The Payless bankruptcy is a cautionary tale for digital laggards

Posted by Ash Kreider March 7, 2019 in Contact Center

A couple of weeks ago, it was announced that Payless would be filing for creditor protection and filing bankruptcy after they were unable to pay February's rent on retail locations, and that all 2,500 North American locations would be closing.

Most locations are set to close at the end of March, though some will remain open until the end of May, as the doomed retailer attempts to liquidate excess inventory. This is the second bankruptcy for the shoe giant in two years; Payless declared bankruptcy in 2017, closing 400 stores. After assistance from creditors, it came out of bankruptcy with $400 million in loans. So what happened?

Payless' demise was caused by failure to adapt to the changing retail landscape

The statement released by Stephen Marotta, the chief restructuring officer of Payless, was quite candid about the reasons for shutting down operations. "The challenges facing retailers today are well documented, and unfortunately Payless emerged from its prior reorganization ill-equipped to survive in today's retail environment."

In the bankruptcy filings, Marotta explained that Payless had not been able to integrate bricks-and-mortar locations with a digital offering; only 200 of its 2,500 stores were equipped with a digital offering. This inability to provide digital integration meant that Payless was "unable to keep up with the shift in customer demand."

As retail expert Brynn Winegard observed, "competitive pricing online is so much easier with lower overhead. The big discount and big box stores have margins that are razor thin finding it very hard to compete with online retailers". Additionally, Payless had not responded well to the challenge posed by shoe manufacturers of increasingly bypassing retail outlets in favor of selling direct to consumers at lower costs.

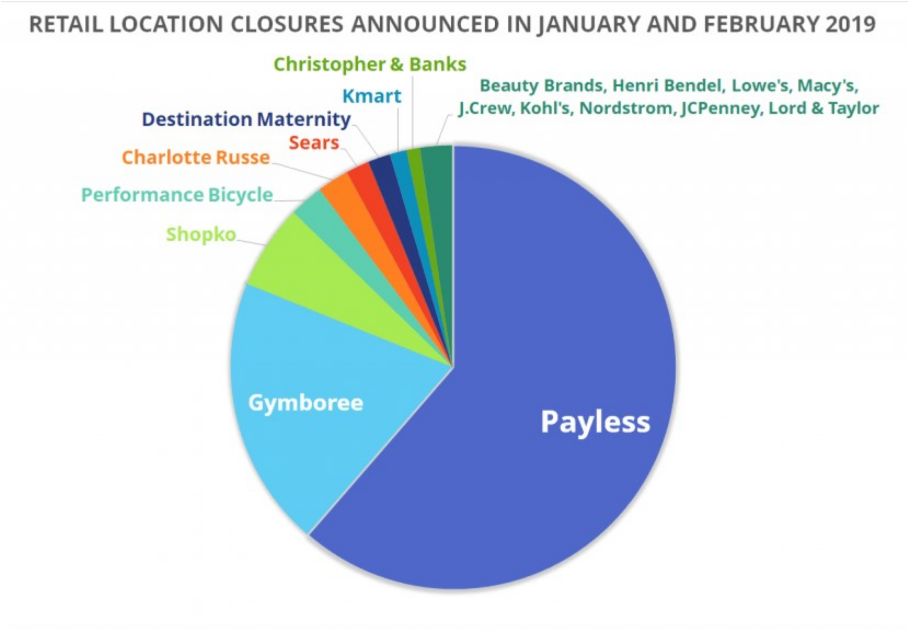
Several former employees have made statements highlighting the lack of strategic urgency around the implementation of digital, even in the wake of emerging from its 2017 bankruptcy. According to one former Payless employee, who was part of their 2018 digital marketing effort, "a lot of [the problems] would start at the top with the turnover [of] leadership, and not necessarily looking to the big picture of relaunching the e-commerce site,", adding that the new site was supposed to be mostly complete by the end of the summer of 2018. "It was put on hold for no concrete reason, because the investment was already there."

While it might be easy to think of Payless as an isolated case, the Payless bankruptcy is the beginning of a growing trend.

