

America's mid-tier darling gets ON TRACK WITH OFF-MALL

BY KELLY NOLAN

The off-mall strategy of JCPenney will continue to be the key to its growth moving forward, the company's management revealed at its annual analysts conference April 17 and 18. Of the total 250 stores JCPenney plans to open over the next five years, about 80% to 90%, or 200 to 225 stores, will be in the off-mall format. JCPenney will open 50 stores in 2007, with 50 stores per year after that.

One notable exception to JCPenney's off-mall strategy will be the addition of a store in the Manhattan market, in the Manhattan Mall in Herald Square. JCPenney said it has signed a letter of intent with Vornado Realty to open the property, which will measure in at 150,000 gross square feet, by late 2008 or early 2009.

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Women's apparel is being featured in the front of the store at Penney's latest off-mall formats.

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The men's department at off-mall stores features the recently launched Concepts by Claiborne line as well as updated fixtures.

"I think this is a very exciting time for JCPenney," according to Michael Dastugue, senior vp and director of property development for JCPenney, when discussing the company's store rollout plan. "Delivering an easy, enjoyable and exciting shopping experience is the key component for our long-range plan and it is critical to making JCPenney the growth leader in the industry."

The off-mall format has been a success story for JCPenney since it began implementing the strategy in 2003, when it opened three out of six total stores in the off-mall format. In 2004, the company more than doubled that number, with eight stores opening in the off-mall format out of 17, and in 2005, 11

out of 18 total stores opened were off-the-mall. Last year, 23 out of 28 total stores opened were all free-standing units, and this year, the company projects that it will open 40 out of 50 total store openings as off-mall.

Performance at off-mall units, currently totaling 45, continues to beat the company average in gross sales per square foot and measures up strong against other off-mall department store rivals, namely Kohl's. These stores that range in size from 95,000 square feet to 100,000 square feet average sales of \$250 per gross square foot, versus \$170 per square foot for the chain's average.

"The off-mall stores allow us to

add new customers and are outperforming the competition," Dastugue said. "[The new off-mall format] provides best-of-class shopping experience for our customers."

Dastugue said that overall, square footage growth will average 18% a year. At 1,033 stores as of January, JCPenney has identified 400 possible sites for new locations, relocations or expansions during the next five years and going forward. JCPenney will continue to open a few mall-based stores in the future, but only on a takeover or acquisition basis, Dastugue said.

JCPenney plans to open these new off-mall stores in large, suburban markets as well as mid-size

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markets. Large markets for Penney's are defined as those where the retailer already has a multi-store presence, and the trade-area population is 200,000 to 300,000. Mid-size markets are primarily single-store markets, with populations ranging from 100,000 to 300,000. Two markets highlighted by Dastugue in his presentation were the Chicago and Houston markets, where the company plans on opening six and two new stores, respectively, this year.

Dastugue pointed out that Penney's will continue to open stores in malls as space and acquisitions in key markets become available. However, there's no question that the off-mall provides the most opportunity for the company's continued and sustained growth, analysts say. Property development is moving away from malls and toward more freestanding lifestyle centers, and time-starved Middle America shoppers are finding that off-mall stores provide more convenience when they shop.

"If you want to grow, you have to go off-the-mall," said Howard Davidowitz, chairman of Davidowitz & Associates, a national retail and investment banking firm headquartered in New York City. "I think there are a total of maybe six malls planned to be built this year. Unless you're taking over an old May Co. store space, there simply is no opportunity for growth for department stores other than off-the-mall."

Off-mall stores tend to be more profitable real estate because shoppers tend to visit them more often, according to JCPenney. The company said that the customers who shop at their new off-mall stores visit twice as often as typical JCPenney mall shoppers because

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Updated fixtures play up the private label and exclusive brands at JCPenney. The intimates department has been updated to create a boutique feel that emphasizes the company's Ambrielle line. Dressing rooms include lounge chairs and plasma TVs.



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they visit more frequently during the week versus mainly on weekends or holidays for mall units. These off-mall shoppers also double their wallet spend in new off-mall stores compared to those stores currently open in the mall.

