WHAT HAPPENED TO GYMBOREE?

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ABSTRACT

Why did Gymboree go bankrupt and close their stores? The company had a long history of success and became one of the largest retail stores selling quality children's clothing. Then a merger that added high levels of debt and changing environment adversely affected the company. Could managers have made different decisions in order to save this company? This case discusses the operations of Gymboree and the changing environment that lead to the downfall of the company.

Keywords: Retailing, bankruptcy, thrift shopping, Gymboree

INTRODUCTION

Gymboree Corporation was incorporated in October 1979. By 2016, the company had become one of the largest children's apparel specialty retailers in the United States offering high-quality apparel and accessories for children. The company had three brands and sold clothes through retail stores, outlets, online, and franchises. A total of 1,299 retail stores were spread out in the United States, Canada, and Puerto Rico. Franchisees operated 59 stores in the Middle East, South Korea and Latin America. The company employed 11,999 individuals.

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After two bankruptcies (one of which allowed for debt restructuring), hiring a new CEO who was a turnaround specialist, remodeled stores, development of a mobile app, and a new look to its children's apparel, Gymboree could not be saved. What happened? A review of events suggests a high level of debt and changes in the industry converged to the detriment of Gymboree.

A buyout of Gymboree by Bain Capital LLC in 2010 left the company with over $1 billion of debt. The company was forced to cut costs and by June 2017 the company had to file for bankruptcy in order to restructure its debt [1]. Decreased sales and high operating costs did not help. It is suggested that the apparel lines had grown stale and boring [3].

Some changes in the general environment negatively impacted Gymboree. Customers are buying less at stores in shopping malls and opting to shop at discount clothing stores such as Target, Kohls, Wal-Mart, and Old Navy [3]. Consumers are also doing the majority of their shopping online at efficient companies like Amazon.com, Inc and Ebay.

Resale, or recommerce, or thrift shopping, is also going mainstream. Whether it be offline or online, this industry has been outperforming the overall retail industry. Shoppers are bargain conscious and concerned about the environmental impact of fashion [2].

Could Gymboree executives have made different decisions resulting in a different outcome? Did Bain Capital pay too much for the company in 2010? Could the company have improved its online presence sooner? Should the apparel styles have been changed sooner? Should they have jumped into the thrift shopping industry? How did the company lose loyal customers?

SUGGESTIONS FOR USING THE CASE

Several classes could use the question of how-to turnaround a declining company in a very competitive industry. The case could be used in a strategic planning class, marketing class, or beginning management class.

Learning Objectives

1. Analyze company actions by applying brand management principles.
2. Analyze the macro-environmental forces.
3. Analyze the competitive environment using Porter's Five Forces Analysis.
4. Evaluate the leadership and actions taken.
5. Determine if the management could have done something to save the company.

Suggested Assignment Questions

1. How might companies in this industry segment, target, and position (STP) in order to appeal to older and younger generations?
2. What strategic actions should management have taken to save the company?
3. Prepare an analysis of macro-environmental factors and discuss how they impact the industry using a SWOT analysis
4. Prepare a Porter's Five Forces analysis of the industry.
5. What are appropriate actions a company might take in a slow declining market? Are turnaround strategies workable in this industry?
6. What recommendations would you make to leaders in this industry?

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