2004 Association Year in Review see page 10

WINTER 2004

The 3PL Executive

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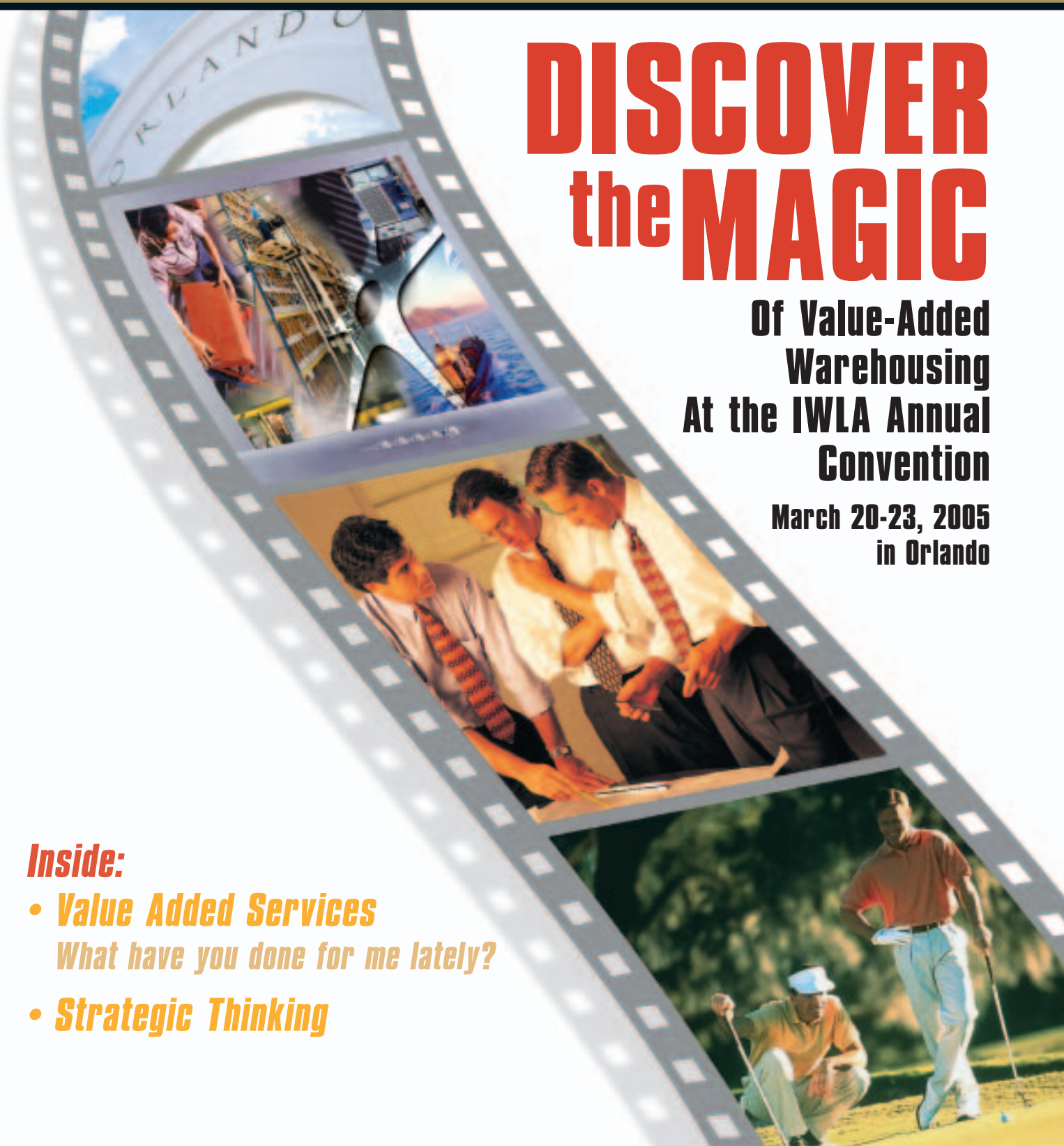

DISCOVER the MAGIC

Of Value-Added Warehousing At the IWLA Annual Convention

March 20-23, 2005 in Orlando

Inside:

- **Value Added Services**
  What have you done for me lately?
- **Strategic Thinking**

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The Association for Logistics Outsourcing

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IWLA Education & Training Schedule

Dec. 16	**ELC Leadership Series Discussion** Conference Call
Jan. 20, 2005	**ELC Leadership Series Discussion** Conference Call
Feb. 10-11	*** Cost Rates RFP Responses** Orlando
Feb. 17	**ELC Leadership Series Discussion** Conference Call
March 20-23	***114th Annual Convention** The Hilton in Walt Disney World Resort Orlando, FL

*Qualifies toward completion of IWLA's prestigious Certified Logistics Professional (CLP) designation.

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Published December 2004/IWLQ0404/9453

Letter from the Membership Chairman

It turns out that with this advice, Tad did us one huge favor.

Dear fellow warehouse logistics provider:

IWLA is committed to helping its members grow. By providing skill-based education, information and services, the Association provides the tools to help members become innovative, customer centric outsourced logistics solution providers that stay ahead of the competition and market demands. As chairman of the Membership Committee, I'd like to share how IWLA has helped me throughout the years and, in fact, is a large reason for my company's continued success.

Grimes Logistics Services was founded on April 1, 1972 (an appropriate date, some would say). Actually, it was called Grimes Warehouse Co. at the time. We then joined all of our contemporaries in confusing the bankers, debtors and customers by moving through a series of "trendy" names before arriving at today's iteration.

