

The World Group Outlook

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EXPERTISE GREATER ROI remain the hallmark of WORLD GROUP members



World Group members continue to refine their expertise and efficiency in the competitive world of public warehousing and refrigerated logistics. Creating value is what it's all about, and that means doing

it better, more cost-effectively than the best customer, on the best day. Still, the emotional argument of private vs. public is a real world business decision that ebbs and flows with each passing ice cream season. Continued consolidation of processors on the large end also raises the issue of private warehousing, as multiple lines are brought together in an attempt to create the necessary economies of scale. The trend is clear, however, that outsourcing is a growing business trend.

Public refrigerated warehousing, in particular, offers numerous benefits to food processors, distributors, exporters and retailers requiring raw material and finished goods storage and distribution needs for refrigerated and frozen products. The IARW cites five advantages to using public refrigerated warehouse and distribution facilities:

Financial Advantage: Manufacturers, wholesalers, and retailers alike can cut down—or entirely cut out—a significant capital investment, directly freeing up capital for research and development, marketing, or other revenue opportunities.

Professional Advantage: Public refrigerated warehouse/distribution facilities employ highly trained professionals who specialize in providing maximum protection for customer products—and must carry warehouse legal liability insurance to guarantee that they will care for your products as if they were their own. These refrigerated warehouse professionals are not only eligible for training at The World Food Logistics Organization Institute at the University of Oklahoma and the

European WFLO Institute, Lenvem Belgium, but they enjoy access to the distinguished members of the WFLO Scientific Advisory Council (SAC). Members represent all aspects of food science and can respond to member queries—or member customer queries—about the freezing, thawing, tempering, and storage requirements for virtually any food product or commodity.

Technology Advantage: Most public refrigerated warehouse and distribution facilities have the software, Internet and communications capability to provide critical transaction data and analysis. Information about such important matters as inventory management, shipment histories, production scheduling and stock replenishment can be routinely shared between computers, or even put under your control. You can have all the knowledge and information you ever want, including storage temperatures, while the refrigerated facility manages your inventory and order fulfillment.

Distribution Advantage: Not only are public refrigerated warehouse and distribution facilities strategically located to connect with every imaginable mode of transportation, customers can also take advantage of the reduced transportation costs that are available through consolidated shipments. Food manufacturers, especially, can enjoy greater flexibility in serving a huge but changing market—by being freed of the diversion of funds necessary to acquire or construct an expensive refrigerated facility in one or several permanent locations.

Core Competency Advantage: Many companies can successfully focus on three or four core competencies—but it's sometimes difficult to do all of them well simultaneously. It's easy to describe the core competency of public refrigerated warehouse and logistics companies: it is taking good care of, and adding value to, our customers' products. The refrigerated warehouse companies of IARW specialize in designing efficient facilities, controlling warehouse and logistics costs, providing high levels of sanitation, monitoring product temperatures and providing all kinds of related services—blast freezing, product labeling, repacking, import/export certification, etc.

Creating value is what it's all about, and that means doing it better, more cost-effectively than the best customer, on the best day.

BETTER, MORE COST EFFECTIVE SERVICE is the best argument for public warehousing... AND YOU CAN QUOTE US ON THAT

"In the 35 years I've been in this industry, privatizing of cold storage has always been a question posed by manufacturers," says William Sus, Executive Vice President of Great Lakes Cold Storage. "The cost of construction, together with the classification of ammonia as a HAZMAT, have made public warehousing more of a value. We deal with national food manufacturers and as well as smaller, local producers, on both the finished goods side and the raw material side and they all know that their capital, when available, is best invested in making their manufacturing better.

"With business being a little soft, with capacity available in the market, we consider ourselves fortunate to have a good stable volume that helps us maintain our efficiencies. We are very aware of the 'build-buy' cycles that move through the manufacturing community, and our best argument for public is to provide competitive, high quality warehousing services."

Brian Davis, Vice President of Finance, Imperial Freezer Services, believes his customers recognize and value excellent warehousing service.

"There's a lot to be said about doing what you do really well, and that holds true in refrigerated warehousing. Several of our customers do their own blast freezing as an extension of their chicken or turkey processing. They are quick to say that there is no comparison between their efficiency and our efficiency in terms of damaged goods, miss handled products, better throughput, inventory and information management. We know what's where and we know how to handle product; it's our business. When you factor in the true cost of efficiency, the financial argument is heavily biased toward public."



NOCS Executive Vice President Mark Blanchard in front of the company's new Dockside facility in the busy port of New Orleans.

