

# Winning Strategies for an Evolving Channel

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**2009 NAWLA Traders Market®**  
North American Wholesale Lumber Association

November 5, 2009



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## Agenda

- Macroeconomic Update
- Outlook for Building Materials Distribution
- The Future for the Construction Industry
- Key Strategic Questions
- Discussion Roundtables



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## Key Points

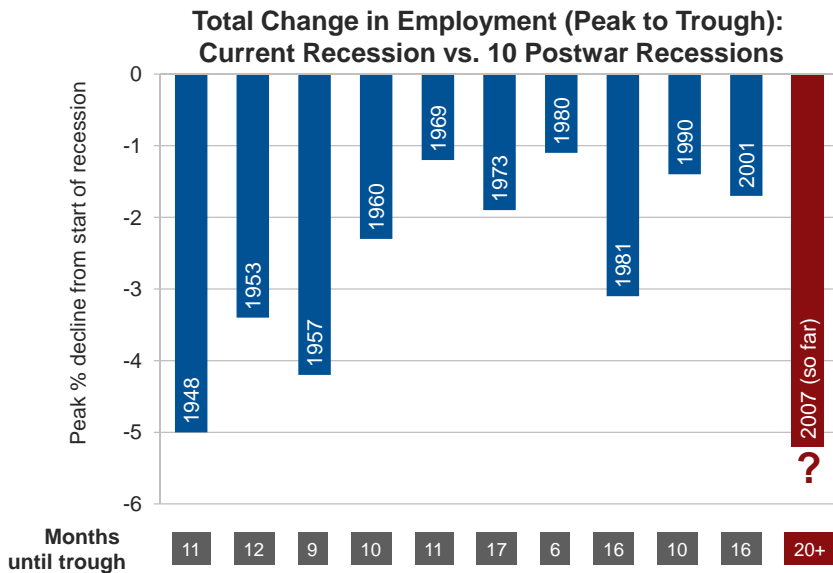
The recession is almost over although unemployment will remain. The recovery will be volatile and inflationary risks are growing.

Construction activity is on track for recovery in 2010 but will remain depressed during the next 4 to 5 years as the excesses of the housing bubble are slowly worked out.

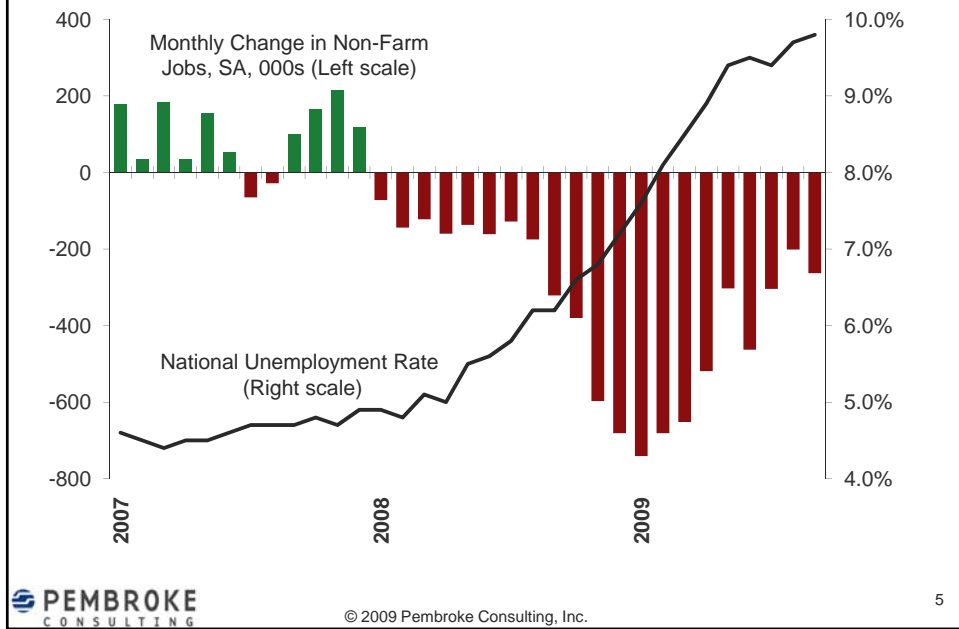
The remodeling market will also recover but remain below bubble-era levels for many years.

