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Collective Bargaining in the Era of Grocery Industry Restructuring

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Abstract

[Excerpt] As UFCW international and local leaders know from first hand experience, there have been dramatic changes in the retail grocery industry over the past 15 years. Of most direct relevance to the collective bargaining environment, the absolute size of key corporations has increased and economic power in the industry has become more concentrated. Influenced by the spread of Wal-Mart's grocery operations, established companies like Kroger, Safeway, Supervalu, and Loblaw have pursued aggressive merger and market expansion strategies. Further complicating the situation has been the success of other alternative format grocers (such as Costco, Trader Joe's, Whole Foods, and BJ's), and the entry and expanding influence of global corporations. Clearly, the competitive nature of the market has been irrevocably altered.

Another aspect of the change in the collective bargaining environment has been the decline in the relative strength that the UFCW brings to the collective bargaining table. While the UFCW's total membership numbers have marginally slipped over the past decade, the power of the key industry employers, as noted above, has vastly increased. As a result, the UFCW's "core industry power" in retail food has ebbed.

These evolving economic realities have provided the rationale for corporate labor relations strategies that are hard-nosed, antagonistic and transcend traditional local market dynamics, which formerly were the critical factor in the character of negotiations.

Keywords

grocery industry, collective bargaining, unionization, negotiation, United Food and Commercial Workers International Union, UFCW

Disciplines

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Comments

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Unions appropriately adopt structures and shape bargaining strategies in reaction to the economic realities in the industries where they represent workers. In retail food, the compelling economic unit used to be the local market area. Employers' profitability was based on their ability to compete successfully in the geographic market areas where they operated. All of the major unionized companies started in specific local geographic markets, and from the earliest days of the industry in the early part of the 20th Century into the 1990s, they would conduct collective bargaining on a market by market basis. As long as their labor costs were competitive within their market areas, the companies typically would not be aggressive bargainers. Even as they entered new local markets through organic growth or acquisitions, the companies continued the practice of market by market collective bargaining. In this economic environment, the UFCW local union in each market could effectively bargain for its members.

However, in the context of the industry transformation that is underway early in the 21st century, neither the union's traditional decentralized bargaining structure nor its locally driven bargaining strategy appears to be the appropriate response to the current industry structure. While local unions were at one time capable of inflicting serious economic pain on

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recalcitrant grocers (or delivering the opportunity for economic gain to cooperative grocers), corporate growth has insulated many of the key actors in the industry from the impact of direct union action that is limited to the local level. It is unlikely that traditional approaches can still deliver sustainable economic advantage to UFCW members even in those geographic markets with high union density. The question UFCW leaders have started to address is how to confront national employers as a unified international union that brings more union power to the table.

Company Size and Market Concentration

The largest grocery retailers have all grown substantially over the past ten years. Most dramatic is Wal-Mart's 700 percent increase in grocery sales. Only 20 years after opening its first super center, Wal-Mart is now the top U.S. grocery retailer with over 22 percent of the national market, nearly double the share of Kroger which ranks number two. Needless to say, Wal-Mart's entry into retail food changed the competitive landscape, and the traditional companies that are still in a position to compete with Wal-Mart have responded with aggressive growth and acquisition strategies. Naturally, with all of the largest firms expanding, economic power in the market is now much more concentrated. The top five U.S. grocers account for over half of total sales. Although spared from the massive direct competition with Wal-Mart, Canada's largest grocers also have embraced the growth and acquisitions strategy in part to prepare for the Wal-Mart onslaught they expect. As a result, market concentration has grown in Canada as well.

Increased firm size and greater industry concentration along with a stagnant UFCW membership translate into greater leverage in the collective bargaining arena for unionized companies. See Chart 1 below.

