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High-Low Pricing (HL) vs. Every Day Low Pricing (EDLP) Strategy: The Consequence of JC Penney's Move from HL to EDLP

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ABSTRACT

Retailers follow one of two pricing strategies – high-low (HL) and every-day low pricing (EDLP). The HL strategy is where the retailer will start with a higher price and give deep discounts in order to attract customers. On the other hand, retailers that follow the EDLP strategy keep prices very low and rarely giving price discounts. Not too long ago, JC Penney changed its strategy from HL to EDLP that had a very negative impact on its performance. The study hypothesizes that retailers who change their strategy (from HL to EDLP or EDLP to HL) will not be successful if they do not change their entire marketing mix, and if its customers do not accept the change in strategy. This study has two parts, each part testing five hypotheses. The first part tests five hypotheses investigating the effects of JC Penney's change in strategy on its financial performance and finds support for all of the five hypotheses, i.e., JC Penney's financial performance worsened because of its move from a HL strategy to an EDLP strategy. This study contends that a firm's change in strategy is going to be successful only if its customers (consumers) accept the new strategy. The second part of the study tests five more hypotheses to find whether consumers accepted JC Penney's change in strategy. The findings of the study support the hypotheses that consumers do not accept the change in strategy. This is because consumers perceive JC Penney to be a medium-price department store that sells homogeneous and heterogeneous shopping goods using a HL strategy, not EDLP strategy. It is very likely that JC Penney's change in strategy was not very successful because consumers still perceive JC Penney as a department store with a HL strategy. For a change in strategy to be successful, customers of the firm have to accept the change in strategy.

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INTRODUCTION

When competing in the market place, marketers of goods and service have used Porter's three generic marketing strategies of Low Cost, Differentiation, and Niche/Focus. Similarly, in retailing, retailers also have the option of using two pricing strategies – Every Day Low Pricing (EDLP) or the High-Low (HL) strategy (Garretson and Burton 2003; Pechtl 2004). Retailers who follow the EDLP strategy typically have attractive low prices for their products that will remain low for a longer period and rarely give price discounts (Pechtl 2004). On the other hand, retailers who follow the HL strategy have prices that fluctuate wildly, i.e. they give deep discounts on the products/services that they are selling (Ellickson and Misra 2008; Pechtl 2004; Bailey 2008). The strategic choice of EDLP or HL strategy involves setting prices for across a broad range of products (Bell and Lattin 1998). Consumers typically shop for a wide range of products and visit a number of stores and these consumers may not have a very good knowledge of prices of individual products (Dickson and Sawyer 1990), but they can differentiate different stores based on their overall price levels (Alba et al. 1994).

Some retailers have tried to switch from one pricing strategy to another, and the results are mixed. A study by Mulhern and Leone (1990) found that when retailers switch from EDLP strategy to HL strategy, their sales increased. On the other hand, when a retailer switched from HL strategy to EDLP strategy, there was a 3% increase in units for manufacturers, but a huge 18% loss in profits for the retailer (Hoch, Drėze, and Purk 1994). JC Penney is one of those retailers who switched from the HL strategy to the EDLP strategy with dismal results. JC Penney hired Ron Johnson as their new CEO in November 2011 to turn the company around. Ron Johnson switched JC Penney's strategy from Hi-Lo to EDLP. This change in strategy did not help JC Penney's performance. On the contrary, the performance became worse than before Ron Johnson arrived at the company. Ron Johnson let go in April 2013. It appears that after Ron Johnson's departure, JC Penney has reverted to its original HL strategy. Unfortunately, JC Penney is still struggling, and its performance has not improved significantly. It may take a very long time before JC Penney bounces back.

