GETTING Contractor Discounts

Understanding dealer margins and market opportunities will help you negotiate the lowest material prices

by Paul Fisette & David Damery

Builders consider discounts to be the most highly valued service offered by material suppliers. Talk to any builder and it's price-price-price that drives the sale. Dealers hate that attitude. They consider building a home a complicated business and insist that contractor sales involve more than an exchange of commodity items. Dealers consistently try to sell value, emphasizing that quality and service save builders real money. But builders are a tough sell.

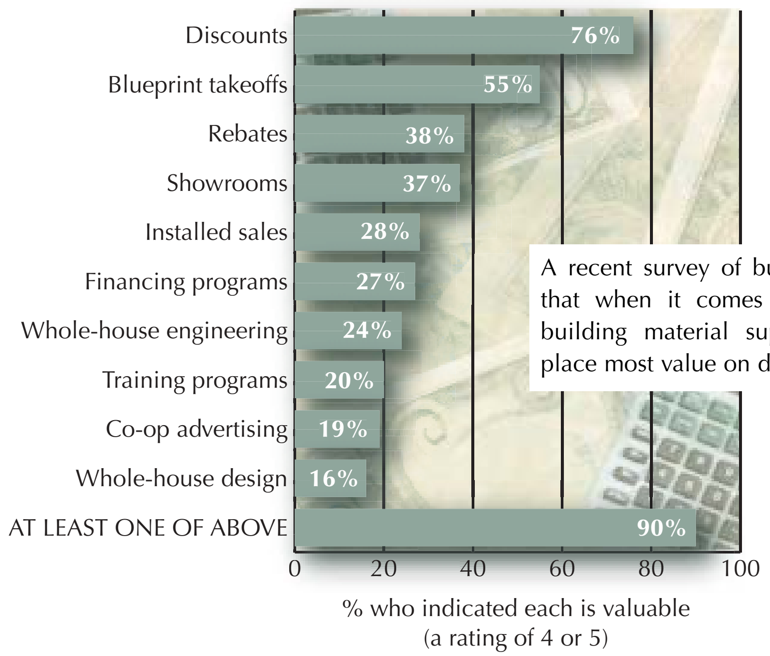
A recently completed independent survey commissioned by Hanley-Wood on behalf of *ProSales* magazine, *JLC*'s sister publication, ranked builders' views of value-added services offered by dealers. They found that "discounts" topped the list (see table, next page). The study shows that 76% of the 1,800 builders interviewed think discounts are "highly valuable." "Blueprint takeoffs" ran a distant second, with a 55% ranking. Dealer services like training and advertising earned very low marks. If you believe these survey results, builders aren't much interested in those services. On the other hand, if it is all about price, then why don't builders like to buy from the big boxes like Home Depot? Perhaps builders value services more than they realize or will admit.

In reality, all deals are negotiable, but to get the best price, you need to understand the playing field and players.

The Dealer's Perspective

Market prices and conditions set the table for negotiations. Competition is stiff, and dealers must turn a profit or close shop. They have significant fixed costs. Dealers pay property taxes, rent, utilities, insurance, salaries, wages, and a long list of other expenses. Most

Value of Services Offered
Building Material Suppliers



A recent survey of builders found that when it comes to choosing building material suppliers, they place most value on discounts.

building material suppliers claim that overhead runs about 18% of sales. Competition often forces lumberyards to settle for 5% to 10% profit margins. Dealers can sell every item for cost plus 25%, or they can sell a mix of low-margin and high-margin products to achieve their goal. In fact, they do the latter. The tricky part for dealers is to get you to buy the entire mix of products from them and not let you cherry-pick low-margin items.

Dealers sell three things: price, quality, and service. When builders demand rock-bottom prices, dealers must decide what levels of quality and service they can offer at those prices. This gets thorny because builders are demanding. We want the best plywood, siding, and trim we can get our hands on. Plus, we want timely deliveries, blueprint takeoffs, and engineering services. But we can't have it all; there are tradeoffs we must accept.

Value selling is the latest buzz in contractor sales. Dealers improve margins by providing value-added services. The value-selling concept makes the sales rep a problem solver for the contractor. Essentially, the rep serves as part of the builder's staff without showing up on the payroll. The rep's goal is to maximize a contractor's overall profit. Dealers don't want you to shop price on every product they sell. Rather, they want you to evaluate the entire package they provide. The question you need to ask is, Will I make more money on a project if I use supplier A or supplier B? If your business concentrates on small jobs like decks, siding, roofing, and remodeling, then value-selling is probably not for you. But if you build ten houses per year, it might be worth considering.

Good sales reps can help you develop a project schedule. They can reserve a boom truck and deliver shingles to a roof on the day and at the time you need them. They provide job-site technical support and engineering clarification for structural components. Sales reps provide off-hour ordering and service, as well as inside information about manufacturer rebates. They anticipate back orders and even make emergency deliveries. Good sales reps provide a definite service, and smart builders make them part of the team. These services save money, but perhaps more important, they help to provide the mix of quality and service you need.

