Germany: Praktiker and Max Bahr DIY chains face closure

Michael Regens
11 September 2013

Last weekend, it was announced that the Praktiker DIY chain is to close after a months-long bankruptcy process. The Praktiker subsidiary Max Bahr is threatened with a similar fate. More than 23,000 employees at Praktiker and Max Bahr face unemployment; many more in the supply chain will also be affected.

The end of the DIY chain marks the culmination of a long development, in which the burden of the economic crisis that erupted in 2008 has been systematically passed on to the workforce, while a series of financial investors have been able to enrich themselves at the expense of the company.

On July 10, 2013, Praktiker AG declared it was insolvent. The insolvency administrator and former investment banker Christopher Seagon said at the time that many Praktiker outlets had a future under the name of Max Bahr as long as it was possible to dispose of a third of the total of 168 branches and find a new investor. Two weeks later, this statement was nullified as Max Bahr followed the parent company into insolvency.

A few days later, on July 30, press reports indicated that there were "more than a handful" of inquiries from prospective investors for both DIY chains. The online edition of the *Süddeutsche Zeitung* (*SZ*) quotes Seagon as saying that as well as competitors, "a good number of strategic and financial investors" were also interested in the two chains. However, this statement was not followed by any commitments.

The main reason repeatedly cited for the bankruptcy of Praktiker by the media and the Verdi trade union is "management errors". However, the bankruptcy proceedings cannot be separated from the effects of the global economic crisis on Germany and Europe.

In 2007, Praktiker took over its competitor Max Bahr, expanded into eastern Europe and targeted an increase in its market share. This changed in 2008 with the outbreak of the world economic crisis: Sales fell steadily from €3.9 billion in 2008 to €3.45 billion in 2010 and finally to €3 billion in 2012. Under the conditions of the recession, profits of €80 million in 2008 were transformed into a loss of €594 million by 2011.

Bled dry financially by years of paying returns to small and large shareholders, such as the US bank JPMorgan Chase, Praktiker AG had to increasingly take on costly debt and loans after 2008.

According to the company's annual report, Praktiker had debts of €248 million and loans of €49 million, on which the company had to pay exorbitantly high interest rates. One example is Austrian fund manager Isabell de Krassny, who represents the Viennese private bank Semper Constantia and the Cypriot European Fund Maseltov. According to media reports, Krassny pocketed interest at 12.5 percent.

The rents were another burden: Although nationwide some 14 branches were closed in the course of 2012, the cost of rents further increased between 2011 and 2012. In 2005, Metro AG, the former owner of Praktiker AG, sold its property portfolio to the investment company Curzon Global Partners for €480 million, which has since been collecting the rents.

In addition, there were millions spent on constantly changing managers and consultants' fees. At the end of August, business magazine *Capital* reported that Praktiker has spent more than €80 million in consulting fees since 2011. The main beneficiaries are said to have been the corporate law firm Freshfields and corporate consultants Roland Berger and McKinsey. The so-called restructuring plan has also come from Roland Berger, according to press reports.

© World Socialist Web Site

It is this mix of a global and pan-European capitalist crisis and the unbridled greed of the financial and economic elite that has finally broken Praktiker and now threatens the jobs of tens of thousands of workers.

A particularly treacherous role is being played by the trade union Verdi. From the beginning, the union has stood behind management and their "restructuring plan", leaving the employees in the dark and refusing to defend their jobs.

In October 2012, Praktiker and Verdi agreed to a "restructuring agreement", which envisaged wage cuts of 5 percent by the end of 2015, saving the company €51.9 million annually in personnel costs. Verdi justified this by saying it had secured the "most extensive job security," but in the end the money only flowed to the creditors and investors.

Verdi's complicity reached its peak in June 2013, when just a few weeks before the announcement of the bankruptcy the union signed a "Supplementary Agreement" to the restructuring accord already agreed on with management. This confirmed the wage cuts once again, keeping them in place for 2013 and 2014. Barely five weeks later, after the insolvency proceedings had been officially launched, the union indicated that they had known of the insolvency for some time.

It wrote: "This [the bankruptcy] has been coming for the workforce for a long time. There was advertising without the corresponding goods being in the market, difficulties in deliveries, cancelled orders and one discount campaign after the next."

They then said that with the insolvency proceedings, the restructuring agreement was "moot" and no more restructuring contributions would be required. Verdi declared it would press for the contributions already paid in the insolvency proceedings. Union members would have a claim for legal support, therefore allegedly justifying Verdi membership.

Since the beginning of the insolvency proceedings, Verdi has advocated the setting up of a so-called rescue company, whose purpose was to help delay unemployment for six months.

The union has not organised any serious protest. Rather, Verdi and many of the works council members have banned workers from speaking to the press, and sought to intimidate them, as WSWS reporters established in discussions with Praktiker workers. In this way, they are seeking to protect management and the insolvency administrator and isolate the workforce from the solidarity of the public.

Since the weekend, it is clear that all Praktiker stores will be closed and short sales organised in the coming weeks. According to the liquidator, this should be done in a bid to attract more potential investors, as these would be more interested in stores with no inventory.

There were also new rumours circulating about a consortium led by the DIY group Hellweg that was interested in the takeover of a large part of the Max Bahr stores. The press releases were traced back to the liquidator's spokesman. It is likely that there is no basis for these reports, and that they are merely meant to keep the employees quiet.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site