BRAND REVIVAL

Investors and entrepreneurs are buying up the intellectual property assets of bankrupt retail brands, with some aiming to resurrect them as web-only retailers.

By Matt Lindner

Half the retailers that file for bankruptcy don't emerge from it, according to a 2016 study of 30 U.S. retailers by credit rating agency Fitch Ratings Inc. That leaves the court system to oversee the liquidation of any sellable assets, such as intellectual property, customer lists and product inventory.

Investors and retail entrepreneurs are acquiring bankrupt retail assets, and some are resuscitating the brands to live a new life online.

Brad Snyder would know. Snyder, now the executive managing director at Tiger Capital Group LLC, a financial firm that has been involved in the liquidation sale of such companies as Borders Group Inc., RadioShack Corp. and Loehmann's, was a principal at Gordon Brothers Brands LLC when it acquired the intellectual property—including the email addresses of 5 million customers—of home goods retail chain Linens 'N Things in 2009 for a reported $1 million. The Linens 'N Things brand still resonated with customers, Snyder says, despite the closure of all its stores.

"For the most part when we closed stores in Dallas, the customer in Dallas did not know that the Linens 'N Things brand was going away, they just knew we were closing the stores in Dallas," he says. "They still had a lot of customer loyalty. If they were aware that it's simply online, they will take the loyalty and perceptions that they have about it and attribute it to the online store. It had significant brand presence and that's what made it unique." Gordon Brothers subsequently operated Linens 'N Things as an online-only retailer before selling it to Galaxy Brand Holdings for an undisclosed price—reported by insiders to be more than $10 million, or a 900% return on Gordon Brothers' investment—in December 2013. Galaxy Brand Holdings, and through it Linens 'N Things, is now owned by Sequential Brands Group. It continues as a web-only merchant.

Investors who embark upon turnaround projects with distressed brands say there are a number of factors that make the brands they acquire worth their investment, such as the brand equity the brands have built and the size and content of a brand's customer database. Building a brand from scratch takes years, and/or a lot of startup investment—so buying a brand at liquidation prices can make sense. Other retailers also snap up the intellectual property assets of dying competitors to solidify their own businesses at a bargain price.

In some cases, retailers aren't waiting long to snap up bankrupt competitors. A U.S. bankruptcy court judge last month approved the $20 million sale of women's apparel e-retailer Nasty Gal to U.K. web-only online fashion merchant Boohoo.com PLC. While Nasty Gal filed for Chapter 11 bankruptcy in November, Boohoo plans to operate Nasty Gal, which was once a high-flying brand, as a standalone pure-play e-retailer.

"[The acquisition] represents an exciting opportunity to accelerate our international offering and inspire an ever-growing range of young customers in the U.S. and around the world," Boohoo joint CEOs Mahmud Kamani and Carol Kane said in a statement.

Retail investors can expect assets of other bankrupt brands to hit the market in the coming months. Women's apparel chain Limited Stores LLC filed for Chapter 11 in January and stopped selling online shortly thereafter. Private equity firm Sycamore Partners is an early bidder for The Limited's intellectual property assets, including its URL, social media accounts and trademarks. Teen apparel chain The Wet Seal LLC filed for bankruptcy for the second time in three years in February. Its intellectual property assets—including its trademarks, URL, customer databases and e-commerce platform—were scheduled for auction Feb. 28 at the time this issue went to press.

The Wet Seal brand is 27 years old and, at its peak, the company operated more than 500 stores in 48 states. WetSeal.com in 2013 ranked No. 361 in Internet Retailer's Top 500 Guide, its highest ranking, based on 2012 web sales of nearly $35 million. (It currently ranks No. 510 based on an estimated $27.5 million in web sales.) While the retailer's sales faltered, the brand retains enough equity to be valuable to investors.

"When you think about a company like Wet Seal that has tried, failed and tried again, that shows you the power of brand," says Alfred DuPuy, executive director at retail brand consulting firm Interbrand. "If you can find the right market and the right audience and you're telling the right story, then absolutely [it could succeed]. People are more forgiving."

Some people hardly notice a brand changed ownership. Brent Sonnek-Schmelz and his brother Blake, owners of Soccer Post, a sporting goods chain with 34 stores, bought the intellectual property of bankrupt Boston-based sporting goods retailer City Sports Inc. for $400,000 and subsequently relaunched its website.