Get ready for the “new normal” from builders and contractors in the building materials channel.

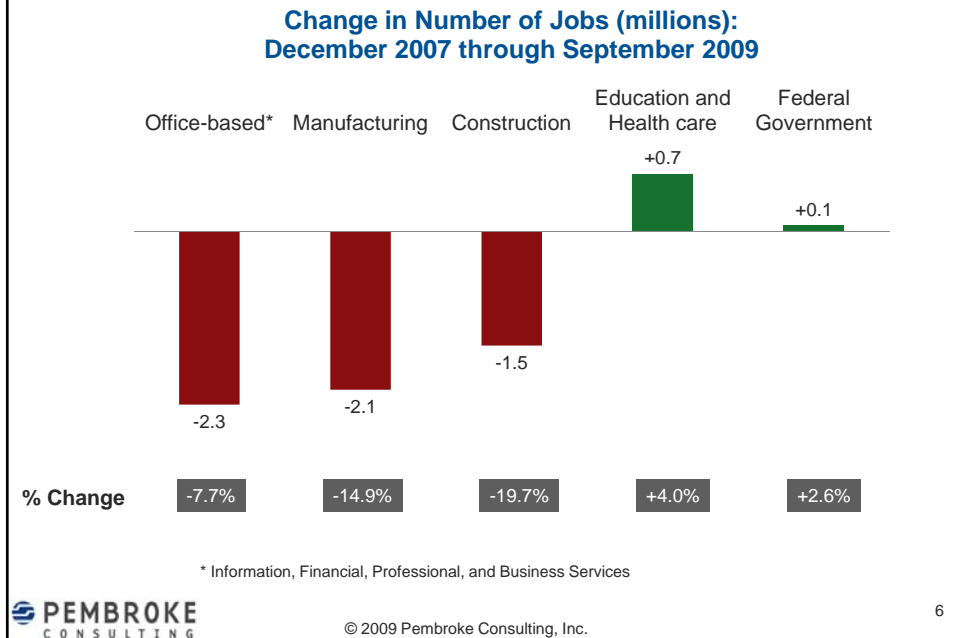
## Today's Recession in Perspective



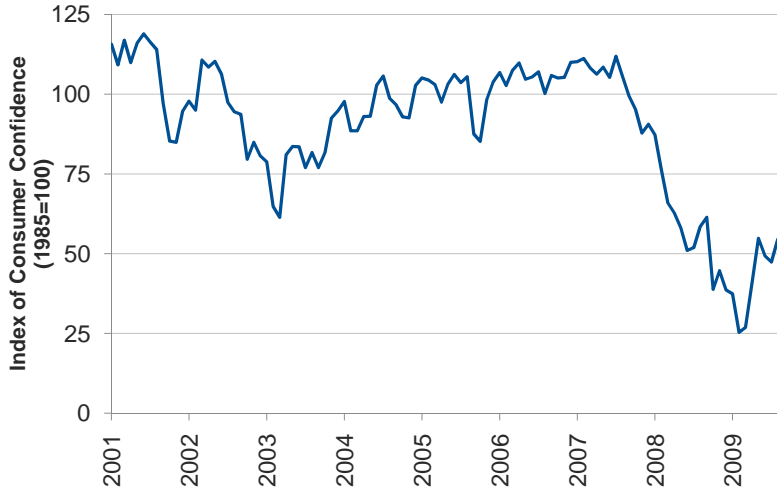
## Employment situation is grim but improving