In trying to build our business, one of the first moves was to visit our friends, who now were our competitors (our family had just sold a foodservice operation where we were customers of public warehouses), to learn the ins and outs of public warehousing. The best advice came from Tad Duke, president of Laney & Duke Terminal Warehouse Co. Tad said that if we were serious about getting into this industry, we should do it right, and that meant joining the membership of the American Warehouse(man's) Association, the IWLA's predecessor organization. He said that the Association would provide information about the best way to conduct a warehousing business, as well as sound legal support and exceptional educational offerings.

It turns out that with this advice, Tad did us one huge favor. Not only that, but in those days a sponsor was necessary to gain membership, and Tad volunteered to be that sponsor. We received a self-inspection checklist that had to be completed as part of our application. Financial data, while nothing but zeros at our beginning, was also a requirement.

Since that event, some 32 years have flown by. AWA became IWLA, and the top-flight services have continued and expanded. Our company has used or examined every single option that IWLA offers. Services include:

- Legal Services
- Education and Training
- Marketing and Industry Promotion
- Industry-Tailored Insurance Programs
- Government Action
- Publishing and Communications
- Research and Development
- Interaction and Networking
- Purchasing Services Program
- Standards of Excellence
- Global Connections
- Convention & Expo

Through both the lean years and the good, our company's staff has always felt that the investment in IWLA is the best money we spend to keep our business on the right path to provide the best in service to our customers.

Sincerely,

Tommy Grimes, IWLA Membership Chairman
Grimes Warehouse Co.

2004 IWLA Staff and Leadership

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Discovering the Magic of Value-Added Warehousing at IWLA's Annual Convention

Dear fellow IWLA member:

As chairman of the 2005 IWLA Annual Convention, I'd like to take a few moments to share with you what the Planning Committee has in store for you this year. We have planned a lively three days with a number of new features.

First, in keeping with our theme, we have assembled a program with a full cross-section of value-added warehousing services drawn from our membership, the industry at large and academia. In fact, our own Herb Shear, of GENCO Supply Chain Solutions, will be giving the Keynote address this year.

In addition, the breakout sessions will offer a host of ideas about how you can increase your revenue-per-square-foot by adding and creating more value in your warehouse.

For the first time ever, we will kick off the convention with our annual Golf Classic to facilitate one of our main goals – valuable networking opportunities. And our Chairman's Dinner will feature one of the great party bands from New York – Alive & Kickin' – personally endorsed by IWLA Chairman Tony Becker and his wife Eileen.

Finally, the early spring timing and Disney setting make it an ideal way to tie a family vacation in with some business development.

This will be my eighth IWLA Annual Convention, and I still vividly remember my first in Tucson, AZ, where Perry Ozburn was my assigned mentor. Over the years I have obtained many valuable new insights on topics such as empowerment, branding and unleashing organizational creativity. I also have learned from my colleagues in this industry many new and different business models and have enjoyed participating in the process of evolving the purpose and scope of our association to meet today's member needs.

On a lighter note, attending the annual convention also has allowed me to visit cities I might not otherwise have seen and do things I might not otherwise have accomplished – last year resulted in my wife and I buying a home in Scottsdale! (By the way, my sister is a realtor in Orlando!) But perhaps most important of all, the meeting has resulted in many new and valuable friendships from the men and women of our great association.

But rather than go on and on, I've come up with a Top 10 List that is sure to have you filling out your reservation now. See you in Orlando!!

Sincerely,
Bob Auray
Chairman, IWLA Convention Planning Committee

Top 10 Reasons to Attend IWLA's Annual Convention

10. It's free!!! Just kidding, but I needed a way to get your attention.
9. Orlando in March at a topflight Disney World hotel – what could be a better venue for the premier professional development event for 3PL executives.
8. I am assured that there is absolutely NO possibility of hurricanes in Florida in March.
7. The Florida election recount should be done by then.
6. A great opportunity to gather secrets to success – both during the valuable networking events and from the information-packed general and breakout sessions.
5. Keynote address by Herb Shear from GENCO, the company that raised reverse logistics to an art form.
4. Timely theme of value-added warehousing will give you practical advice that you can take back to your company and begin implementing immediately.
3. Exhibit hall displaying the latest technology and products to help you add value to your business offerings and operate more efficiently.
2. New format for golf tournament – highest bribe of scorekeeper wins!
1. Great venue; great program; great company – what else could you ask for?

What Have You Done For Me Lately?

by Michael Fickes

Ever since the logistics industry created its basic value added distribution service, corporate America has responded with one word: more.

When the first logistics suppliers showed manufacturers that outsiders could handle product distribution more efficiently than internal shipping divisions, manufacturers changed their business models and cut their costs. Today, however, outside logistics providers that simply receive, store and ship goods no longer add value to customers' business models. Instead, they are the conventional business models.

As a result, being the best basic 3PL in the world is no longer good enough. "If you're not solving problems for customers with new value-added services, you are probably being priced down and losing business," says Robert J. Moran, president of Amware Logistics Services Inc. of Avon, CO. "Our customers are always asking us to get involved in new services."

Think what that means: Logistics providers are not really in the warehousing and distribution business. The real selling proposition is new value-added services. Recently, for example, one of Moran's large corporate customers asked for a price estimate on a new service. Moran ran the numbers and came up with 20 cents per item. When the customer checked its costs for the same work, the answer totaled 35 cents per item. What was the service? It doesn't matter. It could have been delivering flowers to the customer's employees. The bottom line is that Amware could do it profitably while saving the customer 15 cents per unit.

Today's logistics customers view 3PL providers as a grab bag of value-added services that can cut corporate costs. If one 3PL can't provide the service a manufacturer wants, the manufacturer will ship its goods to a 3PL that can.

