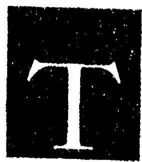
There are two cases on page 1 and 2 respectively, question 3 has 20 points and the rest has 15 points for each. Please complete it.

The Labor Standoff at UPS



The ubiquitous brown trucks that constitute the fleet of United Parcel Service, or UPS, have become a common scene on the U.S. landscape. The huge parcel delivery service has dominated its industry for years, moving millions of packages every day of the year. One key ingredient to UPS's long-standing success has been a strong and loyal relationship with its employees. The firm has a history of promoting from within, paying well, and treating its employees fairly and justly. Even though the firm's drivers have long been organized by the Teamsters Union, labor relations have been generally calm and amicable.

But all that changed in 1997 when UPS drivers walked out on strike, bringing the company to its knees and allowing UPS competitors like Federal Express and the U.S. Postal Service to seize market share that would be hard for UPS to recapture. The story of what prompted the strike and how it ended provides useful and interesting insights into an array of human resource management practices and issues.

The wedge between UPS and the Teamsters was created by two fundamental issues. One was the firm's growing reliance on part-time workers. UPS had started using more and more part-time workers, often replacing a retired employee with two or more part-timers. This practice gave the firm greater staffing flexibility and held down wage and benefits costs. For example, its full-time employees earned $19.95 an hour, whereas part-timers received half that amount. The Teamsters, meanwhile, argued that this hiring practice was actually intended to undercut the job security of the firm's full-time employees and weaken the power of the union itself. At the time of the strike, UPS employed 105,000 part-time workers.

The other issue related to the firm's pension plan. At the time of the strike, the Teamsters had managed to create a "standard" pension plan for several larger companies whose employees the union represented. UPS, meanwhile, wanted to pull out of the multi-employer plan and create its own plan just for UPS workers. UPS argued that it could provide a comparable plan at a lower price, whereas the union argued that the company was taking the first step toward a reduced plan for retired employees.

The two sides bargained extensively for months, and nearly reached an agreement on several different occasions. But one or another problem also came up, and the two sides eventually became more and more antagonistic. Finally, UPS workers went out on strike on August 3, 1997. The strike had immediate and dramatic effects, not only on UPS but all across the country. The firm tried to maintain operations with managers and nonunion employees, but could handle only about 5 percent of the volume. And other companies—especially small ones—complained long and loudly that the strike was putting them out of business. President Clinton considered intervening, but eventually decided to stay out of the fray.

Meanwhile, much to the firm's dismay, surveys found dramatic public support for the striking workers. In addition, many long-standing and loyal customers were transferring their business to other carriers. Finally, two weeks after the strike started, UPS essentially threw in the towel and the striking workers went back to work. Among the concessions the firm made were an agreement to convert ten thousand part-time jobs to full-time at double the pay; to drop plans to pull out of the Teamsters multi-employer pension plan; and to boost employee pay over a five-year period by an average of 15 percent for full-time employees and 35 percent for part-timers. The Teamsters, meanwhile, agreed to a five-year contract instead of their preferred three-year deal.

But even after the striking workers returned to work, UPS faced an uphill battle. For one thing, its public image had been irreparably tarnished. For another, it had lost 10 percent of its market share, and those customers who had switched showed no indication of returning to a firm that some felt had betrayed them. And finally, managers had to figure out how to cover more than $1 billion in additional costs the new contract would add to the company's income statement.

Case Questions

1. Identify as many human resource issues as possible in this case.
2. How might the UPS strike have been averted? Which side "won" the strike? Why?
3. Are strikes always bad? Under what circumstances might a strike be beneficial to a company?

Case References: "A Wake-up Call for Business," *Business Week*, September 1, 1997, pp. 28–29; "This Package Is a Heavy One for the Teamsters," *Business Week*, August 25, 1997, pp. 40–41; "UPS Pact Fails to Shift Balance of Power Back Toward U.S. Workers," *Wall Street Journal*, August 20, 1997, pp. A1, A6.

Pepsi Changes Its Strategy

Pepsi-Cola was invented in 1898 by a pharmacist in North Carolina. While his claims that it had medicinal value were never proven and quickly dropped from advertisements, Pepsi continued to grow in popularity and eventually became a strong national brand. While Pepsi-Cola has never been able to catch up to Coca-Cola, it has been a strong number two for several years.

In 1965 Pepsi Cola company executives decided to diversify as a means for new growth. They acquired snack foods giant Frito-Lay, the maker of products such as Fritos, Lay's Potato Chips, Doritos, and Tostitos. They also changed the company's name to PepsiCo to reflect its broader product line. Almost from the date of the acquisition, Frito-Lay has been a major and successful component of the company.

Indeed, PepsiCo executives were so happy with the combined firm that several years later they decided to expand again. This time the strategy called for acquisitions in the restaurant industry. As a result, PepsiCo acquired Pizza Hut in 1977, Taco Bell in 1978, and Kentucky Fried Chicken in 1986. These three businesses made PepsiCo the largest restaurant company in the world.

The logic behind these acquisitions seemed to make a lot of sense. For example, PepsiCo managers argued that the restaurants would all sell Pepsi Cola beverages and Frito-Lay chips. Similarly, grocery stores and other retailers could presumably sponsor joint promotions of Frito-Lay snack products and Pepsi beverages. And for several years things seemed to be working well.

But in the early 1990s, Pepsi's strategy started to unravel. Coca-Cola began an aggressive push into both existing and emerging foreign markets, for example, and to chip away at Pepsi Cola's domestic market share. Coke's U.S. share rose almost 2 percent in 1996 while Pepsi's dropped by 1 percent. Unfortunately, Pepsi managers found that they were constrained in their ability to fight back. These constraints, in turn, were generally tied to the restaurant business.

Because the restaurant business is so competitive and profit margins in that business are so small, PepsiCo was having to devote a disproportionate amount of attention to managing restaurant operations. Ironically, PepsiCo itself had created part of the problem when it introduced so-called value meal pricing at Taco Bell in the late 1980s. This and similar pricing strategies cut profit margins even further, but also became so ingrained that virtually every company in the industry was using it. Consequently, PepsiCo didn't have the resources to focus additional attention and energy on its besieged soft drink business.

In early 1997, PepsiCo executives reached a critical juncture. They realized that either they had to stand back and allow Coca-Cola to pull far ahead in the soft drink market or they had to get out of the restaurant business altogether. After considerable deliberation they decided to adopt the latter strategy—to divest themselves of the restaurant operation and concentrate on soft drinks and on the snack foods market, a market they dominated.

To prepare for this move, Pepsi first sold some of its company-owned restaurants to franchisees. Then, in late 1997, the restaurant operations were legally restructured as a separate corporation, with shares available on the open market. PepsiCo decided to maintain control of a large block of stock in the new restaurant business, both to keep stock prices higher and to protect its exclusive arrangements for selling Pepsi products in the restaurants. But actual management of the new enterprise will be autonomous, and PepsiCo intends to gradually sell off most, if not all, of its ownership.

Case Questions

1. Was Pepsi's original strategy closer to related or to unrelated diversification?
2. What can be learned about the relationships among business- and corporate-level strategies from PepsiCo's experiences?
3. Do you think PepsiCo should also shed its snack food operations? Why or why not?

References: *Hoover's Handbook of American Business 1998* (Austin, Texas: Hoover's Business Press, 1998), pp. 1074–1075; "PepsiCo Takes Restaurants off Menu," *USA Today*, January 24, 1997, pp. 1B, 2B.