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Committee on Environmental and Public Works and its Subcommittee on Oversight

Hearing on “GSA Opportunities to Cut Costs, Improve Energy Performance, and Eliminate Waste.”

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Company background

Arrowhead Systems, Inc is a verified veteran owned small business. The company employs approximately 250 employees at its two Wisconsin manufacturing plants.

The company is comprised of three divisions. The Busse material handling division, and our aftermarket division - A & B Engineering are both located in Randolph, WI. Each has been in business since 1946 and 2007, respectively. The Oshkosh, WI location houses the Arrowhead conveyor division and it has been in operation since 1963.

Chances are that a consumer product you use has either been conveyed, wrapped, unwrapped, chilled, warmed, rinsed, palletized, de-palletized; or otherwise handled by one of the pieces of equipment we manufacture. Additionally, you'll find our equipment in every continent. We go wherever our customers are; and some of our customers include:

- Abbott Laboratories
- Absopure Water
- Ancor Beverage cans
- Anchor Glass
- Anheuser-Busch
- Ball Corporation
- Ball Europe
- Baxter Healthcare
- BP Lubricants
- Campbell Soup
- Coca-Cola
- ConAgra
- CPMC (China)
- Crown Beverage Cans Ltd (Hangzhou)
- Crown, Cork, and Seal
- Crown Embalagens SA
- Del Monte
- Diageo
- E & J Gallo
- Exal Corp
- Ford Motor Company
- General Mills
- General Motors
- Grupo Jumex
- GZ Industries (Africa)
- H. J. Heinz
- Proctor and Gamble
- Johnson & Johnson
- Joseph E Seagrams Bottling
- Kellogg's
- Kimberly-Clarke
- Kraft Foods
- Longhorn Glass
- Lotte Aluminum
- M & M Mars
- Mahmood Saeed Cans
- Miller-Coors Brewing
- Morocco Beverage Can
- Nabisco Brands
- NDH Technical Services (Iraq)
- Nestle Purina Pet Care
- Parmalat
- Pepsico, Inc
- Perrier
- Proctor and Gamble
- Quaker Oats
- Rexam Containers
- Sara Lee Foods
- S. C. Johnson Wax
- Schrieber Foods
- The Gillett Company
- United Can Company
- Welch's
- Whirlpool Corporation

Strategic decision to diversify

After several years of research; in 2010 we made the strategic decision to diversify into the insulation business. We have positioned ourselves as a full service insulation provider primarily focused on the domestic commercial, institutional, government, and residential markets. We will carry the full line of insulation products. However, we will primarily focus on spray polyurethane foam because of its superior properties and performance. Our goal is to provide up-grade and retrofit solutions in our target markets at a cost that provides the greatest insulation benefit per dollar.

The timing for our new business venture couldn't be better. The awareness to reduce energy consumption in the building envelope is on everyone's radar. We will leverage our proven corporate track record to provide insulation solutions that are grounded in building science. This new business will create five jobs in 2011 alone.

Business model

We have a straightforward business model:

1. Know your costs,
2. Integrity in words and actions,
3. Do what you say you're going to do - execute,
4. Bad news first,
5. No surprises/excuses,
6. Exceed customers expectations,
7. Manage resources wisely,
8. Be safe,
9. Cash, cash, cash.

We take our responsibilities to our customers, creditors, employees, and the environment very seriously. We have weathered some very difficult economic cycles. We've done so predominately because we've cultivated a culture that strives for excellence. We also work very hard to minimize waste in everything we do. We are either number one or two in the material handling market because of our uncompromising adherence to our core principles.

