

STRUCTURAL BUILDING COMPONENTS MAGAZINE

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Director's Message



A Look at 2002 by Kirk Grundahl, WTCA Executive Director

First let me thank Mike Ruede, 2002 President of WTCA, and our Executive Committee for another great year of providing industry leadership and operational oversight. It has been a year of change in our industry, in the economy as well as on the personal side, particularly for Mike. With all of this going on, our group led by Mike has gotten a great deal of work accomplished to advance and protect our industry. Our organization has been involved with some fairly challenging issues and has also seen fit to invest significantly in key projects that will serve our industry well for years to come. This wise counsel has made a great positive impact. Thanks again, Mike.

2002 OBSERVATIONS

In a year where the housing starts were well above expectations and better than a very good 2001, we have seen component manufacturer profit margins squeezed in several areas of the country. There are several factors that we need to watch that will continue to impact profit margins in our industry:

- Component manufacturing capacity. There were strong machinery sales in the latter half of the 90's and capacity has come on line. Sales must be generated to cover these additional costs, with the obvious pressure on margins just to generate sales. How often are your salespeople coming in saying, "We could get this sale if we reduced the price?" Maybe this is a constant mantra, but how often was it actually true this year?

Our hope is that with the demographics that we see in the near term that this pressure on margins is temporary. Should we hit the two million housing starts predicted for later in the decade, we will need more capacity for sure. The real issue is: can we avoid the temptation in the near term for reduced price-driven sales and its overall negative impact on our entire industry?

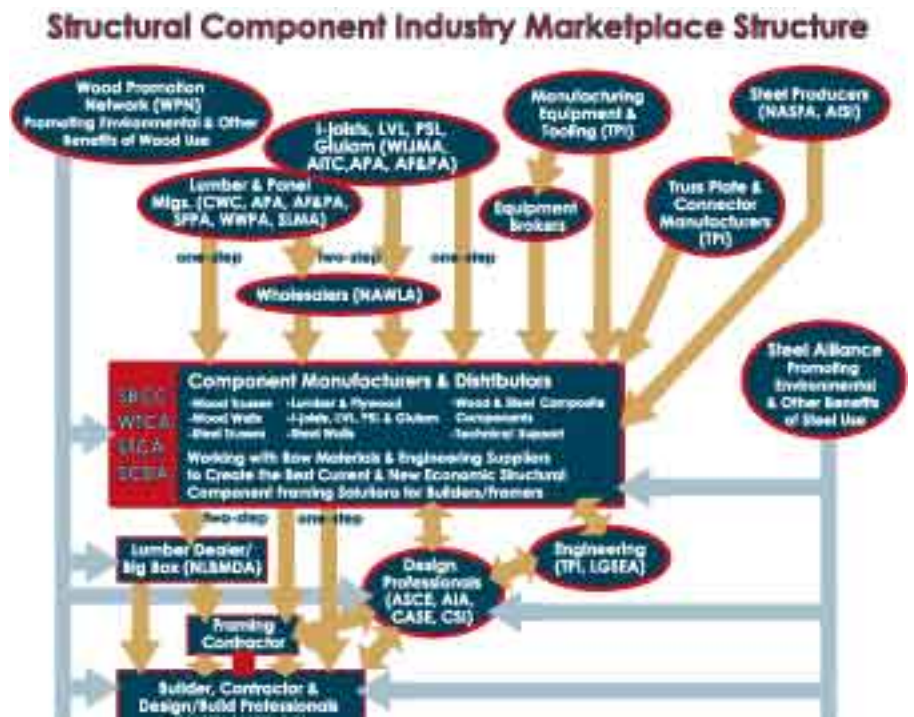
- We are the only industry that has been blessed with tariffs on both its primary raw materials—steel at 30 percent and lumber at 27.2 percent. How did we get so lucky? The question is, are you going to be able to pass the cost increases (that our suppliers must eventually pass on to us to maintain their margins) to your customers in the current market?

In addition to this, the lumber market has been fairly soft this year, so that has helped us avoid price spikes due to the tariffs. If the excess lumber supply goes away, what will be the impact on lumber prices and our resulting costs and profitability?

