Britain: Woolworths and MFI go bust

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In the past week, two of Britain's most well established retail chains have gone bust. On the evening of November 26 it was announced that Woolworths, which has operated in the UK for almost 100 years, had gone into administration with debts of £385 million.

Woolworths employs 30,000 staff at its 815 UK stores. Its shares had fallen by 90 percent in a year, and were valued at just 1.22 pence each when trading was suspended, valuing the company at just £17.8 million.

Woolworth's stores will remain open until after the Christmas holiday period, after which they will close with most of the workforce laid off. Some staff at its head office are to lose their jobs in the next few days. The company employs 25,000 staff in its shops and a further 5,000 in its distribution business. Woolworths also has a pension fund deficit of £100 million, meaning that up to 20,000 pensioners could be robbed of their pensions.

The same evening, just 40 minutes later, it was announced that MFI, Britain's biggest discount furniture retailer, had also gone into administration for the second time in two months. MFI employs about 1,000 staff, and 26 of its 111 stores are to be closed immediately with the loss of 260 jobs.

The first Woolworths store opened in Liverpool in 1909 by F.W. Woolworth, one of the original American five-and-dime stores that is now Foot Locker. It too focused on supplying cheap retail goods, taking advantage of new developments in mass production. All goods were initially priced at sixpence in its stores.

It became such a British High Street institution that by the mid-1920s local authorities throughout Britain were writing to the company asking for a store to be opened in their town or city. At its high point in the mid-1920s a new Woolworths store opened in Britain every 17 days.

The administration of the company includes its shops and EUK, a DVD distribution arm. A joint venture with the BBC called 2Entertain that sells DVDs such as *Dr. Who* and the *Blue Planet,* and its Bertram book wholesale business are still operational and have not entered into administration. Woolworths had been involved in talks to sell its stake in 2Entertain for a reported £100 million.

The Woolworths board has appointed Deloitte as its administrators. They have in turn hired Hilco, a firm specialising in restructuring collapsed companies, to assist in running the stores up until Christmas.

Banks pull plug

There had been much media speculation that Woolworths was in dire financial trouble and was attempting to cobble together a deal that would allow it to continue trading. One source close to Woolworths said recently that it was "heading for catastrophe".

With this knowledge of an impending crisis and the possible collapse of the firm, suppliers to Woolworths had been demanding their payments in cash for this year's Christmas stock.

Another factor in the collapse of Woolworths is that it did not own its stores but leased them. In August 2001 the decision was taken to "demerge" the retailer from Kingfisher, its previous owner. This involved the sale-and-leaseback deal for 182 Woolworths' stores in return for £614 million of cash, which was paid back to Kingfisher shareholders. Over the past decade Woolworths' rent liabilities increased from £70 million to £160 million.

Tony Shiret, an analyst at Credit Suisse, said this week that Woolworths' lease-adjusted debt was the highest in the retail sector and "they didn't really have enough cash flow to cover debt repayments".

Hilco was in talks to buy Woolworths in the week before it collapsed and a deal was almost in place. It was negotiating to buy the companies stores for the sum of £1 and to take on about £300 million of the group's £385 million debt. As part of its proposed takeover it was understood that the Hilco would have immediately closed hundreds of Woolworth's stores.

Hilco is renowned for only becoming involved in firms on the brink of collapse. In an article published November 20, "Bloodbath on the High Street", the *Guardian* quoted a commentator saying, "You don't get into bed with a group like Hilco unless things are pretty tight".

Woolworth's collapsed despite a last minute personal attempt to salvage it by the government led by Peter Mandelson, the Business Secretary. On November 25, Baroness Vadera, a Minister at the Department of Business, participated in crisis talks with the company and its main financial creditors Burdale and GMAC.

GMAC and Bank of Ireland-owned Burdale led an eight-strong consortium of lenders owed £385 million by Woolworths. GMAC and Burdale were each owed around £70 million. Other creditors included Bank of America, Barclays, GE, Wachovia and KBC. GE was owed £50 million by Woolworths. According to one report in *Retail Week*, such was the scale of the crisis that Mandelson's office was forced to contact Barclays Bank boss John Varley, as the bank had allegedly threatened not to process Woolworths' payroll that week.

In the final hours before the collapse, BBC Worldwide agreed in principle to pay more than £100 million to Woolworths for its 40 percent stake in 2Entertain. Such has been the rapid decline of Woolworths that the agreed amount for 2Entertain was about half the valuation made last year. However the deal BBC Worldwide negotiated required that the board of Woolworths find a year's secured funding for EUK, which distributes DVDs and other products to supermarkets. This funding was reliant on the proposed takeover by the Hilco group.

Following talks with Burdale and GMAC and Deloitte, no agreement could be reached on such a funding deal and the banks pulled the plug on Woolworths. As the creditors with the most legal priority, the banks calculated that they stood more chance of getting their money back by Woolworths going into administration. The decision to appoint administrators was immediately made by the directors.

Following the collapse of Woolworths, its directors face legal action from the company's leading shareholder, Ardeshir Naghshineh, who owns 10 percent of the company.

MFI went into administration citing "severe cash flow pressure". In September the Chief executive of the firm, Gary Favell, led a management buyout. As a result of the buyout 81 of its 191 stores were closed. The company began to collapse when landlords MFI rented stores from, refused to give them three months rent-free to give them time to resolve their financial crisis.

According to reports suppliers had lodged complaints about not being paid by MFI in recent weeks and a number of delivery firms had stopped taking orders until they were paid.

Financial crisis deepens

Over 100,000 retail jobs have already been lost in Britain over the past decade and this is set to accelerate.

Woolworths and MFI are only the most iconic names to have collapsed. Already this year more than 30 retailers, including the discount bookseller The Works and the sofa specialist ScS, have gone into administration.

There is growing speculation that other large retail operations will also collapse.

DSG International, the owner of Currys and PC World, has reported a half-year loss of £29.8 million. The Kingfisher group announced that sales at its B&Q home improvement chain were down nearly nine percent.

Last week it was reported that a number of large retail chain stores had had some of their credit insurance removed. These included Woolworths, Debenhams, Currys, Focus, Poundstretcher, Ideal World and TJ Hughes. Without credit, insurance companies have to pay supplies for goods upfront and in cash. Such is the scale of the cash-flow crisis affecting the retail sector that some of the largest retail companies in Britain have been forced to have sales of stock in the lead-up to Christmas. Normally such High Street names use the run up to the Christmas holidays to sell stock at normal or premium prices and then use the "January Sales" to sell remaining stock.

This year leading High Street retailer Marks & Spencer's had its first pre-Christmas clearance for four years. One financial analyst said it was "a clear sign that sales are well behind budget" and advised investors to sell their shares in the company. The previous day shares in the firm fell to their lowest level in more than eight years.

The department store retailer Bhs offered 20 percent off everything during a pre-Christmas sale and then offered 50 percent off further lines. Debenhams is to run a 25 percent off three-day sale.

Last week John Lewis department stores reported that sales were down 14 percent on 2007 levels. Its online sales have also declined for the first time since it began in 2001.

Brian Roberts, a research director at Planet Retail, commented, "Christmas is simply going to be the final throw of the dice for many retailers.... There is going to be plenty more blood shed in the first quarter of next year".

A November 27 article in the *Independent* warned, "Insolvency practitioners expect an avalanche of high street retailers to go bust shortly after Christmas".

Krishan Rama of the British Retail Consortium said, "What we are witnessing is the survival of the fittest. Already this year we've seen more than a dozen major retailers go under, and next year the conditions are going to be worse, so we would expect even more companies to fail."