In a Tight Market, Employers Are Finding Job Seekers Willing to Take Lower Salaries

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On the morning of Feb. 5, Robert Wood waited outside his Circuit City store with a handful of other employees. They had been told to report for a quick meeting before the store opened. Aware that the company was beset with financial difficulties, Mr. Wood was relieved to see that the others waiting were, like him, among the store's top salesmen.

A seven-year veteran of Circuit City Stores Inc., Mr. Wood was the second highest-paid performer at the Jensen Beach, Fla., store, moving more than $1 million in computers and consumer electronics last year, he says. He earned $54,000 in salary and bonuses, and a place in the President's Club for top salesmen.

At 10 a.m., the store manager ushered the waiting employees inside the store with a smile, saying he wanted to explain the company's new "staffing model." The first salesman went into the manager's office, then exited quickly. Mr. Wood's heart sank as the salesman cleared out his belongings from a locker and was escorted out the door by another manager. When Mr. Wood's turn came, the manager opened a packet with his name preprinted on the cover and slid the dismissal documents to him one by one. The firing took less than five minutes.

"We didn't see that coming," Mr. Wood says.

Neither did the other 3,900 highly paid commissioned salespeople the company laid off that day, which some still call "Bloody Wednesday." In Circuit City stores across the nation, sales personnel waited to hear their fate from managers. Some expected to be told that their commissions would be cut. Others thought they would be told that underperforming staffers would be fired, so they would have to work harder.

Instead, they each sat before a manager who handed them an envelope containing the terms of their dismissal. Mr. Wood and the others were faulted for nothing. They simply made too much money at a time when the company was desperate to economize. Circuit City then hired about 2,100 lower-paid hourly workers to replace Mr. Wood and the others, who had represented 20% of its sales force.

In doing so, the retailer made an increasingly common cost-saving move: swapping expensive labor with lower-paid workers. The approach, which is generally legal, doesn't eliminate the position but rather the high-paid person in it. The technique is especially attractive to service businesses such as retail. Like so many companies today, they face massive pressure to cut their labor costs. But unlike manufacturers, they have jobs that can't easily be automated or shipped overseas.

The workers getting the ax are casualties of a job market changing profoundly as the economy slowly recovers from the excesses of the '90s. As one industry after another struggles with overcapacity and grinds costs down, many jobs are vanishing permanently. A wide swath of workers, from well-educated professionals to young unskilled laborers, find themselves scrambling for employment. Last week unemployment rose to 6.1%, the highest level since 1994.

Administaff Inc., a Houston company that manages payrolls for 5,000 small- to medium-size businesses nationally, noticed last year that its client companies replaced terminated employees with workers paid an average of 3% less. Richard Rawson, the company's chief financial officer, believes many of his clients rushed to cut expensive staff when the economy weakened.
When they needed to staff back up quickly, the labor markets had weakened and replacement workers were willing to accept smaller paychecks than their predecessors.

Circuit City's executives realized they could no longer afford to pay big commissions to its sales staff, while its rivals paid less. Ten years ago, Circuit City's $3.27 billion in annual revenue was twice the size of archrival Best Buy Co. But its sales approach -- small stores with limited inventory and a commissioned sales force -- proved unworkable as customers flocked to self-service stores with big inventories. Last year, Best Buy's sales hit $19.6 billion, more than twice Circuit City's $9.5 billion.

To deal with falling prices and an eroding customer base, the company examined its costs. Among its conclusions: high-paid sales help no longer fit the times. "Was it hard? Absolutely," says Jeffrey S. Wells, Circuit City's senior vice president of human resources and training. "Is it difficult for someone not close [to the situation] to understand? Absolutely." The company decided that dismissing higher-paid staff and replacing them with lower-paid workers "was the best thing long-term," says Mr. Wells.

