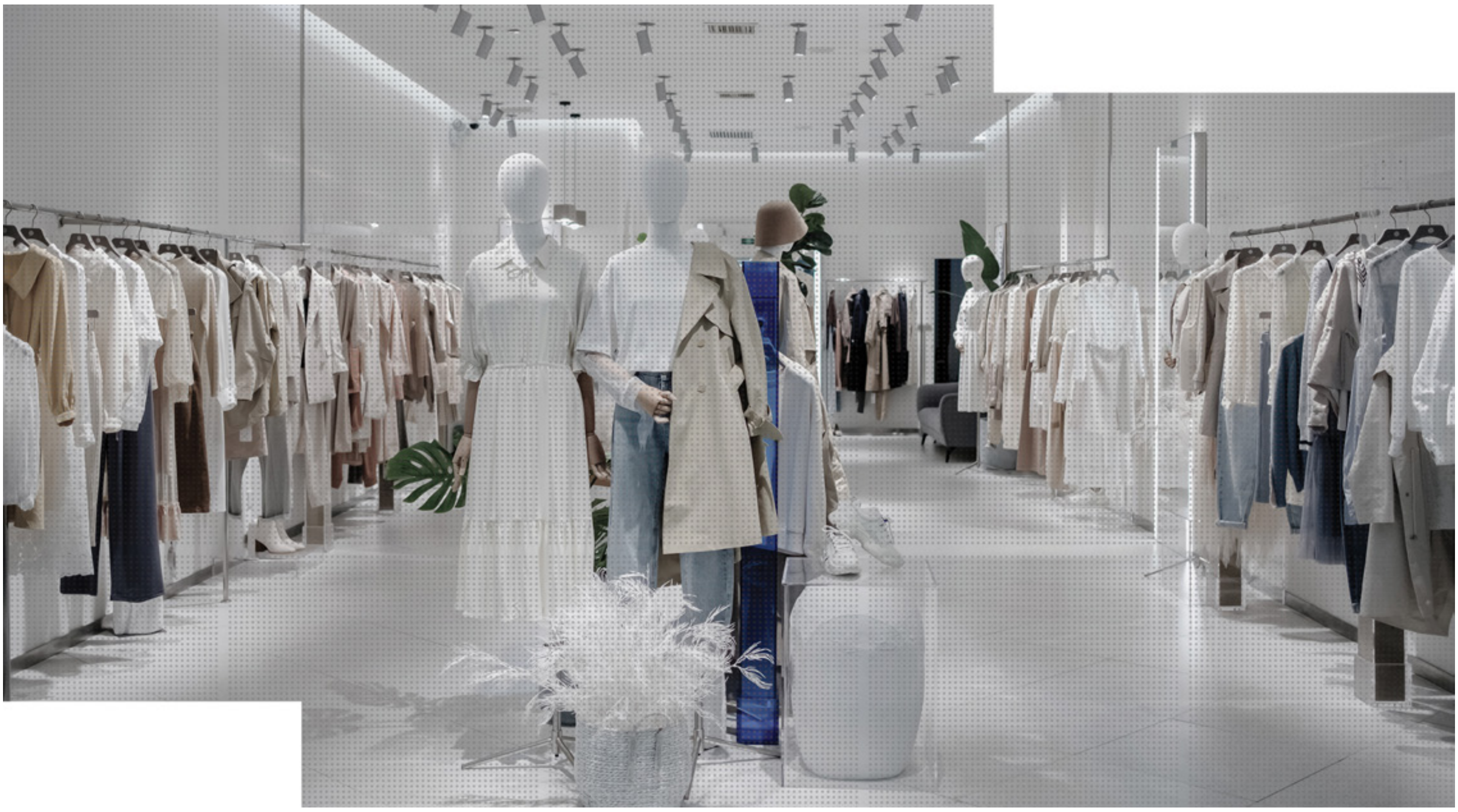
Retail series – What's in store

Retail under pressure: Managing workforce and cash flow in a challenging environment



In the third of our retail series, 'What's in store', KordaMentha explores how the pandemic has accelerated a range of trends in the industry and what this means for retailers' cash flow and workforce in planning for the future.

KordaMentha

The ongoing disruption caused by COVID-19 to Australia's retail sector shows no signs of abating.

The final quarter of 2020 brings unprecedented uncertainty about the annual 'make-or-break' sales period. With ecommerce projected to account for 15% of all Australian retail sales by December 2020, retailers are also under added pressure to meet demand in their online ordering, warehouse and fulfilment divisions.

Automated warehouse restocking and fulfilment systems, the surge of dark stores, mandated requirements for social distancing and continued reduction of in-store footprints require retailers to assess the composition, efficiency and utilisation of their current workforce. The rapidly evolving environment requires retailers to re-assess whether they have the right number of staff, with the right capabilities, in the right place, at the right time.

Flexible workforce strategies

Retailers' ability to utilise the JobKeeper Enabling Directions is tied to their eligibility for the JobKeeper wage subsidy. These concessions currently enable retailers to vary and/or reduce hours worked by employees outside the bounds of existing employment agreements. Retailers who are no longer eligible need to plan for the potential impact to their cash flow and implement alternative strategies that alleviate labour cost pressures.

As discussed in our previous blog, reassessing store formats and store footprints provides an opportunity for retailers to increase labour productivity. Creating leaner stores with streamlined layouts will generate labour efficiencies as it reduces the time required for staff to complete tasks and allows retailers to redirect excess staff to more critical areas of their operations.

