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Chapter 1

The Importance of Public Relations: UPS Case

Public relations can truly mean the difference between life and death for an organization, or the difference between profitability and failure. The following case illustrates the importance of public relations as a means to maintain ongoing, beneficial relationships, to systematically listen to and understand the concerns of publics—in this case, internal publics and a labor union and the external public of news media. Ongoing public relations initiatives, such as strategic issues management, could have prevented the problems encountered by the organization in the following case. The case also demonstrates that an organization can recover its footing and repair its reputation and relationships, once it acknowledges its mistakes and commits to changing course. The following series of events highlight the importance of ongoing, strategic public relations as the very lifeblood of an organization. Case based on classroom lecture and interviews with Kenneth Sternad (personal communication, March 30, 2009; September 2009). Information also based on United Parcel Service (2009).

1.1 A Conflict Unfolds

United Parcel Service (UPS), the world's largest transportation and logistics company, faced a difficult set of challenges as the year 1997 began. The company, founded in 1907, plays a vital role in both the U.S. and global economy. UPS serves more than 200 countries and territories and delivered more than 3.8 billion packages—15 million packages a day—in 2008. The company achieved \$51.5 billion in 2008 revenues and has more than eight million customer contacts per day. It is the second largest employer in the United States and the ninth largest in the world with 427,000 employees. UPS carries approximately 6% of U.S. gross domestic product (GDP) and 2% of global GDP.

UPS had a long and, for the most part, positive relationship with the International Brotherhood of Teamsters, the union that has represented UPS employees since the 1920s. In 1997, that relationship would be severely tested and the resulting impact on the company would be profound.

Negotiations with the Teamsters began in early January of that year, even though the existing contract didn't expire until 12:01 A.M. on August 1, 1997. UPS negotiates a national contract with the union every 4 to 6 years, and prior to 1997 there had never been a national strike by the union against UPS. The company is the largest employer of Teamsters in the country, with 225,000 members.

The president of the Teamsters was Ron Carey, a former UPS driver from New York City, who—according to many accounts—had left the company with a profound dislike for UPS. Carey had won reelection as president of the Teamsters in 1996, an election that later resulted in an investigation based on allegations of illegal fundraising and kickbacks. As negotiations with the Teamsters began, Carey's opponents within the union were attacking him, seeking to erode his support and petitioning for possible new elections. Many believed there was a high likelihood that the federal investigation would result in Carey's election being overturned. Although UPS was not aware of it as negotiations began, Carey had been quietly preparing the union for a strike. He needed to make a show of force and leadership to galvanize his support in anticipation of rerunning for the presidency if the election was nullified.

At the start of negotiations the primary issues focused on traditional areas such as wages and health and retirement benefits. But two other areas proved to be far more important, especially in the communication battle that developed as negotiations began to break down. One of these was job security. UPS had utilized

part-time employees for many years, and the Teamsters wanted the company to commit to the creation of a higher percentage of full-time jobs, with a guaranteed minimum number of these jobs.

A second underlying issue that heavily influenced the negotiations was control of the pensions for UPS employees in the union. At the time negotiations began, the Teamsters union controlled the pension fund, one of the largest funds in the United States. UPS questioned how the fund was being managed, the future pension security of its employees, and wanted a separate pension fund for its employees who were Teamsters.

As the negotiations began to deteriorate, the company began planning contingencies at all levels, including **public relations**¹. In 1997, UPS was still a privately held company. The public relations department was small, with only 10 management employees and a limited budget of \$5 million in the United States. There were few trained spokespeople, since the company did not have the public disclosure obligations typical of publicly traded firms. The public relations department functions included product publicity, financial communications, reputation management, and executive communications through a speaker's bureau. The function was also responsible for overall message development, crisis management, sponsorships, and event support. But it was understaffed and underfunded to deal effectively with the global attention UPS was about to face.

The contract negotiations continued to unravel throughout the summer of 1997 and culminated with the Teamsters rejecting UPS's final contract offer on July 30. At that point, federal mediators intervened and continued negotiations through August 3. As the talks concluded at the end of the day, the union indicated it would return to the table the next day.

Without any forewarning, the Teamsters union announced to its members that evening that it would strike. Ron Carey held a press conference early in the morning on August 4 confirming a national strike and encouraging all UPS workers to walk out. The Teamsters had been developing a full-court media blitz, which they launched that day with a well-coordinated campaign using television, radio, and print.

The UPS strike instantly became the top national and local news story throughout the United States. The strike affected operations in more than 1,800 locations in all 50 states and generated media interest in every large- to medium-sized city. The UPS public relations office received more than 20,000 phone calls during the strike. According to Ken Sternad, who headed the function at the time, "We got slaughtered in the press."