- Will there be enough supply coming in from foreign sources, like Europe, to keep the lumber prices steady and in the same range they are today?
- Will two-tiered pricing develop in Canada like we had during the quota years? If it does, what will the differential be and how will it impact U.S. sales?
- Certainly, if it makes good profitable business sense to make trusses in Canada and ship them to a higher value market like the U.S., this is going to be done and everyone knows that if the U.S. manufacturers had a similar situation they would exploit it as well. U.S. manufacturers are looking at establishing a presence or developing relationships in Canada to take advantage of this situation already. The real question lies in the uncertainty that exists over how long any advantage that exists will be in place. The decision-making process is easier if the advantage lasts 20 years instead of five years or one year.

WTCA was correct in its assessment of what would happen to our industry if a lumber tariff was imposed—a natural bypass to the tariff would provide incentive for growth of structural wood component production in Canada, which is tariff free. The market realities are always way ahead of government regulations and if one can figure out how to reduce costs because of what the government could not see, it will be exploited long before a government correction can be made. Hence, there will be winners and losers. What is hard to understand is why our raw material suppliers—basic lumber and basic steel (not our truss plate manufacturers, since they are a customer in this case)—would want their customers to be the losers?

- Industry consolidation will continue to impact us. As we have mentioned repeatedly in the last few years, if one takes a look at our marketplace structure (at right) there is pressure on the steps in the distribution process. The more steps, the less profit for an individual company. One can expect that consolidation of the chain of value will continue in order to acquire greater profitability. How far will it go? Well, a few builders have become raw material buyers and structural





building component manufacturers, distributors and installers. The question is how will each of our businesses determine their individual value? Where will

the value come from—new and better manufactured product services, engineering, installation, reducing field problems, providing labor, creating field labor savings, etc.? One can make a strong case that the more problems/headaches we can solve for our builder customers, allowing them to focus on what they do well and us on supplying a total framing solution, should result in a profitable experience for both of us.

The biggest risk facing our industry is that the valuable services we now do or could provide in the future (like putting as much framing labor savings as we can into the component process, undertaking complete building design, providing installation services, etc.) will be done by others, reducing our business into a commodity supplier status. We really have to watch how our market develops and make wise decisions. While just making components may seem to be the easiest thing to do, if there are a number of competitors in one market that are intent on just making commodity components, everyone knows who wins that game.

- There is a concerted effort by the states' Engineering Boards and Departments of Insurance and local Building Officials to require our industry to seal truss design drawings and truss placement plans even when the law explicitly states that our industry is exempt from doing so. Many in state government are also critical of how our industry transacts business, as engineering is generally not being done by component manufacturer employees. No one is absolutely certain why our industry was singled out for this requirement, but one can surmise that it is being done to shift design risk and insurance costs. Also, there is potential that state Engineering Boards desire to have all structures in this country require a professional engineer on the job (i.e., the "Full Employment at Very High Wages Act" for engineers). Our industry may be a convenient Trojan horse to pursue this end. We need to watch this carefully in all local jurisdictions. At the time I write this, our industry has spent more than \$65,000 over the last two years in Florida alone; managing a process that has taken on a life of its own within the Florida Board of Professional Engineers and its rules writing process. At this point, the Board in Florida has decided to require that truss placement plans be sealed and they have indicated that they believe that this is a structural life-safety issue. What does this mean to our industry?
- A truss placement plan is generally not an engineering document but rather a simple installation guide to help the framer do his/her job more easily. Should engineering need to be done, the amount of work that a truss design engineer has to do increases dramatically, because essentially the truss design engineer becomes the building designer and will need to trace loads all the way to the foundation and make corrections in structural performance design errors along the way.
- This means our industry essentially becomes a residential building designer and either we pass these additional costs on or, if the market will not allow this, our margins are reduced.

These are just a few of the key emerging issues that we have been dealing with this year that

have a profound impact on our industry. We are watching all issues like these very carefully and doing our very best to keep all our members informed of the facts, so that as you do strategic planning for the future you can more securely "build your new tomorrow."

Please join us at BCMC where you'll find a great deal of new information and new work going on. I hear all the time at our Open Quarterly Meetings that if you dig into this information, your business will benefit. Our goal is to help each member see the greatest possible amount of success.

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