



KEL446

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Steve & Barry's: To Save or Not To Save?

*Fashion isn't a luxury, it's a right.*¹

—Howard Schacter, chief marketing officer, Steve & Barry's

In late August 2008 Jessica Daniels, an associate at private equity firm Bluestone Partners, stepped into her manager's office for an emergency meeting. "They just received a stalking-horse," her manager said, pushing a thin sheaf of articles and financial statements across the desk to her. "The board wants to know if we should bid. The vote will be in three days."

Over the next hour Daniels's manager provided more details on her assignment: evaluating newly bankrupt retailer Steve & Barry's for a possible acquisition by Bluestone. Steve & Barry's had risen from a seller of licensed collegiate gear in the 1980s and 1990s to a popular destination for consumers seeking trendy and celebrity-branded fashions at rock-bottom prices. Located in increasingly larger spaces such as mall sites vacated by major retail players, the company featured high-profile product lines by sports and media stars such as Stephon Marbury, Venus Williams, Sarah Jessica Parker, and Amanda Bynes—all for less than \$10 an item. By 2008 Steve & Barry's had more than 250 stores generating estimated annual sales of more than \$1 billion.

The company's downfall was quick. It had maintained low prices through a variety of cost-cutting measures, including sourcing carefully from overseas manufacturers and judiciously selecting retail locations. But hampered by a weakening economy with ever-tighter credit markets, the company had been forced to file for Chapter 11 bankruptcy in July 2008. In August it received a stalking-horse offer, or first official takeover bid, of \$163 million from Bay Harbour Management.

Now Daniels had to generate a recommendation for Bluestone's board: should the firm make an offer for Steve & Barry's? She knew her analysis would include potential sources of value still held by the bankrupt retailer, including its popular celebrity-branded lines and strong word-of-mouth, as well as factors that had contributed to its fall, including a growth strategy that placed new stores in a wide variety of locations in the United States. Daniels also knew that the board did not want a simple yes-no answer: her manager had emphasized that she would have to back up her recommendation with ample evidence—and whether she recommended acquisition or not, she had to provide suggestions for turning Steve & Barry's around, as the board might choose to bid regardless of her advice.

¹ Maria Puente, "Top Fashion Designers Go Down-Market," *USA Today*, September 25, 2007, http://www.usatoday.com/life/lifestyle/fashion/2007-09-25-fashion-downmarket_N.htm.

Steve & Barry's: The First Twenty Years

Steve Shore and Barry Prevor, childhood friends from New York's Long Island, began making T-shirts in their basements and selling them at flea markets in the early 1980s.² They opened the first Steve & Barry's store near the University of Pennsylvania in 1985, offering licensed collegiate clothing and gear at prices lower than those of campus bookstores.³ In the 1990s Steve & Barry's expanded to include locations near many Big Ten campuses, including Michigan State University, the University of Michigan, the University of Illinois, the University of Wisconsin-Madison, Indiana University, and Purdue University. This initial targeting of the university market worked well for Steve & Barry's and it became known for its university-branded T-shirts, hats, and varsity jackets. In 1998 a Taubman Centers executive visiting the Ann Arbor, Michigan, store suggested that it would be a great addition to the new mall being built in nearby Auburn Hills.⁴ Thus, Steve & Barry's first dramatic venture into the noncampus market came when it opened a 25,000-square-foot store at the Great Lakes Crossing Mall.⁵ This change in location (and corresponding increase in store size) necessitated a change in product lines. Steve & Barry's began selling casual sportswear, including T-shirts with irreverent text and logos, to supplement its stable of university products.

By 2000 Steve & Barry's was aggressively expanding in terms of both number of locations and product lines.⁶ According to industry observers, by offering a steadily increasing variety of middle-quality casual clothing under \$10, Steve & Barry's took "extreme retailing," or the combination of low prices and good value, "to the next level" compared to established retailers in this space such as Target and Old Navy.⁷ The business model was based on careful attention to costs through tactics such as opening stores in downscale malls for lower rents, selecting overseas manufacturers to minimize tariffs, and relying on word-of-mouth advertising.

Consumers seemed to appreciate Steve & Barry's combination of low prices and kitschy stores with retro ad decorations. Supported by a small-business financier and California-based Cathay Bank, the retailer began expanding slowly. But the founders had even greater ambitions: Shore noted that they were determined to transform the business from a "small entrepreneurial mom and pop" to a "world class" retailer; Prevor added, "We don't really see any limit to our domestic growth."⁸

² Divya Watal, "Luring the 10-Buck Crowd," *US News and World Report*, September 11, 2005, <http://www.usnews.com/usnews/biztech/articles/050919/19eeretail.htm>.

