



The Roadrunner

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April 2008 **The Auto Trades Bulletin for Businesses in the Automotive Industry**

A Message from the Chairman



Dan Guido, AAM is the owner of Tony's Service Center in Phoenix, President of the Phoenix Chapter and State Chairman. He can be reached at 602-264-9866 or email at phxguido@yahoo.com

May 1st thru May 4th is the annual ASA meeting and celebration of excellence for AAM graduates. The reason this is important, this is your opportunity to come and meet with other national members and if you cannot come. Please e-mail or call me with your opinions about the things national is doing right or wrong. Everyone at national is concerned about great service and your expectations, that you get what your paying for.

I'm hearing all over town that business has been declining. Don't wait for it to get worse, have meetings with employees about stepping up service. Let your customers know how important they truly are. Check and re-check all your advertisements are placed properly and doing the job expected. Expect results, all of our customers do. Spend more time with each client. Please don't skimp on labor or parts when times are slow it will come back to burn you in a comeback.

www.asaaz.org, have you looked at the new website? We need your input good or bad. In the very near future our web creators media communications will be able to develop web pages, websites, or just links for all of our members, especially our associate members. Please remember to fill out the member survey for the member to member directory if you have not done so yet. The directory will be of great value. Members will be able to find other owners with the same size business and ask questions that are important to growth. Each member has something to offer.



**Save the Date!!
July 18, 19, 20
Quality Inn
Prescott, AZ**

**Register Online:
[Www.asaaz.org](http://www.asaaz.org)**

ASA-Arizona Chairman Submits Comments on Arizona Clean Car Program

Department of Environmental Quality Excludes Super Warranty Provision

ASA-Arizona submitted comments to the Arizona Department of Environmental Quality (ADEQ) regarding the proposed adoption of Article 18 to implement the California Low Emission vehicle program in Arizona, as permitted under the Clean Air Act Section 177 and 209. The letter praised ADEQ for eliminating the super warranty and included suggestions for the future of a Clean Car Program in Arizona.

ASA-Arizona Chairman Daniel Guido praised ADEQ for its exclusion of the 15-year/150,000-mile emissions component warranty in the proposed regulatory language. This has been a top priority for ASA-Arizona, as well as the other ASA affiliate groups nationwide that are monitoring the effect these regulations may have on repair businesses and the consumers they serve.

The Automotive Service Association commented that if the Clean Car Program is adopted as presented, Arizona would be forced to adopt future modifications implemented by the California Air Resources Board (CARB). As stated in the letter, "Such actions would clearly take away and violate an individual state's rights and authority, to change any regulation or rule that would have a negative effect on the demographics and vehicle population in Arizona."

ASA has also expressed concern that ADEQ has not performed an economic impact study to evaluate the effects of these regulations on independent automotive repair facilities across the state of Arizona. Finally, ASA-Arizona suggested that ADEQ consider a statewide emissions testing program. The limited program in Arizona today ignores the vehicles that are located in counties without emissions testing as well as vehicles of the part-time residents and transients who make up a large percentage of the vehicle population in Arizona.

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**To advertise contact
602-544-2600**

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ASA—AZ Board Meetings

Board meetings are open to all members and are held at the State office at 5060 N. 19th Avenue, Suite 218 beginning at 10:30 a.m. Call to RSVP 602-544-2600.

Message from the Executive Director



Luz A. Rubio, CAE

We are very busy at the ASA of AZ office. If you haven't checked out our new website, take some time to visit and see the list of chapter meetings and training that is posted. We have recently signed a partnership with Jobing.com to manage our job bank. This partnership will offer the capabilities of seeking employees for our member shops. A discount will be extended to ASA members to qualify candidates. You will be able to set-up pre-screened questions in order to narrow your search of candidates. The scheduled launch is May 1. The website offers more information and features, take a few minutes to navigate the website and familiarize yourself with the information, check back regularly for updates.

