Forever Is a Long Time

The singular practices and spectacular flameout of Forever 21

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Photographs by Ryan Duffin

Larry Meyer stood not-at-all-still near the entrance of Forever 21's new store on Fifth Avenue. Twenty-four hours until the grand opening, and no one had slept much. Tomorrow there would be a DJ and carnival games and velvet ropes on the Manhattan sidewalk. There would be giddy teenagers and older tourists wondering what happened to the Japanese department store that used to be in the space. It was November 2010. Businesses of all kinds were closing, but Forever 21 Inc., the most exciting name in fast fashion, was expanding, and Meyer was in charge of finding the biggest spaces in the best locations.

So he stood, and he chatted, and he looked around. He was scanning for someone, and that someone came into view: Do Won Chang, who, with his wife, Jin Sook, had founded the retailer in Los Angeles in 1984, just a few years after they'd arrived from South Korea. Everyone, including Meyer—a senior executive at the company for almost a decade—called them Mr. and Mrs. Chang. "Mr. Chang needs you," someone rushed over to tell him. "Oh, I have to go," Meyer told a Bloomberg Businessweek reporter. Would he be in Los Angeles next week? "We never know where we're going to be."

Over the next two years, Meyer was everywhere, including Hong Kong, where he opened Forever 21's most expensive store, in Causeway Bay. The rent was $1.4 million a month, he announced proudly on Bloomberg TV. And it wasn't even the company's biggest store. That was a 150,000-square-foot emporium in Fresno, Calif.

By the end of 2012, Meyer had gone for good, or so it seemed: He became president of Uniqlo Co.'s U.S. operations. If anything, though, the pace of store openings at Forever 21 sped up. There were more parties, more ribbon-cuttings, more happy landlords in London, Prague, Warsaw, Bucharest, Beirut, Jiddah, Tokyo, Shanghai, Beijing, Manila, Rio de Janeiro, Santiago, Cape Town, Sydney. At its peak in 2014 the company brought in some $4 billion in revenue. Forever 21 was secretive and hierarchical and 99% owned by the Changs. And it had become a crucial tenant for mall owners.

Now we know that as far back as 2016—when the Changs operated 522 stores in the U.S. and more than 200 in 43 other countries—there was trouble. Sales were flat that year, and the company quietly closed a few stores and gave up some space in others. Mr. Chang had already lent the company $10 million, and his daughters, Linda and Esther—executives in their 30s who were expected to take over one day—had each lent it $5 million. Forever 21 had borrowed an additional $18 million from a Philippine company that no one knows much about. The retailer's high-profile international outlets weren't profitable, and their publicity value had worn off. Linda and Esther were preparing to start Riley Rose, a beauty and lifestyle emporium that featured South Korean products. The stores were millennial pink and Instagram-pretty, but competition was tough, and those would lose money, too. In early 2019, Forever 21 sold its Los Angeles headquarters and distribution center for a reported $166 million—it's renting back the office space and moving the warehouse to cheaper real estate inland. By summer, it was almost out of cash.

Bankruptcy, when it came in September, was the result of years of bad decisions and a fundamental misunderstanding—not just of how retail was changing but of its very conventions. Forever 21 has shut down in Canada and Europe, and it's shrinking in Asia and Latin America. In the U.S., 111 stores will close. But mall owners, particularly Brookfield Properties and Simon Property Group LP, the biggest in the U.S., don't want it to go out of business altogether. If Forever 21 survives, it will be with fewer stores, fewer employees, and more manageable ambitions. But that more modest future likely depends on the Changs giving up control. If they don't, Forever 21 may not have much of a future at all.

For now, Mr. Chang remains in his office, Mrs. Chang in hers. They're rarely seen together—rumors of their estrangement have been circling through the company and its suppliers for years. He oversaw operations, and she selected the merchandise, each assisted by half of another Korean American couple, Alex and SeongEun Kim Ok.

They, too, prefer to be called Mr. and Mrs. In the 1990s, Forever 21 became one of the biggest customers of their clothing manufacturing business. The Changs invited Alex to join their company in 2002, giving him the title of president and a 1% stake; SeongEun came to work with Jin Sook in 2008. The Changs also encouraged the Oks to move closer to where they lived. Real estate records show that the Oks bought a $3.4 million house in Beverly Hills a six-minute drive from the Changs' home.

By 2009 there were two new members of the inner circle: the Changs' daughters. Linda, who studied business at the University of Pennsylvania, worked as an analyst at Merrill Lynch and a buyer at Pottery Barn Inc. before taking over marketing at Forever 21. She is now executive vice president. Esther, the younger daughter and a graduate of Cornell, is vice president for merchandising.

