A Strategic Analysis of J.C. Penney

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Executive Summary

JCPenney is one of the biggest retail chain stores in the nation with 865 locations in the US and Puerto Rico with specialization in apparel, jewelry, cosmetics, cookware, houseware products. JCPenney's mission strives to provide great customer service with high-quality products at affordable prices. Over the years, JCPenney has implemented changes that lead the company to become a leader in the retail industry, with sales in the billions mark and net earnings reaching the all-time high in the early 2000s. Although JCPenney was moving in a positive direction, the company sales have been struggling since the Great Recession of 2008. In recent years, JCPenney has been through various transformations that failed to improve the company financially. This paper will analyze the company's external, internal analysis, strategic alternatives, and recommendations for the department store.

The company operates in an environment characterized by high competition with are large brick and mortar retailers such as Macy's, Nordstrom, Kohls, Dillard's as well as many other online retailers. Even though competitors surround JCPenney, the company's unique competitive positioning offers customer value that online retailers lack. Brick and mortar retailers have relocated their resources to better fit new generations that predominantly shop through nontraditional methods. JCPenney situational analysis identifies the company has critical opportunities and threats through the rise of e-commerce.

An internal analysis of the company's financial status revealed that JCPenney had experienced financial difficulties in the past few years. As a result, JCPenney's current assets have been at an up and down decline along with current liabilities. Previous alternative strategies made a notable impact on the company's financial status and company development. The report will provide an analysis of the company's debt to equity ratio, quick ratio, and current ratio to further examine the company's financial status.

Opening small shops in urban neighborhoods, focusing on delivering a fast fashion model, and opening small direct-to-customer bedding and finery shop are strategies that can attract more affluent and loyal customers. These implementations could be alternative strategies that can revitalize the company and improve profitability. Aside from the alternative strategy mention, JCPenney needs to consider the company's past alternative strategies from previous management.

This report will explain in further detail the best solution we set aside for the company to solve its current financial status. For the company to prosper, we recommend JCPenney to get out of malls, focus its attention on innovative methods, and to leverage key features the company currently offers to keep the company from piling too much risk and debt.

Intro and history of J.C. Penney

Mission:

JCPenney has modified its mission statement throughout the years, but its fundamental belief has remained the same. Despite the evolution of mission statements, JCPenney has always focused on offering high-quality, low-cost products to consumers for their everyday needs. In 2019, JCPenney changed its mission statement purpose. It reflects on offering customers service satisfaction rather than business growth.

"To help customers find what they love for less time, money and effort" (JCPenney Company Info, 2019).

Values:

James Cash Penney founded JCPenney in 1902 in Kemmerer, Wyoming. JCPenney was formerly known as The Golden Rule store until 1913 (JCPenney Company Info, 2019). Although James Cash Penney changed the name of the company, its core values stayed the same. He founded and built his company on the Golden Rule-treating others the way you want to be treated (JCPenney Company Info, 2019).) Through the years, the company has preserved James Cash Penney's Golden Rule within its company culture. JCPenney current core values still reflect James Cash Penney's golden rule by stating:

> "JCPenney is a company built upon the Golden Rule – the concept of treating others the way we'd like to be treated – and we've operated in this spirit since our founding in

Kemmerer, Wyoming, over 110 years ago. Today, we continue to honor our heritage by offering a broad assortment of products from a leading portfolio of private, exclusive and national brands to our valued customers.

Our culture is fueled by the Warrior Spirit of approximately 95,000 associates across the globe. We believe the values of loyalty, passion, courage and service define who we are and how we serve our customer" (JCPenney Company Info, 2019).

Key strategic decisions that shaped the company

The End of Eckerd:

In the early years, JCPenney focused on expansion and diversification within the retail industry. Unfortunately, the company acquired businesses that did not align with the company's department store operation. In response, Former JCPenney CEO, Allen I. Questrom, made the strategic decision to repair this issue. For instance, in 2004, the company sold Eckerd drugstore chain, which had operated for eight years, citing did not correlate with JCPenney's core business, and the cost of operation was increasing (Hays, 2004). The company closed on the sale of its Eckerd drugstore operations and received approximately $4.7 billion in gross cash proceeds (Hays, 2004).

Introduction of Sephora:

Another key strategic decision that shaped the company was in 2006 when the company introduced "stores within a store" with the cosmetic store Sephora. (Rosario, 2017). The success of the exclusive partnership has revolutionized the company with 650 Sephora stores in 2017 (Rosario, 2017). The high-end make-up store has brought younger customers to JCPenney and help JCPenney survived through its rough times in retail.

