



Protecting Profits in the Snow & Ice Removal Industry

New Weather Coverage Solutions

Snow and ice removers no longer have to leave their profits to the mercy of bad weather. In the following pages, we will examine how weather coverage can protect revenue, control costs, and grow sales in the snow & ice removal industry, and include some examples of how coverage works.

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INTRODUCTION

Snow and ice removal in North America is a more than \$2 billion industry annually, according to the US Environmental Protection Agency. Businesses (and public works) large and small in snow and ice removal are aware that their slice of that revenue (or budget) pie can fluctuate from year to year because of volatile, unpredictable weather. More importantly, as climate changes, so do the needs of weather-sensitive businesses, especially when it comes to their weather risk management plan.

The concept of weather coverage is new in the snow and ice removal industry; however, its popularity is growing as businesses face new economic and climate challenges. In this white paper you will read about new ways to protect snow and ice removal revenue and control costs from bad weather, while growing your business with weather refund guarantees.

The purpose of this white paper is to provide snow and ice removers with new weather risk management strategies based on weather coverage. What you learn will benefit both you and your clients. You will understand how weather coverage works and see some examples of creative ways snow and ice removers can implement the coverage.

(A VERY SHORT) WEATHER COVERAGE HISTORY LESSON

In the 1990's, energy companies began using weather coverage to make their profits predictable, even when the weather wasn't. These companies found large financial risk takers who, in exchange for a premium, would pay for bad weather. Energy companies wanted to be paid for mild winters when consumers weren't turning up their heat. If weather stations in the energy companies' coverage areas indicated that a mild winter had occurred (i.e. the temperature measurements at the stations were above average) then the energy companies would be paid and thus meet their profit expectations. If the bad weather didn't happen, the financial risk takers would keep the premium and the energy companies would still meet their profit expectations.

This coverage concept would soon expand to other weather sensitive sectors, for profit protection and to provide weather refund guarantees for growth. One of the first companies to use this new form of weather coverage was very dependent on snow fall: Bombardier, a Canadian transportation and recreational equipment giant. During the winter of 1996, Bombardier offered a \$1,000 rebate on its Ski-Doo snowmobiles to Midwestern customers in 16 cities. If the customer's local snowfall was less than half the average of the past three years, they would be refunded \$1,000. That winter, Ski-Doo sales increased 38% compared to the previous year. Customers also purchased snowmobiles months earlier than normal, breaking traditional sales patterns.

Today, weather coverage is utilized by weather-sensitive businesses large and small, including farmers, municipalities, outdoor concerts, professional sports teams, ski resorts, golf tournaments, car washes, and snow and ice removers.

EXECUTIVE SUMMARY

Weather coverage can help grow and protect snow and ice removal profit in three ways:

1. Guarantee profit (regardless of snowfall)
2. Grow revenue
3. Control costs

Snow and ice removers no longer have to leave their revenue and costs to the mercy of bad weather. Weather coverage enables business owners to adapt their strategy and get paid for the weather that historically made revenue unpredictable. In the following pages, we will examine how weather coverage can accomplish these three objectives and include some examples of how coverage works.

1. GUARANTEE PROFIT REGARDLESS OF SNOWFALL

Snow and Ice removers can get paid for warm or dry winters with low snowfall, just like the energy companies began doing almost 20 years ago, by locking in revenue with weather coverage that pays when it's not snowing. Weather coverage can also protect against above average snowfall that increases costs and exceeds fixed price contracts. Making revenue predictable as well as insuring that it is in sync with costs provides peace of mind and enables favorable pricing that attracts new customers and satisfies existing ones.

EXAMPLE: Guaranteeing Profit Regardless of Snowfall

Problem: A snow remover provides services for the Buffalo, NY Airport. They require a fixed price bid of \$100,000 for the season, regardless of how much it actually snows. The remover estimates that costs will equal \$100,000 if the seasonal snowfall gets above 56 inches and that each additional inch has a cost of \$5,000.

Coverage Type: The snow remover creates and purchases weather coverage that pays \$5,000 per inch above the 56 inch threshold priced for the airport. The weather coverage pays out if it snows too much, covering the costs of additional service. If it snows too little, the business is covered by the initial contract price.

EXAMPLE: Guaranteeing Profit Regardless of Snowfall

Problem: A snow remover provides services for a chain of retail stores in the Northeast. This client wants to pay per push. The cost per push is \$2,000 so the snow remover estimates that 10 snow events of one inch or more are required to break even on the contract.

