How JCPenny Sailed Deeper into the Red Ocean

JCPenney under its (former) CEO, Ron Johnson, learned the hard way how difficult it is to change a strategic position. When hired as JCPenney`s CEO in 2011, Johnson was hailed as a star executive. He was poached from Apple, where he had created and led Apple`s retail stores since 2000. Apple`s stores are the most successful retail outlets globally in terms of sales per square foot. No other retail outlet, not even luxury jewelers, achieves more.

Once on board with JCPenney, Johnson immediately began to change the company`s strategic position from a cost-leadership to a blue ocean strategy, attempting to combine the cost-leadership position with a differentiation position. In particular, he tried to reposition the department store more toward the high end by providing an improved customer experience and more exclusive merchandise through in-store boutiques. CEO Johnson ordered all clearance racks with steeply discounted merchandise, common in JCPenney stores, to be removed. He also did away with JCPenney`s long-standing practice of mailing discount coupons to its customers. Rather than following industry best practice by testing the more drastic strategic moves in a small number of selected stores. Johnson implemented them wholesale in all 1800 stores at once. When one executive raised the issue of pretesting, Johnson bristled and responded: "We didn`t test at Apple". Under his leadership, JCPenney also got embroiled in a legal battle with Macy`s because of Johnson`s attempt to lure away homemaking maven Martha Stewart and her exclusive merchandise collection.

The envisioned blue ocean strategy failed badly, and JCPenney ended up being stuck in the middle. Within 12 months with Johnson at the helm, JCPenney`s sales dropped by 25 percent. In a hypercompetitive industry such as retailing where every single percent of market share counts, this was a landslide. In 2013, JCPenney`s stock performed so poorly it was dropped from the S&P 500 index. Less than 18 months into his new job, Johnson was fired. Myron Ullman, his predecessor, was brought out of retirement as a replacement.

JCPenney failed at its attempted blue ocean strategy and instead sailed deeper into the red ocean of bloody competition. This highlights the perils of attempting a blue ocean strategy because of the inherent trade-offs in the underlying generic business strategies of cost leadership and differentiation. As a result, JCPenney continues to experience a sustained competitive disadvantage as of this writing.

GE`s Innovation Mantra: Disrupt Yourself!

GE Healthcare is a leader in diagnostic devices. Realizing that the likelihood of disruptive innovation increases over time, GE decided to disrupt itself. A high-end ultrasound machine found in cutting-edge research hospitals in the United States or Europe costs $250 000. There is not a large market for these high-end, high-price products in developing countries. Given their large populations, however, there is a strong medical need for ultrasound devices.

In 2002, a GE team in China, through a bottom-up strategic initiative, developed an inexpensive, portable ultrasound device, combining laptop technology with a probe a sophisticated imaging software. This light-weight device (11 pounds) was first used in rural China. In spring 2009, GE unveiled the new medical device under the name Venue 40 in the United States, at a price of less than $30 000. There was also high demand from many American general practitioners, who could not otherwise afford the quarter of a million dollars needed to procure a high-end machine (that weighed about 400 pounds). In the fall of 2009, GE Chairman and CEO Jeff Immelt unveiled the Vscan, an even smaller device that looks like a cross between an early iPod and a flip phone. This wireless ultrasound device is priced around $5000. GE views the Vscan as the “stethoscope of the 21st century”, which a primary care doctor can hang around her neck when visiting with patients.

Is Coke Becoming a Monster?

While Americans are drinking ever more nonalcoholic beverages, the demand for longtime staples such as the full-calorie Coke or Pepsi are in free fall. More health-conscious consumers are moving away from sugary drinks at the expense of Coke and Pepsi, the two archrivals among regular colas. Unlike in the 1990s, however, Americans are not replacing them with diet sodas, but rather with bottled water and energy drinks. Indeed, Coca-Cola was slow to catch the trend toward bottled water and other more healthy choices such as vitamin water. Protecting its wholesome image, the conservative Coca-Cola Co. shunned energy drinks. The makers of energy drinks, such as 5-hour Energy, Red Bull, Monster, Rockstar, and Amp Energy, have faced wrongful death lawsuits.