According to Doug Crotty, Director of Sales and Marketing for NOCS, who recently opened a new facility in New Orleans, manufacturers know what they do best.

"Time and distance are money," says Crotty. "These two factors are the common denominators for the logic of manufacturers to position their plants and their products in relation to the final destination or distribution point[s]. The issue of private versus public warehousing these days involves much more than a company philosophy, as the

financial/competitive stakes are high and the road to customer satisfaction has become a foot race toward the bottom line.

"Manufacturers tend to spend their monies on doing what they do best, which is producing goods. Their facilities are generally geared toward accomplishing the efficiencies in their areas of expertise; thus, outsourcing such activities as warehousing, freezing and related value-added services to the public warehousing community makes good business sense. That is not to say that some manufacturers do not succeed by doing it all themselves; however, the costs of doing business have evolved into such a science, that many manufacturers have reorganized their thinking to insulate themselves from those activities which are not role-specific to their production, marketing and sales interests."

"When you factor in the true cost of efficiency, the financial argument is heavily biased toward public."

—Brian Davis, Imperial Freezer Services

According to Dave Collins, Director of Marketing and Sales, American Cold Storage, "We recently had a customer looking to expand on site, but they elected not to. It's an emotional decision, but they decided to stick to the

knitting, so to speak, and take those same dollars earmarked for construction and put them into the business of making frozen breakfast items. Standing on the outside looking in, not everyone fully realizes the challenges of operating a refrigerated warehouse. They think, '1500 case in and 1500 cases out, what's the big deal?' But the days of the frozen box are long gone; this is a business of HAZMAT regulations, high turns and thin inventory. That said, PRWs have to be aware of the fact that this question comes up every year, year in and year out, and we can't take it for granted."

Vinny Perricone, U.S.Growers Cold Storage, points to the economy of scale and the presence in a key metropolitan market as key assets in an established PRW.

"Being located in the LA area, the private vs. public issue is definitely a financial one," offers Vinny. "We're able to deliver the economy of scale across our entire customer base, which ranges from larger national brands to the smaller local companies. A private company would have to operate at nearly 100% capacity to achieve a similar scale, and one slow month would have a negative impact. Plus, it's extremely costly to purchase land in Southern California; that again would require a significant capital expenditure to even come close to replicating a high quality service that's already in place."



Tony Lucarelli, Henningsen Cold Storage Co., who operates five production warehouses for specific client production needs, acknowledges that lower interest rates can and do affect the private-public decision.

“Lately, with the cost of money being lower, some manufacturers, such as Hershey Foods, have been willing to make the commitment to building a warehousing facility, but they still want a third party to operate it,” says Lucarelli. *“I think this speaks to the*

expertise issue; third party warehouse operators are generally recognized as being more proficient at what we do. There are many different functions performed in a warehouse and all of them involve people. The better your staff, the better your warehouse. It may sound oversimplified, but that’s the real bottom line.”

ROI KIT

available FROM THE IARW



The IARW makes available an online ROI Kit designed to help you determine the true cost of constructing and maintaining a private refrigerated warehouse. The ROI Kit organizes factors to

be considered in the capital expenditure decision, and provides worksheets to document your calculation of two commonly used methods, ROI and Net Present Value.

Return on Investment: This calculation, also known as the book value rate of return, is commonly used because it is based on the accrual method of financial statement preparation, and is easy to apply. Its weakness is that it fails to consider the time value of money. The ROI is defined as the difference between the annualized cost of building and operating a private refrigerated warehouse vs. the annual cost of using public refrigerated warehouse capacity.

Net Present Value: Present value is a way of re-stating a stream of future cash flows into today’s dollars. When present value is applied to a capital investment, the future return is generally in the form of cash generated by the asset acquired.

This model helps collect the appropriate data for performing each of these two calculations, and is available in an Excel spreadsheet, www.iarw.org/aboutiarw/roi_introduction.asp

