Risky Business: 84 Lumber and the Housing Bust of 2008

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Maggie Magerko took control of her father's business, 84 Lumber, in 1992 at 26 years of age. Joe Hardy had built 84 Lumber from a single building supply store in 1956 serving do-it-yourself customers (Lindeman, March 26, 2002) into a 392-store enterprise across 31 states by 1992 ("84 Lumber company history," 2001; Aeppel, April 24 1997). The business supplied the housing market with lumber and related building supplies. The stakes were high for Magerko's success as President; she had grown up in the business, working by her father's side since she was 5 years old (Alexander, 2015). Initially, Magerko sought to emulate her father's well-known impulsive and brutish management style, to no avail. That didn't work for her; she needed to discover her own style (Aeppel, April 24 1997).

Magerko's confidence in the face of adversity developed over many years as she encountered challenging business and family situations. In 1987, several years prior to taking control of 84 Lumber, she assumed responsibility for her father's failing -and costly - spa resort, Nemacolin, turning it into a profitable business within a few years. Her methods caused family strife, but she prevailed (Alexander, 2015). Emboldened by her success, she recognized the opportunity to own 84 Lumber outright and convinced her father to relinquish both management and ownership control in 1992.

The company experienced high growth in the component division, retail stores, accounts receivables, and additional lines of business from 1992 on (Alexander, 2015). Magerko implemented a high-risk strategy in the face of market encroachment by Home Depot and Lowes. She repositioned the business focus from primarily serving residential customers to residential home builders and reset the sales model. The building component business expanded lines of revenue for 84 Lumber and met the growing residential home building boom.

The result was sales growth from $600M in 1992 to just under $4B in 2005 (Mendelson, 2004). Reimagining the company's component division took Magerko over five years as she rebranded the division, established human resource performance measures, and enabled more environmentally clean facilities. Component plants were strategically located near active home building areas to supply builders with roof and floor trusses within days, thus increasing sales opportunities by reducing builders time to frame (Lindeman, May 12 2005). The component division is considered a major contributor to 84 Lumber's growth in sales from $2.14B in 2002 to nearly $4B in 2005. Not only had the business grown substantially in the 13 years Magerko managed 84 Lumber, but her personal net worth had grown to $2 billion (Alexander, 2015).

However, when the housing market collapsed, new construction halted, and housing supply businesses were impacted. Company sales declined from $3.92B in 2006 to $2.1B in 2008 (Lindeman, February 5 2009).Leading economists labeled 2007-2008 the "worst financial crisis since the Great Depression of the 1930's" ("Financial Crisis of 2007-2008,"). According to the Bureau of Economic Analysis, the demand for residential structures is a leading economic indicator and that demand typically peaks prior to the onset of recessions (Byun, 2010). As the financial crisis grew, new housing starts demand fell substantially along with residential housing related employment, consumer wealth, general economic activity, housing industry supply sales, and construction goods production (Byun, 2010; "Financial Crisis of 2007-2008,"). Sales of new homes nationwide had fallen 14.7% as of December 2008, according to the US Commerce Department. Moreover, housing starts declined 30% the same year (Department of Housing and Urban Development). Demand for 84 Lumber products fell as well.

Well-meaning advisors, including her father, encouraged Magerko to file for bankruptcy as the best option to save the company in the long run, but she chose instead to risk the business and her personal wealth to save 84 Lumber (Alexander, 2015).

The business was economically vulnerable for two reasons. First, the main source of revenue was dependent on supplying products and services for new housing construction. When that market collapsed, so did this income stream. Second, 84 Lumber had financed unsecured debt in 2008 when credit was difficult to obtain - and had agreed to unfavorable loan terms (Grant, 2010). A multipronged effort was needed to save 84 Lumber. Magerko scaled the business back as far as she could risk without closing the business completely. She closed half the retail stores and laid off 60% of the employees (Alexander, 2015). By 2010, Magerko initiated plans to get out from under these unfavorable loan terms. She sold millions of dollars in company real estate, contributed $5M of her own personal money, and appealed to local county commissioners to support a federal loan application to pay off the remaining debt.

Next, Magerko devised a strategy to reduce the company's vulnerability through the development of new business lines within the housing and construction industry, but not dependent on new housing starts. She created the installation services line and "invested in specialized saws that chop up boards in seconds, never missing their lines by more than 1/16 of an inch" (Alexander, 2015). These high-tech saws contributed to the company's turnaround through the expansion of their once small building component business. Last, Magerko reopened the international trade division and sales of temporary housing units originally developed after Hurricane Katrina.

After 26 years of Magerko's leadership, the business today is comprised of over 250 stores, component manufacturing plants, custom millwork shops, and an installation services division; employment has risen to 5500. In the fall of 2018, the company was named a top workplace in the Greater Pittsburgh area and ranked #125 among 229 firms on Forbes' annual list of America's largest private companies. Tiny Living by 84 Lumber, the first tiny house effort offered by a building supply company, launched in 2016 to meet a younger, more environmentally-conscious customer. The company is diversified in multiple lines of business, across multiple industry sectors, thus having reduced its sole industry economic vulnerability.