## Job losses by industry



## Consumer confidence bouncing off historic lows



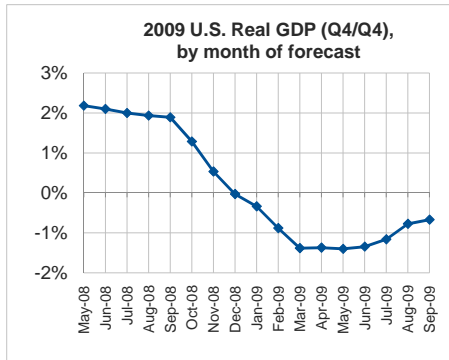
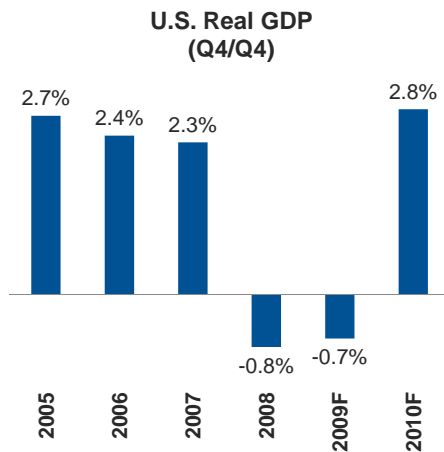
Source: The Conference Board



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## Macroeconomic forecasts are stabilizing



Source: Wall Street Journal survey of economic forecasts

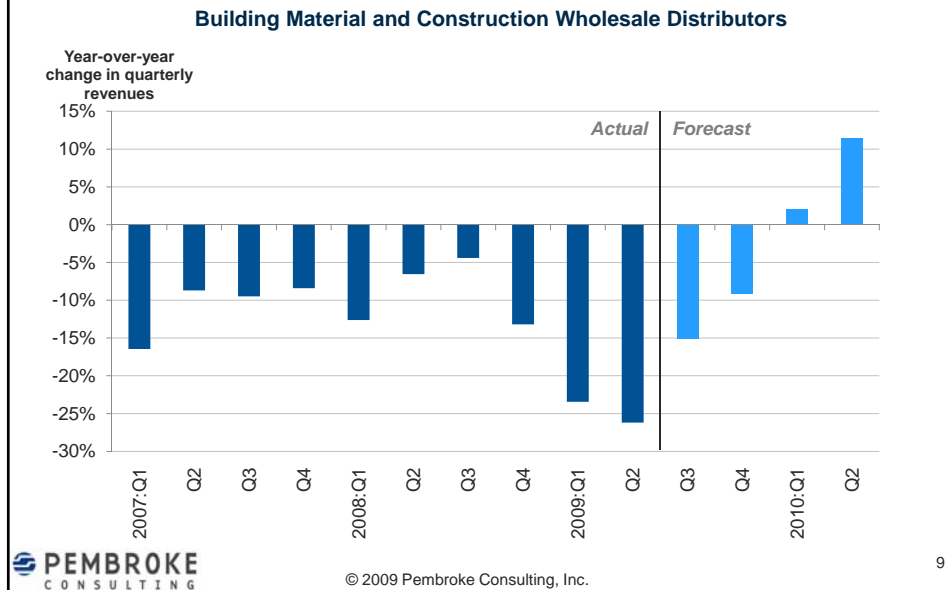


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## Inflection Point for Building Materials Distribution

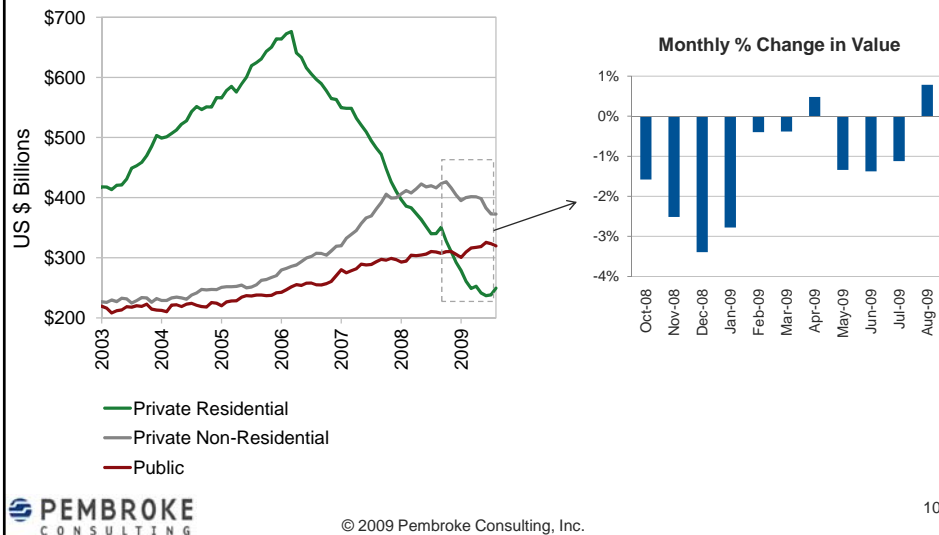
% change in revenues from previous year, 2006:Q1 to 2010:Q2



