

## **A Postscript to Sears and Kmart: A Sad, Sad Story**

**By Lawrence J. Ring and John S. Strong**

**The Raymond A. Mason School of Business  
The College of William and Mary**

Sears and Kmart are two of the most iconic names in US retailing. Richard Sears and Alvah Roebuck founded Sears, Roebuck and Company in 1886 as a mail order catalog. It began opening stores in 1925 and ultimately became the largest retailer in the country.

Kmart was the successor company to S. S. Kresge Company, which was founded in 1899 by Sabastian S. Kresge. Kmart started up in 1962, the same year as Wal-Mart. Kmart grew much faster than Wal-Mart initially and eventually passed Sears in the late 1980's only to be eclipsed by Wal-Mart in 1990. At its peak, Kmart operated 2171 stores.

By the time the two merged in March 2005, both were ailing but many thought Eddie Lampert, who had engineered the merger, would somehow stitch the two together and achieve a stronger company. The stock price rose from \$124 at the time of the merger to \$195 in short order. It did not last.

In our *Winter 2005 Newsletter* we asked whether the Sears/Kmart Merger was a "Happy Marriage or a Double Suicide?"

In our *Summer 2008 Newsletter*, we answered the question: It was a double suicide. It has been a slow death, but the end is near.

In our *Summer 2017 Newsletter* we labeled it a "Sad, Sad Story."

Since then, the following selected headlines have emerged:

June 6, 2017, Sears is closing 66 more stores (*USA Today*)

July 7, 2017, Sears Is Closing Another 43 Stores (*Fortune*)

August 24, 2017, Sears is closing 28 more Kmart stores (*CNN Business*)

November 3, 2017, Sears Stores Closing List 2017: 18 More Locations Announced (*Investor Place*)

November 14, 2017, Sears: Dead Brand Walking (*Forbes*)

January 4, 2018, Sears is closing over 100 more stores (*CNBC*)

May 21, 2018, Sears Stores Closing 2018: 40 More Stores to Close (*Investor Place*)

June 29, 2018, Sears is closing 78 more stores. Here are all of the locations shutting down where you live. (*Business Insider*)

August 23, 2018, List of Sears Stores Closing 2018: 33 More Shutting Down (*Investor Place*)

October 14, 2018, Sears, the Original Everything Store, Files for Bankruptcy (*New York Times*)

October 15, 2018, Sears store closing list: 142 more Sears, Kmart locations closing in Chapter 11 bankruptcy (*USA Today*)

November 8, 2018, Another 40 Sears, Kmart stores closing (*USA Today*)

December 28, 2018, Sears shutting down 80 stores (*AL.com*)

January 16, 2019, Sears survives bankruptcy auction and will keep 400 stores open (*Washington Post*)

January 23, 2019, Sears was killed in a Shakespearean Tragedy (*Bloomberg*)

March 15, 2019, How Sears Lost the American Shopper (*Wall Street Journal*)

April 3, 2019, Lampert's Sears Shenanigans Continue: Cut Benefits, Empty Shelves And Spooked Employees (*Forbes*)

September 5, 2019, Sears Store Closings 2019: 100 Stores Closing Down, 60 Kmart Stores To Follow (*International Business Times*)

October 15, 2019, Sears' future is still in doubt a year after bankruptcy filing (*CNN Business*)

November 7, 2019, Sears to close 96 more stores; gets cash lifeline (*Bloomberg*)

November 8, 2019, Sears Is Where America Shops, If You Can Still Find One (*Bloomberg*)

And that is just the point. Sears Holdings once operated nearly 4,000 stores in the US and Canada. By the end of 2019, the remaining rump of the company will have just 182 stores on its way to none. There is no particular evidence that the company has any reasonable plan to avoid the continued trend in store closings chronicled above. At the end of 2012, Sears Holdings operated 2073 full line and specialty stores; at the end of 2013, that number had fallen to 1980; by the end of 2014, the number had fallen further to 1725 and to 1672 at the end of 2015; 2016 brought 1430 stores and 2017 to 1002, At the end of 2018, Sears Holdings was down to 425 stores. It appears that as 2019 draws to a close, only 182 stores will remain. It doesn't take much extrapolation to see what the end of 2020 will bring. Yes, it is the end of a sad, sad story and a double suicide.

The reasons for the demise of these two icons of American retailing were detailed in our *Summer 2017 Newsletter* we labeled it a "Sad, Sad Story." In his 2007 letter to shareholders, Eddie Lampert noted that the old way "you can't cut your way to success" was being proven wrong at Sears Holdings – that the cost and capital reductions were prerequisites for long-term success. Over a dozen years, Sears Holdings strategy was predominantly focused on generating gross cash flow, which was largely accomplished by reducing costs, cutting capital spending, then resorting to store closures and asset sales. Throughout the period, there was never a clear,

consistent plan for growth. Eddie Lampert directed the destruction of Sears Holdings and its iconic brands, Sears and Kmart.

Our 2017 article (<https://www.babson.edu/academics/executive-education/babson-insight/strategy-and-innovation/sears-and-kmart-a-sad-sad-story/>) charted CAPEX, Depreciation, Revenues, Assets, Net Worth, and Stock Price from 2005 to 2017. All these measures started high and by 2017 were pointed to the same end—ZERO. Now, the number of stores will soon reach the same end—ZERO.

Meanwhile, the other two remaining family/promotional department stores, JC Penney and Kohls, are struggling and probably not too far behind Sears/Kmart. Penney will be the next to go. At its peak JCP operated 2053 stores (1973). The number has slowly been whittled down to 864 amid woeful financial performance and in danger of being delisted from the NYSE.

Kohl's peaked in number of stores in 2014 and has declined slightly since to 1158 today. The company has allied itself with Amazon so that its stores have become pick up and delivery points for the online giant. This has not helped its declining financial performance. The history of Sears/Kmart offers a glimpse into the future of Penney and Kohl's and it is not pretty.

The "wheel of retailing" continues to turn and unfortunately the family/promotional department store group is the latest casualty. Montgomery Ward died first. Sears Holdings will be gone soon. JCP will be next, and despite its attempts to ally with Amazon, Kohls will not be far behind.