

# Strategies for Dealing with Rapidly Increasing Asphalt Shingle Prices

by John Reese

On June 1, we implemented the largest asphalt shingle price raise in the seventy-year history of Reese. It will not be our last raise for 2008.

In order to assist you with your planning, we would like to share with you our view of the current pricing dynamics for asphalt roofing products and offer you some tips to help you survive these unprecedented times.

Please understand that there is nothing normal about the price raises that are occurring with asphalt shingles. In the short run, you may be able to "shop around" and minimize some of the effects of these raises through negotiations. But if you don't begin to immediately integrate these raises into your job costing, you will quickly begin to lose money on every job.

Here are the key points:

- The cost of crude oil directly impacts the cost of asphalt shingles.
- Distributors can only buffer the price of asphalt shingles for a short time.
- You need to know the true cost of your materials **before** you quote the job.
- Keep your options open...be flexible when selecting materials.
- Be especially careful when selling upgrade shingles
- We need to work together to reduce delivery and job costs.
- More than ever, you need to pay attention to waste management and the proper installation of these increasingly expensive materials.

The cost of crude oil has doubled in the last 12 months, and has tripled over the last four years. Even though gasoline also costs a great deal more, it actually hasn't kept pace with oil. Gasoline prices are still subsidized in the US (gasoline in Europe costs \$8 - \$9 a gallon). Refineries are making less gasoline. Asphalt shingles are made with the flux left over after gasoline is removed from the oil. Less gasoline, less flux... higher cost for the flux used to make asphalt shingles.

All of our suppliers are experiencing weekly cost increases for raw materials and freight. They are, quite justifiably, trying to pass these increased costs on to their customers.

In addition, the Midwest has experienced an abnormally high number of destructive storms - hail, tornadoes and high winds. Suppliers correctly cut back production last winter in anticipation of the slowdown in new construction, and inventory levels were inadequate to take care of the storm demand. Almost all manufactures are experiencing high demand and shipping delays as they try to catch up production.

As long as the cost of oil remains at inflated levels, asphalt shingles will cost significantly more than they ever have. Period.

Oil recently traded at \$139 per barrel. Why?

It's true that there are riots in Nigeria, there are lots of people in China, there is tension in the Middle East, and Venezuela doesn't like us very much. All of this was also true five, ten, twenty and thirty years ago.



The main reason oil is over \$130 per barrel is speculation, amplified by the fact that institutional investors are now active participants in futures trading. It's highly unlikely that oil will be the first commodity in the history of mankind to perpetually ignore the laws of supply and demand. The United States is still the cornerstone of the world economy, and if we begin to buy significantly less oil, the price will drop. The speculators will find another market to manipulate, oil will seek it's natural level and the price of asphalt shingles will stabilize, almost certainly below current levels.

But it would be economic suicide for any roofing manufacturer, distributor, builder or contractor to ignore the realities of today's markets, or to try to predict when prices will normalize.

Our suppliers are paying more for their raw materials, the freight-lines are paying more for fuel, we are paying more for finished materials, and it costs us 50% more to deliver product than it did just one year ago.

We stock more roofing than most, but storing roofing materials takes a lot of space, and there are limits to the number of trucks we can buy and store at the "old price". No one can warehouse more than a few month's supply of asphalt roofing shingles. This means that wherever you chose to buy product for the foreseeable future, you will be paying significantly more than you were a few months ago.

You need to immediately begin to face the reality of these higher material costs and begin to adjust your bids accordingly. Put material escalation clauses in your job quotes. Never guarantee pricing for over 30 days.

You may be able to find one supplier or one brand that may be less expensive on a given day, but if you think that you will be able to negotiate away these extraordinary increases, you will soon be out of business. You will undoubtedly lose a few jobs to competitors who don't understand their true costs, but it's better to lose a job than to lose money doing the job.

Get accurate, current quotes for the materials you need. Understand the fine print and any extra charges that may apply. Find a supplier who will honor their quotes and deliver the right material to the right job at the right time.

There is no better way to quote a job than to use the prices on our website. [www.ReeseWholesale.com](http://www.ReeseWholesale.com). We update the pricing on our website daily. Find the price on our website, order the material for next day delivery, and that's the price you'll pay. (Typographical errors excluded).

***\* You need to be more flexible when selecting products for your jobs.***

The inevitable result of this endless series of price increases will be to force all distribution to stock fewer styles and colors of asphalt shingles, primarily focusing on the popular commodity shingles to maximize inventory efficiencies.

We probably inventory more asphalt roofing than any company in Indiana. The credit crisis has forced everyone to manage their assets (inventory and receivables) more efficiently. If we attempt to inventory the same quantity and variety of shingles that we have in the past, we will soon be out of business. And yet we know how important it is to provide our customers with a reliable source of material.



