

RETAIL

Barneys bankruptcy portends continued struggles for luxury retail

August 7, 2019



Exterior of Barneys New York flagship. Image credit: Barneys New York

By SARAH RAMIREZ

Department store chain Barneys New York's bankruptcy filing this week is the latest warning sign that luxury retailers continue to face uphill challenges when it comes to bricks-and-mortar.

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

Despite a strong economy, luxury department store brands including Saks Fifth Avenue, Lord & Taylor and now Barneys have been forced to reevaluate their physical footprints after slumping sales and rising rents. Luxury retailers are also facing increased competition from ecommerce players and direct-to-consumer brands.

"Big brands have gotten so much stronger and more dominant, and Barneys was never really a part of those," said Robert Burke, founder of consulting firm **Robert Burke Associates**, New York. "It's been harder to make money off the merchandise.

"I don't think Barneys did any particular thing wrong, necessarily," he said. "I think the competition has gotten so much greater because of the online players, who just don't have the overhead that is required for a flagship store."

Mr. Burke is not affiliated with Barneys, but agreed to comment as an industry expert. **Barneys** was reached for comment.

Retail stores stumble

On Aug. 6, Barneys opted to file for Chapter 11 bankruptcy in an effort to reorganize its business for a sale.

Amid the ongoing sale process, Barneys has secured \$75 million in additional capital, which it says will help it meet its financial obligations when combined with its operating cash flow.

"Like many in our industry, Barneys New York's financial position has been dramatically impacted by the challenging retail environment and rent structures that are excessively high relative to market demand," said Daniella Vitale, CEO/president of Barneys New York, in a statement.

[View this post on Instagram](#)

Trends come and go, but institutions are timeless.

A post shared by Barneys New York (@barneysny) on Aug 6, 2019 at 6:18am PDT

Instagram post from Barneys after the retailer announced its bankruptcy filing

Barneys will be closing its stores in Chicago, Las Vegas, Seattle and elsewhere. The retailer will continue to have physical flagships in New York on Madison Avenue and downtown, Beverly Hills, CA and Copley Place in Boston ([see story](#)).

"It's not [Barneys'] first bankruptcy," Mr. Burke said. "Maybe this will be a chance for them to regroup, as painful as it is, and look at what size format really does make sense for them from a retail standpoint."

One of the retailer's biggest stresses is the exceptionally high rent for its flagship store on Madison Avenue in New York ([see story](#)).

In 2018, Barneys was slammed when the rent for another 10-year lease of its Madison Avenue property doubled. Earlier that year, Barneys shut down its Upper West Side location after 10 years of operation ([see story](#)).

Retail group Hudson's Bay Company, owner of Saks Fifth Avenue and Lord & Taylor, has also faced challenges relating to rent and commercial real estate, particularly in Manhattan.

This January, Saks Fifth Avenue closed its 86,000-square-foot department store for women in the swanky Lower Manhattan Brookfield Place mall ([see story](#)). HBC is also cutting down on the number of bricks-and-mortar stores for the retailer's off-price brand, Saks Off 5th ([see story](#)).

These cost-cutting efforts did not impact Saks' flagship Fifth Avenue location, which is owned by HBC.

In February, HBC completed its sale of Lord & Taylor's Fifth Avenue building, which is being converted into a community workspace. The sale eliminated HBC's \$520 million mortgage for the building ([see story](#)).

After selling the iconic Lord & Taylor flagship building in New York, HBC is continuing to explore future options for the Lord & Taylor brand, including a possible sale or merger ([see story](#)).

This year also marked the end for iconic New York-based department store Henri Bendel, which closed its doors after 123 years in business. Its flagship building, fitted with iconic windows made of Lalique glass, is now for sale ([see story](#)).



Barneys experimented with tech-forward trends, such as VR. Image credit: Barneys New York

The surge of monobrand stores has also adversely impacted high-end retailers. In New York alone, Madison Avenue is home to boutiques by De Beers, Bottega Veneta, Fendi and Missoni, in addition to Barneys.

"Major brands have all focused on their direct-to-consumer business, whether that's online or building their own stores look at how many brands have built their own stores," Mr. Burke said. "I think this has taken market share from all of the retailers, but particularly Barneys."

Historically, Barneys has also differentiated itself by working with up-and-coming designers. However, the prominence of upscale ecommerce retailers and DTC labels has hampered this strategy, particularly in light of recent real estate woes.

"Barneys has always prided itself on its uniqueness, but as distinctive designer goods have become more available through disintermediation and online retailers, Barneys has become less of an industry disruptor," said Kathleen Fischer, director of marketing at [Boston Retail Partners](#), Boston.

"New York City is generally heralded as the center of the fashion industry in the U.S. the expectations are higher, which makes retail in general more challenging there," she said. "Luxury retail just heightens the expectations."

Way forward?

With much of contemporary physical retail emphasizing one-of-a-kind experiences rather than having a widespread presence, other department stores continue to invest in bricks-and-mortar locations.

Some department store brands are debuting stores in the New York market for the first time.

Neiman Marcus opened its first New York location, a multilevel, 190,000-square-foot outpost, at Hudson Yards this March. Spread over three floors, the Neiman Marcus features hard shops for French labels Chanel and Louis Vuitton, as well as multiple dining spaces ([see story](#)).

This fall, Nordstrom is slated to open a 363,000-square-foot store in the Columbus Circle neighborhood, comprising a mix of four existing, historic buildings and new constructions at the base of Central Park Tower. Positioned nearby to the recently opened men's store, the flagship will mark a key milestone in the Seattle-based company's history ([see story](#)).

Even after Barneys' filing for bankruptcy protection, [The New York Times reports](#) that the retailer remains committed to planned openings in Miami Beach's Bal Harbour Shops and New Jersey's American Dream Mall.

Barneys New York has also tried to ramp up its experimental offerings in recent months, though these moves had little impact on the retailer's bottom line.

During the holiday season, Barneys created an edible experience for shoppers at its Madison Avenue flagship store through a partnership with Alfred Tea ([see story](#)). The retailer also opened a store-within-a-store at its Beverly Hills location devoted to cannabis products, under the cheeky name "The High End" ([see story](#)).

"Barneys continues to have a loyal following," Ms. Fischer said. "Its challenge will be to find new ways to engage those customers in different and interesting ways as it works to overcome bankruptcy and reincarnate itself."

© 2020 Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your [feedback](#) is welcome.