't shop on a monthly basis, but rather they buy when they need something for say, back-to-school or during the winter holidays. And during those times, he says, they're looking for even more value.

"I still believe that the customer knows the right price, but they want help," he says.

Penney declined to say how many sales events it will offer going forward, citing competitive reasons. But the company says the figure will be well below the nearly 600 that it used to offer. The company says the discounts will vary depending on the sale. From Feb. 1 through Feb. 14, for instance, shoppers will get 20 percent off some jewelry for Valentine's Day. One example: half carat diamond heart pendants on sale for \$96, below Penny's everyday price of \$120.

Penney says the decision to add tags or signs on much of its merchandise that shows the "manufacturer's suggested retail price" alongside Penney's "everyday" price was a result of his realization that shoppers want a reference price to consider. National brands were also asking Penney to show the suggested price to shoppers, he says. Penney began showing the suggested manufacturer's price on Izod men's merchandise last fall, and was encouraged by the response.

Burt Flickinger, a retail consultant, says the move could help Penney because manufacturers' suggested retail prices can be as much as 40 percent higher than what retailers wind up charging. The practice is common in the home appliance industry, but spotty in the department-store industry because stores generally hike prices up even more to give shoppers the illusion of a big discount, he says.

"The strategy will be helpful for shoppers to understand lower prices," Flickinger says. "At the same time, it will be tough to get consumers back in the store from competitors."

But Craig Johnson, another retail consultant, says adding the suggested manufacturer's price is just a gimmick. "The objective of this exercise is to maximize the perceived value for the purchase," he says.

Johnson says Penney will submit supporting data to its legal team for approval before it advertises its price on branded merchandise, using certain criteria. For example, they'll make sure the fabric used is of the same quality as its rivals. For jewelry, Penney is using the International Gemological Institute, a third-party appraiser.

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"There are no makeup prices here," Johnson says. "It's all about trying to communicate what it's worth to the customer."

Penney will not show comparison prices for merchandise that is part of exclusive partnerships with brands such as Nicole Miller and Mango, however. The company says it's difficult to offer such references.

To promote the strategy, Penney on Wednesday will begin airing TV, print and digital ads. One TV ad compares a \$9 polo shirt under its store brand Arizona with \$19 "elsewhere." "Two polos, same color, same vibrant, same details, same swing, same swagger, different prices," the ad says.

Going forward, Johnson reiterated that he expects Penney to return to growth sometime in 2013. That would be a welcome change for Penney, which has had steep sales and profit losses since the new strategy was launched.

For the first nine months of its current fiscal year, Penney lost \$433 million, or \$1.98 per share compared with a loss of \$65 million, or 30 cents per share in the year-ago period. Total sales dropped 23.1 percent to \$9.1 billion.

Analysts expect Penney to post a loss of 17 cents on sales of \$4.22 billion for the fourth quarter. They expect the company's annual sales to fall by 23 percent, or nearly \$4 billion, to \$13.3 billion for the latest year. Revenue at stores opened at least a year — a measure of a retailer's health — are expected to drop 25 percent, in line with the third quarter, according to analyst polled by research firm FactSet.

"A year ago, we were launching a major transformation and didn't know what to expect," he says. "Today, I know what happened. Our team has a year's worth of history. This is going to be a great year because the new JCP is coming to life for customers."

Source URL (retrieved on 09/21/2014 - 4:11pm):

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