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PAGE ONE FEATURE

eBricks, Gen-X Brainchild, Faces Off With Construction-Industry Barons

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In the final round of Harvard University's annual business-plan competition last spring, Tawfik A. Hammoud, a soon-to-be minted M.B.A., presented his fellow students with a novel concept for revolutionizing the staid \$250 billion market for building materials.

The idea was "eBricks," a company that would create an online marketplace where contractors could organize their buying, check prices against big suppliers via the Internet, and, with a click of the mouse, purchase every imaginable product. The system would eliminate hours of headache for contractors and slash millions in costs from an industry that looked ripe for Internet picking. The barons of the building-supply industry wouldn't know what had hit them.

"This is a fairly dull, fairly tough, completely undercapitalized industry," said Mr. Hammoud, a dark-haired 27-year-old French-Moroccan. "There's a huge opportunity for us." By the end of 2003, the student founders predicted eBricks would be processing annual sales of \$2 billion.

Mr. Hammoud and his four partners were runners-up in the closely watched Harvard Business School competition that day. (The winner was localRewards.com, a Web site at which businesses give customers discounts and prizes.) Within a few months,

eBricks had more than \$3 million in seed funding from New York venture-capital firm E.M. Warburg Pincus & Co. Soon the company negotiated a merger with Blueline Online.com, a Silicon Valley construction-planning service. Smelling another e-commerce triumph, venture capitalists pumped \$41.5 million into the joined companies three months ago.

But in the year since eBricks emerged from Harvard's leafy campus, the Old Economy system that the start-up aimed to reorganize has proved more robust than first seemed. Indeed, when eBricks (now part of Cephren Inc. after the merger) launches its online buying system later this spring, it will face a withering lineup of well-funded -- and branded -- competition, much of it from the very lumbering titans of the industry that not long ago looked so vulnerable.

Among the old-line players is Wickes Inc., a ubiquitous \$1.1 billion Midwestern lumberyard chain that has tried for the past five years to develop a viable Internet strategy. Last month, Wickes went online again as part of a powerful new Internet building-supply system called Buildscape Inc. Masterminded by Wickes's chairman and biggest shareholder, J. Steven Wilson, it plans to link the inventories of Wickes and up to five other lumberyard chains across the U.S.

Eighteen months ago, Buildscape (www.Buildscape.com) and eBricks were focused on fundamentally similar concepts. Both imagined a site at which any builder in the U.S. could order any construction material from a massive electronic catalog. They would also feature auctions of leftover supplies, industry news and technical information.

The evolution of the two concepts since then is a telling story of how unpredictably the New Economy is emerging, and how quickly conventional wisdom can be turned on its head. Both Web operations have yet to prove themselves. But each has learned that the key to online success will be leveraging the old ways of doing business, not wrecking them.

It is also clear that if Wickes and similar companies can finally get the Internet business right, their core assets -- customers, brands, locations, market knowledge -- will make them fierce New Economy players. Whipsawed by the past two weeks of gyrations in the technology and dot-com heavy Nasdaq Stock Market, investors are wrestling with the same issues. Tuesday, the gulf between the New Economy and the Old widened again as the Dow Jones Industrial Average rose 100.52 points, or 0.9%, to 11287.08, while the Nasdaq Composite Index fell 132.20, or 3.2%, to 4055.90.

It isn't so certain that the reins of digital commerce will be held by the Generation-X executives who were the first to "get it" -- as was once so widely believed -- or by the brightest of their older incumbent competitors.

If dot-coms rule, the eBricks founders could be poster boys for a global New Economy. Mr. Hammoud, 27, was born in Morocco, educated in France, carries a Canadian passport, speaks five languages and worked as a consultant before attending Harvard. His partners include Nikitas Koutoupes, 27, a McKinsey & Co. consultant for three years and former economic aide in the Greek prime minister's office. The visionary of the group is Enrique Macotela, a 31-year-old architect from Mexico City. Rounding out the original team is Jorge Henriquez, 30, son of a prominent Mexican industrial family.

