“Retail Hubris”: What Jewish Communal Institutions can Learn from Sears

https://ejewishphilanthropy.com/retail-hubris-what-jewish-communal-institutions-can-learn-from-sears/
June 1, 2018
By Doron Kenter

Once upon a time, I was a bankruptcy lawyer. Also once upon a time, I shopped at Sears. Bankruptcy law is now only a hobby, and I can’t remember the last time I walked into a Sears or a Kmart (also owned by Sears Holdings). Now I work in furtherance of excellence in the Jewish community. So what do these things have in common?

Well, a “death watch” for Sears has been going on for some time. Analysts and investors have followed the once-dominant chain’s steady decline, and most expect a bankruptcy filing in the company’s future. At the same time, many critics have pointed to “dying,” “old school,” “stale” Jewish institutions of yore, even to the point of contending that their time has come and gone. This bankruptcy lawyer/Jewish foundation professional has noticed some striking similarities.

First things first: It’s tempting to blame Amazon for Sears’ declining stock price, just as it’s tempting to blame the decline in Jewish engagement on a growing disaffection with religion, traditional institutions, Israel, or anything else. But, as analysts have noted, “Sears’ demise is not all Amazon’s fault, nor is it a simple circle-of-life parable. Sears has made its share of mistakes.”[1] For example, Lowe’s, Best Buy, and Home Depot have all seen their share prices grow significantly, even as Sears has continued its collapse. “Even for a brick-and-mortar retailer in the digital era, Sears is struggling.”[2] It is not enough to simply shake our fists at the sky and lament demographics and the internet for our shrinking synagogues, schools, youth groups, community centers, and other communal institutions. What, then, distinguishes the Sears of the Jewish community from its Best Buy, Home Depot, and Lowe’s? A non-exhaustive list of possibilities follows below.

Maintain a Zealous Pursuit of Excellence, **Not Short–Term Numbers**

As Sears has struggled, it has kept itself afloat by selling off its most valuable core brands and store after store. Sometimes streamlining is necessary and effective. General Motors did just that during its turnaround, shutting down Pontiac, Saturn, and Hummer, and selling off Saab. And Ford recently announced that it would sell only two cars in the US, focusing instead on trucks, SUVs, and crossovers (its core lines in the US).[3] Sears may still hold $2 billion or more in assets in the form of real estate – but what is at the heart of the Sears value proposition? Where lasting value is compromised for the sake of short-term gains, the future is more foreboding, and bankruptcy filings and/or wind-downs may be inevitable.

Similarly, **the Jewish community cannot shed its best assets**. If we do so, there will be nothing left to offer. Focus and accessibility are, of course, important. But even if we can generate immediate interest (or keep our statistics from falling) by eliminating meaningful content and emphasizing the "softer side" of doing Jewish, how long will we really last? And to what end? **The Jewish community will not have accomplished much if we prop up our numbers by compromising that which is best of what we have to offer**.

Excellent (and Good) Management Is Essential

Sears Holdings has had four people serve as CEO since its formation after a merger with Kmart. Its current CEO – also a principal investor – reportedly runs Sears like his hedge fund, driving performance via competition, rather than collaboration.[4] And even though the current CEO has been praised for trying big ideas and continuing to invest his time and resources in the company, he also churns through executives and is (reportedly) often off-site, working remotely and detached from corporate headquarters.[5]

In Jewish communal work, as with most businesses, attitudes, culture, productivity, and innovation must flow from the top. Stability, when it does not come at the expense of competent leadership, is important. And even though not-for-profit and community organizations must be run professionally and with high expectations of all employees, they cannot be run the same way that some might run a profit-driven hedge fund (though perhaps some of the more genial financial wizards would be up to the task). A visionary, thoughtful, and professional leadership team may not alone be enough to assure success. But success rarely comes without one.

Know Your Core Partners and Stakeholders; Treat Them Right

As is the case with many retailers facing a cash crunch, Sears has been delaying payments to suppliers. Those suppliers, dealing with reduced orders as it is, may also be fearful of being left in the lurch in the event of nonpayment or bankruptcy. As a result, suppliers are demanding tighter payment terms and are reluctant to extend credit on the same terms as they might to other business partners.[6] For a retailer, this can be a vicious cycle, straining liquidity and the business model altogether.

Although most Jewish institutions typically don't deal with the same supply chains, they must treat stakeholders, donors, and other partners well, or risk their departure. At the very least, partners' patience will wear thin and they may not be as forgiving as they might otherwise be. **By showing a commitment to critical stakeholders' ongoing satisfaction(while remaining faithful to the core mission), the organization's partners, donors, and funders are more likely to remain loyal, even in the face of adversity**. In a competitive Jewish marketplace, stakeholder retention cannot be undervalued.

