



Executive Insights

Questions for the Building Products Sector as Construction Reopens

In the U.S. building and construction sector, reopening has begun. Employment in construction increased in June by 158,000 jobs after a revised increase of 453,000 in May. The unemployment rate for construction workers [fell to 12.0%](#) on a seasonally adjusted basis from 15.2% in May.

At the same time, the situation is still evolving, and many offices and businesses are still not back to normal. For instance, Kastle System's Back to Work Barometer showed that on average across 10 major metropolitan areas, office occupancy (based on use of key cards and entry software) was at 21% of normal as of July 1, [ranging from 32% in Dallas to 9% in New York City](#), indicating that the reopening process is far from complete. At the same time, the building and construction industry must adapt to a new set of working requirements, with implications for manufacturers and distributors.

As states begin to reopen, building and construction companies face new safety mandates for construction sites and installation processes, offices, plants, and building product dealers and distributors, as well as changed expectations by property owners for safe working practices.

Many less-sophisticated contractors, builders and distributors may struggle to navigate the evolving landscape. As one executive said in L.E.K. Consulting's [recent executive conversations](#): "Small

companies have to navigate a constant change of information, and they don't always have the resources to navigate the changing landscape." They are asking questions such as these:

- How do I protect my associates at [the] office, site or facility?
- How do I prevent being a cause of an outbreak?
- How do I change how we work given that property owners/ customers have new demands, such as not wanting contractors on the property or at least ensuring they are being socially distant?

Companies that are more sophisticated may be able to adapt more readily and provide a consistent level of service. As one distribution executive told us, "Small, regional distribution players are struggling. They are not going to have the service that they built their business on. As a larger player, we can offer a dependable service environment anywhere." Smaller distributors may be challenged to provide the same level of high-touch service within stores, given that they have less room to socially distance and may have to devote more resources to hygiene management rather than service. They will also need to offer new services, such as curbside pickup, that larger players may be better able to provide. Smaller companies may also have less access to scarce supplies as compared to larger companies, as [The Wall Street Journal reported](#): "Demand for protective equipment from governments and deep-pocketed buyers such as Walt Disney Co. and McDonald's Corp. looking to protect their workers and

Questions for the Building Products Sector as Construction Reopens was written by **Lucas Pain, Matt Korsch** and **Gavin McGrath**, Managing Directors, and **Paul Bromfield**, Principal, in L.E.K. Consulting's Building & Construction practice. Lucas and Matt are based in Chicago, Gavin is based in Boston, and Paul is based in New York.

For more information, contact industrials@lek.com.

Executive Insights

customers could also put small businesses at a disadvantage in locating sanitizer, disinfecting wipes, and other goods.”

New requirements and standards for social distancing also mean that **companies throughout the value chain will likely face reduced productivity levels**. Manufacturers and distributors can address this challenge by working with customers to:

- Adapt **manufacturing processes** to enhance safety and productivity (e.g., investing in more automation solutions)
- Determine how **front-line sales and marketing** can best integrate online selling into the channel mix (e.g., LP Building Solutions has [expanded its online training offering](#) to its customers, including offering training that’s customized by region)
- Support **construction sites and installation processes** in ensuring productive work and safe, socially distant practices as products are installed or to help end customers (e.g., Nana Wall Systems has announced that it will begin [offering copper handles](#) as a hardware option for its glass wall systems, given that copper surfaces have a lower likelihood of transferring infection)

Manufacturing processes

The priority for manufacturing processes is to ensure that COVID-19 is addressed in such a way that manufacturers:

- Emphasize safety in their manufacturing processes
- Pursue safety consistently and use best practices
- Ensure supply chain security
- Find ways to compensate for lost productivity

