

Sage ERP Solutions | White Paper

Renovating Building Materials Businesses

Innovation to Thrive in a Changing Market



Table of Contents

Introduction	3
Keeping up with a Changing Market.....	3
Dimensions of Innovation	5
Information Needs to Support these Changes	6
The Future is Now.....	8

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Introduction

The crisis in the housing market has simultaneously challenged the ability of building materials suppliers to adapt to a new landscape and threatened their very survival. The crisis has changed the fundamental demand curve for building supplies and, simultaneously, created opportunities in certain niche markets such as replacement windows, basement remodeling and waterproofing materials, and energy-saving insulation, for suppliers who are able to maintain margins through innovation in their materials, products, and processes to meet specialty requirements.

Keeping up with a Changing Market

The housing market is suffering its worst decline in decades, a down-cycle that is differentiated by both its depth and expected duration. The commercial market has maintained greater stability. The steep decline in demand for materials challenges each supplier to establish differentiation, which is particularly challenging in a market that is highly commoditized. In such a market there are only two ways to achieve differentiation: Hit the business management trifecta of consistently delivering high levels of customer service and product availability while maintaining stringent cost controls; or offering a product or service that is differentiated, unique, and highly desirable.

Product and service differentiation enable stronger margins. However, companies can only achieve differentiation through continuous product innovation and ongoing business process improvement. This is not a goal that can be achieved through a one-time push; it requires a long-term, disciplined approach to continuous improvement in processes and products.

The downturn in residential construction has fundamentally altered the demand curve (Figure 1). Residential builders are increasingly focused on renovation and upgrades. From the building supplier perspective, this translates into smaller orders and different coordination and logistics requirements. It also pressures suppliers to respond to last-minute engineering changes and deliver custom products.

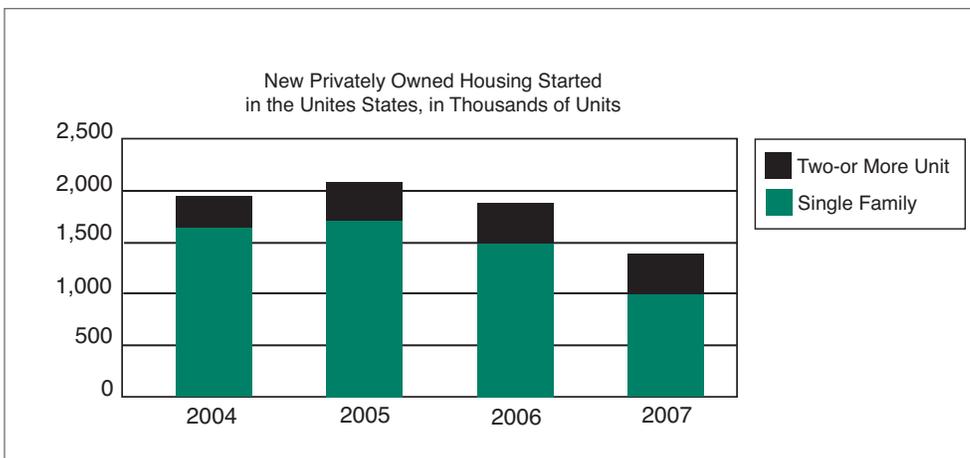


FIGURE 1

Figure 1: Residential housing starts in the U.S. are down consistently over the past three years.

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Contractors are suffering, too, and as a result are increasingly sensitive to issues of cost, product quality, on-time delivery, service, and payment terms. As a result, many companies are seeing a decline in cash flow predictability.

Lurking under the troubled waters of the housing market is the undertow of rising energy costs. The dramatic upturn in energy costs is felt in nearly every aspect of milling, fabricating, and transporting building materials. All of these are energy intensive. Transport costs are a significant element in total landed cost.

Equally important, the dramatic increase in energy costs has increasingly focused demand in both the residential and commercial markets on new products that improve energy efficiency through both material and technological innovation. Green is an increasingly attractive set of buying criteria both for social and financial reasons. The increasingly volatile weather has not only prompted Bloomberg to partner with Storm Exchange to offer weather-based risk analytics, it has also created a market in every corner of the world for products able to better withstand natural disasters.

For building material suppliers, this emerging thread of increasing demand for energy-efficient and weather-resilient products offers both opportunity and challenge. The opportunity is a chance to offer differentiated product with improved margins. The challenges include the requirement to establish processes and trading partners that can deliver the right new materials and products. Another is the need for customer service to deliver these products to the building site effectively.

