J.C. Penney's Cost-cutting Transformation

In this mini-case, you will review the efforts of the J.C. Penney department store to more efficiently compete on price, primarily underpinned by a cost-cutting program. But is this the best approach?

J.C. Penney's New Pricing Strategy

Several years ago, the J.C. Penney department store chain went through a major cost-cutting program, associated with its transformation strategy. The firm's goal was to cut expenses by $900m in two years, with $200m in savings from its corporate headquarters, $400m from store operating expenses, and $300 million in advertising cuts.

As part of its transformation strategy, the department store overhauled every aspect of its operations, from a new pricing plan to new brands to how it produces its goods. But it is the new pricing plan, which cuts hundreds of sales events in favor of everyday pricing, has turned off shoppers used to big discounts.

Unfortunately, the change in the pricing approach failed to deliver results, with a 20 percent drop in revenue in the first quarter after the pricing plan was implemented. "One of the most challenging tasks for any leadership is to reorganize a company," said Ron Johnson, Penney's new CEO and a former Apple Inc. executive, in a statement.

During an address to investors, Johnson continued to back his new pricing strategy. He said that the problem was the chain improperly communicated the change to shoppers. It's now clarifying the savings for shoppers under the three-tier plan, which calls for reducing prices by 40 percent from a year ago, offering deeper month-long discounts and clearance events.

In reaction to the revenue fall, the company has now started adding clearance events to their marketing calendar in addition to the first and third Fridays of the month. It is now using the term "best clearance" instead of "best prices".

Student Discussion Questions

1. What are the main advantages and disadvantages associated with an 'everyday low prices' approach?
2. Why have customers not reacted overly positively to the department store's 'everyday low prices' approach? Should the firm continue with this approach? Why?
3. What does the CEO mean by "the chain improperly communicated the change to shoppers"? In what ways could they have communicated the change? What impact would the reduction in advertising budget had in this regard?
4. Will using "best clearance" instead of "best prices" make a significant difference in your view? What other pricing tactics could they implement?