



# PEAK Advantage

Performance  
Enhancement  
Advice &  
Knowhow

## Pull ahead & stay in front: time for wholesale distributors to rethink race



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**B**ecause consumers expect more value from the products and services they buy, distributors find themselves in a race against time—and each other—to win customers and provide the highest value for the lowest cost.

As a wholesale distributor, what position do you hold in your industry? Are you gaining or falling behind? Can you be replaced? Maybe it's time to rethink the race. Remember, your best chance of winning is to stay in front.

### Learn from distribution front runners

Who's in the race? Today's front runners include asset-based logistics service providers (LSPs); those that have the training and equipment to implement the best processes and technology are in a better position to take over market share in the distribution arena.

Other front runners include manufacturers that—because they no longer see the wholesale distributor's value—have followed the self-service trend, implementing technology that allows their customers

to do their own online research and order placement.

*To pull ahead of the pack, it helps to know your customers and how their expectations and needs are changing.*

Yesterday's selling points are today's base expectations: Customers still expect order accuracy and on-time delivery, but they may also expect web-based self service that allows them to do their own online research, order placement and order tracking.

To pull ahead of the pack, it helps to know your customers and how their expectations and needs are changing. Like you, they buy products to solve problems and increase efficiency.

So to win in the market, increase your value-add proposition by pairing competitively priced products with innovative, beneficial services. The following strategies can help speed you along.

### Fully equipped, & ready to run

To race with the pros, train and

equip yourself like they do. To win customers and keep them satisfied:

- Understand and control your costs
- Apply lean consumption concepts
- Provide excellent customer service

Know your processes and costs. To run efficiently, many successful distributors use activity-based costing programs to identify costs and validate the processes that have true value for customers.

Lean consumption is another helpful tool introduced by James Womack, founder and president of the Lean Enterprise Institute, a not-for-profit educational and research organization.

The basic lean concept focuses on eliminating waste. The main idea behind lean consumption is that you and your customers can work together to find ways to eliminate supply chain waste.

Pursuing lean consumption helps cut costs and increases savings because it's a process that basically encourages the discovery of more efficient ways to consume.

Therefore, lean consumption

encourages distributors to go beyond the sale of a product by providing customers business solutions as an added service.

When costs and other business elements are similar, customers typically buy from the company that offers better customer service, basing their decision on how easy it is to do business with you.

Therefore, it's essential for any activity involved in both the distribution process and product support to be user friendly.

You may have all the right products and solutions, but you'll lose business if it's difficult or unpleasant for customers to obtain your products and services.

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October 2005

## NAM Report: M&D sector bears highest cost

**M**ore than any other sector, manufacturing and distribution (M&D) bear the highest share of the cost of regulation.

Many regulations have positive benefits for the economy and society, yet few understand their cost and how it affects companies that face intense global competition with overseas firms that often do not have similar costs.

The cost of simply complying with federal regulations is steep. Manufacturers bear the highest cost—nearly \$8,000 per employee—almost twice the average for all U.S. industries.

George Mason University's Mercatus Center estimates workplace regulations alone cost manufacturers roughly \$1,700 per employee per firm per year.

As a benchmark of comparison, the cost of workplace regulations exceeds the amount U.S. companies spend on retirement income benefits.

These and other high costs unique to the U.S. market hinder the international competitiveness of American manufacturers and constrains the demand for workers in U.S. facilities.

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Excerpted from **The Facts About Modern Manufacturing**, published by The Manufacturing Institute, the research and education affiliate of the National Association of Manufacturers (NAM). □

## Human Resources Update

### Auditing TPAs may help you lower health care costs

by Randy Hamil, Tulsa, rhamil@bkd.com

**I**t's not uncommon for self-insured manufacturers and distributors to absorb from 2% to 5% of their overall health care costs, either because of overpayment or otherwise incorrect payments made to health care providers by the employer's third-party administrator (TPA).

Whether TPAs pay providers under a full-risk or more traditional discounted fee-for-service agreement, overpayments cost self-insured employers millions just when they're struggling to keep rising health care costs in check. Therefore, if you are a self-insured manufacturer or distributor, it's essential that you develop a way to verify your TPA only reimburses providers for covered benefits and at the agreed-upon rates for specified services.

A detailed claims audit is one way to successfully identify and collect overpayments. It should include discovery and documentation of evidence that supports the overpayment of claims and contractual noncompliance.