Need proof? How many 3PLs do not offer basic pick and pack services? Ten years ago, pick and pack was a value-added service. Today pick and pack no longer adds value to the customer's business model.

In addition, the most recent edition of an annual study by Dr. John Langley of Georgia Tech found that, while the outsourcing of logistics has become entrenched in corporate planning, customer demands for 3PL performance and sophistication are on the rise, making improvements and investment in value-added services imperative.

"The need for more information in this area is so great that the IWLA Annual Convention Planning Committee decided to devote the entire 2005 meeting this March to helping educate our members about ways they can provide extra value to customers," said IWLA President and CEO Joel Hoiland.

Amware's business model constantly seeks to move beyond commonplace value-added services. Of the many services Amware offers, the largest is altogether uncommon. It is a pallet repair service for Chep Australia of Meeandah, Queensland. Chep leases high quality hardwood pallets to a pool of food product manufacturers. Food retailers eventually return the pallets by shipping them to eight logistics companies. Amware became one of the eight a number of years ago.

Over time, Amware's responsibilities grew from handling returned pallets to handling, inspecting and repairing them. Today, Amware inspects 50 million Chep pallets per year and repairs 15 percent to 25 percent of them. The work involves replacing broken boards, painting the repaired pallets and shipping them back to food products manufacturers that lease from the pool. The service uses about 1.5 million sq. ft. of Amware's four million sq. ft. of warehouse space in the U.S.

Of course, Amware continues to offer conventional value-added services. For example, the company packages products for a manufacturer of kitty litter. To provide this service, Amware loads product into retail bags, seals the bags, places the bags in master cartons, seals the cartons, puts the cartons onto displays and sends them out to retailers around the country. The operation requires about 15,000 sq. ft. in a 225,000 sq. ft. warehouse, and the operation is a standard component of the conventional business model of this Amware customer.

Amware won the kitty litter business when the customer decided to outsource the packaging to one of its logistics providers. While the other companies had plenty of warehouse space, they couldn't handle the packaging operation as efficiently as Amware. Now

Amware has a lion's share of that customer's kitty litter business. To keep that business, Amware must continually think about, experiment with and propose other value-added services for that customer. Because sooner or later, the kitty litter manufacturer will begin looking for new ways to squeeze costs out of its business model.

To develop new value-added services, shrewd 3PLs burrow into corporate structures and find new people and divisions to service. "For another customer, we prepare shrink-wrapped buy-one-get-one-free promotional kits of shaving cream and facial conditioner packaged together," says Moran. "In this case, we worked with our customer's marketing people to develop a way to make their promotional offers affordable.

Moran has spent his career thinking up and working out new value-added services for customers. Among the more unusual services he has created are:

- Printing and distributing 401(k) statements to employees of an investment firm.
- Partnering with a printing equipment supplier to print and ship on demand 80-page real estate analysis of comparable prices within particular neighborhoods.
- Printing and binding prescription tablets and other medical forms for a printer that wanted to eliminate inventory in favor of a print-on-demand system.
- Creating a self-audited pick-to-light system that managed inventories for retail stores at Bally Total Fitness Clubs.
- Furniture sub-assembly for retail customers who don't want to assemble furniture packaged in knock-down form by manufacturers.

Value-Subtracted Services

For a value added service to work, it must cut a customer's costs while providing a profit for the 3PL. As obvious as that sounds, it is easier said than done, according to Jeff Ballard, president of Quality Logistics Systems Inc. of Dallas.

Over the years, Ballard has developed value-added services for six Quality Logistics' customers. About 50 percent of the revenue generated by those customers comes from the value-added work. But it is hard-won revenue in that a single misstep could generate potentially disastrous losses.

"When setting up a new value-added service, the key is to start small," Ballard says. "Make sure you understand what you will need to do the work and how much it will cost. And make particularly sure you understand the risks. Talk to your insurance company and your lawyer. It won't hurt to talk to a consultant, either."

Ballard also warns that 3PLs will probably lose money by starting small with new services. "It will be very labor intensive, and short runs are not profitable on labor intensive work," he says. "But if you prove to yourself and your customer that you can do it, you can get longer production runs and begin to take advantage of automated systems that will cut your costs."

Finally, Ballard advises care in negotiating contractual issues that will affect pricing. "Will you or your customer buy the materials?" he asks. "What if you order the wrong boxes? What if you order too many boxes in anticipation of a long run? What happens when you buy materials for a run that gets postponed for months, leaving you with excess inventory? What if your customer alters specifications from light film to lighter film?"

All these bad things can and probably will happen at one time or another to any 3PL that provides value-added services, continues Ballard. The solution is to move slowly and carefully when setting up services and to negotiate protections during contract discussions.

But the risk is worth the reward. "We use our basic resources of labor, management, systems and space to build new value-added services for customers," says Moran.

In the end, that's how every 3PL has to answer the increasingly important question asked by customers: What have you done for me lately? ■

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2004: The Association Year in Review

by Joel R. Hoiland

The year 2004 was an exciting and busy time for IWLA. It was marked by the rollout of a number of new products and services that will enhance member satisfaction and facilitate member business. In addition, new member recruitment is the highest in three years, while attendance of IWLA educational events has returned to pre-9/11 levels. The Association also made great strides on the government advocacy front.

In addition, several dynamic new staff members joined the Association in 2004 in the areas of government and legal services, marketing and communications, member services and education. Following is a short review of each area of operation's activities for the year.

