



MARKET DRIVEN STRATEGY

PROCESSES FOR CREATING VALUE

By Alexandra Day

Chapter 1: Managing in Turbulent Markets

There is no resting place for an enterprise in a competitive society.
Alfred Sloan, Jr.

Unless we change our direction we are likely to end up where we are headed.
Ancient Chinese Wisdom

Benetton and Sears, Roebuck both compete for a piece of the retail apparel market. Otherwise there are few similarities. The differences between these two firms are more interesting for they illustrate the richness and complexity of competitive strategies, as well as the adverse consequences for performance when a strategy drifts out of touch with the market. Their stories are also apt metaphors for some of the forces that will be sweeping the markets of the 1990s.

Sears is a classic example of what happens when a firm becomes complacent in its market. Until 1986 Sears was the dominant retailer in the United States, before being challenged by K-Mart and Wal-Mart. By 1989 it was struggling to reverse a decade-long decline in its share of general merchandise sales from 18 percent to 13 percent, overcome bloated selling and administrative costs of 30 percent of sales, and raise pretax margins from 3.7 percent to a level closer to the 7 percent of their competitors.

The problems with apparel were symptomatic of Sears's difficulties. The traditional key success factors in this department were quality of presentation and assortment. Both were major problems to manage because of the number of stores and diversity of product lines in each store. Many suppliers of branded apparel didn't like Sears's sloppy presentation or considered a mass market outlet inappropriate. Changes to overcome these problems proved difficult to make. One proposal was to create "neighborhood stores" that would sell only apparel and home furnishings. However, the executives representing "hard goods" such as appliances, electronics, and automotive products argued they shouldn't be left out of the stores, and killed the proposal.

Despite Sears's problems, its standing with consumers remained strong. Consistently it was picked as a company associated with high quality, and 75 percent of Americans visited a Sears store at least once a year. Unfortunately, this reservoir of goodwill was being dissipated by a ponderous and noncompetitive culture, antiquated systems, and excessive in-fighting. Customers were being siphoned off by trendier specialty retailers, such as The Gap or The Limited, or superdiscounters such as Circuit City or Toys R Us who dominated specific merchandise types.