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BUILDING FOR THE FUTURE

WESTERN BUILDING CENTER
MOVES INDUSTRY FORWARD

REAL ISSUES. REAL ANSWERS.

RESTOCKING FEES

IN DEPTH:
ENGINEERED WOOD PRODUCTS

DEMAND DECREASES AS CONSTRUCTION
SLOWS, BUT ENGINEERED WOOD PRODUCTS
LOOK TO INCREASE MARKET SHARE



TY SHANKS, VICE PRESIDENT,
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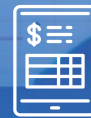
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BACK ISSUES & EXTRA COPIES

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Vol. 17 No. 9 LBM Journal® (ISSN #1930-5516)

Published monthly with the exception of combined
November/December by Custom Built Publishing LLC,
10880 175th Court West, Ste. 240, Lakeville, MN 55044
952.892.7793.

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expressed are those of the authors or persons quoted.
Reproduction in whole or in part is prohibited without
written authorization. LBM Journal is sent free-of-charge
to qualified dealers and distributors of building materials.
Publisher reserves the right to determine qualification.
Non-qualified annual subscription rates: US, \$48;
Canada, \$60 (U.S.); Airmail to all other countries, \$120
(U.S.). Single copy price: \$15 + S&H. Periodicals postage
paid at Lakeville, MN and additional mailing offices.

U.S. POSTMASTER:

Send address changes to:

LBM Journal
10880 175th Court West, Ste. 240 Lakeville, MN 55044
Publications Mail Agreement No. 40742016 Return
Undeliverable Canadian Addresses to:
Express Messenger Int'l, P.O. Box 25058,
London BRC, Ontario, Canada N6C 6A8



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EDITOR'S NOTE

Winter is coming

IT'S TRUE. Summer's over, kids are back at school, and football season is underway, so yes, winter is coming. A disturbingly large number of today's headlines foretell a different kind of winter, the kind that chills the economy. I'm talking, of course, about the "R" word: recession.

- "Cramer: Underlying economy is good, but fear could drive us into recession"
—CNBC
- "Three reasons recessions fears have suddenly increased"
—Forbes
- "Recession indicator with perfect track record flashing red"
—Fox Business
- "Wall Street sees risk of recession rising"
—Politico

Here's the problem: as a businessperson, I believe that nothing good can come from this persistent drumbeat of doom. Once the suggestion takes hold with American businesses and consumers that a recession is imminent—if not already underway—then odds are strong that it's going to happen.

I'll never forget talking with an LBM dealer whose company was thriving and growing, despite our economy being in the middle of a recession. When I asked him why he believed his company was doing so well, while so many others were struggling, he replied with an answer that burned itself into my brain: "I chose not to participate in the recession." Clearly, he didn't mean sticking his head in the sand and pretending everything was fine. Instead, it meant operating as efficiently as possible, tapping fresh sources of revenue to even out the valleys, and working to constantly run his business better and smarter. In other words, he focused his energies on things within his control. After all, we can't control the economy, but we can control how we run our business.

Then again, how do we know that the decisions we're making are always correct? It can help to learn how other LBM pros navigate the same challenges we face. That's why we conduct a monthly Real Issues survey, and share the resulting insights in the feature called, Real Issues. Real Answers. This month's feature (pg. 34) tackles the thorny topic of restocking fees. More than 200 readers weighed in on the question: to charge, or not to charge? In an industry defined by tight margins, a company's restocking fees (or lack thereof) can have an oversized impact on its bottom line.

In an industry that still has a healthy percentage of independent operators, there's a lot to be said for learning from others. Fortunately, our industry is populated with people who are willing to share and help other companies grow and thrive. It's that sense of community that drives every issue of *LBM Journal*, and is the soul of the annual LBM Strategies Conference.

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JULY SINGLE-FAMILY STARTS CONTINUE MODEST IMPROVEMENT

July single-family starts increased 1.3% to 876,000 units, but a decline in multifamily production brought total housing starts down 4% to a seasonally adjusted annual rate of 1.19 million units. This figure is down from a downwardly revised reading in June, according to a report from the U.S. Housing and Urban Development and Commerce Department.

The July reading of 1.19 million starts is the number of housing units builders would begin if they kept this pace for the next 12 months. Within this overall number, July single-family starts increased 1.3% to 876,000 units. The multifamily sector, which includes apartment buildings and condos, fell 16.2% to a 315,000 pace.

On a regional and year-to-date basis, combined July single-family starts and multifamily starts rose 3.7% in the South. Starts declined 5.7% in the Northeast, 7.9% in the Midwest and 12.3% in the West.

Overall permits, which are a harbinger of future housing production, increased 8.4% to a 1.34 million unit annualized rate in July. Single-family permits edged 1.8% higher to a 838,000 rate while multifamily permits jumped 21.8% to a 498,000 pace.

Looking at regional permit data on a year-to-date basis, permits rose 2.4% in the Northeast. Permits fell 7.1% in the Midwest, 0.1% in the South and 6.8% in the West.

CONSUMER CONFIDENCE INDEX REBOUNDED IN JULY

The Conference Board Consumer Confidence Index rebounded in July, following a decrease in June. The Index now stands at 135.7 (1985=100), up from 124.3 in June. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—increased from 164.3 to 170.9. The Expectations Index—based on consumers' short-term outlook for income, business and labor market conditions—increased from 97.6 in July to 112.2.

Consumers' assessment of present-day conditions improved in July. Those claiming business conditions are "good" increased from 37.5% to 40.1%, however, those saying business conditions are "bad" also increased slightly, from 10.6% to 11.2%. Consumers' appraisal of the job market was also more favorable. Those saying jobs are "plentiful" increased from 44.0% to 46.2%, while those claiming jobs are "hard to get" declined from 15.8% to 12.8%.

PRICES PAID FOR BUILDING MATERIALS INCREASED IN JULY

Prices paid for building materials used in residential construction increased by 0.7% in July (not seasonally adjusted) according to the latest Producer Price Index (PPI) released by the Bureau of Labor Statistics, the National Association of Home Builders reports.

Prices paid for building materials have declined an average of 0.1% per month over the last 12 months, compared to an average monthly increase of 0.8% during the same period 2017-2018. The price of goods used in residential construction has risen 2.8% in 2019, roughly half the pace of 2018 increases, year-to-date.

The PPI report shows that softwood lumber prices rose 2.0% (not seasonally adjusted) in July—the first increase in four months. Even after the increase, the index for softwood lumber is nearly 20% lower than it was in July 2018.

The price index for gypsum products reversed its downward trend in July, increasing 2.2% (seasonally adjusted). Gypsum prices have increased in four of the prior 12 months, but have declined by 4.1% and 7.3% since January 2019 and July 2018, respectively.

Construction input prices dropped in June which was the first time in nearly three years that input prices had fallen on a year-over-year basis.

UPDATES

Grabber Construction Products has announced that **Joe Schaeper** is joining their product category management team as the company's newest product category manager.

Fortress Building Products has added **Dave Smithey** to the executive team as vice president, operations.

Tim Pruitt has joined **Roseburg** as business manager of millwork.

Stephen T. Strohmeier has been named VP of structural products at **BlueLinx**.



SCHAEPER



SMITHEY



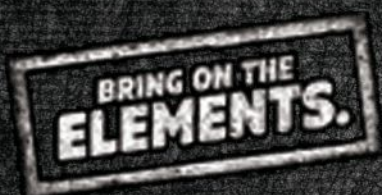
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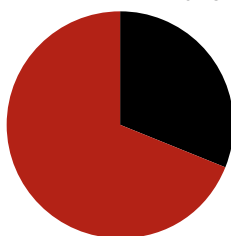
LABOR SHORTAGES STILL HURTING HOUSING AFFORDABILITY

Labor shortages and subcontractor shortages remained widespread in July of 2019 and are continuing to impact the industry in a number of ways—including putting additional upward pressure on new home prices—according to results from special questions on the survey for the NAHB/Well Fargo Housing Market Index (HMI). In July, the HMI survey asked builders specifically about shortages in 15 different occupations. Shortages of labor directly employed by builders remained at least fairly widespread for each of the 15, ranging from a low of 47% for building maintenance managers to a high of 83% for framing crews.

Many of the shortage percentages were little changed from where they were at this point last year. The share of builders reporting a shortage of rough carpenters actually ticked down a percentage point, from 83% in 2018 to 82% this year. Labor shortages in the other 14 occupations were either unchanged or even more widespread than they were in 2018. Averaged across the 9 occupations that NAHB has been covering in a consistent way since the 1990s, the incidence of shortages reached 69% in 2019—the highest number on record.

This shortage seems especially severe relative to housing starts, which still have not fully recovered from their historically low 2009-2011 trough. Nor, with the possible minor exception of rough carpenters, has the softness in new home production during the first part of the year had a noticeable impact on the incidence of reported shortages.

INCIDENCE OF
SHORTAGES IN 2019:
69%



UPDATES

DISTRIBUTION

Mid-State Lumber has expanded the distribution of **Starborn Industries** fasteners in the Northeast.

BlueLinx will distribute the full **MoistureShield** composite decking product line from its Atlanta and Chicago distribution centers.

BlueLinx has announced that it is now distributing **Allura** fiber cement products from its distribution centers in Maryland and Florida.

Cameron Ashley Building Products has opened a new distribution center in Lebanon, Pennsylvania.

Universal Supply has opened a new location in Columbia, Md.

OrePac Building Products has entered into a new distribution partnership with **Fiberon**.

Chelsea Building Products has partnered with six new **Hood Distribution** branches for the distribution of Everlast, a composite siding product.

INDUSTRY

Simpson Strong-Tie has earned the "Partners of Choice" award for the 15th consecutive year from **David Weekley Homes**, the nation's largest privately-held home builder.

Weyerhaeuser was named the winner of David Weekley Homes' A, A Partner of Choice Award for 2018.

MI Windows and Doors received a Voluntary Protection Program Star from the Occupational Safety and Health Administration.

Andersen Windows broke ground recently on an expansion of its Renewal by Andersen manufacturing campus in Cottage Grove, Minn.

Tony and Lorraine Shepley of **Shepley Wood Products** were awarded the Joshua A. Nickerson Society Award by the Cape Cod Chamber of Commerce.

Send news and updates about your organization to James@LBMJournal.com

AUGUST BUILDER CONFIDENCE TRENDS HIGHER

August builder confidence in the market for newly-built single-family homes rose one point to 66, according to the latest National Association of Home Builders/Wells Fargo Housing Market Index (HMI). Sentiment levels have held at a solid 64-to-66 level for the past four months.

"Even as builders report a firm demand for single-family homes, they continue to struggle with rising construction costs stemming from excessive regulations, a chronic shortage of workers and a lack of buildable lots," said NAHB Chairman Greg Ugalde.

August builder confidence was derived from a monthly survey that NAHB has been conducting for 30 years. The NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor." The survey also asks builders to rate traffic of prospective buyers as "high to very high," "average" or "low to very low." Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that more builders view conditions as good than poor.

The HMI index gauging current sales conditions increased two points to 73 and the component measuring traffic of prospective buyers rose two points to 50. The measure charting sales expectations in the next six months fell one point to 70.

THREE-MONTH MOVING AVERAGES FOR REGIONAL HMI SCORES:

NORTHEAST FELL THREE POINTS

▼57

SOUTH UP ONE POINT

▲69

MIDWEST UP ONE POINT

▲57

WEST UP ONE POINT

▲73



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TOUGH CALL ANSWERS

ANSWERS TO OUR JULY TOUGH CALL SURVEY:

SOMETHING'S GOTTA GIVE

YOU SUSPECT THAT A COUPLE OF YOUR TOP PEOPLE ARE STARTING TO BURN OUT, BUT THEY DISAGREE AND KEEP ASKING FOR MORE WORK. HERE'S HOW READERS WOULD HANDLE THIS TOUGH CALL.

YOUR VOTES ONLINE AT LBMJOURNAL.COM

- 18.7%** **LIMIT HOURS.** Put a hard limit on the number of hours that salaried people can work per week. Track it and enforce it.
- 8.7%** **LET IT BE.** Susan and Nate are both grownups, and they know their limits. Since both insist that they're fine and want more to do, take them at their word.
- 21.3%** **REWARD.** Reward team members who continually push themselves to take on more by rewarding them with more money and more responsibility.
- 51.3%** **HIRE!** It's your job to take care of your people. If people are working an unhealthy number of hours, then it's up to you to lighten their load—whether they agree or not.

THANKS TO EVERYONE WHO VOTED ON THE JULY SURVEY. SEE PAGE 80 FOR THIS MONTH'S TOUGH CALL.



UPDATES

MERGERS & ACQUISITIONS

U.S. Fence Solutions Company has acquired Western Access Controls, a designer and installer of automated gate and access control systems.

Oldcastle APG has acquired Abbotsford Concrete Products, in a move to expand APG's product offerings and manufacturing capabilities in western Canada.

Homewood Holdings LLC, a portfolio company of the investment firm **Building Industry Partners LLC**, has acquired the assets of Total Trim Construction, Inc. from its owners, Jason and Patti Flashman.

CO-OPS & BUYING GROUPS

Do it Best is hosting its second Open Buying Day of 2019 at its world headquarters in Fort Wayne, Indiana, on October 30. Qualified vendors will have the opportunity to meet with the merchandising team to present their company and products, as well as learn about the requirements to become a vendor.

EVENTS

- OCT 3-6** True Value Fall Reunion, Chicago, IL • www.truevalue.com
- OCT 15** LBM Sales Master Class, Boston, MA
www.LBMJournal.com/sales-master-class
- OCT 18-21** Do it Best Fall Market, Indianapolis, IN • www.doitbestcorp.com
- NOV 6-8** LBM Advantage Fall Planning Conference, Boston, MA
www.lbmadvantage.com
- NOV 7-8** Mid America Lumbermen's Association (MLA) Annual Fall Conference
Kansas City, MO • www.themla.com
- NOV 20-22** LMC Expo, Philadelphia, PA
- JAN 14-16** North Dakota Retail Lumbermen's Association Annual Convention
Fargo, ND • www.NDRLA.com
- JAN 21-23** NAHB International Builders Show, Las Vegas, NV
www.buildersshow.com
- JAN 22-23** Northwestern Building Products Expo-North, St. Cloud, MN
www.nlassn.org
- FEB 4** Wisconsin Leadership Conference Wisconsin Dells, WI
www.nlassn.org
- FEB 24-26** LBM Advantage Annual Convention, Kissimmee, FL
www.lbmadvantage.com
- FEB 27-18** Northwestern Building Products Expo – South, Council Bluffs, IA
www.nlassn.org
- MAR 4-6** LMC Annual Meeting, Nashville, TN

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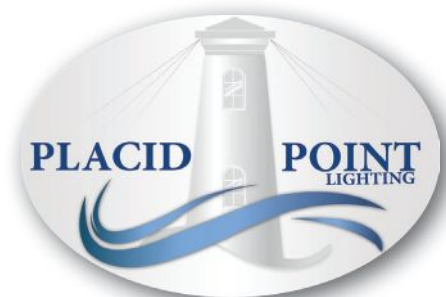
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JAKE BRUTON



ANNUAL HOME PRICE GAINS DIP TO 3.4%

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 3.4% annual gain in May, down from 3.5% in the previous month. The 10-City Composite annual increase came in at 2.2%, down from 2.3% in the previous month. The 20-City Composite posted a 2.4% year-over-year gain, down from 2.5% in the previous month.

