"The Legacy of 15 Days in August"

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By Mark B. Solomon

In the early morning hours of Aug. 19, 1997, after 80 hours of nonstop bargaining, Ron Carey, general president of the Teamsters union, and Dave Murray, chief labor negotiator of UPS Inc., shook hands on a five-year contract. Within 24 hours, 185,000 UPS Teamsters, including about 90,000 package car drivers, were back at work, ending a 15-day nationwide strike that virtually shut down the UPS system, threw U.S. delivery operations into chaos, and held the attention of the country.

The strike cost UPS $600 million in 1997 dollars (about $950 million today), and resulted in unusually poor third quarter results. However, the privately held company righted itself by year's end, posted strong results through 1998 and 1999, and ended the century by launching the largest initial public offering, to that time, in U.S. history.

The Teamsters won several key concessions, but most important was UPS' pledge to consolidate 40,000 part-time union jobs into 20,000 full-time positions, which would effectively be spread out over the 1997 and 2002 contract cycles. The Teamsters campaigned on the idea that part-time employment, whether at UPS or not, was bad for America. The magnitude of the concession held enormous significance for the Teamsters and for organized labor in general, which had been energized by a union flexing its muscle in a way not seen since the legendary sit-down strikes of the 1930s.

Because of the so-called 2-for-1 pledge, "we thought the strike was worth two contracts," said Ken Paff, longtime national organizer of dissident group Teamsters for a Democratic Union (TDU), and an ardent Carey supporter.

That could have been the end of the story. In reality, though, it was just the beginning. The strike set in motion a series of events that transformed an industry, and reshaped its two biggest players. While UPS quickly regained its status as a highly profitable entity, its business and its culture would be dramatically altered. Its chief rival, FedEx Corp., would capitalize on an unprecedented opportunity by taking a gamble that would eventually pay off in spades.

Meanwhile, the Teamsters would see the immediate glow of victory dimmed by allegations of campaign finance violations that would lead to the removal of the man who orchestrated the walkout. In his place stepped a different kind of leader whose approach changed the course of the now century-old relationship between the union and its largest employer.

Changes are gonna come

At Atlanta-based UPS, which had never experienced a nationwide job action of any impact or duration, the event was a nightmare and an epiphany. Up until Carey and his second-in-command, Ken Hall, rejected UPS' final offer on Aug. 2, 1997, the company never expected a strike, believing that it had made a reasonable proposal and that its workers had too much at stake to walk.

What's more, UPS had scant experience in external crisis management on such a large scale, and it was unprepared for the public relations onslaught from the media-savvy Teamsters and its then-parent, the AFL-CIO. Organized labor framed the dispute as a war pitting hard-working Americans against a greedy corporation seeking to create an endless stream of poor-paying and benefit-shorn part-time jobs to pad its bottom line. A public whose businesses and personal lives were already disrupted by the strike, and whose sole connection with UPS was its drivers, were influenced both by labor's message and by personal interactions with the drivers themselves. Many drivers walked their routes during the strike to explain to businesses what was happening, and why.

The drivers were the face of UPS, unlike workers at other unionized firms that ply their trade behind the scenes. The drivers' role during the strike was pivotal in swaying public opinion toward labor. As Mark S. Schoeman, CEO of consultancy The Colography Group Inc., put it, they "weren't the people behind the kimono. They wore the kimono."

Yet UPS was shrewd and pragmatic enough to look past the short-term noise. The company recognized its days of monopolizing U.S. ground parcel deliveries were gone forever. It knew that a large chunk of business-to-business shippers who had put their eggs in one basket had decided such a strategy was no longer viable. As the smoke cleared, UPS began the long process of diversifying beyond the segment that had been its bread-and-butter for 90 years.

Ken Sternad, who headed UPS' public relations department at the time, said in a phone interview Wednesday that the integrated UPS operation that exists today—blending domestic and international air, small-package, less-than-truckload, supply chain and logistics, and financial services—took root in the trial-by-fire of the strike. "It was like a football team that had a bad first half, got a pep talk from the coach at halftime, and came out steaming in the second half," said Sternad, who retired from UPS in 2012.

Almost as important, the strike was a catalyst for UPS to shed its insular culture to become a force in external communications. Sternad's unit was a key beneficiary of this change in mindset, with staffing levels rising about three-fold over the next seven years to 41 employees. Today, UPS is one of the world's most visible thought leaders, with fingers in many pies, including those outside of transport and logistics.

Sternad said the company's growing global presence made it necessary to expand and improve its messaging. UPS also saw how much mileage FedEx got from its marketing and advertising campaigns, and felt it had to do the same, especially as it was aggressively expanding into FedEx's core air express segment, he added.

