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Marketing Through a Recession

"Staying ahead of the competition"

By
Dennis McCrory

With business owners under enormous pressure to control costs and maintain liquidity in the current credit crisis, advertising budgets often appear to be a dispensable luxury in the struggle to survive. Executives who succumb to that temptation, however, put the long-term future of their companies at risk, according to advertising experts at the Wharton School of Business at the University of Pennsylvania.

"The first reaction is to cut, cut, cut, and advertising is one of the first things to go," says Wharton marketing professor Peter Fader, adding that as companies slash advertising in a downturn, they leave empty space in consumers' minds for aggressive marketers to make strong inroads. Today's economy "provides an unusual opportunity to differentiate yourself and stand out from the crowd," says Fader, "but it takes a lot of courage to get on board with that."

According to Wharton marketing professor Leonard Lodish, with demand slack for advertising services, the cost of these services goes down, making advertising expenditures all the more defensible in a bad business climate. "If your company has something to say that is relevant in this environment, it's going to be more efficient to say it now than to say it in better times."

Research shows that companies that consistently advertise even during recessions perform better in the long run. A McGraw-Hill Research study looking at 600 companies from 1980 to 1985 found that those businesses which chose to maintain or raise their level of advertising expenditures during the 1981 and 1982 recession had significantly higher sales after the economy recovered. Specifically, companies that advertised aggressively during the recession had sales 256% higher than those that did not continue to advertise.

For companies that do stay the course and continue to advertise into a recession or increase their promotional activities, the key is to craft messages that reflect the times and describe how their product or service benefits the consumer. For example, companies might be tempted to emphasize price in a recession, but that only works for companies like Costco and Wal-mart that are built around a core strategy of providing low prices year after year, says Lodish. He points to the current Wal-Mart campaign, "Save Money. Live Better," as a successful approach to the recession.

Dean Jarrett, senior vice president of marketing at The Martin Agency in Richmond, Va., which developed the Wal-Mart ads, acknowledges the campaign began in 2007 before it was clear a harsh recession was building. "We can't claim we knew a recession was

What's Inside?

Nice Guys 3

Member Profile 6

Environmental Risk Management .9

Don Desrosiers 11

Luxury 12

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sep09_:June_07 9/15/09 2:31 PM Page 2

Marketing Through a Recession
(Continued from page 1)

coming, but "Save Money. Live Better" is dead on-point with who they are and what they want to be."

Eileen Campbell, chief executive of the Millward Brown Group advertising firm in New York City, says that while companies should probably not dwell on the recession and scare consumers into hoarding their pennies under a mattress, certain products require a straight-up approach -- such as financial services. "If you are in the financial services category, to behave as you did a year ago is silly." At the same time, however, many consumers are weary of negativity generated by the recession and would be receptive to a more upbeat message, she adds. "If you can put a positive spin on how you can genuinely help without invoking doom and gloom, I think that's going to be more compelling."

In Control of Your Pushups

Wharton marketing professor Patti Williams cites Gold's Gym -- the Texas-based gym chain -- as an example of a company that has found a way to navigate the economic slump while promoting a product that might seem discretionary or self-indulgent in hard times. One television spot shows legs working a stair climber as words pop up across the screen changing from "First floor" to "12th floor" to "Kilimanjaro" to "Olympus." Finally the words, "The Corporate Ladder," appear.

"This is about being goal-oriented as opposed to a general fitness or vanity play," she says. "It links to the economy because people are less likely to be spending on flashy things and more likely to be thinking practically and pragmatically. Certainly people are going to be spending less in this downturn, but they will spend something."

Williams agrees that advertisers should approach the 'R-word' (recession) with extreme caution. "Along with this economic downturn comes a lot of emotional response, such as anxiety. It is characterized by a sense that you lack control, that you don't know what's coming and you are at the whim of circumstance. To the extent that advertisers feel their clients or consumers are experiencing anxiety, ads should try to empower consumers and help them think of ways to be in control in a world where they feel out of control."

> **"...ad should try to empower consumers and help them think of ways to be in control"**

The Gold's Gym spots address this concern, she suggests. "'You can't control the economy but you can control how many pushups you do, and take control where you can, and we can help you.' That's a powerful message."

