Distributor Perspective
Remodeling Industry: Ready For Renewal
Distribution Matters to End Users
Order Takers
2014 Member Directory
The incoming chairman for the NBMDA is Rick Turk, Distribution Division Manager for Metro Hardwoods. With over 27 years in the distribution business, serving in every position from outside sales to general manager, Turk brings a wealth of knowledge and experience to the role. He recently took some time to share his observations of industry trends with Distribution Matters.

D.M. What is the overall trend in distribution?

R.T. We recently went through a pretty difficult time, but now when I talk to my fellow distributors throughout the country, they are looking at three to four years of positive business trends. They saw it happen in 2013 and are really looking forward.

D.M. How does that affect distribution organizations?

R.T. I’ve seen some consolidation in the distribution business already, and I think we will see more. The recession weeded out a lot of distributors. Now there are some strong ones left that have buying power. That seems to be a trend because it is very difficult to go into an existing marketplace and start all over when nobody knows you. Acquiring a recognized name and sales people that are familiar with the regions gives a bit of a jumpstart. Regardless of size, we can’t be the distributors we were 10 or 15 years ago or we will be out of business. So we have to be exceptional inventory managers. We have to make sure we have the right products when the customers need them. And we must exceed service expectations.

D.M. What challenges will distribution face in the future?

R.T. One challenge is big-box retailers. They try to get into the distribution business, and have some success because they have such buying power. The big-box stores touch on the commodity part of the market, but it can take weeks to get product. We have to differentiate ourselves from the big-box entities and the Amazon.com’s by committing to inventory, committing to educating our customers, and committing to intelligent sales people that can go beyond price to describe a value proposition.

D.M. What advantages do distributors offer clients/customers?

R.T. Our goal as distributors is to save our customers time and money every day. In practice that is three-fold. The first part is understanding our customers so that we are more solution-oriented. Today’s distributors don’t just complete transactions. We spend a tremendous amount of time making sure we have the best, most knowledgeable sales people. The focus is creating relationships and serving customers’ needs.
The second is inventory and delivery systems. When customers win projects, they want to get started immediately. Part of that is being able to quickly handle the logistics of moving product. But today’s distributors also make large investments in technology so that we can provide our customers with accurate, real time information about inventory and price. And that helps to forecast demand as precisely as possible.

The third way distribution serves the customer is by helping with cash flow. We have the ability to extend credit when deemed appropriate or even extend terms so that our customers can confidently take on larger projects.

Those three functions help end users to succeed. They also benefit our manufacturing partners by reinforcing a strong consumer market for their products.

D.M. How do your partnerships with manufacturers come into play?

R.T. As a distributor you always have to remember that you don’t manufacture any products, so your relationship with your manufacturing partners is extremely important. Managers of large distribution yards spend a tremendous amount of time working on those relationships, making sure they are mutually beneficial. Good suppliers know that when they help us grow our business, it helps them, too. So they need to continually work on new and cutting edge products. If we just keep selling the same things over and over, it is a fast race to the bottom. So you hope your manufacturing partners can come up with new and innovative products that are captivating to the marketplace. A valued supplier of Metro Hardwoods is Columbia Forest Products, who continually strives to put new and innovative products into the marketplace. There is also a lot of responsibility of distributors towards their manufacturing partners. They put a lot of faith in us. We are selling their product, so we need to stock their inventories adequately and have smart sales people that can go out into the market place and explain the value proposition.

D.M. Advancing technology and environmental standards drive the development of new and sophisticated products. Do specifiers typically understand new materials or do they rely on distribution to translate?

R.T. A little of both. Customers have become more aware, but they have a lot of other aspects of their businesses to attend to. Take LEED for example. It is extremely complicated. Most distributors have LEED APs on staff that will not just consult on projects, but help to educate customers. Our partnerships with the manufacturers keep us on the leading edge of materials. Then we build trusted relationships with customers and it makes things easier for everyone.

D.M. When you get together with colleagues, what do you talk about?