³ Eric Wilson, "Is This the World's Cheapest Dress?" *New York Times*, May 1, 2008, <http://www.nytimes.com/2008/05/01/fashion/01STEVE.html>.

⁴ Greta Guest, "Steve & Barry's Retail Revolution: The Price Is Right," *Detroit Free Press*, July 26, 2005, <http://www.brandkeys.com/news/press/072605.DetFreePress.Retail.pdf>.

⁵ Elizabeth Lowe, "Steve & Barry's to Begin Liquidating Stores," *Flint Journal*, November 26, 2008, http://www.mlive.com/burton/index.ssf/2008/11/steve_barrys_to_begin_liquidat.html, and "Steve & Barry's Plans Aggressive Growth," *Sporting Goods Business*, May 1, 2006, <http://www.allbusiness.com/retail-trade/miscellaneous-retail-miscellaneous/4479763-1.html>.

⁶ Internet posting, "Steve & Barry's—U.S. Casual Apparel Pioneer," August 2, 2007, <http://www.insideretailing.com.au/articles-page.aspx?articleType=ArticleView&articleId=944>.

⁷ Watal, "Luring the 10-Buck Crowd."

⁸ Ibid.

High Fashion, Low Costs, Major Growth

In 2006 management sought to remake Steve & Barry's as part of a "full-blown revolution," according to Shore, hoping to sell items comparable to those available at Gap, J. Crew, and other apparel retailers—but each for \$8.98 or less.⁹ The "History" section of the company's Web site laid this idea out in greater detail:

*Steve & Barry's is about change. It's about changing the way that consumers shop for their clothes and changing the way that retailers cater to them. Steve & Barry's is about stripping away the gloss and giving consumers something real. The fact is that great clothing doesn't really have to cost that much. It's a simple idea, but also a big idea—big enough, that is, to turn the industry on its ear. By delivering on our promise to provide premium apparel at impossibly low prices, Steve & Barry's is single-handedly changing the retail landscape. We're busting the model.*¹⁰

Consumers and industry observers were excited about this "democratization of design,"¹¹ though Shore and Prevor were not the first to connect high fashion with low prices—Target's Mossimo and Mizrahi lines and Kohl's collaboration with Vera Wang were already established, among others. Furthermore, the NPD Group noted that although only 25 percent of overall U.S. retail sales in 1975 involved private-label products, 53 percent of those in 2007 did.¹² But Steve & Barry's aimed to achieve this vision on a grander scale, with more and even cheaper products.

Soon Steve & Barry's, headquartered in Port Washington, New York, made good on the promise, becoming "a store that sells stylish celebrity-branded clothes at prices that are absurdly inexpensive, lower than those at Old Navy, H&M, or Forever 21, undercutting even Wal-Mart by as much as half."¹³ See **Exhibit 1** for a price comparison of dresses sold at Steve & Barry's and two competitors. Steve & Barry's had 264 stores by mid-2008, including the "perpetually mobbed" one at the Manhattan Mall in New York City; lines at the registers were often over twenty deep, helping to explain 2007 national sales of about \$1.1 billion and same-store sales growth of about 20 percent between early 2007 and 2008.¹⁴

Product Lines

Steve & Barry's celebrity-branded lines included jean jackets and sundresses from actress Sarah Jessica Parker's Bitten collection; heart-printed hoodies from the Dear collection by teen TV/film star Amanda Bynes; performance wear from tennis star Venus Williams's EleVen collection; a surfing/skating line featuring legendary surfer Laird Hamilton; golf apparel sponsored by up-and-coming pro Bubba Watson; and basketball shoes by New York Knicks star Stephon Marbury. Parker, the star of TV's long-running, trendsetting *Sex and the City* series, noted that she "had never heard of Steve & Barry's," but "loved their manifesto," prompting her

⁹ Wilson, "Is This the World's Cheapest Dress?"

¹⁰ Tony Lisanti, "Steve & Barry's: Another Sign of the Times," *License Magazine*, July 2008, <http://www.licensemag.com/licensemag/Retail/Steve-amp-Barrys-Another-Sign-of-the-Times/ArticleStandard/Article/detail/530870>.

¹¹ Reena Jana, "Steve & Barry's: When Design Can't Save the Day," *BusinessWeek*, July 14, 2008, http://www.businessweek.com/innovate/next/archives/2008/07/steve_barrys_wh.html.

¹² Puente, "Top Fashion Designers Go Down-Market."

¹³ Wilson, "Is This the World's Cheapest Dress?"

¹⁴ Ibid.

to sign on.¹⁵ Celebrities were paid a licensing fee and/or a portion of sales up to 4 percent.¹⁶ See **Exhibit 2** for selected short biographies.