Coverage Type: The snow remover purchases weather coverage that pays \$2,000 every day that it doesn't snow at least an inch or more if there are less than 10 snow days. If there are more than 10 snow days the costs per push are covered. If there are less than 10 snow days the weather coverage pays for the lack of business, helping the snow remover reach projected revenue.

Offer Clients Pricing That Meets Their Needs and Yours

Snow and ice removers have traditionally managed weather risks with pricing. Fixed price clients provide a minimum level of revenue when snow levels are low and per event priced clients provide additional revenue to cover higher costs when snow levels are high. Unfortunately, client needs and satisfaction take a secondary positions to business profit requirements.

Weather coverage gives snow and ice removers the ability to offer clients a choice in the type of snow removal contract that works best for them, while maintaining desired profitability. Fixed price contracts can be offered more liberally when combined with weather coverage that pays when snow levels are too low or too high. Coverage can be purchased by the snow remover and built into the price of the fixed contract or sold to customers as an add-on. When snow levels are low, customers receive a weather coverage rebate. When snow levels are high, snow removers receive a payout to cover higher costs.

Similarly, customers can choose per event pricing when snow removers purchase weather coverage that pays when there are not enough snow events during the season to provide sufficient revenue. Again, the premium can be built into the per event price.

2. GROW REVENUE

Revenue growth is critical to a business's success and is especially difficult to maintain in a volatile economic climate. Weather coverage can grow revenue in three ways: guarantee prices, attract new customers, and multiyear contracts.

Guarantee Prices

Regardless of how a snow remover charges customers, “per push”, “per season” or even “per hour”, snow removers can create custom weather coverage that will affordably provide guaranteed prices to customers, while providing desired profitability. Alternatively, price guarantees can be sold as a value added benefit to create additional revenue streams and increased customer satisfaction.

Small upfront premiums can both lock in prices for the season as a benefit when snow levels are high and provide refunds when snow levels are low. The business offering the coverage defines the season (November through March, for example), the amount of coverage, and where the snow is measured.

Snow removers can also offer refunds: “buy 60 inches worth of snow removal services up front and if it snows less than 60 inches this winter, get a 50% refund of your purchase price.” The variations are almost endless and can be designed to fit any budget.

EXAMPLES: Guaranteeing Prices

Problem: Snowfall levels in certain cities can be unpredictable. Some years come with record low snowfall. Customers may be reluctant to purchase large amounts of snow removal services after a low snowfall year or series of years.

Coverage Type: Guarantee prices by creating snow coverage that will pay your business if snowfall is below average. That way customers can purchase a season's worth of average or above average snowfall removal services and pay \$x per inch (or hour) all season, guaranteed.

Problem: Too much snowfall can either cost the snow remover in overtime wages and rentals or customers pay more than they planned. This can hurt customer relations and cut into business revenue.

Coverage Type: Guarantee prices by creating snow coverage that will pay your business if snowfall is below average. That way customers can purchase a season's worth of average or above average snowfall removal services and pay \$x per inch (or hour) all season, guaranteed.

Attract New Clients

A quick Google search of “snow removal” in Buffalo, New York, reveals that there are more than 10 local companies offering services, and a yellow pages check reveals even more. The competition is tough and the best ways to stand out from the crowd to attract new clients is to offer competitive prices, quality service and unique product offerings. Weather coverage delivers all three differentiators.

Snow and ice removal that comes with a weather guarantee is unique and attention getting – first movers can even attract local media attention. The appeal of fixed costs when snow is heavy and refunds when snow is light is universal. In fact, weather guarantees often improve sales up to 40%. Snow removers with weather protected profits can also guarantee unbeatable pricing and service levels given predictable revenue streams and operating costs.

Create Multiyear Contracts

Commercial clients work with tight budgets and are particularly concerned about controlling costs year over year. Weather coverage offers clients better budget visibility by structuring affordable multiyear contracts that are predictably profitable. These contracts have predefined price increase caps that let clients accurately budget for snow removal costs over a number of years.

For example, a snow remover has a fixed price client who wants to lock in costs for snow removal over a three year period. The snow remover can purchase weather coverage that caps the snowfall for the current season, and pays the remover a set amount for each inch over the cap. That coverage has a fixed price for the current year, and caps any price increase for the duration of the contract by stipulating exactly how much the prices can rise in the coming years. If there is no payout, then the prices remain the same year over year. If there is a payout, then prices are adjusted for the following year, but the adjustment is capped by some fixed amount.

