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JCPenney: Back in Business

If the business model is the same in 2020 as it is in 2016, the company will no longer exist.

— Marvin Ellison, CEO

In early March 2016, JCPenney CEO Marvin Ellison was returning to company headquarters in Plano, Texas after an off-site retreat with his senior leadership team in Atlanta, Georgia, the second such retreat in his eight months at the helm. In August 2015, shortly after taking office, Ellison organized the first off-site retreat to discuss the company's future strategy. He asked his management team to define the company's mission, vision, and its top three strategic objectives. He was stunned to hear a wide array of responses to what he felt were basic questions, revealing a disconnect between divisions and a lack of clarity on direction. Ellison devoted the rest of the off-site to brainstorming with his team, and emerged with a focus on omnichannel, private label goods, and increasing revenue per customer, as the three strategic objectives that would guide all future initiatives.

JCPenney was in the midst of a multi-year turnaround after coming dangerously close to bankruptcy. In 2012, under then-CEO Ron Johnson, the 111-year-old retailer embarked upon a bold plan to revitalize the brand through store redesigns, drastic changes to merchandise, and by eliminating most sales and promotions in favor of everyday low pricing. The shake-up, dubbed "Fair and Square," seemed to alienate many of the company's core customers while failing to attract new ones. Annual sales plummeted from $17.2 billion in 2011 to $11.8 billion by 2013, prompting store closures and thousands of layoffs. By April 2013, the board replaced Johnson with former CEO Myron ("Mike") Ullman, who quickly reversed many of Johnson's changes, and by mid-2015 the business appeared to have stabilized.

Upon arriving at his office, Ellison neatly hung up his Michael Strahan private label jacket, part of a new collection of suits, ties, dress shirts and accessories launched in partnership with former NFL player and morning show television host Michael Strahan. He sat down at his desk and pondered the various initiatives in place. The company ran pilot tests for a new line of appliances, for rebranded hair salons, and for new private label merchandise, and management now needed to decide how best to roll out and market these initiatives across the chain. Ellison also considered how to build upon the company's recently unveiled advertising campaign, *Get Your Penney's Worth*, and how to strike the

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right balance between serving various customer segments—"core" and "emerging." Pricing was another area he and his team struggled with, as they sought to rely less on frequent promotional activity to entice customers.

While pleased with the company's direction and the nine consecutive quarters of sales growth, Ellison wondered: Did his team settle on the right strategic objectives? Were the current initiatives the best ones to act on these objectives? Would implementing them be enough to restore JCPenney's position and reach profitability in the challenging and evolving American retail landscape?

JCPenney: Company History

In 1902, James Cash Penney opened a small, one-room shop in a mining town in Wyoming. He called it The Golden Rule, with the intent to "treat others as you wish to be treated." Penney soon opened additional stores in Wyoming, Idaho, and Utah. Unlike other retailers of that era, he kept prices low by charging a minimal markup and did not allow bargaining.[1] In 1913, he renamed the stores JCPenney, and by 1917, the company had 200 stores in the U.S., mostly on town main streets. Penney stepped down in 1946. By 1958, it was operating as a mass merchandiser offering clothing, hardware, and sporting goods. In 1963, JCPenney launched its mail order catalog and gradually shifted away from main street locations to a larger store format in suburban shopping malls.

By the 1980s, JCPenney had become a national department store chain offering a greater selection of soft goods with a focus on fashion.[2] In 1992, the company built a 1.8 million square foot headquarters in Plano, Texas. That year, sales reached $15.3 billion. In 1998, JCPenney launched its first e-commerce website, and by 2000 company revenue reached $18.8 billion from 1,100 stores.[3] In the early 2000s, JCPenney standardized store appearances and centralized its inventory. Until then, most stores chose their own inventory. This move allowed the company to negotiate better prices and buy apparel several times per season instead of just once.[4]

Myron ("Mike") Ullman: 2004-2011

Ullman was named CEO at the end of 2004. Prior to joining JCPenney, he served as group managing director for luxury retailer LVMH Möet Hennessy Louis Vuitton. In 2006, JCPenney had one of its strongest years with $19.9 billion in sales.[5] During the global financial crisis, in 2008, sales declined to $18.5 billion and dropped to $17.8 billion by 2010. JCPenney's core customers—suburban mothers between the age of 35 and 55 with an annual household income ranging from $35,000 to $100,000—were the hardest hit by the recession.[6] This customer, Ullman noted, "has been the one with the most changes in terms of discretionary behavior."[7] He predicted this as "the new normal. People are going to be very pragmatic [. . .] and it just encourages us to be sharper on prices."[8]

While all department stores were hit by the recession, many recovered and grew their sales in 2011. JCPenney, however, saw its sales further decline to $17 billion. EVP and Chief Merchant John Tighe recalled, "We're traditionally a conservative company and thought we should be careful in spending the cash stockpiled before the recession hit; consequently we were slow to emerge while others were more aggressive in their marketing." Beyond the recession, there were other reasons for the decline. JCPenney was feeling "the squeeze," losing market share to discount mass merchandisers Target and Walmart on the one hand, and to higher-end department stores Macy's and Nordstrom on the other. Making matters worse, JCPenney was also losing share to online retailers. Stores appeared outdated, lacking character, and were described as disorganized. In 2009 it discontinued its semiannual catalog as more shoppers migrated to the Internet, and began to issue smaller specialty catalogs.[9] Under Ullman, the company began carrying more national brands to complement its private label merchandise (brands owned and sold exclusively by JCPenney). He also signed deals to bring Sephora cosmetics and Liz Claiborne clothing and accessories to stores.[10] In 2010, Pershing Square Capital, led by billionaire Bill Ackman, acquired a $900 million stake in JCPenney.

Ron Johnson: 2011-2013

In 2011, Ackman gained a seat on the board and urged the other members to replace Ullman with Ron Johnson to reinvigorate the business. Up to that point, Johnson had what many considered to be a stellar career in retailing. He had served as VP of merchandising at Target during its massive U.S. expansion in the 1990s, helping it transform into a more stylish retailer through exclusive agreements with well-known designers, and later joined Apple as SVP of stores in the 2000s. One media outlet praised Johnson as a "maverick genius of retail,"[11] responsible for overseeing Apple's wildly successful retail store concept. He pioneered the Genius Bar, counters where customers could chat with specialists and receive in-person support. Another observer called him "the new Steve Jobs."[12] In June 2011, Johnson was named CEO of JCPenney. The stock rose 17% to $35.37 the day of the announcement.[13] (See **Exhibit 1** for a stock chart.) He officially joined the company on November 1.

In January 2012, Johnson announced an ambitious four-year plan to revamp the brand and attract new customers: "We are going to rethink every aspect of our business, boldly pursue change, and create long-term shareholder value as we become America's favorite store."[14] Before Johnson, the company relied heavily on price discounts, executing 590 different sales events and promotions a year. At the time, JCPenney generated 72% of revenues from products sold at steep discounts of more than 50% off the list price. Between 2002 and 2012, the average discount grew from 38% to 60%.[15]

One of Johnson's first acts as CEO was to eliminate coupons, sales, and promotions in favor of "Fair and Square" everyday low pricing, with prices typically set at a level that was 40% lower than the list price. These stable prices replaced the list price and subsequent frequent markdowns (often called a "high-low" pricing strategy), although stores would feature occasional seasonal sale items. Johnson believed that customers were "disgusted with the lack of integrity on pricing"[16] and insisted that the company did not have "several months to waste on testing," as he quickly rolled out the new strategy.[17] "You can't follow the customer. You've got to lead your customers—anticipate their needs and meet those needs, even before they know what they want," Johnson explained.[18]

Johnson also planned a major change to the look of the stores, and announced a new layout that included a series of shops or boutiques along a "main street" aisle, punctuated by a "town square," or central hub within the store, offering complimentary services such as gift wrapping and promotional events including free ice cream during the summer months and free haircuts during the back-to-school shopping season.[19] JCPenney initiated this store redesign—a significant capital investment—in early 2012. It also hired comedian and talk show host Ellen DeGeneres as its new spokesperson, who appeared in ads that poked fun at markdown gimmicks. The hiring of DeGeneres, a lesbian, prompted the conservative Christian group One Million Moms to call for a chain-wide boycott.

