Structural Building Components
Are They Right for Your LBM Business?
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Structural Building Components—Are They Right for Your LBM Business?

There has been much talk about whether LBM pro dealers should start manufacturing structural building components—roof trusses, wall panels, floor panels, pre-hung doors, and windows—if they’re not already. The shortage of qualified framing laborers is cited as one of the main reasons.

Other parts of the world have embraced the practice of offsite construction of prefabricated components and modular homes far more than in North America. According to Zion Market Research, global modular construction will grow at around 6.7% in coming years.¹ One report predicts the underserved UK offsite market will expand with an annual growth rate of as high as 50%!²

1 “Global Modular Construction Market to Reach USD 175.15 Billion By 2025,”: Zion Market Research, May 6, 2019.


Boston Consulting Group cites the five main benefits\(^5\) of offsite construction as:

1. **Shorter building times and lower risk**
   - Less impact from weather, legal, and financial challenges

2. **Higher quality**
   - Standardization and consistency along with in-factory quality checks

3. **Lower costs**
   - Improved employee productivity, economies of scale, and less waste

4. **Improved working environment**
   - Stable schedule and commute, and improved workplace safety

5. **Reduced environmental impact**
   - Less waste and waste management

Will the adoption of structural building components use take hold in North America? Jeffrey Lee at Hanley Wood’s Building Forward group said: “In the quest for true innovation in home construction, few technologies offer as much promise as panelization and prefabricated building components. Amidst a shortage of skilled labor and, in particular, framing labor, prefabrication offers the tantalizing potential to speed up cycle times and allow builders to erect their homes with fewer workers on-site.”\(^6\)

Analysts predict the use of prefabricated and module building components will expand. Despite their predictions, adoption has been slow to date, and the supply chain for structural building components is disjointed and lacking structure.

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LBM pro dealers and distributors are left wondering—should we start manufacturing structural building components?

Epicor has talked to several customers who build structural building components and collected their experiences, the challenges they faced, and the benefits they realized.

We've included their feedback into this eBook to help you make the decision whether get into manufacturing, and how to ready your company for success.

Let's dive in!
Is There a Need in Your Region?

“Need” can be broken into two elements—demand and gap.

First, is there demand for offsite construction of structural building components in your delivery region? Skilled labor shortage and lack of wood framing expertise are often cited why prefabrication takes place in Europe and Asia. Since North America has a long history of wood-framed housing construction, experienced stick framers may be readily available in your region and can often complete the job quickly and at lower cost than offsite construction. Talk to your builders and make sure you know whether framing labor is in high demand.

Other trends in construction are drivers of demand for prefabricated components. LBM Journal’s Michael Berger points out that—whether originating with the homeowner or regional building code changes—the demand for energy efficient or passive home construction and multifamily dwellings is prompting manufacturers to design structural building components with integrated moisture, radiant, and fire barriers.7

Labor shortages combined with regional booms in ecofriendly and multifamily dwellings likely mean there is demand for structural building components in your area.

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Second, is there a gap in the local supply chain? If there is a gap between the demand for structural building components and the supply of offsite construction, then there may be an opportunity for an LBM pro dealer to fill that gap.

However, some dimensional lumber manufacturers are adding value by manufacturing structural building components themselves to add value to their product line to offset the current instability in lumber prices. Or, they see opportunity in what is widely believed to be a growing market demand for structural building components. They may also attempt to bypass the dealer/distributor network by selling directly to contractors.

Or perhaps there are already established truss and panel plants with plans to expand operations and product lines. Or entrepreneurial ventures making components for modular, energy-efficient, and passive house designs.

LBM Journal’s Michael Berger has this advice for LBM pro dealers: “Dealers will need to stay as informed on these issues as possible so that they can be prepared to respond and meet their customers’ needs.”

We encourage you to talk to your suppliers, contractors, and local builders about the demand for structural building components and how your regional supply chain can fill a gap between supply and demand. As you become more educated about the products and services already available, you’ll earn the trust and respect of contractors and builders in your region—and most likely their business in the future.