Value is another important message to build into marketing campaigns during a downturn, according to Williams. Many marketers design communications aimed at justifying the price they charge for goods and services, either by emphasizing a low price or touting the benefits the company can provide to buyers. "Advertisers will do both," she says. "Some are in a better position to talk about lower costs while others will have to focus on what you get for your money."

Luxury businesses should take a completely different approach, appealing more to emotion, Williams notes, emphasizing the need for some emotional release or comfort in difficult times. High-end advertisers will also attempt to emphasize long-term value - such as suggesting that a watch is not just a purchase for today, but for years to come. "You can try to remind people that this is, hopefully, a temporary state of things and we should not be focusing on the immediate future but also longer-term."

David Sable, chief operating officer of Wunderman, a brand-building agency that is part of the global marketing firm, The WPP Group, advises advertisers in a downturn to rally to protect and preserve brand equity that has been nurtured for years, with continued investment in

(Continued page 8)

"Nice Guys Finish Last"

BY ED ROTH

As the economic times continue to depress the dry cleaning industry we should be aware that we might not be able to change the wind, so we might have to adjust our sails in order to survive and prosper.

Consumers get into habits. If customers start to get into the habit of dry cleaning less, washing their Dockers and ironing their shirts, it will be hard to change those new habits. The most recent reports and surveys show that Americans are now saving close to 7 % of their salaries. Last year they were spending 101% of their salaries, meaning that they were in a state of borrowing money or living beyond their means. These are all indications that the present habit of saving money and reducing spending will last a very long time. Consumers are afraid of losing their jobs, as many of them have lost a chunk of their savings or 401K's and thus are tightening their belts. They are not going out to dinner as they were last year. They are not buying new cars or new clothes as they were a few months ago before the economy took a nose dive. They are scared of what the future will be like. How long will this recession last? When will their next salary increase happen? Will their jobs be secure?

Leo Durocher once said that "nice guys finish last." He was a tough and mean baseball player and manager in the 1940's and 50's. We might want to take a lesson from him and make sure that our "nice guy" hats are not killing our profits or our own salaries. Some of my best friends are proud of the fact that they are "Keeping my entire staff." Others are proud of their exclamation that they are not shortening anyone's hours. The truth is that most owners are reducing their own salaries by trying to be such "nice guys." Being a good business owner means watching out for the bottom line. Trying to be a nice guy and saving someone else's job might backfire. If we are not careful, we could be looking for a job ourselves.

First and foremost, you own a business. That means that you are running a business that provides a salary for you and profits for your investment of time and money. In the past few months I have heard stories of owners who feel they must be martyrs for their employees. I believe that they are fooling themselves and will feel the consequences of their actions sooner or later.

One very successful owner recently shared

(Continued page 4)

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"Nice Guys Finish Last"
(Continued from page 3)

with me the fact that 10 years ago he was doing the same number of garments as today. The big difference is that today he has twice the number of employees as he did 10 years ago. How can that be? He really was amazed to discover this fact as he peered over his profit and loss statement. Another owner bemoaned the fact that he couldn't fire anyone because the second presser was the cousin of the first presser, and the inspector was the wife of the manager, and the bagger was the daughter of the counter person. How could he fire someone when they were all entangled in family relationships.

A third owner told the most interesting story of all. "I pay my workers hourly, and there's no slouching on the job. As a matter of fact, they work so hard and diligently, that on Friday they finish by two o'clock and are able to go home early and enjoy a nice weekend with their families." At this point, the others in the group started to question the owner. "You mean that on Friday you schedule less pieces so they are able to finish early?" "No", he replied. "We even have more pieces on Friday, but they know that if they finish early, they get to go home. They've made their hours during the week, so they just work a little quicker and finish early on Friday." "Don't you realize that if they can finish more pieces by 2 o'clock on Friday, as they do 6 o'clock on Monday, they are effectively "sandbagging" or "lollygagging" during the week? The owner thought for a minute but denied the obvious. We discussed the fact that he could easily cut hours, or work with less employees, and then he blurted out, "I can't do that." "Why not?" "Are you kidding me, they have me over a barrel." I know from experience that if you think they have you over a barrel, that becomes the reality.

