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Alpine Lumber: A strategic combination of acquisitions, value-added services and…
By Dan Emerson

Growth rarely comes without growing pains, especially in the Darwinian world of retail. One of the major challenges for any successful business is managing growth by planning and executing effective strategies.

Englewood, Colo.- based Alpine Lumber's success in managing its gradual but steady growth has made it the largest independent lumber and building material dealer based in the Rocky Mountain state.

Founded in 1963 in Evergreen, Colo. by William Kurtz, by 1986 the family-owned company had added yards in Denver, Parker, Louisville and Granby. Gradually, Alpine continued to grow by acquisition, and, when the Kurtz's decided to leave the business, made the transition to employee ownership in 1989. Today, Alpine ranks as the 16th largest private company in Colorado (based on 2004 revenue of $168 million), according to the Denver Business Journal.

Alpine operates 10 lumberyards—in Parker, Denver, Frederick, Loveland, Granby, Steamboat Springs, Montrose, Telluride, Eagle and Buena Vista. It completed its most recent expansion in early 2004, acquiring the Eagle and Buena Vista yards with the purchase of Summit Lumber Co. The Eagle acquisition gave Alpine a presence along Colorado's upscale I-70 corridor, an area company officials had been eying for some time. The company also has two truss shops, two specialty products operations (prehung doors, windows, cabinets, and trim), a reload, a bargain center, a pneumatic tool and nail store, and two distribution centers.

Alpine CEO Kip Oram joined the firm in June of 1985, as manager of the company's Louisville, Colo. yard. He had started his career 10 years earlier as a truck driver for Foster Lumber Co. in Boulder, eventually becoming yard manager. Foster was acquired by Diamond International Corp., which was eventually bought by Michigan General Corp. A couple of years after Oram left to join Alpine, Michigan General went through Chapter 11 bankruptcy and was eventually liquidated.

People and Profits
When Oram became Alpine's general manager in 1986, the company had yards in Denver, Parker, Louisville and Granby, Colo., along with a reload and a pre-staining operation. Although Alpine recorded sales of $18.35 million in 1986, "the company was having a major problem with profitability when I took over," Oram explains. "We were very weak at the yard-manager level.

The financial situation didn't get any better for a while. This market went through a severe depression starting that year, and by '88 we were down to $13.4 million in sales. Fortunately, with the demise of Diamond and my knowledge of and relationships with many of their people, we were able to recruit some talented managers and address the problems. By 1989 we had turned it around."

Is there an "X-Factor" behind Alpine's steady growth? "It's nothing complicated," Oram says. "If we have a secret, it is the quality of our managers and more senior employees. All of the managers we initially hired were people who had come up through the Foster/Diamond system; most of them had worked for me. We have followed the same philosophical track with Alpine. Virtually every operational manager, even at the corporate level, started in one of our yards at or near the bottom. They are all pretty much the same, relatively young but experienced, hard working individuals who have competed for each promotion and proven themselves at every level."

Developing management and sales talent from within the 440-employee company has been an effective HR strategy, according to Oram. "It's an old-fashioned approach, rather than going out and recruiting people, or hiring college grads and trying to teach them the job at the top. We have hired some of those people, and competed against a lot of them. But what you often see is that they don't really know what the people who work for them have to do. It's the nature of this business — very hard work, high effort, a lot of it grunt work. I believe people who progress up through the ranks, no matter how quickly, make better supervisors, in general.

To retain valued employees, "the system of promotions we use helps a lot, as does the fact that we are a true ESOP. As far as we know, we have an industry 'best benefits' package. Most years, our retention rate for management and salespeople approaches 100%."

The Employee-Owned Difference

Oram says Alpine's transition from family to employee ownership was not a difficult one. "Operationally, nothing really changed. We were just coming out of the worst period in the history of the Colorado housing industry and had nowhere to go but up. Because of that, the price was very reasonable. We had lost nearly half our competition. We were down to about 67 employees, and only the best and hardest working were still standing. We had learned to be very efficient and disciplined. Otherwise, we wouldn't have made it. When the market recovered here, it ran for about 11 years. In that period we were able to finish buying the company and paying off our debt."

