

EPICOR

Solving the Top 3 Supply Chain Challenges Facing the Building Supply Industry



BUILDING SUPPLY



CONTENT

The State of Play: Understanding Supply Chain Challenges	3
Overcoming the Three Major Supply Chain Challenges Facing the Building Supply Industry	5
1) Beating Pricing Pressures and Sluggish Lead Times.....	5
2) Adopting the Right Technology for Supply Chain Optimization	8
3) Alleviating Labor Shortages to Boost Supply Chain Productivity	10
Conclusion: Looking Forward.....	13



INTRODUCTION

The State of Play: Understanding Supply Chain Challenges

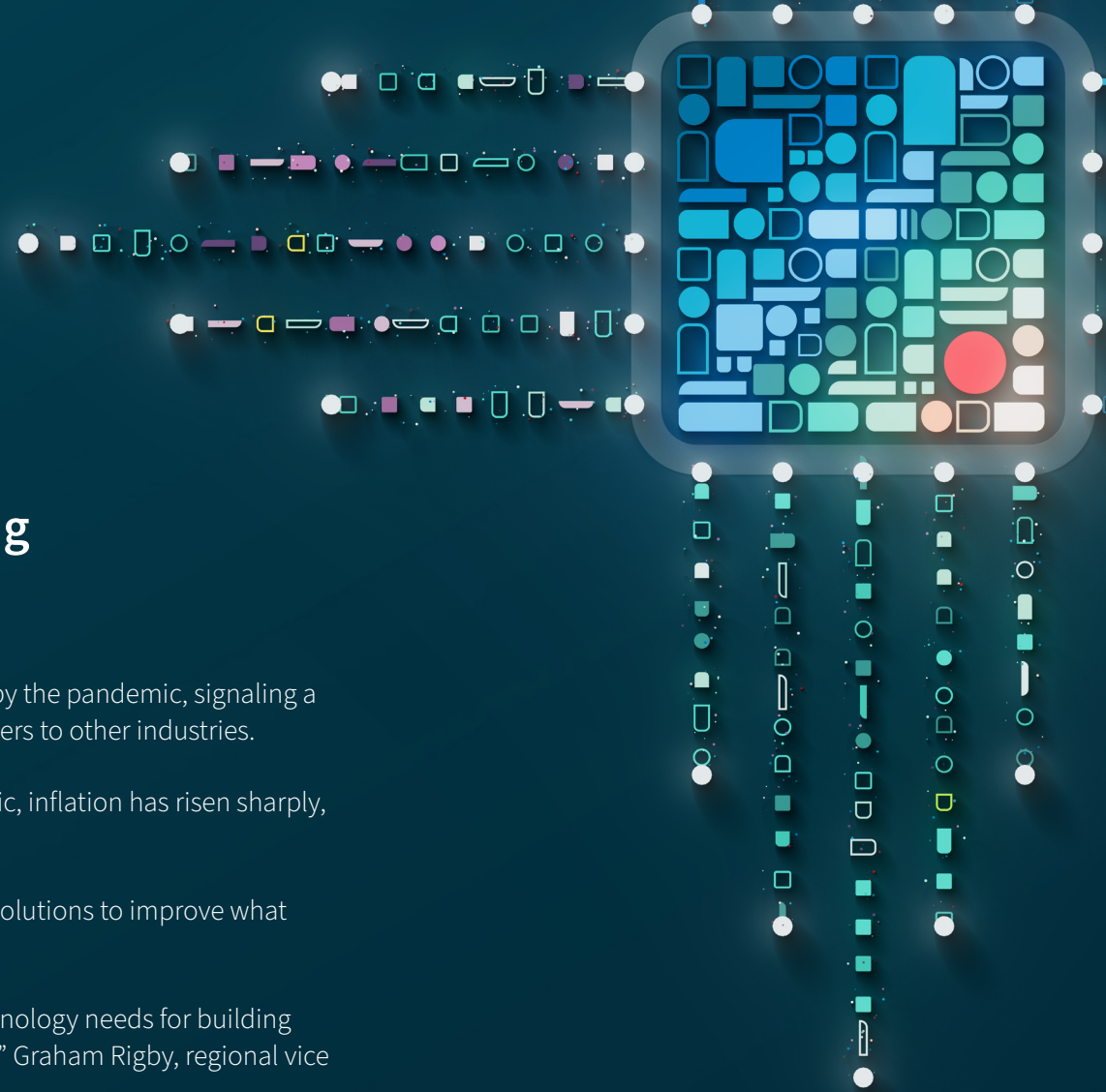
Like many industries, the building supply sector was rocked by the pandemic, signaling a virtual shutdown of operations and an exodus of skilled workers to other industries.