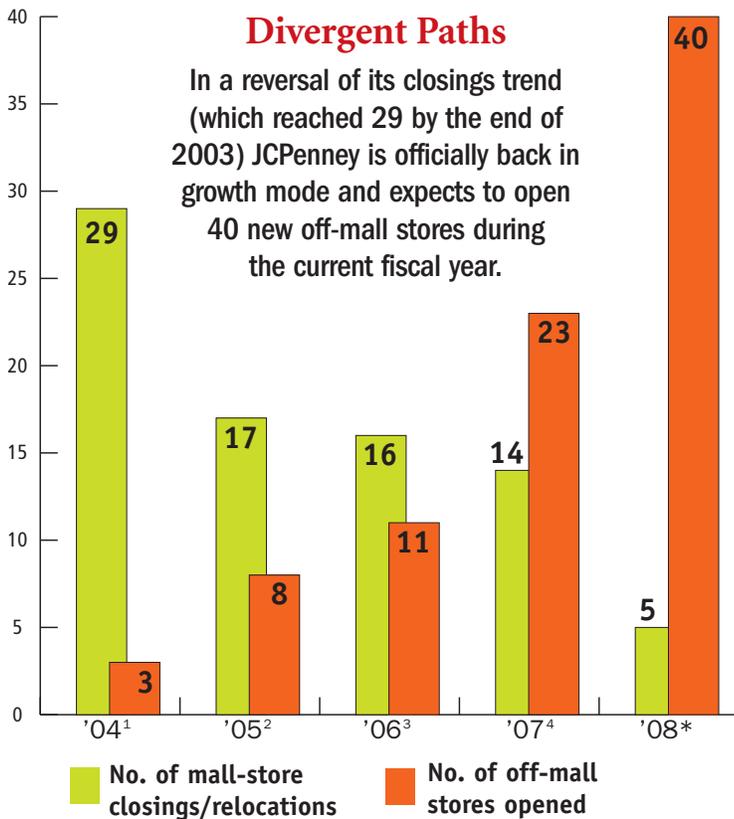
Off-the-mall stores fit more easily into the Middle American shopper's weekly routine, Davidowitz said.

"Americans have very little time," Davidowitz said. "And they are looking to get as much done in as little time as possible. They want to go to their Target, their Kroger, their Home Depot ... all of these off-the-mall. And if you look at it, these are all some of the nation's biggest retailers. To continue to compete and grow, JCPenney has to explore this space along with some of the big guys."



Store-within-a-store Sephora boutiques are located near the front and next to women's apparel at the latest JCPenney "B" box off-mall format stores such as this one in Fort Worth, Texas. The Sephora boutiques are arguably one of the biggest selling areas for JCPenney.

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Source: Company reports * projections for current fiscal year
¹ FY ended 1/31/04; ² FY ended 1/29/05; ³ FY ended 1/28/06; ⁴ FY ended 2/03/07



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The shopping experience is an important part of JCPenney's new long-range plan, and renovated stores are another key component to JCPenney's growth strategy. Dastugue said JCPenney plans to renovate 300 stores by the end of 2011, with 65 store renovations approved for this year. Currently, 45% of JCPenney's stores are new or renovated, and the company's goal is to have 80% of its store base renovated by 2011, with those stores accounting for 90% of its sales and operating profit.

JCPenney's management knows this is possible because the stores the company has renovated from 2003 through 2005 exceeded the company's store profit plan by 21% in 2006. All new renovated stores moving forward will be in the same general format as the company's new "B" box off-mall format, with just over 100,000 square feet of selling space, two front-facing checkouts, wide aisles, overhead "way-finding" signage, price-check scanners, updated fixtures in areas such as intimates and jewelry, and improved dressing rooms with plasma televisions and lounge chairs. The new store redesign also has allowed JCPenney to feature women's apparel in the front of the store, next to Sephora, with a "hot spot" mannequin

display showing the latest looks and trends. "All of these improvements lead to increased sales," Dastugue said. "We're pleased with enhancements ... [and] we are commit-

ted to making a best-in-class shopping experience for our customers. We're committed to making JCPenney the industry leader by renovating and growing our store base." ■



New signs and fixtures are featured in the latest off-mall format stores. JCPenney plans to renovate 300 stores by 2011 in the "B" box format.

