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CFO Chad Crow and his team had to take some extreme measures to steer Builders FirstSource through the housing-market collapse of 2008.

HOW TO SURVIVE A SLUMP

The methods Builders FirstSource employed to stay in the manufacturing and distribution business during the recession

by Julie Schaeffer

1 IDENTIFY THE PROBLEM EARLY

Builders FirstSource, Inc., which manufactures and distributes building products, had some incredibly good years between its founding in 1998 and its initial public offering in 2005, thanks in part to the housing bubble. "It was one of the best environments for single-family construction this country has ever seen," CFO Chad Crow says.

In the middle of 2006, however, everything changed. "We heard rumblings of a slowdown in construction but at that point had no idea the downturn would be as drastic and last as long as it did," Crow says.

One person did predict the coming storm, however: Builders FirstSource CEO Floyd F. Sherman. "We all thought he was a Chicken Little, saying the sky was falling, but it certainly did, and that foresight was invaluable," Crow says. "He was on the forefront of reacting, and that allowed us to survive."

2 BECOME MORE EFFICIENT

Business activity can slow a lot more quickly than a company can adjust its cost structure, Crow says. Builders FirstSource's revenues fell 70 percent, going from more than $2.3 billion in 2005 to $678 million in 2009. Reacting as fast as possible was a necessity, and the first step was centralizing operations.

The company had grown primarily through nearly 30 acquisitions that went all the way back to 1998, so going into the downturn, it was decentralized, with mini corporate offices up and down the East Coast. To reverse this, it established a single corporate headquarters in Dallas, closed a number of locations, and converted the remaining business units to one operating system. "We probably took $25 million of permanent costs out of the company by doing so," Crow says. "But, just as importantly, it gave us the daily insight into the company that allowed us to operate more efficiently and control ongoing costs."

3 OBTAIN LIQUIDITY

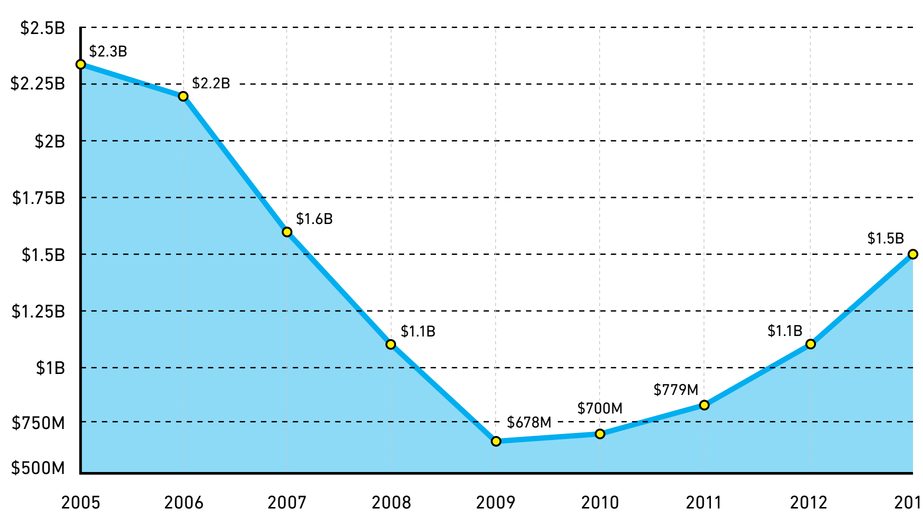
Builders FirstSource had significant liquidity constraints during the downturn because of the credit crunch. "Lenders weren't jumping to loan money into the homebuilding space during those dark times, so when we could find debt, it was pretty expensive," Crow says.

The company had a plan for this—have enough cash on hand to survive another 18–24 months—but it had to pay for it. "When one debt facility ran out, we'd go back to the well and find someone else, and usually it was a little more expensive, so our average cost of interest ended up being 12.5 percent," Crow says. "But, we survived and, in May of 2013, refinanced, so we now have ample liquidity at a much lower interest rate."

That's in sharp contrast to many of the company's competitors. "Some who didn't do this had to go through Chapter 11 to stay in business," Crow says, "and some didn't stay in business at all."

BUILDERS FIRSTSOURCE REVENUE

The company's revenues plummeted right along with the housing market in 2008, but it has since slowly made gains and hopes to even back out soon.



► Builders FirstSource went from 8,800 full-time-equivalent employees to just 2,500. Those who stayed took pay and benefits cuts and tackled workloads normally meant for two to three people.

4 REDUCE HEAD COUNT

"We had to cut employees who had been with the legacy companies we had acquired for 20 or 30 years, and it was gut-wrenching," Crow says. "But, we had to do what we had to do to survive, and it was better to save [some] jobs than see all of our employees lose their jobs."

In 2005, Builders FirstSource had approximately 8,800 full-time-equivalent employees, and that number went as low as 2,500 at one point. Two strategies were key to the cuts: First, the company winnowed field operations and corporate jobs equally, sending the message that "we were in the trenches together," Crow says. Second, it didn't cut the sales force. "The lifeblood of this company is our commission-based sales force, and we had to make sure we kept them in place, so we implemented a minimum-pay policy to allow them to keep food on the table." Also helpful was the company's relationship with payroll processor Ceridian, which, like many service providers, did what it could to help its client stay alive by tempering its fees during the downturn.

5 TRIM EMPLOYEE EXPENSES

The personnel who remained took a hit for the team as well. Builders FirstSource froze wages, eliminated bonuses, and cut benefits—some minor (such as the elimination of free beverages in break rooms across the company, which saved several hundred thousand dollars annually) and some significant (including an increase in the employee portion of medical premiums and lowered matching payments to 401(k) plans, which together saved several million dollars annually).

"Nothing is insignificant when you're looking for any dollar you can find," says Crow, who gives a lot of credit to the employees who stuck with the company through the hard times. "We can make all the decisions we want in corporate, but if the folks in the field aren't executing those decisions, they're meaningless, so I thank the folks in the field, who saw their coworkers lose their jobs and had to do the work of two or three people without raises and with their benefits cut."

6 TURN THE CHALLENGE INTO AN OPPORTUNITY

In 2011, though the company had negative cash flow and negative earnings before interest, taxes, depreciation, and amortization (EBITDA), it was seeing signs of a turnaround thanks to revenues of $779 million. In 2012 and 2013, it earned $1.1 billion and $1.5 billion in revenue, respectively, with positive EBITDA in both years.

It also gained significant market share, which is measured by calculating how much revenue the company generates per US single-family-home start. During the last housing peak, from 2005 to 2006, Builders FirstSource was at $1,250; today it's at $2,500. "That tells me we can generate financial results similar to what we did at the last peak if single-family starts are 900,000 per year, whereas at the last peak it took 1.7 million," Crow says. "For the past six years, starts have been 400,000–600,000, well below the historical average of 1.1 million, but they're improving." ■

BUILDERS FIRSTSOURCE MARKET SHARE

Market share is measured by dividing the company's revenue by US single-family-housing starts