# Bring Back Risk Management in Your Go-to-Market Strategy

Carl Cullotta

A series of ongoing market anomalies changed the housing market over the last two years. Government spending and stimulus boosted—then accelerated—consumer spending. Lockdowns and remote work directed a disproportionate amount of that consumer spending to the home. Unprecedented demand for new residential construction and home improvements was the result. Ripple effects from these irregularities will continue in the home improvement industry for several more years.

If you are a building products supplier, the game changed. "Growth at all costs" became the predominant strategy. Manufacturers started chasing revenue to capture escalating demand. Along the way foundational elements of their go-to-market strategy shifted. Product availability took precedence over traditional customer and channel relationships. Significant (and repeated) price increases for most building materials were introduced, making it difficult for customers and channels to manage profitability of their projects. It was a seller's market for sure.

The last several months clearly point to different market conditions. All indicators point to a broader recession accompanied by a slowdown in both new residential construction and home improvement spending.

| Market "facts" have changed | |
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| Home Contracts | A July survey by John Burns indicated that builders have seen contract cancellations increase by over 100% in the last year. They now represent over 14% of contracts, and close to one-fourth in the production-centric markets. (TX, AZ, etc.) |
| Mortgage Rates | 30-year fixed mortgage rates briefly touched 6% this summer, up from under 3%. Many observers expect rates over 6% by year end, a doubling in just one year. Research by the Federal Reserve has demonstrated that a 1% rise in mortgage rates is associated with a sustained 5-10% decline in housing starts. |
| Construction Cycle | The gap between building permits and starts reached a 7-year high in 2021. Additionally, the single-family home construction cycle (from permit to completion) is at levels not seen since 2006. |
| Remodel Activity | The NAHB Q2 2022 remodeling index declined by ten points. We believe this reflects the accelerated spending in 2020 and 2021 that will dampen demand over the next 3 years. |
| Countervailing Factors | There are factors that are likely to soften the downturn or provide a floor. A recent research brief from Fannie Mae put the US housing unit shortage at 3.8M units, assuring a base level of demand for the foreseeable future. And, as reported by the US Dept of Commerce in July, household wealth remains near all time highs, as does consumer spending. |

# Purposefully Managing Risk Within GTM Strategy

The impact of these new market "facts" is a projected decline in housing starts for 2022 through 2024 of 10-20% from 2021 levels. Concurrently, we project remodel spending to decline by 3-5%, with spending on consumer "discretionary" remodel declining by >10% annually. And while this softening is occurring, the industry is still faced with lingering supply chain issues, increasing costs, and labor challenges. Clearly, it is time for go-to-market strategies to pivot to risk management.

Risk is likely to impact both the top and bottom lines of your business. Likely your company's order book is softer than it has been in years, as contract cancellations and construction slowdowns work their way up the supply chain. It is common in market slowdowns to see new and/or broader competition emerging—as suppliers move into adjacent product categories and/or market segments to retain topline volume. And the shift from a seller's market to buyer's market will result in economic concessions (i.e., pricing, terms, rebates, etc.) that most suppliers haven't had to make in several years.

We believe that suppliers who will win going forward will have taken a decisive, but measured, response to risk management. A surgical approach is warranted to direct focus to those segments, channels, and geographies that are likely to present the greatest (and most controllable) risk/reward tradeoff. We urge you to take a fresh look at several foundational components of your go to market strategy.

LOCAL MARKETS. As any seasoned supplier knows, geography plays a more important role in construction than in most industries. Differences across markets are only likely to increase with an industry slowdown—meaning that opportunities (and risks) could be dramatically different across local markets. Is it time to evaluate how you identify and resource high opportunity and high risk markets? Do you have a consistent template that captures key market characteristics? And is this tool actively used in prioritizing and resourcing markets?

DEALER/DISTRIBUTOR MANAGEMENT. In every market, a significant portion (often the majority) of your channel partners' sales is discretionary. In other words, the channel has the power to determine what brand is sold. Many manufacturers have moved away from channel incentives and relationship management activities designed to capture discretionary business. Is it time to review your value proposition to your channel partners? What simple changes are most likely to motivate channel loyalty and advocacy for your brand?

CUSTOMER "ROI" ASSESSMENT. In a buyer's market, your customers (builders, large contractors, developers, etc.) are likely to demand economic concessions. Historically, this meant price guarantees, end-of-year rebates, favorable terms, and a host of sales/marketing/logistics concessions. Before deciding what deal to agree to, and with which customers, is it time for you to reassess the way you calculate ROI? What defines a profitable customer? In return for the economic concessions you are willing to make, what value do you require from the customer to assure that business remains profitable for you? And what controls do you have in place to make sure that this assessment is consistent and objective across customers?

There is little doubt that the foundational factors that will define market demand for the foreseeable future have changed. The sooner a manufacturer's go-to-market strategies & tactics reflect these new "facts," the more likely those strategies will mitigate risk and minimize damage. In a "zero sum" market share game, we believe these risk management strategies will be the difference between market winners and losers over the next decade.

We have helped clients navigate market downturns through several business cycles over the last 30 years. If you want to enjoy the first mover advantage in addressing these new market facts, we encourage you to start now.

We would be happy to discuss your situation and our experience. We look forward to talking with you soon. Please contact Carl Cullotta at 224-239-2525 or cpc@lynncullotta.com.