In August 2006, Starbury shoes were the first celebrity style introduced to the stores. Sponsored by Stephon Marbury, the shoes were priced at \$14.98—in stark contrast to the Nike Air Jordan and similar shoes that sold for more than \$100—but delivered comparable style and performance. The product line was named the Footwear News “2006 Launch of the Year.”¹⁷ To offset quality concerns, Marbury even wore the fake-leather shoes on the court. By spring 2007 the Starbury line included more than 200 products, including polo shirts and skateboard shoes.¹⁸ Everything retailed for less than \$15.

Steve & Barry's hoped to partly make up for the low profit margins on these items with high-volume sales. By some estimates, Steve & Barry's had sold more than 10 million pairs of the sneakers by mid-2008. That figure helped explain a notice posted prominently in stores:

*DUE TO LIMITED SUPPLY AND TO BE FAIR TO ALL CUSTOMERS,
STARBURY FOOTWEAR IS LIMITED TO TEN PAIRS PER PERSON, PER DAY*

In June 2007 Steve & Barry's launched Sarah Jessica Parker's Bitten line, and by the end of that year celebrity brands accounted for one-third of all sales, with new celebrity lines still being rolled out.¹⁹ Unfortunately, some celebrity-size issues accompanied the celebrity-branded products. Marbury was a particularly frequent source of problems: in the off-season he had admitted to an extramarital affair with a Knicks intern, and he had to recant his initial defense of football star Michael Vick's dog fighting. More specific to Steve & Barry's, he had complained that Venus Williams's EleVen line should not stand on its own, but rather be part of the Marbury line, like fellow basketball star Ben Wallace's shoes were. “I'm doing sneakers, so she should have been under my line,” he said. “Obviously that didn't happen.”²⁰ The company had no comment. Another controversy surrounding the shoe was generated by Payless Shoes CEO Matthew Rubel, who suggested that the Starbury shoe was a case of Steve & Barry's “knocking off [the Payless] Shaq [shoe] . . . theirs is a lot of hype, and ours is a consistent approach to quality.”²¹

The firm's second major set of offerings included longstanding Steve & Barry's products such as T-shirts with irreverent slogans, vintage ads, and comic-book characters. According to COO Gary Sugarman, the retailer sold “marquee licensed brands that just about everybody on the planet would recognize,” including collegiate brands, Hershey's Chocolates, and General Motors.²² To the consumer, these non-celebrity-branded items were less of a good deal than

¹⁵ Ibid.

¹⁶ Eric Wilson, “Retail Chain Said to Face Bankruptcy,” *New York Times*, July 9, 2008, <http://www.nytimes.com/2008/07/09/business/09shop.html>.

¹⁷ Internet posting, “Steve & Barry's—U.S. Casual Apparel Pioneer,” <http://www.insideretailing.com>.

¹⁸ Rob Walker, “Chicer by the Dozen,” *New York Times*, March 11, 2007, <http://www.nytimes.com/2007/03/11/magazine/11wlnconsumed.t.html>.

¹⁹ Jeffrey McCracken, Peter Lattman, and Kris Hudson, “Retailer's Collapse Hits Mall Owners,” *Wall Street Journal*, July 14, 2008, <http://online.wsj.com/article/SB12159986960249953.html>.

²⁰ Sean Gregory, “Sneaker Cents,” *Time*, November 2, 2007, <http://www.time.com/time/magazine/article/0,9171,1680154,00.html>.

²¹ “Low Tops: Payless Says Steve & Barry's Knocked Off Their Idea,” *Sports Business Daily*, October 30, 2007, <http://www.sportsbusinessdaily.com/article/116130>.

²² Masha Zager, “The Steve & Barry's Strategy,” *Apparel Magazine*, July 1, 2007, <http://tiny.cc/F4LQ6>.

comparable items at other discount retailers. For Steve & Barry's, these items had a much higher profit margin because they involved lower licensing fees. Management believed that the traffic driven by low-priced, low-margin celebrity-branded items would stimulate sales of these higher-margin items, boosting profits.

Keeping Costs Low

As product lines multiplied, Steve & Barry's strove to make the company "the Google of fashion," as the founders suggested, by distributing widely a high-quality product at low prices.²³ According to Sugarman, the retailer "introduced innovations . . . in supply and distribution, and in sourcing . . . they're all things no one has done before."²⁴

MANUFACTURING, OPERATIONS, AND HR

Back in its days in the college sportswear market, Steve & Barry's had sourced its products from more than twenty countries, including the United States, China, India, and Madagascar.²⁵ The firm was adept at a practice known as "tariff engineering," in which the selection of manufacturers to work with, fabrics/materials to use, and even products to carry depended on arcane differences in tariff rates imposed by the United States on various types of imported goods from different countries.²⁶ See **Exhibit 3** for an illustration. Steve & Barry's executive Howard Schacter explained, "We look at 1,000 points along the production line and cut out the fat."²⁷ Steve & Barry's attempted to continue this low-cost approach, even as it extended the product line to include higher-quality goods.