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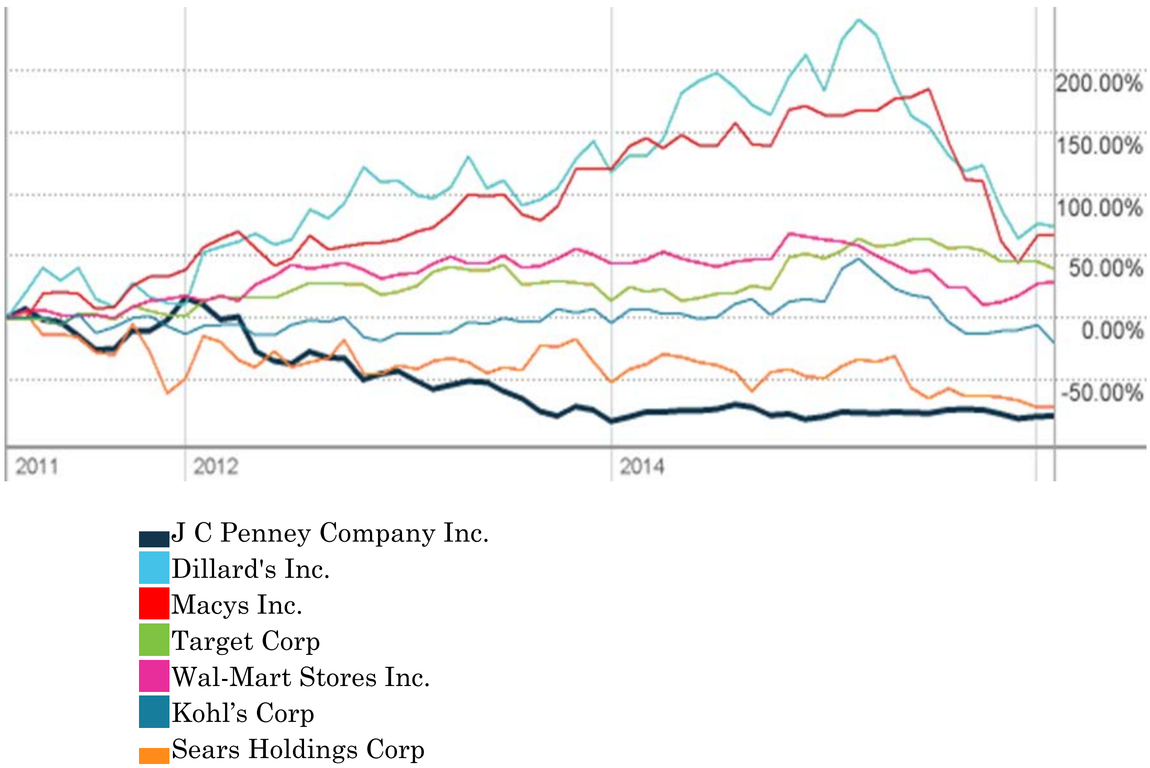
Figure 1
JC Penney's Stock Price in Comparison to its Competitors



Source: CNNMoney.com

As can be seen from Figure 1 above, JC Penney's stock price dropped dramatically since the beginning of 2012, especially during Ron Johnson's tenure, when JC Penney's pricing strategy changed from HL to EDLP. During the same period, the stock price of JC Penney's competitors did not drop as dramatically. Similarly, Figure 2 below shows that in comparison to the retail index, JC Penney's stock price also did not fare very well, falling precipitously while other retailers did very well.

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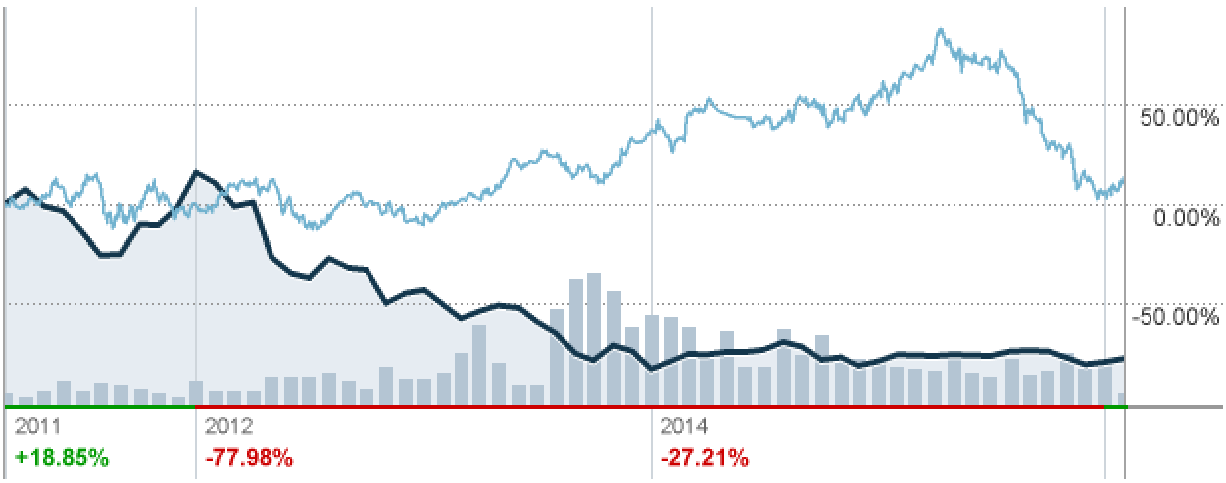
Figure 2
JC Penney's Stock Price in Comparison to the Retail Index



