

# Competitive forces and challenges essay sample

[Business](#), [Company](#)



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J. C. Penney Adoption of Cloud-based e-Commerce

## **Business Model**

Founded in 1902, J. C. Penney Corporation (JCP) runs in excess of 1020, mid-range department stores (and an electronic commerce site (jcp.com)) across the United States. The company is among the largest retailers involved dealing in home furnishing, beauty products, apparel, accessories, and footwear. JCP also offers fine jewellery, portrait photography, styling salons, and custom decoration as well as eye clinics. It belongs to the department store segment of the retail industry. The assortment of products sold in each store varies according to the size, customer shopping behaviour and merchandising character in the trade areas, but the vast majority of JCP's stores are located in urban areas because of the large population density within small geographical areas. Headquartered in Texas, and employing upwards of 117, 000 people (including part-time employees), J. C. Penney has been a hugely successful company that has however, been struggling in the past decade due to failed organizational changes (MarketLine, 2014, p. 14; J. C. Penney, 2015, p. 1).

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JCP's business model is both retail and catalogue (merchandising, inventory management, item placement and customer support) in nature. The company is an exclusively service-based firm, distributing products from third party suppliers/manufacturers or service providers to the final consumers of those very services at a fee. As a department store, JCP's most important value proposition is the provision of a large range of products and services under a single roof and a family shopping ambience. Given the fact that the setup capital and maintenance (including high rental costs due to the downtown locations) of the same is extremely costly, as well as the fact that brick-and-mortar stores must compete with online competitors, JCP provides luxury positioning driven by a deep understanding of the specific locations. Attractive, showcase stores attract shoppers who want the traditional shopping experience.

#### Figure 1: JCP Value proposition

The company derives revenues from marking up prices on the products that it sells. The company's new pricing model is based on the division of the merchandise into three categories i. e. " best prices", " month-long value" and " every day". With every day and best price product categories, JCP uses Wal-Mart's model of cost-plus pricing, coupled with value chain strategies that ensure that the company's products are competitive in the market. This especially applies to low-value products that move fast, but to ensure this, discounts are nearly non-existent. On the other hand, the month-long prices targets the company's traditional, coupon-loving, sales-hunting customers, by setting prices with relatively high prices, backed by high discounts. This strategy is called price anchoring i. e. setting relatively high prices to create

a perception of high value, effectively allowing for discounting without affecting the profit margins. The company also sells private label items, which are sourced from varied manufacturers at even lower prices, allowing the company to impose huge margins, and achieve high sales volume. Additionally, the company holds in excess of 600 sales events a year to clear out stocks. Certain subsidiaries provide the retail segment with support services. J. C. Penney Credit offers credit processing, credit marketing and customer support services for non-proprietary and proprietary credit card accounts. On this, the company draws revenues by charging interest on the credit advanced, as well as service fees.

While JCP has embraced electronic commerce, it only has done so on a limited, experimental scale, with its core emphasis remaining its brick-and-mortar stores. It still has not adopted its any aspects of cloud computing and has in the past five years, struggled with unsuccessful organizational changes. Drastic leadership changes (new organizational structure), brief discontinuation of catalogues, associate layoffs, and remodelling of stores failed to turn around the company, forcing to once again change its leadership and roll back the changes (Ruiz, 2015; J. C. Penney, 2015).

The threat of New Entrants - Department stores requires considerable capital and infrastructure in order to be successful. With JCP having upwards of 1000 stores across the US and its territories, and its closest competitors having even more stores, it is highly unlikely for new entrants to have the resources to achieve the same in the short-term. Other department store brands such as Macy's, Marks & Spencer and Kohl's Corporation have equally strong brand equities. Further, these companies employ Omni-channel distribution

strategies incorporating physical stores, electronic commerce, catalogue and mobile phone based strategies to reach an even greater market and with greater customer experience. The strong financial position power controlled by these firms means that they can successfully fend off new entrants e. g. through aggressive advertising and retaliatory price cuts, etc. (MarketLine, 2015, p. 19; Porter, 1998, p. 81).

**Supplier Bargaining Power** - With upwards of 1100 stores across the country, JCP offers suppliers an enviable access to the market, for which it derives immense power. The existence of high competition among suppliers vying for the limited shelf space in JCP's stores means that the company can leverage this to its cost advantage. However, the company is struggling against lawsuits with employees and suppliers on issues ranging from race discrimination to wrongful contract termination, which effectively reduce its bargaining power with regard to the respective suppliers. However, vertical integration opportunities exist, and the company barely deals directly with large suppliers such as Gap, and Nike, which have considerable power.

**Buyer Bargaining Power** - An individual customer has negligible influence on JCP, but consumer lobby groups often lobby sizeable segments of the market to use their wallets to wield their influence on such retailers as Wal-Mart. This is both rare and largely unsuccessful.

**The threat of Substitution** - Department stores and other retailing business models primarily deal in undifferentiated third party products that can be sold through speciality stores and other retail outlets, and therefore they are easily replaceable. Competing department stores, supermarkets, and proprietary stores similarly offer the differentiated value arising from the

great shopping experience and great variety under a single roof. Effectively, consumers can easily substitute shopping from JCP with Macy's or Wal-Mart.

