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The 3PL Executive

THE OFFICIAL PUBLICATION OF IWLA – THE ASSOCIATION FOR LOGISTICS OUTSOURCING • www.iwla.com



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INSIDE:

- **Introducing IWLA's New Brand**
- **3PLs React to RFID**

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The Association for Logistics Outsourcing

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- March 28-31** IWLA Annual Convention
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- July 14-15** *Marketing and Sales Conference
Chicago, IL
- September 9-10** IT Conference
Embassy Suites
Chicago, IL
- October 25-29** *Essentials I
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- November 15-17** *Essentials II
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- December 2** Legal Issues Web Cast
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It is my distinct pleasure to welcome you to the inaugural issue of IWLA's new member magazine, *The 3PL Executive!* This publication will be sent to you quarterly as another benefit of your membership in the Association. Each issue will be loaded with timely and informative features and columns that will help you do business smarter and more profitably.

This first issue shares the theme of our 2004 Annual Convention, "Keeping Customers in Your Sites," and many of the articles are focused on customer-related topics. Included in these is our feature article on the growing push to use radio frequency transmitters to track the movement of goods. Retailing giant Wal-Mart has been at the forefront of RFID in the U.S., and we offer an overview of what its pilot program initiated in the Dallas area will mean to 3PLs on page 11.

In addition, we offer two articles from speakers at the Annual Convention. Learn how to improve your customer service from the convention's keynote speaker, Sam Geist (page 15), while supply chain expert Arnie Maltz offers tips on how to better serve global customers (page 18).

We also tackle current events in a discussion of the changes to the Hours of Service Rules – considered by many to be the most monumental change to the trucking industry since deregulation in 1980. To get a handle on how this will impact 3PLs, we asked some industry experts.

Finally, articles examine the state of the insurance market for warehouse coverages, how C-TPAT will impact shippers, building a more energy efficient warehouse, what value-added services best fit your customer profile and lay out IWLA's government affairs agenda for 2004.

Enjoy the magazine!

Joel Hoiland
President and CEO

Each issue will be loaded with timely and informative features and columns that will help you do business smarter and more profitably.

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I encourage all IWLA member 3PLs to check their company profile in the LSL to make sure it contains the correct information so that they don't miss any new business opportunities.

Dear fellow 3PL Provider:
If you ask a 3PL today their top business concerns, getting and keeping customers would be high on the list. Finding and retaining customers sometimes feels like a daunting challenge, and keeping pace with their changing needs is often a demanding process.

IWLA has addressed our members' concerns by creating the 2004 Annual Convention and this first issue of *The 3PL Executive* around the theme, "Keeping Customers In Your Sites." You will find many articles in this publication and a full slate of convention presentations that will provide you with information that will help you build strong, healthy customer relationships.

2003 was a busy year for our Association, and *The 3PL Executive* is just one of the many projects that IWLA undertook. Under the direction of the IWLA Board of Directors, staff took on an ambitious agenda to better align our Association with the business changes that are sweeping our industry.

Probably the most important of these was the launch of the new Association Brand. The branding initiative will strengthen the Association's identity in the industry and help secure its future. In addition, it will reposition IWLA as an information rich, web-based organization that promotes the 3PL industry and aids members in expanding the outsourced logistics market (for details see article on page 9).

The most visible portion of the new branding effort was the redesign of the IWLA website. Not only can you see crisp new, eye-catching graphics at www.iwla.com, but the site is more streamlined and easier to navigate. The site also has more emphasis on explaining what logistics outsourcing is and how manufacturers and retailers can benefit from such relationships. To make this information doubly useful, it is included on the site as a "tool kit" that members can download and use in sales presentations.

In addition, a more sophisticated search engine was added to the existing Logistics Service Locator (LSL), which matches customers with IWLA members. The new LSL cuts down on the clutter that members used to receive, providing more solid, qualified leads. I encourage all IWLA member 3PLs to check their company profile in the LSL to make sure it contains the correct information so that they don't miss any new business opportunities.

As part of the Association's continual efforts to offer better and more innovative services to members, it began offering a new insurance program aimed at smaller and medium-sized members. The new Warehouse Program is designed to help solve the availability problem that such warehouse and logistics firms can experience in the open market (see article page 29). A traditional, guaranteed-cost plan available exclusively to IWLA members, it provides an alternative to members that have insurance coverage needs outside the scope of IWLA's existing captive insurer. Initial response has been rewarding.

Despite a difficult economy for most of the year, as well as heightened security alerts that made travel challenging, members continued to support IWLA's educational programs. The courses have been carefully crafted with the interests of 3PL professionals in mind. Your Association put on eight educational programs, as well as four web-based seminars that had solid attendance numbers. The IWLA will continue to offer such courses, focusing on quality curricula provided in a timely manner taught by industry practitioners. Please see the Association website for a listing of 2004 courses.

Finally, IWLA recently released a study of the trends affecting the 3PL industry that it commissioned to noted logistics expert Dale Rogers, Ph.D., of the University of Nevada-Reno. This study, which builds upon the findings of two earlier surveys conducted in the 1990s, is jam-packed with interesting facts and observations that you can use to position yourself and your company for future success. In addition to the study being available for download free to members on the Association's website, you should have received a hard copy upon renewing your IWLA membership for 2004.

It has been a privilege to serve you as chairman this past year. Thanks to the continued dedication of the board of directors and Association staff, IWLA stands in a good position to prosper. Please remember that IWLA is YOUR association. I urge you to take advantage of all the benefits membership provides. They are designed with the success of your business in mind. The board and staff welcome your ideas, comments and suggestions and encourage your participation. I wish you a successful year and look forward to seeing you in Phoenix.

Warm regards,
Gary Owen, IWLA Chairman
Osburn-Hessey Logistics



IWLA Pushes for Change on the Federal Front

IWLA has set an ambitious Government Affairs Agenda for 2004. It includes many issues where IWLA will take the lead for the warehousing and 3PL industry, and other issues where IWLA will work alongside allied associations. The agenda is an evolutionary document, subject to expansion and change as members bring additional issues to the Association's attention.

In 2004, IWLA also will expand the scope of IWLA-PAC, the Association's political action committee that supports candidates and incumbents who understand the role that warehousing and 3PL plays in the U.S. economy. In addition, IWLA will provide opportunities for individual members to become engaged in the government affairs process, through meetings in Washington, D.C., and individual meetings with congressman and senators in their home districts.

The challenge for 2004 will be to ensure that the congressional leadership is aware of the industry's concerns. The leadership has laid out a legislative agenda that is marked by several politically contentious issues. The GOP leaders have penciled in time to consider about a dozen legislative initiatives in addition to must-do business such as the fiscal 2004 omnibus package, the 13 annual fiscal 2005 appropriations bills and the adoption of a budget resolution.

The list also includes highway and higher education funding reauthorization bills, an overhaul of class action litigation and gun liability and medical malpractice legislation, among other proposals.

Leadership Issues

Issues where IWLA will play a leading role in representing the interests of warehousing and 3PL providers this year will include:

- **Demurrage** – Discussions will continue with the Class I carriers to seek changes to the practice of "constructive placement." At the same time, IWLA will continue to explore a legislative and/or

regulatory solution via the Surface Transportation Board Reauthorization Act of 2004 and by urging the Surface Transportation Board to intervene.

