PLAINTIFF'S EXHIBIT

SRS-38

CORPORATE HISTORIES FILE
REFERENCE USE ONLY SEARS ROEBUCK

MERCHANT TO THE MILLIONS

A brief history of the origins and development of Sears, Roebuck and Co.





stores in that metropolitan area sell the same merchandise at the same price. This office also coordinates the necessary advertising media to insure that each store has the same sale on the same days. This coordinated effort enables all stores to afford to participate in the total group promotion.

BUYING PROCESS

As a distributor of general merchandise, Sears acts as a buyer on the one hand and as a seller on the other. This gives the headquarters merchandising organization four main jobs to do: 1. Select the merchandise to be in Sears retail stores and catalogs; 2. Choose manufacturers to produce this merchandise; 3. Formulate selling plans, including advertising and sales promotion, for both retail and catalog operations; 4. Establish selling prices.

Sears Buying Principles

As late as the 1920's, Sears was exclusively a mail-order firm. It had two advantages over other distributing companies. First, mail order provided a low-cost method of getting goods into customers' hands. Second, even with buying methods comparable to those used by other merchandisers, Sears buyers could obtain goods at lower cost than other retailers. This was largely because a manufacturer's costs of distribution to independent retailers were relatively high. Hence the Sears buyer, who had merchandise shipped in substantial quantities direct to outlets, could usually obtain a cost reduction.

The principle of Sears buying began to change in the late 1920's. Some mail order merchandise already was being sold under Sears own trade names. And with the opening of more and more retail stores, volume in these and other lines grew rapidly.

With this growth, Sears buyers were able to work out exclusively different items with manufacturers to be sold under Sears brand names. Today, this policy of providing better products, with exclusive features and design and bearing a Sears brand name, governs the company's buying and merchandising activities.

Buying at Home and Abroad

It would be difficult for Sears buyers to know about every manufacturer's capabilities or for manufacturers to know about what Sears needs are. Hence, as a service to both buyers and manufacturers alike, regional buying offices work with headquarters buyers to learn about and develop manufacturing possibilities in their areas.

Similarly, offices in other countries keep Sears buyers informed on manufacturing and merchandise possibilities throughout the world.

While imports provide some merchandise not available at the same price or quality in the United States, domestic suppliers account for the vast majority of Sears merchandise. Sears purchases approximately 90 per cent of all its merchandise from U.S. suppliers.

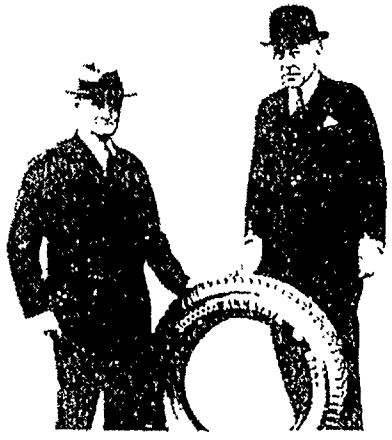
Supplier Relationships

The bulk of American business is still done through a manufacturer-distributor-dealer setup, with the manufacturer deciding what the public will be offered through its distributors and dealers. The Sears way keeps merchandise leadership in the hands of the retailer, who is closer to the consumer than is the manufacturer.

Under this system the buyer tells the factory what to make, the quantities required and when the goods will be needed. The factory works very closely with the buyer to engineer the product, then determines how and when to manufacture most efficiently.

Both profit from such a relationship. Many such smaller manufacturers get the benefit of technical help from Sears laboratory experts. Others may secure assistance with the financing of their off-season production. And Sears is able to have the same goods manufactured in several parts of the country. This substantially reduces transportation costs as well as delivery time to Sears stores.

This kind of interdependence between Sears and thousands of manufacturers has been good for Sears, for the manufacturers and for the communities in which each operates.



SEARS LABORATORIES

Sears Laboratories in the Chicago area occupy approximately 125,000 square feet of space. In addition there are several smaller, somewhat specialized laboratories located in the United States and overseas.

One such facility is located in Ft. Myers Beach, Fla. The primary function of this lab is the year-round testing of marine and lawn-care equipment, paint, motorcycles and other products which must withstand extensive exposure to sunlight, humidity or salt spray.

Other laboratories are oriented toward textile testing, like the Osaka, Japan and Hong Kong laboratories, which are equipped and staffed to assist Sears soft lines merchants in the evaluation of products manufactured and purchased in the Far East. At these laboratories, considerable effort is expended in the testing of Perma-Prest® finishes, and on textile flammability and fiber identification problems.

Each year, Sears spends several million dollars to operate the laboratories. There are more than 200 scientists and engineers, who offer a wide variety of technical backgrounds. For example, on the staff are mechanical, electrical, chemical and production engineers; physicists; textile chemists; industrial designers; home economists; pharmaceutical chemistry experts; an architect; and a nuclear scientist.

There is a basic format around which the laboratories are built. This format is simply taken from the basic concerns a customer has when buying a Sears product:

First—will the product perform adequately?