As for the advantages of being an employee-owned company, "for longer-term employees with significant stock-account balances, they are just what you might imagine. Almost anyone will work harder if their own money is at stake. All of our key employees are very interested in our business and protective of it. They seem to understand the difference between decisions that might be best for an individual, and those that are best for the company, like putting customers on credit-hold if they don't pay their bills.

"I do get a lot of advice from employees, some from surprising sources, but it is well intentioned and sometimes very insightful," Oram adds.

"The ESOP is not much help in terms of recruiting or retaining entry level employees. It is probably too far removed from day-to-day compensation, and most young people seem more worried about the next paycheck or another 50 cents an hour at that stage in their lives. Our demonstrated policy of promoting from within is probably more effective in acquiring good people. After a few years and ESOP statements that changes dramatically, and we've got them! The fact is, we have a tough time getting anyone to leave the company after they have been around for awhile."

Employee ownership also may be of some help in controlling benefit costs, Oram says. "We still have to pay for medical coverage; at least some employees are probably more careful about spending the company's money, especially the ones who have been around a while. We're self-insured with a cap, so they know medical costs come right off the bottom line. It's hard to pin down what the value of that is."

Learning While Growing

The company's growth-through-acquisition strategy has involved some steep learning curves along the way. A small lumberyard in Steamboat Springs purchased in 1992 was the first yard Alpine added after the employee stock purchase in 1989. "We learned a lot about taking over a yard and turning it around," Oram explains. "We found out how difficult it is to instill our methods and philosophies into somebody else's organization, especially if the former manager is still in place. We tried that with our first acquisition. The guy who owned and managed that (yard) was a really good guy, and conscientious, but never had been able to make any money in the business. The reason was, his employees were taking advantage of him; he was getting the short end of the stick, working twice as hard but not making any money. We tried to make an Alpine manager out of him, which frustrated us and him. Then I convinced him his talent was in sales rather than management. He became our primary outside-salesman at the facility. He was immensely successful as a salesman and made enough money in seven or eight years to be able to retire young."

In 1992, without much of a contribution from its newly acquired Steamboat Springs operation, Alpine's volume jumped 73% as the Denver market boomed, Oram recalls. "We opened our first door and windows operations that year. In the summer of '96 we added Loveland, and at the end of the year, Montrose and Telluride." Although volume went up another 20%, profits declined.

"We found out a couple of things," Oram notes. "First of all, not to try growing too fast, and secondly, to be careful of bargains. It takes a lot longer and costs a lot more than we thought to turn around a failing operation.

"By the end of '98, we were OK again; volume was up another 20% and profit was back where it belonged. In '99 we bought our first truss shop, and found out just how little we knew about that business. Volume went up another 19%. Then the market flattened out until early 2001, and was falling when September 11 hit. The bottom really dropped out then, and by '03 we were just getting back to '99 levels. We weathered that pretty well though, and our younger managers learned a lot about managing during tough times. By late 2003 we were in full recovery mode, and ‘04 was an all time record, with volume up 52% from our previous high, and profit up more than that.”

Multiple Locations = Multiple Challenges

Obviously, every new acquisition brings new challenges. "The main problem with multiple locations is that you have to rely on other people to do things correctly and to fix what is wrong,” Oram says. "Then you have to give them the authority and trust them to do the right thing. It is much easier, in many ways, to manage a single yard. When something needs to be done you can always do it yourself. Then there is the problem of getting 16 different managers to understand what you are talking about and buy-in to your ideas. The solution, which is elegant if you get it right, is to have managers who believe in the same principles you do and are smarter and work harder than you. Then they make you look much better than you really are.