We recently visited the offices of Senator Jon Kyl. Abby Donovan, one of his staffers was in Phoenix from D.C. and we met to discuss the information accessibility issue. Dan Guido, Dave Lanspeary and James Garnand explained that the information to repair vehicles is available through the various manufacturer websites and that the cost for accessibility ranges for daily subscriptions to annual subscriptions. Technicians need to be able to navigate the various websites to find the information, as there is no uniformity in the websites. We feel that the National Automotive Service Task Force has done a great job in facilitating the

identification and correction of gaps in the availability and accessibility of automotive service information, service training, diagnostic tools and equipment, and communications for the benefit of automotive service professional. If you're having problems in obtaining the information to repair a customer's vehicle, submit a complaint to NASTF and it will be resolved in a timely fashion, visit their website at www.nastf.org.

Speaking of information, I hope you're planning on attending the annual convention, Sunrise on July 18, 19, 20. Again, we will be offering quality management and technical training. This year we have added two I-CAR classes, one on Saturday and the other on Sunday. We will also be inviting some collision related vendors to participate in our showcase. We will also be adding 1 hour breakout sessions during the showcase for those technicians and managers who complete their visit of the showcase booths.

We will also be scheduling regular collision conference calls, to discuss issues related to the industry and develop a plan of action to implement goals that will benefit the members of ASA.

If you have any questions, input, concerns, or suggestions, don't hesitate to call the ASA AZ office at 602-544-2600.

ASA Newsletter—The Roadrunner

Is owned and published by the Automotive Service Association of Arizona, representing businesses in the automotive industry. This newsletter is published at least 11 times a year and is for information purposes only. The contents of the newsletter including editorials do not necessarily represent the views of the association.



The Automotive Service Association of [Arizona](#) is an affiliate of ASA, the largest not-for-profit trade association of its kind serving automotive service professionals. ASA is dedicated to and governed by independent automotive service and repair professionals. ASA's international membership base includes numerous affiliate, state and chapter groups from both the mechanical and collision repair segments of the automotive service industry.

ASA advances professionalism and excellence in the automotive repair industry through education, representation and member services. ASA's national office is in Bedford, Texas. For additional information about ASA, including past news releases, go to www.asashop.org, or visit ASA's legislative Web site at www.TakingTheHill.com.

Meetings & Events

For details of these meetings, please contact your Chapter President listed on page 2.

- April 5 State Board Meeting 10—2 p.m.
ASA AZ State Offices
All Members Invited—RSVP 602-544-2600
- April 16 Verde Valley Chapter Meeting
7:00 p.m. RSVP to Ann Anderson
928-282-9464
- April 24 Prescott Chapter Meeting
6:30 p.m.—Casa Bonita
RSVP to Marissa at 928-778-2231
- April 24 Tucson Annual Student Awards
Pima Community College
Details Call Bob Schlanger
520-882-7026
- May 1-3 ASA National Annual Meeting
Santa Clara, CA
www.asashop.org
- May 14 Phoenix Chapter Board Meeting
11:30—1:30 p.m.
ASA Offices, RSVP to Danny Guido
- May 14 Tucson Chapter Dinner Meeting
7:00 p.m. - Viscount Suites
RSVP Jacqui 520-790-6035
- May 21 Verde Valley Chapter Meeting
7:00 p.m. RSVP to Ann Anderson
928-282-9464
- June 7 State Board meeting 10—2 p.m.
ASA AZ State Offices
All members Invited—RSVP 602-544-2600
- July 18, 19, 20 Sunrise 2008—ASA AZ Annual Convention
Quality Inn Prescott
Management/Technical Training
www.asaaz.org
- September 6 State Board Meeting 10—2 p.m.
ASA AZ State Offices
All members Invited—RSVP 602-544-2600
- November 5—8 CARS/NACE
Mandalay Bay, Las Vegas
www.asashop.org

**Check our website www.asaaz.org
For a listing of technical training**

Special Events



Bob Schlanger is the owner of British Car Service in Tucson and President of the Tucson Chapter. He can be reached at 520-882-7026

