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Sears Suppliers Ready to Pull Back in 2012

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NEW YORK ([TheStreet](#)) -- **Sears'**([SHLD](#)) vendors and suppliers are leery of the department store in 2012.

The factor community -- those who provide loans or lines of credit to suppliers and apparel makers to tide them over until retailers make payments -- have expressed concern over the state of Sears, saying vendors are already starting to pull back and could distance themselves further from the company if things don't change soon.

Decisions are on hold until fourth-quarter numbers are released but if the numbers aren't good, things could get tighter from a supplier and vendor perspective, according to several major factoring firms who wished to remain anonymous because of their relationship with the company.

The company announced poor same-store sales numbers early Tuesday and said it plans to close up to 120 Kmart and Sears full-line stores.

Under the scrupulous watch of the vendor community, Sears will need to take major action to restore confidence in its balance sheet.

"I think 2012 might be the year Sears considers reshuffling the deck chairs," says Jack Hender, president of Net Worth Solutions, a merger and acquisition advisory firm. "Sears' parts are greater than the whole. They have valuable intellectual property and brands, like Land's End, Craftsman and Kenmore, that they could utilize if things got really bad."

The flailing department store, under the helm of billionaire investor Edward Lampert, may need to resort to selling off some of these iconic brands in the new year, Hender said.

Hender calls out electronics giant LG as a potential acquirer of the Kenmore brand. "They would love a U.S. brand. To pick up an iconic U.S. brand like Kenmore would be a big win for them."

"There is concern in the financial markets about the viability of ongoing operations," Hender says. "The vendor community is watching Lampert carefully right now. He isn't committed to retail and hasn't brought in a retailer like J.C. Penney has [with Apple's Ron Johnson]."

Sears has been lagging rivals like **Macy's** ([M](#)) and **Kohl's**([KSS](#)) for some time, and Lampert has put little focus into rejuvenating tired stores and merchandise.

On Nov. 17, Sears reported a third-quarter loss of \$2.57 per share on revenue of \$9.56 billion, missing analysts' estimates of a loss of \$2.29 a share and revenue of \$9.6 billion. Gross margin also fell to 25.6% from 26.4%, pressured by higher costs at Kmart.

This isn't a new story, of course. Sales at Sears Holdings have dropped every year since the company was created in 2005. In an effort to shore up profit, Sears is contracting out some of its storied brands like Craftsman and DieHard to other retailers like Costco Wholesale and Ace Hardware. The rub is though that shoppers now have even less of a reason to step in a Sears store.

The company is also leasing out some of its floor space in its massive fleet of 3,700 stores to retailers like **Forever 21** and **Whole Foods Markets**([WFM](#)).

In the near term, these strategies are expected to boost earnings and cash flow, but experts agree its only a short-term fix that may ultimately just speed up Sears' descent into irrelevance.

"Sears is past the point of no return," says Mark Cohen, a professor at Columbia Business School who is also a former chief executive and chairman of Sears Canada. "I don't know if they will necessarily go out of business in 2012, but they are digging themselves into the ground."

While he believes there is some value left in some Sears brands, he isn't convinced there is a buyer out there or that anyone would pay a premium for these assets at this point.

Cohen predicts Lampert will continue to load the company up with debt in 2012 and then take it into Chapter 11. "He will take possession of the debt at a deep discount through a filing and then come out of a restructure at the helm once again."

Sears did not return request to comment by the time of publication.