

# **GENERAL PRESIDENT'S REPORT**

**FOR INTERNATIONAL PRESIDENTS  
AND  
GENERAL OFFICERS**

**STRATEGIC ALLIANCES, CONSOLIDATION  
& MERGERS**

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**Confidential Document**

## **INTRODUCTION**

This document is provided as a strategic guide for the leaders of the union construction industry of North America. The contents are the viewpoint of the author only.

Circulation of these documents is requested to be limited to General Officers and key leaders for purposes of organizational policy discussions and examination of strategic options.

### **GENERAL PRESIDENT’S REPORT: STRATEGIES FOR CHANGE**

*“The rate of change internally has to be greater than the rate of change externally or else you’re pedaling backwards.”*

– *Bob Nardelli, CEO, Home Depot*

It is a fact that most all businesses and organizations eventually cease to exist. The reason they do so is generally attributable to a failure to adapt to changing market and economic conditions.

Changing conditions require a realistic analysis and rapid response. As a rule, the larger or more traditional the organization, the slower the capability to adapt to change. Also, in larger or more traditional enterprises, a risk-adverse culture often governs. Finally, change can also be obstructed by the biases or self-interests of the leaders, managers, employees or other organizational stakeholders.

All of these obstacles to change exist in the construction segment of organized labor; within many unions and across the Building Trades as a whole. The consequences of this strategic stagnation in our industry include;

- many uncoordinated efforts towards common goals
- varying degrees of commitment to change
- poor communication on best practices
- a continued absence of a successful model to follow
- an undue emphasis on inter-organizational rivalries
- further loss of time, momentum and market share

The Breslin Strategies General President’s Reports will deal with strategic change policies and execution to address the above.

The first area of focus will be on Consolidation, Strategic Alliances and Mergers.

# **STRATEGIC ALLIANCES, CONSOLIDATION & MERGERS**

## **Strategic Alliances**

With the decline of the BCTD's influence and capacity, new options for multi-craft cooperation are being developed by groups of unions.

The emergence of strategic alliances such as MAC (Mechanical Allied Trades) or the Basic Crafts or Heavy Highway coalition, are positive developments; but only an interim step in labor's evolution. These will serve as the foundation for the building of trust and relationships enabling more cooperation to occur and more fundamental and unified changes to be accepted.

These alliances have been formed to focus on solving the inter-craft challenges that have eroded end-user confidence and associated market share. Jurisdiction is the primary focus, but there is a lot more potential. Other areas that strategic alliances can examine in the near term might also include;

- uniform substance abuse policies
- complimentary contracts in market recovery areas
- workers compensation ADR programs
- specialty PLAs
- end-user marketing and outreach
- coordinated organizing
- coordinated recruitment

There are three additional areas I would suggest that multi-craft alliances work on immediately to build cooperation and market success; supervisory training, workforce accountability initiatives, and Business Manager training.

## **Supervisory Training**

A multi-craft approach should be taken to develop a national Foreman's School. There is no one more important upgrade to our competitive market approach than to control supervision nationwide. It is the key to growth, productivity and control of markets. When contrasted with the efforts and resources applied to apprenticeship, it is an area of enormous opportunity that is poorly addressed. Every General President and Officer came from the field; so you all know where the money is made. Supervision is the key to our future and there is no good reason why a professional cross-craft approach should not be implemented.

## **Workforce Accountability**

As for workforce accountability, template programs such as Code of Excellence (IBEW) or the Professional Craftsperson Code of Conduct (Insulator) need to be adopted across the industry. The promotion of specific rank and file performance criteria, along with the elimination of unacceptable performance is a key to market share recapture. The multi-

craft alliances should promote uniformity in these policies, as well as in development of training programs for productivity, workplace attitudes and behaviors. With a multi-craft approach an end-user can count on everyone on the project sharing the same workplace values and ethics regardless of craft.