1. A conduit, a facilitator, and a manager of communication, conducting research, defining problems, and creating meaning by fostering communication among many groups in society. Also referred to as *corporate communication*, *marketing communication*, and *public affairs*.

The strike lasted 15 days and had a severe impact on U.S. and global commerce, costing UPS \$750 million in lost revenue and related expenses. In the view of Sternad, the Teamsters won the communication battle largely because they had “key messages that played well.”

“They focused their messaging around the theme of ‘Part-time America won’t work’ and that caught on with the media,” said Sternad. “The Teamsters had clearly tested and researched this message and the others they used. They communicated early and often, including holding twice-daily press briefings in Washington, DC. The Teamsters stayed in control of the message and it worked for them.”

Sternad also pointed to the way in which the union put a human face on the issue by showcasing unhappy UPS workers, especially those with part-time employment. They effectively engaged third-party experts and made effective use of the Internet.

During the strike, UPS established a clear set of guiding principles and never wavered from these. The company’s number one objective was to get a good contract; winning the public relations battle was not an objective. “We had decided early on that we would not attack the union leadership and not make our people a target,” remembers Sternad. He continued,

We knew that we would need our people with us for the long term and we didn’t want to do or say anything that would tarnish the image of the UPS driver. They will always be the face of the company and our link to our customers and we didn’t want to alienate them.

In preparing for the strike, UPS did have a formal crisis communications plan in place and they had developed a specific communications plan in the event of a strike. The public relations team had compiled extensive facts and figures about the company and had trained regional spokespeople in advance of a strike. They had also identified third-party experts who could point out the many positives of the company.

In retrospect, the company acknowledges that they could have done a better job of handling the communication before and during the strike. Says Sternad,

We had essentially no communications in the first 24 hours. Our messages simply didn’t resonate with the media or the general public, including our customers. We realized that we had not adequately tested our messages before or during the crisis. And we were much slower to utilize the web than the Teamsters. In the end we just didn’t have the proper resources aligned to manage the crisis.

UPS learned valuable lessons from the experience that have served them well in preparing for future crises. Sternad notes,

The real work begins before the crisis hits. The PR team must make decisions for the long-term and stay focused on priorities. As in all crises, the first hours are the most critical. How the company responds initially sets the tone for the rest of the crisis period. That is why advance research is so critical. Message testing is fundamental to effective communications, but it must be done before the crisis hits.

We also saw clearly that in your messages you need steak *and* sizzle, facts along with powerful images that touch people's emotions, not just their intellect. We now cultivate and use third parties on an ongoing basis so that we know them and they know us long before a crisis. We maintain standby web sites that can be turned on instantly in the event of a crisis. As painful as it was at the time, I think we're a much stronger and better prepared company because of this experience.

Though UPS may have failed to get its point across in the heat of the 1997 battle, the longer term story turned out differently. After the strike was settled, Teamsters president Ron Carey was removed from office, expelled from the union, and banned from participating in labor activities for life as a result of his involvement with election irregularities.

The Teamsters had retained control of the pension plan after the 1997 strike, but its financial health continued to erode in the years that followed. Pension benefits were cut, the retirement age was raised, and UPS ultimately negotiated a separate pension plan for more than 40,000 of its Teamster employees previously in the union plan. It cost UPS more than \$6 billion to exit the union plan and cover its liabilities, compared to a fraction of that amount it would have cost if they had been granted control in 1997.

Following the resolution of the strike, UPS saw its strongest growth and most profitable years in 1998 and 1999. In 1999, UPS became a publicly traded company through the largest initial public offering of its stock in the history of Wall Street.

A year later, UPS was named by *Forbes* magazine as its "Company of the Year."

1.2 What Can Be Learned From the UPS Case?

Although UPS ultimately overcame the setbacks it incurred from the Teamsters strike of 1997, the company would have much preferred avoiding the strike altogether. Clearly, the strike had an adverse impact on the company's reputation, an impact that took years to reverse. The case demonstrates the importance of developing and maintaining relationships, even with those whom you may feel are adversaries. In this case, the company underestimated the Teamsters willingness to call for a strike. They also miscalculated the underlying resentment of Teamsters members toward the company. Once the strike was under way, the company began to regain its footing. Management consciously chose not to vilify its employees, even though they had walked off the job. This strategy proved to be a key in limiting the long-term damage from the strike and allowing UPS to recover its reputation and rebuild labor relations within a relatively short time.