Bargaining Chips

Dealers give the best price to the best customers. One supplier says, "Tell builders to walk through the door and say they are going to build 50 houses next year, that they're going to pay their bill promptly every single month, that they'll have few returns and no pickups from the job site, and that they'll never make a mistake in ordering millwork. Those contractors will get the best price." Most dealers agree that pricing is based on some combination of these six factors:

- historical sales volume (existing customers)
- potential sales volume (new customers)
- prompt payment
- services required
- customer loyalty
- personal relationships

Within these guidelines there are some key elements that make for a good working strategy.

Choose the right dealer. Be sure you work with a yard that is truly interested in serving you. Over the past decade, there has been a big push to segment the customer base into professional and DIY markets. Builders recognize that and to a large extent avoid the big boxes like Home Depot. However, individual pro dealers also specialize and serve only certain types of builders. Many dealers have stopped taking cash and walk-in trade and focus instead on large production builders. Those yards are easy to spot: They're big, they make trusses, they serve commercial accounts, and they offer few products on shelves for the retail trade. If you're a custom builder or remodeler, that's not the place for you. Look for a yard that offers a good mix of products and supplies right on the trading floor. Your dealer should have a broad selection of caulks, sealants, fasteners, paint, hardware, and accessories in stock. Custom builders and remodelers need dealers that also have a door shop and a custom milling facility. Look for yards that provide those services.

Only dealers who buy right can sell right. Dealers, like builders, get the best price if they are the best customers. Call the regional office of manufacturers like Boise Cascade, Weyerhaeuser, and Georgia-Pacific and tell them that you would like to use their products on the next ten houses you build. Ask them to recommend three retail dealers that carry their products in your area. There's a good chance they'll provide you with the names of their best customers — the ones who move the largest volume and pay on time. Also, call Dun & Bradstreet to verify that the dealer's credit rating is strong.

Find the right sales representative. You must find a salesperson who is honestly interested in working with you — a "go-to" type. Interview potential reps. Ask enough questions and you'll learn quickly whether the rep is knowledgeable, sincere, and interested. Don't fluff your feathers to impress the rep. And don't start by saying you want the best price possible; that comes later. Let the project and the relationship unfold. Be professional and let your attitude percolate into the discussion. Sell yourself and make the sales rep want to work with you. Good sales reps will help you get the best deals possible as a strong relationship develops. Make them sell their company to you. Request a résumé. What can they do for your bottom line? Specifically ask:

- Do they have tier pricing based on volume?
- How often do they deliver on time?
- What is their fill rate — in other words, what is the back-order percentage?
- Can they commit on time for returns so products don't get trashed at the job site?
- What services will they provide, and how will those services help your margin?
- Can they provide a list of builder references?
- What discount will you receive and how will it be structured?

Builders are well served by outside sales reps. Reps typically work on commission and get paid only when the builder pays the bill. So outside reps should be motivated to work hard in order to keep you happy. Many companies give their contractor reps free rein with discounts. The company sets a minimum margin and allows the reps to set a selling price. The dealer and reps make less profit with deep discounts, but it's often the rep's call to determine what a customer will contribute to the future growth of a company.

Every dealer wants new business. Some dealers offer discounts to attract new business. Others fear that loyal customers will get mad if they learn a new account is getting the same price break they are. This is a dilemma for some lumberyards. But, new customer or not, if you promise reasonable volume and timely payments, you can expect a 10% discount on full orders.

Introductions are important. Greet a new dealer with credit application in hand. Have references ready. The best credit references you can use are competing lumber dealers. The new dealer will love it. All dealers want a good customer who pays on time. Think about what happens. The new dealer calls a competitor and asks for a credit reference. The old dealer says, "Joe Builder is a good customer who pays on time. I have nothing bad to say about him." Your reputation as a good customer is enhanced and the new dealer wants to grab you from the competition. The old dealer will immediately put his best outside rep onto you so he doesn't lose the account. You win, because both dealers offer a sweetened deal, and you never even had to ask.

Persistence, honesty, and fairness ensure continued contractor discounts. Over time, builders and dealers develop comfortable relationships and can become complacent about pricing. Dealers and sales reps tend to focus on getting new business and often take existing customers for granted. Builders think their "guy" is taking care of them and relax the pressure on getting the lowest price. Keep dealers' feet to the fire. Make them earn your business every day. Let your favorite dealer know that you are getting competitive bids. Even tell the dealer who you're getting bids from if they're coming from true competitors.

But there's one unwritten rule: Never show one dealer's price to another dealer. Dealers hate that and will stop doing business with builders who shop their prices. Dealers work hard to develop a cost estimate, and it's not fair to give that work away to another dealer. It's okay to tell a dealer, "Your price is not good enough. Do you want to sharpen your pencil?" But don't provide numbers for them. Dealers share membership in many organizations and talk to each other at social and business functions. Word gets around. Earn a reputation for shopping prices, and you won't get discounts for long. And by the way, it's a good idea to work price, but bottom-feeding price shoppers are not considered loyal customers and lose "best customer" status. Eventually, they get smaller discounts.

