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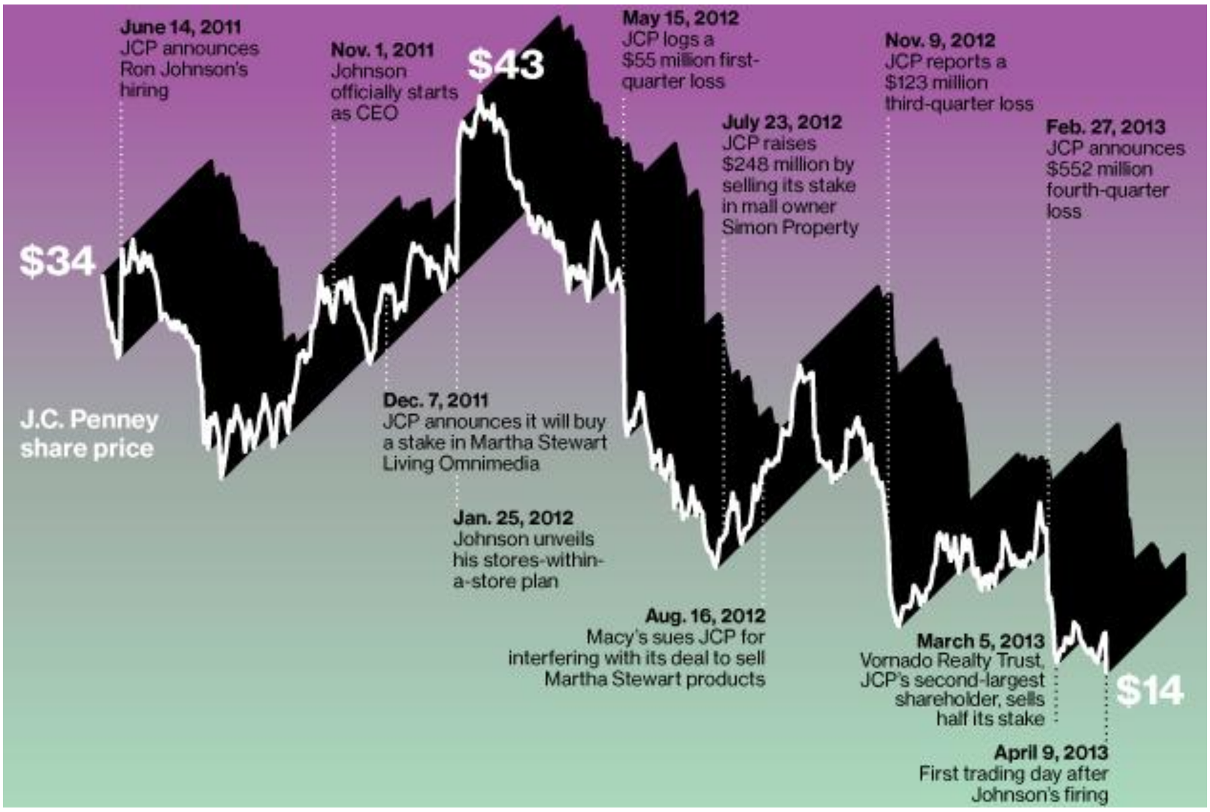


J.C. Penney Rehires Myron Ullman to Clean Up Ron Johnson's Mess

By Susan Berfield

When Myron Ullman, just turning 64, retired as chief executive officer of J.C. Penney (JCP) in November 2011, he left with an exit deal worth about $15 million, offers to join various boards of directors, and a pretty good attitude. In an interview with *D* magazine—the D is for Dallas, near Penney's Plano headquarters—he tied a bow on his tenure: "I'm at an age in my career where I don't think of this all as life or death. … Business is something you work at, but it is not something that's life-threatening. There are more important things."
Seventeen months later, J.C. Penney is in unprecedented peril, and Ullman has been summoned back. Ullman's successor, former Apple (AAPL) Stores leader Ron Johnson, a Silicon Valley wunderkind who had promised to give J.C. Penney a younger, hipper image, was fired by the board of directors on April 8. Johnson made many mistakes; his biggest was alienating middle-market customers by taking away the discounts they had come to expect. Sales fell by 25 percent in 2012, and the company lost nearly a billion dollars. Persuading lost

customers to return to the fold is a bit like trying to win back a girlfriend: Occasionally it works, more often it ends in heartbreak.

