Management in Action

The Decline of Sears

Sears, Roebuck and Company, commonly called Sears, was founded in 1892 to sell one product—watches. By 1989 the company had grown into the largest retailer in the United States. Sears initially focused on selling its products via a mail-order business that relied on a catalog.[68] "When the catalog first appeared on doorsteps in the 1890s, it fundamentally changed how Americans shopped. Back then, much of the population lived in rural areas, and they bought almost everything from little shops at rural junctions. These general stores had limited selection and charged exorbitant prices. They were the only game in town."[69] Sears' mail-order business was a disruptor.

Over the years Sears evolved along with changing consumer tastes. When people moved from rural areas to cities, for example, the company opened hundreds of standalone urban stores to meet consumers' desire to shop in attractive department stores rather than via catalog. Sears was also one of the first retailers to offer a credit card in the 1980s—the Discover card—that earned cash rewards for customers based on their purchases. This innovation brought in a consistent source of revenue for many years. The next change was to accommodate consumer preferences for shopping at malls. Sears responded by anchoring its stores in malls across the country.

The retail environment started to change in the 1990s, and Sears began to fall behind as discount shopping at Walmart and Kmart took off. These companies were nimbler, changing prices and inventory to meet customer preferences. Sears was more bureaucratic and was stuck with higher overhead costs and catalog prices that had been set months earlier. Not surprisingly, Walmart's revenue grew while Sears' did not. Enter online shopping.

The combination of convenience, selection, speed, and low prices available through online shopping has been a disruptive force for all retailers. Like its competitors, Sears has struggled against online sellers such as Amazon.[70] According to a writer from *USA Today,* however, the venerable retailer faces even deeper challenges: Sears "has also suffered in the wake of its management's decisions, including the sale of its more than $30 billion credit card portfolio to Citibank in 2003, and a merger with Kmart."[71]

THE MERGER OF SEARS AND KMART

In 2004, Sears was acquired by Kmart, a company that was then coming out of bankruptcy. The new firm was christened Sears Holdings and led by Edward Lampert. He had a background in investments but no retail experience at that time.[72]

Some business writers suggest Lambert purchased Sears for the land on which hundreds of its stores stood. According to one writer, "Lampert saw real estate value as the key, and he has managed the two chains as a value play ever since, ignoring the fundamentals of running a retail business. Under Lampert, the company chronically underinvested in store maintenance, spending as little as one-fifth of what its rivals spent to keep stores clean and up to date. The result has been a customer exodus, as no one likes shopping in dilapidated stores."[73]

Another writer described Sears Holdings as having "all the charm of a dollar store without the prices, nor even the service, and with even more disengaged employees. Bright fluorescent lights highlight the drab floors, peeling paint and sad displays of merchandising that are reminiscent of department stores in the communist Soviet Union. Some employees carry iPads, others do not: Lampert's affections for technology led to a policy of employees required to use tablets on the shop floor, even though most clerks said they were unnecessary."[74]

WHAT LED TO SEARS' DECLINE?

Forbes reported that "the popular opinion is that poor management has led to the demise of both companies" (Sears and Kmart). The magazine suggested that Lampert pursued the wrong strategies, assuming the goal was to improve Sears' profitability and long-term survival.[75] Consider the organizational structure Lampert installed at Sears Holdings.

Following a structural model used in the finance industry in which different teams compete for scarce company resources, Lampert segmented the company into 30 autonomous business units such as men's wear, shoes, and home furnishings. Each had its own executive staff and board of directors. Rather than fostering collaboration, this structural arrangement led to "cutthroat competition and sabotage. Incentives were tied to the success of the individual business divisions, which often came at the expense of other parts of the company."[76] A former executive told the *New York Times* that "managers would tell their sales staff not to help customers in adjacent sections, even if someone asked for help. Mr. Lampert would praise polices like these, said the executive."[77]

Another aspect of Lampert's strategy was to spend on technology rather than on stores. Lampert thought Sears was competing against Amazon. He thus "plowed investment, new talent and marketing into Sears' website and a customer loyalty program called Shop Your Way. The program allows customers to earn points, for purchases not only at Sears but at partnering businesses including Burger King, Under Armour, and Uber, that can be redeemed for Sears merchandise."[78] Store appearance languished under this strategy.

