Australia: Toys ‘R’ Us closure to destroy 700 jobs

Terry Cook
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Toys ‘R’ Us, the largest toy chain in Australia, confirmed last Wednesday it will close its 44 stores, along with its head office and distribution centre in Sydney, putting more than 700 people out of work. The company’s online ordering system was wound up on June 22.

The shutdown is being enforced by the trade unions. The Shop, Distributive and Allied Employees’ Association, which claims to represent retail workers, has issued no statement on the job cuts, signalling its support for the closure, and its contempt for the company’s employees.

Toys ‘R’ Us, which began Australian operations in 1993, was placed in voluntary administration last May amid a deepening financial crisis. The company continued to trade while attempts were made to find a buyer. All expressions of interest, including from private equity firms Allegro and Anchorage, were withdrawn and no new ones emerged.

The closure could also see hundreds of customers left out of pocket. Administrators McGrathNicol told prepaid gift cardholders to use the vouchers by July 5, specifying that shoppers must also spend a cash equivalent. Lay-bys will be met until July 5, but only if stock is available.

Many of the Toys ‘R’ Us workers are young people employed as low-paid casuals to maximise workplace flexibility and boost company profits. They now face a precarious future, having been flung out of work in an ever-tightening job market.

A recent survey by research company Roy Morgan refuted the claims of the federal Liberal-National government that it is creating thousands of jobs every month. The survey showed unemployment at 9.8 percent, meaning that over 1.3 million workers are without a job. A further 1.25 million, or 9.3 percent of the workforce, are under-employed, working part-time and seeking more hours.

The retail sector continues to struggle, amid falling consumer confidence caused by stagnant or declining wages and a soaring cost of living.

According to the Australian Bureau of Statistics (ABS), national retail sales were flat in March and April. The National Australia Bank’s cashless retail sales index, measuring the value of electronic transactions processed through the bank, fell by 0.6 percent in April. This month, clothing, footwear and personal accessory sales growth dropped to 1.71 percent on a year-on-year basis, down from 3.76 percent growth in May, which was primarily driven by substantial discounting.

This year alone, fashion retailer Gap closed its Australian outlets, destroying around 50 full-time and 150 casual positions. Global fashion retailer Esprit also ended its Australian and New Zealand operations, closing 60 outlets at the cost of 350 jobs.

Other closures over the past two years, which have resulted in thousands of job losses, have included retailers Marcs, David Lawrence, Herringbone, Rhodes & Beckett and children’s clothing chain Pumpkin Patch.

Toys ‘R’ Us accounted for 10 percent of the $2 billion annual Australian toy market. The company, however, was operating at a loss. In the 12 months to January 28, 2017, it posted a $7.6 million operating loss and a $9 million loss the previous year.

Financial reports filed in June 2016 by Toys ‘R’ Us Australia said its future depended on financial support from its American parent company, warning that if support was “withdrawn or not continued there is significant uncertainty whether the company and the consolidated entity will be able to continue as going

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concerns."

In early March, the US parent company announced it would liquidate its 1,700 stores worldwide, including its 735 American stores, destroying 33,000 jobs. The company was previously the world's largest retailer of toys and games, accounting for around 15 percent of the market. Its collapse was the third-largest retail bankruptcy in history.

While the growth of online sales and increased competition contributed to the demise of Toys 'R' Us, its fate sheds light on the parasitic role played by private equity firms in liquidations across retail and other major sectors.

Founded in 1948, the American-based Toys 'R' Us was acquired in 2005 by Bain Capital Partners LLC, Kohlberg Kravis Roberts (KKR) and property company Vornado Realty Trust in a $6.6 billion leveraged buyout. The three firms only contributed $1.7 billion of their own funds. They borrowed the remainder and saddled the company with a mountain of debt. Toys 'R' Us also had to pay around $600 million in fees to the consortium that purchased it.

John Vaz, a corporate finance academic at Australia's Monash University, commented: "You may have $1 million, you borrow another $3 million and you control a company worth $4 million. The company that has been bought has to pay off the debt used to buy it." He added: "Private equity are not there for the long term, so they want an exit strategy to pay off the debt and collect the gain."

The same destructive process has produced closures and downsizings across Australia's retail sector. In 2016, electronics retailer Dick Smith, which had been bought by Anchorage Capital Partners, a private equity firm, closed hundreds of outlets at the cost of 3,300 jobs. While the workers were thrown on the scrapheap, Anchorage walked away with hundreds of millions of dollars.

Payless Shoes likewise closed 132 stores across the country in 2016, axing 730 jobs. Its US parent company filed for bankruptcy this year, along with another 50 US retailing companies, many of which are private equity-owned enterprises and have global reach, including in Australia.

In every instance, the trade unions, working with big business and the Labor Party, have enforced the closures and cutbacks demanded by finance capital, suppressing opposition from workers to the destruction of their jobs, wages and conditions.

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