You are the boss. If you respect yourself as boss, you will be respected for that. If you fire one person, the other workers will usually fall into line like soldiers at attention. It is quite amazing to see the reaction of other employees, when one is fired. Usually, the person fired is the weakest worker, and the others realize it. They do not want to be next, and their work usually becomes much more productive.

"I know from experience that if you think they have you over a barrel, that becomes the reality"

I remember a few years ago when I had 4 counter-people. We were open 7 days a week and I needed the coverage for Saturday and Sunday. Having four workers did the trick. One of my best workers was studying to become a teacher. Finally after several years she got her license and gave me her notice that she would be leaving at the end of August to begin teaching. I was proud of her achievement, but sad that I had to replace her. I did not look forward to hiring and training a new employee. I interviewed many people, but this was before the current economic times, and nobody seemed to fit my parameters as a good prospective employee. Finally, the day came and she left, with no replacement in sight. Amazingly, the other girls all picked up the slack and nobody missed a beat except that at the end of the week I was 40 hours richer. All the work got done, on time, and perfect, and I would never have known that one-fourth of the workforce was missing.

Years ago at a Golomb Group seminar on 'One-Price Cleaning,' Kenny Davis, of Kenny the Kleener, gave a presentation about his operation. He conceded that it was crazy busy, as his profits

(Continued page 5)

(Continued from page 4)

were based on a high volume of piece count to overcome the low prices. Getting the workload out was very stressful and necessitated a very hectic pace by all the workers. It was so hectic that he told us he only worked four or five days a week because he needed to relax and play golf the other days in order to keep his sanity. When he got to the payroll part of his presentation, he showed how many counter and production people he had. I raised my hand and told him that he must be lying or misrepresenting something because I have the same production people but we do half the amount of pieces, and there is absolutely no slacking at my store. He turned to the attendees and said, "It's amazing how fast people work when they know they have to finish. There is no time for phone calls, no time for lollygagging, and no time to sit and bull----." I found out the hard way that Kenny was right. It's the same as my friend who thinks that his workers are just as productive on Monday as Friday.

In many of my group meetings the owners have discussed this problem. It is not an easy problem to solve. Emotionally, you don't want to admit that business is slow and some staff needs to be cut to maintain salaries and pay bills. Some of them have told the staff of the need to cut hours or cut employees. Some of the employees have banded together and told the owner that they would rather each cut hours from 40 to 30, than face the prospect of someone being fired. This is fine, except in time, it might lead to unhappiness among the employees when they see their paychecks at the end of the week. In some stores it is better to have five happy full-time employees, than to have six or seven unhappy part timers. Different employee dynamics require different solutions. You must evaluate your own situation intelligently and not emotionally. It must be an ongoing evaluation, as times change, in order to keep your finger on the pulse of the store.

I think it's very important to understand that we are working in the real world, not some fantasy. It's also important to realize that we may be in this economic downturn for a long time, and long-term solutions might be necessary. Remember that old habits will be hard to change. You should not close your eyes and pretend that the loss of piece-count is just a short phase we're going through, but rather a new business reality. Look closely at the bottom line and take a hard look at production and profits. Take a look at the past and see how many employees you had some years ago, when you were doing the same numbers as today. Remember that you raised prices through the years. The gross of five years ago might match the gross of today, but the piece count of five years ago might be considerably higher than the piece count of today.

A friend of mine is a high-powered accountant at a high-powered law firm in New York City. This past weekend I saw him socially and discussed with him how things were at his firm. He told me that billing was down considerably, but that they were not firing anyone. He told me that it was very important to keep his firm's reputation up. It was very important that the world knew that no one at his Law firm was let go. I asked "Why?" He explained that since his law firm was one of the biggest in the world, they always want prospective young law students to know that if you work for his firm, your job will be secure. They were biting the bullet now, to keep their reputation up, and their future secure. He admitted that there were no raises and many other benefits were cut out, but no one would be fired. If we owned the biggest and best cleaners in the world, and always needed to attract the most promising young CSR's and spotters, then this tactic might make sense for us, too. Unfortunately, this is not the case, as most of us are in a very different situation. Be careful. Be smart. You don't have to be a nice guy. You have to run a smart business. ◆

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Craig Goulian
Emerson Cleaners
Emerson, NJ

The story of Emerson Cleaners in Emerson, New Jersey mirrors the story of Dry Cleaning in America. Craig Goulian is the proud third generation owner of a business that embodies a tradition that goes back a hundred and six years in his family.