Of most direct relevance to the UFCW is the absolute growth of these companies in relation to the lack of growth of the UFCW. Kroger's growth (measured by total annual revenue) is up 179 percent over the past ten years. Other unionized firms have recorded similar growth: Loblaw at 244 percent; Ahold at 183 percent; Supervalu at 156 percent; and Safeway at 88 percent. As the major companies have grown, the balance of power in collective bargaining has been shifting away from the UFCW. The shift is due to the fact that as the major chains have extended their geographic reach, each local market area has come to count for a smaller part of the companies' revenues and profits. Therefore, each local bargaining agreement now represents a smaller share of each company's operations, and union leverage is reduced proportionally.

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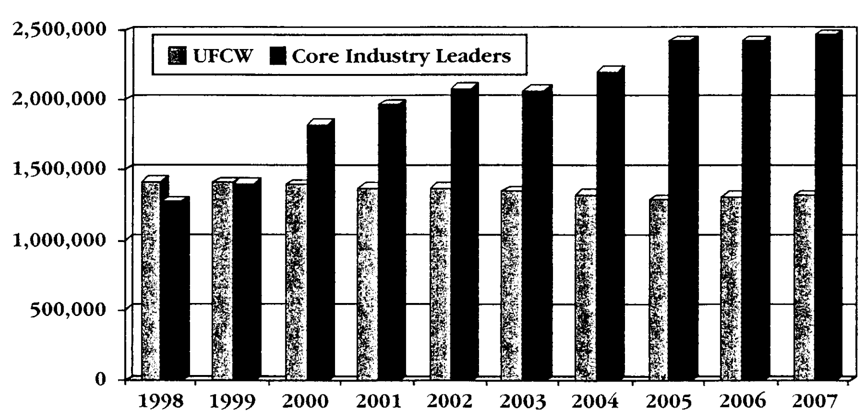
The Local Impact of Corporate Restructuring

In the new economic landscape of grocery retailing, the UFCW's relative standing has declined in individual markets and overall. The day-to-day

Chart 1: UFCW Membership Levels Fail to Keep Pace with Growth of Core Industry Leaders



Core Industry Leaders include: Kroger, Supervalu, Safeway, Wal-Mart, Tesco appearance of the bargaining relationship with the employer looks the same, with the same UFCW locals and usually the same basic contracts (although the terms of the agreements have changed). But, the consolidation of the companies has shifted power and leverage away from the union. A few examples demonstrate the new reality.

In New England, Stop & Shop is now owned by Ahold. When the UFCW bargained with the independent Stop & Shop prior to 1996, it had the ability to shut down the entire company. By contrast, Stop & Shop accounts for only 28 percent of Ahold's total revenues in the U.S. (and an even smaller share of global revenues). The union still has the ability to bargain with Stop & Shop, but it is not possible for local(s) representing 28 percent of a company to exert as much leverage as when it represented 100 percent.

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In Philadelphia, the story is similar for Acme. Long the market leader in the Philadelphia area, the Acme chain became a smaller and smaller part of larger acquiring companies over the years. Then, two years ago, Acme became part of newly national company, Supervalu. Acme now only accounts for 5 percent of Supervalu's revenues. Likewise, Dominick's in Chicago was independent until 1995, but now represents only 5 percent of Safeway's revenues. In Southern California, the story for Ralph's is the same. Local UFCW bargaining used to impact 100 percent of Ralph's operations, but now Ralph's represents only 6.5 percent of Kroger's total revenues. Even in Kroger's home city of Cincinnati, the union's position has weakened. With Kroger's rapid expansion over the past decade, the revenue generated in the Cincinnati market now has an impact that is 60 percent less than in 1995.

Although the details vary by geographic market area, the experience is the same. The relative power of each UFCW bargaining unit in the major chains has been seriously eroded by the growth of the chains and the UFCW's failure to grow. So vast is the corporate growth that in most instances an individual bargaining unit accounts for no more than half the revenue of ten years ago. For the former independent grocers that have merged or been acquired, bargaining units have lost far more leverage. The reduced potential impact of local union direct action on total revenues has encouraged companies to become aggressive in negotiations and even to initiate battles in local market areas where the UFCW used to be strong.

