**Introduction**

Kmart the retail behemoth has seen its’ market share decrease due to intense competition and their lack of dynamism in the trendy fast paced retail industry. Kmart has been slow to embrace technological change that would have facilitated new marketing possibilities, product offering and customer retention. In a bid to gain back the market domination that Kmart experienced in its early years, Kmart purchased Sears in 2004 for $11B and Sears Holding Corporation with hopes of experiencing "$500 million a year in savings within three years from store conversions, back-office job cuts, more efficient buying of goods and possible store closings" (nbcnews.com, 2004).  This paper scans the macro-environment of the retail industry in the United States and examines the micro-nuances that should allow them to remain relevant in this economy. The macro and micro scans were completed using the PESTEL, Stakeholder and SWOT analyses. The paper also examines Kmart’s’ mission statement in relation to their corresponding corporate and investment strategies as they position themselves for future growth.

**PESTEL**

The Kmart Retail team has utilized the PESTEL analysis to scan the macro-environment to establish the attractiveness of the retail industry in the US. The macro-environment conditions can positively or negatively impact Sear’s Holding Company’s growth and recovery prospects.

**Political**

An examination of the Political {P} landscape that exists in the US is based on the government position to create and maintain the conditions in which competition can flourish: accomplished through greater equality and assistance to perturb market failures.

The retail industry maintains a robust political impact through its ability to create wealth such that more than 3.6 million retail businesses are established in the US, sales amounting to 2.5 trillion in 2012 and the creation of more than 42 million jobs, according to the website ([www.selectusa.commerce.gov](http://www.selectusa.commerce.gov/)). In observance of these figures the government is keen to promote a healthy business environment by creating legislation that aims to assists and strengthen business opportunities. For example, the government has set in motion “The Main Street Fairness Act” that would serve to simplify and fairly promote the collection of sales tax by all parties without regard to the manner in which sales are made, i.e. in person, by mail or the internet as per Shapiro (2012). This Act was inspired by internet purchases and the non-collection of sales tax by out of state consumers and businesses. This non-collection of sales tax produced an unfair balance to local businesses that did collect such taxes.

The political and governmental influence in the business environment has initiated a huge debate as to whether governments should get involved with business enterprise. There are pros and cons to government intervention but the overriding ideology is to promote fairness and equality due to the by-products of a capitalist society that seems to cannibalize the weak.

The political machinery has also moved to promote infrastructural developments as part of the US road to recovery. Bills have been introduced to keep America moving forward through the building and replacing of roads and bridges that not only serves as a catalyst to the retail industry but also serves a measure that decreases unemployment. One such bill is the “Rebuild America Act” by Sen. Tom Harkin: this bill supports infrastructure developments and goes on to incorporate job training advancement together with clauses to protect US companies from predatory trade practices.

The Political Conditions would be given a **Favorable** stance to industry attractiveness due the conditions potential for betterment.

**Economic**

The analysis will now take into consideration the Economic {E} conditions that either promote or hinder the retail industry.  The US economy is growing at slow steady pace when one takes into consideration the economic indicators. The housing market has come along way from the recession of 2007 seeing raising home prices in 246 out of 277 cities nationwide. According to Smith (2015), the economy is expected to grow by approximately 3% or better in 2015, unemployment is down and could hit 5.5% by the end of 2015 and consumer prices are up by 1.9%. Another noteworthy measure is the steady raise in wages that lowers the average household debt-to-income ratio that has been the lowest since 2002, as per Smith (2015).  The falling prices of gas and negligible food prices have left more disposable income in the pocket of consumers, this would have a positive impact on the retail industry. However, there are signs of slowing economic conditions internationally; as Europe struggles to avoid a recession, the Japanese economy remaining sluggish and the slowed growth of emerging economies.

Nationally, consumer confidence has increased since August of 2015, however long term growth has been inhibited by the many prevailing conditions that exist internationally. The Economic condition warrants a **Favorable** dilemma for the retail industry due to increased disposable income, increased consumer confidence and moderate job growth.

