



# Market Brief: Retail Reopening

Apparel, Footwear and Accessories Practice

Summer 2020



# Reopening Stores Amidst COVID-19

As the U.S. economy begins the gradual process of reopening non-essential retail stores, apparel brands and retailers face the difficult task of determining their best next steps. For brands, inventory management will be critical, and can only be accomplished with a thorough understanding of their retail partners. For retailers, to effectively restore confidence and drive traffic, the consumer shopping experience will have to be reassessed, with enhanced attention to health and safety standards established at the entire federal, state and local levels. We created this market brief to help address these challenges, and it covers the following: i) the current status of federal and state regulations; ii) various measures that are likely to be employed by retailers; iii) results from select retailers who have begun reopening; and iv) considerations for brands. We hope you find this brief a helpful resource as you navigate this complex time.

## Current Status of Federal and State Regulations

On April 16, 2020, the White House and the Centers for Disease Control and Prevention (“CDC”) unveiled *Guidelines for Opening Up America Again*<sup>1</sup>, a three-phased approach based on the advice of public health experts. These guidelines were crafted to serve as a general roadmap for state and local officials to consider when reopening their economies, with the recommendation that each state and local jurisdiction tailor the application of these criteria to regional circumstances.

In order to reopen, all regions must first meet (or continue to meet) various criteria that consist of health-related benchmarks regarding infections, deaths, hospitalization rates, healthcare system capacity, and test-and-trace capacity. Additionally, non-essential retail stores must adhere to certain pre-requisites established by its state of jurisdiction, to support a safe and clean environment. Guidelines across states remain fairly consistent and include the following key measures: physical distancing, employee training and health screening, regular cleaning/disinfecting protocols, Personal Protective Equipment (“PPE”) for employees, availability of sanitization products, posting of signage adhering to protocols, and limited max occupancy. Listed below is the current status of phased reopening plans, which pertains to non-essential retail in California, New York and Illinois.

California (Los Angeles)	New York (New York)	Illinois (Chicago)
<b>Current Status and Recent Developments</b>		
As of May 26, 2020, in Los Angeles County all retail establishments can reopen at 50% capacity. Los Angeles County and California are currently in “Stage 2: Lower-Risk Workplaces” of a four-stage plan where non-essential retail businesses can open.	On June 17, 2020, Governor Andrew Cuomo announced that New York City would be ready to enter Phase 2 of a four-phase reopening plan on June 22, 2020. Under Phase 2, non-essential retail businesses that adhere to mandatory guidelines will be allowed to reopen with in-store retail.	As of May 31, 2020, Chicago has moved into Phase 3 of a five-phase reopening plan for the State of Illinois, which allows non-essential retail such as apparel stores to reopen. Under Phase 2 only curbside pickup and delivery were allowed.
<b>Maximum Occupancy for Non-Essential Retail</b>		
50%	50%	25%
<b>Additional Details</b>		
Estimated progression to Stages 3 and 4 is not available. Full retail capacity is not expected until Stage 4.	Several New York regions that entered Phase 2 on May 29, 2020 are expected to progress into Phase 3 the week of June 22nd.	Progression into Phase 4 to occur no earlier than June 26, 2020.
<b>State Guidelines</b>		
<a href="#">The COVID-19 Industry Guidance: Retail</a>	<a href="#">Reopening NY: Phase 2 Retail</a>	<a href="#">Be Safe Chicago   Be Safe. Retail</a>

### Additional Resources

**[United States Department of Labor: Guidance on Preparing Workplaces for COVID-19](#)**

Advisory guidance by the U.S. Department of Labor Occupational Safety and Health Administration on preparing workplaces for COVID-19

**[CDC Resuming Business Toolkit](#)**

Checklist to aid employers in determining readiness to reopen; also includes additional COVID-19 resources published by the CDC

**[National Retail Federation \(NRF\) Operation Open Doors Checklist](#)**

Checklist released by the NRF for employers to review before reopening

1. Source: White House

# Retail Update and Early Results for Select Stores

Retail is slowly starting to recover. As more states and cities allowed select businesses to reopen in May, U.S. retail spending significantly increased by 17.7%, and the market reacted favorably as evidenced by an 8.4% increase in the S&P 500 Retail Composite month over month (as of June 4, 2020). Although consumer spending still remains low compared to 2019, the green shoots we are observing provide a bit of optimism to an outlook that didn't quite appear too promising in March and April.

