After merger, pay cuts, Office Depot closing 400 stores in US

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Office Depot, which merged last November with rival retailer Office Max in a $1.2 billion deal, announced Tuesday it would close 400 stores by the end of 2016. The company, which has already shut 14 stores this quarter, is expected to close another 150 by the end of the year and complete the shutdown of 21 percent of its outlets over the next 31months.

A store manager in Southfield, Michigan told the WSWS that each retail location employs approximately 25 workers. The closures therefore would result in the destruction of as many as 10,000 jobs. The *Wall Street Journal* says the company is still deciding which of its US stores to close.

The retail giant's share values on the New York Stock Exchange shot up 16 percent Tuesday on news of the store closings and bloodletting of jobs. Chairman and CEO Roland Smith said the move, expected to save $75 million, would be realized in higher earnings by next year. Office Depot raised its profit projection for the year to at least $160 million, excluding costs tied to store closings, despite a $109 million loss in the first quarter.

Office Depot has 2,200 stores and 60,000 employees around the world. At the end of the last fiscal year it had 1,912 retail stores in the US, including 823 OfficeMax stores.

"The overlapping retail footprint resulting from the merger provides us with a unique opportunity to consolidate and optimize our store portfolio, while maintaining the retail presence necessary to serve our customer," Smith said in a statement.

Earlier this year, office supplies competitor Staples detailed plans to close as many as 225 of its stores—or 12 percent of its total number—by the end of 2015. In 2012, Staples shut 60 stores, mostly in Europe, as part of its plans to cut costs.

Since taking over in November, Smith—who previously served as a chief executive and board director in restaurant (Wendy's), entertainment (Carmike Cinema), international food retail (Delhaize Group) and other businesses—has overseen a brutal cost-cutting campaign. A more detailed "overhaul plan" is expected to be ready by mid-year, the *Journal* reported.

Following the merger and anticipated plans for store closings, Smith told the *Orlando Sun-Sentinel*, "it is difficult to focus on business when your personal future is uncertain." The multimillionaire's personal future, however, has been much brighter.

Smith's employment agreement with Office Depot calls for $1.4 million in annual base salary, and a performance bonus of up to 150 percent of his base salary, according to the *South Florida Business Journal*. He also received an initial performance bonus of $2.35 million in mid-March.

The newspaper reported that Smith and his wife recently bought a rebuilt single-family home at 1356 Sabal Palm Drive, nestled on the golf green south of East Camino Real at the Royal Palm Yacht & Country Club for $3.7 million. "Some would consider that a bargain compared to the $4.3 million the seller wanted for the 4-story, 6-bedroom, 10,212-square-foot house. The property features a wet bar, gourmet and summer kitchens, marble floors, a 30-foot pool with a built-in fountain and spa and views of the course. The home was last sold for $2.6 million in 2004."

Meanwhile, Office Depot "associates"—most who earn $8 an hour with a store manager's pay pegged at $14.02, according to the web site Glassdoor.com—have suffered job cuts, pay reductions up to 40 percent and irregular and shortened hours.

On an online forum in March Office Depot workers denounced the executive pay raises:

Exactly why we didn't get our raises! Roland gets to buy a lavish house in florida and gets a $2.35 million dollar performance bonus. Meanwhile all of the employees either lose their jobs with no severance or have to deal with all of his unrealistic changes. What in the hell was OMX [Office Max] thinking????

Another wrote:

It is offensive!!! He will get another bonus before it's thru!!!! First all the layoffs, then he gets a bonus for &%ing the associates out of their hourly positions, signs "retention bonuses" to keep the hierarchy in place for 90 days, like Deb O'conner ($150,000.00) to stay in her position until June of this year, when all the heads are still rolling on the floor and he kicks his way thru them, he'll receive another bonus!!!! Meanwhile back at the ranch he and the Director of the company buy a couple hundred thousand shares of Depot each to try to drive up the cost of the shares, so they can sell, so they can plunder the company once again!!!~ Instead the shares are tanking!!!! GOOD JOB ROLAND!!! I'd say you should get at least another 2.3 mil for this phase!!!!!*

A third said:

He's not here to do either one!!!!!!!!! He's here to make a few million, then get out, just like all the other CEOs of Office Max and Office Depot!!! That's the reality!! Oh, and by he way, keep in mind that "It's the American Way"!!! That's why CEOs are in place to begin with! They make money for shareholders, not the company itself!! That's why he and the director just bought 200,000 shares a piece, to drive the stock up, so they could sell later! It's all a game! The playing pieces have no value, they just move them around for their own profit!!!

After the merger of the two companies Smith extracted massive tax cuts from Florida to retain the company's headquarters in Boca Raton while beginning to slash the 1,600 jobs at Office Max's Naperville, Illinois headquarters in suburban Chicago. The company, which already paid little or no taxes in Illinois wanted another $53 million in tax breaks to retain its Illinois headquarters.

"This sort of competition between states to retain or attract firms is a race to the bottom," Therese McGuire, a professor of management and strategy at Northwestern University's Kellogg School of Management, told the *Chicago Tribune*. "It's like they have a gun to their head when these companies come to them and say, 'Unless you give us these tax incentives, we are going to uproot and move to another state.'"

Office Depot is only the latest in a string of recent retail closing announcements as the recession continues and consumers are hit by unemployment, wage cuts and skyrocketing personal debts.

According the *USA Today*, "Brick-and-mortar retailers have been suffering from slow economic activity for years, as well as from increased competition from online retailers. The rise in store closings is a prominent sign of their struggles. Weakened companies cannot afford the real estate and personnel costs that go along with supporting hundreds of unprofitable locations."

A partial list compiled by the newspaper includes:

• RadioShack announced the closure of more than 1,000 stores earlier this year.

• The Gap has closed 20 percent of its stores over the last two years.

• Abercrombie & Fitch has announced plans to close 180 stores by 2015.

• Barnes & Noble announced plans to shut a third of its bookstores over the next 10 years.

• Aeropostale is in the midst of closing 40 to 50 stores in 2014, and plans to shutter some 175 stores in total over the next few years.

• Since Wall Street billionaire Edward Lampert merged Sears Roebuck & Co. with Kmart in a deal worth $11 billion, the company has closed roughly 300 stores.

• In early March industry sources said Toys R' Us would soon close some 100 stores.

• J.C. Penney announced 33 store closings, to be completed by May, leading to the loss of about 2,000 jobs.