JCPENNEY, INC

A Case Study about the Impact of Rebranding on Internal and External Communication

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Introduction

Gerald* approached the break room for seemingly the last time in his 18-year career with JCPenney. Somehow, the disbelief that his store in High Point, North Carolina, was closing under the new company-wide re-branding campaign had still yet to sink in. As he strolled into the employee break room to gather the last of his things, he ran into fellow long-term employee, Norma*. The expression on her face, lifeless and drained of color, said everything he felt in his heart.

“Still hasn’t sunk in, has it?”Gerald said. “For years, you and I have witnessed and experienced so much within our little store here in High Point. It's hard to believe we aren’t among the survivors. Have you heard from people at any of the other stores about whether or not they made the cut?”

Noticing Gerald’s state of disbelief, Norma replied, “From what I heard through the grapevine, we’re one of five stores closing. The other stores are in Morrow, Georgia; West Dundee, Illinois; Des Moines, Iowa; and Culpeper, Virginia. I also heard that two call centers were closed during this re-branding process as well. All and all, we are among thousands of newly unemployed workers. Now how great does this new brand image appear?”

“That's unbelievable,” Gerald replied. “I didn’t know that this brand strategy had such an impact on other aspects of this company. Just a couple of weeks ago, we were adjusting to our new CEO from Apple, and now we’re adjusting to having no jobs. Doesn’t seem like it could get much worse, does it?”

“For us and the thousands of others who’re unemployed, it wouldn’t appear that way. Even our fellow employees who’ve retained their jobs are talking about how difficult it is to understand the *new company*. The rounded-dollar pricing, the loose-return policy, the three-tiered pricing buckets – very few employees know how to break the previous norm and adapt to the new status quo. In some ways, can you really say you envy the employees of the new JCPenney?”

Norma continued, her frustration building, “Have you had a chance to read the customer backlash that’s ensued from this rebranding? Very negative and very critical of the new company outlook. One customer went as far as to say that the new JCPenney isn’t customer friendly and suffers from an identity crisis. Is JCPenney now the ‘Target’ of department stores, trying to appear as the ‘cheap chic’ alternative? Many of our traditional customers are now abandoning the brand completely.”

“Well, I know one thing for sure. The JCPenney I worked for is going to walk out that door with me. Take care of yourself, Gerald. Try not to dwell on the past memories here too much.”

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*Fictional names used to personify the situation and illustrate the type of issues some in this position would experience.

Just like that, Gerald's friend and colleague walked out the door. There was a lot of truth in Norma's departing words. Gerald quickly grabbed his remaining belongings and turned to walk out of the employee break room one last time. As he pushed open the door, he said to himself, "How did things get to this point? Was Norma right when she said that the old JCPenney was going to walk out of the door with us?" Without hesitation, Gerald followed Norma out of the room.

JCPenney's Struggles

When online retail shopping began to boom, JCPenney blindly splashed into the water with both hands tied behind its back and immediately found itself struggling to integrate its business function into an online environment.

In 2010, jcpenney.com was unable to handle large amounts of traffic during its Cyber Monday sale, and its Facebook page exploded with angry comments from frustrated consumers who were not able to place orders. This lack of preparation showed that JCPenney had overlooked the potential for error in the system, which ultimately pushed its customers toward competitors. JCPenney's failure to integrate its business into an efficient online atmosphere prevented growth in this area and ultimately led online consumers to take their spending elsewhere.

Taking a look at how the business was struggling internally, JCPenney was slow to adopt methods that strong competitors were using and succeeding with as the retail industry was changing. Since JCPenney had issues with its online store, business executives struggled to develop an efficient multi-channel return policy that would minimize the cost of returns for online and offline purchases. Customer relationship management did a poor job of understanding its consumers and their return behavior, which directly lead to significant financial problems.

JCPenney lacked the ability to adopt the proper business strategies that would have kept the company growing and provided its consumers with a satisfying shopping experience. Similar to its internal struggles, JCPenney had issues outside the company in trying to establish brand identity.

During the late 1990s, JCPenney was burdened by high operating costs and got caught in a difficult middle market for clothes.[1] With competition stemming from heavy discounters, such as Wal-Mart, and high-end retailers, like Saks Fifth Avenue, JCPenney was not able to meet the demands of most clothing consumers. Furthermore, organizational alignment became another problem because JCPenney was known to purchase products from foreign suppliers who held little regard for the treatment of their workers.[2] This sociopolitical issue came off as un-American and left JCPenney's consumer base to question whether it should support such a practice. By failing to protect itself, JCPenney damaged its brand identity and left many customers uncertain if they would shop there again.

