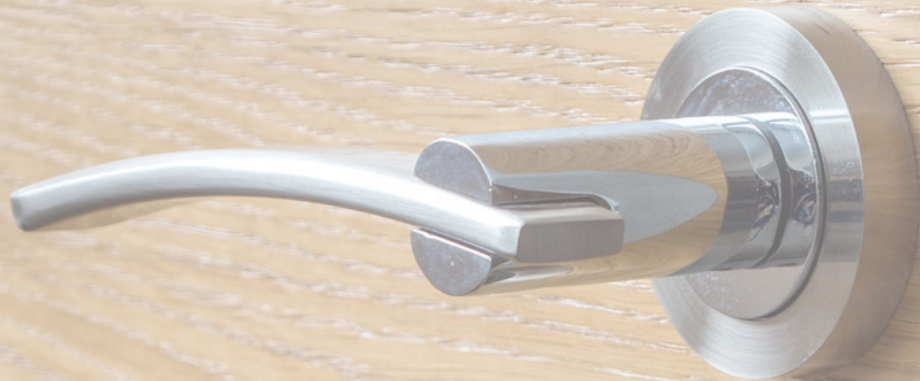

Industry Outlook 2022-2024

For Door, Frame & Hardware Distributors



Contents

1. Introduction

2. Methodology

3. Issues Impacting DFH Distributors

a. Supply Chain

b. Labor Shortage

c. Technology

4. Looking Ahead

5. Conclusion

Introduction

The past two years thrust many new challenges on businesses across America. COVID, civil unrest, remote working, supply chain disruption and more. This whitepaper examines those challenges and focuses specifically on the effects and opportunities for door, frame and hardware (DFH) distributors. In addition, this paper presents predictions on what the future may hold for the industry.

The research presented in this paper involves both academic recently published data as well as new primary research conducted by Software for Hardware gathered directly from DFH distributors.

The primary research included a series of industry roundtable live conversations conducted in February and March 2022. In addition, Software for Hardware deployed an online survey to DFH distributors nationwide in April 2022 to probe deeper into the themes revealed during the roundtable sessions.

The qualitative and quantitative information collected combine to suggest that supply chain disruption, and staffing shortages, represent the most impactful issues currently affecting door, frame and hardware distributors. While COVID certainly caused dramatic workplace shifts, most distributors report the disruption easing and implementing new technology helped reduce the impact.

While small businesses everywhere

certainly suffered in 2020 and 2021, recent evidence suggests that through skill and creativity, DFH distributors largely weathered the storm.

Simultaneously, others voiced a less optimistic outlook that the negative trends could remain in play for many years to come with a “return to normal” maybe never likely. In summary, the qualitative and quantitative data gathered more suggests a positive future outlook but tempered with continued challenges.



Through skill and creativity, DFH distributors largely weathered the storm.



Methodology

This study used both qualitative and quantitative research methods to identify the salient issues affecting door, frame and hardware distributors today. The qualitative methodology involved a series of “roundtable discussions” with members of the Software for Hardware Customer Council. Council membership includes door, frame and hardware distributors from all regions of the country and range in staff size from 10-50 employees and annual revenue from approximately \$5M to \$30M. These sessions were held online via video conferencing with a structured agenda and open conversation on a variety of topics.

The quantitative research involved an online survey fielded in April 2022 to a population of over 617 independent door, frame and hardware distributors via email invitation. The invitation expressed the opportunity to share their opinions about

the industry, no prizes, giveaways or other incentives were involved.

The quantitative research involved an online survey fielded in April 2022 to a population of over 617 independent door, frame and hardware distributors.

As such, a total of 40 distributors accepted the survey invitation with 31 completing the questionnaire. The survey participants were distributed fairly evenly across three staff size ranges: <10 employees (38.7%), 11-25 employees (29.0%) and 25+ employees (32.2%). In terms of geography, the distribution did skew with 45.2% of survey respondents headquartered in the southeast. West represented (22.6%), Midwest (19.3%) and East (12.9%) of the surveys.

Current Issues Impacting Door, Frame and Hardware Distributors

Through various methods of research and gathering data, a handful of themes and issues emerged as the major impacts to small businesses in general. Supply chain and inventory management arose as an issue for many businesses, regardless of size and regardless of industry.

Going hand and hand with supply and demand challenges, COVID impact ranked at the top of the list for causing major impacts across virtually every industry. Closely related to the pandemic, staffing grew into another challenge across nearly all industries. Many economic observers describe this recent period of time as a perfect storm of issues simultaneously impacting small businesses.