Coupon-fair and square:

One critical strategic decision that shaped the company was the introduction of "fair and square" pricing in 2012. CEO Ron Johnson implemented this new sale tactic got rid of their stores of all discounts, sales, and coupons (Mourdoukoutas, 2013). Despite the heavy advisement and celebrity endorsements, this strategic decision was an epic fail as it took away the customers' reasons to be lured to the store. In 2013, after firing CEO Ron Johnson, the company was able to learn from its mistake and brought back its original pricing method.

The end of appliances:

In its plan to solve the issue of trying to serve too many consumers at once, JCPenney announced it would no longer sell appliances starting in February 2019 after former CEO Marvin Ellison brought back appliances (Thomas, 2019). The company reintroduce appliances back in 2016 in hopes of drawing back new consumers but failed to improve its financial performance. This decision will enable the company to regain its focus on its primary goods and services.

Current Strategic Decision:

JCPenney is currently facing the strategic decision of rebranding the store. CEO Jill Soltau has made many new improvements to the company since she took over in late 2018. She reduced JCPenney's "by 12.5% in the second quarter of 2019" (Wang, 2019). In November of 2019, CEO Jill Soltau announce JCPenney would reimage the store format after extensive customer research. The newly designed store will focus on five segments to match customers' lifestyles. (JCPenney News Release, 2019) The idea is to organize the store formant into five styling sections that go from everyday wear to special occasions.

JCPenney hopes turn things around by focusing on JCPenney clothing merchandise. But despite management's attempt to reboot the Company, JCPenney faces many challenges. JCPenney has piled on too much debt that has made the difficult to innovate. The company needs to act fast and strategic to gain back market share and avoid going bankrupt like former competitor Sears.

External Analysis

General environment:

JCPenney competes with many large brick and mortar retailers such as Macy's, Nordstrom, Kohls, Dillard's as well as many other online retailers. Many of JCPenney's competitors are repositioning their marketing strategies to focus on each company's competitive advantage while reducing overhead by moving towards online retail. JCPenney focuses its marketing campaign on offering a wide variety of premium products all under one roof. Macy's, Dillard's, and Nordstrom's all focus on catering to the same market segment that JCPenney's tries to capture. The consensus is that physical brick and mortar retailers are reallocating their resources the better fit new generations that predominantly shop through nontraditional methods. Online retailing is proving to be the most viable solution for brick and mortar stores to stay relevant in today's market. Brick and mortar retailers have shifted their presence from physical to digital in hopes of catching up to online retailers such as Amazon, eBay, Zappos, and others that have already captured a significant amount of the clothing merchandise market for Millennials and Gen Z's (Maloney, G 2019). The biggest take away from retail markets in 2019 is that consumers are finally in control and have options on where they want to spend their money on clothing.

JCPenney spent $225,916,838 in advertising efforts in 2018; in comparison, Macy's spent $325,882,128 in 2018 in their advertising budgets (Rebd.) Clothing retailers are willing to spend large amounts on advertising to continue to dominate their saturated markets. Macy's and JCPenney, both respected firms in their industry, are expected to reallocate their advertising budgets away from print media and re-emphasis their efforts on digital and search engine advertising. These companies are leading the retail industry's transition from brick and mortar to the online market space by reallocating their advertising budgets to persuade those market segments to purchase through their online marketplace.

Industry Analysis:

The brick and mortar industry are consistently removing more and more of their physical presence in the place of increasing online market share. Many brick and mortar stores similar to JCPenney's are closing their doors either due to losing profits in hopes to revitalize their brands in the online retail space or to file bankruptcy. Advertising departments among all clothing retailers are focusing their efforts towards digital advertising media instead of traditional print advertisements that many current customers are familiar with. Many retailers are repositioning their advertisements to target millennials and gen z generations to attract new customers to their brand. Each retailer is focusing on maintaining its current market position and increase market share while defending competitors (Peterson, H. 2019),.

Most industry giants rely on heavy advertising and word of mouth from existing brand loyalty to continue the growth of their business. This trend is going to be further ingrained in the industry as word of mouth marketing is the most effective marketing strategy though the most difficult to control. Many firms are going to try to control this campaign by incentivizing social media posts, prioritizing customer service and creating referral and customer loyalty programs to increase repeat business.

Competitive Positioning:

JCPenney is in a unique position to change the course of their company. JCPenney is a household name that is always considered and mentioned when going out to a mall when deciding on purchasing new clothes. Our competitive position is that we already have the recognition in our customers' frame of reference, we have established retail stores and an infrastructure capable of adapting to new positioning strategies.