Instead of having small quantities of everything, we have elected to keep larger quantities of fewer shingles. This means we will inventory fewer brands, we will offer fewer choices of similar looking products, fewer choices of accessory items with identical functions and absolutely fewer slow-moving upgrade products.

We will aggressively try to find the best values for our customers, but understand that all of our vendors are under significant cost pressures. There are differences, however, in manufacturing efficiencies, some shingles weigh less (with less asphalt) than others, plants near Reese have less freight costs, and plants not affected by the storms may have more material than plants in areas affected by hail and winds. On any given day, there will be large price differences between shingles with similar characteristics.

During this period of unpredictable availability and widely fluctuating pricing, we highly recommend that you offer alternatives to your customers. In fact, we suggest that you ask the customer to select not one, but two or three choices when picking styles and colors for their home. This will give you greater flexibility when you are actually ready to install the roof.

*\*Upgrade, designer shingles will be in tight supply and are not a good value at current pricing levels.*

Suppliers are understandably trying to accommodate the storm areas by trying to make as many shingles as they can. Simply put, they can produce standard laminate shingles faster than they can produce exotic designer shingles. Most of our suppliers have elected to run upgrades less frequently, meaning there will be no way we can expedite an order for an upgrade shingle we don't have in stock.

Upgrade shingles are also a very bad value right now. Our cost for the higher-priced, designer shingles has generally increased at the same or a greater percentage than our standard laminated shingles. If a \$40 laminate has increased 25% to \$50, a \$120 designer shingle has increased 25% to \$150. The commodity shingle has increased \$10 and the upgrade by \$30.

The disproportionate increase in the cost of upgrade shingles is far greater than the actual amount of extra asphalt used to manufacture the upgrade shingle. While the cost increases for commodity laminate shingles is more than justified by the increased costs of raw materials, the cost increases for the upgrade shingles are out of balance with reality.

This may all seem confusing, but what it really means is that upgrade shingles will be harder to get and they are significantly overpriced. We can't afford to stock many upgrades at these inflated prices, and we certainly don't want to have a large inventory of these products when their price drops.

When selling upgrade shingles, be flexible in your choices, allow plenty of lead-time and understand your true costs **BEFORE** you quote the job. Always put a material escalation clause in your bid and ask the customer to select alternative brands, colors and styles when they select the product for their home.

Consider alternatives to asphalt-based upgrade roofing products. TruSlate, Cedar Shakes, Metal Roofing, and Composite Roofing Products may only cost a little more than the asphalt roofing products designed to imitate them.

*\* Contractors with good credit will be able to manage their purchases more efficiently than customers who pay cash.*



While we will treat all of our customers equally and fairly, customers who maintain good credit standing will be able to place orders without having to pay in advance. Prices and supply will fluctuate dramatically, and customers who maintain a functional line of credit will logically be able to manage their purchases more efficiently.

The global credit crisis will inspire all distributors to manage credit more tightly, and Reese will be no exception. Simply put, we will no longer be able to extend credit to customers who consistently fall behind in their payments.

*\*We need to work together to reduce delivery costs.*

We have eight fully stocked branches located throughout Indiana allowing you to save time and fuel by buying locally.

We need your help to reduce our transportation costs. We will be calling each of you the day before we deliver your material to confirm the accuracy of your order, the readiness of the job and to see if you need any additional materials. If you will help us by giving us accurate delivery information and reducing the number of trips we both have to make to get materials to the job site, it will save both of us time and fuel.

[If you would like to see how Reese saved over 15% on our fuel costs last year, watch this short video we show to all of our employees.](#)

*\* Do not cut corners in application. Now more than ever, you need to pay attention to proper application. Manage your jobs for less waste and more efficiency.*

The temptation will be to cut corners to be competitive...Labor will now be a much smaller percentage of the total job - this means you can differentiate yourself with extraordinary workmanship.

Manage your jobs to reduce waste. If a bundle of laminates costs \$25, and you can avoid throwing away 5 bundles on each job, that's a savings of \$125.00.

Stop paying twice for the shingles that blow off due to improper application! ([Watch our proper nailing video](#)). Stop arguing about it. Put four nails below the seal strip on three tab shingles, and four nails in the common bond area of a laminate shingle.

Take more time to organize and monitor the job. If you install five squares of the wrong shingles, or incorrectly install five squares of the right shingle you've wasted \$400.

***Thank you for your understanding in these difficult times! We are committed to doing everything possible to increase our efficiencies and reduce the costs that we need to pass on to our customers. In the meantime, visit our website often, understand your true costs, and price your jobs so that you will be a survivor.***