When it filed for bankruptcy in October 2015, the then-32-year-old City Sports operated 26 stores on the East Coast and CitySports.com. The retailer closed all its stores and its site went dark for months. Still, "the vast majority of people have no idea City Sports went away," Brent Sonnek-Schmelz says.

The brand had a big presence in its market, and the name remained familiar, thanks in part to the prevalence of City Sports-branded T-shirts on running trails. "Our best asset is our T-shirts because people still wear them when they go out running all over the East Coast every single day," he says. "If you go to Boston and you walk down the street on a spring day, somebody is going to pass you running in a City Sports T-shirt."

That played to the Sonnek-Schmelzes' favor as they worked to resurrect City Sports as a web-only merchant. Among the assets the brothers acquired were roughly 500,000 email subscribers and more than 100,000 likes on City Sports' Facebook page. Having the customer list along with the email addresses on it has proven key in the early going. For instance, the response to an early email blast reassured the brothers of the equity the brand still possessed.

"Our first email that we sent out was last February letting people know that this was going to happen," he says. "After sending out one email that says we're coming back, we had articles in the New York Post, Boston Magazine and Philadelphia Magazine. Just for a single non-marketing email that was actually required by the bankruptcy court."

CitySports.com officially reopened for business in October. "The brand has meaning to customers and the customer list means you don't have to spend a ton on customer acquisition," he says.

Stuart Rose, managing director of investment banking firm Tully & Holland Inc., says customer lists in particular tend to be valuable when acquiring failing retail brands.

"If you can mail with the same [brand] name, customer response rates are much higher than prospect response rates," he says. "They are typically three to five times better than a prospect list. You get a strong email list and they'll respond better than a blank prospect list that you rent or buy or somehow obtain."

"[The customer list is] very valuable because you have to market to somebody," says Howard Davidowitz, chairman of retail consulting firm Davidowitz & Associates Inc. "Getting that data gets you off to a running start. That's why you're going to pay."

Brent Sonnek-Schmelz declined to provide a specific dollar figure for sales when asked how the e-retailer has progressed since relaunching, telling Internet Retailer only that sales have been growing by 200% month-over-month since October. At the moment, CitySports.com employs "just a handful" of employees, Brent Sonnek-Schmelz says. The business will remain web-only for now, although the brothers say they plan to open City Sports stores and stores will be the primary source of sales.

Other times when a company acquires brand assets, the acquired brand ceases to exist. That was the case when sporting goods chain Dick's Sporting Goods Inc. bought rival The Sports Authority Inc.'s intellectual property for $15 million in June 2016, and bookseller Barnes & Noble Inc. acquired the intellectual property of rival Borders Group Inc. for $15.8 million in September 2011. Both times, the acquiring retailer essentially swallowed up the acquired brand, keeping its former rival's URL live, but redirecting traffic to its own website. Neither Dick's nor Barnes & Noble returned a request for comment for this story. »

Top 1000 e-retailers that have recently filed for bankruptcy or shut down

Marbles Holdings LLC (No. 869): Filed for Chapter 11 in February.

The Wet Seal LLC (No. 510): Filed for Chapter 11 in February, the second time in three years it has filed for bankruptcy.

Limited Stores LLC (No. 216): Filed for Chapter 11 in January and subsequently shut down its online store.

Shoes.com (No. 151): Abruptly shut down its three e-commerce stores effective immediately in late January.

American Apparel Inc. (No. 338): Filed for bankruptcy for a second time in November.

Choxi.com Inc. (No. 48): Debtors filed an involuntary Chapter 7 petition in November, which was converted to a Chapter 11 petition in December.

Golfsmith International Holdings Inc. (No. 218): Filed for Chapter 11 bankruptcy in September.

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— Brent Sonnek-Schmelz, owner City Sports

In some cases, that strategy makes sense because the companies' products and audiences are so similar, says Eric Roth, managing director and head of the consumer retail group at Lazard Middle Market.

"The main reason you would have two brands is if they serve different market segments or stand for different things," he says. "Because Sports Authority and Dick's sell many of the same products at the same price, consolidating the [customer] files under one brand make a lot of sense."

That approach helps avoid forcing consumers to change their behaviors, Tully & Holland's Rose says. "Sports Authority has tons of people who are used to typing Sports Authority and there are still searches out there that will come back Sports Authority, so you'll still get that additional traffic," he says.