When deciding on a place to purchase and try on new clothing options, many customers immediately think of JCPenney, Macy's, Belk, and a few others. Being considered among the mix of purchasing options gives us a unique position to further engrain our brand into our customers product mix. JCPenney has 865 retail store locations throughout the United States and Puerto Rico.

Our infrastructure is split between online and physical stores to provide us the maximum capability of allocating our resources to adapt any positioning plan. JCPenney is currently known for providing excellent service and quality products at an affordable price. We are competitively positioned to refocus our target market to Millennials and Gen Z's that may turn to alternative shopping solutions such as online retailing or stores marketed towards a younger audience.

Opportunities:

JCPenney could rebrand their shopping experience to focus more towards online retailing to reduce overhead and increase profit margins. One step in this direction would be to cut print media entirely and reallocate that $8,600,000 towards online advertising and other media outlets. $8,600,00 is roughly 4% of their total advertising budget and equivalent 8 times the amount spent on digital search advertising. This translates to JCPenney having the potential to completely change their brand image to something more appealing to a broader span of generations by leveraging their efforts towards targeted marketing strategies. JCPenney has the resources necessary to create warehouses "style" centers for customers to try on popular outfits and could replace their brick and mortar stores. JCPenney's most profitable seasons are back to school in August and Christmas shopping between November and December (Ladd, B. 2019). Capitalizing on additional advertising efforts during these times of the years

Threats:

JCPenney is threatened by competitors in brick and mortar stores as well as online retailers. Though brick and mortar stores have been around since the start of the retail industry, online retailers are forcing brick and mortar stores such as JCPenney to reconfigure their sales process and create new marketing tactics to attract customers. The company is overusing their resources by focusing on too many industries. JCPenney's current infrastructure could be spreading their departments resources too thin and not giving them the adequate resources to reach their goals. This is an internal threat that could be avoided by focusing on what they are known for and on the product lines that make them the most profit.

JCPenney has carved itself into a unique market position within the retailing segment. This could be considered a threat as it is quite difficult to rebrand a company that has over 100 years of brand placement within consumers brand mix. This could further instill their current brand image in their consumers' minds and make it more difficult to reposition in the future.

INTERNAL ANALYSIS

Financial Analysis:

JC Penney's has always been in the top chain of department stores to generate massive revenue, but in the past three years, the company took a financial downturn. Beginning in 2017, JC Penney's current assets which involve cash, short-term marketable securities, accounts receivable, inventories, and prepaid items these current assets have been at an up and down decline along with current liabilities which include accounts payable, salaries payable, unearned revenues, and notes payable. The current assets in 2017 sitting at $3.58B and current liabilities at $2.28B, you can conduct these two assets into a current ratio formula, which measures the level of liquidity that the company has, meaning that a company has sufficient liquid assets to cover its current obligations. The current ratio is the most useful equation in evaluating any companies' liquidity; this also tests the business's short-term solvency, its capability to pay its liabilities within the next year.

The current ratio formula is simply current assets divided by current liabilities, which in 2017 JC Penney's had a current ratio of $1.56 this ratio is would suggest efficient management of working capital. Any current ratio in the range of 1.5-2.0 is considered a good current ratio. Any current ratios of less than 1.0 would mean that the company has a difficult time meeting current obligations, and this indicates that the company has cash problems. Any current ratio is above the 2.0 mark would indicate there is too much working capital, and the company may not be using the current assets efficiently. We see in 2016 that JCPenney has a relatively low current ratio of 1.40, with their current assent being at $4.13B and the current liabilities being at $2.94B. This indicates with a low current ratio that JC Penney's seems to be having problems meeting its short- term obligations and may need to add additional capital to keep the business running.
In 2015 we can see that JCPenney has unusually high current ratio sitting at 2.01 with the current assets at $4.33B and the current liabilities at $2.16B this is the highest ratios that JCPenney has in the most recent years. We can indicate, according to this current ratio in 2015, that JC Penney's had poor management of current assets, this current ratio is the highest the company has had in the most recent years. This shows us that for every dollar of short-term creditors claims, JC Penney's has $2.01 to pay for these current obligations.

Another useful formula is the quick ratio AKA acid test ratio which measures the amount of quick assets available on the balance sheet to quickly generate revenue to payoff the current liabilities that the company has such as accounts payable, from its immediately accessible converted assets such as cash and accounts receivable. The quick ratio is a stricter test of liquidity than the current ratio that we used first in this paper; this formula is calculated by Current Assets (minus) Inventory / Current Liabilities. If a company has a high quick ratio that tells us that the company has a high degree of assurance that the current liabilities can be paid out of the current assets, and a low quick ratio tells us that the entity is depending on inventory turnover to pay its short-term liabilities.

