

Australia: Private equity group closes bookstores and axes hundreds of jobs

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14 March 2011

Without a word of opposition from the trade unions or the Gillard government, hundreds of bookshop jobs are being eliminated after Pacific Equity Partners (PEP), one of Australia's largest private equity groups, sent the major bookstore chains in Australia and New Zealand into liquidation.

PEP, a corporate buyout and carve-up specialist, placed its wholly-owned subsidiary, REDgroup Retail, into voluntary administration on February 17, following the collapse of its plans to sell off the company via a public float. The liquidation, which threatens a total of 3,500 jobs, shocked bookstore customers and workers alike, and sent tremors through the entire retail industry.

REDgroup had been Australia's largest book retailer with 260 Borders and Angus & Robertson outlets employing 2,500 people. It also had 90 stores employing about 1,000 staff in New Zealand, where it owned Whitcoulls and Bennetts, as well as Borders.

Last week, the administrator, corporate recovery firm Ferrier Hodgson, began the breakup of the book chains by announcing the closure of 37 Angus & Robertson stores and a Borders store in Australia. The decision means the destruction of 321 jobs, including those of 219 casuals who are not entitled to severance pay, holiday pay or other entitlements.

More closures and job cuts are likely in coming weeks. Ferrier Hodgson announced on March 8 that it would sell 103 of REDgroup's remaining Australian outlets and has begun calling for expressions of interest. In New Zealand, the administrator said it was looking to sell off the entire REDgroup operation as "a going concern".

Displaced workers will find it difficult to secure alternative work in the retail sector, which is in the midst of a severe downturn. Many of the closures are in

areas, such as Broadmeadows in Melbourne, where official unemployment already stands above 15 percent.

REDgroup reportedly has only \$6.4 million in cash, but owes \$118 million to a financing subsidiary of PEP, \$44 million in unsecured debts and millions more to staff in accrued entitlements. Among the creditors are HarperCollins, Random House and shopping centre giant Westfield. REDgroup suffered a \$43 million loss for the financial year 2009-10.

PEP kept its closure plans under wraps in the run up to Christmas trading, allowing it to rake in thousands of dollars in gift card sales. Angus & Robertson customers have learnt to their dismay that they cannot use their gift cards unless they buy extra items equal to the amount on the card.

While a number of factors have combined to bring about REDgroup's demise—including the speculative operations of PEP—it reflects the continuing slump in consumer spending since the global financial crisis emerged in 2008. That is because thousands of working people have either lost their jobs or been reduced to part-time or casualised work. Now they are being hit by government austerity measures, rising mortgage and other interest rates and spiralling rents, food and fuel prices.

Customers are seriously reining in spending or seeking out cheaper avenues for purchases, including on-line. The rapid growth of online sales is just one aspect of the crisis that is engulfing many retail operators, small and large. Southern Cross equities estimates that Australian online retail purchases have doubled since 2005 to \$26.8 billion, to account for about 6 percent of total sales, and are expected to grow by between 8 and 15 percent a year over the next four years.

Consumer uncertainty and collapsing sales are hitting

major bookstore operations around the globe. Borders in the United States, which is owned separately, last month filed for Chapter 11 bankruptcy protection, with a debt of \$1.3 billion. It outlined plans to close up to 200 stores and dismiss as many as 6,000 staff.

Another factor is the exorbitant rents charged in the shopping malls operated by groups such as Westfield. Corporate-owned chains like REDgroup have sought to offset high rents by running their outlets on a shoe string, employing mostly low-paid young people and students as casuals. According to REDgroup's data, 68 percent of its workforce were casuals, with most stores having no more than seven staff on hand at any time, and some operating with as few as four.

Sydney-based PEP describes itself as a private equity investment firm focusing on leveraged buyouts. It boasts of being one of the 50 largest private equity firms globally, with \$5.8 billion of capital under management. PEP bought the Angus & Robertson, Whitcoulls and Borders businesses in separate transactions in 2004 and 2008, with a view to combining and restructuring their operations to pave the way for a highly-profitable public float. However those plans were thrown into disarray when the global financial crisis broke out in September 2008.

Writing in the *Sydney Morning Herald*, Michael Evans observed: "Many assets the industry bought around the 2006-08 period were overpriced and filled with cheap debt that is having to be refinanced at onerous rates in a soft retail environment. Shareholders are getting nervous with the three- to five-year time frame for private equity investments."

REDgroup is just one of a long list of businesses bought up by PEP. For example, in 2005 it purchased Worldwide Restaurant Concepts, which then operated 110 Kentucky Fried Chicken franchises and 28 Sizzler Family Steakhouses in Australia. It also purchased vacuum cleaner retailers Godfrey's for around \$300 million in 2006 and the multiplex cinema chain Hoyts Group for \$440 million in 2007.

Since the early 2000s, private equity firms like PEP have acquired vast ranges of businesses, looking for short-term profits via asset-stripping and shutting down so-called underperforming operations, all at the expense of workers' jobs and conditions. Hit by the fall in consumer spending, PEP is reportedly currently exploring ways to exit Godfrey's and to offload Hoyts

through a public float, while revamping the troubled Sizzler chain for re-sale.

Having failed to squeeze out the levels of profit it expected, PEP has no compunction about closing down and breaking up its acquisitions, destroying more jobs and livelihoods in the process while eradicating bookshops and other facilities required to service the needs of ordinary people.

It comes as little surprise that the unions that cover retail and warehouse workers, the Shop Distributive and Allied Employees Union (SDA) and the National Union of Workers (NUW), have done nothing to fight the REDgroup retrenchments. NUW official Tim Kennedy simply noted that the closure of the stores would probably lead to job losses at the warehouse in Altona, a Melbourne suburb. For decades, these unions have collaborated with retail and warehouse employers to restructure working conditions via downsizing, the use of casual labour and the extension of shopping hours.

Speaking for the Gillard government, Assistant Treasurer Bill Shorten, a former union leader, dismissed claims by REDgroup, which blamed book import restrictions and on-line shopping for its demise. Instead, Shorten criticised the quality of the group's "corporate restructuring". Labor, which retains office with the backing of the Greens, is actively assisting major companies to restructure their operations in a bid to return to profitability.

PEP's liquidation of the bookshops is another graphic demonstration of the destructive workings of the entire financial and corporate establishment that seeks to subordinate every aspect of society, including the material and cultural needs of working people, to the rapacious and relentless drive for profit.



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