Interview Series: What to expect from the private equity industry in the COVID-19 Crisis

Aliya Sabharwal is Lead Online-to-Field Organizer at United for Respect where she drives comprehensive campaigns to build a national movement of retail workers organizing on the impacts of the financialization of the retail industry. She’s helped scale the Wall Street Accountability program into a multi-employer, national program at UFR, following the first successful campaign at Toys ‘R’ Us that won a $20 million employee fund from private equity owners.

We asked her about what she expects from the industry in the coming weeks and months as the COVID-19 crisis unfolds.

**Ricardo: What has been the role of private equity in the retail space historically and leading up to the crisis?**

**Aliya:** Their role has been couched as "we’re coming into distressed companies and we can re-engineer these companies to make them profitable again." That logic is what contributed to their targeting of the retail sector. All the companies we have worked with, notably, Toys R Us, and also Sears, Kmart, Shopko, Payless, and Gymboree. These were all companies that were having challenges in adapting and staying competitive, but not to the extent that they needed their entire business models to be re-engineered. There were already conversations in the retail sector about how the industry could adapt to e-commerce. How will the industry adapt to Amazon? How will you stay competitive with Walmart? Those conversations have been in play for many years. That’s part of the reason that private equity started to pay attention to retail.

**Ricardo: How is private equity ownership different?**

**Aliya:** When you have worked at a company for several years, you understand ownership to mean: "Oh, the CEO is somebody who owns the company, maybe they even founded the company." One real shift with private equity is that it changes what ownership means. Private equity firms come in and change the culture of the company. They don’t have any real industry specific knowledge because they don’t believe that they need it. That is a really important shift to note, not just for the impact that it has on
the atmosphere in the stores, but because it really says a lot about the changing nature of what ownership means. For example, Toys R Us workers who had joined the company in the 80s watched the company’s shift and change and evolve. Those are some of the people I’ve heard say, my understanding of what it meant to own a company has changed and become nuanced. How can you be the owner of a company like Toys R Us without knowing a thing about what it takes to sell toys?

**Ricardo:** How do the interests of private equity owners diverge from retail stores and retail workers?

**Aliya:** I don't know if it's depressing, or it makes me cynical, but it’s hard realizing that the role of private equity, their measure of success, has no bearing on whether a store remains open or closes. They are extracting profits from the property value of the store so they don’t have an incentive to keep it open. What makes a retail store competitive and what makes it successful is not the same as what drives private equity firms in terms of figures that are going to draw profits for them. That is a link that workers themselves are making. The fact that they’re making that connection is really important, because it makes folks start to pay attention to the ownership of the company, the history of the company, and they can say “this is wrong.” The fact that the owners of the company have no incentive to keep stores open? There’s a problem in that model, right? That’s a flaw. At a certain point, it means that no matter how good you are at your job, no matter how many pieces of furniture or toys or whatever that you sell, no matter if your store is making sales targets and goals, it’s all sort of irrelevant to whether the store will be kept open or not. In fact oftentimes the private equity firms will be shutting down stores that to date have been quite successful. That’s another thing we hear all the time. "Why was my store closed? We were a money making store!" I think that more people are paying attention, especially since Toys R Us, to that fundamental flaw in how private equity is involved in retail. More workers will be standing up and saying, "nope, we don’t accept that." More people will fight the havoc that it wrecks on unemployment and on folks who’ve tried to build careers in retail. These are really justifiably angry folks who are joining together and building a movement.

**Ricardo:** What do you expect from the private equity industry as the COVID-19 crisis deepens? And what are you seeing now?

**Aliya:** One of the things that we know about private equity is that they are always going to look for opportunities to capitalize on whatever tragedy, whatever the moment is. So firstly, we know that they’re trying to lobby Congress to get access to the stimulus bailout money and couching themselves as small businesses. They’re saying that the
virus doesn't discriminate, and we've all been affected. It's really gallling to hear that from private equity.

**Ricardo:** So private equity has its hand out for taxpayer support but isn't it still firing people?

**Aliya:** Right, there are employees that are facing private equity driven layoffs right now. I just got off the phone with an employee at a regional furniture company called Art Van. Art Van stores were set to close in May 2020 because of Thomas H. Lee’s decision to move Art Van into bankruptcy and liquidation but on March 19, employees were informed that the company planned to close three days later. They cited COVID-19 as the reason for the earlier closure date. Seven Art Van stores were covered by the WARN Act, which requires companies to provide 60 day notice of mass layoffs. With the revised WARN Act notice, eligible employees wouldn’t keep their health insurance after 60 days. We expect private equity to lobby for bailout money while at the same time continuing to lay off workers, continuing to close down stores and using COVID-19 as an excuse to not pay severance or benefits.