- **State Business Activity Taxes** – HR 3220, the Business Activity Tax Simplification Act (BATSA), clarifies that "physical presence" is the appropriate standard for business activity taxation by states and provides a bright-line definition of physical presence. IWLA is seeking an amendment clarifying that storage of product in a public warehouse by an out-of-state company does not establish a physical presence for the out-of-state company for purposes of business activity taxes.
- **Food Security** – In 2004, FDA will implement regulations intended to ensure the security of food products. The recordkeeping and registration regulations directly impact food-grade warehouses.
- **National Security** – National security will continue to be a priority for both the federal and state governments. IWLA will represent industry interests on the wide range of security initiatives, including expected expansion of the Customs Trade Partnership Against Terrorism (C-TPAT) to warehousing (see article on page 21); development of a 3PL Information Sharing and Analysis Center (ISAC) with the Transportation Security Administration; security of shipments of hazardous materials; security at facilities processing and storing chemicals; and port security.
- **Hazardous Materials** – Legislation will be considered to reauthorize the Hazardous Materials Transportation Act, and additional HazMat regulations can be expected from the Department of Transportation.
- **Bankruptcy Legislation** – Legislation that would make major changes in federal bankruptcy law includes an amendment initiated by IWLA to prevent a bankruptcy court from voiding the

warehouse lien in a bankruptcy proceeding.

- **OSHA Alliance** – IWLA and OSHA will implement a cooperative agreement to provide IWLA members and others (including owners and operators of public warehouses and other third-party warehouses) with information, guidance and access to training resources. Through this alliance, the organizations will help to protect employees' health and safety, including hard-to-reach and youth workers, by addressing material handling, forklift safety and Hazard Communication (HAZCOM).

Support Issues

In addition to action on the above issues, IWLA will work to build coalitions with allied trade associations on several fronts. Targeted issues include permanent repeal of the death tax; DOT hazardous materials transportation regulations; OSHA regulations/guidelines, including ergonomics and lift trucks; EPA regulations governing storage of chemicals; labor-management legislation, including the Americans with Disabilities Act, Family and Medical Leave Act and comp time. In addition, tax legislation impacting capital gains, depreciation on real estate and accelerated depreciation on sprinkler systems; and modifications to federal regulations applicable to multiemployer pension plans will receive our attention through cooperative action.

Watch Issues

Still other issues only affect IWLA members tangentially, but nonetheless require tracking to make sure they don't develop into problems. These issues include: electronic monitoring; regulations governing imports of hazardous materials; DOT's Hours of Service regulation; regulatory reform; regulations governing warehouse storage of hazardous waste; health care costs and reform; and possible amendments to the Prescription Drug Marketing Act. ■

Meet Our New Brand

by Carrie Gremer

IWLA has embarked on an exciting new marketing campaign showcasing a consistent and recognizable identity. We are building awareness of our top-notch outsourced logistics programs and services, as well as promoting and defining industry standards.

Our new brand reinforces what makes our association the go-to source for logistics outsourcing. This gives our members a distinctive edge by helping them connect with potential customers and carve out a niche for outsourced logistics in an increasingly cluttered marketplace.

Research continues to show that customers are seeking broader logistics services and fewer provider relationships. 3PLs are reacting to these demands by offering customers a wider range of supply chain ser-

vices. IWLA responded by leading an initiative to redefine and rebrand the Association, clarifying and communicating the value and solutions 3PLs bring to the supply chain.

"We are immensely proud of our new brand. It is this pride and our sincere desire to provide value to the industry that led us to develop a strengthened brand. With it, we are in a better position to communicate the value of logistics outsourcing and advance our members' businesses," said Joel Hoiland, IWLA president and CEO.

With the launch of the new brand comes the launch of new products and services that add value to members and industry customers. This made 2003 a busy year for IWLA, as the Association laid the groundwork for the new brand and enhanced services. A new look, logo and messaging were created as well as some new and tangible member benefits.

One of the most visible of these is the reworking of www.iwla.com. In addition to a new graphic treatment and easier navigation, focus was placed on creating a resource-rich site packed with valuable information and tools for 3PL members and their customers. Examples of this include a

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The Association for Logistics Outsourcing

What the new logo represents

The graphic element in the new IWLA logo represents the dynamics of a 3PL operation. IWLA's belief has always been that warehousing is the heart of the logistics function. This is demonstrated by the center, or circle portion of the logo. The rays extending from the center represent the variety of distribution methods, outlets and services that 3PLs provide.

The tagline, "The Association for Logistics Outsourcing," speaks to industry customers by clarifying the essence of the Association: emphasizing the fact that our 3PL member companies provide a full slate of logistics services.

One of the most visible of these is the reworking of iwla.com.

How rebranding the Association helps members:

Rebranding the Association presents many benefits to our members. In fact, the members are the reason we are doing this. In response to our research findings, the Association will:

- Help cut through the clutter and better define the industry for 3PL customers.
- Develop and demonstrate members' ability to successfully negotiate, identify and solve their customers' outsourcing needs.
- Promote industry standards of excellence, professionalism and become advocates of best practices – creating a desire by customers to do business with an Association member.
- Provide industry expertise, leadership, knowledge training and certifications through marketing initiatives and case studies to members and their customers.
- Develop and implement member/customer relationship programs.
- Help members gain the necessary knowledge and skills to develop quality people, service and problem solving needed to combat price concerns by promoting and demonstrating value.
- Help members aggressively promote their best talent, resource and services to their customers.

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more sophisticated Logistics Service Locator (LSL) matching customers with 3PLs that can meet their needs, downloadable documents, white papers and case studies and tool kits that provide 3PL members with templates, verbiage and support materials for selling outsourced logistics services.

All in all, the strides made to date include:

- An enhanced, redesigned website
- A re-engineered LSL intended to produce more qualified leads to members
- The addition of this publication, *The 3PL Executive*, providing members with educational and informative features and columns
- Tool kits to support 3PLs in marketing their services
- *This Week @ IWLA*, a weekly e-newsletter delivering timely industry, association and market news to member company staff
- An increased emphasis on media relations supporting efforts to promote the 3PL industry
- The *IWLA 3PL Trends and Practices Study*, published to provide operational and benchmarking information to member 3PLs

And there is much more planned for the years ahead! Still to come is the formation of a Customer Advisory Board, 3PL Speakers' Bureau and Standards of Excellence Program; production and distribution of a 3PL Buyer's Guide and Directory; continued enhancements to www.iwla.com; and beefed up research and public relations activities.

IWLA and its members stand in an important position to strengthen and grow in the logistics market. IWLA thanks its member companies for supporting this effort, and knows they will find value in the new direction the Association is taking.

With all of the work the Association is putting into the establishment of a new brand, how will we know when our efforts are successful? According to IWLA President and CEO Joel Hoiland: "We want to be recognized as North America's leading association for logistics outsourcing, we want to be the source for logistics outsourcing information, and we want to be known as the organization that's defining the standards of excellence in logistics outsourcing. When we're acknowledged as such by members, nonmembers, customers and the general public, we'll know we've succeeded." ■

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Caught In The Middle

RFID promises enormous benefits to retailers and product manufacturers, but at what cost to 3PLs?

by Michael Fickes

Dallas-based third-party logistics companies (3PLs) have plunged into the unknown sea of radio frequency identification (RFID), a technology designed to streamline inventory costs from a manufacturer's loading dock to a retailer's cash register.



Last year, Wal-Mart Stores, Inc. announced a plan to upgrade its warehousing operations by placing RFID tags on pallets, cartons and eventually all individual products. As a first step, the giant retailer's top 100 suppliers would make arrangements to affix tags to all pallets and cases coming into Wal-Mart distribution centers as of January 2005.

The move sowed confusion throughout the logistics and manufacturing industries. As a result, Wal-Mart has scaled back its initial requirements substantially. As of early 2004, the company had limited the tagging requirement to pallets flowing to three Wal-Mart distribution centers in Texas. Some analysts now describe the plan as a pilot program.