The four met at Harvard in early 1998 and decided the following fall to come up with an Internet-based business plan for the school competition. But what kind of business? Mr. Macotela was fascinated with eBay Inc., the online auction site, and wondered if similar sites could target specific industries. Mr. Henriquez, whose family owned a big drug wholesaler in Mexico, thought selling prescription drugs online might work. But after several months of effort, the pharmaceutical concept hadn't jelled, and real-world competition was already claiming the space. So Mr. Macotela said perhaps they should apply a similar model to building materials. A friend suggested the name "eBricks" the next day.

The students charged into the new concept, recruiting a fifth Harvard M.B.A. candidate, Timothy S. Perini, 33, son of the family behind Perini Construction Co., a

large U.S. commercial contractor that previously had business dealings with Mr. Henriquez's family concern.

By March last year, the five students had developed an elaborate plan aimed at selling a huge range of building materials over the Internet. The idea was structured similarly to a runner-up in the Harvard contest two years earlier -- for a laboratory-supply company. To be another Chemdex.com, which went public and hit a market value before the recent tech fall of nearly \$4 billion, was the Holy Grail.

A very different kind of e-commerce story unfolded at the headquarters of Wickes Inc., in Vernon Hills, Ill., just outside Chicago.

As the Internet boom took off in the mid-1990s, Wickes was struggling more to stay afloat than to catch the next wave. Bled by the success of Home Depot Inc. and Lowe's Co s., Wickes, a mainstay for building materials in the Midwest since 1952, was closing stores and fighting a mountain of debt. An ill-conceived investment in Russian timber had the company spending millions to prop up unprofitable sawmills. By 1995, things were so bad that Mr. Wilson, the big shareholder and a former insurance executive who lived in Jacksonville, Fla., had taken the roles of chairman, chief executive officer and, for one year, president of the company.

To deal with the mounting problems, Mr. Wilson, 56, convinced the board that Wickes had to make big changes, including retooling itself as a chain aimed at commercial homebuilders -- not the do-it-yourself market commanded by Home Depot. Mr. Wilson was anything but a technophile. Barely able to type, he was only vaguely familiar even with e-mail.

But he was intrigued by novel concepts -- sometimes to the frustration of his own investors. (The Russian timber scheme was his idea.) Even a technophobe could see that the Internet was a potentially powerful tool. "There was something to it that was so broad and would give us so much reach," Mr. Wilson says. "I thought intuitively something would come out of it." He was also worried that some upstart new

competitor or Home Depot, which has repeatedly delayed the start of its own Internet business, might use the Web against him.

Dungeons & Dragons

Wickes did what many Old Economy leviathans try first. It hired a youthful Internet expert, Jared Nielsen, a then 25-year-old, self-taught computer programmer in Michigan, to begin building Internet links between Wickes stores. Mr. Nielsen agreed to take the job after realizing that his hero, Gary Gygax, inventor of the role-playing game Dungeons & Dragons, lived nearby.

"I'm a game freako, dude," says Mr. Nielsen, a father of five with a tightly trimmed beard. "I could have a house next to this guy and have a job at this old lumber company."

Soon, Wickes.com was on the Internet, with a site featuring interactive price quotes and allowing builders to access records of their previous purchases. But it turned out that carpenters weren't attracted to an Internet site about building products, and Wickes.com generated limited traffic and even fewer purchases.

The Wickes board began questioning Mr. Wilson's Internet spending. Frederick H. Schultz, 71, a director and a former Federal Reserve System governor, says, "I'm a little older and when I looked at Wickes, I thought ... "Do we need to take on a new thrust?" "

'A Truckload of Plywood'

With Amazon.com making headlines at the time, some managers at Wickes couldn't imagine online sales of items that, unlike books, couldn't be shipped via FedEx. "Our customers come in looking for a truckload of plywood," says one former executive.

Mr. Nielsen's private lunches with the chairman of the company also grated. "There's nothing worse than having some wingnut 20-something-year-old become the CEO's pet," Mr. Nielsen concedes.

In the fall of 1997 -- about a year before the seed of eBricks was planted at Harvard -- exasperated board members directed Mr. Wilson to shut down the Internet effort, bail out of Russia and close other peripheral operations. "The board said to management, 'Get rid of the distractions,' " says Claudia B. Slacik, a Citibank N.A. managing director who sits on the board.