The thick black line represents JC Penney's stock price from Jan 2011 to Feb 2015
The blue line represents the retail index from Jan 2011 to Feb 2015
Source: CNNMoney.com

Why did JC Penney's stock price drop so drastically in the last few years? This study postulates that JC Penney's stock and its financial performance suffered because JC Penney had been following a HL pricing strategy until November 2011, but then changed its pricing strategy to EDLP after JC Penney hired Ron Johnson as their CEO. This change had a very negative impact on JC Penney's performance that ultimately led to the ouster of Ron Johnson. JC Penney is still struggling to get back on track.

THEORETICAL BACKGROUND

Hi-Lo (HL) Pricing Strategy

The HL strategy uses heavy promotional discounts, usually through manufacturers' price breaks or special deals, and in markets that are relatively wealthy and not very diverse (Ellickson and Misra 2008). The HL strategy has days of temporary price discounts followed by weeks of normal prices and encourages to bargain-hunt and cherry pick (Pechtl 2004). Retailers following the HL strategy give temporary deep discounts on a smaller group of categories (Bell and Lattin 1998). The HL strategy has seen different results for different levels of price changes. For instance, shallow price drops increase sales more than those that are not very frequent, but are deeper (Hoch, Drėze, and Purk 1994). Consumers who like the HL strategy enjoy looking around and have a sense of accomplishment after buying a product at a lower price (Pechtl 2004). Small basket customers prefer stores with HL strategy because they can take advantage of lower overall average prices through opportunistic buying behavior, even though these stores may be at higher average prices than EDLP stores (Bell and Lattin 1998). Customers who favor the HL strategy delay their purchases and wait for promotions. These consumers are not brand loyal and tend to stockpile products (Ailawadi, Lehman, and Nelson 2001); however, they may switch stores to buy brands they are loyal to if that brand is cheaper in another store (Pechtl 2004). HL retailers advertise very heavily in order to inform customers about their constantly changing promotions. However, consumers become suspicious if retailers have high regular prices followed by frequent sales (Ortmeyer, Quelch, and Salmon 1991). HL consumers prefer HL stores (Pechtl, 2004).

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EDLP Pricing Strategy

The EDLP strategy does not rely on promotional pricing like temporary price cuts, prices are typically low throughout the store, and the retailer promises that the low prices will be the same for a very long period of time (Pechtl 2004). EDLP retailers position themselves as having low prices everyday on a large assortment of product categories and the pricing in EDLP stores is such that the category prices are always lower than the HL stores' expected prices (Bell and Lattin 1998). This strategy has been around for quite some time, even though Wal-Mart may have made it popular. Discount retailers like Home Depot, Lowe's, Target, etc. have been using EDLP strategy very successfully for decades (Ellickson and Misra 2008). Customers who favor EDLP prefer well-known brands since it reduces customer anxiety about changing prices and motivates customers not to check prices constantly (Pechtl 2004). Consumers who prefer the EDLP strategy want to minimize time and effort and thus have large shopping baskets (Pechtl 2004).

Large basket shoppers are more responsive to prices across different categories of products, but are less responsive to prices in any individual product category, i.e., the large basket shopper is more conscious of prices for the overall basket of products, thus retailers should target large basket shoppers through pricing and advertising of staples (Bell and Lattin 1998). Retailers use EDLP strategy in markets that have low-income consumers who are very price sensitive and very diverse (Ellickson and Misra 2008). The EDLP strategy focuses on customers who not very informed on prices and who do not mind traveling a long distance for their shopping needs (Pechtl 2004). Customers who prefer the EDLP strategy tend to complete their shopping/purchase on a single trip or purchase from a single store, and they are large basket shoppers (Bell and Lattin 1998). EDLP stores thus carry a larger inventory for these customers (Ellickson and Misra 2008). Large and vertically integrated chains are more likely to use EDLP than smaller stores (Ellickson and Misra 2008). Based on the availability valence framework, Tietje (2002) found that with EDLP pricing, consumers perceived an immediate reward by the retailer since the retailer did not give frequent discounts. High sale-prone consumers are less likely to discount information on sales promotion than low sale-prone consumers (Garretson and Burton 2003) are, and a consumer's attitude towards price promotions will affect his purchase intention (Laroche et al. 2003).