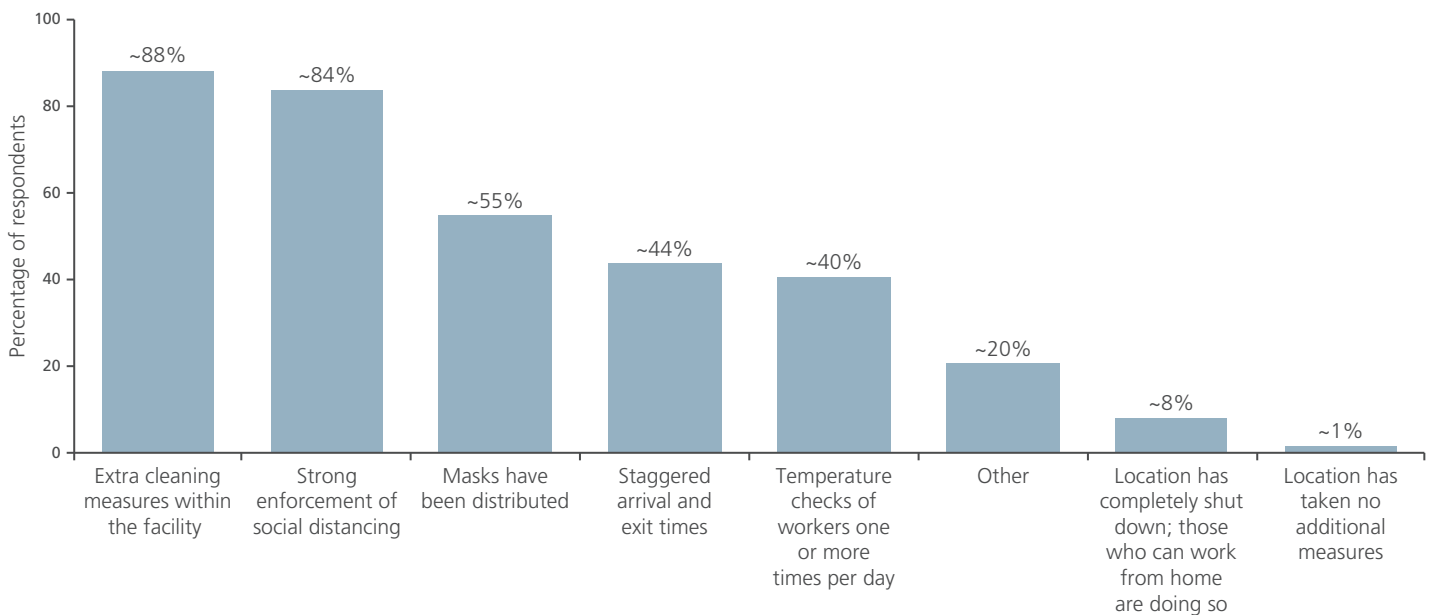
How can building and construction manufacturers achieve these goals, and what has been achieved to date?

Emphasize safety — The good news is that industrial companies have emphasized COVID-19 safety. Our recent post [How Can Industrial Managers Best Navigate a Post-Pandemic World?](#) found that all sectors recognize the issue and are prioritizing accordingly. Building and construction manufacturers are also adopting a set of safe factory working processes. New work arrangements include reinstating employees in stages, rotating teams, staggering start times, and customizing hours and shifts, among other creative solutions.

Pursue safety consistently and use best practices — Industrial manufacturers are pursuing some common approaches (e.g., [89% of manufacturers](#) are requiring 6 feet of distance between employees), but there are also significant differences. For instance, only 40% of facilities are conducting temperature checks (see Figure 1).