Systematic reviews of current rostering practices will also identify opportunities to reduce labour costs. Rostering for efficiency means shift times are deliberately scheduled to eliminate unnecessary overtime and penalty payments resulting from defunct rostering.

Retailers should be critically assessing the use of their current workforce resources to maximise the value of their staff and reduce the cost of inefficient staffing allocations.

JobKeeper is changing

The difficult decisions faced by retailers will be complicated by the reduction or cessation of cash inflows from government subsidies against a depressed economic climate. Notwithstanding signs of recovery in key Westpac-Melbourne Institute Indexes, unemployment is at 6.8%, national disposable income has fallen by 7.8% and consumer spending decreased by 12.1% at the end of June 2020 quarter.

As JobKeeper 1.0 ends on 27 September 2020, many retailers will have to consider downsizing their workforce to adjust for the new eligibility and payment conditions. Retailers need to rapidly reassess their optimal workforce composition, structure and size, given the amount of cash flows they can realistically expect to receive in the medium term.

JobKeeper payment extension

Eligibility requirements	28 Sep 20 – 3 Jan 21	4 Jan 21 – 28 Mar 21
20+ hrs (worked in 4 weeks before 1 Mar 20)	$1,200 per fortnight	$1,000 per fortnight
<20 hrs (worked in 4 weeks before 1 Jul 20)	$750 per fortnight	$650 per fortnight
Decline in GST turnover	30% if turnover <$1b | 50% if turnover >$1b 15% if ACNC registered charity	
GST turnover test	Actual GST turnover must have declined by the requisite percentage in each relevant 2020 quarter, compared to corresponding 2019 quarter	
JobKeeper Enabling Directions	· JobKeeper enabling stand down · Reduction in employee hours · Directions to vary and perform duties at a place different from the employee's normal place of work	

Funding employee entitlements

Whilst JobKeeper is a critically important wage support program, it does not assist with the, often significant, one-off cash costs of organisational restructuring. Retailers must be confident they have correctly accounted for the employee entitlements that have continued to accrue whilst staff have been employed during JobKeeper.

Annual leave and long service leave entitlements continue to accrue based on employees' pre-JobKeeper hours and days of work, not their stood down hours. Mandatory superannuation contributions have also continued to accrue throughout the period of JobKeeper employment. Employees remain entitled to notice of termination and redundancy payments, and retailers need to remain cognisant of any roll-overs in years of service that may have increased the value of these employee entitlements.

To ensure sufficient reserves are available to pay for any redundancies that occur as a result of a workforce restructure, retailers should conduct a detailed review of accruals and complete a full calculation of potential termination liabilities.

Spotlight on casual employees

Retailers may also need to plan for the recognition of liabilities arising from the recent WorkPac Pty Ltd v Rossato ('WorkPac') decision. Employers may be liable for backpay of up to six years of employee entitlements stemming from long-term casual employees whose pattern of employment reflected that of a permanent employee.

In August 2020, ASIC issued guidance to all corporations requiring them to calculate annual leave and redundancy pay owed to current and former casuals who worked regular and predictable shifts, as well as recognising any contingent liabilities for borderline cases, in their next financial statement.

Quantifying these potential liabilities may require a deep-dive review to assess whether any work completed was 'permanent in nature'. This review may cover:

- comprehensive analysis into the actual pattern of work completed by casual employees
- diligence of timesheets and rostering for each individual for up to six years prior
- enterprise agreements
- terms and conditions of contracts
- communications with employees regarding their working schedule.

WorkPac Pty Ltd v Rossato [2020] FCAFC 84

- Judgement handed down in May 2020 by the Federal Court of Australia.
- The Court ruled an employee previously considered by their employer as 'casual' worked regular and predictable shifts and was entitled to paid annual, personal/carer's and compassionate leave.
- Provisions for additional employee entitlements may be required for both current and past 'casual' employees to be disclosed in the 30 June 2020 financial report.
- Casual loading payments do not define an employee as 'casual'.
- Casual loading may not be able to be used to offset entitlements owing.
- Restitution of casual loading payments may not be possible.
- Whilst WorkPac did not specifically consider notice of termination and redundancy, ASIC has issued guidance for employers to provision for these liabilities.

Christmas demand horizon

Forecasting demand over the short term and into pre-Christmas, Boxing Day, Black Friday and Cyber Monday sales will be challenging but critical for retailers. Retailers need to have robust cash management processes in place to ensure they can service customer demand over the holiday period but also respond flexibly to rapid changes in the economic and health situation. Some of the factors retailers should be considering in their cash flow forecasts include:

- the cost of reopening stores
- deferred lease liabilities
- employee liabilities
- changes to in-store trading restrictions
- weakened consumer spending from sustained reductions in disposable income as government subsidies abate.

To appropriately plan for these issues, retailers should be undertaking scenario planning to model best and worst case demand scenarios to ascertain the timing and quantum of cash flow stressors that may be encountered, and identify the suite of responses for each scenario.

COVID-19 has radically changed the future of the retail landscape. Retailers need to get on the front foot and plan for multiple scenarios that could impact on workforce and cash flows, particularly over the next four months. It is also important to look beyond the immediate term to consider what action needs to be taken today to ensure sustainable, long-term viability into an uncertain 2021.

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