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The High Cost of Buying Low

An Initial Low Cost Strategy Can Be A Costly Decision

Time and again, businesses decide to purchase carpet directly from a manufacturer. Their reasoning is simple. Buying a commodity product direct will save middleman expenses. More often than not, these companies find out the hard way, that carpet is not a commodity, and that buying direct does not save money in the long run. In many cases, it doesn't even save money in the short run! Buying direct paves the way for "nobody wins" scenarios that drive installation complaints and claims up. Good flooring contractors, such as Starnet members, provide more than just quality installation services. They are valuable resources whose expertise in product selection, site issues and project management assure a successful project.

In this issue of Starlog, we share a few *real-life* experiences with companies who made the decision to purchase carpet direct. The outcome in actual costs, facilities management time and installation quality fell far short of expectations. Is there a professional way of saying, "We told you so?"



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Stick To What You're Good At.

A retail store chain with over 100 stores in the Southeast decided that purchasing carpet direct from a carpet manufacturer would be cost-effective. They assumed that the carpet manufacturer located in their neck of the woods would offer them the best selection, best prices, low freight charges due to close proximity, and neighborly service. The retailer also assumed that good, regional installers would work with them to install the carpet. After two years of self-managing their carpet purchases and installations, this retail chain decided to stick with what they know best, and leave the carpet business to the professionals. Even the mill involved with this customer said it was time to work through a reputable flooring contractor.

Actual material costs were nearly 20% more than if a Starnet professional had handled the process. Time spent by store managers and downtime due to store closings was worth about another 10% to 15% in lost services and revenue.

Here's Why:

- The store paid approximately 17% more for carpet than if it had been purchased through a Starnet member, because of the Starnet member's buying clout.

- Receiving the carpet directly at the job site was a nightmare due to: lack of storage space, not knowing how to move and safely store the materials, untrained personnel and added labor hours.
- The carpet choice was limited to what was available from the one carpet manufacturer selected to supply material for all the stores. Within that selection, store management didn't have the expertise on selecting fiber, color or carpet construction to make the best product decision.
- Store management spent more time than they imagined was necessary handling the intricate details of a proper carpet installation.
- "Marginal" installers provided substandard quality work. As a result, the carpets reflected poorly on the stores' image. The local Starnet member has since replaced many of these installations, some only a year old.
- Issues with subfloor preparation and installation procedures interrupted the stores' retail operations and thus their revenue flow.

The local Starnet flooring member was contracted to take over the entire carpet process for this retailer. The retail store chain gladly relinquished responsibility for: carpet selection, buying, dye lot record keeping, shipping and storage, scheduling, supplier payments and claims, stock allotments, and total process problem solving. The store can now focus on what they do best; merchandising and sales.

Don't Bank On Self-Management.

Recently, a major Midwest regional bank decided to purchase carpet direct for its new office tower. The decision wasn't driven purely by costs. It was equally about management style, project control, and the assumption that the carpet purchase through installation process couldn't possibly be all that complicated. The general contractor tried to talk the bank out of this decision, but to no avail. The carpet mill, who had an excellent relationship with the regional Starnet member, also tried to persuade the bank against self-managing this project, but their hands were tied.

This project ultimately cost the bank approximately 25% to 30% more because they didn't recognize the value that a professional flooring contractor brings to the process.

Here's Why:

- The bank asked the carpet manufacturer to guarantee the installed carpet. The mill was uncomfortable doing this without knowing who would provide the labor. So, the mill

overestimated material yardage by 20% to account for on-the-job errors.

- The bank, not knowing how to conduct take-offs, overestimated its carpet needs by an additional 20%.
- A Starnet contractor was ultimately selected to provide the labor, due to their reputation for excellent installations. Their costs were based on the bank's over-estimated take-off. Plus, the labor-only cost was higher per square yard, than if this project had been awarded as a comprehensive, single source job.
- The bank was left with no choice but to pay to store and warehouse carpet that was never used.

This decision was a bad "investment" for the bank, as they now need to determine if they should continue to store the excess carpeting for renovations, sell it, or pay to have it hauled away. A Starnet member could have provided excellent advice and protected the banks assets, had they been recognized as a valuable resource to the project and not just as an installation provider.



Carpet Is Not A Commodity.

One of the world's largest computer chip manufacturers decided that carpeting was a commodity that could be purchased at the lowest cost. They issued a Request for Proposal for one supplier to provide, at one time and in one major purchase, all of the company's carpet materials. The goal was to standardize materials globally and get the best installation services locally. The RFP made sense, in theory. After all, this high-tech company employed bright people who were on the cutting edge of purchasing methods and models. But, when construction began on the company's new four story building, the flooring problems mounted faster than could have been imagined.

The company eventually learned that the lowest initial purchase cost had the worst long-term ramifications.

Here's Why:

- The carpet manufacturer that was awarded the order also proposed their services to obtain labor as part of the package. When the carpet manufacturer "shopped" contractors to see who could install the carpets at the lowest labor cost, the reputable installers could not make a profit and declined the opportunity.
- The computer company did its own materials take-off. Too little carpet was ordered, which created a job site shortage crisis.
- The company hadn't thought about where to store the carpet prior to installation, how



to unload it, where to unload it, and how to move it from one floor to another. They assumed this was included with the installation-only labor cost.

- Each floor had installation issues created by different work crews that were transported in at different times during construction.
- The material wasn't ordered in time to stay on schedule with the rest of the project. In fact, much of the carpet was still being installed at the same time the office furniture systems arrived.
- The carpet wasn't of consistent quality, which was only discovered after installation. The company was unprepared for, and clueless about, handling the materials and labor claims process.

The local Starnet member was eventually called in to correct the problems.

Ironically, this contractor, who also owns a major furniture dealership, saw what was occurring on the floor while he was delivering office equipment. Luckily, he was able to convince the computer company to reboot their flooring installation process even more costs and downtime were incurred.

Our Thoughts On Lowest Price And Reverse Auctions

A national insurance company thought that buying carpet through a reverse auction would save them money. They eventually spent more time (and time is money!) on every aspect of the installation than if they initially went to a qualified contractor. Reverse auctions are a relatively new phenomena in the floorcovering industry. It is a procurement procedure where a volume buyer (such as a retail store chain or government agency) posts specifications and invites vendors to bid against each other, driving the price ever downward. The case studies in this issue of Starlog are evidence that lowest price and reverse auctions are not the way to purchase carpeting. Lowest price and reverse auctions work best with true commodities or generic goods, such as desks, lamps or pencils. Flooring requires skilled installation and maintenance service programs for best appearance and longest life-cycle



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