As the building materials industry recovers from the pandemic, inflation has risen sharply, with fears of a recession in the near future.

This environment forced LBM dealers to look for innovative solutions to improve what they do and how they do it.

“The last 12 months have brought significant changes in technology needs for building supply dealers due to continued shifts in consumer behavior,” Graham Rigby, regional vice president of Epicor, told LBM Journal .

Other disruptive forces, such as the rise of eCommerce, advanced logistics, and a turbulent housing market, have led building suppliers to focus on technology to help them adapt and remain competitive.



Geopolitical Tensions Are Not Helping

Geopolitical tensions between the US and China complicate imports and trade, elevating costs and lead times to record-breaking levels. Shipping costs have skyrocketed, and average building material prices remain 37% above pre-pandemic levels.²

Perhaps unsurprisingly, some 71% of global companies highlighted raw material costs as their top supply chain threat for 2023.³

Domestic Factors Are in the Mix

While external pressures are mounting, domestic factors like acute labor shortages are straining supply chains at home. Suppliers are contending with rising wages and diminished talent pools, leading to lost productivity and delays as they struggle to fill orders.

Cause for Optimism

It's certainly not all doom and gloom. Total construction spending reached \$1.98 trillion in August 2023, representing a 7.4% boost over the previous year's figures. This spending growth was mainly fueled by the nonresidential sector, which saw a 17.6% year-over-year surge as of August 2023.⁴

This is bittersweet, however, as orders are rising but remain unfilled. According to US Census data, inventory levels declined by 20%, and unfilled orders increased nine out of ten months in 2023.⁵

There are both opportunities and challenges in the current landscape. If you act now to strengthen your supply chain activities, you'll be in an ideal position to overcome supply chain obstacles and capitalize on opportunities.

The question, as ever, is how do you do it?

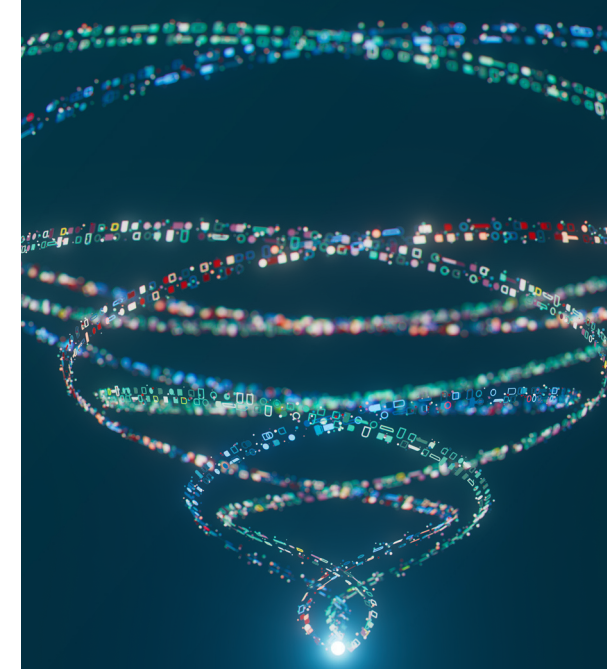
¹ <https://lbjournal.com/in-an-environment-filled-with-disruption-technology-helps-ease-the-pain/>

