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Opportunities for emerging retailers

By Fordham
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As has been well reported, many retailers, particularly those with a strong omnichannel presence, fared extraordinarily well throughout the COVID-19 pandemic. Initial sales declines due to COVID shutdowns, resulted in many receiving rental abatements, cash flow boosts, JobKeeper payments and other cost subsidy programs. As such, most retailers benefited temporarily from lower costs.

Many retailers then evolved their operations to explore new ways to engage their customers - such as EDMs pushing special offers, shop local campaigns and brand loyalty campaigns - which resulted ultimately in a strong uptick in sales through all channels. This meant that a lot of retailers (though clearly not all) reported stronger profits than in pre-COVID years.

Clearly all retailers would prefer a smoother operating rhythm without lockdowns and having to push for subsidies. However, it appears that these lockdowns were semi-helpful in that they refocused and retooled some operators to get smarter about how they operate their businesses. Whilst new learnings such as how to embrace technology and/or how to operate your core business with a lower embedded cost structure have been helpful, the key will be ensuring that these learnings are embedded and that the business does not return to bad habits in time.

Further, it highlights that for many the pace of change in the 10 years leading up to a COVID induced review of the business was slow, with many retailers now reflecting upon how much more profitable they could have been had they utilised their current practices in earlier years.

This then begs the question; Do we need an external shock to undertake a review of our core business? Should we periodically stress test the business? Ask yourself how you would operate if:

- Physical stores were closed for 4 weeks each year.
- Sales declined such that you had to cut costs by 10% for example.

Do any of those measures make sense to implement now?

This example plays true to other aspects of being in business, with the question being – do we need a catalyst to explore other opportunities?

One such example for emerging retailers is the opportunity to take advantage of a plethora of tax concessions, asset protection benefits and other structural improvements that can set up their business for a lifetime.

Just like restructuring business operations, restructures of which entities businesses are operated from, if executed effectively, typically see at least one of the following benefits:

- Improved asset protection for the business owner’s personal wealth
- Improved eligibility for some Government concessions
- Reduced tax on ongoing business profits
- Reduced tax for owners on extracting after-tax profits from the business
- Reduced future tax bill upon owners’ eventual exit from the business upon sale
- Provide a mechanism to tax-effectively transfer wealth into other investment vehicles (for example superannuation)

Of course, depending upon specific client circumstances, restructures are often required in any event – such as when looking to introduce a business partner and/or when looking to incentivise key employees through owning a share of the trading business

The advantages on offer depend on each clients' situation. Consideration is given to a variety of factors including but not limited to:

- Type of entity the business is currently operating out of
- Current performance and market value of the business
- Market value of other investments held by the owner
- And of course, the owner's desires and risk-tolerance

After we've established that the advantages of a proposed restructure will significantly outweigh the cost, we proceed with designing the ideal operating structure both for the business and owner's private investments. This is done from both an asset protection and taxation minimisation perspective and includes a plan for how to transition assets and the business into the new structures.

Typically, this will require a valuation of the existing retail business. This is often helpful for retailers, as this too can be an opportunity to understand how value can be added to their operations through time.

The valuation will support the owner's eligibility for the Small Business CGT Concessions which are designed for those whose businesses and personal invested wealth (excluding superannuation) have a market value of less than $6m. These concessions enable business owners to better protect their business and personal wealth. They also typically result in several hundreds of thousands of dollars in tax savings.

Therefore, understanding business value and when to consider a business restructure are so important for emerging retailers – many business owners implicitly know that the value of their business is growing rapidly, but they are unaware that in turn, they might lose access to valuable concessions should the market value of their emerging business become too significant.

For further assistance please don't hesitate to contact your Fordham Partner.

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