

SITE Selection

Hog Heaven

Milwaukee steel workers bend without breaking.

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Believe it or not, in the early days of **Harley-Davidson's** now 105-year tenure in Milwaukee, the company sought to be known for how quietly its motorcycles purred.

In the fall of 2006 its global economic roar was enough to make a longtime union ally think twice about concessions. After initially rejecting starting wage, healthcare and cost-of-living adjustment concessions in October, members of United Steelworker (USW) Local 2-209 – who boast 1,600 Harley-Davidson employees in Milwaukee – approved them in November. That in turn inspired the company to abandon plans for a new air-cooled powertrain capacity expansion elsewhere in the U.S. and instead create 100 new jobs with a \$120-million expansion in Milwaukee.

Two weeks later, that plan had evolved into a bigger plan: \$300 million invested in Wisconsin operations over the next several years. In exchange the company received an incentive of \$4.5 million in enterprise zone tax credits.

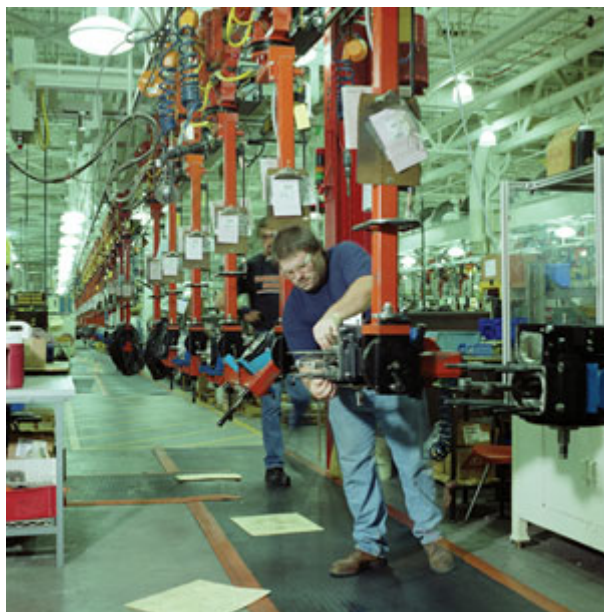
"A few weeks ago, many thought these additional jobs were heading out of Wisconsin, but the company, the union, and my administration never gave up," Governor Jim Doyle said on Dec. 1.

"The site selection process, above all, was about Harley-Davidson's need to expand air-cooled V-Twin powertrain capacity and do so in a way that reduces long-term costs and improves manufacturing flexibility," Harley-Davidson spokesman Bob Klein tells Site Selection. "Our initial concept was to build a new plant in a new location in some other part of the U.S. as the most efficient path to



Harley-Davidson's longstanding union ties are as solid as the machinery those workers employ.

Photo: Harley-Davidson Archives; Copyright H-D



achieving our capacity, cost and flexibility goals. We envisioned a process similar to that which led to the building of our Kansas City plant in the mid-1990s. In that case, the international unions were involved in the site selection and in structuring the operations."

But hometown union leaders asked whether there might still be a way to achieve those cost and flexibility goals in Milwaukee, says Klein, which led to the proposal that took two votes to pass. Everything gets put back on the negotiating table in 2012, but "now we can look forward to expanding here, rather than worry about a rival plant that would produce the same product with newer, state of the art equipment," said Jim Wheiland, local USW president. The company did not disclose the multiple sites under consideration.

The concessions came after the company had reported 2005 earnings of nearly \$1 billion, though some saw this as a too-facile reading of a financial statement. While pensions for current workers remain undisturbed, there are new arrangements in the memorandum of understanding:

- The lowest starting wage rate for new hires will be \$18.25 an hour for power train production jobs, but the union-negotiated training program will encourage workers to move up into machine operator positions that will pay \$24.42 an hour. Current employees in those positions will continue to earn \$28.83 an hour.

- COLA payments will be suspended until 2012 for all employees, and the new hires will not be eligible to participate in the contributory annuity that is administered by the company.

- A new cost-sharing health care package will cover new hires on Jan. 1, 2007, and cover all employees on July 1, 2008.

The concessions send multiple messages: to the pending union/company negotiations with the International Association of Machinists and Aerospace Workers (IAMAW) in Milwaukee and to upcoming USW and IAMAW negotiations in Kansas City and York, Pa.; and to other companies looking for signs of flexibility in staunch union territory.

"On one hand I never want to celebrate the reduction in anyone's wages, and in fact, what this agreement has done is reduce the wage for work being done at Harley-Davidson," says Tim Sheehy, president of the Metropolitan Milwaukee Association of Commerce (MMAC). On the other hand, the region has to position itself as a viable platform for companies to compete in the global marketplace, he says. "What makes Milwaukee un-flat in a flat world?" asks Sheehy. "This is a stark reminder that both companies and the work force have got to continuously figure out how we integrate and upgrade our skill sets if we are going to command high-wage jobs."

