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Bed Bath and Beyond Begone

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Abstract

This case study examines the rise and fall of a successful U.S. retail chain. After humble beginnings in 1971, Bed Bath and Beyond (BBBY) grew to an enormous entity operating in all 50 states (as well as Puerto Rico, Washington DC, and Canada). Beginning in 2016, things began to change, and the firm entered a rapid decline and ultimate bankruptcy and failure in 2023. Although the failure occurred during a period of significant changes fostered by the COVID-19 pandemic, other factors at play led to the rapid decline of the company. This case study examines the impact of poor management decisions, inadequate strategic planning and forecasting, and deficient supply chain management on the failure of a retail icon.

Keywords: Activist Investor, Bankruptcy, Competition, Market Share, Restructuring, Superstore Failure

1.1 Case Synopsis

Bed Bath & Beyond's purpose was to provide a wide selection of items and superior service at everyday low prices within a constantly evolving shopping environment that is both fun and exciting for customers (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.)

The company established over 1,500 stores that sold such domestic merchandise as bed linens, bath accessories, etc. Bed Bath & Beyond always wanted to be big or at least perceived in such terms. By the mid-1980s, Bed Bath & Beyond was a forerunner concerning the idea of superstores geared toward low prices. These stores were large in scale and were able to offer several hundred thousand items at a time (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

Based on the strength of the superstore concept, BBBY expanded rapidly in the 1990s and grew at a rapid pace into the new millennium resulting in eight consecutive years of top earnings in 2000.

A few key dates in its 50+ year history (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.):

1971: Feinstein and Eisenberg established Bed 'n Bath. (Leonard Feinstein and Warren Eisenberg. Both men possessed over a decade of retail experience in 1971 when they formed Bed `n Bath, a small chain of specialty linen and bath shops in suburban New York)
1985: Seventeen stores operate in New York, New Jersey, Connecticut, and California, and the first superstore was opened.

1987: The company's name was changed to Bed Bath & Beyond.
1991: Sales reach $134 million, generating earnings of $10.4 million
1992: The firm goes public.
1993: Shares traded around $32 with the company announcing record sales for the year:
$216.7 million in sales, with earnings of $15.9 million.
2002: BBBY started a series of major acquisitions through 2007, including Buy Buy Baby.
2014: The company starts an aggressive purchase of its stock to bolster its value
2016: Started a series of organizational restructuring
2019: First negative earnings reports; forced replacement of long-time CEO, Steven Tamares; Three CEOs between 2019 and 2023.
2020: Migration from decentralized purchasing and distribution to centralized distribution.
2023: Filed for bankruptcy and acquired by Overstock for $21.5 million

1.2 Unique Marketing and Advertising Approach

Important tactics were to build word-of-mouth by advertising through a unique combination of family atmosphere and attentive customer service. Management and sales personnel worked together to arrange displays, helping shoppers carry products, and otherwise making themselves useful. Feinstein and Eisenberg would gather on the floor on Saturday, to 'tidy merchandise and ... pick up bits of litter.' Waiting time at check-out for customers was reduced by increasing the number of cash registers. The company also implemented a policy for any of its stores that were out of a desired product: Bed Bath & Beyond would procure the product and deliver it to the customer's home, free of charge. This strategy enabled Bed Bath & Beyond to keep paid advertising to a minimum. The company would saturate a market with advertising when a new store opened, then successfully relied on word-of-mouth to keep customers coming in (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

An important part of Bed Bath & Beyond's success was its merchandise layout. Related product lines were grouped, giving the impression that the store was made up of several individual specialty stores or different product lines. To encourage customer impulse buying of seasonal products, and other impulse items were arranged in the front of the store. Farther back, products were grouped on enormous vertical displays that reached the ceiling. Such arrangements were designed to make it easier for customers to find products and also to reinforce the perception that Bed Bath & Beyond offered an enormous assortment of goods (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

Feinstein and Eisenberg took an unusual hands-off approach to management. Bed Bath & Beyond employed no vice presidents. Instead, store managers were given the autonomy to cut prices to meet local competition or to try innovative marketing plans with the consent of the district manager. Within each store, new departments could be created, and existing departments could be expanded or reduced as needed to respond to marketing trends (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

This decentralization approach permeated all aspects of BBBY’s management. The company did not maintain central warehouses. Goods were delivered directly to its stores, where they either entered on-site into inventory storage areas or sent directly to the floor. The results were a reduction in inventory costs, providing store managers with greater control over the flow of goods through the store, and improved response to customer needs.

1.3 Expanded Product Lines

BBBY decided to broaden its product lines in the 1990s. Initially, the company began to add small electric appliances such as coffee makers, hair dryers, toaster ovens, and vacuum cleaners. BBBY followed this foray with providing other home accessories like gourmet foods, clocks, and lamps. This further broadened its customer base and fortified the chain's edge in the retail market (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

These management strategies permeated the company and were the bedrock for Bed Bath & Beyond to record one of the retail trade's strongest return-on-sales during the early 1990s. Out of every $100 in sales, Bed Bath & Beyond retained $7.36.