Industry Rivalry - The US retail industry is highly competitive. In the department stores segment, JCP competes with among others, Bed Bath & Beyond, Dillard's, Sears Holdings, Macy's, Kohl's Corporation, Belk, Lord & Taylor LLC and Nordstrom. Since the company retails most products that are also retailed by general retailers, it also competes with large retailers including Wal-Mart, Target Corporation, Gap, Inc., Amazon. com, Safeway, Dollar Tree, Staples, PriceSmart, Costco Wholesale Corporation and Lowes' Companies, Inc.. Some competitors such as Target exclusive stock apparel from popular designer clothing lines at favourable prices, and thus tapping into specific market segments. Even most importantly, competition across all channels (brick-and-mortar, catalogue and online), which increases the cost of completion and profitability.

While the US economy has recovered from the 2007/8 recession, JCP faces considerable country-specific socio-political, economic and political risks because, unlike its large competitors, its operations are solely based in the US. Perhaps even most importantly for JCP, whose business model is partially, catalogue-based, the stern competition from internet retailers such as Amazon. com and Ebay, are quickly replacing the catalogue business model by offering customers a near similar shopping experience, at an even lower cost because of lower postage and administration costs. Online shopping is not only growing, but the growth translates into a reduced market for brick-and-mortar stores and catalogue businesses such as JCP. In addition, rising labour costs/wages due to increased overtime, increased

minimum wages (retirement and health benefits), and higher number of full-time employees are leading to increased wage bills (MarketLine, 2014; MarketLine, 2015; Blocher, Stout, & Cokins, 2010).

## **Competitive Strategies**

With electronic commerce having risen from \$168.1 billion in 2010 to \$263.3 billion in 2013 in the US alone, most retailers are trying to position themselves to benefit from it. Like most of its competitors, JCP has adopted an omnichannel strategy in order to capitalize on the market's changing consumer behaviour while at once counter the mounting multi-channel competition. This involves the integration of brick-and-mortar stores, mobile devices and the internet to push its inventory. This strategy permits JCP's associates at any store in the country (and elsewhere) to sell products and have them delivered to their customers' doors. Online order fulfilment centres utilize store inventories across the country, reduces costs. With the departure of Ron Johnson (the C. E. O. tapped from Apple, Inc. that is credited with the failed changes), the company reinstated the catalogue channel and re-invested in e-commerce, enhanced its direct-to-customer shipping for online orders and increased the number of stores from which internet orders could be made (J. C. Penney, 2015; MarketLine, 2014).

In addition, private label merchandise has also become an important way for retailers to cut costs, increase sales and ensure high markups. According to MarketLine (2014), store brands sales rose faster (2%) and higher than national brands in 2013, besides gaining ground in 16 other countries across Europe. JCP has been focussed on increased the number of private label products in its stores, to compete against retailers such as Target and Wal-

Mart. Further, the JCP and other large retailers are focussed around creating a great and differentiated shopping experience. Stores have Wi-Fi, restaurants, gas stations, banks, garages, and other amenities that attract high traffic, which can then be converted into sales.

## **Business Model Evolution**

JCP has a strong background in the use of catalogues to push products, but between 2012 and 2015, the company briefly discontinued it to cut the costs associated with publishing and posting the voluminous books. Even most importantly, the catalogue retailing is failing, in part because of the changing culture, but the home category catalogue accounts for 40% of JCP's online sales. JCP re-introduced the catalogues was reinstated in 2015 (not to recruit, but maintain existing clientele), but were only 120 pages long and for a certain category of products along. On the other hand, the online retail industry is growing considerably.

Figure 4: catalogues market is shrinking

Effectively, JCP's business model would be improved by merging the catalogue business with electronic commerce. With the declining baby-boomer generation, JCP could successfully replace them with the millennial generation. The company should create an online shopping experience that is similar to catalogues, including realistic, high-definition images, but with shopping carts to make the purchases. Eventually, the catalogue-like electronic commerce would replace the catalogues. While the company is a second mover into the e-commerce market, it will be a first move in bringing the catalogue generation online, while also using the experience of other companies such as Amazon. com, to ensure that its e-commerce platform is



the best (MarketLine, 2014; Hitt, Ireland, & Hoskisson, 2007). Even most importantly, digital systems allow for greater flexibility in pricing, which may be automated to optimize on varied objectives, including estimating customer demand, identifying market opportunities, and rolling out new products/promotions.

The company needs to transform its core operations around the recent growth in the online market, including an overhaul of the core merchandising, pricing operations and inventory. By including distribution supercentres (and increasing the number of stores that online buyers may order from), the company can have the flexibility required to serve a greater market than can be covered by its current infrastructure, while at once competing with large internet retailers such as Amazon. Even most importantly, the flexibility to run a successful electronic commerce enterprise stems from lower costs, high flexibility and reliability. Currently, even the largest e-commerce firms (such as Amazon. com) struggle frequent service outages, which dent customer confidence. Even most importantly, JCP needs a scalable e-commerce platform with different, seamless access points to meet the fast-changing preferences and technology while keeping costs low. To this end, JCP should replace its data centres with an elastic cloud-based platform that runs applications using services-driven architecture. Cloud-based electronic commerce, near 100% availability, ensure rapid access to information, access to a huge range of services at a lower cost e. g. Oracle's Retail Merchandise Planning and Optimization. Cloud services also permit the provision of differentiated customer services and knowledge management, by leveraging on a range of interactive

communication services. With the technical flexibility, JCP will be best able to expand into new product lines, assortments and channels, have scalable and integrated, modular solutions, accurate inventory management systems, efficient supply chain execution based on the latest scientific plans and forecasts (Oracle, 2014; Hitt, Ireland, & Hoskisson, 2007, p. 147).

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