While most 3PLs may be breathing a temporary sigh of relief, Wal-Mart shippers in Texas have found themselves in the eye of the RFID storm.

Since November of 2003, Douglas Chaney, president of Distribution Center (DC) Logistics, has been scrambling to cre-

ate and implement an RFID plan with the help of several suppliers: SIS Technologies, a partner of Sun Microsystems, Transport Industries, a trucking firm, and Geometric Solutions, a warehouse management system (WMS) developer. "We're putting together a consortium to handle RFID tagging," Chaney says. "It will be a working model designed to support Wal-Mart's RFID roll-out."

Back in January of this year, Ken Johnson, vice president of operations with Shippers Warehouse Company, Inc. met with representatives from Codeworks, LLC, a Columbus, Ohio, based WMS provider, and began discussing an RFID plan for Shippers' Dallas-based distribution centers. With 3 million sq. ft. of warehouse space, Shippers is Wal-Mart's largest multi-vendor consolidator.

In light of Wal-Mart's shifting requirements, Chaney and Johnson are keeping their plans flexible. "The simplest system to set up would involve affixing RFID tags to pallets and cases," says Johnson. "On the

other hand, we could install readers in our warehouse and manage the data being written to the tags. The question is where between those two extremes does the current Wal-Mart requirement fall? That's what we're trying to work out."

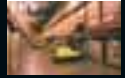
Not all 3PLs view the Wal-Mart initiative in the same affirmative light as Chaney and Johnson. "I think it will increase our costs, and I wonder what it will accomplish," says the president of one Southeastern 3PL.

The answer is that implementing the current Wal-Mart initiative will get the RFID movement started down a long, winding and expensive path. At the end of the path lie the financial benefits of RFID — which may be enormous for retailers.

Why Retailers Want RFID

RFID tags contain small antennae and microchips programmed with electronic product codes, or ePCs. When the tags are attached to products, scanners at store cash

RFID tags contain small antennae and microchips programmed with electronic product codes, or ePCs.



registers can record ePC codes when goods are sold. Data sent from the cash registers will tell the inventory system to replenish store shelves, ordering more from the stock room as necessary. In turn, the stock room will order more products from a Wal-Mart distribution center. Likewise the Wal-Mart center will order more products from supplier or 3PL distribution centers, which will order more products from the factory.

Isn't this how barcodes work? Yes, but there is an important difference. RFID is a dynamic technology that doesn't have to be read by someone wielding a scanner. Instead, RFID signals will seek out readers positioned throughout facilities. Sophisticated software, still under development, will sort out the RFID signals bombarding scanners from thousands of tags and tell a warehouse management system (WMS) how and when to update its inventories. In the future, all of this will happen without human intervention. Labor costs will fall, and more completely stocked shelves will improve sales for retailers and manufacturers alike.

For retailers like Wal-Mart, such a system promises huge financial returns. According to a November 2003 report from Chicago-based management consultant A. T. Kearney, most retailers will gain three financial benefits from an operating RFID system. First, RFID will reduce inventory. The Kearney report estimates a one-time cash savings of about five percent of total inventories upon RFID installation. Second, warehouse labor costs will fall by about seven and a half percent — a savings that will recur year after year. Third, retail shelves will run out of stock less frequently. Kearney calculates keeping products on the shelves will increase sales by about \$700,000 per \$1 billion in annual sales. Wal-Mart's 2003 sales totaled \$244 billion. An additional \$700,000 per \$1 billion in sales would boost Wal-Mart's gross sales by about \$170 million per year.

Further financial benefits may come in the form of reduced theft, since wired store and stockroom shelves can be set to alarm

when large numbers of products are removed.

According to the New York-based investment research firm of Sanford C. Bernstein & Co., a retail supply chain fully equipped with RFID could eventually save Wal-Mart \$8.4 billion per year.

While the potential returns are simply too great for retailers to ignore, some observers suggest that social concerns may slow or even stop the implementation of RFID. Consumer groups, for example, have objected to RFID on the grounds that consumer credit card information may be linked to RFID data at the point of sale. Industry observers believe this issue will eventually be worked out by applying technology that will turn off RFID tags before links can be generated.

Like it or not, vendors and 3PLs supplying retailers will soon have to deal with RFID designs, installations and investments.

Today's 3PL Challenges

As 3PLs in Dallas have begun to deal with the Wal-Mart initiative, organizational, technical and cost challenges have taken shape.

"I think this is going to be bloody and costly for a while," says Rick Deshone, president of Codeworks, LLC, the WMS provider that is working on an RFID program with Shippers Warehouse in Dallas.

According to Deshone, the first step will involve allocating and outfitting warehouse areas to install tags on pallets, and later perhaps on cartons. 3PLs will need supplies of RFID tags as well as equipment to write ID data to tags and to read and check the tags. "You apply the tag, write to it and then read it to verify that the tag data is correct," Deshone says. "You may be able to handle pallet tagging with handheld devices."

If or when Wal-Mart re-institutes the requirement for tagging cartons, 3PLs may have to set up a special conveyor line to install, write to and verify carton tags. "They'll have to rearrange their warehouses, make space and get the technology in place," Deshone says.

Finally, 3PLs may have to send tag data in the form of an electronic advance shipment notification (ASN) to Wal-Mart so the retailer can check incoming shipments against what the 3PL sent. This process is now carried out with barcode data, but it will have to be revised to accommodate RFID.

Why can't vendors affix RFID tags at the factory and allow 3PLs to simply pass tagged pallets and cartons plus ASN data through their facilities? "Vendors have dozens of manufacturing facilities, many located overseas," Deshone says. "Right now, we can't get product cases with UCC codes attached. If they can't do that, I don't think they will be able to supply RFID tags."

None of the Dallas players are willing to estimate the cost of these first steps. Even the cost of RFID tags remains uncertain. Some reports set the price as high as \$1 per tag. Others say the price has fallen to 10 cents. Chances are, the large price range involves different kinds of tags. Write only tags will cost relatively little. Tags that can be re-written will cost more. Tags designed to hold lots of information cost more than tags that only store basic data. Products and product packaging will also affect tags. Metal products and packaging, as well as liquid products will require tags specially designed to overcome RF transmission and reception problems caused by metal and liquid.

While Wal-Mart has specified tags in the more expensive range, the company has also indicated that less expensive tags will be acceptable in the early stages of the rollout.

Life After Texas

When, or perhaps if, Wal-Mart's 2005 experiment with RFID in Texas succeeds, 3PLs and vendors will face the real costs of RFID.

According to some observers, full-scale implementation will require substantial investment. Current estimates peg the cost of setting up RFID systems at \$400,000 per distribution center plus millions more for integrating RFID data and WMS

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RFID cont'd



According to Deshone, current scanner pricing ranges from \$2,000 to \$3,000 per unit. The actual price depends upon the type of RFID tag in use.

systems managing the flow of products through dozens or hundreds of warehouses.

For 3PLs, full-scale RFID systems will include portal or doorway scanners capable of reading tags on pallets and cartons arriving and leaving distribution centers. Full-scale systems may also position scanners in conveyor lines to read tags affixed to products. At this stage, observers assume that manufacturers will be affixing tags in factories, but that remains uncertain.

According to Deshone, current scanner pricing ranges from \$2,000 to \$3,000 per unit. The actual price depends upon the type of RFID tag in use. More expensive tags capable of carrying more information will require more expensive scanners.

Chances are the technology will not decline in price. As new versions of scanner technology appear, they will add expensive new encryption software designed to prevent thieves from scanning trucks and spotting those carrying the most expensive merchandise.

