



J.C. PENNEY BANKS ON HOME IN TURNAROUND

By David Moin

FEBRUARY 26, 2013

At J.C. Penney Inc., home is where the heart is, at least in the coming weeks.

The company remains in turbulence but is banking on the home market as a key area to help it pull through. Forty shops-in-shop across home and apparel will have been set on the selling floors in hundreds of stores by holiday 2013, with the home floor emerging as the top priority for the first half of 2013 and moving forward despite the legal battle with Macy's over selling Martha Stewart products seen lasting through much of March.

Initial rollout for new 15,000-square-foot furniture departments will be in more than 200 stores in May. Efforts in home seem to have delayed some women's fashion shops, though Joe Fresh is on schedule for the mid-March rollout in 683 locations, and Pearl by Georgina Chapman of Marchesa and L'amour Nanette Lepore already opened their shops on schedule.

"Home is going to be there first. Everyone else falls into the line," said one supplier to Penney's who requested anonymity.

"Our tongues are hanging out to get our boutiques. We are behind schedule," acknowledged Bud Konheim, president and ceo of Nicole Miller, which designs the Nicole by Nicole Miller line sold exclusively for Penney's and waiting to be presented in a shop concept. "But we are in line. We endorse what Ron Johnson is doing."

Konheim said Nicole by Nicole Miller shops are slated for at least 600 Penney's stores. "We thought we would start building them in 2013. It may be the end of this year or 2014. Every plan is subject to change, we are just hoping to get the project going faster. Home is more on schedule. He [Johnson] could be lucky because the home market is coming back. Housing is rebounding."

At the Dallas prototype in the Valley View mall, said one visitor, "Home has been built out. Jonathan Adler designed the furniture to a large extent. It's great looking. It's clean and it doesn't look like a chain store. There's a room of mattresses. The lights go out when you jump on a mattress to simulate sleeping in the dark. It's a gimmick but it's clever."

Terence Conran, Bodum and Michael Graves are also providing home products, and there will be cooking and kitchen appliance demos, reflecting the philosophy of Ron Johnson, Penney's chairman and chief

executive officer, of making the store experiential, not unlike what he did at Apple, where he was previously employed orchestrating Apple retail. At Penney's, certain categories will be added, like floor care and home organization, and a large portion of the marketing dollars this year will be spent on "the world's largest housewarming party" campaign.

Penney's progress on merchandise and personnel fronts, as it continues its unprecedented reinvention, could be obscured by its year-end results, to be reported Wednesday and expected to be dire. Analysts forecast a 27 to 30 percent sales decline for the quarter, and total sales for the year to come under \$13 billion, roughly a \$4 billion decline from 2011. The descent could continue through the first half of 2013, though some analysts and Penney's officials see the second half as slightly up.

Questions loom over Penney's cash position at year-end which at one time was projected at \$1 billion and could be significantly less. But Penney's just increased its borrowing capacity, providing greater liquidity to fund its transformation and build in-store shops, reflecting confidence banks still have in the business. There's also been speculation around selling off assets such as stores, a sale-leaseback of the Plano, Tex. headquarters, and ongoing layoffs. Penney's declined to comment on the speculation.

The court case with Macy's is yet another big distraction, putting Penney's Martha Stewart presentation in limbo, but not entirely. Party products bearing the Martha Celebrations label will appear this spring. Celebrations is described by sources as "an elevated Party City collection." The core Martha-designed products, including sheets and towels, for this spring will have the Everyday label instead of the Martha Stewart label, due to the lawsuit.

The main tenets of the year-old reinvention of the 110-year-old Penney's — upgrading the merchandise and shopping experience to draw younger, higher-spending audiences with such lines as Adler, Nanette Lepore, Pearl, as well as Cosabella Amore lingerie, simplifying the pricing to be "fair and square," and converting selling floors to 100 shops-in-shop — remain intact. Johnson continues to pinch, pull and adjust tactics, though. Originally he required vendors to use Penney's-specified "base shop kit of parts" including wall systems, utilities, fixturing and staffing to create shops for the home and apparel floors. That plan has been scrapped in favor of a more designed and customized approach so the selling floors won't look so generic and brands can project their own personalities. "He's really giving brands their own shops. It wasn't branded enough. Coming up with a more of a hard shop concept will be more impactful," said one supplier.

Store exteriors and advertisements have the "jcp" logo, for an updated image. It's carried through inside where signs are more prominent to play up the key shops that Penney's has installed in the last few seasons, such as Izod, Levi's, MNG by Mango and Liz Claiborne, where the merchandise looks the freshest. The company is building in-store shops at a colossal pace and continues to woo designers and brands to the matrix but with mixed success.

Sources also said that outsourcing is on the rise to cut costs, reduce staff and take some new approaches in such areas as IT and planning. Oracle and SAP have been brought in, among other outside firms and consultants.

It's not all about cutbacks. Johnson has been aggressively recruiting from retailers considered cool or hip, like Apple and Abercrombie & Fitch, as well as Restoration Hardware and American Eagle. From Abercrombie, Johnson tapped Eric Cerny, vice president of investor relations; Brandon Tonniges, director of visual merchandising, and Bryan Wright, divisional vice president of finance.

Heidi Robinson, formerly with Restoration Hardware, became divisional merchandise manager in furniture, and Brian Robinson, formerly Target's director of designer partnerships, joined about a year

ago as vice president of collaborations.

Many of the recent recruits at one time or another worked with either Johnson or Michael Kramer, the chief operating officer, observed Jaimee Marshall, senior vice president of Kirk Palmer Associates executive search. “They come from interesting specialty store backgrounds,” Marshall said.

After bombing with its original pricing scheme, which was convoluted and eliminated coupons, Penney’s last month introduced a new value message by tagging much of the merchandise with the actual price and a manufacturer’s suggested retail price, for comparison. For example, Van Heusen short-sleeve polo and sport shirts are priced at \$25 and list a manufacturer’s suggested retail price of \$50. Currently, there’s little clearance or sale merchandise, though sales exist, like a Gold Toe national sale at 25 percent off, or \$5 off Arizona products.

“The promotional activity recently instituted has helped generate more traffic,” retail analyst Walter Loeb said. “But the board has to act more incisively. You don’t see any action from the board. They should look at whether the plan to have 100 boutiques is feasible or profitable for the company. They should look at [if] the loss of \$4.2 billion in revenues [expected to be reported] is something the company can recover from. The company is being hurt by the lack of sales momentum and customer loss to competitors. Macy’s keeps pounding away with sales.”

Still, Loeb and other analysts agree that Penney’s stores this season are looking cleaner, less suffocated by merchandise and with fewer racks, though traffic seems relatively anemic and Macy’s and other retailers keep staging sales. “Penney’s products are slowing improving,” observed Craig Johnson, president of Customer Growth Partners. “The product on the women’s side is clearly improved, whether it’s Liz Claiborne, Worthington or Nanette Lepore. There’s some color and pep that connote newness. It’s not as dowdy. Men’s is still weak but getting