## Signs of life in a depressed construction market

### Value of Construction Put in Place

(Seasonally adjusted at an annual rate)

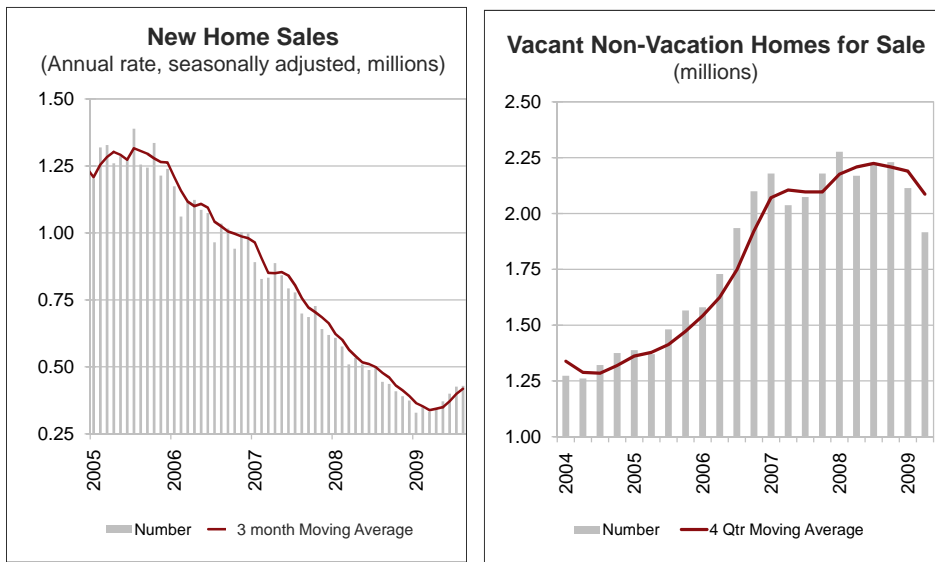


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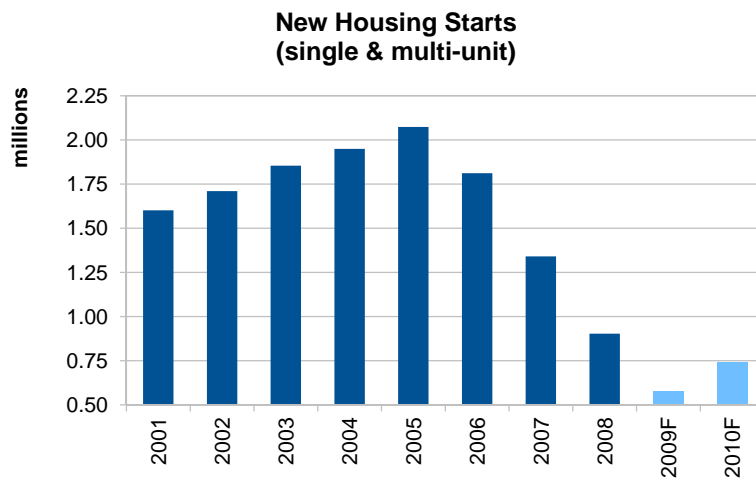
1515 Market Street, Suite 960 / Philadelphia, PA / 215.523.5700 phone

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## Residential housing market is improving