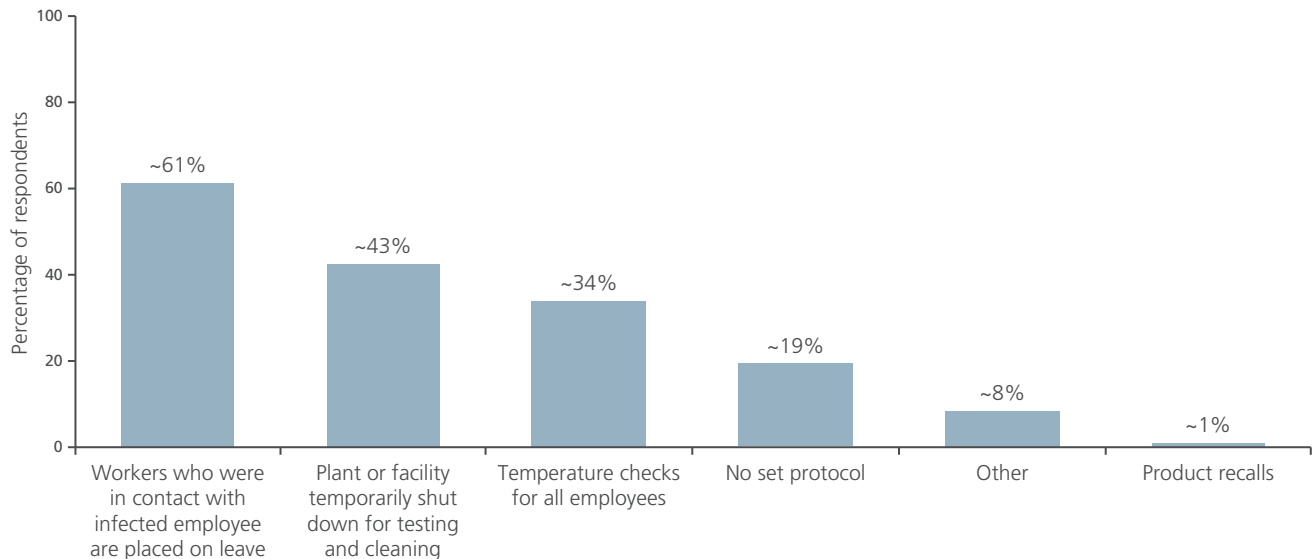
When an employee tests positive, companies differ in their response (see Figure 2).

Figure 1
Responsive measures that manufacturers have taken to COVID-19 in their locations



Source: Manufacturers Alliance for Productivity and Innovation (MAPI)

Figure 2
Manufacturers' procedures for when an employee tests positive for COVID-19



Source: MAPI

Ensure supply chain security — Although supply chain disruptions have not been significant in building and construction, as highlighted in our [recent conversations](#) with industry executives, manufacturers and distributors are aware of the risks of supply loss. To ensure greater security, companies are considering reshoring.

Find ways to compensate for lost productivity — Successful reshoring will in many cases require a greater level of productivity or increased costs. Enhanced productivity can also help mitigate any loss of productivity caused by, for example, needing to stage work or keep workers more socially distant. Automation, as [Industry Week](#) recently highlighted, can help: “Automation will be a key component of the effort to revive domestic manufacturing. While previous offshoring trends were fueled by a race to the bottom in terms of labor and productivity costs, advances in automation and robotics have drastically increased productivity across a number of manufacturing processes.”

In summary, supply chain security/reshoring and automation will become increasingly important. Building and construction executives need to ask these key questions:

- **Supply chain** — Have we optimized our supply chain for both security and cost, and what are the implications for domestic vs. international sourcing?
- **Industrial automation** — Where can automation enhance productivity? What investment/cost is required, and over what period?