Steve & Barry's also saved on labor costs by recruiting managers among recent college graduates (often with little work experience) from top schools by pointing to the firm's philosophy and products and suggesting that it would eventually go public.²⁸ Once hired, new employees found themselves in a highly cost-conscious environment: management assigned one printer to fifty employees, used old furniture (including items scavenged from the founders' parents' basements), and mandated use of discount hotels such as Motel 6 for travel.

REAL ESTATE

The firm's primary real estate strategy was opening stores in underperforming malls, where it was more likely to secure attractive lease terms such as low rents.²⁹ These incentives also took the form of one-time payments from landlords to Steve & Barry's, including tenant improvement allowances as high as \$80 per square foot; for stores of 100,000 square feet, that meant as much as \$8 million up front in cash. Mall owners who had recently lost large tenants such as Macy's and Mervyn's were more than happy to extend such attractive terms, or "sweetheart deals," to Steve & Barry's.³⁰ According to Prevor, the one-time build-out payments and other terms helped

²³ Wilson, "Is This the World's Cheapest Dress?"

²⁴ Zager, "The Steve & Barry's Strategy."

²⁵ Wilson, "Is This the World's Cheapest Dress?"

²⁶ Watal, "Luring the 10-Buck Crowd."

²⁷ Lisa Everitt, "Steve & Barry's Loses a Little on Every Shirt, But Makes It Up on Volume," *BNET Retail*, June 30, 2008, <http://industry.bnet.com/retail/1000111/steve-barrys-loses-a-little-on-every-shirt-but-makes-it-up-on-volume/?tag=content;col1>.

²⁸ Wilson, "Is This the World's Cheapest Dress?"

²⁹ Ibid.

³⁰ Everitt, "Steve & Barry's Loses a Little on Every Shirt."

to “fuel our growth.”³¹ For example, the allowances awarded to the retailer for tenant improvements in 2006 amounted to \$122.3 million. However, only \$59 million was actually used for its intended purpose. By 2008 Steve & Barry's had received a total of \$380 million in one-time payments from landlords. In 2005 the International Council of Shopping Centers listed Steve & Barry's as one of the top five stores that members wanted in their shopping centers.³² Mall developers often used incentives such as subsidized rent to draw big anchor stores to their location under the theory that traffic to the anchor store would drive up overall mall traffic.³³ One academic study found that 73 percent of anchor stores paid no rent at all to mall developers.³³

Using this expansion strategy, in 2005 Steve & Barry's added 3.5 million square feet of retail space, more than any other mall-based chain, and opened 62 new stores nationwide, reflecting in part Prevor's belief that the U.S. market could support 5,000 Steve & Barry's stores.³⁴ See **Exhibit 4** for the growth in the number of Steve & Barry's stores over time. Steve & Barry's quickly became the anchor store in most malls it inhabited, with stores averaging 60,000 square feet and ranging up to 185,000.³⁵ See **Exhibits 5 and 6** for comparisons of Steve and Barry's with other retailers. However, this extensive expansion required new loans due to insufficient funds from sweetheart deals and profits from existing stores. To make matters worse, the cost of opening new stores increased by nearly \$350,000 in just one year, rising from \$508,000 in 2005 to \$852,000 in 2006.³⁶

Not surprisingly, attractive lease deals were often available at downscale malls in more economically challenged locations. One journalist, for example, became quite uncomfortable upon arriving at a Steve & Barry's with her teenage daughter. She wrote, “the store was located in a run-down enclosed mall, in such questionable surroundings that my 16-year-old daughter and I almost didn't get out of the car.”³⁷ Despite such reports, COO Gary Sugarman maintained that each new venue had proven to be a success. He noted:

*We haven't found a bad location for us. We're largely in shopping malls but have begun to expand into strip malls, lifestyle malls and freestanding locations. We're in the center of Manhattan, we're in Peoria, in Allentown, in Los Angeles—big markets, small markets, urban and rural markets—and we've succeeded in every one.*³⁸

MARKETING

Steve & Barry's maintained only a small, Manhattan-based PR office and relied almost exclusively on word-of-mouth advertising. Part of this tactic was the idea of letting the celebrity designers generate buzz for their products, which they did. “It's a step above the best,” Venus Williams said about the EleVen line.³⁹ And Sarah Jessica Parker appeared on the *Today* show to

³¹ Ibid.

³² Guest, “Steve & Barry's Retail Revolution.”