Industry Marketing & Communications

This area of operations was extremely active this year, with the unveiling of the new web site, the rollout of a more sophisticated web-based lead generation tool and the introduction of a new member-focused quarterly magazine.

The new web site, with its fresh, attractive look that reinforced the Association's new brand, went live at the end of June. It also featured improved functionality, and will become a regular stop on the electronic information superhighway for anyone interested in the logistics industry as the content is developed further. Planned enhancements will provide members with additional services, downloads of important documents, online training, marketing tool kits and web communications tools.

The new, more robust Internet-based search engine, the Logistics Services Locator, or LSL, also was rolled out this year, making its debut June 30. The new LSL builds upon the first generation LSL tool with a more sophisticated search engine that cuts down on the time both 3PLs and potential 3PL customers spend manually filtering searches and requests for information (RFIs). The result will be more qualified business leads.

This has been augmented by a printed *IWLA 3PL Buyers' Guide & Directory*, which was published in April. The alphabetical and geographical listing of all IWLA members was distributed widely at several industry meetings, including the WERC and CLM conferences.

Another new product, *The 3PL Executive,* was introduced at the Annual Convention in March. The glossy, five-color quarterly is aimed at communicating Association policies and programs to members, while educating them through in-depth articles on important industry topics. It, too, was distributed at several industry conferences and summits and has emerged as a useful tool in image building and recruitment.

Also in the area of image building, members reaped the benefit of substantial positive press coverage that IWLA earned for its actions and initiatives on behalf of the industry. IWLA is committed to proactively engaging the media to provide visibility for our third-party warehousing and logistics industry promotional efforts. Through our media relations consultant, we have successfully accomplished this goal, meeting with various journalists and even bringing them to some of our educational events.

Government & Legal Services

IWLA's government affairs function had a busy year, both inside the beltway and in state legislatures. A number of specific projects were established to address individual issues that were deemed highly important.

Of particular interest, the Association formalized an alliance with the Occupational Safety & Health Administration (OSHA) in February at a meeting in Washington, D.C. This alliance has benefited members by demonstrating to regulators our industry's concrete commitment to worker safety. Initial focus of the program has been forklift safety in the warehousing industry and educational offerings to members. The relationship also gives IWLA a formal point of contact and a willing ear at OSHA to hear individual members' questions when compliance issues arise.

Also in February, the Association conducted a meeting with the Surface Transportation Board at which the agency gave its backing to a plan

Rail Council Carries the Load in Demurrage Fight

In June, IWLA formed a new council in response to member's calls for action against unfair demurrage fees charged by railroads. It has rapidly become one of the Association's most active councils. The group, headed by Paul Delp of Lansdale Warehouse and Gary Minardi of San Jose Distribution Services, consists of 28 IWLA members with significant rail-related operations.

The group retained a former Class I railroad executive as a consultant and had completed three phases of a four-phase project as of Sept. 30. The end goal of this project is to meet with all Class I rail carriers in North America and propose special agreements where our members would not be subject to constructive placement for the purposes of demurrage. This would result in a direct reduction in members' operating costs. It also would satisfy the request of the Surface Transportation Board to meet with the railroads prior to formally requesting any potential governmental intervention.

For more information on the Rail Council, contact Nathan Noy, IWLA director of government and legal services at nnoy@iwla.com.

to reduce unfair demurrage fees. IWLA formed a special Rail Council, which kicked off a project in mid-July to tackle this costly problem (See sidebar).

Tax issues were in play both at the federal and state levels this year. IWLA proposed an amendment to HR 3220, the Business Activity Tax Simplification Act (BAT), to include an exemption for warehouse inventory from state taxation. The proposed amendment was presented to the bill's sponsor Rep. Bob Goodlatte (R-VA) backed by an Association-sponsored letter-writing campaign. IWLA also prepared testimony for a California legislative hearing regarding BAT that resulted in our proposed amendment being added to the state bill.

IWLA continued to stay active in numerous other issues by directly requesting interpretation and/or intervention from regulatory agencies and members of Congress. Such activities included a request to Sen. John McCain (R-AZ) to gain clarification from Customs and Border Protection regarding the inclusion of warehouses in C-TPAT. Another activity was the sending of a letter in support of an amendment to HR 3550 (The Highway Bill) intended to ease Hours of Service (HOS) restrictions on short-haul truckers.

IWLA has also taken an active role in the Department of Homeland Security's (DHS) food security program. President Joel Hoiland was integral in the creation of a warehousing and logistics sub-committee and is serving as a primary point of contact to DHS for the committee.

On the political front, IWLA's Political Action Committee re-established The Capitol Hill Club. The Association made two rounds of PAC contributions to pro-business candidates during the 2004 election season.

Legal service continues to be one of the Association's most used offerings. Staff continued to provide this valuable service, responding to hundreds of legal inquiries and reviewing more than 70 legal documents for members. A common theme was increased requests from various financers to waive the warehouseman's lien. A standard response was created for such a request with the express purpose of putting financers on notice that our members would not waive their important UCC Article 7 interests.

Also during the year, the Association joined in an Amici Curiae Supreme Court filing to request relief from an unfair Michigan vehicle tax. Additionally the Association provided resources to three western members involved in a New Jersey case in which a transportation company sought to have trucking fees reimbursed by the warehouses after the initial sending customer filed for bankruptcy.

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Education & Training

Participation in the 15 educational programs held this year was robust, with attendance levels either equal to or above those of 2003. The Marketing and Sales, Safety and Risk and Information Technology conferences were particularly well attended, with standing-room-only crowds on hand to experience the expanded content offerings.

Also well received was the new Emerging Leaders Leadership Series book review. This series of teleconferences reviews leadership concepts for 3PLs contained in business books of interest to members.