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Dimensions of Innovation

The changed landscape challenges the very core of building material supplier operations. Suppliers are being required to increase the number of standard and dimensioned products to meet a higher volume of smaller orders with more diverse order requirements. In addition, companies must respond to custom requirements and extend their product lines using new materials to seize the opportunity presented by demand for more energy-efficient, recycled or recyclable, and weather-resistant products.

These requirements place significant pressure on both customer-facing processes and the internal manufacturing and distribution processes that enable delivery of goods in a timely manner (see Figure 2).

- Customer service processes must effectively educate customers on new, green materials and products and provide effective installation support; sales force education becomes increasingly important.
- Marketing and product development teams must be continually evaluating new materials and technologies, monitoring changing building codes, and assessing energy standards such as LEED.¹
- New supplier relationships need to be put in place rapidly to leverage new product opportunities, and tighter relationships must be established to improve product quality and shorten time to market.
- Manufacturing must be able to handle greater order variety and smaller order quantities.
- Energy consumption in manufacturing must be minimized through effective utilization, improved throughput, and retooling to improve efficiency.
- Order fulfillment times must be improved to reduce order-to-cash cycles.
- Material management processes must be effectively balanced with transportation cost and delivery effectiveness to maintain product and material inventories at optimal levels.
- Distribution facility locations must be continually evaluated to minimize transport costs; warehouse operations must be evaluated to minimize energy costs.

These requirements are driving the forward-thinking companies in the Building Materials Industry closer to a lean manufacturing model—with underlying just-in-time and continuous improvement objectives

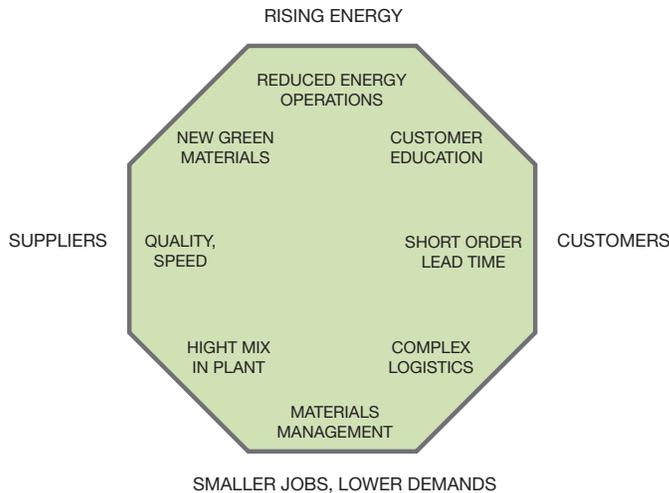


FIGURE 2

Figure 2: Building materials suppliers face a multifaceted challenge to innovate in every department.

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¹ Leadership in Energy and Environmental Design (LEED) is the recognized standard for building sustainability and energy efficiency. It is developed and administered by the U.S. Green Building Council (Washington, D.C.).

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Information Needs to Support these Changes

It's hard to think about investing in information technology—or anything else—in the middle of an economic slowdown. However, the simple reality is that the companies able to make critical IT infrastructure investments are more likely to be the survivors and winners as the market stabilizes and resumes growth. And there is a simple reason: Those who invest enhance their agility to perform in a demanding and rapidly evolving market.

The majority of building material manufacturing organizations have IT infrastructures that have been incrementally developed over a period of 10 to 20 years. Their capabilities are generally limited to sales, billing, procurement, inventory management, job/project costing, financials, and reporting. Most companies do not have effective integration between these core systems and their logistics systems—warehousing and transportation—nor are they able to support multisite operations effectively (see Figure 3a).

