



# Busting Digital Channel Myths: How False Assumptions in the Building Products Industry Are Restricting Growth

The building products and materials industry has watched the dislocation of consumer markets by digital disrupters like Amazon, ASOS and Uber, and is nervous about the shape and speed of the digital threat coming its own way.

That concern, the conservative nature of the industry and the relatively old school image of the traditional builder have given rise to four false digital assumptions, which are prevalent throughout the market.

However, while the industry has been a digital laggard, the internet provides tradesmen, manufacturers and retailers with the chance to create significant competitive advantage — and to become disrupters themselves. Their investors will be watching with interest.

To embrace the opportunity, they will need to develop a fresh understanding of existing and potential customers and their purchasing journeys, and the role that digital does and could play.

Debunking the four digital myths engrained in the industry is an important starting point, and that is the purpose of this paper.

The four false digital assumptions are:

1. Digital isn't important for suppliers because end customers will continue to buy products through tradesmen and contractors.

2. Tradesmen and contractors have been slow to adopt online tools for their businesses.
3. Being online is detrimental to margins because it makes pricing too transparent.
4. Online means we will lose the personal touch and the trust of our trade customers who prefer traditional ways of doing business.

## False digital assumption 1

**Digital isn't important for suppliers because end customers will continue to buy products through tradesmen and contractors**

### The reality

L.E.K. Consulting's 2016 Building Contractor survey showed that while end customers — homeowners and architects — tend not to buy building products directly, their online research means they have strong influence over what the builder spends and selects. Their research tends to focus on price competitiveness (see assumption 3) and product functionality, especially in categories with high perceived value, such as cabinets and bathroom units, or because of issues such as aesthetics or energy savings, which would cover paints and insulation, for instance.

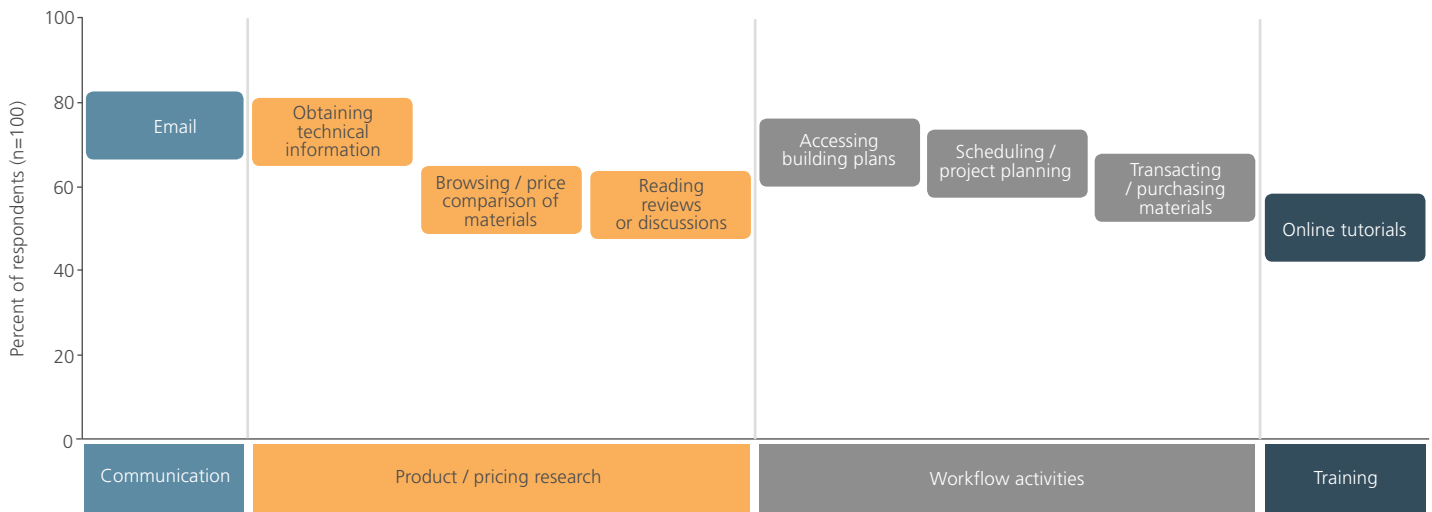
Typically, consumers do their online research even before engaging the contractor, and this approach applies as much to older generations as it does to their younger cohorts. Half of the respondents in L.E.K.'s 2016 Ageing Population survey said they use the internet or social media "quite often" or "very often" for researching home improvement projects.