**Social**

The Social {S} conditions of the macro-environment present some challenges to the retail industry when one considers the aging population. The retail industry is marred by a high employee turnover rate and thus should be sensitive to the new labor pool.  According to the ILO International Labor Organization, by 2050 there will be over 2 billion people over the age of 60. Thus the retail industry would have to change some of its operational processes to accommodate older employees: such as training models, ergonomic issues and health care. Kmart should be keen to access the burgeoning immigrant population in profitable ways through the use of marketing schemes geared towards cultural differences. The immigrant population has grown upwards of 59 million as per ([www.pewsocialtrends.org/](http://www.pewsocialtrends.org/)).

Another social trend that should be exploited would be the urbanization of what Singh (2014) termed “mega districts” such as the Northeast Corridor between Boston and Washington DC. These large geographic areas can be viewed as one mega market or key business centers for investment.

The trade union movement as it concerns the retail labor force would have to be addressed especially in the larger cities. When someone thinks of unionized labor it’s easy to believe that unions are only concerned with employee salaries, “which is on the low end in the retail industry.” However the retail industry is also plagued by work schedule concerns, lack or reduced health care and unfair dismissals. The New York market has seen relatively new trend in unionized retail employees in its larger department stores such as Macys’, Bloomindales’ and H & M according to Paskova (2014).  These retailers have seen their profits increased year after year based on customer retention and exquisite customer service, this is in no small part due to frontline employees. These unions have been instrumental in realizing predictable schedules for employees, guaranteeing minimum working hours, sick pay, maternity benefits and health insurance. These Social trends have rendered the retail industry attractiveness **Moderately Favorable.**

**Technological**

How is Technology {T} going to affect the attractiveness of the retail industry in the US?  An analysis of the Technology factor leads us to explore operational concerns such as inventory management, through distribution of goods and services. Technology will change the usual store format due to the incorporation of digital technologies that has created the online shopping experience; it will also affect the marketing efforts of retailers, inventory controls, customer service and thus increase competition. Retail outlets would have to accommodate changes that would include: drive through pick-up locations as shoppers move away from the large stock-up trips; create product show rooms that allow customers to interact; creation of brand stores that focus more on promoting the brand than selling, thus communicating brand values and services; specialty stores that carters to a niche customer, as per Platt (2015). Technology has promoted efficiencies in marketing and inventory management through the use of RFID tags. RFID tags tracks inventory from warehouses to the sales floor, it serves to reduce shrinkage and lost inventory and it enhances customer service because items are always in stock. As per Violino (2005), one of the major uses of the RFID tags are to track assets, used to promote efficiencies in supply chain by reducing shipping errors, cutting labor cost and increasing throughput. The Technological conditions that currently exist can only serve to enhance retail businesses through their applicable uses in inventory management, marketing, operations, sales and customer service, it thus makes the industry **Favorable.**

**Environmental**

Another PESTEL factor to be considered is that of the Environment {E} and its weight in the macro-analysis. The age of sustainability is upon us and the trend is that of “Going Green,” which is essentially the ethical decision to protect the earth and the future of mankind through proper waste disposal, energy efficiency, curbing of wastefulness and recycling efforts. According to the RILA- Retail Industry Leaders Association, sustainable efforts supports innovation, promotes entry into new markets, it mitigate risks and enhances your brand image. In addition, it is satisfying to your customers and stakeholders, it also reduces costs and address government regulations. As Siegel (2015) emphasized, the environmental concerns are of great importance in the new dynamic business models. These models place emphasis on transparency about products attributes and operations. Consumers are now concerned about what’s in a product? and where was it made? The retail industry must deliver products that surpass longevity testing; products should also be supported by a servicing contract. The sustainability unit of most business enterprise will make use of the Maturity Model as per Siegel (2015). This model identifies management best practices that will drive improved corporate and environmental performance and access the Maturity of Programs.