Forever 21 declined to allow any of its executives to be interviewed for this story. The bankruptcy filing, though, is revealing in a way the Changs never were, and more than a dozen people shared their accounts of working at or with the company. None wanted to be identified; most had signed nondisclosure agreements.

The Changs' brand of fashion depends on being fast, trendy, and cheap. It's rare for any piece of clothing at Forever 21 to cost more than $60—and most sell for much less. See something on the runway, in a fashion blog, or, more recently, on Instagram, and then find a version of it in Forever 21. Wear it a few times, or just once, and then buy something else. The stores displayed new clothes almost daily, which drew in customers, which was good for Forever 21 and for malls. Forever 21 didn't make it that easy or fun to shop online, which was bad for the company but, again, good for malls.

There's a trick to fast fashion, though: The clothes are supposed to be of the moment, an inexpensive reflection of a current style but not an exact replica. Over the past 20 years, designers—including Diane von Furstenberg, Anna Sui, and Gucci—have filed at least 250 cases in federal court accusing Forever 21 of intellectual-property theft. In 2019 alone the company was sued a dozen times, according to Susan Scafidi, who runs the Fashion Law Institute. She'll be an expert witness in a copyright infringement suit brought against the retailer by Adidas AG. Forever 21 usually settles. Meyer put it this way in 2010: "All claims are reviewed and, where appropriate, resolved after careful analysis."

As the Changs expanded from one store to 10 to 100 to almost eight times that, they created a culture in which authority rested in just a few hands. Mr. Chang reviewed every expense; Mrs. Chang looked over every piece of clothing. Information was siloed, and interactions between departments were limited. Some executives who worked with Mr. Chang for

Flamin' Hot Cheetos eyeshadow palette

PROP STYLIST: LIZ MYDLOWSKI

years don't recall him ever stopping by their office or sending an email. Mrs. Chang's section of the building was off-limits to anyone who didn't report to her. Former executives say she wouldn't even let visiting bankers walk down the hallways. One recalls a procurement meeting at which someone took a photo of any supplier who spoke up.

In general, Mr. and Mrs. Chang seemed unapproachable. Employees rarely saw them or heard from them directly. The Changs trusted a small group of people, most of them Korean American or members of their evangelical church: the heads of the distribution center and information technology department; Mr. Chang's executive assistant, Jay Kim; and the Oks. But being close to the Changs didn't confer automatic protection. Senior people were fired or demoted, sometimes, it seemed, on a whim, often without much notice. One says it was like being on a Korean reality TV show.

"It was a business that frankly I don't think was ever particularly well-managed. But they got away with it for a pretty long period of time," says Neil Stern, a senior partner at retail consulting firm McMillanDoolittle. Like many in the industry, he noted the experienced executives stepping in and out of the company. "It's tough to walk into a family business, because, at the end of the day, how much control are you ever really going to have?"

The Changs considered taking their company public early in the 2000s but decided against it. They wanted to continue to do what they wanted when they wanted, Meyer said in 2010. Some outside the company have a different impression. "They've had many banks in there trying to make it happen," says Ilse Metchek, longtime president of the California Fashion Association. But, she and others say, the bankers turned up too many questions about the company's ability to operate transparently.

The Changs dreamed of turning Forever 21 into a department store at a time when department stores were failing. The company eagerly moved into the vacant spaces—in Chicago, Houston, Las Vegas, Philadelphia, and dozens of other cities in the U.S. "Its financing was murky, and its appetite for space was undisciplined," says Jim Sullivan, a managing director at financial firm BTIG. The mall owners made deals anyway. "When they want big boxes, you give 'em big boxes," Sullivan says.

Filling those big boxes proved much more difficult than the Changs anticipated. And operating in dozens of countries on six continents required expertise they didn't have. At the company's peak, 20 people in Los Angeles oversaw the empire. Annual sales projections weren't based on how much merchandise sold the previous year but on how much was shipped. Several former executives say Mrs. Chang and Mrs. Ok would call meetings, listen to presentations on sales data and trends, and then appear to ignore what they heard. They trusted their instincts instead.

They ordered too much one year, too little the next—in the bankruptcy filing, this was called the pendulum effect. In 2018 they ordered too much. Store managers complained that their stockrooms couldn't accommodate the daily shipments. Some resorted to stacking boxes of clothes in dressing rooms. Eventually they had to ship them back to the distribution center, where the company sometimes lost track of them.

