

LO 1.1 The Sears Story

Issues to Consider as You Read This Story

1. How would you describe Eddie Lampert's leadership style?
2. How would you assess his approach to implementing major organizational change—in this case restructuring the whole company with a new organizational model?
3. On balance, how would you assess his new organizational model?
4. What lessons about managing organizational change can we take from this experience and apply to other organizations, in this or other sectors?

The Setting

A household name in America, Sears was once the world's largest retailer. In October 2018, the company filed for Chapter 11 bankruptcy, and its remaining assets were sold to a hedge fund, ESL Investments, owned by Eddie Lampert. What happened?

Sears Holdings Corporation was a specialty retailer, formed in 2005 by the merger of Kmart and Sears Roebuck. The merger was the idea of Eddie Lampert, a billionaire hedge fund manager who owned 55 percent of the new company and who became chairman. Based in Illinois, the company operated in the United States and Canada, with 274,000 employees, 4,000 retail stores, and annual revenues (2013) of \$40 billion. Sears and Kmart

stores sold home merchandise, clothing, and automotive products and services. The merged company was successful at first, due to aggressive cost cutting.

The Problem

By 2007, two years after the merger, profits were down by 45 percent.

The Chairman's Solution

Lampert decided to restructure the company. Sears was organized like a classic retailer. Department heads ran their own product lines, but they all worked for the same merchandising and marketing leaders, with the same financial goals. The new model ran Sears like a hedge fund portfolio with autonomous businesses competing for resources. This "internal market" would promote efficiency and improve corporate performance. At first, the new structure had around 30 business units, including product divisions, support functions, and brands, along with units focusing on e-commerce and real estate. By 2009, there were over 40 divisions. Each division had its own president, chief marketing officer, board of directors, profit and loss statement, and strategy that had to be agreed on by Lampert's executive committee. With all those positions to fill at the head of each unit, executives competed for the roles, each eager to run his or her own multibillion-dollar business. The new model was called SOAR: Sears Holdings Organization, Actions, and Responsibilities.

When the reorganization was announced in January 2008, the company's share price rose 12 percent. Most retail companies prefer integrated structures, in which different divisions can be compelled to make sacrifices, such as discounting goods, to attract more shoppers. Lampert's colleagues argued that his new approach would create rival factions. Lampert disagreed. He believed that decentralized structures, although they might appear "messy," were more effective and they produced better information. This would give him access to better data, enabling him to assess more effectively the individual components of the company and its assets. Lampert also argued that SOAR made it easier to divest businesses and open new ones, such as the online "Shop Your Way" division.

Sears was an early adopter of online shopping. Lampert (who allegedly did all his own shopping online, but had no previous experience in retailing) wanted to grow this side of the business, and investment in the stores was cut back. He had innovative ideas: smartphone apps, netbooks in stores, and a multiplayer game for employees. He set up a company social network called Pebble, which he joined under the pseudonym Eli Wexler, so that he could engage with employees. However, he criticized other people's posts and argued with store associates. When staff worked out that Wexler was Lampert, unit managers began tracking how often their employees were "Pebbling." One group organized Pebble conversations about random topics just so they would appear to be active users.

The Chairman

At the time of the merger, investors were confident that Lampert could turn the two companies around. One analyst described him as "lightning fast, razor-sharp smart, very direct." Many of those who worked for him described him as brilliant (although he could overestimate his abilities). The son of a lawyer, it was rumored that he read corporate reports and finance textbooks in high school, before going to Yale University. He hated focus groups and was sensitive to jargon such as "vendor." His brands chief once used the word *consumer* in a presentation. Lampert interrupted, with a lecture on why he should have used the word *customer* instead. He often argued with experienced retailers, but he had good relationships with managers who had finance and technology

backgrounds.

From 2008, Sears' business unit heads had an annual personal videoconference with the chairman. They went to a conference room at the headquarters in Illinois, with some of Lampert's senior aides, and waited while an assistant turned on the screen on the wall opposite the U-shaped table and Lampert appeared. Lampert ran these meetings from his homes in Greenwich, Connecticut; Aspen Colorado; and subsequently Florida, earning him the nickname, "The Wizard of Oz." He only visited headquarters in person twice a year because he hated flying. While the unit head worked through the PowerPoint presentation, Lampert didn't look up, but dealt with his emails or studied a spreadsheet until he heard something that he didn't like—which would then lead to lengthy questioning.

In 2012, he bought a family home in Miami Beach for \$38 million and moved his hedge fund to Florida. Some industry analysts felt that Sears' problems were exacerbated by Lampert's penny-pinching cost savings, which stifled investment in its stores. Instead of store improvements, Sears bought back stock and increased its online presence. In 2013, Lampert became chairman and chief executive, the company having gone through four other chief executives since the merger.

The Outcomes

Instead of improving performance, the new model encouraged the divisions to turn against each other. Lampert evaluated the divisions and calculated executives' bonuses, using a measure called "business operating profit" (BOP). The result was that individual business units focused exclusively on their own profitability, rather than on the welfare of the company. For example, the clothing division cut labor to save money, knowing that floor salespeople in other units would have to pick up the slack. Nobody wanted to sacrifice business operating profits to increase shopping traffic. The business was ravaged by infighting as the divisions—behaving in the words of one executive like "warring tribes"—battled for resources. Executives brought laptops with screen protectors to meetings so that their colleagues couldn't see what they were doing. There was no collaboration and no cooperation. The Sears and Kmart brands suffered. Employees gave the new organizational model a new name: SORE.

The reorganization also meant that Sears had to hire and promote dozens of expensive chief financial officers and chief marketing officers. Many unit heads underpaid middle managers to compensate. As each division had its own board of directors, some presidents sat on five or six boards, which each met monthly. Top executives were constantly in meetings.

The company had not been profitable since 2010 and posted a net loss of \$170 million for the first quarter in 2011. In November that year, Sears discovered that rivals planned to open on Thanksgiving at midnight, and Sears' executives knew that they should also open early. However, it wasn't possible to get all the business unit heads to agree, and the stores opened as usual, the following morning. One vice president drove to the mall that evening and watched families flocking into rival stores. When Sears opened the next day, cars were already leaving the parking lot. That December, Sears announced the closure of over 100 stores. In February 2012, Sears announced the closure of its nine "The Great Indoors" stores.

From 2005 to 2013, Sears' sales fell from \$49.1 billion to \$39.9 billion, the stock value fell by 64 percent, and cash holdings hit a 10-year low. In May 2013, at the annual share-

holders' meeting, Lampert pointed to the growth in online sales and described a new app called "Member Assist" that customers could use to send messages to store associates. The aim was "to bring online capabilities into the stores." Three weeks later, Sears reported a first-quarter loss of \$279 million, and the share price fell sharply. The online business contributed 3 percent of total sales. Online sales were growing, however, through the "Shop Your Way" website. Lampert argued that this was the future of Sears, and he wanted to develop "Shop Your Way" into a hybrid of Amazon and Facebook. The company's stock market valuation fell from \$30 billion in 2007 to \$69 million in October 2018, while carrying \$5 billion in debt. Revenues in 2018 were \$16.7 billion, down from \$50.7 billion in 2007. Sears had around 3,500 stores in America in 2007, and young shoppers rarely visited the 866 stores that remained in August 2018. Sears filed for Chapter 11 bankruptcy in 2018, and Lampert resigned as chief executive, but stayed on as chairman.