Toys R Us announces liquidation amidst "Retail Apocalypse"

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Retail chain Toys R Us announced earlier this month that it is in the process of liquidating all of its some 1,700 stores worldwide. Once one of the largest retail giants for toys and games, the company had already filed for bankruptcy and reduced the number of its US retail locations to less than 800.

Founded in 1948, Toys R Us was acquired by Bain Capital Partners LLC, Kohlberg Kravis Roberts (KKR) and Vornado Realty Trust in a $6.6 billion leveraged buyout in 2005. The company had recently filed for bankruptcy, hoping to restructure and pay off its more than $5 billion in long term debt.

Toys R Us accounts for about 15 percent of the sales in the toy industry. Its demise will particularly hit smaller companies, whose new products were often promoted by the toy chain. Stocks of major toy makers fell sharply on the news of the Toys R Us liquidation.

In the US alone, the liquidation of Toys R Us will leave over 31,000 workers jobless, who will receive no severance under terms of US bankruptcy law. Meanwhile, company executives have reported pocketing bonuses as high as $14 million. The liquidation of the retail chain takes place alongside the closure of major retailers across the country, with over 101,000 retail jobs eliminated this year alone.

The announcement of the Toys R Us liquidation comes a little over a decade after the company was acquired by asset stripper Bain Capital, which recently oversaw the liquidation of iHeartMedia, the largest radio broadcaster in the US.

The liquidation of Toys R Us is part of a trend of brick-and-mortar retail closures. Bloomberg reported on this phenomena in an article titled "America's 'Retail Apocalypse' Is Really Just Beginning," noting the acceleration of major store closures beginning in the early 2010s. Bloomberg reporters note that while 3,000 store openings have been announced, at the same time retail chains have announced the closure of 6,800 stores, not including restaurants and grocery stores.

Until now retailers have been able to survive by taking on more debt. However, shifts in the market have caused lenders to reconsider. The bankruptcy filing of Toys R Us last September surprised many, and served as a warning of what might be in store.

In the coming weeks Claire Stores Inc., a retail fashion outlet, is also expected to file for bankruptcy, saddled with $2 billion in debt. Walking Co. Holdings Inc., which sells Birkenstocks, also recently filed for bankruptcy.

The Bloomberg article also sheds light on the role major private equity firms have played. It notes that the cause of the retail closures over the past decade is that "many of these long-standing chains are overloaded with debt—often from leveraged buyouts led by private equity firms. There are billions in borrowings on the balance sheets of troubled retailers, and sustaining that load is only going to become harder—even for healthy chains."

In addition to the economic decline, the predominance of online marketing and retail has contributed to store closures. Further, the erosion of workers' living standards has placed pressure on major retailers to downsize as customers cut back purchases. Many of the former retail jobs are being shifted to more labor-intensive distribution center jobs in conjunction with online retailers like Amazon or Walmart.

Despite recent jobs reports declaring "recovery" and jobs growth, unemployment figures don't reflect the nature of the jobs being created, which often replace full time or good-paying jobs with part-time jobs with extreme or unsafe working conditions.

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