That the outreach efforts began about the time the strike ended was no coincidence. UPS' leaders were determined not to be behind the curve on seminal issues like labor relations, and such a damaging strike, and an equally painful hit to the company's image, would never happen again.

Striking while the iron is hot

Meanwhile, at FedEx's Memphis headquarters, Frederick W. Smith, its founder, watched the strike's progress and knew it was time to act. UPS shippers who had not made prestrike contingency plans and were blind-sided by its timing were fleeing to FedEx and to other carriers like the U.S. Postal Service and Airborne Express. Some would not return at all to UPS. Others vowed to no longer tender all their packages to one carrier. There was news footage and photos of striking UPS workers watching from picket lines as FedEx couriers scurried to and from deliveries that once belonged to UPS.

Smith knew the B2B ground delivery segment presented attractive density characteristics, and was fertile territory for a second deep-pocketed player. Moreover, he wanted to counter UPS' continued inroads into FedEx's air business. Yet the company's network, as well as its culture, was geared toward air. Ground transport, while potentially profitable, could not compete with air express' fat margins.

Months before the strike, FedEx had explored the possibility of acquiring Caliber System Inc., whose Roadway Package System (RPS) unit had made slow but steady inroads into UPS' commanding ground parcel share since its founding in 1985. But FedEx didn't follow through.

Sensing UPS' ground business was vulnerable as never before, Smith quickly put the project on the front burner. On October 6, 1997, less than two months after the strike's end, FedEx announced its $2.4 billion purchase of Caliber, whose RPS unit would subsequently be rebranded as "FedEx Ground."

Satish Jindel, who had been an assistant to RPS President Dan Sullivan before leaving to start a transport consultancy, advised Smith as far back as December 1996 to pursue Caliber. In a phone interview, Jindel said the deal might not have gone down if the strike hadn't occurred. The walkout's impact changed the equation, or at least the timing, he said.

In addition, FedEx was aware Caliber's stock was becoming more expensive by the day as changing market conditions suddenly made the company more valuable in investors' eyes, Jindel recalled. Faced with the options of doing nothing, building a nationwide network from scratch, or picking off Caliber before the equity's value ran away from it, FedEx had only one logical choice, he said.

If 20 years of market share data is any guide, FedEx accomplished its objectives. In its 1997 fiscal year, UPS controlled 81.7 percent of the total U.S. ground parcel delivery market, according to data from Colography Group, a consultancy. In UPS' 2016 fiscal year, its share had dropped to 51.6 percent. Though the share data covers deliveries both to businesses and consumers, and as a result includes deliveries made by USPS, there is no doubt that FedEx Ground has made significant share inroads since 1997. Today, the unit is the primary focus of the company's business model. Air express, a service which is no longer an optimal fit for current-day U.S. distribution networks, has been de-emphasized.

UPS wasn't left out in the cold, either. Its share of the overnight air market grew to 40.8 percent from 23.8 percent over the same span, based on Colography data. Its share of the second-day and three-day delivery market has declined slightly during that time, the consultancy said.

A glow that dimmed

Labor interests basked in the immediate afterglow of a clear public relations victory by the Teamsters. Beyond the optics, there were important gains for UPS Teamsters to savor.

Besides the conversion of part-time jobs to full-time positions, the contract called for significant hourly wage increases for full- and part-time workers. UPS agreed to stop the subcontracting of work except during peak periods. The company would be required to discuss any future package weight limit increases with the Teamsters, no small matter given the union's reluctance to require drivers, loaders, and unloaders to handle packages weighing more than the 70-pound maximum. UPS also dropped its demand to be allowed to withdraw from the Teamsters' multi-employer pension fund, which granted Teamster workers the same benefits regardless of their employer, in favor of a new pension plan the company would control.

But the glow didn't last long. Within days, a federal union overseer moved to overturn Carey's 1996 re-election victory over James P. Hoffa, son of the legendary Teamster leader, on grounds the Carey campaign engaged in an illegal donation kickback scheme to raise more than $700,000 for his re-election. Less than a year later, a court-appointed review board expelled Mr. Carey from the union for life. Carey was never accused of being directly involved in the scheme, and years later a federal grand jury cleared him of any wrongdoing. However, the lifetime ban remained in place. Carey died in 2008.

In Carey's place stepped a man born with labor's most famous last name, who unlike Carey never worked for UPS, and would be perceived as a conciliator rather than an adversary. Hoffa still holds the Teamsters' top job after nearly 20 years.

