

July 17, 2012

Team:

As we wind down the spring season, I thought it was a good time to provide an update on our transformation, and to thank each of you for the courage to support our mission to become America's Favorite Store.

We are on the way.

While the spring has been tougher than we anticipated, it is becoming clearer each and every day that we are on the right path and that the future we are creating will change the way America shops. And in the process, we will help middle America look better and live better every day.

Transformations are hard. Transformations are bumpy. Yet, transformations are essential to moving forward.

When we started this journey, I shared a poem that Steve used when he came back to Apple in 1997. As you will recall, it was titled "Think Different."

The poem celebrated the "Crazy Ones" who are willing to see things differently and have the courage to change things. Well, we are all now counted among the crazy ones.

And as the last line in the poem said, "While some see them as the crazy ones, we see genius. Because the people who are crazy enough to think they can change the world are the ones who do."

The core value that crazy ones need to succeed in their journey - is faith. When business is tough, it is easy to lose faith. When skeptics abound, it is easy to lose faith. When people make up things about you or your company, it is easy to lose faith. But faith is what will sustain us through this year of transformation ... faith that we are building a better experience for our customers and for our team members.

We are six months into our year of transformation. An optimist would note that we are actually seven months into our transformation, as we stopped promoting during January of this year. Regardless of how one counts it, we only have five months to go. That means, while we have some heavy lifting ahead of us, we are over halfway there.

We knew the first phase of this year would be the hardest. It has lived up to its expectation, and then some. Part of this we have done to ourselves, and part of it is the cost of abandoning the sales promotion practices of the past.

In many ways, the more we fall backward, the more it shows the dependence we had on an unsustainable business model. We were not earning the customer's loyalty. We were buying it through artificially inflated prices and the false promise of sales and coupons. And this method of doing business undermines the integrity on which this company was founded. In 1920, James Cash Penney wrote the following:

“There's another matter we want to bring to your attention. We never over-price our goods. We never have special sales. When our goods are delivered to our stores, we expect to price them on the basis of cost plus a reasonable profit. The reasonable profit is all we desire, and the price we place on the goods does not change for some special sale at 10 or 20 or 50 percent discount.

“We do not believe in that system of business. Merchants cannot afford to take off special discounts unless special profits have been added in advance. We believe in an honest price placed on every garment at which it should sell, and your ability as a customer to judge quality and price will induce you to buy at that price.”

The biggest challenge during the past six months has been to convey our pricing strategy to our customer in a way that they understand and believe. While we attempted to simplify our pricing with only “Three Types of Prices,” we actually confused our customers.

Customers didn't understand why, if you had “Great Everyday Prices,” how could you also afford to have Month Long Values? And if your prices are great every day, why do you call them Best Price when it is time for the products to go away? I see and understand their point of view.

So beginning August 1st we will simplify Fair and Square Pricing. We will price every product in our store at a low price and keep it that way every day. We will sharpen our everyday prices on the essential items our customer needs, whether it be a basic item purchased frequently or an essential fashion item of the season, and highlight these in the store. And when it is time for the product to go away to make room for something new, we will call it what it is: clearance.

I think Mr. Penney will look down on us and smile. We will now be pricing our merchandise exactly as he intended it to be priced.

The most exciting thing about the second half of this year, the second phase of this year of transformation, is not the simplification of our pricing but that we begin to roll out the key elements of our strategy that will enable us to become America's Favorite Store.

As I write to you today we have 3,415 shops under construction in our stores. They will open for business just prior to August 1. And there will be no rest for the weary, as the next day we will begin construction of 3,415 additional shops. When these are complete we will have approximately 7,700 shops in our jcp stores. This is nearly seven times the total number of shops we had to start the year.

But shops are only part of the magic.

The most important part is the product, and I am so excited as I begin to see the new product our teams have developed for Back to School, Fall and Holiday. It is incredible. I will personally be creating an entirely new wardrobe comprised of products from Arizona, Stafford, jcp, Levi's and more.

Last week we put the finishing touches on our "prototype" store here in Dallas. And I'm so excited about what I'm seeing that I'm going to move up my Day 175 video to run this Friday, so that I can be the first to share our new shop experience directly with each of you.

Once you see the prototype you will understand that we are truly creating a new class of retail store. Each of you will understand the unique and important role you need to play in bringing this vision to life.

You see, we are creating an entirely new brand of Department Store. Today, there are four. There are Traditional Department Stores like Macy's. There are Upscale Department Stores like Nordstrom and Neiman Marcus. There are Discount Department Stores like Target and Walmart. And there are Promotional Department Stores like Kohl's and what we formerly were.

What we are creating together is the world's first Specialty Department Store, and it is incredible to behold. We combine the best of specialty retailing and a new interface for retail to create a store like none has ever imagined. And it will change the retail landscape for good.

Once people experience this store they will wonder why all stores are not this way. It is truly magical and will help people look better and live better, while providing a shopping experience that inspires, respects and ultimately puts our customer at the center of the experience. I can't wait to share it with you and receive your feedback.

Perhaps the biggest frustration this year for me personally has been the misinformation we read and hear every day about our company. In the absence of information, it is easy for misinformation to abound. A perfect example of this happened last week when several writers in the financial community published erroneous reports about our balance sheet.

Our balance sheet is rock solid and easily capable of not only supporting us through this transformation, but also enabling us to self-fund our transformation. We said this last January and it remains true today. That people would erroneously spread the word that we have liquidity concerns is downright irresponsible.

I can only ask that you put your heads down, do the best work of your lives and put this year of transformation into perspective. It is the beginning of the rebirth of a company with a very bright future. I personally love the challenge of being the underdog. I love the challenge of having my back against the wall. I love imagining a better way to shop and having the courage and conviction to pursue this with all of my energy.

We are absolutely committed to staying the course. In fact, we not only are going to stay the course, we are also going to honor our heritage more fully as we move forward.

I guess to put it simply, I love being one of the crazy ones.

Onward.

Ron



a Thanksgiving message from Ron Johnson

Happy Thanksgiving! I want to take a moment and thank each of you for the hard work you've done to get us ready for Black Friday and the holiday shopping season. This Friday marks our one big sale of the year and I'm proud of how the stores look. You should be too.

While other retailers are opening on Thanksgiving, I hope you and your loved ones will enjoy a very special day together. Spending Thanksgiving with family is one of America's greatest traditions and, as a company founded on the Golden Rule, I'm proud we're going to honor it by not opening our stores that day.

Black Friday is another great American tradition — and we are going to honor it as well. The value we offer on Black Friday is amazing. I've had an opportunity to compare our offerings to other retailers, and I am confident that — after customers enjoy Thanksgiving at home with their families on Thursday — they will have good reason to join us early Friday to get the best start on their holiday shopping.

In this season of giving thanks, I am most grateful to be part of this extraordinary team and for everything you have done this year to drive our transformation. And I know that our best work is still to come as we help each customer discover all that the new jcp has to offer this holiday season.


Yours truly,

Ron





season's greetings



"Let us resolve at Christmastime to make every day a Christmas Day, spreading and scattering joy on earth. Let us ever extend peace and good will to men." -James Cash Penney

It was Mr Penney's hope - as it is mine - that each of us would carry the spirit of Christmas with us always. I wish you a happy, safe and blessed holiday.

-Ron

