

No immediate relief for the Retail Sector

Recent high-profile retail failures have highlighted the sector's increasing struggle within the UK's beleaguered economy. Simon Thomas examines the challenges facing retailers and how Moorfields is helping maximise the value of troubled businesses.

Various economic issues are conspiring to create the perfect storm on the high street. The nation's pockets and desire to spend have been hit hard not only by mortgage rate rises, spiralling fuel prices and faltering job security, but by poor weather, including the wettest April since records began.

INCREASING PROFIT WARNINGS

That said, nothing is doing more to dampen shoppers' spirits than today's tough economic issues. Retailers selling home furnishings are suffering as consumers postpone replacing large items to meet the costs of everyday living. One prominent example of this problem is Carpetright, which recently issued its seventh profit warning in just over a year. Despite attempts to increase profits, including a foray into selling beds, Carpetright's efforts have done little to offset declining carpet sales.

THE COLLAPSE OF CLINTON CARDS

The growing trend towards online sales is also compounding problems within some markets. This is perhaps no better illustrated than by the collapse of Clinton Cards. Amid high business rates and competition from supermarkets, the company fell victim to online card retailers, which moved in on the company's territory with cheap prices and options to personalise greetings.

CLOSING DOWN IN MARKET TOWNS

Market towns are particularly vulnerable to current economic pressures, evidenced by a growing number of vacant retail units up and down the country. These empty retail spaces are unlikely to find occupants any time soon, despite the best efforts of government initiatives to promote them. In some situations, CVAs have helped shed unprofitable units; however, landlords are inevitably seeking to resist their use. In fact, lenders are increasingly selling distressed debt to workout specialists

who are restructuring businesses without CVAs – as they're not seeking to protect any equity value.

Against this national backdrop of retail gloom, London stands out in sharp relief. While smaller towns are suffering, the capital is continuing to buck the trend, thanks mainly to its buoyant tourist trade.

SIGNALS OF DISTRESS

From small stores to big high street names, almost all retailers are suffering in today's trading conditions. In such a competitive sector, some retailers will fail even during good times. So it comes as no surprise that many more are falling by the wayside when good times turn bad.

Among the warning signs that companies are in distress is the withdrawal of their credit insurance. A recent example was GAME, which was forced into administration once its suppliers were unable to obtain credit insurance.

Disclaimer
This guide is prepared as a general guide only. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the author or publisher. Always seek professional advice before acting. Moorfields Corporate Recovery LLP is registered in England and Wales No OC334637. A list of members is available at the registered office 88 Wood Street, London, EC2V 7QF. Robert Pick, Simon Thomas and Shelley Bullman are licensed as insolvency practitioners in the UK by the Institute of Chartered Accountants in England and Wales. Partners acting as Administrators, Administrative Receivers or Receivers contract as agents and without personal liability.



RESTRUCTURING KNOWLEDGE AND SPECIALIST SKILLS

Experience tells us the outlook is still bleak, with few signs of recovery. At Moorfields, we recently acted as administrators of 48 jewellery shops within the 'HPJ' and 'Jewel Nation' chains. Although it seemed the chains took every conceivable step to rationalise the business and protect jobs, the stores continued experiencing financial difficulties.

Collaborating closely with a firm of retail specialists, we oversaw an organised trade down to protect the value of stock and realise the leasehold premises with value. This was just one example of how we combine our restructuring knowledge with the sector skills of specialist partners to provide a cost-effective nationwide service. We also act regularly for purchasers of distressed debt, when assessing strategies to maximise recoveries from insolvent companies where lenders are selling their debt.

MAXIMISING ASSET VALUES

So, what of the near future? Events such as the Diamond Jubilee and the Olympics may inspire a brief sales upsurge in 2012, but overall spending is likely to remain low. Consequently, we expect more companies of all sizes to go out of business. Every failure is regrettable. That's why, at Moorfields, we do all we can to secure business sales, protect creditor interests and realise maximum asset values.

“Experience tells us the outlook is still bleak with few signs of recovery”

WANT TO KNOW MORE?

To find out more about Moorfields' restructuring and insolvency services contact Simon Thomas on 0207 186 1143 or stthomas@moorfieldscr.com