Under Johnson, the company overhauled its product offerings, establishing relationships with Joe Fresh and Martha Stewart as well as other designers, and introduced a new "Denim Bar" with Levi Strauss, while eliminating several long-standing private label brands including St. John's Bay for women and altering the fit of Stafford dress shirts. Johnson also got rid of all sales commissions to encourage employees to focus more on customer service than on selling. Many associates, especially in the hair salons, expressed anger that they were no longer earning commissions.

Early indicators suggested Johnson's changes were not greeted with enthusiasm by customers. In the first quarter of 2012, the number of JCPenney shoppers had dropped by 10%.[20] By July 2012, six months into the rebranding effort, the company had lost $310 million, with net sales down 21.3%.[21] Analysts reported that the new price strategy was not resonating with customers accustomed to seeing markdowns "to believe they're getting a good deal."[22] One observer commented, "People like the treasure-hunt aspect of using coupons on top of sale items and finding items of exceptional value."[23] Another felt "Fair and Square" pricing "took the fun out of saving."[24] "If, for the most part, a store's prices are going to remain the same tomorrow… there's not much incentive to browse the aisles for special deals today."[25]

Under pressure, in July 2012, Johnson reintroduced some promotions and discounts. Yet the bad news continued to pile up, and by November 2012, JCPenney announced a 26.1% decrease in quarterly sales.[26] Among the updated stores (11% at that point), however, the company earned $269 in sales per square foot, compared to $134 in older stores.[27] Even so, as one analyst noted, "Trends at JCPenney are obviously getting worse, not better."[28] In April 2013, after 2012 results showed losses approaching $1 billion, Johnson was let go. By the end of his 18-month tenure, the company's stock had plummeted 50%.[29] Over 19,000 jobs had been eliminated[30] and many stores were closed—a trend that would continue over the next several years (see **Exhibit 2** for number of stores over time).

Some critics believed Johnson tried to remake the company too fast, by eliminating discounts and moving stores more upscale. Others had a more balanced opinion. "You can reasonably argue that given a bunch of factors, [Johnson's plan] was always doomed to fail," one observer noted. "But you can also reasonably argue that if Johnson had been allowed to stick it out for a few years, it had a real chance of paying off."[31] Tighe offered his view: "Ron had a different opinion on who our core customer should be, and what our merchandise should be. He listened to his intuition instead of the customer. Ron felt that if you were a true merchant, you don't need to run pilot tests." Ellison added:

> Imagine you're in high school and have been dating the same person for over three years. Senior prom is coming up, and you tell that person, 'You're no longer good enough for me.' You instead ask out the homecoming queen or football quarterback, but they say 'no' so you end up going to the prom stag. That's the analogy I use for JCPenney. We had a customer that loved us, was committed to us, and we said to that customer, 'hey, there's a more progressive, affluent millennial customer that we'd rather target.' That's how you lose close to $6 billion in volume in 18 months.

Ullman Returns: 2013-2015

In April 2013, Ullman was asked by the board to return to JCPenney as interim CEO. He immediately went back to the high-low pricing strategy, with frequent price promotions at 2011 levels, and reinstated sale events around major holidays. Under Ullman, the company reintroduced a greater range of sizes in apparel that had been eliminated under Johnson. The company also revived the private label brand St. John's Bay. On May 1, 2013, JCPenney released a television ad apologizing to customers, urging them to "Come back to JCPenney. We heard you. Now, we'd love to see you."[32] The company also aimed to improve its customer service, introducing "Warrior Spirit," a grassroots, front-line effort to empower associates to provide quality service.

In June 2013, JCPenney rolled out a revamped Home Store line to over 500 stores, planned and committed to under Johnson, costing the company between $350 and $400 million. The Home Store line, occupying 20,000 square feet of space per store, sold housewares, cookware, small appliances, bedding, décor, and draperies. The new offerings, including $3,000 designer sofas and $1,400 Martha Stewart rugs, did not click with consumers and were considered a flop. In August 2013, the company announced its ninth consecutive quarterly loss, with sales of just $2.7 billion, down 12% from the previous year.[33] That month, Ackman wrote a letter to the board demanding an emergency meeting and the firing of Ullman. The following week, he leaked his letter to the press,[34] and resigned from the board on August 13.[35] On August 26, Ackman sold his shares to Citigroup at a $400 million loss.[36]

"Nobody appreciated the depth at which things were wrong," Tighe recalled. "When Ullman came back, our strategy was to plug holes to make sure the ship didn't sink. We needed to get the business back on track." One such measure was reinstating commissions to associates in jewelry, home furnishing, and salons. Sales increased slightly from $11.8 billion in 2013 to $12.2 billion in 2014. (See **Exhibit 3** for key financials.) "As we started to stabilize the business, we used 2011 as a benchmark. The years in between were lost years," Tighe explained. He continued, "I learned that when you disregard the customer, it takes a long time to get them back, but we also found that many of our customers really cared. We tried hard to go out of business, but they wouldn't let us."

U.S. Retail Landscape in 2016

Department stores offered a range of goods including apparel, household items, hardware, office supplies, and sometimes food. "As a department store, we have to make sure every customer feels we have something for them," EVP and Chief Information Officer Therace Risch explained. Large chains benefited from economies of scale in distribution, marketing, and purchasing. The seasonal nature of the industry resulted in uneven cash flow. The winter holidays, in particular, could generate up to 30% of total annual sales for some retailers, followed by the back-to-school shopping season, Mother's Day, and other U.S. holidays. Most retailers relied on part-time workers, whose turnover averaged 66% per year, plus additional seasonal help in November and December.[37]

Between 2011 and 2016, U.S. department store sales declined at an annual rate of 3.1% to $167.8 billion.[38] During this time, average profit margins dropped from 6.1% to 5.0%.[39] Yet results were uneven, as some department stores fared better than others (see **Exhibit 4** for relative performance). In 2016, six retailers controlled about 84% of total department store market share, led by Target (33.8%), Macy's (12.6%), Sears (12.5%), Walmart (11.1%, including its general discount stores, but excluding its supercenters or warehouse clubs), Nordstrom (7.8%), and JCPenney (6.6%).[40] The remaining 15% included Kohl's, which JCPenney considered its closest rival. "Our customers tend to be more similar to those of other mid-tier department stores, but anyone that sells the same stuff we do is a threat," Risch noted. Zara, H&M, and other "fast-fashion" retailers were also gaining market share from department stores. In early 2016, Macy's, Kohl's and Sears announced the closing of 36, 18, and 50 stores, respectively.[41,42]

Online retailers increasingly stole market share from brick-and-mortar competitors. In 2015, total U.S. e-commerce sales reached $341.7 billion (7.3% of all retail sales), up 15% from 2014. E-commerce allowed easier comparison shopping, and expanded consumer access to goods. Internet-only "pure-play" retailers such as Amazon benefited from lower overhead costs. An investment firm estimated that the gross merchandise value of apparel sold through Amazon in 2015 exceeded $16 billion, accounting for 5% of U.S. apparel sales, and was expected to grow to $27 billion by 2017.[43] Traditional department stores responded to e-commerce threats by lowering prices or introducing more promotional deals, but they also had to compete with supercenters and warehouse clubs.[44] Risch explained how the company handled consumer price comparisons, "In terms of price matching, if a customer points out a lower price at another store or e-tailer, we empower associates to do what's right. They can decide to offer the item at that lower price."

By 2016, several retailers had adopted an omnichannel strategy, offering customers a more seamless shopping experience between online, mobile, and physical stores. Macy's, for example, began using stores as distribution hubs, offering ship-from-store options to expedite shipping and compete with Amazon. Furthermore, 50% of big-box retailers allowed in-store pickup of online purchases. Others, such as Walmart, began using lockers to deliver online purchases. Shoppers could retrieve items ordered online from a locker at a nearby Walmart, or at some local Staples or 7-Eleven locations.[45]

Many department stores were located inside shopping malls. Overall, mall traffic was down in the U.S. Between 2011 and 2015, two dozen malls closed, and another 60 were reportedly "on the brink of death."[46] One real estate firm predicted that by 2025, 15% of U.S. malls would close and be converted to non-retail space. Luxury malls and those that featured restaurants, movie theaters, and other entertainment were relatively stable, bringing in roughly $965 per square foot, but malls that targeted the income-constrained middle class were generating just $130 per square foot, on average.[47] "Anchor" tenants such as Macy's, JCPenney, and Sears closely monitored these trends. Some experts predicted that retailers would continue to reduce store count and square footage, or transition to showrooms for items that would then be delivered, similar to a furniture store model.[48]

One observer noted, however, that "the death of the mall has been greatly exaggerated."[49] "If you print out each article I've read that says the mall is dead, you could fill a room," Tighe added. "Go to the mall on Saturday at 2 p.m. and good luck finding a parking spot. Fewer shoppers than last year, sure, but they arrive with greater purchase intent. We've found that conversion rate is actually up."

