Executive Insights

Volume XVIII, Issue 50

European Building Contractor Survey 2016: Value Creation Opportunities for Building Merchants and Manufacturers in France

The horizon is brightening for the building industry, according to a survey of 300 building contractors across France, Germany and the U.K. conducted by L.E.K.Consulting in Spring 2016. Contractors polled anticipated an increase in business, remain loyal to their preferred merchants and revealed the purchasing criteria they prioritize.

The manufacturer's warranty, the durability of building materials, prices and energy efficiency are the primary drivers of value creation that manufacturers can control to influence customers' buying behaviors. Merchants can capitalize on the availability of materials, delivery speed and the breadth of their product range to justify higher prices. At the same time, the internet and connected products represent currently untapped, potential growth vectors.

2016: A marked improvement in outlook

More than half of the building contractors surveyed predicted an increase in business in 2016 compared with 2015. The percentage has risen since 2015, when only one-third envisaged any improvement. This newly regained optimism is particularly noticeable among commercial contractors, suggesting a more obvious recovery in this market segment. The positive outlook is reflected in the clearly stated intention of contractors to recruit.

German and British contractors share the confidence of their French peers, even if the trend they foresee will be a little less strong between 2015 and 2016, compared with the previous period. This slowdown indicates the earlier start of the recovery in Germany and the U.K. (as of 2015) compared with France. Of the contractors surveyed, the British were, in the pre-Brexit context, the most optimistic. The positive climate is demonstrated by French contractor sentiment that the cost of building materials has risen, up by about 2% over the past 12 months, an impression echoed by their British and German counterparts.

Distribution channels: Price, product availability and delivery speed cited as most important

1) Differentiated purchase criteria and ranking according to contractor specialty:

   a. Residential specialists are more price-sensitive and place greater importance on availability of materials / products.

   b. Commercial specialists prioritize breadth of product selection, product / material availability and delivery speed.

2) Multichannel purchasing behavior: National builders' merchants remain the preferred distribution channel for residential contractors. Commercial contractors prefer specialized suppliers / purchasing directly from the manufacturer.

European Building Contractor Survey 2016: Value Creation Opportunities for Building Merchants and Manufacturers in France was written by **Frédéric Dessertine**, **David Danon-Boileau** and **Maxime Julian**, partners in L.E.K. Consulting's Industrials practice. Frédéric, David and Maxime are based in Paris.

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Figure 1

Ranking of distribution channel selection, by contractor specialty - France

	Criteria	Residential	Commercial
Very important	Advertised prices on building materials	1	5
	On-hand stock for immediate purchase / delivery	3	1
	Delivery speed / on-time guarantee	4	2
	Volume discounts, rebates or distributor gift cards	2	8
Contractor average: Criteria ranking	Breadth of product selection across multiple categories	6	3
	Depth of product selection in particular category	5	9
	Contractor services and advice	7	4
	Ease of searching for and finding products based on particular brand / model specifications	9	7
	Offering of products in additional categories	10	6
	Financial terms and systems	8	11
	Convenience of location and opening hours	11	10
	Click and collect	12	14
	Showroom facilities	13	13
Not at all important	Advertisement influence	14	12

Note: Question: "Please rate the importance of each of the following criteria when you choose products?"

Source: L.E.K. 2016 European Contractor Survey

3) Clients have started demanding digitized "click and collect" solutions, paving the way for growth prospects for a different type of distribution model.

4) There is considerable resistance to behavioral change, with strong customer loyalty to products and brands.

In France, residential contractors select their suppliers above all on the basis of their price offerings (advertised prices, discounts offered, etc.) and on the availability of materials. Commercial construction players name on-hand stock, delivery speed and breadth of materials range as priority criteria (see Figure 1).

Given these preferred criteria, French residential contractors shop mainly at national builders' merchants (such as Point P, Réseau Pro and Chausson Matériaux), then at the large DIY stores (Leroy Merlin, Castorama, etc.), and will purchase last from manufacturers (see Figure 2). Unsurprisingly, commercial building contractors head first to manufacturers, then to national builders' merchants and, least frequently, to the large DIY stores.

