HIRE, FIRE, RE-HIRE: THE CASE OF J.C. PENNEY’S DECISION TO FIRE CEO, RON JOHNSON

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ABSTRACT

When J.C. Penney sought to hire Johnson, they wanted him to transform their customers’ shopping experience. However, Ron Johnson’s turbulent seventeen months at J.C. Penney did not end well. During that time he managed to estrange loyal customers and drive them into the open arms of their competition. After acting as CEO for only seven months, he turned in the worst quarter results ever seen by a large retail store. Johnson’s attempts at value pricing and re-branding failed miserably. These results drove the company to fire Ron Johnson. Since retail stores have very small profit margins, the decision to fire Johnson had to be made quickly to avoid bankruptcy. The board of directors decided that Ullman would be the best interim CEO for the company since he knew both the customers and the company. Two things that Ullman did after being hired were to bring back the in house brands and to reinstate coupons. These strategies helped to win back the J.C. Penney loyal customer base, stabilize the company, and to halt their plummeting profits.

KEYWORDS: Retail, Marketing, Merchandising, Pricing, Managerial Decision Making

INTRODUCTION

J.C. Penney is one of the nation's largest retail chains operating since 1902. They focus on apparel and home furnishings amongst competitors such as Macys, Walmart and Kohls. J.C. In order to compete J. C. Penney decided to focus on the customer’s shopping experience. They opened new lifestyle center and closed underperforming stores. Despite these efforts, Penney was losing the attention of its customers and market shares for decades to other retailers, particularly when compared to rival Macy's (Fontevecchia, 2013). As a result, from 2003 to 2011, JC Penney’s sales dropped 45 percent from $32.3 billion to $17.8 billion (Petro, 2013).
In November 2011, J.C. Penney decided to hire former Apple and Target executive, Ron Johnson, in an effort to revive the image and brand of 110 year-old company. Mr. Johnson did his undergraduate studies in Economics at Stanford and then proceeded to work on his MBA from Harvard. Mr. Johnson worked as the senior vice president for retail at Apple for 11 years before he was hired at Target. At Target he was the merchandising executive where his responsibility included men's apparel, women's apparel, accessories, children's and home. During his tenure at Target he is also credited for introducing the design initiative.

SWOT analysis is a widely used technique through which decision makers create an overview of a company’s strategic situation. The technique is based on the assumption that an effective strategy derives from a sound alignment between an organization internal resources (strengths and weaknesses) and its external factors (opportunities and threats). A good decision maximizes an organization's strengths and opportunities and minimizes its weakness and threats. If the SWOT analysis is effectively applied it has great implications for the design of an effective business strategy and a well thought out business decision. See (FIGURE 1).

**Figure 1: SWOT Analysis of J.C. Penney’s Decision to Fire CEO Ron Johnson**

**Strengths:**
1. Long history
2. Brand recognition
3. Locations nationwide

**Weaknesses:**
1. Failed at Black Friday sales compared to competitors
2. Lack of coupons
3. Financial distress
4. Struggled to communicate change

**Opportunities:**
1. New publicity
2. Online sales
3. Brand variety

**Threats:**
1. Increasing competition in industry
2. Struggling against Macy’s and Khol’s
3. Restructuring led to financial hardship
4. Growth of online retail

In an effort to transform the J.C. Penney brand and increase profitability, J.C. Penney’s board of directors decided Mr. Johnson would be the best fit to focus on achieving its objective of becoming, “America's most exciting place to shop” (Tuttle, 2013). Unfortunately, Johnson’s reign as J.C. Penney’s CEO was short lived because on April 9, 2013 the former JCP CEO Mike Ullman was appointed by the Board of Directors as his replacement.

PROBLEM IDENTIFICATION

The purpose to have hired Johnson as the CEO of the J.C. Penney brand was to transform the customer’s shopping experience and entice them with everyday low prices rather than keep having special sales even if the chain had long been known for being that kind of retailer (Schaefer, 2013). Johnson believed that his theory of becoming modernized would bring J.C. Penney back from the dowdiest dinosaurs in American retail era and instead he failed miserably (Tuttle, 2013).

