

**Sources of Competitive Advantage for
Wood Products Distribution Suppliers
To Home Center Retailers**

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Introduction

Wood products can be supplied to home center retailers either directly from the manufacturer or through the use of a distribution intermediary such as a stocking distributor or wholesaler. The distribution intermediary has been often vilified as an unnecessary step in marketing channels that reduces profitability for manufacturers and retailers alike. One often hears of a corporate goal to “cut out the middleman.” As home center retailers increase service requirements from suppliers, distribution intermediaries will come under increasing pressure to develop these enhancements in order to compete. This paper identifies sources of competitive advantage for wood products distribution intermediaries as suppliers to home center retailers. Specific sources of competitive advantage that are discussed are: implementation of electronic information technologies, developing strategic alliances or value-added partnerships with suppliers and customers and offering value-added services.

The Home Center Customer/Wood Products Supplier Relationship

The U.S. home center retail industry, driven by the repair and remodel demand sector, is an increasingly important customer base for wood products suppliers which in turn, is altering historical wood products distribution patterns. Manufacturers, distributors, wholesalers and other suppliers are facing an evolving customer base with a new set of rules and requirements.

Total retail home improvement industry sales in 1994 exceeded \$114 billion dollars with average annual sales growth of 8.5% over the past two years. The importance of wood products to home center industry cannot be understated. For example, in 1993, wood products and building materials accounted for \$46.5 billion in sales or over 60% of U.S. retail home improvement sales and for the 6,358 home center, hardware, and other retail merchandising companies listed in the 1991 Chain

Store Guide Directory of Home Center Operators & Hardware Chains, lumber products alone accounted for 31.2% of total sales revenue. Estimates by industry experts of total home center demand for wood products range from 5% to 15% of North American production. The importance of home centers as buyers of wood products has been the driving force for changes in the way that wood products suppliers do business.

Wood Product Distribution Intermediaries

The Census Bureau defines wholesaling as follows:

"Wholesaling is concerned with the activities of those persons or establishments which sell to retailers or other merchants, and/or to industrial, institutional and commercial users, but do not sell in significant amounts to ultimate consumers"

In reality, 'distributor' and 'wholesaler' are often difficult to differentiate. Building material channel intermediaries may belong to both distributor and wholesaler associations and may refer to themselves in either fashion. For this reason, and to obviate redundancy, for the purpose of this paper, these two groups are combined to a "Distribution Intermediary" category which includes both product stocking and non-stocking distributors and wholesalers.

Census data through 1987 showed that independent wholesalers were the dominant channels by which lumber and building materials flowed from producer to customer.

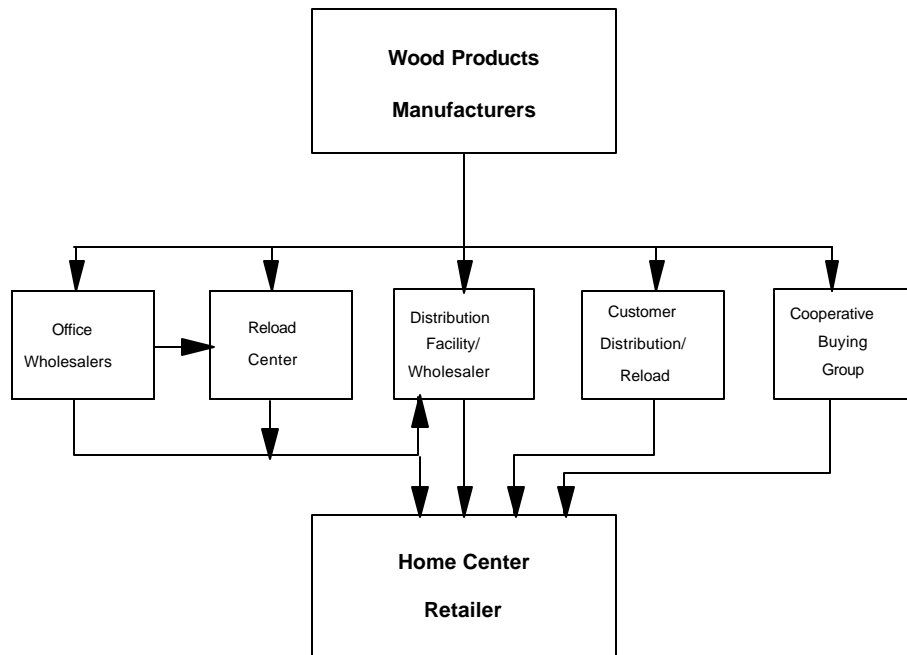
Table 1 describes the marketing functions that can potentially be performed by distribution intermediaries for both manufacturers and downstream customers.

