

Strikingly Different Strategies for JC Penney and Macy's Demonstrates the Difficulty in Effectively Listening to Your Customers

I remember having the opportunity to hear former GE CEO Jack Welch speak back in the 90's when he was at the top of his game. I was very excited to learn from the most admired and iconic CEO of the time yet I came away from his presentation with great disappointment. Where I had expected to hear brilliant insight and unimagined strategies, he instead spoke about the same stock business truisms that we had already heard countless times before. Platitudes such as "listen to your customers", "value your employees", and "strive to do your best every day" were hardly what I considered inspiring.

Fast forward twenty years and I have an entirely different appreciation for Jack Welch's wisdom.

Occasionally I encounter companies who feel they have a secret formula for success that must be jealously guarded lest their competitors steal their advantage. In the vast majority of cases, the formula is hardly as "secret" as they think. In fact, any business strategy based upon knowing things that no one else is smart enough to figure out is fleeting at best, and delusional at worst.

Instead, the most successful companies I encounter cite the same generic clichés as Jack Welch. They don't claim to know something no one else knows, they just do the smart things that we all know we should be doing – and they do them every day. Innovation, creativity, and originality are just the by-products of good execution.

This doesn't mean it's easy. Take something as fundamental as "listening to your customers". Every life insurance company claims to value their customers and most cite customer service as a key differentiating factor that separates them from their competition. But when pressed to quantify this key strategy, we hear soft statements such as "we're easy to do business with" or "we're extremely flexible and responsive". Some companies refer to their service standards as evidence of their customer focus, but this simply provides a measurement of minimal expectations. What does it say about our industry if merely responding to customer requests in a reasonable period of time is considered evidence of differentiating customer service?

For an excellent study in contrasts, consider the recent performance by JC Penney and Macy's. Both companies have embarked upon significant new initiatives in an effort to better serve the needs of their customers but the execution and the results couldn't have been more different.

JC Penny got a real boost when they hired Ron Johnson, former Senior Vice President of Retail Operations at Apple to be their new CEO in 2011. Johnson was responsible for the development of the wildly successful Apple stores and also had previous department store experience after a stint as Vice President of Merchandising at Target. He arrived with a lot of innovative and creative ideas and inspired high expectations for a dramatic turnaround at JC Penny.

Terry Lundgren is Macy's CEO, a lifetime department store executive who worked his way through Federated Department stores starting in 1975 to Macy's President in 1997. Macy's has built their business strategy around something they call M.O.M. The first M stands for My Macy's. The O stands for Omnichannel. And the second M is for MAGIC selling. Not the most inspiring acronym.

Both companies were leaders in an industry that was struggling to come up a response to on-line competition. They both had seen steady declines in sales and were saddled with inventory and locations that were deemed boring and outdated.

Sounds like the life insurance industry!

Both CEO's had a clear vision about how to turn their companies around. For JC Penney, Ron Johnson promised that within four years each store would be completely redone and divided into 100 small boutiques with a service center that he called a "Town Square" at the center for customers to enjoy free ice cream, haircuts, and places for their kids to play. He also vowed to eliminate the confusing array of sales, promotions, and coupons that the company had been bombarding their customers with. For example, in the prior year, the company ran 590 separate promotions resulting in 70% of their revenue coming from products sold at a discount of 50% or more. In a bold move, Johnson launched his new pricing strategy on a company wide basis rather than testing and fine tuning his approach first. When questioned about this he replied simply, "we didn't test at Apple".

His confidence was understandable, given Johnson's success at both Apple and Target. Besides, who wouldn't be excited about the potential for an Apple-like retail experience in a department store?

Unfortunately, JC Penney customers really liked their sales. They looked forward to receiving coupons and used promotions as a reason to shop. Despite the logic of Ron Johnson's commitment to transparency, customers preferred to be wooed into the stores for sales rather than merely trust the company to offer their best prices every day. For cheap, they went to Wal-Mart. For value, they went to JC Penney and without a sale, there was no sense of either value or urgency.