A high store loyal consumer us usually very familiar and committed to shopping in one store out of a number of stores (Odekerken-Schröder et al. 2001), and due to store switching cost (Ailawadi, Nelson, and Gedenk 2001), he is less likely to switch to a competitor's EDLP offering than a low store loyal consumer (Bailey 2008). EDLP strategy does not result in attracting new customers (Hoch, Drėze, and Purk 1994). Consumers who have low store loyalty and are high in sale proneness will have a more favorable attitude towards a competitor's EDLP policy and will be more likely to shop there in comparison to a high store-loyal consumer (Bailey 2008). EDLP consumers prefer EDLP stores (Pechtl 2004). Based on the above, this author proposes the following hypotheses for JC Penney's performance when it changed its strategy from Hi-Lo to EDLP.

H1: JC Penney's change in strategy from HL to EDLP had a negative impact on its sales.

H2: JC Penney's change in strategy from HL to EDLP resulted in lower sales, and as a result, its gross margin as a percentage of sales will fall.

H3: JC Penney's change in strategy from HL to EDLP resulted in lower revenue (and operating costs did not fall enough), and consequently, its operating cost as a percentage of sales will increase.

H4: JC Penney's change in strategy from HL to EDLP will result in lower profitability (as measured by operating income as a percentage of sales and earnings before interest and taxes as a percentage of sales).

H5: JC Penney's change in strategy from HL to EDLP will have a negative effect on its stock price (and valuation).

Price-Image in Retailing

Consumers also have a brand image of a retailer and price image is part of the overall brand image of the retailer (Keller 2012). Price image is a function of retailer-based factors that the retailer can control and consumer based factors that may be controllable to some extent by the retailer (Hamilton and Chernev 2013). Consumers make purchase decisions based on the price charged by a retailer and the price image of the retailer, however there is very little research to show how consumers form these images and how it affects their buying behavior, i.e., what are the antecedents and consequences of price image (Hamilton and Chernev 2013). Consumers typically associate an overall level of prices with a retailer and that considered as the price image of a retailer. The price image that a consumer has about a retailer is qualitative and ordinal and reflects the perception the consumer has about the overall level of price about the entire store, i.e. is the retailer expensive or not expensive (Hamilton and Chernev 2013). Consumers may rely on as few as three to five key prices before they form an overall price image of a store (D'Andrea, Schleicher and Lunardini 2006). Consumers tend to be sensitive to the average price level of a store (a store's price in comparison to its competitors) when making purchase decisions (Singh, Hansen, and Blattberg 2006). A store's atmosphere like design & décor, music, etc., affects the price image of a store (Baker, Grewal, and Parasuraman 2002).

It is likely that there is a relationship between a retailer's price image and its EDLP or HL pricing strategy, however, this has not been studied very extensively (Hamilton and Chernev 2013; Bell and Lattin 1998; Kalyanaram and Winer 1995). The price image of a retailer is affected by the assortment the retailer carries (Chernov and Hamilton 2009; Iyengar and Lepper 2000), i.e. a specialty store with low assortment typically has a higher price image than a large big box store that has a much larger assortment. Service quality of a retailer also affects its price image (Voss, Parasuraman, and Grewal 1998), i.e. the higher the level of service offered by a retailer the higher the price image. A retailer's price image affects how consumers evaluate the individual prices of the retailer's offerings (Hamilton and Chernev 2010). A retailer's price image affects how fair or reasonable consumers perceive the retailer's price is in comparison to its competitors (Campbell 2007; Xia, Monroe, and Cox 2004). Consumers who are price sensitive are inclined to choose stores that have a lower price image and these stores typically lose volume and revenue if a newer lower price image store opens its doors in the neighborhood (Singh, Hansen, and Blattberg 2006). A price war between stores makes consumers more price sensitive (Van Heerde, Gijsbrechts, and Pauwels 2008). Consumers also spend more per visit when shopping at lower price image retailers in comparison to retailers that have a higher price image (Singh, Hansen, and Blattberg 2006; Van Heerde, Gijsbrechts, and Pauwels 2008).

Consumer Learning and Price-Image

The price image that a consumer has of a particular retailer tends to be relatively stable and long term in nature, i.e. consumers do not easily change their price image of a retailer**.** Consumers tend to change their price image of a retailer only after they encounter a persistent change in prices of the retailer's offerings over an extended period. Consumers are uncomfortable and choose not to believe in prices that are in conflict with their past beliefs about a retailer's over price (Hamilton and Chernev 2010; Srivastava and Lurie 2001). Consumers typically ignore new information that is in conflict with their opinions based on past information (Van Osselaer and Alba 2000). The stronger

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the belief a consumer has about a retailer's price image the less likely he is to change his belief about the retailer, and the longer it will take to change that belief about the retailer. Consumers typically change their price image about a retailer upwards rather than downwards implying that the retailer has now become more expensive than before (Hamilton and Chernev 2009).