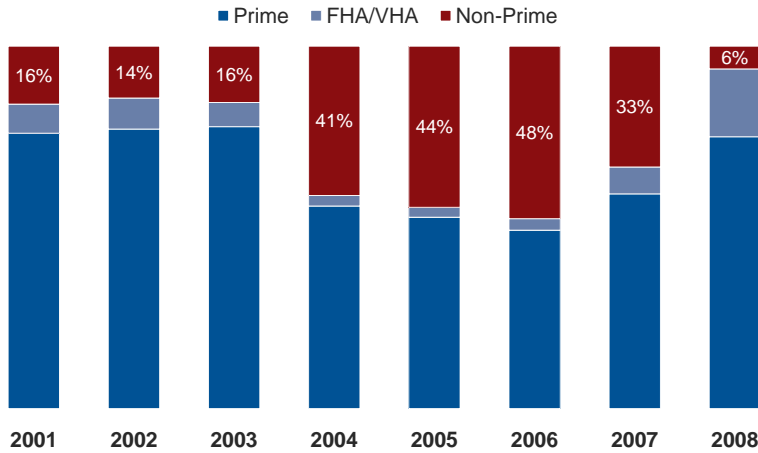


## Residential construction growth in early 2010?



## Non-Prime lending has vanished

Share of Single-Family Loans Originated



Non-Prime includes subprime, Alt-A, and home equity loans/lines.  
Source: Freddie Mac

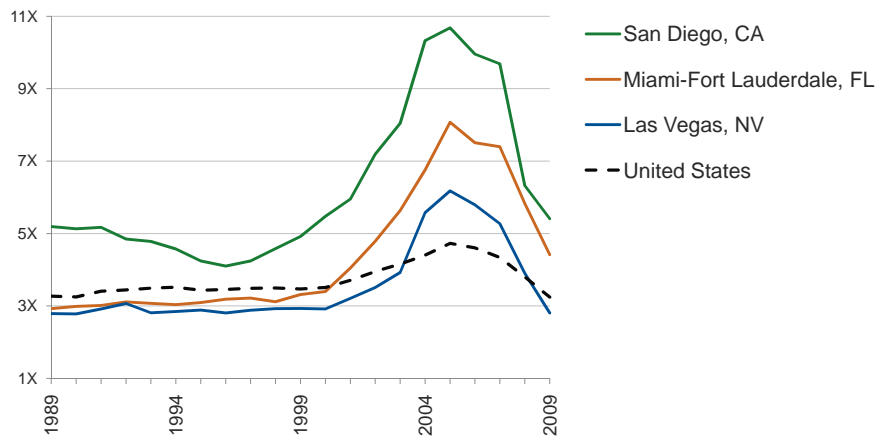


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## Housing affordability returning to pre-bubble levels

Ratio of Median Existing Single-Family House Prices to Median Household Incomes



Sources: National Association of Realtors, Median Existing Single-Family House Price; Moody's Economy.com, Median Household Income

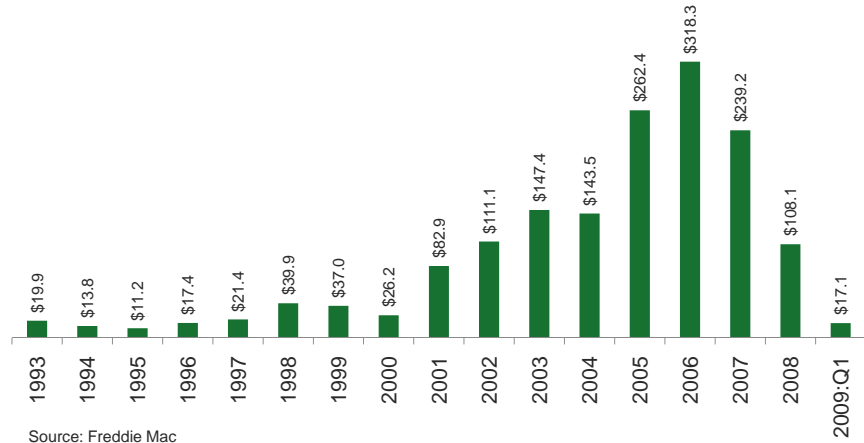


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**Cash-out refinancings, which support the remodeling market, are down sharply.**

