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Bed Bath & Beyond was a retail pioneer. Here's what went wrong

By Nathaniel Meyersohn, CNN

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New YorkCNN — Bed Bath & Beyond, America's quintessential home furnishings' chain, is fighting to stay in business.

The company has avoided a bankruptcy filing for now by completing a complex stock offering that will give it an immediate injection of $225 million in funds and a pledge for $800 million in the future to pay down its current debt load.

Bed Bath & Beyond is also shrinking to save money. The company said it plans to close around 400 of its roughly 760 Bed Bath & Beyond stores. It will keep open its most profitable stores in key markets.

The moves are a lifeline for Bed Bath & Beyond. They will give the company time to pursue a turnaround without a bankruptcy filing, which can be costly, out of its control and wind up in a liquidation.

"They are essentially doing a reorganization outside of bankruptcy court," said Daniel Gielchinsky, an attorney at DGIM Law specializing in bankruptcy. "Slow the cash burn is the name of the game for the next 6 to 12 months and allow the company to pivot into a profitable position."

It will be a complicated turnaround and the company's future remains uncertain. If Bed Bath & Beyond comes up short in the current version of its turnaround plan, the likelihood of a liquidation increases.

Here's how Bed Bath & Beyond, once a retailer pioneer, veered to the edge of bankruptcy and where it turns next.

Superstore era

Bed Bath & Beyond had been a crown jewel of the era of so-called "category killers": chains that dominated a category of retail, such as Toys "R" Us, Circuit City and Sports Authority. Those companies, too, ultimately filed for bankruptcy.

Bed Bath & Beyond became known for pots and pans, towels and bedding stacked from the floor to the ceilings at its cavernous stores — and for its ubiquitous 20%-off coupons. The blue-and-white coupons became something of a pop culture symbol, and millions of Americans wound up stashing them away in their cars, closets and basements.

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The retailer attracted a broad range of customers by selling name brands at cut-rate prices. Brands coveted a spot on Bed Bath & Beyond's shelves, knowing it would lead to big sales. Plus, the open-store layout encouraged impulse buying: Shoppers would come in to buy new dishes and walk out with pillows, towels and other items.

Stores were a fixture for shoppers around the winter holidays and during the back-to-school and college seasons, and Bed Bath & Beyond also had a strong baby and wedding registry business.

Founded in 1971 by two veterans of discount retail in Springfield, New Jersey, the chain of small linen and bath stores — then called Bed 'n Bath — first grew around the northeast and in California selling designer bedding, a new trend at the time. Unlike department stores, it didn't rely on sales events to draw customers.

“We had witnessed the department store shakeout and knew that specialty stores were going to be the next wave of retailing,” co-founder Leonard Feinstein reportedly said in 1993. “It was the beginning of the designer approach to linens and housewares and we saw a real window of opportunity.”

In 1987, the company changed its name to Bed Bath & Beyond to reflect its expanded merchandise and bigger “superstores.” The company went public in 1992 with 38 stores and around $200 million in sales.

By 2000, those figures leaped to 241 stores and $1.1 billion in sales. The 1,000th Bed Bath & Beyond store opened in 2009, when the chain had reached $7.8 billion in sales.

The company was something of an iconoclast. It spent little on advertising, relying instead on print coupons distributed in weekly newspapers to attract customers.

“Why not just tell the customer that we’ll give you a discount on the item you want — and not the one that we want to put on sale? We’ll mail a coupon, and it will be a lot cheaper,” Bed Bath & Beyond co-founder Warren Eisenberg, now 92, said in a 2020 New York Times interview.

The chain was known for giving autonomy to store managers to decide which products to stock, allowing them to customize their individual stores, and for shipping products directly to stores instead of a central warehouse.

