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J.C. Penney to Revise Pricing Methods and Limit Promotions

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J. C. Penney's new leader has a vision for tomorrow's shopping experience. But the retailer is still stuck with yesterday's stores.

Ron Johnson, who oversaw Apple's retail strategy before starting at Penney this fall, said on Wednesday that his first steps as chief executive would be to get rid of the nonstop promotions at the store and move to three kinds of prices (everyday, monthly specials and clearance). He announced a new designer partnership with Nanette Lepore, and a new spokeswoman and advertising star, Ellen DeGeneres. He also introduced a new logo, and new color-saturated advertisements that barely mention price.

Within four years, he said, the stores would be completely redone, each divided into about 100 small boutiques with a service center that he called "town square" at the center. "We haven't given the customer enough reasons to love us," he said in an interview.

"We want to be the favorite store for everyone, for all Americans, rich and poor, young and old," he said.

But Mr. Johnson is not creating a retailer from scratch. J. C. Penney has more than 1,100 stores, many in mall locations that have lost other tenants. More than 60 percent of its stores were built in or before the 1980s, according to Barclays Capital, and the company's overall sales have been weak. Mr. Johnson said that he was not closing any stores now. "When we haven't gotten the whole concept right yet, it doesn't make sense," he said.

Denise Lee Yohn, a branding consultant, said that she was impressed with some of his ideas, but that Penney's physical presence was a limiting factor. "I don't think the opportunity to do something dramatically different is possible, given their real estate and the realities of retail," she said.

In November, sales at stores open at least a year fell 2 percent, and in December, same-store sales rose just 0.3 percent, both well below industry averages, and it recently cut its fourth-quarter profit forecast because of the bad holiday sales. From 2006 to 2011, "J. C. Penney has had the worst performance among peers," a Barclays Capital analyst, Robert S. Drbul, wrote in a note to clients.

While many shoppers go to Walmart for price, Target for cheap style, high-end stores for luxury treats and the Web for ease, stores like J. C. Penney have faded into the background.

At the presentation on Wednesday, Mr. Johnson outlined some of Penney's current troubles and his proposals to fix them.

Though retailers use promotional pricing to attract shoppers, even if they often vow to move away from it when it gets too pronounced, Mr. Johnson said the method used what he called "fake prices" — artificially inflated prices that are on near-constant markdowns.

But consumers, he said, were not fooled. From 2002 to 2011, the average cost that Penney paid for an item stayed about the same, from $9 to $10. During that period, though, Penney increased the average price tag to $36 from about $27. Yet even as the price tag rose, customers ended up paying less because of coupons or sales. “Now most things are on 60 percent markdown, and every time we do that, we’re discounting Penney’s brand,” he said.

Mr. Johnson said that 72 percent of Penney’s revenue came from products sold at a discount of 50 percent or more. The company is repricing all its items to fit within its three-tiered pricing system. For instance, a T-shirt that was priced last year at $14, but sold closer to $6 after promotions, will now be priced at $7.

Also, he said, customers had to deal with a confusing number of promotional e-mails, fliers and ads. Last year, Penney ran 590 unique promotions, he said, but the average customer visited only four times.

“So customers ignored us 99 percent of the time,” he said. “At some point, you, as a brand, look desperate if you have to market that much.” He will move to monthlong promotions, on which Penney will spend $80 million a month, he said, which is a decrease from Penney’s current marketing spending level, which is more than $1 billion a year. And instead of mailed fliers, the company will send shoppers a 96-page catalog each month with a more magazinelike presentation.

Mr. Johnson said that dividing the stores into specialty boutiques was meant to take advantage of a larger industry trend.

“When we want a great product today, we go to a specialty store” like J. Crew, or H&M, Mr. Johnson said, and he wanted to create a specialty-store feeling within Penney. The move expands on what Penney has already done, creating store-within-a-store areas for brands like Sephora, where sales per square foot are three times higher than the average of the rest of Penney.

Target announced earlier this month that it was pursuing a similar strategy, adding local shops to its stores for a limited time.

In terms of the products themselves, Mr. Johnson and Michael R. Francis, Penney’s new president and the former chief marketing officer of Target, said that Penney was cutting dozens of its 400 or so brands, mostly the private labels that the company created. “It’s almost like we’re selling clothes by the pound” for those, Mr. Johnson said.

Penney did not disclose the projected cost of these changes, but it has already invested heavily in its new top officials. It has given four of its new executives — Mr. Johnson, Mr. Francis, the chief talent officer Daniel Walker and the chief operating officer Michael W. Kramer — a total of almost $134 million in stock grants, based on Wednesday’s closing price. And in the third quarter, it awarded those four executives, along with the two executives that they replaced, $36 million in one-time cash payments. Penney’s shares fell 0.95 percent on Wednesday to $34.27.

Mr. Johnson, who spent more than a decade at Apple, stressed the similarities between that company and J. C. Penney now (both had market share of about 3 percent when he joined, he said). But those who were expecting Apple-esque technological prowess — a dressing-room mirror that could offer styling tips, perhaps? — from Mr. Johnson’s presentation did not get it.

“You have to stay tuned. I’ve been here 90 days — dazzling technology takes time,” he said. “Changing the merchandise takes time. Getting new partners to carry in-store takes time. And we have a very clear vision for exactly what will happen.”