

# **J. C. PENNEY AND RON JOHNSON: A CASE OF FAILED LEADERSHIP: LESSONS TO BE LEARNED**

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## **CASE DESCRIPTION**

*Leadership is the primary subject matter of the case. Secondary issues that may also be examined are corporate culture and the marketing mix of product, price, place and promotion. The difficulty level of this case is a three. It would be appropriate for junior, senior and graduate students. The case may be taught in as little as one hour or could easily be expanded into two hours. Students should be required to spend a minimum of at least 3 hours outside of class to prepare for the case.*

## **CASE SYNOPSIS**

*The business story dominating the airways from late 2011 through 2013 revolved around the company J. C. Penney and the much anticipated arrival of their new CEO Ron Johnson, his new vision for the company, and then the subsequent failure of that vision. It is an amazing tale of how things can go from "boom" to "bust" in such a short period of time. It is destined to become a classic case of failed leadership that management students will study for years to come. Early on during Ron Johnson's reign, there was tremendous excitement among the financial community, the shareholders, and even the company itself. How all that turned so quickly sour and ended in his dismissal 18 short months later provides for multiple lessons in leadership.*

## **A BRIEF BACKGROUND OF J. C. PENNEY'S HISTORY**

J. C. Penney has a long history going back to its beginning in 1902 with a single store in a small Wyoming town. By the 21st Century, it had truly become an American icon and a dominant force in the retail business. By 2011 the company had over 1,100 stores, \$17+ billion in sales, and 160,000 employees (JCPenney, 2011), (Steffy, 2013).

Mr. Penney's stores were founded on "The Golden Rule" and as such it was to a morally upright place to both work at and shop in (Reingold, 2012). A basic tenant of his philosophy was that great customer service made for a great brand. An often repeated and revered story was about the time Mr. J. C. Penney had brought in the manager of the most profitable store in his chain and chastened him for making too much profit. That manager obviously was not giving his customers a good deal.

But starting in the early in the 2000's, the company found itself struggling to find a niche in the retail apparel industry. Competition was heating up, from both brick and mortar retailers to the quickly expanding internet industry. Penney's sales were stagnating; company stock was going nowhere, leaving shareholders unhappy. Many retail analysts and even their own customers, particularly the younger ones, often described the company as having evolved into one with a dowdy, stodgy, boring image.

### **ENTER RON JOHNSON AND HIS VISION**

The Board of Directors of J. C. Penney came under pressure to do something. There was a new, active, and very vocal member of the Board by the name of William Ackman. He had earned his seat on the Board as a result of acquiring an 18% of the company stock. Mr. Ackman had a long history of being a "hedge fund guy" - a wealthy individual who seeks to buy a large share in a company usually with the objective of using his influence on the Board for a turnaround, hopefully resulting in the appreciation of his stock investment in the company. Hedge fund guys are sometimes correct in their choices of where to bet their money and influence, and sometimes, not so much. Mr. Ackman had previously made a big bet with Border's in 2006 before it went belly up (Steffy, 2013).

Mr. Ackman's opinion was that J. C. Penney needed a turnaround and Ron Johnson was the guy to do it. Ron Johnson had a degree from Stanford and a MBA from Harvard. He also brought a proven track record of success at Apple as their Vice President of Retailing. He had worked directly under Steve Jobs. He had also recently served a short period of time as CEO of Target (Reingold, 2012).

Mr. Johnson was appointed CEO in late 2011, largely on the strength of Mr. Ackman's recommendation. Johnson's vision for J. C. Penney was to transform its current boring image to one of being a cool place to shop. His strategy, formulated within a matter of days, included changing each of the company's 1100 stores into a mini-mall concept. There were to be individual shops within each store. Each shop would be a lot more upscale as compared to what currently existed. These upscale shops would be designed to attract a higher-end customer. Some of the shops would even be leased; actually rented out to a high-profile designer company. J. C. Penney would be going after a different customer. Mr. Johnson was quoted as saying that J. C. Penney had the oldest customer base in retail (Reingold, 2012).