**Total Home Equity Cashed Out (\$ billions)**



Source: Freddie Mac

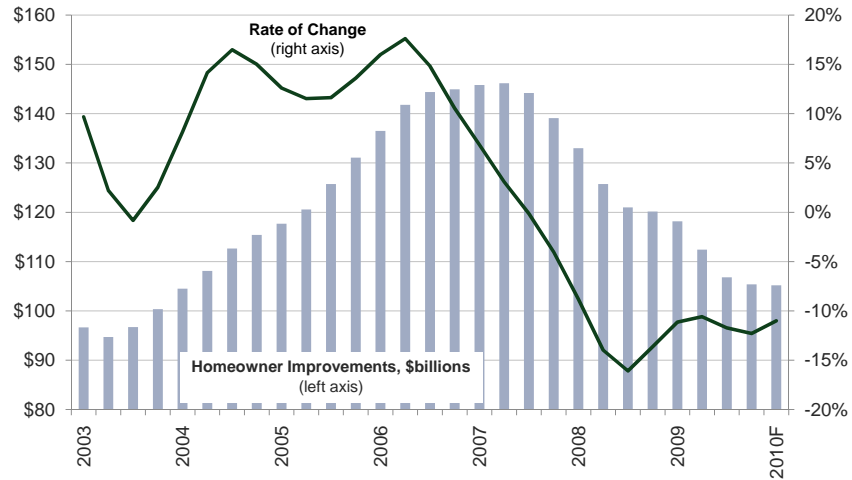


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**Homeowner improvements rebounding in 2011?**

**Homeowner Improvements (four-quarter moving totals)**



Source: Census Bureau; Harvard Joint Center for Housing Studies

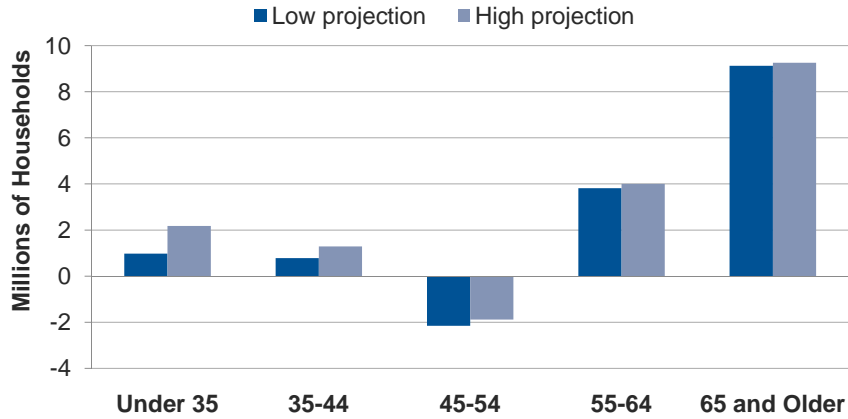


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## Q1: What will be built in the next 10 years?

Projected Change in Number of U.S. Households by Age of Household Head, 2010-2020



Source: 2009 State of the Nation's Housing, Joint Center for Housing Studies of Harvard University  
 High-series projections assume immigration rises from 1.2 million in 2005 to 1.5 million in 2020 (per Census Bureau's 2008 population projections). Low-series projections assume immigration is half the Census Bureau's projected levels.