There are lots of things happening in Tucson. The most important event is our annual Student of the Year Awards Banquet which will be held on Thursday April 24th at Pima College. This year in addition to the eighteen high school auto shops we will also be inviting the two collision classes to participate. There will be great food, entertainment and of course the important part, giving some of the best kids from the auto programs a great send off! We will be contacting shops to solicit donations to sponsor a school. The requested amount will be \$125.00, which will pay for the teacher, student and parents to attend. Please help if you can, but most importantly we need everyone to attend. I will be inviting CTE (career and technical education) administrators as well as JTED representatives. This is one of the strongest statements of support for the schools from any industry. It is critical to demonstrate to the schools how important these programs are to us.

You will be receiving nominating ballots in the mail shortly. We have had a dedicated core group of people volunteer their time to run our chapter for the last too many years! We need some fresh energy and ideas. If you would like to participate, or know someone who would like to participate and become a member of the Tucson board of directors please fill out the nominating ballot and send it in. If you are unsure of what is involved please call me.

Don't Let Someone Else Do It



There are two statewide student automotive contests coming up that ASAAZ has supported for many years. I usually see the same few members volunteer each year even though I ask for additional help each year. These are a good opportunity for you to get involved in the education of our future technicians without a long-term commitment.

The first event is the SkillsUSA state contest held at the Phoenix Civic Center on April 29th at 7:30 am until about 1:00 pm. The second is the Ford/AAA Auto Skills Contest on May 9th at 8:00 am until about noon. Both contests need judges for the respective events. For additional information or to volunteer for either or both events, contact Bob Jones at 480-557-0655.

**Skills USA—April 29
Ford/AAA—May 9**

NEW OE TECHNICAL WEBSITE
www.oem1stop.com

Tech Tips



Denny Mandeville, AAM is the owner of Canyon Automotive in Sedona and the Verde Valley Chapter President, he can be reached at 928-282-4424

Business has been more up and down than it seems normal, lately. Shops that have, normally, been busy are reporting less than stellar sales while others are reporting (in my straw poll) decent- not great, decent, sales. We have been using two strategies that have been helping us pay our bills- and they may help you, too.

One of our Associate members, **CUSTOMER LINK** mails customer service reminders and other such mailers to your customers. Quite honestly, it costs me about \$200 per month in mailers, but after the initial start up costs, the return has far exceeded the costs. This company also sends reports that will demonstrate not only your demographics (which could surprise you that your customer base is not exactly as you thought it was), but tracks returning, and new, customers from your reports sent to them. For example, in January I spent \$206.15 on mailers, resulting in sales of \$18,154.63 from THOSE mailers. Now, I agree, some of those customers would have returned in the normal turn of events because they are part of our customer base- but most had the mailers in hand when making their new appointments.

I didn't know (or have any way of tracking) that most of my customer base is in the model years 1996-2005- 67%. The most

money (\$10,357.83) was spent on cars in the 100K range. And (contrary to what I felt), more of my customers drive Toyota's (18.7%) than any other make. That helps me create a more accurate stocking menu- Toyota, GM, Ford, and Jeep being the heavy hitters in my shop. See- reality can change a SWAG by helping to focus our needs on what is actually coming into the shop rather than guessing. Using **Customer Link** has helped redefine and redirect our focus on what our customer base really is, not what we had been guessing at.

The other thing we are using help keep the service bays busy is from another Associate member- **IDENTIFIX**. **IDENTIFIX**'s maintenance schedule and catch up maintenance program provide forms written for the customer- explaining why recommended specific maintenance be performed. The benefits- in black and white, of performing maintenance are neatly laid out and can be personalized for each customer. Our service advisor prints out the forms for the next recommended mileage service and presents it to the customer when they are picking up their car from the current service. It prepares them, they can budget for, and they come in ready to spend. In addition, by using these maintenance forms, we are better able to have the correct fluids on hand as the OE are using proprietary fluids more often in the drive train.

If you are not currently using our Associate members to assist your business, look at them. I provide testimonial that at least these two benefits can make you money, especially in the slower times.

