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Machinists Saved $137 Million At Eastern

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Abstract

[Excerpt] In December 1983 the Machinists at Eastern Airlines agreed to a contract which stipulated, among other things, that in 1984 the union would work with management to identify and implement $22 million in cost savings that did not affect pay rates and benefit levels.

Keywords

Eastern Airlines, Machinists, negotiation

● Machinists Saved

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In December 1983 the Machinists at Eastern Airlines agreed to a contract which stipulated, among other things, that in 1984 the union would work with management to identify and implement $22 million in cost savings that did not affect pay rates and benefit levels.

It was no secret that Eastern was riddled with inefficiencies, many of them in maintenance and ramp service where Machinists could directly observe them. Mechanics could reel off a litany of costly company policies and practices, many of them stemming from years of management obsession with fighting its unionized workforce.

The union and management established the following ground rules for the Cost Savings Program:

1) The union appointed four members full-time to implement the program, with all costs being borne by the company.

2) The union had complete access to inside information, including budgets, inventory records, supplier contracts and engineering orders, to enable it to identify and cost out individual projects.

3) Management had to cooperate fully in costing out and implementing projects, and any project that proved economically feasible had to be implemented.

4) Any capital investment required by a project had to be recovered within the first year.

5) The target of $22 million for 1984 was not binding, and there was no financial penalty or benefit to the union if it fell short or exceeded the target.

By management's own accounting, the program more than met its 1984 target, saving $26 million for the company in one year. This amounted to more than a 5% reduction in labor costs without reducing any union member's standard of living.

The initial Cost Savings Program ended January 1, 1985, but the union continued its cost saving efforts and eventually negotiated a new program, called the Efficiency Credit Team (ECT). ECT put the savings directly into the IAM wage base, and for this and other reasons the company stalled, delayed and eventually destroyed the program, as management went back to fighting the union at every step.

During the approximately one and a half years that one or the

$137 Million at Eastern

other of these programs was active, the union saved the company $53 million on an annualized basis. Many of these savings recur year after year, meaning that from January 1984 to January 1987 the union provided a total of $137 million in cost savings.

These cost savings were achieved basically in the following five areas:

- **Contracting-In:** Parts repairs, component overhaul, facility cleaning, and printing were some of the major functions that were brought back in-house. At all major airlines certain specialized or unusual repairs are performed by outside contractors, but at Eastern contracting-out had become a management labor relations policy to fight the union.
- **Repair versus Replace:** An expedient but costly policy which had mushroomed in previous years was to replace a used or broken part with a new one rather than service the old one. From management's narrow perspective, this policy provided the double "benefit" of ease in writing a check to a supplier rather than managing the job in-house, while cutting down on the number of unionized employees. The real expense to the company developed gradually and invisibly. Besides the excessive cost of each individual replacement, the company had developed rooms full of serviceable excess bolts, brakes and other parts. Because these parts were never repaired and put back in inventory, they remained invisible to the upper levels of management who monitored the company's performance through reams of inaccurate computer printouts.
- **Manufacture versus Purchase:** Similar to repair versus replace, management often overlooked the in-house labor skills and tooling capabilities for manufacturing their own parts.
- **Rebid Supplier Contracts:** Stock clerks looked into the prices charged by suppliers for many of the thousands of parts purchased by Eastern. Checks with local hardware stores or friendly clerks at other airlines uncovered excessive prices. One project dealt with a small air-conditioning filter for which Eastern was being charged $5 a piece. From a local supplier the IAM procured the identical part for 3 cents a piece.
- **Labor Force Reductions:** These reductions were agreed upon jointly by union and management and were achieved through attrition and cuts in planned new hiring.

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