Next comes integration with WMS. To be useful, data scanned from RFID tags in the warehouse must somehow get into WMS systems. WMS providers are working on this now. Deshone, for example, is testing technology that will move RFID tag data directly into Codeworks' WMS systems through a wireless connection. Other WMS providers are looking at systems that send data to a server, which then connects to the WMS system.

Adapting such systems to accept RFID data is another cost-point in the process.

The WMS system used by Shippers Warehouse, for instance, currently integrates about 10,000 different applications. Modifications to these applications to make use of RFID data will not come cheap.

Who will pay the 3PL costs for RFID? Wal-Mart is resisting product price hikes from its vendors and demanding that companies throughout the supply chain take responsibility for their own RFID system investments. Deshone believes 3PLs will eventually charge RFID costs back to vendors in the form of higher prices. "The 3PLs can't absorb these costs," he says.

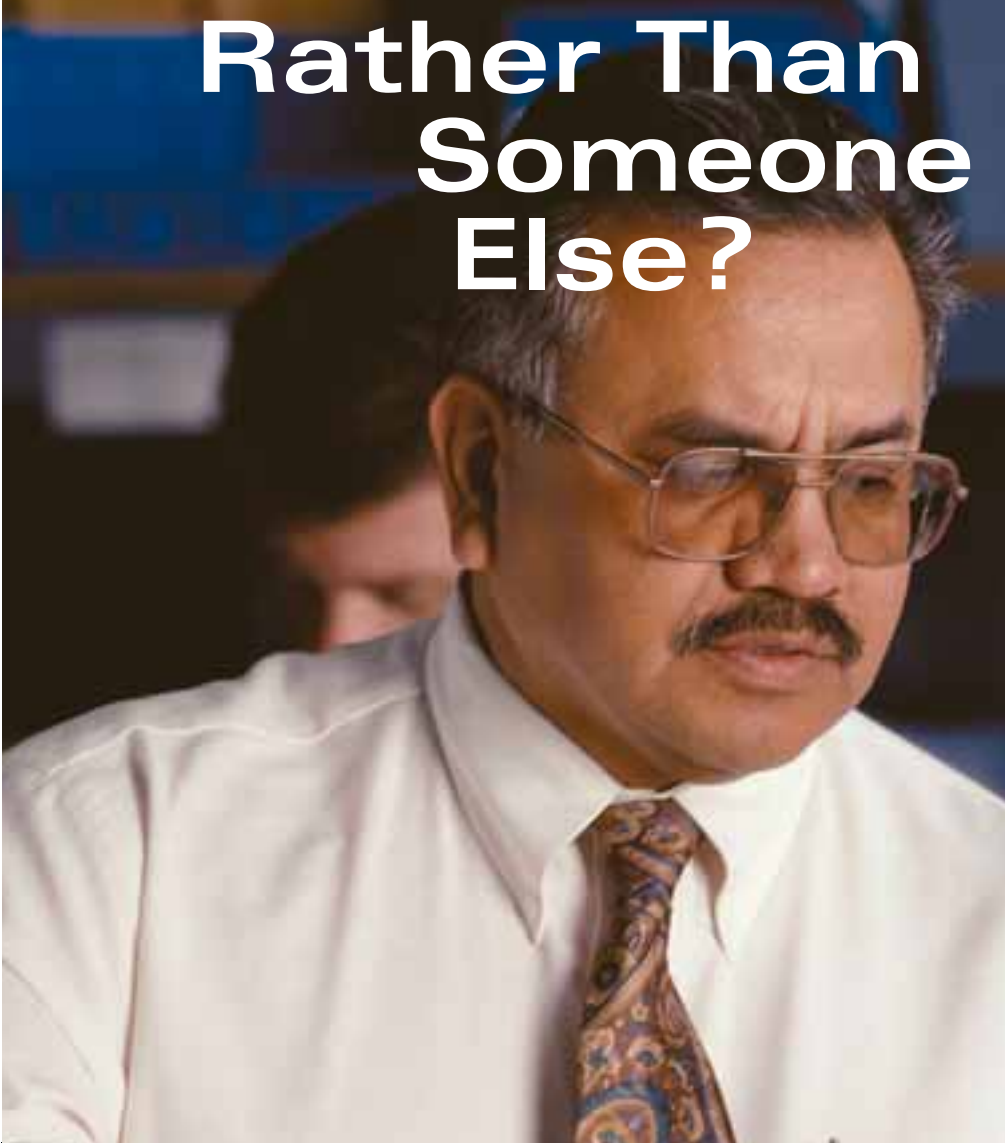
At some point, manufacturers' prices will likely rise as well. "Prices increase; you can't get around that," says Dieter Stoll, president of M&W Distribution Services, Inc. in Atlanta. "Maybe it isn't an actual price increase, but manufacturers can also change the size of the product or the quantity of product in the package. There are just some basic laws of economics here."

In the end, the fact remains that RFID has begun to make its way into the retail supply chain in Texas. Given the financial benefits promised by RFID, other retailers will eventually follow Wal-Mart's lead. "At a recent conference, I learned that Target has the same general idea as Wal-Mart," says Bruce Abels, president of Saddle Creek Corporation in Lakeland, Fla. "They plan to let Wal-Mart break the trail, but intend to move into RFID 60 or 90 days after Wal-Mart."

Like it or not, RFID is coming, and the 3PL industry will be right in the middle of the action. ■

Why Should Someone Do Business With You...

Rather Than Someone Else?



*...because you know
your customers.*



by Sam Geist

You have to know your customers: who they are, what they want and need and what they are willing to pay for. You must see eye-to-eye with them and regard the marketplace from their viewpoint. Do you?

Relationships are initiated by similarities and built on common interest. They are sustained by shared benefit, by the “what’s-in-it-for-me” factor.

Determine:

- *what you and your organization are all about*
- *who your customers are right now, who they will be tomorrow*
- *what your customers want now, what they will want tomorrow.*

Who are you?

Take a good, long objective look at who you are. What do you see at the heart and soul of your organization? Do your customers know who you are?

Look at yourself through your customers’ eyes. The realization quietly dawns that everything begins and ends with customers — that your customers’ perception *is* the real world. Recognizing and satisfying customers’ needs, expectations and demands must be the *modus operandi*.

Information is sought. Assumptions are questioned. Decisions become fact-based, rather than tradition-based.

A new responsible demeanor develops.

“Doing it right the first time” becomes more important than “let’s get together and solve this crisis.” You’ll notice the change, and so will your customers.

A personal experience I had not long ago drove home the value of instilling a responsible customer-focused attitude throughout an organization from top to bottom.

My car was at a local GM dealer for repairs again, repairs that had not been completed satisfactorily the first time. When I went into the garage to pick up my car, the work order was still taped to my side window. Climbing in, I reached over to tear it off.

Its format caught my eye. A blank area occupied the top half of the form. It is here the mechanic fills in the reason service was requested. The bottom half of the form contained two boxes, with information for the garage beside each. The box indicating “second visit, same repair” had been checked off on my form. I was amazed. I was angry. When management accepts, even expects, that so many of the repairs completed will necessitate “bring-it-in-again”

service that they incorporate this eventuality on the form, how can anything else result? Frontline staff merely reflect the nonchalant attitude demonstrated by management.

Focusing on customers’ needs and perspectives often requires a relationship realignment. The newly developed relationship must satisfactorily answer for each partner, “what’s in it for me?” It must operate on the assumption that the unique needs, demands and expectations of each customer are understood and satisfied, that both you and your customers are headed in the same direction.

Customers expect it!

Ed Mirvish of Toronto, famous for his Honest Ed’s discount store, built an empire on understanding and satisfying this supposition. With his well known penchant for simplicity, he reveals his secret strategy: satisfy a need; go against the trend; keep it simple.