See Page 10 for a full list of associate members and their contact information.

Are You Getting Your Discount On your Health Insurance?

Members of **ASA of AZ** receive a discount on Individual Health Policies offered by Blue Cross and Blue Shield of Arizona, to find out more information,

**Call 602-863-0080
or 800-777-5300**

If you already have an Individual policy with Blue Cross and Blue Shield of Arizona, Call to verify that you are receiving the discount today.

**Don't miss out
on this member benefit!**

*The Argus Group
Jim Groff & Dave Perolis*

Trivia Question #1

*Thank you to **Virgil Wruble** for allowing us to use his trivia questions. Give you something to ponder before the next issue of the newsletter is published.*

I think Americans feel that most inventions of the modern age were made by us. That is probably true, except for the automobile. The Europeans were far ahead of us. The Frenchman Cugnot's steam tricycle of 1771 was no automobile. Nor were steam-powered, road-going apparatus built by Dudgeon in 1866 and Roper in 1869 practical automobiles.

The first American-built automobiles didn't appear until the mid 1890's, almost ten years after machines built by Daimler and Benz made runs on German roads. When cars were only dreams in the heads of American tinkerers, hundreds of improved and Frenchified versions of Daimler's and Benz's machines were already spinning along the smooth boulevards of Paris.

My question is: *Who were the inventors of the first car in America, and in what year?* Answer in next months newsletter.



CRA Calls Anti-Steering Bill "Truth-Setting"

The Collision Repair Association of California (CRA) is calling on repairers in California to rally around Senate Bill 1167, an anti steering proposal which the association is characterizing as "truth-setting policy" that protects consumers from insurer steering tactics.

The bill, authored by State Senator Pat Wiggins (D-Santa Rosa) and sponsored by the CRA, states that when a claimant first reports an accident, the insurer would be required to ask if the claimant had selected a repairer. The bill then ties into current law that directs insurers not to recommend or suggest alternative repair choices when the claimant has selected a repairer.

"The battleground is SB 1167 and the insurance industry is leading with its 'head,'" stated Allen Wood, CRA Executive Director. He noted that insurers are opposing the bill because it wouldn't allow them to explain the benefits of DRPs. "By opposing the bill, insurers are admitting they currently violate the law which protects consumer choice by not allowing an insurer to suggest or recommend an alternative shop to claimants who have already selected a repairer. I'm calling on collision repairers everywhere to support a knockout blow on insurer steering tactics."

CRA lobbyist Richard Steffen said the bill will be in final form next week after clarifying amendments are added to the measure. He stated, "We aren't changing the message, only simplifying it. The insurers are calling SB 1167 an 'anti-consumer' bill while CRA says the measure is 'pro-consumer.' Someone is wrong. SB 1167 is truly truth-setting policy."

Steffen noted insurer representatives like to clobber claimants with DRP rhetoric before claimants have an opportunity to state that they have already selected a repairer. As drafted, the CRA bill will require the insurer to ask the claimant about a repair choice before proceeding with a discussion of DRPs. If the claimant affirms that a choice has been made, then no DRP talk would be allowed.

Steffen said the bill process will be as follows: The bill should be in final form on March 10, 2008, at which time it will be sent electronically to all CRA members. Additionally, the CRA will ask the CAA and the New Motor Car Dealers Association to distribute notice of the bill. The notice will include the names and addresses of the author's office and the legislators who will be voting on SB 1167. Letters of support should be written on business letterhead and mailed by March 18, 2008.

The bill is tentatively set for hearing on Wednesday, April 2, 2008 in the Senate Committee on Banking, Finance and Insurance.

Also on April 2, the CRA is planning a lobby day at the State Capitol. Meetings have been set with half a dozen Senators already and the CRA plans to add meetings with a dozen more. The lobby day is the second part of a two-day Legislative Conference planned by the association. The first day of the conference includes working meetings, guest speakers and briefings on legislative and regulatory issues. On Wednesday, April 2, CRA members will meet with state legislators at the Capitol.

