



Kmart's silence worsened its woes, say pros

By Vivian Chu, Reuters

NEW YORK, Jan 18, 2002 (Reuters) - Silence is not always golden - a lesson that troubled retailer **Kmart Corp.** <KM.N> has learned the hard way.

As the shares and bonds of the discount retailer plummeted earlier this week amid mounting speculation it might be forced to file for bankruptcy protection, the company maintained a steadfast silence.

It took until Thursday for Kmart to issue a statement that acknowledged its financial problems as it announced a series of management changes including the appointment of director James Adamson to the post of Chairman.

Analysts said the company's silence has worsened the crisis of confidence that saw investors drive down its share almost 50 percent this week. Even Thursday's announcement was seen as too little, too late.

"I think it's really killing them that they have this lack of information," said Justin Pettit, a partner at management consulting firm **Stern, Stewart & Co.** "There's still a need to communicate when we can expect a more complete announcement on what their plans are, and what their status is with both vendors and lenders," said Pettit.

Given how quickly the market can punish a company's shares for poor disclosure, companies should anticipate their problems and give a detailed plan informing investors that they are working to address all the issues, said Hugh Larratt-Smith, a principal of **Trimingham Americas**, a New York-based crisis management firm.

A Kmart spokesman denied that Kmart had been slow in responding to the mounting crisis. He pointed to two press releases - one issued on Jan 10, when it reported a drop in December same-store sales and referred to a review of its "current and prospective liquidity position and business plan," and the other for Adamson's appointment.

By keeping quiet, observers say that Kmart violated the first rule of corporate public relations during times of crisis: be upfront, and quickly get the bad news out.

When it did make the announcement of Adamson's appointment, it got a modestly favorable reaction from Wall Street with its shares gaining 11.5 percent to \$1.74 on Friday on the New York Stock Exchange. However, they are still down from \$5.46 at the end of last year.

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Through the appointment of Adamson - a turnaround specialist who helped save restaurant chain Flagstar from bankruptcy in 1998 - is seen as positive news, analysts said it comes too late for Kmart, which should have addressed its problems long before its share price began falling.

Kmart's shares have lost over 70 percent since the start of the year, felled by lackluster holiday sales and growing evidence that it is losing the retail battle with rivals **Wal-Mart Stores Inc.** <WMT.N> and **Target Corp.** <TGT.N>.

"The toothpaste was out of the tube and there was so much negative momentum against Kmart in the past few weeks," said Larratt-Smith, who said he is advising several Kmart suppliers worried that they will never get paid.

"To outsider, Kmart's fall may have come quickly, but to people in the industry, the signs have been there for a long time. They should have detailed the recovery plan before Christmas," he said.