

US retailer Kmart cuts 22,000 jobs

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In what thousands of workers dubbed as “Black Friday,” bankrupt retail giant Kmart announced yesterday it would close 284 stores throughout the US and eliminate 22,000 jobs as part of a reorganization plan being submitted to the bankruptcy court March 20.

Kmart will close about 13 percent of its 2,114 stores and lay off about 9 percent of its 250,000 employees. The Troy, Michigan-based company—which dates back a century, to the first SS Kresge store in Detroit—is billions of dollars in debt after a dismal holiday season and years of intense competition from Wal-Mart Stores Inc. and Target Corp.

The job-cutting announcement comes as employment levels in several sectors of the US economy continue to decline, undermining Federal Reserve Chairman Alan Greenspan’s statement that an “economic expansion is well under way.” The layoffs at Kmart bring the number of job losses in the retail sector to 164,000 since last July.

February’s jobless rate fell slightly to 5.5 percent—with 7.9 million Americans officially unemployed—but jobs fell sharply in manufacturing (50,000), wholesale trade (15,000), finance (11,000) and mining (6,000). These figures suggest that even if the US emerges from a recession it may see a “jobless recovery,” i.e., a growth in corporate profits without a correspondingly significant rise in employment.

The stores to be closed include 271 Kmart discount stores and 12 Kmart Supercenter retail outlets in 40 states, as well as 1 Kmart store in Puerto Rico. Officials at Kmart, which filed for Chapter 11 bankruptcy protection in January, said the store closings and liquidation sales would boost cash flow by \$550 million in 2002 and \$45 million annually thereafter.

Kmart previously had said it would close stores, but hadn’t stated how many or indicated how many employees would be affected. “The decision to close these under-performing stores, which do not meet our

financial requirements going forward, is an integral part of the company’s reorganization effort,” Charles Conaway, the company’s chief executive, said in a statement.

The company’s stock, which plunged from over \$5 a share at the end of December to as low as 68 cents on January 21, immediately jumped 19 cents on word of the store closings. By the afternoon, however, shares fell back to trade just 4 cents higher, at \$1.28, as Wall Street analysts complained that the cost-cutting was insufficient.

“We would be more comfortable with the Kmart story were the company to close more than 300 stores,” Shelly Hale, an analyst with Banc of America Securities wrote in a note to investors earlier this week. “We believe that for Kmart to operate as an efficient retailer the company should close at least 500 stores, or closer to 25 percent of its stores.”

After anxiously waiting weeks to learn whether or not they still have jobs, Kmart employees were notified as they arrived at work Friday which stores would be closed. Many Kmart “associates” wore black in anticipation of the closings and mass layoffs. Most will be laid off within two months.

As the official list of store closings was made public, scores of Kmart workers e-mailed messages to discussion groups and web sites, expressing their anger and dismay.

A worker from Hibbing, Minnesota wrote: “We will also be closing ...we did our best but it wasn’t good enough for the Corp. We did everything they wanted and more. We did not fail. To all of the stores that are closing, remember there is life after Kmart. My best also to all the stores that are still open, but remember this day may come to you also.”

Another, from Ashland, Ohio, wrote: “Those that we were able to inform wore black today. Most of us knew we were closing but even still, it hurt. We only have

eight weeks to work, only four more paydays, but the hardest of all is losing my family. In 27 and a half years I have spent more time with them than with members of my own family. Some I worked with in the beginning, later I worked with their children. We went through emotional and financial hard times, birth and death together. After we were given the news we hugged and cried together. I will miss them so. I know there [are] a lot of others out there just like me.”

Another posting read: “I’m so sad. I remember shopping at Kmart with my parents as a child. It was always on our dad’s payday that we went. I love Kmart. The one closest to me in Chicago is closing. There is something so wrong about this. Our country is run by heartless corporations, now. I’ve had enough of capitalism, it’s just gotten worse and worse. I’m moving to Europe.”

Shortly before filing for bankruptcy, Kmart’s board of directors reached a deal to pay the company’s CEO, Charles Conaway, almost \$12 million and to forgive a \$5 million personal loan, irrespective of the outcome of the firm’s reorganization.

Kmart’s board also hired James Adamson as a so-called turnaround specialist. Adamson will get \$4.5 million and a \$4 million bonus if the retailer emerges from Chapter 11 bankruptcy next year. Ronald Hutchinson, Kmart’s new chief restructuring officer, will be paid an annual salary of \$475,000, a lump-sum cash payment of \$250,000, and living expenses. He also will receive \$1 million if he is still with the company when it comes out of bankruptcy.

The board made these arrangements at the same time it suspended matching contributions to the employees’ 401(k) pension plans and prepared to lay off thousands of workers.

The bankruptcy court has already approved \$150 million in bonuses for Kmart executives (vice-presidents and regional managers) and managers. The court will decide on March 20 whether to approve the compensation plan for Kmart’s CEO & top executives.

Commenting on this, one Kmart worker wrote: “What about the employees that have been let go and lost all their retirement? Do the executives care about them? Many had 30+ years with the company, had given their life for it, for what? Nothing! Will they be compensated like Conaway and Adamson? I think not! For the most part they were good employees, why else

would they have lasted as long as they did if they had not been? They gave their lives to a company that turned out not to care about them or their families. How many will be forced to work now until death, because Kmart took away what they had been working for so many years? A lot of them would have been able to retire in less than 10 years, now they have to start over. Is this fair?”



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