Specific Discounts

Getting a 10% discount sounds good, but what does it really mean? Unfortunately, there are no dealer invoice price sheets available for building materials. A few products like cabinets and windows are moved through the distribution chain based on percentage of manufacturer's suggested list price. But realistically, builders must shop and compare prices to determine the best deal. Discounts are available. Here are some discount opportunities you can count on:

• Tiered pricing programs are offered by virtually every dealer. Some won't admit it, but they do have them. Ranking is based on sales volume and potential. There is certainly no standard, but many dealers give 5% to 10% discounts to the lowest "C-rank" contractor accounts if they do more than $25,000 worth of business per year. A typical "A-rank" customer does more than $100,000 in sales and earns 10% to 15%. Prompt payment is required to qualify for tiered pricing.

• Credit and payment terms are fairly standard among dealers. Terms like 2/10 days, net 30, means you'll get a 2% discount when you pay your bill in less than 10 days. That's a powerful incentive that's overlooked by most contractors. How many investors would snub a stock that's guaranteed to earn 24% interest per year? Discount your bill every month and you will make serious money while earning the respect of your dealer. Dealers jump through hoops for builders who pay promptly. Those builders get deliveries first, learn about deals and promotions first, and develop good relationships. It's a no-brainer. On the other hand, pay late, after 30 days, and you're penalized. Finance charges compound, too — in the wrong direction. Decide not to pay the penalty charges, and dealers will either cut you loose or possibly overcharge you on other orders.

• Prices for high-margin items are negotiable; low-margin items are not. Specialty items like laminated beams, special locksets, cabinets, and millwork are examples of products for which dealers have room to negotiate. Gypsum wallboard, studs, and sheathing are low-margin products that dealers must carry to get contractors through their doors. Dealers are lucky to earn 3% on framing lumber. Don't waste your time fighting for pennies. Focus on high-margin items and the cost of the entire package.

• When shopping for cabinets, it's worth knowing that every manufacturer has a suggested retail price list. Everyone in the distribution chain works from that list. The range of prices builders pay at the end of the chain is quite variable, but here are some insights. In the eyes of distributors, there are basically two kinds of contractors. First, there are those who buy through purchase orders. Those customers say, "Sell me the boxes, and I'm done." They negotiate the deepest discounts based on high volume and low service. Builders who buy dozens of kitchens per year can buy direct from some wholesale distributors and manufacturers. They can expect to pay about 50% of list for stock cabinets.

Most contractors fall into a second category. They require design and layout assistance from retail dealers. It is not uncommon for retail dealers to purchase stock cabinets for 45% of the suggested list price. Builders buying single kitchens at retail can expect to buy cabinets for approximately 60% of list, providing dealers with a 25% margin. Builders who purchase multiple kitchens pay a few points less. The trick is to get your hands on the manufacturer's list price, then shop and compare.

• Windows and doors are also sold from manufacturers' suggested list price sheets. Ask your dealer for a price schedule and find out what percentage of the suggested retail price you will be asked to pay. Go to competing dealers and do the same thing. Be sure that you're comparing apples to apples, that you're looking at the same window units and getting the same price sheet from each dealer. Be careful reviewing quotes; some dealers make up their own suggested retail price list to make discounts appear larger. The best deals come from stocking dealers who carry an inventory of boxed units. Displaying dealers offer the next best deals because they get windows at a better price than those who don't display. Builders can purchase many brands of windows at 75% of list, but contractor prices are hard to predict. There is tremendous variability between brands, so you'll need to shop.

• Rebate programs are available and can save builders hundreds of dollars per house. Manufacturers offer rebates to encourage builders to use new or lagging product lines. Trus Joist offers rebates to high-volume builders. The engineered wood business is competitive, and I-joist companies are fighting for every scrap of business. Another example is Weyerhaeuser's First Choice Builder Program, which offers builders a rebate if they use any one of seven products in sufficient quantity. Typically, a manufacturer's rep notifies retail dealers and explains how the deal works. Dealers own the relationship with builders, so they pass the information on to contractors. Rebates are usually based on a tiered price schedule, so the highest-volume builders get the greatest rebates. Rebate checks are issued once per quarter and can amount to a few percent of sales for targeted product lines. It's worth checking out.

Bottom Line

Everything is negotiable, but some things are more negotiable than others. It's important to focus your energy on products with negotiable margins. Forget commodity products. You're not buying a car, and you can't get dealer invoice prices for the thousands of building materials sold. In the end, it comes down to having the right people sitting at the bargaining table: a good dealer and a valuable customer. Be professional, leverage competitive pressure, and don't let your dealer take you for granted. Finally, measure success by the cost of the entire package of materials and how the service influences your bottom line.

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