Marvin Ellison: Emerging from the Shadows into the Spotlight

In August 2015, Marvin Ellison, a veteran of Target and Home Depot, where he served as EVP of stores, stepped into the CEO role at JCPenney after shadowing Ullman over an eight-month transition period. During this time, Ellison hosted over 50 town halls with employees and visited over 60 stores to observe the culture. He also traveled to Asia and Europe to meet with suppliers. Given all that had transpired over the past few years, Ellison was surprised by the high morale throughout the company. "My first instinct was that they'd be hesitant to even more change, but they were eager, open, and wanted JCPenney to prosper. I underestimated how much people loved the company."

Ellison observed several things that troubled him, however. "I took notes throughout the meetings and started counting the number of initiatives mentioned. When I got to 140, I stopped," he recalled. Ellison sensed a lack of clarity around the company vision: "When companies get into trouble, the natural instinct is to throw as many ideas or initiatives as you can at the problem and see what sticks. I call it the drowning man syndrome—that instinct to kick in the water wildly to avoid drowning, but in doing so you only sink faster. We were doing a lot, and working hard, but not collaborating well."

Setting the Stage

In his first month as CEO, Ellison gathered the leadership team at an off-site retreat in Atlanta. He quizzed them on what he referred to as "corporate clarity" and asked questions such as: What is our mission statement? What is our vision? What are the three key objectives driving us as a company? Who are our top five competitors? What are our top five measurements? And how would you define our key customer? He received wildly different responses to each of these questions. "The key was to demonstrate that even though everyone was working hard, we weren't on the same page. In order to be successful in business, you need clarity of purpose." Ellison continued, "We then brainstormed on what we collectively wanted the answers to be. I'm a big believer in collaborating to get the right answer. So I posed the questions again, and we began to list ideas under each. That was the start of us, as a team, having a clear strategic focus on where we're going."

The conversation turned to generating specific strategic priorities. Ellison proposed three guiding principles: "We asked ourselves, 'What are we most passionate about? What can we be best in the world at? And what drives our economic engine?'" These principles were based on Jim Collins' 2001 book, *Good to Great: Why Some Companies Make the Leap... and Others Don't.* The discussions revealed the team was most passionate about improving **omnichannel** operations, was convinced JCPenney could offer the best **private label goods** of any department store, and believed that increasing **revenue per customer** would drive their economic engine. The management team then turned its attention to developing a handful of initiatives that addressed the three strategic priorities, and held weekly standing meetings for project managers to provide updates on the various initiatives.

Passion: Omnichannel

Ellison and his executive team recognized the ever-growing threat from e-commerce competitors and prioritized its omnichannel operations. Ellison noted, "I worry about everyone, and I worry about nobody. Because we have to focus on controlling what we control." About 11% of all JCPenney revenue was generated from e-commerce (Macy's and Kohl's generated 19% and 13% of their sales from e-commerce, respectively).[50] Mike Amend, EVP of omnichannel explained, "You often hear that what makes omnichannel so difficult is that it's so cross-functional in terms of execution. It touches stores, labor, planning, operational processes, finance, marketing, and supply chain." He continued, "I think being world class in omnichannel is when the digital enables things the physical store can't do on its own, and the physical enables things that digital can't do on its own." The company also recognized the importance of mobile, but still considered how to best leverage it. By 2016, over 50% of all jcpenney.com traffic originated from a mobile device. Described by Ellison as a "game changer" for JCPenney, the company planned to release a new mobile app in July 2016. Amend spearheaded the overhaul, integrating deals and other features so that the app could make applying coupons and rewards fast and easy for the customer. Additionally, the mobile app would automatically identify the closest store to the customer and provide quick access to store information. "Mobile is very important. We're attached to our phones. It takes a person two hours to notice when their wallet is missing, but only 60 seconds to notice when their phone is missing. We have to keep innovating in this area. For example, how can mobile reimagine and transform how customers shop or interact for customer service?" Amend added.

Beginning in 2015, brick-and-mortar stores were credited with online sales. Specifically, orders placed online were credited to stores within, or near, the customer's home zip code. Joe McFarland, EVP of stores, explained, "This incentivizes managers to view jcpenney.com as an extension of their inventory. Associates are motivated to 'save the sale' by offering to order out of stock merchandise."

JCPenney considered how to leverage its large physical footprint as a means to quickly transport goods to the customer, thus offering choice and convenience. Ellison explained, "I tell investors, the greatest perceived threat to the industry is e-commerce. But I ask those investors, when you think of the top e-commerce companies, what do you think they would do if they suddenly had 1,000 physical locations? Would they shut them all down, or spend time asking how to monetize 1,000 potential distribution points?" He stressed, however, "Our business model right now is not sustainable in the long run. But if it evolves from being cash-and-carry, brick-and-mortar shopping destinations to also being distribution points for e-commerce, then we have a viable business model."

Order online, pick up in store JCPenney was among the first retailers to offer a ship-to-any-store option for online orders. In 2016, it began rolling out same-day, in-store pick-up for online orders after a successful pilot with a four-hour guarantee if ordered by 3 p.m. By March 2016, the option was available at 250 stores, and 30%-40% of all online orders were picked up in stores. The company found that 40% of customers picking up an online order made an additional store purchase. "This is another way brick-and-mortar stays relevant," Ellison noted. "Some things will expand or shrink, but there will be a reason for physical stores as long as they're serving the customer." Risch added, "Someone picking an item in a fulfillment warehouse is generally cheaper than a store sales associate on the floor, but if by doing it in-store they don't have to spend time marking the item down two more times to get it to sell, the overall savings could be significant." The company aimed to roll out the service nationwide in July 2016, in time for the back-to-school shopping season. Though a few retailers such as Kohl's and Target already offered this option, Ellison noted, "This gives us great second-mover advantage and allows us to learn from others and do it better."

Ship from store JCPenney also experimented with using stores as primary distribution points for e-commerce orders, and aimed for same-day or next-day delivery in some regions. Risch noted, "Any retailer whose e-commerce business is expanding must deal with the cost of additional fulfillment center space and shipping. So how do we leverage the space we already have? The closer we can get the product to the customer, the lower the shipping cost. It also provides a better service because the customer is waiting one day instead of five." She continued, "If someone wants to order online, but we don't have it in stock in the warehouse, we can ship it from a store in order to make the sale." Amend commented, "This combination of what we're offering in retail is unique. Other retailers have a few of these options but not the full breadth. This will make us a robust fulfillment powerhouse." By 2017, JCPenney online orders of top-selling products would have a standard home delivery turnaround of two business days or less to over 95 percent of the U.S. population.

Best in the World: Private Label Merchandise

As of 2016, JCPenney had over 200 in-house designers and sourcing offices worldwide. Private and exclusive brands included The Original Arizona Jean Co., St. John's Bay, and Stafford, among others. "Some of our private brands are so well received that many people believe these are national brands," Ellison noted. Private brands, the management team asserted, helped JCPenney differentiate itself from "pure-play" online retailers such as Amazon that carried national brands at lower prices. "The best way to beat them is to offer something they don't sell," Ellison commented.

JCPenney stores also carried national brands, including Levi Strauss and Nike. Brynn Evanson, EVP of human resources, described the balance: "We need these national brands that the customer knows and is looking for. But if we offer too much national, it's hard for us to compete with major e-commerce retailers. Private label brands also allow us to enter white spaces, where we know there's a customer need that we can react to." Amend added, "As long as we make it simple for the customer, more choices matter to them." Private label goods earned higher margins than national offerings, and accounted for 50% of JCPenney sales. Management believed private label sales could grow to 70%.[51]

Boutique+ In 2016, after successful initial testing at a few stores, JCPenney planned to roll out Boutique+, a plus-sized clothing line designed, curated, and sourced by JCPenney in partnership with brand ambassador and fashion designer Ashley Nell Tipton from the television show *Project Runway*. The line offered fashion-oriented apparel for the customer segment that required a size 16w or larger. "This is one of the areas that differentiates us," Amend noted. "The plus-sized options in the marketplace for stylish clothing at a great value are limited. And when you find something that fits well, you're more loyal to that brand." JCPenney planned to roll out Boutique+ to 500 stores in May 2016 as part of a new plus-sized store-within-a-store concept, The Boutique, which would bring together plus sizes from other well-known brands in addition to the new line.

