

SMOOTH SAILING?

THE GLASS INDUSTRY SEEKS
WAYS TO WEATHER RISING
COSTS IN A SOFT ECONOMY

BY ALAN B. GOLDBERG

It's hard to escape the effect of rising prices in an economy that has been jolted by a depressed housing market, particularly when foreclosures and bankruptcies appear to be on the rise, the price at the pump is moving in the same direction, credit is tightening and employers are reducing their labor costs by eliminating jobs. While varied across the country, U.S. glass companies seem poised for a slowdown, duly warned by the state of the residential construction market and the indicators noted above—but for now, these same companies are continuing to enjoy a state of success.

If project bookings are any indicator of the state of an industry, what is happening at CBO Glass in Alden, N.Y., is a very good omen.

"We're so busy, we're booked to 2009 and we're discussing projects for 2010," says John Ryan, project manager.

He describes an industry that is maturing and dealing with some significant issues.

"The advent of mold prevention adds another level of sophistication. Couple that with many new products and an emphasis on energy savings, and you're looking at a healthy industry, in spite of a soft economy," Ryan says.

Technology is one of those "sophisticated" factors. For Phil Desislet, estimator/project manager of D&A Glass in Meridian, Idaho, technology is the factor that is keeping business growing, in spite of rising prices in fuel and aluminum.

"We're seeing a lot of growth, but technology (in software, machinery

FLAT GLASS PRODUCER PRICE INDEX
(Unadjusted Index)



Source: Bureau of Labor Statistics

The producer price index (PPI) measures the average change over time in the prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller.

and materials) is changing at such a fast rate, it is more than compensating for the effect of rising prices,” Desislet says.

Price increases have had some effect on business, according to Kelly Townsend, national sales director of Columbia Building Products in Rockwall, Texas. However, customers are still telling Townsend that, for now, they are still very busy and hiring.

Pittco Architectural Metals of Elk Grove, Ill., also is doing well, according to its president, Al Shapiro. He points out that there is much to be said for focusing on the core business.

“People who stay with what they do best know how to add value to their products. They know how to control their costs by operating efficiently and they recognize that everything revolves around meeting their customers’ needs, all of which gets them through difficult times,” he says.

Ron Stronks, president of Erie Architectural Products in Blenheim, Ontario, describes his situation as “surprisingly resilient.” He says, given the nature of his company’s niche business, it has been able to maintain a healthy backlog of work.

Diversification is what gives Dependable Glass of Covington, La., a different view of the industry.

“In New Orleans, following the destruction of Katrina, we’re trying to get businesses rebuilt,” says Norman Foxworth, president and founder.

In the local market, he says the company’s commercial business is doing well as more businesses move into the

area. On a national level, he says the company is in a strong position. He attributes this growth, particularly during difficult times, to the company’s array of specialty products—beveled glass, laminated glass and combinations of the two.

According to Lyndon Regular, sales manager of Fulton Windows in Mississauga, Ontario, the credit crunch in the United States necessitates being broad-based.

“Companies that are broad-based will weather the storm. Those that are

not could pay a very high price,” he says.

For example, companies that are doing nothing but storefronts are taking a big hit, Regular says. He believes there are lots of opportunities for growth even though there is a large housing and commercial inventory. “We just have to be a lot smarter.”

ON THE LOOKOUT FOR FALLS

Jack Hoey, president of Coastal Glass Distributors in Charleston, S.C., sees it a little differently. He points out that while the commercial construction in his re-

SMOOTH SAILING? CONTINUED

gion has remained strong and is at a fairly good level, it has not been growing over the past few quarters.

“Business is definitely weaker than we would like to see it,” says Hoey, although he attributes much of this to the company’s residential construction business.

He says the commercial expansion has lasted longer than the usual 10 to

12 quarters, partly because the 2000 to 2004 downturn was long and deep.

Max Perilstein, vice president of sales and marketing for Arch Aluminum in Tamarac, Fla., refers to the commercial side of the business as being in solid shape, “but you can see the cracks in the walls.”

Although business for McGrory Glass of Aston, Pa., is doing fine, chief execu-

tive officer John McGrory says glaziers and secondary dealers have changed the way they purchase.

“Today, they are buying what they need for today and tomorrow. They are not stocking their inventory. Business is not what it used to be.”

Wrisco Industries in Atlanta is experiencing the same trend.

“Companies are only buying what is

VALUE OF CONSTRUCTION PUT IN PLACE IN THE UNITED STATES

Seasonally Adjusted Annual Rate (Millions of dollars. Details may not add to totals due to rounding.)