"Once we became successful, it was logical to export our management philosophy to locations in new markets. We feel that when a prospect is ready to go, we have an obligation to give them an opportunity fairly soon. That has led to one or two acquisitions most years. Once the latest location is up to a reasonable level of performance, typically in about a year, we start looking for the next one. Our growth since about ‘96 has been largely dictated by the availability of management talent that we felt was ready to leave the nest.

"We set a very high standard of performance for our yards, perhaps double the industry averages in terms of some key measures including profitability, and we routinely compare them. They all have access to each other’s P&Ls every month, and they are VERY competitive.”

Alpine has not relied heavily on technology to manage its facilities. But the company has purchased Activant Solutions’ Falcon business management system and will have it up and running in early 2006, according to senior VP Bill Miller. "It will obviously provide us with more information faster, information that our yard managers can use to manage the business. But we’re not driven by technology,” Miller says.

Commitments and "Nail Vans”

Pro-builder loyalty has been key to Alpine’s growth, according to Oram. "We want the best contractor customers in the marketplace. In order to do that, we have to be the best supplier. We accomplish that mostly by outworking everybody else. Our level of service has to be superior, mistakes kept to a minimum and those that do happen fixed immediately and to the satisfaction of the customer. We’re competitive in price but hardly ever the cheapest. We have an absolute policy that if we make a promise or a commitment to a customer, we will honor it no matter what it costs or how difficult it is. We always keep our word.”

As a result, "we have a close personal relationship with many of our long-term customers. That isn’t something we do intentionally, it’s just that friendships develop when you have a good business relationship with someone. Our guys will do about anything to help them out, as you would a friend. There are any number of stories about our employees going out on weekends to help a customer frame or roof his own house, or participate in some charity project with them. There’s also a lot of socializing, though usually not company-sponsored, like golf, hunting and fishing excursions, and trips to trade shows and mills.”

Another effective loyalty builder has been Alpine's fleet of "nail vans," which provide service and support of pneumatic tools and systems, and sales of fasteners, nailers, staplers, hose, fittings, compressors and many other items. "We started with one van here and one there some years ago. Just last year, we decided to concentrate all of the vans in one location. We made it a separate business rather than being underneath each retail yard. We found that the yard guys didn't have the time or knowledge to be real good at that business. And, when they'd get busy, they'd pull a van driver out and assign him to delivery. They weren't being consistent in calling on job-sites."

Alpine is in the process of developing an installed sales program, Miller notes. "We haven't figured out the workload, yet. For a long time, we had not gotten into installed sales because we didn't want to compete with our core customers. But they have been asking us to get into installation. Builders, in general, have been having a more difficult time finding good, quality tradesmen. They have framers doing a lot of window and door installation who are not skilled finish carpenters, so there are some quality problems that come from that."

Just-in-time delivery is another service contractors want, according to Miller. "Job-site theft is a problem in the Denver area. If we deliver windows to a location and the framers don't install them for two or three days, a lot of those windows will 'walk off' in the meantime."

How has the growth of big-box retailers impacted Alpine? "So far, it's generally been a positive thing for us," Oram says. "Our first experience was at the Louisville store, which we eventually outgrew and moved to Frederick. Home Depot opened their first store in Colorado a couple of miles from our yard, and scared the hell out of us. We quickly lost the consumer business we were doing, and were forced to concentrate on our contractor customers, essentially abandoning any efforts at retail, including most of that kind of inventory and any advertising. It certainly showed us who our real customers were. The first full year after Depot opened, we set a new all-time record for sales and profits at that yard. As a matter of fact, our contractors became more appreciative and loyal after attempting to do business with them. That has been our approach since in any market where the big boxes show up. So far it has worked."

Looking ahead, Oram doesn't anticipate any major adjustments in the company's course. "We will continue to grow the company in the same manner as we have in the past. We will increase in size as fast as we can within the self-imposed limits of not putting the company at risk financially, and not buying or building something that we don't have a manager ready to run. We don't have any specific financial goals, other than to keep getting bigger, and not decrease our bottom line percentages or ROI in the process. We are always looking for the right opportunity, but we're pretty patient."