Table 1. Distribution Intermediary Marketing Functions

For Manufacturers	For Customers
1) Market Coverage	1) Product Availability
2) Sales Contact	2) Assortment Convenience
3) Inventory Holding	3) Bulk-Breaking
4) Order Processing	4) Credit and Finance
5) Marketing Information	5) Customer Service
6) Customer Support	6) Advice and Technical Support

Distribution intermediaries facilitate product flow to market in a number of ways. Figure 1 shows a simplified schematic of channels of distribution from wood products manufacturers to home center retail customers.

Figure 1. Wood Products Supplier/Home Center Buyer Channels of Distribution



All of the distribution entities in Figure 1 perform the broad function of acting as intermediaries between wood product manufacturers and home center retailers although they may differ in approach.

For example, **office wholesalers** buy and sell wood products but do not take title or physical possession of the product. Office wholesalers enjoy low overhead because of their minimal capital investment. They also profit through maintenance of mill contact and are able to capitalize on discounts associated with bulk buying of large volumes of material.

The **reload center** is a business that grew out of the complexities surrounding transportation of wood products. Many producers cannot afford full-time freight departments and the reload offers a complete freight-handling program. The reload can accept stock from many mills at a single location and can reconfigure loads for shipment to customers in mixed-loads that would not be possible with mill-direct shipments. A recent survey points to a growing role for reloads in the distribution of lumber and panel products. Reload centers may be operated by customers, manufacturers or independent companies.

Distribution facility/wholesalers comprise the major portion of wholesaling activity in the nation. These intermediaries typically purchase many wood species and product dimensions from manufacturers, wholesalers or reloads for reconfiguration and distribution to downstream customers. Distribution yards are often independently owned and operated but could also be a subsidiary or division of a larger corporation that includes manufacturing facilities. For example, the top three building materials distributors in 1993, Georgia-Pacific Corporation, Weyerhaeuser Company and MacMillan Bloedel Building Materials are all integrated corporations. As is the case with reloads, distribution facilities may also be operated by customers.

Buying cooperatives or buying groups typically represent many small to medium retail companies that individually do not have leverage in the market place. Buying groups consolidate orders from members in order to purchase large volumes of wood products at a discount. In addition to affording members a volume-discounted price, buying groups provide services such as merchandising and promotion. Builders Mart of America (BMA), the largest building materials buying group in the U.S., stresses that in order to compete against big chains, its members, the majority of which are independent lumber yards and home centers, need to share the buying group's commitment to optimizing operating efficiency and reducing costs.

In general, the role of wood product distribution intermediaries will be more service oriented in the future. As competition increases from manufacturers that service the home center industry, the service element required from distributors will be particularly critical. In addition to the generalized marketing functions listed above, additional services and capabilities are required today to effectively do business with the home center retail customer base.

Competitive Advantage

Competitive strategy is an integrated set of actions taken by a firm that produce a sustainable advantage over competitors. Competitive advantage is meaningful only when three distinct conditions are met:

1. Customers perceive a consistent difference in important attributes between the firm's product or service and those of its competitors.
2. That difference is the direct consequence of a capability gap between the firm and its competitors. Positive differentiation in key product/delivery attributes is essential for developing competitive advantage.
3. Both the difference in important attributes and the capability gap can be expected to endure over time.

One way to develop competitive advantage development through differentiation. Differentiation allows the firm to command a premium price, to sell more of its product at a given price, or to gain equivalent benefits such as buyer loyalty which can buffer the firm in cyclical markets. He goes on to cite specific differentiators including product quality, providing primary and support activities to customers and technology development. Differentiation may also be a determinant in establishing or maintaining market position.

