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Circuit City Cuts 3,400 'Overpaid' Workers

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Circuit City fired 3,400 employees in stores across the country yesterday, saying they were making too much money and would be replaced by new hires willing to work for less.

The company said the dismissals had nothing to do with performance but were part of a larger effort to improve the bottom line. The firings represent about 9 percent of the company's in-store workforce of 40,000.

"Retail is very competitive and store operations just have to contain their costs," said Jim Babb, a Circuit City spokesman. "We deeply regret the negative impact that was had on these folks. It was no fault of theirs."

The company gave the dismissed workers severance pay and told them that after 10 weeks they were free to apply for any openings. Employees reached by a reporter said they were notified yesterday morning and told to leave immediately.

The firings, along with several other moves, are expected to reduce expenses for the electronics retailer by \$110 million in fiscal year 2008 and \$140 million a year starting in fiscal 2009. Circuit City said sales would be volatile for the next several months as the company adjusts to the changes.

"It's definitely going to have some cost-savings, but I think the bigger impact could be seen in weaker, poor service," said Timothy Allen, an analyst with Jefferies & Co. "I have a feeling the people they're letting go have probably been there longer, have more experience, more product knowledge."

Steven Rash, 24, said he was one of 11 workers fired at a Circuit City in Asheville, N.C. The store manager broke the news during a meeting at 8:15 a.m. and escorted them out of the store. Rash said he has worked for the retailer for seven years and was one of the most junior members of the affected group.

He said he earned \$11.59 an hour and worked from 15 to 20 hours a week. He received four weeks of severance pay. Though he has a full-time job at [Bank of America](#), he said he needs to find part-time work to help pay his student loans.

"It's not just a part-time job," he said. "It's about paying the bills."

According to the U.S. Bureau of Labor Statistics, the average hourly wage for retail salespeople was \$11.14 in May 2005, the latest data available.

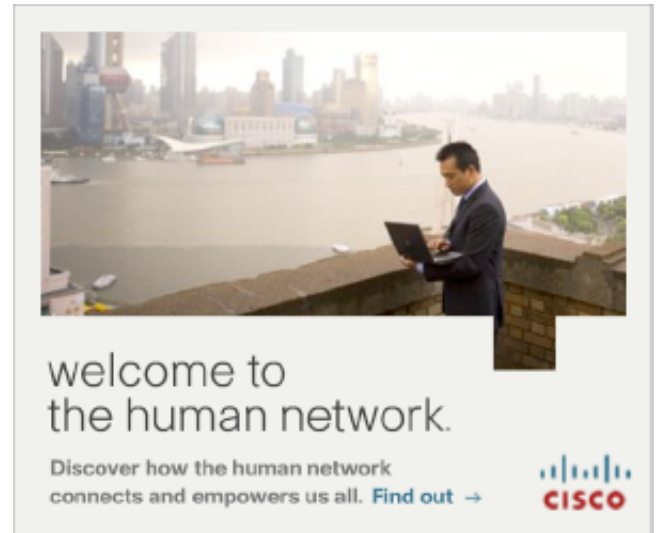
Circuit City chief executive Philip J. Schoonover received a salary of \$716,346, along with a \$704,700 bonus last year. He also has long-term compensation of \$3 million in stock awards and \$340,000 in underlying options, according to company filings.

Circuit City also said it would outsource its information technology infrastructure operations to IBM, affecting 130 workers at Circuit City headquarters in Richmond. About 50 people will be transferred to jobs at IBM, while the remainder will be let go after the transition is completed. Babb said he expected it would take several months.

And the company said it is exploring "strategic alternatives" for InterTan, an arm of its Canadian division that services electronics, including sale of the operation. Last month, the retailer shut down distribution centers in Columbus, Ohio, and Louisville, and closed 55 international stores; it plans to shut down seven more in the United States

The nation's second-largest electronics retailer has struggled to keep up with rival Best Buy, and Wal-Mart has made an aggressive push in electronics. The three companies fought it out during the holiday season, slashing prices on flat-panel

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televisions, which hurt Circuit City's profit.

The company saved \$130 million in 2003 by eliminating commissions for salespeople, instituting hourly rates and terminating 1,800 jobs.

Jose Macias, 27, of San Diego said he barely survived that round of cuts. His salary translated to \$17.70 per hour, and employees who made more than \$18 per hour were fired. But this time, he was not as lucky. He and four others at his store were let go yesterday, including one who had worked at Circuit City for 12 years.

"We had a feeling," Macias said. "There were a lot of rumors going around."

Macias said he was told employees who were paid more than 51 cents above a set pay range for their departments were fired. The cap on his full-time job in the computer department was \$15.50 an hour. Macias said he earned \$18.72 an hour.

"I'm ticked off that they can just come at you from one day to another, no warning, and oh, you're gone," he said. "I dedicated seven years to them. Loyalty gets you nothing."

Shares closed yesterday at \$19.23, up 31 cents, or 2 percent.

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