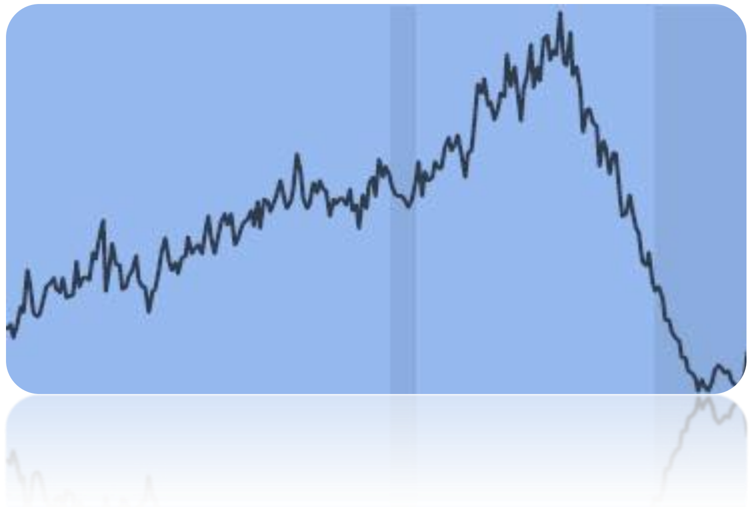
The 2017 Retail Industry Meltdown



How does a company with a profitable, 20-year business, file for bankruptcy out of the blue?

The rapid downfall of Toys “R” Us in the fall of 2017 had many consumers asking that very question.

Sadly, Toys “R” us wasn’t the only retailer to run into obstacles that brought them to a point of reckoning. According to an estimate from Credit Suisse, the United States saw over 8,000 (physical location) store closings in 2017 – more than the number of closings at the height of the financial crisis in 2008. Here is a brief synopsis of some of the retailers and what affected them.

Toys “R” Us – Debt Load

Toys “R” Us carried a significant debt load ($5 billion) since a 2005 leveraged buyout by a consortium of investors. The debt cost the company around $400 million a year to sustain. Like all retailers, Toys “R” Us was reliant on its vendors to advance them merchandise (credit) to be paid for from the proceeds of the sold merchandise. Orders for the holiday season began in the summer of 2017. At the same time the company attempted to restructure its $400 million debt, due in 2018. When creditors would not help the company by restructuring its debt, vendors became nervous and refused to advance merchandise. Within a matter of days the company was at an impasse and filed for Chapter 11 Bankruptcy, making it the third largest retail bankruptcy in US history.

Sears – Too Many Obstacles

Sears was the largest retailer in the United States for most of the 20th century. In 2012 Sears Holdings (which included Kmart) had over 2000 stores throughout the US and Canada. By the summer of 2017 that number was down to 1200 (approximately 600 of each). A drop in the number of stores meant a drop in revenue as well, with year-over-year sales (2016 to 2017) declining 23%. The company sought to overcome a number of obstacles: Too many stores, closely grouped together; investment in other brands such as Lands’ End; selling their well-regarded line of tools – Craftsman – to Stanley Black and Decker, which then made them available in Lowes Home Stores; and limited access to capital. Many in the retail industry expect the company to fold by 2018 or 2019.

Neiman Marcus – Nobody Wants Them

Neiman Marcus, a small, 110 year old, luxury retailer with only 42 physical locations, attempted to put itself up for sale in early 2017, without success. Two years prior, the investor-owned business attempted to go public but withdrew its bid. The company appears to be stuck while it faces consistently declining sales (7 straight quarters as of June 2017) and a large amount of debt.

Nordstrom's – Can't Help Itself

Nordstrom's, another century-plus luxury retailer, is owned, in part, by the Nordstrom family (31.2%), the founders of the company. It is a stable and thriving company, investing in ecommerce and opening new stores in Canada and Manhattan. A publicly traded company, the family had hoped to make it privately owned again and circumvent what was being labeled the "retail apocalypse," by not being beholden to shareholders. Because of the many retailers in financial trouble in 2017, they were unable to secure financing at reasonable interest rates and suspended their attempt to take the company private.

Radio Shack – Bankrupt, Bankrupt, and Bankrupt Again

Radio Shack is a hybrid company-owned / dealer-owned retailer of electronic goods. The company filed for bankruptcy three times in one decade – twice between 2015 and 2017. Following the 2015 filing the company co-branded with Sprint to offer cellular phones and plans in their stores; this took up a lot of floor space for a marginally profitable product. Following its third filing in the spring of 2017, over 1000 company stores closed, leaving only 70 company stores and approximately 500 dealer-owned stores. For the most part, the company sells electronic items that are easily obtained elsewhere.

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Discussion Questions

Markets expand and contract all the time. Is the contraction of the box-store retail industry something to be worried about?

What might be the ripple effect to the economy of so many retailers shutting stores or going out of business altogether?

According to retail industry research, it is projected that one in four US malls will close in the next 5 years. Other than retailers themselves going out of business, what else affected the success of large malls?

Has social media enhanced or negatively affected the retail industry?

Make a list of retailers that are in the same sector (i.e. clothing or shoes) and discuss what their key differentiators are from one another. Identify one retailer that was in that sector and is now out of business. What forces impacted that company's success?

Which type of retailer is more likely to be at risk – a specialty retailer such as Toys "R" Us or a one-stop-store such as Sears? Which type of retailer is your organization more like?

What do you see as the "next generation" of retail? Where and how will people buy what they need?

In the past, where / when did the economy see an industry meltdown such as this? What were the ramifications?

Finance Competition Strategy Business Practices Risk Management