Sears: The Decline of an American Icon

Establishment and Development
Richard Warren Sears and Alvah C. Roebuck founded Sears Roebuck and Co. in 1893. The company began as a mail order catalog business that offered everything imaginable to its customers, including clothing, jewelry, appliances, tools, and sewing machines. The catalog grew to be more than 500 pages by the turn of the century. Sear and Roebuck decided to expand the business into a merchandising outlet. Their first retail store opened on February 2, 1925 in Chicago and more stores were constructed in urban areas. When large shopping malls emerged, Sears soon became anchor stores for them across the country. Continued market expansion made Sears the largest retail store in the United States by 1980 (www.searsarchives.com).

Sears’ success was the direct result of its reputation for offering quality products and delivering exceptional customer services. Customers came to count on the “life-time” warranties of the Craftsman tools or the dependability of Kenmore appliances. Children relied on their Toughskins blue jeans to withstand rough play and families protected their futures with Allstate insurance. Sears took great pride in developing brand names and is still recognized for that quality today.

The problems of sustainability began to affect the company in late 1980s with rivals like Walmart and Target expanding into the retail market. Previous rivals such as JC Penney and Macy’s were not as diverse in their product lines as Sears. Therefore, they were only able to capture a portion of Sears’ soft lines and furniture departments. Sears held a competitive advantage in the tools and appliances market with Craftsman and Kenmore.
Kmart had also expanded into the retail market in 1970s. While Kmart offered similar shopping experiences, it had effectively situated itself as a leader in inexpensive household items. These new rivals, however, were much more differentiated in their inventories and warehouse capabilities, offering a variety of products at lower prices. Although Sears was known for brand-name quality items, some consumers were willing to sacrifice brand names for lower priced items offered by Walmart and Target. As a result of this shift in consumer buying habits, Sears experienced a significant decline in sales. Even Kmart, having a niche in price-conscious consumers, experienced a severe reduction in market share due to Walmart’s infiltration into many small-town locations across the nation.

**Decline and Reorganization**
The emergence of the Internet had changed the dynamics of shopping experience, allowing households to shop from convenience of their homes. Sears and Kmart entered the online retail market in late 1990s, but by the turn of the century both companies were lagging behind the technological superiority of Walmart and Target. Neither company could keep up with advanced inventory tracking systems and logistical operations of these two retail leaders. In late 2004, Kmart acquired Sears to form a new corporation known as Sears Holding Corporation (SHLD). Today, SHLD holds a fraction of the overall retail market share.

Sears Roebuck and Co. was incorporated in 1906. The initial offering was 1,200,000 shares of common stock priced at $10 per share (www.searsarchives.com). By 1945, the company exceeded $1 billion in revenues for the year. Shareholders reveled in their sound investment and the growing prosperity of the company. Sears built a retailing giant through its home catalogs and brand names. The stock price eventually soared to $170 per share in mid 1980s. As the 20th century came to an end, however, Sears found its stock price dropping despite expansion into other business ventures: Allstate, Dean Witter, Coldwell Banker, and Discover. Sears was struggling to maintain market share after losing its competitive advantage to new industry leaders, Walmart and Target.

Kmart acquired Sears for $11 billion, creating the SHLD (www.kmartcorp.com). These two, once powerful industry leaders, were experiencing financial difficulties with Kmart having filled Chapter 11 bankruptcy in 2002. Kmart strategically planned to compete with Walmart and Target by closing unproductive stores, restructuring its management team, and banking on
Sears brand names. Eddie Lampert, SHLD’s chairman, continued to search for a niche for the new conglomerate and in the process purchased 54 percent of the stocks available as a hedge fund. Stock prices rose quickly for the newly formed corporation, from a dismal $15 per share in 2003 to $195 in 2007. The economic downturn in 2008, however, resulted in a quick stock price drop to $100, and by 2009, earnings per share were at an all-time low of $1.

Comparing SHLD’s price trend with Walmart and Target, it is evident SHLD has not been able to rebound from the recent economic meltdown. While Walmart and Target have maintained steady positioning, SHLD has continually performed below expectation. SHLD’s beta of 2.51 reflects its stock’s volatility and the uncertainty of investing in the company. The SHLD stock prices have fluctuated between low $30s to high $190s since the acquisition. Its current price is in mid $70s.

SHLD has maintained a revenue stream around $44 billion for the past three years. Still, its net income has continued to decline. In 2009, SHLD reported $360 million in impairment charges due to its declining long-lived asset values and weakening goodwill values. The company chose
to permanently mark down its assets, as its future cash flow estimations were less than the carrying value of its assets. As a result, SHLD recorded just $53 million in net income that year, while its earnings per share dropped to $1.51. SHLD appeared to rebound in 2010, but it has lost market share again in 2011.