### **Business Manager Training**

What truly prepares a craftsperson to assume the leadership, managerial, financial, H.R., IT, regulatory, ethical and legal responsibilities of becoming a union business manager? I can think of no industry in North America that so poorly prepares its' senior managers for the significant duties they are about to assume.

The alliances should seriously consider forming a national new Business Manager's School in conjunction with one of the major universities. Affiliate leadership capability determines market share, while conversely, poorly led unions reflect badly on the entire movement. The professionalizing of labor leadership is long overdue. Each craft should not have to re-invent the wheel.

### **Summary**

Finally, unions not participating in a multi-craft alliance need to carefully analyze the benefits of joining or forming one. It is not a matter of giving up independence or autonomy; it is about power and advancement through unity. Though the BCTD may attempt to re-cast its' function and identity, it appears that the emerging multi-craft alliances, built along complimentary market lines, may be the future vehicle for successful execution.

### **Consolidation**

Internal consolidation for each union is an absolute necessity and it will be, for many crafts, the defining element of leadership's commitment to change.

Simply put, inefficient structure breeds unacceptable results. No matter what ideas and reforms are enacted, the structure of your union will largely determine your success. Internal consolidation and mergers of councils, regions and resources must be done now where logical and appropriate. It is also the tool that you must use to eliminate the poor performers and marginal leaders as obstacles to your plans for growth and development. It will be the most difficult political challenge any G.P. or International Union will take on, but the economic and operational benefits demand it be done.

### **Union Mergers: A Practical Analysis**

The topic of union mergers usually generates more rumor than practical analysis. No matter where you or your union currently stands on mergers, it is important to look at the concept from a practical standpoint.

Over the past 100 years tens of thousands of business enterprises have merged. Mergers are a normal and expected part of business and commerce. Even in our industry there have been many consolidations and "roll-ups" among the contractors. Why?

Business enterprises merge for only a few reasons. The primary reasons are as follows;

- to leverage economies of scale in manufacturing, distribution, finances, or administration
- to compete with larger or more powerful organizations
- to acquire new abilities, technology, staff, product lines or client bases
- to dominate or monopolize markets
- to survive in condensing or vanishing markets

Take a look at the companies list below and their recent mergers to begin the analysis on the pros and cons of mergers.

- **Sample Mergers & Acquisitions**
- [Kmart](#); with [Sears, Roebuck](#)
- [Procter & Gamble](#) buy [Gillette](#)
- [Union Pacific Railroad](#); with [Southern Pacific Railroad](#)
- [AOL Time Warner](#); [America Online](#) and [Time Warner](#)
- [ExxonMobil](#); [Exxon](#) and [Mobil Oil](#)
- [Citigroup](#); [Citicorp](#) and [Travelers Group](#)
- [J.P. Morgan Chase](#), [Bank One](#)
- [ChevronTexaco](#); [Chevron](#) and [Texaco](#)
- [DaimlerChrysler](#); [Daimler Benz](#) and [Chrysler](#)
- [Hewlett-Packard](#); with [Compaq](#)
- [Walt Disney Company](#); with [Capital Cities/ABC](#)
- [Monsanto](#); with [Pharmacia & Upjohn](#)
- [NBC Universal](#); [NBC](#) and [Universal](#)
- [Sprint](#); with [Nextel](#)
- [Verizon](#); [Bell Atlantic](#), [GTE](#), and [AirTouch Cellular](#)

You will note that nearly every industry is represented; railroads, consumer goods, oil, high tech, drugs, entertainment, telecommunications, automobiles, banking and more. Each of these firms was seeking some competitive advantage in the creation of a new entity. The one most relevant to us is Kmart and Sears combining forces to take on Walmart, but mostly they were all looking at the same five advantages that were noted above. So, let's examine these five as a criteria to evaluate the prospect of union mergers in our industry.

### **Leveraging Economies of Scale: Benefit Plans**

It is very clear that many local unions and Internationals will be facing significant ongoing challenges to maintaining health and retirement programs at current levels, while at the same time, obtaining wage increases and remaining competitive. As a result, the first logical area for leveraging economies of scale relates to the benefit plans.