Door, frame and hardware distributors are enduring many of the same challenges as small businesses in general. The largest issue being supply chain disruption. The impact can best be understood via the direct words and stories of actual DFH distributors. Mitch Lazar, President of Rapid Door & Trim, located in Suffern, NY, shared that his business effectively maneuvered to avoid many supply chain issues but that came at a cost. Specifically, over-purchasing inventory whenever

available for fear of future shortages. This resulted in extra costs and required additional warehouse space. Lazar also describes delivery disruptions and severe delays in fulfilling purchase orders. Lazar shared, “We have some wood door manufacturers who are not taking orders for the balance of 2022. (stated on 2/21/22)”

Mike Knowles, President Tal-Kno, located in Morrow, GA, agreed, “We’ve seen shortages on specific products from time to time but not universal. The wood door industry is totally wrecked right now.”

"Anything that has a computer chip in it we are looking at 26-52 week lead times." - Mitch Lazar, Rapid Door & Trim

Lazar also shared that today openings require more safety, accessibility, and functionality related to electronic components. “There are some parts of the supply chain that are totally broken. Anything that has a computer chip in it we are looking at 26-52 week lead times.”

Matthew Martynski, Hidell Hardware Company, Dallas, TX, stated, “Supply chain issues lead to major delays on construction sites. With price increases, this requires suppliers to mass purchase projects and house materials longer than anticipated. 75% of our multi-family and large commercial projects have been delayed by three months or more. With the constant price increases, quoting and re-quoting, running jobs has become more challenging on all spectrums.”

"With the constant price increases, quoting and re-quoting, running jobs has become more challenging on all spectrums." - Matthew Martynski, Hidell Hardware

AGC conducted a survey about the 2022 Construction Outlook, with 471 respondents. This survey directly reflects much of the feedback heard in the Software for Hardware roundtable sessions. Survey respondents reported on their actions to manage the supply chain issues: 63% turned to alternative suppliers and 26% stockpiled products before winning contracts. Supply and demand affects just about anyone operating a business; many manufacturers have stopped taking orders for a whole year due to loss of material and labor. Cash flow issues arise when distributors

**"If we can't control these costs and stop it, there won't be any more investments made."
- Mark Dement, Stars & Stripes**

purchase more material than needed, creating an issue in terms of storing product and then having the right amount to sell. Besides the shortage and chaos of acquiring products, distributors are facing drastic price increases for materials. The AGC research indicated that price increases are causing projects delay or cancellation.

Mark Dement, President, Stars & Stripes, Houston TX, commented “ Linda Williams, President of Palmetto Metal Products, Columbia SC, shared similar concerns that supply chain disruption and frequent price increases have created turmoil in terms of securing bids and projects. “This is a big concern for not only our industry but everywhere. These issues cause delays in people making decisions about whether they want to move forward or not with their projects.”

The Software for Hardware online survey reported that a whopping 76.0% of distributors reported supply chain disruption as the greatest issue currently impacting their business. The remaining 24.0% all reported that staffing/hiring ranked as the top challenges impacting their business today.



COVID Impacting Door, Frame and Hardware Distributors

COVID served as the trigger for many of the major issues facing the industry. Certainly, COVID lockdowns and shutdowns of factories worldwide sparked the supply chain chaos. The pandemic forced many businesses to re-evaluate the way they run operations. In most cases this meant a shift to complete remote working or a hybrid work environment. Some businesses reduced staff or adjusted their work output.

“Global commodity supply chain and the vulnerability of ‘just-in-time’ inventories to this sort of supply shock.” - John Micklitsch, CIO Ancora

But, soon as many businesses reduced output, demand suddenly surged. John P. Micklitsch, Chief Investment Officer at Ancora states, “It’s largely due to a perfect storm of supply chain disruption from COVID, government spending to fill the economic void and a synchronized global recovery driven by vaccine rollout and economies re-opening.”

Micklitsch further explained that the pandemic was a catalyst that exposed years of underinvestment in the “global commodity supply chain and the vulnerability of ‘just-in-time’ inventories to this sort of supply shock.”

The Software for Hardware Roundtable revealed that COVID altered the way businesses now operate. The Software for Hardware Roundtable revealed that COVID altered the way businesses now operate. “COVID has changed the way we do business. We have half the number of people working in the office. Remote work has become the new norm and we see it as a benefit to some of our employees. We don’t believe remote working is a negative in terms of our productivity, but it’s still an ongoing experiment,” said Lazar from Rapid Door.