Finally, the Association conferred 21 Certified Logistic Professional designations to 3PL executives in March at the Annual Convention. As the premier trade association for 3PLs and value-added warehouse logistics companies in North America, IWLA created the CLP designation to set standards of excellence and promote professionalism throughout the 3PL industry. To earn a CLP, individuals must complete six required courses and make an educational contribution to the industry by speaking at an IWLA educational event, writing an article for the IWLA website or quarterly magazine, or serving on an IWLA committee, council or board.

Purchasing Services and Insurance

Members who utilize the Association's insurance services saw the benefits of membership in 2004. The Guaranteed Cost Insurance Program pulled off a coup by negotiating a rate cut in an insurance environment that was still rather tight. By switching insurance carriers to Crum & Forster from AIG, the program was able to save participants 30 percent. Meanwhile, the captive insurer, which changed its name to IWLA Insurance Co. in July, grew 12 percent in the past fiscal year due to new member growth and the growth of existing members.

Membership

2004 was a banner year for new member recruitment. Through the first nine months of 2004, Member Services signed up 66 new companies as members, up from 57 for all of last year and 56 in 2002. Key initiatives resulting in these improved results were: quarterly prospect mailings, the hiring of a professional telemarketing firm to assist in-house follow-up on all new prospect leads. In addition, Bob Rose, IWLA's Canadian membership representative, has produced several new members. ■

For more information on any of the above 2004 IWLA accomplishments, contact IWLA President and Chief Executive Officer Joel Hoiland at jhoiland@iwla.com

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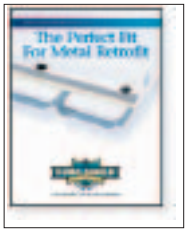

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Strategic Thinking:

The First Step Toward Success

How logistics companies think about strategies that will build successful futures.

by Michael Fickes

Before you go home from work today, think over what you did throughout the day and answer three questions about your company's strategy.

First question: In light of your company's basic strategy, did you do a good job today? Yes or no. Remember, some days are worse than others, and sometimes you don't do a good job. So don't equivocate. If you want to say yes except for the way you bungled that new business presentation, your real answer is no.

Second question: How do you know whether you did or didn't do a good job? Write a couple of sentences.

Third question: How do your answers relate to company strategy? Write a couple of sentences.

Tomorrow, give the test to a couple of folks in your department. Include people with both line and staff titles. Read over the responses and think about how well they reflect the company's strategy.

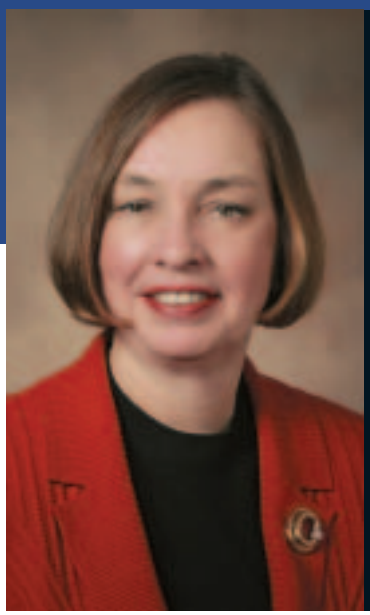
What's the point? Corporate strategy experts say that an effective strategy gives every employee, from the executive level to management and staff to labor out on the floor a way to evaluate whether or not he or she did a good job for the company today.

Strategic planners love these kinds of tests. George Grossardt, a vice president with the Alliances Services team within Schneider Logistics in Green Bay, WI, uses a different test to evaluate a potential strategy. "Suppose I have a vision or goal that says our company will become the largest truck-load company in the southeast," he says. "Can I write down specific, easy to understand actions that the company must take to achieve that vision?

"Here's the acid test: Ask every top manager in the company what steps he or she believes are necessary to achieving the vision. If they say lots of different things, you don't have a clear, achievable strategy. If they all say pretty much the same thing, you're in business."

Tom Patterson, vice president and general manager of Saddle Creek Corp. in Lakeland, FL, judges a Saddle Creek strategy by how simply and quickly he can explain it. "Suppose we hire a new supervisor or manager," he says. "It's important to be able to explain the job to that person in a few words. If I can't, then the strategy is too complicated, and it probably won't work."

So what's Saddle Creek's current strategy? "Growth. Revenue and geographic growth," he says. "We could have said that we want to widen margins, open new markets in these areas of the country, develop new types of customers and emphasize revenue growth on new accounts. But such a detailed strategic statement would make it difficult for people to work out the strategy in a business plan. When it's simple at the top level, it's easier for people to work out in their jobs."



Ann M. Drake, CEO of DSC Logistics Inc., in Des Plaines, IL, recommends using a four-step outline to develop a strategic plan.

Richard T. Murphy Jr., president and CEO of Minneapolis-based Murphy Warehouse Co., is pushing his folks to summarize the company's strategy in an easily understood tagline that would appear on the company's web site, letterhead and company literature. "By simplifying a strategy into a tagline, I think you give your employees a better sense of what the company is and where it is going," he says. "In addition, it will give our clients a way to think about us. Finally, it will help us think more effectively about branding and marketing the company."

Creating a Short, Simple Corporate Strategy

Ann M. Drake, CEO of DSC Logistics Inc., in Des Plaines, IL, recommends using a four-step outline to develop a strategic plan. Within her outline, the second step becomes that short, simple strategic statement that everyone is searching for.

The first section of Drake's outline asks for a vision of the future. "What will business be like for your customers five years from now?" asks Drake. "What will that mean for a company like yours? What new things will your company do every day that you aren't doing today?"

