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Making Money by Helping Companies Save It

By ROY FURCHGOTT

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Dave Colgan, direct sales manager for Utz Quality Foods, a snack food manufacturer in Hanover, Pa., was entrenched behind his desk, arms crossed on his chest, chin down, listening reluctantly to a man who promised — at no charge — to overhaul the company's shipping arrangements to save money while getting better service. "It really did seem too good to be true," Mr. Colgan said.



Tyrone Turner for the New York Times
Richard Palarea, chief executive of PA & Associates, a company that inhabits a very small corner of \$162 billion industry of third-party logistics

In fact, Mr. Colgan had agreed to the meeting only at the insistence of a friend. Which Richard Palarea, the man with the ridiculous proposition, knew full

well.

Yet in less than a half hour, with the fragrance of chocolate-dipped potato chips wafting in from the 1930s factory, Mr. Colgan had relaxed his posture and his attitude. Before an hour had passed, Mr. Palarea had a handshake deal to renegotiate the Utz shipping contracts.

Later Mr. Palarea would estimate the savings at 30 percent, about \$244,000 a year. Mr. Palarea gets paid by keeping a portion of those savings.

In all, not a very challenging day for Mr. Palarea, a logistics consultant, whose company, PA & Associates, inhabits a very small corner of \$162 billion industry of third-party logistics. Third-party logistics firms don't own warehouses or trucks, but arrange for transportation of freight. "We are like travel agents for freight," explained Robert Voltmann, president and chief executive of the Transportation Intermediaries Association, a trade group.

What Mr. Palarea's company does is rare in the industry. It combs through a company's shipping records and figures out how to cut costs. On average, he said, he finds clients 42 percent savings without sacrificing service.

For many years after founding the business in 1993, Mr. Palarea and his wife, Juliette, ran PA & Associates almost as a hobby, even in years when he said it produced \$2.5 million in revenue.

But it is now a full-time endeavor for both of them, and they face a challenge more formidable than the most intractable shipping manager: popularity.

The economic meltdown has corporations open to untraditional sources of savings. The result is that Mr. Palarea says he got 10 con-

tracts in first month of 2009, a normal year's worth of work.

Now Mr. Palarea faces difficult decisions on how to expand the business. He does not want to turn away customers, but he doesn't want to take on a staff and become a manager. He wants to offer more services nationwide, like finding savings in phone contracts, but doesn't want to build a sprawling organization.

Mr. Palarea never intended to be in the logistics business. It was an outlet for his wife, Juliette, a former sales representative for MCI. "I had had enough of corporate America," said Ms. Palarea, who wanted a business under her control so that she could work at her own pace. "If I was motivated enough," she said, "I could make as much as I wanted to make."

In the early days Ms. Palarea handled sales, and after work Mr. Palarea did the analysis, hand-entering numbers from paper bills into an rudimentary computer spread sheet. "Juliette would sit in one seat, I'd sit in another, and she would read me the numbers."

The pitch was simple. They offer, at no risk to a company, to review its shipping bills and negotiate a savings. Then, if the client took the deal they negotiated, the Palareas would keep half of the company's shipping savings for three years. If the company didn't take the new contract, it owned nothing. No cost ever went on the company's books, just savings.

Mr. Palarea argues that it is also good for shipping companies like Federal Express and United Parcel Service, which get a long-term

customer out of the deal, one who won't come back to renegotiate year after year.

A U.P.S. spokeswoman, Karen Cole, seemingly unpersuaded, said, "We value our relationship with our customers, when you use a third-party negotiator, you are a step away from that." Federal Express declined to comment.

For many years, PA & Associates was a nice sideline income, but not what Mr. Palarea saw as a full-time job. "Shipping just didn't excite me," he said. He worked in a dot-com and preferred the corporate world of information services.

But Ms. Palarea kept making sales. And Mr. Palarea's interest in technology helped them automate, first adding an optical reader so they didn't have to do the data entry for spreadsheets.

Mr. Palarea pursued a corporate career until 2003. While vice president for technology at AIIM, an information management trade association in Silver Spring, Md., he had to lay off staff members. "I had a junior help desk person who sat in my office and cried," he said. "It broke my heart." That and the hour commute each way soured him on the job. "I looked at what my wife was doing and compared to me, she was making twice the money and doing half the work."

That year Mr. Palarea decided to concentrate on PA & Associates. To ramp up he drew on the lessons of 15 years of dabbling.

First, he acknowledged he had a tough sell. In a sense, his product was too good. Offer-

ing something for nothing got PA & Associates dismissed out of hand. He needed to establish credibility before trying to make a pitch.

To do that, they worked exclusively by referral –as they did in the meeting with Utz. To induce friends and clients to make introductions, PA shared fees, giving 15 percent of their take to the person who made the referral. He says he wrote a six-figure check to one good networker.

PA also sought to work for established brands, which in turn helped open other doors. The client list includes Legg Mason, Volcom, Lionel Trains, Danskin, and VeriFone. “People are like ‘Oh, you did something for Legg Mason?’ ” Mr. Palarea said.

Still, the biggest challenge is often to win over clients who think they have already cut a shrewd deal.

Part of the problem is that clients can only see their savings after they’ve engaged PA & Associates, as Mr. Colgan did. “We can certainly negotiate our own contracts, but we would have left a lot on the table,” Mr. Colgan said. “Things Rich got us, we never would have thought of,” like fuel discounts for shipping to particular areas.

The trick there, Mr. Palarea learned, was not to deal with a shipping manger, who might see PA as encroaching on his turf. Instead, go to the chief financial officer, and talk money, not shipping.

That was a particularly difficult lesson for Mr. Palarea, who wanted to stress the quality

of the service they would negotiate, not the price. “We didn’t want to cheapen the message, which was, ‘Come to us if you want world-class shipping and we save you money,’ ” he said. It was only the recent downturn in the market that convinced him leading with savings didn’t imply shoddy service.

The strategies are working, said Mr. Palarea, which has him on a precipice. Does he keep the operation small, take a boutique approach and accept only the largest clients? Or does he automate more and handle smaller clients with better margins? “I don’t know that we have to choose,” he said.

He thinks he has found a way to automate more of the process, freeing up some time. He may create a do-it-yourself software kit that would help small companies negotiate shipping more effectively, he said. But that may require PA & Associates to take on debt, which Ms. Palarea said makes her nervous.

“This can be the demise of a company,” she said. “We are at a crossroads. It’s that crossroads where people make a bad decision and they are gone.”

PA & Associates has made some concessions to growth. Mr. Palarea has brought in a partner, Chris Steer, a former Johns Hopkins lacrosse player and lawyer with deep community ties. And Mr. Palarea concedes he might add two analysts so he can concentrate on meeting potential clients.

But ultimately, if the opportunities keep popping up, the growth question is one that

won't go away. There are a lot of potential clients, but only so many Palareas.