SAVING SEARS

The one thing that could have saved Sears, the iconic retail brand that shut 78 of its stores and laid off thousands of employees…

By Steve Dennis

As much fun as it is to call out Eddie Lampert [chairman and CEO of Sears Holdings] on his misguided, selfish and seemingly delusional decade-plus leadership of Sears Holdings, when the world's slowest liquidation sale is ultimately complete–I'm guessing, for all intents and purposes, by this time next year–we should acknowledge that Sears fate was probably sealed well over 20 years ago, when Eddie was not even involved.

FLASHBACK

First a bit of context. I worked at Sears from 1991-2003 and my last job was head of strategy reporting to then CEO Alan Lacy. I also led the Lands' End acquisition integration team. During my tenure, in addition to various operating and marketing assignments, I was either the #1 or # 2 strategy guy when we implemented the "Softer Side of Sears", created and piloted The Great Indoors and Sears Grand concepts and launched or accelerated the growth of free-standing

Sears Appliance and Sears Hardware stores.

I worked on or led teams that evaluated the acquisition of Kmart, Lowes, Best Buy, Circuit City–and Builder's Square and Eagle Hardware when they were still around. We also seriously assessed turning all Sears mall locations into home only stores (among other concepts) and, in 2003, analysed selling Kenmore and Craftsman to Home Depot or Lowes. So it's safe to say I have more than a passing knowledge of how Sears evolved (or more accurately devolved) over an extended period of time.

THE 'SHOULD HAVES'

With the benefit of that experience (and a good amount of hindsight) my conclusion is this: the only thing that would have given Sears a chance to thrive–not merely survive–was to have either launched their own home improvement warehouse concept or to have acquired Home Depot or Lowes's at a time when they were realistically affordable–and that's probably prior to 1995.

The reasons are simple. First, well before Amazon was even a thing it was becoming abundantly clear that the moderate department store space was structurally challenged and that Sears weird mix of hardlines and apparel was not a winning formula. Even if the soft home and apparel business got significantly better, that was neither a particularly good nor a sustainable outcome. Second, far and away what Sears had that was relevant, remarkable and highly profitable were its appliances and home improvement categories. Importantly, Sears also had several leading market share brands— Kenmore, Craftsman and Diehard—that were only available at Sears.

Yet, by the early '90s it was becoming increasingly clear that Home Depot and Lowes were transforming those categories by winning on more convenient locations, better pricing and the ability to serve a broader set of purchase occasions. As they rolled out their stores, Sears share (and profits) in those markets dropped precipitously. And it was also clear–or should have been–that Sears could not mitigate those competitive advantages through its mall-based locations.

THE MISSES

So what Sears missed (or more accurately, was unwilling to act on) was that the only way to meaningfully counteract the inevitability of the dominance of the home improvement warehouse (and preserve or grow the value inherent in their proprietary brands and strong customer relationships) was to become a leader in that format.

Instead, Sears spent the past 25 years wringing

► Sears shutdown 68 kmart stores this year

In April this year, Sears Holdings announced that it will close 68 Kmart and 10 Sears stores to restore profitability. Sears Holdings expects the store closures to generate a meaningful level of cash from the liquidation of store inventory and from the sale or sublease of some of the related real estate. However, due to its sluggish pace, the liquidation sale has been termed as the 'slowest' ever.

out costs (when it mostly had a revenue problem), vainly trying to grow its off-the-mall presence with too few (and way too mediocre) formats, investing in cool digital stuff while starving its physical stores to the point of irrelevance and embarrassment. In addition, Sears was also hoping that the Kardashians could somehow turn around an apparel business that had struggled for more than a decade to consistently get to a 30% gross margin and $100/sf in many stores (or what I like to call the "lame brand instead of name brand" strategy).

To be sure, one can argue that there were any number of things Sears could have done over the past 25 years to have meaningfully altered its course. Certainly had Sears not run its catalogue into the ground, it would not only have had more money to invest in the core business but would have been beautifully positioned to benefit from the dramatic rise in direct-to-consumer commerce.

Without a doubt, virtually all of the new formats that were rolled out could have been much better executed. And some of the fantastic consumer interest created by the Softer Side of Sears campaign was not fulfilled by store and merchandising execution. The Lands' End deal, while strategically sound and potentially transformative, was botched by a too aggressive store-rollout and mishandled marketing. And on and on.

WHAT REALLY WENT WRONG

Of course, we will never know for sure. But ultimately, from where I sit, it would all probably just have been lipstick on the pig.

In my view, the real fault lies at the leadership all those many years ago that was too busy diversifying Sears into insurance, real estate and mutual funds, while taking their eye off of the customer and the core business and, thereby, letting Home Depot and Lowes (and to a lesser degree Best Buy) gain an insurmountable lead. And that's a real shame, not to mention a heart-breaking disservice to all those men and women who worked so hard to make Sears a retail icon. ☺

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