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More Bad News for Retailers, but Maybe Some Deals

Retailers in the United States have had a tough 2008 as consumer spending came to a screeching halt. But 2009 isn't looking any better. In fact, most retail experts and economists predict that it will probably be worse.

While the downturn will surely be bad for the overall economy, which is dependent on retail sales, it could be an opportunity to do some serious deal-making.

But first the bad news: **TNS Retail Forward**, a consulting firm, forecasts retail sales will remain weak through 2009 and will probably not rebound until 2010. Banks are expected to cut credit lines and seriously cut back on loans, exacerbating an already weak situation, leaving retailers without many customers.

TNS predicts sales growth next year (excluding automobiles and gasoline) will approach an anemic 2 percent. This compares with the sluggish 2.3 percent retail growth rate experienced in the first nine months of this year, and that has already wreaked havoc on the retail sector.

Other predictions are downright scary. Jack Hendler, president of **Net Worth Solutions**, a mergers and acquisitions boutique specializing in the fashion sector, believes that many retailers will collapse or seek bankruptcy protection in the new year, as consumer spending wanes and large debt loads become too heavy for many retailers to carry.

Mr. Hendler published a top-12 list of predictions, in which he envisions things like: "As many as half the regional department stores in the United States could file for Chapter 7 or 11 bankruptcy protection," and "Underperforming divisions of public companies would accelerate."

(Already, there are signs that he is correct. **Boscov's**, a regional department store chain in the mid-Atlantic, already filed for bankruptcy earlier this year and **Talbots** recently announced it would sell its underperforming **J. Jill** unit.)

But there is some upside in all this misery. As with most industries, retailers that have the cash and the confidence of the market will do fine, Mr. Hendler thinks. Companies that have waited to make an acquisition, but were crowded out over the years because of competition from others with access to cheap debt, will finally be able to use their strong balance sheets and go shopping.

Here is Mr. Hendler's top-12 list:

1. At least one ultra-luxury department store will default on its leveraged traded debt.
2. Even greater pressure for markdown requests will burden wholesalers, which will be less able to fulfill those requests.
3. As many as half the regional department stores could file for Chapter 7 or 11.
4. Confidence, not only cash, is king: Strategics with solid balance sheets and willingness to expand them, perhaps without cash outlays, will be the winners.
5. Factors and lenders will be pulling their credit lines from at least one big-box retailer or department store, thus exacerbating the credit crisis and creating an unbelievable snowball effect on wholesalers.
6. Secondary funding and financing sources (i.e. factors) will have various new opportunities to bring on new clients as "normal banking" relationships will be shedding questionable credit situations.
7. Spot financing as purchase order financing ("P.O. funding") will flourish, as credit lines will be cut or stagnant. Companies will need, and be able to finance specific P.O.'s against confirmed retail orders in a tri-party agreement with their lead lender.
8. Wholesale companies with sales volume of \$50 million or more should have a better chance of survival in 2009 and beyond.
9. Well-known brands with utilitarian attributes, like Ugg [an Australian brand of footwear], will continue to have prominence in the marketplace.
10. The shedding of underperforming divisions of public companies (**Liz Claiborne, Jones, Kellwood** and the **VF Corporation**) will accelerate in 2009.
11. Retailers will continue to centralize buying offices, yielding corporate efficiencies but causing further job loss at every management level.
12. At least one Asian manufacturer will acquire an American retail chain.

–Cyrus Sanati