

## Technology Defines Online Marketplace

**B**uildDirect is an online marketplace for home improvement products, but Jeff Booth, its co-founder, president, and CEO, calls it a technology company.

“BuildDirect is technology platform that helps the building industry,” he says. “Out of our 300 employees, half of them are in the technology space.”

In fact, he says it’s a technology company that can benefit other home improvement retailers.

Booth started out as a builder and contractor and built single-family homes in the lower mainland of British Columbia. He noticed that the end consumer was often disillusioned with the home building and home improvement experience. “The end consumer went through a predictable pattern each time. The got excited about the home build; they got anxious about who they could trust; and they got disillusioned when it felt like everybody was telling them things that weren’t true. They often didn’t have enough information to make a rational decision. On top of that, there was an acceptance that this was just the way the building industry works.”

Seeing that, Booth decided to come up with a solution for customers that he “felt were in pain.”

### Value Proposition

Booth partnered with his friend, Rob Banks, and in the very early days the com-

pany’s value proposition went something like this:

“Here’s a price and a product that we’ve already vetted from a supplier that will give you a 10 per cent discount from your regular price. However, you have to pay us in advance, buy 24,000 square feet of it, and wait three months to get it. They also had to wire money because we didn’t take credit cards at that point.



**Jeff Booth**

Co-founder, president,  
and CEO of BuildDirect

“We had to offer products in enormous quantities because the first version of our logistics software was designed around cubing, weighing, and directing products in full containers to maximize efficiencies.” The BuildDirect platform was based on software that would suggest overweighting one container or underweighting two containers and going around California by rail, for example. “It is very complex, and that’s why it has taken us over 15 years to refine our process and get to where we are today,” says Booth.

Booth and Banks had their original idea ready to go in 1999, but, unfortunately, “when we tried to pull it together, there was no distribution system that could support delivery to the home.

“There were distribution systems that could support delivery to the home for underweight products at 70 pounds or lighter – like UPS and FedEx – but there wasn’t one for heavyweight products.

“All of those distribution systems required cross-point inventory moving through a traditional supply chain and there wasn’t one. It ended up taking us three years to build the initial technology where we could ship heavyweight goods and over the last decade we have continued to advance that technology to what it is today.”

### One-step Distribution Channel

By 2002, Booth and Banks had set up an internal distribution channel. The new system was a one-step channel to the end consumer.

“The first month we had one sale. By the end of the year, we had done \$1 million in sales. The next year, \$14 million. The next year, \$28 million, and it just kept growing. After three years of getting it off the ground, it was incredible.”

Sales were coming in from homeowners, contractors, and builders, across Canada and the U.S., as well as a few sales worldwide.

Fast forward to the housing collapse in

*Located in Vancouver, BC, BuildDirect is a technology platform that helps the home improvement industry.*





*BuildDirect now has 40 distribution points throughout North America and more than 100,000 products listed on the site.*

2008. “We actually didn’t see it coming because the business was growing too fast through it – until 2008/2009. It was like a light switch went from on to off. It was when the credit crisis hit and people couldn’t fund the three months upfront anymore. Sales had cut by two-thirds overnight. For all intents and purposes, we should have been dead.”

Looking back on it, Booth still finds it incredible that the company survived. “Necessity is the mother of invention,” he says.

### **Anomalies Within**

The partners analyzed the platform, and noticed some anomalies within it. Unlike traditional supply chains, the BuildDirect platform had the shipping price separated from product price. “When I looked at the data, I saw the shipping price wasn’t just an independent lever, but had a different decay curve on every product. This meant one product’s shipping price would highly influence how far it would travel and on another product it wouldn’t.” He also saw the data the platform had accrued could be analyzed to show various trends and make predictions based upon those trends.

He realized this could give his customers an edge. Booth approached a customer in Turkey, a travertine manufacturer, and suggested a plan for shipping based on these findings. He developed a plan based on the data to split the company’s SKUs to various warehouses in the U.S. on consignment and said it should sell immediately.

“I told them the data showed what people were buying and where, so they said yes.” The product sold in less than one month.

“It was incredible,” says Booth. “The information was there the whole time, but we didn’t see it until we needed to in 2009.”

Again the company had a massive growth curve as more and more suppliers

started using the new system. “The business grew extraordinarily fast, almost doubling every year.”

Booth realized that a lot of the problems in distribution systems he had recognized when he first started the business was based on bad information. “The information didn’t flow fast enough and there was too much asymmetry of information,” he says.

“What goes into the store is chosen by a merchant and then it is stuffed through a channel. The only signal that tells you if it’s going to work or not is after it sells, after somebody comes to the store and tries to figure out how to get it home. That signal can take 12 to 18 months to get back to the supplier.”

In essence, Booth challenges that home improvement suppliers and buyers are making decisions on inaccurate information. It could be based on margins or what they think is popular, but not directly on what the consumer wants.

### **What The Consumer Wants**

He says the power is in what the end consumer wants. And, by getting that consumer-based information to the suppliers without other levels of people in the way, “you solve the information asymmetry problem. And everybody has the same information.”

The platform can provide information on all aspects of the buying continuum, including consumer trends, cart abandonment, and market information. Users will have the information and tools at their disposal to fix any problems as they find them. For example, if customers continually abandon their online shopping carts for a certain product, the software can determine why based on its aggregated information and then offer a solution.

“Suppliers have the choice in our platform whether to use the data or our freight and logistics to help them solve the problems of the consumer.”

### **Same Information**

Thus, although BuildDirect was always online and some people do call it an online retailer, Booth prefers to call it a platform “where retailers can actually load their products onto our site and get the same information that anyone can get. They get better information and can make decisions based on the data – for free.

“And we only get paid if the system is working. So when the information is created, we get paid on the markup on the product if the information works. So we’re completely incented to make it work.

“When we go back to the original starting point of the business, it was to solve the problem so everybody has the same information and the best would win. We want to remove all the waste in the marketplace created by the misinformation. To do that we had to create an entire supply chain as well, and the big data, and the machine-learning platform.

“We opened it and essentially give it away to anybody and, instead of trying to compete against everyone, we’re just going to let everybody use it and the winners will win.

“Are we disruptive to retail? I don’t look at it that way. I think it’s a totally different business, and many retailers could win big by using this.”

Today, the company’s head office is in Vancouver, BC, with development offices in Waterloo, ON, and Bangalore, India, and 40 distribution points throughout North America. It has more than 100,000 products listed on its site. ♦

