Labor Negotiations

Labor opens all firms’ offers simultaneously. The best offer on each of the terms it wants improvement on is used as a standard to judge each firm’s offer.

What are the dimensions on which labor wants improvements?
(hint: one of them is wages...big surprise?!)

Your starting position

• Your starting position in the negotiation must be at least 80% of the current contract.
• Your upper limit, or ceiling, is always 10% above your starting position.

Suppose wages are $20/hr right now...

Each firm will have its own bargaining range for each of the four categories labor is seeking improvement.

Competitors' bargaining zones

Please: pardon my scale!
If labor is working at $20/hr and wants $22/hr but is given an offer of $23/hr, it will accept the $23/hr.

Suppose your firm opened at $22/hr. Your negotiation ceiling will be 10% above your starting position, or $24.20/hr. Since the accepted wage of $23 is within your firm's range, you'll reach settlement on wages.

Please: pardon my scale!
That’s somewhat like Andrews company here.

Others who are below that will face strikes. When the strikes are over, the struck firms will face labor costs of one-half of the difference between the $23/hr (the best offer, in this case) and their own negotiation ceiling. They will not pay $23/hr.

Again, after a strike, labor and management settle at halfway between labor’s standard and the company’s negotiation ceiling.
Where will Chester & Erie settle?

~ $22.40
~ $21.40

Please: pardon my scale!

Strike lengths

- Strikes depend on the spread between labor’s “new” demand and firm managements’ negotiation ceilings
- Workers strike for about 7 days for every
  - $1/hr difference in wages
  - $300 difference in benefits
  - Each 1% difference in profit sharing
  - Each 1% difference in annual raises

Example of Strike

<table>
<thead>
<tr>
<th></th>
<th>Starting position</th>
<th>Negotiation ceiling</th>
<th>Demand</th>
<th>Contract</th>
<th>Strike (days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>$ 16.00</td>
<td>$ 17.60</td>
<td>$ 24.00</td>
<td>$ 20.80</td>
<td>45</td>
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<tr>
<td>Benefits</td>
<td>$ 2,500</td>
<td>$ 2,750</td>
<td>$ 2,750</td>
<td>$ 2,625</td>
<td>0</td>
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<tr>
<td>Profit Sharing</td>
<td>1.5%</td>
<td>1.7%</td>
<td>2.2%</td>
<td>1.9%</td>
<td>4</td>
</tr>
<tr>
<td>Annual Raise</td>
<td>3.0%</td>
<td>3.3%</td>
<td>7.2%</td>
<td>5.3%</td>
<td>27</td>
</tr>
</tbody>
</table>

Total days on strike 76
Using labor negotiations as a competitive weapon

• What would a dominant position in high automation make possible?
• What would your firm get by low-balling? (80% of current contract)

As a team…

• Locate the current labor, benefits, & profit sharing levels for your industry from the Capstone Courier
• Prepare a plan for deciding what strategy (relative to the labor negotiation) your team will act on.