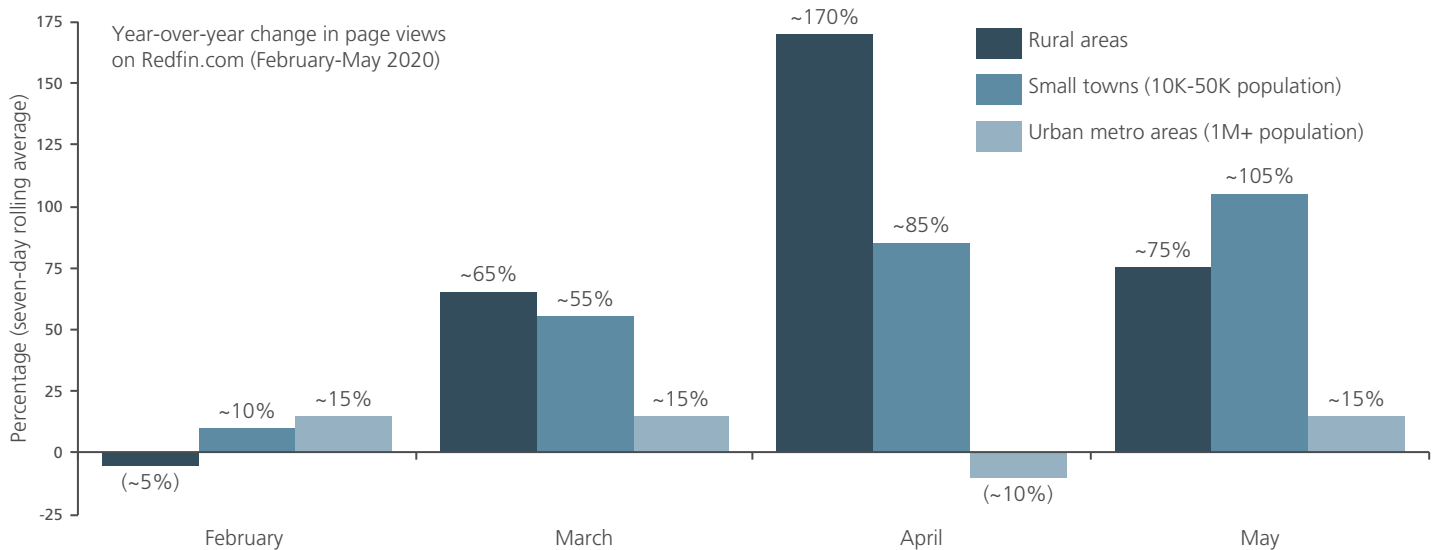
Front-line sales and marketing

Potential homebuyers are going online. Those interested in existing homes have increased their [online page views](#) (see Figure 3). Interest in rural areas is particularly strong, and supported by [Redfin's report](#) that showed that page views of homes in towns with fewer than 50,000 residents were up 87% year over year in May. This rate is more than triple the 22% year-over-year increase in page views of homes in cities where the population exceeds 1 million residents. The increased consumer desire for an online sales and marketing experience will translate to a greater online focus throughout the value chain, as well as opening up online sales to a broader set of homes beyond urban areas.

In **new construction**, builders are embracing new online and remote working methods for sales and marketing at the front line, and major builders are making investments in this area. Builders are launching tour functionality. For instance, CBH Homes launched its Tour Now and Buy Online features in August 2019, which allow potential homebuyers to tour a home on their own time with a specialized lock and code, and then buy it from the comfort of their home. CBH claims that because of COVID-19, [70% of its sales](#) now come from the Tour Now tool. Beyond tours, builders are establishing online sales closing. For instance, [Lennar](#) began to allow remote home purchasing in March and implemented a virtual new home orientation process via FaceTime and an “express drive-thru” for customers to get documents notarized from their vehicles, as well as links to a digital mortgage lending platform that initiates the process via an app.

Executive Insights

Figure 3
Increased online page views from homebuyers



Source: Redfin

Existing home sales are also [embracing online tools](#). Zillow saw roughly a 191% increase in 3D home tours as the pandemic took hold, while Redfin saw about a 494% increase in requests for agent-led video home tours.

Repair and remodel (R&R) companies are also applying online sales and marketing, sometimes in a low-investment setting. For instance, a Minnesota company, New Spaces, began [conducting virtual project tours](#) this month with help from Zoom, PowerPoint presentations, JPEG images, web links and before-and-after images. Contractors also need to consider how they will integrate an online platform into their existing processes and systems. One platform that seeks to address this is One Click Contractor, a virtual home improvement sales tool that integrates measurement, product selection, financing, contract signing, etc. into one system.

Finally, manufacturers and distributors have also adopted increased online sales and marketing to their distributor, contractor and builder customers because of COVID-19 restrictions but may need to do even more, especially as there is a significant divide among manufacturers in how much they are embracing and investing in digital solutions. Only 55% of building and construction firms plan to increase digital investment in the aftermath of COVID-19 (2021+).

Beyond sales and marketing, manufacturers and distributors need to look systematically at their processes. L.E.K. has worked

with manufacturers and distributors to help them do this, as recently highlighted in [COVID-19 and the Growing Digital Divide in Industrials](#). For example, many manufacturers and distributors spend a significant proportion of budget on trade shows and networking events and will need to redeploy at least some of this budget. As we have seen above, property owner adoption of online tools and an increase in the use of technology are driving increased online sales and marketing right up the value chain to manufacturers and even to their suppliers. Manufacturers and distributors need to recognize that their customers will expect an enhanced online sales offering, and they should address a number of questions:

- **Online strategy** — What are different customer segments' appetites for online solutions and what are the implications for digital investment?
- **The digital sales organization** — What should be the size of our sales force, where should it be deployed and what capabilities/structure are required?