² <https://finance.yahoo.com/news/biden-infrastructure-boom-being-held-190000225.html>

³ <https://kpmg.com/xx/en/home/insights/2022/12/the-supply-chain-trends-shaking-up-2023.html>

⁴ <https://www2.deloitte.com/us/en/insights/industry/engineering-and-construction/engineering-and-construction-industry-outlook.html>

⁵ <https://www.census.gov/manufacturing/m3/prel/pdf/s-i-o.pdf>





Overcoming the Three Major Supply Chain Challenges Facing the Building Supply Industry

1. Beating Pricing Pressures and Sluggish Lead Times

Lead times and prices are under sustained pressure.

Over the past few years, lead times for steel joists, precast concrete, insulation, electrical switchgear, and other essential building supply materials were more than double in comparison to pre-pandemic levels, contributing to a rise in unfilled orders.⁶

Unfilled orders slow the entire supply chain down, preventing companies from completing jobs and, ultimately, placing more orders with suppliers.

In a conversation with LBM Journal, Charlie Parks, owner and vice president of Parks Lumber & Building Supply, said, “Our biggest challenge currently is extended lead times and the constantly rising costs... Both of these challenges make it extremely difficult to play a consistent and reliable role in our customers’ attempt to get jobs under contract.”⁷

Increasing costs, rising overheads, and diminishing margins feed into the problem of sluggish lead times.

Data shows one out of three construction projects are coming in over budget, with material costs rising 20.3% year-over-year. Managing unpredictable expenses presents ongoing difficulties. A mere 39% of organizations are confident in their cost management capabilities, indicating room for enhancement.⁸

Fluctuating costs make it harder for building suppliers to excel at serving customers with quality products at predictable prices. Automating cost management can help suppliers regain control.

⁶ <https://www.base-4.com/2022-insights-construction-materials-with-long-lead-times/>

⁷ <https://lsc-pagepro.mydigitalpublication.com/publication/?m=7573&i=746030&p=46&ver=html5>

⁸ <https://cfma.org/articles/the-construction-cost-management-report-state-of-the-industry>

The Solutions

1. Strengthening Customer Interactions

Lead time challenges and supply chain hold-ups have encouraged companies to revisit customer relationships.

Open dialogue and cooperation is the name of the game. Seek out opportunities to strengthen your ties with loyal customers.

Charlie Parks discusses the importance of going the extra mile for customers in LBM Journal: “With all the difficulties that builders are having keeping jobs flowing, we as suppliers have an opportunity to lend a hand and go the extra mile to ease the process. We can do what everyone else has been telling them cannot be done.”⁹

Strengthen your customer interactions and support them, so they can continue to support you.

2. Building Trust and Transparency

Everyone in the chain understands that meeting tight deadlines is challenging right now. Be forthright and demonstrate trust and understanding of supply and lead times.

Joe Klink, Executive Director of Corporate Engagement at ProVia, a leading supplier of home exterior solutions, explains, “Dealers and contractors need to be completely forthcoming with their clients on lead times, managing expectations along the way, whether the news is good or bad.”¹⁰

He adds, “Delaying a difficult conversation is never a good business practice—if the customer is under the impression that everything is moving along, and then finds out his windows and doors are going to be weeks later than expected, they’ll lose trust in you.”

3. Sourcing “Locally”

Look to expand your procurement network by partnering with local and regional suppliers.

Explore reshoring, the practice of localizing supply chain operations, which has become more common due to supply disruptions. Reshoring aims to bring suppliers as close to their products as possible.