R.T. We talk about product lines, manufacturer partnerships, customer strategies. I cannot emphasize strongly enough how valuable the NBMDA is. You can learn so much about running a business from colleagues, particularly when they are not directly competitive. I have friends all over the country and we bounce ideas off each other all the time. The NBMDA helps everyone. And that is outstanding because it not only benefits distribution, but all of our partners and customers.
Although the remodeling trade is typically comprised of small companies operating in local geographic regions, the market as a whole is significant. According to the Leading Indicator of Remodeling Activity (LIRA), which calculates the annual rates of change in improvement spending on a quarterly basis to project short-term trends, Americans spent $536 billion in that sector in 2013, up 7.76 percent from the $497.4 billion spent in 2012. The most recent LIRA, published January 16, 2014 by the Remodeling Futures Program at the Joint Center for Housing Studies at Harvard University, predicts even stronger growth in 2014. Double-digit gains in annual home improvement spending are expected for the first half of the year, with continued increases at a rate of just under 10 percent for the third quarter. “The ongoing growth that we’ve seen in home prices, housing starts, and existing home sales is also being reflected in home improvement activity,” says Eric S. Belsky, managing director of the Joint Center. “As owners gain more confidence in the housing market, they are likely to undertake home improvements that they have deferred.”

This positive growth trend also holds true in the Kitchen Cabinet Manufacturers Associations (KCMA) monthly Trend of Business Survey; as well as the National Association of the Remodeling Industry’s (NARI) fourth-quarter 2013 Remodeling Business Pulse report of current and future market conditions. “Many remodelers entered 2014 with jobs in the pipeline, which hasn’t happened in the past few years,” says Tom O’Grady, CR, CKBR, chairman of NARI’s Strategic Planning & Research Committee and president of O’Grady Builders, based in Drexel Hill, Pa. “Although inquiries, requests for bids and conversion of bids are down in Q4, that backlog has given remodelers confidence that the overall business conditions will remain positive.”

Diane Welhouse of Welhouse Construction Services in Kaukauna, Wisc. is experiencing the same in her family’s fourth-generation design, remodel and build firm. “For us 2012 was our toughest year in terms of the recession. We experienced very competitive conditions,” says Welhouse. “It started to turn around for us in the third and fourth quarter of 2012 and we finished 2013 strong. We’re forecasting another good year, and already have work signed and secured for the first and second quarter of 2014.”
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This real life example corroborates the LIRA’s projections, which include some expected slowing in the third and fourth quarter of 2014. “The strong growth for this cycle may start to ebb a bit beginning around midyear,” says Kermit Baker, director of the Remodeling Futures Program at the Joint Center. “By that time, we’ll be approaching the pre-recessionary levels of spending, and with borrowing costs starting to creep back up, growth rates are likely to slow some.”

Alan Beaulieu, president of ITR Economics also predicts a small consumer-led trough in the second half of 2014, with the assurance that regardless of media hype, it will be nothing more than a passing blip in an overall growth trend expected to continue through 2018. “The outlook forecasts that favorable business conditions will remain strong across all regions of the United States,” O’Grady says. “Consumer confidence is up, which translates into more homeowners feeling safe investing in their homes.”