Sources of Competitive Advantage for Wood Product Suppliers to Home Center Retailers

The need for wood products suppliers to adopt new business practices is being driven by the home center retail customer's desire to improve product replenishment capabilities, increase efficiency and improve profitability. Increasing demands by home center retailers on suppliers will continue at a rapid rate with large multi-store chains leading the way. Suppliers are being called upon to adapt to home center requirements in order to sustain or develop market position with this important customer base. The proliferation of buyer/supplier electronic linkages, such as electronic data interchange (EDI), universal bar code (UPC) bar coding, direct computer communication, joint planning and joint inventory and development of other improved business practices, underscores the importance of enhanced business relationships to long-term competitiveness. Following is a discussion of three key areas of competitive advantage for distribution intermediaries: technology, strategic alliance formation and value-added services.

Technology

There are a number of sources of developing strategic advantage in home center buyer/wood product supplier interactions. One recent development (since 1988) is the adoption of interorganizational information system technologies (IOS) that link customers and suppliers.

IOS technology adoption often impacts management and business practices within a company as well as between a company and its customers or suppliers. For example, because many functions are involved in setting up and maintaining an IOS system, frequency and intensity of communication between these functional groups is often increased.

IOS technology can be a source of competitive advantage by improving the efficiency of product flow in distribution channels. IOS can create additional competitive advantages, including lower

costs, tighter links to customers, and increased product differentiation. The upshot of IOS development is to create an environment where a company can convey products and services more cheaply and faster than competitors.

Examples of IOS being implemented in home center/wood products supplier channels include Bar Coding, Electronic Data Interchange (EDI) and Quick Response (an integration of bar coding and EDI). Exploratory research conducted by the author indicates that in 1992 a significant percentage of wood product distribution intermediaries surveyed had, or were planning to, develop IOS linkages with home center customers.

Strategic Alliance Formation

A second area of competitive advantage is the development of enhanced business relationships variously termed strategic alliances or value-added partnerships. Strategic alliances require establishment of common goals where the actual or perceived loss of dependence by one party is counter-balanced by the anticipated benefits accrued from the relationship. It is the future oriented aspect of the relationship that leverages the strengths of each partner in achieving these mutually derived goals.

Strategic alliance formation can have important ramifications to long-term strategic planning issues for both home center buyers and wood product suppliers as alliances can create

Value-Added Services

Competitive advantage can also be developed by offering primary and support services that add value to the business relationship. As the home center industry evolves, the types of services and capabilities required from suppliers change also. In addition to recent technology requirements such as electronic data interchange and bar code based inventory management systems, Table 2 lists additional important services potentially required of distribution intermediaries to service home center accounts.

Table 2. Potential Wood Product Distribution Intermediary Services

For the Manufacturer	For the Retailer
Accept a steady flow of purchases as stock is produced	Just-In-Time inventory (daily shipments if required)
Provide market information	Local service at store locations
Provide customer support on manufacturers behalf	Merchandising help at stores
Freight and transportation function	Product training
	Conduct inventory counts at distribution location or at customer location
	Better credit terms
	Accept hard-to-fill special orders
	Ship in small mixed loads
	Technology capabilities (EDI, Bar Coding, etc.)
	Centralized source of supply reduces costs
	Custom packaging
	Product remanufacturing to customer specifications
	Employee training

	Job site delivery for retail customers
	Providing custom displays and promotional tools
	Maintaining a wide selection of available products

Summary

The role of wood product distribution intermediaries is constantly being evaluated by manufacturers and downstream customers alike in the value chain. The challenge is for distributors to meet these pressures by identifying and exploiting sources of competitive advantage. Home center retailers are at the forefront of developing buyer-seller information technologies and have higher requirements for services from suppliers. In addition to home centers, additional customer bases for wood products such as lumberyards, contractor yards and builders may likely develop more stringent supplier requirements, further impacting distribution intermediary positioning strategies.

There are significant opportunities to conduct research to identify changes in interorganizational relationships the wood products supplier-home center channel with an emphasis on the role of the distribution intermediary.