Within the past few years, Deloitte projected that American manufacturers would bring home nearly 350,000 previously outsourced supply-chain-related jobs—a 25% increase from the previous year.¹¹

⁹ <https://lsc-pagepro.mydigitalpublication.com/publication/?m=7573&i=746030&p=46&ver=html5>

¹⁰ <https://lsc-pagepro.mydigitalpublication.com/publication/?m=7573&i=746030&p=46&ver=html5>

¹¹ <https://www.bloomberg.com/news/articles/2022-11-02/us-manufacturers-pumped-up-about-supply-chain-reshoring-trend?leadSource=uverify%20wall>





Reshoring Can Re-Balance Costs and Accelerate Business Cycles

Your immediate reaction to bringing manufacturing back home may be that it's prohibitively expensive, but you might be pleasantly surprised.

Engaging with local suppliers can significantly reduce your lead times and transportation costs. Plus, dealers offering swift service for high-quality domestic goods can command high price points.

Don Lorey, CEO of E.B. Bradley Co, a surfacing product and specialty hardware expert, explained, "With domestic partnerships, we don't need a 6-month supply of stock that

costs thousands of dollars upfront. Plus, we were ultimately finding that the cost of freight was more expensive than the product (itself)." ¹²

To succeed here, it's vital to build strong relationships with new suppliers, understand their capabilities and limitations, and regularly assess the reliability and quality of their materials.

¹² <https://www.woodworkingnetwork.com/news/woodworking-industry-news/supply-chain-woes-boost-reshoring>



2. Adopting Technology for Supply Chain Optimizations

Incorporating technology in supply chain management is imperative to overcoming supply chain woes and keeping pace with market demands.

To date, the industry has been slow to embrace digital transformation. Half (46%) of construction companies consider themselves on the path to digital transformation, while 41% have only recently begun this journey.¹³

Digital transformation means incorporating software and technology into your operations and replacing manual, paper processes with digital alternatives. It includes adopting software like enterprise resource planning (ERP) and hardware technologies like the Internet of Things (IoT).

Digital transformation also extends to offering digital sales channels and eCommerce portals for self-service. In 2023, an estimated 17% of B2B sales (\$1.8 trillion)¹⁴ will be generated digitally. Still, only 33% of dealers are currently selling online. The eCommerce opportunity is immense.

¹³ <https://www.visualcapitalist.com/how-technology-is-disrupting-the-construction-industry/>

¹⁴ <https://www.statista.com/statistics/273104/us-b2b-e-commerce-share/>

The Solutions

1. Using Enterprise Resource Planning (ERP) Systems Effectively

LBM digital transformation has been greatly accelerated by ERP software. ERP enables organizations to manage and automate core business processes without the overhead of traditional on-premises systems.

These software systems typically encompass modules for finance, HR, supply chain, inventory, and customer relationship management (CRM). ERPs facilitate data sharing across departments, offering real-time insights into operations.

ERP integration can support your supply chain in the following ways:

- **Automation:** ERP automates numerous functions across finance, HR, inventory tracking, etc. Every task ERP automates is one that employees don't have to handle themselves.
- **Enhanced Decision Making:** Centralized data in an ERP system offers comprehensive insights, which enable informed decision-making based on real-time information from across the organization and its supply chain. This real-time information comes from various locations, including the yard, the warehouse, and distribution centers.
- **Improved Customer Experience:** By integrating customer data across sales, service, and marketing, ERPs provide a unified view of customer interactions, enhancing service quality and responsiveness. This helps businesses communicate useful, accurate information with their supply chains.
- **Predicting Inventory demands:** ERP systems enable better demand forecasting and inventory management, leading to a more efficient and responsive supply chain.
- **Integration with Other Technologies:** ERP can integrate other useful technologies, such as RFID Tags (Radio-Frequency Identification), which are low-cost tags applied to goods to track their progress through warehouses and supply chains. You install these onto goods and scan them when they arrive at the warehouse, are processed, and shipped. The data then syncs to ERP for real-time inventory monitoring.

