

From the Florida Building Material Dealer Association -

An Independent Voice

Risky Business

Over the last few months, there have been some companies in our industry engaging in some very risky business practices which could end up backfiring on them. The building material supply chain is convoluted in many ways, but it is also static with most of the players knowing their role. The traditional chain from top to bottom includes the manufacturer, distributor, dealer, builder, with the subcontractor or consumer being the end user. It is not uncommon for companies in all rungs of the chain to try and eliminate the next one in order to give them a pricing or market advantage. When this is done, it is done with much peril.



Two main drivers of the supply chain are capital for inventory and credit for the end user. Most independents are unable and unwilling to tie up large sums of capital for inventory that supports distribution, and most manufacturers have found that selling to builders directly is hazardous given the issues of collection and logistics. However, it is not uncommon to have a company somewhere in the chain try a new model to eliminate another, because all of a sudden they are the smartest people in the room.

My company recently received an email from a large shell contractor in Central Florida asking us to bid their materials because their current national building material provider had begun its own shell contracting business. The purchasing manager was straightforward in his email when he wrote, "Because of their foray into the shell construction arena, we are now 'less than comfortable' with supporting them through our purchases."

A couple of weeks later, one of our customers approached us to see if we would build his house for him, just as a local national supplier would. Sure enough, he supplied us with a quote detailing the total installation of the slab and blocks, plus everything needed to build his home. Oddly, this particular local national supplier told the customer who was doing the work. When we checked the company out we found out it wasn't properly licensed or incorporated.

Subsequently, a framer who is also a customer of ours bitterly complained he lost a framing job to this local national supplier and he contended they were able to beat his price because they were using undocumented workers. It appears this company nationally has, indeed, made a commitment to actual construction because its website now says under their construction services that they offer installation on framing, drywall, roofing, siding, and much, much more.

When I began managing Ro-Mac Lumber and Supply, Inc. in 1998, the company had gotten into installed framing and poured cement insulated walls a year earlier. Within two weeks of my arrival we ceased installed framing, and we stopped the poured cement wall program as soon as we met our last obligation, because we had two problems - we angered our customers we were now competing against and we didn't know what we were doing. It was an absolute disaster because it was unrealistic to think we could compete against people who had a level of knowledge so much beyond ours. If you have a building material person or construction industry reject running your construction install jobs then you have a failed business model. In my view, companies in the building material industry can install

products, but the products must be those in which your current customer base lacks the knowledge or will to do.

In these difficult times, it is hard for me to imagine successfully installing framing against people we hope to sell to; don't forget, even though you may be selling to the builder, the framing crew you knock out of the job can sabotage you on other projects and prospective customers. Each company must weigh its own risk versus rewards, but in these economic times it is risky for sure.

Another thing I've recently seen is the reaching down to the dealer's customer base by manufacturers and distributors trying to cut the dealer out. A national PVC trim company, in conjunction with a statewide distributor, engaged in this type of risky business against my company in an effort to manipulate their share. The unintended consequence for both is that a new competitor is being brought into the market by our company, and the share they believed they were getting will be lost because we are the ones who developed the relationship.

I'm starting to see arrogance by some manufacturers wherein they believe they can bypass the dealers to sell to the end users. Unless they plan on having local facilities in each market, a group of salespeople to visit builders, and the ability to extend credit with lien protection they will fail. Smart manufacturers and distributors understand that dealers are instrumental in getting their products to the actual marketplace. While pull-through marketing works to a point, you'd better have the local dealers on board in order to be successful.

Right now, I'm seeing a lot of goofy things occurring in the supply chain, and those who ignore the next rung of the chain just might find themselves falling off the ladder. The smartest dealers are those who take advantage of the strengths of each member of the chain to deliver a quality product at a fair price. Cutting others out of the supply chain may be beneficial initially, but don't expect those people to go away happy - you just picked up another competitor.

A dealer or supply chain member that's been scorned will have more fury than a woman who's been scorned. Just like our company, which was sold out by a manufacturer, as well as the shell contractors competing with the national supply company, each will find another way to compete - they will not quit.

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