Germany: Further job losses follow Woolworth's insolvency

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Last week, Woolworth's Germany filed for bankruptcy in Frankfurt district court. According to the administrator Ottmar Herman, at least 9,700 of the company's 11,000 jobs in Germany and Austria could go at more than 300 branches of the chain. The business can continue operating for the moment, as long as the workforce receives payment from the insolvency fund instead of their usual wages. This, however, is far from certain.

The bankruptcy is the result of the company being eviscerated by various financial investors. While these have lowered wages over recent years, and have intensified working conditions and reduced jobs with the support of the trade unions, profitable parts of the company have been sold off at the same time.

In this weakened state the company was then hit particularly hard by the financial crisis, which has been gripping retail trade for a long time. According to the Federation of German Retail Trade (HDE), some 5,000 retailers face annihilation due to falling turnover and exorbitant credit rates. Department stores in particular are suffering because of their high operating costs.

In July 2008, Hertie had already announced bankruptcy. In the second half of the year the textile chain SinnLeffers and the fashion house Wehmeyer followed. As a result of the insolvency proceedings, Wehmeyer closed more than one third of its branches; SinnLeffers shut half; and Hertie closed 19 of its 73 stores. Thousands of jobs have been destroyed.

Woolworth's is now the fourth retail chain since the middle of last year to be seriously hit by the economic crisis. Last year, Woolworth's operations in Britain went into bankruptcy; the company closed its last branch in the US in 1997.

Like Hertie, SinnLeffers and Wehmeyer, Woolworth's Germany was taken over by financial "locust" investors and cannibalized some years ago. In 1998, the British private equity investor Electra Fleming, today Electra Partners Europe, acquired the chain for the equivalent of €486 million. This "grasshopper" outfit provided only about €77 million of its own capital, financing the rest through raising loans, money which was supposed to be recouped by a later initial public offering.

To this end, branches were closed, jobs reduced and the range of goods on offer cut back. But profits still remained lower than expectations. At the end of 2005, Electra stepped up the pressure and brought businessman Robert Brech onto the company board. Brech had previously been employed by the department store company Karstadt (where he had sold off the SinnLeffers and Wehmeyer brands already mentioned) which filed for bankruptcy shortly thereafter.

At the end of 2007, chief shareholder Electra Partner sold the operational business of Woolworth's to the financial investor Argyll. In the months that followed, Woolworth's boss Brech pushed through a series of cuts, slashing over 1,000 jobs, closing branches, and reducing product range and the number of suppliers.

The most important step taken, however, was the sale of nearly all of the company's property to the investor Cerberus. About 100 branches were handed over to the hedge fund and subsequently rented out. The remaining branches also no longer belonged to Woolworth's. It was the income received by Argyll from this sale that made it possible for the investment house to buy Woolworth's. Argyll held inadequate capital reserves for an outright purchase.

All of these measures were expressly supported by Verdi. The union has supported every round of cuts, arguing that the cuts were the best means to secure jobs and the recovery of the company. Verdi not only welcomed the takeovers by Argyll and Cerberus, but also even offered his services in implementing the cuts.

In a press statement shortly after the takeover the union wrote: “The workers’ delegates now have the difficult task of accompanying the imminent mass redundancies and the expiration of individual processes and negotiate with management a reconciliation of interests and a social plan.”

The policy of the trade union led to the replacement of over half the jobs at Woolworth’s with part-time or low-wage jobs. So-called mini-jobbers usually receive only €5 to €6.5 per hour. The union’s policy has ensured fat profits for the hedge fund managers and investors, but failed to save a single job. Instead the insolvency augurs a further round of vicious wage cuts and massive downsizing.

Insolvency administrator Herman announced that he sees a good chance to save Woolworth’s. He said last Wednesday that Cerberus had offered to take a greater role in the business. Verdi spokesman Johann Rösch told the *Frankfurter Rundschau* that under these conditions he regarded further “concessions by those employed” as conceivable. In other words, the union is prepared to enforce yet another round of wage cuts and redundancies.