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Navigating Uncertain Times: How retailers can outlast a bankruptcy

BY R. SCOTT WILLIAMS April 4, 2019

The retail world is undergoing enormous shifts as consumer purchasing habits change and the marketplace for goods and services is disrupted. How retailers prepare and understand their options in a challenging environment is critical. In this shifting economy, failing to proactively address arising problems is a recipe for disaster.

Know the warning signs

Retailers need to heed the warning signs of impending problems. For example, do you have to stretch your payables every month to make your numbers work? Are you cutting back on your workforce to the detriment of operations? Are you not restocking shelves because you are getting closer to your limit of credit? Each of these problems is a clear warning sign that can't be ignored.

The management responsible for a company's bottom line must remain vigilant. A retailer often lives for the holiday season, but year-to-year and month-to-month comparisons of performance are a useful tool to know if a store is fighting a losing battle. The opportunity to review budget and performance, although sometimes tiresome and tedious, is necessary. A small, neglected problem can turn into a critical issue within a few months for a retailer.

Some warning signs can be turned into opportunities. An identified problem is often an opportunity in disguise. For example, identifying product lines that are not moving can be a clue to move shelf space to maximize profitable product and "high turnover" merchandise. Being on the lookout for financial problems allows for early intervention and may even provide unforeseen opportunities for growth.

Ask for help.
When companies are facing uncertain times, the worst thing they can do is ignore the problem. The second worst thing is to fail to ask for help. The bankruptcy restructuring world has many specialized professionals who have been down this path multiple times. For many business owners, they are fortunate if they only face an insolvency crisis once in a lifetime. Having an experienced guide is important when facing a turbulent marketplace.

An often-heard excuse is for a company facing challenging times is "we can't afford to ask for help." This is the wrong mindset. Just like an unexplained ache or swelling requires a visit to a doctor, a bad quarter's financial performance with no adequate explanation demands some attention. Importantly, remember that restructuring professionals understand the realities of not having enough money to go around. They are prepared and experienced to operate in that environment. The truth is that the earlier a company's problems are diagnosed, the easier a course of treatment can lead to a recovery for a balance sheet. In sum, seeking help should be viewed as a sign of wisdom, and not considered a failure.

Seeing the forest through the trees
Just as planning is essential for the growth of a company, planning is at least equally important in facing tough financial times. Charting a realistic path toward solid financial footing is vital for a successful turnaround. With the help of restructuring professionals to assist, hard questions can be answered and realistic goals for short and long-term financial performance can be identified. For example, how many

storefronts make sense? What is reasonable profitability? How should merchandising questions be addressed? These, sometimes harsh, questions are critical in guiding the decision-making process.

Companies facing difficult times sometimes do not recognize problems that are obvious to a third party. To offer a real-world example, I once had a client facing substantial financial problems. An investigation revealed that half of the company's working capital was dedicated to a product line that was not profitable – an issue that developed over time due to gradual increases in raw material costs and pressure from sales to minimize cost. Recognizing this issue enabled the client to take the necessary steps to address it. The lesson is that sometimes problems gradually develop and without a fresh perspective are often hard to identify.

What's the game plan?

Companies overcome tough financial times by making strategic decisions. Sometimes, by working with vendors and landlords, companies can quickly return to profitability. These are often untold success stories.

Sometimes, however, markets and the economy simply make a once grand idea a losing proposition. Remember the surge of video stores seemingly on every corner? Then the digital age and the internet made a once thriving business model obsolete in less than thirty years. Often facing tough times takes resolve and solid professional advice.

If an out-of-court restructuring simply will not work, a bankruptcy or other legal device can be a useful tool. Bankruptcy law can give a company a respite from the immediate problems of the day, and provide the tools necessary to downsize, restructure or sell as a growing concern.

Similarly, receiverships or assignments-for-the-benefits of creditors (ABCs) are state-authorized legal mechanisms that are alternatives to bankruptcy. These legal tools can be effective but should not be entered into lightly or without strategic advanced planning.

Bankruptcy, or state court alternatives, are often the last resort, but should not be viewed as a failure. Rather, these tools are an opportunity to salvage the best of any business and move forward. Creditors can maximize jobs saved, taxes paid and returns on assets through legal restructuring options.

Importantly, and this cannot be overstressed, the worst case is waiting too long to act and determine if a company's problems can be effectively addressed out of court or in a bankruptcy. The sooner a troubled company faces its balance sheet, the higher the chance of successful recovery.

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