SEARSLY?

▶ After years of red ink, the retailer may sell its best-known brands

▶ "Leaner, meaner, but with no reason to walk through the door"

Once upon a time, **Sears** was the Amazon.com and Walmart of U.S. merchandising. Customers could order just about anything for delivery—even a kit to build a 10-room colonial-style house—from the Sears catalog, a compendium of the American dream with a reach into the rural parts of the country that helped make Sears, Roebuck America's largest merchant. Sears helped create the shopping mall in the 1950s, working with developers to build the retail centers that grew with the exodus to the suburbs. And when customers needed financing, it created a massive credit arm that paved the way for the MasterCards and Visas of today.

"They stood like a colossus on top of the American retail market—bigger than the next four companies combined," says Craig Johnson, president of consultant Customer Growth Partners. That was as recently as the 1980s. "Now they're a 98-pound weakling."

It's been 11 years since hedge fund magnate Edward Lampert merged Sears with another ailing company, Kmart Holding, which he bought out of bankruptcy in 2003, to form Sears Holdings. Sales have plunged by almost half, the result of defecting customers and the sundering of assets such as the **Lands' End** clothing brand in 2014. Sears has lost more than $8 billion in the past five years. Its stock, once trading above $100, closed at $13.30 in late May. Some mall owners are eager to replace its stores with those of more vibrant tenants. And on May 26, the company said it would consider selling some of its crown jewels: the Kenmore appliance, DieHard battery, and Craftsman tool brands.

"They have been in a desperate state for a number of years," says Matt McGinley, an analyst at Evercore ISI, the lone Wall Street firm still covering the company. "I wouldn't say any of the asset sales have been from a position of strength in the past three or four years. They've been done to fund substantial operating losses." Sears declined a request for comment for this story.

The retailer has suffered from an industrywide decline as Americans spend differently and on different things. People are buying fewer clothes, spending more on dining and other experiences, and saving more. In the mid-'80s, 45 percent of consumer spending went to goods, the remainder to services. Today those figures are 31 percent and 69 percent, respectively, according to Customer Growth's Johnson. When Americans do buy goods, they're shifting where they shop—not just to online, but to off-mall retailers, such as **Walmart, Costco Wholesale,** and **T.J. Maxx.**

That's left department stores more and more on the margins, with bigger chains such as **Macy's** swallowing smaller regional merchants—and others such as Mervyn's filing for bankruptcy and being liquidated. In the

Sears Through the Years

1886 Railway station agent Richard Sears begins selling watches to other station agents in Minneapolis.

1887 Watchmaker Alvah Roebuck joins the young Sears, and they start selling goods by mail.

1893 Sears, Roebuck founded.

1896 Distributes its first large **general catalog** featuring a wide array of items, from women's garments to wagons.

1913 Launches the Kenmore brand of appliances.

1925 Opens its first retail store, in a Chicago mail-order plant.

1927 Launches the Craftsman tool brand.

1931 Retail sales exceed those of mail orders for the first time. Launches Allstate Insurance, selling by mail only. Two years later, opens Allstate sales offices inside Sears retail stores.

1945 Sears annual sales exceed

$1b

1953 Sears expands to Canada.

1973 The 110-story **Sears Tower** opens in Chicago as the world's tallest building.

1981 Buys Dean Witter Reynolds Organization in a big expansion into

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’80s, consumers did about 10 percent of their spending on goods in department stores, excluding autos, gas, and restaurants, according to Johnson. The estimate for 2016 is 1.7 percent.

That’s quite a turnabout for Sears, which rose from being a watch merchant in the late 1800s to America’s powerhouse retailer by the middle of the 20th century. In the 1980s it expanded its quest to be all things to all people, buying Coldwell Banker and Dean Witter Reynolds and introducing the Discover credit card. But the ’90s were a time of upheaval, with Sears pulling back from financial services and pushing hard to compete in clothing. To that end, it purchased Lands’ End in 2002 for $1.9 billion.

It was in that period that Sears began to move away from its blue-collar base, says Candace Corlett, president of consulting firm WSL Strategic Retail. “They wanted a better customer,” she says. “Frequently, when retail goes off the rails, it has to do with not liking the shopper you have.”

Emblematic of that effort, she says, was its 1990s Circle of Beauty brand of higher-end cosmetics that “were about three steps above the Sears shopper.” In the meantime, “the competitive mix was capturing the shopper that Sears didn’t want anymore.”

Sears Holdings neglected to spend on its stores, which still account for the overwhelming portion of sales for merchants even in the internet age. Chief executives and other senior managers cycled quickly through the company, with Lampert himself becoming chief executive officer in 2013—in addition to his roles as chairman, lender, and largest shareholder. “The presumption when he bought it was that he was buying it for the real estate,” Corlett says. “I don’t think anyone but Eddie Lampert thought he was going to be a successful merchant.”

Evercore’s McGinley says he remembers paging through a 2005 presentation where the company laid out its plans for cost-cutting and savings through the merger, including dramatic declines in store upkeep and advertising. “The stores degraded at a pretty fast pace,” he says. “It exacerbated the broader issues Sears and Kmart had with relevance right out of the gate.” At the same time, companies such as **Target** and **Home Depot** were expanding, opening stores away from malls in locations that were often more convenient to shoppers.

Sears tried to adapt in other ways. It experimented with various store formats, including a failed program to convert hundreds of Kmart outlets to a one-stop format called Sears Essentials. The company has invested heavily in its digital operations, offering often innovative features such as online ordering for drive-through pickup. It’s sublet space in some of its stores to other retailers, including **Dick’s Sporting Goods** and British chain **Primark**, and closed hundreds of unprofitable locations as part of Lampert’s vision of a leaner retailer with smaller and fewer stores. Sears Holdings had 1,672 stores on Jan. 30, vs. almost 3,500 at the time of the merger.

$850m
Sears transferred control of the Sears Tower in Chicago to creditors in 1994, wiping out this amount of debt

“Leaner, meaner, but with no reason to walk through the door,” Corlett says. “They don’t have any reason for being anymore. They’re totally redundant,” and others do the work better.

Still, Johnson thinks Sears can survive as a smaller chain focused on appliances—long a strength—despite the heightened competition from online sellers and brick-and-mortar chains such as **Best Buy**, Home Depot, and **Lowe’s**. “There’s a ‘there’ there,” says Johnson. “But it’s not going to be easy to get to.” —*Lauren Coleman-Lochner*

The bottom line Sears built Kenmore, DieHard, and Craftsman into some of America’s choicest brands. Now it’s considering selling all three.

financial services. Buys Coldwell Banker real estate brokerage.

1985 Launches the Discover Card.

1993 Closes its unprofitable general catalog business. Launches an IPO of 20 percent of Dean Witter; gives remainder to shareholders, in what is then the second-largest stock dividend in U.S. history. Also sells **20%** of Allstate; it’s the largest IPO in U.S. history.

1995 Distributes rest of Allstate to shareholders. Sells Coldwell Banker.

1997 Sells its majority interest in Sears, Roebuck de Mexico.

2002 Buys former sailing gear retailer Lands’ End.

2003 Sells retail credit card business to Citibank.

2005 Hedge fund manager **Edward Lampert**, Sears’s largest shareholder, merges it with Kmart. Sears Holdings starts selling DieHard batteries and accepting Sears cards at Kmart.

2006 Begins selling Craftsman tools at Kmart.

2012 Spins off outlet and neighborhood stores.

2014 Spins off Lands’ End.

2016 Considers putting Craftsman, Kenmore, and DieHard brands on the block.