Teaching Note

Abbreviated Abstract: The case presents Maggie Magerko's experience leading 84 Lumber, one of America's largest privately held companies, through challenges to their business sales model, the housing collapse and financial crisis of 2007-2008, and the risks she took to save the company. As President of 84 Lumber, Magerko went against advisors urging her to file for bankruptcy and chose instead to reduce the company size to save it from closing.

Keywords: Risk Taking, Women Leaders, Women Entrepreneurs, Change Management, Financial Crisis

Case usage (level and course): Graduate or Undergraduate (300/400 level) Business Course

Learning objectives

Students will have a better understanding of:

1. Risk-taking as a management and leadership skill
2. Leading in times of business crisis

Discussion questions

1. What are risks Magerko employs in the case?
2. What factors did Magerko consider in deciding a course of action?
3. As a female leader, what role did gender play in Magerko's strategic decisions or in how they were portrayed?

Theory Discussion

The Simmons 2008 Gender Risk Survey results suggest that women are seen as risk averse rather than risk takers because of entrenched beliefs that they avoid risk (Maxfield, Shapiro, Gupta, & Hass, 2010). Unexpected, and therefore unrecognized female risk-taking is fueled by women's reluctance to self-promote and make their risk-taking successes more visible. The challenge for women leaders may be not how to take more risks, but rather how to make those risks more visible by taking credit for them.

Magerko was the President and CEO through the 1990's and early 2000's when 84 Lumber expanded its business lines, refocused its target client and sales model, and grew its geographical market penetration; all leader risk taking behaviors. However, her leadership and risk taking is rarely acknowledged as a result of her efforts in the press. It is her father, Joe Hardy, who typically is featured as the driver in these business development activities, although his involvement in the business after 1992 is peripheral (Mendelson, 2004).

In addition, studies found that women may be seen as risk averse because they do not fit the "gendered" dominant perception of what is risk-taking behavior (Gupta, Maxfield, Shapiro, & Hass, 2009). Maxfield et al, (2010) cite the example of women being penalized for engaging in behavior incongruent with expectations. If she "acts like a woman" she may very well be regarded as risk averse; conversely, if a woman "acts like a man" she is likely to have her "character, motives, or predispositions called into question" (p. 594). Ely et al (2011) concur, noting that this "…mismatch between qualities attributed to women and qualities thought necessary for leadership places women leaders in a double bind and subjects them to a double standard" (p. 477). In addition, they note the challenges women face in establishing their credibility "in a culture deeply conflicted about her authority" (Ely et al., 2011, p. 477).

Anecdotally, research on Magerko's tenure at 84 Lumber supported study findings. Male executives at 84 Lumber are quoted often in the press. Myrick, COO, is quoted on the successful expansion into homebuilders' supply, and Cicero, EVP, explained the debt refinancing, store closings, and other measures taken to keep 84 Lumber operational. Reginelli, Director of World Trade Division, dilutes Magerko's leadership by including her father in the attribution to the company’s turnaround success in his 2014 LEADERS interview("Mark Reginelli: 84's International Reach,"). By 2014, Magerko had been CEO/President/Owner for 22 years and had led her company from near bankruptcy to profit in a few short years.

Answers to Discussion Questions

1. What are risks Magerko employs in the case?

* Viability of the company by not filing for bankruptcy when it was in so much debt (2009).
* 10,000 employee's jobs (their ability to take care of personal financial needs)
* Not securing residential homebuilders as clients and simultaneously alienating the current DIY residential customer (1992).
* Her reputation and the company's reputation
* Family strife due to family business

1. What factors did Magerko consider in deciding a course of action?

* her past success
* market trends in home building
* employee skill set she had available to leverage in the company
* what her clients might need to help them grow their business
* location of target client building activity
* innovation opportunity (saws, installation services, component plant locations)
* keeping the company operational

1. As a female leader, what role did gender play in Magerko's strategic decisions or in how those decisions were portrayed?

Research indicates being female may have made her style more collaborative and more inclusive than a male's, though there is little to no evidence to support this in the public documents on 84 Lumber and Magerko. There is research that suggests risk taking by female leaders is less visible and therefore less acknowledged. In addition, Magerko's strategy to reduce the business substantially in the face of the business collapse was seen as betting everything whereas when her father took these aggressive risks he was portrayed as masterful (Alexander, 2015). That could be illustrative of the double bind Maxfield (2010) and Ely (2011) suggest.

Teaching Tips/Activities

1. The case is applicable to individual or group work assignment. Discussion questions can be answered within small groups with whole class report out. A requirement that students add to the discussion through research on risk-taking and female leader risk-taking in the school library or Internet sourcing is an addition element to teach/reinforce reference search skills.
2. A more intellectually-curious student group or graduate students could form debate sides arguing "Are women leaders/CEOs risk averse?" This could foster in-depth research for debate points by the groups, but may entail more time than one class meeting.
3. A SWOT analysis of decision factors Magerko considered in setting a new course for the business might be a good way to introduce SWOT analysis technique, further develop critical thinking skills, and enlighten students to women as risk-taking leaders.
4. Online groupwork assignments require written steps - and they must be structured within the LMS protocol. Teaching activities 1-3 (above) are convertible to online learning. Allocate more assignment time for students to coordinate their work in asynchronous courses.

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