³³ Eric D. Gould, B. Peter Pashigian, and Canice J. Prendergast, “Contracts, Externalities, and Incentives in Shopping Malls,” *The Review of Economics and Statistics* 87, no. 3 (August 2005): 411–422.

³⁴ Jeffrey McCracken and Peter Lattman, “Steve & Barry's to File for Chapter 11,” *Wall Street Journal*, July 9, 2008, <http://online.wsj.com/article/SB121556183997437589.html>.

³⁵ Zager, “The Steve & Barry's Strategy.”

³⁶ McCracken, Lattman, and Hudson, “Retailer's Collapse Hits Mall Owners.”

³⁷ Connie Robbins Gentry, “Retailers Becoming Suppliers,” *Chain Store Age*, August 1, 2008, <http://www.prescient.com/news/InTheNews/Default.aspx?id=550>.

³⁸ Zager, “The Steve & Barry's Strategy.”

³⁹ Gregory, “Sneaker Cents.”

announce the Bitten clothing line at a Manhattan Steve & Barry's store.⁴⁰ In addition to wearing his own shoes on the court, Stephon Marbury promoted his products from a corporate responsibility angle. At the press conference launching his product line, Marbury said, "Steve & Barry's and I want to tell people all over the country that the game is over; being cool isn't about a price tag. Cool is about being a responsible person, taking care of your family, and spreading love to the world in whatever way you can."⁴¹ He also appeared on the HBO show *Real Sports* in 2007 emphasizing that his inspiration for the low prices was the absurdity of the fact that inner-city kids were being robbed or even killed for their \$100-plus sneakers.⁴²

Other sources of publicity included the *Oprah Winfrey* show and YouTube, which featured videos covering a range of topics, from Amanda Bynes's and Venus Williams's appearances at Steve & Barry's stores to business students' presentations on the retailer.

Steve & Barry's maintained no Internet retail site and thus relied solely on sales from its brick-and-mortar stores. Marketing efforts for non-branded private-label items attempted to draw people into the stores by including in-store sweepstakes to send prize winners to see movies such as *You, Me and Dupree*, along with T-shirts featuring themes and images from the movies. According to Steve & Barry's executive Howard Schacter, the campaign reflected the company's increased focus on entertaining its customers: "We're able to bring a hot . . . property like *You, Me and Dupree* and the actors in it into our stores. We want to add more value to shopping at Steve & Barry's."⁴³

Stumbling on the Runway

A warning sign of challenges ahead for Steve & Barry's came in summer 2007, when the retailer increased its average product price by five dollars. The resulting drop in sales forced Steve & Barry's to set prices even lower than its initial levels.⁴⁴ Later, as the economy slumped and the availability of credit diminished, many of Steve & Barry's landlords could no longer issue the promised one-time allowances in a timely manner. Some even failed to deliver them altogether. To compound these issues, the price of cotton jumped from about \$0.48 to \$0.80 per pound, driving a parallel increase in the cost of manufacturing the apparel.⁴⁵ Furthermore, deteriorating exchange rates among the United States, China, and India—with the U.S. dollar dropping from early 2006 to mid-2008 by 15 percent in value compared to the Chinese yuan and by 13 percent compared to the Indian rupee—significantly affected the cost structure in place with two of Steve & Barry's biggest suppliers, which were based in these countries.⁴⁶

⁴⁰ Jeffrey McCracken and Peter Lattman, "Steve & Barry's Hits Trouble," *Wall Street Journal*, June 26, 2008, <http://online.wsj.com/article/SB121444909622806127.html>.

⁴¹ Rodrick Rainey, "Stephon Marbury Going on Tour with Starbury Sneakers," *SoJones*, September 10, 2006, http://www.sojones.com/news/sept_9_stephon-marbury_going_on_tour_with_starbury-sneakers.

⁴² "Marbury's Starburys," *Real Sports* Episode 121, April 16, 2007, <http://www.hbo.com/realsports/stories/2007/episode.121.s1.html>.

⁴³ Amy Johannes, "Steve & Barry's Inks Partnership with Universal Movie," *Promo*, July 10, 2006, http://promomagazine.com/contests/steve_barry_universal_071006.

⁴⁴ McCracken, Lattman, and Hudson, "Retailer's Collapse Hits Mall Owners."

⁴⁵ "Cotton Monthly Price, November 2003–October 2008," November 20, 2008, <http://www.indexmundi.com/commodities/?commodity=cotton&months=60>.

⁴⁶ "FXHistory: Historical Currency Exchange Rates," November 20, 2008, <http://www.oanda.com/convert/fxhistory>.

