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The $4.3b Man Crush

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A story about Bigfoot, Bill Ackman, and the man who killed the coupon.

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Stories from the Field · Companion to Entry 01: Bounded Rationality

The $4.3b Man Crush

A story about Bigfoot, Bill Ackman, and the man who killed the coupon..

The Expert

Any smart leadership team would have hired him. You would have too.

By 2011, he was the most celebrated retail executive in America, and he had earned it. Not once….twice. In the 1990s, he was merchandising chief for a soon-to-be-prominent Minneapolis discount chain. Much to the chagrin of his peers, he did the impossible: he made cheap chic. He signed a famous architect to design $40 tea kettles, filled the aisles with designer housewares at parking-lot prices, and turned a big-box discount store into a brand experience. Shoppers even began pronouncing it with a fake French accent, as if it were a boutique on the Rue Saint-Honoré.

He made Target cool.

> *Why do the small expensive brands create, while big brands with all the resources copy? It didn't make sense. And why are beautiful objects not available to everyday people?*
>
> — The expert himself, years later (Stanford Graduate School of Business)

In 2000, Steve Jobs came calling… so he went to California and did something even bigger. Jobs wanted to build retail stores at the precise moment the experts had declared computer retail dead.

> *I give them two years before turning out the lights on a very painful and expensive mistake.*
>
> — David Goldstein, retail consultant, in "Sorry, Steve: Here's Why Apple Stores Won't Work," BusinessWeek, May 2001

Retail stores…hardly. He built temples… polished cement floors, glass staircases, long wooden tables, open rooms, inside a luminous glass cube. Oh, and prime locations… even among NYC's prime Fifth Avenue real estate. No sales floor. No commission heat. No clerks pushing boxes. Each temple was staffed with knowledge, and each location had a Genius Bar, where nothing was poured except advice from team members Apple referred to not as sales associates, but geniuses. Within a decade, those stores earned more per square foot than any retailer on the planet. More than Tiffany. In fact, nearly double Tiffany.

So, in 2011, when a struggling, 110-year-old department store chain came looking for a savior… over a thousand stores anchoring half the malls in America, founded by a man whose actual middle name was Cash… who else could transform a dying brand back into a retail experience?

They hired THE expert.

> *I just believed in the guy. I had a man crush on him.*
>
> — Bill Ackman, the chain's largest shareholder and board member (Fortune, 2014)

And he didn't just take the job… he bought in. Roughly $50 million of his own money went into the company's stock. When he announced his transformation plan that January, the stock jumped 24 percent.

In a single day.

> *It's so exciting that someone's rolling the dice, putting their own money in, and doing something that hasn't been done in the department store for 30 years.*

— Mickey Drexler, CEO of J.Crew and Apple board member (Fortune, 2012)

The Thing That Offended Him

As he toured his new empire, he found something he considered repulsive and disingenuous… the discount coupon.

The chain ran nearly 600 sales, promotions, and markdown events a year. Yep, six hundred. It printed coupons the way other companies printed letterhead. A $30 blouse would be ticketed at $60, marked down to $34.99, then couponed to $29.97. Nobody paid the sticker price. Nobody. Almost three-quarters of everything the stores sold went out the door at 50 percent off or more.

To him, this wasn't merchandising. It was deception… lying…slowly, and at scale.

And he had a fix worthy of his reputation.

Stop.

On February 1, 2012, the chain rolled out a new pricing philosophy built on the word "fair." The fake anchor prices? Gone. The nearly 600 annual sale events? Gone. The coupons… clipped, hoarded, wallet-crumpled? Gone. In their place, one honest everyday price. The $60-then-$34.99-then-$29.97 blouse now simply cost $30. Same blouse. Same money. No games.

Transparent. Logical.

And on paper, it made nothing but sense. It respected the buyer. It respected their intelligence. It assumed they would run the math, see the same deal without the scavenger hunt, and reward the store for its candor and transparency.

But, it didn't.

Here is what he really did. He redesigned a thousand stores for a very specific shopper… one with full information, unlimited attention, and a calculator where their instincts should be. A shopper who weighed absolute prices… not feelings, emotions, reference points, habits, or rituals. And, oh my, an elusive consumer that economists had been writing about for a century.

He had built stores for economic man. Might as well have been bigfoot.

One problem… one an economist named Herbert Simon had spotted it back in 1947 — an observation that would eventually earn him a Nobel Prize. Economic man was a rarity. He has never been captured or photographed… and, like bigfoot, when people claimed they would market to him, his capture always came with a degree of skepticism.

> *I think Bigfoot is blurry, that's the problem. It's not the photographer's fault. Bigfoot is blurry, and that's extra scary to me.*

— Mitch Hedberg, Mitch All Together (2003)

Oh, and it didn't come without warning. Colleagues begged him to test the new pricing in a few dozen stores first. His reply became retail legend:

"We didn't test at Apple."

> *The great enemy of communication, we find, is the illusion of it.*
>
> — William H. Whyte, "Is Anybody Listening?", Fortune, 1950

The Customers Who Never Came

The results arrived with the subtlety of a piano loaded onto the roof of a station wagon from a 20th floor apartment.

Sales started falling immediately… and kept falling… falling… and falling. Store traffic dropped 10 percent. By the fourth quarter, stores that had been open for at least a year were down 32 percent… a number so ugly that the "*really smart*" retail analysts began calling it the worst quarter in the history of major American retail. For the full year, revenue fell about 25 percent. From $17.3 billion to $13 billion. Four-point-three billion dollars in sales… gone in twelve months.

