

GOING WITH THE GRAIN

Rapid sales growth for Lumber Liquidators brings supply chain challenges.

BY ERIC JOHNSON

The world of hardwood flooring is all about color, and increasingly, yellow is holding its own with orange and blue.

In this case, yellow represents Lumber Liquidators, a 20-year-old company borne from founder Tom Sullivan's idea of purchasing excess wood from construction sites and selling it from the back of a trucking yard in Massachusetts.

That entrepreneurial verve has stood the company in good

stead. These days, the company has grown to the extent that it now competes aggressively with the home improvement giants Home Depot and Lowe's in its niche flooring market, with roughly three outlets opening across the country each month and the sizable growth in import freight that goes along with it.

The growth is welcome news, but it presents new challenges daily to the company's supply chain, as Lumber Liquidators wrestles with the potential pitfalls from that growth.

The consumption of hardwood flooring is largely tied to the U.S. housing market

and the economy in general — the number of new homes constructed and existing houses sold, and the confidence homeowners have in the economy to be able to fund potentially costly home improvement projects.

Yet Lumber Liquidators' upward surge has been largely unaffected by the up-and-down U.S. economy during the past five years. The company's vast range of flooring products — from those sourced direct from abroad to proprietary products finished at its U.S. production facility — and its model of working directly with mills to eliminate

the middleman has enabled it to withstand those financial pressures.

Indeed, most of the pressure on the company these days comes from managing growth.

For Holly Pearce, director of international logistics at Lumber Liquidators, that means squeezing a lot of import freight through a small pipeline. The company imported roughly 18,000 TEUs in 2013 and is on pace to grow that volume 10 to 15 percent this year.

For more context, when Pearce moved to the company four years ago, its imports

totaled 7,000 TEUs. In the same timeframe, the number of retail outlets has risen from 170 to 347 (nine in Canada and the rest throughout the United States). The retailer has a target of opening 35 to 40 new stores annually.

Pearce said Lumber Liquidators' rapid expansion strategy has some unique effects on its supply chain. For one, the company tends to open its stores fairly fast — 35 to 60 days upon securing the new store site — allowing it to “get in a market quickly and establish market share.”

Additionally, each store typically has 5,000 to 10,000 square feet of storage space, not a lot for an outlet dealing with tens of thousands of feet of wood flooring.

“The relative speed with which we can open a new location, coupled with the minimal retail and warehouse space at a typical Lumber Liquidators store, creates the need for a well-established pipeline of product from our vendors and in our distribution network,” Pearce said. “It's imperative that the supply chain be able to recalibrate demand and adjust fluidly to fulfill customer orders, or to load-in a new store location. And the ability to identify potential supply issues upstream is key to mitigating any disruption in product flow.”

Pearce said these pressures create a need for “true visibility from purchase order creation to receipt at final destination. The data must be valid, clear and current.”

As an aside, one of Lumber Liquidators' quirks is that visitors to its headquarters in southern Virginia pass through an actual working product showroom on their way to the offices.

On the other side of the company's executive offices is a production facility and warehousing space, where, among other items, its famed Bellwood flooring products are finished.

Pearce said the bookends at either side of her office provide a tangible way to show her carriers and logistics partners exactly what Lumber Liquidators does. Showing the production facility and showroom floor crystallize the idea that her freight is actual products, not just numbers.

As Lumber Liquidators' size, profile, and cargo volume have grown, the international logistics department hasn't exactly kept pace.

Pearce sheepishly grins when she admits there are primarily two people running international transportation and logistics (including her). That encompasses drayage, purchase order management (which is handled through the company's freight forwarder, DHL), ocean carrier negotiations, and third-party broker management.

“Being a small team means we're respon-

FIND YOUR NICHE HERE

Diversity
Productivity
Accessibility
Interconnectivity
Congestion Free



Port of Stockton CALIFORNIA

Strategically located 75 nautical miles from San Francisco Bay, this 35-foot deep-water omni-use port accommodates diverse cargoes.

