

The u. s. discount department store industry

Education



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Introduction

The U. S. discount department store industry had reached maturity by 2004 and Kmart no longer possessed a clearly- defined position within that industry. Its primary competitors were Wal-Mart, Sears, Target, Kohl's, and J. C. Penney, with secondary competitors in certain categories. J. C. Penney operated more than 1, 000 stores in all 50 states. Un-like Sears, the company chose not to locate in large shopping malls but to establish its discount stores in highly visible corner locations. By 1990, however, when Wal-Mart first surpassed Kmart in annual sales, Kmart's stores had become dated and lost their appeal.

Attempting to avoid this fate, Kmart management updated and enlarged the stores, added name brands, and hired Martha Stewart as its lifestyle consultant. Out of bankruptcy, Kmart became profitable primarily by closing or selling (to Sears and Home Depot) around 600 of its retail stores. Management had been un-able to invigorate sales in its stores. In a surprise move, Edward Lampert, Kmart's Chairman of the Board and a control-ling shareholder of Kmart, initiated the acquisition of Sears by Kmart for \$ 11 billion in November 2004.

The new company was to be called Sears Holdings Corporation. Like many retailers, both Sears and Kmart struggled to attract shoppers in an overcrowded industry and a slumping economy. Sears Holdings had just launched a bid in November 2007 to purchase Restoration Hardware, a home- goods retailer (Wheelen and Hunger, 2012). The remainder of this assignment answers discussion questions based on the content of Unit 4 and

the Case Analysis of “ Kmart and Sears: Stuck in the Middle. ” Body - Discussion Questions:)Give your opinion on the retrenchment strategy(s) used by Kmart. Kmart’s brain trust put heavy emphasis on the planning function. Management perceived the role of corporate planning to be “ making decisions now to improve performance tomorrow. ” Kmart had been very successful in the area of strategic planning in the past. Management felt that strategic planning, used intelligently by management, would be the key to corporate growth in the future. This was definitely a good strategy for Kmart to liquidate the majority of their non-core assets including those Kmart stores that are currently under-performing. It was even better that outdated stores, which are located in highly competitive markets, were given a new appearance through Kmart’s high-frequency prototype that was developed in 1995. These steps along the acquisition of Sears helped to improve sales, decrease long-term debt, and aided Kmart’s financial struggles (Wheelen and Hunger, 2012). b)Which strategy is Sears Holdings attempting by acquiring Restoration Hardware?

Sears Holdings launched a bid in November 2007 to purchase Restoration Hardware, a home goods retailer. Even though Restoration Hardware was also facing sluggish sales, it was thought that Sears’ management could use the acquisition to create an upscale boutique within its stores. Sears was basically using this acquisition as a means to do some diversification of the goods and services they offered to their customers. Since both companies were currently struggling at the time, the big risk is that the idea could backfire and everybody could take bigger losses.

Otherwise, it could be successful and lead to more stability for both parties involved as well as other opportunities and innovations (Wheelen and Hunger, 2012). c) Was acquiring Sears the right move for Kmart? Why or why not?. At the time, the move was great for both parties involved because both companies were able to quickly leverage each other's markets and the company instantly became the nation's third largest retailer. A key part of increasing productivity at the stores at the time was in the cross selling of the brands, though company officials declined to be specific on which they would overlap.

Besides Craftsman tools and Kenmore appliances, Sears' exclusive brands included Lands' End clothing. Kmart's brands include Martha Stewart, Jaclyn Smith and Joe Boxer. Unfortunately now, Both Sears and Kmart have been struggling for a long-time, steadily losing their middle-income shoppers to retailers such as Wal-Mart Stores and Target. Sears Holdings same-store sales have declined for six years. In the most recent year, same-store sales at the namesake franchise fell 1. 6% and at Kmart by 3. 7%, compared to the year-ago period. The company is already in the process of downsizing its brick-and-mortar presence. In 2012, Sears announced it was shutting 172 stores (Mattoli, 2013). Conclusion The single largest threat to face Kmart is from the fact that discount retailing is a mature industry, with many competitors, a few of which are large and cater for differentiated market segments with better profit margins. It is also true that " the affect of these conditions was that many of the discount retailers went bankrupt and others such as Woolworths withdrew or divested interests in the discount industry completely.

Increased competition in price and specialization retailing meant that Kmart was growing at a slower rate than competitors, making lower margins and not moving stock quickly enough. Increased competition in the mature market took several forms such as price wars between Kmart and Wal-mart, increased customer service and specialty stores such as Toys "R" Us concentrating on toys in the discount sector. Costleadership is not an alternative for Kmart as proven by the disastrous outcomes of price fights with Wal-mart.

Kmart could not compete as Wal-mart can handle a sustained price cutting war. Kmart has tried to make it work with their acquisition of Sears and other companies over the years. There is still hope. Change is required, but the process of how change is handled makes the difference. Communications of actions, companies strategies, and financial must be transparent and made available to all to win support for the changes and understanding with why they are essential to the turnaround in Kmart.

Kmart should be reviewing their product range, locations and management teams and deliverables. Crucial to Kmart's success in a mature, competitive environment is to satisfy the customer's needs and expectations.

References

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2. Wheelen, T, and Hunger, D. (2012). Strategic Management and Business Policy: Toward Global Sustainability. 13th ed. London and New York: Routledge.