Johnson’s first terrible mistake was to attempt to reinvent the J.C. Penney brand. He wanted to convert J.C. Penney into something new and he started making several problematic changes. J.C. Penney had its own style and customers liked it. Johnson misread what shoppers wanted and introduced low prices replacing them with inflated prices used in the past, which with discounts, seemed tempting to customers. His experience with working with other companies such as apple led him to think this technique would be a gold mine if applied to the J.C. Penney brand; he never realized that what customers really want is to know they are getting good deals and feel like they are winning. This mistake led J.C. Penney to the start of the collapse.

Researchers believe that the reason why Johnson could not understand what shoppers wanted was because he would never test his ideas in advance. As the CEO, it was his duty to have an understanding of what would make J.C. Penney’s long term customers happy such us keep using coupons, have discounted prices or clearance sections. He did not have the experience with the brand. When someone from the team asked to have this new pricing change tested first, Johnson’s response was that they did not do tests at Apple so why should they, resulting in jeopardizing long stand customers once again (Tuttle, 2013). Unfortunately, all of Johnson’s attempts kept failing one after another. J.C. Penney’s most
valued and loyal customers started to feel like they were not the target market and slowly stopped shopping at the stores.

At this point Ron Johnson still could not understand what he needed to do in order to keep loyal customers happy and at the same time bring over innovation and new shoppers. He had a different perspective of the J.C. Penney brand. He had a total different idea of what he wanted the stores to feel like to customers. Johnson insisted in using Apple’s stores techniques and intended to have J.C. Penney as everyone’s place to hang-out the way Apple stores makes customers feel. He wanted to give it a feel of being “America’s favorite place to shop.” (Tuttle, 2013).

Unfortunately for Ron Johnson the J.C. Penney brand has always had its own culture and it was raised that way for years. Hiring a new CEO would have had to be a new starting point but not to the extreme of making it a new brand with new concepts of pricing without incentives. From a point of view from a customer’s perspective, Johnson’s decision was disrespectful towards J.C. Penney and its customers.

As a result, JCP stock went down more than 50%. According to the graph in Bloomberg Business (see figure 2), sales started to drop dramatically and the stock price went from $34 in 2011 to $14 in 2013. This slide of the J. C. Penney stock led Ron Johnson being fired. In that same year the company reported a net loss of $985 million, or $4.49 per share (Castaldo, 2013). After such disaster, the most evident solution and goal was to fire Ron Johnson and replace him with another CEO.

Figure 2: J.C. Penney stock price change from 2011 to 2013
ALTERNATIVES AND CONSEQUENCES

When making an important decision such as the one J.C. Penney was faced with it is best to create an alternative list and weigh out each decision. In this step there will not be any considerations just brainstorming possible alternative to better the situation. The management team needs to determine how each alternative will contribute to helping J.C. Penney or foresee any consequence which may occur. After researching, there were several alternatives discovered that J.C. Penney assumed could help save the company.

The first and most important alternative would be to release the current CEO Ron Johnson of his role with J.C. Penney. Even though Ron Johnson had been in his position for such a short time this is an alternative the company needed to consider. Relieving Mr. Johnson from his role will not only start helping the company bounce back from downfall but, it will mollify some increasingly impatient investors and tamp down discontent among some within the company (Lublin and Mattioli, 2013).

A second alternative J.C. Penney could take into consideration would be to hire a new CEO (Lublin and Mattioli, 2013). The Wall Street Journal explains, how CEOs from other retail chains said they would not take on the challenge of the job due to size of the company’s issues and constraints on its cash (2013). This shows how difficult it would be to hire a new CEO to come and save the failing company.