The rule of thumb for a good quick ratio is 1:1, this means you have enough current assets to over your existing amount of debt. This ratio is a measure of short-term liquidity this is sometimes preferred over the current ratio when there is a large fluctuation in the inventory department. Having a higher quick ratio is much better than a low quick ratio because it shows you have excess cash on hand. In 2017, we can see that JCPenney has a relative high quick ratio at $0.43 with current assets – inventory at $1.05B and current liabilities at $2.42B; this indicates that JC Penney had a good amount of assets on hand and was able to cover their short-term debt they had. But in the previous year in 2016 JC Penney's had a quick ratio of 0.15 which is very low for this size of a company, with their current assets (minus) inventory at $0.44B and their current liabilities at $2.94 this indicates that JC Penney's could not pay its short-term debt without selling their inventory, the quick ratio must be over 1.0 which is the minimum target. In 2015 we saw the quick ratio at $0.78 with current assets (minus) inventory sitting at $1.68B, and the current liability at $2.16B this ratio is sitting at a comfortable ratio where the company can pay their debts with the excess of cash on hand.

The next ratio we can use for our financials for JC Penney's is the Debt to Equity ratio is a very important ratio it measures the portion of the whole total liabilities financed by outsiders in proportion to the part financed by total equity. Typically, most companies want to try and stay at a ratio of 1:1 or anything below that. The debt to equity is a gearing ratio, a financial ratio that compares the owners' equity or debt, or funds borrowed by company. The formula for this ratio is total liabilities / total equity, the lower the ratio means the less risk the company has, and more conservation of the finance structure that the company has. This ratio will help you figure out the potential investment is meeting that level of acceptable risk; A high ratio means that the company has been aggressive in financing its growth with short-term debt, a higher ratio than 1 mean that the company has more debt than equity, and a ratio less than 0.3 means you have less debt than equity.

Now we can see in 2017 JC Penney's they have a debt to equity ratio of $3.89 with the long term debt at $4.25B and the shareholders equity at $109B which means if any company has a ratio greater than 2.0 then this means that JCPenney's is borrowing a lot to finance operations. Now that we investigated the year 2016, we can see that JC Penney's have a debt to equity ratio of $3.57 with their long-term debt being at $4.68B and their shareholder equity $1.31B. This means that in 2016 that JC Penny's was borrowing a lot to finance operations again. As we move onto the next previous year in 2015, we can see that JC Penny's debt to equity ratio is $2.96 with their long-term debt sitting at $5.25B which is extremely high and their shareholder equity being at $1.78. This means again that JC Penny's was borrowing a lot to finance their operations once again.

Strategic Alternatives

Alternative A:

Regardless of strategic alternatives, JCPenney’s needs to get out of the mall space. Many malls, mall owners, and mall-based outlets are shuttering with the advent of Amazon and other large online retailers & sales platforms, which dominate site-to-home delivery convenience that modern consumers enjoy.

Strategic alternatives for JCPenney’s will require that the firm find a way to drop its debt. This could come in the form of liquidation of assets outside of a specific and targeted selection of products, namely what the business is already well known for fashion. Fashion can be fickle, but rather than buck that trend, JCPenney’s should lean into the fickle nature of fashion with a current trend called "fast-fashion", a disposable form of luxury apparel. Bought in limited lots and distributed evenly among all stores with no restocking, fast fashion promotes frequent, even weekly customer visits to experience the joy of discovering a new fashion item. Part of this type of fashion is that the garment isn't designed to last a long time and will wear out quickly. Which for the uninitiated seems like a value detriment, but the constant influx of clothes keeps the consumers of fast fashion happily spending on something new and unique. Repeat visits can also become habitual and grow customer loyalty.

This pivot will leverage JCPenney’s distribution chain infrastructure and reputation as a clothing outlet JCPenney’s allowing the firm to follow what Scott Galloway, lead professor of marketing at NYU Stern School of business calls "Sniper Retail". In which a firm focuses solely on delivering a specific product category and an excellent customer service experience to compete and disrupt large department stores. (Smith, R.)

Taken with the initial recommendation of leaving malls, JCPenney's could reduce a significant amount of debt, while keeping its distribution assets in place. Opening small shops in affluent urban neighborhoods and delivering on fast fashion could be the strategic alternative that revitalizes the brand. This move won't be without strife however, as JCPenney's will not need as many store-level employees, sales staff, and middle managers when refocusing on a single facet of their brand. It will also significantly increase the risk of failure if implementation in the fast-fashion space isn't handled properly. JCPenney's recent history has been one of the missteps so it would require a full commitment from staff, shareholders, c-level management, and the American public to believe that JCPenney's can turn itself around with a downscoping of offerings.