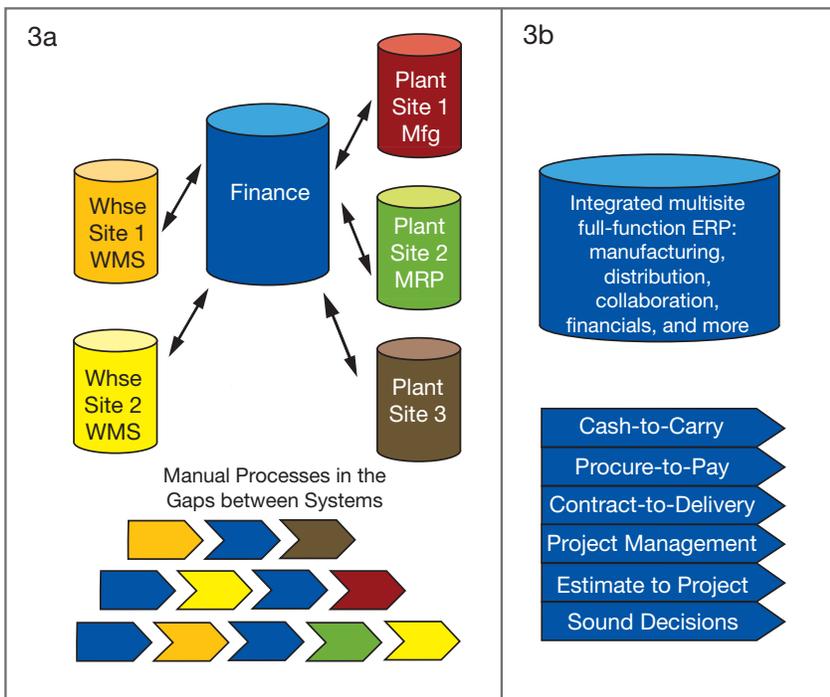


FIGURE 3

Figure 3: Most building materials manufacturers have fairly limited and independent systems in each warehouse and plant site, as shown in 3a. The complexity of today's environment calls for more integrated enterprise systems to support all key business processes end to end.

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In order to become more customer-centric against the changing pattern of demand and the increasing complexity of new products, a number of integrated capabilities is required. This move enables smooth and automated business processes (see Figure 3b):

- Customer relationship management (CRM) capabilities, which support responsiveness to customer requirements as the customer relationship evolves and changes
- CAD visualization capabilities, which are directly linked to order BOM, estimating, and quoting and are able to drive CAM and CNC equipment directly
- Sales configuration capabilities, which are rules-based, parametric or attribute-based, and multilevel, or feature within feature
- Document management capabilities, which support indexing, archiving, and retrieving documents throughout the project lifecycle of site visits, final drawings, engineering change orders, and test results
- Integrated project management so engineering project management (including resource management, time management, project accounting, scheduling, and plan-against-actual variance reporting) is linked to manufacturing project management and service project management
- Product lifecycle management capabilities to archive as designed, as built, as shipped, and as maintained configurations
- Strategic sourcing capability to identify new suppliers, monitor and periodically assess established suppliers, and strengthen ties with mission-critical partners
- Accurate job costing and standard costing to support insightful, reliable, and profitable estimating and quoting
- Distribution systems that support continuous analysis and optimization of costs
- Financials that pull from and provide input not only to customer records and credit histories, but also into contracts with materials and transportation suppliers

Above all, these capabilities must be integrated to allow for end-to-end business process support (see Figure 3b). The increasing complexity of building materials companies across several dimensions such as innovation to serve new markets and trend tracking to ensure business success requires IT support for effective process execution. There are simply too many product lines, including traditional and green offerings, suppliers and materials, projects and orders, and tricky logistics issues for people to manage effectively with manual handoffs of data, let alone manual or spreadsheet-based processes.

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The Future is Now

Building materials companies and their customers in the building trades are living in an era likely to create shakeout. This downturn demands evolution and adaptation to survive.

Hunkering down isn't likely to be a sufficient response because the changes are fundamental, and certain important environmental factors that underlie the downturn are likely to persist well after the business cycle turns positive. Cost curves have been fundamentally altered by the escalation in energy prices; although prices may come down in the short run, there can be little debate that the long-term trend is upward. Increasingly volatile weather and devastating storms will be reflected in new building codes and demand for new materials.

These factors will continue to drive a requirement for new types of building materials over the next decades and will simultaneously challenge building material suppliers to:

- Improve the energy efficiency of their operations.
- Continuously innovate their product lines, working more closely and effectively with both customers and suppliers.
- Significantly improve customer service.

Without more timely and relevant information it is impossible to take sufficient steps forward to enable survival. Effective information management supporting entire business processes will provide the foundation for these improvement initiatives.

The survivors of this period of upheaval will be the enterprises able to support their complete, order-to-cash business cycle. This demands smooth information flow among the cycle's integral components—sales, manufacturing, logistics, customer support, and financial management—and simultaneously supporting improved multiway communications with suppliers and customers.

Just as homeowners looking to sell must spruce up their properties, building materials suppliers must renovate their business practices. The best investment for many companies will be targeted information systems that support end-to-end processes and fill in the current gaps.

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