The monthly increase in retail spending was most profound for clothing and accessories stores at +188%, while department stores experienced a +36.9% increase month over month. However, consumers are generally spending less on clothing compared to pre-COVID times, which has prompted a number of major retailers and brands to methodically refine and implement both short- and long-term business plans.

Unfortunately for many retailers, including some of the major department stores, the uncertainty seems much more pronounced, and some have chosen to pursue bankruptcy as part of their long-term strategic plans (see additional details on page 5). However, a number of retailers and brands are working to regain their footing. The case studies profiled below provide a glimpse of the early recovery actions and results of select stores.



**Est. Stores Open:** 1,600  
**Total Stores:** 4,529

- Beginning May 2, 2020, The TJX Companies started reopening stores in select states and countries as per local government guidelines.
- In the U.S., The TJX Companies has fully or partially reopened in 25 states. Internationally, The TJX Companies Canada began reopening stores in some provinces the week of May 18, 2020, and stores in Germany, Austria, Poland, the Netherlands and Australia are fully open. Stores in the U.K. and Ireland remain closed. The company also reopened its four e-commerce websites in the U.S. and UK.
- While still very early in the quarter, The TJX Companies reported positive weekly comp sales for the ~1,100 global stores that have been open for at least a week.
- The company believes that it could mostly reopen by the end of June based on current government guidance.

## NORDSTROM

**Est. Stores Open:** 134  
**Total Stores:** 378

- Nordstrom began reopening stores in early May, with approximately 40% of its fleet now open. Nordstrom continues to serve customers online and provides contactless curbside pickup services in most full-line stores.
- The company is utilizing fulfillment capabilities at full-line and Nordstrom Rack stores to leverage inventory in its markets and bring customers greater selection and faster delivery.
- Nordstrom was able to reduce inventory by ~25% from last year by decreasing receipts by ~30% and stimulating demand via marketing and promotions.
- Favorable inventory position may enable Nordstrom to bring in fresh inventory for customers beginning in June.



**Est. Stores Open:** 100  
**Total Stores:** 1,091

- L Brands is focused on trimming its retail fleet at Victoria's Secret Stores, reducing merchandise purchases and adjusting the assortment of its lingerie and bras.
- Additional profit improvement initiatives are being planned. There is an increased focus on inventory management, sourcing cost reductions and tariff mitigations. Improvement in product assortment is driving the increase in full-price selling.
- The company estimates it will close about 250 stores in North America in 2020.
- Meanwhile, the retailer said it intends to "thoughtfully" reopen the remaining stores during the second quarter with the majority reopened by the end of July.

## URBAN OUTFITTERS

**Est. Stores Open:** 292  
**Total Stores:** 641

- As of Tuesday, May 19 about 40% of the company's store fleet or 252 stores across 25 U.S. states and roughly 40 stores in Europe – have reopened.
- Open stores are offering curbside pickup or limited in-store shopping with increased safety measures.
- In-store traffic continues to steadily increase each week, with certain categories like home and lounge overperforming. In addition, Urban Outfitter's new customer count is up over 60%.
- Even so, with stores closed at least part of the current quarter, the company is anticipating the comps to be down by more than 60%.

# Reopening Observations

With companies nationwide focused on reopening, there are ample resources and guidelines from retail organizations, government bodies and investor presentations on how to effectively navigate the reopening process. Various observed measures for a healthy reopening of retail businesses are provided below:



## Create a Safe and Comfortable Environment

- Provide employees with PPE, including masks and gloves. Ask customers to wear face coverings and consider providing masks to customers.
- Implement cleaning practices and provide hand sanitizer to customers and employees. Clean surfaces that are likely to be touched throughout the day.
- Consider installing plexiglass barriers in checkout areas and limit physical handling of doors.



## Take Measures to Support Your Employees

- Ease into reopening with a reduced workforce and hours.
- Allow employees to eat lunch and take breaks outside. Adjust seating in break rooms and back offices to allow space for physical distancing.
- Encourage employees to stay home if they feel sick or believe they may have been exposed to the virus.



## Emphasize a Safe But Enjoyable Retail Experience

- Use signage or floor markings as needed to ensure shoppers are able to maintain physical distance.
- Depending on your target consumer, consider reserving certain hours of the day for high-risk individuals.
- Open lines of communication with customers to determine what will make them more at ease.



## Pay Attention to Merchandising and Inventory Management

- Develop procedures for handling inventory, including how merchandise is restocked after being returned and how it is provided to customers when being purchased.
- Consider keeping a limited amount of merchandise on the floor with different sizes stocked in the back to minimize contamination risk.
- Strategically reassess inventory needs, keeping in mind the possibility of further business complications.



