

Another one bites the dust . . .

The headlines and analyses filled the business pages last week: "A slow motion train wreck anyone should have seen coming" (The Wall Street Journal), "worries mounting about the company's future" (CNN), "too much change too quickly" (Forbes), "visionary's blind spot" (The Dallas Morning News) . . .

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Retail giant J. C. Penney fired CEO Ron Johnson just 17 months after luring him away from Apple. Johnson tried to reinvent the concept of a department store by creating free-standing specialty shops inside the store and eliminating Penney's historical reliance on constant discounts and coupons.

But he forgot a fundamental principle of Business 101: "Always start with *them!*"

He told *Harvard Business Review* shortly after he took over at Penney: "You've got to trust your intuition much more than you trust the data . . . you can't follow the customer. You've got to lead your customers . . . even before they know what they want."

In other words, he was making critical changes without testing their potential, relying on "market push" instead of "market pull." A former Penney's CEO spotted the danger signs early and warned the Board of Directors last summer it should test the new concepts before rolling them out. Nobody listened. Johnson and his team badly misjudged the mass defection of bargain shoppers once Penney abandoned discounts and couponing in favor of low everyday prices. Revenue fell 25 per cent during 2012 and even more during the holidays. Losses for the year reached nearly \$1 billion.

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The sad truth is that the men and women who run major corporations are no smarter (or dumber) than the people who run social enterprises. Here are a few legendary examples:

- **THE WRONG NAME:** In 1968, Pillsbury spent \$5 million to test a new instant breakfast (that's \$33 million in current dollars). The product failed because in those days kids ages five to seven did NOT like instant breakfast -- yet Pillsbury gave the product a name that appealed only to them (*see photo*), not the target market of people ages 15 to 30.



- **THE WRONG PRODUCT DESIGN:** In 1963, General Foods spent \$15 million (more than \$114 million today) on a national test market for Post cereals containing freeze-dried fruit -- little black things that would re-constitute as raspberries, strawberries or bananas. *Everything*

went wrong. The cereal became soggy by the time the fruit reconstituted, the milk changed color, and after two or three months on the shelf the fruit took on the consistency of jawbreakers.

- **THE WRONG TIMING:** In 1975, RCA invested \$250 million (nearly \$1.1 billion today) developing and testing a revolutionary new device called the Selectavision Videodisc Player. All you had to do to watch a movie was slide in a 300 mm disc that looked like an LP; each side of the disc held 60 minutes of video. Trouble was, there weren't many discs around to be played -- and, when they were, they had to be played straight through . . . no fast-forwarding. Nobody at the company saw the VCRs coming and the product imploded. Of course, today, DVDs and Blu-rays are everywhere, but the RCA product is only available as a collectible.



- **THE WRONG TEST MARKET:** Del Monte once tried to launch a new type of barbecue ketchup containing finely chopped onions. The company did a thorough test market, liked the results, and confidently began mass production. But the product still failed because it had been tested on adults. Who uses the most ketchup? Kids! And kids hate onions!

Apparently, graduate degrees in business and even success at another company are no guarantees that CEOs are infallible. When the announcement came out last week that Johnson had been fired by J.C. Penney, *The Dallas Morning News* quickly assembled an "Ouster Hall of Fame" from various wire services that featured six other people who'd also been quickly axed from the top job at major corporations. The reasons differed . . . but their strategic mistakes offer cautionary tales for social enterprises large and small:

- Carol Bartz, Yahoo -- who focused on cost-cutting and shaking up her management team rather than paying attention to the rapid expansion of the online ad market
- Leo Apotheker, Hewlett-Packard -- who fumbled stakeholder relations, complained about his predecessor, and guided the company into a disastrous acquisition . . . he was gone in 11 months
- Charles Conaway, Kmart -- who tried to compete with Wal-Mart on price and focused on cheap groceries rather than the company's exclusive Martha Stewart Brand . . . he was also accused of misleading investors about Kmart's financial problems before it sank into bankruptcy
- Bob Nardelli, Chrysler -- the former CEO of Home Depot who had zero experience in the complex world of auto manufacturing . . . instead of investing to improve Chrysler's substandard lineup, he focused on cutting jobs and shutting down plants -- and alienated suppliers and dealers when he announced plans to close dealerships and stopped financing leases . . . he, too, led his company into bankruptcy
- Craig Herkert, Supervalu -- a former high-ranking Wal-Mart exec who tried to rescue one of the country's biggest grocery store operators as it struggled with growing competition from big-box retailers, drugstores and dollar stores . . . he tried to re-position Supervalu as a neighborhood store and emphasized low prices, but it didn't work and the company later sold five of its major chains and downsized dramatically . . .

- Kevin Rollins, Dell -- who overpromised by predicting he could double the company's \$40 billion in sales and instead wound up leading a recall of more than four million potentially flammable notebook batteries and having the federal government scrutinize the company's accounting practices

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It's not as if I'm faultless myself. Regular readers of these essays may recall the embarrassing tale of my failure as an entrepreneur in California in 1975 (Jerr's Journal, "The Right Leader at the Right Time," June 19, 2012). My partners and I made the same mistake as Ron Johnson at Penney's: We thought our new mousetrap was all we needed. But the mice weren't interested.