The New Economic Landscape—How Should the UFCW Respond?

Wal-Mart's entry into retail food and its rapid expansion changed the competitive landscape. Threatened by new competition from Wal-Mart and the other alternative format grocers, the major chains have responded with a centralized, systematic reevaluation of the full range of business practices: mergers and acquisitions, finance, store format, marketing and labor relations. The successful chains have pursued an aggressive strategy of market expansion with a simultaneous determination to secure cost savings that would allow them to compete more effectively. This determination has been a tremendous driver of the companies' offensive against labor standards established by the UFCW. The market expansion initiatives and other revised business practices have been successful; the major companies are in robust financial shape and in control of their markets. Despite this, they continue to argue that the significant nation-wide power of Wal-Mart leaves them no alternative to seeking continued reductions in cost. Low-wage, non-union Wal-Mart provides the most convenient—albeit greatly exaggerated—rationale for the attack on UFCW contracts and standards. Each contract negotiation presents the companies with an opportunity to wrest savings that will enlarge profits and fund the ongoing market battles against Wal-Mart and other new competitors. As long as the companies achieve a large enough future stream of cost savings at the collective bargaining table, the new industry dynamics make localized actions—even lengthy strikes—a potentially cost effective proposition.

The transformed economic realities of the retail grocery industry have made it imperative for the UFCW to re-examine its collective bargaining structure and strategy. The increased coordination and local union cooperation that has been promoted by the national union in recent rounds of negotiations is fully appropriate and a step in the right direction. As

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suggested by ***The Committee on the Future*** of the UFCW in its report *One Union—One Voice,* there is a clear economic imperative to "promote comprehensive bargaining strategies," based on "strategic comprehensive bargaining plans," and incorporating "comprehensive contract mobilization...to bring maximum pressure on employers." The situation is extremely serious, however, and suggests an even more dramatic realignment of strategy and structure with an emphasis on centralizing collective bargaining efforts through greater coordinated local/international cooperative strategic planning and execution.

Although the challenges are substantial, they also present an exciting opportunity. Intense economic pressures and centralization of corporate strategy decisions are not unique to the retail grocery industry, but rather are typical in the evolving global economy. In this context, non-union firms and multinational corporations have been the innovators in employee relations, while unionized firms have reacted by mimicking their strategies, attempting to impose non-union standards on their unionized workforce. Although the specific experiences vary, the developments faced by the UFCW in the U.S. and Canada are similar to those in other unionized industries, including hotels, telecommunications, airlines, automobile manufacturing, general services contracting, and entertainment.

> *The UFCW is in a position to build on the process set in motion by* The Committee on the Future *and develop 21st century structures and strategies that re-establish the union's bargaining power.*

The UFCW has worked hard to restructure and realign its operations to maximize future opportunities and is expected to further address these issues at their upcoming convention in August 2008.

Two of the most important issues that the union will address are how the union intends to maximize and allocate future resources for organizing efforts in core industries, including retail grocery, and how they can solidify the coordination and cooperation that is needed at every level of the union as it confronts collective bargaining in a centralized corporate environment.

The economic reality is that all unions today, including the UFCW, must devote substantially more resources toward organizing and growth-focused initiatives and better coordinate their approach to collective bargaining if they expect to level the playing field in the industries in which they operate. The ones that do will be well positioned for the future.

The UFCW is in a position to build on the process set in motion by ***The Committee on the Future*** and develop 21st century structures and strategies that re-establish the union's bargaining power. Decisions reached as the UFCW works to refine its approach to strengthening bargaining power have the potential to influence union practice well beyond the retail grocery industry. If the UFCW rises to the challenge, it can set the standard for the entire labor movement in adapting to economic change, and ultimately have a positive impact on the future of unions and the role of working people in the economies of the U.S. and Canada.