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<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>43,326,000</td>
<td>44,043,000</td>
<td>46,770,000</td>
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<tr>
<td>Net Income</td>
<td>133,000</td>
<td>235,000</td>
<td>53,000</td>
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<tr>
<td>EPS</td>
<td>-22.63</td>
<td>3.66</td>
<td>1.51</td>
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(SHLD 2011 10K Report)

SHLD currently operates in three business segments: Sears Domestic, Kmart, and Sears Canada. All three divisions are declining in overall market share between 4-8 percent in 2011 alone (www.zacks.com). Sears Domestic remains the most successful of the divisions resulting in 53.9 percent of SHLD’s total revenues for 2011. JC Penney, a relevant rival of Sears, has suffered with diminishing market share over the past few decades as well. Due to this continuing decline, JC Penney has launched a campaign of “Everyday Low Prices” in February 2012 that could have a significant impact on the prosperity of SHLD going forward.

Industry Standards

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<th></th>
<th>SHLD</th>
<th>Industry</th>
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<tr>
<td>Market Cap</td>
<td>7.49B</td>
<td>1.48B</td>
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<tr>
<td>Revenues</td>
<td>41.57B</td>
<td>6.4B</td>
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<td>Gross Margin</td>
<td>25.82%</td>
<td>36.85%</td>
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<td>EPS</td>
<td>-22.63</td>
<td>.32</td>
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<tr>
<td>Current Ratio</td>
<td>1.34</td>
<td>1.71</td>
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<tr>
<td>Beta</td>
<td>2.51</td>
<td>1.6</td>
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(www.finance.yahoo.com)

In 2011, SHLD branched out to other stores to sell its name brand products such as Craftsman tools and Diehard batteries in places like Costco and Meijer stores. This initiative allows customers the convenience of purchasing quality products from multiple locations and helps to
keep these recognizable brand names in the market. SHLD is hoping to regain some of the market share it has lost to not only Walmart and Target, but also to home improvement centers like Home Depot and Lowe’s. Compared with the retail industry, SHLD is declining, but it is still capable of generating marginal revenues.

**Strategies for Revival**

According to the SWOT Analysis shown below, SHLD has the capabilities to make a comeback. This analysis will help develop strategies for the revival of the company.

**Strengths:**
- Reputation for quality products and customer satisfaction
- Excellent service departments and warranties

**Weakness:**
- Too many soft retail lines
- Too many stores located in malls

**Opportunities:**
- Specialty retailing (Pre-fab homes)
- Prosperity of the baby boomers

**Threats:**
- Walmart, Target, Kohl’s
- Home improvement stores
- Strategies for Financial Viability

The emerging social media is the newest way to advertise and SHLD should place a significant portion of its marketing budget into this area. Competitors like Kohl’s send out daily updates that keep its customers aware of all discount and reward programs. SHLD must aggressively promote its “Shop Your Way Rewards” promotion in order to attract new customers. The marketing team should tap into the baby boomers with a specific marketing campaign geared for this age group that has matured with the Sears brand-name era.

SHLD must also strive to reduce its sluggish inventory turnover rate: 148 days compared to the industry average of 65 days (searsholdings.com). This reduction will help alleviate constricted cash flows and allow SHLD the opportunity to invest in areas such as technology and marketing. SHLD should also continue to sell its least profitable stores and reinvest the funds into renovating any outdated stores.

SHLD is also experiencing declining returns on its stores and even more specifically on the square footage of the stores. Large, low-performing stores must be sold and the excess inventory liquidated in order for SHLD to start to make significant profits (www.retailsails.com).

SHLD should continue to identify potential retail outlets, such as Costco and Meijer, for expanding its brand names outside its own retail stores. This initiative will help to revitalize the Craftsman and Diehard brands. SHLD should look into selling its Kenmore products in the same manner, possibly at Lowe’s or another home improvement center.
Walmart and Target, the SHLD’s biggest rivals, have moved into an even greater market with the addition of their super stores that include grocery sections. This initiative might be an area of opportunity for SHLD to utilize its larger, mall locations by renting out a portion of the store to local grocery markets trying to gain a competitive advantage in another tough market. SHLD must make physical shopping, as opposed to online shopping, more convenient to attract new customers and retain the loyal ones.

SHLD could isolate a specialty retail niche such as returning to the pre-fabricated housing market that it abandoned in the 1940s. The pre-fabricated home business generated over $10 billion in 2007 in the aftermath of Hurricane Katrina. Naturally, disasters seem to be wrecking havoc nationwide and SHLD could tap into the temporary housing market to provide homes to those who may have recently lost their in a disaster.

The final recommendation is for SHLD to restructure the management team to ensure everyone employee is aware of company’s goals and direction. Transparency among the leadership members will help to revitalize the visions for the corporation and outline the framework required to obtain the desired results.

In light of the recent dismal earnings per share results, SHLD must aggressively sell at least 25 percent of its dead-weight stores and inventory. The three business segments, Sears Domestic, Sears Canada, and Kmart, are declining at a combined rate of approximately 15 percent per year. Analysts are projecting a negative sales growth of -5.30 percent the next year. If SHLD hopes to remain profitable, the company must take swift actions with its social marketing agenda, reaching potential shoppers before the holiday season.

SHLD must also target new markets by placing its most recognizable brands in other retail outlets. It is important to move on this initiative now, as many households who receive income tax refunds often spend their funds on home appliances. It is also important to target potential customers through social media coupons and rewards. SHLD must strive to make a major portion of these changes before the 2012 holiday season in order to survive in such a competitive retail industry.