Shopko retail chain files for bankruptcy, 105 stores across US to close

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General merchandise retail chain Shopko, with 367 stores across 26 states and over 14,000 employees, filed for Chapter 11 bankruptcy in a Nebraska courthouse on January 15, becoming the latest in a string of retailers to enter or consider such a move in recent years.

Shopko, which had an operating revenue of over $3 billion in 2017 and its parent company Speciality Reality Shop Holdings Corp, along with 11 other subsidies, including Shopko Hometown, cited excessive debt and “changes in consumers shopping patterns” in court documents as the reason for the bankruptcy.

McKesson, a pharmaceutical medicine supplier to the retailer had sought a restraining order against Shopko earlier this month, in response to unpaid debts. The order would have barred Shopko from selling medicinal goods already delivered to the company. Lawyers for McKesson stated that the company was owed $67 million dollars for unpaid inventory from November 2018.

Shopko lawyer Stephen Hackney in arguing against the restraining order cited the risk to public health if Shopko was barred from selling medications over the counter or through the pharmacies located inside the stores. Brown County, Wisconsin Judge William Atkinson agreed with Hackney’s argument, denying the restraining order, “I do not believe it is safe for citizens, residents ... and patients if I grant your order,” Atkinson told McKesson's attorneys. “There would be significant public health effects. The public harm, I don't think it can be understated.”

A week later Shopko lawyers were back in court filing for bankruptcy and agreeing to shut down 105 stores, many of them in rural locations. Shopko pharmacies accept Medicaid and Medicare and in many small communities in the Pacific and Midwest regions of the US it is the sole drug store.

Apparently the “significant public health effects,” were not taken into consideration during the bankruptcy hearing. Shopko has until March 14 to, “secure a reorganization plan sponsor or show the company can finance operations post-bankruptcy.” If this is deadline is not met the bankruptcy process will end and all of Shopko stores will be liquidated.

Shopko has yet to announce how many employees will be laid off, but it’s safe to assume thousands will be searching for new jobs beginning in February. On average a single Shopko store will employ 10 to 25 people. Several stores previously identified for closure began selling off inventory in November.

Of Shopko's over 14,000 employees, 5,000 reside in Wisconsin. In total, 16 stores will be closing in the Midwestern state, including the original Green Bay store founded by pharmacist James Ruben in 1962. Following Wisconsin, Utah will have the second most store closing with 13 locations slated for liquidation, 11 more stores will be closed in Iowa, 8 in Kansas, 3 in Michigan, and 7 in Nebraska.

The pending loss of the Shopko store in Kimball, Nebraska, (population 2,400), prompted concerned residents to file a petition on change.org hoping to save their store. The petition has garnered over 1,700 signatures and was delivered to Shopko’s co-CEO’s Rodger Krause and Marc Leder.

Nicole Sanneh, the author of the petition noted in her plea, “Without this retail store, Kimball and surrounding area residents will have to drive 35-plus miles for basic household items. So much more than just the retail sales will be lost. Jobs will be lost as well as the economy.”

Shopko corporate public relations responded to the petition on January 7, stating, “The decision to close a store is not an easy one for us and is only made after a careful study of the market and various economic factors. The right decision for Shopko, although extremely difficult, is to close this store. We have some great Customers, great teammates, and will miss operating in the community."

The WSWS recently spoke to a Shopko employee of more than two decades, whose Madison store will close this April. "Twenty-three years of showing up to work on time and in the end I get a two week severance "package" for my loyalty," they noted bitterly.

The employee, who wished to remain anonymous, cited the acquisition of Shopko by Sun Capital Partners in 2005 as a turning point for the company: "After they sold the land, it was only a matter of time."

Sun Capital Partners purchased Shopko for approximately $1.1 billion dollars in 2005, the next year it sold most of the real estate to Spirit Reality for $815 million. Spirit in turn began charging rent on the land that had previously been Shopko owned, exacerbating a tenuous fiscal situation that only worsened after the 2008 financial crash. As Shopko was spiraling into debt Spirit granted a $35 million dollar loan to Shopko in 2018. The loan carried with a 12 percent interest rate, resulting in $600,000 quarterly payments.

Sun Capital was founded in 1995 by two former Lehman Brothers investors, Marc Leder and Rodger Krause. Leder is also a co-owner of the Philadelphia 76ers basketball team and the New Jersey Devils hockey team.

Dubbed by tabloids as, "the Hugh Hefner of the Hamptons," Leder is known for hosting extravagant parties for his wealthy friends and embarking on yachting expeditions. The inspiration for Sun Capital, Leder recalled to the *New York Times,* followed a visit to Mitt Romney's private-equity firm, Bain Capital, in 1995. During this visit, Leder recalled a conversation he had overheard between Bain executives complaining over an investment in which they only "doubled" their initial investment.

This epiphany prompted Leder and Krause to get into the parasitic practice of buying businesses, stripping them of any meaningful assets and selling off the carcass for a profit. This destructive process can be extremely profitable for executives at private equity firms such as Sun Capital. In a rush to extract as much profit before discarding the husk, private equity firms often neglect or purposefully shortchange employee pension funds while selling off company assets before declaring bankruptcy.

Before Shopko this year, five other recent purchases by Sun Capital, including the Marsh Supermarket grocery chain have filed for bankruptcy, leaving employees empty handed, while executives collect millions in "consulting fees."

In the case of Marsh Supermarkets, after Sun Capital bought the grocery chain 11 years ago, the firm restructured the employee retirement plans. There were now three separate plans, one for the the top five executives at Marsh, one for warehouse employees and one for store employees.

However, only the executives plan has been fully funded since the sales agreement, with $14 million dollars siphoned from workers to executives including $7 million dollars for CEO Don Marsh. Meanwhile, the pension for store employees, has been underfunded by $32 million and the pension plan for warehouse employees was $55 million underfunded at the time of the bankruptcy. This shortfall will likely leave pensioners with nothing barring a government intervention.

Despite filing for bankruptcy, Shopko still achieved a profit of $45.2 million on $2.7 billion in sales in 2017, and $35.6 million in profit in 2018. While thousands of employees will be left jobless, the company has sought approval for "retention payments" to employees who are "key to the future success" of Shopko. An undisclosed payment was made on November 9 to a small group of "corporate" employees. Additionally, 22 more employees will be paid $280,000, on April 12 as long as the bankruptcy process continues.

As with the leveraged buyout at Sears, Toys R Us and other big box retailers, the "retail apocalypse" is a catastrophe for workers who have toiled in miserable low-wage retail conditions, often neglecting family and friends over the holidays to ensure a "profitable quarter" for the company. In return, after decades of loyal service, they are to be laid off and their pensions raided so that already wealthy executives can reap millions of dollars in stolen bonuses and fees.