Expansion

The race is on for off-mall dominance

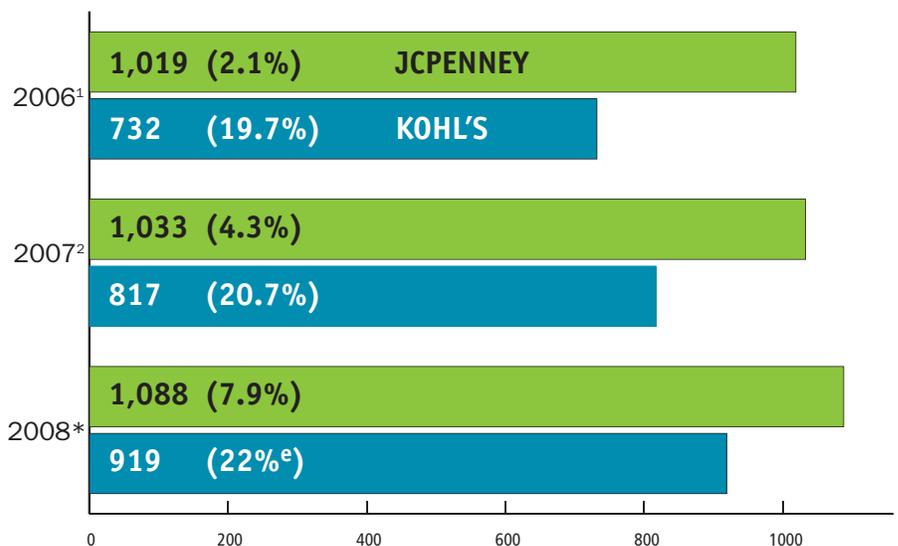
JCPenney's continued focus on off-mall expansion could spell trouble for its competitors. Kohl's, whose heritage has always been in the off-mall space, is the most obvious offender. While Penney's plans to open 50 stores per year through 2009, most of which will be in the off-mall format, Kohl's opened 85 last year alone. JCPenney's other major competitor to some extent, Macy's, is unlikely to pursue an off-mall strategy in the near future, at least until the company is able to fully digest the May Co. merger.

"Off-mall expansion means that JCPenney and Kohl's will be locked into a 'my brands are better than your brands' fight for the upper middle," said Carol Spieckerman, president of new-marketbuilders, a consulting firm for retail suppliers. "Kohl's will no longer be the default soft-lines retailer for shoppers who want to avoid the mall. I have believed for a while that at least part of Kohl's success has been achieved by default; there simply hasn't been a lot of soft lines competition in the markets that they serve."

JCPenney's two deadliest weapons moving forward could be its relatively new "B" box off-mall format as well as the specific locations it chooses to accelerate its store growth. During day one of the conference, management showed analysts its Alliance Town Center Store, which opened in the Fort Worth, Texas, area last October. The Alliance store is a good prototype for the off-mall stores JCPenney has opened thus far and for those it will continue to open moving forward.

The Alliance Town Center store recalls a few features of Kohl's store prototypes, mainly a convenient, quick checkout area and a one-level "race track" store format. The store, which measures 104,000 gross square feet, features wider lanes, clear overhead signage, lifestyle graphics, enhanced lighting and two front-of-

Market presence: JCPenney versus Kohl's
Total store count at year end (non-mall units† as a pct. of total)



† Defined as "off-mall" by JCPenney and "freestanding" by Kohl's. e: estimate
¹ Includes figures for FY ended 1/28/06 ² Includes figures for FY ended 2/03/07 * projections for current fiscal year
 Source: Company reports and RetailingToday research

store checkouts, a concept that the company has been testing in a handful of off-mall stores since last year. The Sephora "store-in-store" and the jewelry department, arguably two of the biggest selling areas for Penney's, are both featured in the front of the store.

The Alliance Town Center unit also is in a convenient, suburban and, most importantly, developing location. The store is located in one of the fastest growing communities in the Dallas-Fort Worth complex, with a population growth of 4.5%, mainly filled with new homes and families with children, according to JCPenney management.

More development is expected to come

nearby by the Alliance Town Center soon, making JCPenney the first retailer in the area. JCPenney expects that there will be approximately 1 million square feet of retail and restaurants in the center within 12 to 24 months.

The profitability story associated with off-mall locations, as well as the distinct type of locations being chosen by JCPenney as it ramps up its future expansion in the area, will make the proposition more appealing to suppliers, too.