Las Vegas, Phoenix and Tampa reported the highest year-over-year gains among the 20 cities. In May, Las Vegas led the way with a 6.4% year-over-year price increase, followed by Phoenix with a 5.7% increase, and Tampa with a 5.1% increase. Seven of the 20 cities reported greater price increases in the year ending May 2019 versus the year ending April 2019.

Before seasonal adjustment, the National Index posted a month-over-month increase of 0.8% in May. The 10-City Composite posted a 0.5% increase and the 20-City Composite reported a 0.6% increase for the month. After seasonal adjustment, the National Index recorded a 0.2% month-over-month increase in May. The 10-City and the 20-City Composites both reported a 0.1% increase. In May, 19 of 20 cities reported increases before seasonal adjustment, while 13 of 20 cities reported increases after seasonal adjustment.

55+ HOUSING MARKET REMAINS SOLID

Builder confidence in the single-family 55+ housing market remained solid in the second quarter with a reading of 71, edging down one point from the previous quarter due to softness in traffic of prospective buyers, according to the National Association of Home Builders' (NAHB) 55+ Housing Market Index (HMI).

The 55+ HMI measures two segments of the 55+ housing market: single-family homes and multifamily condominiums. Each segment of the 55+ HMI measures builder sentiment based on a survey that asks if current sales, prospective buyer traffic and anticipated six-month sales for that market are good, fair or poor (high, average or low for traffic).

"Although the single-family HMI fell slightly, builder sentiment still remains strong for this segment of the market," said Karen Schroeder, chair of NAHB's 55+ Housing Industry Council. "In fact, the reading of 71 is just one point off from the all-time high of 72 from the previous quarter. We expect the 55+ housing market to continue on a positive path moving forward."

For the three index components of the 55+ single-family HMI, present sales remained even at 76, expected sales for the next six months increased one point to 78 and traffic of prospective buyers fell five points to 56.

The 55+ multifamily condo HMI rose two points to 59. Two of three index components posted increases from the previous quarter: Present sales and expected sales for the next six months increased three points to 61 and 65, respectively, while traffic of prospective buyers dropped two points to 50.

All four components of the 55+ multifamily rental market went up from the first quarter: Present production and future expected production both increased six points to 64, while present demand jumped 12 points to 73 and future expected demand rose 10 points to 73.

"Builder sentiment for the for-sale 55+ housing market also remains in positive territory, supported by low inventory of existing homes. However, it is being constrained by development costs and their impact on affordability," said NAHB Chief Economist Robert Dietz.

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IN THE SURGE FOR 55+
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NAHB CHIEF ECONOMIST

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CUSTOM HOME BUILDING CONDITIONS FLAT

Analysis by the National Association of Home Builders based on Census Data from the Quarterly Starts and Completions by Purpose and Design survey indicates that the building of custom homes was effectively flat over recent quarters.

There were 49,000 total custom starts for the second quarter of 2019. This was down slightly compared to the second quarter of 2018 (50,000). Over the last four quarters,

custom housing starts totaled 169,000. This was a 1.7% decline compared to the prior four quarters (172,000). Note that this definition does not include homes intended for sale, so the analysis uses a narrow definition of the sector.

As measured on a one-year moving average, the market share of custom home building in terms of total single-family starts is now 20%, down from a cycle high of 31.5% set during the second quarter of 2009.

BY THE YARD

NEWS FROM LUMBERYARDS AROUND THE COUNTRY

Kodiak Building Partners climbs Inc.'s list of fastest-growing companies

Kodiak Building Partners has ascended on *Inc.* magazine's list of fastest-growing private companies. Kodiak ranks 2,722 on the 2019 list of the top 5,000 independent small businesses. The company, which last year was number 3,979 on the list, posted the highest revenue of all other Colorado-based companies on the list with a growth of 141%.

Kodiak acquires Builders Alliance of Bellingham, Washington

Kodiak Building Partners has announced the acquisition of **Builders Alliance** from co-presidents **Drew Orem** and **Mike Werner**. Builders Alliance was founded in 1913 in Bellingham, Wash. Orem and Werner, brothers-in-law, will remain co-presidents of Builders Alliance.

Hancock Lumber breaks ground in Saco

Hancock Lumber has officially broken ground at the future home of its tenth lumberyard and kitchen design showroom in Saco, Maine.

Kuiken Brothers new Newark facility opens NYC opportunities

Kuiken Brothers has opened its newest site in Newark, N.J. Located on Newark Bay and up the road from Port Newark, the 10-acre site is at the "center of the ever growing distribution hub of the New York/New Jersey Metro market," the company says. It is Kuiken Brothers' ninth residential and commercial building materials location.

Sunroc Building Materials changes name to Sunpro

Sunroc Building Materials, a 2019 *LBM Journal* Dealer of the Year, has changed its name to **Sunpro**. The change differentiates Sunpro from its sister company, Sunroc Corporation.

Curtis Lumber brings on two more locations

Curtis Lumber is opening two new locations, both Bellevue Builders Supply stores, in Richmondville and Sidney, New York. The expansion brings Curtis Lumber to a total of 23 locations.

Alexander Lumber launches window line

For the first time in the company's 128-year history, **Alexander Lumber** is now providing its own line of windows, the Alexander Lumber Window.

Bazooka Lumber & Livestock expands

Lovell, Wyoming-based **Bazooka Lumber & Livestock** has opened its second facility in Thermopolis, Wyoming.

Hamilton Building Supply names new president

Hamilton Building Supply has recently announced the return of lumber and building material industry veteran **John Perna** to serve as president and co-owner.

BMC acquires Kingston Lumber in Washington

BMC Stock Holdings, Inc., has acquired **Kingston Lumber**, a supplier of building materials to builders and remodelers in Kingston, Washington.

McCoy's Building Supply announces new store managers

McCoy's Building Supply has announced the appointment of **Holton Walker** as store manager of its Beeville, Texas, location. **Will Fritzlan** has been named store manager of its Alvin, Texas location. **Stan Nelson** is store manager of McCoy's Laurel, Miss. store. **Robert Aranda** has been named store manager of its San Antonio, Texas, location on South General McMullen Drive. **Colton Meiman** has been named store manager of the Pasadena, Texas McCoy's.



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5 QUESTIONS

WITH JOHN MAIURI: ECI SOFTWARE SOLUTIONS

1

Q: With new construction and remodeling still strong in most markets, what do you see as the greatest opportunity for LBM dealers?

A: One opportunity is the ability to scale the business through aggressive outside sales teams. These teams can concentrate on interacting with potential customers, while in-store employees can focus on direct interactions with their in-store customers. A seamless way for LBM dealers to manage these sales operations is to implement new software using a cloud delivery model, allowing for connectivity to outside sales staff from virtually anywhere. Owners and other key stakeholders can also be connected when out of the office, allowing for far more control than ever before.

2

Q: The flipside of that question, the biggest challenge?

A: Dwindling numbers of young workers going into the trades has led to a large shortage of craftsmen and, in busy markets, lumberyards are even competing with their own customers for staff. I have heard speculation that the lack of tradespeople could lead to greater innovation in manufacturing pre-built or component-built housing. If that is the case, movement in that direction could thin the number of outlets that provide materials for site and/or stick built projects.

Further investment in technology-based solutions is virtually everywhere we look today. However, many dealers spend more time deliberating on next steps rather than advancing their operations by investing in technology. Too often we see many with that “deer in the headlights” approach to reinvestment, which limits opportunities and creates a significant challenge in competing with the big boxes and market leaders.

3

Q: Many LBM companies rely on computer systems that are more than a decade old—including some that are more than 30 years old. What would you say to dealers who haven’t upgraded because their existing systems work fine?

A: First and foremost, it is very likely these LBM companies don’t know what they don’t know. The changes in technology just in the last 10 years have been so dramatic that companies operating on older systems have very little perspective on the improvements seen in the processes that have been enabled by modern solutions. For example, in some older solutions, the end-of-month billing cycle and statement distribution processes took one to two days to complete. In modern systems, these

processes can be reduced to a couple of hours or minutes. In addition, modern relational database architecture combined with business analytics can provide near limitless real-time data awareness, allowing both preventative forecasting and up-to-the-minute corrections to minimize lost sales, weak margins and costly errors.

4

Q: Given the rapid advancements in technology, what new features and capabilities should LBM Journal readers watch for in the coming years?

A: As a leading cloud software provider in the LBM and hardlines space, ECI has invested heavily in an infrastructure that allows for a more controlled distribution of software solutions with more emphasis on features and less focus on keeping our solutions backward compatible with older operating systems. We are continuously developing more unique payment processing features, loyalty programs, e-commerce features and much more as we further reduce the distraction of on-premise deployments and third-party hosting. As the very first company in LBM to transition to this model, we have a home field advantage and get stronger every day.

5

Q: Today’s ERP systems go far beyond POS technology. How do you suggest that LBM dealers view the role of their ERP system in their overall operation?

A: Today, it is all about providing information to the end customer on a 24/7/365 basis. For the LBM dealer, it is all about collecting that customer data from those interactions and using it to learn more about their needs and their wants. Real-time awareness and easier data consumption allow for users to foster far deeper relationships with their customers. Our goal is to provide a solution delivered to the user and their customers with the least amount of oversight necessary. ■

As president of the LBM & Hardlines Group at ECI Software Solutions, John Maiuri is responsible for the vision, guidance and strategic growth of his team within the Building and Construction Division. With more than 30 years of experience in the lumber and hardware industry, John understands the importance of leveraging technology to remain competitive.



Higher earnings begin with keeping score

BUSINESS IS BOOMING in just about every segment of the market. It is increasingly difficult to find great people, and when you do find them, owners and managers frequently resort to a sweetened compensation package to attract them.

Surprisingly, however, even in the booming housing market, a significant number of building supply businesses are struggling to earn a satisfactory profit. How frustrating! If you can't produce a higher-than-average bottom line when business is so robust, what are managers going to do when the market begins to shrink?

Improving productivity, and thereby boosting profitability, frequently lies in the willingness of managers to step back from their businesses and figure out what they must do differently to improve results. Underline "step back from the business."

I know from experience that one of the most important keys to optimizing profitability and return on stockholder's equity is setting productivity benchmarks. Without benchmarks it's difficult to know whether you're winning or losing. In business, as in sports, setting benchmarks helps bring out an organization's competitive spirit.

PERSONAL BEST

It makes sense to me that Olympic records have continued to be broken for hundreds of years because Olympic athletes measure their results each time they compete. When an athlete achieves a personal best, it doesn't necessarily mean that he or she won a medal. It means that he or she jumped higher or ran faster or lifted more than he or she has ever done in the past.

In business, personal best scores and company best scores may be taking place, but no one is aware of the accomplishment if no one is keeping score.

The moral of the story is: Keep Score! And then raise the bar! Here are a few of my favorite benchmarks for an industry I have observed for many years:

Inventory shrinkage. Companies with systems and procedures in place and the discipline to follow them should hold inventory shrinkage to 0.5% of sales.

Debt to equity. If total capital is made up of debt and equity, then equity should represent 60% of total capital.

Pre-Tax margin. Between 4% and 6% before taxes is just about optimal for a privately owned, independently run building supply business (2.5% to 3% is about average).

Return on assets. 15% pre-tax on beginning assets.

Current ratio. This ratio refers to the relationship between current assets and current liabilities. In the building supply industry, we look for \$2 in current assets for every \$1 in current liabilities.

Personnel-related expenses as a percentage of gross profit dollars. A building supply business that is able to control personnel-related expenses (compensation, worker's comp., group medical and payroll taxes) to 60% of gross profit generated will usually earn an optimal level of bottom line profit. (This benchmark is my personal favorite.)

Outside sales expenses. My favorite benchmark for outside salespeople is controlling salespeople's total expenses (commission, salary, benefits and travel expenses) to 3% of sales and/or 13% of gross profit dollars.

Average collection days. 40 to 45 days is about as good as it gets for about 95% of the businesses in our industry. Dealers who allow average collection days to exceed 60 days become especially vulnerable to credit losses.

When I advocate keeping score, I am not minimizing the importance of work ethic among the individuals in an organization. What I am emphasizing is the importance of both management and individual workers focusing more on measurable improvement than on how tired they are when they go home at night.

If each time a new personal best is achieved, the bar is raised, over time the odds are extremely high that the company's overall productivity will improve significantly. ■



Bill Lee works with owners and managers who are looking for ways to put more money on the bottom line. For more information, you can contact Bill at 864.303.8366 or email him at LeeResourcesInc@gmail.com.

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Planning beats talent

“KNOW ANY GOOD SALESPeOPLE OUT THERE?” That’s the question I’m asked about once each week by managers and executives seeking improvement to their sales. I know plenty of talented people who could be great salespeople with the right leadership. The problem for LBM dealers is the false expectation that you can “hire” sales. The best way to build sales is to build a plan.

This truth was first illustrated when Brad Williams, vice president of sales for Mirage Flooring and a former defensive end with the Notre Dame college football team, shared a story about Lou Holtz and superior leadership.

Picture a modern media classroom packed with a group of very large teenagers, some weighing in excess of 300 pounds. The boys are raucous until the powerful leader struts through the door and every eye turns to listen carefully. Lou Holtz tells his players they will win the game if three things can occur: each player will cover his assignment; each player will out-hit his man; the team will commit fewer turnovers than the opponent. That’s it. That’s how national championships are won.

Williams explained how players voluntarily acquiesced to Holtz’s strict disciplinary policies and executed his game plan with passion...because it worked! I took a look at Lou Holtz’s legendary record as an NCAA head football coach and discovered something almost uncanny. At every stop in his career, he took the same talent as his predecessors and got better results. In an excerpt from my latest book, *Sales Economics*, I wrote:

The North Carolina State Wolfpack was 3-8 in 1971, 8-3 in 1972 under first year coach Lou Holtz. The South Carolina Gamecocks were 1-10 the year before Holtz took over and, after a single transition season, he led the team to an 8-4 record and a ranking in the top 20 teams of the NCAA. Same talent; different results. He turned around a team that had

been struggling for years at Notre Dame and led the team to the national football championship in three years.

It was his experience at Arkansas that might be the most impressive. He took over a team that, in 1977, had lost half of its games. The next year he led that team to an 11-1 record, which is only a small part of the story. At the Orange Bowl, the Arkansas Razorbacks faced the heavily favored Oklahoma Sooners, the team that would become the national champion if they won that game.

If the odds against an Arkansas victory weren’t slim enough, Holtz benched three of his top players for disciplinary reasons just prior to the game. Two of those players had scored nearly 80% of the team’s points that season. In spite of being an 18-point underdog and losing those three players, Holtz’s squad won the game 31-6. Less talent; better outcomes.

If you are not getting the results you want, it’s possible you can hire better talent than the competition, but hardly a certain formula for success. If you want to win market share, do better with average talent. Talent is different than skill. Skill is the manifestation of talent. More importantly, talent is average; that’s why we call it the “law of averages.”

It is impossible for every organization to hire “better” players. Ultimately somebody has to figure out how to win with average talent, as Lou Holtz had done repeatedly during his illustrious career. Superior leadership of average talent outperforms mediocre leadership of exceptional talent.

Superior leadership means discovering talent coachable enough to execute the right game plan. The right question is not whether you can find talented salespeople with the skill and proven track record for success. The better question is whether you have the right leadership and game plan to win with the talent you got. If you aren’t getting the results you want, stop blaming the talent and start evaluating your game plan. ■

Rick Davis new book, *Sales Economics*, will be pre-released for attendees to the LBM Strategies Conference on September 18-20, 2019 in Austin, Texas. The book will be available for purchase in mid-October. For more information, visit www.buildingleaders.com.



