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2015 DEALER OF THE YEAR

VIRTUALLY FANTASTIC

At US LBM, L.T. Gibson uses tech, training, and a far-flung core staff to build a \$1.4 billion juggernaut



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L.T. Gibson,
president and CEO,
US LBM



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VIRTUALLY FANTASTIC

US LBM uses technology and training to blaze its growth path

By Craig Webb

If there's one question that has dominated LBM over the past decade, it's this: Is it possible to be both big *and* successful? The histories of ProBuild and Stock Building Supply could lead one to believe that it's a fool's errand. But now there's a firm that appears to be moving closer to achieving the big-yet-successful dream, largely because it has focused on centralizing only those parts of a company culture that should travel and leaving alone those parts that are best left local.

Time will tell whether US LBM will remain a role model for profitability, even as it expands within and beyond its Rust Belt base. But just over five years since it came to life as a three-unit operation, US LBM has earned ProSales' Dealer of the Year award for achievements in technology, education, and facility design that, along with a loose but well-coordinated workforce, constitute the principal ingredients behind its success.

"One of my main jobs is to figure out how your company will become obsolete in today's environment, because the industry is changing so fast," president and CEO L.T. Gibson recently told leaders of the holding company's units. "We may seem to bury you in resources. That's what we want to do: We want you to be the best."

Among the company's award-earning accomplishments:

- A mobile app that enables customers to check orders on the go and get messages indicating when deliveries will arrive. With the app, customers can also view account information, access invoices, and check billing history.
- US1, a training program based on the Six Sigma program to help promote a culture of lean management and continuous improvement.
- Incorporating software from Epicor and route planning tools from Descartes to create key performance indicators that have already led to a 30% or more improvement in turnaround times at some yards and a 10%-plus improvement in costs.

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■ A redesign of facilities according to lean management techniques that, at one yard, have reduced forklift driving distances by 30% for most loads, improved traffic flow, and cut labor distribution costs as a percentage of yard revenue by 23%.

Notably, US LBM has accomplished all of the above with just 18 people in its central office staff—and “central office” is a misnomer because virtually none of the staff live in the same city. This \$1.4 billion conglomerate with profit margins in the upper single digits appears to be succeeding where others have stumbled because its constituent companies want to be a part of something bigger, and its top officers see themselves as advisers, not dictators.

“We spent a lot of time when we created the company to try to have the advantages of a big company with the feel of a smaller company,” Gibson says. “We’re still true to that core. What has changed are the resources we can bring to bear. We’re built ... not to oversee each division, or provide capital, but to drive best practices across all the functions.”

You can see the difference at the company’s quarterly meeting, where the unit presidents sitting around the table carry the body language of leaders in their own right. That’s in part because those presidents plus Gibson collectively own roughly 25% of the company.

Gibson, meanwhile, acts more like a focus group facilitator than a boss—a role made possible because all of the companies that joined US LBM have done so willingly, and Gibson has taken care to bring in businesses whose leaders want to improve.

“The reason our model works is that L.T. does not have an ego,” says Jason Runco, co-founder and partner of BlackEagle, the private equity firm that worked with Gibson to create US LBM. “He’s fiercely loyal to his people and yet demands accountability.”

US LBM’s central office hires reflect that attitude. Take Randy Aardema, the company’s executive vice president of supply chain. A black belt in Six Sigma, he brings 30 years of experience in lean manufacturing



as well as delivery operations. He’s big on analyzing the company’s common business and logistics systems to yield standardized, shareable data that helps reveal which operations are lapping the field and what others can learn from them.

For instance, consider when US LBM’s Bellevue Builders Supply unit concluded that it needed to make its 29-acre yard in Schenectady, N.Y., more efficient. Turnaround times often took an hour as the forklift sometimes had to stop at six different facilities to get what was needed for a load. Faxes and phone calls were common between dispatch office, warehouse, and yard office because each was several hundred yards from the other.

Rather than order changes from on high, US LBM leaders sought buy-in from local workers by first collecting data on what they did. This included giving each forklift driver a smartphone with an app called Map My Ride and then using the app to track how many miles it took to build each load. “Everyone was amazed at the distance we covered for even simple loads,” the company said in its Excellence Awards application. Staff also videotaped several cases of truck loading and turnarounds and showed the tapes to yard crews. Then, borrowing from Toyota’s continuous improvement program, US LBM brought in a team of experts to coordinate a three-day problem-solving session.

After launching with a core of companies shed by Stock Building Supply, US LBM has been actively adding new, independent companies to its family. Among its latest: K-I Lumber, in Louisville, Ky.

All of the above led to six months’ worth of layout changes. And the result? The yard and warehouse footprint is now one-third smaller; forklift driving distances are 30% shorter for most common loads; truck turnaround times are half of what they were; communication has improved and paperwork has been reduced since dispatch, warehouse, and yard ops are now combined in a single office; and labor costs have dropped.