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OPERATING EXPENSES

1. Payroll-Plant			
Administrative - Warehouse (manager and plant supervision)		\$	
Administrative - Warehouse (general office, clerical)			
Handling labor			
Engineering and maintenance			
Compliance and safety			
Extra labor provided - overtime, contract, seasonal			
Engine room & refrigeration systems			
Total payroll		\$	-
2. Payroll Taxes, Insurance, Fringes			
Payroll taxes		\$	
Insurance - hospitalization, life, etc.			
Other employee benefits			
Insurance - Workmen's Compensation			
Pension and profit sharing			
Total payroll taxes, insurance		\$	-
3. Plant Utilities			
Light, heat and electric power		\$	
Water			
Miscellaneous utilities			
Total utilities		\$	-
4. Maintenance			
Maintenance (including outside contractors and supplies)		\$	
Plant			
Engine room & refrigeration system			
Handling equipment			
Total maintenance & supplies		\$	-
5. Other Expenses - Plant			
Safety and hazmat compliance (Annumonia)		\$	
Equipment rentals			
Loss and damage			
Plant supplies			
Security			
Sanitation			
Miscellaneous - (identify amounts greater than \$5,000):			
a. Pallets			
b. Transportation			
Total other plant expenses		\$	-
		(a.)	(b.)
		Corporate	Plant
		Allocation	
6. Administrative Expense			
Administrative salaries - (Corporate officers, directors, sales, other)		\$	\$
Fringe benefits for administrative salaries			
Travel, entertainment & auto			
Telephone and fax			
Management Information Systems			
Donations and contributions			
Dues, fees, and subscriptions			
Advertising and public relations			
Other selling expenses			
Maintenance and repair - office			
Office supplies, forms, software, etc.			
Postage			
Professional - legal, auditing and consulting			
Provision for bad debts			
Taxes, sales & use			
Miscellaneous administrative expenses			
a. License and permits			
Total administrative expenses		-	-
7. Property Taxes and Insurance			
Taxes - property and real estate		\$	
Insurance - property, machinery & liability			
Total property taxes & insurance		\$	-
8. TOTAL OPERATING EXPENSE BEFORE DEPRECIATION AND INTEREST			
		\$	-
9. LESS: Tax benefit calculated at your composite federal and state income tax rate of related to:			
a. Operating expenses		\$	-
b. Depreciation			
10. NET CASH FLOWS FROM OPERATIONS			
		\$	-

Calendar of Events

July 2003

26-29 IARW-WFLO Assembly of Committees Four Seasons Hotel, Washington, DC

August 2003

10-12 National Hardware Show, McCormick Place, Chicago

September 2003

21-24 CLM Management Conference, Chicago

October 2003

19-22 National Frozen & Refrigerated Foods Association, Las Vegas @ Mandalay Bay Hotel

21-24 FDI Food Industry Productivity Convention & Expo, Opryland Hotel, Nashville

29-Nov 1 Worldwide Food Expo 2003, McCormick Place, Chicago

November 2003

15-19 PLMA's 2001 Private Label Trade Show, Rosemont, IL.

17-19 National Industrial Transportation League TransComp 2003, Ft. Lauderdale, FL

TO RUSSIA WITH LOVE



Pictured left to right: Dr. Ivan Velmiskin, Russian Federation, Steve Hofland, HCS Superintendent, Debra Rose, HCS General Manager, Rodger Atkins, USAPEEC, Alexander Dron, Interpreter.

Members of the Russian Inspection team recently visited the HCS Twin Falls, Idaho facility. Twin Falls General Manager Debra Rose (shown) said the inspection went well. Twin Falls is the largest HCS facility, having been expanded twice to more than 12 million cubic feet of space.

American Cold Storage

1.800.626.6381
FAX 1.502.634.4757
Locations: 5 in Kentucky, Tennessee, Indiana and Oklahoma
Contact: Dave Collins
dcollins@americancold.com

Great Lakes Cold Storage

1.888.248.9600
FAX 1.440.248.3950
Location: Ohio
Contact: William H. Sus
info@glcsinc.com

Henningsen Cold Storage Co.

1.800.791.2653(COLD)
FAX 1.503.531.5410
Locations: 8 in Idaho, North Dakota, Oklahoma, Oregon, Washington, Pennsylvania
Contact: Tony Lucarelli
tony.lucarelli@henningsen.com

Imperial Freezer Services

1.919.775-4474
FAX 1.919.775.4459
Location: North Carolina
Contact: Chuck McCarthy
chuck@imperialfreezerservices.com

Merchants Terminal Corporation

1.410.342.9300
FAX 1.410.522.1163
Locations: 3 in Maryland
Contact: Harry Halpert
hhalpert@merchantsterminal.com

NOCS

1.800.STA.COLD
FAX 1.504.944.8539
Locations: 5 in Louisiana, Texas, South Carolina
Contact: Mark E. Blanchard
markb@nocs.com

Trenton Cold Storage, Ltd.

1.613.394.3317
FAX 1.613.394.3263
Locations: 5 in Ontario, Canada
Contact: Craig Kitchener
craig@trencold.com

U.S. Growers Cold Storage, Inc.

1.323.583.3163
FAX 1.323.583.2542
Locations: 6 in Los Angeles
Contact: Angelo Antoci
aantoci@usgrowers.com



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