Second—is the product aesthetically pleasing?

Third—how much does it cost?

The laboratories are divided into three major groupings to deal with these concerns. The Product Engineering Laboratories work on product functions; the Industrial Design Division concerns itself with the aesthetics of a product; and the Manufacturing Consulting Division works on producing the same or a better product at a lower cost.

The Product Engineering Laboratories serve as technical consultants to Sears buyers. They primarily assist buyers by:

- Evaluating Sears and competitors' merchandise
- Assisting in specifications development
- Providing innovative product and feature ideas
- Evaluating engineering prototypes and suggesting improvements

Because of the variety of disciplines required within the product engineering function, this group is organized into five Product Laboratories: textile; chemical and materials; electro-mechanical; automative, outdoor, and mechanical; and electronic-physics.

In addition to Product Engineering, the industrial design division works with Sears buyers and manufacturers in styling merchandise. It has the responsibility of making the product aesthetically appealing as well as "humanly engineered."

The manufacturing consulting division helps maximize product value by assisting buyers in factory selection, factory location and value analysis. Manufacturers are helped in such areas as cost-reduction programs and improved production facilities and manufacturing methods. The customer benefits, too. The consultants' services are reflected in lower prices and/or additional product features.

In addition, specialists in this division develop patterns and work on sizing problems to achieve optimum fit and fabric use.

Supplementing the work of the operating divisions are four other sections:

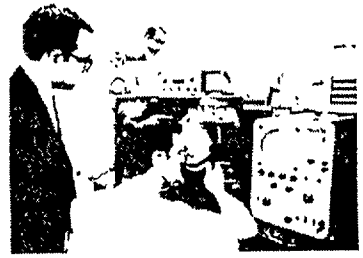
The *library* serves as the reference center for the engineering staff. Its four librarians keep the library current on new technologies. About 5,000 books on scientific subjects are available, and more than 300 technical periodicals are subscribed to and circulated among laboratory personnel. A microfilm library also serves as an archives for the laboratories' thousands of reports.

The *field test group* spends considerable time with consumers observing how a customer actually uses a product, so that the product engineer can verify an analysis.

The *model shop* operates as an auxiliary of the design division and produces three dimensional models ranging in size from a teaspoon to a 16-foot fishing boat.

One of the prime ingredients of all laboratory assignments is a concern for product safety. The extensive testing which goes on at each stage of product design or development stresses safety as a first priority. To meet its product safety objective, the laboratories developed a relatively advanced system of gathering, analyzing and







reporting safety concerns throughout the company.

The fact that safety is of great concern also is reflected in the lab's participation in the development of product safety legislation at the federal, state and local levels. Laboratory input has in several instances influenced federal legislation constructively. The laws as finally passed avoided unnecessary manufacturing restrictions, while helping to insure that the customer receives a product which is as safe as present-day technology can provide.

Product Development

Sears total marketing is a strategy to define the wants and needs of customers and respond to them through responsible, creative product development. Under the company's total marketing concept, products are evaluated in terms of raw materials, form, shape, function, styling, safety, quality and serviceability.

Product development at Sears is a continuous process—a process that begins months, sometimes even years—before the product can be offered to Sears customers.

More often than not, product development begins with the buyer of the line who knows the merchandise. What it can do. What it can't do. What the customer would like it to do.

With these ideas in mind, the buyer calls on the laboratories to appoint a development team, typically composed of a product engineer, a manufacturing consultant, an industrial designer and other specialists.

The team tackles the problem on a rigid time schedule. How much will the new product or feature cost? What are the production problems? Are there any new technological breakthroughs that can be utilized? How will the product stand up in use? These and countless other questions must be investigated and answered.

Not all Sears product development takes place in the laboratory. Sears encourages suppliers to start their own development programs, and the larger suppliers have the primary responsibility in this area. But in cases where the supplier is unable to support a development department, much of the work is done in Sears Laboratories. Many new products and features have been created by Sears and its suppliers as a result of this merchandise development program.

STORE CONSTRUCTION

When a Sears store opens, civic dignitaries and company officials traditionally are on hand at a ribbon-cutting ceremony which officially marks the opening of the store.

Actually, the dedication of a Sears store is the end of a process which started months or even years before.

Long before construction crews began their task of building the store, Sears experts in economic analysis, real estate and store planning had been hard at work. A store comes into being only after the most painstaking study.

Finding the Town

Is a community ready for a Sears store or for a better Sears store than the one now located there?

That question is answered by members of the company's facilities planning staff. Armed with a retail market analysis which Sears economic research department prepares, they visit the town to talk with local business, civic and governmental officials. They gather all available statistical information . . . study the competitive market situation . . . and arrive at an estimate of Sears *potential* market in the years to come. From the market analysis, they know the community's population, its population growth index and its total retail sales.

Once they know Sears potential sales volume in a town, they know how big the store should be, how much land they need for the store site, how much warehouse space must be provided, even how large a customer and employee parking lot should be.

Information of this sort is available thanks to Sears experience in operating more than 850 retail stores.