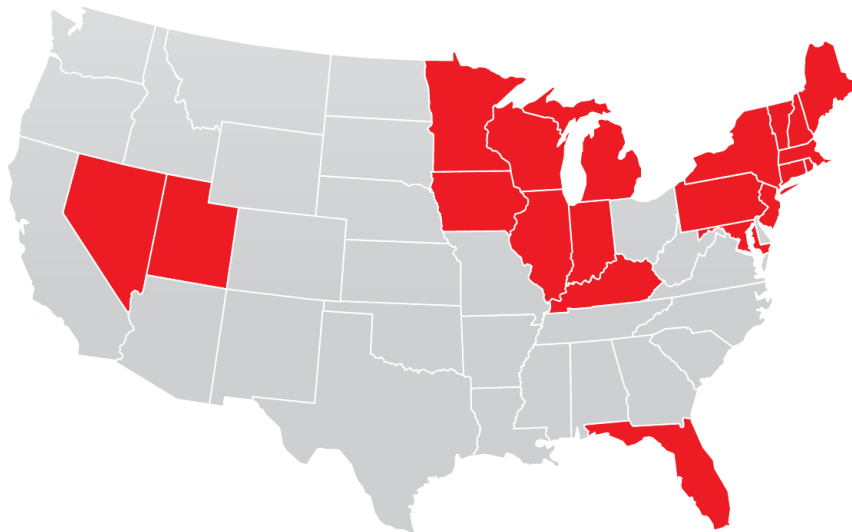
Such improvements don’t come as a result of a mandate from corporate, CFO Rick Kolaczewski stresses. “We say, ‘You know your business better than us. We’re going to give you a set of tools to help you assess your operations and look for improvement.’ We see the impact every day. There are office lean projects, there are yard lean projects. It can be across the operations. We look at lean Six Sigma as an all-encompassing program.”

STONE AGE TO SPACE AGE

Some of those Six Sigma insights come courtesy of Senthil Arumugam, who joined US LBM three years ago as a consultant and now is vice president of logistics and inventory management. His first task, he

FAMILY PORTRAIT

Born in 2009 from three companies, US LBM focused on Rust Belt states in its first few years. Only recently has the holding company expanded into New England, Florida, and the Desert Southwest. Where will it go next? Company president L.T. Gibson says he's not ruling out anywhere.



West

The Desert Companies

Las Vegas, NV; branch in Cedar City, UT
Joined: 2014

Midwest

Wisconsin Building Supply

Green Bay, WI
Formed: 2009

Edward Hines Lumber

Buffalo Grove, IL
Joined: 2010

The Lyman Companies

Excelsior, MN; branch in WI
Acquired: 2011

H&H Lumber

Superior, WI
Joined: 2012
(Now a distinct unit of Lyman)

Standard Companies

Grand Rapids, MI
Joined: 2014

Lumber Specialties

Dyersville, IA
Joined: 2014

Northeast

Bellevue Builders Supply

Schenectady, NY
Joined: 2009

East Haven Builders Supply

East Haven, CT
Acquired: 2009

Universal Supply Co.

Hammonton, NU
Joined: 2010

Millwood Lumber

Millwood, NY
Joined: 2010
(Folded into East Haven Builders Supply)

John H. Myers & Son

York, PA; branch in MD
Acquired: 2011

Shelly Enterprises

Telford, PA
Acquired: 2013

Samuel Feldman Lumber

Brooklyn, NY
Joined: 2014

American Classic Cabinet

Haddonfield, NJ
Joined: 2012
(Renamed as Universal Cabinetry Design Centers)

Wallboard Supply Co.

Londonderry, NH; branches in MA, ME, VT
Joined: 2014

American Masons & Building Supply Co.

Hartford, CT
Joined: 2014
(Folded into East Haven Builders Supply)

South

Coastal Roofing Supply

Clearwater, FL
Joined: 2014

Jones Lumber

Boca Raton, FL
Joined: 2014

K-I Lumber & Building Materials

Louisville, KY; branches in IN
Joined: 2014

says, was “to take us from the stone age of dispatching to the space age,” and in so doing leapfrog LBM systems that he regarded as merely electronic versions of a clipboard.

“Senthil comes from a totally different direction. He says ‘Yes, I know this is the way all the others do it, but why do we?’” says Cary Anderson, Epicor’s senior director of product development. “It makes you rethink. Not every idea is gold, but it’s always refreshing.”

Arumugam’s search ultimately led to the installation of Descartes logistics software, which delivers data and analysis almost in real time. That speed helps dispatchers because the system automatically schedules routes based on availability and demand, and other staffers no longer have to deal with the irritation of having to call dispatch to learn when a delivery will arrive.

