Retail Legend and Turnaround Specialist Michael Appel Discusses How Liquidity Preservation Is Key to a Business Turnaround

On March 27, 2020, Coresight Research welcomed retail legend and turnaround specialist Michael Appel to our webinar series, *Coresight Conversations: Legends in Retail*. Appel shared his five-pronged strategy for leading business turnarounds, which is particularly salient in today's ongoing coronavirus crisis: He looks ahead to offer recommendations for the other side of the pandemic—how to prepare today for life after coronavirus.

- According to Appel, the foundation of a sound retail/consumer goods business model is the same, regardless of timing and specific crises.
- Appel's five-pronged strategy for leading business turnarounds comprises understanding the customer, having the right team, product assortment, technology and liquidity. All are imperative, but liquidity is fundamental to executing a turnaround.
- Preservation of liquidity involves ruthlessly cutting marketing, inventory and labor costs while balancing a view to exiting the crisis with strategic partners/vendors.
- Crises accelerate trends, from online migration and concomitant store closures to a bifurcation of the marketplace, as exhibited in Weinswig's Hourglass model: Value and differentiated brands capture share, while competitors in the middle have market share and profitability squeezed as too many competitors with similar products compete on price.

We present an edited version of our conversation with retail legend and turnaround specialist Michael Appel from the *Coresight Conversations* webinar held on March 27, 2020.

Marie Driscoll:
Hi, everybody. Thank you for joining Coresight Research and our launch of the *Legends in Retail* webinar series. We're going to wait a few minutes before we start the event to let people join, but for right now, our guest Michael Appel will say hello.

Michael Appel:

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Good afternoon, everyone. So nice to be with you. I'm coming to you from my kitchen out in the Hamptons. So that's the backdrop, and I am delighted to be here.

Marie Driscoll:
Today's theme is really about how Michael's experience as a turnaround expert in retail and consumer products can help us think about how we navigate what we're going through today. This is the launch of *Legends in Retail*. Michael Appel is our first participant, and we are so delighted to have Michael here. My name is Marie Driscoll, I'm Managing Director of Luxury and Fashion at Coresight Research, where we sit at the intersection of research and technology.

To begin, Michael has had a stellar career in retail, working with many famous names across multiple retail channels. So, Michael, why don't you just share a few of the high notes of your career?

Michael Appel:
Thank you, Marie. It's exciting to be here. I have the greatest respect for Coresight Research, Deborah [Weinswig, CEO and Co-Founder at Coresight Research] and Marie, and I'm glad to be joining you.

Just a little bit about my career: I started in retail in 1973 at Bloomingdale's, where I spent 10 years as a merchant. I was a hardlines buyer and then became the Vice President and Divisional Merchandise Manager of childrenswear.

I spent the first 20 years of my career as a merchant and merchant operator and did my first turnaround in 1987 when I was president of Hoffritz, a hardlines specialty retailer. Beginning in 1990, I began to consult with retailers and serve as CEO, CRO and Financial Advisor, working with lender groups and bondholders and private equity firms. I have experience across a wide variety of merchandise categories and retail channels, including department stores, specialty, off-price and luxury. I have led well-known companies through turnarounds, challenging times and rebuilding businesses, such as Laura Ashley, Mackenzie-Childs and Baccarat North America. For my work at Kasper/Anne Klein, I won the Turnaround of the Year Award of 2004.

For the past two and a half years, I served as the Chairman and CEO at rue21, where I took the company through a turnaround, creating a new foundation supporting its recent growth.

Marie Driscoll:
Thank you for sharing that—lots of great names throughout retail and consumer products, and luxury. You have a five-pronged strategy for turnarounds—would you articulate that for us?

Michael Appel:
Sure. This is something that I think is apropos to most of retail right now. The five prongs of the strategy always involve:

1. Understanding the customer. A deep understanding of the customer is critical because that really touches everything that you do in the turnaround, the company and then the rebuilding.
2. The right team. You must evaluate the existing talent and then bring in the best people to turn around the organization. I can't stress that enough. I think in the retail business in particular, because of its complexity, the quality of your team is critical. A great core team can really get a lot done quickly.
3. The product. This is obviously critical. In some cases, it's fixing product itself because it isn't resonating, but you can't do that without the talent. In other situations, it is a question of what assortment strategy: Are you really in the right categories of business?
4. Technology. It is incredibly important today with the pace of change among consumers. I don't think one can be successful today unless you embed technology in your business operations, and you need to do that in order to drive results.

5. Finally, and foremost, liquidity. In every situation, whether you are in a dire turnaround or merely challenged, liquidity is key. Liquidity buys you the time and runway to fund your turnaround, because it always takes more time and more money than expected to turn around a business.

Marie Driscoll:
So, you're saying liquidity is paramount at the beginning and at the end of managing turnarounds and business generally. Also what I heard you say is that it always takes longer than you think—and it always costs more money than you think.