He has used this strategy successfully to satisfy his customers’ needs for decades. And

they keep coming back for more. He is remembered for his zany antics and wild marketing schemes, but more than that, he is remembered and respected for his vision and his understanding of human nature. He is there *because* his customers are still there.

Successful marketers concentrate on where they are going. And where they’re going is where their customers are going. They realize they can’t be everything to everyone. They choose as their primary thrust the area of greatest strength and greatest possibility: the unique value they can deliver — the special extras their customers want. They work at becoming so powerful, so absolutely invincible in their niche that competitors can’t come close.

What is your most powerful weapon? In what areas are you head and shoulders above your competition? Choose your unique value, your special attribute, the one that is most important to your customers, the area where you can satisfy them best - and then use it. Become a force to be reckoned with.

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Who are your customers?

Find out who your best customers are. Find out everything you can about them. Their buying habits are very clearly reflected in the wide diversity of today's lifestyles. Take a glimpse at the many niche markets that have sprung up and the bevy of targeted services that have emerged to address them.

Create your own opportunities by tuning in very closely to your target market or to the markets you want to reach. Learn about their backgrounds, their motivations, needs and tastes. Determine how you can satisfy them more advantageously than everyone else. Determine how you can add value differently than everyone else.

Who are your best customers? Do you really know them?

Build your business around your best customers. Know your target market from a demographic perspective — their ages, their lifestyles, their household formation. Know

your target market from a needs/wants point of view. Know your target market from life situations, from gender, from ethnicity. Find out how to reach them, how to satisfy them. Know them on a one-to-one basis. Recognize that your best customers belong to more than just one group (since niche markets abound). Recognize that your customers first and foremost are individuals.

Ask yourself these questions to ensure you really know your best customers.

- How large is the target group's market size?
- To what household group do they belong?
- What is their income level? Does this income level enable discretionary purchasing?
- To what age group do they belong?
- To what ethnic group do they belong?
- To what "life circumstances" group do they belong? (e.g. disabled)
- What cultural traditions and customs are important to them?
- Who influences your target market?
- In what life stage do they find themselves?

- What do they value foremost: convenience? price? service? quality?
- What do they read?
- How do they spend their leisure time?

The answers to these questions will help you focus beneficially on your target market. They will demonstrate quite clearly how customers (and their lives) are changing. As a marketer you must change along with them.

Always keep at the forefront of your plans and your actions, that overwhelmingly popular radio station WIFM (What's In It For Me). Why should someone do business with you...rather than someone else? Because you know yourself better, you know where you and your organization are heading, you know where your customers are and what they want — and then give it to them. ■

Excerpted from, "WHY SHOULD SOMEONE DO BUSINESS WITH YOU...RATHER THAN SOMEONE ELSE?©" published by Addington & Wentworth Inc. Sam Geist, Geist and Associates, Inc., will be the keynote speaker at IWLA's 2004 Annual Convention.



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Supporting the Global Customer



by Arnold
Maltz

U.S. logistics service providers increasingly find themselves working with global customers. Since global companies have different requirements than their counterparts that operate only in the U.S., understanding these differences is crucial as the U.S. economy becomes increasingly more interdependent with the rest of the world, especially in manufacturing activities.

Non-U.S. influences arise from at least three trends in the marketplace.

More supply chains than ever are retailer-driven, and these retailers are increasingly buying from overseas.

Most large retailers continue to operate their major distribution centers in-house, but they are working very hard to minimize handling and storage at these distribution centers. Either the overseas supplier, the receiving facility at the port or both are being pressed to make imported goods as nearly shelf-ready as possible. Otherwise a long supply line gets even longer. The logistics service provider who can streamline port processes, interface with non-U.S. manufacturers and carriers and customize orders “on the fly” is performing a very valuable service for his/her retail customers.

As U.S. manufacturers move more and more to offshore plants and/or foreign contractors, they begin to look a lot like resellers/retailers with one significant difference.

The steadily increasing amount of foreign sourcing, whether by retailers or manufacturers, and the major presence of overseas investors are changing the rules for logistics service providers.

These companies serve business customers, and big business customers expect the same response times whether the goods are made in Asia or Arkansas. Often, logistics service providers are asked to put light manufacturing in place to handle final finishing on the 10 percent to 15 percent of the business that has to be delivered faster than it can be produced and shipped from overseas. The increasingly hollow manufacturing base is looking for providers set up for quick customization that also understand import processes and can deal with remote locations and multiple cultures.

European, Asian and even Mexican companies are buying U.S. firms, and many of these foreign buyers have a different "take" on logistics.

My research as well as that of others shows that European firms, in particular, assume that a logistics service provider will handle everything outside the plant. European companies began looking at "one-stop" shopping for logistics long ago, as evidenced by the friendly reception for 4PL offerings in Europe. Asian companies have had access to large trading companies that provide similar services. U.S. service providers need to have access to multiple services and the ability to make a credible comprehensive service offering. Otherwise European and Asian companies will continue to bring their own providers with them, possibly because they aren't comfortable with the relatively fragmented U.S. logistics landscape.

There is a good reason why "globalization" is on everybody's mind these days. The steadily increasing amount of foreign sourcing, whether by retailers or manufacturers, and the major presence of overseas investors are changing the rules for logistics service providers. Of course, final delivery to a customer will always require understanding local conditions and the needs of the specific receiver or shipper. But logistics service providers who are comfortable with import/export, customization and non-U.S. decision makers will find more opportunities in a U.S. economy integrating with the rest of the world. ■

Arnold Maltz, Ph.D., is associate professor of supply chain management at Arizona State University. He will be presenting a general session at IWLA's 2004 Annual Convention.



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Delivering Value to Customers Through People and Process

By Paul Vragel

Companies are under constant pressure to deliver increased value to customers through improved productivity, reduced costs and increased flexibility.

Working in a fast-paced world, managers and employees must often react to things that didn't happen the way they should have. How managers and employees respond is shaped by their understanding of customer and business requirements, and their knowledge of how to use the processes in place to meet those requirements.

Top management's view of "what good looks like" in meeting customer and business requirements needs to be clearly transmitted and understood throughout the organization. A common understanding of processes and interactions (who does what, when) is a key element in communicating top management's views. The processes create the context for managers' and employees' action and for identifying associated responsibility and authority.

Successful companies develop a common understanding of processes with the involvement of the people who actually do the work. This identifies and eliminates bottlenecks, dis-connects and non-value-added activities, develops buy-in and promotes process thinking in the organization.

Process understanding is a good place to start – but not a good place to stop. It is top management's responsibility to assure that processes are aligned with customer needs and business objectives.

This combination – common understanding of processes and alignment of processes with customer and business requirements – assures that the day-to-day activities increase value for customers and of the business.

Technology can have an important role to play as well – but technology is really only a sub-set of processes. To be fully adopted and add value to customers and the business, technology needs to be considered in the context of three inter-dependent sets of processes:

- Internal processes, including interactions within and among the functional areas of the business.
- The processes embedded in the technology itself.
- Customer's processes, and how those interact with the company's internal processes.

Warehouse and supply chain technology solutions – particularly software – typically have embedded in them a certain amount of "process." Before adopting a technology solution: identify and document company processes; assess how processes meet current and future needs; simplify the processes, eliminating non-value-added activities, bottlenecks and; assess how technology can add value consistent with customer needs and business objectives.

What happens when technology is applied without process understanding? In one case, a 3PL firm had a customer with a mistaken understanding of the 3PL's processes. This misunderstanding caused an incorrect set up

of the customer's software. The result was mis-allocated freight pickups that generated a large increase in trailer requirements. When the 3PL provider and the customer were able to review the actual processes involved (not the processes people *thought* were in place), the error was quickly corrected.