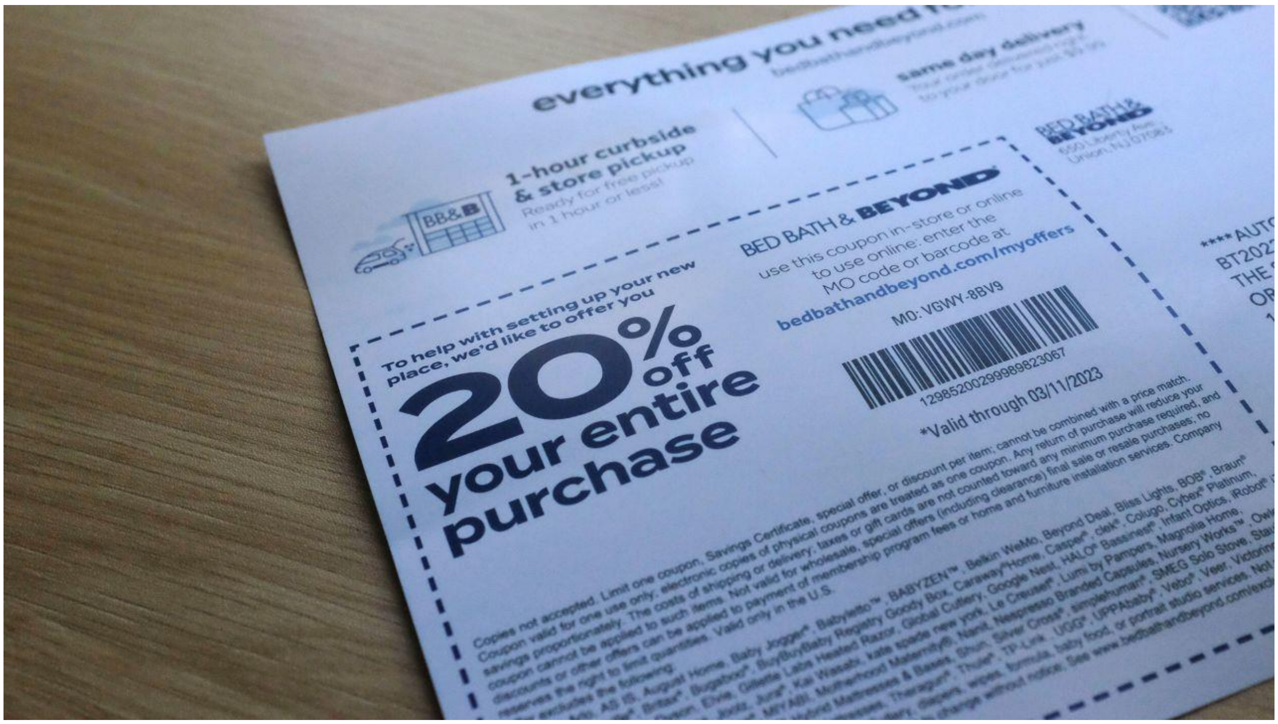
The rise of e-commerce

But as brick-and-mortar began to give way to e-commerce, Bed Bath & Beyond was slow to make the transition — a misstep compounded by the fact that home decor is one of the most commonly bought categories online.

“We missed the boat on the internet,” Eisenberg said in a recent Wall Street Journal interview.

Online shopping weakened the allure of Bed Bath & Beyond's fan-favorite coupons, too, because consumers could find plenty of cheaper alternatives on Amazon or browse a wider selection on sites like Wayfair (W).

It wasn't just Amazon and online shopping that sank Bed Bath & Beyond, however.



Walmart (WMT), Target (TGT) and Costco (COST) have grown over the past decade, and they have been able to draw Bed Bath & Beyond customers with lower prices and a wider array of merchandise. Discount chains such as HomeGoods and TJ Maxx and have also undercut Bed Bath & Beyond's prices.

Without the differentiators of the lowest prices or widest selection, Bed Bath & Beyond's sales stagnated from 2012 to 2019.

The company was hit hard during the pandemic, closing stores temporarily during 2020 while rivals remained open. Sales sunk 17% in 2020 and 15% in 2021.

What's more, Bed Bath & Beyond has rotated through several different executives and turnaround strategies in recent years.

Former Target executive Mark Tritton took the helm in 2019 with backing from investors and a bold new strategy. He scaled back coupons and inventory from national brands in favor of Bed Bath & Beyond's own private-label brands.

But this change alienated customers who were loyal to big brands. The company also fell behind on payments to vendors and stores did not have enough merchandise to stock shelves. Tritton left as CEO in 2022.

As of late November the company had 949 stores, including 762 Bed Bath & Beyond stores and 137 buybuyBaby stores.

It said Tuesday that it will ultimately have about half that number – 360 Bed Bath & Beyond stores and 120 buybuyBaby locations.

What's next?

Bed Bath & Beyond will close stores that drain the most cash out of its business.

But the closures will mean Bed Bath & Beyond will give up on stores that brought in $1.2 billion in annual sales, Michael Lasser, an analyst at UBS, said in a note to clients Tuesday. Bed Bath & Beyond will recapture a portion of those sales from its other stores and online, Lasser said, but the majority will go to other retailers.

But, to survive, the company needs to grow sales at its remaining stores. Otherwise, too much of Bed Bath & Beyond's revenue will go toward repaying debt that it won't be able to turn a profit.

Reversing sales declines won't be easy given challenges with waning customer demand, online traffic and rising competition in Bed Bath & Beyond product categories, Lasser said. Bed Bath & Beyond will have to overcome its significant hurdles to become a healthy, profitable company.

Bankruptcy lawyer Daniel Gielchinsky, however, said it was an encouraging sign that Bed Bath & Beyond was able to raise enough cash through a public offering to stay afloat. The offering was reportedly backed by investment firm Hudson Bay Capital. (Hudson Bay did not respond to a CNN Business request for comment.)

Still, liquidators will be watching closely, he said, eager to pounce.

“They are assuredly waiting on the sidelines to dismantle the company at the ready.”

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