Second, define your company's role in that future environment in one or two sentences. "Take your time," she notes. "Someone once said that you can write a two-hour speech in an hour, but a five-minute speech can take days. If that's true, then writing a one or two sentence corporate strategy might take weeks. So give yourself plenty of time to write something that describes exactly what you want to be."

Third, evaluate where you are today in relation to the strategic goal you established in the second step. What capabilities will you have to perfect and expand to compete in the future you have envisioned? What capabilities will you have to add?

Finally, create a plan of action that will enable you to develop those capabilities. This section covers the specific steps you will need to take. Think in terms of schedules and budgets for equipment, people, facilities, geographic locations and sales programs. "I like to envision a future that is five years out and then plan to get there in three years," Drake says. "While we all like to think our ideas are way out of the box, they probably aren't. Others are probably working on the same ideas right now. So part of a strategic plan involves figuring out how to get there first."

Action Plans

Schneider Logistics and its Alliance Services group never make a move without a strategic plan. According to Grossardt, Schneider works out strategies for lines of business as well as for specific functions that support the company's lines of business.

Functional Strategies: "At the functional level, we rate the service we provide for every account we service on a numerical scale of one to 100," Grossardt says. "We study these ratings and establish improvement targets for the next 18 months. For example, we might decide that we want to make a 10 percent improvement in the service we provide for a particular client. We use the existing scorecard, which rates how well we perform different tasks, and develop a plan to improve areas that we think are weaker than they should be. Functional plans are our lowest level of strategic planning."

Line Of Business Strategies: At Schneider, a line of business is a business category such as logistics or supply chain management. Schneider develops three-year strategic plans for each of its business lines

and reviews those plans every year. A line of business strategy might, for example, include the addition of a new value-added service. "We'll write a business plan for such a service," Grossardt says. "This plan will look at issues such as entry strategy, marketing strategy, necessary sales collateral, pricing strategy. This particular strategy will roll into an overall three-year line of business plan that includes required financing, revenue stream and expected return."

MISTAKES TO AVOID

Grossardt cautions against setting strategic goals that do not include concrete steps for reaching those goals. Suppose, for example, that you set a goal of raising productivity. Productivity has a couple of levers, Grossardt says. A company can improve productivity by increasing revenue over its existing cost base. Or the company can cut costs while maintaining revenue.

"If you set a strategy that demands a five percent productivity improvement without defining the tasks necessary to achieving that improvement, managers will interpret that strategy in different ways," continues Grossardt. "Some might decide to cut costs, stop traveling and reduce payrolls. And that may not be what you meant by increasing productivity. Maybe you meant for people to find ways to take better advantage of technology and to improve the efficiency of business processes. A strategy has to be tied to specific actions."

Grossardt also points out that not all strategies will work, so it is important to set milestones to check on progress. When a milestone is reached, it's time to re-evaluate the prospects. Is the strategy on track? Will it eventually satisfy expectations? If the answers to these questions turn negative, the strategy has to be fixed or killed.

"When we write strategies, we look at the risks that are involved," says Grossardt. "There is marketing risk, operational risk and labor risk. Finally, there is exit risk. In other words, you plan for failure. Of course, you never want to implement that part of the plan. But what happens if it doesn't meet your financial, labor and customer requirements? If things are going wrong, you have to get out before it damages your brand.

"Part of effective strategic execution is understanding that not everything you put out there will succeed. If you don't have some tolerance for failure, you will find that your people will not be inclined to spend a lot of time working and thinking strategically."

In the end, a strategy is a plan that you believe will build a successful future for your company, a future that will be different than the present. Finding the strategies that work best requires experimenting with strategies that might fail. ■

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IWLA Members Celebrate 100 Years

Hansen Storage

Hansen Storage Co., headquartered in Milwaukee, WI, recently celebrated its 100th anniversary. The company specializes in storage, inventory and distribution technologies.

"We are extremely proud of the success we've experienced during the past century and we look forward to another 100 years of continued growth," said company President Bill Hansen. He attributes the company's success to the dedicated employees and the "significant technological strides we've made over the years, both of which have allowed us to provide customers with the innovative solutions they need to succeed. We realized early on that in order to be successful in the highly competitive world of transportation and storage, we simply needed to become an integral part of our customer's business cycle."

Hansen Storage was founded by brothers Theodore and Guido Hansen on June 16, 1904. The brothers built the original warehouse at 126 North Jefferson St. in Milwaukee, receiving license number one under the Uniform Warehouse Receipts Act of 1906 from the State of Wisconsin. ■

Murphy Warehouse

Murphy Warehouse Co., Minneapolis, marked its 100th anniversary in October. The operation was launched in 1904, when Edward L. Murphy Sr. bought a team of horses and a single wagon. Today, the multi-million dollar company employs approximately 225 people in multiple locations. Industries served range from food and beverage to hospital supplies, retail to recreational, automotive to power generation, and paper to publishing.

Currently headed by President and CEO Richard Murphy Jr., the fourth-generation of the Murphy family to run the family enterprise, the company is one of the Upper Midwest's largest asset-based logistics companies. It works with clients to create logistical and supply chain solutions through a wide range of services, including warehousing, distribution, transportation, cross-docking, fulfillment and administrative services.

Murphy Warehouse is committed to continual innovation to better serve clients. Long focused on truck transportation, in the early 1990s Murphy made the strategic decision to offer rail services to clients and equip several of its warehouses with indoor rail yards – a unique move for a warehousing and logistics company at the time. ■

Changing the Profit Equation

Implications from the IWLA Statistical Report

Major profitability differences exist between companies in the 3PL industry, indicating that too many companies are leaving profit dollars on the table, according to a recent IWLA benchmarking study.