All those constant sales, discounts, and coupons that the company had come to depend on would be no more. The company had been conducting more than 700 different sales in a single year. It was Johnson's belief that customers would appreciate, and prefer, having an everyday fixed value pricing approach over an everyday low pricing strategy. Company employees were not even supposed to use the word "sale". That new strategy came while 75% of the company's present revenues were being generated by merchandise that had been discounted 50% or more. House brands (which were bringing in one-half of the company's revenues) were to be significantly scaled back under Johnson in favor of higher-priced name brands.

Typical of many turnaround specialists, Ron Johnson quickly surmised that the company had too many employees. Always a sure way of increasing stock price and igniting the financial community, pink slips were issued in mass. Almost 20,000 J. C. Penney employees were terminated in his first 12 months as Chief Executive Officer (Macke, 2014). This in a company

where one of their values was loyalty, and even in the worst days of the 2009 recession, very few Penney employees were let go.

Ron Johnson brought in his own management team. Most of his new team was from outside the retail apparel industry. The new team also felt that the Plano headquarters had become "overstaffed and underproductive" (Bhasin, JCPenney COO, 2013). Johnson quickly move to clean out the entire existing corner suite - all the old senior team down through to the executive vice president and vice president levels were asked to leave. One-third of the 4,800 employees working at the company headquarters in Plano lost their jobs. One round of a 10% cut in personnel was referred to by the employees as "St. Valentine's Day Massacre" (Bhasin, Inside JCPenney, 2013). Many employees learned of their termination after being summoned to the Plano auditorium in groups of 100+ (Mattioli, 2013). The remaining long-term and previously loyal Penney executives were angered over rumors that the new team referred to the old team as "DOPE's - dumb old Penney employees" (Steffy, 2013) (Maheshwari, 2013).

The existing company logo was to be changed under Johnson. The Penney, from the existing J. C. Penney, was dropped in favor of the new "jcp" logo. Note the small case letters like the "i" in iPhone. Maybe they should have taken a lesson from the GAP logo change and the furor it raised. Traditional company-wide pep rallies flew by the wayside. Additionally, Johnson did away with commissions for floor salespeople; he felt commissions interfered with quality customer service.

### **THE CULTURAL CHANGE AT J. C. PENNEY UNDER JOHNSON**

The new culture under Johnson became one of opacity - not transparency. There were few if any memos or written directives. Johnson kept many of his thoughts about Penney's new future close to the vest. Few details (if indeed there were any) were shared. Some likened it to the secretive environmental culture that existed at Apple. Few Penney employees knew what to expect next from Johnson and his team.

His personality was one that was hard to like. He has been described as egotistical, belligerent, insensitive, and one who would not accept excuses or no for an answer. Once he reached a decision, there was to be no wavering. Johnson once commented, several months into his strategy, "we have made the decision to change our pricing strategy and we're going to stick to it" (Talley, 2012). A childhood friend had commented that what people loved the most about Ron Johnson, other than his talent, was his persistence, he was just relentless.

For the entire time that Johnson was CEO of J. C. Penney, he maintained his home in California. He jetted from Palo Alto to the company's headquarters in Plano, Texas each week, where he stayed at the glitzy Ritz-Carlton hotel. Maybe not a big thing, but probably conveyed a small but significant signal to those who worked in Plano. Some ex-executives of Penney said he rarely worked a full week while he was in Plano. His new number two, the President of the company, refused to move to Plano also, keeping his office in Minneapolis where he had been living (Bhasin, Inside JCPenney, 2013).

One long-time Penney executive commented, after working a year under Johnson that the "corporate culture had become very different" (Bhasin, Inside JCPenney, 2013). Another long-term executive said "they (the new team) do not leave any opportunity for anyone to ask questions" (Bhasin, Inside JCPenney, 2013). One analyst was of the opinion that the company environment was becoming one of "Ron's way or the highway" (Bhasin, Deutsche Bank, 2012).