Consumers use compensatory factors to form the price image of retailers. For instance, if a retailer carries upscale name brand items, offers good service and good shopping experience then consumers perceive that retailer to have a higher price image. On the other hand, another retailer that does not carry upscale brand name items, does not have good service and whose shopping experience may be average, even though the former may retailer have lower prices than the latter retailer (Chernev and Carpenter 2001). Consumers infer that these factors cost money and thus the retailer should be more expensive. A retailer following a HL strategy offers prices that vary widely over time, typically through promotional discounts. On the other hand, a retailer following the EDLP strategy has relatively stable prices that do not vary over time. Consumers thus associate a price image uncertainty for retailers that follow the HL strategy in comparison to stores that follow the EDLP strategy (Hamilton and Chernev 2010).

Price image of retailers are formed by items that exert a disproportionate influence on consumers are referred to as known value items (KVI heuristic). Consumers also form price image of retailers based on the price of the entire basket of goods they purchase during a shopping trip (basket heuristic). Based on this, Hamilton and Chernev (2010) propose that consumers using the KVI heuristic will have a lower price image of a retailer following the HL strategy than a consumer using a basket heuristic. Conversely, consumers using a basket heuristic will form a lower price image of the EDLP store than a consumer using the KVI heuristic.

Based on the above discussion, it is clear that consumers form price image of retailers not just based on the overall price of the retailer, but on a host of other issues. If a retailer wants to manage its price image then it should not just change prices of products available in the store, but it should also manage other price and non-price related factors that influence consumers' price image, i.e. the price image of a retailer depends on the combination of all of the marketing mix variables (Hamilton and Chernev 2010).

The main hypothesis of this study is that when JC Penny hired Ron Johnson as their new CEO he changed JC Penney's strategy from a High Low strategy to Every Day Low Price strategy that resulted in the dismal performance of JC Penney. This author proposes that JC Penney's strategic switch failed due to a combination of the above factors. Consumers' price image of JC Penney was that it was a HL store and not and EDLP store (HL strategy is also typically used by department stores while the EDLP is followed by discount stores). Based on the above, this paper proposes the following hypotheses relating to the price-image of JC Penney (and other retailers), as perceived by consumers. The paper also proposes that consumers typically expect certain products to sell using the HL strategy while they expect other products to sell using the EDLP strategy.

H6: Because JC Penney is a department store, consumers perceive and expect JC Penney to follow a HL strategy, not EDLP strategy.

H7: The price-image of JC Penney (in the minds of consumers) is that it is a medium priced retailer, not a retailer with low/very low or high/very high prices.

H8: Consumers expect convenience products (high frequency products sold through discount and convenience stores) to be sold using EDLP strategy instead of HL strategy.

H9: Consumers perceive heterogeneous and homogeneous shopping products (sold through department stores) to be sold using HL strategy instead of EDLP strategy.

H10: Consumers perceive specialty products to sell using HL strategy instead of EDLP strategy.

METHODOLOGY

This study uses two different sets of data to test the ten hypotheses. To test the first five hypotheses, JC Penney's quarterly and annual financial statement is used. To test the last five hypotheses, a survey of consumers (students in a university) is used.

The study uses JC Penney's financial statement to analyze its performance. This is very similar to the event-study methodology that Fama, et al. (1969) use when studying the effects of stock splits on security returns. There are a number of models under the event study methodology. This study uses the 'normal return model' that measures the impact of an event using three time- periods. The first is time period is the 'estimation window' (pre-event), the second is the 'event window' (during event), and the last one is the 'post event window' (after the event). The three time-periods used for this study are of equal length. The first time-period (estimation window) is from May 2010 to October 2011 (when JC Penney was using the HL strategy). The second time-period is from November 2011 to April 2013 (event window, the tenure of Ron Johnson when the strategy changed from HL to EDLP). Finally, the period from May 2013 to October 2014 represents the time after the resignation of Ron Johnson (post event window) and when JC Penney was very likely transitioning from EDLP to HL.

A questionnaire is given to one hundred twenty students in a medium size university in the west in December 2014. The survey consists of questions asking respondents for their perceptions of the price-image of the seven retailers (JC Penney, Kohl's, Sears, Macy's Dillard's, Target, and Wal-Mart), and whether the seven retailers were following the EDLP or HL strategy.

