

“Procurement Strategies in the Homebuilding Industry: An Exploratory Study of the Largest Builders in the United States” Lefaix-Durand, A, Robichaud, F, Beauregard, R, Kozak R, Frayret, J and Poulin, D. 2008, Journal of Forest Products Business Research 3 (6):1-26

What was studied?

- Market orientation of softwood lumber and composite panel industries toward homebuilders
- Three study goals:
  - Document emerging building techniques
  - Understand procurement channels for structural wood products
  - Describe relationships between structural lumber industry and production homebuilders with respect to interfirm cooperation and IT

What is the lumber industries concern?

- Market power
- Large homebuilders have increasing market power and are looking to:
  - Lower costs/prices
  - Reduce cycle times
  - Easy-to-install products
  - Engineered Wood Products
  - More off-site construction solutions

What are the “new business practices”?

- Interfirm cooperation
- Electronic business
- Supply chain management to create value
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Overview of US Housing Industry

- 2004 – 1.9 Million housing starts
- 2002 – 7 million employees in construction industry
- Spending on private new housing \$300 Billion
- (Note: 2009 housing starts ~ 600,000 (long term average ~1 million)
- Size of average single family home 2,272 sq.ft.
- 90% of beams used – wood: lumber, LVL, Glulam, I-joist)
- 80% of exterior wall framing – wood
- 75% of decking material – wood
- 80% of floor, wall and roof sheathing – wood (Plywood, OSB)

Trends in the US Housing Sector

- Scarce and expensive site labor workforce
- Stick-built on-site construction remains dominant.
- Factory-built on the rise
- 1970s and 80s – 20%
- 2000s – 25 – 30%
- Sweden and Japan – 75-80% Factory Built

How do the authors characterize the Forest Products Industry in Adopting the “Marketing Philosophy”?

- LATE

What factors have stimulated the “paradigm shift from volume to value”?

- Demand from production builders
- Fragmentation in industry
- Price volatility
- Production Overcapacity
- Globalization – increased international competition
- Consolidation of Building Product Dealers

What is “inter-firm” cooperation?

- Joint coordination, sharing and planning of activities.”
- Manifests itself as: Joint ventures, Strategic partnerships, alliances
- Requires: commitment, communication and trust in the buyer-seller relationship

Survey of Production Builders

- 24 Respondents who “closed” between 1,000 and 38,000 homes in 2004
- Geographic market South – 46%, Midwest – 28%, West – 19% NE – 6%
- Types of homes –
  - Starter – 51%
  - Move-up – 29%
  - High-end/luxury – 10%
  - Retirement – 8%
  - Vacation – 2%

Structural Framing Techniques

- Roof trusses
- Prefabricated floor sections – emerging technique
- Prefabricated walls – half of homes
- Modular building systems – not yet

Cooperation with Suppliers and Subcontractors

- Discussing their performance measures
- Exchanging information
- Planning their capacity
- Applying methods for reducing shipping time
- Establishing specific ways of trading together

Core conclusion?

- Large homebuilders are becoming larger, and becoming quicker and more efficient at building homes
- Supply industries should consider interfirm cooperation and abandoning the old business model of a commodity production philosophy in favor of producing “value” for homebuilders.