A second aspect to this strategy will take advantage of JCPenney's other major brand offering. In addition to the previous fast-fashion section this maneuver may serve to keep the firm from bleeding too much money, and piling on too much risk, while leveraging the same features that has kept the company moving even after the mess of the fair-and-square pricing issues. The other major brand that JCPenney's known for is bedding sheets, towels, and other household textile items. A quick look at JCPenney's home page, and specifically its 2019 Black Friday offerings is proof of this. (https://www.jcpenney.com/) Immediately after fashions is a selection of luxury performance sheets and high-performance bath towels. With the proposal of small shops already being considered JCPenney's can open small direct-to-customer bedding and finery shops distinct from the JCPenney’s fast-fashion model. Calling the other new shop "JCP Home" will communicate to consumers that it is distinct from JCPenney’s fashion. The new shop will be setup like a showroom floor for beds, and bedding, with selections of sheets, and towels available to purchase at the shop or for delivery to customer's home.

Making this second large tentpole to JCPenney's new strategy work will require the ability to be able to ship from distribution hubs direct to consumers, which will require a new aspect and set of core competencies for the business, but it does not need to be overnight. Many businesses will ship to hub, and use UPS, FedEx, or USPS to complete the delivery, a strategy that Amazon employs regularly for smaller items. The gradual movement into direct-to-customer will save JCPenney’s an upfront barrier to entry for this type of service, which could be wise if liquidation of assets and evacuation of malls doesn't yield enough spare capital to make the change immediately. Though if possible, it would save money in the long run to have all distribution together and satisfying customers immediately.

Alternative B:

Another alternative for JCPenney's is to follow a current trend in malls which aim to please the growing number of millionaires in the United States. This change will be less drastic as converting to small lot, quick run fashion, or competing with Bed, Bath & Beyond in the domain of household textiles and furniture dressings but will require a large shedding of inventory. By pivoting toward a luxury mall experience in select areas of wealth, and focusing on outstanding customer service, JCPenney can fully leverage everything on its business-facing side of operations. Supply chain distribution would not need a major overhaul, management also would need little restructuring. It will still be a costly initial endeavor as liquidation of JCPenney's bloated inventory, and closure of middle-class mall offerings may need to occur, which could harm the brand's reputation. The risk of transitioning to a luxury brand will be high, as a failure to capture the attention of a smaller clientele pool may not offset their deeper pockets. The change to a luxury brand might allow JCPenney's to drill down and focus on a particular type of customer, which is in line with the successful brick-and-mortar model that Scott Galloway calls "Sniper Retail". The potential risks to this strategic alternative is customer buy-in, failure to commit to customer service being the new brand, and sub-par online offerings. This is not an either/or option, both strategic alternatives will require a strong online presence to turn things around for JCPenney's. More and more of the buying public are doing their window shopping on wide offerings platforms such as Amazon, or targeted platforms such as Zappos shoes. For JCPenney's to move into either a split fast fashion & home textiles small shop model or attempt to stay the course with malls and begin targeting the American upper classes doesn't matter. Each will require a very robust and easy to navigate web presence to compete in the area of cyber shopping. Thankfully JCPenney's already has a fairly good website available to it. The UI & UX are at an acceptable level of responsiveness, with many options and filters that a customer can find exactly what they are looking for. The presentation is a bit too crowded, and while a range of prices is nice, an improvement can be made by having a responsive pricing display that dynamically adjusts as a customer browses for different fabrics, or styles. The site seems that is have a level of scalability, so this issue can be addressed with a good team of front-end developers. Once these issues are seen to, with a new front end deployed, JCPenney's customer resource management team will need to get the word out that their site is the best for whichever target market the company chooses to focus on, because if customers don't know of the site's existence, they are unlikely to seek it out.

Recommendations

JCPenney's first step towards emerging into an industry leader again is relocating physical locations in malls into standalone department stores and increase their online presence. Reducing the number of mall locations in half would give the company the opportunity to rebrand as an online retailer with a physical presence, instead of a physical store with an online presence. Implementing this strategy will greatly reduce overhead costs as those costs will move towards warehousing cost instead of store costs. After decreasing the number of stores and reallocating those funds towards marketing, and communications of the projected goals of the business JCPenney's will then have the ability to transform their store image into something more marketable to upcoming generations.

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