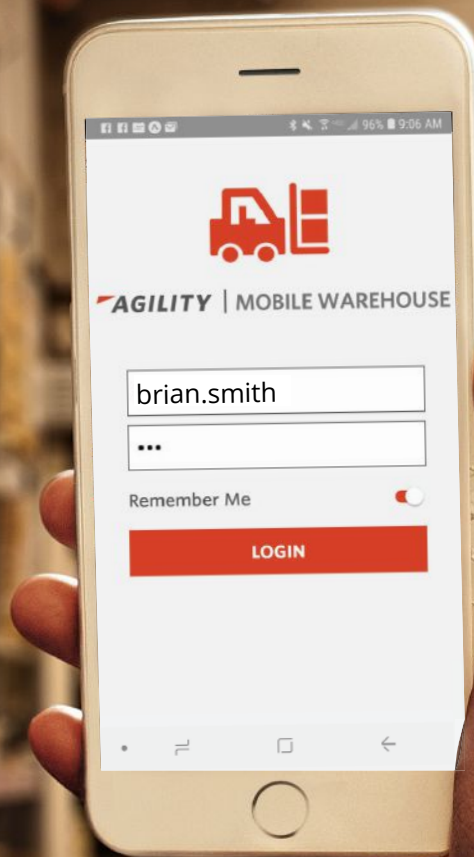
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How manufacturers and dealers can partner in online retail

I THINK OUR INDUSTRY is missing out on an opportunity for manufacturers to sell online, with online pickup at independent lumberyards. So many manufacturers that are too eager to sell products from their own websites don't consider how it affects their distribution network. One decking manufacturer once began selling their products online at a price so low they undercut all of their dealers. Another company did the same thing with its lighting products. Both companies, in the end, alienated their loyal dealers.

In the independent lumberyard business, a lot of us don't have the assets or the knowledge or skillsets to be able to be able to create a viable online store. Granted, anyone can make one via eBay or Amazon, and you can get some online presence, but I think a better alternative would be to get the manufacturers to team up with independent lumberyards by setting up a website to sell their product, and then make the product available for local pick up at the retail level.

Say a consumer wants to get a Brand A deck lighting, and I'm a stocking dealer. When that consumer goes to the website and purchases the lighting, that light is delivered to my shop and we get the profit. Now the manufacturer in that situation would then realize that they would have sold it through distribution for X dollars, and had the consumer bought it through the retail channel, they would have paid Y amount, and the lumberyard would have made Z amount as margin. The manufacturer then awards that amount as a credit towards purchases from that lumberyard. That way, everyone is happy and it encourages the lumberyard to promote Brand A's website, because they know that they are going to make a profit on it, they don't have to stock or fulfill that order, and it's an alternative method for independent lumberyards to bring customers into the store to purchase other products as well.

The current method sometimes causes retailers to not even recommend some manufacturers' products because they know that if the customer goes to the manufacturer's website, they might decide that the price paid there to have the product shipped to their home is reasonable to them and will save them a trip back to the local lumberyard.

One of the advantages of manufacturers working with local, independent retailers is that right now when a man-

ufacturer sets up a website, or these products are available at someone else's website at a lower cost or a cost comparable to something you can't make a profit at, it causes the dealer to not want to show the product, or even talk about it in their store.

This once happened with a certain brand of railing system. We had a display up, and consumers would come in and really like the product, so they'd go online and do a little more research before making a final decision. What they found is that the manufacturer was selling the product at a rate lower than I could get it through distribution.

I suggest that the manufacturers put products on their websites for a fair price, and make them available for pickup at a local store. That store then gets full credit for that sale. By getting that customer to come into the store, the shipping is free. If the consumer elects to have it shipped to their home, the costs are higher. That gives the store incentive to be a local dealer of the product, and when the consumer arrives in the store, it gives the store's staff a chance to upsell, which in turn can also sell more of the manufacturer's products.

This method also incentivizes the store's staff to help the customer and upsell as much as possible because they can feel as though a customer is not just showrooming them, because they know that even if they went back to the manufacturer's website, they'd still come to the store to get the product. By selling product this way, it is a great way for both manufacturers and retailers to combine to fight back against all the online retailers that are popping up.

I think it's important that manufacturers also not require that an independent retailer be exclusive to them. If a manufacturer has a great product and is confident in that product, they shouldn't care if there are other brands being sold at the store. If you've got a really great product, you'll create your own exclusivity.

If a program like this were available to us, I'd jump on it quickly, and I think a lot of other dealers would as well. I know there are dealers who, when a consumer comes in and starts asking lots of questions about a product that is available and comparably priced online, immediately direct the customer's attention to a different product. That situation is not good for the retailer or the manufacturer. ■



Bob Heidenreich, owner of The Deck Store, in Apple Valley, Minn., has been selling decking and home improvement projects for 30 years. Follow Bob on Twitter: @TheDeckStore.



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How to use data to set goals for sales reps

MANAGING A SALES REP or a team of sales reps can be very different than managing almost any other employee. After all, a sales rep's position by nature is fluid and ever-changing. But that's no excuse—it's still important to provide a certain level of structure for your sales reps that will enable them to achieve personal goals and in turn contribute to larger company targets.

How do you determine those goals? How much should your sales reps be accomplishing in terms of leads, project quotes, and other indicators? The good news is that both the building products industry and your team members already generate datapoints that you can use to answer these questions.

FORMULAS FOR GOAL-SETTING

First and foremost, consider the timing of the goals. Avoid daily activity goals; a sales rep's routine can vary greatly day to day. Set an annual goal, but then break it down into manageable monthly and weekly goals that can help you and the rep stay on track while monitoring performance.

Here's an example of how to weigh and set those goals.

Let's assume your sales rep, Jason, sells vinyl windows and doors. Last year, Jason sold \$1.5 million in windows and doors. And you have determined that you want to see a 15% increase in sales from Jason this year.

$$\text{\$1,500,000} \times 15\% = \text{\$1,725,000}$$

Therefore, you expect Jason to generate \$225,000 in new window and door sales this year.

But simply saying, "You need to sell \$225,000 more this year" is overwhelming and unproductive. That figure needs to be broken down into something more tangible—i.e., quotes and orders.

So again, let's reverse-engineer: How many quotes and orders did Jason produce to achieve the \$1.5 million in sales last year? For this example, let's say he generated 400 quotes and closed 100 of them (25%).

$$\text{\$1,500,000}/100 = \text{\$15,000 per window and door package on average}$$

We know Jason closes 25% of his job quotes, and each sale is an average of \$15,000. With this information, we can now determine how many quotes he needs to produce in the coming year:

$$\text{\$1,725,000}/\text{\$15,000} = 115 \text{ sales needed to close}$$

Now, assuming that Jason is going to continue closing at a 25% rate, we can use this number to determine how many quotes he needs to produce (with an average of \$15,000) in order to achieve this goal.

$$115/0.25 = 460 \text{ quotes needed this year}$$

So, Jason needs to generate 60 more quotes than he did last year. If we divide the total quotes by 49 weeks (allowing for three weeks of vacation) in a year, we reach 9.38 (let's round to 10).

So, we now know that to achieve your goal of a 15% increase in sales of windows and doors this year, Jason needs to quote on average 10 window and door packages per week.

This is just one example of how you can use established data to provide activity targets for your sales reps that contribute to larger annual goals and performance indicators. And these types of calculations could be used to drill down even further to determine any of a wide variety of activities needed, such as the number of phone calls or meetings necessary to produce the target number of quotes and subsequent sales.

An important caveat: To produce the data needed to do these types of calculations, you need to have an accurate tracking system. Remember also that it is important to always be transparent with your sales teams about the goals you have set for them and what you feel they need to do to achieve those goals. Goal-setting in this form isn't just a benefit to the company, but can make your reps' jobs easier, more manageable, and, ultimately, more personally profitable. ■



Rikka Brandon is the founder and Chief Executive Recruiter of Building Gurus, a boutique executive search and consulting firm that works exclusively with building product manufacturers and distributors to find, hire, and retain top building products talent.



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The dumbest person in the room

OUR SOCIETY ENCOURAGES people to become leaders. It glamorizes how cool it is to be the person in charge, implying that with that responsibility one will instinctively know what needs to be done. Unfortunately, we frequently do not provide people who are thrust into leadership positions enough advanced training and guidance to help them succeed as leaders.

One of the most common mistakes I witness is either when an associate tells me they need a specific title in order to be able to lead their people, or someone who has that specific title can't figure out why they are ineffective with their people when, after all, they are the boss. These comments convey that they think that effective leadership is bestowed, that a title works like a magic wand for the would-be leader to wave around to get things done. Anyone who has truly led teams knows this is not true.

Ask anyone who has ever worked with me, and they would probably tell you that, at times, I acted like I was everyone's boss, and, at other times, I acted like everyone was my boss. How was that possible? When dealing with people who did not report to me, it was through the use of implied authority. When I wanted to get projects or initiatives accomplished, I engaged these people and showed an interest in making them successful in their jobs. I also actively sought out their advice, while also showing full confidence in my ideas. By projecting that my idea was something that was most likely going to move forward, but by also asking for people's input, it made them feel valued, that their opinions and ideas counted. Conversely, when people came to me with ideas, I would not act like I was the final decision-maker; rather, I tried to help out and contribute to their project, just as others had done with mine. So, what has changed now that I am in a position where the authority is no longer implied but is actually given to me? Hopefully nothing. I still want my people to feel like they have a voice—that I actually listen to what they have to say.

The real challenge for a leader is to make sure they surround themselves with people who will speak up and state their opinions. We all know the Hans Christian Andersen

story, "The Emperor's New Clothes." You do not want to be confidently presenting a new idea to your company or the public, which, due to no one's willingness to tell you it's awful, puts you in the position of being as naked as the emperor in the story. A good team will tell you when you are barking up a wrong tree or when you are missing the obvious. Sometimes the most obvious answer was staring you in the face all along.

For instance, we had a market in which we were losing money with a big flagship store. Years ago, it had been a large operation, but the market's turning bad and some past management decisions had the operation posting some pretty large losses. Meanwhile, about 15 miles away was a small store that had been around forever and made a little money. The assumption was that once that team at that store retired, we would merge it into the larger store. Well, we put lots of money and ideas into the larger store, but the market got worse and the results with them. To make matters worse, our egos would not let us throw in the towel.

One day, out of the blue, one of the members of my team suggested we merge the business that made sense into the smaller store and close the larger property. It made sense on so many levels because the market did not look like it was going to significantly improve in the short term; the smaller store, while already profitable, could handle more business; and the business that we would move did not care where their product shipped from. We made the move, and things were significantly better than they had been than when we had the large store. And all this came about because someone was willing to throw out an out-of-the-box idea without fear of repercussions because they knew their opinion was valued.

There is an old saying that if you are in a room full of people and you can't figure out which person is the dumbest person in the room, then it might be you. If you are going to effectively lead a team, you need to be constantly vigilant in making sure that when you are the dumbest person in the room, you do something about it. Usually, it just means shutting your mouth and listening to your team. ■

Russ Kathrein is the president and CEO of Aurora, Ill.-based Alexander Lumber, which operates 12 locations throughout Illinois, Wisconsin and Iowa.



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Taming unrealistic valuation expectations

THE LBM AND HOUSING SECTORS are experiencing relative success these days, yet with a recession potentially on the rise in the future, some business owners are getting itchy to sell their businesses at a peak time. As a result, here's something interesting that we are seeing in today's merger and acquisitions markets. When selling at a time of strong growth, some owners want the valuation of their businesses pegged not where they are now with financial performance. They want the valuation based on future performance, as yet not achieved. They want a buyer to reward them with a higher contemporary valuation for the prospects of growth. And that's a concern for investment bankers like us who manage the seller's expectations. The root of the concern is clear: Some sellers have fantasy company valuations in mind that are not based on historical revenues or trailing EBITDA. Those sellers want to be rewarded for future revenues and future EBITDA that are by no means guaranteed to materialize.

SOME BASICS

Before we proceed, let's backfill on some basics. Most companies that are acquired have been valued by a multiple of historical EBITDA, typically a trailing 12-month time period. This multiple of EBITDA is determined by dividing the total enterprise value (TEV) paid for the company by the EBITDA. The formula looks like this: $TEV/EBITDA = \text{multiple paid}$. For example, if a company sells for \$10 million and it had an EBITDA of \$2 million, then the multiple paid was 5X, or $\$10 \text{ million} / \$2 \text{ million} = 5$.

By the way, if the company being acquired has no EBITDA currently, but has a history of revenues, a.k.a. "top line," a company can be bought on a multiple of revenues, typically discounted (often heavily) from what would have been paid if the company were profitable. Acquiring a company that is not profitable is a high-risk investment, since it is nearly impossible to predict how well a company will perform in the future with any degree of certainty. Accordingly, those company values will reflect that uncertainty, compared to a company with around the same top line, but with profitability. (At some price, buyers and sellers will always find

each other, even for unprofitable operations, especially if they show promise or could benefit from an acquirer's turnaround skills.)

With the economy in the state it's in now—relatively healthy with a recession on the horizon—it's only natural that some company owners, eager to take their chips off the table, will call up an investment banker and say, "I'd like to test the market by putting my company up for sale."

HOW MUCH YOU THINKING?

Inevitably, our first question is this: Have you considered what value you'd like to obtain in a sale?" The owner may respond: "Well, I'm around \$2 million in EBITDA now, but my projections show that at the end of 2022, we will have a \$4 million EBITDA. I'd like to base the value on that future EBITDA, since it's such a sure thing. I see that companies like mine are selling for 5.5X EBITDA, and so, I'd like 5.5X on that \$4 million and sell my company for \$22 million."

This seller really needs to be more realistic.

The 5.5X being paid today for profitable companies is being paid on historical EBITDA. In this example, this fellow's company would sell for 5.5X \$2 million, not 5.5X \$4 million. If there is an intrigued acquirer—maybe a dealer across town who's been waiting for the chance to snap up a competitor—he might agree with the seller's projections of \$4 million in 2022 EBITDA, yet not pay on that today. If there are multiple buyers and a bidding war (our two favorite words!) breaks out, that intrigued acquirer might pay 5.5X on \$2 million, and then pay a series of earn-out payments, based on delivered performance. This is typically agreed to when the seller stays on, or has a succession plan to keep a team in place to achieve the projections.

When we explain this scenario to sellers who might have a fantasy valuation in mind, some simply say that we are wrong, and they look for an investment banker who agrees with them. But it's been our experience that the sophisticated acquirers in the LBM space today have tight rules for acquisition, and low appetites for risk. This drives discipline in valuation, with a bias toward historical performance, not bets placed on prospects that are uncertain to be achieved. ■



John Wagner is a managing director at 1stWEST Mergers and Acquisitions, which offers a specialty practice in the LBM sector. Contact John at j.wagner@1stwestma.com. Learn more at 1stwestma.com.

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Learn to love sales reps

Dear Thea,

I recently attended a conference where you spoke, and you mentioned how much you have learned from sales reps. I respectfully have to disagree with you. In my opinion, sales reps are all the same. They are all about the sale, they think all they are responsible for and worried about are their sales numbers and commissions. I have learned from them as well, mostly that they are all self-centered and cut from the same cloth. Not expecting or looking for an answer from you, just had to share my views.

Signed,
Another point of view from Pensacola

Dear Another point,

Well I can certainly understand why you did not include your company name and instead used a Gmail address to send that chipper email. If your sales team knew who you were, upon reading that they may decide to string you up and beat you like a piñata at a kid's party. You could have saved yourself some time; my guess is they already are very aware of how you feel, which would explain why your viewpoint never improves.

