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Challenging the norms of retail in a post-pandemic landscape

Sewers working to produce personal protective equipment for local medical workers

Source: Lafayette 148 New York

A tried and true saying is "time is not our friend."

In a Covid-19 era, we must reexamine every norm.

The sheer magnitude of this pandemic on our industry is unprecedented. Nearly 4.8 billion square feet of retail space has temporarily closed in the U.S. or 54% of the total, and those figures do not include services such as restaurants, gyms or salons. Prior to the crisis, retailers were already closing stores at a rapid pace and that will only accelerate now with so many on the brink of bankruptcy.

Retail Store Closures

YEAR	Total Closures	YoY % Change
2017	6,955	n/a
2018	5,524	-20.6%
2019	9,302	68.4%
2020E	15,000	61.3%

Source: Coresight Research

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Predictions of leading industry experts are that sales in the fourth quarter maybe as low as 50% of the prior year levels. For now, we are seeing cooperation of all parties, which includes lenders and investors, to provide time to so many companies. So, time is a friend right now – will it stay this way if the fourth quarter predictions are right?

Time is not our friend for businesses such as J Crew and True Religion, which filed for bankruptcy overwhelmed by too much debt and the ramifications of the pandemic. It sounds like JCPenney and Neiman Marcus may be headed to a similar fate. We are already working with companies who anticipate a bankruptcy filing.

As the global economy remains mostly closed, time can be a friend, if used appropriately.

Leadership and bold moves are needed.

For undercapitalized companies fighting to survive, the pressure of time in relation to lack of cash inflows is all-consuming. For better capitalized companies, this moment in time may be the pause needed to reevaluate business models, supply chain, and focus on potential M&A or divestures as a viable solution for long-term business sustainability.

We will shop again. The 'where, what, and how' will be undeniably different. There will certainly be more online shopping for the foreseeable future. One consumer and retail investor I spoke with predicted online shopping will accelerate to rates that were projected to be five years out. Adoption of cloud-based technology enabling business agility will accelerate as well.

If you haven't already, now is the time to build or acquire digital capabilities. What is very clear is that this industry will adjust, business models will evolve, and massive consolidation will ensue at a rate not seen before. We envision seeing new industry leaders emerge from those with great leadership, bold decision-making and of course, capital.

There is a great deal of capital ready to be deployed by both private and public companies. One recent example includes Wayfair's PIPE from Great Hill Partners and Charlesbank Capital Partners. As business plans solidify, more capital will be deployed, and investments or acquisitions will be made. Private equity funds are well poised to buy and build on top of existing platforms. We've heard from several industry companies and private equity funds seeking acquisitions already.

From restructuring to fast-paced M&A in and out of bankruptcy court, the key to a successful solution is taking advantage of the time to plan. Bankruptcy is a tool that can be friend if used properly. If not properly used, it can be costly.

Standing still is simply not an option.

Take the reins of whether time will be your friend or not.

From my family to all of you, please be safe.

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