

RETAILING

Sears: Finally, A Reason to Brag

The retailer's Lands' End unit has proved a bright spot in dark times. Now it faces a leadership vacuum

By Anne Moore

Recently, Sears no longer seems to be where America shops for much of anything. Sales skidded 9.8% in the latest quarter, leading to a \$56 million loss as consumers shunned the dreary shopping experience for more focused low-price options such as Wal-Mart and Target. With Chairman Edward S. Lampert warning that bad times could last into 2009—and the search for a CEO still under way—the stock has fallen by more than half in a year. The numbers are the worst since Lampert combined Kmart and Sears in 2005.

But one part of the \$50.7 billion company is sparkling: Lands' End. The apparel subsidiary is thriving with its reputation for impeccable customer service and sturdy-but-stylish designs. While Sears doesn't break out numbers, retail analyst Anne Brouwer of Chicago's McMillan/Doolittle estimates the unit made \$200 million on \$2.2 billion in sales last year. The Lands' End Web site, where the brand rings up 80% of sales, is among the retailing industry's top 10 by several measures. And offline sales are rising as Sears has put Lands' End boutiques

in more than 200 of its 935 mall stores. Retail consultant Howard Davidowitz calls the business "Sears' shining star."

The challenge is to keep the momentum going. On July 18, after barely three years as Lands' End chief, David W. McCreight left to become president of athletic-apparel maker Under Armour. While McCreight, 45, generated record earnings growth at the unit, some feel he never adjusted to rural life at Lands' End Dodgeville (Wis.) headquarters. Hired as chief merchant in 2003, McCreight came up with the idea of stand-alone boutiques in Sears. As president, he freshened product lines and spurred innovation, including a new packing process.



McCreight also moved a half-dozen customer service agents to a space right outside his corner office, so he could pull up a chair and participate in calls.

TOP VACANCIES

Now Lands' End finds itself without a captain at a time when the retail environment and the parent company are both ailing. Hiring a successor is complicated by the fact that Sears itself doesn't have a permanent chief executive: Lampert appointed supply chain executive W. Bruce Johnson as interim CEO last February after Aylwin B. Lewis stepped down (opposite page). For now, Lands' End veterans Lisa

Fitzgerald and Kelly Ritchie are running the unit until a replacement is found. "David took this company to the next level," gushes Ritchie. "He expected greatness."

Lands' End was not such a gem when Sears acquired the company in 2002 for

LINKS

Analysts frown on Lampert's other moves

Eddie Lampert hasn't had many wins beyond Lands' End. In RetailWire, DJL Research analyst David Livingston comments that "Sears and Eddie are just accumulating a portfolio of weak or failed retailers" instead of "improving sales and market share."



NOW, TO LUNCH

**Sears Holdings' ex-CEO
has a new life in fast food**

By Michael Arndt

When Aylwin B. Lewis resigned as chief executive of Sears Holdings in February amid falling profits, he planned to tour the world with his wife, Noveline. But between trips to Morocco and Sicily, he got an unexpected offer. Today, Lewis is CEO of Chicago's Potbelly Sandwich Works,

Once head of a struggling retailer with 3,800 stores and more than \$50 billion in annual sales, the Texas native now runs a fast-food chain with 205 restaurants and sales of roughly \$200 million. But Lewis, 54, says he wants to turn a privately held pipsqueak into a sizzling public rival to Subway.

"I've always been a frugal, roll-up-your-sleeves guy," he says.

Potbelly—named after a wood-burning stove in its first location—is big on such eccentricities as flea-market signs, wooden tables, and guitar-strumming troubadours. Investors such as Starbucks CEO Howard Schultz like the homey touches, but shareholders might balk at such frills.

Lewis will have principal owner and chairman, Bryant Keil, watching over him. That arrangement didn't work out for Lewis at Sears, where Chairman Edward Lampert directed strategy and even decided on inventory levels and marketing. But Lewis says Keil and the board have put him firmly in charge: "It's very clear that I'm the CEO."



\$1.9 billion. At the time, its apparel was available only online or through catalogs, and was generally seen as well-made but staid preppy gear. Seeking a chance to broaden its apparel offerings, Sears quickly began stocking Lands' End shirts and slacks in stores, though it kept the two brands' Web sites separate. But Lands' End got lost in the aisles until Lampert took over Sears and pushed to build the brand. In mid-2005, a month after McCreight became president, Sears opened the first Lands' End boutique in a White Plains (N.Y.) store.

With its own look and branding, McCreight's store-within-a-store worked. He says transforming the brand's catalog image into a physical space was "a once-in-a-lifetime career opportunity." Analyst Brouwer figures the Lands' End boutiques bring in at least \$200 in sales per square foot annually. That's just a third what a top retailer such as Nordstrom produces, she says, but it's far ahead of the \$137 per square foot Sears averages from its goods and apparel.

Lampert also let McCreight run the place without interference from Sears'

main office in suburban Chicago. That allowed Lands' End to do things that tight-fisted bosses at Sears might never have O.K.'d. Only manufacturing is outsourced. Design, packaging, and—most important—customer service are kept close by. Call center staff have no time limit with customers. When a woman who had had a double mastectomy phoned to ask for the bathing suit she loved, minus the bra, her suggestion was passed along to designers who created one for her. The company went on to sell thousands more.

Such moves make for satisfied customers. Robin Bourjaily, 34, a stay-at-home mom from LaGrange, Ill., has shopped at LandsEnd.com for years. Now she's been swinging by the Lands' End boutique at a nearby Sears to let her three kids try on the clothes. And if Bourjaily can't find what she wants in stock, she can order at an in-store kiosk, and Lands' End pays for the shipping. It's a winning combination that McCreight's successor will need to build on.

Exiting Chief
McCreight
pioneered the
store-within-a-
store concept.



Lewis aims
to build
a rival to
Subway.