Benefit from a productive labor force, 24/7 open gates, FTZ #231 and the proximity to Interstate 5 plus highways 99 and 4. Served by BNSF and UP, the port offers direct cargo transfer to/from rails, vessels, trucks and barges. Our large warehouses, distribution centers and open spaces are available for staging, development and leasing.

The port has two 140-ton mobile harbor cranes and reinforced docks to facilitate heavy-lift and project cargoes.

We are your
advantage.



209.946.0246
portofstockton.com

sible for soup-to-nuts,” she said.

Pearce often fields calls from logistics companies offering to handle carrier bookings and PO management. “They tell us we can do it for you for cheaper,” she said.

But Pearce has been reticent to jump into that kind of arrangement, because, as she put it, “we change our allocation frequently” and the Lumber Liquidators way has been to handle these responsibilities in-house.

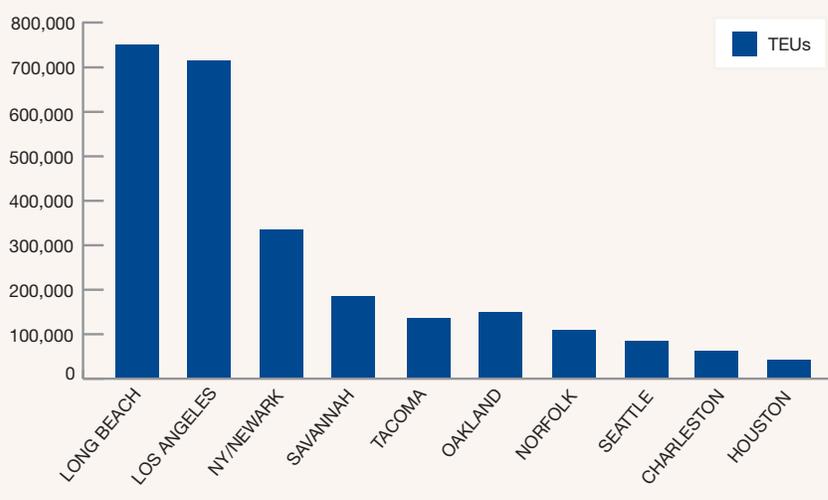
“Flexibility and adaptability is what we do well,” she said. “That can be a blessing and a curse. Sometimes we act as if we’re still selling wood out of the back of a truck. We still have that entrepreneurial spirit. Now it’s about tempering that free spirit with the responsibility of growing up.”

A major step in that evolution came in 1999, when the company moved its headquarters from Massachusetts to a location between Richmond and Norfolk in Virginia. In 2004, the company moved further south to its current location in Toano, Va., near Williamsburg, where a 250,000-square-foot storage facility (former site of a John Deere plant) was supposed to take care of its distribution space needs for years to come.

By 2011, the company had outgrown its Toano space, and moved into a 500,000-square-foot leased space in Hampton Roads, Va. Now it’s set to move to a 1 million-square-foot facility in Sandston (near Richmond). Pearce chuckles when retelling the story, fearful of sounding like a broken record, and it’s little wonder why. Growth at Lumber Liquidators has outstripped all expectations and projections, with revenue climbing from \$681 million in 2011 to \$1 billion in 2013.

Tom Sullivan started Lumber Liquidators 20 years ago by purchasing excess wood from construction sites and selling it from the back of a trucking yard in Massachusetts.

2014 U.S. imports of wood by port of arrival



Note: Wood includes wood flooring, wood molding and wood siding.

Source: Datamyne

The site of the new green field distribution center in Sandston, where the company broke ground at the end of 2014, is an example of the tradeoffs that importers often have to face. The Hampton Roads facility placed the company near the Port of Virginia, a gateway on which Lumber Liquidators leans heavily (the company was the port authority’s “shipper of the year” in 2014 and brings about 200 containers per week into Norfolk).

That was great from an import perspective, Pearce said, but not so from a distribution perspective. Trucking capacity was not particularly easy to come by.

“It’s tough to get capacity to match back to,” she said.

That won’t be the case at the new location, which sits near the Interstate-95 corridor that provides great connectivity along the eastern seaboard. The new DC will mean higher import costs, Pearce acknowledged, but much better trucking service.