Photograph by Thomas Iannaccone/Reuters

“I’m not here to improve, I’m here to transform.” —Ron Johnson

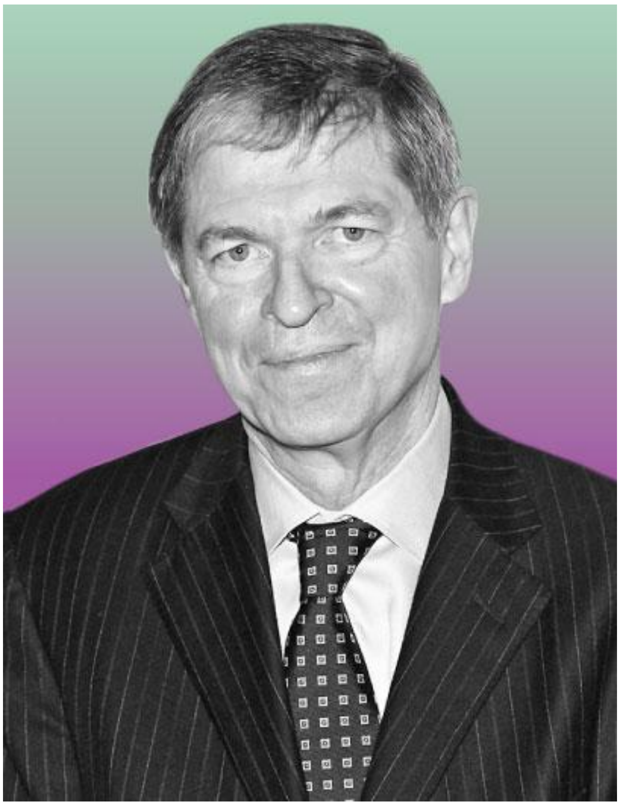
To get a sense of just how difficult it is to recover from such a dramatic sales slide, Credit Suisse (CS) last year looked at the fates of 17 other troubled retailers. Each had reported revenue falling by 15 percent to 25 percent in a single year, sometime between 2000 to 2011. Only four of the merchants were able to fix themselves—Abercrombie & Fitch (ANF), Barnes & Noble (BKS),Ann Inc. (ANN), and Guess (GES)—and it took them an average of three years to do so. The rest either were acquired by a private equity firm, merged with another public company—or went bankrupt.

Ullman doesn’t have three years. Penney’s operations consumed $10 million in cash in the year that ended Feb. 2, according to data compiled by Bloomberg. (The previous year, the retailer produced $820 million in cash from operations.) The company has delayed payments to vendors, reports UBS (UBS) analyst Michael Binetti. And rivals such as Macy’s (M) and Kohl’s (KSS) are offering aggressive discounts in hopes of luring Penney’s customers. Burt Flickinger, a retail historian and managing director of retail consulting firm Strategic Resource Group, says, “The competition has been closing in for the kill.”

J.C. Penney spokeswoman Daphne Avila declined to make Ullman available for an interview, noting that his immediate priority “is to spend time with his leadership team and the company’s key stakeholders before putting any plans in place.”

Ullman could return to the chain's traditional position as a general merchant eking out an existence in the increasingly pinched space between department stores and discounters. He could continue implementing a more timid version of Johnson's grand plan to turn J.C. Penney stores into collections of shops featuring exclusive merchandise from well-known brands. Or he could prepare the company, which has lost more than half its market value in the past year, to go private so executives can experiment away from Wall Street's scrutiny. But none of those options can be tenaciously pursued unless he can stop Penney's customers from rushing for the exits.

This isn't Ullman's first stint at a retailer in distress. In the late 1980s and early 1990s, he worked at Macy's, which landed in bankruptcy in 1992 and was bought by Federated Department Stores two years later. Ullman left the company and eventually became group managing director at French luxury goods company LVMH Moët Hennessy Louis Vuitton (MC), where he doubled its luxury brand holdings. He retired in 2001, citing health concerns. But when J.C. Penney approached him in 2004, he eagerly returned to the working world.



Photograph by Neilson Barnard/Getty Images

Ullman

At J.C. Penney, Ullman introduced minishops, some offering exclusive items. In 2006 he convinced Sephora, a French cosmetics retailer purchased by LVMH under his watch, to set up European-style boutiques inside Penney stores. He also brought in trendier apparel brands such as MNG by Mango and Liz Claiborne. He opened Penney's first store in Manhattan—near Macy's in Herald Square—in 2009. The company's slogan: "New look, new day, who knew!"

Unlike Johnson, Ullman never invested in expensive store redesigns and didn't try to reinvent the shopping experience that the century-old retailer's customers had grown accustomed to. When the recession squeezed Penney's midmarket customers in 2010, the company still managed to turn a profit.

Johnson intended to do a lot more—and a lot faster. At the time of his hiring, retail consultant Robin Lewis told Bloomberg News that Johnson's leadership was like "injecting rocket fuel into Mike Ullman's growth strategies of turning J.C. Penney into a more exciting brand." But shoppers weren't prepared for Johnson's wrenching changes, such as ending Penney's ever-present coupons. Some of the discounts were restored late in 2012 as losses mounted.

Now Ullman will have to win back customers who are still under financial stress while the company itself is in disarray. "They don't have time to experiment. They have to get traction," says Kathy Gersch, a former vice president at Nordstrom (JWN) and a founding member of consulting firm Kotter International. "They disenfranchised their regular customers, who have found someplace else to shop, and they haven't built enough for younger, newer customers who also have plenty of [other] places to shop. JCP doesn't know who its customers are and what it can offer them."
Antony Karabus, president of SD Retailing Consulting, says Ullman should resume offering aggressive discounts on Penney's everyday merchandise, position those items near the new boutiques, and hope customers take a look. "The only way Ullman will get customers back is if they see compelling deals," he says. "They won't come for the new Jewelry Bar or homeware or any of the cool shops." The company says that sales per square foot have increased at locations with its boutiques dedicated to goods by Izod (PVH), Liz Claiborne (FNP), Levi's, and Arizona Jean. But the retailer has also said it's cutting back on the number of stores that will offer boutiques, from 700 to 500. Penney has to conserve its cash, says Binetti at UBS.
The big unknown is whether it's too late to reverse the damage. Robert Passikoff, president of consultant Brand Keys, has been measuring customers' "loyalty engagement levels" with brands for more than 15 years. In the latest index, Kohl's level is 84 percent; Macy's,

82 percent. Penney's is down to 70 percent. "That is desperately low," Passikoff says. "When you get below 65 percent, that's when brands die."

The bottom line: *J.C. Penney, after losing almost $1 billion in the past year, has brought back former CEO Ullman to revive the retailer.*