Rather than kill it off, Mr. Wilson bought the Internet operation from Wickes for about \$900,000 and folded it into Riverside Group Inc., his holding company in Jacksonville. "I had to take Jared with me," adds Mr. Wilson, who remained chairman and CEO at Wickes. "He wasn't going to last any longer at Wickes."

In Jacksonville, Mr. Wilson, mostly using \$5 million of his own money, began exploring other concepts. Over the next year, the team at Riverside hatched a handful of Web ideas, including Homebuildingresource.com, an advertising-driven site with editorial content aimed at builders. Again, hardly anyone came, and advertising dried up.

He also was tiring of the game-obsessed programmers under Mr. Nielsen, who had convinced him that programmers would take lower salaries if part of the job entailed writing Internet fantasy games. "They changed their hair every day," Mr. Wilson recalls. "Some days, it was Tidy Bowl blue, another day, it's red."

Mr. Nielsen left the company in late 1998 to set up his own Web-site support business. Mr. Wilson then sold off the Internet game operation -- and the colorful programmers -- in exchange for a big stake in Austin, Texas, game maker Greenleaf Technologies Corp. Worth \$7 million at the time, Mr. Wilson's stake in Greenleaf has since risen to a value of more than \$25 million.

The game sale capped off Wickes's circuitous and puzzling first foray into the Internet. Still, Mr. Wilson was more convinced than ever that Internet commerce could fundamentally change Wickes. A system linking thousands of buyers could project demand and identify key customers; thousands more products could be offered online than a store could stock. To pull it off, he would need to build alliances with other

lumberyard companies to swiftly create a nationwide business. Most important, Mr. Wilson realized he needed more-sophisticated technology.

So Mr. Wilson started from scratch. To run the revamped business, he pulled together a new set of mature "real" executives. As marketing chief, he hired John Forrester, 45, also a Harvard M.B.A., but one with better than 20 years of management experience at International Business Machines Corp. , Wang Laboratories Inc. and CSX Corp. Tom Kohn, a no-nonsense 42-year-old direct-marketing executive, was brought in late last year as chief operating officer. Mr. Wilson hired as his new chief technology officer 37-year-old Kerry Young, a programming engineer from Marshall Industries, an El Monte, Calif., electronic-components company and pioneer in Internet selling.

Real World

After Harvard graduation, the eBricks founders worked feverishly to raise money and apply their business plan to the real world. The nascent concern moved to New York, taking advantage of a city-subsidized economic-development program to rent cheap offices near Wall Street.

Mr. Perini was an engineer who had managed big Perini Co. projects, including the \$250 million New York City reconstruction of Williamsburg Bridge. And others on the team had past construction-related experience. But there was much more to the vast and gritty world of construction. "Very quickly we realized we needed to hire insiders from the industry, from buyers and sellers, and that would be our conduit and link to the market," says Mr. Hammoud, now Cephren's international sales manager.

Every Tuesday, the founders gathered in New York for often contentious progress meetings. They wrestled with what they heard from new employees in the field and doubts about how to budge an entrenched business. "The industry was like this humongous tanker, and you've got five kids from Harvard Business School trying to push this tanker with your bare hands," says Mr. Hammoud. "We would ask ourselves,

'Is this what the industry really wants?' ... "Maybe this industry is not ready for a B2B market.' You would leave with your brain just numb."

The team realized almost immediately that the scope of their original vision was too broad. Managing a market for big bulky products such as roofing material and two-by-fours would be almost impossible without a network of existing distribution centers around the country.

It also turned out that there was a rationale behind many of the construction-industry practices that at first looked so inefficient. Indeed, contractors' basic buying habits work against the original eBricks model, which would have pitted all suppliers against one another in a brutal electronic price competition. Contractors actually don't want to shop endlessly for the lowest prices. They follow an Old Economy maxim that when buying truly critical supplies, buy from a trusted source -- one that consistently shows up on time and with the right stuff. Familiar suppliers also act as de facto financiers for contractors. The big problem contractors have is the time wasted on phone calls and faxes to organize purchases. "As time went on, we realized how those relationships actually work," Mr. Perini says.