And what, pray tell, would ever make you believe that I would not respond? Sending me that email and telling me I didn't have to respond is like slapping someone and expecting them not to slap you back. Kind of a Captain Obvious moment.

I love sales reps. Without them, I (and many like me) would not have a job. Not only a job, but a job that I truly love. Sales reps have given me a career that entertains me, educates me, enlightens me, provides me with an endless supply of work and therefore lifelong career security. What a beautiful thing.

But enough about me, let's get back to your dark, cold, and lonely view of sales reps. My best guess, dear Pensacola, is that you were the kid that was bullied and picked last

for dodge ball. You have to put this situation in context. If business were like high school, here is how this would play out: Sales is the all-star football team, marketing is the cheer squad, credit is the band, billing is the geek patrol and you, well you are just outside looking in on it all—by choice! You could easily join any of those groups and participate in the fun.

If that is truly how you see your sales reps, then you have two choices: get a job where you do not interact with sales, or change how you approach them.

I am taking a leap and assume you are actually in credit since you never actually said what seat on the proverbial bus you occupy.

Despite your email, I believe there is hope for you. You have been approaching this all wrong so let's hit the reset button on your view of the world of the sales rep. Let's take a Zen approach. Close your eyes. Clear your mind. Picture unicorns and rainbows. Now repeat the following:

- Don't give advice unless asked (difficult but it can be done).
- Leave the sales meeting if you have nothing productive to say.
- Focus on what you are bringing to the table instead of on what you think "they should be doing."
- Let them experience their own choice (a well-placed "you saw that going better, didn't you?" puts a nice bow on that when the time is right).
- Stop focusing on their behaviors. Focus on your own.
- Remove yourself from the situation before it becomes unsafe—for either of you.
- Don't nag them about their responsibilities.
- Only help when asked.
- Compliment what they are doing well.
- Let yourself enjoy the entertainment.

And finally—lighten up. Have some fun with them. After all, we are not saving lives, we are selling products and services. Dig deep, bury that self-righteous indignation and invite your least favorite sales rep to lunch and find the serenity. Go ahead, get dessert. Everyone knows sales always pays. ■

With more than 30 years of credit management experience in the LBM industry, Thea Dudley consults with companies on a wide range of credit and financial management issues. Contact Thea at theadudley@charter.net.



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REAL ISSUES. REAL ANSWERS.



For years, many LBM companies charged restocking fees on returned material as a matter of course. And why not? After all, it takes time for team members to return products to inventory, and as we know, time is money. Plus, our margins are thin enough, as it is. Then again, competitive pressures and the desire to keep customers happy can lead to reducing or waiving these fees, sometimes on a case-by-case basis. As you'll see from the wildly varied results of this month's reader survey, it's clear that there's no one-size-fits-all solution.

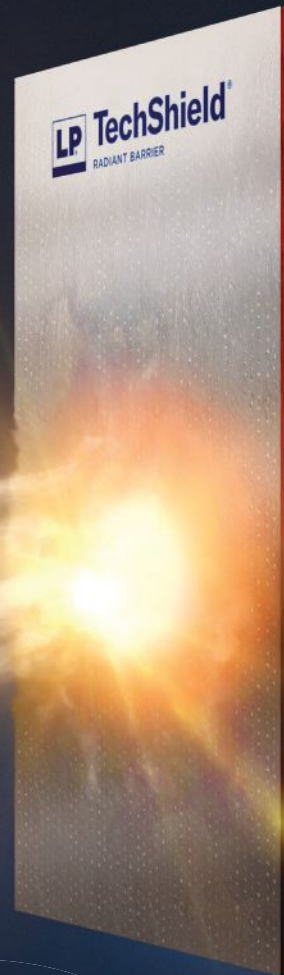
BY LBM JOURNAL READERS

RESTOCKING FEES

THIS MONTH'S QUESTION was suggested by a reader in the upper Midwest, who wrote simply, "Restocking fees. To charge or not to charge?" After an insightful phone conversation with the dealer, we took that topic and built a brief survey around it. Judging by the fact that well over 200 readers took time to weigh in, it's clear that this is one of those universal challenges that many dealers wrestle with, and that has no simple answer.

If you're among those who responded to the survey, which was sent to readers who've opted-in to receive our email communications, thank you for joining the conversation. If you'd like to participate in future surveys, just send a quick email to operations@LBMJournal.com, and we'll make sure you're added. ➤

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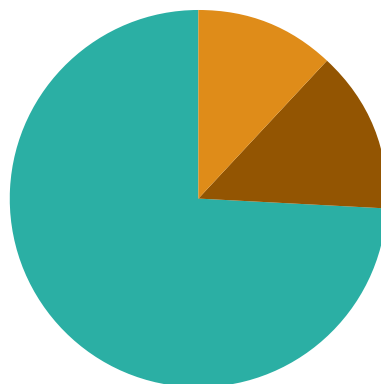


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QUESTION 1

Does your company charge restocking fees on returned items?

As the chart shows, a solid majority, nearly three in four respondents (74%) report charging restocking fees on some returns. Those who marked “Yes, on all returns” and “No, we don’t charge restocking fees” effectively split the difference, with 14% and 12% of the respondents, respectively. Here are some representative comments to this question. ▼



No, we don't charge restocking fees on returned items.	12%
Yes, we charge restocking fees on all returned items.	14%
Yes, we charge restocking fees on some returned items.	74%

“Yes on special order items only that are returnable to the vendor. No on stock material.”

“We are working on this currently. We have always charged 20% if we send out a truck, or no charge if they bring the material back to our store. We do not charge to a select group of folks who understand the cost associated with a return. If they keep returns low under 3-5% of purchases, they will not incur a charge.”

“We have never charged a restock charge on stock returns unless someone canceled an order that we built and had delivered to the jobsite.”

“The question of which customers warrant restocking charges is simply based on the ‘quality’ of the customer. How important is this customer to your business? Is the customer loyal to your business? Is their volume and margin really valuable to your company? Are they 90% ‘trouble free?’ Will you gain, or strengthen your relationship with this customer, if they know that you’re taking exceptional steps to further gain their confidence, and additional business? All are valid questions which should take all of the guesswork out of making your restocking fee decision.”

“No return charges on stock items unless extraordinarily egregious behavior on the part of the customer.”

“We have discussed it, but in our small community it doesn’t work.”

“We say we do, but in reality, we very seldom charge. Our builder customers understand that we do not give credit unless product is perfect to restock and resell. We photograph any material not credited, and then if we can clean it up, we restock at zero cost, or it goes in the damaged goods stack for greatly discounted sale (which is popular with our customers who own rental properties). Not a perfect method but we hope to cover the cost of the process with sales.”

“Our policy is to charge on all, but we rarely do. We do always charge when we have to return product to a vendor to make sure we do not lose money.”

“Large customers typically have the fee waived.”

“We want to. However, we are struggling to introduce it into the market as none of our competitors do either.”

“All of our customers are automatically charged a restock fee on returns. We can adjust the percentage, or remove it entirely, depending on the situation.”

“As a rule, we charge a 10% restock on all items returned. Of course there are exceptions to every rule but most people don’t have an issue with it.”

“We don’t charge a fee on stock items if returned within 30 days. After that, there is a 15% charge. For special orders, if we can return them, we pass along whatever the supplier charges us.”

“If the customer brings the material back himself, or if we make a mistake, he gets full credit. If we have to pick it up on our trucks, he gets charged with a restock fee.”

QUESTION 2

How would you advise this dealer?

“We’ve always charged a modest restocking fee, and for years that policy was carved in stone. Today, it’s evolved to the point where our salespeople have the authority to reduce, or completely waive, these restocking fees. In my view, the lack of a restocking fee effectively encourages returns. Plus, the loss of that revenue, combined with our already tight margins, is just one more hit on our bottom line. Then again, we’re in a competitive market, and can’t afford to lose customers. How do other dealers handle this?” ▼

“We maintain a ‘no restock fee’ list which builders can be a part of. Although it is somewhat arbitrary, it is usually offered to builders with large volumes and a long history of business and loyalty with our company.”

“No matter the excuse by sales, or the excuse we place on ourselves as dealers, no ‘skin in the game’ by the contractor creates a number of issues. Good contractors (the ones you want to do business with) will understand the cost of labor.”

"Admittedly, this is something that my company does not do, but something that I strongly suggest. My advice is to waive the re-stock fee only if the builder performs their own take-off. In my experience, most problems in our industry are the direct result of the migration away from builders creating their own material lists in an effort for dealers to have a 'competitive advantage.' When a builder sits down with her engineered, permitted, fully specified and detailed set of plans and creates her own material lists, she is forced to build that project in her mind from the bottom up and sequentially answer many questions that will potentially arise in the field. This single act will automatically eliminate a large percentage of all credit returns with most builders. I suggest an emphasis in our industry to incentivize builders to migrate back to creating their own material lists. This one cultural emphasis will be the single largest cure to our credit return problems and because of that, will help with many other issues such as labor, overtime, AR, available sales resources, etc."

"Educate the customer, restocking fees reduce overall costs. How? The small amount they pay to return items is significantly less than the cost of running out of items on the jobsite. They can simply order a little extra and know that they can bring back what you don't use, and pay a small fee. If restocking fees cause a huge problem, and you have a significant volume of returns, raise your prices and advertise no return fees."

"I believe that in the competitive market today, with mass merchants who allow returns without reason or even a receipt, you have to weigh the pros and cons of restock charges. It becomes really complicated with other suppliers willing to offer returns to a large customer in order to steal the business from you. I feel that salespeople understand the relationship better than management in most cases. Some customers are very sensitive to a restocking fee. I recommend giving your salespeople the ability to know the customer and manage these situations." >



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"If your customer was used to the modest restocking fee why did you change the policy? We are almost 100% pro, so we determine the quantities. Fortunately our software allows us to analyze what is being returned, and by who. We constantly work on reducing returns with more accurate quotes and shipping."

"I would say look at the numbers. Maybe raise prices on certain customers to compensate for their penchant for returns."

"We charge a 25% restocking fee on all special order items, if they are returnable. This covers our cost because the wholesaler charges us a fee up to 25%. As far as stock items, we do not charge a fee."

"Communicate the costs involved of restocking material to your salespeople first to get their buy-in. Management should have overall authority on restocking fees, not salespeople. Also communicate the restocking fee policy with your customers and sit down personally with key customers or those that may buck the most. Discuss ways in which customers and salespeople can work together to minimize fees and costs for all parties."

"We haven't ever really charged a restock fee on the items where we've figured the quantities. Try to figure your jobs tighter or just a little heavy. That way you don't have all the small loads that nickel and dime you to death and when you pick up the material for returns, you know you didn't have all the extra deliveries in between. If it's a special order and our vendor charges us a restocking fee, we charge the customer a restocking fee."

"With us, it varies according to the amount and who the customer is. Our GM makes all decisions, not sales. Also, any return on our vehicle gets a fuel surcharge of \$19.95 deducted from the return."

"Stick with the policy. On rare occasions a fee can be waived."

"Returns are expensive and our return charge is non-negotiable. High volume A and B accounts have few if any returns, it is by far the marginal accounts that have the most returns."

"A friendly return policy is critical for customer relations. Sam Walton said if a customer's boots fail, give them a new pair and a pair of socks. It built Walmart!"

"From what I see it's on a case-by-case. I have a customer that will buy a whole box of soffit and fascia just so it doesn't get scratched or dented between the store and the jobsite. He returns the rest still in a box where they are resellable. There are some guys who try giving you junk back. That's where you have to draw the line."

"Large order, small return...waive the restock fee. Special order, non-stock item...apply the fee. Clearly state the acceptable condition of material that can be returned and put a time limit on the return from date of invoice. Manager approval on all exceptions to the fee."

"I would charge whatever the restocking fee is from the wholesaler plus 5%. As far as items stocked in the store, unless it's a huge problem I would not charge a fee or let the salespeople decide how much and if there should be a restocking fee."

"Any returns should be deducted from the salesperson's sales, and reduce commissions. If it is a sound business decision to accept the return, with or without a restocking fee, then go ahead and do it."

"You must have a firm policy in place to charge for returns so that you can make exceptions as needed. A 'no restocking fee for returns' policy invites undisciplined purchasing and selling, and encourages your customers to effectively re-grade your lumber shipments on the jobsite."

"We would love to charge a restocking fee, but no major lumberyard around has ever done it. It's an expense we have always eaten."

"Extra fees will protect your bottom line in the short term. Your competition that doesn't charge a fee, yet sells at the same price, will keep all the business eventually as your customers discover this. Simply protect yourself on special order returns but waive general merchandise restocking fees."

"We handle it like most companies would in these days I imagine, which is on a case by case basis. There are many variables when dealing with the dreaded restocking fees, such as: time and date of purchase; material damage; amount of material being returned; customer return or pick up; type of material being returned; status of customer's account; customer loyalty; location if to be picked up (at suppliers convenience); and the list goes on. On every ticket or invoice have it written (all returns must be accompanied by this invoice), and is subject to a restocking fee. Also when it comes to the return always offer a store credit. Three times out of five they will take it, which softens the blow to the bottom line."

"In our competitive market, it is no longer possible to charge contractors a restocking fee. In response, we have enforced stricter standards for material returned for credit and refund only those items that are truly resellable. In addition, we have tightened procedures for non-stock orders so that, if an item can be returned, there is a restocking fee agreed to in advance."

"I agree with your view of 'encouraging returns.' Any waiver or adjustment of the restock fees should always rest at the bean counter's desk supported by solid reasons why."

"Almost all of our competitors charge re-stocking fees, so why should we not?"

"Make returns hard. Make the process arduous for salespeople and customers. Charge re-stock fees when applicable. I don't worry about what competitors do, it's up to us to make our own sound business decisions. If a certain customer always returns a lot of materials, we make sure our margins reflect that."