On the manufacturing and operations fronts, Steve & Barry's had struggled to adapt its cost-minimizing model to its new high-fashion lines. Previously, when the retailer had focused exclusively on college-related products, it had been able to take advantage of suppliers' excess capacity and downtime, partly because such offerings were less subject to seasonality and other trends than celebrity-endorsed clothing. These sorts of supply contracts became less workable as Steve & Barry's began selling more celebrity-branded and "fashion" items. The retailer also struggled with logistics, especially getting the right product mix into stores based on geography and demographic factors. Incidents such as campus stores receiving T-shirts for the wrong school or packing up a crate of unsold inventory only to have a new shipment of that same inventory arrive the next day began occurring more frequently. See **Exhibit 7** for an example of a store's layout. In its expansionary zeal, Steve & Barry's had not invested in sophisticated IT tools that could prevent these problems.

Based on this convergence of issues, despite operating more than 250 stores and achieving sales just over \$1 billion, in early 2008 Steve & Barry's defaulted on a loan made by GE's commercial lending unit and was reportedly struggling to secure other financing.⁴⁷ The GE credit, estimated at \$200 million, was expected to be covered by any reorganization. Recovery of investment was viewed as much less likely for TA Associates, a Boston-based private equity firm that had invested \$320 million in Steve & Barry's in 2006.⁴⁸ Similarly, mall owners such as Westfield Group and Glimcher Realty Trust, which had extended Steve & Barry's highly attractive terms to take over large spaces, faced major losses, as the retailer had used much of their investment, including one-time payments, to open new stores or offset losses on apparel sales.⁴⁹

Steve & Barry's management held discussions in summer 2008 with Sears and its Kmart unit about bailing the company out or acquiring some of its labels. "Steve & Barry's merchandise might actually excite the Kmart customer, but it could be very complicated to do this without paying GE a lot of money," said the chairman of a retail consulting firm.⁵⁰ These talks were complicated by the fact that Steve & Barry's generally did not own the celebrities' brands, only licensed their names, which allowed Parker, Marbury, and others to retain some control. In the end, Kmart was not interested in acquiring the labels.

By July 2008, facing a weakened economy and scarce credit, Steve & Barry's was preparing to close more than one hundred stores and file for bankruptcy. The retailer had retained Goldman Sachs Group to help secure about \$40 million in debtor-in-possession financing for bankruptcy protection,⁵¹ had hired Conway, Del Genio, Gries, & Co, the restructuring specialist serving Sharper Image and Linens n' Things (both of which had gone bankrupt by then),⁵² and planned to cut about 170 corporate and field staff positions.⁵³ But many more, if not all, of Steve & Barry's estimated 17,000 employees risked losing their jobs.⁵⁴

⁴⁷ Wilson, "Retail Chain Said to Face Bankruptcy."

⁴⁸ McCracken and Lattman, "Steve & Barry's to File for Chapter 11."

⁴⁹ McCracken and Lattman, "Steve & Barry's Hits Trouble."

⁵⁰ Wilson, "Retail Chain Said to Face Bankruptcy."

⁵¹ "Steve & Barry's Said to Prepare Liquidation Plans," *New York Times*, July 1, 2008, <http://dealbook.blogs.nytimes.com/2008/07/01/steve-barrys-said-to-prepare-liquidation-plans>.

⁵² McCracken and Lattman, "Steve & Barry's Hits Trouble."

⁵³ Andria Cheng, "Steve & Barry's Files for Chapter 11, To Explore Sale of Company," *MarketWatch*, July 9, 2008, http://www.marketwatch.com/story/steve-barrys-files-chapter-11-to-explore-sale-of-company?dist=msr_14.

⁵⁴ McCracken and Lattman, "Steve & Barry's to File for Chapter 11."

To make matters worse, Steve & Barry's had been delaying payments for months—or failing to make them altogether—to small U.S. vendors and overseas apparel makers. For example, the retailer was the largest advertiser for *The Michigan Daily*, the University of Michigan's student newspaper, for the 2006–07 school year, but owed the paper more than \$20,000 by June 2008 and had been barred from advertising in it.⁵⁵ And eight-person Ottmans Services, which had installed fixtures and shelves for about forty Steve & Barry's stores, was owed more than \$20,000 for past work.⁵⁶

By August 2008 Steve & Barry's had filed for Chapter 11 bankruptcy in Manhattan and received a stalking-horse offer, or first official takeover bid (which sets the minimum price for a company's sale in bankruptcy), of \$163 million from Bay Harbour Management. Bay Harbour planned to operate Steve & Barry's as a going concern. If the retailer failed to renegotiate its leases, among other requirements, a liquidator was set to sell off its assets.⁵⁷

Saving Steve & Barry's?