Don't Ignore the Low Income Demographic

Sears has also been criticized for ceding the urban lower-income markets to Wal-Mart, Target, and other retailers, especially as it had an opportunity to expand in that sector following the merger with Kmart.[7] Although the lower-income markets may not have been as lucrative, they could have been important drivers of growth.

As a Jewish community, we may be tempted to overlook lower-income communities. To be sure, we have a responsibility to help all those in need. But it must not simply be an act of philanthropy[8]; **Jewish communal life is not, and should not be, focused on those of us with the greatest resources**. Major growth (and contributions in various forms) can come from those we may have overlooked. To include the less fortunate is both a moral imperative and good business.

Dream Big, But Don't Bite Off Too Much

We should continue to dream dreams and see visions (see Joel 2:28). And we cannot forget to invest in our future. But at the same time, we should not spend beyond our means or take on more than we can responsibly accomplish, hoping that future success will justify overextension and overexertion. Sears, for example, has taken on significant debt, which will have to be paid down at some point in the future, but revenues may not support those increasingly high repayment obligations.

Our communal organizations must similarly address the tension between large-scale projects and the possibility of meeting expectations with existing or potential resources (funding, human capital, etc.). By all means, we should aim high. But we cannot let our wishful thinking bring us to the point of insurmountable obligations and expectations. **To err too far in either direction can be fatal**.

A [Timely] Reassessment or Overhaul Can Sometimes Work Wonders

There are times that corporations need to reevaluate their options. Although mergers, bankruptcies, and other strategic transactions can be costly and time-consuming, they can be necessary and, in many instances, they can preserve or generate tremendous value. Where Sears has been keeping itself afloat by selling off core brands and real estate, other companies have found tremendous value when they've been able to effect a major reinvention before value was lost.

General Motors is a prime example. A major reboot was necessary, and a chapter 11 filing, coupled with a major investment from the United States Treasury, provided breathing room and other benefits and opportunities to the company. Even though the process was painful for many, the bankruptcy and the transactions effected in that case ultimately allowed the vast majority of dealerships to remain open and the vast majority of employees to keep their jobs. And, as it turns out, the federal government and other investors have been able to reap significant profits with a newly revitalized GM.

Marvel Entertainment is another model. Nearly ten years ago, the comic book company found a match in The Walt Disney Company, which was well positioned to capitalize on the many brands and characters within the Marvel Universe. Disney had the expertise, networks, and financial resources to leverage Marvel's assets into blockbuster after blockbuster, with all the attendant t-shirt and video game sales to boot.

Jewish communal organizations cannot be afraid of major change. Tremendous value can be created or retained through strategic transactions, even though they may require a reimagining of governance, infrastructure, or business models. Those transactions can the take the form of mergers, consolidations, partnerships, or even orderly wind-downs and dissolution. Waiting too long can result in an unnecessary loss of morale, value, and impact – as well as the human and financial capital used in keeping a not-quite-fruitful venture afloat. Leadership should not be too prideful, and investors should not be so cautious, as to allow our important institutions to descend past the point where their inherent value can be preserved or revived.

Thankfully, we do not live in a society in which debtors are imprisoned or where businesses cannot shrink or wind down. A business's decline or even failure is not necessarily attributable to any bad or unwise people – such is the nature of business. So too, a not-for-profit organization should not be considered a failure if it needs to move on. But at the very least, perhaps we can learn something from Sears. Even if we buy our lawnmowers on Amazon.

[1] David Floyd, "Who Killed Sears? 50 Years on the Road to Ruin," Investopedia (May 9, 2018), available at https://www.investopedia.com/news/downfall-of-sears/ (last accessed May 16, 2018)
[2] Id.
[3] See, e.g., Jackie Wattles, "Ford Dropping All but 2 Cars from its North American Dealerships," CNN Money (April 25, 2018), available at http://money.cnn.com/2018/04/25/autos/ford-cars-north-america/index.html
[4] Mina Kimes, "At Sears, Eddie Lampert's Warring Divisions Model Adds to the Troubles," Bloomberg (July 11, 2013), available at https://www.bloomberg.com/news/articles/2013-07-11/at-sears-eddie-lamperts-warring-divisions-model-adds-to-the-troubles
[5] Michelle Lodge, "Top 4 Reasons Sears Could File Chapter 11 Bankruptcy in 2018," TheStreet (Jan. 25, 2018), available at https://www.thestreet.com/story/14450394/1/sears-could-bankrupt-in-2018.html
[6] Id.
[7] Id.
[8] See Eric S. Goldstein and Andrés Spokoiny, "Poverty: It's About Us,"

eJewishPhilanthropy (April 24, 2018), available
at https://ejewishphilanthropy.com/poverty-its-about-us/

Doron Kenter is a recovering corporate bankruptcy lawyer. He is currently a Program Officer at Maimonides Fund.