Michael Appel:
Right. Look at some successful turnarounds—for example, Gucci and Burberry. They needed three to five years until they got traction. You have to be realistic about how much capital you're going to need and how much time you're going to need. Because most of the time you're going to be evaluating the team, replacing management, adding technology, etc—and the technology initiative takes a lot longer than most people think. Then, you work through the platform, your website, loyalty programs… so that's why do we need to be realistic about what it is going to take.

Marie Driscoll:
Tell us what you see as different between your typical turnaround situation and the situation we're in today with coronavirus and how it's impacting retailers, the economy and the consumer?

Michael Appel:
Well, I think what's different is that most retailers are cut off from their chief revenue source with forced store closures. In turnarounds, your stores are typically still open. Most retailers have an e-commerce channel, which could be pretty significant. For most retailers, online business is not enough to really cover your loss and needed receipts, so I think liquidity is the number-one priority, because you have to try to determine how long this situation will last before we can reopen stores and start getting revenue. It is just a more extreme version.

You have got a couple of things going on. You've got to make decisions very quickly, and you've got to have a strategy in place. If you look at the situation now, it is that you don't have revenues coming in. So, you look at it, and you look at, okay, what are the big costs of business? It's the cost of goods, it's rent and its personnel. So, you have to right-size the cash out, when there is very little cash coming in, and act quickly in terms of cost of goods. I mean, a lot of people are just saying, "We are not sourcing goods until we see the light at the end of the tunnel, because number one, we're not recording sales or very little sales; number two, we also have a lot of inventory in our stores." You think about when this happened—certainly in apparel retail—it was the height of the Easter season, and retailers are sitting with a fairly decent amount of inventory where they were expecting a lot of business. And so, you could say it's pretty simple, not to do it. You have to cut receipts, but you have to look at those cuts in terms of the critical vendors, because you also have to look at the other side when stores reopen. At some point in time, stores are going to reopen, which means things will get back to some semblance of normal, but on the other side, sales will be reduced from last year, but the question is, how much?

Marie Driscoll:
Technology, the integration of technology. Michael talked about how important technology is and about how it takes longer to implement and integrate technology in a turnaround.

I hope everybody heard his five-pronged framework approach that addresses the customer, the team, the product, technology and liquidity—liquidity being really paramount in terms of a turnaround. I've now going to ask him about how to preserve and increase liquidity.

Michael Appel:
In the last two weeks of March, we've seen numerous retailers take action to improve their liquidity position from furloughing staff to not accepting vendor shipments. Some other things that we're seeing retailers do to improve their liquidity include halting dividend payments. They're drawing down lines of credit and they've stopped share-buyback programs, all are which are use of funds that are extraneous at this point.

Marie Driscoll:
Michael, you were saying that as you deal with a situation like we have today, you have to make assumptions with sensitivity in terms of how long this is going to go on, how deep it is and when we will come out, and how we come out of it—and then you manage according to those sets of assumptions.

Michael Appel:
Many retailers have stopped taking vendor shipments altogether, and we have seen some retailers do that. Nothing is off the table, but at the same time, you really have to manage to the fact that on the other side of this, when we come out of this, you will want to work with these people—they'll be your partners; these companies will be your partners. So, you have to be sensitive to that. Also, realize that there will be pent-up consumer demand. You want to have open, frank communication with all of the stakeholders, the vendor community, your landlords, your employees, your shareholders, your banks—and you want to make sure you have availability with the banks, and we're seeing, as I said, retailers draw down their credit facilities.

Marie Driscoll:
I think I can speak to some of the points Michael was talking about in terms of e-commerce being the channel that is open. Frankly, we've seen some distribution centers close, and it may be a function of these employees at those centers being ill or maybe really demand has been so depleted that it's not even necessary that they remain open. But if you are executing through your e-commerce channel, you want to feed that channel. Even though it may be less profitable, it is the only way you're connecting with your consumer, and you want to keep connecting with your consumer.

Michael Appel:
Right, so basically, cut your receipts. Okay, reduce your SGA [selling, general and administrative expenses]—basically, you're not going to need the staff that you needed before—and rent. Well, for most retailers, the operating centers have had to close, so there is no reason to have to pay rent until those are open, and so most retailers are not paying rent. So rent, floor staffing… and then the other is really in terms of sources of liquidity, accessing your bank lines. And I think that's critical.

Marie Driscoll:
So, I took the poll: 64% of those polled said that they would, yes, stop paying rent while stores and malls are closed. I'm going to share the results so everyone can see them. How important is reducing receipts? 57% of the people think it is critical; 29% think it's important; so only 14% think it is "somewhat important," which is interesting—a very small piece.

Michael Appel:
But I mean, to me, I'm surprised that "critical" isn't a larger number. I can remember in a number of companies that we saw that the sales weren't going to be there, we reduced the receipts as we weren't going to operate with inventory levels that are going to result in even more clearance and markdowns. So, you have a good model that has been developed and has sensitivities to it, and at the same time, you also have to look ahead and say, you don't want to burn all your bridges with vendors. So, the point is, you've got to really identify the critical factors going forward and also the categories.