Licensing firm Authentic Brands Group regularly buys financially distressed retailers and has its own turnaround techniques.

The company has snapped up a number of well-known brands including lingerie chain Frederick's of Hollywood, women's apparel brand Jones New York, and most recently young adult apparel retailer Aeropostale Inc., which it acquired in September as part of a consortium with mall operators General Growth Properties Inc. and Simon Property Group Inc. for $243 million. Aeropostale filed for Chapter 11 bankruptcy in May 2016.

"We don't look at them as struggling retail brands," says Natasha Fishman, executive vice president of marketing at Authentic Brands Group. "With Jones New York, the audience still felt strongly about the brand. Similarly with Aeropostale, these are ubiquitous brands that are known really well. The operations that we acquired are dramatically different. When we are looking at brands, it's what the customer is saying about the brand and how she feels about it."

"Depending on the kind of brand and what it is and what they've established and what they were more recently, while yes they might go bankrupt, the brand might still have value," Interbrand's DuPay says.

When it comes to Jones New York and Aeropostale in particular, Authentic Brands is taking a decidedly different approach in reviving each.

Authentic Brands kept Jones New York's online store, JNY.com, which drew an average of 55,505 monthly visitors in 2016 according to web traffic measurement firm SimilarWeb Ltd., outsourcing operations of the site to Onestop Internet. The company also licenses the brand to apparel manufacturer Global Brands Group, which designs and produces apparel under the Jones New York brand name and sells wholesale through retail chains such as The Bon-Ton Stores Inc. and Von Maur Inc.

With Aeropostale, Authentic Brands is taking a different tack. The Aeropostale acquisition came with the retailer's bricks-and-mortar stores in addition to the brand itself.

"The relationship that we have with Aeropostale is unique in our portfolio in that we have a partial stake in the operating company and the intellectual property," Fishman says. A company spokeswoman says the Aeropostale online store is run by a new operating company created after the consortium acquired it.

The new Aeropostale ownership group plans to focus on connecting with its teen shoppers, as well as tie together the retailer's social media channels with its store locations.

"One of the things that wasn't happening was connecting social to the stores," she says. "What you might see on social wasn't what you would see in the store. The messaging was just disparate from what was being said in store and in windows. We're using [social media] influencers and those influencers will be featured in the windows and on our social media channels." Fishman added that this year shoppers can expect to see more hashtags incorporated in Aeropostale's store signage to better connect with the brand's core audience of young adults.

The consortium aims to improve the product assortment. In tracing Aeropostale's downfall, analysts cited how the retailer fell out of step with teen fashion trends. For instance, it churned out logoed tees and sweatshirts long after teens moved on to less brand-focused styles.

"Almost immediately upon acquisition, we were working with the design and operating teams to take a deep dive into that brand and understand what makes the brand tick from a product perspective," Fishman says. "It starts with the product. We are infusing newness into that product." The product revamp, Fishman says, should be completed by this summer in time to capture back-to-school shoppers.

At City Sports, Brent Sonnek-Schmelz plans to market harder once the retailer has more products in place. "We think this thing can grow incredibly quickly based on what we have experienced as far as customer response that City Sports is back again," he says. "We're going to be reaching out much more aggressively as we get our product line and assets in place."

He recognizes the challenge and turmoil roiling the sporting goods market at this time, but believes the value the City Sports brand has among existing customers will win out. "Clearly the sporting goods market has fallen on difficult times with the bankruptcy of Sports Authority, Sport Chalet, and a whole bunch of others. It's a market that is going through massive turmoil and in our view that's a huge opportunity because people are still shopping for stuff, they're just doing it in different ways. It's just by being aggressive, by being familiar, by making sure that you connect with [shoppers] everywhere that they go."

City Sports, Aeropostale, and Jones New York are three retail brands that have either made a comeback or appear to be in the process of doing so.

Industry experts say, given the level of competition, any investor who buys a financially distressed retailer needs to focus first on getting the product right—or else risk getting left behind.

"If the merchandise is exciting, everybody will get excited within a year," Davidowitz says. "That is easier said than done. The chances of doing that are not so big. This is not a simple task."

It's not a simple task, but its one companies are continually showing they are up for. ●

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