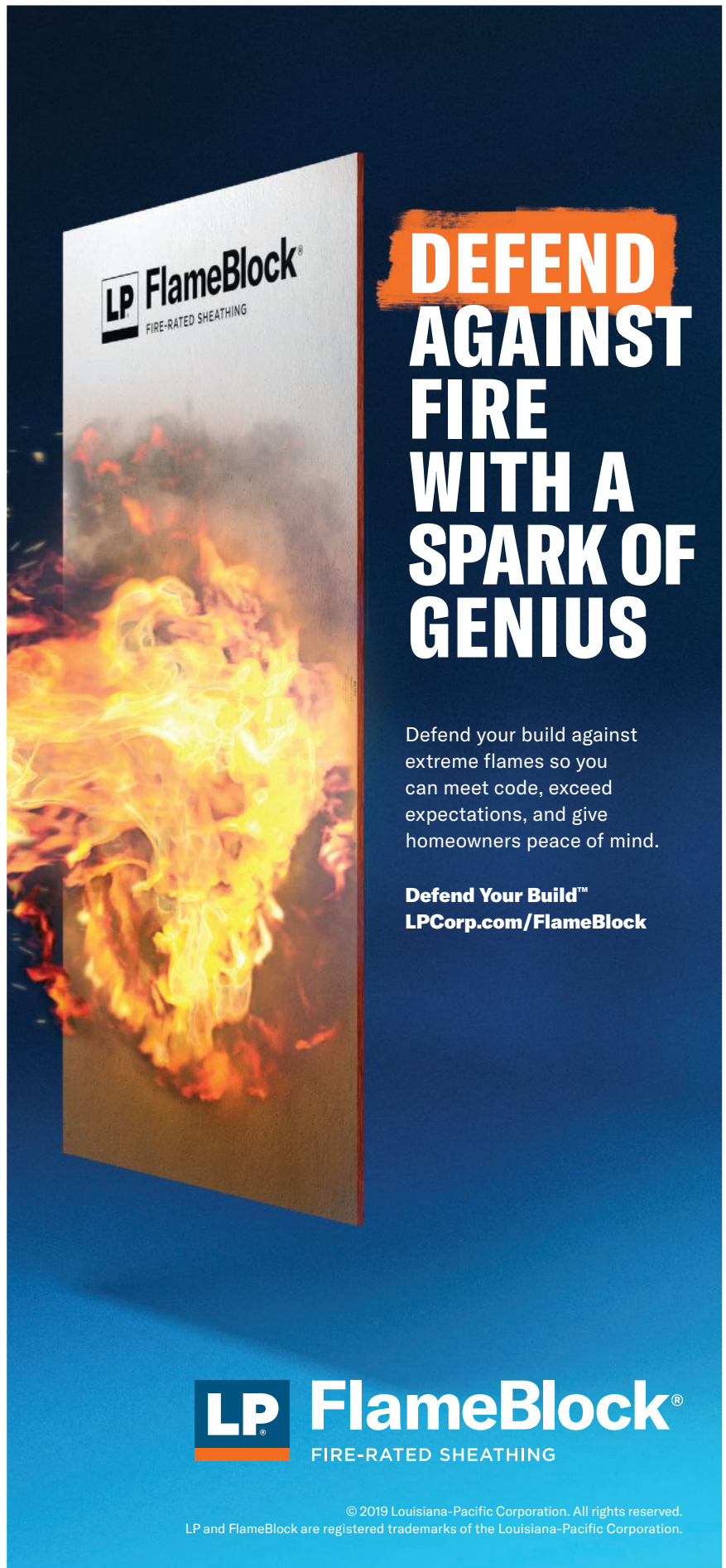
"Stay the course. We are eliminating those accounts where we strayed from being strong. In fact, we're changing it and are willing to walk from accounts that do not pay restock."

"You've got to have a policy and communicate it. If our trucks are involved in cleaning up a customer's jobsite, it's a service to the customer and we always charge a 15% restock fee if we bring back re-saleable material on our trucks. If a customer brings their own merchandise in for credit, we still charge a 15% fee if it's been more than 30 days from date of sale. We've found that lots of times when a contractor wants excess material removed from their jobsite, they just want it cleaned up and are not necessarily expecting credit for the items removed."

"Use your discretion. If the customer seems hesitant about the product, give them a warning about re-stocking fees. If the material will take a lot of time and labor to re-stock, fees are a must. Try to be understanding. Sometimes it works, sometimes it doesn't."

"If you are returning the material back to your supplier, then it seems fair to pass on the supplier restocking fee to the customer and a little extra for your trouble. Especially with special orders of non-stock material. We have so much competition that we rarely charge a restocking fee. Home Depot and Lowes have really made it hard because they will take just about anything back without question. Yes, they have encouraged returns. I think charging restocking fee on a case-by-case basis is smart. Habitual customers should be charged a restocking fee because they are most likely just culling your material."

"You have accurately stated the challenge. Putting the policy in stone and always charging is not wise and neither is never charging. To be successful in our industry we need to think. I believe that giving discretion to the sales folks is appropriate so long as the leadership is paying attention to what the sales people are doing." ➤



The advertisement features a large, vertical image of a white LP FlameBlock fire-rated sheathing panel. The panel is shown at an angle, with a bright, intense fire burning against its lower half, demonstrating its fire-resistant properties. The top of the panel has the LP FlameBlock logo and the text "FIRE-RATED SHEATHING". To the right of the panel, the headline "DEFEND AGAINST FIRE WITH A SPARK OF GENIUS" is written in large, bold, white capital letters, with "DEFEND" highlighted in an orange brushstroke. Below the headline, a paragraph of text reads: "Defend your build against extreme flames so you can meet code, exceed expectations, and give homeowners peace of mind." Below this, the slogan "Defend Your Build™" and the website "LPCorp.com/FlameBlock" are displayed. At the bottom of the advertisement, the LP FlameBlock logo and "FIRE-RATED SHEATHING" are repeated. Fine print at the very bottom states: "© 2019 Louisiana-Pacific Corporation. All rights reserved. LP and FlameBlock are registered trademarks of the Louisiana-Pacific Corporation."

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"We're not responsible for changes owners or contractors make. Or for their mistakes. They have the right to do business with whomever they choose but I believe establishing the lines at the beginning sets the tone of your business relationship."

"I would agree that not charging a restock fee encourages customers to return materials. We have what I consider too many returns, which of course takes away from what our yard staff should be doing. One of the things that is time-consuming but vital is to determine if credit can be given at all. Not all items can be restocked due to damage. This is subjective and not all customers agree with the foreman. There are times we toss material and still give some credit just to keep a good customer coming back. All of this is frustrating, but we view this as a cost of doing business."

"Unfortunately, the pressures of the large retailers dictate the expectation that anything can be returned for any reason and I, as an individual, no longer have to take responsibility for my own actions. We just got burned by a customer who refused to pay the restock charge on a special order item that she herself ordered. She disputed the charge with Visa and they charged \$3,300 back to us. My how the times have changed."

"In my view, I believe making it easier to do business with us is a good thing. Most of the time charging a restock fee makes the transaction confrontational, and I do not want that type of environment for my customers (or salespeople). That being said, we always charge when material has to be sent back to a vendor and it is costing us money."

"Firstly, I would switch your policy so that only managers have the ability to waive restock fees. In my experience, if you give the salespeople too much pricing authority your bottom line will often suffer. If you prefer to keep your salespeople autonomous, establish a set amount as to how much a customer must spend in order to qualify for free returns."

"We seem to have very similar conditions. We allow the salespeople to adjust restock fees on a case-by-case basis, and due to competitive situations very few customers have been granted exemption to restocks altogether, but management approval is always required. However, this is another area where customers can be trained. I usually try to use roofing or siding as the example. When they sell a 20 square job and have one square of materials left over, I ask them if they reduce their price to the homeowner. The answer is always no. Then I point out to them 'Not only is the material already paid for, but they also got paid for the labor to install it and didn't, so why is it unreasonable for us to retain a small portion to cover our labor in the delivery we already performed and the additional labor of handling it again?' This is about 99% effective in justifying a restock. If after this explanation, the customer continues to dispute the restocking fee, and tells me that I don't deserve to be paid for my labor, I question whether or not this is a customer I can afford to keep."

"Returns are the most expensive and non-productive activity we have to contend with. They can consume half the net profit of the company, and have logistical effects on inventory storage and workflow that can snowball, and are hard to calculate. That said, groundless returns are fewer than half of the returns we process, and our first focus is on reducing the errors that lead to legitimate returns. We charge restocking fees, but often waive or reduce them for customers who don't abuse the process. In many cases, a customer asking to make a return due to their error will look for ways to make it up to us."

"Sometimes a modest restocking fee encourages builders to take advantage of it. A very hefty restocking fee, on the other hand, discourages builders from taking advantage of it and allows your sales staff some leeway to reduce the percentage of restocking fee to satisfy the customer. It ends up as a win-win situation for both parties and keeps the basic restock rule in place."

"Keep an eye on this on a case-by-case basis. For every customer we have that has a reduced, or no, restock fee, there are ten who get charged the full amount and don't have an issue with it."

"The customer effectively becomes a vendor and we are purchasing the material from them. Explain the issues and expenses associated. Hopefully they will understand and work with you, potentially forming a stronger partnership."

"You can reduce the restock fee since you are still in a competitive market. Bend but don't break. You've established it. Don't discontinue it."

"We are in a similar position. I would advise the dealer to consider the lifetime value of the customer in making his/her decision."

"We do not charge restocking fees. That being said, our customers don't abuse the privilege. For those that do, the judgment needs to be made. Is their business worth it?"

"Why would you give salespeople the authority to waive these fees? Of course they will if you let them. The policy needs to be set and adhered to, makes it easier for the salesperson to tell the customer they aren't allowed to waive it, end of story. If our trucks go out and pick it up, a restock fee is charged. On all special orders, a hefty restock fee is charged. If the customer returns lots of product, are you really making any money on that customer? Why sell to someone you aren't making money on?"

"Base the restocking fee on the reason for the return, or if something was reordered to replace it. Or, keep return requests on the 'corkboard' to resell. From our experience, it's almost inevitable that we pick up a return and that same customer reorders it within a day or two."

"We charge 20%. Period. The other day a customer decided to keep the material instead of paying the 20%."

"We recently updated our policy and procedure on this, and with this update, we assess a restocking charge on nearly every return. We also give ourselves a 3-day grace period before processing the return so that a member of our team can inspect the condition of the material to make sure it's salable. We do not accept returns on non-stock/special-order items. Under certain circumstances, we will allow them to come to our yard on consignment. The other thing we did was to proactively review this in detail with our most important customers as well as the 'repeat offenders,' to be sure that they understand it before asking to return something. Communicating this has made them more careful with estimating/ordering and has reduced the number and magnitude of returns."

"Reign in your salespeople and adhere to a fair and reasonable return policy. Perhaps a dollar threshold or returns by volume will show your customer that you understand that all projects have overages and you are only charging for the excessive returns."

"Set a policy that both the company and customers feel is fair. Ask key customers what they think. A combination of thoughts from all affected will get you a policy that you should not have trouble enforcing and not have to waive or reduce."

"Look at each situation on a case-by-case. If the customer is returning material to only purchase additional items, then I would not charge a restocking fee. But I would add a point or two of margin to the new order to cover costs."

"Have a conversation with select customers, explain how costly returns are and develop a strategy to decrease. Never allow the sales rep to override such fee." ■

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BY JAMES ANDERSON

BUILDING FOR THE FUTURE

WESTERN BUILDING CENTER MOVES INDUSTRY FORWARD

In an area like Montana, where Western Building Center serves an expansive market with a sparse population, Ty Shanks took it upon himself to help solve his area's labor crisis.

Through the Kalispell Student Built Home Program in Kalispell, Mont., Shanks, the vice president of Western Building Center, works with two area high schools to build houses with students. The program, which recently started its fifth house in as many years, introduces young people to the trades and serves as a recruitment program for area builders. The homes are sold to fund the next year's project.

Shanks tells the story of one woman who recently completed the program: "There were two young females in the last class. One who was a senior was in my store last week and I recognized her. She was buying tools because she's now working for one of our largest builder customers. She got a job with them and they told her that if she works for them for one year and likes it, they'll pay her to go to construction management school."

Shanks says the young lady wants to one day run her own all-female construction company.

"She's not even three months away from graduating high school and she is on her way," he says. "She showed up with experience, references, knowledge and was offered a job."

Another program Shanks is involved with is a federally-funded project in which students from Columbia Falls high school build homes in national parks to serve as lodging for park employees.

"We designed the programs for kids who aren't college bound, but we're finding that a lot of them do go to college," Shanks says. "And those who didn't go to college got a job in the trade of their choice, almost guaranteed. One of the recent graduates is joining my lumberyard. We're seeing real results."

When students graduate from the program, they receive a Montana pre-apprentice certificate, which gets them to the top of the list of an apprentice program for electrician, plumber, or carpenter.

The program is creating long-term results across the trades, Shanks says, adding that one of the students who helped wire the first house now came back as a certified electrician and wired the program's fifth house on his own. ➤



THROUGH THE KALISPELL STUDENT BUILT HOME PROGRAM, TY SHANKS WORKS WITH TWO AREA HIGH SCHOOLS TO BUILD HOUSES WITH STUDENTS. THE PROGRAM, WHICH RECENTLY STARTED ITS FIFTH HOUSE IN AS MANY YEARS, INTRODUCES YOUNG PEOPLE TO THE TRADES AND SERVES AS A RECRUITMENT PROGRAM FOR AREA BUILDERS.





With 11 full-line lumberyard and hardware store locations, as well as a design center, Western Building Center serves a customer base of 90% professional contractors.

GROWING WITH THE TIMES

In 1946, Western Building Supply existed as a small cabinet shop before opening a lumberyard in Kalispell, Mont. Shanks' father started working at the company in the 1970s and became an owner shortly after.

"He started out as a yard guy," Shanks says. "It's truly a company of opportunity."

Shanks himself started with the business in 1994, when he picked up hours during high school repairing screens and replacing glass panes. He worked his way up to a yard position where he continued on each summer through college.

When the company built a corporate distribution center and needed to add a night shift, he was the first employee. He moved from there to contractor services, and eventually took over as manager of the Columbia Falls store and later took over the Kalispell location.

Today, there are 335 employees across the organization, 98% of whom are full time. The company is overseen by an ownership group of 22, all who are current and former managers of the company. With 11 full-line lumberyard and hardware store locations, as well as a design center, Western Building Center serves a customer base of 90% professional contractors. In 2018, the company generated \$105 million in sales, up 34% from the year prior. In 2019, that figure will likely remain flat, Shanks says, which he attributes to the lumber market.

"Ownership at the company ranges from some key initial people who ran the company in the early 2000s, and as we brought on new locations, we needed to continue to grow, and during the Great Recession, we formed an S Corp," Shanks says. "Every time a manager is appointed, we allow (after a short time) that manager an ownership opportunity."

The program began as a way to maintain managers as the company grew and acquired other lumberyards, Shanks says. "We could come in and offer those managers a potential ownership stake. We're saying, 'We want you to be a part of us.' Those managers then continue and are a part of the decision-making process. It allows for growth, allows new blood to come in, and it allows people to get out of the business without having to sell a business off."

DISTRIBUTION

Distribution has become a key factor in Western Building Center's growth. In a company in which there can be a 15-hour drive by truck from one location to another, Shanks has relied on distribution centers to keep products flowing to stores from Western Montana to the North Dakota border, and parts in between.

Western Building Center now has two distribution centers: one in Columbia Falls, and a second in Great Falls.

The plan is to keep expanding those facilities, which allows for more inventory on hand, and lets the company focus on key items that it can buy in bulk. As Shanks says, "not just a rail car, but 20 rail cars. We're still in the infancy of what we can do with centralized buying."

Serving the width of Montana is no small feat. Western Building Center serves areas ranging in population from Missoula, to a town as small as 350 residents that is 500 miles from its base of operations. That particular store, Shanks says, has a staff of two—a husband and wife team. The largest store, in Great Falls, is operated by an employee base of 38.

"It goes to demonstrate how geographically different we are," he says. "We're committed to finding ways to connect the dots to different cities. We've found ways to make things more efficient even though they're very spread out."

COMPONENT MANUFACTURING

The future of the organization, and the industry, Shanks says, is in component manufacturing. Along with Western Building Center's lumberyards and design center, the company also operates a truss plant and a wall manufacturing facility, along with its own fastener wholesaler, Big Sky Fasteners.

In 2008, the company built a truss plant just as the Great Recession ramped up. "That didn't stop us. Prices were low and we said, 'let's build!'"

The wall plant is the company's most recent addition, one that Shanks refers to as "One of our biggest opportunities of the future."

Western Building Center has recently opened a research and development facility at the wall plant to study opportunities for more component manufacturing, including stairs, elevator shafts, and more.

"We hope to grow our component manufacturing," he says. "We're researching things that we can manufacture and sell to our customers to make their jobs easier."

The company is trying to take advantage of what has become a market for "houses on demand," Shanks says. The truss plant is now at three shifts, running 24/7. The wall plant runs two shifts, seven days a week.

