Breakup of German department store chain threatens jobs and wages

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Investor Nicolas Bergruen, once lauded by the works council and Verdi trade union as a savior, plans to sell off the most valuable parts of the Karstadt department store chain to Austrian property speculator René Benko. Bergruen will sell 75.1 percent of his share of stores in Hamburg, Berlin and Munich, as well as Karstadt's chain of 28 sporting goods shops.

The deal is a further step in the winding down of the chain, which has a history dating back 130 years. It threatens the jobs at the remaining 83 Karstadt stores. While the unions speak of a "first step" in saving the firm, experts see the latest move as a "last chance" that will inevitably involve further layoffs.

The *Frankfurter Allgemeine Zeitung* (FAZ) wrote that the deal "appeared to be an emergency sale, suggesting that industry rumors that Karstadt would have no liquidity in the new year without an injection of capital were true."

Bergruen has been very reluctant to make statements about his future plans. It now appears that his promise to keep the company and the Karstadt brand intact was a deceitful maneuver. More likely, he intended from the outset to gut the company.

Bergruen bought the insolvent firm in 2010 for the symbolic price of 1 euro. He reassured the employees that they would have a secure future. Previously, the company had been restructured under the direction of a bankruptcy administrator working with the full collaboration of Verdi. Several stores were closed, workers were laid off and significant wage cuts were agreed.

This was the third restructuring program since 2004. All three were negotiated at the expense of the workforce and bore the signature of Verdi and the works council. Workers at Karstadt, for nearly a decade in fear of losing their jobs, have been repeatedly whipsawed into accepting new concessions by the company, the bankruptcy administrator, and the unions.

Along with the catalogue companies Quelle and Neckermann, Karstadt was part of the Arkandor concern, which fell into financial difficulty in 2004. The union signed up to a restructuring plan at the expense of the workers, but this failed to save the company. Neckermann and Quelle went bust in 2007 and 2009 respectively, while Bergruen took over Karstadt. The restructuring plan negotiated by Verdi required the workers to sacrifice 150 million euros of holiday pay and Christmas bonuses by 2012.

Bergruen, a German-American, has a net wealth estimated by *Forbes* magazine to be $2 billion. After being promoted by the unions as the man who would rescue the retail chain, Bergruen failed to deliver on any of the promises he made when he took it over.

Bergruen maintained that Karstadt could save itself—meaning the required savings of 400 million euros could be generated at the expense of the workforce. Entire departments were closed and thousands of additional jobs were slashed from the original total of 25,000.

Karstadt workers sacrificed year after year under the restructuring plan. Under the current plan, entitled "Karstadt 2015," the equivalent of 2,000 full-time jobs is to be eliminated. This will likely take the form of destroying 4,000 part-time positions.

The company has also repudiated the industry bargaining agreement in order to suspend agreed wage increases for two years.

The budget was cut by hundreds of millions, while Bergruen raked in millions. Apart from the purchase sum of 1 euro, which relieved him of having to pay any capital gains tax, Bergruen has refrained from investing a single cent of his own money in the company. He quickly paid back the 65 million euro credit that he had made a condition of his takeover and for which he had demanded a very favorable interest rate.

For a one-off payment of 5 million euros, Bergruen acquired the rights to the Karstadt brand, which, according to *Manager* magazine, brings in annual license payments of 7.5 million euros. According to the *Bild am Sonntag*, after passing through numerous transfer companies, most of this money ends up in the Nicolas Bergruen Charitable Trust, which is based in the British Virgin Islands, a tax haven.

In a letter to the remaining 20,000 workers, Bergruen has promised to fully invest the 300 million euros from the sale of the three premier stores and the sporting goods chain rather than keep it for himself. Experts see the sale price of 300 million as ridiculously low.

In the letter, Bergruen once again assured workers they had no reason to fear for their jobs and presented his investment of the 300 million euros as his personal "contribution" to the salvation of the company. "Let us continue to fight together," he cynically wrote.

Karstadt workers should fear not only for their jobs, but also for their wages. As Bergruen declared ominously, the restructuring had to be pursued through "the agreement route"—meaning he would continue to remain outside the industry pattern contract.

While Bergruen claimed in the letter that he was opposed to any further job losses, he remained silent on the fact that "Karstadt 2015" calls precisely for new cutbacks. The job cuts were negotiated by Chief Executive Andrew Jennings shortly before he announced his withdrawal from the firm, evidently because Bergruen refused to make money available for the restructuring.

It is unclear where and how the 300 million euros will be invested. Industry experts expect that only the most profitable stores in select cities will receive anything, and the others will be dismantled.

At the same time, the new majority owner of the premier stores and sporting goods chain is, like Bergruen, concerned only with generating the maximum profit. Benko's Signa-Holding already owns several Karstadt properties in the best city centre locations.

Workers at the premier stores fear that additional jobs could be sacrificed under the "shop in a shop" concept. Core jobs will likely be eliminated as areas within each store are rented out to high-end brands.

The media is speculating that the maneuver will lead to a rapid decline of the Karstadt brand, and that its chief competitor, Kaufhof AG, will take over Karstadt's business operations. This would leave only a dozen stores standing from the current 83 in the Karstadt chain. The vast majority of Karstadt workers would lose their jobs.