

J.C. Penney posts bigger 1Q loss than expected

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The legacy of J.C. Penney's former CEO continues to cast a dark cloud over the department-store chain.

Penney on Thursday reported that it widened its loss in the first quarter on a 16 percent plunge in revenue. It marks the fifth straight quarter that the struggling company has posted massive declines.

The results show that Penney is still reeling from the turnaround plan orchestrated by its former CEO Ron Johnson, who was ousted last month after less than a year and a half on the job.

The plan included getting rid of most sales and coupons in favor of everyday low prices, bringing in hip brands like Joe Fresh and remaking outdated stores. But the changes that were meant to attract younger, wealthier shoppers, wound up turning off loyal Penney customers who like sales and basic merchandise like loose-fitting khakis.

Penney last month rehired Johnson's predecessor, Mike Ullman, who is adding back sales and bringing back some basics. The company also confirmed that Goldman Sachs will provide \$1.75 million in financing, a move that eases worries that Penney could run out of cash this year.

But the Plano, Texas-based chain still faces big hurdles. Penney lost \$348 million, or \$1.58 per share, during the three months that ended on May 4. That compares with a loss of \$163 million, or 75 cents per share, in the year-ago period. Revenue dropped 16.4 percent to \$2.63 billion.

Wall Street had expected a loss of \$1.06 per share on revenue of \$2.65 billion, according to research firm FactSet. Revenue at stores opened at least a year — one measure of a retailer's health — fell 16.6 percent. That was worse than the 15 percent drop analysts predicted.

Penney blamed the revenue declines, which actually look better because they are being compared with big drops in the year-ago period, on old pricing and marketing strategies under Johnson. But the 1,100-store chain also said that construction to revamp its home departments in some stores also hurt sales.

The big question for Penney is whether it can get back the shoppers into stores. Analysts say one thing is clear: Penney can't go back to its old ways. They say the company needs to strike a balance between catering to its loyal shoppers while bringing in younger customers.

During the seven years he was at Penney's helm, Ullman tried to court younger

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shoppers by opening mini boutiques in stores that feature beauty company Sephora and exclusive names like European clothing brand MNG by Mango.

But overall, Ullman did little to change the stores, which have been criticized for being too dark and outdated. During Ullman's tenure, sales declined from \$18.18 billion in 2004 to \$17.6 billion in 2010, his last full year at the company. Sales per square foot dropped to \$155 from \$177, according to Deborah Weinswig, an analyst at Citi Research

Johnson, the mastermind behind Apple Inc. stores, planned to shake up the company's stodgy image when he took over the top job at Penney's in November 2011. But he was counting on everyday low prices and youthful fashions from names like Betsey Johnson and Joe Fresh to get shoppers to visit more often. He also borrowed from Ullman's strategy of opening mini-boutiques: He developed a plan to replace racks of clothing with shops-within-stores.

When Johnson announced his vision in January 2012, investor enthusiasm was high. But the honeymoon didn't last long as sales fell. Penney's shares have lost more than half their value since early last year and are now trading at about \$18, down from \$43 in February 2012.

Analysts say the problem wasn't Johnson's vision, but his execution. They say the big mistake was that Johnson didn't test the changes with shoppers before rolling them out, as is common in retailing.

Penney mostly has been quiet about its plans going forward. But one question that remains is how much Ullman will slow the pace of the openings of the shops-within-stores, which the company started rolling out last fall. Penney needs to conserve cash but it also needs to bring in shoppers.

Walter Loeb, a New York retail consultant, said he believes that the opening of Penney's revamped home departments, which were under construction when Johnson left on April 8, will help attract customers. The areas will feature 20 new shops devoted to names like Michael Graves and Jonathan Adler. When the renovations are done, about 30 percent of the store will be transformed.

"That is going to make the store more productive," Loeb said.

Penney is hoping the revamp will help lure back some of the customers it lost, including Patricia Kellogg, 50. Kellogg, who lives in Nelson, Ohio, is a former Penney customer who has turned more to Macy's since early last year when Penney cut back on discounts and got rid of some of her favorite brands.

"Penney was my main store, where I shopped for good quality things at a reasonable price," said Kellogg, who works at a bar. "Now, you can't find good quality stuff for the money."

Kellogg stopped by a Penney store this week and bought winter scarves that were discounted to \$1. "If they bring back better sales and better quality, I will be back,"

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she said.

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