The 2004 IWLA Statistical Study found that a typical 3PL respondent firm has total revenue of $4.8 million. It is an interesting exercise to review how the typical firm would compare to a high-profit firm with the same level of revenue. By eliminating the size difference it is possible to focus on what it means to be high profit.

- **Typical Firm**—Earns a profit of $178,205. This is a pre-tax profit margin of 3.7 percent. In simplest terms, this means that every $1 in revenue produces 3.7 cents of profit.
- **High Profit Firm**—The better-performing firms have a profit margin of 8.7 percent. This means that with the same revenue volume, a high-profit firm would generate a profit of $419,023. That represents an additional five percent, or $240,818, in profits every year – NOT an inconsequential difference.

To improve performance, there are at least two issues typical firms need to address in their financial planning. The first is to understand how the high-profit firms got to be high-profit. This means identifying the factors that are important to superior bottom-line performance. The second is to identify the actions that should be taken to improve results over time. In essence, a firm needs to understand how much of an improvement needs to be made in total revenue, operating expenses and the like.

Where to Focus

No firm does everything well. What the high-profit firm typically does is generate better performance on the few factors that really count. These are typically called the critical profit variables (CPVs).

- **Revenue Growth**—Growth has been difficult to come by in recent years. However, to be successful over the long term, it is essential to generate at least a moderate rate of revenue growth because it allows the firm to offset the inevitable operating expense increases that occur almost every year. With adequate growth, the firm can both counteract the impact of inflation and provide greater customer service.
- **Revenue per Employee**—In virtually every industry, payroll is by far the most important expense factor. In general, controlling payroll is essential to controlling expenses. The best measure for evaluating the overall productivity of employees is revenue per employee.
- **Non-Payroll Expenses**—In analyzing non-payroll expenses, firms typically use expenses as a percent of revenue. Controlling non-payroll expenses involves examining literally every expense category in the hope of making modest improvements in a number of areas.
- **Average Collection Period**—The average collection period has a very modest impact on profitability. However, it can have a dramatic impact on cash flow. If firms are to grow successfully, they must maintain control over their accounts receivable.

The exhibit below looks at the CPVs for the typical IWLA firm and a high-profit firm of the same revenue size. While the high-profit firm is far from perfect, it does put together a set of CPVs that result in greater profitability.

The Critical Profit Variables

	Typical Profit	High Profit
Total Revenue	$4,816,353	$4,816,353
Profit Before Taxes	$178,205	$419,023
Revenue Growth	0.2%	2.1%
Revenue per Employee	$101,198	$103,212
Non-Payroll Expenses	52.8%	50.7%
Average Collection Period (days)	44.0	45.6

A PLAN FOR IMPROVEMENT

In planning for the future, recognize that no firm starts out as exactly "typical." Each firm has a unique set of strengths and weaknesses. And since every firm is unique, it is impossible to specify here exactly what should be done with regard to the CPVs. However, it is extremely easy to indicate what every firm should NOT do. Do not try to move from typical to high-profit in a single year. Instead, try to improve slowly and systemati-

cally over time. With that in mind, the following can be considered realistic objectives for most firms.

- **Revenue Growth**—A modest growth rate of three percent over time, but not necessarily every year, is enough to offset inevitable expense increases. Anything less has the potential to allow expense pressures to overwhelm the firm.
- **Revenue per Employee**—Given the importance of payroll, firms need to closely monitor revenue per employee and make productivity enhancements an exceptionally high priority. Improvements in the range of three percent are required to keep up with targeted revenue growth rates.
- **Non-Payroll Expenses**—This should only be the focus of minor changes, probably in the annual range of 0.1 to 0.2 percentage points in total. Within this category, some individual line items may decline slightly more or less.
- **Average Collection Period**—The need for improvement in the collection period is tied directly to revenue growth. Ideally the collection period can be cut between one-half and one full day.

These are all relatively easy goals individually. The challenge comes in generating these improvements simultaneously. If the typical firm can do so, it will be moving at a realistic pace toward high-profit performance. ■

Editor's note: *IWLA's 2004 Statistical Study was conducted over the summer by Profit Panning Group, a Colorado-based consulting firm that specializes in helping small to mid-size businesses understand the financial side of their operations. The full study provides detailed aggregate financial results of 30 warehouse logistics providers. For a copy of the $250 report, contact Membership Coordinator Barbara Arnold at barnold@iwla.com.*

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The Five DEADLY SINS of 3PL Marketing

by Jim Bierfeldt

Growth in the 3PL industry continues to outpace the general economy. But it has become a fragmented industry with many players chasing the same customers. The situation calls for smart, strategic marketing that helps your company break through the clutter and create awareness that leads to more opportunities and more sales.

Here are five common mistakes 3PLs make in their marketing efforts. Avoid these and you'll be a step ahead of your competitors.

1. **Marketing from the inside out.** The first place many 3PLs look when crafting marketing messages is the mirror. But what they see often describes most of their competitors, as well. For buyers of 3PL services, too much of the same information is confusing. If everyone says "we're quality-focused, we're easy-to-work-with, we can provide visibility to your inventory, etc.," how does the prospect know who to buy from? She doesn't, and for want of helpful information, the message is ignored and some portion of the marketing budget is wasted.