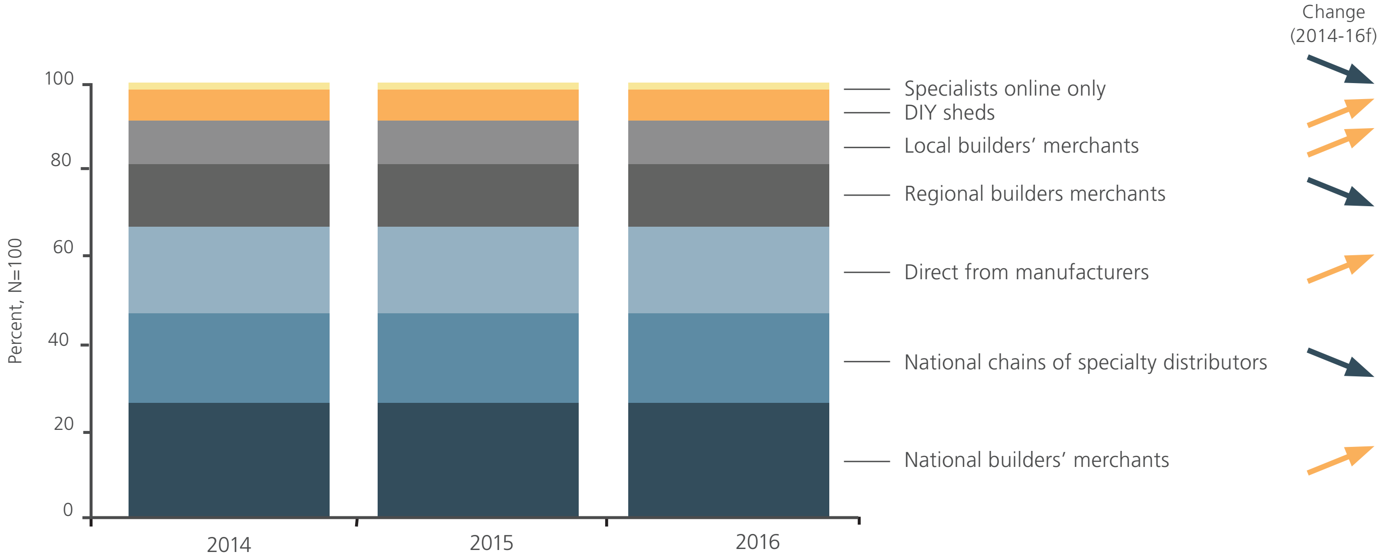
French survey respondents shop across several distribution channels and appear to remain relatively loyal to their preferred suppliers, as shown by the year-over-year stability in their purchases by channel since 2014. The same trend is observed in Germany and the U.K. However, the 2011 L.E.K. European Building Contractor Survey showed that, during periods of recession, European building contractors, especially those in the residential sector, were more inclined to shop around between the different channels.

German residential contractors place delivery speed and the respect of delivery schedules higher up on the list of criteria than the French. They also prize materials selection. In the commercial sector, German contractors are more price-sensitive than contractors in France.

The U.K.'s residential construction players are also price-sensitive, but to a lesser extent. Greater importance is placed on the availability of building materials via a click-and-collect service and on the proximity and accessibility (opening times) of the points of sale. British commercial contractors value merchants' advertising, prices and payment conditions more than their French counterparts.

In France, residential contractors shop at national chains of specialty merchants (such as Brossette, Rexel and Larivière) more than their counterparts in the U.K., where national builders' merchants (Travis Perkins, Jewson, etc.) see far more commercial building contractors pass through their doors.

Figure 2
France contractors' purchases by channel (residential and commercial)



Note: Questions: "What percentage of your residential activity have you bought in the following channels in 2014 / 2015 ?"; "How much do you plan to do in 2016?"
Source: L.E.K. Contractor Survey 2016

Local builders' merchants are the prime sales channel of choice for German residential contractors, while on the commercial side, national builders' merchants (Obi, Bauhaus, etc.) are the preferred suppliers, as they are in France, followed by local retailers.

The building professionals surveyed across Europe agreed that delivery speed was an important criterion: A delivery to the job site within 60 minutes for in-stock material or within four hours for an order justifies an increase of more than 5% in price and represents an important opportunity for value creation for merchants.