Developing a relationship

1. *GSA Pilot Program.* We are one of 60 small businesses that have volunteered to identify and inventory their sources of green house gas emissions. We will pledge a GHG emission reduction goal once our team completes the review of our GHG emissions. We anticipate that we will submit our plan to GSA no later than May 2011.
2. *Executive Order 13514.* We were invited to participate in the one day GreenGov Supply Chain Summit because of our participation in the pilot program. The summit was held on 16 November 2010 in Chicago and was hosted by Nancy Sutley, Chair, White House Council on Environmental Quality; and Martha Johnson, Administrator, U.S. General Services Administration. Among other goals, E.O. 13514 called on GSA to lead the development of recommendations for greening the Federal supply chain and reducing greenhouse gas pollution. The summit focused on how the private sector could move forward with the Federal government to achieve these goals.
3. *Senate hearing.* A milestone in our participation in the GSA pilot program has been our invitation to testify before the U.S. Senate Committee on Environmental and Public Works and its Subcommittee on Oversight. For a small business, and perhaps for any business, the task at hand is both hugely complex and immensely challenging: "examining how the Federal government can eliminate waste, cut costs, and improve energy and environmental performance through improved building management and purchasing, while promoting sustainability and performance in products and services provided to the Federal government by the private sector." Notwithstanding, we welcome the opportunity to help the Federal government with this challenge.

Motivation to participate

1. *Collaboration.* The 60 small business participants were invited to the 16 November 2010 summit that was held in Chicago. Some large prime contractors were in attendance as well. We had an opportunity to exchange ideas and best practices during the event; but most importantly, some of the challenges associated with participation were identified. The specific challenges are addressed below.

GSA and EPA have also sponsored several webinars to educate the participants on GHG inventory collection strategies. In fact, a telephone help line has been established to assist us with completing our inventory.

2. *Competitive advantage.* We are grateful for the business opportunities which we have had. Some of this business has been a result of good fortune. However, the vast majority of it has been earned because we follow our business model and remain focused on our core principles. Some of our customers are prime contractors; therefore, that makes us subcontractors. GSA identified its “sustainable acquisition goal (2.2.8)” in their 2010 – 2015 Strategic Sustainability Performance Plan:

“By FY 2011, GSA will ensure that 95% of new contract actions, including task and delivery orders under new contracts and existing contracts, require supply or use products and services that are environmentally preferable.”

Our proactive participation in the GSA pilot program sends the right message to our customers about our commitment to them and the environment. In fact, one of our biggest customers, Proctor and Gamble announced their sustainability plan during the latter half of 2010. In short, we believe that participation in the GSA pilot program sets us apart from our competition.

3. *Contracting opportunities.* The GSA is using their purchasing power to write new rules for participating in the Federal market place. We view this as an opportunity because of our established practices and procedures, but also, because of our financial critical mass as compared to other small businesses. It bears mentioning that there’s a difference between financial health and unlimited resources. We work very hard to simply maintain the former.

As I’ve previously mentioned, we’re already a subcontractor. However, conspicuously missing from our customer list is the Federal government. We can certainly design a material handling solution directly for the Federal government that meets the sustainability criteria. But equally as important, we can help GSA achieve its “high-performance green building sustainable design goal (2.2.4).” One of the key tenets of this goal is the reduction of energy consumption by their buildings through cost effective building strategies.

Motivation to participate

A cost effective strategy that would help GSA achieve this goal is to apply spray polyurethane foam to new construction, renovations, and other planned building modifications. Several spray polyurethane foam insulation contracts have been awarded by various agencies. Consequently, the Federal government is already realizing the benefits associated with the superior insulation properties of spray polyurethane foam. Because of our new business venture, we can perform on this type of contract and offer the added benefit of being a small business that's aligned with GSA's strategic sustainability plans.

4. *Business case.* Future contract opportunities aside, it does make business sense for a company to inventory their sources of GHG emissions, and set a reduction goal. In its simplest form, the exercise amounts to an evaluation of cost savings opportunities. There will be low hanging fruit that requires minimal capital outlay. There will also be more complicated green/sustainability initiatives that require sophisticated decision models and substantial investments. Either way, companies will have to carefully weigh their financial positions and monitor their business metrics to ensure their predictions shake out at an acceptable business level.