At times, according to multiple former executives and industry sources, Mrs. Chang and Mrs. Ok held off on paying for orders they received or returned them without paying at all, bad-faith practices that did little to endear them to suppliers. For small operators, these methods could bring financial distress; for at least one South Korean vendor, they meant collapse. Kwang Lim Trading Co. filed for bankruptcy in Seoul in 2018 after a delay in payments from Forever 21 caused it to default on its debt, according to local government records and media reports.

When Forever 21 closed a regional distribution center in Memphis to save money, all the merchandise held there came to Los Angeles—where it remained, piled up inside the crammed facility, until one of the Changs or Oks could have a look at it. That could delay delivery to the stores by weeks. In fast fashion, that's like months. Then, to compensate, headquarters sometimes sent out boxes overnight, an expensive way to do business. ▶

◀ Owing to haste or parsimony or both, Forever 21 hired import agents who seemed to overlook some important details. Former executives say shipments to Brazil were held up at customs because the company didn't have a license to import footwear. Staff had to sort through the containers to find the illicit slippers, then destroy them. Forever 21 had to do the same with cosmetics on their way into Brazil and Mexico.

Mrs. Chang and Mrs. Ok didn't adjust their merchandising strategy, either. They placed orders for down coats for every store, though if it was winter in North America it was summer in South America. They bought clothes that were too revealing for the Middle East and Latin America and sized too big for Asia. "Tailoring the product for the specific market was maybe a detail of refined merchandising that they didn't have," is how Sullivan describes the problem.

When Forever 21 started out, it was a fresh, cheap alternative to the Gap. Then H&M and Zara spread to the U.S. Topshop and Primark were already well-established in Europe when Forever 21 entered that market. Fashion Nova, Asos, and other online-only companies are now faster and fresher. To an Asos customer, Forever 21 might as well be the Gap.

In recent years the Changs faced another fundamental problem: the waning of fast fashion. Fewer people want to buy disposable clothing. The quality is too low, and the cost to the environment too high. "Why did Forever 21 think the old practices made sense for the future? They should have copied a few business strategies from their competitors," says Scafidi of the Fashion Law Institute. "Forever 21 doesn't appear to have embraced the new consciousness of fashion's contribution to global warming and pollution." Although it started a recycling program in 2019, the company, unlike some competitors, doesn't produce an eco-conscious line. It does, however, sell a collection made in collaboration with Flamin' Hot Cheetos.

So, Forever 21 expands beyond its managerial capacity at a time when some customers are losing interest in fast fashion and others are down on shopping at malls. It ends up with an awful lot of clothing it can't sell at full price. Most retailers—actually every other retailer—would mark down prices until the clothes sell and take a loss on what doesn't. Inventory is like milk; it has a short shelf life.

Mr. Chang approached the predicament differently. Retailers use their inventory—often the only tangible asset they have—as collateral for loans. If he allowed the clothes to be marked down, their value would be reduced, as would the amount of money the company could borrow. So he didn't discount them; he warehoused them. His strategy might have helped in the short term, but eventually Forever 21 would pay.

Eventually arrived last spring. Forever 21 hired a new chief financial officer, Brad Sell, in March, just as Mr. Chang was receiving alarming reports: Sales were down about 20% from the year before. Remarkably, he'd been planning to open more stores. Instead, following the advice of his new CFO, he decided to close 100. He laid off some of the company's buyers. Mrs. Chang evidently thought employees were using too many Band-Aids, so to save a few dollars she took away all the first-aid kits in the office but one.

Mr. Chang and Mr. Ok managed to cut deals with some vendors. Then the company appealed to its landlords. Jatin Malhotra, who took over Forever 21's real estate after Meyer left, had persuaded Mr. Chang to close the most unprofitable stores in Europe and Asia. Next, Malhotra negotiated an unusual arrangement for some of the remaining outlets there. Forever 21's rent wouldn't be fixed; instead, a portion would be calculated as a percentage of sales. If the company recovered, that could have been an expensive proposition. But the company didn't recover. Its Canadian, European, and Asian operations together lost about $10 million a month from the autumn of 2018 to the autumn of 2019.

