

# A NEW DECADE, AN AGE-OLD INDUSTRY:

## A Look at How the LBM Business Has Evolved

By John K. Smith, CPCU



Change is familiar to an industry as old as lumber. From horse-drawn carriages to motorized vehicles to computers and other technology, the lumber and building materials industry has changed significantly over the years. My company, Pennsylvania Lumbermens Mutual Insurance Company, has been fortunate to experience much of that evolution alongside our partners in the industry—at least for the past 125 years.

### Historical Timeline of PLM

From Lumbermen,  
For Lumbermen  
**1895**

The Lumbermens Exchange formed with Penn. Lumbermens Mutual Fire Ins. Co. (Later to be PLM)

Boom Times  
**1921-31**

PLM passed \$1 million in Net Surplus milestone.

Safety Services  
**1943**

Increase in fire prevention and loss control programs as practical means of risk reduction.

Diversification  
**1950s**

PLM began to step-up its loss control efforts with a more formalized prevention program.



And, while we've watched these companies evolve, incorporating new technologies and best practices, we've also worked with them to develop new risk management practices and products to protect their changing businesses.

As it was more than 100 years ago, insurance remains critical to protect lumber business operations should the worst happen; however, risk management strategies and tactics have also evolved to help lumber businesses prevent accidents and minimize impact if they do.

## A Little History

There was a time when every town had a lumberyard. These were independent businesses run by families and built near railroads or alongside rivers on the outskirts of town. Over time, these businesses expanded, adding more locations, buying local competitors, and becoming an integral part of their towns. These retail dealers then began forming larger, regional organizations. With these developments came a new set of opportunities and challenges for business owners to manage.

As they grew into a core component of society, these retail dealers experienced significant business booms; however, they also faced new challenges, operating on land that was valued higher and tackling greater customer demand. These challenges compelled the lumber and building material dealers to come together to form organizations such as the NRLA and form buying groups like LBM Advantage and Lumbermens Merchandising Corp. (LMC), so they could pool resources to purchase materials and more.

Technology was the next significant change. Just 20 years ago, many lumber dealers did not even have fax machines, let alone computers. Now they sell their products online and boast highly automated processes. Once, lumber was carved by hand, but now it is all automated to maximize efficiency. Sawmills once had as many as 150 people working on site. Today, technology has reduced the need for on-site personnel. Computers are even handling the task for assessing lumber stock, scanning incoming logs to estimate how much lumber it can yield.

## Changes in Risk Management and Insurance

From a risk management perspective, the needs of this industry

have evolved as well. Automated machinery has contributed to safer wood processing. Technological advancements have improved the safety of woodworking and truss manufacturing, among many other things.

Other aspects of the business have evolved to address risk, such as electrical systems. Electrical systems today meet complex demand with high electrical loads needed to run machinery and computers. In the past, there were frequent lightning losses. Now, because of lightning suppression systems, we rarely see these losses.

Today, companies know more about managing safety and business practices in their facilities and operations to limit their risk exposures. While some known risks simply persist or evolve over time, new risks have also emerged. Insurers have had to expand and adapt coverage as the industry's risks have become more complex. External factors like social inflation have increased liability risks and have turned insurer focus to managing fleet safety, forklift safety, loading and unloading risks, slip-and-fall risks, risks related to the use of subcontractors, construction risks, and more. New risks like those related to employment practices and advancements in technology have led the insurance industry to create employment practices liability insurance (EPLI) and cyber policies to respond.

In the early days of insurance for the wood niche, insurers hired retired firemen to conduct basic inspections and minimize the chance of serious losses and liabilities. Today, insurers are proactive and hands-on. Risk management considerations are part of every decision an insurer makes. Insurers employ people with degrees and years of experience in risk management. They conduct detailed risk management inspections and recommend

To view the full timeline visit [plmins.com/about/timeline](http://plmins.com/about/timeline)

### A Building of Our Own 1956

The former Ritz-Carlton Hotel, renovated/re-named "The Pennsylvania Lumbermens Mutual Insurance Building."