Two of the largest overall Western Building Center customers are also the two biggest wall and truss plant builders. "We're still sending out lots of sticks, but we have delivery trucks now going 12 hours straight. They barely turn the engines off, and they're going all day."

Along with Western Building Center's lumberyards and design center, the company also operates a truss plant and a wall manufacturing facility, along with its own fastener wholesaler, Big Sky Fasteners.



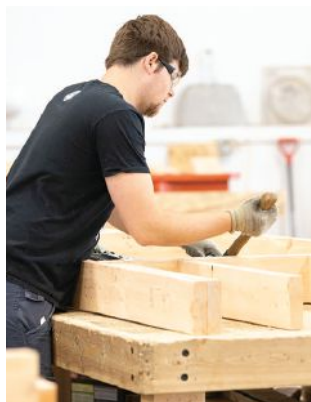
Shanks says that even though the process is optimized to deliver trusses and wall panels in about 10 days, his builders are asking for even more prefab.

"We hope to keep growing this. There's a lot more money to be made in prefab panels and trusses than there is in a retail lumberyard. We're trying to be the leaders in that."

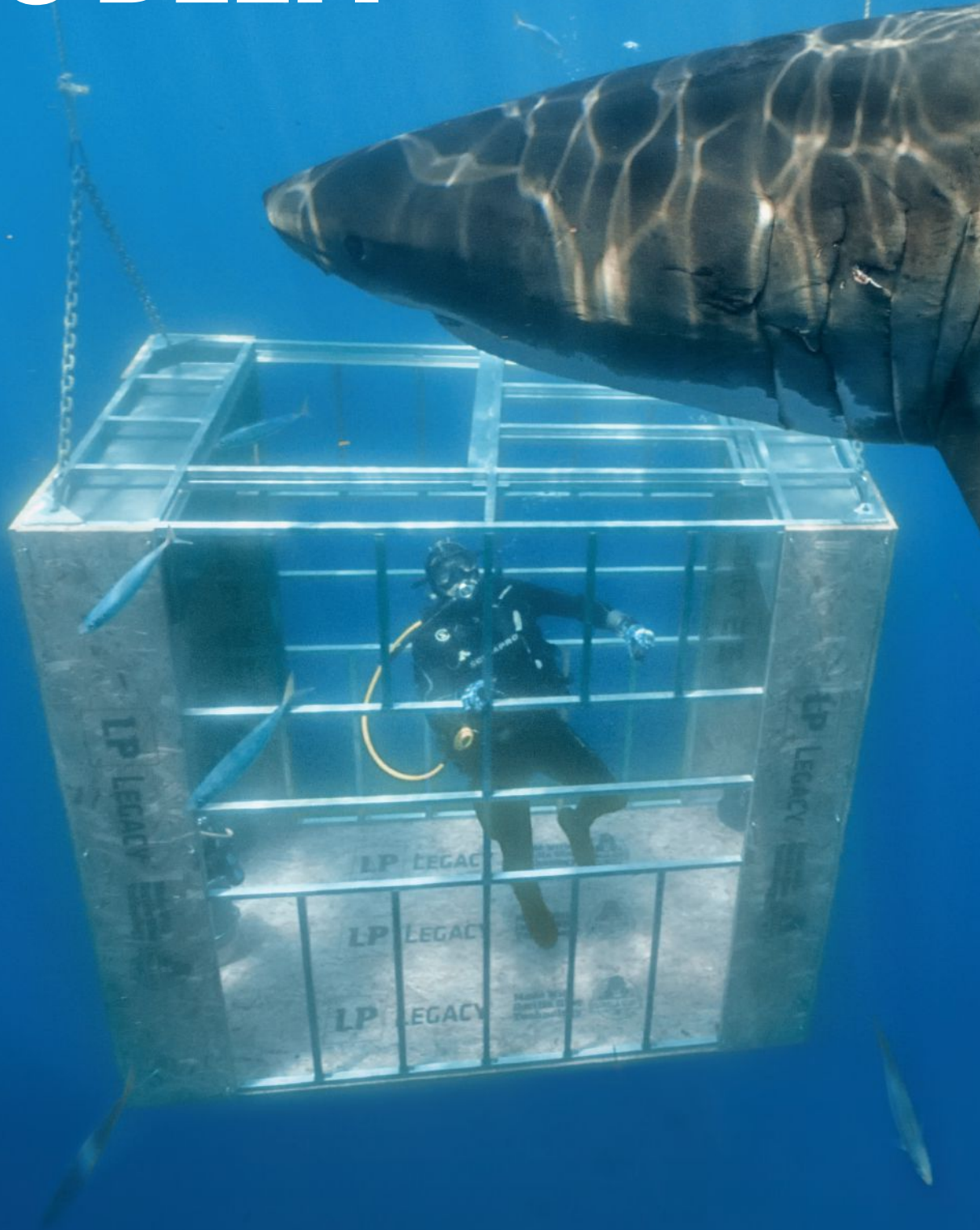
To be leaders in that area, Shanks knows he'll have to expand with more manufacturing sites, and plans are in place to do just that. "When it takes a truck eight hours to get to a job site, that's too far. We need another plant." ■

GET TO KNOW WESTERN BUILDING CENTER

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IN DEPTH

ENGINEERED WOOD PRODUCTS



BY JONATHAN SWEET

DEMAND DECREASES
AS CONSTRUCTION
SLOWS, BUT
ENGINEERED WOOD
PRODUCTS LOOK
TO INCREASE
MARKET SHARE.

Engineered wood products aren't flashy. Homeowners don't get excited about the latest innovation in glulam beams or LSL boards. But there's no denying the importance these workhorse products have in shaping construction in both residential and commercial projects.

While the use of engineered wood products is growing in remodeling and commercial work, the demand for EWP is still closely tied to new housing starts. As that market goes, so goes EWP. With new starts and building permits running below 2018 levels for most of the year—and forecast to remain on that pace—that means a relatively level year for EWP sales.

"Engineered wood product sales are expected to be relatively flat to down slightly compared to 2018," says Joe Elling, market research director for APA - The Engineered Wood Association. "The primary reason is that housing starts in the U.S. are on track to be down in 2019. In 2018 housing starts totaled 1.24 million units. The forecast calls for starts at 1.23 million units, with single-family starts at 850,000, compared to 870,600 in 2018. The use of engineered wood products in residential repair and remodeling is projected to grow 2%."

CONSISTENCY, FLEXIBILITY ADDRESS CONSTRUCTION CHALLENGES

Even as construction slows, though, there is an opportunity for engineered wood to grab market share. EWP can offer several benefits to builders, remodelers and designers, manufacturers say, that should make it more attractive to those industry professionals.

"As more and more builders want stronger and stiffer floors for their homeowners, one key ingredient of this is engineered wood," says Kelly Harmon, LP Building Solutions OSB/EWP national product manager. "Open floor plans along with heavier concentration loads fare well for predictable engineered wood as well. Code changes in certain areas of the country also can help drive builders to use EWP, so all of this coupled together can drive a higher demand for EWP which I believe we'll continue to see increase."

Engineered wood saves builders time and money, says Mike McCollum, director of Roseburg's engineered wood business.

"Engineered wood products offer consistent and predictable performance for the most demanding applications," he says. "LVL headers provide quality, strength and predictable performance in a heavy load carrying beam or header situation. Engineered wood is produced

in lengths as long as 66', and can be custom cut by the lumber dealer to fit each application. This results in much less waste on the jobsite, saving time and money for the builder, and ultimately for the homebuyer."

As with most construction product categories, the engineered wood market is being affected by the labor shortage. The scarcity of skilled construction labor is inhibiting the ability of builders and developers to start new projects, Elling says, negatively impacting the demand for engineered wood products.

At the same time, manufacturers say that their products can play an important role in addressing those issues. The growth of off-site construction and need for predictable, consistent products for work on-site make engineered wood a natural fit.

"If you order a piece of material, you're going to get that material size," says Dennis Bott, director of commercial business for Boise Cascade. "For planning and doing things in an off-site facility, prefabricating it, getting it out to the field, there are inherent benefits with engineered lumber. The sizes are manufactured specifically for floor systems or beams and you're getting what you're ordering. You don't have to worry about wane, or crook, or knots, or things not really lining up."

Doug Asano, Huber Engineered Woods vice president of sales and marketing, echoed the importance of that predictability.

"When builders choose high-quality engineered wood panels, they will see a few major differences," he says. "Primarily, they will notice better and more consistent manufacturing tolerances, advanced moisture resistance and enhanced strength and stiffness properties." ➤

OPPOSITE PAGE: VERSA-STUD from Boise Cascade offers at least 2.1 times more bending strength and 20% more stiffness than no. 2 SPF dimension lumber studs, the company says. VERSA-STUD wall framing is designed to provide superior wind resistance, strength and appearance in tall wall applications and eliminate the "hinge" created by platform framing.

BELOW LEFT: Weyerhaeuser's Trus Joist Parallam LSL is said to deliver long spans for today's popular open living spaces. Trus Joist full suite of structural frame products include Parallam LSL, TimberStrand LSL, TJI Joists, and Microllam LSL.

BELOW: The LP WeatherLogic Air & Water Barrier system consists of a structural OSB panel with an integrated, weather-resistant overlay and the LP WeatherLogic Seam & Flashing Tape, a specially formulated acrylic tape with squeegee designed for easy installation.



That need for consistency is only going to grow in importance in the coming years as off-site construction increases, says Chris Webb, general manager, engineered wood product sales, Anthony Forest Products.

"It's kind of small but it's a growing segment where engineered wood products fit in that automated environment because they're uniform and they're reliable and they're dimensionally stable," Webb says. "That's something we're going to probably see more and more of over the next four or five years—automated construction."

Several manufacturers also noted the importance that price stability

brings to the market. That helps builders be more confident in their pricing as they plan out projects.

"Another aspect of consistency is engineered wood is not subject to the same kind of volatility that you'd see in a commodity market and so there's consistency there as well," says Ross Thielen, director of ELP sales for Weyerhaeuser. "In large part, we work very hard to maintain a consistent supply to our customers through our distribution channel, which, some of that's internal Weyerhaeuser distribution and we also utilize independent distributors in some markets. So that's the consistency piece."



RIGHT: The Power Column from Anthony Forest Products is becoming increasingly popular in mass timber wood framing systems in commercial or multifamily applications.

BELOW: BlueLinX has expanded its onCENTER engineered wood offerings to include I-joist, LVL, LSL, Glulam, AFL, and trimmable floor trusses.



At the same time, engineered wood products offer a flexibility that can help builders develop the homes they need to meet market demand.

"Adaptable is the other word I think that will resonate with builders," Thielen says. "In a time like this year where we hear a lot about affordability, the way we go to market through our dealer network, we're well suited to help a builder modify their plans and use the right amount of materials to build a floor that it might have two foot less in one dimension than the same model did last year, because the builder's chosen to modify their blueprint."

Those benefits can help builders reduce costs, even when the initial price tag may seem higher.

"There is a misconception that it is more expensive to frame with engineered lumber when in reality, engineered lumber is a quality product with less waste, better performance and fewer callbacks," explains Craig McDonald, director - EWP for BlueLinX. "While the initial cost comparison between an I-joist and a 2x is higher, the completed installed cost coupled with the performance of the structure provides a much better value for both the homeowner and builder."

Consumers are also looking for more sustainable products in their homes these days, and engineered wood fits right into that message, Anthony Forest Products' Webb says.

"Most manufacturers now have vertically integrated their supply chain with their raw materials and so they most all have technology in place to optimize the wood resources efficiently, basically utilizing every part of the tree," he says. "That's something a builder could go back to a consumer with and say engineered wood products are a good choice for the environment."

Builders are also finding new applications for engineered wood products. Most notably, the mass timber market in commercial projects is increasing thanks to the International Code Council's approval of wood buildings up to 18 stories in the 2021 International Building Code. ➤

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"It's kind of an evolving market right now," Boise Cascade's Bott says. "We're seeing our products used in lieu of steel and concrete. What's good about engineered wood is that it's not only more resource efficient, but it's also a stronger product than dimensional lumber. When a customer wants a bigger grid system, let's say in a commercial building, well your beams have to be stronger to span further. So engineered wood, because it's stronger and more stable and more true, lends itself into these newer type of construction categories."

LP is also seeing laminated strand lumber being used in more wall framing and header applications.

"I believe this is due to LSL's straightness and cost-effectiveness," Harmon says. "Targeted wall framing with LSL in certain critical areas (e.g. kitchens, baths, vaulted walls, etc.) is an absolute necessity when the builders and homeowners want a perfectly straight wall.

We have quite a few builders who build exclusively with LSL in all areas of the home, but more commonly builders use LSL wall framing in 'targeted zones' of the home."

LSL used in header applications not only provides the window/door a strong member overhead to carry the load, but it can be a potential cost-saving solution as well, Harmon says.

"For instance, if you add up the components that most builders use for headers (2x10, OSB, 2x4, nails) and replace it with an LSL header that typically is smaller in depth (possibly 3-1/2" x 7-1/4"), it can potentially save money on the header itself as well as provide a better product with lifetime warranty," she says.

MORE CHOICES/AVAILABILITY

Improvements in engineered wood products tend to be incremental. That has led many companies to focus on

bringing more efficiency to the market in their manufacturing and distribution models as well.

Over the past year, BlueLinx has expanded its onCENTER line into more locations and increased the breadth of products which include I-Joist, LVL, LSL, Glulam, AFL and trimmable floor trusses.

"Our focus is to partner with our dealers to solidify mutual relationships with the builder," says Craig McDonald, director - EWP. "Today we are leveraging our logistics expertise with a maniacal focus on market growth. When coupled with the breadth of our onCENTER product offering and technical expertise we provide a level of service second to none. We have the broadest distribution network to the dealer community with over 50 distribution centers. The service and support behind our products make onCENTER stand out from competitive brands." ➤



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Roseburg is in the process of building a second engineered wood facility in Chester, S.C., that it says will be the most technologically advanced and most efficient, low-cost LVL facility in the world, with the highest-capacity continuous press on Earth.

"Our company exists to 'To make lives better from the ground up,'" McCollum says. "This statement can be interpreted in many ways, but what it means to us is this: We care for the land on which we plant our trees. We care for our trees throughout their lifecycle to create the highest value to each of our mills, while protecting the soil, water and air in our communities. Our lumber, plywood, composite panel, engineered wood, and chip facilities use that valuable and sustainable fiber in the most efficient and value-adding manner. Nothing is wasted; everything is used to make something or to produce energy."

LP recently introduced its new LP WeatherLogic Air & Water Barrier system. "As architects and engineers implement building science practices to develop tighter homes to meet energy codes, three unique building envelopes need to be considered: thermal, air and moisture," Harmon says. "Each works independently to prohibit the transmission of one element. However, the homeowner will have the best long-term results when the home is designed, engineered and built as a system rather than as individual components. Likewise, builders will see value if they take a value-engineering approach to seeing the home as a system."

The LP WeatherLogic Air & Water Barrier system consists of a structural OSB panel with an integrated, weather-resistant overlay and the LP WeatherLogic Seam & Flashing Tape, a specially formulated acrylic tape with squeegee for ease of installation.

"THERE IS A MISCONCEPTION THAT IT IS MORE EXPENSIVE TO FRAME WITH ENGINEERED LUMBER WHEN IN REALITY, ENGINEERED LUMBER IS A QUALITY PRODUCT WITH LESS WASTE, BETTER PERFORMANCE AND FEWER CALLBACKS."