BELLE + SKY BELLE + SKY, a line piloted in fall 2015 and rolled out to 500 stores beginning in February 2016, aimed to compete with fast-fashion retailers such as H&M and Zara. JCPenney launched BELLE + SKY after Spanish fast-fashion chain Mango ended its five-year deal with the company in 2015 and closed 450 outlets in the U.S.[52] BELLE + SKY targeted millennial women and core customers shopping for their granddaughters and daughters. Fast fashion changed within the season, speeding up the lifecycle of products. U.S. retailers typically operated on a nine-month production cycle, while fast fashion required four months.[53] "Trends used to last longer. You could get away with products lasting two to three seasons. Now things come and vanish," Tighe noted. "This is where 1-1 marketing becomes important. If someone likes the brand, we need to make sure they know when we have new products. That's an opportunity to drive customer engagement."

Collection by Michael Strahan The Michael Strahan menswear line—a partnership with the eponymous former NFL player, sports analyst, and morning talk show host—launched in the fall of 2015, featuring men's suits, cufflinks, suspenders, and ties. After a successful test run, JCPenney expanded the line to 500 stores in spring 2016. The company also planned to release the men's athleisure (workout clothing worn in casual social settings) brand MSX by Michael Strahan in May 2016, featuring hooded sweatshirts, jogging pants, and t-shirts. A shoe line was planned for the fall.

Economic Engine: Increase Revenue per Customer

By 2016, JCPenney assessed that the number of its active shoppers (those who shopped at least once a year) had returned to the same level as it was in 2011 (87 million shoppers) when the company was earning $6 billion more in revenue per year. Management deduced that active shoppers visited the store less frequently or spent less per visit than they used to. Indeed, data suggested that the typical customer visited the store only four times a year—lower than competitors' average.

Alongside considering how to grow the customer base, management felt it was critical to find ways to generate more revenue from its existing customers. Some methods included better organizing merchandise within the store, for example, moving men's shoes next to men's suits, and other incrementally tested changes. Since coupons and price deals provided a "trigger" for many customers to visit a retailer in the first place, they also brainstormed ways to increase frequency through promotions. But many executives knew that price promotions could only get them so far. Items bought with coupons generated lower margins, and some customers might just come in to redeem a coupon, or buy an item on deep promotion, and leave.

To boost revenue per customer, the company conducted research on what else customers would consider purchasing from JCPenney that the retailer did not currently sell. As a result, JCPenney began to expand its online offering to include items not sold in stores, such as camping and exercise equipment. One area that emerged as particularly promising was that of major appliances. JCPenney did not currently sell major appliances, though "appliances" was the number-one failed searched term on jcpenney.com. One-third of JCPenney customers reportedly purchased appliances elsewhere in shopping malls, typically from Sears, the top retailer for appliances. "Women are often involved in appliance purchasing decisions, and prefer malls to other store formats," Tighe explained.

Yet over the last few years Sears seemed to have lost its sway with consumers, experiencing substantial sales declines and closing hundreds of stores. It was losing market share to low-end big-box retailers (such as Walmart) and competitors Kohl's and Macy's, which offered wider selections and greater discounts.[54] With the outlook for Sears looking bleak as it reported nearly $1.5 billion in losses for 2015, JCPenney management felt that appliance sales could be an opportunity to pounce on the reeling retailer and compete in traditionally strong categories for Sears. There was another reason for

JCPenney to consider this category. Its home area was struggling, and took up 20% of the store footprint. Tighe explained, "Dollars per square foot were decimated in our home store, so we figured appliances could be a great way to leverage unproductive space."

Appliances

In early 2016, the company decided to launch a 12-week, 22-store pilot offering appliances from General Electric (GE), LG, and Samsung in three markets: San Antonio, Texas; San Diego, California; and Tampa, Florida, with a different assortment in each store. "I know appliances well from Home Depot, but I don't know them at JCPenney. So we decided to test it out in three markets with three different marketing campaigns, have an outside firm look at the data, and assess the economic impact on the business. That's what we're doing for every major initiative," Ellison explained. "We used TV, newspaper, radio, and hung banners on the side of buildings. It's unclear what's best, but we've learned that having great sales associates is key," Tighe added.

Inventory was not held on-site, in order to minimize risk. Sample units were purchased to sit on the floor, and a third party would handle fulfillment with JCPenney acting like a showroom that received a cut of the sales. (See **Exhibit 5** for photos). The shift into appliances would also allow JCPenney to become less dependent on apparel, which was subject to weather fluctuations. During the mild winter of 2016 throughout most of the U.S., JCPenney (like its competitors) experienced low demand for winter clothing, and was forced to sell much of it on clearance.

By March 2016, early results from the pilot revealed that JCPenney was selling more appliances to customers who were either moving or planning to upgrade items such as refrigerators, than to customers seeking urgent replacements for broken items. More customers than expected (70% of which were female) opted for a $2,700 French-door refrigerator over a lower cost $800 model. The average transaction was $1,200, and 30% of customers signed up for the JCPenney credit card. An estimated 70% of appliance customers were existing customers, while 30% were new to J.C Penney. Going forward, the company would need to decide how much marketing support, and what kind, was required. Some within the company also wondered whether a rollout to 500 stores, as was currently planned, was too aggressive. While appliances would improve revenue per square foot in the home area, management expected it to have a negative impact on its 36% gross margins.

With the appliances initiative getting the green light, the company tested other home offerings such as Ashley Furniture, flooring by Empire Today, and an expanded window display. Ellison wondered whether it was wise to push into these categories and how much piloting was necessary. Management acknowledged the tradeoff between speed and testing. Tighe noted, "All you hear about in retail is speed. At some level, you can't be so gun shy that you have to test everything."

The Salon by InStyle and the Center Core

After sales commissions were eliminated entirely under Johnson, many stylists, along with their clientele, left JCPenney. By 2015, commissions were brought back to attract new stylists. That summer, through a partnership with *InStyle* magazine, JCPenney piloted a rebranding of hair salons in 15 stores as "The Salon by *InStyle*." Research showed that while a typical customer visited the store up to four times per year, salon customers visited their stylists up to eight times per year and spent twice as much in stores. Ellison reported, "Early data revealed that stores with a rebranded Salon by *InStyle*, and that received an improved physical footprint, saw an increase in sales." (See **Exhibit 6** for salon images.) He added, "We've also been able to recruit experienced stylists who feel more confident working for the *InStyle* brand. This can be another big differentiator for us, because as far as I know you still can't get a haircut online." JCPenney began a nationwide rebranding of its salons in 2016. Added Sherina

Smith, VP of loyalty, customer relationship management and multicultural marketing, "Salons are a differentiator for us, and can increase frequency of trips. We're also thinking about how we can have our stylists serve as brand ambassadors."

By 2016, over 500 JCPenney stores featured a Sephora cosmetics shop. That year, the company planned to add Sephora shops to 60 more locations. (Refer to **Exhibit 5**.) Sephora would also be a key part of JCPenney's new "center core" concept being gradually rolled out. The idea was to have a central location within the store where customers could expect to find products that complemented each other, including Sephora, footwear, jewelry, handbags, and accessories. The hope was that co-locating these in one area would drive more cross-buying behavior.

Loyalty Program

In spring 2016, JCPenney looked to test a new loyalty rewards program. Under the former program, customers complained that they could only earn up to 10 separate $10 rewards coupons per month, and the rewards expired within two months. Under the new program, rewards would not be capped, nor would they expire. JCPenney began by running two pilots. One tested earning flexibility, allowing customers to start earning rewards faster—$5 for every 100 points earned, instead of $10 for every 200 points (customers earned one point per dollar spent). The second pilot tested accelerated earning for "gold" and "platinum" customers (those spending $500 or $1,000 per year, respectively) who used a JCPenney credit card to make purchases. Gold customers would earn 1.25 points for every dollar, and platinum customers 1.5 points for every dollar. JCPenney planned to launch one rewards program in 2017 with features the customer responded to the best.