2. Embracing eCommerce and Omnichannel Sales Strategies

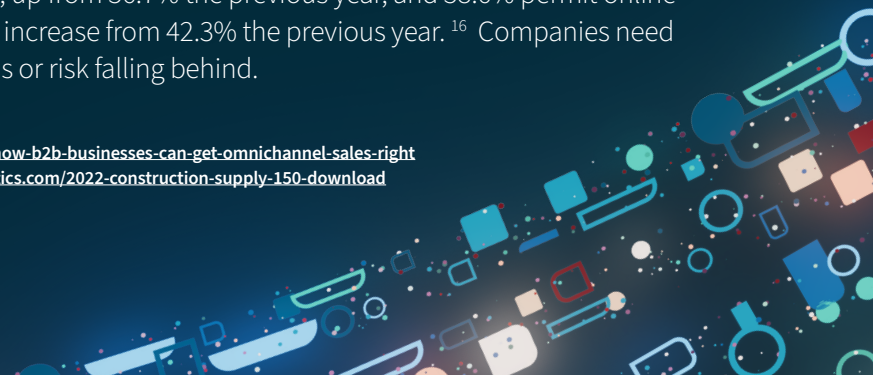
According to Harvard Business Review, the number of sales channels utilized by B2B buyers has doubled over the past decade. This trend responds to demand among buyers for self-service purchasing, which is considered quicker and more convenient than negotiating via phone, email, or in person.¹⁵

The idea of selling products online is familiar to some in the landscaping and hardscapes business, but perhaps less familiar if you're a lumber dealer or primarily work with distributors rather than directly with customers.

This is changing. A remarkable 72.7% of the top 150 LBM dealers now allow customers to access bills online, up from 56.7% the previous year, and 58.6% permit online payments, a notable increase from 42.3% the previous year.¹⁶ Companies need to act on these trends or risk falling behind.

¹⁵ <https://hbr.org/2022/01/how-b2b-businesses-can-get-omnichannel-sales-right>

¹⁶ <https://www.webb-analytics.com/2022-construction-supply-150-download>



Adopt More Sales Channels to Shift Products Faster

Examples of profit-boosting technology integrations in the building supply industry are promising.

For instance, SIG, a building materials distributor, experienced a 142% increase in revenue following the implementation of an omnichannel sales model. Omnichannel sales means selling through multiple touchpoints simultaneously, such as via distributors, eCommerce, and directly to customers.¹⁷

Self-service portals enable buyers to track their orders and can integrate directly with your ERP and other technologies, such as RFID tracking. Handling purchases digitally benefits both your business and your customers, enabling easy data analysis and effective cost management.

3. Alleviating Labor Challenges to Boost Supply Chain Productivity

The building supply industry is in the midst of a labor crisis that's straining supply chains, affecting everything from production to distribution.

Associated Builders and Contractors recently estimated that the construction industry will need to attract an additional 546,000 workers to meet the demand for labor.¹⁸

With a median employee age of 41.2 and a large portion of construction workers over the age of 55, retirements are continuing to deplete the workforce.

The relationship between labor and supply chains is relatively straightforward: understaffing means lower productivity and limited ability to shift stock or find solutions to supply issues. With fewer skilled laborers, construction projects are experiencing delays. Some are even facing cancellations.

Firms are extending overtime hours to existing employees to cope, but this is far from sustainable. Staff are spending too much time tackling immediate issues and little on building for the future.

¹⁷ <https://www.unitygroup.com/blog/digital-transformation-in-the-building-materials-industry/>

¹⁸ <https://www.abc.org/News-Media/News-Releases/construction-workforce-shortage-tops-half-a-million-in-2023-says-abc>

¹⁹ <https://lsc-pagepro.mydigitalpublication.com/publication/?m=7573&i=746030&p=46&ver=html5>



Vocational Training Isn't Filling the Gaps

Vocational training is being phased out of the education system, and not many building suppliers offer mentoring programs. In fact, only 41.9% of building suppliers report having a mentoring program in place.¹⁹

The Solutions

1. Implementing Technology and Automation

In addition to boosting supply chain performance and efficiency, introducing technology in the construction industry effectively combats labor shortages.