Craig's grandfather illegally stowed away on a ship headed for America when he was 15 years old in 1903. He came from a country near Turkey, and settled as a young boy in a town in New Jersey. Looking around for work and finding none, he tried to think of some service he could perform for his neighbors. He decided to start a route of picking up and delivering laundry. There were no home washing machines in the early 1900's, and no corner laundromats. He had to pick up neighbors' dirty laundry, hand wash it, dry it, and iron it. Then package it neatly and professionally, and deliver it on time for the next week's laundry. The more things change, the more they stay the same. It is amazing to realize that Craig's Granddad, Martin, designed a concept for success in the cleaning business that has been revived and is so current today. Martin knocked on doors to develop a cleaning route over 100 years ago!! Today, many owners are knocking on those doors and turning to routes to bolster their businesses to make them profitable once again. With all the technological changes in the last hundred years it is mind boggling that the effort to build routes to build a better business remains the same.

When he saved enough money, he sent for his two brothers. They came to America and joined him in the business. They prospered in New Jersey, but were quite lonely. What would anyone do in a situation like this? They sent back home for 3 wives. A few months later, 3 women, unknown to any of them, arrived by boat to become their wives. Having never before met these women, how did they decide which woman would match with each brother? The three brothers were all different heights. So, they matched up the tallest woman with the tallest brother, the shortest woman with the shortest brother, and all three families lived happily ever after. You couldn't make up this story if you tried!!

This was the early 1920's, and the three brothers diversified into rug cleaning, laundry, tailoring, and a new method of dry cleaning using carbon tetrachloride. Soon they opened a drop store and began to develop wholesale and residential routes. The three brothers worked through the 20's and 30's adding petroleum equipment. They now had a few stores in Manhattan as well as their original store in Weehawken, New Jersey. Luck and timing almost always plays a part in one's success. As World War II was looming on the horizon, the store closest to New York Harbor experienced an influx of Navy men who needed their new uniforms tailored to fit them. It got to the point where, some days, thousands of officers would line up outside the store to be fitted with tailored uniforms. They even hired some sailors to work in the store. Petroleum began to be rationed, but their store, Capital Valet, had government contracts from the war department and thus was one of the only stores to get petroleum. The store was so busy that they were open 24 hours a day for production and hired three different crews of of employees to get the work out.

They had six 500 pound belly washers to clean the clothes, many extractors to reclaim as much fluid as possible, and 3 dryers, to be able to handle the work. The clothes were transferred wet with petroleum solvent into an extractor, and then after extraction were transferred to the dryers. It was a huge operation, to say the least. They bought the solvent from ships that could deliver a thousand gallons at a time. The pipe lines to carry the solvent were 12 inches wide. They also contracted with huge ocean liner companies (Holland America and U.S. Lines) and other transport ships to do all their cleaning.

In those days, petroleum solvent was very volatile. The operation actually burned down twice and was rebuilt each time.

Eventually, the brothers' families grew and Craig's Dad, Richard, joined his father and uncles in the business. After the war they developed more work with the ocean liners and expanded to wholesale dry cleaning routes. Different stores were bought and sold in Hoboken, Weehawken, Cliffside Park, and Norwood, New Jersey. As time marched on, the brothers split their interests and each went their separate

(Continued page 7)

MEMBER PROFILE
(Continued from page 6)

ways in the industry. Craig joined his Dad in the business and was taught each operation of cleaning and pressing and managing the business.

Today, Craig, is the sole owner of Emerson Cleaners. He is 53 years old and is proud of his family which includes his wife and three grown boys, ages 18 through 23, and his Dad, Richard, who is always around to help wherever and whenever he can. The plant is a free standing building of about 2500 square feet. Craig owns the building and the land. The six huge 500 pound petroleum belly washers have been replaced by the newest technology. Craig has two cleaning machines, a Multimatic and Fibrimatic, as well as a Unipress double-buck rotary shirt unit and a flat presser for linens and tablecloths. Craig likes to be duplicitous in his operation, so he has two of everything. Two 20 H.P. boilers, two vacuums, and two washers. This helps to avoid breakdowns and work stoppages.