Self-insured manufacturers and distributors that attempt to audit contracts often find themselves dependent on their TPAs' data, methodologies and calculations. However, an audit is designed to go much further to include the actual contractual relationships between the employers, TPAs and health care providers. Otherwise, the full scope of overpayment errors may not be realized.

To account for the overpayments and arrange for a refund, an audit that focuses on the accuracy and timeliness of claims payments made to providers should be performed.

Areas an audit should review include:

- Claims paid at the wrong contractual rates
- Duplicate claims payments
- Claims paid for noncovered benefits
- Claims paid with disregard for timely filing limitations
- Errors made in the coordination of benefits



Though performing an effective and efficient TPA audit is not always as easy as it sounds, self-insured companies should consider taking steps to collect all revenues they are due that were the result of TPA overpayment of claims.

Advisors from BKD Health Care Group, a division of BKD, perform TPA claims audits. Contact your BKD Manufacturing & Distribution Group advisor for an introduction. □

### On the Web

National Association of Manufacturers  
[www.nam.org](http://www.nam.org)

American Society for Quality  
[www.asq.com](http://www.asq.com)

American Society of Mechanical Engineers  
[www.asme.org](http://www.asme.org)

Association for Manufacturing Excellence  
[www.ame.org](http://www.ame.org)

BKD manufacturing audit, tax & consulting  
[www.bkd.com](http://www.bkd.com)

Data Interchange Standards Association  
[www.disa.org](http://www.disa.org)

Educational Society for Resource Management  
[www.apics.org](http://www.apics.org)

ESS China  
[www.esschina.com](http://www.esschina.com)

Expatriate Assignment Solutions  
[www.expatsolve.com](http://www.expatsolve.com)

Hudson Institute, America's premier source of applied research on enduring policy challenges  
[www.hudson.org](http://www.hudson.org)

International, global access-local support  
[www.mri-world.com](http://www.mri-world.com)

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# Don't let thieves steal customers' personal information

by Dave Bowden, Springfield,  
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**A**s a manufacturer or distributor, what are the most valuable items your business owns?

You might not think of information as one of them, but think about how much your business depends on accurate, timely information.

Over the past decade, technological advances and the ability to communicate at increasingly higher speeds have led to better and more profitable methods of gathering and using information.

Think about how your business might be affected if the information entrusted to you by your customers was stolen due to inadequate safeguards, a lack of planning or inappropriate employee use.

Identity theft can happen when sensitive, personal information isn't adequately protected, making it vulnerable to illegal use or transfer by criminals.

Stolen personal information is generally used to open fraudulent credit accounts and to obtain loans, but it's also used to:

- Obtain employment under a false name
- Obtain rental housing
- Throw authorities off the trail in the event of arrest or the issuance of a summons

## How to safeguard personal information

Recent news coverage about large firms that have lost customer information reveals the potential for damage, including the loss of customers, lower profits, lawsuits and bad publicity.

Information can be stolen

from either traditional paper files or their particularly susceptible electronic equivalent.

You may also be vulnerable to social engineering schemes, *e.g.*, people may enter your business unchallenged or use a false story to pilfer offices for information or look for passwords.

"Phishing," an electronic form of social engineering, uses e-mails that contain links to legitimate-looking web sites that pretend to belong to familiar, brand-name companies.

When "marks" arrive at the site, they're cleverly asked to submit sensitive information and some do.

Never respond to such e-mails and immediately report them to the company whose identity is being used as a cover.

Criminals use other methods to persuade you to divulge passwords or other sensitive information: Beware of information-gathering phone calls from individuals pretending to represent legitimate-sounding entities.

Conduct periodic training on how to respond to such calls. Verify new customers are reputable and are actually who they claim to be.

Create a computer usage policy all employees must read and sign when they begin employment and review it annually.

Restrict access to appropriate personnel and grant access to certain employees as needed; revoke access when it's no longer needed.

Create and execute a defense plan for reducing risk and develop instructions for how to respond if sensitive information is stolen:

- Designate a media contact
- With your attorney, develop advance plans for meeting potential legal issues and for notifying law enforcement and customers whose personal information could be compromised

- Create and enforce data retention policies; destroy unnecessary data and properly store all other information



## Tools of trade help hammer security risks

Simply deleting data doesn't remove it from a computer. Before you dispose of a hard drive, have a properly trained professional run a wiping program on the system to ensure all information has been disposed of.