RESULTS

In order to test the first five hypotheses JC Penney's income statement is analyzed for three time-periods – before (HL strategy), during (EDLP strategy and Ron Johnson's tenure), and after (EDLP to HL, after Ron Johnson's tenure). In particular, comparison is done with regards the sales, gross margin as a percentage of sales, operating expense as a percentage of sales, operating income as a percentage of sales, and earnings before interest and taxes as a percentage of sales. Table 1 below shows the results of the findings.

Table 1
Financial Performance of JC Penney before, during, and after Ron Johnson's tenure

Financials	Before Ron Johnson (HL strategy) May 2010-October 2011	Ron Johnson as CEO (EDLP strategy) November 2011- April 2013	After Ron Johnson's exit (EDLP to HL) May 2013-October 2014	F	Significance
Sales	$ 3,981,000	$ 3,144,000	$ 2,761,000	21.64	0.05
GM/Sales	0.3974	0.3431	0.3295	8.633	0.05
OE/Sales	0.3655	0.4257	0.4146	5.094	0.05
OI/Sales	0.0309	-0.0826	-0.813	9.421	0.05
EBIT/Sales	0.0155	-0.1011	-0.1323	10.325	0.05

Source: JC Penney's quarterly financial statements.

The above table shows sales in the three time-periods were highest when JC Penney was following the HL strategy. Sales fell when JC Penney switched to the EDLP strategy. Sales have not recovered ever since JC Penney adopted the EDLP strategy. This difference is significant at the 0.05 level. This supports hypothesis 1.

The EDLP strategy is typically associated with lower gross margin since it relies on high turnover (e.g., Wal-Mart). The above table shows that JC Penney's gross margin, as a percentage of sales were highest when the HL strategy was used, and it fell when JC Penney switched to the EDLP strategy. The gross margin as a percentage of sales has been falling since then. This difference is significant at the 0.05 level, thus supporting hypothesis 2.

Sales fell, but operating costs did not fall proportionately. Table 1 show that the operating expense as a percentage of sales was lowest when the HL strategy was used and it increased when JC Penney switched from the HL strategy to EDLP strategy. However, operating cost as a percentage of sales have fallen since Ron Johnson's departure and since JC Penney has transitioned from EDLP to HL strategy. This is significant at the 0.05 level, thus supporting hypothesis 3.

Because operating costs did not fall in the same proportion as sales, operating income as a percentage of sales was the highest when HL strategy was used. Operating income as a percentage of sales kept falling ever since EDLP strategy was adopted. This difference is also significant at the 0.05 level. Similarly, earnings before interest and taxes as a percentage of sales were also the highest when HL strategy was used and it was significant at the 0.05 level. Both of these findings support hypothesis 4

Next, the stock price of JC Penney during the three time-periods – before Ron Johnson (HL strategy), during (EDLP strategy) and after (EDLP or HL) his tenure is used to find if the change in strategy resulted in a drop in stock prices (and valuation) of JC Penney. The three time-periods used to test this hypothesis are of equal length and each time-period consists of 79 weeks of JC Penney's stock prices. The study uses three equal time-periods of 79 weeks because Ron Johnson was the CEO of JC Penney for about 79 weeks. The author thinks that for a fair comparison of Ron Johnson's performance the study should use the same amount of time before and after his exit. Table 2 below shows the results.

Table 2
Mean Weekly Stock Prices of JC Penney before, during, and after Ron Johnson's tenure

79 weeks before Ron Johnson (HL strategy) May 2010-October 2011	79 weeks as Ron Johnson as CEO (EDLP strategy) November 2011-April 2013	79 weeks after Ron Johnson's exit (EDLP or HL?) May 2013-October 2014	F	Significance
$ 30.12	$ 26.32	$ 10.48	254.69	0.05

Source: Yahoo Finance.

The above table clearly shows that JC Penney's stock price was much higher when JC Penney was using the HL strategy. The stock price fell when JC Penney adopted the EDLP strategy. Unfortunately, the stock price has kept falling due to a lack of a definite strategy of either HL or EDLP. This change is significant at the 0.05 level, supporting hypothesis 5. One would expect that JC Penney's performance under Ron Johnson would have been better than the two time periods before and after his tenure because the 79 weeks under Ron Johnson included two of the best

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quarters that retailers have in any given year, i.e., the after thanksgiving quarter of November – January. The other two time-periods before and after Ron Johnson had only one of the after thanksgiving quarter. However, in spite of this advantage, JC Penney's performance during Ron Johnson's tenure was lower than the other two time-periods.

