EVOLUTION OF MARKETING STRATEGY AT SEARS, ROEBUCK*

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ABSTRACT

The recent moves of Sears, Roebuck into the financial and real estate fields are not the radical break with Sears tradition most people believe. Rather, they fit comfortably into Sears' long-established strategy of identifying major gaps in services for the consuming public, and seizing the opportunities they represent. In entrepreneurial terms, these moves closely parallel three earlier initiatives: Julius Rosenwald's reorientation of Richard Sears's flagging mail order business in the mid-nineties, General Wood's entry into the retail field in the mid-twenties, and his subsequent venture into automobile insurance in the early thirties.

To many observers of the contemporary business scene, the recent entry of Sears, Roebuck and Co. into the consumer and real estate markets appears to be a sharp departure from long-standing tradition. Popular perception notwithstanding, this happens not to be true. What we are witnessing is simply the latest manifestation of a characteristic deeply embedded in the Sears culture. Actually, this is the fourth time a seemingly radical break has occurred in the company's history. The first was in the mid-1890s when Julius Rosenwald reoriented Richard Sears's flagging mail order business to better serve a rural market; the second in the mid-1920s when General Robert E. Wood built a retail system on Rosenwald's mail order base to serve a rapidly-urbanizing America; and the third in the early 1930s when Wood took Sears into the insurance business. Now, in the 1980s, Edward Telling is introducing a fourth major entrepreneurial innovation by adding investment and real estate to a broadly diversified portfolio of consumer services.

The significance of what is now under way at Sears can best be grasped by picking up the story at the time of General Wood's retirement in 1954. Sears gained tremendous momentum from Wood's ambitious post-war expansion program, and in the years immediately following the war the company moved rapidly ahead to increasingly higher levels of sales and profit performance. Toward the end of the 1960s, however, it began to be apparent to astute insiders and knowledgeable observers alike that not all was well with Sears. Rates of growth were slipping, costs edging upward, profit margins narrowing, and the competition threatening. Sears remained the world's largest retailer--nearly twice the size of the second largest--but it was losing market share. In the recession of 1974-75 it was harder hit than the retail industry generally and recovered more slowly.

Financial performance was lackadaisical; investor confidence was shaken and the market price of Sears stock dropped sharply. Internally, there were serious problems of organization and management. The once coherent merchandising strategy became confused to the point where trade journalists talked of Sears having "an identity crisis." Merchants in the field and at headquarters often worked at cross purposes. Management morale eroded, and there was confusion in executive ranks. The organization itself was top-heavy, and people inside and outside speculated that Sears had grown too big to manage. With nearly 900 stores, some 1700 catalog sales offices, thirteen huge regional distribution centers, and over 450,000 employees, giantism was a real and present concern.

Aware of its troubles, Sears management acted. Efforts were made to develop and enforce a more cohesive merchandising strategy; to cut back on overhead and streamline organization; to improve headquarters-field communications; to gain better control over inventory and expenses; to correct problems which had developed in executive incentive systems; and otherwise to strengthen managerial functions. These measures brought significant improvements in merchandising performance by the second half of the 1970s. Nevertheless, it was clear that something more was needed.

The situation Sears found itself in at this time was reminiscent of earlier periods in its history, especially the mid-1890s and the mid-1920s. During each of these earlier times, the company had seemed to reach an impasse, and in each case it had taken a new leader with a new entrepreneurial vision to restore sound and vigorous growth.

The first of these was Julius Rosenwald. Starting in 1886, Richard Sears specialized in selling by mail goods his buyers were able to pick up at bargain prices, often manufacturers' excess inventories and other distress merchandise. The business thrived for a time, but by the early 1890s was in trouble. A promotional genius rather than a businessman, Richard Sears was unable to understand why his freewheeling, ad hoc merchandising practices were no longer as successful as they had been. He failed to see that a more systematic marketing strategy was needed to support his brilliant sales efforts. Julius Rosenwald, a supplier with whom Sears had run up a large unpaid account, acquired a controlling interest in the company in 1895. Coming from the outside, he recognized that the rise of the nation's agricultural output, coupled with the poorly served needs of rural and small-town America, was generating unprecedented merchandising opportunities. To seize those opportunities, he redefined the company's merchandising strategy. No longer were his buyers to comb the markets for bargain merchandise; rather, they were to study the needs of the farm as a living and producing unit and seek out systematically merchandise suited to those needs; Sears, Roebuck, in a word, was to become "buyer for the American farmer."

The strategy was successful, and launched the company on an era of unprecedented growth and prosperity. That outcome depended, however, on a special set of conditions, and those conditions changed. With the coming of the automobile and good roads in the 1920s, there was no longer a separately identifiable rural and small-town market for which Sears could function profitably as "buyer." Again it took an outsider, this time Robert E. Wood, to perceive where the greatest merchandising opportunities lay: in the rapidly-growing urban areas populated by an increasingly prosperous working class and a newly-emerging middle class. Wood knew that this market could not be effectively served by mail order alone and could only be tapped by a nationwide system of retail stores, using the mail order plants as jobbers and the catalog as a supplement to retail selling. This was the concept that heralded the beginning of a second enormously prosperous period for Sears.

