

EMERGING STRONGER - RESTRUCTURING

THE RETAIL SECTOR: A NIGHTMARE BEFORE CHRISTMAS

Even before the world changing events of early 2020 retail businesses in the UK were under significant pressure. During 2019 there were 8 significant retailer failures. The primary pressures at this time were the shift in consumer habits to online shopping alongside the expected impacts from Brexit.



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1 ACCUMULATION OF PRESSURE

The events of March 2020 turned everything on its head. Lockdown, with the closure of all non-essential retailers countered by tempting funding and support from the Government, meant the smaller independents (and some of the larger bricks and mortar players) had to make difficult decisions - adapt and go online or mothball and hope to regain market share on re-opening. At that point no one envisaged just how long lockdown would last...or that another one would follow in 2021 (not forgetting the intervening lockdown in November 2020). Many have adapted to online and seen sales increase but revenue remains below pre-pandemic levels for most.

Upon re-opening again in April 2021 a surge was expected, particularly as the public had accumulated an additional £180 billion in savings, but retailers were facing the same pressures, along with some new ones and the surge in spending is still yet to materialise. In February 2020 retailers were facing pressure from online shopping and Brexit. By Summer 2021 there were also supply chain issues, staff shortages, increasing inflation and rent continuing to accumulate and come December 2021 an expected interest rate rise, Omicron and a work from home mandate.

For retailers already under pressure December 2021 has really become the nightmare before Christmas with retailers facing the perfect storm. The challenges are intense, namely to staff and stock a store that consumers are less likely to visit and buy from.

2 IS THIS THE END OF THE HIGH STREET AS WE KNOW IT?

Retailers must work much harder, or find innovative/alternative ways, to convince people to spend, all whilst the price of the goods is increasing due to supply chain pressure, increased labour costs and the continued accrual of rent. The final quarter is traditionally a retailer's busiest time and November 2021 had been showing strong sales figures and ever increasing footfall but the likelihood is that Omicron and the reintroduction of restrictions will once again impact upon sales. After being unable to spend last Christmas with loved ones and rising costs to households as a whole, the fear amongst retailers is that the public will prioritise spending time and celebrating with family above all else.

So whilst it may not be the end for the High Street, there will need to be changes to the High Street as we know it. Particularly on the less popular high streets where we have seen a large number of store closures, and buyer habits have changed for good. Footfall has remained stubbornly below pre pandemic levels, particularly in city and town centres and the latest mandate to work from home will not help. However, there is now a real drive amongst landlords and retailers in prime space to mix up what is on offer and create a unique customer experience - the idea being to entice people to areas with hospitality and leisure options alongside the traditional retail store, increase footfall and drive sales.

3 WHAT CAN YOU DO ABOUT IT?

For a retailer's in-store operations to thrive they need to create a shopping experience that you can't get online whilst seamlessly linking to their online offering. Given the increasing logistics costs, those with an existing large store footprint can streamline those costs to utilise their stores to provide a cost effective returns process for online purchases. By making the process cheap and easy in-store you drive footfall, with a view to increasing sales.

The impact of social media in generating sales cannot be ignored - to thrive all retailers must grow their social media presence to attract the younger generation to their offerings. We are seeing more of this with the stalwarts of High Street and it is proving successful (e.g. M&S recent results). We are also seeing the big players tackle some pressures head on. Regarding supply chain issues, major UK retailers were not willing to risk empty shelves at Christmas and chartered their own vessels to bring goods in from the Far East. Will we start to see retailers working together on these types of strategies? Maybe.

The good news is that those retailers that are able to adapt to the ongoing external pressures; listen to customers to recognise their changes in habits; harness the power of social media and recognise the increasing consumer demand for sustainability, will thrive in a post pandemic world.

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If you would like a more comprehensive view of what we're seeing in the current environment and what steps you should take to maximise your chances of success, please get in touch.

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