   The antidote: get inside the mirror. Look at the buying choice from your prospect's point of view. Is it easy for your best prospects to recognize what sets your company apart? Consultant Jack Trout refers to the process of differentiating your service in the mind of the prospect as positioning. Create a positioning statement that starts: "We want to be perceived as…." This statement is your marketing destination – the perception your communications are designed to create. If you're thinking from the outside in, the positioning statement will be simple, believable, differentiating and relevant to the challenges of your best prospects. Before communicating, think about the position you want to occupy in your prospect's mind and be disciplined about reinforcing this perception in all your communications.
2. **Over-investing in sales at the expense of marketing.** Whenever we purchase something, whether it be a car, a candy bar or logistics services, we go through the same cycle of buying: awareness, acceptance, preference, choice. While the cycle can be long or short, the buyer does not get to the choice stage before going through the other stages. The sales function – characterized by one-on-one interactions, is best designed to create preference and choice for your service. The marketing function, which uses the web, media relations, advertising and other means to communicate to a large target group, is the most efficient way to create awareness, acceptance, a broad understanding of your brand's value, and to generate a good percentage of the leads that your sales professionals pursue. Sales' job, a time-consuming and challenging one in the 3PL arena, should be to create preference and choice among the companies most likely to purchase your

services. 3PLs that under-invest in marketing force their sales people to carry the weight of the entire buying cycle and create a far less efficient business development process.

3. **Selling as the primary means to drive inquiries.** 3PL lead generation efforts often consist of targeting groups of prospects (via mail, e-mail or phone) with sales-oriented messages, hoping that their timing is right and that one or more of the recipients will have an immediate need. But hope is not a strategy and such efforts rarely yield a solid ROI. 3PLs should place more marketing focus on creating reasons for the prospect to contact them.

   Case in point: Since 1990, Gross & Associates, consultants in material handling logistics, has published its "Rules of Thumb" for estimating capital equipment costs associated with alternative layouts, operating systems and equipment applications. Each year the firm receives about 2,500 requests for this handy reference guide from the very people with whom it wants to build a relationship. With the prospect names and contact information in hand, the firm can continue to cultivate these relationships so that Gross is top-of-mind when the prospect is ready to buy.

   Think about what you are an expert at, then stop selling to cold prospects and start educating. By providing helpful, substantive information, you will draw more people to your message, position your organization as an expert and generate more leads than typical hard-sell marketing messages.

4. **Underestimating the power of the web.** While logistics service providers still rely heavily on referrals for new business, buyers of logistics services increasingly look to the web for guidance. According to WordTracker.com, which tracks keyword searches on the Internet, about 205 searches are conducted daily on the term "warehousing" and about 576 on the term "logistics." Add in additional searches on variations of these terms (e.g., value-added warehousing) and other logistics and supply chain-related phrases, and there are thousands and thousands of daily searches relevant to warehousing and logistics. Your prospects are on the Internet looking for help. The question is, will they find your company during their search?

   Online marketing includes search engine optimization, or SEO (the science of getting your web site to rank high on search engine queries for specific keyword phrases), as well as keyword purchases, link building, advertising and other tactics to bolster your online visibility. It has become a complex discipline requiring specialized expertise. Most 3PLs lack the internal know-how to do this well and should seek outside help to ensure they are leveraging this critical part of the marketing mix.

5. **Delegating marketing responsibility.** As the 3PL industry has become more competitive, there is a greater need to identify new markets, differentiate the company and tell its story in a compelling way. But attracting people with the marketing skills to do these things well has not been a 3PL recruiting priority. In fact, the marketing function often is delegated to a manager in another discipline as an add-on responsibility. This may be the only

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option in a lean organization, and it can work. But don't assume this manager can quickly develop the requisite skills needed to execute programs well. Provide the budgetary support to allow this person to hire communication specialists or source needed talent on the outside.

As a 3PL executive, marketing deserves your attention. Great service at an acceptable price are now table stakes, and therefore difficult to leverage as a source of competitive advantage. You'll need smart marketing to help understand the market, identify profitable niches and create awareness and understanding of your company's unique value among those most likely to purchase your services. ■

Jim Bierfeldt is a former 3PL marketing executive who is now president of Logistics Marketing Advisors LLC, a firm that specializes in marketing and public relations strategy and execution services for 3PLs and other logistics industry firms.

Internet Marketing Tips

Here are five suggestions on web site design from ebasedlogistics, which provides marketing services to companies in the logistics field and other industries.

1. Don't follow the pack. Just because your competition is doing it doesn't mean it's right. Web sites start to look the same after a bit. You want your design to stand out, while still providing the necessary familiarity and expertise.

2. Know your audience. They might not describe you the way you would describe yourself. Make sure your language (and target search terms) matches the way your audience refers to you.

3. Build it right. Always start by asking yourself what you want the web site to accomplish. Make sure that there are measurable and actionable goals for your web site and then build it backwards from those goals.

4. Stay objective. The toughest thing for a web developer and web site owner to do is be objective about their site. Design your site navigation based on how users search for information and avoid structures that may make sense only to you.

5. Use it every day. It sounds elementary, but every person in your company should know your web site address and what is on the site. If they are confident in sending people to your web site and actively do so, then it can accomplish many of the objectives you set and become critical to your success.

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2004 and 2005 continue to support strong opportunities for transportation services. Double digit growth, distribution center relocations/expansions, and "just-in-time" services all present huge growth potential for 3PL providers.

Ceco Buildings Systems is the construction partner that can provide answers to expansion opportunities. Ceco with its Builder Network, District Managers and National Accounts Team is the solution for additional space.

Build Smart. Ceco Smart. For your construction solution call your Ceco Professional at 1-800-474-CECO (2326).

Ceco Building Systems

THE CONSTRUCTION PROFESSIONALS

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