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Small Business Suite

A Building Giant Tries to Adapt To a More Competitive World

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Need a building, fast?

For more than 50 years **Butler Manufacturing** Co. has offered an answer: The company trucks its metal-building parts to your site and sets the things up as if they were enormous erector sets. These warehouse-style "Butler Buildings" are everywhere, from Manhattan to Missoula, Mont.

Now, though, the Kansas City, Mo., company faces two big problems.

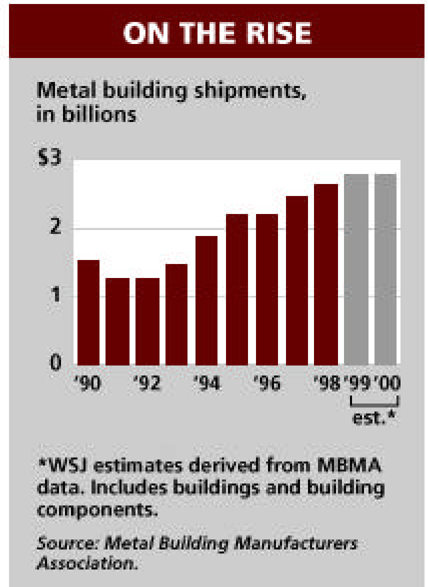
In recent years hungry competitors grabbed market share, offering less-costly buildings and, in some cases, setting them up more quickly. Moreover, the roaring economy -- which helped Butler make up for lost market share -- has gone quiet. "We're not seeing much life in the order book," says Chairman Donald H. Pratt, a 36-year Butler veteran. Adds President and Chief Executive John J. Holland, also a longtime Butler man: "We've got to get better in a lot of areas."

The company also faces a problem confronting many old-line manufacturing suppliers: How do you cut costs and at the same time prepare yourself to move more quickly than ever when business picks up again?

Butler posted net income last year of $25.2 million, down slightly from $25.8 million in 1999, while earnings per share rose to $3.86 from $3.63 as the company bought back stock. But sales slipped to $960 million in 2000 from $973 million a year earlier. The company has averaged net profit margins of just 2% during the past three years, as its stock slipped 22%.

As of 4 p.m. EST in New York Stock Exchange composite trading Monday, Butler shares were unchanged at $25.95 each.

"They've definitely underperformed compared to the entire construction industry," says Robert R. Marshall, an analyst with First Union Securities. A company with nearly a billion dollars of revenue, Butler's market capitalization is just about $163 million.



All is not bad at Butler, though. Among builders and architects, its brand name is so strong that competitors' metal structures are often called "Butler Buildings," the way any facial tissue is called "Kleenex." And long-term trends look good. Owing to better design features, such as brick facades, metal buildings look nicer these days -- and are being used for shopping malls, schools, and even churches.

Still, Butler has higher overhead costs than many of its competitors. The company employs about 5,000 people. It also maintains a research center in Grandview, Mo., where 40 engineers, technicians and chemists perform all manner of evil on buildings to test how to make them stronger.

Such costs add pressure to earnings. For the first quarter, Butler expects to post a small loss, compared with profit a year earlier of $2.2 million, or 33 cents a share. In the last few months, Butler has laid off 400 to 500 workers and cut back others' hours to 32 per week. The company also idled its factory in Birmingham, Ala., which makes parts for metal buildings. (Butler also produces dairy barns and parts for city high-rises, among other things.)

The cutbacks are related in part to the harsh winter, which slowed construction in general. Indeed, a certain number of laid-off employees probably will return. But many of its difficulties are related to the economy. Total construction of warehouses, factories and shopping centers is expected to decrease this year by between 3% and 11%, depending on the category, according to F.W. Dodge, a building-research division of publisher McGraw-Hill Cos. At Butler, Mr. Pratt says the company "will be struggling" to meet last year's sales volume. "We simply have too much capacity for the amount of demand that we've got," he says.

But Butler is concerned about downsizing too aggressively. Take its design staff, for example, which works in nine different locations. All told, Mr. Pratt says, there currently are 50 more design employees than can be kept busy by the work on hand. By July, though, Butler predicts business will pick up considerably. If so, those 50 designers will be needed, as will an additional 100 new designers, he says.

Butler has spent the past two years trying to switch to a leaner manufacturing process. At one time, Butler made its metal-building parts in big batches. The process went pretty much like this: Set up machines to make item X; run the machine full-tilt for many hours; store all the item X's in a section of the warehouse. Then, to fill a customer's order, draw largely from inventory, and truck it to the site.

Now, the company is trying to produce to order. The theory: If you increase speed and free up workers' time and floor space, you can add product lines at no increased cost. Mr. Holland says the new philosophy is slowly taking hold. One of Butler's products -- the "Landmark" line of buildings -- now can be completed in eight weeks instead of 12.

Butler says it has halted its erosion of market share during the past year. Prior to that, Butler says, its metal-building market-share fell to roughly 19%-20% from 22%-23%. Butler's top competitors are Magnatrax Corp. of Eufaula, Ala., a unit of Toronto's **Onex** Corp.; **NCI Building Systems** Inc., of Houston; VP Buildings Inc., of Memphis, Tenn., a unit of Cleveland's **LTV** Corp.; and regional companies.

Mr. Marshall, the First Union analyst, says Butler appears headed in the right direction and points to a 24% increase in operating profit to $45.2 million in 2000 from $36.5 million in 1999. He credits Mr. Holland, who became chief executive in 1999.

Mr. Holland says he has no "qualms" about making whatever cuts are necessary, but adds that the company is after more than just short-term gains. He is starting a marketing push, for example, just in time for construction season. "If we really wanted to cut to the bone," he says, "we wouldn't spend that kind of money."

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