Iowa Bill would Prevent Insurers from Specifying Parts Vendors

The Iowa Senate Commerce Committee on Thursday voted 13-0 to approve a new measure that would make it an unfair practice for insurers to require repairers to use any specific vendor for parts or supplies.

Senate File 2326 places penalties for violations that range from \$1,000 per occurrence all the way to suspension of a violator's license.

SF2326 would add a subsection to the state's current insurance code, under unfair practices that reads, "Requiring a repair business that performs repairs, on behalf of an insurer, to the property of an insured or beneficiary to buy supplies and parts from a seller or list of sellers specified by the insurer."

The bill is supported by lobbyists for the Homebuilders Association of Iowa. Representatives of the Independent Insurance Agents of Iowa and the Alliance of Automobile Manufacturers have not registered their support or opposition.

The bill was introduced in January as Senate Study Bill 3108. The study bill was advanced earlier by Senators Courtney, Kettering, and Schoenjahn- a three member subcommittee, following a February meeting to consider the measure.

Interstate Insurance Agent Licensing Bill Introduced in Congress

Bipartisan Bill Aims to Establish a Standard Set of Licensing Rules

Reps. David Scott, D-Ga., and Geoff Davis, R-Ky., have introduced H.R. 5611, the National Association of Registered Agents & Brokers Reform Act (NARAB II). The bill aims to modernize the current system of insurance agent licensing as it applies to those who are registered in multiple states. If passed, H.R. 5611 will establish the National Association of Registered Agents and Brokers (NARAB), a non-profit organization to regulate licensing standards on a nationwide scale.

This bill would not replace the current state-based regulatory system or reduce the requirements for agent licensure. Instead, H.R. 5611 allows producers who are licensed and operate in multiple states to comply with a standard set of licensing and continuing education rules. This concept was originally proposed in the Gramm-Leach-Bliley Act of 1999.

The National Association of Insurance and Financial Advisors and the Independent Insurance Agents and Brokers of America both support the legislation, while the American Insurance Association opposes the bill.

To view H.R. 5611, visit ASA's legislative Web site, www.TakingTheHill.com. The bill can be found by clicking "Track Current Legislation" on the home page. The legislation is listed under "Key Bills in Congress."


www.i-caraz.com

AUTO DEALERS WARNED: QUIT FOCUSING ON “ME” AND START WORKING ON “WE”

Charlie Fewell, President of leadership consultancy firm Charlie Fewell & Associates, has targeted American auto dealers' customer service approach as being their biggest obstacle to sales growth, warning them to wise up to the feelings and sensitivities of their customers and employees or watch them move elsewhere. Charlie's message to the dealers was clear: you can't build a meaningful customer relationship by yourself. "They need to understand that a purchase flows through the team. It's not just about making a sale by themselves and focusing on the bottom line. This is where so many dealers go wrong. They need to be aware that everyone who touches the customer, even by just answering the phone, is either building, or diminishing, the customer relationship."

Charlie's call for awareness and teamwork has come at a time when most dealers are worried about their bottom line, with recession fears likely to impact sales in the automotive industry nationwide. He insisted that building a strong team and developing the right kind of customer service is the only way to get ahead in the market, especially during such uncertain times. In other words: burying your head in the figures won't bring in the dough.

Fewell's speech was warmly received by his audience of parts managers, dealers and sales professionals representing GM Powertrain product dealers – most of whom are looking for any market advantage they can get. The conference in Dallas aimed to


provide the necessary technical and product know-how for GM's energy-saving Powertrain technology to its dealers. Charlie has been brought into the conference over the last five years to show how expertise and diligence alone will never deliver an optimum level of sales unless dealers bring together a customer-focused team.

By tuning into the kind of behaviors that encourage customers to buy, and understanding that different customers will respond to different behavioral approaches, dealers can achieve the sales and, beyond that, customer loyalty, according to Charlie. He explains that it is not enough for the dealers themselves to find the highest level of customer empathy, they need to coach it to all their staff as well, establishing a first-rate experience for the customer – from every member of the team, not just the head of the operation.

