

# Chapter 7: Retail Businesses

This division includes establishments engaged in selling merchandise for personal or household consumption and rendering services incidental to the sale of the goods. In general, retail establishments are classified by the principal lines of commodities sold (groceries, hardware, etc.), or the usual trade designation (drug store, cigar store, etc.). Some of the important characteristics of retail trade establishments are: (1) the establishment is usually a place of business and is engaged in activities to attract the general public to buy (the establishment buys or receives merchandise as well as sells); (2) the establishment may process its products, but such processing is incidental or subordinate to selling; (3) the establishment is considered as retail in the trade; and (4) the establishment sells to customers for personal or household use.

## Lumberyards

**SIC: 5031 NAICS: 423310**

Establishments engaged primarily in selling lumber to the general public. These establishments may also provide a line of general building materials.

### Description of Business

Businesses categorized as lumberyards typically include operations which specialize in wood sales, however larger warehouse hardware stores which retail other goods can also be included in this category. The bulk of revenues is obtained from customers engaged as professionals in home construction, contract work or other areas of building. Occasionally, lumber sales are made to individuals engaged in “do it yourself” projects.

### General Industry Information

Lumber dealers typically purchase their inventory from lumber wholesalers in the Pacific Northwest or Southeast regions of the United States. This business can be very cyclical, for many reasons. Access to materials from logging companies can be halted due to environmental reasons. Futures contracts for lumber can be purchased to hedge the risk of rising costs. Demand for lumber products is affected by construction cycles.

Wood-specific retailers numbered approximately 9,200 as of 2002. As is the case with many industries, massive consolidation and the dominance of few firms have squeezed out many small operators. Leaders include Home Depot, Lowe’s and Menard Inc., which are credited for expansive franchising and advanced inventory systems. Total industry sales during 2002 were approximately \$78 billion, or an average of \$8.5 million in sales each.

**Financial Performance Ratios**     Manager/owner's Salary  
15% of annual revenue



**Business Valuation Formulas**     Median: 30% of annual revenues  
1.5 to 2.25 times ODCF



**Equipment Valuation and Real Estate Rental Formulas**

*Equipment*  
OLV is 15-20% of retail value. Check to see if inventory shown on books is obsolete.

*Real Estate*  
Rent as a % of Sales: 3%-5%. Another method is 8-10% of market value of real estate. The typical size of square footage occupied ranges from 14,000-75,000 sq ft, with a median of 20,000 sq ft. Most buildings are metal in construction with a minimum of 2.0 acres. Acreage is the biggest issue and typically ranges from 2-21 acres, with a median of 5 acres. Most of the value is held in the real estate on the balance sheet.



**Financing**     Generally, financing is readily available for businesses in this category. Terms can last up to 20 years, and most transactions involve financing with a down payment of 35-50%.



**Red Flags and Risks**     As noted earlier, it is important to understand two fundamental concepts about this industry. First and foremost, the lumber business fluctuates dramatically, as it is subject to construction cycles, sudden price increases, and drops in the supply of raw materials. Secondly, it can be very difficult for smaller lumberyards to survive with the rapid expansion of the larger warehouse centers. Survival of the smaller lumberyards is often obtained through mergers and by providing specific value-added services to customers. Worker's compensation expenses can be high for this business, since workers are dealing with large pieces of wood, heavy pallets, and cutting materials.



### Resources

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Hardwood Distributor's Assn  
[www.hardwooddistributors.net](http://www.hardwooddistributors.net)  
P.O. Box 988  
North Tonawanda, NY 14120  
(716) 694-0562

National Lumber and Building Materials  
Dealers Association  
[www.dealer.org](http://www.dealer.org)  
2025 M. Street, NW  
Suite 800  
Washington, DC 20036-3309  
(202) 367-1169

International Wood Products Assn  
[www.iwpawood.org](http://www.iwpawood.org)  
4214 King Street  
Alexandria, VA 22302  
(703) 820-6696

North American Building Material  
Distribution Association  
[www.nbmda.org](http://www.nbmda.org)  
401 N. Michigan Avenue  
Chicago, IL 60611  
(312) 321-6845

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