Craig continues to do the cleaning and spotting as taught to him by his Dad. When he needs family and vacation time, his Dad steps right in, does the cleaning and runs the operation. Craig's philosophy is to always give the customers what they want. Emerson's slogan is "Your Satisfaction is our Guarantee." He keeps the store, call office, and parking lot very clean to project the image that a cleaning store should put forth to its clients. The signage is neat and clean and all employees wear logo shirts. Zippers are replaced or fixed without question and there is never an argument with a customer.

Over the years times have changed. New York Harbor does not boast thousands of sailors today and thankfully, we are not at war. Although the war brought much prosperity to his Dad and grandfather, Craig must deal with the current economic times. He understands the stiff competition from low-priced cleaners and the hesitancy of some clients to spend their dollars on dry cleaning. It is interesting to note that one of Craig's sons works as a Lexus salesman in New York, and also sees the same consumer anxiety we see, and how demanding they are to get every penny's worth on their purchase. It is a struggle that we all understand in today's market. To satisfy customers and grow the business, Craig uses a frequent customer club which rewards the customer with a five dollar coupon for each hundred dollars spent. He sends advertising to prospects with a "25% off" gift certificate. New customers get a $20 gift card for their next purchase that is enclosed in their new customer brochure. His family is also very involved in the local PTA, Little League, and Fire Department fund raisers.

Craig loves the business and the industry. His only real complaint is the weekly cleaning of the still. Of course the hours are tough in a retail business, and sometimes he feels that "everything falls on me" stress. We all can relate to that feeling. His plans for the future are interesting. Although he purchased two perc units only five years ago, Craig is investing in a Green Earth machine to be installed in early September. "I'm tired of fighting environmental issues. I feel that Green Earth will set us apart from the other cleaners in the area. The brand will differentiate us from the rest." He also will be carefully looking at the NCA email marketing program. It allows you to reach all your customers at a click of the mouse, and send them a gift certificate, or holiday greeting, or just information that is current in the industry. It is a great plan to let your customers know you've gone "Green."

The other plan for the future is to increase the route which is now about 20% of his business. A hundred and six years after his grandfather, Martin, came to America as an illegal stowaway on a steamer ship, and knocked on doors to build a cleaning route in his town in New Jersey, Craig hopes to use the same business plan to build routes to satisfy his customers' needs today and expand his business, once again. ◆

Marketing Through a Recession

(Continued from page 2)

and support of branded products. "The worst thing you can do is cheap-out on products -- put less coffee in the cappuccino -- as many have in the past."

According to Sable, while price is important in a recession, the majority of price-driven consumers still factor in the importance of branding. Companies must maintain "good housekeeping" during a recession, such as product quality and good distribution systems, but he suggests that clear brand association and leadership comes through communication. "If you cut the communication, you have a major problem."

He urges marketers to make sure they understand the "elasticity" of their brand, which would be a gauge of how much - or how little - advertising is necessary to sustain sales. "It's not a science. There's a lot of art there," he acknowledges, "but you must be supporting your product."

He also warns that in today's networked, digital marketplace, consumer buzz about disappointments with a product can metastasize quickly and widely. "You must give people good things to talk about by continuing to have good products and communication." The biggest lesson is that recessions come and go, but "hopefully your brand is for life. It's forever. So you have to be careful how you react because the downturn is not going to be forever."

If companies cut deeply into advertising and communications in a down period, the cost to regain share of voice in the market once the economy turns around may cost four or five times as much as the cuts saved, he adds. "You must really keep a balance in times like this. Don't go dark when customers and consumers need you because they need you as much as you need them."

Matt Williams, a partner at The Martin Agency, says a downturn is a natural time to focus on core strategy. A recession, he says, can be an "opportunity disguised as a problem.... You can position the brand as an ally to consumers in tough times with product development or sponsorship programs so the consumer can say 'I see by its actions that this brand is on my side.' That will pay dividends not only during the recession but beyond."