KCMA 2013 TREND OF BUSINESS SURVEY

Participating members show overall year-to-date sales increases of +20.1 percent

► Stock sales up +25.4 percent
► Semi-custom sales up +15.8 percent
► Custom sales up +16.6 percent
Welhouse shares that optimistic outlook for the future, due in large part to changes happening in her own business. “The difference is the phone is ringing with customers that have a true desire and interest to actually do something,” says Welhouse. “The past two years people had the impression that it was a buyers’ market, and that renovation costs would be significantly reduced. And some companies did do that as an attempt to remain in business. However, we don’t see that as sustainable business model over time. So we remained true to our values and our business systems.” Welhouse’s specialty is modernizing homes, a challenging niche that often requires significant structural engineering. It is not a purely cosmetic practice where costs can be easily value engineered. Maintaining the excellent 100-year reputation of the company requires Welhouse to be discerning about operations. On the supply side that means partnering with companies that consider Welhouse’s accountability to its clients, including respect for timelines of projects that leave homeowners living in temporary upheaval. On the client side that means working with people who value quality over price. “Overall, our trend today is clientele calling with serious inquiries and a better understanding of what costs will be,” says Welhouse. “We have more of a dialogue than ‘I am looking for the lowest price.’ Again, Welhouse’s experience mirrors the data collected by NARI, which reports a decline in the number of inquiries and requests for bids, but an improvement in the quality of those inquiries. That positive shift is defined by both projected strength of sales and by overall positive business conditions. 

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**NARI REPORTS HIGHEST OVERALL RATINGS ON BUSINESS CONDITIONS**

The National Association of the Remodeling Industry’s (NARI) fourth-quarter Remodeling Business Pulse (RBP) data of current and future remodeling business conditions continues to show growth. Although remodelers report the highest overall rating on business conditions, at 6.51 (from 6.41 last quarter), numbers in most other categories experienced a slight drop.

**Growth indicators in the fourth quarter of 2013 are as follows:**

*(rating is from 1 to 9, where 1 is much worse than a year ago and 9 is much better; 5 is about the same as last year)*

- **Current business conditions** was rated 6.51 (from 6.41 last quarter)
- **Number of inquiries** fell to 6.2, a significant drop from 6.55 last quarter.
- **Requests for bids** fell to 6.22 from 6.45, a significant decline from last quarter.
- **Conversion of bids to jobs** continues to be the weakest measure remaining flat at 6.03.
- **Value of jobs sold** declined to 6.27 from 6.31 recorded last quarter.

Conversion of bids to jobs continues to be the weakest measure when compared to the same time last year. Yet, the projected strength of sales in three months had a significant increase to 6.41 from the 6.12 recorded in September.

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AMY CARMAN, principal of Amy Carman Design of Milwaukee, is the interior designer for the highly-anticipated mHouse project. The mHouse (materialicious house) will be a living research lab that showcases the most cutting edge engineered materials in innovative ways. Carman was chosen because her work embodies the idea of the mHouse – a state-of-the-art project with modern style. Her designs are classy, unpretentious and timeless. Carman even represents the demographic most manufacturers of engineered materials want to reach: young, educated, influential, design-savvy professionals who work on innovative projects.

Prior to starting work on the mHouse project, Carman didn’t use any engineered materials. “Up until recently, I did not use engineered materials,” says Carman. “I did not have an awareness.” The turning point for Carman came when she attended the 2013 Decorative Surfaces Conference (DSC). “Going to the DSC and meeting everybody really made me aware of great products that are out there. You just tend to write off an entire segment of ‘oh, that’s laminate, I’m not interested in that,’ until you know the differences,” says Carman. “As designers, we make those decisions in kind of a vacuum. It is not like a rep came and educated us on the products. They typically visit the cabinet shops.” Carman is now aware of the many options available to her in engineered materials and often specifies textured TFL for its excellent aesthetic value and great performance.

Carman is also a licensed General Contractor. When she is running a project, her preferred cabinetmaker is Louis Anthony Custom Cabinetry, also out of Milwaukee. Louis Anthony fabricates high-end custom cabinetry for a select group of builders and designers in the region. In addition to fabrication, they do all the shop drawings and installations for clientele. Presenting these concepts and sample products in their showroom is the task of Matt Wasserman, General Manager of Louis Anthony. When it comes to showing his clients’ engineered materials Wasserman says, “I don’t push some of the newer stuff out there. I know some of our clients like things like textured TFL, but it can be
“Up until recently, I did not use engineered materials. I did not have an awareness. Going to the DSC and meeting everybody really made me aware of great products that are out there.”