> *This may be the worst quarter in retail history… I can't honestly recall any retailer with as serious a regression in same-store sales figures as what they reported last night.*
>
> — Sean Williams, The Motley Fool, February 2013

And the stock, well, sadly, it lost about half of its value.

Seventeen months into the job, the retail legend was fired. The board rehired the man he had replaced, whose first official act was, essentially, an apology tour that would have made Hugh Grant's late-night mea culpa look restrained. The coupons came back. The fake prices came back. The company took out ads asking customers to please, please come home.

But most never did.

The Science: What the Coupon Really Was

Here's where the story stops being about retail and starts being about decision science.

The theory was that the coupon was simply creating an unnecessary inefficiency … putting more friction between the customer and the commitment.

However, decision science says the coupon was doing something….in fact, three somethings. And none of them was about the "discount."

Job one: it did the math so the consumer didn't have to. Herbert Simon's shopper was not stupid… just busy. To his point, this brand's consumer had no interest in conducting an audit of the garment industry to learn what a blouse should cost. They anchor. They set a bar for "good enough" and take the first option that meets it. The $60 tag with the $30 checkout price was that bar, pre-cleared. A rationalization process that could be navigated in four seconds with two kids in the cart. The honest new price handed them a number and an impossible question: Is $30 good? The consumer had no idea. So they went somewhere that would tell them.

Job two: it turned a price into a win. Two psychologists, Daniel Kahneman and Amos Tversky, proved people don't judge outcomes in absolute terms. Their prospect theory says buyers need a reference point to judge against.   For the retailer's consumer, the $60 anchor was the reference point, which made the $30 price a $30 win. Remove the anchor and what happens? The win evaporates. The identical blouse at the identical price now felt like… it felt like absolutely nothing. Perhaps worse than nothing. Loss aversion says taking away a win hurts about twice as much as the win felt good. At the end of the day, the chain's most loyal customers didn't experience price transparency. They experienced confiscation.

Job three: it was the fun. The hunt. The clip. The stack. The victory. The moment at the register when the total drops. It wasn't frustrating friction that killed the transaction. For millions of shoppers, that was THE experience. The strategy optimized the process by eliminating everything except the blouse.

And here is the cruelest detail: ***Ron Johnson's logic was airtight***. This is not supposed to serve as an indoctrination or smearing review of Ron Johnson, because this is a man who has earned his place in the retail Hall of Fame. In fact, every argument he made for the new pricing was spot on, but only for a rational actor… or, perhaps Bigfoot. The prices really were fake. The honest price was the same money. A maximizing customer really would have preferred it. He wasn't wrong about the math. He was wrong about attracting the correct species to visit the store.

The Takeaway: Anchors Create Meaning

Price does not explain itself. Neither does value.

A buyer needs a reference point before numbers mean a thing. In consumer retail, that reference point might be a sticker price, a markdown, a coupon, or the small thrill of watching the total fall at the register. In B2B, it may be the cost of the current problem, the risk of doing nothing, the price of the incumbent, the benchmark from a peer, the size of the missed opportunity, or the internal politics of defending the recommendation later.

Different room. Same species. Different versions of the exact same problem.

The consumer isn't asking, "Is this price objectively correct?" They are asking, "Compared to what, does this feel smart, safe, justified, and worth defending?"

That is the work of anchoring. It gives the buyer a way to interpret the number before they are asked to act on it.

Remove the anchor, and you remove clarity. Without clarity, you create uncertainty. And uncertainty doesn't make buyers more thoughtful. It makes them slower, uncertain, harder to reach, and far more likely to leave.

The Moral to the Story

Bounded rationality is easy to nod along with… and equally hard to believe. Everyone agrees, in the abstract, that customers are human. Then a smart, successful, well-funded leader gets a clean idea, and the abstraction quietly reverts: surely, once people see the information, they'll rationally act on it.

This story is about what that assumption costs at industrial scale. Hand a buyer an honest, but unanchored number that can't be evaluated and they don't become more rational. They become more confused. And a confused customer doesn't deliberate harder… they leave, landing somewhere that feels more certain.

The lesson is not "deceive your customers." It is stranger… and more useful… than that. Information is not the same thing as meaning. Buyers don't act on facts. They act on facts they can interpret, against reference points they trust, inside the four seconds of attention they have. Any strategy that assumes the buyer will convert raw information into rational action is built for a man that Simon, Kahneman, Tversky, and Thaler spent fifty years dismantling.

The Expert built the most honest store in America for that man.

He never showed up.

He was never going to.

The Details

The expert: Ron Johnson… the merchandising chief who helped make Target cool, then went on to build the Apple Store and the Genius Bar. The guru.

The brand: The chain that bet everything on him was JCPenney, founded in 1902 by James Cash Penney. The pricing philosophy was called "Fair and Square."

The outcome: JCPenney lost $4.3 billion in revenue in fiscal 2012… the worst single-year collapse in modern department store history. Johnson was fired on April 8, 2013, after seventeen months. His predecessor, Mike Ullman, returned, restored the coupons and anchor prices, and won back only part of the audience. The company never fully recovered… it filed for bankruptcy in 2020. Johnson went on to found a tech-enabled retail startup, which itself filed for bankruptcy in 2022.

The verdict: Fair and Square wasn't a bad idea badly executed. It was a perfect idea for a species that does not exist… the cleanest field demonstration on record for the rare sighting of "economic man." Herbert Simon never ran a department store. He didn't have to. He had already explained, back in 1947, exactly how this would end.

Field notes drawn from JCPenney fiscal 2011–2012 results and contemporaneous reporting. Companion reading: Entry 01, Bounded Rationality and the Failure of "Economic Man."