Construction sites and installation processes

Job sites must adapt to a new set of requirements as a result of COVID-19, such as those laid out by the [CDC](#), including:

- **Reducing transmission by workers** (e.g., providing accurate information; taking steps to help prevent the spread of COVID-19 when an employee is sick; providing training in

Executive Insights

handwashing and access to cleaning and sanitation resources; developing and implementing social distancing guidance)

- **Maintaining a healthy work environment** (e.g., modifying work schedules to stagger work; restricting access to reduce the number of workers in enclosed and confined areas; rearranging work and social areas and/or installing shields to ensure appropriate distance; disinfecting work areas; canceling or postponing in-person meetings/trainings where possible; conducting a hazard assessment)
- **Maintaining healthy business operations** (e.g., designating a health and safety officer; implementing flexible sick leave and supportive policies to encourage sick employees not to come to work)

Guidelines continue to evolve. For instance, [the Occupational Safety and Health Administration \(OSHA\) has issued](#) “interim guidance” for construction work tasks associated with high risk levels as well as additional information on [face coverings](#).

These national recommendations also have significant variants at the local level. For instance, Massachusetts has issued [supplemental guidance for construction sites](#), including required reporting of COVID-19-positive workers to the Department of Health, which issues further notifications to those who had direct prolonged contact with the worker. Pennsylvania requires that each business identify a “pandemic safety officer” for each project or job site, and that large projects have a [safety officer on-site](#).

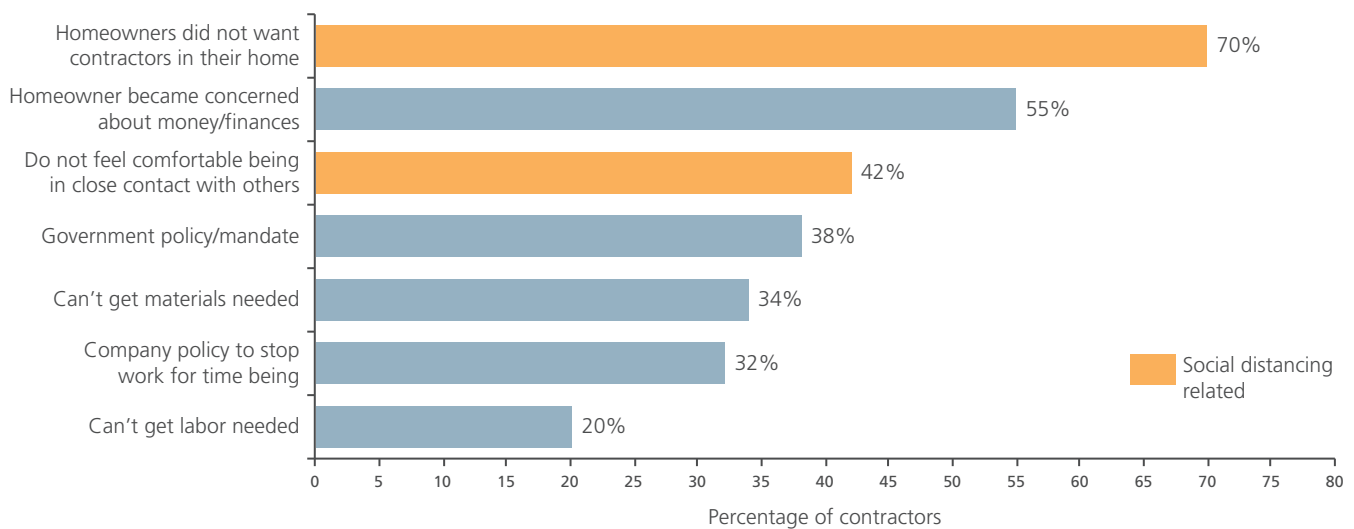
Regulators are also reining in some of the flexibility they allowed in recent weeks. For instance, [OSHA](#) announced in a memo on May 26 that it would increase its level of inspections and expect the same level of record keeping that existed before the onset of COVID-19.