Building materials: Energy efficiency, manufacturer's warranty and materials durability command higher prices

1) In the three European countries surveyed, all contractors claimed the manufacturer's warranty, the durability of materials and the price were the three main factors that influence product selection.

2) Energy efficiency can, however, represent a real distinguishing feature and justify a price premium compared with other products available on the market.

In France, the three most important criteria when selecting residential building materials are, in descending order, the manufacturer's warranty, energy-efficient products and price. Commercial contractors place price and warranty high on the list, and also stress the importance of materials durability.

French residential building contractors say they are prepared to pay a premium (>5%) for any of the following three improved product attributes: energy efficiency, longer life of the materials or an extended manufacturer's warranty (see Figure 3).

Commercial contractors are particularly willing to pay a premium for products with the following improved attributes: significant environmentally friendly component (recycled materials), longer manufacturer's warranty, longer product life expectancy or lighter product (see Figure 4).

In the U.K., the survey showed that materials life span along with the manufacturer's warranty and price matter most for residential contractors. In the commercial construction sector, the visual appeal of materials is an important consideration, along with reasonable price and robustness.

German residential contractors consider the lightness of materials to be a more important attribute than do their French counterparts and place this third on the list of reasons that would warrant a higher price.

The internet is still a widely underexploited tool

1) A large number of construction professionals own a mobile device, smartphone, etc.

2) The internet is still used mainly for information-gathering purposes.

3) There are opportunities for manufacturers and merchants to stand out from the competition if they manage to align the quality and user-friendliness of their websites with customer expectations (product availability, etc.).

Figure 3
France residential contractor price premium
by product attribute (2016)

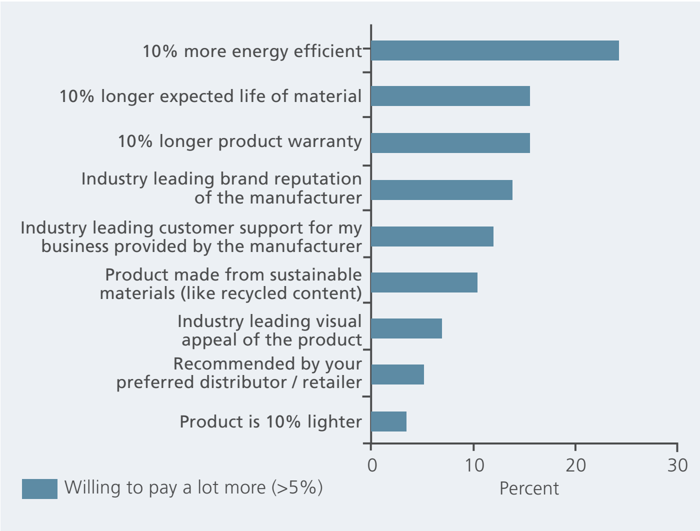
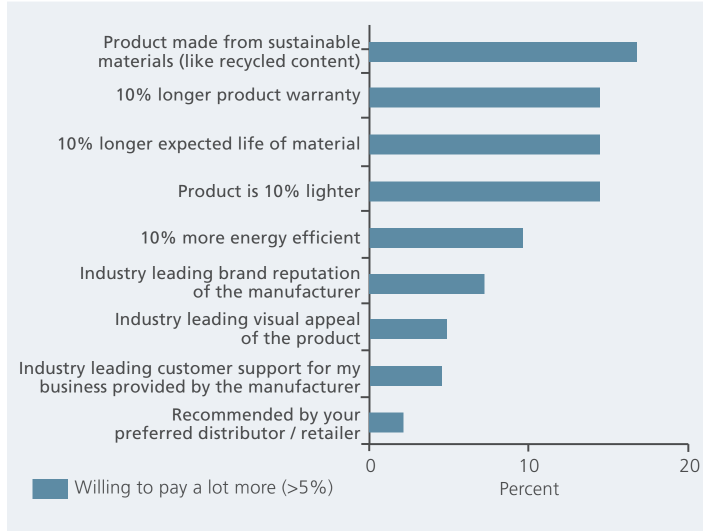


Figure 4
France commercial contractor price premium
by product attribute (2016)



Note: Questions: "Assume two [Activity] building products are essentially the same from your view except for the attribute below. How much more would you be willing to pay for each attribute listed below, assuming it is the only thing that differentiates the two products?"