With virtually no notice, companies needed to shift to working remotely and then shift back to an in-office environment. Some companies that previously implemented technology to support remote working were prepared and agile. Most door, frame and hardware distributors ultimately managed the shift to remote working pretty well.

Survey respondents agreed that COVID no longer ranks as the most important challenge impacting their business. In fact, 0% of the distributors within the survey selected COVID as their current number 1 challenge. 12.0% did however rank COVID as the second biggest threat to their business.



Labor Shortage Impacting Door, Frame and Hardware Distributors

To throw a cherry on the top of a perfect storm of business challenges, employers nationwide and across all industries are facing staffing and hiring issues. The AGC survey found that 90.0% of businesses in the construction industry report difficulty in hiring for some or all: salary and hourly positions. To further this issue, 55.0% of respondents reported they believe hiring will continue to be challenging for the next 12 months and 21.0% believe it will get significantly worse going forward.

Along with the trouble for finding people to work, many door, frame, and hardware professionals further stress the difficulty of finding new hires with industry knowledge or experience. The decades-long decline of young people entering the trades, versus choosing college, has left the industry with a shortage of young workers to replace retirees.

Williams from Palmetto shared this opinion, “The knowledgeable skilled individuals for our industry are aging out, they are retiring, and now creating a huge burden on our team. COVID and supply chain disruption now amplify the stress on the remaining staff facing a labor

shortage.” Dement added that in addition to little industry knowledge, available candidates often don’t measure up to the work attitude of prior generations. “I am looking to hire, not just fill a seat. I have seen a drop in work ethic over the years.”

The labor shortage extends beyond the distributors but to manufacturers as well. Williams observed, “Trying to source raw materials is a challenge, even if manufacturers can get their hands on the appropriate materials, they often lack the manpower to manufacture.”

Knowles seconded Williams’ perspective, “Not only are they lacking in raw door components, they are lacking in human resources. It takes about 6-8 months to train a detailer, if not longer and the turn-over rate is extremely high.”



Technology Helping Door, Frame and Hardware Distributors

Through the woes of the supply chain, labor shortages, and a pandemic - technology has been a monumental resource for businesses large and small. According to Salesforce, 66% of expanding businesses reported they wouldn’t have made it through the pandemic without using technology.

Production Machining stated that those within manufacturing and distribution have dealt with a lack of skilled labor for a decade, if not longer, “ While it is not ideal, manufacturers have been able to cope with this lack of labor through increased automation, and will likely continue with the labor shortage in the same way.”

Technology can also help to generate leads or find potential new employees by utilizing social media and other digital channels. Mark Dement said, “I have team members that use social media and it works. You would be surprised how many amazing clients we have landed via social media outreach.” Today, with a workforce dominated by tech savvy millennials, the success rate of implementing new software literally skyrockets. Younger staff members not only quickly adopt and learn new software but they expect their employer to provide technology tools.

Forbes referenced a study from Incfile that found 45% of small businesses reported they are preparing to implement more digital technology and 28% reported that they have already begun. New employees may not necessarily be the ones who are pushing back on the technology. In most cases older generations do not adapt to technology as quickly, whereas younger generations are naturally inclined to want the resources technology brings.

Outside of productivity technology, many businesses remain unprepared in terms of data security and cyber protection technology.

Today, virtually every business possesses sensitive information and data about your employees, financials, and customers. This data requires proper cyber security protection. The cost of not implementing data security software can be, no exaggeration, bankruptcy.

You would be surprised how many amazing clients we have landed via social media outreach.” - Mark Dement, Stars & Stripes

Savvy DFH distributors have leveraged new technology to lessen the impact of labor shortages and even the supply chain disruption. As supply chain and labor shortage issues will most certainly continue for some time to come, those savvy distributors will continue to adopt new technology solutions to regain some control over these outside challenges.

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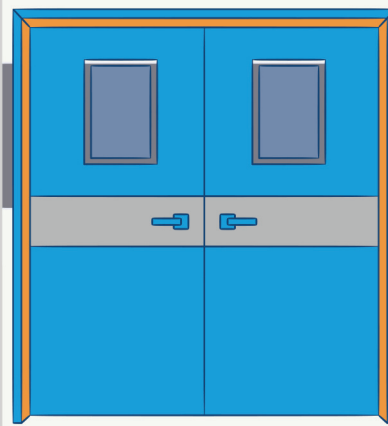
Looking Ahead

Looking forward, distributors paint a mixed outlook for the next two years. On the optimistic side, distributors agree with continued economic growth predictions in the construction industry. The most recent 2022 Dodge Report, as well as the AGC survey, indicate industry growth in revenue and project starts of approximately 6.0%.