Among other environmental concerns is the reporting of Greenhouse Gas and water pollution regulations set forth by the EPA (Environmental Protection Agency): that is, with regards to warehousing and transportation of merchandise. Regarding the current trend and the consumer outlook on sustainability this environmental condition is also **Favorable**.

**Legal**

The final PESTEL factor is the Legal environment {L} that the industry is subjected too.   There are many regulations for the retail industry, most of which are designed to protect the customer.  There are regulations that focus on advertising, such as false advertising laws, consumer protection laws, and laws against misleading discount pricing.  These regulations are enforced with strict financial penalties for retailers that are caught not following them.  "The Federal Trade Commission enforces false advertising laws at the federal level, and similar agencies have jurisdiction at state level" (Lister, n.d.).  The consumer protection laws are enforce by each state, and retailers that break these laws can be sued by the consumer who is seeking punitive damages (Lister, n.d.).

Other regulations include pricing regulations that also protect the consumer.  Some of the practices that these regulations work to prevent are:  "price gouging after natural disasters, or artificially lowering prices to starve out competitors then raising prices above market rates once the competition has left the market place. Other illegal activities include charging excessive "convenience fees" for credit card swipes, and trading in stolen goods" (HG.org).  Because most of the regulations governing the retail market are designed to protect the customer rather than the retailer, the legal environment could be deemed **Moderately Unfavorable**.

**Stakeholder Analysis**

Stakeholders form an integral part of an organization as the business is mainly dependent on the fulfillment of their interest and needs. In context to this, the section below highlights the stakeholder analysis along with the mission statement of the company and the corporate strategy of the organization along with the investment strategies based on Strategic Business Unit (SBU).

The main stakeholders of the company are the management, employees, suppliers, customers, competitors, and government. The most important stakeholders of the company are employees and its customers. The stakeholders having the most influencing power are management and the government (Sears, Roebuck and Co., 2012). The main interest of the customers is to get maximum output from less cost with high quality. The customers benefit from a global economy because the retail choices that are available to them are greatly expanded.  The interest of the government is to ensure legal regulations.   The government regulations are on a State and National level, so the company needs to ensure compliance with the local laws wherever they do business globally.  The shareholders aim to maximize their interest.

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| --- | --- | --- | --- | --- |
| **Stakeholders** | **Key Interests** | **Importance to Business** | **Influence on Business** | **Participation** |
| **Management** | Lead Sears Holding Corporation to fulfill Mission | High-  Determines success or failure of business through their planning and implementation | High-Makes decisions that guide the strategic plan of the company | Yes |
| **Employees** | Support Sears goals and fulfill the Amazon mission | Medium- Employees are important to the goals of the company, but are replaceable | Low- Employees do not have a governing voice-- the strategic decisions are made by the CEO and the Board | Yes |
| **Suppliers** | Provide high quality products to be sold by Sears Holding Corp. retail stores | High-High Quality products are one of the cornerstones to mission success | Medium- Good relationships with suppliers can drive strategic success | Yes |
| **Customers** | Purchase products and services for the best available price | High-create revenue by choosing Sears Holding Corp. over competitors | High-customer satisfaction drives revenue and growth as well as mission success | No |
| **Competitors** | Gain market share to be the market leader for a product and/or industry | Medium- competition is good for companies because it forces them to grow and expand | High- Competitors’ products drive the  pricing, location, services, and product selection strategy | No |
| **Government** | To regulate the retail industry to protect the rights of the consumer | Medium- Customers feel safe making purchases | High- Company procedures must follow the established guidelines and policies | No |

**Mission Statement**

The mission statement of the Sears Holding Corporation is centered on the customer and meeting the needs of that particular stakeholder.  “Sears Holding is committed to improving the lives of our customers by providing quality services, products and solutions that earn their trust and build lifetime relationships” (Farfan, 2015).  The company website speaks to the vision of the company.  The website states that "Sears Holdings Corporation (NASDAQ: SHLD) is a leading integrated retailer focused on seamlessly connecting the digital and physical shopping experiences to serve our members - wherever, whenever and however they want to shop" ([Sears](http://www.searsholdings.com/about) Holding Corporation Website).  This vision lends itself to the mission statement by creating a member centric organization that will flex and change to nurture the “lifetime relationships” that it is striving to create. mission from the 10K is We are an integrated retailer with significant physical and intangible assets, as well as virtual capabilities enabled through technology.