Mandates and Manpower

Those jobs still are pretty high-wage in anybody's book, and state and local leaders are glad to have them. While there are plenty of service-sector jobs that pay decent wages,

"the more jobs we can hold onto or create in that goods-producing sector, the better chance our per capita income is going to continue to grow," says Sheehy. Harley employs 4,500 in the Milwaukee area. The company currently has powertrain manufacturing operations at Wauwatosa and Menomonee Falls, Wis., and Kansas City, Mo.; final assembly operations at York, Pa., and Kansas City Mo.; and components manufacturing at Tomahawk, Wis.

Working on the state's package of incentives was something the state was going to be doing anyway – in a more general sense – as Gov. Doyle's between-terms transition team readies a budget proposal for January, says Corey Nettles, Gov. Doyle's former Secretary of Commerce, now working as a partner in the Corporate Services and Government Relations groups for Milwaukee-based law firm Quarles & Brady LLP.

"I think Governor Doyle will continue to say the economy is the most important item on the agenda, because everything else he wants to accomplish costs money," says Nettles. "He'll spend some time looking at the hodge-podge of state incentives that are scattered throughout state government," which may be streamlined, in addition to tax and regulatory reform, he says. But the big step in taxation may have already occurred with the three-year phase-in, begun in 2005, of the state's single-sales factor taxation apportionment formula (as opposed to the former property/payroll/sales formula). That measure is expected to result in corporate income tax savings of more than \$45 million for Wisconsin companies.

"It's huge," says Nettles, citing first-hand conversations with corporate CFOs pointing to corporate taxation as one of their line items under examination. Nettles says the measure went beyond the immediate fiscal and job-creation impact to send a message that Doyle's administration



Harley-Davidson's largest powertrain facilities in Menomonee Falls are a far cry from the original shed of William S. Harley and Arthur Davidson, seen here in 1903.

Photo: Harley-Davidson Archives; Copyright H-D



was going to be pro-business in a state where, culturally, "there's a sense that taxes are too high." The Harley-USW agreement sends out its own message against that backdrop.

"It shows that, increasingly, management and labor are prepared to sit down at the table here in Wisconsin and arrive at win-win solutions," says Nettles. "As opposed to a zero-sum game where 'we win, you lose,' they're asking, 'How can we work together?' That's not always an easy negotiation or set of discussions."

A Question of Supply

Harley's heavy muscle extends to suppliers as much as it does to unions. In southeast Wisconsin, some 120 companies account for close to \$240 million in purchasing and the jobs that go with it.

A Rand Corp. report several years ago documented how Harley-Davidson had cut its supplier base from 4,000 to 800 and worked with suppliers to reduce its materials costs by \$40 million between 1996 and 2000, while also reducing product development time and defect levels on parts.

According to the September 2005 Wisconsin manufacturing study performed by The MPI Group, among Wisconsin's economic drivers, "industrial machinery is Wisconsin's single largest export industry and its second most productive in terms of dollars of exports produced per employee." But that's changing: Witness the fact that Harley-Davidson's



The Harley-Davidson product lineup, like its assembly lines, has seen a lot of design innovations, all authored in Milwaukee.

Photo: Harley-Davidson Archives; Copyright H-D

expansion is expected to go into 360,000 sq. ft. (33,444 sq. m.) recently vacated by engine maker Briggs & Stratton.

If Wisconsin is going to retain its share of that strong global sector, it will have to retain and retrain its share of skilled workers. Welders are often cited as Exhibit "A." In these pages in November, Liebherr Mining Equipment Co. President Joachim Janka said his Hampton Roads-area firm in Virginia was ranging as far afield as



Wisconsin in search of heavy welders. But even similar manufacturers in Wisconsin itself have been having a tough time.

"Down the street from Harley is Bucyrus Erie, which manufactures mining equipment," says Tim Sheehy. "There are now openings for 200 to 300 welders and machinists, paying an average salary of \$60,000 to \$90,000. Their average age is 58 years old. No one can view a crystal ball into the future, but for the next decade or so, they see prospects growing, assuming they can find, hire and train heavy-plate welders."

Bucyrus employed about 5,000 people at its peak, and has employed as few as 175. When work dried up in the 1970s and 1980s, it effectively "chilled a generation from pursuing that work," says Sheehy. But China, far from being the job taker it's traditionally made out to be, is a job maker in the industrial machinery business. Now it's up to employers, tech schools and high schools to fashion a nimble training model that can adjust to the market's ebbs and flows, says Sheehy, and a new coalition in the Milwaukee area is doing just that.

"The companies looking for these welders have now got themselves aligned around a 12-week accelerated course paid for in large part by the employers, and the open house drew 600 to 800 people," he reports.

In the meantime, Harley continues to build its reputation as what Nettles calls "one of those pre-eminent international corporate citizens." In addition to keeping its headquarters in Milwaukee's center city (rather than some greenfield "Taj Mahal," says Nettles), the company has worked to stabilize its immediate neighborhood, investing in everything from housing initiatives to urban park clean-up, the arts to its new Harley-Davidson museum, which looked at three redevelopment candidate sites before picking the Menomonee Valley area.

That \$90-million project will trace the illustrious history of one of the globe's leading brands. And it will tell the story of how Milwaukee has adapted along with its favorite company to keep its profile as un-flat as the company's earnings. As Tim Sheehy puts it:

"No longer does a good alarm clock and a strong back guarantee you a job into the future."