Regardless of new requirements for workplace safety, many consumers are cautious about returning to a normal level of activity. For instance, the Home Improvement Research Institute (HIRI)/Farnsworth reported that according to contractors, ~85% of R&R projects as of June 1 had faced a delay due to COVID-19. For those that experienced a delay, social distancing was a major factor (see Figure 4).

Similarly, businesses have been cautious. A recent [FMI roundtable](#) of construction industry players found that the biggest cause of project disruptions was not regulations and restrictions, but decisions by owners (see Figure 5).

In summary, regulations and standards are evolving while many consumers and businesses are being cautious, and so job site productivity is expected to decline (e.g., due to the need to stage and separate work). One recent study by Electri International attempted to quantify that and found that electrical contractors focused on the construction industry had to devote 7% of hours to mitigation of COVID-19 (see Figure 6). More importantly, on average there was a [12% loss in work site productivity](#), although the loss varied significantly on a week-to-week basis, but sites can expect a continued reduction

Figure 4
Reasons cited by contractors for causes of COVID-19 delays

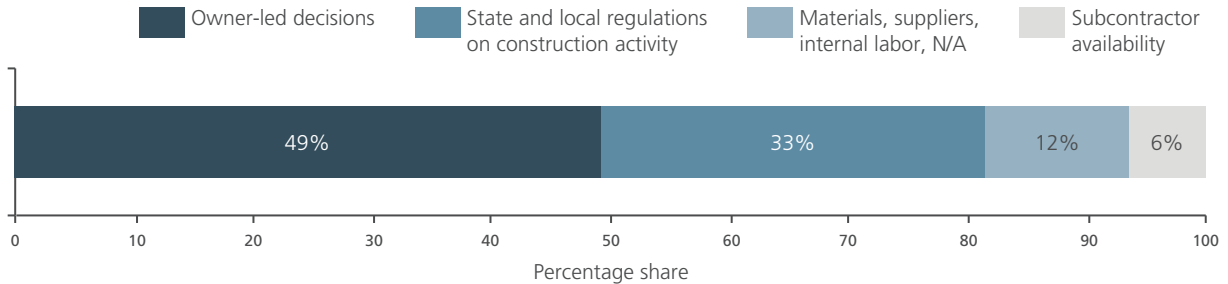


Source: HIRI, Farnsworth Group

Executive Insights

Figure 5
Causes of project delays

Considering all your organization's project disruptions, please allocate share estimates associated with the below:*



*April 27-May 1, 2020
Source: FMI

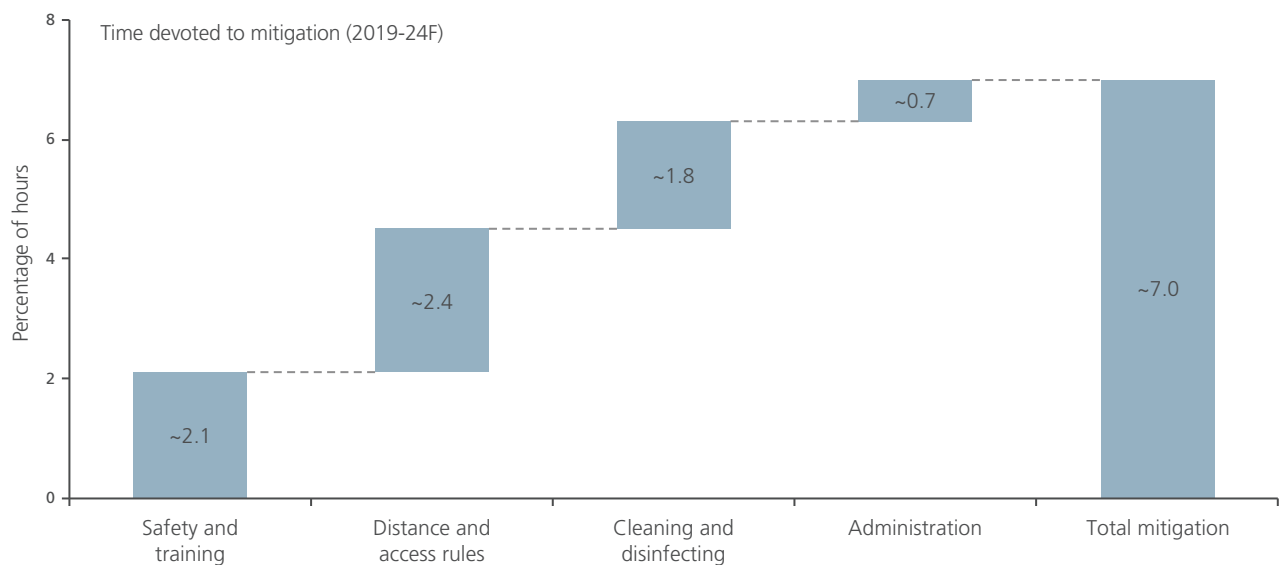
in productivity. Given this cost, contractors and builders will be hungry for any solutions that minimize productivity loss while ensuring workplace safety.