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Based on when things open—people think they're going to open in May or June—what merchandise are you going to need? And then if you're a junior retailer, you're thinking about back to school. So, you have to look ahead, and you have to communicate to your vendors and work out either late deliveries, cutting receipts or extending terms. And the relationships that you have are critical with all of your stakeholders of your company, and your stakeholders are everyone from your shareholders, your vendors, to your bank and, of course, your consumers and employees. Your ability to communicate in a calm and measured fashion and to be realistic with what's going to be happening with them is critical.

Marie Driscoll:
So, would you be thinking about your store fleet right now? And on the other side… how would you think about your store fleet post June, when the stores are back open? Would you be trying to exit? How would you think through it?

Michael Appel:
Well, I think it depends on the situation you are in. If your store fleet had only a small number of stores that were four-wall negative, then you really want to keep the vast majority of the fleet open. You want to figure out a way to keep those doors open and funded. But you should look at it as an opportunity to really become more of a world-class retailer coming out. Start looking at this a little bit differently. Some companies, however, know a large percentage—20–30% of their fleet—might be four-wall negative. So, I think that's really important to consider and say, "Okay, now I'm going to have to act." That may require using a good real-estate consulting firm with strong landlord relationships, which I utilize in almost every case to help. You should be able to get rents lowered in many cases or will be able to exit poor performing stores as part of package renegotiations.

Marie Driscoll:
To the issue of store closures, we asked the audience what percentage of retail locations they think would close and not reopen as a direct result of the coronavirus: "10%" was the answer for 36% of our audience, and 43% of our audience said 25% or more of US stores would stay closed—that's a huge number. And yet we know that we've been talking about the US store environment being "over-stored" for 20–30 years.

Michael Appel:
Right, exactly—and what's interesting is, even with the large number of store closures, there has also been a lot of store openings. In the value sector, the off-price sector, the dollar-store sector, you know, there are thousands of stores that have been opened in addition to new concepts. So, the end result: US retailers really haven't addressed the huge square footage per capita in the US versus every other country in the world.

If companies haven't addressed right-sizing the store fleet, they will be vulnerable, and you will question whether they have a sustainable business model. Landlords will be more or less willing to negotiate with you, based on whether they think you can make it or not, so that's going to be really interesting to see. You're going to see an acceleration of store closures for retailers and liquidation of retailers to rationalize square footage in this country

Marie Driscoll:
We see how strong the results have been recently at Target, and Walmart has had some good numbers. Which companies do you think are most likely to survive this, and where do you see liquidations happening?

Michael Appel:
Well, I think the bifurcation performance has been, you know… Good performers have been either at the luxury end or the value end, or they have businesses with very strong brand equity. So, if you're stuck in the middle, I think you've got a problem. Now, that really hasn't changed since the recession of 2008, where it was quite clear there was a growing number of

people who didn't have the money and moved to off-price and value retail. A lot of customers just said, "I'll trade down if the product is good enough. It doesn't have to be perfect; it's got to be good enough and good value, and we'd rather spend our money in that manner." And so, I think you will just see an acceleration of this process. I think the people that are stuck in the middle are going to have a hard time. Mid-price department stores, specialty retailers that focus in the middle are going to have a lot of problems.

Marie Driscoll:
So, that's really very much in keeping with our framework on Weinswig's Hourglass, where at the top you have luxury brands, the highly differentiated products, retailers and brands and at the bottom you have value. If you are a brand or retailer in the middle, you are squeezed. There are lots of people going after that customer: Amazon has made huge inroads, for example. So that is very much in keeping with the way Coresight Research looks at what is happening with the US consumer and retail.

Michael Appel:
Right, and you know at any one of these companies, execution is key—you really have to know your business, you have to get into the details, and you have got to have great people and understand your customers. It goes back to all of the kind of basic rules of good execution. And the consumer continues to change; they have access to all this information, which means they are lot more selective. So, for the brick-and-mortar retailers to survive, they've got to invest in stores, improve the store experience and improve relationships, in terms of what workers want, in terms of convenience, of quality of staff, of product assortment, the store and sizing. What you see is the strong survive: Those who have their act together on execution will do well. The other thing I think is, look at what is stale. You need to improve the store experience, and if you are a small or middle-market retailer, you are really vulnerable unless you have a good store experience and compelling product for your customers to respond to.

Marie Driscoll:
We are so glad to have everyone who has participated, and we are so glad that everyone joined us for our launch of *Legends in Retail* with our first legend, Michael Appel, a fabulous one. So, thank you everyone for being a part of this, and we'll see you next time.

Michael Appel:
Right, thanks everyone for participating.

Marie Driscoll:
If anyone has any questions, email your questions to events@coresight.com.

Coresight Research's Marie Driscoll (left); Retail legend Michael Appel discusses business models and cutting costs (right)
Source: Coresight Research

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