In deciding which employees to keep and which to discard, Circuit City set strict salary caps. Based on average wages for retail workers in different cities, employees surviving the cuts would be those making $14 to $18 an hour, including commissions, or $29,100 to $37,400 a year for full-time work. "It is not the person who earned the most that was always the best," says Mr. Wells. The company says that in its fiscal 2004 it will save $130 million in pretax labor costs as a result of cutting the salesmen and about 200 repair workers.

Before the restructuring, Circuit City treated the top sellers among its more than 10,000 sales personnel well. Top-ranked salesmen, often older, more-established workers with considerable sales abilities, were invited to join the President's Club, making them eligible for prizes such as weekend vacations. Mr. Wood, of Jensen Beach, Fla., was taken aside by a manager shortly after his 1996 hiring and urged to act not as an employee, but as an independent business whose earnings power was unlimited. "I walked out the door at night and clicked my heels," he says.

Mark Combs wasn't expecting the good times to end. A 42-year-old member of the President's Club, Mr. Combs had left behind a 15-year career in printing to sell computers for a Circuit City store in Jacksonville, Fla. Over 2½ years, he built rapport with steady customers and regularly pulled in the equivalent of $20 an hour. In January, his manager approached him about management training. He left the Feb. 5 meeting, severance papers in hand, thinking about the $200,000 house on which he just had put a down payment. "I felt like I really let my family down," he says.

Circuit City announced its move in part to show investors it was serious about cutting costs. But when companies replace employees with lower-paid workers they usually do it far more quietly. During the past two years, US Airways Group Inc., which emerged from bankruptcy-court protection in March, has been pulling its big jets out of midsize cities and replacing them with less-expensive regional service. That meant the airline could change job classifications for baggage handlers, ticket-counter agents and other workers, and cut wages even under a union contract. Since those employees were handling only regional jet traffic, they were paid less, even though they were doing similar work.

Ticket-counter agent Carleton Smith, of St. Louis, learned earlier this year that his pay would drop to $13 an hour from $21 an hour. In February, unwilling to take such a big cut, he left the airline, though he remains on furlough and could be called back to work. "I look at $13 an hour doing this exact same job and I say, 'It's a slap in the face,' " says Mr. Smith, 50, a 17-year employee with US Airways and a predecessor airline. "The airline industry is restructuring its
pay structure. It's happening, whether I like it or not."

US Airways spokesman David Castelveter says that the carrier tried to work out transfers for "as many employees as possible" so that they could keep their $21 an hour pay, but that most "were entrenched in their communities, they had children in schools or their spouse was the breadwinner, so they chose to stay in their particular location."

With work scarce, the lower-paid jobs drew plenty of applicants. Until last year, Shannon Spegal, of Lexington, Ky., had managed restaurants. The 38-year-old mother of two girls regularly put in 12-hour days, and if a server or cleaner didn't show up for work she did the job herself. Hoping for an easier schedule, Ms. Spegal responded to US Airways' newspaper advertisement seeking customer-service agents.

She was discouraged by the $8.70-an-hour pay for replacement ticket agents, about half what she made at her restaurant job. "I almost turned around and left," she says. But the better hours and the benefits were attractive, and when US Airways offered her a job, she accepted. She and the other new hires found themselves in the midst of resentful veteran employees. Only about four remained, now making $13 an hour instead of their previous $21. A co-worker confronted Ms. Spegal directly. "She said, 'You're stealing my job.' I was like, 'No, I'm not. The person I replaced, they could have stayed,' " recalls Ms. Spegal.

There's nothing illegal about getting rid of expensive workers and hiring less-costly employees in their place, so workers usually don't raise the practice in employment lawsuits. "Very often, the parties don't end up debating that issue," says Daniel M. Klein, an Atlanta attorney who represents employees in discrimination cases. Though a wave of replacements could disproportionately affect older workers, who tend to be better paid, employees would have to prove the jobs cuts were made for discriminatory reasons to prevail in court.