## Consider the Financial Impact and Feasibility of Strategies

- Engage advisors and consultants as necessary to aid in the evaluation of operational effectiveness within a long-term omni-channel strategy.
- Evaluate the performance of store locations to prioritize investment in better performing locations.
- Explore restructuring organizational roles and responsibilities to maximize payroll efficiency.



## Ensure Open Communication and Transparency

- Communicate the steps you are taking to protect the health and safety of employees and customers.
- Use social media to engage with customers and share the precautions you are taking to make the in-store experience safe and enjoyable.
- Openly communicate with customers on the ground to learn what is important to them and incorporate into an active feedback loop to improve store settings.



## Use Technology to Your Advantage

- Consider implementing payment technology that minimizes contact. Allow customers to swipe their own credit card in lieu of paying with cash.
- Use virtual reality to allow customers to try on products both in stores and at home.
- Structure internal inventory management software to allow for purchases across channels online, in-store and buy online pick up in store.



## Stay Well Informed

- Communicate and collaborate with other companies in the space to ensure best practices are being implemented.
- Keep track of successes and failures experienced by businesses in other geographies.
- Regularly monitor federal, state and local guidelines for insights and recommendations.

# What This Means for Brands

While there are many unique challenges that have resulted from COVID-19, there are also general considerations that brands must be mindful of in a struggling economy. From marketing and inventory management to weighing legal options, below are some considerations.



## Sales

- Expect a reduced level of sales due to lower traffic, which will slowly continue to improve as consumers get more comfortable with economic conditions.
- Despite a reduced level of traffic, the quality of traffic will likely be higher and consist of consumers looking to make a purchase vs. shop.
- Consumers will likely react favorably to brands and retailers employing clearance and/or discounting strategies.



## Inventory

- Manage and offload aging inventory through clearance and off-price channels minimizing the risk of stale merchandise.
- Be prudent with inventory planning and purchasing for the remainder of the year.
- Maintain strong relationships with suppliers; create flexibility where possible to account for potential delayed/cancelled orders.



## Communication

- Tactful consumer engagement is more important than ever to maximize repeat purchases and customer lifetime value.
- Focus on communicating to customers and employees the measures you are taking to ensure health, safety and general well-being.
- Collaborate with wholesale partners to develop strategies for effective merchandising.



## Other Key Considerations

- Consider targeted marketing strategies based on geography, as reopenings will occur on a location-by-location basis since regulations vary by region.
- Carefully analyze better performing items by sales channel and make strategic adjustments as needed.
- Consider new products based on categories that have been performing well in light of COVID-19, such as loungewear and athleisure.



## Bankruptcy and Restructuring Alternatives

- As brands and retailers carefully examine their liquidity situations and the go-forward viability of their operations that have been severely impacted by COVID-19, many are exploring, or have already begun pursuing restructuring alternatives. While on the surface, the connotation of “bankruptcy” is seemingly negative, for some brands and retailers, it may provide the opportunity to access special legal tools within a process that enables the emergence of a healthier and stronger company.
- Below are several examples of how some major brands and retailers are utilizing the bankruptcy system:
  - J.C. Penney (filed Chapter 11 on May 15, 2020): closing 240 stores in weaker malls while reducing its outstanding indebtedness with its first lien lenders
  - True Religion (filed Chapter 11 on April 13, 2020): affirmed that bankruptcy was the only way to maximize value for shareholders and stay in business once stay-at-home orders are lifted and non-essential retailers can open
  - Neiman Marcus (filed Chapter 11 on May 7, 2020): upon emergence, will have a long-dated capital structure with no near-term maturities while eliminating \$4 million in debt
- With the onset of recent bankruptcy filings by major retailers such as J.C. Penney and Neiman Marcus—and in light of potential additional retail bankruptcy filings on the horizon—it will be increasingly important for brands to review and actively manage sales/credit terms with their wholesale partners and take appropriate preemptive actions accordingly.
- For additional details, or a review of your business, please feel free to contact our team. Duff & Phelps has advised on many of the most complex, multijurisdiction transactions with services including in- and out-of-court restructurings, special situations, financings and distress M&A.

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**#1 U.S. and global  
fairness opinion  
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advisor over the past  
five years<sup>2</sup>**

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1. Source: "Mergers & Acquisitions Review - Full Year 2019," Thomson Reuters.  
2. Source: Thomson Financial Securities Data (U.S. deals \$15M < \$170M, including deals without a disclosed value). Full years 2010 through 2019.