Independents have advantages that the big boys lack

By Don Magruder

There are a lot of big deals going on in the building supply industry, and many of them are high risk and high reward. Many executives are banking on an American economy and housing market that continues to underperform. For many executives, the bitterness of the Great Recession is still too vivid to push many of their chips on the table. Only time will tell if these big deals will work, but in this new era of consolidation, can an independent building supply dealer survive? I believe that they will not only survive, they will thrive.

First and foremost, no one has cornered the market on success or failure. Because of new technology, the behemoth national dealers cannot crowd the independents out of the marketplace. Innovative entrepreneurs are reaching new customers every day and building million dollar businesses. I compare it to network television news. Twenty-five years ago, the big three monopolized news; however, today they are fighting for their lives. All of these independents in America are just like that—slowly eating away at the big guys.

Many argue that big hedge funds and investment banks can clobber independents with money. While there is a definite money advantage, don’t forget that smaller, wealthier local investors are looking for sources of good returns. I expect the distrust of Wall Street and the large banks will push the smaller, wealthier investors to local investments where they can be assured their investments are sound. Many forget that the local investor is how most of these independents got started.

Manufacturers, wholesalers, and vendors are targeting independent dealers more, because many of them have been burned by the one-sided, disloyal deals of national dealers. Many vendors see independent dealers as real partners for moving their products, and it appears the spread in pricing and terms have tightened up between national and independent dealers. In the future, expect greater support from vendors to independents as they seek to change the all-in-one strategies of the national supplier.

Probably the biggest advantage is the people factor. In the last 10 years, how many times have the national suppliers changed their name, replaced leadership, changed direction, and closed locations? Right now, thousands of people in our industry are on pins and needles because they have no idea whether they will have a job six months from now. Independent dealers talk in years as to employee retention, and good employees are confident that their job is safe. Stability and security are a big deal in the workplace; something money can’t overcome.

The biggest reason why independent dealers will thrive and survive is you cannot create a business model that works for the national professional industry. It is truly amazing how diversified and different each construction market is, with their various code interpretations and idiosyncrasies. As much as a national supplier proclaims it will allow each market to have autonomy, the monster in the home office can’t help itself.
The graveyard of the supply industry is filled with national providers who failed to understand or could not pull off a national supply model that allows for a real local market service component. An independent dealer’s innate ability to accommodate various local contractor best practices, which becomes that area’s norm, is the problem. Throw in a manager who has little or no understanding of the market and you have a situation in which the national provider is forced to lead with low price. And so the downward cycle begins.

It is my view that the future looks very promising for the independent dealer. As national suppliers naturally unwind, more independents will spring up. I suspect some of those thousands of people who are on pins and needles about their jobs with the national suppliers are already plotting and planning on opening the next new independent building supply company.

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