

By: Abraham Alvarez Martínez (271442)

J.C. Penney's battle against disruptive change and stakeholder management: between innovation and expectations

Introduction

The objective of this article is to analyze the evolution of the company J.C. Penney from the mid-20th century until 2013, focusing in particular on how the corporation adopted the "Fair and Square" pricing approach. It is stated, using the theory of disruptive innovation as a framework, it is argued that J.C. Penney failed to consolidate this strategy due to ineffective stakeholder management. Initially, the importance of the disruptive innovation model is examined, assessing its applicability in the context of J.C. Penney. Later, the failure of the "Fair and Square" strategy will be examined next, indicating that despite their disruptive intentions, they did not align effectively with the expectations and needs of stakeholders. This analysis which is based by the theory of stakeholders shows that although the intention was to adopt a model of disruptive innovation to regain relevance in the competitive department store market, J.C. Penney overlooked the expectations and needs of its stakeholders, especially those of its consumers.

Fundamentals of Disruptive Innovation

Christensen and Raynor (2003) explains that the theory of disruptive innovation describes how certain products or services, initially more accessible and seemingly inferior, can

eventually transform an industry by displacing established technologies or strategies. This theory focuses on the strategy of emerging companies to target less profitable or completely new market segments, which are often ignored by market leaders. This phenomenon, according to Christensen and Raynor (2003), is often described as "asymmetric motivation," where dominant companies are primarily motivated to move upmarket, paying little or no attention to defending lower or emerging segments.

Having said that, when examining the case of J.C. Penney, a national chain of department stores in the United States that offers a wide selection of goods and services (Ofek, Stewart, & Snively, 2018), including clothing, home goods, hardware, and sporting goods, one might think that innovating in this consolidated market would not be an easy task. However, J.C. Penney showed that disruptive innovation can find its place even in traditional industries.

Case of J.C. Penney and Disruptive Innovation: From Catalog to E-Commerce

This is demonstrated by the two notable inventions that J.C. Penney introduced in the latter part of the 20th century, and which exemplify the concepts of disruptive innovation. The company began offering mail-order catalogs in 1963, and in 1998 it made its first push into e-commerce, emerging as a leader in multichannel commerce (Ofek & Avery, 2013). By extending accessibility across the catalog, J.C. Penney promote the contact to products for a market segment previously not effectively served by mainstream retailers. Moreover, the transition to online shopping was a development of that disruptive model. By utilizing this new channel, J.C. Penney was able to increase its market share and provide customers with an innovative and practical way to shop. Since both movements altered typical in-store

shopping habits and took advantage of a developing new market, they could therefore be viewed as disruptive.

Examining the Fair and Square Strategy

However, moving forward to the end of 2011, J.C. Penney faced increasing financial and market challenges. Amidst this severe condition, Johnson became CEO in November 2011 and create an ambitious plan known as “Fair and Square”. This strategy sought to drastically simplify the pricing system, which until then was based on a high-and-low model with numerous promotions and discounts. Johnson's main concept was to provide affordable, yearly prices in place of recurring specials and discounts. Furthermore, he suggested doing away with sales commissions in order to guarantee a just and equal purchasing experience that wouldn't be pushy to the customer (Ofek & Avery, 2013). Despite the fact that the goal of these modifications was to make shopping easier, they do not fit the definition of disruptive innovation because they did not refer a new market or underserved segment.

Even though of this, one might think that the "Fair and Square" pricing strategy constitutes a disruptive innovation, significantly altering the market and proposing a new way of relating to consumers. However, the results showed a different reality: J.C. Penney lost \$4.3 billion in sales under Johnson's management and faced significant liquidity problems to finance its operations (Ofek, Avery, & Alvarez, 2014). These are just a few examples of the negative impact of the strategy. Christensen and Raynor (2003) have pointed out that "not all innovative ideas become disruptive strategies, because the necessary preconditions are not always present." In this case, although the "Fair and Square" pricing strategy altered conventional pricing practices, it did not introduce a model that would reach a new market

segment or redefine the market to allow access to unserved consumers. Therefore, even though it was a different tactic, its failure to achieve with the fundamental principles of disruptive innovation prevents it from being considered as such. This analysis leads us to explore the reasons behind the failure of this strategy that was intended to fit within the disruptive innovation model.