3. CONTROL COSTS

Weather coverage can be designed to cover increased salt, labor and equipment costs when snowfall levels are heavy or higher than expected.

Salt

The hot topic of the 2008-2009 winter season isn't the weather, although that is still a concern, especially after early winter storms in the Great Lakes Region, it's salt. The cost of salt is high and, more importantly, the ability to get it is low. Industry experts point towards several solutions for the salt shortage, including inventory management adjustments and investing in salt alternatives. The price of salt is leveling the snow and ice removal industry playing field –smaller businesses are now just as capable of getting salt as the larger removers. The key in this competitive climate is to differentiate from the competition by offering customers something they really want: guaranteed prices, no matter what the winter has in store.

Weather coverage payouts can also help snow and ice removers afford to experiment with salt alternatives. Experimenting can be expensive, but weather coverage payouts can cover the costs of using new deicing technologies. Use weather coverage to get paid for heavy snow and use the payout to purchase salt alternatives.

EXAMPLES: Controlling Salt Costs

Problem: Your contracts require that you salt when weather conditions fall below a temperature threshold and precipitation is imminent.

Coverage Type: Weather coverage can protect against dual peril requirements of precipitation and cold temperatures to cover your costs for salting events. You define the level of coverage to incorporate rising salt prices into your overall weather protection.

Problem: You don't need to cover every salting event, but want to cover those above what's typical in a season.

Coverage Type: Using the concept of deductible days, tailor your coverage to protect against the unexpected or above average number of salting event days. For example, if three salting events per season is typical, payments begin on the 4th event, making coverage more affordable.

Labor

Another expense that can increase with snowfall is labor, which can be especially expensive since it usually requires overtime pay. “During a major snowstorm, each grounds employee is assigned a piece of snow removal equipment, which they operate from eight to 16 hours at a time,” wrote Alan Fish, the associate vice chancellor for facilities at the University of Wisconsin in February, 2008. “Since December, grounds personnel have logged 2,579 hours of overtime for snowstorms.”

Overtime labor is one of the most expensive costs associated with snow removal budgets, so it is frequently the first thing municipalities and businesses cut to obtain a balanced budget. On November 19, 2008, the Michigan Department of Transportation (MDOT) issued an edict to county road commissions to cut overtime during the winter months due to budgetary constraints.¹ This isn’t necessary, nor does overtime have to cut into snow remover’s revenue. Businesses and Public Works can protect against overtime costs with weather coverage that pays for heavy snowfall. Similarly, snow and ice removers can customize weather coverage that pays for heavy snowfall, so that overtime charges do not need to be passed on to customers.

EXAMPLE: Controlling Labor Costs

Problem: A sub contractor to the University of Wisconsin requires time and a half for more than eight hours of work per day. A three inch per day or greater storm usually requires 12 hours to remove, or 4 hours of overtime.

Coverage Type: Snow coverage that pays the equivalent of four hours of overtime pay for any three inch or greater storm event.

¹ http://www.spinalcolumnonline.com/Articles-i-2008-11-19_56532.113117_Over_time_for_plow_crews_eliminated.html

Equipment and Materials

The price of equipment and materials used during active snow storm season can also be higher than anticipated. By the end of March, 2008, Washington State's Department of Transportation had used 85,000 tons of de-icer when they had budgeted for 55,000 tons. De-icer costs about \$150 a ton, putting the state's costs \$4.5 million more than expected. Businesses and Public Works can protect against higher costs with weather coverage that pays for heavy snowfall. Similarly, snow and ice removers can customize weather coverage that pays for heavy snowfall, so that higher equipment and materials charges do not need to be passed on to customers.

EXAMPLE: Controlling Equipment Costs

Problem: Additional equipment is required to accommodate larger clients and a larger client base, but the uncertainty of weather makes capital expenditures risky.

Coverage Type: Weather coverage can ensure equipment payments are made on time by protecting removal revenue against too much or too little snowfall during the winter season. Create snow coverage that will pay the amount needed for equipment payments for each inch above and below what's normally expected during a profitable season.

Another option is to get paid for each day there is a snow event, or if the number of snow events falls above or below a preset level for the season.

