

Moving Forward

December 15, 2014 by [Eddie Lampert](#)

At our most recent Town Hall meeting with our associates, I explained that I want us to operate our stores both profitably and with excellence. Both, not just one or the other.

This is the background behind our decision to close more than 200 Kmart and Sears stores in 2014. Most of these stores were losing money, some for a long time. Because of the impact on our dedicated associates and our Shop Your Way members, these decisions were not taken lightly, or without our working to improve the performance of these stores over many years. Going into 2015, we will have approximately 1,700 Sears and Kmart big box stores in operation, representing about 200 million square feet of space.

I am proud of the work associates contribute to serve our members in all of our stores and believe that the decision to keep some of our worst performing stores open in the past, despite their low or negative levels of profit, was the right one because we kept people employed and served our members. We have experimented with different formats, different levels of investment and different processes to bring about a better result. Given changing circumstances, both in the retail industry and in our company, we can no longer afford, nor justify keeping these stores open.

Many of our stores operate profitably and serve our members with excellence. We will continue to integrate our stores with our online and mobile capabilities, to improve our service and our relationships. In addition, we are continuing to evaluate and execute on options to adjust the size of our stores by partnering with mall owners and other retailers. By improving the productivity of our stores, we believe that we will build a sustainable footprint to serve our members, both in the number and size of the stores we operate.

For all of the focus on holiday shoppers in stores, most people – and especially our Shop Your Way members – are buying gifts on multiple platforms, at all hours, even on their phones while they're also in line at a store. Adapting for the future has been the major focus of our company and our Sears and Kmart formats, as customers are shopping in ways that were inconceivable not very long ago. We've put an enormous amount of work into changing how we do business today,

but the improvements we are making are more than cultural and technological. The number and size of our stores matter a lot as well.

How much retail floor space do we need to deliver great experiences that meet or exceed our members' expectations? Are our locations where they need to be? With more and more of our sales and member engagement happening online or via mobile and shipping straight to home, do we need the same kinds of stock rooms and warehouses?

Sears Holdings is far from alone in tackling these questions. To take just one example, in virtually every city across the country, real estate owners and communities are trying to figure out what to do with large, windowless buildings that once held essential – now useless – telephone equipment to make landlines work. Some developers are trying to convert them into offices or apartments. Other entrepreneurs think the solid construction and robust electric power could support data centers for new generations of businesses. None of these transformations are simple.

Similarly, some of our stores are simply too large for our needs, given that populations shift, new roads are built and new retail areas open constantly. Restoring them to profitability has been a challenge. At the same time, many of our stores are in some of the most attractive mall locations in the country. Though we expect most of them to stay open for the foreseeable future, in some places mall owners and developers have approached us with the opportunity to reposition our stores for other uses and are willing to compensate us. When they've offered us more money to take over a location than our store there could earn over many, many years, we've accepted offers. We've used this funding to invest more in our transformation. We have also adjusted the size of our stores by partnering with retailers like Whole Foods, DICK's Sporting Goods, Forever 21, Primark, and others. In these cases, we continue to operate in the same location, in a smaller (but still large) space, leasing out the rest to retailers who will drive traffic and who compensate us for that space.

The good news is that our analyses show that when we close a store we can retain a relationship with Shop Your Way members who visited the store – because we can now communicate with them and meet their needs in other ways on other platforms. As a result, we can keep serving them, whereas in the past, before changes in technology impacted consumer behavior, we might have lost these members forever.

Closing non-productive stores results in reduced expenses, improved cash flow and enhanced productivity of our space – which together end up strengthening our company. By closing money-losing stores, we reduce future losses as well as capital needs, providing us a path to restore profitability sooner for our company, and funding our transformation. We have a very flexible real estate portfolio which gives us time to try to turn around underperforming locations, without the potential burden of long-term losses that would otherwise prevent us from taking these risks.

Few of the old landline equipment stations I mentioned above are still in the hands of the Baby Bells or their successors. In fact, the only surviving descendants of “Ma Bell” are the companies which realized early that mobile and data represented the future of their industry as opposed to Plain Old Telephone Service – and invested and readjusted their portfolios accordingly.

Armed with more information than ever about how, where, and when Sears and Kmart members want to shop, we are using this additional data, and the accompanying insights, to adapt to a future where integrated retail and member experience will be paramount.

We’re not only thinking several steps ahead to the future, we’re moving to get there with the right kind of stores, space and experiences for our members’ needs.

Source: <http://blog.searsholdings.com/eddie-lampert/moving-forward/>