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Which Business Model is Best for Your Company?

With an understanding of your regional demand for prefabricated components—as well as the gap between regional supply and demand—you’ll be better positioned to know which type of manufacturing you should consider. Here are some examples:

- **Engineered wood and beams**—increasingly common as construction materials and effective use of wood byproducts
- **Precut lumber and kitting**—a valuable service to minimize labor and waste on the jobsite
- **Truss manufacturing**—often the first prefabricated structural component used by builders, because jobsite construction of trusses is skilled, time-consuming, and risky work
- **Wall and floor panelization**—ideal when building multiple homes with the same design
- **Pre-hung windows and doors**—saves time when skilled labor is in short supply
- **Wall and floor modules**—with integrated insulation, moisture, radiant, and fire barriers—typically part of a complete modular home
- **Installation services**—reduces the need for a jobsite framing contractor and build labor into the price of the component

Deciding which products and services to offer is an important step towards defining your new business model, as well as any new supply chain relationships you may need. For example, if modular components are to be made, do you need new procurement agreements with suppliers of insulation, drywall, or paint/coatings?

Greg Brooks of Building Supply Channel says in his article “In Defense of Stick” Framing published on LinkedIn, “Resistance from framers is the number one obstacle to panelized construction, and it’s hard to blame them. From their perspective, panels simply take money out of their pocket and put it in the pocket of the panelizer.”

Secondly, it’s important when disrupting the traditional supply chain to follow the margins all along the supply chain. Figure out where money is made along the supply chain, how much, and who typically pays it.

He goes on to point out that builders pay framing subcontractors by the square foot—not by the hour or day. So, a builder is faced with a dilemma when considering using panelized components—either negotiate a lower rate with the framer or find framers who charge by the hour. Or, if the panel manufacturer offers installation services, have the panel manufacturer supply turnkey solutions. That’s an example of finding ways builders pay a premium for prefabricated panel products.

On the supply side, you may find suppliers willing to help lower your costs by stabilizing their lumber price, precutting lumber, or holding inventory for JIT deliveries in an arrangement that creates an end-to-end offering for their products—potentially at increased volume, lower risk, and with better forecasts demand.
The Boston Consulting Group points out that the construction industry is under higher price pressure than building materials manufacturing. “The building materials industry regarded the construction business itself as a no-go area, one that suffered from three serious drawbacks: lower margins, higher risks, and an unfamiliar business model.”

This hesitancy for manufacturers to jump directly into the construction side of the business is an opportunity for LBM dealers to negotiate with manufacturers to be the channel to their ultimate customers.

As you figure out your business model and product and service offerings—as well as the price you’ll charge for them—it’s important that you understand how your suppliers and your customers make their money and what their costs are—and where your value in the supply chain is derived.

You need to understand the value in the supply chain from the upstream and downstream perspective. And you’ll likely need to explain your value in a new business model to your suppliers and customers.

“We selected the Epicor BisTrack solution to enhance and streamline our best-in-class lumber, truss, and manufacturing operations. We wanted to change our company systematically and procedurally. We use the BisTrack implementation as a way of convincing our entire team to embrace industry best practices.”

—Allen Bavry, Jr., Information Technologies-Corporate | Kimal Lumber

“There’s little doubt in my mind that we’ve picked up margin and efficiency using the Epicor BisTrack solution, but the quality of service we can give our customers has also been greatly enhanced—even though our volume has grown.”

—Chris Routhe, Business Process Manager | Millard Lumber

The only software system on the market worthy of the task is Epicor BisTrack.

Is Your Company Infrastructure and Software Ready?

Once you’ve made your decision on business model, products, and services, it's time to start planning for the expansion. Whether you build or buy manufacturing capability, you’ll need space, manufacturing equipment, delivery trucks with cranes, and laborers to build, deliver, and possibly install your product.