Duplicative plan management, administration, lost buying power and excessive fees for any combination of crafts costs labor tens to hundreds of millions of dollars annually. Recapturing these resources and re-allocating them to pension liability or membership

growth, is a challenge each organization should establish as a primary objective. And not only for cost savings; but as a foundation for successful future mergers and / or alliances.

At a micro-level, local unions must sacrifice political control of benefit plans in order to achieve economic efficiency and leverage. Though possibly logistically difficult and unpopular, this is a required mandate for the future.

At a macro-level, a multi-craft benefit model must emerge to take the place of the hodge-podge that exists today. *The bulk of the benefits administration industry exists solely to service the economic inefficiency and duplication within our industry; at a cost that could employ thousands of new organizers tomorrow.*

The Constitutional powers granted to the senior leadership of each craft should be aggressively utilized to the maximum degree to internally consolidate all benefit plans to maximize savings, efficiency and buying power. A plan for re-allocation of these resources should be presented as the justification. Also it should be considered as part of preparation for internal consolidation and multi-craft mergers.

In summary, with hundreds of millions of dollars available for re-allocation to growth, no union political obstacles should be acknowledged as legitimate, and any compromise is unacceptable.

### **Leveraging Other Areas of Opportunity**

Economies of scale should also be applied to training programs and facilities; IT systems; organizing & marketing; political action & lobbying costs; physical plants & real estate; office staffs; and much more. Quantification of economic or operational benefit is difficult to determine, but assuming duplication in most areas, overall merger cost savings or re-allocation could approach 25-40%. This is a significant consideration when re-allocated to organizational and membership growth.

### **Increasing Competitiveness Through Additional Resources**

Organizations that have more resources compete more effectively. The only way that a smaller organization can compete with a larger one is on a niche market basis, where a client is willing and capable of paying a premium, and the organization can limit competitors from entry to their markets.

Except for PLAs and pre-qualification, no such limitations exist on our non-union competition. As such, they own the North American construction market with a share exceeding 85%. Thus the union market is competing with a much larger, fully entrenched non-union industry and the more fragmented or dissembled we are, the less able we are to effectively compete.

The principal strategy that must be recognized is that competitive survival means gathering up with others with mutual interests and complimentary resources.

## **Acquisition of Clients, Meeting Market Needs & Combined Muscle**

In a consumer and business environment where ease of use; one-stop shopping; and proven efficiencies drive buying decisions, a narrow focus specialty approach no longer sells unless you are a specialty or luxury goods / service provider. We are not such a provider.

There is nothing fundamentally different about what each of the unions is providing. Despite proud histories and a lot of rhetoric, there is nothing so special about one union over another in the eyes of the contractors, end-users or clients. Our commodity is skilled labor at a premium price.

Unions are too used to looking inward and at each other. By referring to their internal histories, identities and jurisdictions instead of to the market's needs, they miss the external reality; that the market prefers a broad spectrum of service options, in fewer providers, and only responds to easily accessible economic and operational benefits.

So the question becomes development, distribution, branding and marketing of a commodity that fulfills client needs. Whether it is CURT or a local developer, this is the challenge. Mergers and strategic partnerships provide greater value, convenience and efficiency in accordance with those market needs. They also provide the marketing, organizing and political muscle necessary to shape market conditions where and when necessary.

## **Merging for Market Domination or Simple Survival**

These are the opposite ends of the spectrum. One is about cornering the market. The other about hanging on for a few more years or decades. This is simple. In previous decades, the union market segment dominated with a highly diversified, highly specialized structure of many unions, jurisdictions, contracts, policies and philosophies.

Now it will have to do the exact opposite to survive.