The company's growth grew exponentially in the early 1990s, because of its ability to tap into hot local marketing trends (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

1.4 Extraordinary Expansion in the 2000s

Starting in 2002, the firm went on a buying spree. It acquired Harmon Discount Health & Beauty, later renamed Harmon Face Values. In 2007, they acquired Buy Buy Baby, a chain of baby supply stores founded by Feinstein's sons, and began international expansion, opening their first Canadian store in Ontario. In 2012, BBBY acquired Cost Plus and World Market for $495. In 2016, the company acquired One Kings Lane, a luxury furniture e-commerce retailer; the following year, the company acquired Decorist, an online interior design platform (Wikipedia Contributors)

1.5 Competition Begins to Impact BBBY

In the late 1990s, the proliferation of imitators began to bite. Target, Linens `n Things, and Luxury Linens were among the competitors. Its primary rival, Linens `n Things, began to blatantly imitate BBBY's merchandising format. Linens `n Things is supported by Melville Corp., which is a large conglomerate with sophisticated inventory applications. These applications far outstripped Bed Bath & Beyond's and provide Linens `n Things with an integrated computer system, which has a significant advantage over Bed Bath & Beyond in the inventory management area. Other competitors, Luxury Linens and Pacific Linens also posed a threat to Bed Bath & Beyond's attempts to venture into new markets (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

These rivals plus total online venues such as Amazon began to adversely affect sales growth and profitability. Although BBBY acquired online-based companies such as Decorist, Personalization Mall, and One King Lane, BBBY's core business was vulnerable to lower-priced competitors, especially in the e-commerce arena.

From 2019 to March of 2023, Amazon, Wayfair, Walmart, and Target each gained 1% in market share, while BBBY lost 4% (Atuan, 2024)

1.6 Financial Storm Clouds

Going into 2016, the company's sheer size of several of its stores began to take its toll. Its net earnings as a percentage of retail square footage dropped from 2.2% in 2015 to 1.94% in 2016 (Team, 2023).

1.7 BBBY's Responses to Declining Earnings and Profit Margins

- Installation of New Inventory Systems
  BBBY responded by investing in new inventory tracking systems for all of their stores in part to assist managers to effectively track inventory along with sales and other functional areas of the organization.
- Marketing
  Discontinued the use of discount coupons in 2019. In 2020, the CEO, Mark Tritton, dropped much of the brand name products and substituted private labels to appeal to a younger customer base.
- Organizational Restructure
  Starting in 2016, the company went through several reorganizations that included removing bureaucratic waste to better modernize the organization along with changes to its organizational structure. This would hopefully allow the firm to do what it does best.
  The company spent $103 million in 2019 on restructuring charges. Between 2019 and 2023, BBBY had three CEOs, permanent and interim. In 2019, investor, Ryan Cohen, forced a restructuring of the board, and removal of the CEO of 16 years, Steven Tamares, replaced with Mark Tritton, former CEO of Target (Kapner).
- Stock Repurchase Program

From the mid-2000s until the mid-2010s, BBBY engaged in stock repurchase initiatives resulting in several billion dollars. However, this resulted in a strain concerning cash reserves (Kavilanz, 2023).

Furthermore, Feinstein, Eisenberg, and members of their respective families sold almost five million shares of the firm in 2000. Although the founders remained a driving force in the company, they were stepping back from day-to-day operations (Bed Bath & Beyond Inc. - Company Profile, Information, Business Description, History, Background Information on Bed Bath & Beyond Inc., n.d.).

1.8 Rapid Decline from 2020 to 2023

With the decline in foot traffic, increased operating expenses from leased facilities, constant changes in the organization and management focus, disparate product lines, and proliferation of competition, Bed Bath and Beyond never recovered. Total stores' footprint worldwide declined from 43 million square feet in 2015 to 29.9 million square feet in 2021, or a 30% decline (Alda, 2022). Finally, in June 2023, Overstock.com purchased BBBY for $21.5 million. The purchase included BBBY trademarks, and intellectual property along with other assets ("Bed Bath & Beyond - WikiMili, the Best Wikipedia Reader," n.d.)

2.1 WRITING ASSIGNMENTS

Students are asked to review the following questions relative to the case; conduct research into third-party resources as they apply to the question and prepare a response that provides an analysis and a conclusion.

1. What are some of the typical management mistakes that retail firms make?
2. How did the extraordinary expansion in the number and size of stores affect the product offerings, inventory, and customer buying experience? Why and what was the net effect? What role could automation play in assisting BBBY?
3. How did the number and scope of acquisitions affect customer perception of BBBY, management control, marketing, and pricing?
4. What effect did the changes and departure in marketing and product offerings from BBBY's founding philosophy have on the company's sales, market share, and cash flow?
5. Describe the effect the frequent changes in the organization, and particularly the CEO position, have on BBBY. Why did the board initiate these changes?
6. In retrospect, what key steps would you have taken as CEO starting in 2016 to avoid the downward spiral of BBBY?