The company's loyalty program provided several benefits. It let JCPenney track consumer activity, such as the number of trips and amount spent per trip. With this rich data, JCPenney could better target customers with tailored offers based on their shopping behavior. Moreover, by offering more rewards points to cardholders, the company sought to encourage rewards shoppers to sign up for the JCPenney credit card. Research had shown that cardholders spent nearly three times as much as other customers and visited more frequently. Cardholder purchases resulted in more profit for JCPenney, because the company was not paying fees to another credit card company like Visa. Over the past two years, 85% of sales growth came from credit card customers, but compared to its retail peers, fewer JCPenney customers had a store credit card.[55]

Customer data gathered from the loyalty program coupled with digital media helped JCPenney direct relevant messages to customers in a 1-1 marketing approach. Amend explained, "We know where they shop, how frequently, and what they buy. If someone likes the Michael Strahan collection, we'll send that person relevant offers." JCPenney also planned to send customers coupons on their birthdays to increase engagement. Risch elaborated, "We can run two versions of a promotion to different customers, also called A/B testing. The data can tell us which promotions work and which ones don't." JCPenney was still learning how to leverage "big data" generated from customers. "We're in the process of redesigning our in-house data storage so that it can be more easily accessible," Risch continued. "Using technology to better organize the data enables us to use our data scientists for more analysis and decision making, instead of just data gathering. People think they know why things are happening, but sometimes the data tell you something different."

Customer Service and the In-Store Experience

Many general managers had a long tenure at JCPenney. Over 40 of them had been with the company for more than 40 years, and half for more than 20 years. "We have a great foundation of customer associates. They stay because they love the company," Evanson explained. Associate turnover excluding seasonal hires was 60% to 70% per year, in line with the industry average. General managers continued the "Warrior Spirit" grassroots initiative that began under Ullman, empowering associates to do whatever was necessary to serve customers. "I want associates and managers to come up with things on their own, and have fun with it. I want them to know it's not only okay, but encouraged. They know their local community better than we do," McFarland explained. Evanson added, "Our associates were on the front line during the Johnson era and were asked by customers 'Why aren't you doing coupons? What did you do with my product?' and they didn't have good answers." She concluded, "We realize we made changes customers didn't like and put our associates in a tough position. We needed the associates' help in getting customers back."

In 2016, JCPenney's Net Promoter Score (NPS), a tool used to gauge customer satisfaction and loyalty, was 21—ranking slightly above Walmart, but well below Target, T.J. Maxx, Kohl's, and several other competitors with scores close to 40 (see **Exhibit 7** for NPS scores in select industries). "To me it indicates that customers are not receiving the service that they would anticipate in our store," McFarland explained. He attributed this in part to manual processes that took up sales associates' time—moving merchandise, unloading trucks, taking pricing signs down, and putting new signs up—leaving less time for activities related to customer service. For example, one associate could spend 25 hours per week processing returns due to outdated systems and the manual work required. McFarland explained, "If we could deploy that extra associate in our men's suit department for 25 hours per week to interact with the customer, we could sell five more suits. Across 1,000 stores, that's 5,000 more suits sold each week if we improve one aspect of customer service." He found that 500,000 hours chain-wide could be shifted from inefficient processes to customer service. Approximately 40% of associate payroll was used on customer service, while 60% was dedicated towards various tasks. "We'd like to see those numbers reversed," McFarland said.

The company began experimenting with "retail theater," in-store events to attract and delight customers. In 2016, for example, stores were planning Easter egg hunts for kids. Ellison said, "It's an inexpensive form of entertainment, but an easy way to create attachment to JCPenney; you can't do this online." McFarland added, "Someone can always outdo you in a sale, or come up with better marketing. We look to differentiate experiences, rather than forming a connection just based on a sale. If we empower associates to make emotional connections, that's what customers remember."

JCPenney was also working to improve its point of sale (POS) system, as many registers, intended to last 7 to 8 years, were now over 10 years old. Older registers tended to freeze up mid-transaction, resulting in long lines and impacting the customer experience. "Right now our biggest focus is on core systems, such as POS," Risch explained. "This is an area that has been neglected."

In March 2016, JCPenney rolled out WORTH, a new customer service model, to all stores. Evanson explained, "WORTH stood for: Welcoming the customer, Offering assistance, Respecting her time, Thanking her, and Helping her. We want our customers to feel it's worth their time, money and effort to shop JCPenney." In April, all store managers planned to personally sit down with every associate to train them on the new model. McFarland explained, "We turned it into an interactive board game, designed to help associates handle real-life scenarios and customer service challenges."

New Market(ing) Approach

JCPenney had spent three years working hard to win back the core customers alienated under Johnson. By 2016, however, the company also felt it should turn its attention to an emerging customer it had identified, the Modern American Mom, or MAM. This sub-segment of millennials represented a multicultural woman in her early 30s with an average of two kids, who owned her home and was employed. (See **Exhibit 8** for customer profile data.) Sheeba Philip (HBS 2003), VP of marketing strategy and communications, explained, "This segment is rapidly growing. This emerging customer wants active wear, Sephora cosmetics, and wants to invest in her home. She's also very busy, and is more purpose-driven in the store, browsing much less than the traditional JCPenney customer. A lot of her income goes into her home, and she buys her kids' clothing."

As of 2016, according to a retail consultancy, the average JCPenney shopper was 49 years old—up from 46.6 in 2011.[56] About 60% to 65% of JCPenney customers were in their 60s and Caucasian, but as Philip explained, "With the MAM we are looking at where future buying power will be, versus where the current buying power is." Tighe added, "We are shifting attention to MAM not because we woke up one day and said 'Hey, that's a good idea,' or because we want that customer more. It's because that's where America is going." Smith noted, "The core customer is still our bread and butter, but we're looking into emerging customer segments, in particular the growth of the Hispanic population in the U.S." By 2050, Hispanics were expected to comprise 30% of the population, and African-Americans were projected to account for 15%.[57] Management considered how to target these emerging consumer segments without alienating core customers, especially with respect to private label merchandise. Smith continued, "For example, brighter colors resonate with the Hispanic population, as well as others. We're still trying to figure out what works." Amend added, "We deeply value our core customers that have been with us a long time, and we have to continue serving and being relevant for them. But there's a whole new audience of customers, and that's an opportunity for us."

The two segments consumed media differently, presenting challenges to the marketing team. "Social media used to be a re-articulation of our circular, but we've shifted now to more content relevant to the MAM," Smith explained. "The MAM consumer is very tech-savvy and uses social media, so how we think about digital marketing needs to be through her lens." The more mature customers spent less time online, though some were active on Facebook. "Instead we'll communicate with them via direct mail, television, or radio ads. One size does not fit all," Philip added. But she noted that, "Even if you're an older empty nester, you're still seeing what the younger moms are interested in on Facebook and Pinterest. It is conceivable that the MAM plays an aspirational role for our core customers." Tighe reflected, "It's tricky. We can't just market to those we already have. You need to welcome new customers in as well."

Get Your Penney's Worth

In January 2016, the company announced it was shifting its marketing efforts and opting out of sponsoring the Academy Awards in February, after 14 years of sponsorship. (Kohl's replaced JCPenney as the sponsor).[58] The decision resulted in significant marketing savings.[59] That year the company also discontinued its "When It Fits, You Feel It" marketing campaign. "It's not a bad message," Ellison said of the slogan, "but the problem is you can interpret that many different ways."[60] In February 2016, after months of market research, the company launched "Get Your Penney's Worth," a brand promise meant to communicate saving the customer more than just money by shopping at JCPenney. Mary Beth West, chief marketing officer, explained, "[Our customer] doesn't have the luxury of going to a store and walking out empty-handed. The definition of value to her has extended beyond price, quality and style—it's also about her time and her effort."[61] Smith explained, "'Get Your Penney's Worth' is simple, and is a beautiful way to connect our name to something people understand." Ellison added his take, "At the end of the day, if you're going to JCPenney you want value. That doesn't mean cheap, that means getting your money's worth. Your *Penney's* worth." (See **Exhibit 9** for ad campaign images.)

