



Online Opportunities and the Arrival of Amazon: How France's Building Products Manufacturers and Merchants Are Facing Up to the Challenge

According to L.E.K. Consulting's survey of 200 building contractors in France, the building industry is on track to continue its 2017 upward growth trajectory in 2018. Against this backdrop, contractors still make little use of digital channels, with only a small proportion of purchases made online.

The players dealing exclusively in online sales have not yet found their place among the established bricks-and-mortar businesses.

Online channels remain a largely underexploited growth opportunity, which should attract specialist online merchants. The leader among these is Amazon, which delivers more than 500,000 building-related products in the U.S. through its Amazon Supply offer. Through its survey, L.E.K. identified four levers that established building products manufacturers and merchants need to exploit to prepare for the advance of online-only business models.

As well as being the main consumers of building materials, building contractors also play a key role as specifiers. In response to an increase in specialized offers like Amazon's, L.E.K.'s survey assessed their needs and analyzed changes in their online purchasing behavior. The survey identifies the strategies available to building manufacturers and merchants in the face of such competition.

A buoyant outlook

After 2016's return to growth, 2017 has managed to sustain this momentum, and the upward trend is expected to persist and maybe even intensify in 2018.

Some 80% of those surveyed stated that 2017 sales were at least on a par with those in 2016, and 38% recorded a revenue increase. 2018 looks just as promising, with 46% of respondents anticipating a further increase in sales, compared with 38% from last year. This high level of optimism is particularly noticeable among commercial contractors. In total, only 6% of businesses surveyed expect sales to drop (see Figure 1).

Ecommerce – threat or opportunity?

The U.S. economy is often an early mover when it comes to ecommerce. In a 2014 report,¹ L.E.K. highlighted how ecommerce sites, mobile technology and social media were changing the face of the building and construction industry in the United States. Ecommerce frontrunner Amazon had just launched Amazon Supply, offering almost 500,000 SKUs in more than a dozen building products-related categories, in particular kitchen and bathroom fixtures.

Building manufacturers and merchants are taking seriously the threat posed by ecommerce, and some are already on the

¹Amazon Supply: Can the Building-Products Industry Hold Off the Amazon Flood?

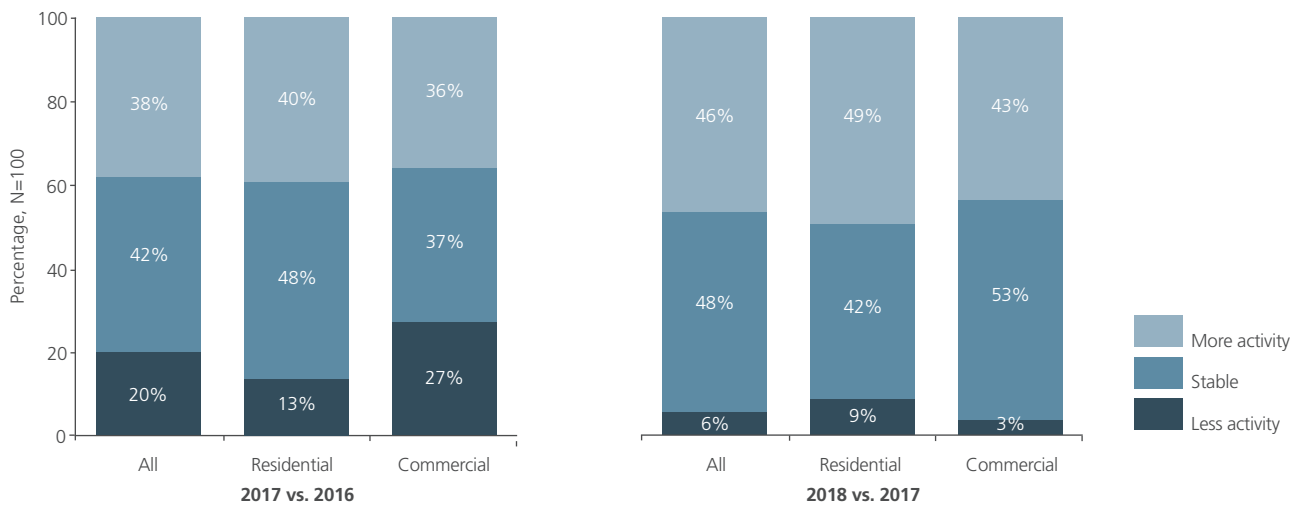
Online Opportunities and the Arrival of Amazon: How France's Building Products Manufacturers and Merchants Are Facing Up to the Challenge was written by **Maxime Julian**, **Frédéric Dessertine** and **David Danon-Boileau**, Partners in L.E.K. Consulting's Industrials Practice. Maxime, Frédéric and David are based in Paris.