In response, in 2012:

- JC Penney's stock price dropped 40%
- Their sales dropped 25% – that's a \$4.3 billion dollar reduction
- Same store sales declined 32% in the fourth quarter alone, when stores typically make the most money
- Online sales decreased 30%
- The company lost nearly \$2.00/share, more than double the losses they incurred in 2011.

Ron Johnson was ultimately fired from JC Penney in 2013.

Contrast this with Macy's where instead of making assumptions about what their customers really wanted, Terry Lundgren built their entire strategy around trying to understand it, how to respond to it, and how to empower their employees to deliver it.

For example, the "My Macy's" part of the M.O.M. strategy involves empowering individual stores to respond to the unique needs of their very diverse customer base. A November 25, 2011 article in the Business Courier titled "[How Macy's Latest Moves are Paying Off](#)" indicates that the company hired and trained "1,600 district planners and merchandisers who are in stores daily looking to improve store offerings. The company also spent years creating the systems to better share sales data, allocate merchandise store by store, and communicate ideas from the field to the buying and planning organization".

For example, Macy's noticed that the heavy coats offered in colder Boston weren't selling as well as they did in New York. Upon further investigation, they determined that New Yorkers tended to walk everywhere so they needed the extra bulk while Bostonians drive. They adjusted their inventory appropriately. Although this may seem fairly obvious from the outside, this sort of localized inventory adjustment is difficult to execute and unique in the retail world.

The "Omni-channel" part of their M.O.M strategy refers to their efforts to recreate within their stores the most valued benefits of online shopping. To this end, Macy's has now integrated online ordering from their store registers so their entire warehouse inventory is available to in-store customers. They are also incorporating such on-line mainstays as recommendations and reviews and expedited check-out in order to make their staff more responsive and their customers better able to find what they are looking for.

"The final M, "Magic Selling," is a multimillion-dollar program training 130,000 employees to better serve customers. In-person training replaced abbreviated sessions on computers. Employees are given scorecard results and coached on how to improve. It used to be that being nice was the standard. Employees are taught to approach shoppers instead of letting a customer walk by. It's not about pushing for sales, but making a connection with shoppers."

Macy's 2012 financials weren't released at the time I wrote this. However, in remarks to shareholders May 18, 2012 Terry Lundgren recited a litany of positive financial results including:

- Sales have increased for each of the past two years
- Earnings per share increased 36%
- On-line sales were up 40%
- Stock dividends have doubled twice
- Ratings were upgraded to investment grade

Probably the most striking difference between Macy's and JC Penney is evident in how they define the target customer that they are most interested in listening to. Terry Lundgren specifically outlined Macy's plan to connect with Millennials aged 13 to 30. "This is now the largest generation in America – larger than the Baby Boomers. Millennials think and act differently than other customers so we need to approach them differently. We look at Millennials in two overlapping pieces. The first group includes customers between the ages of 13 and 22 – both male and female. These are typically students and they gravitate towards the area of our stores we call mstylelab. The second group is between the ages of 19 and 30. These are the young adults who are graduating and establishing themselves in the workforce. They shop across the store with particular focus on the apparel, accessories, and cosmetics areas we call Impulse".

How did Ron Johnson describe the JC Penney target customer? "We want to be the favorite store for everyone, for all Americans, rich and poor, young and old".

That lack of specificity sounds a lot like insurance companies who base their plans on being "easy to do business with".

Macy's spokesman Jim Sluzewski captured the difficulty in pursuing a customer centric strategy best when he observed "there are computer systems that can tell you what people bought, but they can't tell you what people were looking for and couldn't find". Further confounding the challenge is the fact that consumers often don't know themselves what they want and will provide inaccurate information in

focus groups that reflect what they think rather than what they do. This is why Macy's created 1,600 new specialist positions and spent millions of dollars on training for their staff. This is also what gave JC Penney the freedom to eliminate sales promotions despite the fact that their customers claimed to like them.

And this is also the reason why insurance companies can profess to provide exceptional customer service without having a tangible strategy to execute or quantify their performance.

Just because something is difficult to measure doesn't mean it can't be measured. In the same way, good customer service may mean different things to different people but it means something very specific to *your* customers. Macy's listened. JC Penney assumed. Which strategy is *your* company pursuing?