**Ricardo:** are the low-wage but essential workers at private equity owned stores getting necessary protections from COVID-19?

**Aliya:** There are a lot of workers feeling very insecure right now. If they’re getting hazard pay at all, a $1 raise an hour or $2 raise an hour is not the adequate price for having to put your life on the line every day and exposing yourself to the virus. For the private equity owned companies that are still open, companies like PetSmart, companies like Petco, workers are having similar problems to Amazon and Walmart workers. The implementation of CDC guidelines is very haphazard, and it’s very store by store. You can put up a poll and you’ll get half of people saying "yes I feel safe in my store, because we are taking adequate measures and have social distancing measures in the store." And the other half saying "we don't have basic cleaning supplies." The issues faced by workers at those open stores apply in retail across the board.

**Ricardo:** What are the next steps for United for Respect?

**Aliya:** Right now we're doing a couple of things because our work is in retail across the board.

We are working with Walmart and Amazon because these are some of the most visible frontline workers. We are creating through lines between what Walmart/Amazon
workers are saying and what private equity workers are saying about workplace safety conditions. And for the most part, their complaints align. Workers are saying that safety guidelines are implemented haphazardly. That is a through line across retail and is a demand that we’re bringing to private equity.

Some of our work is employer specific. For example, with Art Van, the regional retailer owned by TH Lee, we are trying to draw national attention to retail driven bankruptcy and layoffs that are happening during the current pandemic. Art Van employees are losing their health insurance in the midst of a global pandemic. So that’s a story that we’re really trying to tell. We have been talking with Art Van workers and reporters to put that story together.

And then what are the demands, more broadly, and how are we making those demands clear? In the coming weeks we are having a lot of new conversations with people who aren’t already in our networks. We’re always trying to grow our community and make sure that we’re there for frontline workers. There could be a range of things from developing employer specific petitions that will be delivered to the private equity owners, to sign on letters. We were very successful with the Art Van letter that calls on TH Lee to extend health insurance for 90 days and to create a fund for workers incurring any out of pocket costs. We were able to get close to 500 signatures in under a week. If PetSmart and Petco have different demands that are more specific to other companies like 99 cent stores and Save a Lot, we can tailor those specific demands. We are identifying broad based demands in addition to the really specific needs of some of the employees.

**Ricardo:** And other workers are furloughed right? What happens to them?

**Aliya:** There are companies like department stores, like Belk, that are owned by Sycamore Partners, and they furloughed their employees. Those employees are very concerned about whether they will be brought back because right before the pandemic, there were huge layoffs. After the pandemic, we do expect further layoffs. They may not bring back any workers that were furloughed. We also anticipate potentially newly distressed companies to emerge that the private equity industry will be paying attention to and will be targeting. We may have an increase in the number of private equity owned companies in the immediate aftermath of the pandemic.

**Ricardo:** How do workers feel about private equity and wall street ownership?
Aliya: I spend my time talking directly with folks who’ve been impacted by private equity in their workplaces. In the last few years I’ve seen a lot of people who are already drawing the connections, who are educating themselves, and are pretty disgusted by the unchecked greed of Wall Street and of private equity. These are employees that have been saying to us, whether they were folks at Toys R Us, Sears, Kmart, or Art Van; “The decisions that led to the demise of the company could have been avoided, if there were people with industry specific knowledge, if there were employees in decision making roles, such as on the board of the company.”

Ricardo: What do you think advocates and lawmakers should be doing right now and in the next few months to help retail workers?

Aliya: I think that we made the case with Toys R Us that private equity owners bear a responsibility for employees. When the Toys R Us private equity owners, Bain Capital and KKR contributed to a $20 million fund for employees, that’s what set that precedent. We need to be calling on private equity companies to create funds for employees. We need to be calling on them to extend health insurance for laid off workers. We need to be calling for them to pay any furloughed workers full pay. And we need to continue holding them to account for their workforces. Because one thing that private equity tries to do is to pivot between two points, saying ”we’re investors, we’re not employers” in cases where we start to make demands of them as employers who bear responsibility for their workforces. But then they go to Congress and talk about why they’re small businesses when it’s convenient to them. Lawmakers need to be calling their bluff. Number one by saying ”first of all, you’re not a small business because you’re part of the trillion dollar industry and your executives make more money than most of the rest of the country combined.” We need to explicitly say that private equity companies bear a responsibility for the workforces of companies that they own. There are a number of measures we are demanding from private equity firms, like providing severance to laid off employees, creating policies around paid sick leave, and ensuring that CDC guidelines are being followed and implemented in the stores that they own. I think that we need to be naming them and having lawmakers see through what I consider to be a bluff. They are not small businesses. They are making life really difficult for a bunch of working class people in the country today.