The company's prosperity was greatly enhanced by Wood's bold entry into automotive insurance in 1931, an unprecedented move for a merchandising organization but one which rested on the solid position Sears had built in selling tires and automotive equipment to an increasingly motorized buying public.

Successful as Wood's merchandising strategy was for many years, in time the conditions on which it was predicated changed and Sears entered a period of stagnation. As had happened twice before, Sears failed to change as the times had changed. Top management in the late 1960s and early 1970s failed to see the relevance to their business of the far-reaching structural adjustments the American society had undergone since the heyday of General Wood. For Sears the most significant of these were the maturing of the merchandising industry and the shift from a goods economy to a service economy--two closely-related phenomena that profoundly altered the fabric of American life.

Under General Wood, Sears developed to serve a goods-producing and goods-consuming society whose character was shaped by manufacturing, its central economic function. In the 1920s and for many years thereafter, American families were busy acquiring automobiles and auto accessories, household appliances and equipment, wearing apparel, sporting goods, radios and televisions, and a host of other items which had largely been unknown to or unattainable by earlier generations. Much of this was original equipment: electric refrigerators, automatic washing machines, stereophonics, wall-to-wall carpeting. By the 1960s and 1970s, however, the market for goods such as these had become primarily a replacement market, and competitors had learned to serve it as well as Sears. The competitive edge Sears had so long enjoyed gradually eroded. Meanwhile, the merchandising industry itself grew overcrowded; consumers, once underserved, found themselves with more stores than they could profitably support. Where Sears had once dominated the new urban market, it now had to struggle to hold its own against a host of importunate rivals.

The concurrent shift from a goods to a service economy meant that the typical Sears customer was spending proportionately less on the tangibles that were Sears stock in trade. From the 1920s through the 1950s, the bulk of the spendable income of the middle- and working-class American family had gone for goods to support its rising material standard of living; from the 1960s on, a larger and larger share went for education, health care, travel, and other intangibles. The central economic function of the country was no longer manufacturing but the processing and managing of information. Faced with the difficulties of maintaining growth and profitability, the senior people of Sears dug in their heels and sought to do better the things they were already doing, and they did these exceedingly well. They failed, as their predecessors had failed twice before, to see that with the fundamental changes that had taken place in American society what was needed was not so much better business methods as new business directions.

In particular, the post-Wood top management did not grasp the understandably distasteful prospect that the business they knew so well lacked the capacity to take the company into a great new period of growth comparable to those it had experienced under Julius Rosenwald and General Wood. Having spent their working lives in merchandising, they had trouble seeing the need to go beyond it. The key phrase here is go beyond. Julius Rosenwald did not discard Richard Sears' promotional genius; he combined it skillfully with his new merchandising concept. General Wood did not abandon mail order; he used it as the starting point for his phenomenally successful mail order/retail system. What later Sears management took a long time learning was to accept the limitations of its established business and find means to utilize the strengths of that business to enter other areas that would offer significant potential for renewed growth.

Each of the company's two former periods of remarkable prosperity had its roots in the way it responded to urgent needs created by major new developments in the structure of American society. The rapid increase in agricultural output in the last decade of the nineteenth century and the first two decades of the twentieth and the far-reaching consequences of World Wars I and II brought about great changes. These in turn gave rise to pressing needs within broad sectors of the American public which were poorly served by existing economic institutions. In both cases, Sears moved into the breach with dramatic results.

The present stage in the evolution of the American economy is characterized by the inability of existing institutions to serve the country's growing needs for more efficient, more accessible, and more adequate financial and real estate services. Sears recent advances into these fields are evidence that the company is again moving into a major hiatus which has developed in the American economic system. The results should again be dramatic.

Tracing the origin of these new developments within the company goes beyond the scope and purpose of this paper. It appears, however, that the first steps toward systematic exploration of possible new directions were initiated during the tenure of Arthur M. Wood (no relation to the General) as chief executive officer in the mid-1970s. But it was not until his successor, Edward R. Telling, took office in 1978 that the broad outlines of a distinctly new entrepreneurial concept began to take form discernible to the public eye.

Telling saw the opportunity for Sears to become "the great American corporation," which he conceived as encompassing merchandising, insurance, finance, and real estate. The merchandising and insurance businesses were already securely in place, and good beginnings had been made toward building financial and real estate services through the operations of Allstate Insurance and the Homart Development Corporation, the wholly-owned subsidiary which had been created in the 1950s to handle shopping center projects in which Sears was interested. Apparently it was Telling's original intention to build his "great American corporation" from these existing Sears components. Then, in 1981, the opportunity arose to greatly accelerate the process by means of two strategic acquisitions, Dean Witter Reynolds, a leading full-line investment house, and Coldwell Banker, the nation's largest real estate firm--two moves which came almost simultaneously and shook the finance and real estate communities to their foundations.

There are those on Wall Street who look askance at the new Sears policy, just as half a century before the financial gurus of their grandfather's generation scoffed at General Wood's audacious entry into retailing. But despite skepticism in some quarters that "while people will buy fertilizer and washing machines from Sears, they won't buy stocks and bonds," the company's future in the finance and real estate fields looks promising.