The next phase of the analysis uses a survey to find consumer perception of JC Penney's strategy and the price-image of JC Penney. One hundred and twenty students in a medium size university in the west are given a survey to find their perception of JC Penney. The first part of the survey asks respondents to if JC Penney, Kohl's, Sears, Macy's Dillard's, Target, and Wal-Mart are following a HL strategy or EDLP strategy. Table 3 shows the results.

Table 3
Respondents' Perception of Pricing Strategy of Retailers (Hi-Lo or EDLP)

Retailer	Hi-Lo	EDLP	Chi-square	Significance
JC Penney	96 (80%)	24 (20%)	15.6	0.05
Kohl's	90 (75%)	30 (25%)	15.0	0.05
Sears	78 (65%)	42 (35%)	5.4	0.05
Macy's	102 (85%)	18 (15%)	29.4	0.05
Dillard's	108 (90%)	12 (10%)	38.4	0.05
Target	24 (20%)	96 (80%)	21.6	0.05
Wal-Mart	14 (11.7%)	106 (88.3%)	35.3	0.05

Table 3 clearly shows that the department stores like JC Penney, Kohl's, Sears, Macy's and Dillard's are perceived to be following the HL strategy while discounters like Target and Wal-Mart are perceived to be following the EDLP strategy and their respective chi-square show that they are all significant at the 0.05 level. This supports hypothesis 6.

The questionnaire also contains questions relating to the price-image of seven retailers, i.e. did they perceive retailers like JC Penney, Kohl's, Sears, Macy's Dillard's Target, and Wal-Mart as having very low prices, low prices, medium prices, high prices or very high prices. Table 4 below shows the results of the question asking respondents to compare the price-image of the retailers on a scale of 1-5, where 1 represents very high prices and 5 represents very low prices, respondents clearly think that discounters like Target (score of 3.65) and Wal-Mart (score 4.30) have an image of low to very low prices. Department stores like JC Penney (score of 3.08), Kohl's (score of 3.10), and Sears (score of 3.15) have an image of medium prices. Finally, the moderately upscale department stores like Dillard's (score of 1.76) and Macy's (score 1.86) have a price-image of high to very high prices.

The first group consists of JC Penney, Kohl's, and Sears that are perceived to have medium prices (mean price image score of 3.11). The next group consists of retailers like Dillard's and Macy's that are perceived to have high/very high prices (mean price image score of 1.81). Finally, the last group consists of discounters like Target and Wal-Mart that are perceived as having a low/very low prices (mean price image score of 3.98). Based on this grouping, analysis of variance between the three groups is statistically significant at the 0.05 level signifying that respondents perceive significant differences in the price-image of these three groups of retailers. This supports hypothesis 7.

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Table 4
Respondents' Perception of Price-Image of Retailers (Mean Scores)

Retailer	Price-Image	Price-Image of Groups (Group #)	Significance
JC Penney	3.08	Medium price (1)	0.05
Kohl's	3.10	Medium price (1)	0.05
Sears	3.15	Medium price (1)	0.05
Macy's	1.86	Very high/high price (2)	0.05
Dillard's	1.76	Very high/high price (2)	0.05
Target	3.65	Very low/low price (3)	0.05
Wal-Mart	4.30	Very low/low price (3)	0.05

1 = Very High Prices 2 = High Prices 3 = Medium Prices 4 = Low Prices
5 = Very Low Prices

The questionnaire asked respondents to check which products should have Hi-Lo pricing vs. EDLP pricing. Table 5 below shows the results of their responses.

Table 5
Respondents' Perception of Pricing for Products (Hi-Lo or EDLP)

Products	Hi-Lo	EDLP	Chi-square	Significance
Soap, shampoo, toothpaste	10 (8.3%)	100 (91.7%)	40.03	0.05
Cereal, coffee, tea, milk, eggs	14 (11.7%)	106 (88.3%)	36.97	0.05
Meat, vegetables	36 (30%)	84 (70%)	8.83	0.05
Jeans, shirts, skirts, blouse	104 (86.7%)	16 (13.3%)	35.53	0.05
Shoes, socks	80 (66.7%)	40 (33.3%)	7.73	0.05
Refrigerator, washer, dryer	110 (91.7%)	10 (8.3%)	43.37	0.05
Cars	104 (86.7%)	16 (13.3%)	35.53	0.05

As hypothesized, respondents associate Hi-Lo prices with heterogeneous shopping products like jeans, shirts, skirts, blouse, shoes, socks, that are sold in department stores like JC Penney, Kohl's Sears, Dillard's, and Macy's. Convenience products like soap, shampoo, toothpaste, cereal, coffee, tea, milk, eggs, meat, vegetables, that are sold in discount stores like Target and Wal-Mart are associated with EDLP pricing. Respondents also associate homogeneous shopping products like refrigerators, washers, dryers and specialty products like cars to have Hi-Lo pricing, not EDLP pricing. This supports hypothesis 8, 9, and 10.

