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TOP NEWS

WORKER LOYALTY, TAKEN TO EXTREMES

Aaron Rents values employee satisfaction and retention, and it's rushing to scoop up out-of-work salespeople in the wake of Circuit City's massive layoffs

Just one day after the electronics chain Circuit City Stores (CC) announced that it would lay off 3,400 workers and replace them with lower-paid employees, Charles Loudermilk, chief executive of the rental retail company Aaron Rents (RNT) began posting advertisements on recruiting Web sites: "Attention Circuit City employees: So they say you make too much and are laying you off to hire lower paid employees? Aaron's doesn't lay off our highly paid employees.... We put them on a pedestal, and show others how they can make more."

That's not just talk. The 79-year-old founder of the Atlanta-based Aaron Rents has a very different attitude about worker loyalty, an approach that some might call old-fashioned. He talks about his workforce as "family" and goes to extremes to look after them, even keeping some employees on the payroll after their stores were closed because of Hurricane Katrina. "There's a strong culture of helping each other out," says Eric Kenitzer, a 29-year-old manager of one Texas store. "We're a band of brothers."

DUELING ATTITUDES

It's more than altruism. Loudermilk says that treating workers well in an industry as cutthroat as retail is good business, too. At a company like Aaron Rents, which sells electronics

and furniture on a rent-to-own basis, happier workers mean lower turnover and more sales. Plus, it's easier to attract new recruits—a key point for a company with plans to open 250 new stores this year. "Why [Circuit City] would let them go is beyond me," says Loudermilk. "They spent many millions of dollars training these people, and we're after them."

It helps that he has the numbers to back up his approach. Loudermilk started in the business 52 years ago "renting 300 chairs at 10¢ a piece," and now has more than 8,000 employees. Last year, Aaron Rents reported a 36% increase in net income, to \$78.6 million, as revenues rose 18%, to \$1.3 billion. Its stock price has surged 160% over the last five years, to \$26 a share.

Circuit City, in contrast, has been struggling. Investor pressure has mounted as the Richmond (Va.) company's shares have slid from \$31.54 last year to \$18.21. On Apr. 4, Circuit City said it lost \$12.2 million in the most recent quarter on revenues of \$3.9 billion, because of restructuring charges, store closings, and slower-than-expected sales (see *BusinessWeek.com*, 4/4/07, "Circuit City Swings to Loss"). It didn't help that on the same day, Best Buy (BBY), a major rival, reported strong results.

The layoffs at Circuit City throw into sharp relief the varying attitudes about worker loyalty in the U.S. While certain companies such as Aaron Rents and Best Buy work hard to foster it, executives at other companies treat loyalty as a relic of eras gone by. And even CEOs who proclaim the importance of their employees can be forced into layoffs or wage caps under withering shareholder pressure (see *BusinessWeek.com*, 8/14/06, "The Flip Side of Wal-Mart's Pay Hikes").

WALL STREET FROWNS

In this context, Circuit City's decision to fire 3,400 of its best-paid employees may not be such a big surprise. But what is surprising is the company's public pronouncement that shedding these workers was not about poor performance, but expressly to replace them with cheaper ones. "It's a sort of domestic offshoring," says John Challenger, CEO of Challenger, Gray & Christmas, a global outplacement company.

Circuit City's loss, however, could be a gain for Aaron's and Best Buy. Retail experts say that having trained, committed staff could be more important than saving a few dollars on hourly wages. "It's a cost-cutting measure, but it's foolhardy in the long haul," says George Whalin, a retail consultant and president of

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Retail Management Consultants in San Marcos, Calif. "You can't downsize your way to success. The key is not to get rid of your best people—it's to sell more."

Circuit City did not respond to calls for comment. But when the company announced the firings, it said that the employees in question had been receiving raises above what their pay scale allowed them. Though such layoffs often reassure investors, that hasn't been the reaction on Wall Street, at least so far. The company's share price fell 27¢, to \$19.23 on Mar. 28, the day of the announcement, and have slipped more since.

For his part, Loudermilk says he's stunned at Circuit City's move. "What makes a business successful is people skills," says Loudermilk, whose son is COO of the company. "You've got to love your employees and they've got to love you. They have to respect you and feel they're treated fairly." Loudermilk says his employees are paid competitively, receive 401(k)s,

and pay about 50% of their health insurance premiums.

CUSTOMER CONNECTION

The company also has a paternalistic attitude, despite the fact that it is publicly held with shareholders that include money management giants T. Rowe Price (TROW) and Vanguard Group. Loudermilk says two weeks ago a driver in a nearby location lost his brother but could not afford to pay for the funeral. "I called up the funeral home and took care of it—end of story," he says.

Loudermilk says that turnover is low because the company fosters a "flat" management structure and a family-oriented environment. Among the company's top 30 managers, he has lost only one in the last decade. Floor salespeople start at \$9 an hour, and management trainees at about \$40,000. For some employees, the rewards of the bonus and commission system, as well as a team-oriented sales culture, keep them motivated.

Aaron's store manager Kenitzer has been with the company for two years and now oversees the store in Carrollton. He started two years ago at \$35,000 a year and now makes almost double as a base salary. He received a \$5,800 bonus last quarter, will get another \$7,200 next quarter, and expects another raise soon to take his base to \$78,000. "It's incredible—I'll almost be at six figures," says Kenitzer.

Today, Best Buy says that it may join Aaron's in the hunt for ex-Circuit City workers. "We're always looking for great, qualified employees," says Dawn Bryant, a Best Buy spokeswoman. "If former [Circuit City workers] want to apply, we'd love to talk. The employees are the differentiators. They're not just selling products; they're connecting with customers."

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