"Every Penney's supplier benefits when Penney's opens a high-profit location because suppliers want their bills paid by an economically strong customer," said Mark Lilien, a consultant for Retail Technology Group. ■

Marketing

Making its 'lovemark' with consumers

At last year's annual meeting, JCPenney announced a new lifestyle branding strategy that would help it build an "emotional connection" with its conservative, traditional, modern and trendy consumers. At this year's meeting, the company explained how its new overarching brand positioning, called "Every Day Matters," would help it expand on this developing relationship and sustain and accelerate company growth moving forward.

"What matters most to our customer every day is what matters to us," said Mike Boylson, chief marketing officer for JCPenney. "We want to help them develop their quality of life and help with the little things that matter most to them."

Emotion is the new frontier of marketing, and consumers return to brands that they trust and respect, an idea that JCPenney and its advertising firm, Saatchi and Saatchi, call a "lovemark." A "lovemark" means that customers identify with the brand, because it is known for something that they care about. It goes beyond the basic need or commodity status and above the short-lived identity of a "fad."

To find out how JCPenney could make their brand resonate with customers before they launched the campaign, the company spent time in 16 different cities, interviewing and living side-by-side with shoppers to find out what made them tick.

"We found out that women love to shop ... because it inspires them and it provides emotional gratifica-

"What matters most to our customers every day is what matters to us. We want to help them develop their quality of life and help with the little things that matter most to them." — Mike Boylson, cmo

tion, not just because they need to or have to or just because something goes on sale," Boylson said. "Women of America seek inspiration to create a better life for themselves and their families."

"Every Day Matters" is the first campaign in the company's 105-year history to play upon those heartstrings by touching the consumer at every shopping opportunity possi-

ble. "Every Day Matters" is more than just a tagline or a marketing campaign to the company, Boylson said. It is a way of life. It will be reflected in the company's lifestyle merchandising, updated store environments and enhanced customer service. JCPenney is also providing extended training to all of its 151,000 associates on the company's new initiative.



Every Day Matters™
jcp.com

"We are not just looking to sell merchandise, we are looking to sell an experience," Boylson said.

"Every Day Matters" will be JCPenney's way of maintaining loyal customers, as well as obtaining new ones moving forward. According to Boylson, of a total 111 million U.S. households, about 44 million households, or approximately 60%, have bought something at a store within the past year. They are "known" customers, meaning that JCPenney has name and address information for them. However, JCPenney estimates that another 20 million households are still unknown, meaning those customers have shopped the store but the company has little information about them because they used cash for a transaction or a credit card that does not allow JCPenney to ask for information.

"The good news is that in addi-

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tion to building more business with existing customers, there's also other new customers to attract," Boylson said.

The "Every Day Matters" campaign could be the vehicle that does just that. JCPenney launched the campaign following the Academy Awards on Feb. 25, with an audience of more than 41 million captive viewers. JCPenney said that in the weeks that have followed the Academy Awards, it estimates that "Every Day Matters" television ads reached 89% of all women ages 18 to 54 more than 12 times. (JCPenney's described "target" customer is a female, ranging in age from 35 to 54, who makes most of the major purchasing decisions in her household).

In addition, JCPenney is also making a targeted effort to reach the Hispanic population with the "Every Day Matters" campaign. Starting Feb. 22, JCPenney aired "Every Day Matters" ads on Univision, a leading Spanish-language network, during the company's exclusive sponsorship of "Premio lo Nuestro a la Musica Latina," the longest-running and most popular awards show for the Hispanic audience.

Although it's too early to tell whether or not JCPenney will be able to woo customers with its new tagline, some industry analysts wonder whether or not the company's new mantra will be as effective, or demonstrative of the company's message, as its old one, "It's All Inside."

"As high as I am on Penney's in terms of brand development, trend interpretation and value, 'Every day matters' strikes me as fairly irrelevant to consumers," said Carol Spieckerman, president of newmarketbuilders, a retail vendor consulting company. "To me, the tagline makes more sense as an internal, corporate mantra that will drive Penney's new focus on service, risk-taking and employee engagement." ■

Below: "Every Day Matters" campaign debuts at the 2007 Academy Awards



The "Every Day Matters" television campaign debuted after the Academy Awards and has branched out to Hispanic customers with ads featured on Univision.



Above: The latest "Every Day Matters" commercial

RT photo collage