Distribution Strategy

The Company

The Company is a North American producer of building products with manufacturing locations throughout the East Coast and South. The company relies on geographic resellers to both sell and distribute product to dealers and builders around the US.

The Situation

A combination of external events placed increased pressure on the Company:

- With the downturn of the economy and the subsequent reduction in housing starts, demand decreased.
- New low-cost foreign competition placed new pricing pressure on products.
- Distributors started to behave as competitors, e.g., they sourced product directly from contract manufacturers, they created private label brands and they pushed their own branded product ahead of the Company's products.

The result of these external pressures resulted in declining sales and margins.

Management responded to the new external pressures by reducing costs. Given the degree of change facing the Company, the cost reductions did not make up for the lost sales / margin decline and profitability worsened. In addition, the new environment created a misaligned strategy with the Company's key channel partners, the distributors.

The Approach

Keystone and senior management recognized the need to gain a better understanding of the market and the changes impacting the different stakeholders. The project was managed through work streams that focused on optimizing the internal cost structure and identifying opportunities to adjust to the new external environment.

First, Keystone performed an internal assessment of the business, including reviewing manufacturing and sales. The assessment included site visits to the manufacturing facilities, interviews with management and data analysis.

After defining internal improvement opportunities, Keystone met with and interviewed customers. As there are unique geographical market characteristics, Keystone interviewed stakeholders across multiple markets.

The interviews provided a medium to gain perspectives from the different stakeholders, and also allowed informal validation and / or opposition to hypotheses on shifts in strategy.

Key steps included:

- Identified opportunities to reduce fixed costs of the manufacturing facilities.
- Performed a make vs. buy analysis for key components of the manufacturing process.
- Conducted "on-site" customer visits, including distributors, national builders, specialty builders and dealers to identify the impact of strategic changes.
- Developed a financial model of an optimized direct distribution network, utilizing third party logistics providers.

The Results

- The Company altered its go-to-market approach and shifted to a direct to customer model (bypassing distributors) in select geographies.
- In the direct to customer model, sales, order entry and warehousing were insourced and managed by the Company.
- With control over sales resources in the geographies in the direct model, revenue increased by 15% with improved margins.
- Manufacturing facilities were consolidated, significantly reducing fixed costs.
- The make vs. buy analysis determined the Company's long held beliefs of cost savings were in fact not feasible due to exorbitant onetime costs.

311 S. Wacker Drive Suite 5000
Chicago, IL 60606
312.960.3630