For automotive dealers starting from a base of poor relationship-building, Charlie says that negative feedback provides the perfect teaching manual. "If you receive a complaint from a customer or client, it's not the end of the world. You can turn it to your advantage. Treat complaints as gifts." This way, argues Charlie, leaders can use a real-life example to illustrate the detrimental effect bad teamwork can have, and use the "gift" as a launch pad for building better customer relationships. "Get your team in the right frame of mind, and build lasting and meaningful relationships with your customers. This will keep bringing customers back to you for more".

Charlie has worked as a consultant to organizations and individuals, from Fortune 500s to aspiring entrepreneurs, across America. The principles that guided Charlie to success in his 30-year career in the wholesale distribution environment are still with him in the advice he brings to his clients today, "Achieving the best possible customer service is the responsibility of everybody in an organization. If you can energize every single individual in your team, show them how they too can be a 'winner', and how to connect the dots between their thoughts, their actions and outstanding personal and business results, they will build great customer relationships and generate the kind of sales that keep coming back."

Charlie Fewell is the founder and President of leadership consultancy firm Charlie Fewell & Associates. He is a frequent speaker for national trade associations and corporate organizations. Charlie also contributes articles and opinions to various industry publications and newsletters, including Automotive Cooling Journal, AutoInc. and LeadZine, the journal of Leading & Learning Inc.



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Five Steps to better Employee Buy-In

By Michael Strautman, Automotive Service Leaders

Manage with questions, not with orders. Ask employees why they think you would be concerned about their not following proper procedure. You may find some situations where the employee simply doesn't understand how something should be done.

Understand the difference between labels and behaviors. Have you ever made statements like this? "Your attendance must improve," or "You need more confidence." You should understand that "confidence" or attendance" would have to be explained in more detail. Instead, focus on tardiness" or "positive tone of voice" and have examples to back up your statements.

Plan before your discussions. Most of our fear of confrontation with employees stems from lack of preparation. Take 5 minutes before each discussion to think about how this discussion could go and ways to handle any unexpected responses.

Document discussions. Having documented discussions will aid employees in remembering what has been agreed to. Encourage your employee to come up with their own solution to a problem. They will buy in to their own solutions more so than your directive, especially if they have initiated that this was how they agreed to accomplish that goal.

Follow up soon after discussions. Tell employees when they can expect to speak about the issue again. I recommend 24 - 48 hours after a discussion. This allows you an opportunity to reward them with positive feedback for changing the behavior.

Auto Shop Tips© by Michael Strautman
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www.turnaroundtour.com
800-233-8551



ASA AZ Credit Card Program



To find out how much you can save through the ASA AZ Credit Card Program

Contact: Kevin Holladay
480-332-9272

First Data Merchant Services

**Valley Drivers Get Educated
"While they Wait."**

AutoTV is offering a free TV program to qualifying businesses. This 2 hour program will play continuously on a loop with short 2 minute TV programs focused on a driving audience. Hosts will also receive free commercials on their TV and on the entire network.

Thanks to AutoTV, Valley drivers will soon be getting tips on driver safety while they wait for their cars being serviced in local automobile focused businesses. Business developer Bruce Fischer will be working with area AutoTV Host businesses and public service organizations to deliver messages on topics such as safe driving habits, gas saving measures and defensive driving maneuvers to help make our roadways safer.

Hosted by Nick Calderone, former local TV news reporter, AutoTV programming will be a mix of entertainment and information for the customers while they wait. Programming will also feature car topics such as classic cars, muscle cars, future cars, sports cars, car accessories and car facts.

AutoTV can retro-fit existing televisions in waiting rooms in tire stores, auto repair garages, windshield repair companies and other businesses that serve the ready-made audience of Valley drivers. "It's an opportunity to disseminate valuable information to drivers that will ultimately help to save lives." says Bruce Fischer, CEO of the AutoTV Network. "Why should your everyday trip in your car have to be so dangerous? We all need to be better, safer drivers, and AutoTV will be a great opportunity to give safety tips to drivers."

