STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY WOODWORDS)
August 2001

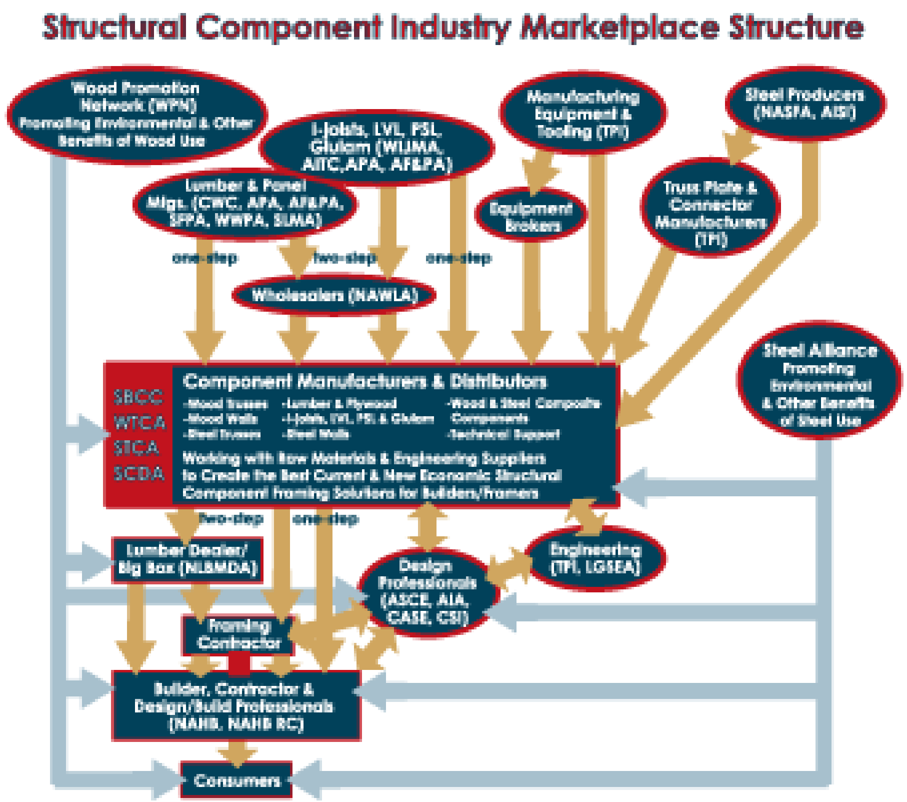
Executive Director's Message

KIRK GRUNDAHL

"Understanding Change by Understanding the Market Structure" by Kirk Grundahl, WTCA Executive Director

Ours is a changing marketplace, and to more easily understand everything that is going on in it, a great place to start is to consider how the marketplace is structured. While simple in concept, a visual representation of a structure like this one can be very enlightening. One can clearly see all of the participants in the market and begin to determine questions, opportunities and challenges that lie ahead. Many readers have seen this graphic before, but it is very important to understand this structure thoroughly, as our future opportunities as an industry depend on it. At the risk of being redundant, here it is again with some observations.

MARKETPLACE OBSERVATIONS



CLICK ON IMAGE FOR LARGER VIEW

- There is a great deal going on in the "Component Manufacturers and Distributors" box. We are responsible for:
  - How our industry markets components to builders/ contractors/framers to meet their needs will determine whether components will, in fact, be the exclusive future of framing.
  - • Thoroughly understanding the technical issues and relating to them from a business standpoint, because ours is a highly technical business. Only when we achieve this understanding can our industry begin to take advantage of all the opportunities technological change can present to us over time. Our goal must be to wrap practical technical work around business issues and provide simple, reliable and economically sound framing solutions for our customers.
- Builders' needs will continue to be focused on the following business attributes:
  - Lowest in-place cost possible, in which everyone in the stream of commerce profits.

    - Cost stability.
    - Reductions in construction cycle time.
    - Improvements in labor efficiency.
    - Finding more labor or labor replacements.
    - Durability and quality—no calls backs.
- Companies that figure out how to deliver on one or more of these attributes, in the context of our business model (see graphic), stand to either grow market share and/or increase profitability far in excess of industry averages.

