Circuit City fires 3,400, will hire lower-paid workers

by Keith Darce and Mike Freeman

Circuit City said Wednesday that it had fired 3,400 of its highest-paid sales staff and will replace them with lower-paid workers, a risky strategy to cut costs that goes beyond the layoffs, buyouts and hiring freezes commonly used by struggling companies.

The fired workers will receive severance packages and a chance to apply for lower-paying positions after a 10-week delay, said the 655-store electronics chain based in Richmond, Va.

They weren't given the option of taking a pay cut, Circuit City spokesman Bill Cimino told Bloomberg News.

Layoffs and buyouts have been common as companies respond to pressures from Wall Street and global competitors. Last year, for example, 72,000 U.S. auto workers agreed to leave their jobs or take early retirement. And a growing number of companies, including the Albertsons, Ralphs and Vons grocery chains in Southern California, have adopted two-tier systems that provide lower wages and less valuable benefits to newer employees.

But the Circuit City approach is different.

"What you're looking at (with Circuit City) is that strategy on steroids," said Jared Bernstein, a senior economist with the Economic Policy Institute, a Washington, D.C., research group that focuses on labor issues.

Circuit City Chief Executive Philip Schoonover described the firing of 8 percent of his company's work force as one of several "aggressive actions" being taken to "improve our cost and expense structure."

Circuit City, the nation's No. 2 electronics retailer behind Best Buy, will eliminate an additional 130 jobs by outsourcing some computer work to International Business Machines and will consider options for its Canadian stores.

The moves are expected to reduce Circuit City's expenses by $110 million next year and $140 million in 2009.

The company operates eight stores in San Diego County, where 43 people were fired, said Circuit City spokesman Jim Babb.

"This is no reflection on job performance," he said. "We deeply regret the negative impact. Retail is extremely competitive, and if we're going to thrive and operate a successful company for our shoppers, employees and shareholders, we just have to control costs."

The company's store in La Mesa took the biggest hit locally, losing 10 from its sales staff, Babb said. Nine were fired at the National City store. Most other stores in the county saw from four to six employees leave.

At the Encinitas Circuit City, where four were fired, employees referred questions to the store manager, who directed media inquiries to the company's headquarters.

While the company's strategy will pare labor costs, many retail observers said it could backfire if its seasoned, high-volume sales staff is replaced by less-experienced and lower-performing workers.

"You can hire a bunch of cheap, inexperienced people but that has to show up as diminished service and probably lower sales," Bernstein said. "What you have here is a particularly nasty approach to say to shareholders that 'we are lean and mean.' "

Circuit City shares, which have lost 21 percent of their value in the past year, rose 35 cents Wednesday to close at $19.23 on the New York Stock Exchange.

The company said it will replace sales people who were "paid well above the market-based salary range" with workers whose pay will be more in line with the rest of the market. It didn't release specific pay figures.

Circuit City pays about $10 to $11 an hour on average, Rick Weinhart, an analyst with BMO Capital Markets in New York, told Bloomberg News.

Those figures match what other electronics retailers pay, said Jeffrey Kling, deputy director of the economic studies program at the Brookings Institution.

This is the second time Circuit City has jettisoned some of its most seasoned personnel. In 2003, the company eliminated commissions for sales staffers and switched them to a straight hourly wage.

"They had spent a lot of money training them, and they were some of the best people in the consumer electronics industry," said George Whalin of Retail Management Consultants in San Marcos. "You could go in there and talk to somebody who really knew their stuff."

At the time, the move hurt the company's sales, Whalin said.

Another factor that might hurt sales staff morale is the growing gap between their lowered wages and executive compensation, said Ken Jacobs, chairman of the University of California Berkeley Center for Labor Research and Education.

Circuit City CEO Schoonover received $1.4 million in salary and bonuses in fiscal 2006, plus 340,000 stock option shares and $96,929 in other compensation mostly related to use of a company jet, according to a filing with the Securities and Exchange Commission.

His pay is not considered out of line with other retail CEOs. Bradbury Anderson, the chief executive of Best Buy, made $3.9 million in salary and bonuses in 2006.

Still, Jacobs said morale could sour because the cutbacks are "clearly not shared pain."

Circuit City said Wednesday that its sales during the last fiscal year, which ended Feb. 28, grew 8 percent - short of the previous forecast of 9 percent to 10 percent.

While Best Buy reported a 7 percent jump in same-store sales for December - significantly better than the 5 percent estimate by analysts - Circuit City reported that sales at stores open at least a year rose 4.2 percent during the holiday month. That was roughly in line with stock analysts' predictions.

Circuit City was hurt by Wal-Mart Stores and other discounters selling flat-screen TVs at low prices.

Lower-paid sales employees can't be expected to improve those results, said consultant Whalin.

"If you've been there three or four years, you get your salary up if you're any good," he said. "So they're saying, 'We'll get rid of the most knowledgeable people who have been around the longest and hire people who haven't a clue.' It doesn't make sense to me."

Circuit City fires 3,400, will hire lower-paid workers by Keith Darce and Mike Freeman