

# STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY WOODWORDS)

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## "I-Housing" by Sarah Moriva

In June 2000, Hanley-Wood, a publisher of industry trade magazines, put on the first ever I-Housing Conference in Washington D.C. The conference brought together representatives from all aspects of the building industry as well as several companies on the leading edge of digital technology. The theme of the conference was "Digital Customers, Digital Competition, Digital Commerce—Thriving in the Digital Age." Having the unique opportunity to attend this conference was an eye-opener and the topics were fascinating. Although much of the discussion was generalized for the building industry, the basic ideas can be applied to the truss industry specifically.

The truss industry has to re-evaluate and redefine its business model. The traditional business model is for the customer to give us money first, and then hope that they receive value in return. As we well know, this is not always the case and the result is angry customers, slow receivables, harried employees and unwanted inventory. The digital age (technology, telecommunications and the Internet) has reversed this model. It has created a power shift from the manufacturer/distributor to the customer/buyer. From hoarding and controlling information to disseminating information and even offering assistance to it. The customer now controls the sale and the sales process. Most motivated customers (those willing to buy) perform conscious searches for products and services instead of randomly discovering them.

The Internet is a widely accessible, inexpensive to operate, network over which anyone can share information with anyone else. It has brought a radical change in the volume of information to be shared, the speed with which it can be shared, the purposes for which information is intended and the range of parties involved in information sharing. What the Internet means for manufacturers is new channels of distribution that bring them closer to the end user. Some Wall Street analysts are predicting that in three to five years the Internet will handle almost every aspect of the homebuilding process including bidding and purchasing of materials, coordinating the delivery of the material, scheduling labor, marketing homes and option choices, and even originating mortgages.

Internet automation is a key component to a fragmented truss industry, ripe for restructuring. Getting all the brick-and-mortar companies to become click-and-mortar companies could result in savings in the billions, once the entire chain reaches peak efficiency. But in order to begin to change the current system, we must first understand what needs to be changed.

Problems in the manufacturing link are mainly due to a lack of information. Unfortunately, many truss manufacturers don't really know who, what, when, where and how much because of a "wall" between them and the homebuilders. The "wall" for many truss manufacturers is the distributors. But it is the manufacturers who created this situation (about 35 percent of the WTCA membership sells through distribution). The distribution link was created because

manufacturers didn't want to do it. They simply wanted to create product and ship it to a supplier who would handle the enormous quantity of paperwork, credit management, inventory and logistics. Therefore, those truss manufacturers who sell through distribution don't really know their end user. This results in the use of antiquated forecasting tools and educated guesses to detect trends. This often leads to materials shortages in one market, while having production overruns in another.

[Editor's Note: This paragraph could also apply to the manner in which lumber is distributed to truss manufacturers, and to any two-step distribution process to market products.]

The distribution network is more reactive than proactive. Manufacturers rely on their distributors to handle their excess inventory while the homebuilders rely on having what they want, when they want it, 100 percent of the time. They are constantly trying to keep inventory under control—not too much for seasonal slow-downs but not too little as they don't want to run out and have to scramble to find more. It has been estimated that there are billions of dollars in just-in-case inventory sitting unused throughout the industry.

The general contractors often send plans or want their trusses on the schedule the day before they're required, but when they are behind schedule, they turn away deliveries so as not to remain on the jobsite. Last minute changes are not properly reported to the suppliers, leading to incorrect product being built and the resulting delays in getting them corrected.

Many of these inefficiencies are due to poor estimation, communication and performance. The great benefit of automating the system is the removal of the root cause of many of the problems: human involvement. Mistypes, lost order slips, misjudged material needs and delivery times would be virtually eliminated. Ultimately, inventory levels for manufacturers and distributors could be reduced by 30 to 60 percent by moving to a "just-in-time" inventory management system, or the practice of shipping a product only in direct response to a confirmed order. This requires a strong and integrated communication platform and accurate forecasting tools.

This proposed removal of human involvement can cause the fear among distributors that they will be cut out of the supply chain. But despite certain restructuring, they are never going to be cut out of the supply chain. One reason is that, as stated before, manufacturers don't want to do what distributors do. Another reason is the builders themselves. Builders' largest concerns are floating the cost of construction and managing labor pools. If having to pay for timely or enhanced services is required, they'll do it. And for that reason, although builders may desire centralized purchasing, they still prefer local, service-oriented suppliers. Value-added products and services will continue to grow in importance and those distributors who can mesh them with automation from the beginning will survive and prosper.

Although everyone agrees the system needs to improve, the way things work now is firmly entrenched and widespread—almost a standard. The most successful initiatives will be the ones that are the least intrusive and the least noticeable on the jobsite. The somewhat daunting costs for the technology serve as a hindrance to change as well, but over time, costs will go down as the technology improves. A more conservative estimate for automation of the entire industry is seven to 12 years. Industry-wide education and mobilization are keys to easing the adoption of

change and ultimately to thriving in the digital age.

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