While the pandemic undoubtedly affected the US workforce, remote work will continue and hybrid workplaces may become the norm. Nicholas Bloom, Economics professor at Stanford said “The idea of a full-return is dead”. This change in expectation for the US workforce worries distributors who already recognize a current industry staffing shorting.

“We as an industry need to create programs to encourage young people to see that our industry can become their career path.” - Linda Williams, Palmetto Metal Products

Williams commented on the future. “I think that if COVID didn’t happen, labor shortage would still be our biggest issue. Younger generations are not going into the trades like they used to. Everybody goes to college now. The knowledgeable skilled individuals for our industry are aging out, they are retiring. We as an industry need to create programs to encourage young people to see that our industry can become their career path”.



Outlook for Door, Frame and Hardware Distributors



Supply Chain



Hiring / Staffing



COVID

SMALL BUSINESSES

COVID and supply supply chain issues affected small businesses in virtually every industry across the nation. DFH businesses are suffering deeper hiring and staffing issues than many industries.

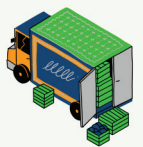


76.0% reported supply chain as the greatest impact.

SUPPLY CHAIN

Disruptions in the supply chain have had the greatest impact on the DFH industry.

- Extensive Lead Times
- Price Increases
- Order Delays & Cancellations



HIRING/STAFFING

55.0% of survey respondents reported they believe hiring will continue to be challenging and 21.0% believe it will get worse.

“The knowledgeable skilled individuals for our industry are aging out.”

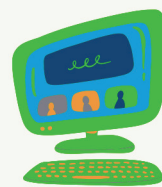
- President, Linda Williams, Palmetto Metal Products



COVID

The pandemic ignited supply and demand issues, and numerous aspects relating to hiring.

Vast majority of DFH distributors believe COVID will get better.



TECHNOLOGY

Through a pandemic, supply and demand issues, staffing problems; there are technological services and systems that can admit aid.

“Without a doubt, we’ll spend more on technology in the future to help us manage changes and grow profitability,” SFH Customer Council.

WHAT'S NEXT?

Among the SFH distributor survey respondents ...

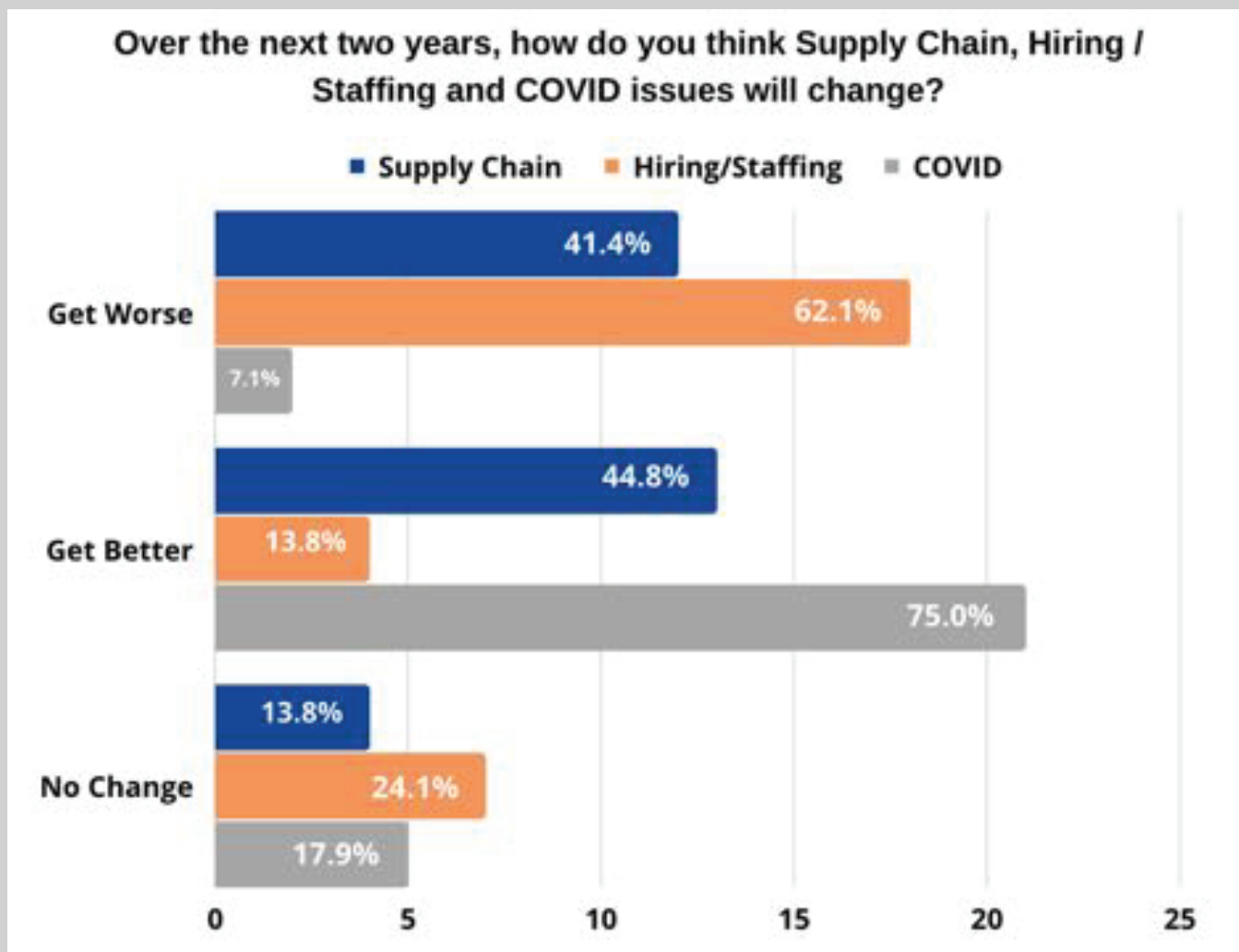
- 60.0% believe hiring/staffing will get worse.
- 46.7% believe the supply chain will get better.
- 6.9% believe COVID will get worse.



