Kmart-Sears merger threatens thousands of US jobs

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18 November 2004

Executives of the discount retail company Kmart and the Sears department store chain announced a massive merger deal on Wednesday. The new corporation will be the third largest US retailer, with a total of 3,450 stores and an expected annual revenue of $55 billion.

The move threatens thousands of jobs. While both Kmart and Sears executives have said nothing about future layoffs, business analysts left little doubt as to what will soon follow. “It looms good for both businesses overall, but in the short term it will cost jobs,” Gary Ruffing, head of retail services at the managing consulting group BBK, told Associated Press. Kmart currently employs approximately 144,000 people, and Sears 250,000.

Facing the most immediate uncertainty are Kmart workers at the company’s headquarters, located in Troy, Michigan, a suburb of Detroit. The merged corporation’s central offices will be shifted to Hoffman Estates, Illinois, the current headquarters of Sears. Kmart has insisted that it will maintain a “significant presence” in Troy. However, the company has already begun laying off its workers in the Detroit suburb, with 200 job cuts announced three months ago.

The merger is expected to reduce overall annual costs by more than $300 million, although what proportion of this will be due to job eliminations remains unclear. Kmart’s press release explained that “the combined company will complete a full store asset review as part of a plan to monetize non-strategic real estate assets as appropriate.” In other words, any Kmart or Sears store that is deemed insufficiently profitable will likely be sold or closed.

This strategy has been ruthlessly pursued by Kmart over the past two years. In January 2002, the company filed for bankruptcy after its debt spiraled to more than $10 billion. Since then, Kmart has closed 599 stores and cut approximately 59,000 jobs. The company has posted a profit for the last four quarters on the basis of these cutbacks.

In May last year, Ed Lampert was appointed chairman of Kmart. The executive, whose personal wealth is estimated at $800 million, owns ESL Investment, a large hedge fund company. Through this company, Lampert now controls 52.6 percent of Kmart stock and about 14 percent of Sears.

Lampert’s appointment indicated that Kmart’s major investors and creditors were looking to abandon any strategy of maintaining the company as a viable retail chain, and were instead looking to simply sell off its assets.

Many economic commentators believe that Kmart will end up being liquidated after most of its stores are closed and auctioned off. “I think from the first minute, [Lampert] recognized Kmart was hopeless and was going to liquidate it,” Howard Davidowitz, chairman of retail investment banking firm Davidowitz & Associates, told *thestreet.com* in August. “He’s got valuable real estate and he’s always got an operating enterprise that he is managing very carefully and milking as opposed to growing or gaining market share. If you take all those things together, you have to believe that he’s got an investment vehicle in mind.”

“Lampert’s goal is to keep Kmart humming so it can continue throwing off cash,” *BusinessWeek* wrote in its current issue. “Even if Kmart eventually fails, keeping it going as long as possible lets him extract top dollar for its valuable real estate by selling the stores over time.”

Some commentators believe that the Kmart-Sears merger has been designed to accelerate this process. “This entire deal is designed to pile up cash, and Lampert will then liquidate his position or buy something else and do the same thing all over," declared Erik Gordon, a marketing professor at Johns Hopkins University.

Following the merger announcement, Kmart stock rose by 15 percent, and Sears shares jumped by 22 percent.

The closure of more Kmart stores will have devastating consequences for workers and their families, and will negatively affect the predominantly working class communities where Kmart stores are located.

While the merger is expected to reduce costs by $300 million, and add $200 million in value through "revenue synergies," there will be no reduction in expenses for the company's executives. Not a single senior executive will be retrenched.

Before filing for bankruptcy, Kmart's board of directors voted to pay the company's then-chief executive officer, Charles Conaway, almost $12 million, and forgive a $5 million personal loan. The bankruptcy court subsequently approved $150 million in bonuses for Kmart executives and managers.

Conaway was succeeded by James Adamson, who received approximately $7 million for his 10-month stint as company CEO and chairman. This was small potatoes compared to Kmart's next CEO, Julian Day, who also held the position for 10 months. After resigning from the post, Day was rewarded with cash bonuses and stock options worth an estimated $94 million.

The threat to Kmart and Sears jobs follows a number of other major layoffs:

Detroit Public Schools announced on Monday that 4,000 jobs would be lost, and as many as 40 of the district's 255 schools would be closed, due to a projected budget deficit.

On November 10, **Delta Airlines** announced that it plans to cut up to 6,900 jobs over the next 18 months. The company is also demanding a 10 percent across-the-board pay cut and reduction in benefits for those employees kept on. Delta declared that the moves were needed to avoid bankruptcy.

Marsh & McClellan Companies, the largest broker of commercial insurance, laid off 3,000 employees, 5 percent of its workforce. The layoffs were expected to save the company $400 million a year. Marsh & McClellan Companies' stock has fallen by more than 40 percent since the New York attorney general sued the firm for allegedly cheating its customers.

The US's second largest telecommunications company, **SBC Communications**, announced plans to slash more than 10,000 jobs—6 percent of its total workforce—by the end of 2005. This comes on top of the 7,000 jobs SBC has axed in the last year.