Why did Sears Fail?

Every organization must weather shifts in the market and consumer demography to stay relevant. Successful organizations do this by actively anticipating new threats and opportunities and using core capabilities to devise means of addressing them. Sears failed because of a lack of alignment between its exploratory and exploitative strategies when responding to challenges that arose in the 70s. The management did not understand the importance of exploration for continued growth until it was inevitable. When it did decide to explore new avenues of growth, it did not appreciate the importance of exploiting current core capabilities.

Core Capabilities:

Since 1892, Sear had built a reputation for itself as a large general merchandise retailer with a wide and diverse selection of merchandise in its catalogs and later in its stores. To understand Sears' subsequent failure we must first know what were the core capabilities of the company which contributed to its success in the past.

- Sears Brand Name: By consistently delivering value to its customers in the past, the company had built for itself a large customer base that trusted in the brand.
- Economies of Scale: With its nationwide presence, Sears was able to leverage the scale of its operations in achieving low costs.
- Operational Efficiency: The company implemented efficient processes and made use of its regional mail-order plants for distribution to further reduce costs of operation.

Changes in Landscape:

Two key changes occurred in the 1970s that were significant for Sears. The first major change was the advancement in technology. New IT infrastructure which could improve the salesforce and organizational operations, new computer software that could track and manage inventory, barcode scanners that could record buying and sales information now became available. Large-scale retailers had a wealth of information to record and keep track of. Thus far, this had been done manually on paper, an undependable method. The technology offered an opportunity to improve operational efficiencies within organizations. Competitors such as Walmart used this to their advantage. Sears and Walmart used similar strategies to reduce costs but with the use of technology, Walmart was able to optimize the same processes to reduce costs even further.

The second major change was a shift in demography and consumer tastes. Sears had, in the past, catered to a mostly utilitarian demographic. As the industrial and service sectors boosted the economy, individuals who earned more developed more sophisticated tastes. Customers started considering their other options in the retail market. Discount retailers and specialty stores catering to specific needs looked to fill this niche[1].

Exploration and Exploitation:

When analyzing Sears' decisions using the exploration and exploitation framework[2], we find that,

- The management failed to see a compelling strategic intent for exploration and exploitation.
- There was no common vision across the organization. This is evidenced by its venture into financial services from which it later withdrew to focus on retail again.
- Sears did not have separate units for exploration and exploitation but rather the same team decided both thus giving more preference to exploitation rather than exploration.
- Senior Leadership too leaned more towards exploitation rather than allocating resources for exploration.

In the 1970s, the management team at Sears was more focused on continuing its current profitable operations and did not spare much thought for the future. It was therefore completely unprepared for the changes in the landscape that occurred at this time. Retailers like Walmart and Kmart who had capitalized on the changes became serious competitors. As retail faced stagnation in growth, the company was forced to look for new avenues of growth retroactively. If the management at Sears had done its homework on future prospects, the company could have launched a planned and prepared response to these changes much like Robert Wood's response in the 1920s which led the company to its most profitable era.

In formulating a response to the challenges facing Sears, it considered two options. The first option identified vulnerabilities in its retail operations and sought to fix them through a complete structural rehaul of the organization. This would have been a tremendous task for an organization as large as Sears with the complexities involved in implementing new procedures and building IT infrastructure. The management shied away from this option. The second option was to generate growth by venturing into new businesses. While this was a good strategy, its execution was poor. The management decided to branch out into the Financial Services sector moving completely away from its core competencies. Rather than using capabilities, it used cash flows to grow new businesses that derived little benefit from their existing capabilities.

Conclusion:

Rather than branching out to new markets, Sears should have sought to strengthen its position in the current market where it still had a loyal customer base and held core competencies. If successful strategies had been implemented to eliminate vulnerabilities, it could have once more triggered growth in retail rather than yielding market share to competitors.

References

[1] Raff, Daniel M. G. and Temin, Peter, Sears Roebuck in the Twentieth Century: Competition, Complementarities, and the Problem of Wasting Assets (June 1997). NBER Working Paper No. h0102, Available at SSRN.

[2] O'Reilly, Charles A., III, and Michael L. Tushman. "Organizational Ambidexterity in Action: How Managers Explore and Exploit." California Management Review 53, no. 4 (Summer 2011): 5–21.