Prescription:

- Use the knowledge and expertise of employees in their everyday work to establish processes and interactions.
- Align processes to meet customer needs and achieve business objectives.
- Use the understanding of the processes and interactions to support and train managers and employees.
- Adopt an approach that manages processes (including ongoing change and renewal), and incorporates technology in the context of those processes.

Don Ortiz, Distribution Center Manager for Promax Logistics, Cincinnati, Ohio, has seen the benefits first-hand. "The process management approach helped us focus on our processes and involve our people to achieve buy-in. We achieved a six percent reduction in direct labor costs, 30 percent increase in operating efficiencies and 15 percent increase in customer satisfaction. We've put goals once thought unattainable in our rearview mirror (including our highest productivity numbers ever), and are looking forward to further improvements. We're also on schedule to get our ISO 9001:2000 certification as a result of our improved processes."

Need to deliver increased value to customers? Define and communicate processes to managers and employees, and align processes with customer requirements and business objectives. ■

Paul Vragel is president of 4aBetterBusiness.

Successful companies develop a common understanding of processes with the involvement of the people who actually do the work.

The ABCs of C-TPAT

by Howard Forman
and Susan Kargel



U.S. Customs Border
and Protection
(CBP), formerly U.S.

Customs, has the difficult task of ensuring that the borders of the U.S. are safe and secure for the protection of the nation's people. This includes monitoring the flow of people and cargo. After the terrorist attacks of Sept. 11, 2001, CBP made plans to increase border exams of cargo shipments from two percent to 20 percent in early 2002. The prospect of a ten-fold increase in border inspections loomed costly for the U.S. trade community.

For CBP to successfully execute its plan without significant delays, it asked the business community to identify potential problems and to help determine solutions. The result of this collaboration was the Customs Trade Partnership Against Terrorism (C-TPAT) initiative.

One of C-TPAT's goals is compliance, meaning importers can demonstrate to CBP through an application and validation

The goals of the C-TPAT initiative are twofold: first, to assist in completing the CBP's mission of protecting the nation's population; second, to accommodate cross-border commerce, it attempts to minimize cargo inspections, which could typically delay a full container for 2-20 days.

process that they have internal procedures and controls in place to assist in preventing contraband or weapons of mass destruction from entering their supply chains. Additionally, importers can identify weaknesses in their systems and, where appropriate, implement fixes that will reduce or eliminate those weaknesses. When CBP targets shipments for examination, an importer's C-TPAT status is a major factor in the decision as to whether or not cargo is examined. C-TPAT is also open to customs brokers, carriers, terminal operators, freight forwarders and non-vessel-operating common carriers (NVOCCs), and is gradually opening to foreign manufacturers.

The goals of the C-TPAT initiative are twofold: first, to assist in completing the CBP's mission of protecting the nation's population; second, to accommodate cross-border commerce, it attempts to minimize cargo inspections, which could typically delay a full container for 2-20 days.

Benefits of C-TPAT Certification

To gain support for C-TPAT, CBP provides incentives to those importers who join. These incentives include:

- A reduced number of examinations at time of entry based on the importer's risk profile, meaning a faster release of goods for commercial consumption.
- Permission to join the Importer Self-Assessment (ISA), a voluntary approach to trade compliance that could eliminate detailed importer evaluations by CBP.

As companies join the C-TPAT program, CBP is able to target intensive examinations on a smaller group of importers, mostly on those shipments that are high risk, and on non C-TPAT certified importers. Companies who join ISA will further reduce the amount of time CBP spends on administrative functions, such as focused assessments, and provide additional time for CBP agents to examine cargo where necessary.

How Will C-TPAT Affect You?

Currently, C-TPAT is a voluntary program; however, CBP is *encouraging* the top 5,000 importers to join. Achieving this will ensure that an estimated 80 percent of shipments entering the U.S. will be made by importers meeting C-TPAT standards.

It is not expected that the program will

be made mandatory, because the negative consequences to an importer for not joining the program are extremely high. In fact, most shippers couldn't sustain a viable business if they continually have unnecessary cargo delays. Costs associated with these delays include:

- Holding inventory for prolonged periods of time.
- Costly exam fees.
- New motor carrier hourly regulations and the stress of waiting for cargo held up at border crossings could increase driver turnover and decrease carrier reliability.
- Lost orders due to unmet and delayed deliveries.
- Lost domestic sales due to the customer not wanting to purchase materials from non-compliant suppliers. Customers may not want a disruption of their supply chain caused by a custom's examination at the border.
- Penalties associated with shutting down lines in manufacturing plants because goods are not readily available for production.

There is no question of the premium placed on reduced inventory levels, coordinated shipments and increased visibility along supply chains. As a result, there will be a significant amount of pressure to ensure all supply chain members are C-TPAT certified. With that in mind, changes are expected in the look of supply chain networks. One possible change is a trend toward more vertically integrated supply chains. This will allow an organization to gain better control over its supply chain and be more C-TPAT compliant.

Qualifying for C-TPAT is a labor-intensive process, and many importers are turning to trade consulting firms to smooth the process. These consultants can aid importers with their C-TPAT application and verification process. They also can guide importers through the process of completing a supply chain assessment to present to CBP.

In short, C-TPAT is here to stay. The key for supply chain executives is to understand why it exists, what the C-TPAT protocols are, and to learn how to work within these protocols while integrating them into their global supply chains. ■

Howard Forman, Ph.D. is assistant professor of marketing at Drexel University in Philadelphia; Susan Kargel is senior manager of Tradewin, LLC.

Dealing with HOS for the Long Haul

by Charles Schmidt



The new Hours of Service (HOS) regulations that went into effect Jan. 4, 2004, enacting the first such changes governing truck drivers since 1939, have been called by many the biggest change to hit trucking since the Motor Carrier Act of 1980 largely deregulated the industry.

Even if this is overstating the point, something half so momentous is sure to cause a disturbance in the logistics industry. But will the true impact on third-party logistics providers be a gentle ripple or more on the scale of a tsunami? It has been difficult to determine so far. There is no question that the HOS rules change will cause disruptions. In fact, the degree of difficulty in adjusting to the changes was brought home when none other than the government agency overseeing the rules

granted a 60-day phase-in period, during which the new rules wouldn't be strictly enforced.

Essentially, the new rules require drivers to operate on a 14-hour continuous workday, down one hour from the old rules, but allow them to drive one additional consecutive driving hour (11). However, previous "free" hours that drivers spent idling at loading docks will be counted as on-duty time, and this change is the one that will have the biggest affect on 3PLs.

Much as been made of how this loss in driver productivity (essentially the loss of one hour of driving time a day) will impact the industry, with cost increases estimated at anywhere between two percent and 19 percent, depending on freight characteristics and distances traveled. In addition, there were reports of one trucking company assessing customers \$66,000 in penalties the day after the new rules went into effect. The penalties were in the form of \$100-per-hour "fines" the firm charged customers if its trucks were made to wait at loading docks for more than one hour.

While only time will tell the true costs and benefits the HOS changes will have on the 3PL industry, it is instructive to hear what some executives think about the new rules and what they are doing in response. To get a better idea of what 3PL providers expect, IWLA asked, through its weekly electronic newsletter *This Week @ IWLA*, what steps its members were taking to deal with the changes.