AutoTV will be working with ASA members in Phoenix as an initial test city for this network and plans are already being made to reach out to the nation's drivers in the future.

To find out if your business qualifies for the AutoTV Network, a free service, call Bruce Fischer at (602) 996-7129 or email autotvusa@yahoo.com Visit the website to learn more and see an example. www.autotv.biz



Checklist available online
www.asaaz.org

8 MAJOR WORKERS COMP MISTAKES

By Frank Pennachio

Throughout much of the country, declining Workers Compensation rates are music to employers' ears. After all! that seems like long-awaited good news, particularly since Workers Compensation is, more often than not, viewed as a necessity and a significant cost of doing business.

Yet, looking at Workers Compensation as a business necessity or a commodity is a major fallacy. Although most employers fail to recognize it, Workers Compensation is a core business practice and a means for improving the bottom line.

Rather than diverting attention and finances during periods of lower Workers Compensation rates to other business priorities, employers can benefit by taking steps to guarantee long-term savings. Here are eight mistakes employers should avoid so they can achieve long-term Workers Compensation savings:

1. Confusing lower premium rates with cost reductions

Many employers are surprised to learn that a reduction in rates does not always mean a reduction in costs. Let's begin with a basic understanding of what determines the cost of Workers Compensation insurance. Unlike other insurance, Workers Compensation functions like a credit line to finance the costs of injuries. As such, rates alone do not determine the overall cost. An Experience Modification Factor (E-Mod) tailors the cost of insurance to the individual loss performance of an employer. A Workers Compensation premium is calculated by this formula: Rate x \$100 Payroll x Experience Modifier.

The Mod calculation is complex. But an employer generally is compared with similar employers in the same industry classification, and if past losses are lower than average, a credit rating reduces the premium. Conversely, if past losses are higher than average, a debit rating can actually increase costs in spite of lower rates.

2. Becoming complacent.

Declining rates act as blinders for many employers. With lower prices, its easy to shift focus away from injury management and cost containment to other, more pressing business matters.

While increased attention to safety led to a decline in the number of workplace accidents, which resulted in fewer claims and lower rates, claim frequency is only one part of the equation. The other part, claim cost including indemnity (lost wages) and medical care, continues to rise. In many industries where there are tight labor markets, wage gains are expected to trend higher, suggesting further increases in indemnity severity. At the same time, medical care costs have marched relentlessly upward since the mid-1990s. Even more disturbing is the fact that the growth in Workers Compensation medical costs has been much steeper than in the health care industry as a whole, indicating that not only

medical inflation but a mix of services and overutilization are driving up costs.

If claims remain open and injury costs escalate, reserves (estimate of ultimate cost of injury) rise and adversely affect the employer's Experience Modification Factor, thus increasing costs. Employers need to understand what is impacting medical costs and measure key metrics such as cost per claim trends adjusted for diagnosis and severity.

3. Focusing on direct costs only.

Ask a businessperson how much he or she spends on Workers Compensation and almost all will respond with the price of the premium. Yet, the direct costs of Workers Compensation often represent only 20 to 30 percent of the overall injury expenses.

Indirect costs, including overtime, temporary labor, increased training, supervisor time, production delays, unhappy customers, increased stress, and property or equipment damage represent several times the direct cost of the injury. A 2002 Safety Index report by Liberty Mutual tallied the direct cost of workplace injuries at \$40.1 billion. The total financial impact of both direct and indirect costs was estimated to be as much as \$240 billion. Injury costs, both direct and indirect, will have a much greater impact on an employers' overall costs than rate decreases.

4. Thinking rates will stay low.

Historically, the Workers Compensation price cycle has repeated in a predictable pattern: Rates decline, insurance is purchased for a lower **price**, **employers** shift focus away from Workers Compensation, claim costs do not fall in relationship to reduced rates and employers' Mod increases, legislative reforms erode or become ineffective, insurance company profits diminish and rates increase.