Albeit late to the party, Coca-Cola decided to not miss out completely on energy drinks, one of the fastest-growing segments in nonalcoholic beverages. After years of deliberation, in 2014 the Coca-Cola Co. formed an equity alliance with Monster Beverage Corporation, spending $2 billion for a 16,7 percent stake in the edgy energy-drink company. This values the privately held Monster Beverage at roughly $12 billion. What might have finally persuaded Coca-Cola to make this decision? Not only was Monster now number one with 40 percent market share of the over $6 billion energy-drink industry, but the company also had settled a number of wrongful death lawsuits out of court. Meanwhile, however, the U.S. Food and Drug Administration is still investigating some 300 “adverse event” reports allegedly linked to the consumption of energy drinks, including 31 deaths. While the Coca-Cola Co. insists that it completed its due diligence before concluding that energy drinks are safe, if hedges its bets with a minority investment in Monster rather than an outright acquisition. This allows the market leader in nonalcoholic beverages to benefit from the explosive growth in energy drinks, while limiting potential exposure of Coca-Cola`s wholesome image and brand.

IBM and Apple: From Big Brother to Alliance Partner

In 1997, Apple, a young fledgling company on the West Coast, invents the Apple II, the first personal computer as we know it today. IBM dismisses the personal computer as too small to do serious computing and unimportant. The early 1980s. Apple II has become the world`s most popular computer, and Apple has grown to a $300 million company, becoming the fastest-growing corporation in American business history. IBM enters the personal computer market in 1981. Apple and IBM emerge as the industry`s strongest competitors, each selling approximately $1 billion worth of personal computers in 1983. Fast-forward 30 years to 2014. Apple has become the world`s most valuable company and IBM is struggling. Although Jobs had a visceral disdain for IBM (Steve Jobs compares IBM to George Orwell`s Big Brother, the all-present dictator of a totalitarian state that has absolute power its inhabitants), Apple CEO Tim Cook took his first job out of college with IBM, where he worked for 12 years. Nonetheless, given their adversarial past and decades as rivals, it came somewhat as a surprise when Apple and IBM announced a strategic alliance to create simple-to-use business productivity apps and to sell iPhones and iPads to IBM`s corporate clients. Why would the former archenemies form a partnership?

Both parties stand to benefit from this arrangement. Although hugely successful, Apple has mainly been a consumer company (B2C). Historically, Apple did not sell directly to business clients. As more and more people bring their mobile devices to work, Apple sees the enterprise business as a huge opportunity for future growth. Cook, for example, claims that he does 80 percent of the work of running the world`s most valuable company on his iPad.

In contrast, IBM has long-standing and deep ties as a business-to-business (B2B) company and major seller of tech services, especially in government, banking, finance, and insurance. Yet, IBM has been slow to catch the wave of mobile computing. With this seminal partnership, IBM is hoping to capitalize on the popularity of Apple`s devices as it moves more and more of its software productivity tools onto mobile platforms. IBM will be selling and servicing Apple mobile devices to its corporate clients. Together, they plan to create simple to use business apps that bring together Apple`s core competency of hardware and software integration to produce a seamless user experience with IBM`s core competency in business services and big data analytics. One of the first new business apps resulting from this alliance will help airline pilots determine the right amount of fuel to carry on a particular flight. This task requires significant data analytics displayed in an easily understandable way so that pilots can digest it quickly when glancing at their iPad in a cockpit before departure.

Food Fight: Kraft`s Hostile Takeover of Cadbury

In 2010, Kraft Foods bought UK-based Cadbury PLC for close to $20 billion in a hostile takeover. Unlike the more diversified food-products company Kraft, Cadbury was focused solely on candy and gum. Hailing to 1824, Cadbury establishe d itself in markets across the globe, in concert with the British Empire.

Kraft was attracted to Cadbury due to its strong position in countries such as India, Egypt, and Thailand and in fast-growing markets in Latin America. Cadbury held 70 percent of the market share for chocolate in India, with more than 1 billion people. Children there specifically ask for “Cadbury chocolate” instead of just plain “chocolate”. It is difficult for outsiders like Kraft to break into emerging economies because earlier entrants have developed and perfected their distribution systems to meet the needs of millions of small, independent vendors. To secure a strong strategic position in these fast-growing emerging markets, therefore, Kraft felt that horizontal integration with Cadbury was critical. Kraft continues to face formidable competitors in global markets, including Nestlé and Mars, both of which are especially strong in China.

To focus its different strategic business units more effectively and to reduce costs. Kraft Foods restructured in 2012. It separated its North American grocery-food business from its global snack-food and candy business (including Oreos and Cadbury chocolate), which is now Mondelez International. In 2015, Kraft Foods merged with Heinz (owned by Warren Buffett`s Berkshire Hathaway and 3G Capital, a Brazilian hedge fund) in a $37 billion merger, creating the fifth-largest food company in the world, behind Nestlé, Mondelez, PepsiCo, and Unilever.

