

# STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY WOODWORDS)

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## President's Message



ROGER J. GIBBS

### "Lumber Issues: Developing Partnerships & a Reputation for Quality" by Roger J. Gibbs

Lumber is the single most important item in the cost of goods sold of a wood truss product, making up roughly 45% to 48% of the total cost. It can also be an important marketing tool for your company. This takes the quality issue I spoke of in last month's issue of *WOODWORDS* one step further. Are you known for using lumber that isn't very appealing to the eye, with a lot of wane and large knots, or do you have a reputation for four square edges, tight joints, minimum wane and clean lumber? There is definite value and credibility when you produce a good-looking product.

Considering that lumber comprises such a high percentage of the cost of your product and plays such an important role in the finished appearance, developing a strong partnership with the people you purchase lumber from should be a key goal in your business plan. If you develop a good relationship of trust and reliability and they understand your needs and wants, you will build a strong partnership from which you will both benefit. Your reputation as a loyal customer working with a loyal lumber distributor will translate into a consistently good-looking, well made, reliable product that will result in your own loyal customers.

### UNNECESSARY LUMBER COSTS

When we talk about the price of lumber, what are all the associated lumber expenses that you should put in your product-costing matrix? What is your scrap factor or cull percentage? Is it two percent, five percent, 10 percent, 15 percent or higher? Believe it or not, I have measured some cull factors between 20 and 35 percent. Any time you have to handle a board more than once there is a cost associated with it. Even when you can reuse a piece of lumber in another application, this can become cost prohibitive. Do you factor this knowledge into your base cost? If you do (and you should), you will find it to be more profitable simply to purchase a better grade of lumber.

Years ago when I started tracking the cull percentage, I discovered my true cost and made the decision to do something about it. Today I don't buy the lowest grade of lumber on the market and hope that everything will work out in the end. As a matter of fact, our company now exclusively purchases MSR and MEL for chord stock and #2 and MEL for web stock. Our current cull percentage is less than two percent on all grades.

I have learned through numerous conversations with truss plant managers that they often focus more on the size of the metal plates on a truss and the amount of labor required to build a truss than they do on optimizing lumber used in a truss. Look at the numbers for yourself. You'll quickly see that five percent savings in lumber costs is much more dramatic than a five- percent savings in plates or labor.

Ultimately, with respect to lumber purchases and decisions, you need to be proactive. You should have daily communication with your lumber partners, and you should forecast your lumber needs. You may want to approach your lumber purchases the same way you handle your investments. Use the following ideas to diversify your lumber buy:

- Purchase an amount to protect the orders or projects you have bid.
- Contract lumber to guarantee a cost for the future.
- Speculate and inventory products you feel are good purchases. (This can affect cash flow if you bring in a lot of inventory, and it involves carrying charges that should be applied to your cost of goods sold.)

Once again, we are looking at an issue that, when dissected, comes down to two things: the importance of developing a reputation of quality and reliability for your business, and the necessity of forming meaningful working relationships with your suppliers, employees and customers. Lumber might be what our products are made of, but it is these principles that build our businesses.

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