**THE RESULTS OF RON JOHNSON’S VISION**

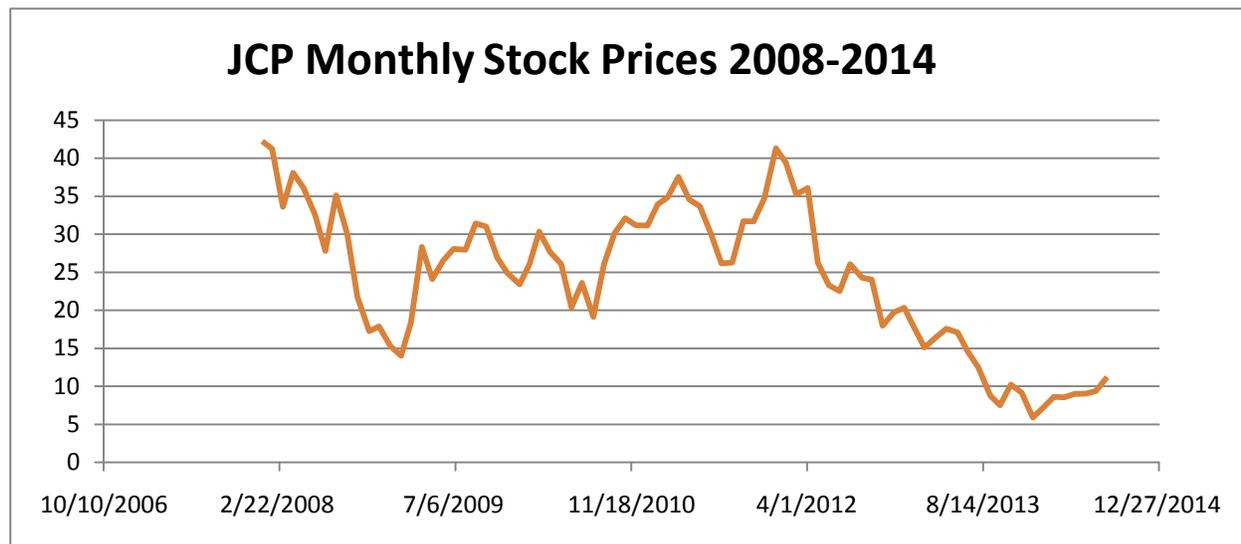
Ron Johnson's tenure at J. C. Penney lasted a brief 17 months (late 2011 until early 2013). The Board asked for his resignation in April of 2013. Net sales had fell over 24% from over \$17 billion in 2011 to \$12 billion in 2012. Along with lower sales, the company also posted a stunning loss of \$1.38 billion (JCPenney, 2013). The company stock plummeted from over \$40 a share when Johnson started to under \$10 a share when he left (Table 2). The company's workforce had been cut by more than 40,000 during Johnson's tenure. Adding insult to injury, Ron Johnson was awarded the "Motley Fool's Worst CEO of the year" in late 2013 (Williams, 2012).

In the end, the company had paid out over \$236 million in executive compensation to Johnson and his team. In return the company had nothing to show for it except billions in lost sales, thousands of once loyal customers were gone, a store remodeling program only just begun, a badly demoralized workforce, and worst of all, a mortally wounded American icon.

	<b>Table 1.</b>				
	<b>Four-Year Comparison of Operating Performance – in thousands</b>				
	2013	2012	2011	2010	2009
Total Net Sales	11,859,000	12,985,000	17,260,000	17,759,000	17,556,000
Gross Profit	3,492,000	4,066,000	6,218,000	6,960,000	6,910,000
Income(loss)	(1,388,000)	(985,000)	(152,000)	378,000	249,000

\*J. C. Penney, Inc. 2013 Annual Report

Table 2



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