WEATHER COVERAGE DOESN'T TAKE A SUMMER VACATION

Weather coverage can also be implemented in the summer for seasonal businesses like landscaping.. Revenue guarantees, revenue growth and cost control applications are similar to those we've just discussed for winter snow removal.

For example, rain coverage guarantees revenue and controls costs for summer landscaping businesses if too little precipitation keeps homeowners and businesses from upgrading or adding landscaping projects to their budget. Landscapers can also purchase weather protection that pays a set amount for each day it rains, covering costs and lost revenue. Weather coverage can also protect the cost of replacing newly planted greenery from excessive heat, or drought, or too much rainfall during key growth cycles.

Another business solution offered by weather coverage is Weather Refund Promotions. The weather has universal appeal across demographics and markets, and promotions involving the weather are uniquely viral and engaging for customers and the media alike. Promotions based on the weather eliminate the time, expense and hassle of typical programs. With no upfront costs, advance volume commitments or administrative fees, businesses can use the weather to enhance customer satisfaction and boost sales, often more than 40%.

For example, a severe drought could keep customers from purchasing sod or installing new sprinkler systems. A landscaper or retailer can create a custom Weather Refund Promotion that would refund customers who purchase those items if drought conditions worsen.

CONCLUSION

New economic and climate challenges are increasing the need for new financial solutions. As the availability and affordability of weather coverage expand, the future of weather coverage is growing in all weather-sensitive industries, including snow and ice removal. WeatherBill is making that possible.

Weather coverage enables business owners to adapt their strategy and get paid for the weather that historically made revenue unpredictable. Weather coverage can help grow and protect snow and ice removal profit in three ways: Guaranteeing profit (regardless of snowfall), growing revenue, and controlling costs.

Weather coverage guarantees profit by paying businesses for below average snowfall and covering costs associated with above-average snowfall and extreme storms. Weather coverage can help grow business by guaranteeing prices, attracting new clients and creating multi-year contracts. Weather coverage can also cover costs including salt, labor and equipment costs. Making revenue predictable as well as insuring that it is in sync with costs provides peace of mind and enables favorable pricing that attracts new customers and satisfies existing ones.

It is important for snow and ice removers to remember that snowfall and storms are tough to forecast on a regional, county or city level. Even the best weather forecasters can't agree on snow and temperature forecasts prior to the season. Looking at historical weather data helps but trends do not eliminate volatility and while winters are warming in many US cities snowfall may not be affected.

Weather coverage also works in the summer by powering pricing guarantees, revenue growth and cost control applications.

With WeatherBill, weather coverage can be created online or over the phone for snow and rain, drought, heat or cold. Coverage is easily customized based on location, coverage period, the type of weather that triggers payment (rain drought, heat, cold, snow, frost), and payout amount. WeatherBill is different from insurance because payout is based on weather, not human assessment. There's no proof of loss, claims process, or waiting for payment.

Weather is unpredictable. Snow and ice removal revenue no longer has to be.

ABOUT WEATHERBILL

WeatherBill created the first online platform available to all businesses, including snow and ice removal. Customers can customize, price, and purchase coverage online or by phone in a matter of minutes at www.weatherbill.com. By streamlining customization and pricing, WeatherBill can cost-effectively provide coverage from \$1 to millions of dollars. WeatherBill also provides historic payouts so that customers can find the best value for the best price.

With WeatherBill, weather coverage can be created for snow and rain, drought, heat or cold. Coverage is easily customized based on four elements outlined in a weather contract:

Location – Over 6,000 weather stations in seven countries (more locations available by phone)

Coverage Period – Hourly, day, weekend, season, year, etc.

Type of Weather that Triggers Payment – Rain, drought, heat, cold, snow

Payout Amount - \$1 to \$100 million or more

Unlike insurance, WeatherBill payout is based on weather, not human assessment. Once the defined weather happens, customers receive a check for the payout amount in a couple business days. There's no proof of loss, claims process, or waiting for payment. Deductibles are optional. Coverage can be created over the phone (sometimes in a matter of minutes) and implemented four days before the desired coverage period.

WeatherBill's financial risk partner, Nephila Capital Ltd., is one of the world's largest and most respected weather risk and catastrophe reinsurance fund managers, with over \$2 billion in capital. In order to make sure that any payment that may be due to our clients is available, in full, at any time, Nephila fully collateralizes each contract that WeatherBill sells with cash held in trust at the Bank of New York.