

Activist investors sense opportunities in retail—but retailers are fighting back

Article

The trend: Activist investors are butting heads with retailers as they attempt to push through reforms meant to boost stock prices and earnings quickly.

More on this: Grocer **SpartanNash** is the latest retailer to push back against efforts by activist investors to reshape its board and growth strategy, per Grocery Dive.

- One of those investors, **Macellum Advisors**, is also spearheading an effort to force changes at **Kohl's**, which has led the retailer to put itself up for sale.
- **Dollar Tree** agreed to a settlement with investment firm **Mantle Ridge** that would expand the company's board of directors, ending a months-long stalemate, per Reuters.
- **Macy's** CEO **Jeffrey Gennette** **rejected a proposal** to split the company's ecommerce and physical retail business, saying it would be too risky and deliver less value to shareholders.

What do investors want? After the turbulent years of the pandemic, some investors are looking to get concrete returns for their outlay. Others see an opportunity to push retailers to revamp their overall strategy.

- In a letter to Kohl's shareholders, Macellum criticized the board's "material mismanagement of the [company] and inability to create value," arguing that the company's stock performance and growth lag behind those of its peers.
- In response, Kohl's **noted** that operating margins are at a nine-year high, while its **partnership** with **Sephora** is bringing in new shoppers and lifting in-store sales.
- Macellum also displayed concern over SpartanNash's stock price and leadership, arguing that the "poor judgment" of board members has "resulted in the destruction of shareholder capital."

Spinning off: One popular proposal is **turning a retailer's ecommerce business into a standalone entity**, as **Saks Fifth Avenue** did in June 2021.

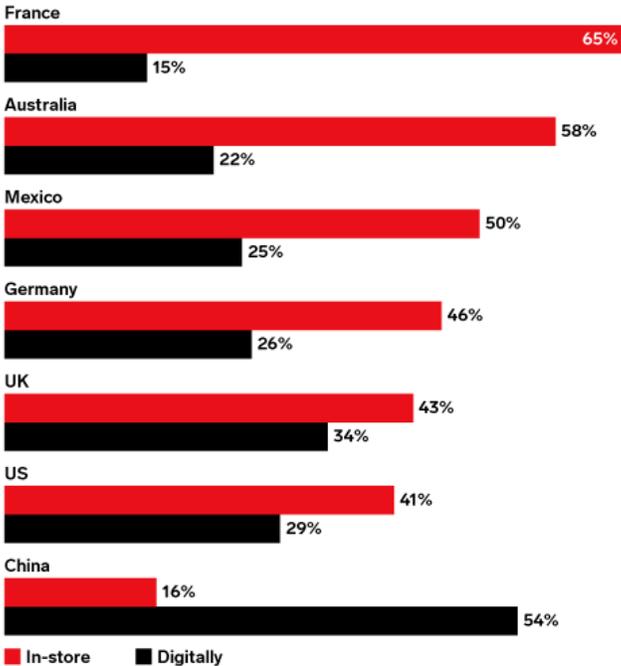
- But as Gennette noted in Macy's Q4 2021 earnings call, there are **significant costs associated with taking this step**, particularly for retailers with multiple brands and a diverse array of customers.
- There are also benefits to an omnichannel business: Retailers can provide seamless customer experiences to drive purchases online and in-store, while leveraging their brick-and-mortar locations as fulfillment centers to speed up delivery of online orders.

The big takeaway: Many activist investors are pushing retailers to prioritize ecommerce over sales from physical stores, but with brick-and-mortar sales **rebounding strongly** in 2021, it seems short-sighted to force retailers to deemphasize that part of their business.

Investors are understandably keen to see profits from their investment—but earnings should not come at the expense of retailers’ long-term sustainability.

Adults in Select Countries Who Prefer to Shop In-Store vs. Digitally, Feb 2022

% of respondents



Note: n=8,208 ages 18+; responses of no preference between digital and in-store shopping were excluded
Source: Morning Consult, "The State of Retail and E-Commerce: Q1 2022," Feb 25, 2022

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