Equally important, Arumugam says, installing the system means that US LBM now knows key performance indicators such as percentage of on-time delivery and pickup, average turnaround time, average miles driven, and how much revenue is generated per stop. Armed with such information, US LBM units can then search for ways to improve. One innovation was to arrange for yard personnel to receive text messages 45 minutes prior to a truck returning to the yard, thus giving them enough time to stage material and begin turning around the truck as soon as it arrives. “Our goal is to emulate a NASCAR pit stop,” the company says.

Thanks in part to the new system, the company’s on-time delivery performance, which had been in the low 70% range at some yards, has now improved to 95% or more at most locations, US LBM says.

While these are corporate achievements, they aren’t specifically the result of corporate directives. Arumugam stresses that the actions taken must come from local operations. “My job isn’t to manage each location,” he says. “It’s to make it apparent to each local manager who’s performing ... to ask the right questions.”

He has a fan in Gibson, who declared to the unit presidents: “We are going to change at a rate faster than the industry, as fast as technology will take us.” And Gibson has a

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fan in Anderson. “I’ve been at this 30 years, and what’s unique about US LBM is how they address technology,” the Epicor exec says. “They address it in a different way. I don’t think they are in love with technology. ... I’ve seen companies that are very IT-oriented but get sidelined by projects that don’t matter or don’t go to the bottom line. They have a much better business acumen as to how it will improve our business and our relationship with the customer. It’s more like a business decision and IT is second.”

SMARTS & VISION

Indeed, US LBM might count on technology, but it pushes brainpower too. That’s the province of Wendy Whiteash, VP of strategy and development, who leads the US1 series to train workers on how to identify waste and share ways to improve service. Classes are conducted at the University of Wisconsin under the leadership of a Six Sigma black belt who lectures in the university’s MBA program. The first 28 students who went through initial yellow belt and intermediate green belt training have come up with ideas that have saved \$4.5 million in the first half of 2014 alone, US LBM estimates.

Whiteash cites the example of Shelly Enterprises, which about a year ago asked for help improving its truss plant. “We brought in some of our best truss plant managers,” she says. “They didn’t have authority. They watched the process, and they made suggestions. Now truss production there is up 50%.”

Whiteash’s mantra that her job is to “sell, not tell” owes much to Gibson, who gets plaudits for his mix of straight talk and enthusiasm for the job. Again, he’s been able to build a culture of willingness to improve because US LBM is selective about who it brings in: The company has kicked the tires on at least 100 operations to find the 20 or so that are in the company. And the fact that his unit leaders have autonomy and a competitive streak means that he can feel free to post performance sheets denoting company leaders on the top in green and laggards on the bottom in red.

“You just get in front of L.T. and hear the



vision, and his actions follow his words,” Whiteash says. “You just can’t help getting excited by that.”

Steve Short, the former chief operating officer at Stock, has known Gibson since 1992 and was his boss for much of two decades. He says that Gibson’s ability to bring together diverse cultures is no surprise; he called in Gibson when Stock’s attempt to merge three Washington, D.C., area companies led to turmoil.

“The D.C. team realized that L.T. wasn’t going to show favoritism and that the best person, no matter which company they came from, would always get the job,” Short says. “The team also was excited about the vision for growth and the opportunities that would bring. It wasn’t long before L.T. had the D.C. market as one of the top markets in the company.”

There have been big companies with small central offices before; Lanoga, one of the two major building blocks of ProBuild, had a home-office staff you could seat around a large conference table. Even if US LBM had such a table, it wouldn’t be useful because none of the senior officers live in the company’s official headquarters of Green Bay, Wis. Gibson is outside of Cincinnati, Aardema near Detroit, Whiteash in northeastern Pennsylvania, HR chief Karen Charielle in Connecticut, and Kolaczewski outside of Chicago. Gibson figures he’s on the road

US LBM’s recent acquisitions, such as K-I Lumber, in Louisville, Ky., (shown here) increasingly have emphasized businesses with truss, panel, window, door, and molding operations.

three to four days a week and flew 160 times last year. He has no assistant and books all his own flights.

No doubt some travel will be to visit potential acquisitions, as Gibson refuses to limit how big US LBM can or should get. “Our goal is to be the most diversified business, both from a customer and product standpoint, in the industry,” he says. “This not only gives us great opportunities for synergy and sharing of best practices across the group, but allows us to weather cyclically in the various end markets.”

Outsiders question how high and far US LBM can fly given that private equity firms such as BlackEagle tend to own a company less than a decade before selling. Gibson and Runco agree that a sale one day is a possibility, though that 25% stake held by Gibson and unit presidents will complicate things.

But Runco sees US LBM’s style living on. “Those guys are strong operators, and we want them to continue to get better every day,” he says. “I don’t see that culture changing. ... The group that is going to want to buy them, you’d have to be crazy to want to buy that company and screw with that.”