“My transportation costs will incrementally go up, but our total costs will go down,” she said.

Lumber Liquidators’ steady growth meant they had spilled into multiple leased facilities in Hampton Roads, so combining operations under one roof will increase efficiency, she added.

The company had been distributing from the Toano and then Hampton Roads facilities to all its stores nationwide (with the exception of some direct-to-store deliveries that moved through the Southern California port complex of Los Angeles/Long Beach and other East Coast ports). That changed in the third quarter of 2013,

when it opened a 500,000-square-foot DC in Pomona, Calif., designed to serve its western network of outlets (there are 35 stores in California alone).

Pearce said the expectation was the shift of a significant portion of its volume from Virginia to Southern California would mean lower volumes through Virginia. Around 27 percent of the retailer’s volume now moves via the two Southern California ports. But in fact, the growth rate has caught up, and Lumber Liquidators will move roughly the same number of TEUs through Virginia this year as it did last year, on top of the volume through Southern California.

Another layer of supply chain complexity has come from a subtle shift in the company’s product range. In recent years, Lumber Liquidators has added an array of installation products and tools to help do-it-yourselfers install their own flooring.

“We realized that some of our customers who wanted to install themselves would buy the flooring from us and then go elsewhere to get all the things they needed,” she said.

That goal to capture more of the spend from its DIY-inclined customers has given Pearce and her team a lot more stock-keeping units to manage. Although the tools/accessories portion of the product range accounts for a small fraction of the company’s overall revenue, there are 3,000 tools/accessories SKUs to manage, compared to 1,200 in the flooring range.

All part of a growing company with big ambitions.

Pearce and her team manage mostly via spreadsheet these days, and she recognizes that the company’s sustained and sizable

growth will necessitate more robust technology down the road. She's eyeing transportation management and visibility as key systems to attain when the time is right.

"There's no funding for a TMS right now, but when it makes sense, we'll address those," she said. "The handoff from international to domestic — that's something we'd like to have a better handle on. I'd love to have a single point of visibility."

Pearce said frankly that success also means there hasn't yet been an intense focus on the types of systems that drive more supply chain efficiency.

"We're like any company," she said. "You identify 15 capex projects and then you decide what's feasible, and what we have the bandwidth to do. The company is taking the right steps to fund the business. And the company is doing well and we are managing well."

Some of the retailer's technology is provided by its forwarder, DHL. That single relationship, rather than Lumber Liquidators using a portfolio of logistics services providers, has allowed the company to see the advantages of a single platform, she said.

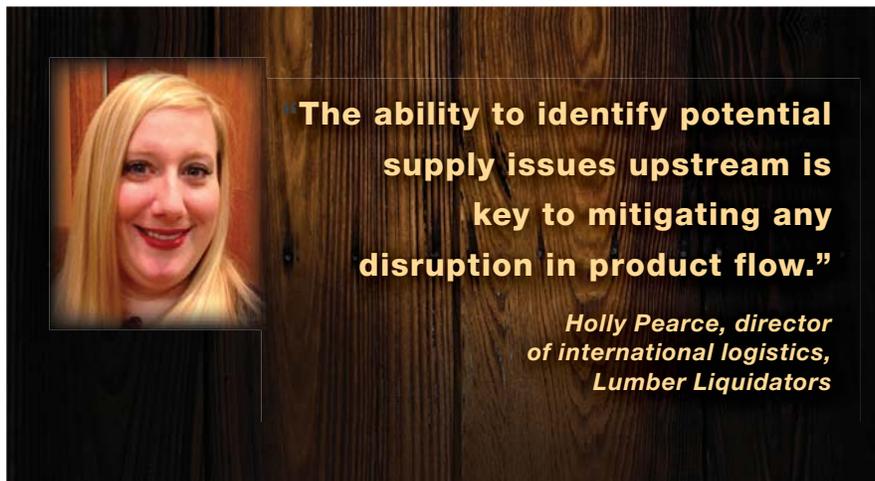
"Going with one forwarder has opened people's eyes to the benefit of visibility," Pearce said. "If the perceived value of a TMS was at a '1' five years ago, now with DHL it's at a '3,' so baby steps.