## **Merger Templates**

Though it may not be obvious, the template already exists for successful mergers and alliances. Most crafts already have more than one discipline under one roof. Somehow, they have managed to take divergent groups and combine them under one banner. Here are what some of the unions have already successfully done that needs a closer look;

- established divisions of an “allied craft” where the identity or branding is done but distinct sub-groups maintain their own identities.
- Separate inner-union leadership structures are set up, or in the case of a merger, maintained, to promote continuity of management, technical expertise, client contact and rank & file support.
- Maintained rank and file support for an umbrella identity but primary connection with their sub-group or division.

## **Recasting Identities and Brands**

As the market evolves, all unions, big and small, are going to have to take a hard look at name and identity changes. There are three key audiences to consider; the end-user market; the contractor market and your own rank and file. The first two generate income and opportunity. The rank and file, though connected through pride and tradition, have no more stake in the name than their own identity. No craft is going to easily accept mingling their identity, but it must be balanced against the consequences of inaction. At 13% market share across North America, this is not the time for pride to stand in the way. The primary focus of a craft name or any business brand, is how it is perceived to meet the needs of those paying the bills.

One key strategy that may be considered is a union identity label of

- “XYZ Union & Allied Crafts” or
- “Allied Crafts of XYZ (general market description)”.

This is a simple model that reflects diversification in name, identity and craft coverages. It also communicates additional capabilities to end-users and contractors.

## **Addressing Duplicative Leadership Structures and Costs**

Many union leaders will oppose internal consolidation, mergers or alliances based on their own self-interests. Understandably, it is unrealistic to think anyone is going to take a bullet for the team.

As other organizations do, the most effective means of consolidating duplicative leadership and staff is using incentives or buyouts. *This assumes that poor performers have already been eliminated through internal consolidation.* Every company in North America creates incentives to accelerate acceptance of mergers or consolidation among the ranks. Why? Because it works.

Early retirement; accelerated benefit schedules and other legal means must be examined and implemented. Research the possibilities with your counsel. The key here is having these well planned and presented ahead of time, so you are not dealing with obstructionists who are operating from uncertainty, insecurity or fear.

Though the cost may be perceived to be initially high, the savings identified in the “economies of scale” section above would likely dwarf these in the first years.

## **Criteria for Selection of Merger Partners or Allies**

Here is a summary of important criteria for evaluating potential merger partners;

- Is there a common end-user or contractor base to leverage?
- Can our collective bargaining relationships exist completely separately so that existing or prospective contractors will not reject us based on an increased scope of coverage, bargaining obligations or jurisdiction?
- Do we have complimentary structures?

- Are they at a reasonable level of embracing change compared to our organization?
- Do they have ethical, legal or financial baggage?
- Are they truly a good fit for a partner or just an opportunity?
- Is there synergy between what we have to offer and what they have to offer?
- Are there more than one other organization that belongs in our partnership?
- How large do we have to be to really take advantage of economies of scale and how should this impact our selection of a partner?
- How many bullshit ego games will emerge and can we jointly manage the challenges?
- Are they politically stable enough to successfully see the process through?
- How much money, time, resources and staffing could be re-allocated due to a merger or alliance with any particular organization?
- Are there fundamental differences in our organizational philosophies that would hold us back from accomplishing our existing objectives?

### **Facilitation of Mergers and Alliances**

The successful execution of a merger is not to be taken for granted. The business landscape is littered with mergers that did not jell because the parties were too certain of successful outcomes or did not account for all the operational challenges.

I would strongly suggest that as you engage this process, now or in the future, you retain proven specialists in both organizational mergers and strategic planning to assist your General Officers, union counsel and key staff members.

### **Summary**

I hope that the enclosed General President's Report was of value to you and your organization. It is meant to be a further reflection of my total commitment to the success of each of you and the union construction industry. Please feel free to contact me with any questions, criticisms or additional ideas.

The next G.P. Report will focus on workforce accountability, end-user expectations and associated policies and strategies to improve field performance and our market reputation.

Respectfully Submitted,

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(add circulation list of all unions and GPs.)