AMY CARMAN

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a real struggle finding the entire program of components, edgebanding, matching HPL, etc. I pull my hair out trying to piece it together. I go with products that I know I can get reliably through distribution, so I am not at anyone’s mercy. I try to steer our clients toward what I know will be easy for us to achieve great results with.”

This situation is not unique. It is indicative of the modern landscape that distributors must adapt to if they wish to remain relevant in a dynamic marketplace. While there are many factors driving change in the distribution model, there is also a tremendous amount of opportunity. The differences in the approach to modern distribution are subtle, but profound. By leveraging existing infrastructure, technology and people power, forward-thinking manufacturer/distribution partnerships are already working to bring new products to the people who use them when they are needed.  

Qualities of Good Distributors

Matt Wasserman, manager of Louis Anthony Custom Cabinetry in Milwaukee, has worked in cabinetry and remodeling, in different geographic regions, his entire life. To him, good distributors share certain characteristics. “A good vendor is going to keep things in stock. Bad ones put things on backorder after you order them. Then you have to babysit them and follow up,” says Wasserman. “A good distributor makes sure things arrive when they are supposed to so that we keep our schedule. We use Metro Hardwoods because they believe in inventory. If something is not available, or I have to buy a railcar full of it, I am not going to show it to my clients.” This point is so important that even though Wasserman buys locally whenever possible, he also relies on distributors such as Aetna Plywood and Sierra Forest Products, both out of Chicago, because they stock a full program (panels, edgebanding, core materials, veneer-ply) of the materials that are staples of Louis Anthony’s production.

Wasserman also appreciates vendors that understand his operation. “We do all our own finishing and use M.L. Campbell’s product line. LDS&S Specialty Wholesalers is a good supplier to us for our materials. My person there is excellent at doing stain matches and that is peace of mind,” says Wasserman.

In terms of an overall shift toward an annuity-based model of distributor/manufacturer partnerships, Wasserman is emphatically in favor. “I would love to see more of that in the channel,” he says. “One company that is really great that way is Blum. They are amazing. They come out with specialty products like corner hinges and locking devices. But first they test them forever to make sure there are no problems,” says Wasserman. “We tried a less-expensive alternative at one point, and it was a lesson learned. I am a Blum guy through and through. Plus, they have a great relationship with HDL in Minnesota, who is very good at stocking almost the entire line. We do mostly custom work, so that is really important.”

For more information on the mHouse, including how your company might participate, please contact John Auferhaar at jaufderhaar@surfaceandpanel.com or 920-206-1766.
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As commodity sales increasingly fall to the low-overhead, minimal-service realms of e-tail and big box stores, new opportunities are emerging for wholesale distribution. A word that is often used to differentiate the modern model of distribution is “annuity.” It encompasses the idea that when manufacturers and distributors make the up-front investments to learn how and why end users specify product, they become better prepared to offer comprehensive solutions in the long term. This not only builds relationships, it creates a robust market for sophisticated products while benefitting end users.

There is no one right way to go to market, but Panolam Surface Systems is beginning to put into practice many of the strategies that support a strong annuity-based distribution model. It is an interesting example because the company manufactures a comprehensive array of decorative surface systems for applications ranging from typical vertical and horizontal surfaces to the most demanding commercial environments. Prior to Al Kabus, president and CEO of Panolam, taking the helm in 2012 the company isolated the specification and sales functions, resulting in products being positioned in the market separately. “There were a lot of great assets and components in place. What needed to be refined to create real value for all constituents was the route to market and the assembly of the brand,” says Kabus. “If you look at Panolam as an a la carte menu, we are only as good as our individual products. But when you look at the products as a collective, we have a tremendous ability to save customers, (meaning architects, designers and facilities managers) time and money, while serving their design and performance aspirations.”