"We're growing and everyone understands that," she said, acknowledging the impact of the company going public in 2007. "I conducted one of the first carrier bids when I first got here, so that means I have to be able to explain to shareholders why transportation costs what it does."

The implication being that more automated systems and visibility would go a long way to carving even more efficiency out of her network.

Lumber Liquidators uses five to seven ocean carriers — including some "boutique" carriers on the South America-to-North America trades. Brazil is a vital export market for the company, as it produces a number of types of wood that go into Lumber Liquidators' core products lines.

Pearce said she often wrestles with whether to take advantage of lower rates from new carriers (not to mention the frequent offers from non-vessel-operating common carriers) or to concentrate her



volume with the company's long-term carrier partners.

"I like the aspect of taking our carriers along for the ride with our growth," she said.

On the domestic side, Lumber Liquidators has about 400 outbound trucks per week serving its retail outlets. A separate team handles outbound distribution but is in frequent dialogue with Pearce and her team, as are sales and procurement.

Aside from ramping up its distribution network, the company is in the midst of doubling its production capacity at the Toano facility, where a new production line is being added to the existing one in the fourth quarter of 2014. Demand for its proprietary products is driving that increase.

and packaging. The process is incredibly fast — sometimes as quick as 15 minutes, depending on the product — and can turn out as much as 40,000 feet of hardwood flooring in an eight-hour shift.

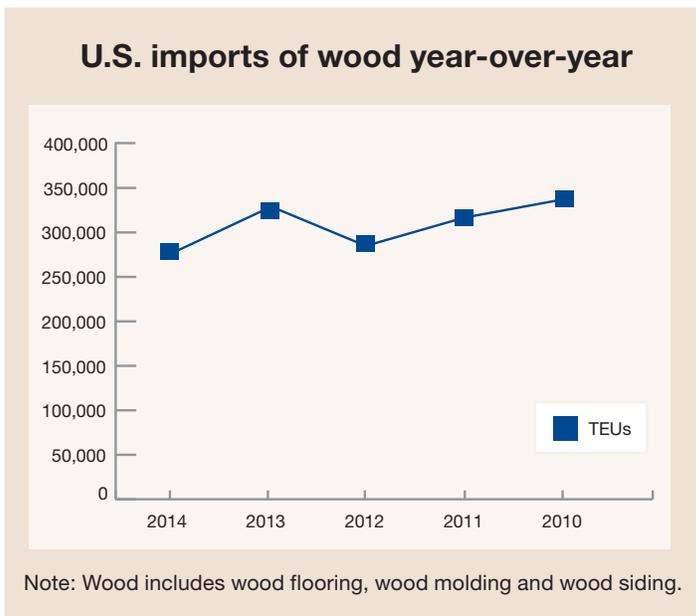
Pearce said while the company's warehousing is handled internally (at the Toano production facility, where roughly 10 percent of imports are sent to be finished), warehousing is managed as if it is a third-party vendor in terms of the receipt and finishing of product by that production line.

"In order to fully capture the true cost, Lumber Liquidators has implemented a system where raw materials are initially received by the warehouse," she said.

"Then, those materials are transferred to the production line (both physically and in the system). The flooring-finishing process is completed, the finished goods are boxed and palletized, and then the warehouse team takes possession (physically and systematically) and stores the finished goods in the warehouse. This handoff allows for the cost of goods to be as comprehensive as possible, as well as allowing for more detailed metrics for the production line."

Just 20 years in, the company has gone from the reselling of unused lumber to competing on a national level with some of the country's biggest importers. What's next?

"I like to say, the company started as a baby, and then we started running, and then we became a teenager, and the next step is to become an adult," Pearce said. "We've come a long way in a short amount of time." ■



Source: Datamyne

At the facility, the retailer essentially takes cut, but untreated floor panels and turns them into Lumber Liquidators products. That includes a complex, computer-assisted series of steps that involves, staining, sealing, heating, cooling, sorting,