Hoffa's relationship with UPS Teamsters has not been easy. TDU, which opposes Hoffa at virtually every turn, has called him too cozy with UPS management, and unwilling to fight tooth-and-nail for workers. (Hoffa declined comment for this story.) Perhaps his most controversial decision was accepting UPS' 2007 offer to pay $6.1 billion to exit the union's giant Central States, Southeast, and Southwest pension fund and shift workers and retirees into a company-administered plan. The exit took about 60,000 active UPS employees and a large chunk of the fund's income with it. In return, the union faced no company resistance to successfully organizing about 12,000 workers at its UPS Freight less-than-truckload unit.

Paff of TDU said that by allowing UPS to exit Central States, Hoffa abdicated language contained in the 1997 agreement that kept worker pensions under Teamster control. The decision also delivered a lethal blow to the fund's finances by removing so many active UPS workers from its rolls, Paff said.

In May 2016, the fund's trustees said $11 billion would be needed to meet its obligations and, absent Congressional intervention, it would run out of money in 10 years. According to a published report at the time, the fund pays out $2 billion more in annual retirement benefits than it takes in from employers, and there are more than five retired members for every active and contributing member.

Contract talks with UPS have become progressively more difficult during the Hoffa regime. Negotiations in 2002 went smoothly, perhaps because no one wanted a repeat of 1997. There was some turbulence surrounding the 2007 accord, but an agreement was reached without any dislocation.

The 2013 negotiations were a different story. Three Teamster locals, including Local 89 in Louisville, the largest UPS local, repeatedly rejected their local addendums known as "supplements," meaning the national contract already ratified by the rank-and-file could not be implemented. The dispute dragged on for about nine months until union leadership in April 2014 took the extraordinary step of imposing the national contract on all UPS members, including those in the three locals.

The blowback was felt 31 months later in the Teamster general election. Though Hoffa won re-election for a fifth time, his victory margin was a slim 51.3 percent over Fred Zuckerman, head of Local 89 and a leader whom Paff said is cut from the same firebrand cloth as was Carey. According to Paff, Hoffa did poorly with UPS workers, who comprise less than 20 percent of the union's 1.3 to 1.4 million members.

The current contract expires on Aug. 31, 2018, and both sides are already laying the groundwork for negotiations. How UPS workers will receive Hoffa's entreaties is an open question. Paff, for his part, said Hoffa should prepare to deal with a more militant rank-and-file, particularly in the wake of the close and bitterly fought 2016 election.

What is clear is that there will be a new Teamster official heading contract talks: Ken Hall, who helped lead the 1997 strike, has been replaced by Sean M. O'Brien, who runs the influential Local 25 in Boston. According to Paff, O'Brien may be angling to succeed the 76-year-old Hoffa, and he will look to make a name for himself in the upcoming talks.

Et tu, today?

Much has changed in the parcel world in the last 20 years. E-commerce has revolutionized shipping behavior. In fiscal 1997, business-to-consumer shipments, which by and large are e-commerce transactions, accounted for just 15.8 percent of UPS' volume, according to Colography Group data. In UPS' 2016 fiscal year, B2C shipments composed 50.6 percent.

The emergence of companies like Seattle-based Amazon.com Inc., the avalanche of packages emanating from Amazon and the myriad of online manufacturers and retailers, and the vast logistical differences between delivering to residences as opposed to businesses, have created a completely different shipping landscape. Jindel, the consultant, said UPS, FedEx, USPS, and others are delivering far more parcels today than they ever could have imagined. A job action by UPS' Teamsters similar to the 1997 strike would wreak so much havoc it would make the disruptions experienced then look like child's play, he said.

With about 268,000 UPS employees in the fold, the Teamsters represent about 83,000 more of the company's workers than it had 20 years ago. (UPS would not disclose what percentage of the unionized employees are part or full time, and Teamster officials did not respond to a query on this issue.) However, the union's overall membership size has not changed much from back then.

It is difficult to see how the strike translated into sustainable gains for the overall labor movement. Critics said the walkout succeeded in upholding the pay and working conditions of UPS employees, but it failed to provide a roadmap for most American workers. The Teamsters benefitted from a favorable economic climate during the late 1990s, as well as public sympathy for UPS drivers, they said. Such circumstances would be hard to replicate, they argued.

Carey's strategy was meticulously planned and well-orchestrated. The Teamsters hired 20 full-time employees whose sole jobs were to visit UPS facilities and ask workers what they wanted in a contract. The Teamsters went so far as to provide part-time workers with 50,000 whistles that would be blown each time a supervisor made a mistake or committed an infraction, according to Paff.

Labor interests hailed the UPS strike and the contract that resulted from it as a watershed moment. However, the good feeling that came from those events has since been muted by such anti-labor trends as the growth of the nonunion service sector, the outsourcing of U.S. manufacturing jobs, and ongoing corporate hostility to bargaining units in general.