Responses ran the gamut from "No operational changes planned," to a detailed plan on how one company will change its method of doing business. Overall, the tenor of responses was of the prudent: "hope for the best; plan for the worst" variety. To ensure candid answers, the respondents were granted anonymity. A sample from those responding:


"The new HOS rules will not affect local drivers for the most part, but will affect long distance and regional carriers. I mostly have single drivers who run the Los Angeles-Phoenix corridor, and they can normally legally make a turn in a 24-hour period under the old regulations. They will not be able to make the same turn legally under the new regs, which translates into one less round trip per week per driver, and therefore less revenue to them and to the company. It will also mean we will have to hire additional drivers to handle the same amount of work. With the current driver shortage this may prove difficult.

"The only routes impacted are those with significant stop time and detention time. One customer that will provide an HOS challenge is a three-stop pickup in Chicago to be delivered in Grand Rapids. The three stops, not the driving time, are causing the problem....We intend to increase stop-off and detention charges for all customers by the

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end of the first quarter...Most carriers are increasing stop charges to about \$70-\$90 per stop, and are increasing detention time to \$70-\$80 per hour after the first two hours. Warehouses need to become better partners with the carriers, or they will start footing the bill. They need to 1) change the mentality that driver time is free time; and 2) when you have to detain a driver with a sleeper, work with them to ensure they can spend at least two uninterrupted hours in that sleeper, prior to loading/unloading.

"We see three distinct impacts: transit time will increase, the trucking industry will experience a capacity imbalance, and the carrier industry will aggressively increase and collect accessorial charges for detention and stop-offs. Already our carriers are communicating a reduced allowance to two (and frequently one) hours during loading and unloading. Any delays in excess of the designated allowance will result in detention with the going rate being in the \$50-\$80 per hour timeframe. In addition, carriers are openly declaring that they will not provide transportation capacity to facilities that consistently delay their flow of service. Examples include scheduling of loading/unloading activities, prepositioning material and modification of hours.

"The impact of the HOS changes will depend a lot on how legal the drivers run. Approximately 60 percent to 70 percent of drivers keep dual logs...Prices will increase overall, but 3PL customers will look more closely at inbound and outbound performance and reward the more efficient companies. We won't be hiring more warehouse workers, but we will get smarter with information technology. Warehouse management systems will have to pay more attention to arrival and departure times. We do it now, but it will be critical to be able to document exact times. Also, what happens if a driver that is needed to count freight is off getting a cup of coffee? I also expect the new rules to change the role drivers play. Currently, drivers are responsible for counting a load and signing off that it is correct and not damaged. What happens if the industry goes to more full-load drops. In that case, the driver is just picking up a preloaded trailer. What if some of the contents is missing or damaged? Who is liable? The transportation laws will have to catch up to the new rules."

Tips for dealing with the new HOS rules:

- 1 Make sure all of your employees and contractors understand the new rules and how they differ from the old ones.
- 2 Ensure all systems and operations have been updated to aid compliance to the new rules.
- 3 Do all you can to help carriers avoid violating the new HOS rules.
- 4 Work with your customers and carriers to find mutually beneficial solutions to problems brought about by the rule changes.
- 5 Provide customers with tips that will reduce non-driving time.
- 6 Share best practices to mitigate the impact of the HOS changes. ■

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Warehouse Heating/Ventilating: When Energy Matters

by Ken Williams

You have probably read articles about energy efficiency as it applies to warehouse lighting and refrigeration systems, but what about the cost to operate your heating/ventilating equipment?

The cost of energy to heat a warehouse has steadily increased more than six-fold since the 1960s, it quadrupled during the 2000 heating season and then it spiked 500 percent during the past year due to limited natural gas supplies. Most industry experts agree the era of very low energy prices is behind us and we will continue to see energy costs set "historic records" for years to come.

The good news is that you can save 40 percent to 70 percent per year on your combined gas, electric, operating and maintenance costs by using today's most efficient heating/ventilating technology. So if you are putting up a new warehouse, rehabbing or expanding an existing one, converting an old manufacturing facility to a warehouse or just replacing a worn out heating system, it's important to install the right type of heating equipment.

What factors determine the best warehouse heating system?

Is the heating bill for your warehouse facility too high? What about cold dock door areas and unbalanced temperatures? Is negative building air pressure a problem? Have you experienced employee complaints

and lost productivity from heating or indoor air quality problems? How about high maintenance costs for existing heating equipment? These are just a few common problems that result from selecting the wrong heating system, misapplying space heaters or using obsolete heating/ventilating equipment in your warehouse.

The bottom line is that both heating and ventilating requirements must be determined before selecting the most energy efficient way to heat a warehouse. Factors to consider include:

- How will the dock door areas be heated and how fast are temperatures recovered?
- Is spot heating or zone heating required?
- How important are balanced temperatures throughout the building, from wall to wall and floor to ceiling?
- What are the indoor air quality requirements? How much fresh outside air is required by local codes to dilute contaminants generated by LP forklift trucks, out gassing from stored materials, etc.?
- Is make-up air (MUA) needed to compensate for exhausted air?
- What are acceptable noise levels?
- Where will the heating system be located? Will it consume valuable floor, ceiling or vertical racking space?

Gas-fired space heating systems

Gas-fired heating systems normally offer the most cost effective way to heat large warehouses and distribution centers. Electric and oil-fired heaters are sometimes used for very specific space heating applications or when gas is not available for the building.

There are seven types of warehouse heating systems that use either "indirect" or "direct" gas-fired technologies. It's important to know the difference.

Indirect fired heaters primarily recirculate

inside air with little or no provision for ventilation. They also require a flue to vent products of combustion outside the building, reducing their energy efficiency. The four types include:

- **Boiler Systems (Steam and Hot Water)**
 - These centralized heating systems were used for space heating when energy costs were low, or when steam was a by-product of boilers used for a nearby process heating application. They are usually not well suited for larger warehouse facilities due to their initial high cost, poor efficiency, uneven heat distribution and high maintenance costs. Many older facilities are replacing oil-fired boilers with other, more energy efficient gas-fired heating technologies and using the energy savings to pay for the new equipment.
- **Tube-Style Infrared (Radiant) Heaters**
 - Excellent method for heating objects, spot warming where people are standing around and specific zone heating applications. They are most efficient when mounted 15 to 18 feet above the floor. Infrared heating systems can be very expensive to install in larger facilities and should be used with a make-up air (MUA) heater (see below) if the building has an exhaust system for ventilation.
- **Unit Heaters** – Common method for heating small, open spaces. Multiple heaters are suspended from the ceiling around the perimeter of the warehouse. Initial installation cost is low for small buildings that require only a few heaters, but can get very high for large facilities that need many units. Due to limited air throw, their efficiency significantly decreases with mounting height. Used with MUA units when indoor air quality or negative air pressure problems occur.

Direct gas-fired technology is an energy efficient way to provide both space heating and tempered MUA.

- **Air Turnover (Air Rotation) Heating Systems** – Tall, constantly running floor-mounted units that typically rotate building air one to two times per hour. A common way to heat large warehouses with indirect gas-fired technology. They can also be fitted with cooling coils for use in the summer. However, initial equipment costs can be high, operating costs are high (especially if used for cooling in the summer) and they take up valuable floor/racking space. Electrical operating costs are a factor since the large, often noisy, blowers run continuously.

Direct-fired heaters can be a very energy efficient way to heat a large warehouse because they do not use a flue or heat exchanger of any kind. 100 percent of available BTUs are delivered to the heated space. Direct gas-fired technology is an energy efficient way to provide both space heating and tempered MUA. There are three types of direct-fired air heating systems. Again, it's



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important to know the difference because not all direct-fired heaters are alike.

