**2021 Case Study**

# Volatile Market, Outsized Cost-of-Goods Savings

Periodically BuyMetrics measures the effect shopping via our service has on the Cost-of-Goods (CoG lumber) of large clients using our technology. Here we compare the results of a year-long 2021 study with earlier studies covering the 2006 boom cycle and the 2009 bust cycle. While BuyMetrics quantitatively demonstrated Cost-of-Goods savings in both the boom and bust cycles, the current study documents: (1) how different 2021 was from prior cycles; (2) the value of shopping, extending market reach to secondary suppliers; and (3) BuyMetrics ability to identify and capture outsized CoG savings in volatile, fast moving markets.

## Study Design: Measuring BuyMetrics Effect

The study is designed to measure the spread (value of the difference) between each purchase order (PO price) and the *next best offer* received for the load. To facilitate meaningful comparison, the value of the difference is expressed as a percent of purchase price. The same methodology was used in all three studies.

The methodology:

- Measure spot-market purchases solid sawn dimensional lumber (buyer initiated RFQs, exclude pre-negotiated program/contract purchases).
- For each PO awarded, calculate the dollar savings between the actual purchase and the next best offer (per RFQ), answering the question: ***How much more would I have spent if I didn't see this offer*?**
- Segment each buyer's suppliers into three groups.
    1. Low Share suppliers: Those suppliers that get less than 3% of a given buyer's purchase orders (1 out of 33).
    2. Low Win Rate suppliers: Those suppliers that get more than 3% of a given buyer's POs, but who win the action less than 8.3% of the time that they quote (1 out of 12)
    3. Primary suppliers: Those suppliers that get more than 3% of a buyer's purchases and win more than 8.3% of the time.
- Premise: Low Share and Low Win Rate suppliers are least likely to be consistently solicited via traditional methods, particularly when markets are hot… precisely the time most board footage is purchased.

## Findings: Summary of Results

**Spread:** In the boom and bust cycles the average spread between an awarded purchase order (PO) and *next best offer* was 1.9-2.2%, larger than most participants anticipated. In 2021, the already large spread **doubled** to 4.06%.

**Reach:** In 2009 buyers shopped on average 7.5 vendors per PO awarded. In 2021's volatile, supply constrained, lumber market buyers shopped on average 20.6 vendors per PO awarded, **tripling (3X)** vendor contact as they reached to cover urgent need for product. Expanding reach, particularly in volatile markets, improves the odds of: (1) successfully sourcing supply-constrained material, *and* (2) purchasing from vendor with lowest cost/best value. With BuyMetrics parallel workflow, the additional time/cost to consistently shop more primary and secondary vendors is near zero.

**Low Win/Low Share Suppliers:** In all three studies, the percent of purchase orders (POs) awarded to low win/low share suppliers remained relatively constant at about one-third of client purchases (29 – 36%). Without benefit of BuyMetrics service, at least the one-third of purchases (POs) awarded to *low win/low share suppliers* would have been at high risk of being awarded to a higher-priced vendor. In fast-moving, volatile markets, deals need to get done before they vanish. The market won't wait for buyers (using traditional methods) to reach out to vendors that get less than 1 out of 33 of their POs or have to be called 12 times to win one PO. Reach is sacrificed for speed.

**Lost Opportunity Cost, CoG Savings:** In each study, if the purchases orders awarded to *low win/low share suppliers* had instead been awarded to the *next best offer*, the CoG (lumber) would have INCREASED by **74** basis points in 2006, **67** basis points in 2009, and a whopping **390** basis points in 2021, a **5X** increase from prior studies.

*In 2021, for every $10 million in lumber purchased,*
*CoG savings from* <u>*secondary suppliers*</u> *provided* **+ $390,000** *on the bottom line.*

**Total CoG savings 2X Boom/Bust Cycles:** In the current market, consistently shopping *more primary and secondary vendors* (all shopped lumber) produced twice (**2X**) the overall CoG savings achieved in prior cycles, **4.06%** vs **1.9-2.2%**. (See All Savings Shopped Lumber/Lumber Purchases below.)

| | **Boom** | **Bust** | **2021** |
|---|---|---|---|
| **Total PO Count (in study)** | **5629** | **6553** | **11,100** |
| **Low Share (< 3% of buyer's purchases)** | | | |
| **Percent of total purchase** | **12.00%** | **20.00%** | **18.72%** |
| **Savings vs Next Best** | **2.20%** | **2.00%** | **2.09%** |
| **Low Win Rate (< 1 to 12 quote to win ratio)** | | | |
| **Percent of total purchase** | **22.00%** | **9.00%** | **17.31%** |
| **Savings vs Next Best** | **2.20%** | **2.00%** | **5.80%** |
| **Primary Suppliers** | | | |
| **Percent of total purchase** | **66.00%** | **71.00%** | **63.97%** |
| **Savings vs Next Best** | **2.20%** | **1.90%** | **4.17%** |
| **Savings vs Next Best** | | | |
| **All Savings Shopped Lumber / Total Purchases** | **2.20%** | **1.90%** | **4.06%** |
| **Low Share + Low Win Savings / Total Purchases** | **0.74%** | **0.67%** | **3.90%** |

## Conclusions

The current lumber cycle is **supply driven**; the boom and bust cycles were **demand driven**. Commodity traders across markets (e.g., wheat, oil) know it is changes in supply, not demand, that dictate most price movements. Even a small imbalance in supply produces outsized movement in price.

**It pays to shop**. Extending vendor reach <u>improves outcomes</u>. Volatile markets <u>reward</u> quick and accurate price discovery. Record high lumber prices <u>magnify the penalty</u> (cost) of each missed opportunity to save.

BuyMetrics was purpose built to reveal opportunity.

In 2021, BuyMetrics enabled its users to quickly and precisely work their strategies, to extend market reach, source scarce material, find opportunity within the volatility, to capture twice the CoG savings of prior cycles – **a competitive advantage**.

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