WHAT'S THE LATEST?

Sears closed more than 350 stores in 2017 and plans to sell an additional 100 in spring 2018. The company generated much-needed cash by selling off some of its key brands such as Craftsman for about $900 million.[79] It also established new sources of revenue by making a deal to sell "its DieHard-branded products—such as car batteries, jump starters, and tires—on Amazon's website. The retailer also started selling its Kenmore-branded appliances on Amazon" in 2017.[80]

Despite these efforts, Sears is "hemorrhaging money" according to *Business Insider.* "Sales are down 45% since early 2013, its debt load has spiked to $4 billion, and the company is losing well over $1 billion annually."[81]

Making matters worse, "Sears said in a filing with the Securities and Exchange Commission [in 2017] that it had 'substantial doubt' about its ability to stay in business unless it can borrow more and tap cash from assets."[82] The company is definitely pursuing this strategy according to *CNNMoney.* This source reported in 2018 that the company announced it will "cut another $200 million a year (beyond the stores it already planned to close). And it's looking to increase the amount of money it is able to borrow."[83]

According to the *New York Times,* Lampert believes the company can turn things around. He told a reporter that "while there is still work to do, we are determined to do what is necessary to remain a competitive retailer in a challenging environment."[84] Others doubt this conclusion because Lampert is too disengaged from the running of Sears' operations. Former executives say he managed the company from his home in Miami, setting foot in the company headquarters only for its annual meeting.[85]

FOR DISCUSSION

Problem Solving Perspective

1. What is the underlying problem in this case from Edward Lampert's perspective?
2. What are the key causes of Sears' decline?
3. Do you think Lampert can turn the company around? Why or why not?

Application of Chapter Content

1. What does the Human Relations Movement suggest went wrong at Sears?
2. Use the four parts of a system to diagnose the company's decline. Provide support for your conclusions.
3. To what extent did Sears use a total quality management perspective in running its business? Explain.
4. What key lessons from this chapter could Lampert have used to improve Sears' performance following the merger with Kmart? Explain.

Legal/Ethical Challenge

What Should You Do about an Insubordinate Employee?

You are a vice president for a company in the insurance industry, and you supervise five managers. These managers in turn supervise a host of employees working in their departments. Your company is having trouble achieving its sales growth goals and your boss, the president of a division, called a meeting with you and your peers to create a plan of action.

The meeting was a bit volatile because layoffs were proposed and it was agreed that all vice presidents had to decrease their budgets. This means that you and your peers were not allowed to hire consultants or send employees to training. You also have to reduce your labor costs by $300,000. This means that you must lay off employees. You informed the managers that report to you about these decisions and asked them to come up with a list of potential people to lay off. You suggested that performance should be the key criterion for deciding layoffs.

Two weeks later one of your reporting managers walked into your office with a worried look. He told you that Jim, one of your other reporting managers, had just hired a consultant to lead a teambuilding session with his group in another state. Not only did this require significant travel expenses, but the consultant's fees were well outside of your budgeted expenses. Further, your other employees were expressing feelings of unfairness because Jim was taking his team on a teambuilding trip and they were being forced to cut costs. It also was a bit inconsistent to spend money on teambuilding when impending layoffs were just around the corner.

In terms of layoffs, all your reporting managers submitted a list of potential employees to let go except for Jim. You have no idea why he avoided this task.

Jim's behavior clearly violates the agreement that was made about cost cutting, and you are upset that he has not submitted his list of employees to lay off. You have not yet spoken to him about this insubordination, and now you are wondering what to do.

SOLVING THE CHALLENGE

What would you do?

1. Meet with Jim to review his behavior. Tell him that any more acts of insubordination will result in termination. Don't make a big deal about these events and don't include documentation in his personnel file.