The final alternative found was to rehire the ex-CEO Myron (Mike) Ullman (Lublin and Mattioli, 2013). J.C. Penney management team needed to take Mr. Ullman return seriously and even needed to decide if this was correct path. Some questions the company needed to ask themselves: What kind of position would Mr. Ullman have on the board? Would J.C. Penney rehire Mr. Ullman permanently or as a temporally replacement? Would Mr. Ullman have a contract or be salary employee? (Linton, 2013). Rehiring Mr. Ullman would benefit the company since he has previous experience in this position and no new applicants were coming forward (Berkowitz, 2013). There were members of the board who saw Mr. Ullman’s return as a consequence. The major consequence J.C. Penney could face by rehiring Mr. Ullman was brought to the attention of the company “when Ullman was running the business between 2004 and 2011, the company under-performed several competitors, including Kohls and Target, although there were some bright spots” (Toscano, 2013). This is an issue the management team needed to focus on since they initially did release Mr. Ullman for a reason.
IMPLEMENTATION

Mike Ullman was rehired to head J. C. Penney. It was a very challenging task for Ullman to bring back J.C. Penney to its previous position. The company had already lost more than half of the market value and J.C. Penney owed payments to vendors. Meanwhile, the company’s competitors, Macy’s and Kohl’s, were taking advantage of this situation by offering great deals and discounted items to attract the customers that J.C. Penney was losing. To fight back this competition, Ullman worked on bringing back promotions to bring back the loyal customer base that the company had lost. He worked on advertising campaigns in an effort to change the image that Johnson had created so that people can come back and enjoy the savings that they did before Johnson. Ullman’s efforts were showing some progress. There were improvements in the second quarter, even though they were appalling compared to the previous years. The company started showing improvements from month to month. “July sales were up over 14% compared to July of last year, a remarkable improvement” (Green, 2013).

FOLLOW-UP

In an organization, in order to achieve an objective, it is imperative to have the support and assistance of employees that were not involved in the decision making process. The goal is for decision makers to reach optimal solutions; however, “we are generally unable to execute the rational process to its full extent” (Williams, 2002, p.18). This is due to many reasons, chiefly among them is that oftentimes we settle on a decision that is sufficient, rather than striving for the best outcome possible. When J.C. Penney decided to fire Ron Johnson and to bring Mike Ullman back to serve as interim CEO, they realized that although this decision wasn’t the best outcome possible, it was one that they thought could help to stabilize the company during their time of crisis.

Ron Johnson brought about a $985 million annual loss for J.C. Penney due to his desire to rebrand the company (Tichy, 2014). In fact, Johnson decided to pull the in-house brands that the company was known for in order to make room for his hip new merchandise. These in house brands made up 50% of J.C. Penney’s sales (Whaba, 2014). When James Cash Penney started his store in 1902, he became frustrated that merchants were not selling their products to him and he decided to start making his own brands. In 1914 he debuted his own line with the Marathon Man hat and today some of the in house brands are Arizona Jeans and St. John’s Bay Clothing. When Johnson pulled these brands from the stores, he
pulled customers away from the company’s registers. Mike Ullman won back these former J.C. Penney customers by bringing back those in house brands. This served to stabilize the company so that they stopped hemorrhaging such massive losses each quarter. Allen Questro, the former J.C. Penney CEO, stated that “Ullman knows the company, knows the people” and he is the “best choice right now” for the company (Wapner, 2013).

CONCLUSION

J.C. Penney hired Ron Johnson because they wanted him to transform their customers’ shopping experience. However, Ron Johnson’s turbulent seventeen months at J.C. Penney did not end well. During that time he managed to estrange loyal customers and drive them into the open arms of their competition. After acting as CEO for only seven months, he turned in the worst quarter results ever seen by a large retail store. Johnson’s attempts at value pricing and re-branding failed miserably. These results drove the company to fire Ron Johnson. After looking at several alternatives, the board of directors decided that Mike Ullman, the former CEO, would be the best interim CEO for the company since he knew both the customers and the company. Two things that Ullman did after being hired were to bring back the in house brands and to reinstate coupons. These strategies helped to win back the J.C. Penney loyal customer base, stabilize the company, and to halt their plummeting profits.

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