When Life's (Not So) Good

According to Wharton marketing professor John Zhang, advertisers in all categories must be in tune with consumers in the current climate. For example, he notes that LG Electronics is backing off its "Life's Good" slogan. "That's not the mood people are in. If you do that, it will generate resentment. You need to fine-tune your message to be sensitive." In challenging times, marketers must also work harder to segment consumers with specific messages. "If, in the past, you used mass media, you probably want to be more targeted now to make sure the message gets to the right people."

Research indicates that combative advertising which targets competitors escalates during an economic downturn. "When the marketplace is shrinking, you tend to become a little more competitive in your tone," says Zhang, who cautions that this approach can backfire. "If you say your competitor is bad and your competitor says you are bad, ultimately the customer thinks both are probably good and bad. They tend to be indifferent. Even in a downturn, if you want to create loyal customers, you don't want to be overly competitive. You want to highlight what you do best and be sensitive to the needs of your customers rather than bashing the competition."

An economic slump may be a time to reconfigure the advertising mix between traditional media and digital or other outlets, depending on the product, brand positioning and overall corporate strategy. "You don't have to put a huge amount of money in the marketplace," says Zhang, adding that lower-cost marketing techniques - such as banners, street signs or direct mailing - might merit new attention. When times are flush, it is easy to pay a premium for more expensive established media.

The Ever-elusive Gold Standard

Fader points out that direct marketing and other kinds of interactive communications might be valuable but do not yet deliver easily quantifiable results. "Unfortunately, the industry is still in its early infancy. A lot of people talk about what we are capable of doing in measurability, but no one has established the gold standard yet. Maybe this forthcoming recession will be the chance to catalyze that and make it happen."

The current recession will offer an opportunity for marketers to provide integrated campaigns meshing traditional and digital media. "We have been talking about integration for years, but it's been a much slower process" than expected. "I'm not sure the recession will accelerate that integration, but those who are well-integrated will start to see some of the benefits." ◆

Introduction to Environmental Risk Management for Dry Cleaners PART 1

BY HARRY CARRANZA

Over the past fifteen years working as both an environmental insurance program manager and an insurance broker specializing in commercial insurance for Fabricare operators I have been asked about environmental insurance hundreds of times. My conversations almost always start with the owner of the Dry Cleaner saying “My landlord had some soil and ground water sampling done last month and may have found something, can I get environmental insurance?” and typically migrate to me replying with “You can’t insure a burning building, so let’s discuss your environmental risk management options”.

Successful risk management programs are like any other business management strategy and are most effective when developed and implemented prior to the need for their use (i.e. an ounce of prevention). While it is beyond the scope of this particular piece to provide complete instruction manual on how to develop a comprehensive environmental risk management program, I will introduce a sound program development strategy, outline some of the key topics and highlight some of the more commonly misunderstood areas of environmental risk management for Dry Cleaners.

The development of almost any risk management program should start with a S.T.A.R.R. analysis. Environmental risk management for a Dry Cleaner is no exception. This acronym stands for:

1. Share
2. Transfer
3. Avoid
4. Reduce
5. Retain

Let’s review how to apply this acronym to a dry cleaning operation.

Sharing environmental risk has limited application in the context of a dry cleaning operation. Most operators are sole proprietorships, LLCs or closely held corporations where the opportunities to share the operational environmental risk is limited. Due to the potential for relatively expensive remediation costs, even if this risk is “shared” between several parties it can still be enough of a financial loss to all parties to be considered significant.

Risk is transferred most commonly through insurance. For a financial sum known as a premium, you transfer part or all of your environmental risk to an insurance carrier. Unfortunately, insurance which adequately addresses this particular exposure is not available in the marketplace. The key components of environmental risk one would most likely want to transfer through insurance include unknown historical, current operations and finally risks of contamination found at some future time on the site; specifically for both on-site and off-site bodily injury or property damage as well as investigative and remediation costs.

Practically speaking, there are only three carriers actively writing on-going dry cleaner’s pollution insurance policies in the marketplace. These carriers are Hudson, Endurance and Colony. As you might expect, the least expensive policy of the three affords the most limited coverage. There are many nuances as to how each carrier’s contract responds in the event of a claim. Some important distinctions are made in the areas of deductibles or self-insured retentions, what aspects of the operation or types of contamination are actually covered, what situations have to exist in order to activate or “trigger” coverage as well as what, if any, coverage is provided for unknown historical activities at the site and as the saying goes the “Devil is in the details”.