Peppered with questions by venture capitalists last summer, the eBricks team refocused their business proposition. EBricks realized it had to win over "trading clusters" -- well-established groups of buyers and sellers with longstanding relationships -- without threatening the suppliers' prices.

'The Pain They Feel'

The focus of eBricks became to streamline a cluster's transactions, cut processing costs, shorten the time required for orders, and eventually increase sales between the parties. "We always thought that showing people that we were going to knock 20% off the product price was sort of the big carrot," says Mr. Henriquez, now a director of sales at Cephren. "We've realized that the closer you get to the contractor, the more concerned they are with getting rid of the pain they feel."

By last fall, even bricks were no longer part of the eBricks plan. Instead, eBricks would launch as a regional operation focused in the Northeast, and initially sell only electrical components, certain plumbing materials and heating and air-conditioning parts. The team also began zeroing in on engineers and architects who order huge quantities of those materials, like those building resorts, office buildings and other big commercial projects.

Potential customers also began asking eBricks whether their system would work with any of the elaborate new services which allow different parties working on a big construction project to access plans and coordinate activities on the Web. At a conference last year, Mr. Perini met Jas Dhillon, chairman of Blueline Online.com, a prominent Web planning and collaboration start-up in Palo Alto, Calif. Blueline says its service is in use at more than 3,000 engineering, construction and architecture firms around the world and was used in several recent high-profile construction projects, including the \$2 billion Venetian hotel in Las Vegas.

In January, the two companies merged, adopting the name Cephren, after the Egyptian king who built the second pyramid of Giza. Cephren announced the \$41.5 million funding from a group including GE Equity Investments, GE Power Systems and Goldman, Sachs & Co.

These days, at the old eBricks offices in New York, Messrs. Macotela and Perini are preparing to move shop into upscale Midtown digs and overseeing final work on the buying system. It is being tested by more than 20 contractors and product distributors. The eBricks founders are also helping sell Cephren services to big construction companies in the U.S. and internationally, a huge untapped market. The system is scheduled to go live in May.

In Jacksonville, Mr. Wilson's team is wrapping up his new site, Buildscape. Last July, a homeowner-oriented version of Buildscape, incorporating a previous Wickes site called Toolsonline.com, went live. By the end of last year, the site had generated \$550,000 in sales from a catalog of 45,000 tools and products.

Like the eBricks guys, Mr. Wilson has concluded that the key to dominating Internet sales is to tap into those "clusters" of existing trading partners. For starters, nothing about his system will threaten the commission-based sales representatives who own Wickes's relationships with its 40,000 commercial accounts. They will get their cut on every purchase regardless of whether it happens online or using the account representative.

In February, Wickes began installing computer kiosks featuring the Web site that will be the backbone of Mr. Wilson's online strategy. A test group of 14 builders are using the e-commerce system in conjunction with two Wickes stores in Pensacola, Fla., and Pascagoula, Miss. Within a year, Mr. Wilson expects the system to be running in all 100 Wickes stores with at least 22,000 contractors actively using it. Eventually, he projects between \$400 million and \$500 million in additional annual revenue at Wickes.

More important, Mr. Wilson wants to build on the hundreds of thousands of existing customer relationships at other lumberyards. Advanced negotiations are under way to link four other undisclosed lumberyard chains to the site, Mr. Wilson says. Once the others come aboard, Buildscape will be able to trigger local deliveries from more than 600 locations across the U.S. and offer a product catalog featuring more than a million items. Mr. Wilson says annual Internet sales at all the chains will hit \$2 billion within three years. Buildscape will collect processing fees on sales.

At Wickes headquarters, the Internet is no longer so mystifying. The brick-and-mortar version of the company is back on track for very Old Economy reasons. In the year ended Dec. 25, 1999, net income was \$7.6 million, compared with a loss of \$1 million the prior year. And Wickes's most skeptical executives are embracing the new e-commerce rollout.

"What's happening today is creating much more massive changes than the Industrial Revolution, and is changing things so much faster," says Mr. Schultz, the once dubious board member. "My sense is that the first wave is always the bright young guys with

lots of experience fooling around with computers and the Net... . The companies with smart management are going to come out on top. That's still the name of the game."

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