— CRAIG MCDONALD, BLUELINX

"Our broad product portfolio is something that makes LP Building Solutions unique," Harmon says. "We carry a full framing, sheathing and siding portfolio under one roof. We don't have any competitors that can claim that and offer that continuity to their customers. This allows us to combine products to offer real solutions." ➤



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SHOWN: ZIP System building enclosures introduced six new flashing tape and stretch tape sizes this year. The full sealing solutions portfolio now includes five ZIP System flashing tapes and five ZIP System stretch tape options.



While not new products, Anthony Forest Products is seeing increased interest in its glulam beams and columns. The Power Preserved Glulam beam is a pressure-treated beam for exterior applications, which people are using in more decks as the demand for outdoor living projects remains strong.

The Power Preserved Column is gaining popularity as a part of the mass timber framing systems in larger commercial or multi-family applications.

"It's a great complement to [that] evolving market trend," Webb says. "They're also a key component just of residential construction as well. We have all these engineered wood products to hold up the floors and the roofs and everything else and historically they're sitting on a stud pack or some built-up dimensional lumber and so you get some crushing and so with our column, it's a perfect replacement. You just sit a Power Beam or some other structural beam on it and it connects very simply."

Huber is focused on emphasizing quality that it can deliver to its dealer and builder partners.

"We start with superior quality from the mill, superior performance in the field and superior service from our team," Asano says. "We are dedicated to solving common issues to make the jobs of trade professionals easier and drive the industry forward. No matter the product, we're committed to finding solutions that will result in more resilient, durable structures that will last for years to come. We spend time discussing real jobsite needs with channel partners to lead our innovation process."

Huber's ZIP System building enclosures introduced six new flashing tape and stretch tape sizes this year. The full sealing solutions portfolio now includes five ZIP System flashing tapes and five ZIP System stretch tape options. Increasing the options of tape in different lengths and widths gives builders the discretion to find the best fit for their job and application to further ensure ZIP System roof and wall assemblies help them achieve fast, reliable tight, dry enclosures, Asano says.

Weyerhaeuser maintains control over the entire process, sourcing materials from timberlands it owns or manages, while also offering a full range of engineered wood products, including I-joists, TJI joists and beams. Those factors make it easier for builders and dealers to get the products they need, Thielen says.

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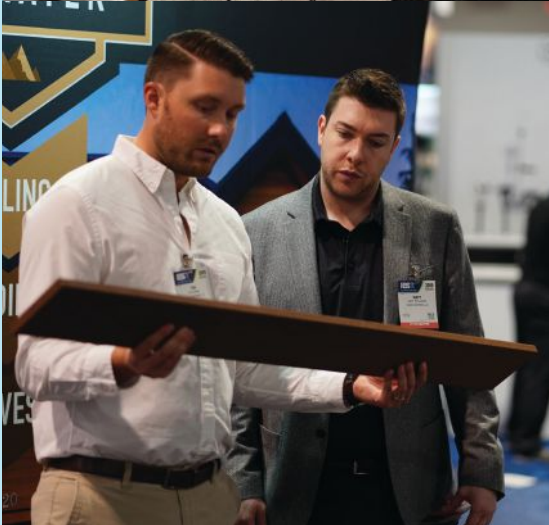
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"That allows us to equip the dealer with the full range of rectangular products they would need to meet demands of their customers," he says. "That sets us apart, as well as the fact that we invest, I think more than anybody, in field support. That includes our territory managers in market as well as we still maintain an in-house engineering group that provides technical support to customers."

Another important part of Weyerhaeuser's emphasis on service is its NextPhase Site Solutions, designed to make dealers more efficient and help them address jobsite issues.

"The precision cutting, labeling of individual members that matches a framing plan, cutting of holes, all those solutions that we've developed fall under an umbrella we call NextPhase Site Solutions that we offer our dealer network," Thielen says. "A dealer can get involved in that in something as

simple as a cross cut saw, all the way through to batching multiple jobs through a high-speed saw that does cutting, labeling, and all in one operation. Those solutions have been around for a number of years, and we continue to invest and make them more capable of enabling the dealer to offer solutions to the builder."

DEALER ADVICE

While engineered wood products have been around for decades, there is still plenty that dealers can do to help educate their customers on the benefits.

"Our most successful dealers are well-versed in understanding the industry, their customers' needs, and how/when engineered wood products can offer a sound solution to a jobsite challenge," says Kelly Lalonde, LP Building Solutions territory sales manager (Pacific Northwest). "Dealers can sell more of our products by educating

"IF YOU ORDER A PIECE OF MATERIAL, YOU'RE GOING TO GET THAT MATERIAL SIZE. FOR PLANNING AND DOING THINGS IN AN OFF-SITE FACILITY, PREFABRICATING IT, GETTING IT OUT TO THE FIELD, THERE ARE INHERENT BENEFITS WITH ENGINEERED LUMBER."

— DENNIS BOTT, BOISE CASCADE

their sales team along those same lines. Demand is driven when dealers really inform their customers of the benefits of using engineered wood."

With a labor force that may be less experienced, builders need to rely on their dealer partners more than ever when it comes to product knowledge. >

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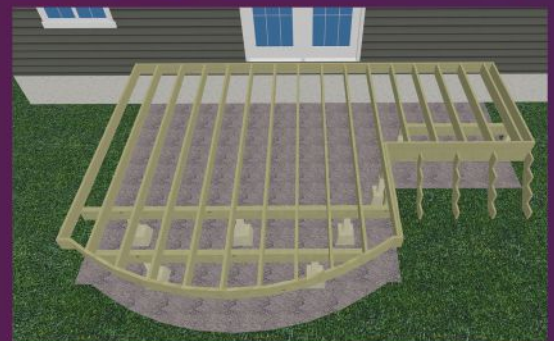
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"Codes and building practices are becoming increasingly complex and changing ever faster, and homeowners are better educated and aware of what goes into their homes," Huber's Asano says. "All of these factors can be overwhelming to a builder, and those dealers who can position themselves as experts and sources of education for builders will continue to win. Dealers should look to partner with building product manufacturers who act as a true extension of your team. Look for partners who offer periodic product trainings for your employees, technical resources for builders to rely on, and warranties that they will stand behind."

Anthony Forest Products' Bott agrees, noting that the more a dealer's team knows about a product, the more likely they are to be able to sell it.

"The first thing is to make sure the dealers fully embrace an education platform of some degree. And that could be working with their key suppliers and manufacturers, or doing something in-house where they're actively engaged in talking with architects and engineers, and letting that end of the specification community see what they do as a supplier," he says. "Because then what happens is those specifiers will be more likely to refer potential new clients to that particular lumberyard."

The second piece of that relationship is dealers making it easier for builders to do business with them. That design support and service can be even more important than the products themselves.

"It's about partnering with the builder to provide services that are important to their success," BlueLinx's McDonald says. "Prompt shipping of product to the job-site is just the ante into the game. The truly successful dealers are critical business partners providing design options, new product options and field support."

Many of the engineered lumber companies offer various programs that allow dealers to take a set of plans, model it and export it to a saw system. Those programs can help builders work around labor shortages.

"Design support is basically an expectation these days," Weyerhaeuser's Thielen says. "Going beyond that though—offering the materials cut to the nearest foot or even precision cut, offering the materials labeled, pre-cut with holes already in the materials where the HVAC runs will go. You can progress through this via a process to where more and more work is done at the dealer level. It minimizes the amount of labor that's required on the job. There are quite a few markets where jobsite labor is the constraint, and a dealer that has the ability to offer that spectrum of service, where labor is in short supply, provides them an opportunity to grow their sales." ■

Jonathan Sweet is a Minneapolis-based writer and editor who has covered the construction industry for both consumer and trade publications for more than 20 years.

INTERNET INFORMATION

Companies highlighted participated in this article.

**APA-
The Engineered Wood
Association:**
www.apawood.org

**Anthony Forest Products/
Canfor Southern Pine:**
www.anthonyforest.com
www.canfor.com

**Boise Engineered Wood
Products:**
www.bc.com/ewp

Georgia-Pacific:
www.buildgp.com

Huber Engineered Wood:
www.huberwood.com

LP Building Solutions:
www.lpcorp.com

MetsaWood:
www.metsawood.com

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www.norbord.com

**onCENTER Engineered Wood
Products:**
www.buildoncenter.com

Potlatch:
www.potlatchcorp.com

QB Corporation:
www.qbcorp.com

Rosboro:
www.rosboro.com

Roseburg Forest Products:
www.roseburg.com

RoyOMartin:
www.royomartin.com

Swanson Group:
www.swansongroup.com

Universal Forest Products:
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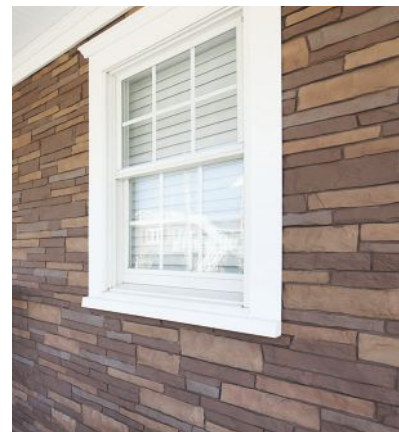
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Boise Cascade has increased its VERSA-LAM LVL Modulus of Elasticity (MOE) grades in order to simplify the process of designing wood structures. VERSA-LAM laminated veneer lumber (LVL) beams and headers are designed to eliminate twisting, shrinking and splitting, and deliver flatter, quieter floors and structures. Sized to match Boise's BCI and AJS Joists and other elements of the SIMPLE FRAMING SYSTEM, VERSA-LAM is said to offer quick assembly and is precision cut into more than 18 standard sizes. Because they have no camber and strength is consistent throughout, VERSA-LAM LVL products have no top or bottom side. www.bc.com/apples



TandoStone

TandoStone is available in two styles: Stacked Stone (shown) which features a dry stack profile without grout lines between the stones, and Creek LedgeStone which emulates the rugged look of hand-picked stone with grout. Each style is available in five shades to complement any exterior. As builders and designers search for alternatives to natural or manufactured stone, composite stone represents an emerging category with several advantages, the manufacturer says. TandoStone features a realistic design, easy installation, an expansive color pallet, and is impervious to moisture. Without the need for special tools or heavy equipment for installation, TandoStone is designed to be safer and easier to install on taller walls. www.tandobp.com

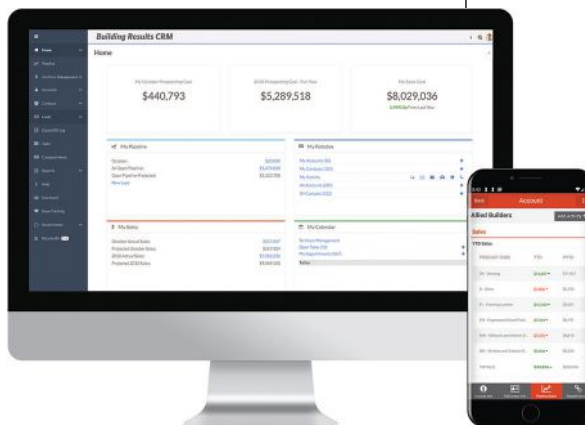
Key-Link Fencing & Railing Vertical Cable Rail

Key-Link's vertical cable railing offers contemporary looks and unobstructed views to outdoor living spaces. Key-Link's vertical cable railing is designed to save time on the jobsite by simplifying installation with pre-installed cable. All of Key-Link's railing is engineered to exacting standards and is fabricated and tested in the USA. Each piece of aluminum rail is coated with AAMA 2604 powder coating for resistance to sun, heat, and humidity. keylinkonline.com



DMSi's Building Results

Building Results CRM is made for the building materials industry. Industry-specific terminology, pipeline stages, and KPIs make it a platform designed for sales reps to embrace. Features like voice-to-text and quick-create buttons are said to cut out the "busy work" of traditional CRMs so reps spend more time making calls. Developed in partnership with Rick Davis, leading sales coach to the building materials industry, Building Results follows a proven process for achieving predictable future results. www.dmsi.com





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PRODUCT PICKS

Lumber Buddy Portable Workstation

WorkSafeWorkSmart.com offers products and services geared toward LEAN-Continuous Improvement. The company promotes BOSS Strapping products and tools as well as L-M Equipment, Ltd Saw Systems. The company's signature product, the Lumber Buddy Portable Workstation, has been helping building material distribution centers and pro dealer lumberyards work safer and smarter for nearly 20 years. Unlike stationary pull rack systems, Lumber Buddy Portable Workstations are designed to go where the work is, eliminating unnecessary trips across the yard. www.lumberbuddy.com



New Barn-Lite Sliding Doors from Hy-Lite

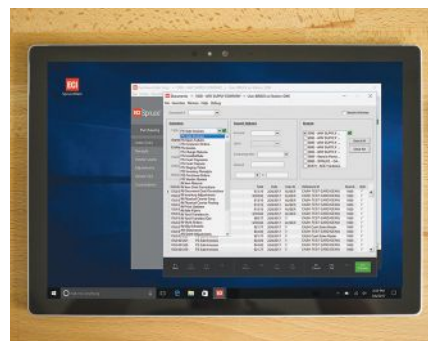
Ideal for adding privacy options in both home and commercial locations (such as offices and medical settings), Barn-Lite doors are available in Wave and Glacier acrylic blocks. Each block is 9" x 9", with a depth of 1.5". Architectural-grade vinyl frames surrounding the units are available in both white and bronze.