Such policies are also written on what are known

(Continued page 10)

Introduction to Environmental Risk Management for Dry Cleaners

(Continued from page 9)

as claims-made contracts. Under a claims-made insurance contract, claims must be made and reported in the current policy period or within any extended reporting period (commonly referred to as a "tail") afforded by the policy or purchased separately as an endorsement option. These policies generally include a retroactive (retro) or continuity date which is mostly commonly defined as the date on or after which a pollution incident must commence to be covered under the policy.

From 1998 to approximately 2004 we were able to write dry cleaner pollution policies which covered "unknown pre-existing" conditions, in other words the policies had no retro-dates. This meant so long as the operator was not or could not have been "reasonably" aware of existing pollution and it was discovered during the policy period, it would be covered.

Also, as long as these claims-made policies were kept in force, year after year, the operator would have uninterrupted coverage from, for all intent and purposes "the beginning of time" up until the current date. Unfortunately, the underwriters of such policies inevitably experienced adverse and substantial losses due to the broad coverage found in these policies vs. the relatively inexpensive premiums and they were discontinued. Some operators still have policies in force with unknown pre-existing coverage and some others have relatively old retro-dates (the older the retro the more valuable the coverage). These policies are more valuable than gold and if you are one of the fortunate ones to still have one of these policies in force I would recommend highly that you keep this policy in force at almost any cost.

With the advent of increased environmental legislation, tighter equipment and better management controls the potential for current and future contamination, while present, are insignificant when compared to the threat of unknown historical contamination exposure. The proverbial "can of worms" which is the undisturbed contamination plume which potentially lies dormant underneath the plant is what strikes fear into the hearts of Dry Cleaners and Landlord's alike.

> **"It has always been my contention that the landlord or owner should purchase their own pollution policy."**

The cost for the environmental insurance (sans the historical piece no longer available), if the particular location is acceptable from an underwriter's point of few, is usually between $1,800 and $6,000 plus fees per year for a policy with a $1MM/$1MM per occurrence/aggregate limit. Deductibles range from $5,000 to $25,000 or more.

While I still think it is a good idea for a dry cleaner to purchase environmental insurance, they have to do so with their eyes open regarding the limitations. The best advice? Read the policy and ask your broker to differentiate between them for you. Have your lawyer review the contracts as well. One other really critical point involves your Landlord. It has always been my contention that the Landlord or Owner should purchase their own pollution policy. First, even if they are an additional insured on the Dry Cleaner's policy, once that particular policy and/or lease have been terminated they basically will have no coverage. Second, subject to the absence of other deep pockets they often end up the only remaining responsible party with any funds to remediate the problem and are left chasing former tenants to collect money. Finally, if the Dry Cleaner acts inappropriately via an "intentional" act (i.e. improperly disposing of separator water) their policies can become null and void and then the coverage is worthless for the Landlord. If the Landlord purchases their own policy that particular such acts are covered because it was not the Landlord's intentional act which caused the damage.

*Part II of **Introduction to Environmental Risk Management for Dry Cleaners** Next Month*

Harry Carranza is an independent insurance broker headquartered in Long Beach, CA. His firm Select Risk provides commercial insurance and risk management consulting solutions exclusively for Dry Cleaning and Laundry operations across the country. If you would like further information or have questions on this subject or any other commercial insurance or risk management topic please feel free to contact Harry at 562.216.9026 or HCarranza@SelectRisk.com

Training + Supervision = Results

By Don Desrosiers

I was working with a client outside Philadelphia early last year. The owner and I entered one of her drop stores together and we found that a particular procedure that I had implemented earlier in the week was not being followed correctly. At this particular time, the store manager was staffing the store. She had just relieved a new clerk that had only a very small amount of experience. Both, however, had been trained at this new procedure. It was our job to investigate the procedural discrepancy that allowed a new procedure to have already fallen through the cracks. Was their adequate supervision? What about follow-up?

We approached the drop store manager. She acted in a most defensive manner and said, “It’s not my fault. Karen was here this afternoon. I just got here!” The owner accepted this as a proper defense. I did not. In fact, I could not believe the manager’s reaction and was stunned that the owner wasn’t peeved.