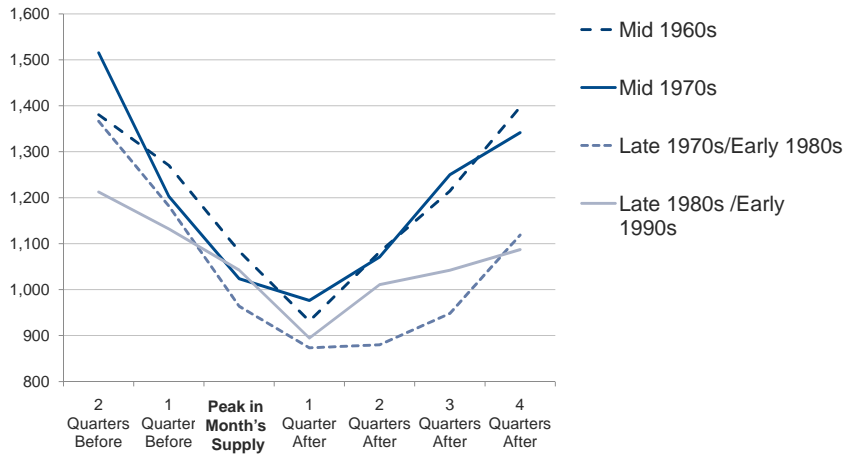


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## Q2: Will the historical bust-to-boom cycle repeat?

U.S. Housing Starts (Thousands)



Source: Harvard Joint Center for Housing Studies

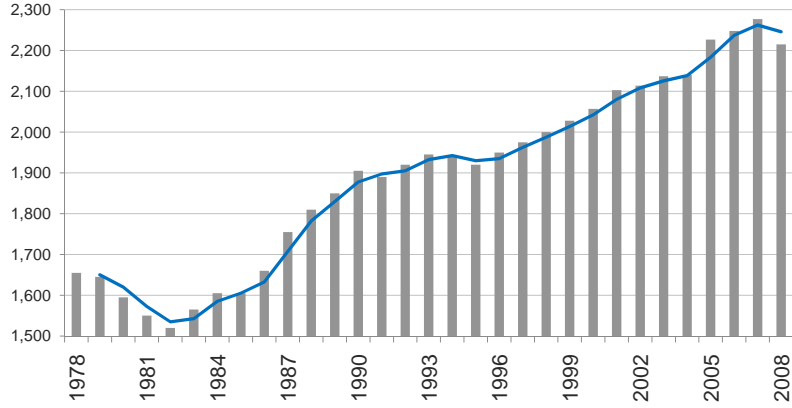


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### Q3: Have we seen the end of McMansions?

Median Square Feet of Floor Area  
in New One-Family Houses Built for Sale



Source: Census Bureau



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### Q4: Will large production homebuilders dominate?

Financial Position of  
Major Homebuilders (as of 8/4/09)

Builder	Cash (billions)	Total Debt (billions)
Pulte	\$1.75	\$3.30
Centex	\$1.34	\$3.26
DR Horton	\$1.49	\$2.91
KB Home	\$1.00	\$1.71
Lennar	\$1.45	\$2.94
MDC Holdings	\$1.63	\$1.02
Toll	\$1.96	\$2.46
K Hovnanian	\$0.78	\$2.12
Beazer	\$0.56	\$1.71
Ryland	\$0.61	\$0.87



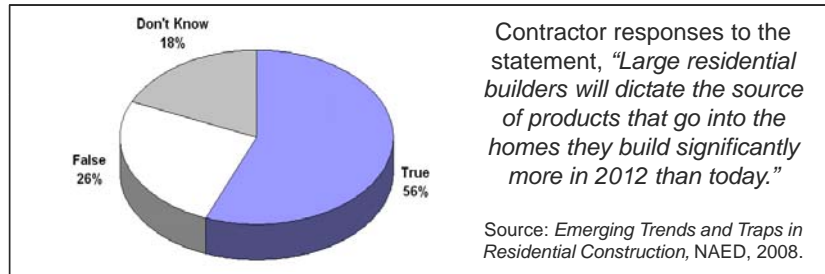
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## Q5: How will builders source building products?

