Bracing for loss of Andersen jobs
Estimate of local economy's pain: $700 million

The impending layoff of Andersen staffers will reverberate through the local economy, hurting the restaurants, hotels and airlines that serve the business as well as the department stores, theaters and car dealerships that cater to Andersen employees.

The Chicago economy could lose as much as $700 million in economic activity if Andersen cuts half of its local staff of 5,300, according to an analysis by the Regional Economics Applications Laboratory (REAL) at the University of Illinois at Urbana-Champaign.

The first wave of layoffs is expected this week, with estimates ranging from 10% to 15% of some departments to as much as 70% of staff at the Chicago-based firm's St. Charles training facility.

The REAL estimate reflects the loss of income for the employees if they remain unemployed for a year or move elsewhere, the value of their services and the ripple effect on other businesses. REAL estimates the region will lose 1.14 jobs for each layoff at Andersen.

Even under a more optimistic scenario, which assumes that only one-third of Andersen's local employees remain out of work for a year, the hit to the region is substantial: $466 million.

"The biggest impact is going to be at the community level," says REAL Director Geoffrey J. D. Hewings. "These people aren't going to be spending money on clothing or restaurants or coffee."

'A big gulp to swallow'

Though the layoffs will rattle the local economy, they will hardly dislocate it. The loss of economic activity represents less than two-tenths of 1% of the region's economic output. It is also less than the impact of other recent shifts, such as last year's run-up in gasoline prices (Crain's, April 30), which REAL estimated cost the region $1.2 billion, and the Sept. 11 terrorist attacks, which REAL calculated cost the region $1.05 billion in a single week (Crain's, Sept. 17).

However, many Andersen employees will hit the streets at a difficult time. The industry's four remaining big accounting firms have staffed up and are near capacity. Even if deals to sell or spin off Andersen units succeed, many other staffers will have to wait until Andersen clients select new auditors, and those firms determine whether and how much they need to staff up.

At least some Andersen partners and managers could find themselves in demand, and could end up pushing out lesser...
lights at rival firms, sending another group of shell-shocked employees onto the market.

"While there are a lot of firms in this city, and even a number looking for good people, this is a big gulp to swallow," says Scott M. Univer, general counsel at Chicago-based BDO Seidman LLP.

"You are going to see people in danger at all levels," agrees George H. Cumpata, managing partner at Gleeson Sklar Sawyers & Cumpata LLP, who began fielding calls from Andersen partners seeking new employment last week. "It's kind of crazy," he says.

Mr. Cumpata has begun negotiating with the partners, and is willing to hire some of them, whether or not they bring business with them.

Other locals firms are taking a more conservative approach, holding off on new hires until they get word that they’ve won auditing contracts from firms that have dropped Andersen.

"If we don't pick up much business, we will probably hire six to 10 Andersen employees," says Joseph M. Adams, managing partner of Schaumburg-based accounting firm RSM McGladrey Inc., the area's seventh-largest accounting firm, with a professional staff of 550. If they do get new contracts, "that number could be much higher," Mr. Adams says.

**Cushioning the blow**

With options uncertain in the public accounting sector, some may explore positions at either private or publicly held companies, including audit clients. But approaching a client can be an awkward matter, says Christopher M. Crawford, a senior consultant at Chicago search firm Harmer Associates Inc.

If you're the manager of an audit, it's hard to mention you’d like to jump ship without upsetting the client, Mr. Crawford says.

As Andersen began preparing to lay off workers last week, it was trying to embrace the paternal style for which it's known.

According to industry sources, Andersen planned to give laid-off employees one week's salary for every full year on the job. Employees would still come to the office, but use the time to look for work. Eligibility for the severance pay would end as soon as an employee landed a job offer.

Jeremy Bennett, vice-president of Addison Professional Financial Search Inc., a Chicago-based recruiting firm that's working with 50 Andersen employees, predicts that most laid-off Andersen staffers will attempt to stay in Chicago.

"Ninety-five percent of them want to stay here," Mr. Bennett says. He predicts that many will, even if it means displacing recent hires at other large firms who commanded high salaries a couple of years ago. "They are at the biggest risk of being laid off," he says.

There's no doubt there will be pain in the economy. Andersen's high-paid partners, some of whom earn a half-million dollars a year, helped drive the local economy with purchases of pricey homes, furniture, cars, furs and jewelry. Even junior members of the firm earned $50,000 to $160,000 a year.

So far, business at The Grillroom Chophouse and Winebar, a restaurant in Andersen's headquarters building at 33 W. Monroe St., has remained steady, though a spokeswoman for the restaurant's parent company notes that Andersen has "stopped booking parties."

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