Type of Construction	April 2008	March 2008	February 2008	January 2008	December 2007	April 2007	Percent change April 2008 from:	
							March 2008	April 2007
Total Construction	1,120,885	1,125,773	1,132,312	1,132,368	1,136,603	1,166,171	-0.4	-3.9
Residential	442,568	452,289	466,430	472,686	477,076	558,467	-2.1	-20.8
Nonresidential	678,317	673,484	665,883	659,681	659,527	607,704	0.7	11.6
Lodging	38,458	36,140	34,472	32,780	32,690	27,124	6.4	41.8
Office	72,142	71,975	70,362	69,545	67,851	61,823	0.2	16.7
Commercial	85,532	83,996	85,708	84,329	83,547	85,678	1.8	-0.2
Healthcare	47,406	46,963	46,400	45,422	45,438	44,325	0.9	7.0
Educational	103,118	103,234	102,407	102,500	102,823	94,355	-0.1	9.3
Religious	7,046	6,886	6,939	6,974	7,010	7,614	2.3	-7.5
Public safety	11,795	11,722	11,312	11,227	10,872	9,261	0.6	27.4
Amusement and recreation	21,557	21,948	21,535	21,564	21,649	19,473	-1.8	10.7
Transportation	34,252	33,857	33,352	33,314	32,773	28,338	1.2	20.9
Communication	27,393	29,124	27,170	27,460	28,998	24,507	-5.9	11.8
Power	57,542	56,826	56,170	55,876	57,245	46,991	1.3	22.5
Highway and street	80,304	80,302	79,494	78,219	78,294	76,685	0.0	4.7
Sewage and waste disposal	25,251	25,417	25,056	25,205	25,153	23,802	-0.7	6.1
Water supply	14,845	14,860	14,806	13,992	13,791	16,006	-0.1	-7.3
Conservation and development	5,490	5,704	5,482	5,641	5,921	4,974	-3.8	10.4
Manufacturing	46,186	44,532	45,219	45,634	45,472	36,748	3.7	25.7

Source: U.S. Census Bureau

needed per job,” says Robert Todd, division manager. “With rising metal costs and market volatility, they are not willing to buy or carry a lot of stock.”

Todd says customers are relying on distributors for quick delivery and just-in-time stocking programs. “They are using us as their warehouse, making service a critical aspect.”

Tom Niepokoj, vice president of

sales for Harmon Inc. in Eden Prairie, Minn., describes the state of the commercial glass industry in one word: competitive.

“Competition is heating up in certain markets where extensive high-rise residential construction has kept a lot of people busy,” he says.

Leed Himmel in Hamden, Conn., faces a soft commercial architectural

market where overall volume is low enough to create a very competitive situation, according to John Durand Jr., director of marketing. Yet, in spite of this, the company has done very well.

“We’re coming off of a record year. Much of our growth has been due to our ability to market to industrial aluminum markets and commercial architectural,” he says.

CHANGES IN PPIs FOR SPECIFIC CONSTRUCTION INPUTS

	12 Months through December:						To October 2007 Since:			
	2001	2002	2003	2004	2005	2006	9/07	7/07	10/06	12/03
Steel mill products	-6.1	11.1	1.7	48.8	-3.8	11.6	-1.8	-5.6	4.5	56.4
Hot-rolled bars, plates, & structural shapes	-4.3	2.1	11.3	53.8	-1.0	7.5	-0.6	-4.1	4.3	76.5
Steel pipe and tube	-3.7	9.1	3.3	66.0	1.2	5.5	0.2	0.2	-3.0	74.3
Copper and brass mill shapes	-9.5	-1.6	11.6	29.6	31.0	44.4	0.5	-4.6	2.2	159.0
Aluminum mill shapes	-2.9	-0.9	-0.5	9.9	5.0	12.7	-1.6	-3.9	-0.2	27.1
Fabricated structural metal	-1.3	-2.4	0.1	24.7	2.8	3.6	0.4	0.3	3.9	39.7
Fabricated structural metal for buildings	-1.5	-3.3	-0.1	20.0	3.1	3.3	0.1	0.2	4.8	33.0
Architectural and ornamental metalwork	-0.1	3.7	0.7	23.5	3.1	4.9	-1.2	0.8	4.1	36.1
Fabricated iron & steel pipe, tube, & fittings	0.6	0.1	1.2	32.6	5.5	-2.8	-0.2	0.5	-6.8	36.0
Fabricated steel plate	0.6	-1.0	0.6	7.6	0.6	8.6	-0.7	-0.1	2.3	20.3

