STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY woodwords) November 2000

"Supersubs" by Kirk Grundahl, WTCA Executive Director

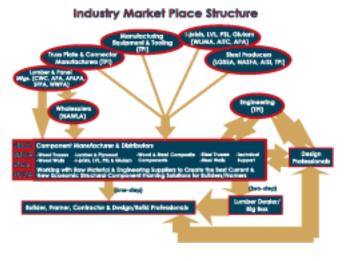
Executive Director's Message



KIRK GRUNDAHL

and Labor Working group

with Diane Rivera of Shea Homes-San Diego. We are just now embarking on a strategic plan with specific tasks, implementation timelines and then the final deliverables for this group. The Quality and Labor Working group has four task-groups whose purpose can generally be defined by the title of the task group as follows:



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• ISO 9000 Construction Quality/Certified Installer Program

WTCA is fortunate to be

actively involved with the Partnership for Advancing Technology in Housing (PATH) and serves on its Industry Steering Committee

and as co-chair of its Quality

- Housing Industry Performance/Benchmarking Surveys
- Even-flow Production
- Industrialization of the Job Site

Each of these areas has tremendous potential for changing how the business of housing is conducted and meeting PATH's goals of improving housing durability, construction efficiency and affordability.

As we look forward a few years, one of the topics that may not be important now but is certain to be in the future is "industrialization" of the jobsite. There are a variety of terms floating around that provide us with insight into what this is going to mean initially and where builders are headed with their business strategies. Two such terms are "supersubs" and "bundling."

WHAT WE ARE SEEING IN THE MARKET

Builders are extremely busy with "city politics" and land-use planning issues such as smart growth initiatives. Challenges surrounding these initiatives are mounting. Most builders desire to have a turnkey construction solution for their projects, so they can concentrate on the work they do the best—developing land, dealing with politics and selling the buildings.

- One turnkey solution is to utilize the "supersub."
- In a builder's ideal world, he/she would have two or more competing "supersub" companies that, after the land was provided, the low bidder of the two companies would put in the foundation, frame the structure, do all the finish work, add the appliances, landscape the yard and deliver the finished product to the builder well before the deadline and under budget.
- Ideally these two or more supersubs would provide the needed competition between each other to have a natural price check to ensure a competitive edge for the builder as well.

So what does this mean for the traditional component manufacturer in our industry that has not yet moved down the path of vertical integration? It probably means that to serve your customers' needs effectively, you will be on one of the following paths:

- You will continue to do what you are doing today—selling to a lumberyard that sells to the framer (two-step distribution) or selling directly to the builder. If you are selling to a lumberyard in two-step distribution, your fate may completely lie with the relationship you have with the lumberyard. If you sell direct to the framer/builder, your fate lies directly with the end-user, and you have a bit more influence on your business' destiny since you are less dependent on a lumberyard/middleman who has all the relationships with the ultimate customer.
- You will develop a strategic partnership with a lumberyard to meet the framer's needs.
- You will supply the entire framing package for the framing contractor that has the relationship with the builder. A number of you are doing this now as many businesses have purchased lumberyards, or have been purchased by lumberyards combining the lumberyard and truss production functions. The other possibility is to grow your business into a full service supplier by taking on broader product lines over time and effectively becoming a "supersub" that provides the complete framing package.
- The next step is to add the framing component and supply all the installation labor (which has separate and distinct business challenges and benefits). Again the logical choice here is to develop a joint venture with a framer or acquire or be acquired by one.
- A similar step to becoming a component/framing firm is to become part of a design/build firm. This effectively captures the architectural/engineering design and installation of all the framing.
- A next step in this process may be providing plumbing, HVAC, electrical, insulation, drywall, finish trim, cabinets, appliances, flooring material and installation for each.
- Finally, you may become part of a fully integrated builder that is providing all these functions including selling the house to final consumer.

This is the type of change we are seeing today, with many variations on this theme. Many are succeeding although some have failed. Here are the questions that seem to pop out of this landscape:

- If you want to just remain in your core truss manufacturing business, how do you do so effectively and profitably, given the customer pressure to become a "supersub"?
- If you can avoid the "supersub" pressure, how do you prevent yourself from becoming just another commodity supplier that gets beat up on price and has low margins all the time?
- If you succumb to the pressure to meet the builder needs, how will you accomplish and at the

same time control the process in a manner which meets your risk tolerance?

If you become part of a larger group and have profit responsibilities, will you be allowed to
manage the business in a way that with the responsibility, you can make the changes
necessary in functional areas of the company that impact profitability favorably? For example,
can you control the salespeople that typically sell the trusses as a loss leader to get the rest
of the lumber and window package and then are content on making minimum margin on the
overall sale with the idea that they make all their money selling volume?

We are certain to see rapid changes in the next few years. It is really coming from both sides of our business as both suppliers and customers consolidate. We will be discussing this at length as we continue to hold Issue Discussion Forum meetings at our WTCA Open Quarterly Meetings where we thoroughly dig into the meaty issues of the day and develop industry policy when possible.

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