One could also make the business case that employees may find that participating in the pilot program is both interesting and stimulating. In fact, that was the case for our organization. Our solicitation for volunteers to help with the various inventories resulted in a better than expected response. Individual company staffing levels will drive the response to a large degree. We run a lean operation, and everyone has more than enough on their plate which is why the enthusiastic response for help was a pleasant surprise for us. Our employees are also keenly aware about the environmental and resource challenges we all face. This last point also explains their enthusiasm.

Accomplishments and initiatives

We use a lot of metal, motors, plastic, and other components in our finished manufactured products. We have used recycled steel where possible and more efficient motors that consume less energy. We have also used sophisticated controllers that sense a need to slow down or speed up; and they can also enter a sleep mode if necessary. The technology is certainly there for us to offer a greener more energy efficient product.

Prior to the joining the pilot program we took steps to reduce our energy consumption by installing more efficient lights in both plants. I mentioned that our team will meet to set a reduction goal prior to submitting our GHG emission inventory to the GSA. This will give us an opportunity to review all our opportunities to reduce our GHG emissions.

Accomplishments and initiatives

We've committed to spraying our own plants with polyurethane foam as part of launching our insulation business. This is certainly putting our money where our air leaks are. This is an example of the business decision that involves a significant capital outlay.

Challenges

1. *Talent.* The majority of our leadership team has come from publicly traded companies. Some also have strategic level government experience. We are fortunate to be able to attract and retain the talent we currently enjoy. This level of talent may or may not be present at some of the other small business participants of the pilot program. The talent depth of an organization is critical because as I already mentioned, the problem we're attempting to solve is both hugely complex and immensely challenging. Talented people that are good problem solvers with a solid business mind are needed to tackle some of the issues we've identified.
2. *Collateral issues.* Few, if any, small businesses can afford to staff their organization with someone who performs one or two functions. That means that certain responsibilities will slip as they travel for, work on, or engage others on the issues related to the pilot program. While we want to involve our people in interesting and stimulating projects from time to time, financially the business can't always afford to do it.

Business interruption associated with any level of sustainability upgrade is also a consideration. For example, structures that have been sprayed with polyurethane foam can't be inhabited for at least 48 after the spraying has stopped. This interruption has to be factored into the manufacturing plan.

There's a hard dollar cost associated with participating in the pilot program. Whether it's travel and lodging, the labor that's diverted to perform the necessary tasks, or the other resources that are consumed – there's a traceable cost related to this initiative.

3. *Return on investment and payback.* We stayed in Chicago the day after the 16 November 2010 summit to attend the annual Green Build Expo (Green build 2010). It took us three days to walk through the entire show. We saw a lot of interesting green, sustainability technologies that were simply economically unfeasible. A good portion of these interesting technologies included some sort of government incentive.

For us, a conservative ROI is somewhere around 10% and a 24 month payback is somewhat pushing the envelope. For example we look at commercial and residential wind turbines. In almost every case the payback was somewhere between 4 and 11 years with the government incentive. Consequently, this falls outside of the feasibility range for us.

3. *Return on investment and payback.*

I mentioned that we are able to offer recycled materials and efficient motors in our manufactured products. We can crunch the numbers and show the long term benefits to the customer, but they have the final say on the design.

The choice to upgrade the insulation of our plants with spray foam insulation involves a significant capital outlay. We view this as a cost of launching a new business; but at the same time we will include the energy savings as part of our GHG emissions reduction target.

Summary

As a small business, we would not participate in the GSA pilot program if there wasn't a solid underlying business case for our participation. Regardless of the soundness of the case, we would also be unable to participate if we were financially stressed.

Regardless of the above we have a responsibility to our customers, creditors, employees, and the environment. We believe that participating provides us a competitive advantage in both the commercial and Federal government market place.

There is a cost that may become significant as a small business attempts to become greener and environmentally friendlier. Right now some of the green product costs appear to be outside of the feasibility range.

We believe that it would be good public policy to incentivize the small businesses that are participating in the pilot program.