An important question to ask—is your software ready? We’ll tell you upfront—even Epicor legacy systems can’t handle the complexities of multiple business models—including manufacturing. The only software system on the market worthy of the task is Epicor® BisTrack™.
The Epicor BisTrack system provides a platform where dealers can incorporate numerous types of manufacturing—from millwork, to structural, and modular components—deep into the processes and financial management of their operations. These fundamental building blocks include:

- **Work orders**—Dealers use work orders for value-added processes such as cut-to-length, pre-drilling, repackaging bulk materials, and a number of labor or light manufacturing processes. In BisTrack, sales and work orders are directly connected so sales reps and dispatchers have real-time visibility into the status of an order.

- **Kit creation**—Dealers can create a product code for manufactured items that incorporates all components, products, and/or processes.

- **Product configurator**—The BisTrack product configurator allows users to build a predefined list of questions that simplify order entry for manufactured products. The product configurator automatically populates the sales order and work order with accurate bill of material (BOM) and labor.

- **Third-party integrations**—For supply chain efficiencies to deliver a real competitive advantage, the BisTrack system integrates with estimating, modeling, and takeoff tools such as MiTek, Alpine, Epicor Professional Estimating, and many more. Source material information transfers electronically—eliminating the need for manual entry and helps avoid costly and time-consuming errors.

- **Installed sales**—Also called progressive billing, BisTrack allows you to take an order for an entire construction project, deliver products as needed, and bill your customer on a negotiated schedule.

- **Support for multiple business entities**—Manage each operation as a separate business giving you the ability to transfer orders and inventory seamlessly and roll up financials for corporate reporting.

This functionality helps monitor project costs and margins in real time, manage lead-time expectations in large projects, and streamline repeat and change orders.

“We found that Epicor BisTrack software had enough flexibility to adapt to each area of our business—millwork, component manufacturing, and point of sale. The Epicor team took the time to really understand what we needed and came up with real workable solutions.”

—Jennifer Leonard, CFO | Annandale Millwork and Allied Systems

“Epicor BisTrack software gives us the ability to run multiple divisions and profit centers under one software solution and provides us visibility into what’s happening in each location. BisTrack has allowed us to grow the business with a lot less constraint.”

—Ken Crockett, Vice President | Star Building Materials
Structural Building Components
Epicor BisTrack for Your Structural Building Components Business

If you’re thinking about setting up component manufacturing, you’ll be in good company. ProSales Magazine reported that 65 of the ProSales 100 lumberyards indicated they offer some level of manufacturing and their combined sales totaled 52% of the ProSales 100’s total revenue. By contrast, the 25 lumberyards without manufacturing represent just 6% of total revenue. This means that on average, ProSales 100 lumberyards with manufacturing have revenue more than three times the revenue of the lumberyards without manufacturing.

In 2019, 36% of the ProSales 100 said they manufactured roof trusses and 34% made floor trusses. Only 22% made wall panels, but another 11% say they plan to offer wall panels—making offsite panelization the highest growth area in component manufacturing.

We are proud to say that 31 of the ProSales 100 dealers use Epicor software solutions. We have highlighted some of their experiences in this eBook.

“‘It’s a perfect fit for our industry and niche. The first question I ask with any new initiative is, ‘Can we do this with Epicor BisTrack?’ The answer has always been yes!’”
—Scott Blomquist, Systems Manager | Sunpro

Contact Epicor today and learn how we can help you expand your manufacturing operations and grow your business.

About Epicor

Epicor Software Corporation drives business growth. We provide flexible, industry-specific software designed to fit the precise needs of our manufacturing, distribution, retail, and service industry customers. More than 45 years of experience with our customers' unique business processes and operational requirements are built into every solution—in the cloud or on premises. With this deep understanding of your industry, Epicor solutions dramatically improve performance and profitability while easing complexity so you can focus on growth. For more information, connect with Epicor or visit www.epicor.com.

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