The research involved in building the brand promise included shopping trips with women who fit the MAM profile. Prior to store visits, many reported that they had initially thought of JCPenney as a cluttered, outdated brand, their mom's or grandma's store that they would not shop from. "When they got there, however, they were pleasantly surprised by the contemporary nature of goods, and could see themselves wearing our merchandise. If JCPenney can help her find things she loves more easily, innovatively, and consistently than anyone else, while delivering a great experience, we believe she will come back for more," Philip noted. Company research found that on a 5-point scale, the MAM rated JCPenney 1.8 on the way in, but 4.2 on the way out. (See **Exhibit 10** for survey questions.)

As part of the Get Your Penney's Worth campaign, stores hosted Penney Days—offering customers a complimentary private label item for one cent when purchasing another such item. "This gave people a way to experience our private brands at great value," Philip explained. The company planned to host additional Penney Days throughout the year, advertising on television, in circulars, and on social media using the hashtag #SoWorthIt, as well as Lucky Penney Days, offering private label t-shirts, towels, or other items for one cent, no additional purchase required.

"The retail space share of voice is cluttered. If you turn on the television during Mother's Day weekend, everyone is advertising 40% to 50% off perfume, gifts for her, and so on. It's a sea of sameness," Philip explained. "When we came up with our Penney Days promotion, we were thinking, how do we disrupt, or create more interesting marketing? We always did buy-one, get-one free promotions, but we felt this one would stand out because of the tongue-in-cheek element."

The retailer first launched Get Your Penney's Worth with a marketing campaign that was practical and centered on saving the customer time and money. In the next phase, however, management wished to add a more emotional component to connect with the customer as part of their overarching brand platform. "We feel that this idea of 'Worth' is broad enough to reach MAM, the Hispanic community, and our current core customer," Smith commented. But they needed to decide whom the ads should portray, what message to convey, and what media to use. "There's the history of James Cash Penney and his generosity in the community, an emotional element that isn't quite articulated yet as part of our brand. Another possible angle relates to JCPenney owning the advancement of the middle class, the idea of advocating for those who we believe are worth it, and that every dollar they spend should be worth it. That's a huge part of who we have traditionally been and which we could highlight more."

Smith explained, "As we move into 2017, we're trying to figure out how to balance performance marketing, with a promotional focus, versus brand equity marketing, which is about communicating a brand promise. Promotions can't be the only thing that we're talking about." Philip added, "When we look at our communications platform today, it's about promotions all year round. We need to shift and build the meaning and health of our brand, and showcase a brand that's relevant."

With respect to promotional activity, JCPenney had reverted back to pre-Johnson levels, using more coupons now than ever before by some accounts. "Johnson claimed there were 590 sales per year when he came in, and he eliminated almost all of them," Ellison explained. "I grew up in Tennessee—we call that going ditch to ditch. If you're on a path, you have two ditches, two extremes, on both sides. If you cut all promos, you're in one ditch. If you go back to 600, you're in another ditch. You have to avoid the ditches and be somewhere in the middle." He continued, "Make no mistake, we're still very promotional, but we're trying to find a balance." Tighe added, "A lot of struggling stores are getting desperate and reacting with more promotions. If you go down the list of players in our space, it's tough. We're all trying to get more business." JCPenney was still in the heavy promotions "ditch"—and Ellison and his team needed to decide on the best pricing strategy going forward. What level, and how deep, should promotions be? Furthermore, as was the case for many retailers, online customers were exposed to prices based on their detected home zip code, but these prices didn't always match nearby store prices. Management wondered if this practice made sense.

A Penney for Your Thoughts

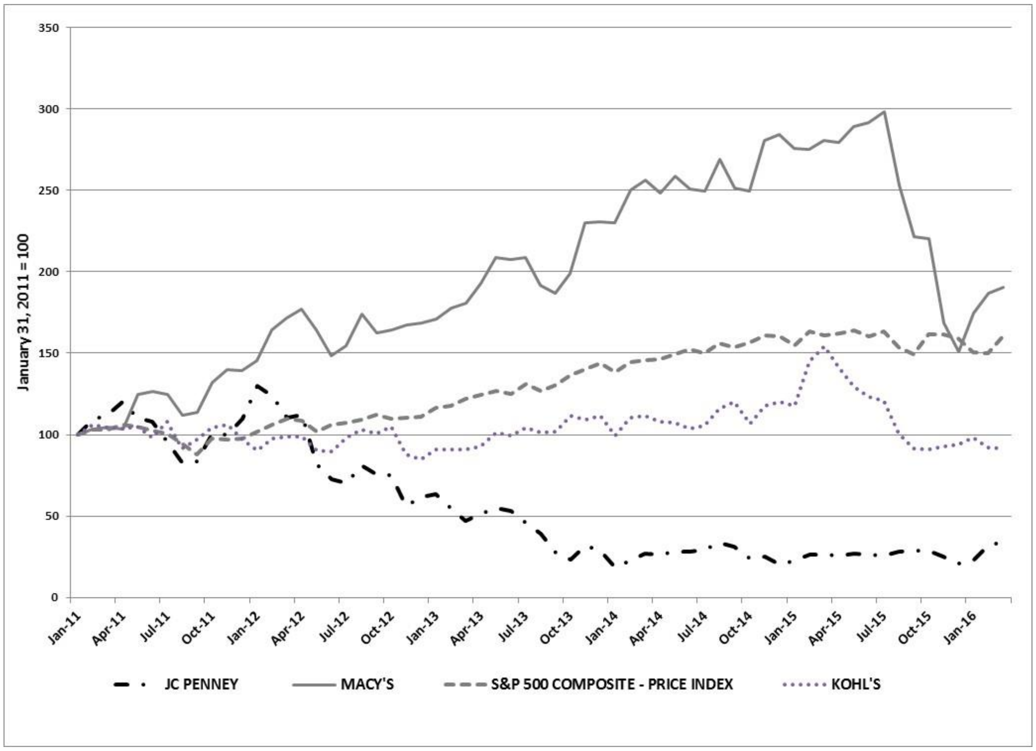
The management team was very confident in Ellison's leadership and in the organizational culture he had established since his arrival. Evanson explained, "Marvin is very authentic, humble, and has built a collaborative team atmosphere. He brings amazing clarity to the organization." McFarland expressed, "This executive team is very much aligned. We spend a lot of time in meetings together and we know what the other one is working on."

The change in corporate culture and clarity became evident to Ellison at the second off-site retreat held in March 2016, when he had once again asked his senior managers to identify the company's strategic objectives. This time, without hesitation, all team members were on the same page, identifying omnichannel, private label goods, and increasing revenue per customer as the company's top priorities. But Ellison knew that setting direction was only a prerequisite for success.

Achieving profitability remained a key milestone to reach for the company, but analysts and reporters kept asking Ellison when JCPenney would return to its glory days of nearly $20 billion in annual revenue. Yet Ellison cautioned, "A lot of times when you're looking so far down the road, I tell my team you can trip on the curb at your feet."[62] Early indications for Q1 2016 suggested top line revenue would be down for the first time in nine quarters, partially due to unseasonably warm temperatures at the end of 2015.[63] Ellison wondered whether this was just a bump in the road for the company, or an indication that the initiatives in place were not as effective as originally conceived. He knew that there was not much margin for error in picking which initiatives to implement. Resources were constrained as JCPenney was still in the process of paying back its debt, preventing the company from making significant capital investments. In 2016, the company planned to pay down between $400 and $500 million of its $4.8 billion debt, as it had in 2015.

In the near term, Ellison faced several tactical decisions. He wondered how best to market the new appliances business, and whether rolling it out at 500 stores was too aggressive. He considered how to best shift from heavy promotions to more emotional marketing. Specifically, what should the next phase of the Get Your Penney's Worth campaign entail? Yet he also paused to revisit broader long-term strategic issues. Was omnichannel truly a game changer for the company? Was it realistic to attract and capture the MAM audience, given her negative perceptions of the store? And would such targeting efforts interfere with trying to squeeze more revenues from core customers? Finally, how could JCPenney continue to compete with Kohl's and Macy's? Should he feel threatened by the decline in mall traffic and the rise of the Amazons of the world? Was the department store model dying? Exhausted, Ellison grabbed his Michael Strahan suit jacket and called it a night.

Exhibit 1 JCPenney Monthly Relative Stock Price Performance, January 2011-March 2016



Source: Thomson Reuters Datastream, accessed June 2016.

Note: Each stock's price as of January 31st indexed to 100.