During a declining rate cycle, the plan expects that if rates go down, so should injury costs. If employers do not manage injury effectively and claims do not go down, the employers' Mod will go up. When rates rise again, the increased Mod will wipe out any savings garnered during the declining rate cycle.

5. Viewing Workers Compensation as an expense.

Viewing Workers Compensation as a core business practice of comprehensive risk management, the focus shifts from price to tangible metrics that are driving claims costs. With this information, employers can address the underlying circumstances and conditions that are pushing up work-related injury costs and measure the value of their actions.

The declining rate period provides an opportunity and a challenge for employers. The opportunity is to use the "found" money to implement practices that will improve their company and profits: better hiring, injury management and improved education and training. The one constant that separates employers from their competitors is their workforce. The challenge is to protect it. Employers should recognize that Workers Compensation is more than a necessary expense; it is a controllable aspect of business that, if managed properly, will have a measurable and positive return on investment (ROI).

In "ROI Selling," authors Michael Nick and Kurt Koenig note three measures of ROI, writing, "Return on investment occurs when a company realizes an increase in revenue, a reduction in cost or an avoidance of cost." Viewing Workers Compensation as an ongoing process and not an expense can accomplish all three. When injuries do occur, employers can increase their revenues by getting employees back to work quickly and reduce their costs by managing the injury effectively. By recognizing that



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Workers Compensation begins at the date of hire, employers can avoid costs by hiring the right people.

6. Separating Workers Compensation from employee retention. Retaining skilled employees is one of the most difficult challenges facing businesses today. Turnover is extremely costly. According to estimates it is anywhere from 50 to 150 percent of an employee's annual salary. If a work-related injury is not managed properly, it can result in the unnecessary loss of a skilled, trained employee. The longer employees are away from the job, the less likely they are to return. Statistics show that if employees are not back to work within 12 weeks, they only have a 50 percent chance of ever returning.

The fundamental reason for most lost time is not medical necessity but the non-medical decision making and lack of a process that occurs after an employee is injured. The workplace response is key: Studies show employees' satisfaction with their employers response has a much larger impact on employment stability than their satisfaction with healthcare itself. Being guided by a plan that focuses on communication and return to work will be far more effective than declining rates in both reducing Workers Compensation costs and improving productivity.

7. Devaluing your relationship with the insurance company or agency. In a time of declining rates and new competition, there is a tendency to shop for the lowest price. The insurance industry is not immune to the old adage, "You get what you pay for." Chasing the lowest rate can result in poor service or having to deal with an insurance company's unstable finances. In every "soft market" cycle, insurance companies have gone bankrupt and been unable to pay claims. It is critical for employers to in-

vestigate the insurer's stability as well as its long-term commitment to the Workers Compensation market to mitigate the possibility of a financial failure.

Furthermore, selecting an agent and carrier with an excellent understanding of Workers Compensation is very important. The added benefits of improved hiring practices, medical relationships and comprehensive injury management services will reduce both the number of claims and the costs of claims, resulting in a lower Mod. Unlike declining rates, a reduced Mod is a guaranteed way to drive down costs over the long term.

8. Measuring the wrong thing. Prominent statistician John Tukey, Ph.D., said, "When the right thing can only be measured poorly, it tends to cause the wrong thing to be measured well. And, it is often much worse to have a good measurement of the wrong thing, especially when it is so often the case that the wrong thing will, in fact, be used as an indicator of the right thing, than to have a poor measure of the right thing."

When Workers Compensation is treated as a commodity, the decision is reduced to the lowest possible common denominator: price. This shortsighted approach is equivalent to expecting gourmet food on a fast food budget. If employers are not measuring the true financial impact of work-related injuries, they cannot effectively manage them.

Frank Pennachio, CWCA, is the cofounder and director of curriculum for the institute of WorkComp Professionals, an organization that tests and certifies insurance professionals with the skills and knowledge necessary to alert employers about the hidden costs and overcharges in the workers compensation insurance system.

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