



June 15, 2011

Where Others Have Gone Without Success, J.C. Penney Goes Again

By **STEPHANIE CLIFFORD**

Trying to **redefine itself**, Sears Holdings introduced a flurry of concepts when its new chairman, Edward S. Lampert, took over.

It converted stores not attached to malls to Sears Grand stores, which carried food and pharmacy items beside traditional merchandise. A **nostalgia-themed store** with banjo music and glass jars of candy was tested in suburban Atlanta. The company tried new marketing slogans: "Sears. Where it begins" (2007); "Reimagine You" (2008); "Sears. Life. Well Spent" (2009).

It also improved online efforts, including introducing MyGofer, which allows people to order groceries online.

None of those efforts reversed Sears's fortunes since Mr. Lampert took over in 2005. Last year, same-store sales in the United States at the company, which owns Sears and K-mart, **dropped 1.6 percent**. Revenue fell 1.7 percent, to \$43.3 billion, results that were "completely unacceptable," Mr. Lampert **wrote in his annual letter** to shareholders.

Reinventing retailing, as many chains have learned, is not easy. Yet **J. C. Penney** is setting out to rethink the shopping experience, **announcing on Tuesday that** it had hired Ron Johnson, who is in charge of Apple's stores, as chief executive.

Analysts have said that if anyone can revive tired mall stores, Mr. Johnson is a good candidate to succeed. But the question remains whether tired mall stores can be revived.

"The way malls and department stores are now, I'm not sure there's a compelling reason" to go, said Denise Lee Yohn, a marketing consultant who works with retailers. "It's much easier right now to find what I'm looking for on the Internet."

Mr. Johnson has not detailed his plans for Penney, but in an interview on Tuesday, he suggested that Penney and its competitors needed to change.

"In the U.S., the department store has a chance to regain its status as the leader in style, the

leader in excitement,” he said, adding that he and the board could “take this great American brand and make it become something unbelievably exciting.”

Penney’s 2010 revenue rose 1.2 percent to \$17.76 billion, and same-store sales — sales at stores open at least a year — increased 2.5 percent. But it “struggles with continued market share loss,” Michelle Clark, of Morgan Stanley, wrote this week in a note. Apple’s case study, however, has given hope to the industry. With its in-house tutorials, and products liberated from their boxes, Apple’s retail stores have earned admiration from shoppers and competitors alike and made the shopping experience cool again. It is that success that helped Penney’s stock rise 17.5 percent on Tuesday after Penney wooed Mr. Johnson from Apple.

Still, Mr. Johnson cannot merely clone Apple’s in-store features. Analysts said that the immediate problems involve changing consumer attitudes toward stores.

“The only reason I would go inside any kind of department store anymore is to return something I ordered online,” said Dorothy Duder, 58, who lives in North Hollywood, Calif.

She said she recently walked through a Penney store, and was unimpressed. “There was way too much merchandise on the floor,” she said. “I’d rather sit in my jammies at home, and have a cup of tea and shop.”

That sentiment is one the entire industry is trying to combat, analysts said.

“Penney’s is in the same boat as a lot of midtier department stores, which is, you’re not really differentiating yourself in the luxury space, and you’re not a value dollar store, a low-income driven retailer,” said Sherif Mityas, of the consulting firm A. T. Kearney. “So you need to create basically a reason for people to come into your store. Department stores in general are really almost too generic at this point, and you’re seeing it in their results.”

Several national store chains have devised strategies that have resulted in financial success.

Macy’s stores still look much as they did years ago, but now the merchandise is different. Macy’s chooses what it carries based on each store’s location and typical shopper profile. It also asks clerks to suggest items.

With localization, Macy’s has an “elevated consumer experience,” said Michael Dart, head of private equity and strategy at the consultancy Kurt Salmon.

In 2010, Macy’s same-store sales rose 4.6 percent, and revenue jumped 6.4 percent to \$25 billion, which the company attributed largely to localization. PetSmart took another tack. It was facing intense competition from Wal-Mart, which generally offered lower prices on pet gear, and

Amazon.com, which let shoppers avoid hauling boxes of cat litter around a parking lot.

So PetSmart redesigned its stores, relegating commodity items like food to the middle of stores. In the front and on the sides, to grab the attention of shoppers as they enter, it offers services like grooming, training, veterinary care and boarding.

“They said, what would Wal-Mart not do — dog grooming is on the list — and what is Amazon incapable of doing?” said Fiona Dias, executive vice president of strategy and commerce at GSI Commerce, a technology company that works with PetSmart.

Services contributed 10.9 percent of PetSmart sales in 2010, and the company’s total revenue grew 6.7 percent to \$5.69 billion. Same-store sales rose 4.8 percent.

Converting shopping into an entertainment experience has helped Kiehl’s, which sells skin and hair care products at kiosks in department stores and stand-alone stores. It revamped its original East Village store, which now features a photo booth and a counter where visitors can order an egg cream.

The store has clerks who give consultations on skin care, an Indian motorcycle that Steve McQueen once rode and old-fashioned crank machines that dispense sample products.

The president of the United States division of Kiehl’s, Chris Salgado ticked off the multitude of concepts that analysts predicted would crush retailers.

“Through the years, and certainly once QVC came on board — check, the death toll for the stores,” Mr. Salgado said. “Then came the Web; we were all going to stay at home and shop in our pajamas — check, second death toll,” he said.

But worldwide sales for Kiehl’s increased 43 percent in 2010, compared with 2009. Though people can order from Kiehl’s online, “there are things that you’re going to be able to experience here that you won’t see at home,” he said. “It engages you, and it’s something that you’re never going to get online.”