I spoke to the owner privately in the car on the way back to the plant. “I can’t believe that the store manager feels like she did nothing wrong.” I explained. The store manager believes that ‘It wasn’t her fault’ and that she was innocent of wrongdoing, but in fact she did two things wrong!

First, since she had a new employee, there was double the need to follow up to make certain that the newbie did her job – especially because there were new procedures involved. Secondly, the store manager failed to accept responsibility. That is what store managers are for! Supervision is an extension of training. Training without supervision and procedures without follow-up will not yield the desired results. The person that you put in charge of a drop store, or any department or sub-department, personifies you at that store. They must be ready, willing and completely capable to supervising every company procedure and ensuring that they are executed properly. Otherwise the store manager is nothing more than a glorified hourly employee.

“If you do what you’ve always done, you’ll get what you’ve always got.”

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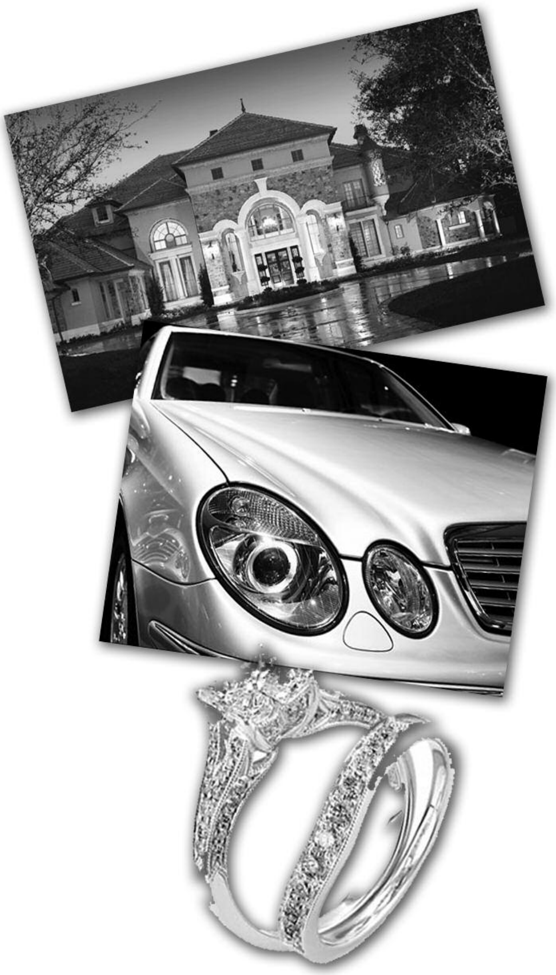
What Is Luxury?

In a survey of the wealthiest 10% of U.S. households by The American Affluence Research Center (AARC), it was determined that “the definition of ‘luxury’ varies considerably by individual and product.”

Survey respondents were asked to specify the most they could imagine spending for different products and services.

Women were asked to provide a price for a dressy suit ($250), shoes ($120) to go with the dressy suit, a cocktail dress ($200), shoes ($100) to go with the cocktail dress, a pair of jeans ($75), a pair of diamond stud earrings ($1,000), a purse ($100) for every day, skin rejuvenation cream ($50 for 1.7 ounces), liquid makeup ($25 for one ounce), a bottle of perfume ($60 for 1.7 ounces), and lipstick or gloss ($15).



Men were asked to provide a price for a business suit ($500), shoes ($200) to go with the business suit, dress shirt ($75) to go with the business suit, a tie ($50) to go with the suit, a tuxedo ($500), shoes ($125) to go with the tuxedo, a sport coat ($250), slacks ($100) to go with the sport coat, a dressy long-sleeve sport shirt ($75), and a dressy short-sleeve sport shirt ($50).

Contrary to assertions by some luxury market consultants that the current economic problems are creating longer-term changes in their lifestyles and reductions in spending on luxury and conspicuous consumption by America’s wealthy, most of the affluent are behaving like their normal, rational and frugal selves.

The sale of luxury goods and services, as defined by the majority of America’s affluent, is not subject to much change in the coming months, just as it has not shown much change over the past 30 years. Their careful spending is not a new trend.