At Wal-Mart Stores Inc., managers are judged in part on their ability to keep payroll costs at a strict percentage of sales, according to former managers. Some say that puts extra pressure on higher-paid workers to be more productive. "You keep people making $10 an hour to a high standard," putting more pressure on them for small mistakes, says Lyndol Jackson, a Wal-Mart manager until he left for another job in 1998. Often, those workers quit and can be replaced less expensively, adds Mr. Jackson, who lives in Memphis, Tenn.

Former Wal-Mart cashier Dana Mailloux, 33, worked for eight years at a store in Fort Myers, Fla., moving up to $9.15 an hour. Last fall, her manager called her and more than a dozen other longtime employees into his office and told them he had to lay them off because of lack of work. That same day, Ms. Mailloux says, she passed a room with six new hires, red vests in hand, filling out paperwork. Returning to the store that weekend, she says, she saw newly advertised positions listed on a bulletin board. "Basically, I was thrown out like a piece of trash," says Ms. Mailloux.

Wal-Mart spokeswoman Sarah Clark says the company continually lays off and hires workers as sales rise and fall. She says that if "labor adjustments are necessary," the company before making cuts asks for volunteers to take time off and carefully controls hours. "It is ludicrous and contrary to our business model to think the company would benefit from replacing experienced associates with new, lower-paid ones," Ms Clark said in a statement. "It's clear that experienced
associates are golden with us." Ms. Clark declined to discuss Ms. Mailloux's dismissal, citing employee privacy.

Once a worker gets pushed out of a job, chances are his or her next position won't pay as much. A 1992 study for the W.E. Upjohn Institute for Employment Research found displaced workers earned an average of about $1,200 a year less than they would have earned if they had stayed in their previous job, even after five years.

Mr. Combs, the former Circuit City salesman from Jacksonville, figured he was on the path to a lower-paying job. But within weeks he found a job at CompUSA Inc., a Circuit City competitor, for a little less than the same pay. He closed on his house in April.

For Gregory S. Fields, a 30-year-old Circuit City salesman from Trumbull, Conn., the job market has been rough. Company-paid health-care benefits for him, his wife and small daughter ran out just a few weeks after his termination. He inquired about a similar job at competitor Best Buy, but nothing was available. A few weeks after his dismissal, he trudged to a local shopping mall to inquire about an opening for a security guard. Told he would make just two-thirds of what he made at Circuit City last year, he turned around and went home. "I can get $9 to $10 an hour, but I'm worth more than that," says Mr. Fields, who had earned as much as $60,000 a year at Circuit City.

Mr. Fields recently sold his cherished 21-foot fishing boat to raise cash, and is "riding out" his unemployment benefits of $300 a week. He is contesting his dismissal, arguing that he shouldn't have been fired while he was on a short-term disability leave because of a car accident. He will resume his job search this month, he says, if tests show his back has improved. "Why get rid of good people who had been there for years and hire new people who had to be trained?" he asks.

Mr. Wood, of Jensen Beach, was prepared. He has learned to be flexible through two decades of corporate upheavals. In the 1980s, he lost his job as national account manager at HealthTex, a children's clothing maker, when it underwent a troubled leveraged buyout. He then went to work as an independent sales representative for a clothing maker, but as the retail business consolidated in the early 1990s, he was once again out on the street. "It's always the same," he says philosophically of his job losses. "It was never because of performance."

For its dismissed sales staffers, Circuit City offered a letter saying they were cut for financial reasons, but no letter of recommendation. Mr. Wood, who had learned to be prepared for the next economic downturn, had kept copies of his sales results. This helped him quickly land a job selling kitchen redesigns for a home-improvement chain.

He expects to earn 21% less than he did at Circuit City. He has put off buying furniture for his house and a used car for his teenage son. He's still angry that his job was eliminated before the company's fiscal year end, depriving him of about $500 in company 401k contributions.

"I'm not happy but I'm not going to crucify them," says Mr. Wood. "I knew my time in Circuit City couldn't go on."

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