LUMBER DISTRIBUTION

Lumber is predominantly sold to us through a two-step distribution process. We estimate that component manufacturers buy about 70 percent of their lumber through wholesalers or brokers and 30 percent are purchased directly from lumber mills. This begs the following questions:

- Why are wholesalers and brokers NOT more involved in WTCA? It seems that it would be in their best interest to be involved, if for no other reason than a group of their customers gets together and discusses industry issues that may directly impact the future of the business they transact. We are involved in changing times and new solutions to transacting business will become more prevalent than ever before—the two-step distribution process is an area that will come under review.
- Given the cost structure, the pressure to be increasingly competitive and industry consolidation, what is the future of two-step distribution for lumber supply? Can it change? If so, how will it change? If not, why not?
- What opportunities can component manufacturers find to improve profitability and gain more consistent returns on investment through a re-invention of the lumber distribution side of our business? Can there be re-invention so that there are no losers? Who are the winners in this?

COMPONENT SALES

Components are sold to builders/contractors predominantly through a one-step distribution process. We estimate that 65 percent of all component sales are made directly to builders, while 35 percent go through two-step distribution. The questions are:

- Given the cost structure, the pressure to be increasingly competitive and industry consolidation, what is the future of two-step distribution through a lumber dealer? Can it change? If so, how will it change? If not, why not?
- What value does lumber dealer distribution provide to the chain of commerce? Is the value worth more than the cost?
- What opportunities can we find to improve profitability and gain more consistent returns on investment through a re-invention of the structural component distribution side of our business? Can there be re-invention so that there are no losers? Who are the winners in this?

SUPPLIER SUPPORT OF THE STRUCTURAL COMPONENT INDUSTRY

Consider the support that our two key supplier industries currently provide to our association, through dues, ***WOODWORDS*** advertising, BCMC exhibiting and attendance, purchasing WTCA publications, and chapter dues, to help advance our industry so that components are the future of framing:

- The entire truss plate industry contributes approximately $336,000 annually.
- The entire lumber industry contributes approximately $62,625 annually.

We have suppliers who provide significant support by being Gold and Silver Advertisers and at the same time consistently are taking large amounts of BCMC exhibit space. This shows a significant commitment to helping us advance positive industry initiatives. The question here is, does this level of support match up with your expectations of the kind of support you thought you would see as a purchaser of plates and lumber?

There are a million more questions that could be asked that would shed additional light on how our market functions. WTCA will continue to focus its efforts on this market structure, providing services for our members based on this structure, and on activities that will support our customers and their associations (NAHB and the NAHB Research Center). We'll work hard at providing tools that can help each member grow their business. The only requirement of any members is that they desire to get involved in finding out all WTCA has to offer and then take advantage of any or all of our services. Our collective goal must be to be aggressive and persistent so that we assure that components are the only future in framing. We'll continue to be very appreciative of any support that we get from industry suppliers who understand that helping our industry to grow and prosper is really a great way to help themselves and to make the whole industry better than any one of its individual parts.

CONCLUDING THOUGHTS

There are a few truths to reflect on regarding this issue:

- Market structures will change so that the best economic solution is provided. It is called gaining a competitive advantage.
- There will always be suppliers and customers, even if this boils down to two parties. Serving customers and the customer's association well is always wise.
- Change is inevitable. Those who embrace and facilitate change are usually called leaders at the end of their careers.

SBC HOME PAGE

The mission of Structural Building Components Magazine (SBC) is to increase the knowledge of and to promote the common interests of those engaged in manufacturing and distributing of structural building components to ensure growth and continuity, and to be the information conduit by staying abreast of leading-edge issues. SBC will take a leadership role on behalf of the component industry in disseminating technical and marketplace information, and will maintain

advisory committees consisting of the most knowledgeable professionals in the industry. The opinions expressed in SBC are those of the authors and those quoted solely, and are not necessarily the opinions of any of the affiliated associations (SBCC, WTCA, SCDA & STCA).