EVOLUTION OF THE HOME IMPROVEMENT CHANNEL

Greg Brooks
The Building Supply Channel, Inc.
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LEVITTOWN, 1950

- 30 homes per day
- 1,000 square feet
- 2.4x income vs. 3.5x
- Built to be remodeled
1950s & 60s: The cash-and-carry era

- Wickes & the Bay City Cash Way
- A complete “building materials supermarket”
  - Small builder-remodelers, DIYers
  - No delivery, no credit, no service
  - 17% vs. 33% gross margins

- Demographic drivers
  - Frugal, resourceful GI generation
Emerging specialization

- **1950s: The R&R boom**
  - Siding-window specialists

- **1960s: Crews to subcontractors**
  - Roofing-siding distributors
  - Drywall-ceilings distributors

- **1970s: Builders embrace prefab**
  - Millwork, truss manufacturers
1970 & 80s: Home centers, home center warehouses

- Changing demographics
  - Up-and-coming Baby Boomers

- Professional retailers up the ante
  - W. R. Grace, Evans Group, Ole’s, Handy Dan, etc.

- Lumberyards miss the memo
  - Still “customer neutral”
1990s: The ultimate specialists

“Those boys are clean-cut, upbeat, and knowledgeable. To say we can beat them on service, I just don’t know.” — Bob McClure, McClure Lumber, ProSales, March 1994
HOME CENTER CONCENTRATION, 1997 vs. 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Category</th>
<th>1997</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Top 4</td>
<td>75.2%</td>
<td>92.7%</td>
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<tr>
<td></td>
<td>5 - 8</td>
<td>12.7%</td>
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<td></td>
<td>9 - 20</td>
<td>7.1%</td>
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</tr>
<tr>
<td></td>
<td>21 - 50</td>
<td>0.6%</td>
<td>0.3%</td>
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<tr>
<td></td>
<td>All others</td>
<td>4.4%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: U.S. CENSUS BUREAU
Lumberyards return to their roots

- The longest boom in U.S. history
- Home builder consolidation
- From supermarkets to “shell construction specialists”
  - Manufacturing
  - Labor management
- Impact on remodelers
  - Equipment and inventory
LUMBERYARD CONCENTRATION, 1997 vs. 2007

1997:
- Top 4: 9.7%
- 5 - 8: 4.9%
- 9 - 20: 6.8%
- 21 - 50: 6.9%
- All others: 71.7%

2007:
- Top 4: 18.3%
- 5 - 8: 4.3%
- 9 - 20: 5.7%
- 21 - 50: 6.4%
- All others: 65.3%
**WHERE REMODELERS SAY THEY BUY**

*PROSALES, 2007*

<table>
<thead>
<tr>
<th>LBM dealer</th>
<th>Specialist</th>
<th>Sub</th>
<th>Big box</th>
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<tbody>
<tr>
<td>Lumber</td>
<td>Vinyl siding</td>
<td>Insulation</td>
<td>Tools</td>
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<tr>
<td>Wood &amp; F-C siding</td>
<td>Roofing</td>
<td>Garage doors</td>
<td>Fasteners</td>
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<tr>
<td>Decking</td>
<td>Drywall</td>
<td>HVAC</td>
<td>Shelving systems</td>
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<tr>
<td>Molding</td>
<td>Paint &amp; stain</td>
<td>Plumbing</td>
<td></td>
</tr>
<tr>
<td>Doors</td>
<td>Flooring &amp; tile</td>
<td>Electrical</td>
<td></td>
</tr>
<tr>
<td>Windows</td>
<td>Cabinets &amp; tops</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stairs</td>
<td>Fireplaces</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Builders’ hardware</td>
<td>Appliances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sealants &amp; adhesives</td>
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</tbody>
</table>
TOP 25 HOME IMPROVEMENT MARKETS ($ BILLIONS)

HARVARD JOINT CENTER FOR HOUSING STUDIES (2009 $)

- $8.0 billion+
- $6.0 - $7.9
- $4.0 - $5.9
- $2.0 - $3.9
- < $2.0
SUPPLY MODELS VARY BY MARKET

- Design-build markets
  - Scherer Bros., National Lumber vs. T. W. Perry vs. Ganahl Lumber

- R&R markets
  - Desert Lumber, Mill Creek Lumber

- The turnkey model
  - Mill Creek Lumber vs. Robert Bowden
HOUSING STARTS PER 1,000 POPULATION, 1947-2010

1947-70: 7.2123
1971-90: 7.1482
1991-2006: 5.6686
AFTER THE GREAT RECESSION

- Lesson learned: diversity
  - Residential vs. commercial, new vs. remodel

- Potential new models
  - Centralized commodities, standalone specialties

- Remodeler consolidation
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