3.1 PROFESSOR NOTES

Typical Characteristics of Floundering Companies

1. **Excessive Expansion of the Number and Size of Stores**

   The growth in the sheer number of stores in expanding geographical areas created excessive pressure on management and its marketing efforts. Their stores' footprint was larger than most other retail establishments. This led to a visually clustered look and confusing pricing within the stores, with customers abandoning trying to find merchandise.

2. **Rapid Acquisition of Other Companies and Products**

   BBBY acquired at least a half dozen companies in the 1980s and 1990s with expanded product lines, including a broad range of kitchen items and baby clothing, which were beyond the core product lines on which the company was founded.

   This strategy applied further pressure upon store management to control inventory, marketing, and pricing.

3. **Poor Decisions in Marketing and Product Offerings**

   A common mistake of companies in a deteriorating position is to hire so-called professional CEOs from well-regarded rivals. These CEOs apply what worked at their previous employer while ignoring the critical step of listening to their customers through the store managers, giving them what they actually need. It was a drastic oversight and was the final nail in the coffin.

   Until Tritton took over in November 2019, local store managers purchased 70% of their merchandise directly to satisfy local tastes. Tritton reversed their merchandising authority and forced them to discount the branded goods on BBBY's shelves to make way for the private label merchandise, all without asking customers Tritton how they would react to the changes.

   Tritton had managed a successful turnaround at Target. The success was partially a result of stocking its shelves with private label products, which were more profitable than branded ones. Other improvements included enhancing the customers' in-store and online experiences. BBBY's board expected Tritton to accomplish at BBBY what he did at Target.

Continued wishful thinking as late as the second quarter of 2022 by the interim CEO, Sue Gove, and the board of directors expect results from such actions as inventory optimization actions, accelerated markdowns, and a shift in merchandise assortment. Net Sales dropped 28%; gross margin 18.5%, and a negative profit of 256 million.

4. **Deteriorating Cash Position**

BBBY ran through its cash because it decided to enforce a strategy that worked for Tritton at Target, pushing private label products onto a very different group of customers.
In its financial report, for the quarter ending May 2022, it had about $108 million in cash. However, the company estimated that it had expended $325 million in cash as of the third quarter in 2022.

5. **Falling Revenue**

The financial condition got worse. In January 2022, BBBY's banks closed their loan accounts after defaulting on its credit lines. In February, BBBY closed a deal with a hedge fund to raise $225 million and more over the following 10 months as BBBY closed stores and cut costs. In April, the company canceled that arrangement as its stock fell, unable to raise $300 million by selling new shares.

BBBY's revenue dropped 33% in the quarter ending November 2022. Revenue decline occurred because consumers were not buying enough of the merchandise on its shelves.

The drop in sales occurred under Tritton's management. He required BBBY to replace brand names, such as All-Clad cookware, OXO kitchen gadgets, and Mikasa China, with so-called private label goods. When customers saw store brands were replacing what they were looking for, they walked out.

Finally, in June 2022, BBBY's board replaced Tritton, realizing they had miscalculated. They should have crafted a sound turnaround strategy based primarily on Best Buy first listening to employees and customers.

3.2 Bed Bath and Beyond's Future?

BBBY's future lies in the hands of Overstock.

In the June 2023 bankruptcy auction, Overstock.com acquired Bed Bath & Beyond's trademarks, intellectual property, and other assets in a $21.5 million bid. Overstock has publicly announced its intention to rebrand its operations under the Bed Bath & Beyond name after the acquisition closes ("Bed Bath & Beyond - WikiMili, the Best Wikipedia Reader," n.d.)

The acquisition did not include Buy Buy Baby, as bids were still being solicited for a separate sale of the chain, and the retailer's last Canadian stores closed in late April 2023 (Wikipedia Contributors, 2020) Bed Bath and Beyond leased all its locations, so other retail establishments in the US and Canada will likely assume discounted leases at many of these locations.

Table 1

As with most struggling firms, BBBY experienced cash flow issues because they spent more money as opposed to what they should have earned. Net earnings declined from 2014 to 2022. This deterioration reflected reduced foot traffic and an excessively large footprint of their stores.

Fiscal Year	Net Earnings ($ in millions)
2014	$1,023
2015	$ 957
2016	$ 842
2019	$ (148)
2022	$ (256)

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Addendum Questions for Writing Assignment

1. Tritton, the former CEO of Target, benchmarked BBBY from what occurred at Target during his tenure. From this BBBY case, describe why benchmarking may not always be a successful strategic maneuver.
2. Stock buybacks are a familiar practice within publicly traded enterprises. What are the pros and cons of this practice, and did it affect the performance of BBBY and why?
3. Although there has been a decline in terms of the efficacy of big-box stores before and during the COVID-19 pandemic, the money remains with these types of stores, but the growth is in e-commerce. How do you think BBBY could have leveraged the use of e-commerce and modern-day logistics to improve its market position?
4. As a follow-up to the previous question, what are your thoughts regarding BBBY if they had formed a strategic alliance or a joint venture with perhaps some of its rivals such as Amazon or perhaps Walmart in the sense of fostering a sustainable competitive advantage?
5. How has studying the BBBY case prepared you to enter the workforce, and how could you use this case to guide your career?