Mass jobs destruction at US retailer Kmart

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Giant US retailer Kmart, which filed for bankruptcy in January 2002, announced plans January 14 to close 326 stores and lay off as many as 37,000 workers. Since it became the largest retail store chain in history to declare bankruptcy, with $16.3 billion in pre-bankruptcy assets, the company has already closed 283 stores and laid off more than 22,000 workers.

If a bankruptcy court judge in Chicago approves the Kmart management's new plan at a hearing on January 28, the stores could be closed down by early April. At that point Kmart would operate 1,500 stores and employ 188,000 people, a business three-quarters of its pre-bankruptcy size.

The closures will take place in 44 states and Puerto Rico, and a distribution center will be shut down in Corsicana, Texas. Kmart is closing 54 stores in Texas and abandoning entirely major markets such as Dallas and Houston. The retailer is shutting down 25 stores in Florida, 19 in California, 18 in North Carolina and 16 in both Georgia and Ohio. Michigan is losing 13 stores, on top of the 18 closed last year.

A financing plan also submitted by the company to the federal judge, Susan Pierson Sonderby, included an option to close an additional 400 stores. Kmart's president, Julian C. Day, said there were no plans "at this time" to close more outlets.

Kmart, based in Troy, Michigan, lost $4.4 billion in 2001 and the first three quarters of 2002. Sales at stores opened more than a year declined 5.7 percent in December. The majority of financial analysts do not expect the company to survive in any form. David Fick of Legg Mason Inc. in Baltimore told the *Detroit Free Press* that he "would be surprised if the company continues to operate a year from now." A retail consultant in Fleetwood, Pennsylvania, Robin Lewis commented to the *Detroit News*, "I believe the next step is liquidation. For them, reorganizing is like rearranging the deck chairs on the Titanic."

Sixteen of the 26 major retailers who have filed for bankruptcy since 2000 are now out of business entirely, including Montgomery Ward and Service Merchandise. The first Kmart store opened in 1962, but the company is the modern incarnation of S.S. Kresge, which was founded more than a century ago.

In their January 14 statement to the press Kmart executives asserted that as part of the new plan the company will be emerging from bankruptcy in April, three months sooner than expected. Officials said they had $2 billion in financing lined up to pay day-to-day expenses in their post-bankruptcy existence.

The mass jobs destruction will cause untold hardship to workers and consumers. A manager at a Texas store told the *Free Press* that the company announcement "was devastating, just devastating. It's just that you're never ready." Employees, he said, were hurt, angry and afraid, "all those emotions that come with uncertainty." The manager of a South Carolina store that will remain open commented, "I'm still waiting for the shoe to drop. What else is going to go on? How is the public going to deal with it? It's not over yet."

Meanwhile the US Justice Department is nearing the conclusion of a year-long probe of Kmart's financial practices and is expected to announce shortly whether it will seek criminal indictments against former company officials. The inquiry centers on personal finances and compensation deals that former Chairman Charles C. Conaway, former President Mark Schwartz and other executives arranged in the months preceding the declaration of bankruptcy. A major area of interest for investigators is the $28.8 million in so-called retention loans to two dozen executives, most of whom have left the company since its Chapter 11 filing. Executives who received such loans include Conaway, Schwartz, former CEO John T. McDonald Jr., former merchandising head Cecil Kearse and chief administrative officer David Rots.

In a January 9 letter to US Rep. Bill Tauzin, Republican from Louisiana and head of the House Energy and Commerce Committee, an anonymous group of Kmart employees said they were willing to come forward with new allegations of corruption inside the company. The group of “concerned employees” asserted that “many things continue to be wrong at Kmart,” adding, “The company has not fully cleaned its house of corrupt executives and Kmart’s future is seriously jeopardized by its continuing failure to do so.” The letter writers promised to “provide incontrovertible evidence of the corruption that devastated our company,” and said they planned to invoke protections offered by the False Claims Act and Michigan Whistleblowers’ Protection Act if necessary.

Kmart has been the subject of three probes, by the FBI, the Energy and Commerce Committee and the Securities and Exchange Commission.

In other major layoffs:

Retailer **J.C. Penney** announced plans January 10 to cut 2,000 jobs from its slumping catalogue business. The company said it would close its Atlanta catalogue center and telemarketing offices in Atlanta and Lenexa, Kansas. J.C. Penney, which also operates the Eckerd drug store chain, employs some 250,000 people. Combined results for stores and the catalogue unit were expected to be down for the 2002 holiday season.

Officials at Buffalo, New York-based M&T Bank reported that more than 1,100 employees will be laid off at **Allfirst**, as part of its acquisition of the Baltimore bank from Allied Irish Banks. The majority of the cuts will be in Maryland. The largest shareholder of M&T is billionaire Warren Buffett. Allied Irish announced the sale in September, seven months after discovering $691 million in losses at Allfirst by its senior foreign-exchange dealer.

Best Buy, the leading US electronics chain, cut 700 jobs when it closed 107 Musicland stores in early January. A lackluster music industry and a decline in mall customer traffic has hurt sales and profits at Musicland.

The largest US tiremaker, **Goodyear Tire & Rubber** of Akron, Ohio, reported plans January 16 to cut more than 700 salaried jobs at its corporate headquarters and North American tire operations in order to cut costs. Goodyear, which employs 92,000 people worldwide, is under pressure from a declining market share in North America. The job cuts will be completed before March 31.

In other economic news, a leading measurement of consumer confidence declined further in January as fears of war with Iraq and bleak job prospects have made Americans more pessimistic about the economy. The University of Michigan’s preliminary January consumer sentiment index fell to 83.7 from 86.7 in December. According to Reuters, the decline “confounded” economists who had expected it to remain unchanged. Cary Leahey, senior economist at Deutsche Bank Securities, commented, “It’s reflecting geopolitical concerns and the jobless recovery.”

The National Bureau of Economic Research (NBER), the accepted arbiters on when recessions begin and end, declined once again January 15 to declare the recession that commenced in March 2001 at an end. More time, the NBER statement declared, was needed to be sure that a renewed slump would “be a separate recession, not a continuation of a past one.” The group was particularly troubled by the loss of 181,000 jobs in November and December.