As Jessica Daniels began her analysis, she realized how complicated the decision would be. While it was tempting to write off Steve & Barry's vision as an overly ambitious one fueled by sweetheart lease deals and media hype, it was clear that Shore and Prevor had identified a strong consumer trend toward more affordable branded fashion—the “democratization of design.” Wal-Mart and others had already charted this territory with success. At the same time, ongoing challenges posed by a rapidly weakening global economy and credit market suggested, in contrast to Bluestone rival Bay Harbour's ostensible belief, that Steve & Barry's original business model might be unsustainable.

But could better execution of the business model, which still featured strong brands and consumer interest, deliver profitability?

Steeling herself for three long days of analysis, Daniels began her search for information to analyze and supplement the documents her manager had provided.

⁵⁵ McCracken and Lattman, “Steve & Barry's Hits Trouble.”

⁵⁶ Ibid.

⁵⁷ “Steve & Barry's Agrees to Stalking-Horse Bid,” *New York Times*, August 4, 2008, <http://dealbook.blogs.nytimes.com/2008/08/04/steve-barrys-agrees-to-stalking-horse-bid>.

Exhibit 1: Price Comparison for Dresses Sold at Steve & Barry's and Competing Retailers



This dress, designed by Sarah Jessica Parker, sold for \$8.98 at Steve & Barry's.



In contrast, the cheapest non-designer similar dress was \$24.99 at Target . . .



. . . and \$58.00 at the Gap.

Exhibit 2: Short Biographies of Sarah Jessica Parker and Stephon Marbury

SARAH JESSICA PARKER

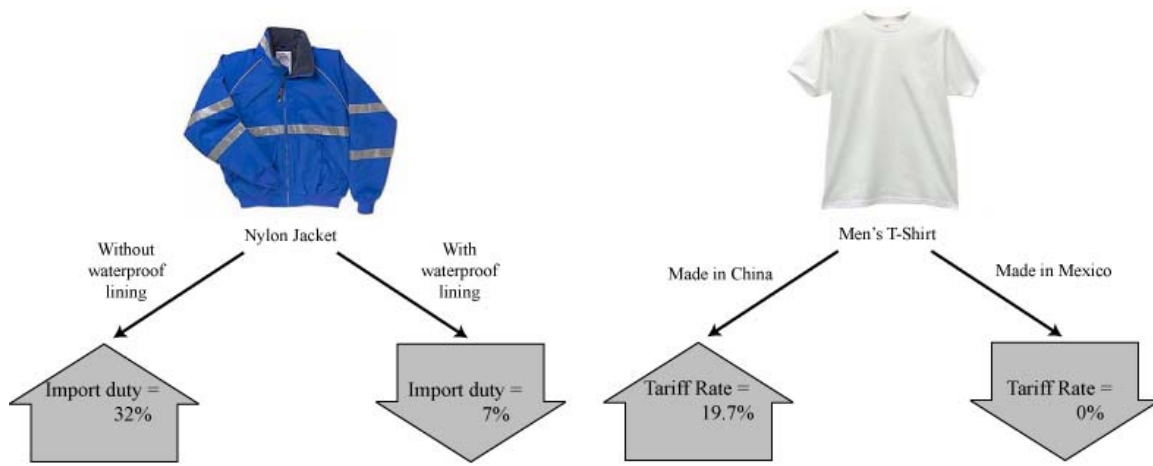
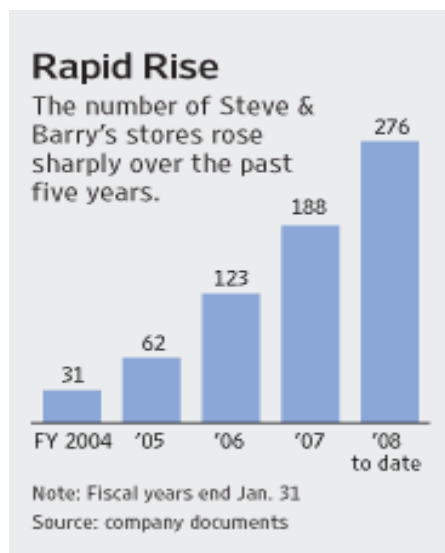
- Born in Ohio in 1965 and began acting at a young age.
- Appeared in numerous television shows and movies in the 1980s and 1990s, including *L.A. Story*, *Honeymoon in Vegas*, and *Miami Rhapsody*.
- Breakout role was “Carrie Bradshaw” in HBO’s *Sex and the City* in the early 2000s, winning her numerous awards and transforming her from an actress into a star and fashion icon.



STEPHON MARBURY

- Born in Brooklyn, New York, in 1977; was the fourth overall pick in the 1996 NBA Draft.
- Played point guard for the Minnesota Timberwolves, New Jersey Nets, Phoenix Suns, New York Knicks, and Boston Celtics.
- Was an NBA All-Star in 2000 and 2003.