While many pressures exist on small businesses, DFH distributors agree that demand remains strong and their outlook remains positive.

Project Manager at Capitol Builders Hardware, Truman J Henderson, a door industry professional since 1986 said, “The biggest impact that I see is a lack of understanding of how the products work, on the part of those designing.” The SFH survey concurs as 62.1% believe that staffing challenges will only get worse over the next two years. Only 13.8% are optimistic that the staffing situation will improve. While hiring and staffing have slowly made a comeback the last six months for small businesses in general,

staffing within the door, frame and hardware industry continues to lag with most distributors reporting open, unfilled positions. The lack of experience and knowledge within the door, frame and hardware business has arguably reached an all time low. In terms of supply chain, distributors are pretty evenly split between optimists and pessimists. 41.4% believe in a worsening of supply chain issues over the next two year but 44.8% believe the situation will get better.



Conclusion

Oxford Dictionary defines a “perfect storm” as a rare combination of adverse factors. Over the past two years, door frame and hardware distributors have successfully navigated through a perfect storm. The rare combination of a global pandemic, supply chain disruption and a labor shortage certainly created strong headwinds.

Even though the pandemic fortunately continues to recede, both the qualitative and quantitative research indicates that distributors do not expect that to improve supply chain issues or labor shortages any time soon. The Software for Hardware survey indicates that over half of all distributors, 51.8%, believe that supply chain and hiring issues will both become worse over the next two years.

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So how do door, frame and hardware distributors survive this continued storm? Our conversations and surveys point to two key actions: creativity and technology. While we as individual business owners can not make the supply chain better, or solve an industry wide labor crisis, we can think outside of the box and pursue new creative strategies.

Try new ideas and break “old school” models. Fortunately for us, a new generation of millennials is now taking the reins of companies industry wide and are willing and comfortable pursuing new creative directions and exploring new technology solutions.

Millennials are willing and comfortable pursuing new creative directions and exploring new technology solutions.

From a broader perspective, we heard many express the need for industry groups to support career and education programs to attract and recruit young talent to become door, frame and hardware professionals. Virtually every distributor involved in this research supported the notion that the industry must do more to attract the younger generation. The door industry stands wide open for a young person with ambitious career goals, and a willingness to work, to achieve success.

Storms always leave some destruction. But storms also leave blue skies for a brighter new day. This research, while diving into serious issues that threaten businesses in our industry, simultaneously revealed an optimism and spirit for a better tomorrow.



Based in Atlanta, GA since 1996, Software for Hardware® provides productivity and project management software to commercial door, frame and hardware distributors across the U.S. and Canada. Nearly 1,000 door industry professionals rely on Software for Hardware® to improve their business productivity, client responsiveness, and bottom line profitability. As a result, Software for Hardware® has become the fastest growing software company in the industry and the software of choice for door distributors.

Distributors across North America contact Software for Hardware® seeking new technology and advice to help manage these transitions and position their business to operate more efficiently and profitably.