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FROM THE TOP DOWN

While Panolam’s approach sounds straightforward, it is complex in orchestration. First and foremost, it requires changing the conversation with specifiers and channel partners. “Until recently, I believe distribution has been focused on individual products because we (as manufacturers) have looked at distributors as customers rather than partners. We focused on loading them up on inventory and then asking them to sell. And that model is broken,” says Kabus. “We now focus on what they sell to the market, which creates more business for all parties. The objective is to understand everyone’s business to the degree that we can add value and increase the opportunity to succeed. Now not only do we have specification experts who bring architects and designers real time solutions, but we are equally focused on creating a market for our distributors. The goal is to create a buy versus trying to sell. To me that is the huge difference in terms of creating sustainable, long-term growth.”

One of Panolam’s distributor partners is McKillican American, Inc., a distribution company with a presence in 13 North American growth markets. The company conscientiously shifted to an annuity-based operating model in 2012. “What is really nice is when the distributor and manufacturer are aligned in their philosophies,” says Jamie Barnes, president of McKillican. “I think there is a business maturation going on that requires distribution to play at a higher level, and I think we are growing in concert with one another right now,” says Kabus. “All we do is make product and focus on making sure we do a good job of marketing its value. We need our distributors; they are truly our partners in educating customers and making sure our product is available. I believe we are just starting to ignite the opportunity to leverage the collective talent in the market place, because all politics are local and every market is a little different. So distributors that understand and can collaborate effectively, are extremely valuable in covering the market and making sure we target the right opportunities and customers that will benefit most from our surface systems.”

SERVING CUSTOMERS AND CLIENTS

The annuity-based model has a heavy emphasis on understanding end users. “We have a very defined and disciplined sales process that begins with what we call the discovery phase. From a high level, you can paint every fabricator or specifier, and everything they might use, with one brush,” says Barnes. “But the reality of adding value is to get deeper down into what makes our customers successful. Usually when you look at it, how one company
does business is quite different than another. We look for what we call ‘uncommon understanding’ and use that to develop solutions that serve the individual business. That is how we add value and maintain relevance in the relationship.”

In general, architects and designers are very busy and risk adverse. Time is their currency. When it comes to facilities managers and fabricators, they typically focus on getting the exact right materials in place, on time. Their currency is peace of mind.

Panolam addresses this distinction with two functional go-to-market areas. Specification managers call on the A&D community and facilities managers. Territory account managers work with distribution and fabrication companies. “We recognize that the professional designer is challenged to maintain profitability for their firm by maximizing billable hours with their client. At the same time, we as manufacturers are responsible for keeping the design firms current in terms of product representation and related information,” says Kabus. “Because Panolam has a broad collection of surface solutions, we are in a unique position to best honor the design firm’s time. We have shifted our focus to using a real-time strategic approach that combines technology with a deeper understanding of exactly what the designer needs to satisfy their current project. The idea is for product education/representation to mirror the designer’s needs first and ours second. Our goal is to be the most efficient and trusted designer resource in the surface industry.”

In the distribution arm, McKillican also makes a seemingly subtle distinction between clients (typically the A&D community that specifies materials) and customers (typically the buying segments of the channel). “For the most part, architects, designers and specifiers, aren’t looking for immediate product, so it is really more about being that trusted advocate that can educate and be a valued resource time after time,” says Barnes. “Our everyday buying customers have slightly different requirements, so we work with them on things like inventory management, service levels and even things like cash flow via our financial services department.”

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**ROBUST RELATIONSHIPS REDUCE RISK**

In the end, a more annuity-based model of distribution adds value to the channel by reducing risk for both manufacturers and end users. “I’ve heard it said that distribution is like a shock absorber in a vehicle. It provides a flex point for the core business functions,” says Barnes. “The more we understand what makes our customers successful the better chance we have of being relevant to them for the long-term.

Both Panolam and McKillican are already seeing benefits from their investments in the human resources required to provide end users with a customized experience. And while the annuity model, by design, is intended to have long-term payoffs, Barnes reports that one of the short-term advantages is a positive shift in company culture. “Our goal has always been to make our customers and manufacturing partners more successful in the long run. When we began valuing relationships over transactions, our internal staff became more powerful problem solvers and service providers. It is a great thing to show up for work and know what you do is relevant.”
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