Source: Associated General Contractors of America

CHANGES IN PPIs FOR BASIC INPUTS IMPORTANT TO CONSTRUCTION

	12 Months through December:						To October 2007 Since:			
	2001	2002	2003	2004	2005	2006	9/07	7/07	10/06	12/03
Iron ore	1.5	-1.3	1.6	6.7	15.5	7.5	-0.1	-0.1	-2.3	34.2
Iron and steel scrap	-5.6	27.8	64.9	50.8	-10.8	2.9	1.4	9.5	29.8	78.4
Copper ores	-19.6	3.6	37.4	65.1	39.3	53.1	n.a.	6.9	13.8	319.3
Copper base scrap	-17.4	11.2	30.7	34.5	51.9	50.0	4.8	-0.4	11.4	243.8

Source: Associated General Contractors of America

RAPIDS AHEAD OR MORE CLEAR SAILING?

While many glass companies seem expectant of a nonresidential construction slowdown, predictions for the year ahead remain largely optimistic.

"We're on plan for this fiscal year and we're just beginning to see projects for two years out and things look pretty good," Niepokoj says.

Durand expects 2008 to be a very soft year with some growth in 2009. Added to customers' less than optimistic outlook are competitive pressures and significant increases in energy and raw material costs. He says the equation for growth is diversification, particularly in new product capabilities.

Companies offering products that promote energy efficiency are in a good spot.

For Columbia Commercial Building Products, business looks good through the first quarter of 2009 and customers are reporting that they are seeing and bidding work for the second quarter of 2009, Townsend says.

For D&A Glass, a key factor in the future of its business is its location in Idaho.

"We see a lot of development out here, including new businesses, and all of that will impact us. We're projecting a number of good years ahead," says Desiset.

Projections for Fulton could be described as steady, says Regular.

"We deal with situations as they come about and adjust accordingly. We're not trying to be all things to all people. We're very targeted toward high-return opportunities."

He predicts that the industry will return to "normal" within the next 18 to 24 months.

Perilstein says 2008 and parts of 2009 should be good, "but the worry really begins after that. If the credit crunch continues, it could trend downward," he says.

Strongs looks ahead with cautious optimism. He estimates it will be a year before residential and light con-

struction stabilizes, but he sees moderate growth in projects where infrastructure spending is occurring.

Hoey says the company achieved modest year-over-year sales growth in 2007 and he hopes to do that in 2008. As for 2009, that is a complete unknown.

"I don't know anyone, regionally or at the national level, who can forecast with confidence what the business level will be like a year from now," he says.

Even though there are reasons to be optimistic, he says skyrocketing energy prices present a huge risk to the economy.

STEERING TO AVOID THE ROCKS IN THE RIVER

According to Durand, the ability to stay financially healthy makes it possible to invest in technology, a mandate in today's manufacturing world. The key to growth is value and that means service and quality are paramount.

Todd sees three challenges ahead: inflation in commodities which, he points out, is hurting the economy; the uncertainty created by the financial status of the banking industry; and foreign competition, which remains a viable threat to U.S. distributors and manufacturers.

Hoey says the normal problems associated with an economic downturn—slumping volume, slower payments from many customers—are combined, this time around, with exceptional inflation pressures.

To Townsend, it's rising raw material costs that remain a reason for worry.

"Besides the rising cost of fuel, the cost of aluminum is going through the roof but hopefully it will level out soon or even pull back some from its current prices," he says. "We have to monitor our quotes carefully and consider escalating (costs) once quotes expire."

Desiset agrees. "Rising prices are a real challenge. Freight costs have doubled. We've seen large increases in aluminum as well."

For Ryan, it's recruitment and training of talent to support the company's growth. "We are always searching for talented and experienced people," he says.

Maintaining a certain level of profitability and controlling costs, mostly in labor, remains a concern for Foxworth. Another challenge, he says, is not letting technology overshadow "the level of service our customers have come to expect. Electronics can never replace face-to-face contact and personal contacts are not only invaluable, they are the foundation of customer loyalty," he says.

There's another cost concern that Perilstein point out: healthcare.

"Costs on healthcare are always a major challenge, but, like everyone else, the everyday costs on gas—for fleets and sales cars—are going faster than you could ever budget," he says.

On globalization, Perilstein says the importing of low-quality but low-cost material from places like China will always be an issue "as it negatively affects our industry more than people realize." On code changes and certification agencies, he says they will add un-needed and unnecessary costs to the bottom line and "things like that are never good in a tighter economy."

"Trying to predict our input costs as the U.S. dollar continues its slide, pushing commodity pricing even higher," says Stronks.

They may have different views of the industry, projections that reflect the state of their businesses and challenges that may be difficult, but what they share in common is their ability to weather rising costs in a soft economy. ■

the author



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