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Soaring Where Boeing Struggled

How spin-off Spirit AeroSystems built a new model for worker-management cooperation

For union workers a new corporate owner usually means one thing: mass layoffs. So it comes as quite a surprise that, after buying Boeing Co.'s (**BA**) Wichita aircraft plant, the Toronto private investment firm Onex Corp. kept on most of the 4,000 employees.

Of course, the Machinists union wasn't happy that more than 800 people lost their jobs. But the new owners helped ease the pain by giving the remaining workers $246 million in cash and stock options. The money was a reward for helping the company, now named Spirit AeroSystems, cut costs and pull off a successful initial public offering. "I can't tell you what a thrill it is to give our organized workforce nearly $250 million," says Seth M. Mersky, an Onex managing director.

The comity between Spirit management and the International Association of Machinist & Aerospace Workers is partly a sign of the times. The commercial plane business is booming, which is why Spirit expects to post a 2007 profit of $260 million on projected revenues of $4.1 billion, up from about $3.2 billion in 2006. That won't last forever. But for now the unusual deal is being widely praised as a promising new labor model. No one is more bullish than the man who helped put it all together, former Democratic House Minority Leader Richard A. Gephardt of Missouri. "It is what we are going to have to do in a lot of our industries to be globally competitive," says Gephardt, who is a consultant with Goldman, Sachs & Co (**GS**). "It aligns [workers] with the company and gives them a fair reward for their contribution."

This improbable story began several years ago, when Boeing, in a bid to shed weak assets and outsource more of its manufacturing work, decided to sell its uncompetitive Wichita plant. Although it was Boeing's biggest internal supplier, cranking out fuselages and nose cones, it suffered from inflexible work rules, high wages, and testy labor relations.

Enter Mersky and fellow Onex Managing Director Nigel S. Wright. Where Boeing executives saw lemons, the two turnaround specialists saw lemonade. They reasoned that if they could cut costs, make the plant more productive, and start working for Airbus, defense contractors, and regional jet makers, the Wichita plant could become profitable.

But first Onex had to get costs under control. The firm saved $40 million annually by slashing corporate overhead costs inherited from Boeing. It negotiated price reductions from Spirit's suppliers and simplified the procurement process. It managed to reduce the complexity of work rules, reducing 160 job classifications to 13. Finally, it asked the unions for a 10% wage cut to better reflect the prevailing wages in the area and told them it would reduce the workforce by 15%.

SHARING THE PAIN

Onex, which sought the union's support, lost the first vote with the Machinists. Many workers came from third- and fourth-generation Boeing families and wanted to stay with the giant. "It was tough on people," said Ron Eldridge, the Machinists' aerospace coordinator for Wichita. "It was like an ugly divorce." The managing directors approached R. Thomas Buffenbarger, international president of the union. "They asked: 'What's it going to take?'" Buffenbarger recalls. "I said, 'If you want to share some of the pain, then give us a stake in the enterprise.' They warmed to it quickly."

A new deal was negotiated: For the wage and job cuts, Onex offered union members a 10% equity stake in an eventual IPO. The new owners sketched out a scenario where workers could earn some $30,000 in stock and cash over five years as long as the IPO was successful.

Now, 18 months later, the bargain has exceeded everyone's wildest dreams. An IPO on Nov. 21 raised $1.4 billion. Each Machinist is about to receive $61,440 in cash and stock. Given Boeing's backlog of orders, plus a surge of defense-related spending, analysts figure Spirit's stock will do well in the next few years. That should buy the company goodwill for when the industry hits the skids.

By Stanley Holmes