Sears starts with impressive credentials. The more than 25 million Sears credit cards now actively in use represent about 55 percent of all American households and about 85 percent of households with annual incomes of $30,000 or more, the sector of the population comprising the most active home-owning and investing groups. A high proportion of all Americans have had or will have at some time in their lives need for real estate brokerage and mortgage loans, and it is reported that of the 9.5 million households doing business with New York Stock Exchange firms, 7 million are current Sears customers.

The company's greatest asset as it moves into these new areas is the confidence in which it is held by the American people. Sears enjoys a level of trust that has been accorded few other corporations, and this will serve it well in fields where confidence and trust are essential. The established financial and real estate communities have reason to be worried; the new Sears is a more serious competitive threat than any they have ever faced.

Even this early in the game, wiseacres on Wall Street are saying that "there is nothing to fear but Sears itself." Facetious though these words may be, they contain more than a grain of truth. Traditional financial institutions are in turmoil, anxious to find their place in the scheme of things now taking shape. Real estate has until recently been virtually a cottage industry, huge in volume but hopelessly fragmented in management and operations; it, too, is changing. The way is open for Sears to establish itself firmly in both fields, and it is doing so with notable vigor. It is perhaps just as well that Sears marked time for as long as it did before setting off on these revolutionary new directions; any major moves of this kind before the 1980s would have been premature.

One other element of the new Sears, Roebuck has so far drawn little public attention, but appears to have dramatic potential. This is Sears World Trade, Inc., created to develop a field in which this country has never been particularly strong but for which Sears is remarkably well-suited. Given the company's close ties with thousands of U.S. manufacturers and its established commercial contacts around the world, Sears is in a position to provide a globe-girdling trading service that American industry badly needs but has never had before. This venture got off to a bad start, but its underlying concept is sound and world trade is an element of the new Sears strategy that will bear watching in the years ahead.

It is fascinating to observe how neatly these new developments at Sears replicate what has happened twice before. Many appear to think that Telling's ideas represent a radical break with the company's past. In point of fact they are in close accord with what has gone before. Both Julius Rosenwald and General Wood refashioned the company to serve major needs of their respective eras that were being poorly served by existing economic institutions. Building on the start made by Arthur Wood, Edward Telling is refashioning Sears to serve the needs for more convenient, more readily accessible, more efficient, and less costly financial, real estate, and world trading services.

It is too early to pass judgment on the new Sears strategy. On the surface, it looks good. But it will take time to prove, and meanwhile it carries a high level of risk. Interestingly, the time required and the risk involved are also a part of the Sears tradition. It took Julius Rosenwald five years to establish his strategy of serving as buyer for the American farmer. And it was not until 1935, ten years after opening his first retail store, that General Wood felt comfortable that the company was working the way he wanted it to work. In today's volatile world, the management of Sears may not have the luxury of a ten- or even a five-year period of trial and test; the task cannot be accomplished overnight, but it must be accomplished with dispatch.

The managerial and organizational aspects of what Sears must accomplish are awesome. Before embarking on its new direction, it was already a huge and complex enterprise. Grafting onto it a host of additional functions and services, many of them still in nascent stages of development, presents problems of a magnitude and difficulty seldom faced by an American corporation. At the heart of the task is the integration of the greatly broadened range of activities into a unified whole. Sears cannot afford to operate Dean Witter Reynolds and Coldwell Banker as autonomous units within a conglomerate. The Allstate experience provides a useful object lesson. Allstate's success was built on closely integrating the selling of insurance with the selling of automobile-related merchandise in retail stores. Sears must now find ways to integrate similarly the investment and real estate businesses not only with Sears's established merchandising and insurance businesses but also with the many new activities in which it is engaged. The course ahead is filled with dangers, both seen and unseen. Yet, as General Wood often said, "If your strategy is right, you can make a lot of mistakes learning how to make it work." There is reason to believe the new strategy is right, that while it is risky it contains within it room to learn to make it work.

Sears now seems well on its way to becoming as dominant in the consumer finance and real estate fields--and perhaps in world trading services--as in earlier stages in its history it was dominant in mail order and retailing. It may well prove to be one of the great growth companies of the closing decades of the twentieth century.

No business strategy is good forever. The very success of a particular strategy dooms it to obsolescence because its foundations are built on circumstances that are bound to change, and success itself is a heady wine that makes the need for new strategies difficult to see. Moreover, organizations become senescent; they wither and die unless renewed.

What we are witnessing in Sears today is a process of organizational renewal--for the third time in the company's long history (the Allstate experience was not a renewal but an an acceleration). Julius Rosenwald renewed Richard Sears's flagging enterprise. General Wood renewed Julius Rosenwald's drooping mail order business. Edward Telling is renewing a company that was growing increasingly moribund. In each instance, the renewal process was set in motion by the infusion of new and creative entrepreneurial concepts. What is happening now at Sears appears to be only a prelude to another great period of growth and prosperity.

NOTES

* This paper draws on the "Epilogue" of the author's _Shaping an American Institution: Robert E. Wood and Sears, Roebuck_ (1984), University of Illinois Press.