- **“Blow-Thru,” High Efficiency Space Heaters** – An excellent way to heat large warehouse facilities. This technology offers the highest temperature rise, outlet temperature and BTU/CFM ratio for this type of heating equipment. This translates into smaller units, lower horsepower motors, less heated outside air and lower energy costs. These units can be mounted on the roof, under the roof or through an outside wall so they don't take up valuable floor or racking space. They also provide very uniform heating (even at dock door areas) and some building ventilation.
- **“Draw-Thru” MUA Heaters** – This design is best suited for facilities that exhaust large volumes of air during the heating season. MUA heaters are often used in combination with other heating systems that aren't designed to handle negative building pressure problems. A large MUA heater will cost more to operate if it is used primarily as a space heater due to its lower temperature raising capability.
- **Air Recirculation (80/20) Heaters** – This heating system is most effective when the warehouse uses a mechanical exhaust system throughout the year. However, this is the only technology that re-circulates and re-heats indoor air with

a direct gas-fired burner, which may not be appropriate for some applications. (This technology is not approved for use in Canada.) These draw-thru blower systems heat up to 80% recirculated air from inside the warehouse and 20 percent outside air to maintain a fixed static pressure inside the building. Energy efficiency is compromised if dock doors are left open because then this pressurized system will act like an inefficient MUA heater trying to be a space heater. Electrical consumption is a factor because the large blowers run continuously.

When energy matters, selecting the best and most efficient heating system for a large warehouse or distribution center is an important decision that should include a complete evaluation of what system provides the lowest total cost solution for all heating and ventilating needs. It also means that you shouldn't let the lowest bidder determine what's important to you when saving energy. The benefits of installing the best heating system include low energy costs, good indoor air quality, maximum warehouse storage space, higher employee productivity, minimal maintenance and most important of all, a more profitable warehouse operation. ■

Ken Williams is director of marketing at Cambridge Engineering. Cambridge Engineering is an associate member of IWLA.

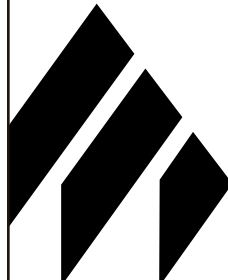
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The Commercial Insurance Cycle: Looking for a Turn

by Michael Lopeman

It is often said that the insurance industry is driven by cycles. The question now is: “When is the soft market going to return?”

According to recent reports, the industry is seeing definite signs of a softening market (one in which premium rates ease or can be negotiated downward). We are now in our fourth year of a hard, or firm, market – the longest in recent history. But, what are the driving factors today?

Several specific issues will continue to be major problems for both insureds and insurance carriers in 2004 and beyond. The deterioration of investment income is still a lingering problem for insurers. The focus of the industry today is pricing the product correctly so as to produce a return on investment. To achieve this, most insurance companies are shifting the lines of business they write. For some insureds this will translate into more competitive renewals. For others, they will continue to see a lack of options for the placement of their coverage.

A recent report shows that the number of workplace injuries is falling; however, the cost of those injuries continues to rise.

In addition, many insurance carriers have withdrawn or greatly reduced their workers compensation writings. A recent report shows that the number of workplace injuries is falling; however, the cost of those injuries continues to rise. Medical inflation, the increase in the number of medical treatments and the availability of more complex treatments from advances in medicine are the driving factors here.

Fifty percent of all workplace injuries come from three categories: overexertion (lifting, pushing, etc.); fall on the same level (rather than from a height); bodily reaction (bending, climbing, etc.).

These three types of injuries cost American businesses \$450 million per week – and they are rising over 10 percent a year.

Predictions are that the workers compensation market will continue to harden even if other coverage lines start to see the effects of a softer market. Workers' compensation rates will continue to increase at a predicted range of 15 percent to 25 percent in 2004. It is further predicted that this trend will continue for the next several years.

The alternative market will continue to grow as companies search for ways to reduce costs and transfer risk. However, many companies still don't understand their loss drivers and thus fail to focus on controlling those items that directly affect insurance costs.

With all these differing signals, anyone looking for a definitive turn in the commercial insurance underwriting cycle might want to consult more than one map. ■

Michael Lopeman is a vice president at A.J. Gallagher.

Responding to the lack of insurance coverage available to warehousing companies, IWLA late last year introduced a new insurance program aimed at small to mid-sized operations.

Brokered by Gallagher Captive Services, the new coverage is a traditional, guaranteed-cost plan providing an alternative to members who have insurance coverage needs outside the scope of IWLA's existing captive insurer. It is available exclusively to IWLA members who have gross annual premiums in the \$25,000-\$250,000 range.

Tailored to meet the special needs of warehouses, it offers warehouse liability, property, cargo, general liability and umbrella coverage through A+-rated carriers. In addition, members can sign up for workers compensation, auto liability and auto physical damage insurance.

“There has been a veritable exodus of insurers from the lines of coverage that warehouse and third-party logistics providers need to protect themselves and stay in business,” explained IWLA Chief Operating Officer Alex Glann, who also oversees the Association's insurance programs. “Several years ago there were more than 250 insurance companies competing for warehouses' premium dollars, but today, because of a more difficult market and stricter underwriting criteria, that number has been slashed to less than 30. The remaining insurers focus only on the largest, most profitable risks.”

For more information contact Alex Glann at aglann@iwla.com or call 847.813.4699.

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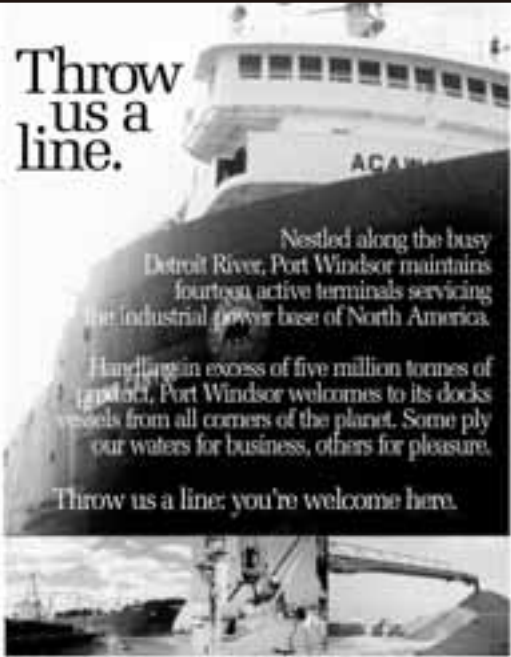
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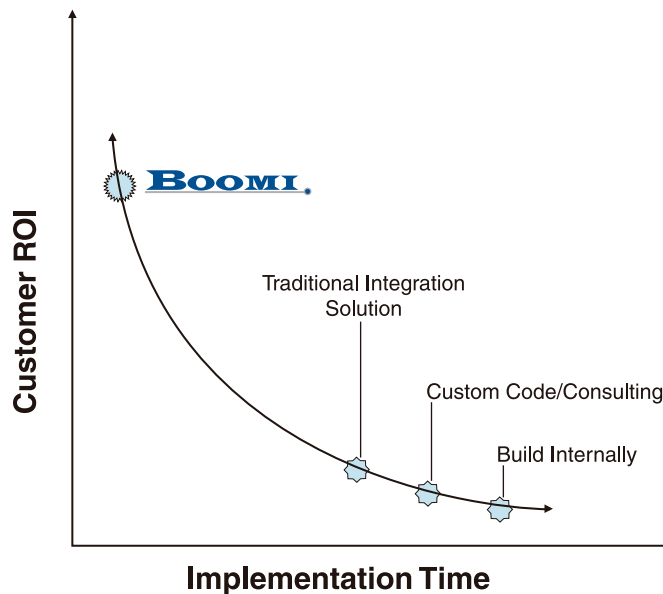
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