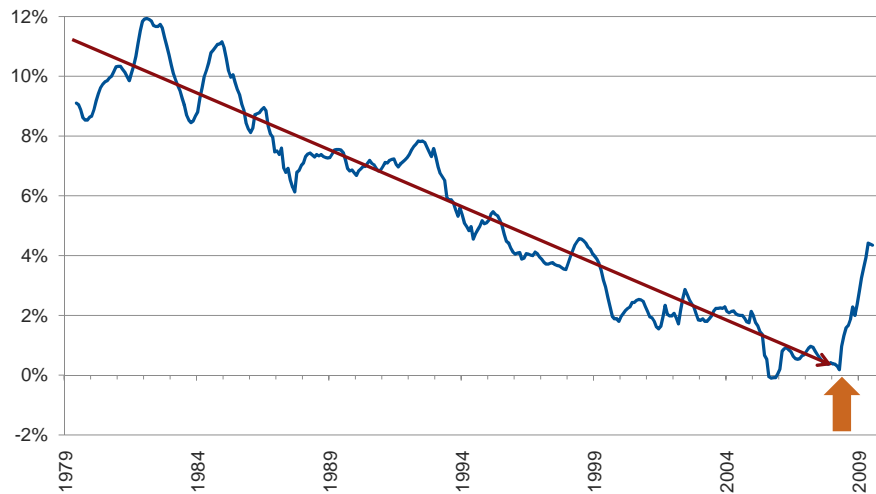
### Emerging Trends

- Fewer house plans/Less complexity
- Unit cost visibility
- National Account/Centralized Sourcing
- Private label products



## Q6: Has the U.S. changed direction?

### U.S. Personal Savings Rate (6 month moving average)



## Who Will Win in Your Channel?

The **skill**

to be strategic in a new era

The **will**

to invest when others are pulling back

The **till**

to fund growth and innovation



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## 2010 Economic Outlook for Wholesale Distribution

**LIVE Webinar with Adam J. Fein, Ph.D.**

November 19, 2009 @ 1:00 PM EST

Register at <http://www.mdm.com/2010forecast>

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**Peer Networking Discussions**

November 5, 2009

Please share your experiences and observations on each question with the other executives in your group. There is no requirement for agreement and you should try to consider a range of viewpoints.

**General Guidelines**

1. Nominate a discussion leader. This person will help to keep the conversation moving along.
2. Each person should take notes for their own reference. There will be no formal reports from the groups.
3. Your goal is to gain insight for your own company. Try to identify one or two new ideas that you can bring back to your business from this meeting.

**Timing**

There are 4 topic areas with 5 questions per topic. Plan to spend about 20 minutes on each topic area. Groups can decide how much time to spend on each question based on participant interest.

- TOPIC 1: Human Resources and Employee Management
- TOPIC 2: Financial Management
- TOPIC 3: Sales and Marketing
- TOPIC 4: Construction Market Outlook and Channel Evolution

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**TOPIC 1: Human Resources and Employee Management**

1. How are you keeping employees motivated in the current market?
2. How do you handle layoffs or general reductions in staffing levels?
3. What's the best way to attract high-caliber people into this industry?
4. What are the best tactics for managing the costs of health insurance?
5. What other advice can you share about human resources and employee management?

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**TOPIC 2: Financial Management**

1. What have you done to maintain or improve your banking relationships? What should you do if your bank is not stable?
2. What new information do you now share with the bank to help them better understand the environment facing lumber and building products distributors?
3. What advice can you offer to improve accounts receivable management?
4. How do you assess vendor weakness and determine who will not survive the recession?
5. What other advice can you share about financial management?

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**TOPIC 3: Sales and Marketing**

1. What are your best strategies for increasing gross margins in this environment?
2. Do you expect builders and contractors to change their sourcing strategies when the market recovers? If so, how? Do you agree or disagree with slide 21 of Dr. Fein's presentation?
3. What new sales strategies are working with builders, contractors and lumberyards in your area?
4. How do you identify and acquire new product lines?
5. What other advice can you share about sales and marketing strategies?

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**TOPIC 4: Construction Market Outlook and Channel Evolution**

1. How have you adapted business planning to deal with economic volatility?
2. What are your expectations for the economic outlook in building products for 2010? What do you think about the forecast provided on slide 9 of the Dr. Fein's presentation?
3. What leading indicators do you track for your business?
4. What are your three best strategies for surviving the recession?
5. Any final advice on the economic outlook and business planning?