Routinely assess your system's vulnerability to attack. If weaknesses are found, run tests to verify the areas most susceptible to intrusion.

Firewalls and data encryption can help reduce the risk of successful external attacks. As its name implies, an intrusion detection system can alert you to attempts to penetrate your system. For internal security, "key loggers" can monitor who accesses specific files and when.

Use other measures to protect information in paper form. When using a shredder to destroy documents containing personal information, use one that turns paper into confetti-sized pieces or consider using a commercial shredding service.

Monitor and restrict records' storage areas to employees who need access to them to do their jobs, and consider securing such areas during nonbusiness hours.

## Background checks have limitations

Though new-employee background checks can help you protect customer information, first

consider their limitations: Some may only consist of a local record check with a local law enforcement agency, and if the potential employee has been arrested and convicted outside your area, that information may not appear.

A background check's timing can pose problems, too. If an individual either 1) leaves a business after committing a crime and starts working for a different employer or 2) changes employers while under investigation for a crime, any related investigation or resulting judicial process could continue for months, meaning an initial background check would probably not show a conviction.

As part of your hiring strategy, consult your legal advisor about running several checks during an employee's first year or two on the job.

New schemes and tools will always lurk for opportunities to steal your information and that of your customers. Reduce your odds of attack by periodically reassessing your company's computer system, and be prepared to revise your plan of defense.

Such measures can and do help save money and can help you avoid costly problems that have the potential to damage your company's reputation and financial well being.

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Make protecting your company's and customers' information an ongoing part of your operation. BKD's Forensics & Dispute Consulting (FDC) team can help.

Contact your BKD Manufacturing & Distribution Group advisor or FDC division advisor for more information. □

## Pull ahead & stay in front...

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### Use technology to help you advance

Technology can help you advance in a number of ways. For example, let's compare what your customers want from your web site to what you (and your customers) want from your company's customer service representatives.

You want your customer service reps to be educated, efficient and pleasant because it helps make your customers' purchasing process virtually pain free.

When customers visit your web site, they want the same thing: a web-based purchasing process that is virtually pain free.

Construct your web site to be your company's virtual customer service rep. A customer's ability to interact and transact online must be more than just a service; it must also be an easy, pleasant experience.

No one likes to wait for service or struggle to interpret a confusing interface in their search for information. Your customers won't be satisfied if it's difficult to perform what should be a simple task.

Create web pages that load quickly, make site navigation straightforward and don't hide information—make it easy to find. Customers should be able to re-

search products, place orders and track shipments easily and efficiently.

Timely, expert assistance should also be readily available but not as a cover to soothe or an attempt to explain a poor online process. Return business comes to distributors that demonstrate respect for their customers' business needs and time.

The transition from manual transactional activities to automated data transfer helps save money and time for all parties—manufacturer, distributor and customer—and using technology to lower costs also helps distributors boost their value.

To run with the pack, consider transferring information via:

- Electronic data interchange (EDI)
- Extensible Markup Language (XML)

Take service to the next level. A direct systems interface can improve consumption efficiency for your customers.

It's now possible for customers to enter product information into their own system and create the order and purchase order simultaneously without duplication of effort.

Depending on the level of integration, the customer may be able to view the order status directly from their system and plan accordingly instead of performing this task manually online. The benefits aren't one sided but will help distributors become more efficient.

As a result, increased order visibility may help reduce the number of calls and questions your customer service representatives receive, allowing them to devote time to other important service initiatives.

### Stay focused on what's ahead

Form a competitive strategy by understanding your costs and the importance of lean consumption and customer service.

Implement these elements appropriately to help you enhance your value-add proposition, distinguish you from the competition, bolster customer loyalty and help you gain new customers.

The race is about helping customers solve real problems efficiently and with as little discomfort as possible.

In your race to success, you'll encounter turns, hills and obstacles. To win customers, your competitors will try to outpace your ability to add value.

Stay focused on the road ahead. Front runners are innovators that keep up with internal costs, new technology and their customers' changing expectations and needs.

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Contact your Manufacturing & Distribution Group advisor for more information or for help in rethinking your race to win customers and stay competitive. □

#### About PEAK Advantage

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