One obvious way that manufacturers can help their customers is by promoting existing products or adapting products to help customers adapt to the safety requirements of COVID-19, or give customers a greater level of protection against the disease. For instance, Mockett has developed a door handle cuff to offer

a hygienic approach to opening interior doors. Mockett claims that by simply resting your forearm in the cuff and pressing on the door handle, the device can minimize contact and possible contamination. Sonoma Forge's Sans Hands Automated Faucet Technology allows users to integrate [touch-free handwashing](#) in their home, preventing the spread of bacteria and diseases.

Technology has a role to play in implementing workplace safety measures efficiently, and some innovative solutions have emerged

Figure 6
Impact of COVID-19 on construction productivity



Source: Electri International

Figure 7
Key questions for manufacturers and distributors



that manufacturers and distributors should pay attention to. For example, companies like SmartSite and Pillar Technologies have developed site sensors across a construction site to monitor temperature, noise and dust. These technologies might also be applied to foster social distancing and monitor workplace health. WorkerSense offers wearable technology through [microchips in hard hats](#) that determine whether crews are complying with social distancing rules and can send alerts when workers are too close to one another, as well as introducing a new feature that records temperature and checks for symptoms when a worker arrives. Manufacturers and distributors can consider whether their products and services can be integrated into these emerging solutions and how they can help improve productivity:

- **Labor-saving product innovation** — How can we adapt our products and processes to help address job site and dealer productivity?
- **New technologies** — Are there technologies or solutions that we should be investing in?

Conclusion

COVID-19 has led to some major changes in how companies will operate in manufacturing plants, at distribution and retail facilities, in front-line sales and marketing roles, and at the job site. Manufacturers and distributors need to address a set of questions that can position them in this new world (see Figure 7).

About the Authors



Lucas Pain is a Managing Director and Partner in L.E.K. Consulting's Chicago office, leads the firm's Global and Americas Building & Construction practice, and is a member of L.E.K.'s Americas Regional Management Committee. With more than 20 years of experience directing growth strategy engagements, Lucas works with building product and materials manufacturers, distributors, contractors, and other service providers in residential and nonresidential construction to identify high-potential growth opportunities and navigate industry challenges.



Matt Korsch is a Managing Director and Partner in L.E.K. Consulting's Chicago office. Matt advises clients on a range of strategic issues including growth strategy, profitability enhancement, international growth, commercial due diligence, acquisition screens and M&As. He is primarily focused on the firm's Industrials practice, with deep experience in the building and construction, oil and gas/energy, and industrial distribution sectors. Matt is a winner of The M&A Advisor 2019 Emerging Leaders Award.



Gavin McGrath is a Managing Director and Partner in L.E.K. Consulting's Boston office. Gavin has more than 15 years of experience working with industrials and consumer firms pursuing growth and digital innovation in the U.S. and globally, and has a particular focus on building products, residential and commercial construction, and the built environment ecosystem. He supports corporate clients and M&A professionals with strategy, organizational transformation and transaction support assignments.



Paul Bromfield is a Principal based in L.E.K. Consulting's New York office. He is a member of the firm's Industrials practice and focuses on the building products sector. Paul has extensive experience helping companies to accelerate growth and change and to address strategy, organization and front-line experience. He previously worked at GAF, a large building products manufacturer; McKinsey & Company; and Katzenbach Partners (subsequently acquired by Booz & Co.).

About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private- and public-sector organizations, private equity firms, and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,600 professionals across the Americas, Asia-Pacific and Europe. For more information, go to www.lek.com.