DISCUSSION

Changing a well-established strategy is very risky, especially if the customers of the firm do not accept that change in strategy. It takes a long time for a firm's strategy to be successful and customers remember the firm's strategy and expect the firm to follow that strategy. However, if a firm wants to change a strategy that is not working, then the firm has to reconfigure the components of that strategy. For instance, if a firm like Neiman Marcus were to change its strategy from 'niche'

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to 'low cost', then the retailer would have to change its entire marketing mix, and it is very likely that Neiman Marcus may not even be successful since its price-image in the minds of consumers is that of a retailer who has very high prices. In evaluating the performance of JC Penney, it appears that what happened with JC Penney was not that its HL strategy was not working, but there may have been some internal operational problems within JC Penney and the new CEO (Ron Johnson) decided to switch to an EDLP strategy in order to solve this problem. Unfortunately, the EDLP strategy did not work, as seen in JC Penney's financial performance when Ron Johnson was the CEO.

It is very likely that JC Penney's move from a strategy of HL to EDLP was unsuccessful because its consumers rejected their EDLP strategy. This is akin to JC Penney changing its positioning in the market. However, consumers did not accept the new positioning of JC Penney, and in their perceptual map, JC Penney was still a retailer with a HL strategy, not EDLP.
This signifies that if a retailer like JC Penney were to move from a medium price image to either a low or high price image, then JC Penney should have changed its entire marketing mix to reflect that change in strategy and even after that it would have taken a number of years for this strategy to be successful. JC Penney did change some of its marketing mix, particularly the design & décor, its logo, its prices, but its merchandise remained the same. It appears that JC Penney was trying to re-position itself from a HL strategy to an EDLP strategy, and re-positioning is one of the most difficult, if not impossible, actions in marketing. It also appears that JC Penney tried to move from a medium price image to a high price image and its consumers were not willing to accept that change, and therefore, J C Penney was not successful in the market. For a strategy to be successful in the market, it is imperative that the costumers of the firm also accept that change. Changing the price-image is not only very difficult, but also, almost impossible.

In comparison to discount stores like Target and Wal-Mart, JC Penney is a department store like Macy's, Kohl's, Dillard's and Sears, and it should have stayed with the HL strategy. It should have tried to do an in-depth analysis of why its performance was slipping, instead of changing to an EDLP strategy. Department stores have typically been associated with HS strategy while discount stores have been associated with EDLP strategy. Reverting to the HL strategy could bring JC Penney back in favor with its customers, thus improving its financial performance. However, this may take some time.

Implications for Marketing Practitioners

A firm has to pick the right marketing strategy to gain a competitive advantage and be successful in the market place. This is not an easy task. A number of firms have failed because they picked a strategy that did not give them a competitive advantage in the market place because they may have had the wrong combination of the marketing mix or may have gone after the wrong target market. If a firm's marketing strategy is successful in the market place and it gives the firm a consistent competitive advantage, it should stick with that strategy. It takes a number of years for a firm to find and fine-tune a successful marketing strategy and the firm should not abandon that marketing strategy. This is even more so when a firm tries to change its marketing strategy. Before a firm changes its strategy it should make sure that it has also changed its marketing mix so that it is consistent with the changed strategy. Even more important, the firm should also make sure that consumers are willing to accept the new strategy. Changing a marketing strategy is one of the most difficult propositions in marketing, just like repositioning. This is what happened with JC Penney when it suddenly changed its marketing strategy from Hi-Lo (which it had been using for a number of years) to EDLP. Customers had become accustomed to JC Penney's strategy of Hi-Lo pricing and did not accept the new EDLP pricing strategy. This led to disastrous results for JC Penney.

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Limitations

Like every study, this study has its own limitation. The generalizability of the study is limited since it uses only one firm – JC Penney – to test the ten proposed hypotheses of the effects of a change in strategy from HL to EDLP. The generalizability of the study would have been much more robust if more firms could have been included in the study. Unfortunately, in the past few years, no other firm has changed its strategy from HL to EDLP.

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