

What's Next for Lord & Taylor Following Bankruptcy Filing

Once beloved for work and occasion wear, the 194-year-old department store succumbs to the pandemic

By Richard Collings | August 3, 2020



Key insights:

- **The sale of Lord & Taylor to Le Tote failed to either save the department store or help the accessories retailer grow.**
- **Lord & Taylor was one of the few regional chains remaining, other than Belk and Dillard's.**

Lord & Taylor is the latest venerable retailer, with a history stretching back to 1826, that has succumbed to the pandemic by filing for Chapter 11 in Virginia on Sunday, along with its parent company Le Tote.

Lord & Taylor follows other merchants into bankruptcy protection including **Brooks Brothers** and **Neiman Marcus**.

Le Tote, which acquired Lord & Taylor **less than a year ago** for \$100 million, said this morning that it would solicit bids for both its overall business as well as Lord & Taylor and conduct store closing sales as part of the restructuring process. In order to fund operations, the company has obtained court approval to utilize cash from its secured lenders.

The store closing process has begun at 19 of its 38 locations and is being managed by liquidators Hilco Merchant Resources and Gordon Brothers, Le Tote said.

The chain's story begins in 1826

Though Lord & Taylor sold menswear, it was largely a fashion destination for women who were seeking to buy clothing for the office, better ready-to-wear dresses and special occasion outfits, said Mary Ann Domuracki, a managing director at investment bank MMG Advisors. It also had an expansive beauty department.

However, even during its heyday, "I don't know of anyone that would have said it was luxury," she said.

Lord & Taylor occupied a space in the retail landscape somewhere between mid-tier department store Macy's and luxury retailer Saks. It competed more directly with Nordstrom and Bloomingdale's, though its footprint was largely confined to the Northeast, the Mid-Atlantic and parts of the industrial Midwest.

Its history stretches back to 1826, when it was founded as a dry goods store by Samuel Lord and George Taylor in New York City.

Lord & Taylor's latest incarnation dates to 2006 when real estate mogul Richard Baker acquired it for \$1.2 billion from Federated Department Stores. Federated, the parent of Macy's, had merged a year earlier with Lord & Taylor's owner, St. Louis-based May Department Stores, the parent of Famous and Barr, in an \$11 billion transaction creating what we know today as Macy's.

Lord & Taylor, in fact, would be the cornerstone for Baker's expansive retail empire, as he would go on to acquire Hudson's Bay and then merge the two, and later add Saks.

The now-bankrupt chain's Fifth Avenue location, its flagship since 1914, was ultimately sold by Hudson's Bay to WeWork in 2019 for \$850 million.

Though Baker invested early in reviving Lord & Taylor, via store renovations and bringing in designers favored by fashion magazines and critics such as label Tuleh's Bryan Bradley, he ended up selling it to Le Tote last year for \$100 million consisting of cash and a secured promissory note.

Hudson's Bay even committed to pay the rent for Lord & Taylor for three years under the merger agreement, amounting to \$77 million in total rent liabilities.

But by early April, the company **told Adweek** it was weighing all of its options, including bankruptcy, as it struggled due to mandated store closures during the height of the pandemic.

The sale to Le Tote ends in bankruptcy

The bankruptcy process for Lord & Taylor, as it is for so many retailers, is an opportunity to address structural issues in the business, said Domuracki, whose firm was involved in the bankruptcies of apparel brands John Varvatos and J.Hilburn.

Though the sale to Le Tote resulted in Chapter 11, she said the transaction last year benefitted both parties in different ways.

For Hudson's Bay, it was able to preserve a tenant for real estate it controlled. And for Le Tote, it was able to purchase an established retailer at a discount. That gave the rental subscription service access to both the chain's customers and a physical presence, Domuracki said.

Lord & Taylor, however, had operational challenges, and Le Tote itself competed in a difficult category with a number of established players.

"A risky deal became even more risky," Domuracki said.

Lord & Taylor is not just a victim of Covid-19, but also consolidation in the department store space in general, as regional chains have either been acquired or gone out of business, she explained.

The large regional department store banners remaining include Belk and Dillard's. "The meaningful story out of this is it's one of the last regional retailers," she added.

Steven Dennis, a former retail executive and the president and founder of SageBerry Consulting, said the filing also points to the demise of the category.

"The fundamental issue for department stores broadly—you could pick a few exceptions—is more or less that the moderate department store space has been contracting for 30 to 40 years," he said.

In Lord & Taylor's case, it was attempting to be more distinctive and reposition its real estate, Dennis said. He characterized today's version of it as the "uncool Nordstrom."

Ultimately, Lord & Taylor was investing comparatively little money while chasing a shrinking customer base, Dennis said. As he put it: "What are you doing that's remarkable that's stealing customers away?"

Department stores not only have difficulty driving the top line, but the goods they sell at a discount to boost revenue end up not being profitable, he explained. "Mostly these retailers have become so dependent on promotions to drive traffic.

"Even without the pandemic, that deal probably would not have succeeded," he added.

He concluded that it may have not been a "crazy idea" for Le Tote to purchase Lord & Taylor for a low price, but the underlying business model has to make money.

As for the bankruptcy process itself, Domuracki said it's an important one to keep an eye on. "This one I would watch for the impact on Hudson's Bay and how consumers are shopping for products they don't need anymore," she said.

Editor's note: *This article was amended to describe Le Tote as a rental subscription service.*