FACTORY DIRECT PURCHASING IN A RISING COPPER MARKET

A Distributor's Guide to Dollar-Cost Averaging Their Bulk Cable Purchases

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Executive Summary

Copper is the single largest cost component in most low voltage cables, and its price moves independently from other variables such as freight, labor, and manufacturing overhead that all move slower and more predictably. For distributors, that makes copper the primary source of margin risk and margin opportunity in bulk cable purchasing.

This paper makes one central argument: factory direct purchasing of low voltage cables is not just a bulk-discount transaction. It is a copper price-management tool. In a rising copper environment, factory direct ordering is an effective hedging tool when deployed on a consistent calendar-based schedule. It becomes a mechanism that keeps a distributor's landed costs and warehouse stock pricing aligned with the market rather than exposed to it.

The strategy discussed here is dollar-cost averaging (DCA): placing factory direct orders at regular intervals regardless of where copper prices happen to be that week, rather than patiently waiting to catch a perceived market bottom.

We'll walk through how SimplyBrands-SCP's own stock ordering process feeds warehouse stock pricing, why scheduled purchasing outperforms market timing over a multi-quarter horizon in a rising or falling copper environment, and what the next 24 months of copper pricing are expected to look like.

1. Bulk Factory Direct Purchasing is a Hedging Tool, not Just a Volume Discount

The SimplyBrands-SCP Factory Direct Program is the most cost-effective method that distributors can use for their low voltage bulk cable purchases. The program is available for both LCL (Loose Cargo Load) and FCL (Full Container Load) with reasonable total order and sku MOQ's. It's a natural assumption: the larger the order, the better per unit economics, therefore FCL purchases provide better pricing. However, that framing is incomplete, especially in a rising copper market such as we have now.

The price per foot-meter on any copper based low voltage cable order is a function of three main components:

1. Manufacturing costs (extrusion, jacketing, striping, spooling, packaging, labor)
2. Material costs (copper, pvc, pe, etc.), and
3. Transport costs (freight, duties, taxes).

Manufacturing and transport costs scale down modestly with volume, which is where the "bulk purchasing" discount exists. Copper and material costs do not scale down with volume at all. The copper (material) costs per pound/kg are the same for one box or a container of boxes.

What a Factory Direct purchase actually buys a distributor is a locked-in copper basis for a large quantity of product, on a date of the distributor's choosing, ahead of consumption. In a market where copper is trending upward, locking that basis today against inventory that won't be sold for weeks or months is the primary value proposition with the per-unit landed cost savings, as an additional secondary value.

This distinction matters operationally. A distributor who buys a container purely because "the number was good" has no strategy for the next order, they're simply waiting for another good number to appear. A distributor who understands the Factory Direct Program as a copper-exposure tool over time will have lower cost basis than their competition that buys only from supplier warehouse stock.

The Factory Direct Program is a repeatable decision framework: buy on a schedule that matches expected consumption, that smooth out purchasing costs over time, independent of trying to call the top or bottom of the market.

2. How Companies Hedge Copper Exposure

Manufacturers, cable producers, and large distributors typically manage copper exposure with some combination of the following tools:

- Futures and forward contracts — locking a price for future delivery on COMEX, FOREX, or LME, used primarily by producers and large OEMs with treasury desks.
- Options — paying a premium for downside protection while retaining upside participation; more common among financial hedgers than physical buyers.
- Copper price-adjustment (CPA) clauses — supply contracts that peg the copper component of price to a trailing COMEX/FOREX average, shifting timing risk rather than eliminating it.
- Physical/inventory hedging — for distributors without a derivatives desk, buying and holding physical stock ahead of anticipated price increases.

Most distributors are not positioned to run a futures or options book that requires margin accounts, mark-to-market accounting, and commodity-desk expertise most cable distributors don't carry and shouldn't need to. The SimplyBrands-SCP Factory Direct Program is the physical-hedging equivalent: it achieves a similar averaging effect through purchase timing and schedule rather than derivatives. This program works effectively whether copper prices rise or fall.

3. Dollar-Cost Averaging: Why a Consistent Schedule Beats Market Timing

Dollar-cost averaging (DCA) is a simple mechanism: instead of committing to a full position at one price, a buyer commits to fixed intervals, Factory Direct buying every month, every six weeks, every quarter, regardless of where copper happens to be trading that day. Over a series of purchases, the buyer's average cost basis smooths out toward the market's average over that period, rather than being pinned to whatever the price happened to be on one specific date.

In a market that is trending upward over time or downward over time, DCA is proven to be favorable for the buyer:

- Each new purchase resets the buyer's cost basis closer to the current market, rather than leaving the buyer permanently anchored to an old, now-stale price they didn't lock in enough volume against.
- If copper spikes between orders, only the next order is exposed at the higher price.
- If copper dips between orders, the buyer captures that dip on the next scheduled purchase automatically, no discretionary call required, no risk of missing the window.

