Insolvency of Schlecker drugstore chain threatens 47,000 jobs throughout Europe

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On January 15, the drug store chain Schlecker filed for bankruptcy at the Ulm District Court. This will affect about 47,000 jobs, including 30,000 in Germany. Schlecker currently has just over 7,000 stores in Germany and 3,000 more in Austria, Spain, France, Italy, the Czech Republic, Poland and Portugal.

The drugstore empire, which is privately owned by founder Anton Schlecker, is seeking a so-called orderly bankruptcy plan. In this process, the company is preserved but receives bankruptcy protection and can terminate existing contracts prematurely. This applies not only to contracts with suppliers and landlords, but also to labour, wage and working conditions agreements.

Schlecker signed a collective agreement with trade union Verdi 10 years ago after the company had received negative press because of its miserable wages and working conditions. A job security pact is in force until the middle of this year, which prohibits the company from eliminating staff who have become superfluous by closing branches.

Anton Schlecker, whose personal fortune is estimated at €3 billion, hopes to get out of both contracts through the bankruptcy plan. He could then divest the business of unprofitable stores, throwing the workers onto the streets, while profitable stores would continue, paying much lower wages.

"The company can divest itself of all non-lucrative stores, but keep the lucrative ones", said Bremen bankruptcy lawyer Klaus Klöker as he extolled the benefits of an insolvency plan in *Der Spiegel*.

Jörg Funder, management professor at the University of Applied Sciences Worms, estimates that approximately one in two of the remaining branches will close. "But that will not happen without large cuts, I am anticipating a large wave of layoffs," he told *Zeit online.*

However, it is not certain that an orderly bankruptcy plan will come about because the creditors have to agree to such procedures. The Markant purchasing association, to which Schlecker reportedly owes millions, has expressed reservations. Normal bankruptcy proceedings threaten the utter destruction of the company. Experts believe that only a fraction of the 7,000 Schlecker stores would be transferred to other drug store chains.

Dirk Rossmann of the competing Rossmann chain has expressed an interest in a maximum of just 50-80 Schlecker stores. "I venture to prophesy that the liquidator will not be able to pass on many stores to other operators", he told *Focus.* The vast majority of the 7,000 stores in Germany would have to close because they were no longer required.

Prior to filing for bankruptcy, Schlecker had already closed hundreds of branches or converted them into larger so-called XL-markets to guarantee much higher sales. According to a study by the Cologne Trade Research Institute EHI, Schlecker is still lagging behind its competitors in this regard. Schlecker managed to achieve only €2,200 sales per square metre of retail space, while Rossmann achieved €5,000 and dm-market €6,500.

The bankruptcy plan is a means to overcome this gap at a stroke—at the expense of the employees. Schlecker is working closely with the trade union Verdi, which has signed up to job cuts in the past.

In December of last year, Schlecker asked Verdi to approve a restructuring agreement. The company, notorious for its secrecy, opened its books to the union in return. Since then, experts have been examining Schlecker's business figures on behalf of Verdi, while negotiations take place with the banks about a restructuring of the company and new investors are sought.

Verdi headquarters was fully informed about the impending insolvency, if not itself directly involved in the negotiations with the banks and investors. The workforce, however, learned about the impending bankruptcy from the media or from customers only on Friday of last week, after Schlecker announced a visit to the bankruptcy judge.

Verdi has so far said little about the emerging mass layoffs. Other than calling on company founder Anton Schlecker to invest his own capital in the restructuring of the company and communicate “clearly and openly” about what was happening, nothing has been heard from the union concerning any proposals to defend jobs.

Schlecker’s rise and fall

Anton Schlecker, a master butcher from Ehingen in Baden-Württemberg, opened his first drug store in 1975, after retail price maintenance for drug store items was abolished the previous year. There followed a breathtaking expansion. By 1977 there were a hundred Schlecker drug stores, in 1984 it was a thousand, and so it went. From 1994, Schlecker was considered the market leader for drug store products in Germany.

In 1987, Schlecker began to expand throughout Europe, first in Austria, and two years later in the Netherlands and Spain. In 1991, Schlecker gained a foothold in France through the takeover of the company Superdrug, and moved into Italy in 1999. In 2004, drugstores were opened in Poland and Denmark, in 2005 in the Czech Republic and Hungary, and in 2006 in Portugal. Besides Austria, with 970 branches and about 3,000 employees, especially Spain, Italy, the Czech Republic and Poland have become major foreign markets for Schlecker. In 2008, the company possessed 14,000 retail outlets across Europe, with 50,000 employees and annual sales of more than €7 billion.

The business concept was relatively simple. It was based on miserable pay rates and the brutal exploitation of its workers. In general, a single permanent cashier had to run an entire branch with just one or two part-time staff—handling all the cash, advising customers, ensuring shelves are stocked, etc. For many years, some of the more remote branches did not even have a phone. In the eventuality of an assault, staff could not call for help. Later, they were provided telephones, but from which employees could not make calls.

Working conditions were so bad that in the 1990s they triggered a public scandal. Employees were not only badly paid but also spied upon and harassed by the frequent use of test purchasers. In 1998, Stuttgart District Court sentenced Schlecker and his wife to 10 months on probation, ordering them to pay 2 million German marks for charitable purposes because the company had failed for years to uphold the generally binding collective agreement covering the industry.

Anton Schlecker amassed a huge fortune with these business methods. He is ranked 26 on the list of the richest Germans. The assets of the Schlecker family were estimated by *Manager Magazine* in 2009 at €2.75 billion.

For a long time, there was no union representation at the company. It was not until 1996 that Schlecker permitted the election of a Works Council. In 2001, Schlecker signed a union recognition agreement with Verdi. But for Schlecker’s employees, little changed.

Since 2009, Schlecker has sought to reposition itself through establishing larger so-called XL-markets, which was linked with the closure of smaller branches nearby. Employees in the smaller branches were made redundant due to the closures. Some of them were then offered a new job in the XL-markets.

But in these legally independent Schlecker XL-markets, the previously concluded wage agreements did not apply. More than two thirds of staff were hired to Schlecker XL GmbH as temporary workers from the specially established temp agency Meniar (“People at Work”). Since the temp agency is based in Zwickau in eastern Germany, staff working in west German stores are paid at the lower east German rate of under €7 an hour.

Given the public outrage over this state of affairs, the company promised in 2010 not to agree any new contracts with the controversial Meniar temp agency. In June 2010, Schlecker concluded three new collective agreements with Verdi: a social tariff agreement and a job security agreement for the employees of the old Schlecker markets, as well as a collective agreement for the new Schlecker XL markets.

The Verdi official responsible, Achim Neumann, commented in November 2010 to *Manager Magazine* full of praise for the new contracts: “Schlecker is somewhat of a pioneer in the industry.” Verdi head Frank Bsirske reiterated this assessment in September last year at the national congress of the union, even though the problems at Schlecker were already looming. The bankruptcy filing now means these contracts are worthless.