



How Building Materials and Industrial Equipment Suppliers Can Cope with Supply Chain Disruptions

This guide addresses some practical steps that Building Materials and Industrial Equipment Suppliers can take to cope with the current Supply Chain crisis

UNPRECEDENTED SUPPLY CHAIN DISRUPTIONS

GLOBAL SUPPLY CHAIN BREAKDOWN

The building materials, construction and industrial equipment supply industries have seen unprecedented disruption. Heavy reliance on global supply chains have made these industries particularly vulnerable to the Coronavirus-induced supply chain breakdowns.

SUPPLY SHORTAGES

Supply shortages are being driven by factories idled due to lockdowns, congestion at ports in Asia and the US and labor shortages caused by perverse economic incentives and vaccine mandates affecting factories, longshoremen and truckers.

INCREASING COSTS

Supply shortages have been exacerbated by new taxes. For example, the Biden administration has imposed tariffs of nearly 18% on Canadian softwood lumber producers that export more than 75% by value to the US. The [Random Lengths Framing Lumber Composite Price](#) shows lumber prices jumped 167% between late August 2021 and December. In 2021, lumber prices are up 101% year-over-year and futures are hitting all-time highs. And it's not just lumber, lighting, plumbing fixtures, door and cabinet hardware, electrical circuit breakers, appliances, everything imported is hard to get and costs more. Steel prices have increased 88% and are expected to trend above \$600 per ton in the coming years. The 2021 Construction Inflation Alert from the Associated General Contractors of America has copper up 61% and aluminum up 33%, and the same is true for other raw materials across the board.

DRIVEN BY SUPPLY AND DEMAND CHALLENGES

The supply chain disruption problems have not only been with the supply side. Since the start of 2021 construction spending has been rapidly expanding. In addition, the Biden administration has been talking about major expansions of infrastructure spending. This has left the construction industry in the challenging position of dealing with growing demand coupled with rising materials costs, extreme delays in deliveries and labor shortages. Expectations in 2022 and 2023 at a minimum are for significant inflation growth. Current inflation trends are exceeding anything experienced in the last 40 years and are growing fast.



HOW CAN BUSINESSES COPE?

SCM CHALLENGES

Many building materials and industrial equipment wholesalers have been put in a nightmare situation of being out-of-stock, unable to resupply and losing customers, at the same time as seeing costs rising rapidly and struggling to pass these on. Unfortunately, building materials and industrial equipment suppliers cannot do much about the macro factors that underlie today's supply chain meltdown. However, they can, and should, take steps to improve their SCM.

WHAT IS SCM?

Supply Chain Management ("SCM") as applied to building materials and industrial equipment suppliers means managing the flow of goods from manufacturers' points of origin to your warehouses or drop-shipped to customers or jobsites. As manufacturing moved out of the US, the supply chain essentially involved contracting with manufacturers globally, arranging rail or long-distance trucking within North

America or sea freight from Asia, port clearance at US ports of entry, and transportation by rail or truck to distributors' warehouses. This global supply chain is now under unprecedented pressure.

PROACTIVE STEPS

Taking some proactive steps now to improve processes and strengthen supplier networks may help you survive and will be extremely beneficial when the disruptions abate, and we return to a more stable economic environment.

Some proactive SCM steps that can be taken include:

- 1 Implementing the right system
- 2 Improving vendor networks
- 3 Diversifying vendor relationships
- 4 Controlling costs
- 5 Getting a better handle on demand
- 6 Managing inventory better
- 7 Making SCM a high priority

1 IMPLEMENTING THE RIGHT SYSTEM

In the past, many building materials and industrial equipment suppliers relied on multiple disconnected systems to run their businesses. If your business operates this way, it will make SCM very challenging. Effective SCM requires a comprehensive view of your vendor networks, control of purchasing, control of inventory levels, and insight into sales and demand planning. Unless all these systems and processes are integrated you will not be able to identify the problem areas in your supply chain and the dials that can be turned to manage them effectively. The first proactive step you can take is to get the right technology solution that provides the tools necessary for SCM.