Exhibit 2a JCPenney Stores, Number and Total Footprint, 2004 to 2015

	Number of Stores	Sq. Ft. of Real Estate (in millions)
2004	1,017	101.3
2005	1,019	101.4
2006	1,033	103.1
2007	1,067	106.6
2008	1,093	109.9
2009	1,108	111.7
2010	1,106	111.6
2011	1,102	111.2
2012	1,104	111.6
2013	1,094	110.6
2014	1,062	107.9
2015	1,021	104.7

Source: Company documents.

Note: As of 2016, 635 JCPenney stores were located in malls. That year there were 1,100 enclosed malls in the U.S.

Exhibit 2b Average Household Income of Shoppers; JCPenney and Kohl's Sales per Square Foot, 2006-2014

	Shoppers' average household income (2014)
JCPenney	**$63,412**
Target	$69,380
Kohl's	$69,736
Macy's	$75,274

	Sales per Square Foot (annual)			
	2006	2010	2014	% change
JCPenney	$250	$215	$155	-38%
Kohl's	$252	$231	$226	-10%

Source: Company documents; Tom DiChristopher, "1 in 3 American malls are doomed: Retail consultant Jan Kniffen,"*CNBC,* May 12, 2016, http://www.cnbc.com/2016/05/12/1-in-3-american-malls-are-doomed-retail-consultant-jan-kniffen.html; Phil Wahba, "The CEO Who's Reinventing JCPenney," *Fortune,* March 1, 2016, http://fortune.com/j-c-penney-reinvention/; Kohl's Fact Book Q3 2015, http://corporate.kohls.com/investors, accessed October 2016.

Exhibit 3a JCPenney Key Financials, in $ millions and %, 2006-2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Revenue	**19,903**	19,860	18,486	17,556	17,759	17,260	12,985	11,859	12,257	12,625
Growth Over Prior Year	*6.0%*	(0.2%)	(6.9%)	(5.0%)	1.2%	(2.8%)	(24.8%)	(8.7%)	3.4%	3.0%
Gross Profit	**7,825**	7,671	6,915	6,910	6,960	6,218	4,066	3,492	4,261	4,551
Margin (%)	*39.3%*	38.6%	37.4%	39.4%	39.2%	36.0%	31.3%	29.4%	34.8%	36.0%
EBITDA	**2,312**	2,305	1,615	1,175	1,347	996	(797)	(548)	324	622
Margin (%)	*11.6%*	11.6%	8.7%	6.7%	7.6%	5.8%	(6.1%)	(4.6%)	2.6%	4.9%
EBIT	**1,923**	1,879	1,146	680	836	478	(1,340)	(1,149)	(307)	6
Margin (%)	*9.7%*	9.5%	6.2%	3.9%	4.7%	2.8%	(10.3%)	(9.7%)	(2.5%)	0.0%
Earnings from Cont. Ops.	**1,134**	1,105	567	249	378	(152)	(985)	(1,278)	(717)	(513)
Margin (%)	*5.7%*	5.6%	3.1%	1.4%	2.1%	(0.9%)	(7.6%)	(10.8%)	(5.8%)	(4.1%)
Net Income	**1,153**	1,111	572	251	389	(152)	(985)	(1,278)	(717)	(513)
Margin (%)	*5.8%*	5.6%	3.1%	1.4%	2.2%	(0.9%)	(7.6%)	(10.8%)	(5.8%)	(4.1%)

Source: Capital IQ.

Exhibit 3b JCPenney Financial Condition and Liquidity, in $ millions, 2011-2015

	2011	2012	2013	2014	2015
Cash and cash equivalents	1,507	930	1,515	1,318	900
Merchandise inventory	2,916	2,341	2,935	2,652	2,721
Property and equipment, net	5,176	5,353	5,616	5,148	4,816
Total debt[1]	3,102	2,982	5,601	5,321	4,805
Stockholders' equity	4,010	3,171	3,087	1,914	1,309
Total capital	7,112	6,153	8,688	7,235	6,114
Maximum capacity under our credit agreement	1,250	1,750	1,850	1,850	2,350
Cash flow from operating activities	820	(10)	(1,814)	239	440
Free cash flow (non-GAAP)	23	(906)	(2,746)	57	131
Capital expenditures	634	810	951	252	320
Dividends paid	178	86	n/a	n/a	n/a
Ratios:					
Debt-to-total capital	43.6%	48.5%	64.5%	73.5%	78.6%
Cash-to-debt	48.6%	31.2%	27.0%	24.8%	18.7%

Source: JCPenney 2015 Annual Report; JCPenney 2013 Annual Report.

[1] Total debt includes long-term debt, net of unamortized debt issuance costs, including current maturities, capital leases, note payable and any borrowings under our revolving credit facility.

Exhibit 4 Financial Performance of Key Competitors, in $ millions and %, 2012-2015

	2012	2013	2014	2015
Kohl's				
Total Revenue	18,804	19,279	19,031	19,023
Operating Income	2,158	1,890	1,742	1,689
Gross Profit	7,190	6,990	6,944	6,925
Margin (%)	*38.2%*	*36.3%*	*36.5%*	*36.4%*
Store Count	1,146	1,158	1,162	1,164
Macy's				
Total Revenue	26,405	27,686	27,931	28,105
Operating Income	2,383	2,668	2,760	2,879
Gross Profit	10,667	11,148	11,206	11,242
Margin (%)	*40.4%*	*40.3%*	*40.1%*	*40.0%*
Store Count	841	840	775	870
Sears				
Total Revenue	41,567	39,854	36,188	31,198
Operating Income	(642)	(836)	(1,292)	(1,447)
Gross Profit	10,731	10,549	8,811	7,217
Margin (%)	*25.8%*	*26.5%*	*24.3%*	*23.1%*
Store Count	2,548	2,429	1,725	1,672
Target				
Total Revenue	69,865	73,301	71,279	72,618
Operating Income	5,365	5,777	4,879	4,613
Gross Profit	21,559	22,427	21,240	21,340
Margin (%)	*30.9%*	*30.6%*	*29.8%*	*29.4%*
Store Count	1,778	1,793	1,790	1,792
Walmart				
Total Revenue	446,509	468,651	476,294	485,651
Operating Income	26,491	27,725	26,872	27,396
Gross Profit	111,516	116,354	118,225	120,565
Margin (%)	*25.0%*	*24.8%*	*24.8%*	*24.8%*
Store Count (including International and Sam's Club locations)	9,766	10,408	10,942	11,453

Source: Compiled from Capital IQ and Company Annual Reports, 2012-2015.

Exhibit 5 JCPenney Store Images and New Product Lines

Appliances Showroom in San Antonio, Texas:

In-Store Sephora:

Collection by Michael Strahan Launch Party (Marvin Ellison, left, Michael Strahan, right):

Source: Company documents.

Exhibit 6 The Salon by InStyle

Source: Company documents.

Exhibit 7 Average Net Promoter Score (NPS) of Select Industries, 2015

Auto dealers: 40	Hotels: 29	Credit cards: 20
Computers and Tablet: 34	Major appliances: 29	Wireless carriers: 18
Supermarkets: 33	Parcel delivery services: 26	Health plans: 14
Investment firms: 32	Airlines: 26	Utilities: 12
Software: 31	Rental cars: 24	Internet service providers: 2
Insurance Carriers: 30	Fast food chains: 23	TV service providers: -1
Retailers: 30	Banks: 23	

NPS was introduced by Fred Reichheld in his 2003 *Harvard Business Review* article, "One Number You Need to Grow." It is calculated by asking customers "How likely is it that you would recommend our company/ product/service to a friend or colleague?" Those who respond with a 9 or 10 (on a 0 to 10 scale) are considered promoters, those who respond with a 7 or 8 are considered passives, and those who respond between 0 and 6 are considered detractors. NPS is then calculated by subtracting the percentage of detractors from the percentage of promoters. NPS scores ranged from as low as -100 (all detractors) to +100 (all promoters). Scores above 50 were considered excellent. Hundreds of Fortune 1000 companies used NPS to measure the loyalty of their customers.

Source: Compiled and adapted from *Q3 2015 Consumer Benchmark Survey*, Temkin Group, accessed August 2016.

Exhibit 8a Emerging Customer Profile, 2016

Who is the emerging "MAM" customer?

