Written by Dave Bohon on December 29, 2011

Do Sears, K-Mart Closings Foreshadow Retail Trend?

Following a less-than-spectacular holiday shopping season, two 20th century mainstays of America's retailing culture appear to be a step closer to historical nostalgia. As reported by the Associated Press, the parent company of Sears and K-Mart announced that it is planning to close at least 100 stores, "a move that sparked speculation about whether the 125-year-old retailer can avoid a death spiral fed by declining sales and deteriorating stores." AP reported that Sears Holdings Corp., "a pillar of American retailing that famously began with a mail-order catalog in the 1880s, declared Tuesday that it would no longer prop up 'marginally performing'" Sears and K-Mart locations.

In 2005, following K-Mart's Chapter 11 bankruptcy filing, the two retail giants merged under the umbrella of Sears Holdings, and in the ensuing years the company has tried without much success to find a profitable niche for the hybrid retail partnership.

In the meantime, competitors Wal-Mart and Target have become nearly ubiquitous upon America's urban landscape, slowly replacing aging and out-of-step Sears and K-Mart retailers with monster "super-stores" offering consumers cheaper merchandise, along with a full line of groceries, auto service, optical centers, barber and beauty services, and a combination of fast food restaurants and take-home pizza chains.

Retail analyst Gary Balter of Credit Suisse pointed out that Sears Holdings has worked against its own best interests by not doing more to improve the atmosphere and offerings of its stores, effectively asking its customers "to pay for a poorer shopping environment than available at competitors and online." He added that the weakness of sales "begins and some would argue ends with Sears' reluctance to invest in stores and service."

Retail analyst Brian Sozzi told AP that for the average consumer there is "no reason to go to Sears. It offers a depressing shopping experience and uncompetitive prices."

The latest move to close poorly performing Sears and K-Mart stores and concentrate on improving the look and feel of more viable locations may be a last-ditch attempt by the company's CEO, Eddie Lampert, to save a sinking ship. Analysts say the company may simply not have enough cash and credit to beef up facilities and service in stores that management thinks are worth saving.

But Sears spokesman Chris Brathwaite challenged the doomsayers, noting that the company has nearly $3 billion in credit lines, along with such "significant assets" as Sears' traditionally popular Craftsman tool and Kenmore home appliance brands. Unfortunately, in the nation's soft economy consumers are not breaking the doors down to purchase Craftsman ratchet sets or Kenmore washers, dryers, refrigerators, and stoves.

Sadly, both Sears and K-Mart were trailblazers in their retail fields, paving the way for their Wal-Mart and Target replacements. “Sears, which started with a lone Minnesota watch seller in 1886, helped define the mail-order catalog industry, selling shoes, clothes, guns, and even ready-to-assemble homes to farmers across the country,” recalled the AP. Additionally, throughout much of the 20th century Sears was a retail fixture for middle-class Americans, who found its stores a convenient and dependable source for quality clothing, sporting goods, hardware, and appliances. In recent years, however, it was hindered “by competition from steep discounters and by missteps that included forays into financial services and the decision to sell off a lucrative credit card business,” noted the AP.

Similarly, K-Mart, “which started as a five-and-dime in Detroit in 1899,” largely defined the “discount-store format that Wal-Mart Stores Inc. came to dominate,” reported the AP. In fact, K-Mart “once commanded a retail empire that included Waldenbooks, Borders, OfficeMax, and Sports Authority,” before a “long sales decline and an ill-advised price war against Wal-Mart led to its 2003 bankruptcy filing” and its eventual merger with Sears.

Ironically, in addition to being hurt by aggressive competitors, Sears has not been able to keep pace with the consumer trend toward online shopping — the high-tech evolution of its once-iconic mail-order business. Burt Flickinger, managing director of the retail industry consultant Strategic Resource Group, told CNN that there has been “a significant shift online because of the sales tax savings. Consumers see it as an instant discount and most online retailers are delivering for free. That puts Sears and other land-based retailers at a significant disadvantage....”

That disadvantage has been most apparent in sales of electronics. Forbes.com noted that like many other brick-and-mortar retailers — including electronics giants like Best Buy — “Sears has become a de facto showroom for online retailers such as Amazon, which use the best of mobile and social media technologies to lure shoppers to their sites. Consumers, essentially, go the stores to check out the products in person, but then go online to make their actual purchases,” surfing the Internet for the most competitive prices.

Ultimately, however, the problems Sears/K-Mart is facing are the result of adjustments in a soft economy in which there are more retailers competing for limited consumer dollars.

Writing on the website MISH’S Global Economic Trend Analysis, retail analyst Mike Shedlock noted that even before the economy turned sour, many economic experts believed that there were too many stores for the number of shoppers. According to the 2007 Economic Census, there were a total of 1,122,703 retail establishments in the United States — for a combined total of 14.2 billion square feet of space dedicated to retail sales. That translates into around 47 square feet of retail space per captia for America’s shopping-obsessed public. By comparison, Canada boasts around 13 square feet of retail space per capita, and the UK about 23 square feet.

“It seems to me stores have a major problem here,” wrote Shedlock of the state of affairs for American retailers. “The problem is increasing competition for customers who have no job and/or retirees with little need for anything but food and shelter.”

In short, the latest Sears and K-Mart closings may well portend a long-term trend toward contraction by other retailers, including successful ones, as American consumers with shrinking disposable incomes use their dollars for necessities such as food, clothing, shelter, and transportation, while increasingly forgoing iPads, Kindles, PlayStations, and other relative luxuries offered by retailers.