### Natural Disasters 1960s

Natural disasters caused severe damage in our country shifting PLM's focus on the company's traditionally profitable lumber line.

### Return to Our Roots Late 1960s

The retail lumber and building material industries were in a period of unprecedented prosperity.

### Connecting with the Industry 1967-84

PLM re-established important connections with lumber, woodworking and building material associations.

valuable loss control and risk mitigation tactics. Equipment appraisals have become more popular to ensure businesses have adequate protection. We also use thermal imaging to assess fire risks, assist with disaster planning, create formal risk management service plans, and more.

Formal risk management service plans have been one of the industry's most significant developments. Businesses have realized that no insurance policy can cover every ramification of a potential loss. For example, if someone is injured in a forklift accident, workers' compensation will respond to the injury and property coverage can address damages. But what about the lost productivity? There are always uncovered aspects to losses. Businesses must understand their risk exposure to make sure they are equipped to move forward.

### Evolving to Meet Future Challenges

As the industry has adapted to change in the past it will continue to adapt to the changes the future brings. Today, a critical business challenge is the COVID-19 pandemic, which at the time of writing this article is evolving quickly and serves as a real threat to human life, as well as global business. We don't have all the answers right now, but as a mutual insurance company, our position is to look for appropriate coverage solutions in a policy because we are owned by our members, and our job is to protect those members.

For lumber and building material dealers, a major initial concern has been the ability to pay premiums on time as revenue has been lost due to government-mandated business shutdowns and economic turmoil. At PLM, we are working with our member companies through this hardship—as we have when our country has faced other adversities over the years.

Though unprecedented and seemingly all-consuming as I write this, the virus is just one of many challenges currently facing the industry, and I would be remiss not to mention them here. From an employment standpoint, the industry is working on succession planning for the next generation. The next generation is diverse, and businesses in the wood niche are finding ways to recruit

and retain individuals from a variety of different demographics. Additionally, with advances in technology, the roles the industry needs to fill are changing as well. Further, overcoming language barriers has become an industry priority. Companies are finding effective ways to communicate safety information in multiple languages to better accommodate a diverse workforce. Lastly, in this era of distracted driving, hiring safe drivers is incredibly important for lumber businesses. Fortunately, there are many ways for lumber and building material dealers to improve driver safety with technology that assists in monitoring driver behavior, simpler access to Department of Motor Vehicle records, and improved driver training programs. These challenges are not unique to the lumber business, as companies across industries are facing difficulties with planning for the future.

While there is no doubt the industry has transformed for the better since its inception, there is value in looking to the wisdom of our predecessors. This is a business about people, with its foundation in quality service. Lumber professionals do business with people with whom they have developed strong relationships. Even as technology has pushed these businesses online and allowed broader geographic reach, relationships are still what drive the industry forward.

The lumber and building material industry today finds strength in prioritizing healthy risk management practices. As PLM marks its 125th anniversary insuring lumber and building material businesses, we celebrate our past and continue to work with our insureds to build financially strong businesses backed with risk management support and insurance protection should they need it. **LC**

#### About the Author:

*John K. Smith is president and CEO at Pennsylvania Lumbermens Mutual Insurance Company (PLM). With more than 40 years in the insurance industry, he has been a part of PLM since 1998. An active member of both the insurance and wood products industries, John serves on the boards of multiple non-profits and professional organizations.*

#### Put To The Test 1980s

By the last half of the decade, the company reached an all-time high in assets and surplus.

#### Better Together 2013

PLM affiliates with longtime competitor Indiana Lumbermens Mutual Ins. Co.

#### Leadership Award 2018

President & CEO John Smith Awarded the Distinguished Leadership Award.

#### PLM Proud 2019

PLM recognized as a 2019 Top Workplace by The Philadelphia Inquirer