Germany: Karstadt department store to shed 2,000 jobs

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Once again, Karstadt employees must fear for their future; the company is planning massive job cuts. Some 2,000 of the current 25,000-strong workforce would be eliminated by 2014, Karstadt's CEO Andrew Jennings said on Tuesday at the company's Essen headquarters.

Seventy percent of the job cuts will fall on just 15 of the 83 Karstadt stores. In some, whole departments will be closed. Details should be announced in October after negotiations with the works council.

On Monday, Jennings had presented the plans for the mass sackings to the media as the "next phase of strategic restructuring and structural adjustment."

The announcement will hit the employees of this 130-year-old company particularly hard; since the takeover of the bankrupt department store chain by the investor Nicolas Berggruen, many had waived large parts of their holiday and Christmas bonuses. It was not the first time Karstadt workers had accepted a wage cut to supposedly help the firm get back on its feet.

In 2004, the Arcandor Group, which in addition to Karstadt also owned the Quelle and Neckermann mail-order companies, got into financial difficulties and tried to save itself through radical cuts in workers' wages, jobs and social benefits. The Central Works Council and Verdi trade union supported the company.

They played this role again in 2009, when Arcandor filed for bankruptcy. Neckermann had been sold off for a song to the American private equity firm Sun Capital in 2007, and has now itself filed for bankruptcy. Quelle was floated off as part of the bankruptcy proceedings in 2009, while the Karstadt department stores were sold for the symbolic price of one euro to the German-American billionaire investor Nicolas Berggruen.

Verdi feted the son of the famous art dealer Heinz Berggruen as a knight in shining armour, and negotiated a reorganisation agreement under which the workforce gave up vacation and Christmas bonuses totalling 150 million euros.

In return, Berggruen promised to continue operating the slimmed-down department store chain with 25,000 employees; to invest 240 million; and not to require any further sacrifices from the workforce. He blathered on about the revival of the "cult brand Karstadt" and wanted to offer supposedly "fresh and attractive opportunities."

None of this now remains. After expiration of the reorganisation agreement, it is now a matter of brutal business decisions. The promise of secure jobs, for which the Karstadt employees have sacrificed so much, is no longer worth anything. The erstwhile saviour has said nothing about the restructuring plans announced. An industry expert was quoted in *Zeit-online* saying: "I've always been amazed that Verdi appeared to believe that he [Berggruen] would do it out of the goodness of his heart."

The company itself had to find the 400 million to be invested in the modernisation of the business. Berggruen did not pay a cent. The *Lebensmittel-Zeitung* trade journal reported he was flirting with withdrawing cash, which was denied, however.

Contrary to the original promise, the "downsizing" went much further after the takeover by Berggruen. For example, in the past two years, 100 jobs have gone at the big Karstadt store on Mönckebergstraße in Hamburg, according to the works council chair Ursula Stolle.

Of the 25,000 jobs when Karstadt was taken over, about 22,000 will remain in 2015. Whether no branches are closed, as Karstadt chief Jennings now promises, is more than questionable in view of the broken promise on job security.

The management has stated that the new job cuts are necessary to keep the stores competitive in face of the "challenging market conditions of the euro crisis" and the return to the regular retail trade salary agreement.

After the expiration of the reorganisation agreement in late August, Karstadt employees will receive the full pay to which they are entitled, after six years. So far, the management has given assurances that the additional costs for this are included in the company's budget. But now the additional 50 million will be saved by reducing jobs and increasing the exploitation of the remaining staff. Even now, it is difficult to find staff on the shop floor, and queues frequently form at the few open tills.

Nothing can be heard from the union about fighting the planned job cuts. Verdi spokesperson Christoph Schmitz said the union would wait until the company's plans were clear. But Verdi seems to have been long informed about the planned job cuts and has already published some details about them. Reportedly, about 900 jobs will be eliminated as early as next year, another 1,000 in 2014 and the rest in 2015.

Verdi has even calculated that up to 4,000 employees will be affected by layoffs. The high proportion of part-time workers means the elimination of 2,000 full-time posts will cost about 3,000 employees their jobs, said a spokesman for the union. In addition, there is the previously announced closure of the multimedia department (costing 648 jobs) and the non-renewal of temporary contracts.

Where the layoffs will fall is not yet determined, said a company spokesman. The layoffs should take place "as socially responsibly as possible"—through early retirement, "voluntary departure" and the expiration of fixed-term contracts. Negotiations with employee representatives will begin in September.

The layoffs at Karstadt are not unique. Many retail companies are restructuring or have filed for bankruptcy, such as the mail order company Neckermann with 2,400 jobs nationwide. The Schlecker drugstore chain filed for bankruptcy at the beginning of the year, and is now closed. The Thalia bookstore chain, the clothing chain Esprit and the Penny discount store chain are regarded as cases for reorganisation. The shoe retail company Görtz wants to close several stores, and its rival Leiser went bankrupt a few weeks ago. The DIY chain Praktiker's was able to avoid insolvency at the last minute. Metro Cash and Carry has also announced plans to cut 900 jobs.

Experts cite overcapacity as the reason. Given the global economic crisis, the resulting decline in incomes and the uncertainty that is also affecting relatively well-off middle class layers, many consumers are cutting back on their purchases.