In the U.S. market, the Cadbury acquisition allows the new Kraft Heinz greater access to convenience stores, gives it a new distribution channel, and opens a market for it that is growing fast and tends to have high profit margins. Domestically, Kraft Heinz has to compete with Theh Hershey Company, the largest U.S. chocolate manufacturer. This battle is intense because Hershey`s main strategic focus is squarely on its home market. With the U.S. population growing slowly and becoming more health-conscious, however, Hershey decided to enter the Chinese market in 2013, the world`s fastest-growing candy market. Since its founding in 1894, Hershey`s entry into China is the company`s first new product launch outside the U.S. Hershey`s sales growth in China, however, has been disappointing so far. Combined with little or no growth in the U.S., Hershey announced job cuts in 2015.

The Wonder from Sweden: Is IKEA`s Success Sustainable?

The world`s most profitable retailer is not Walmart, but IKEA – a privately owned home-furnishings company with origins in Sweden. By 2015, had more than 360 stores worldwide in over 40 countries, employed more than 150 000 people, and earned revenues of 37 billion euros.

Known today for its iconic blue-and-yellow big-box retail stores, focusing on flat-pack furniture boxes combined with a large do-it-yourself component, IKEA started as a small retail outlet in 1943 by then-17-year-old Ingvar Kamprad. Now a global phenomenon, it was initially slow to internationalize. It look 20 years before the company expanded beyond Sweden to its neighboring country of Norway. After honing and refining its core competencies of designing modern functional home furnishings at low prices and offering a unique retail experience in its home market, IKEA followed an international strategy, expanding first to Europe, and then beyond. Using an international strategy allowed IKEA to sell the same types of home furnishings across the globe with little adaptation, although it does make some allowances for country preferences.

Because keeping costs low is critical to IKEA`s value innovation, it shifted from an international strategy to a global-standardization strategy, in which it attempts to achieve economies of scale through efficiently managing a global supply chain. Although Asia accounts currently for less than 10 percent of its sales, IKEA sources 35 percent of its inputs from this region. To drive costs down further, IKEA has begun to implement production techniques from auto and electronics industries, in which cutting-edge technologies are employed to address complexity while achieving flexibility and low cost.

IKEA`s revenues by geographic region are 69 percent from Europe, with the rest from North America (15 percent), Asia and Australia (9 percent), and Russia (7 percent). Although IKEA`s largest market is in Germany (14 percent of total sales), its fastest-growing markets are the United States, China, and Russia.

Walmart Retreats from Germany

After losing billions of dollars, Walmart exited Germany in 2006. The massive failure came as a shock to a company that was used to success. What went wrong?

Around 1998, facing a saturated U.S. market, Walmart entered Germany, then the third-largest economy in the world behind the United States and Japan. At that time, the big-box retailer was already active in six foreign countries, with some 500 stores outside U.S. borders. Given the intense pressure for cost reductions in the retail industry and Walmart`s superior strategic position as the dominant cost leader in the United States, executives decided to pursue a similar low-cost strategy in Germany.

To enter Germany, Walmart acquired the 21-store Wertkauf chain and 74 hypermarkets from German retailer Spar Handels AG. Next, Walmart attempted to implement its U.S. personnel policies and procedures: the Walmart cheer, a door greeter, every associate within 10 feet of a customer smiling and offering help, bagging groceries at the checkout, video surveillance, a prohibition against dating co-workers, and so on. German employees, however, simply refused to comply. There were no door greeters in the German Walmart stores. The front-line employees behaved as gruffly as they do in other retail outlets in Germany. It also didn`t help that the first Walmart boss in Germany was installed from Walmart headquarters in Bentonville, Arkansas. The executive didn`t speak any German and simply decreed that English would be the official in-house language.

Significant cultural differences aside, one of the biggest problems Walmart faced in Germany was that, lacking its usual economies of scale and efficient distribution centers, it couldn`t get its costs down far enough to successfully implement its trademark cost-leadership strategy. Higher required wages and restrictive labor laws further drove up costs. As a result, the prices at Walmart in Germany were not “always low” as the company slogan suggested, but fell in the medium range. Germany was already home to retail discount power-houses such as Aldi and Lidl, with thousands of smaller outlets offering higher convenience combined with lower prices. Walmart was unable to be cost-competitive against such tough domestic competition. It also faced Metro, a dominant large-box retailer, than upon entering Germany immediately initiated a price war against Walmart. In the end, a defeated Walmart sold its stores to – guess who? – Metro!

Walmart experienced a similar fate in South Korea, where it also exited in 2006. In addition, Walmart has tried for many years to successfully enter the fast-growing markets in Russia and India, but with little or no success. Walmart`s success recipe that worked so well domestically didn`t work in Germany, South Korea, Russia, or India – to a large part because of the liability of foreigness.