Source: L.E.K. Contractor Survey 2016

French building contractors own more digital devices than does the average French citizen: 93% own a smartphone (national average is 54%), 60% own a tablet (national average is 35%) and 71% own a laptop computer (slightly above the national average)[1].

Across Europe, contractors surveyed say they use the internet as a work tool, mainly to research product information: in Germany, 65% say they base their entire or most of their project preparation on internet-sourced information, compared with 60% in France and 55% in the U.K. Price comparison is the second reason cited for internet use, especially by the British (68%) and the Germans (63%), whereas the French seem less inclined to use this feature (41% of French contractors polled).

Although on the rise, online purchases remain limited in the three countries surveyed: Germany and the U.K. lead with 3% and 2%, respectively, while in France, online purchases account for only 1%. The increase in online purchasing can be attributed largely to contractors researching price information and product availability. Building professionals also emphasize the importance of job site delivery once an online order has been placed (81% of those surveyed in France, 88% in Germany and 77% in the U.K.).

In all three European countries polled, the growth in internet purchasing in the medium term will depend on the improvement in merchants' retail websites and, in particular, on the information relating to product availability, on product and price information, and, particularly for French contractors, on the speed of the purchasing process (see Figure 5).

Smart homes — a growth driver with significant potential

The smart environment automates and optimizes various functions of a building, such as security (alarms, cameras and TV monitoring), comfort level (automation and programming of everyday tasks, remote controls), energy saving (optimization of heating and lighting), connected recreational activities and home health monitoring.

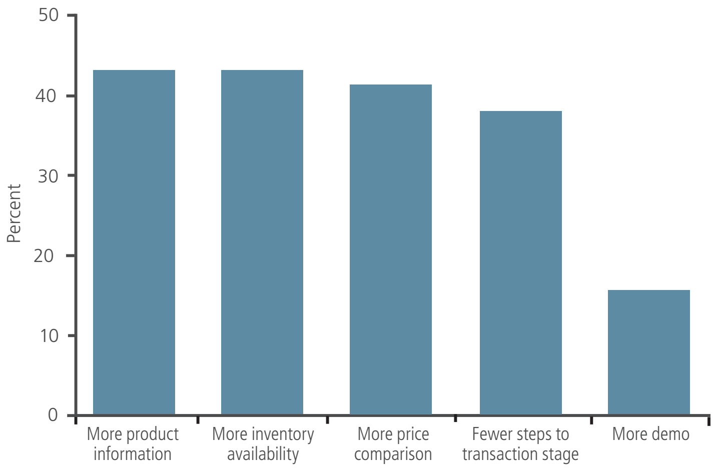
Germany appears to have a head start when it comes to connectivity: 31% of contractors asked say they suggest installing smart home devices, versus 16% in France and 11% in the U.K.

The main products on offer enable heating, air conditioning, lighting, windows and doors (roller shutters, garage doors, gates; security (video surveillance, motion detectors, flood / fire / gas-leak detectors); and televisions to be programmed and / or controlled remotely via a smartphone or tablet. In terms of health, the various home automation applications help the sick and elderly, for example, stay at home (fall detectors, doctor alerts in case of emergency). Not only do automation systems make controlling appliances possible, but they also allow devices to be orchestrated to interact, making the home both independent and smart.

[1]Source: ARCEP

Figure 5

Factors influencing use of website as a purchasing channel - France



Note: Question: "What could be improved on these websites?"
Source: L.E.K. 2016 European Contractor Survey

Solutions that improve energy efficiency are popular in all three European countries surveyed.

Overall, the results of the 2016 L.E.K. 2016 European Building Contractor Survey indicate that there are significant value creation opportunities for building materials manufacturers and merchants. Manufacturers can justify higher prices by leveraging brand reputation, product warranty, and the durability and energy efficiency of materials. Merchants, on the other hand, can improve stock availability, delivery speed and the breadth of their offerings. The internet and smart home technology open the door to strong, but as yet underexploited, growth prospects.

Further reading

Smart Homes: Monetizing the Market Opportunity

Building Success: Why the French Residential Construction Sector May Be Poised for Growth

About the authors:

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