Negotiations in the U.S. didn't proceed as smoothly. Forever 21 pays about $450 million a year in rent, half of that

Chang and his daughter Linda at a store opening in 2010

JAMIE MCCARTHY/GETTY IMAGES

to mall owners Simon and Brookfield. In a year of record store closings, it wasn't crazy to think Forever 21 had some leverage. According to people with knowledge of the discussions, Malhotra talked with the two landlords about how they could help stabilize the company, maybe by even taking a stake as they had with the failing teen retailer Aeropostale. It had worked in that case, and it seemed Simon and Brookfield were willing to consider the possibility of doing the same with Forever 21. But Malhotra told them the Changs would need to remain in charge as part of any deal.

Malhotra flew with Mr. Chang to New York midyear to meet with the two companies. They couldn't come to any agreement. In July, Forever 21 requested last-minute rent relief for the next two months. The landlords insisted on first seeing a

The Changs are in a high-stakes staredown with their creditors

plan to revive the company, and when none was forthcoming they declined to help.

Malhotra played an important role at Forever 21. He was young and enthusiastic and comfortable at all those ribbon-cuttings. Mr. Chang treated him like a son. As the seriousness of the situation became obvious, say people involved, Mr. Chang became withdrawn and distrustful. He had lost faith in his would-be son, so he turned to his daughter Linda. She brought in the asset management firm Lazard Ltd. and other advisers and lawyers to figure out how to restructure the company and keep it in the family's control. Malhotra left. When company executives approached Mr. Chang, he told them he didn't want to talk about the business. It was too depressing.

Bankruptcy loomed, but the new advisers hoped they could work out a deal with lenders that they could announce as the company filed for Chapter 11. That task was complicated by the Changs' business practices. Former executives say the company hadn't updated its software in years, and the systems for accounting and shipments were a mess. When Mrs. Chang haggled with vendors or canceled orders after they arrived, it could take months to straighten out the records. Stores sometimes transferred merchandise on their own; warehouses contained clothes that were years old; other merchandise simply couldn't be accounted for.

Forever 21 denies that its operations were substandard and that it turned to landlords for assistance. Whatever was going on still might have been manageable if the Changs would agree to step aside. But they wouldn't.

When Forever 21 filed for bankruptcy on Sept. 29, there was no deal. Just a few days earlier, Simon had changed the locks on the Forever 21 store in the Houston Galleria. The retailer owed almost $148,000 in back rent. So far during bankruptcy negotiations, Forever 21 has secured more than $100 million in rent reductions for stores in the U.S. and has reopened in the Galleria. The break in rent has also allowed it to keep open 60 stores it initially expected to close. Riley Rose is giving up its leases and has shut down its independent website. Its operations will be folded into Forever 21. No one knows what, if anything, laid-off employees will receive. "We just hope they're doing the best for everybody and not just securing their own bag," says Andrew Upton, who works at a Forever 21 store in Bakersfield, Calif. In the meantime, he's joined labor activists United for Respect and a group called Flamin' Hot Cheetos Against Billionaires.

Shipments continue to arrive, including new collaborations with Overwatch, the video game, and CNCO, the boy band. The markdowns are getting bigger. A $10 million lawsuit brought by Ariana Grande—she alleges the company used her likeness in its advertising—is on hold. So is the claim by Adidas.

In 2010, Linda told Businessweek her parents hoped she and her sister would hurry up and learn the business so they could retire and devote more time to their church missions. Now preserving some, if not all, of their stake in Forever 21 remains the Changs' priority, even as their day-to-day authority is receding. There's a new chief operating officer. The advisers added a chief restructuring officer. The board of directors has three additions. One knows about mergers, another about e-commerce. The third is Meyer—still trusted by the family and landlords. He was also named chief strategy officer. In late December, too late to make a difference in what turned out to be a disappointing holiday shopping season, Forever 21 announced it had brought on a marketing expert, known for her work at Taco Bell, to figure out how to quickly transform the brand.

The purpose of Chapter 11 bankruptcy is to give a company protection from creditors while it devises a restructuring plan. Of course, the plan has to offer to repay creditors at least some of their money or give them a stake in the reorganized business. If creditors don't approve the plan, they can force a company to liquidate, as happened with Toys "R" Us Inc. If the owner is reluctant to give up equity, that can create an impasse, as is happening with Forever 21. The Changs are in a high-stakes staredown with their creditors.

Forever 21 stores have disappeared from Peoria, Ill., and Peoria, Ariz.; from Beavercreek, Ohio, and Blackwood, N.J.; and from 17 other cities. That was the count for November. There were more closures in December. And by the end of January, when the reckoning comes every year for retailers, there will likely be at least a dozen more in California alone. The company intends to emerge from bankruptcy in February. But so far no one has offered to finance it or buy it, and, with the Changs still in their offices, it's quite possible no one will. <BW>