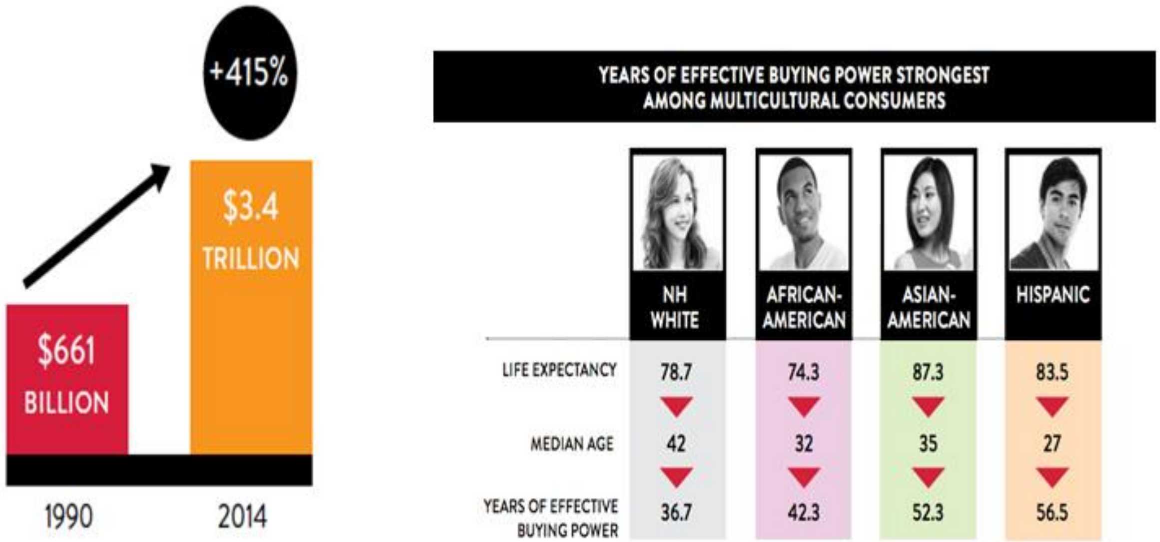
- She is younger, technology and social media connected, multicultural, with a $50,000-$125,000 income level.
- She believes that good quality and good value are not mutually exclusive.
- As a mother, she is a "multi-tasking maestro," likely waited longer to become a mother, and views motherhood as a powerful, universal experience.
- The management of the household, the family, and its resources is something she takes great pride in. In doing so she has become an expert in navigating through a sea of offerings and options to get what she wants and needs at the price she's willing to pay.

Additional relevant stats:

- 76% of adult women are on Facebook and show their support to a brand through social media.
- 92% of the U.S. population growth last year came from the multicultural customer.
- In 40% of American households today, the woman is the primary breadwinner.
- Pew Research Center and the U.S. Census Bureau reported that the median household income in 2014 was $72,919. Upper income households earned $173,207 or more, while lower income households earned $23,811 or less.
- In 2016, 48% of clothing and footwear shoppers research purchases online; 53% preferred to make in-store purchases.

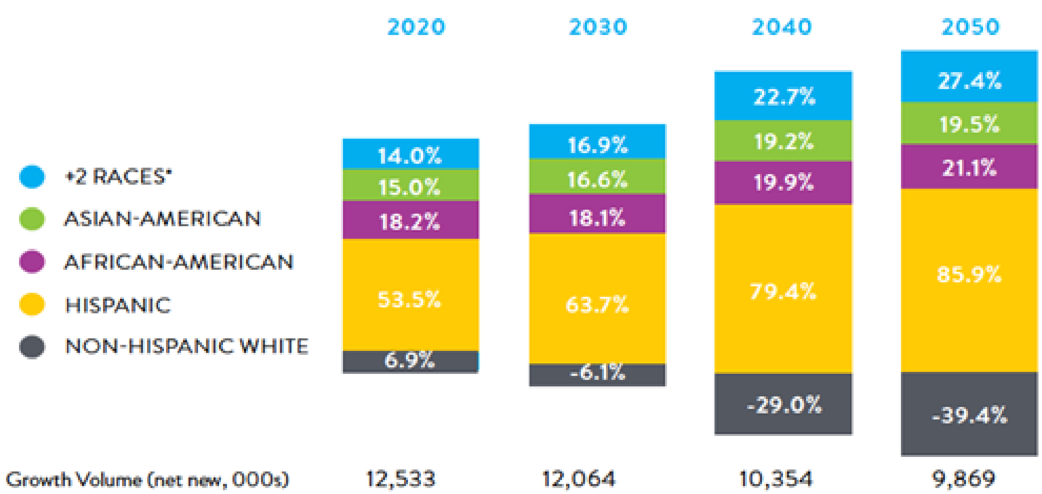
Source: Company documents.

Exhibit 8b U.S. Multicultural Buying Power, 1990 and 2014



Source: Company documents.

Exhibit 8c Expected U.S. Population Growth by Race and Ethnicity (as of 2012)



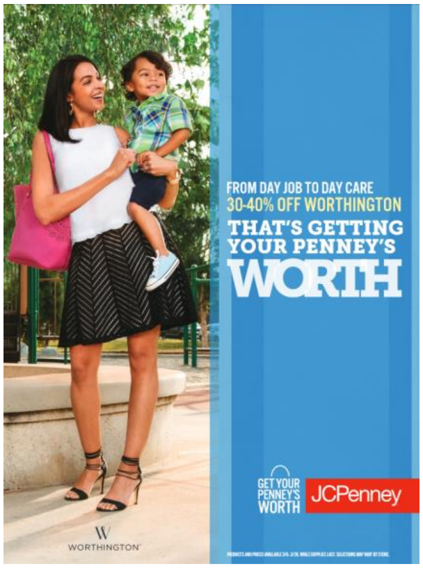
Source: Company documents.

Exhibit 8d Key Facts on Millennials

- Millennials were born between 1980 and 2000.
- By 2013, there were over 80 million millennials in the U.S.
- Millennials spent over $600 billion per year, in total.
- Many have careers, are raising kids, and live in their own homes.
- By 2020, their spending power was expected to grow to $1.4 trillion annually—30% of all retail sales in the U.S.

Source: Compiled from "Who Are the Millennial Shoppers? And What Do They Really Want?" © 2013 *Accenture*. All rights reserved. https://www.accenture.com/us-en/insight-outlook-who-are-millennial-shoppers-what-do-they-really-want-retail; "Median Income of U.S. Households in 1999 & 2014, by Income Tier (in 2013-2014 U.S. Dollars)," *Statista,* 2016; "Clothing and Footwear," *PwC,* http://www.pwc.com/gx/en/industries/retail-consumer/global-total-retail/retail-category-clothing.html; all accessed July 2016.

Exhibit 9 Get Your Penney's Worth Ad Campaign



Source: "JCPenney Emphasizes Customer Value with Launch of 'Get Your Penney's Worth'" JCPenney Press Release, February 25, 2016, http://www.jcpnewsroom.com/news-releases/2016/0225_emphasizes_customer_value_with_launch_of_get_your_penneys_worth.html, accessed July 2016.

Exhibit 10 Customer Survey Questions

Source	Measures/Questions
Overall	• Please rate your satisfaction with your overall experience at this JCPenney. (1 to 5 scale) • How likely are you to recommend JCPenney to a friend? (LTR* on a 0 to 10 scale)
W	• Were you greeted by an associate while shopping? (Yes/No) • Please rate your satisfaction with the friendliness of the associates. (1 to 5 scale)
O	• Were you offered assistance? (Yes/No) • Please rate your satisfaction with the associate's knowledge of products. (1 to 5 scale)
R	• Please rate your satisfaction with the ease of finding the products you wanted. (1 to 5 scale) • Please rate your satisfaction with your experience in the checkout line. (1 to 5 scale)
T	• Were you thanked by an associate during your visit? (Yes/No)
H	• Please rate your satisfaction with the overall value for the price you paid. (1 to 5 scale)
Other	• Did you experience a problem during your visit? (Yes/No) • Was it resolved to your satisfaction? (Yes/No) • Please provide any additional comments in the space provided below
Additional Questions to Consider	• Please rate your satisfaction with the availability of the size you wanted. (1 to 5 scale) • Please rate your satisfaction with the look and feel of the store. (1 to 5 scale) • Please rate your satisfaction with the quality of products. (1 to 5 scale) • How much do you agree that JCPenney is a store where you know you'll have a successful trip? (1 to 5 scale)

Source: Company documents.

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