*Busting Digital Channel Myths: How False Assumptions in the Building Products Industry Are Restricting Growth* was written by **Geoff Parkin**, partner and **Harpreet Singh**, a manager. Geoff and Harpreet are based in London.

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Figure 1  
UK contractors / tradesmen usage of mobile devices by work purpose (2016)



Source: L.E.K. Contractor Survey 2016

Our contractor research also showed that around 30% of UK tradesmen use links to manufacturers' websites on their own websites as a tool to communicate with clients.

## False digital assumption 2

**Tradesmen and contractors have been slow to adopt online tools for their businesses**

### The reality

While some tradesmen are providing web links to manufacturers, it is true that a large proportion of them do not transact online. This is primarily a function of tradesmen preferring to collect and pay for some heavy, high-value products on their way to job sites, their conservative behavior, and the lack of effective websites and apps for transactions provided by merchants and retailers.

However, change is coming. Most tradesmen and contractors have a mobile device — 80% own a smartphone and over 70% have a notebook / laptop (L.E.K. contractor survey) — and they are using them professionally for activities such as email and browsing product specifications and prices (see Figure 1). One company that has generated considerable browsing engagement from tradesmen is James Hardie, a fast-growing global player in cement cladding products. The company's installation demos on YouTube are used widely and have page views running into the hundreds of thousands.

## False digital assumption 3

**Being online is detrimental to margins because it makes pricing too transparent**

The assumption is that merchants and manufacturers will benefit

more from traditional "opaque" pricing structures and ad hoc discount models, because these enable them to charge tradesmen and contractors far higher prices than the transparency an online approach would allow.

### The reality

L.E.K.'s contractor survey showed that some tradesmen and contractors are willing to pay a 5-7% price premium for purchasing products online because of the convenience the channel provides.

In addition, using the internet for sales empowers vendors with rich customer behavior data, such as frequency of purchase and order size, which enables them to provide bespoke discounts. As a result, customer relationships are enhanced and the opportunity to generate future revenue is boosted.

Of course, online strategies have their own challenges, including pricing conflicts across channels and data mining by competitors. However, with the right web-based approach, grounded in a thorough understanding of customers and their product and pricing needs, these issues can be resolved.

In some instances, moving to a "net pricing" model for customers that tend to buy low-value, commoditized products will be a win-win situation for both the merchant and the manufacturer; some companies are already starting to adopt this approach and reap the benefits. With the merchant list price closer to the manufacturer list price, purchasing is more attractive to tradesmen, providing more consistent margins for the merchant and increasing its incentives to promote more products from the manufacturer.

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In some cases, manufacturers may expect that with less variability on list prices, their realized margin on a per unit basis will be lower; however, this is compensated for by the increased volume of products sold. Net pricing also builds end-customers' trust in the industry, as they see and hear consistent pricing across channels, from tradesmen to price comparison sites to merchants' and manufacturers' online offerings.

## False digital assumption 4

**Online means building product brands will lose the personal touch and the trust of their trade customers, who prefer traditional ways of doing business**

### The reality

Online channels are about complementing existing business models, not replacing them — ultimately providing companies with the opportunity to increase touch points and engagement with existing customers, acquire new ones, and enhance the company's financial performance. But there is no one-size-fits-all way of doing digital.