JCPenney's struggles were evident when looking at company sales. During the company's last fiscal year, sales at stores that had been open for at least one year rose merely 0.2 percent, which is a significant drop from the 2.5 percent increase these stores had seen the year before. Macy's, on the other hand, saw a 5.3 percent rise in store sales.[3]

In an effort to regain a competitive edge in the market, Ron Johnson (a veteran executive of Apple Inc. and Target Corp.) was hired as the new CEO in November 2011 in order to pave a new path for future growth.

The New JCP

JCPenney has recently developed a new brand identity, complete with a fresh, patriotic logo, new pricing models, a new return policy, and a restructuring of its store layouts to make the shopping experience more convenient and enjoyable for patrons. These changes were intended to help the company strengthen its position in the market while maintaining ties with past customers and appealing to a younger demographic.

JCPenney revitalized its brand by altering its logo. The new logo (see below) is much sleeker and more modern. The two squares (the blue square on the interior and the shape of the logo itself) signify the new "fair and square" pricing model. It was designed to resemble the American flag, exemplifying the idea of patriotism and implying that J.C. Penney is an accessible, All-American store.

Old logo **New logo**

In terms of pricing, JCPenney has developed a new, three-tiered system. This "fair and square" pricing model is broken into "everyday prices," "month-long values," and "best prices." The red-tagged "everyday prices" indicate daily low prices that are about 40 percent lower than previous ones. "Month-long values" indicate discounts on merchandise that are changed each month. The blue-tagged "best prices" are clearance prices, which will be established on the first and third Fridays of each month.[4] These changes are aimed at promoting the company image as a higher-quality retailer, such as Macy's, that offers its products at a discounted price, comparable to lower-end retailers like Kohl's.

Many customers in the past expressed dissatisfaction with JCPenney's strict return policy, which required them to have a receipt in order to return items. The new "Happy Return" policy is meant to satisfy customers by allowing them to return "any item, anytime, anywhere, no restrictions." If customers have a receipt, they will be able to exchange the product or get a full refund. On the other hand, if customers do not have a receipt, the item can still be exchanged, or these customers can earn a complete refund in the form of a JCPenney gift card.[5]

The last step in the new brand identity was the restructuring of store layouts. Continuing with the sense of Americana, the main aisle passing through the shops are called “Main Street,” and the outdated central jewelry counters have been replaced by a “Town Square.”

Accompanying these changes is a brand new face of the organization – Ellen DeGeneres. She worked for the company as a teenager, and has already been featured in multiple advertisements that highlight the new changes. Her hire has sparked some controversy, however, as conservative groups such as “One Million Moms” have protested her position as the company spokesperson because she is homosexual. JCPenney has continued to publicly stand by DeGeneres.

Communication Problems

The process of rebranding JCPenney has created an identity crisis for the retailer. Consumers are unsure of where the company falls on the retail spectrum: Is the company now positioning itself closer to a lower-end discounter or a higher-end department store? Confusion over the quality and pricing of JCPenney’s products has led to traditional JCPenney customers shopping elsewhere. JCPenney has focused more on gaining new customers while appearing to abandon its traditional customers.

Employees share this same confusion when adopting this new company-wide rebranding strategy. For example, in regard to the new pricing models that are part of the “fair and square” model, some employees (especially those within the jewelry department where deep discounting is the norm) have struggled with the three-tier everyday low price approach. On top of the employee and customer confusion, some department stores and call centers have actually been closed as a result of the aforementioned changes.

The new “fair and square” pricing model is also unexpectedly communicating a change within JCPenney that long time core customers are accepting reluctantly. These long-time customers grew accustomed to the old system of coupons and aggressive seasonal sales that once represented the JCPenney brand.

This rapid and radical change on JCPenney’s part created confusion and unimaginable objection to the new system. Ninety-six percent of 420 recent reviews of JCPenney on Consumer Affairs rate it below two stars (out of five) for satisfaction.[6] Many customers argue that the departure from coupons has created a more expensive and less enjoyable shopping experience. JCPenney now faces a combative climb back to profitability as it launches new campaigns and strategies to attract new customers but continues to alienate the status quo of its established core customers.

With customer fallout from the rebranding strategy and employee confusion about the new internal policies, JCPenney faces a unique challenge moving forward.

Discussion Questions

What are the most pertinent questions that should be asked in order to address the critical issues, main decisions and possible solutions to this case?