1. Most importantly, automation helps retain personnel. Employees often leave their jobs because they're snowed under with menial administrative tasks that aren't part of their skill sets. You can make their jobs and lives easier by investing in software to take up the slack. That way, you enable your workforce to do what they're skilled at.

2. Secondly, automation will help your business attract younger, technically skilled workers. Prospective employees want opportunities to develop skills that prepare them for an increasingly tech-driven job market. It is critical for building suppliers to embrace technological innovation and deliver a productive learning environment for employees to further their skills.

2. Revitalizing Education and Training

The proportion of young people choosing apprenticeships is growing for the first time in decades, providing an opportunity to attract young individuals with job security and competitive wages offered by the building supply industry.

Vice President of Arnold Lumber, Matt Semonik, explained to LBM Journal,

"We're continuing to hire talent from outside of the industry, leveraging their attitude while developing their technical skills."²⁰

To overcome labor and skills shortages, building suppliers need to promote job opportunities to individuals in other industries, such as engineering and manufacturing.

²⁰ <https://lsc-pagepro.mydigitalpublication.com/publication/?m=7573&i=746030&p=46&ver=html5>



3. *Making Jobs Accessible to All*

The construction and building supply industry have responded slowly to the diversity and inclusion movement, particularly concerning gender opportunities.

Just 6% of construction workers are women, despite construction businesses with women in leadership positions seeing revenue gains of 17% compared to those without.

Unfortunately, building suppliers simply aren't marketing themselves to diverse sections of society, which exacerbates labor shortages. Current data shows that just 19.5% are delivering diversity and inclusion programs.²¹

This presents an opportunity: simplify the path to entering the building supply industry, and you'll attract talented workers from varying backgrounds. Consider offering accessible apprenticeship programs, partnering with industry and education providers, and reaching out to underrepresented communities.

State clearly that you and your business welcome people from all backgrounds—it's a bold step towards revitalizing your workforce.

²¹ <https://lbmjourn.com/why-diversity-equity-and-inclusion-are-crucial-for-lumberyards/>

Diversity and Inclusion Signals a Friendly, Forward-Thinking Workforce

If data is scattered across multiple Excel spreadsheets, applications, email attachments, and in printed documents, getting the unified view you need to make data-driven decisions can be challenging.

Duplicate files, inconsistent formats, outdated information, and manual data entry can result in inefficiencies, errors, and missed growth opportunities.

²² <https://lbmjourn.com/tractor-supply-recognized-for-workplace-diversity-and-inclusion/>



Conclusion: Looking Forward

In an ever-evolving industry, building suppliers are finding themselves continuously adapting to an array of challenges—from volatile market conditions and supply chain disruptions to labor shortages and the urgent need for technological adaptation.

As we've seen, these obstacles, while significant, also offer a springboard for innovation and strategic growth.

Supply chain mastery is not just about logistics and transactions. It's about fostering robust customer relationships, leveraging local sourcing, and integrating technology where it has the most impact.

This is where Epicor partners with you to achieve your goals.

Epicor builds ERP solutions specifically for the building supply industry, with capabilities tailored to your unique operational needs. Through close collaboration with our customers, we continually update our roadmap to help building supply companies overcome modern-day challenges and thrive in a competitive landscape.

- **AI-Driven Predictive Insights:** Epicor AI capabilities transform raw data into actionable insights, enhancing supply chain decision-making.
- **Seamless Integration:** Epicor breaks down data silos, delivering actionable data to the employees and departments that need it.
- **Empowering Staff with User-Friendly Tools:** Non-technical staff can easily use Epicor to create reports, thereby democratizing data analytics.
- **Cloud Infrastructure:** The Epicor cloud platform helps ensure data availability and security, supporting a flexible workforce.
- **Automating for Greater Efficiency:** Routine data tasks are automated, freeing up resources for strategic initiatives while boosting employee acquisition and onboarding.

To truly leverage the opportunities of this dynamic industry and stay ahead of the game, reach out to **Epicor for Building Supply** to learn more about **solutions** that will help grow your business.



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