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The Post-COVID Outlook: Leading Home Goods Retailer Explores Options for Long-Term Success

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In the last 12 to 24 months, the COVID-19 pandemic has exacerbated the existing distress in the brick-and-mortar retail sector, acting as a catalyst to force struggling retailers to file for bankruptcy and/or liquidation through court adjudicated processes. In addition to many Chapter 7 liquidations, many Chapter 11 retail reorganizations have transitioned to Chapter 11 liquidations, with 2020 seeing the highest number of retail bankruptcy filings since the 2008-2009 financial crisis.

Though the pace of retail bankruptcies slowed in the last quarter of 2020 and into 2021, many retailers across the U.S. — except those deemed essential — were forced to shut down their physical footprint in 2020. The pandemic forced retailers to pivot and manage the spike in demand via e-commerce online channels, further pressuring cash-strapped retailers.

e-Commerce Growth Shifts Retailer Perspective

According to S&P Global Market Intelligence, e-commerce sales in the U.S. grew significantly in 2020 to reach $799 billion, up 33.6% from 2019. This year, e-commerce sales are projected to reach $909 billion — an increase of 13.7% over 2020.

During 2020, retailers who already had a robust, established online infrastructure were well positioned to capitalize on the shift to e-commerce. Other companies were forced to expand or implement omni-channel efforts, including expanded e-commerce and buy online pick-up in-store (BOPIS) capabilities. While many had plans to develop a robust omni-channel platform, the pandemic accelerated these initiatives, requiring significant capital investment. Many retailers struggled with not only managing the surge in online demand, including IT infrastructure challenges, but also the associated supply chain issues.

Consumers Look for Experiential Retail Offerings

With the nationwide rollout of vaccinations and lifting of COVID-19 restrictions, retailers that made it through the pandemic are positioned to take advantage of the return of customers to their physical stores. According to 451 Research, nearly 50% of consumers surveyed in the first quarter of 2021 said they plan to "immediately" start shopping at retail stores after the end of COVID-19 restrictions.

Retailers are already working to drive foot traffic into stores with increased sales and promotions, as well as brand partnerships. Despite significant growth in e-commerce sales during the past couple of years, this growth has moderated during the past few quarters, which is expected to continue as customers focus on experiential retail offerings after being “locked down” for more than a year.

Retailers offering a personalized shopping experience should benefit as customers spend more time and money in stores. Additionally, in the near term, the retail sector is benefitting from trillions of stimulus dollars pumped into the U.S. economy. However, it's expected that consumer spending will eventually transfer from retail to travel and restaurant purchases.

Sur La Table Saves Jobs with Bankruptcy Auction

Let's look at one example of how a national retailer survived the global pandemic.

Based in Seattle, Wash., Sur La Table (SLT) is a privately held retail company that sells cookware, cutlery, and other home goods. When COVID-19 forced the shutdown of its stores almost overnight, the company had to quickly pivot from a physical/e-commerce to an entirely e-commerce sales channel. SLT also filed for Chapter 11 bankruptcy to reorganize and execute a potential sale process.

SLT adjusted its business model to support the shift to online sales, including the implementation of a drop-ship program. The company ran multiple shifts and implemented smart inventory management practices at its sole warehouse and across store locations, sourcing certain products from stores to fulfill online sales.

With customers dining at home, demand for cookware and cooking tools sustained SLT sales via its e-commerce channel, allowing the company to achieve its full-year revenue budget, despite the shutdown of its store fleet for approximately three months. Given the demand for SLT's specialty retail products, inventory liquidation via an experienced third-party liquidator resulted in recoveries significantly higher than expected.

The timing of SLT's Chapter 11 filing had to coincide with the ability to re-open a significant portion of its store fleet. To support its restructuring, SLT held transparent discussions and negotiations with stakeholders, including its asset-based lender (ABL), senior secured lender, vendors, landlords, and employees. These discussions were critical. For example, without the support of the ABL in its restructuring process, SLT could have been liquidated, resulting in the loss of thousands of jobs.

Under the protection of Chapter 11 bankruptcy, SLT was able to concurrently execute a going concern sale and liquidation of one-third of its store fleet. The going concern sale was composed of its e-commerce platform and two-thirds of the store fleet, and liquidation of the inventory at the remaining stores. A robust sale process that contacted 125 strategic and financial buyers resulted in SLT realizing a value of more than 2x the initial letter of intent (LOI) submitted for the going concern sale.

The bankruptcy auction proceeds, combined with the liquidation of one-third of the stores, yielded higher recoveries than a going concern reorganization would have. Reorganization of SLT would have required significant capital investment for implementation of omni-channel initiatives including BOPIS, expanded e-commerce capabilities, IT infrastructure, along with a refinancing of its existing credit facilities, including a new ABL facility. SLT's new buyer was able to both pay a significant purchase amount above the LOI and provide the capital and infrastructure to support the necessary improvements.

Achieving Long-Term Success in a Post-COVID World

The retail world continues to adjust in response to the COVID-19 pandemic, but retailers now understand that a flexible experience will be a significant part of consumer demand going forward. Judicious investment and management will be necessary to meet this demand and remain profitable. The following are some recommendations for achieving long-term success in this dynamic consumer and business environment:

1. Enhance omni-channel capabilities, including a robust e-commerce platform and BOPIS, ship-from-store, and experiential in-store offerings.
2. Allocate appropriate resources to develop and support your brand, including active social media efforts. Brand recognition is particularly key for specialty retailers.
3. Rationalize store fleets and footprints to reduce high fixed costs in the form of lease expenses. Concentrate on a personalized shopping experience, not store size.
4. Invest in key drivers of success, such as brand recognition, IT infrastructure, and inventory management systems.
5. Manage working capital judiciously. Cash is king, especially for a struggling retailer.
6. Maintain strong vendor relationships. Focus on strategic relationships based on trust and flexibility.
7. Evaluate strategic alternatives to best position your brand for long-term success, including complimentary acquisitions, recapitalization/refinancing, and if necessary, a balance sheet restructuring.

About The Author

George N. Koutsonicolis serves as Managing Director at SOLIC Capital Advisors, a leading financial advisory firm providing restructuring, investment banking, and distressed asset support services. He specializes in capital restructuring, operational restructuring, mergers and acquisitions, divestitures, capital raising initiatives, and alternative recovery strategies on behalf of the firm's clients. Mr. Koutsonicolis possesses significant experience in a variety of industries including retail, energy, healthcare, financial services, residential & commercial real estate, manufacturing & distribution, business services, IT, and luxury & leisure goods. Mr. Koutsonicolis received his Masters of Business Administration from the University of Chicago Graduate School of Business with concentrations in Finance, Economics and Entrepreneurship and a Bachelor of Science degree in Chemistry from Loyola University of Chicago.

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