



Payless has closed a total of 673 stores in 2017 as part of an operational restructuring of its business.

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Footwear retail group Payless ShoeSource is working hard to get its business back on track after spending four months in Chapter 11 bankruptcy protection.

Payless positive for the future

When Payless ShoeSource filed for Chapter 11 bankruptcy protection in April, it added its name to a growing list of US retailers that were battling to keep their heads above water. At the time, CEO Paul Jones described the move as “a difficult but necessary decision” in the face of continued challenges in the retail environment, which the company felt were only going to intensify. It declared it would carry out an extensive financial and operational restructuring, with Mr Jones pledging to build a stronger company for customers, vendors, suppliers, associates, business partners and other stakeholders.

At the beginning of August, Payless secured court approval for a reorganisation plan, paving the way for it to exit Chapter 11. A key part of this was the elimination of more than \$435 million in funded debt from its balance sheet, which it achieved by giving lenders equity stakes in exchange for

waiving the money owed to them. Senior lenders, who were owed more than \$500 million, will share a 91% stake in the reorganised company, with junior lenders taking the rest. After wiping out 40% of its debt, Payless says it has “substantial liquidity”. Mr Jones believes it has emerged “a stronger and healthier enterprise”.

Challenging times

Emerging from bankruptcy protection is no mean feat; so why did Payless succeed where several other US retailers, including sportswear specialist Sports Authority, had failed? Chief financial officer, Michael Schwindle, tells *World Footwear* that it was because its lenders (now its owners) understood the important position Payless fills for consumers, a position he describes as “great shoes at a great price for people that need them the most”. He also praised the company’s

contracted footwear manufacturers for standing by it through the reorganisation process. "Without them, our emergence would not have been possible," he insists.

Questioned as to why the US retail environment is proving so challenging for retailers at the moment, Mike Vitelli, chief operating officer, explains that the current economic climate is forcing consumers, especially those from the middle class, to make "trade-off decisions" that mean needs must take precedent over wants. The first pair of shoes is a need, he says, but shoe retailers are being affected by consumers' reluctance (or lack of means) to buy a second, third or fourth pair. He says the US has too many retail stores, emphasising that this has been the case for a while. The growing trend of consumers, especially millennials and those from the baby boomer generation, spending more of their disposable income on experiences (e.g. travel, restaurants, concerts) rather than on products or goods is also having an impact on retail sales, he believes.

Stores here to stay

When Payless announced its decision to seek Chapter 11 bankruptcy protection, it explained it would immediately close nearly 400 "underperforming" stores in the US and Puerto Rico. Following the restructuring, it said a total of 673 store closures "related to bankruptcy" had taken place, meaning it now operates around 3,500. The company tells *World Footwear* there are no plans for additional closures at this time, but that it continually evaluates the sales performance and profitability of individual stores as part of its regular business activity.

A number of US retailers have closed stores in 2017 in an effort to stay afloat; some are considering abandoning bricks-and-mortar retail altogether in order to take their business

exclusively online. Payless does not view this as a solution in its case. Despite the growth in online sales, it insists bricks-and-mortar continues to dominate the retail sector.

It justifies its position by pointing out that the majority of the leading e-commerce sites in the US operate bricks-and-mortar locations, adding that 75% of retail sales in the footwear sector still take place in a physical location. "Payless believes the combination of online and bricks-and-mortar shopping offers consumers the best of both worlds," it states.

Eyes on expansion

After successfully guiding the company through this tricky period, Mr Jones announced his retirement as Payless CEO, a role he had held since October 2012. The search for his replacement is underway.

"We are confident the post-emergence board of directors will identify a leader, internally or externally, who will complement our outstanding and deeply committed management team, while sparking new ideas and approaches, building momentum and success moving forward," Payless has stated.

Until a new CEO is found, the company will be led by a committee that includes Mr Schwindle and Mr Vitelli. It is headed by Martin R. Wade, chairman of the board of directors, who is serving as interim chief executive.

Prior to its brush with bankruptcy, Payless had been targeting an expansion of its presence in Latin America and the development of new franchises in Asia. Mr Schwindle says expanding the brand worldwide "remains one of our key strategic initiatives". He believes the strengthening of the company's balance sheet and its current financial condition mean it is well placed to press ahead with this plan. 📌



The challenge facing retailers, including those selling shoes, is to inspire customers to make purchases out of more than just necessity.

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