There are two alternatives:

1. *Try to "time the market".* This involves waiting for a perceived market bottom before placing a Factory Direct order. This requires being right about both <u>market direction</u> and <u>timing</u>. That's a difficult bet to make reliably. More likely the buyer will wait and watch prices rise, ultimately increasing costs and risking stock shortages because of the purchasing delays.
2. *Continuing to buy from supplier warehouse stock*. For distributors that can support Factory Direct ordering, purchasing from supplier warehouse stock should only be used for non-core inventory items or for when increased sales create a stock shortage until the next Factory Order arrives. Relying primarily on purchasing from supplier's warehouse stock increases distributor inventory costs and lowers margins. Over time, this puts the distributor at a competitive disadvantage to distributors consistently using the Factory Direct program.

A purchasing strategy that depends on correctly guessing the rise and fall of copper prices, carries meaningfully more risk than a structured purchasing strategy that performs reasonably well across whichever direction copper prices go.

4. How Scheduling Feeds SimplyBrands-SCP Warehouse Stock Pricing

SimplyBrands-SCP's domestic warehouse pricing is built on seasonal purchasing schedules, and understanding the mechanism helps distributors understand SimplyBrands-SCP pricing from stock versus placing Factory Direct orders.

Because SimplyBrands-SCP brings in containers on a regular, staggered schedule based on seasonal sales history rather than opportunistically, the copper embedded in warehouse stock at any given time reflects a blend of recent purchase dates rather than a single freeze-frame of the market. In a rising-copper environment, SimplyBrands-SCP's warehouse stock reflects an averaged basis across multiple recent purchase intervals, so as copper trends upward, warehouse stock pricing tends to lag the raw spot price — it has not yet fully "caught up" to the newest, highest price points, because part of the position was locked in at an earlier, lower level.

- That lag is the direct, structural benefit of frequent purchasing: it converts market volatility into a smoother, more predictable domestic price curve for the distributor buying from stock.

In this scenario, the spread between SimplyBrands-SCP warehouse pricing and Factory Direct spot pricing is narrower. However, this spread narrowing is short-lived. In a rising copper rate environment, warehouse pricing will continue to rise as new stock is produced. The biggest mistake a distributor can make is suspending their scheduled Factory Direct orders to purchase their core items from the supplier's warehouse stock, or for a distributor contemplating the Factory Direct program deciding to wait and continue only buying from warehouse stock. Doing so just increased their purchasing costs 10-20%.

In a market with volatile copper prices, distributors that buy their non-core inventory from SimplyBrands-SCP's regularly replenished warehouse stock, <u>PLUS</u> buying their core inventory through the Factory Direct program on a consistent schedule, will produce significantly lower inventory costs than trying to time the market or relying only on the supplier's warehouse stock for all of their inventory needs.

5. The Risk of a Market-Timing Mindset

Distributors that understand the value of the Factory Direct program sometimes can fall into a "market-timing" mindset. The core risk in spot buying isn't that any single spot purchase is a bad decision in isolation, it's that a spot-only approach conditions a distributor to wait for a signal that copper has "peaked" or "bottomed" before committing to volume. That mindset has three compounding problems in the real world:

- Forecast dispersion means there is no consensus signal to wait for, by the time multiple analysts agree a bottom has been reached, the market has typically already moved off it.
- A missed or mistimed spot buy doesn't just cost a distributor a few points of margin, it can lock an entire container's copper content at a cyclical high, with no smaller, earlier purchases to offset it.
- Market-timing behavior is difficult to unwind once established: a distributor who successfully times one buy is reinforced to keep waiting for the next "right moment," which increases exposure to exactly the kind of sharp, supply-driven spikes that can lead to unnecessary higher costs.

This doesn't mean that spot buying is never appropriate, it can supplement the Factory Direct scheduled program when a distributor has clear, specific evidence of an unusual short-term dislocation. The risk is treating spot timing as the primary strategy rather than the exception.

Conclusion: Scheduled Factory Direct Buying Is the Strategy

Copper is the least predictable, most consequential input in low voltage cable costs, and industry projections expect copper prices to continue trending higher over the next 24 months.

The most cost-effective distributor buying program is a combination of regularly scheduled Factory Direct orders for core inventory items, supplemented with non-core inventory sourced from SimplyBrands-SCP warehouse stock.

A strong Factory Direct buying program is built on scheduled purchasing, sized to support expected seasonal sales and repeated on a fixed interval. This is much more effective than trying to time-the-market for the single best moment to buy. That discipline is what allows SimplyBrands-SCP's warehouse stock pricing to stay ahead of a rising market rather than reacting to it, and it's the same discipline we recommend distributors apply to their own buying decisions: treat the Factory Direct Program as a copper hedge deployed on a schedule, and let the schedule, not the daily copper index drive the purchase.

Distributors interested in participating in our Factory Direct Program, or in developing a buying plan to lower your inventory costs, should contact their SimplyBrands-SCP sales representative for more information.