The Barn-Lite doors are supported by durable steel hardware overhead in a black satin color. Barn-Lite doors measure 38" x 83". Each door has a four-block across by nine-block down configuration and is backed by a 10-year limited warranty. Acrylic block door inserts feature a panel of acrylic blocks that can be inserted into both new and existing interior and exterior doors. Both products are designed to provide privacy in a room while allowing in light. www.hy-lite.com

GreenWeld PVB from MFM Building Products

MFM Building Products, a manufacturer of a full envelope of waterproofing and weather barrier products for the building industry, has introduced a new roof flashing membrane, GreenWeld PVB. GreenWeld PVB armored flashing system is a high-performance PVB (PolyVinyl Butyral) membrane enhanced with an aluminum scrim said to provide for superior flexibility, strength and weathering. The membrane is comprised of recycled PVB and can be used in residential and commercial roofing applications. Typical applications include flashing for pipe penetrations and support beams, water barrier for cavity walls, liner for valleys of shingle, tile and aluminum metal roofs, and through-wall flashings. GreenWeld PVB is designed as a replacement for lead, sealant pockets or liquid flashing systems. The membrane is designed to be easy to cut and use, heat-weldable, non-toxic and sustainable, flexible and light weight, and comes with a 20-year warranty. Available in roll widths of 10", 20" and 39" by 19.5' length rolls, each roll is pre-packaged in a shrink sleeve for protection until use. www.mfmbp.com



ECi software

ECi business management software is designed for the LBM industry and provides real-time visibility into every area of a lumber and building materials business. The software provides data so companies can make informed business decisions, provide a seamless experience for customers, and compete at a higher level. ECi Spruce is designed to get customers and employees through the check-out process quickly and effectively, integrating with point of sale and business operations aspects from accounting to installed sales, and from manufacturing and millwork to delivery. www.ecisolutions.com/spruce



BenefitHub from UPG

UPG brings exclusive savings to the lumber and building materials manufacturing industries. With over 45,000 member companies, the company has the purchasing power to provide qualified businesses exclusive discounts on the most needed business products and services. The latest vendor partner, BenefitHub, is a discount marketplace members can offer to employees. BenefitHub is a free benefits portal designed to be easy-to-use with a full-range of benefits, discounts and rewards—from insurance, to travel, to entertainment and shopping. www.upg.org

Simpson Strong-Tie Deck Planner Software

Simpson Strong-Tie has launched an enhanced online Deck Planner Software tool engineered to help deck builders and homeowners quickly and easily design their dream deck. Featuring 3D software, design guides and an in-app user tutorial, the free web-based design center is said to provide a suite of intuitive tools and resources for designing and building stronger decks. Powered by an in-app tutorial that guides users step-by-step through the custom deck design process, the software allows users to select shapes, modify dimensions and choose from various deck board and railing options. One-click toggling between 2D and 3D design modes makes it easy to view and design in different perspectives. The software also highlights the critical connections for building a strong, safe deck and recommends hardware based on any design the user customizes. When the design process is over, a full output report is generated that includes a bill of materials for all lumber, decking, railing and hardware necessary to build the deck. www.strongtie.com/deckplanner



Rustic Moulding Collection from Ornamental Mouldings and Millwork

The new Rustic Moulding Collection from Ornamental Mouldings and Millwork features rich Ambrosia Maple wood with a wrought iron-look insert in each piece of moulding. Designed to blend with any design style from contemporary to farmhouse to mid-century modern, the mouldings can be used together in a room or individually as accent pieces. The Rustic Moulding Collection includes: Ambrosia Maple Crown, Ambrosia Maple Base, Ambrosia Maple Chair Rail, and Ambrosia Maple Casing (also available plain, without wrought iron insert). www.ornamental.com



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PRODUCT PICKS

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CAMO Starter Clips

National Nail's CAMO deck fastening brand introduces CAMO Starter Clips as a solution to face-fastening the first and last board of any grooved deck project. Contractors who use Starter Clips with CAMO EdgeClip and EdgeXClip create a fastener-free deck surface that installs in half the time of other clip systems, the manufacturer says. For a 5X faster installation, they can use the CAMO DRIVE tool and its clip guide to fasten EdgeClips and EdgeXClips. CAMO DRIVE—the collated stand-up deck fastening tool—is designed to get contractors off their knees, saving their back, and has three guides to fasten CAMO face screws, CAMO Edge Screws and CAMO EdgeClips. Each package of CAMO's new Starter Clips covers 30 linear feet and contains 25 clips and 25 screws manufactured with 304 Stainless Steel for superior corrosion resistance. www.camofasteners.com



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Woodtone's Wall + Ceiling Collection

Available via Weyerhaeuser Distribution, Woodtone's Wall + Ceiling collection was developed to enhance the character of any home with real wood paneling for walls and ceilings. It is also designed to help save time and cost during installation. This collection is made up of three profiles—traditional v-groove, fineline square edge, and refined shiplap; finished with various primer, stain and solid color coating options. www.weyerhaeuser.com



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PRODUCT PICKS

APEX u-GUARD bit holder

APEX u-GUARD accessories offer free-spinning covers designed to improve ergonomics and increase operator safety by significantly reducing or eliminating pinch points during glove use. The u-GUARD is made from thermo-plastic urethane material which, despite its thin cross-section, the product is said to provide a robust cushion against costly incidental side impacts, in-system damage, and marring. Each tool features a unique "free-spinning" design that allows the molded skin to rotate independently of the socket, bit, or extension spinning inside, so workers can grip the skin and avoid potentially harmful contact with the contained tool. This enhances productivity, reduces worker fatigue, and protects against potential safety hazards that result from rotational friction. www.apex-tools.com



Qora cladding crafted by Arcitell

Qora cladding is designed to provide builders with the time-honored look of brick, stone, or cedar but in a simple, fast, and cost-effective cladding solution. A combined rigid foam core and fiberglass-reinforced compound is surfaced with genuine source materials to make Qora look as authentic as the real thing. Qora's patented materials and unique designs create a lightweight and durable product. Most Qora cladding panels weigh between 2 and 3 pounds per square foot which is a fraction of the weight of comparable traditional materials, the company says. Qora cladding panels are cut and fastened with general carpentry skills. Professional bricklayers or stone masons are not required, resulting in significantly less labor hours, according to the manufacturer. www.qoracladding.com



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www.getredwood.com/products/green-douglas-fir



Brinno BCC200 construction camera

The BCC200 camera was developed for construction and building supply companies and workers. The BCC is a professional construction camera that gives all the components users need to shoot professional outdoor projects. The bundle is made up of the Brinno HDR TimeLapse Camera, a dustproof weather-resistant housing unit, an industrial-grade aeronautical aluminum alloy clamp, and a bungee cord. The BCC200 takes videos both during the day and at night. With a battery life of 80 days, this camera is designed for job site monitoring, performance quality monitoring, and creating marketing content.

www.brinno.com/construction-camera/BCC200





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RETAINING EMPLOYEES IN A COMPETITIVE WORLD

An important part of our job when working with our LBM business owner clients is to look at all facets of business succession planning. What are the strategies and solutions, based on the business owners' specific situation, that will produce a successful and comprehensive succession plan? One planning area that is often overlooked in the world of succession planning is the retention of key employees.

It's a component that we discuss during our educational seminars and often as part of our client planning implementation. The importance of having a business transitioned in a position of strength as opposed to weakness and/or chaos should be of the utmost concern. If a succession plan works properly and the business transitions from current ownership to next generation, that sounds like a win. But what if key personnel don't stick around after the transition? Yes, the business transitioned, but now the recipients of the business have a business in a weakened state from where it used to be. And in the case of a family business, why would you ever want to burden the next generation with that challenge?

The key ingredient to any successful business is productive employees. This isn't a secret. Unless a business is fully automated, without industrious employees, fat chance for sustained business success. Why then are so many business owners leaving themselves exposed if key employees depart?

Some business owners are complacent and simply hope the key employees don't leave. "Hoping" isn't a proactive plan—especially in a very competitive world.

Retaining these precious commodities is doable if you're proactive. What is the cost to hire and train new employees if/when key employees leave? What if the replacement is not as good as the employee(s) you had who are now gone? Wouldn't it be more efficient and sensible to simply keep valuable employees?

Some privately held business owners are under the assumption to retain key employees that they need to give up ownership—even if it's a very small percentage. This is simply not true. In fact, we often advise clients, unless it is a very unique circumstance, to not give up ownership.

There have been situations where one share of stock given to a longtime employee out of appreciation has caused conflict.

The objective is to retain the key employee(s) and if you don't have to provide ownership, you need to ask yourself, 'why should I?'

So, if ownership is off the table, what is the magic elixir? We've had success with a number of our clients utilizing 'golden handcuffs,' also known as non-qualified deferred compensation. Although it may sound unusual, the engine that makes the car go is cash value life insurance. This tool, unlike other options, checks all the boxes. As a result of values that grow during the time of employment of the key employee(s) and a death benefit that is there from day one, the following can be achieved:

- Retention of employee(s).
- Possible recouping by the employer of the outlay for the program and more.
- Assuring the key employee(s) should they pass away prior to the retirement age, their benefits from the program kick in and the employee(s) family will receive \$500k, \$1 million, or more.
- Should the employee depart prior to the agreed upon retention timeframe, the employer keeps all dollars that have accrued in the plan—which they can utilize toward an existing employee or to attract a new hire

As an example, say a lumberyard has an employee who makes \$100,000. The employee is absolutely essential to the day-to-day operations. The business, however, has always been family-owned, and the business owner doesn't want to provide ownership to non-active family members. Instead of relinquishing ownership, even a minority piece, the employer contributes, for example, \$25,000 per year for 10 years (or more if they choose), into a life insurance contract, in which the key employee is the insured. The key employee is told that if they stay with the company to age 65, for example, over and above any additional company benefits, the employee will receive his full current salary of \$100,000 for ten years upon retirement. And should the employee pass away before retirement, the company will pay his family \$500,000. If the employee should leave, however, prior to retirement, the valuable benefit is not available or it will be provided at some reduced amount.

To demonstrate the value of a program like this to a key employee, frame the offer as a long-term bonus. If employees feel like they're working toward something for their family—and have the option to receive cash down the line—they're more likely to see the value of the bonus. It's a compensation package with extra features, and if both sides hold up their end of the bargain, it's a cost-effective method to make essential employees feel appreciated. ■

Leon B. Resnick is a partner in Resnick Associates, a nationally recognized business succession, estate planning and life insurance advisory and implementation firm with offices in Kansas City and Harrisburg, Penn. Lee works with many LBM-related co-ops and their individual business owner members across the U.S. Contact Lee at lee@resnickassoc.com or 913.681.5454.



BY KEVIN MCKENNEY

Crane rule and material delivery exemption status

MANY ARE AWARE of the ongoing issues with OSHA's Crane Rule, specifically the material delivery exemption. NLBMDA met with OSHA's Directorate of Construction in April to raise concerns about a 2016 letter of interpretation that addresses an aspect of the material delivery exemption to the rule. OSHA issued the crane rule, which includes the material delivery exemption, in 2010 after extensive consideration by the agency and input from stakeholders like NLBMDA. The letter, issued in June 2016 in response to a question posed by an equipment manufacturer during the original rulemaking process, has created confusion for dealers and contractors alike regarding the final stage of the delivery process when material is boomed up to the upper level of a structure under construction. Prior to the 2016 letter, dealers followed the plain meaning of the rule's exemption for material delivery.

The material delivery exemption was created by OSHA in direct response to the work of NLBMDA and others who argued that the use of the truck-mounted articulating boom to lift common building material such as sheet goods and packaged material to upper levels of structures under construction does not create the type of hazards that OSHA was attempting to address in the original rule.

The examples shared with OSHA at the time of the 2010 rulemaking, both in written comments and at a public hearing, included booming sheet goods (such as drywall) and palletized material (such as joint compound or fasteners) to an upper level opening where the material is removed from the fork or pallet, or booming roofing material up to a roof deck where the material is distributed (for example, packages of shingles moved from the pallet onto the roof deck).

The industry was satisfied until the issuance of the 2016 letter in which OSHA seems to say that when material is boomed up to a structure, the delivery falls outside the material delivery exemption if anyone handles the material before it is placed by the boom onto the surface of the structure. The example given in the letter involves a truck-mounted articulating boom, equipped with a functioning overload protection device and fixed fork, lifting pallets of building material.

OSHA's letter is flawed on several points. First, as a practical matter, the letter eviscerates the material delivery exemption since material boomed up to an upper level opening cannot simply be dropped from the fork assembly, or in the case of a pallet, the boom cannot drop the pallet onto an

upper level or roof deck—both because of the fact that the boom and fork assembly will not fit into many of the openings through which material is boomed, and because of weight distribution constraints.

Second, this limitation creates an arbitrary and unrealistic line between the process of delivering material and the construction process. It is as if OSHA wants to apply the concept of dropping material on the ground to booming material to an upper level. At no time during the rulemaking process or the rule's promulgation in 2010 did OSHA raise this issue or attempt to address it. NLBMDA was clear in testimony during the 2010 rulemaking that booming material up to upper levels involves handling material in the final step of the delivery process, even providing visuals.

Third, on a technical note, OSHA cannot use a letter of interpretation to rewrite a rule that has undergone the normal rulemaking process, including notice and comment opportunities and other well-developed policy development requirements, such as cost-benefit analyses. The Administrative Procedure Act directs how agencies can promulgate regulations and they require the chance for the public and regulated communities to weigh in. In the case of the material delivery exemption, OSHA went to extensive lengths back in 2010 to limit the exemption as outlined above and did not then or in subsequent rulemakings establish this "drop and go" requirement.

OSHA is now revisiting the Letter of Interpretation per NLBMDA's formal request, in person and in writing, to withdraw it. There is currently no specific date for withdrawal or clarification. In the meantime, NLBMDA's position is that the letter contradicts the material delivery exemption and therefore should not be used as current guidance. Placing material for subsequent use is a clear part of the delivery process, one that OSHA understood when it crafted the 2010 rule, and should be easily distinguished from engaging in activity such as holding, supporting or stabilizing material that clearly facilitates construction and therefore exceeds the exemption. The plain meaning of the exemption makes clear that dealers must be able to complete the delivery of material up to upper levels of structures under construction and this cannot be done without unloading the material from the fork or pallet.

NLBMDA is continuing to work with OSHA on addressing the issue and is confident that OSHA will give a good-faith examination of the errors in the letter. We will have more information in the coming months regarding a resolution. ■

Kevin McKenney is director of government affairs for NLBMDA in Washington, D.C. For more information, visit www.dealer.org.

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AFTER YEARS OF AN EXCLUSIVE WITH A PRODUCT LINE YOU HELPED BUILD, THE VENDOR IS NOW SELLING IT TO YOUR BIGGEST COMPETITOR. WHAT WOULD YOU DO?

When you went out on your own and opened a building supply store 15 years ago, you knew it wouldn't be easy, but you were confident that you'd succeed to the extent that you helped others succeed. One of your company's core values has been to "dance with them that brung you." In other words, be loyal to those who help you grow. Thanks to a great team of people, many of whom have been with you for well over a decade, your little shoestring startup is now the leading LBM dealer in your market. You took a calculated risk by offering credit to some startup builders; now that they're established leaders in your market, they've not forgotten who helped them get their start. And when you were talking with vendors, you agreed to take on some of their new, unproven products to demonstrate that you're a good partner.

It's one of those new, unproven products that has led to your current situation. Here's the story. It was 15 years ago, and you were a month from opening your doors. You didn't want to carry all the same products as your competitors, knowing that price wars would ensue. So you worked to source quality materials that weren't widely available in your market. You had most of the major product categories covered, except what was then known as alternative decking.

The wholesale distributor supplying many of your other products approached you with a new line of decking called Unknown Decking. As it turned out, they were having a tough time getting any dealers to take on the new, unproven product and asked if you'd help them out. You agreed—but on one condition: an exclusive in your market. "Why not? Everyone else has said no," they reasoned, "and if we don't sign up a dealer, we lose the brand." With a handshake, you became the first stocking dealer in your market (and one of the first in the U.S.) of Unknown Decking.

Fast-forward to today. Boasting an attractive price point, easy workability, and very few field failures, Unknown Decking is one of the most popular decking products on the market. And it's all yours...or so you thought. On the way to work this morning, you heard your competitor's ad on the radio. "Stop by The Other Lumberyard today and check out the hottest decking product on the market, Unknown Decking! We'll match or beat any competitor's price!"

Since The Other Lumberyard is a big box discounter with a healthy advertising budget and a location less than a mile from you, this is not welcome news. Plus, it violates the agreement you made when you started stocking the

product 15 years ago. A phone call to the salesperson who made the agreement didn't go well. "I don't know what you're complaining about," he said. "You had an exclusive on that product for 15 years. The manufacturer was pressuring us to expand distribution, so we did what we had to do."

From your view, your agreement to take a chance on Unknown Decking is the reason that there's demand for the product in your market. You believe that what they did was wrong, but a handshake isn't enforceable in court. What would you do?



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- 1 ACCEPT IT.** There's nothing you can do. Without an enforceable contract, the vendor can do as they wish. And they're right, you did enjoy a profitable 15-year exclusive with the product.
- 2 PUSH BACK.** A deal's a deal—even if it is 15 years old. Plus, if you hadn't agreed to carry the product when you did, they likely would have lost the brand. Insist that they honor your agreement.
- 3 SHOP AROUND.** If they're not going to honor their agreement with you, then the relationship has run its course. Consider taking meetings with the other wholesalers who've been courting you.
- 4 SAY GOODBYE.** Losing the exclusive on Unknown Decking is going to hurt you but losing all your business will hurt the supplier more. Cancel all existing orders and move your business to another supplier.

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