**Corporate Strategy (based on the mission and vision)**

The retail industry is a mature and declining market.  It has been in existence for a very long time and the introduction of online retail has caused a decline in the demand for traditional retail business.  Sears Holding Corporation has taken on a strategy of consolidating the industry, by acquiring “weaker brands” (Mullins, et al, 2013, pg. 438) and operating through its subsidiaries, including [Sears](http://www.sears.com/), Roebuck and Co. and [Kmart](http://www.kmart.com/) Corporation, with full-line and specialty retail stores across the United States." (Sears Holding Corporation Website).

Sears is also striving to maintain their competitive advantage through differentiation of their product offerings.  This can be done “on the basis of superior quality or service” (Mullins, et al, 2013, pg.439).  Sears Holding Corporation has built their mission statement around the strategy of offering both superior quality and superior service.

**Investment Strategies based on SBU**

**Sears Domestic**

Sears Holding Company is utilizing a financial strategy of cost reduction through liquidation utilization.  The company is choosing to liquidate some of its assets in the form of real estate by selling 254 Sears and Kmart stores in the United States and then leasing them back for the existing stores.  This releases $2.5 Million dollars for future use (fool.com).  They are utilizing some of this liquidity to lower the amount of time invoice payments from the industry standard of 30-60 days to 15 days (fool.com).   While this strategy lowers costs, it also decreases the amount of available assets that the company can use to generate future credit.

**Sears Canada**

Sears Canada is planning on sharing the strategy of cost reduction through liquidation that is being used by Sears Domestic, but on a smaller scale.  They are planning on selling 3 of its locations to lease back.  They are also pursuing a strategy of growth through increased market share by investing in a remodel of its “online presence” (Wei, 2015). This is a reasonable strategy for a company that is experiencing market decline.

**Kmart**

Kmart is included in the strategies being used by Sears Domestic. The company is attempting to create an investment strategy for these SBUs that will match their need to recover from their period of decline.  Kmart, historically, focused on investing in growth through increasing revenues rather than reducing costs (Sehgal, 2012).  This was appropriate when Kmart was in a new and developing market, but once the market reached maturity a strategy of investing in technology and other cost reduction tools would have been more appropriate.  Sears Holding is now focusing the Kmart SBU on those strategies.

**SWOT**

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| --- |
| SWOT Analysis |
| Strengths* #2 Leader in discount retail
* #1 Credit provider in retail
* High advertising-to-sales ratio
* Leader in the number of stores owned and operated
* Acquired other retail stores increasing its revenues
* Financial flexibility
* $1.8 Billion in cash flow
* Has more than 280,000 employees
* Own line of flagship brand is possessed by the company
 | Weaknesses* Experimented with decreasing advertising which decreased sales
* Slow with updating systems and moving forward with plans
* Customer satisfaction ratings
* Slow to innovate in the dynamic retail industry
 |
| Opportunities* Implementing a new business strategy
* Famous labels
* Acquiring other companies dealing in various specialties to assist in overall increase in revenue
* Increasing disposal income of the customers
* Small retail chains can be acquired
* Use of technology to implement both vertical and horizontal growth
 | Threats* Walmart and other discount retailers
* Online retailers taking market share from brick and mortar retailers
* Difficult operational control
* High competition
* Economic scenario is changing
 |

**Conclusion**

It can be concluded from the above findings that PESTLE analysis reflects that the company has good scope for future if it undertakes all the factors appropriately. The main stakeholders of the company are customers, government, shareholders, suppliers and others. With the help of the corporate strategy of the company, it can attain its goals and objectives and retain its customers. The SWOT analysis of the company reflects that it can maximize its strengths and opportunities and minimize its weaknesses and threats.

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