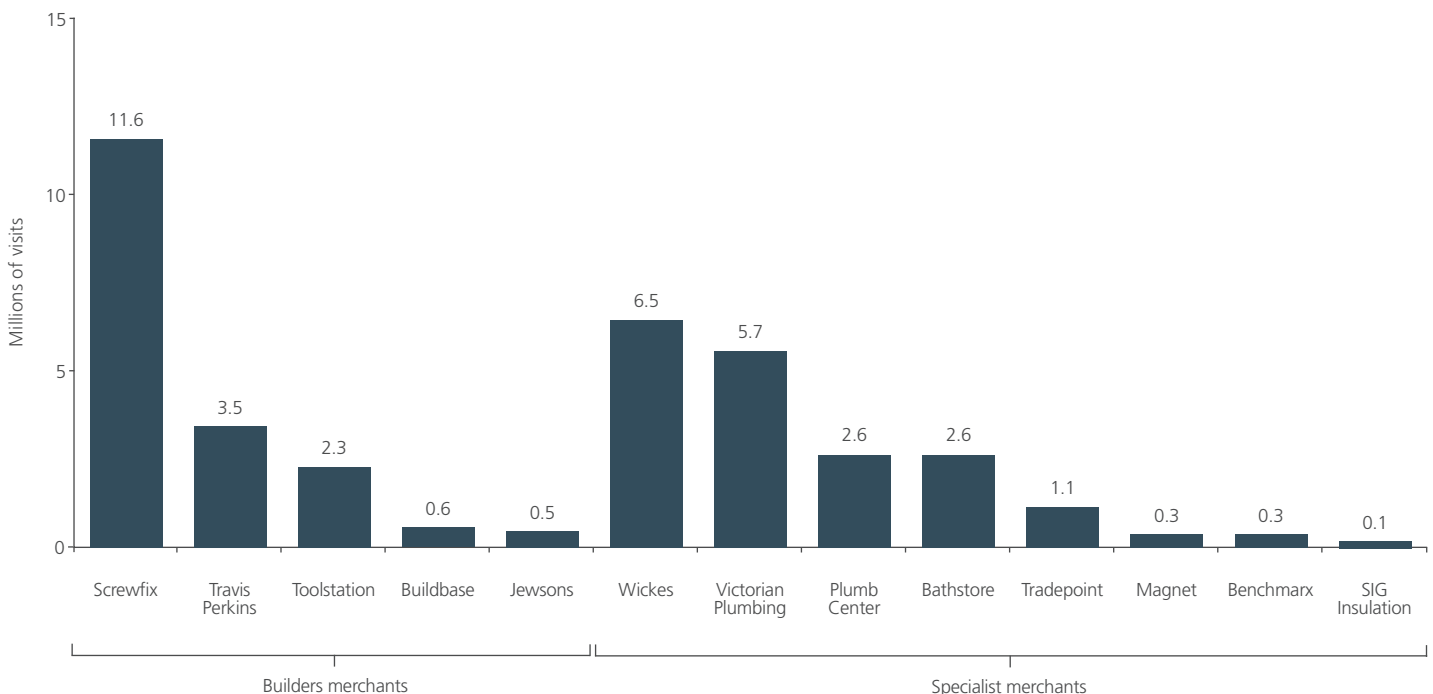
Illustrating one end of the scale, Premdor, a manufacturer of timber doors, has built an easy-to-use digital interface designed to reduce its costs by minimizing the need for human interaction with customers. That works well for the company's target customers, primarily distributors and retailers, and has improved their satisfaction levels.

RS Components, a distributor of electrical goods, has taken a totally different approach: a click and collect model, where face time with customers plays an important part in brand development. The key customer benefit is that it reduces the common builder pain of waiting times in-store and encourages them to return for further purchases. As a result, ecommerce now accounts for 58% of RS Components' revenue.

Some distributors are also simplifying tradesmen's lives by providing them with online invoicing and account management — and reducing their own costs in the process.

Where businesses have frequent interaction with customers for the purchase of low-value products, mobile apps can be a very effective tool for developing sales and building loyalty. There is also a first-mover advantage to be won as consumers spend ever more time on apps, but are not increasing the number of apps they use (Nielsen, 2015). For instance, Screwfix, a leading U.K. trade merchant for tools and accessories, has been extremely successful in building a loyal base of tradesmen through its app, which was among the first to market for click and collect. In its 2016 half-year financial report, owner Kingfisher reported a 59% increase in Screwfix's click and collect sales. With nearly 12 million monthly visits to its website, Screwfix is way ahead of its peer group in terms of online engagement (see Figure 2).

Figure 2  
Six-month average traffic to website for selected builders / specialist merchant websites



Source: Similarweb

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## The way ahead

Building products companies are right to be concerned about the potential threat to their businesses of aggressive and disruptive new digital models.

However, shattering the false digital assumptions highlights that, rather than being threatened, they should see digital as a transformational opportunity to take their business to a new level, generating more revenue from existing customers and attaining new ones.

This will require a review of strategy, starting with an analysis of customer groups and their purchase journeys to help identify the key touch points where digital channels can add value. The digital solution will depend to a great extent on product portfolios; companies selling more standardized items such as screws and cement are likely to have answers that are very different from those selling more bespoke products like kitchens and bathrooms.

The building products industry is ripe for digitally-driven change, and there is likely to be considerable momentum in the next few years.

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## About the Authors



Geoff Parkin is a partner in L.E.K.'s London office. He has been with L.E.K. for more than 15 years and has broad experience assisting U.K. and international clients with strategy development and due diligence assignments. Prior to joining L.E.K. in 1999, Geoff worked in commercial line management roles for British Airways and American Express, based in London, Copenhagen and Amsterdam.



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