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RETAIL

The Fall of Sears - Could They Restructure into E-Retailing?

by David Salisbury

Once a premier American brand, Sears has been struggling to stay afloat amid fierce competition from online retailers. New research indicates that omnichannel e-retailing could present a solution.

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Surviving and thriving in the highly-competitive landscape of consumer retail is not easy, particularly for brick-and-mortar retailers who formerly relied on in-store shoppers as their primary source of business. Over the past ten years, pure-play online retailers like Amazon and online grocer Ocado have set the new standard for shopping with just a few clicks and quick delivery right to customers' homes, whereas former physical department store titans like K-Mart and Sears have been thrown into financial peril with consumers changing shopping habits. Sears Holdings, which owns Sears and Kmart, reached a deal with hedge fund ESL Investments to acquire 425 Sears stores and other assets for about $5.2 billion. This effectively saves Sears from total liquidation for the time being.

While they're saved for now, the future is still bleak for physical department stores. Traditional companies that wish to survive need to play catch up. Often, these companies have adopted an "omnichannel" retail model, which integrates their physical stores with online fulfillment operations. Sears would be wise to use their extended life to become competitive in the online e-retailing world. In the upcoming California Management Review article "**Configuring the Last-Mile in Business-to-Consumer E-retailing**," the authors discuss how retailers can reconfigure their last-mile supply networks to achieve better alignment between delivery responsiveness, product variety, and convenience. They've developed a typology called "the SHOP model" comprised of four ideal forms of last-mile supply networks. The type of network that best suits a company will vary based on the type of business. Which of these four models would work best for Sears?

What Wouldn't Work

Simple Last-Mile Supply Networks (LMSNs) are defined by slow delivery responsiveness and low product variety. They aim to create high cost efficiencies in product order fulfillment, typically through the use of highly automated distribution centers to provide convenience with well-scheduled home delivery. However, Simple LMSNs engage only a limited number of suppliers with very low product variety to retain network simplicity. With the hundreds of stores Sears and Kmart still have across the country and thousands of products available at each, this model is better suited for a smaller local merchant with a single store and set inventory.

And like Simple LMSNs, the One-Stop LMSN would not be an optimal choice for Sears. One-Stop LMSNs are characterized by slow delivery responsiveness and high product variety. These retailers, like Amazon, cater to customers who don't need their orders right away, but expect a large variety of products. This model would likely not help Sears become competitive as Amazon has the same capabilities to deliver and more with their Amazon Prime Now same day delivery services. Sears needs to transition to a model that will make them more immediately competitive.

What Could Work

And speaking of those Amazon Prime Now same-day delivery services, this fast-delivery capability with a large variety of products to choose from is called a Hyperlocal LMSN. Amazon and Snapdeal offer consumers immediate deliveries from local fulfillment through such instant services as Prime Now for Amazon, and Instant for Snapdeal. While this model would certainly put Sears and Kmart back in competition with the big boys of e-retailing, their store numbers and inventories have been too depleted over the year to have as many distribution centers as Amazon has to integrate a Hyperlocal LMSN. In the year 2000, Sears had over 3000 locations. Since shrinking down to less than 500 locations today, their revenue, inventories, and physical infrastructure are too low to take on such an ambitious restructuring at this time. However, could Sears and Kmart bridge from their current predicament into eventually having an Amazon Prime-style service?

The Protean LMSN model provides fast delivery responsiveness and low product variety. The primary purpose of these models is to provide responsive delivery. Inventory stocks are typically stored and fulfilled from local inventory points, resulting in highly decentralized network structures. Argos, a leading High Street digital retailer, offers a consistent portfolio of approximately 50,000 stock-keeping units (SKUs) across over 800 stores, delivering 30,00 SKUs to consumers within the same day. With Sears and Kmart's store numbers very close to that of Argos, this would be the ideal model for Sears Holdings' businesses to adopt to begin a transition into e-tailing. Then of course when they are established as an online presence and have enough revenue generated, they could establish their own Prime-style fast delivery services like Amazon. For any traditional business to stay competitive in the ever-online world they must be ready to accept large change in how they sell and deliver goods. Finding the model that's right for any business is essential and completely possible, especially if that business already enjoys established and popular branding, like Sears and Kmart.

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