

CERAMIC TILE DISTRIBUTION CHANNELS

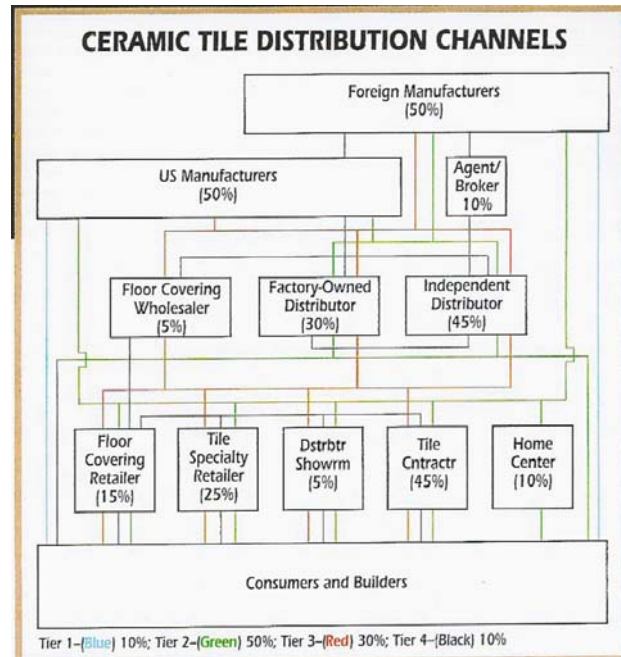
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Not many years ago the only colors available for ceramic tile in the United States were white and black. Distribution was back-and-white, too. The way most people bought ceramic tile was from the tile contractor. The tile showroom was his truck.

Today, ceramic tile colors pale the rainbow. And tile distribution comes in about as many colors.



The first middlemen to enter the ceramic tile business were tile distributors who began appearing in the 1950s. The distributors took business from the manufacturers by providing better delivery and selection. In the 1970s, distributors added showrooms to promote new styles and colors that were beginning to come on the market, and which were to explode in the 1980s.

Although that sounds like an orderly progression, the evolution of tile distribution has been everything but orderly. Waves of vertical integration have swept through the tile industry from time to time, creating dozens of competing distribution channels and conflicts among participants. Manufacturers fielded their own distributors; distributors took up retailing and tile contracting; large tile retailers bypassed distributors to buy direct, and, at the other end, bypassed tile contractors to install tile themselves.

In the 1980s, foreign tile manufacturers entered the U.S. market by the dozens, with new technology and new styles. By the end of that decade, they had captured half of the U.S. market -- and opened up still more distribution channels.

Some tile manufacturers, notably Dal-Tile, are fully integrated. They are manufacturers, importers, distributors, and retailers. Others, including American Olean and Florida Tile, have both factory-owned and independent distributors, only some of whom sell at retail. TileCera, a subsidiary of Siam Cement, which is building a new tile factory in Tennessee, has split the U.S. into three regions, and is pursuing a different distribution strategy in each region. In addition, through another subsidiary, Classic International Ceramic, TileCera plans to import a line of tile to sell directly to home

center chains. Armstrong World Industries, which owns American Olean, is selling a line of imported tile to home center chains, too, under its own brand name.

The figure which accompanies this article is a tile distribution flow chart showing the flow of tile through all those who are involved in tile distribution. It also shows the percentage of the tile each participant handles.

At the top of the chart are the manufacturers, and at the bottom the end users. An end user may be a consumer or a builder who buys tile for his building projects, bundling the cost with other building components.

Manufacturers, both foreign and domestic, sell directly to large consumers, such as commercial builders, but more often their tile moves through one, two, or three tiers before reaching the consumer. Some factory outlets are both distributors and retailers -- distributors when they sell to other retailers, such as contractors, and retailers when they sell directly to the consumer through the showroom.

There are not many importers who *only* import. Those who do are agents or brokers who do not maintain an inventory. Most imported tile moves through fewer tiers: to domestic manufacturers, to distributors, and to large retail chains and contractors. Because of the rapid increase in imports in the 1980s, almost all large participants in the tile industry now do some importing.

Eighty percent of tile moves through wholesale distributors. There are three major types of tile distributor active today: factory-owned distributors, some of whom provide service center distribution to independent distributors; independent distributors; and floor covering wholesalers. The typical floor covering wholesaler also distributes carpets, wood flooring, vinyl tile, and linoleum; it represents one of the newest channels of tile distribution, and has not, as yet, become established as a major one.

Independent distributors have the largest share of the distribution pie, at 45%.

Many distributors sell both to the consumer and to retailers. Many distributors are integrating by acquiring or starting up tile contracting operations.

A tile retailer is many things. I am using the term loosely, including under it everyone who sells to the consumer or builder. That embraces floor covering retailers, who sell rugs and linoleum, as well as tile, tile specialty retailers, tile wholesale distributors who sell to consumers through their showrooms, tile contractors, and home centers.

Tile contractors still account for the highest share of "retail" tile sales. The larger contractors buy directly from manufacturers, while the smaller ones buy from distributors.

Floor covering retailers got serious about ceramic tile in 1980s; it seemed a logical addition to their lines of carpeting and vinyl tile. Color Tile, Inc., is by far the largest floor covering retailer handling tile; the company had 700 stores in 1991.

Home centers are the newest retailer entry, but their share of the retail "pie" is still small.

Although many distributor showrooms sell to the public, the share of tile actually moving through that channel is small. In some regions, conflict with retail customers prevents showrooms from selling to the public. Distributor showrooms often have higher prices than other retail outlets; the consumer may select the tile at the showroom, yet buy it from a home center -- or ask a contractor to buy it and pass some of the contractor discount along.

One of the biggest problems tile retailers have had to overcome has been the need for special skills to install tile. It is not as easy to train a tile installer as it is to train a carpet layer. Joe Tarver, executive director of the National Tile Contractors Association, has been encouraging his tile contractor members to establish relationships with floor covering retailers as a good source of business.