Theory and Management of Stakeholders in Organizations

According to Freeman (1984), the stakeholders are individuals or groups capable of influencing or being influenced by the achievement of an organization's goals. Later, Clarkson (1995) expanded this definition to include governments and communities. In this context, four ways of managing stakeholders have been identified: to be proactive, adaptive, advocate or ignore (Christensen & Raynor, 2003). Based on this concept, Jawahar and McLaughlin developed their stakeholder theory, proposing that, in the face of critical situations, organizations will focus their attention on those stakeholders who control critical resources and interact with them proactively or complacently (Christensen & Raynor, 2003).

J.C. Penney's Stakeholder Management Practices and Their Effect on Corporate Strategy

However, From the standpoint of stakeholder theory, it is evident that J.C. Penney's "Fair and Square" pricing strategy, which sought to revolutionize the shopping experience by providing a clear and uncomplicated price structure, did not meet the expectations of customers used to conventional promotional strategies. Some of the reasons are as follows, the elimination of

frequent discounts and coupons; considering that by 1990, only 10% of Americans compared their purchases on discount, but by 2011 (before they designed their "Fair and Square" pricing strategy) more than 40% did so in this way (Ofek & Avery, 2013). Thus, this disconnection between the new pricing policy and the entrenched shopping practices of consumers led to a considerable 10% decrease in store traffic and a 19% decline in same-store revenues, only in the first quarter of the strategy's implementation (Ofek & Avery, 2013). Furthermore, the strategy designed to attract a new generation of shoppers actually lost more customers than it gained (Ofek, Avery, & Alvarez, 2014).

Another reason that prevented the success of the "Fair and Square" strategy corresponds to the implementation of radical changes in a competitive market without an effective communication and transition strategy for consumers, since they did not understand the new pricing strategy (Ofek & Avery, 2013), which indicates a lack of effective communication and understanding of customer needs and expectations since Johnson believed that he should not follow the customer, but guide them (Ofek & Avery, 2013).

Jawahar and McLaughlin emphasize the need to continually review relationships with stakeholders (Christensen & Raynor, 2003). Therefore, J.C. Penney's "Fair and Square" pricing strategy reminds us of the importance of strategically aligning disruptive innovations or ideas with consumer expectations and behaviors, to not manage relationships with them by ignoring them. In a similar vein, creating transition strategies that incorporate effective consumer education initiatives and marketing campaigns will facilitate the adaptation of consumers to new business models and mitigate the risk of rejection.

Conclusion

In summary, the case of J.C. Penney gives us historical insight into disruptive innovation perspective that could not be replicated with its "Fair and Square" pricing strategy. Thus, it provides a lesson on the challenges of implementing disruptive innovations in consolidated markets. Despite the well-intentioned and solidly founded strategies of J.C. Penney, the company failed to align its new pricing model with the entrenched expectations and behaviors of its consumers, coupled with poor stakeholder management, resulted in a negative state for the company. This analysis supports the findings of Christensen and Raynor (2003), who warn that disruption alone does not guarantee success; it is only one component of a larger formula. Therefore, disruptive innovations require not only a deep understanding of the market, but also effective management of relationships with all stakeholders and clear communication that facilitates change.

Companies can extract valuable lessons from the case of J.C. Penney about the importance of not only innovating but also ensuring that such innovations are accessible and understood by their consumers. Future disruptive strategies could be more successful if they are accompanied by significant efforts to educate consumers and to flexibly adjust to market responses. Finally, the case of J.C. Penney allows for the following reflection, the disruption is not only about changing products or prices but about changing perceptions and experiences in a way that resonates positively with all stakeholders involved. However, achieving this is not an easy task, as Johnson himself recognized that such transformation is a marathon, not a sprint (Ofek & Avery, 2013).

References

- Christensen, C. M., & Raynor, M. E. (2003). *The innovator's solution: Creating and sustaining successful growth*. Harvard Business School Press.
- Clarkson, M. B. E. (1995). *A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance*. *The Academy of Management Review*, 20(1), 92–117.
<https://doi.org/10.2307/258888>
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach* (2nd [print.]). Pitman.
- Hayes, J. (2022). *The theory and practice of change management* (Sixth edition). Red Globe Press.
- Ofek, E., & Avery, J. (2013). *J.C. Penney's 'Fair and Square' Pricing Strategy* (Case No. 513-036). Harvard Business School. (Original work published 2012).
- Ofek, E., Avery, J., & Alvarez, J. B. (2014). *J.C. Penney's 'Fair and Square' Strategy (C): Back to the Future* (Supplement No. 514-073). Harvard Business School.
- Ofek, E., Stewart, K. S., & Snively, C. (2018). *JCPenney: Back in Business* (Case No. 517-037). Harvard Business School. (Original work published 2016).