Exhibit 3: Tariff Engineering Illustration**Exhibit 4: Growth in Number of Steve & Barry's Stores**

Source: Jeffrey McCracken, Peter Lattman, and Kris Hudson, "Retailer's Collapse Hits Mall Owners," *Wall Street Journal*, July 14, 2008, <http://online.wsj.com/article/SB121599986960249953.html>.

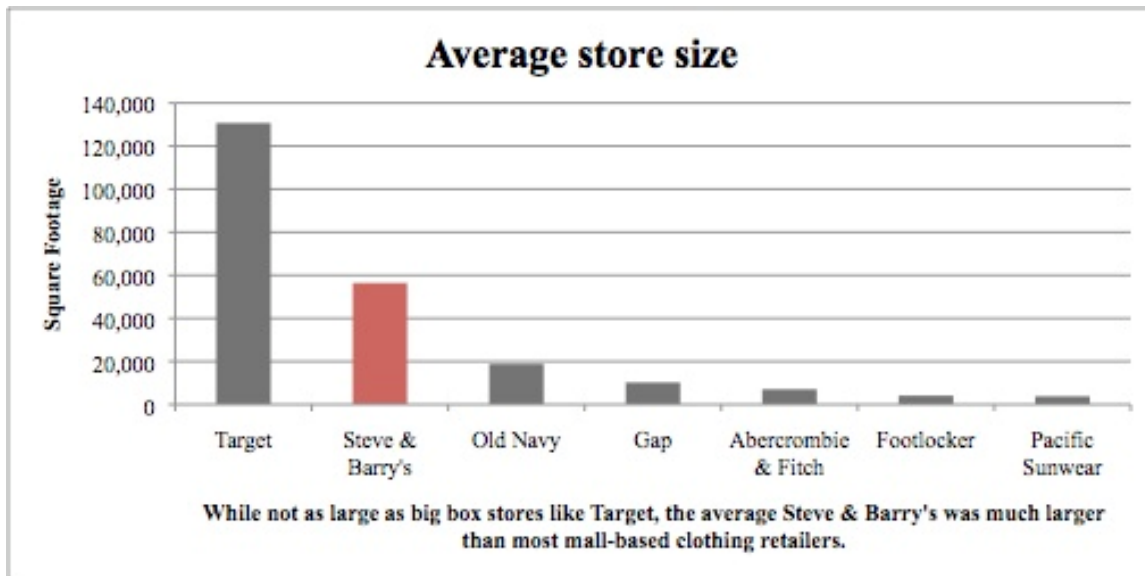
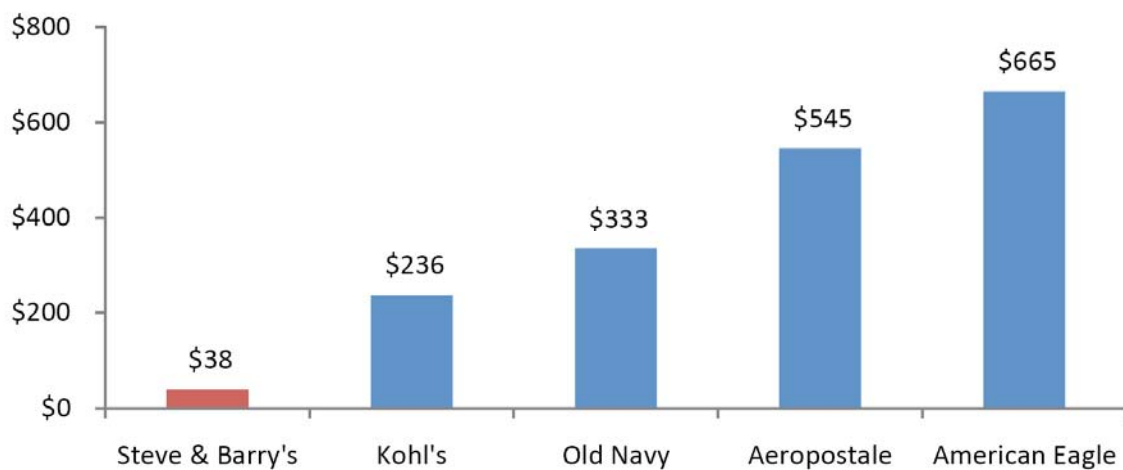
Exhibit 5: Steve & Barry's Average Store Size vs. Other Retailers'**Exhibit 6:** Steve & Barry's Average Revenue per Square Foot vs. Other Retailers'

Exhibit 7: Products and Displays at a Steve & Barry's Location