Retail store closures continue to accelerate in an over-crowded market

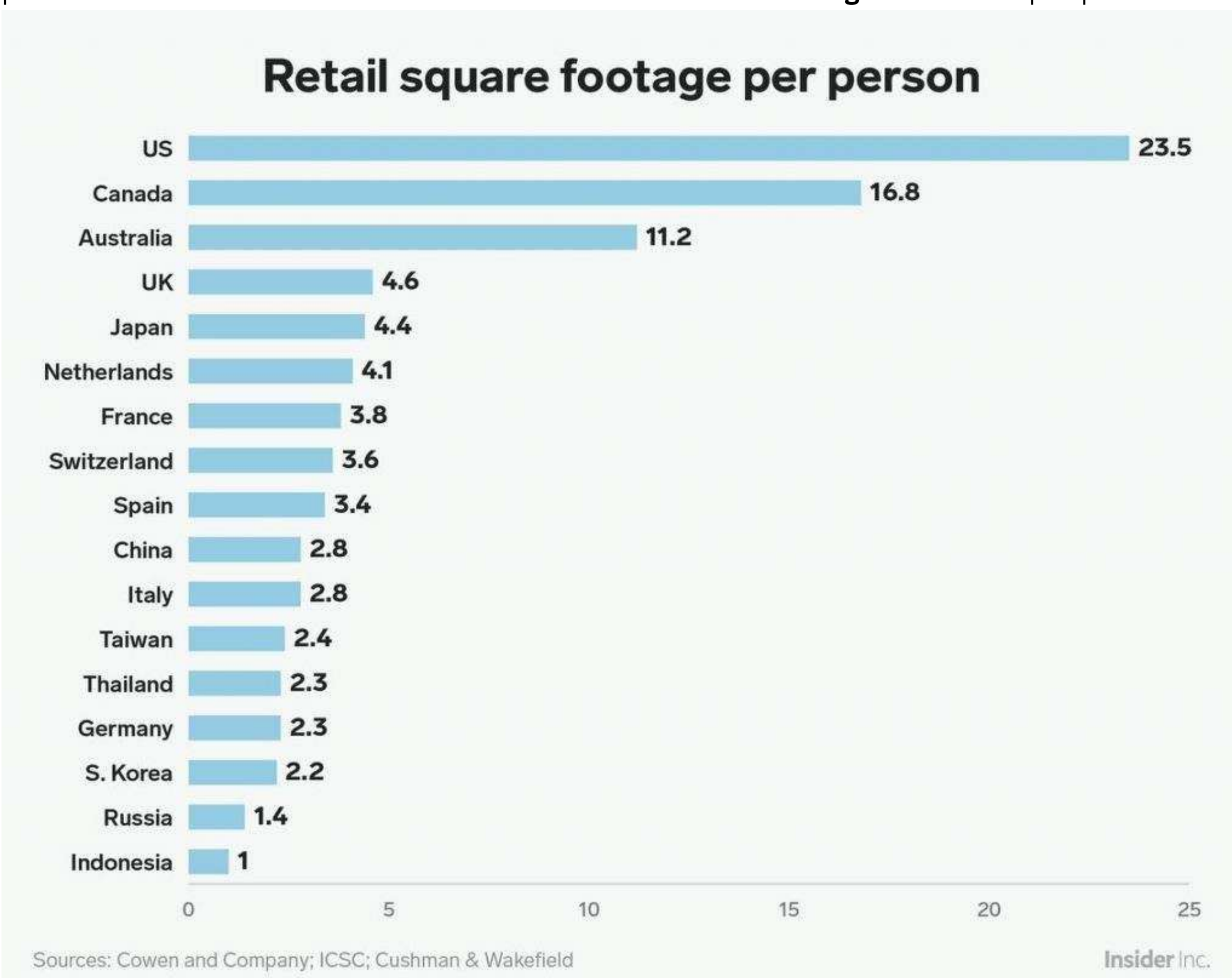
Payless is only the latest casualty as the war for digital market share continues to claim high-profile victims. Chains like Gymboree, Pier 1 and Shopko – previously mainstays of the retail landscape – have also announced bankruptcy in Q1 of 2019, as a result of shifting consumer habits and a decrease in mall traffic. However, the closure of Payless is notable for the large number of locations that are closing. According to a recent report, the Payless bankruptcy could be **the largest retail liquidation ever** by number of total retail locations.

Before the Payless announcement, more than 1,500 retail chain locations were announced in the first two months of 2019. The 2,500 Payless locations will **more than double that number** to more than 4,000 retail locations set to close their doors.



And by all indications, 2019 will be a banner year for retail store closures. According to commercial real estate firm CoStar Group, retailers closed a record-setting 102 million square feet of retail space in 2017. In 2018, that number jumped by 51% – setting a new record of 155 million square feet of retail space closures. Says Drew Myers, a CoStar senior consultant, “this year we are predicting more of the same in the retail space”.

The same report by CoStar showed that there is a whopping 23.5 foot of retail space per person in the United States – **more than five times the UK average** of 4.6 feet per person.



With those figures, it would seem the trend toward online shopping is only accelerating the market's correction for retail oversaturation in the United States and Canada. It also highlights the urgency for retailers to up their digital game if they want to stay in business.

Given these trends, it seems appropriate to close with an observation from our 2018 report on the top barriers to Digital Transformation:

> *The wave of digital is coming, and it is up to company leadership to decide how they will meet it. The majority of companies have not invested in strategies to meet the wave and are simply treading water, hoping to keep their head above water when it comes. The companies that have chosen to tread water face an uncertain fate – some will survive, but others will be pulled under. A very few companies are choosing to invest in digital and are preparing to ride the wave into revenue growth and new markets; those companies will be the market leaders as digital evolution continues ever onward.*