by Satish Jindel

2007 – The Year of UPS

Next year will be a special year for UPS as Big Brown turns 100 on Aug. 28. However, it is the other events that could occur in 2007 that will make it an important year for the company and the transportation industry and thus provide a strong incentive for the UPS management and Teamsters leadership to cooperate in an unprecedented manner in the interest of the customers, investors, employees and management.

The Teamsters and UPS started talks last September. That provides more than nine months (which benchmarks well with previous contract talks) before the August anniversary for the two sides to finalize a new contract, which expires in 2008. During these talks, expect Teamsters to want new members while UPS seeks concessions on items affecting the integration of air express and ground parcel services, such as, part-time air drivers that only handle air express packages.

The future of UPS and the Teamsters union are intertwined.

Teamster cooperation with early contract execution would allow UPS to avert parcel volume diversion and revenue loss to competition, and disruption to shippers operations. By announcing the agreement in 2007, the union would gain by preventing potential job losses that a drawn-out negotiation might bring. UPS gets the opportunity to ramp up its integrated air and ground domestic parcel service from both operational and marketing perspective for a new competitive advantage for market share gain.

While the two sides work out the parcel contract, the Teamsters could sign a new LTL contract covering the hourly workers at all UPS Freight locations. UPS would end up with union workers in its LTL unit, avoiding problems from double breasting and it could gain more favorable work rules (to compete against non-union LTL carriers) that would not have been practical without its cooperation with the Teamsters through the card-check agreement granted last June.

Meanwhile, with mainly YRC Worldwide and Arkansas Best Freightways in the National Master Freight Agreement, William Zollars, CEO of the $10 billion YRC, will control the direction of a new contract that could set the groundwork for creating one YRC national YRC regional (with USF carriers and New Penn) network. ABF is part of the NMFA process, of course, but practically it may be thought of as the "YRC Freight Agreement."

ABF might gain the most from Teamsters consent for its workers to transition to a new UPS LTL contract. This could help ABF get acquired and provide UPS Freight a separate long haul (ABF) and regional (Overnite) network like its two major LTL rivals. With its 92 operating ratio, ABF has achieved better margins than most unionized LTL carriers. With ABF, UPS's LTL business unit would have combined annual revenue of $3.5 billion, enhance its competitive position against the larger YRC and FedEx Freight in a $32 billion market and create three giants with significant leverage to make changes in the LTL industry.

The Teamsters could gain big in 2007. Its LTL unit could get 15,000 new members and protection in the parcel unit for existing jobs and potentially new ones with UPS success in merging air and ground domestic services. And James Hoffa, newly re-elected Teamsters president, would get to participate in a major industry event to help UPS gain new confidence with the shipping community and build momentum to unionize UPS competitors.

Shareholders would also gain. If UPS, with its strong cash flow, is unable to make a large strategic acquisition in 2007, the board of directors could authorize another share buyback on top of two buyback authorizations over the last three years totaling $4 billion.

The industry also can expect strategic changes at UPS' Supply Chain and Freight.

This light-asset and non-asset business unit, the focus for many of UPS's recent acquisitions, has generated operating margins in the logistics business (based on gross revenues) of 2.6 percent, 4.9 percent and 2.2 percent compared to the domestic package business margins of 15.7 percent, 13.7 percent and 14.4 percent in 2005, 2004 and 2003, respectively.

Another thing to watch for is for UPS to announce a new CEO to lead the company into its next century.

Since the retirement of founder James Casey in 1962, CEO terms at UPS have been between four and seven years. John Rogers (1984-1989), Kent "Oz" Nelson (1989-1996) and James Kelley (1997-2001) each have presided over one contract extension with the Teamsters. Michael Eskew has been the CEO since January 2002. During his tenure, Mr. Eskew has overseen one Teamsters contract and moved the company aggressively into light-asset-based logistics and transportation services, which has quadrupled in annual revenue since 2001 to an estimated $8 billion for 2006.

And 2007 also promises to be a challenging year for UPS leadership. It may be faced with several major decisions: How to generate higher margins from the Supply Chain services? Does it bid a high price to acquire TNT Express (if it goes on sale) and deny this prize to its archrival — FedEx? How can it manage changes from integrating the overlapping domestic air and ground services into one parcel market?

No matter what, 2007 should be an interesting year. So tighten the seat belt as the road ahead may be rocky or smooth depending on how UPS and Teamsters deal with these industry-changing events.

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