A SOLUTION THAT ALLOWS YOU TO:

- ✓ See all your data
- ✓ Employ business intelligence functionality to identify potential areas of concern
- ✓ Cope with lockdowns and labor-shortages through a Cloud-based solution that accommodates remote workers
- ✓ Manage all your Vendors by tracking Vendor history, by product, by purchase, by quantity and by price
- ✓ Reduce risk by obtaining quotations from many Vendors for each purchase
- ✓ Track submitted POs from leaving the factory through container loading, insurance, ocean freight, port clearance, rail and truck delivery
- ✓ Track unlimited landed costs for each PO to correctly capture all cost components, given rapidly rising costs
- ✓ Reduce warehouse personnel by employing handheld WMS solutions
- ✓ Facilitate cross-docking and drop-shipping through special order management
- ✓ Create orders for a project and partially-ship goods in stages to accommodate job-site space restrictions
- ✓ Access multi-carrier shipping solutions including 50+ local carriers

2 IMPROVING VENDOR NETWORKS

Many building materials and industrial equipment suppliers used to routinely single-source lines of products from particular vendors. While this works well most of the time, it creates massive risk under the conditions created by the Coronavirus pandemic and associated lockdowns. You need to be able to maintain full vendor history records that track for each product, every vendor that it was purchased from, when it was purchased, in what quantity, and at what price. This is the first step towards improving and diversifying vendor networks. With better information on which vendor relationships are working and which need improvement, invest in the relationships that are strategic. The most successful relationships have open bi-lateral communication with agreement on objectives. Create processes for scheduled relationship reviews

to continue to improve and create value, assess performance against objectives, and proactively address differences and conflicts.

3 DIVERSIFYING VENDOR RELATIONSHIPS

In addition, to improving existing vendor networks, there also should be a focus on diversifying vendor relationships to manage risk. Building materials and industrial equipment suppliers should start to implement RFQ (request for quotation) capabilities to reach out to multiple pre-qualified vendors to get the best price and terms but also to create alternatives if problems develop. By starting to explore more supplier options in this way, you can build relationships with multiple vendors. If you've always purchased a product line from a particular vendor, actively seek to cultivate an alternative that you can turn to if disaster strikes.

4 CONTROLLING COSTS

With rapidly rising costs and inflation surging to decades-long highs, cost control becomes a critical focus for building materials and industrial equipment suppliers, and potentially, the difference between survival and failure. Make sure you understand the costs of all stages in the supply chain - not just the factory cost but all the additional landed costs you incur to get the goods into your warehouse. This will allow you to get ahead of supply chain-induced price shocks and reroute your purchasing quickly in response. While having great vendor relationships is always a good objective, a great relationship with a vendor that is having problems and has to raise prices won't help you. As indications of problems appear in pricing, you should be able to quickly turn to alternative vendors.

To create supply chain options and alternatives, you should explore and prequalify more supplier possibilities that might be needed in times of disruption.

5 GETTING A BETTER HANDLE ON DEMAND

Building materials and industrial equipment suppliers should start to use business intelligence capabilities to run "what-if" demand scenarios and plan for them. Also engaging with major strategic customers on large projects will help with demand planning and forecasting and can lead to deeper relationships with these strategic customers. Explore options to have strategic customers guarantee a base-level of demand in return for some degree of priority with respect to supply.

6 **MANAGING INVENTORY BETTER**

With rampant availability and supply issues, building materials and industrial equipment suppliers need to constantly monitor inventory levels and reorder more frequently. Consider pre-ordering for large construction projects and explore take-or-pay-type contracts with your large customers. The cost of prepaying for and storing the inventory may be preferable to construction project delays, penalties and/or unavailability of the materials when needed which can destroy your carefully cultivated customer relationships. Also, in times of rising costs, you may be able to lock in costs and pass on raw materials price increases. In general, building materials and industrial equipment suppliers need to continually review safety stock levels and review lead times. Making it an objective to reassess and

update safety stock, lead times and use rates every vendor review cycle will lead to tighter inventory control. SCM focusing on compressing shipping times and reviewing cycle times will then lead to less exposure to supply chain crises.

7 **MAKING SCM A HIGH PRIORITY**

SCM has historically not been a high priority for building materials and industrial equipment distributors that typically dealt with a few suppliers and simple supply chains. The current supply chain crisis has shown what can happen when things go awry. SCM needs to be taken very seriously going forward. Bring together leaders in sales, purchasing, inventory management as a team that meets on a regular basis and engage directly with customers on large important projects. Establish company-wide

7 MAKING SCM A HIGH PRIORITY (CONT'D)

objectives that cut across department lines and give every department a stake in successful SCM. Ensure that there are regular reviews designed to reevaluate processes and systems and create contingency plans for other disruptions. Conduct regular risk mitigation planning sessions.

IN SUMMARY

Particularly in the building materials, industrial equipment and construction industries, the current supply chain disruptions rise to the level of an existential threat for many. Getting your business through this supply chain meltdown and positioning your business for growth when the crisis abates, should be the highest priority. Without a clear focus on addressing the complex supply chain problems that are everywhere today, many building materials and industrial equipment suppliers will not make it. Consider upgrading your technology today, to give you the tools you need to make SCM a priority and taking some of the steps identified above.



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