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Figure 1

Outlook and forecast of building contractor's activity



Questions: "As of today, how would you describe your activity (revenues) compared to 2016? In comparison with your current activity, what do you think your activity in 2018 will be like?"

Source: L.E.K. Building Contractor Survey 2017

offensive. In the U.S., for example, building merchants are standing up to Amazon through the launch of B2B marketplaces such as SupplyHub, a platform that specializes in B2B supplies and has access to more than 2,000 independent merchants and manufacturers. SupplyHub, which was originally founded by an industrial lighting manufacturer, is focusing on an extensive

distribution network in order to rapidly expand its offering (electrical goods, safety and security, tools and abrasives, personal protective equipment, etc.) and ensure prompt delivery.

The building materials marketplace in France

Compared with other markets, the French building materials industry was late to adopt online sales channels. Nevertheless, construction companies are regular internet users with respect to both traditional merchants' (83%) and manufacturers' websites (87%) (see Figure 2). Building contractors predominantly use the internet to research products (91%), check prices (52%) and, to a lesser extent, check stock availability (20%). Less than 15% of building professionals said they use these sites to order construction materials and products (see Figure 3).

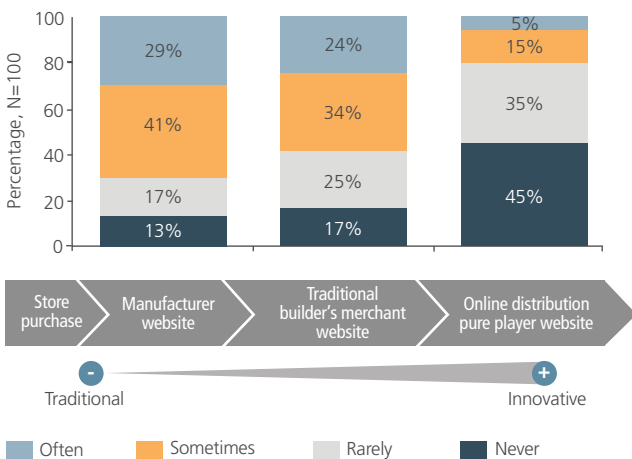
Although online purchases are currently at only 5% of total sales, L.E.K. predict rapid growth in this channel over the coming years. Having an online presence alone will not be enough to overcome giants such as Amazon. Many building manufacturers and merchants are rightly concerned about the potential arrival of online marketplaces, and it is important for them to understand what may motivate construction firms to switch to an online channel.

Amazon: Who purchases, and what products do they purchase?

Only 30% of the construction firms surveyed had bought products through Amazon (including non-building-related products). This figure dropped to just 6% when firms were asked whether they

Figure 2

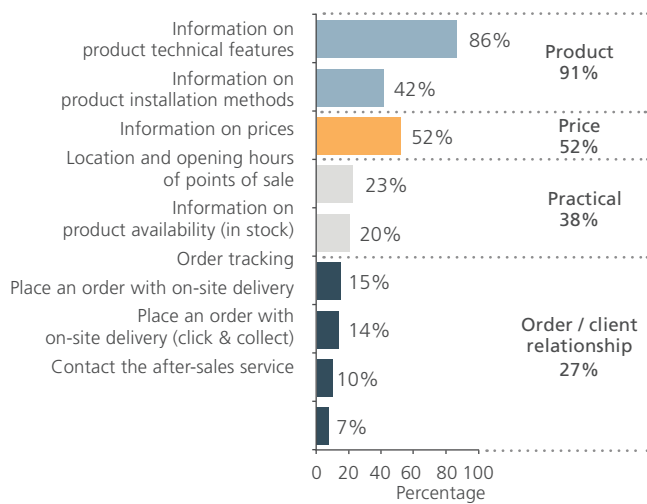
Frequency of internet usage for building contractors



Question: "As part of your professional activity, do you often, sometimes, rarely or never use the following websites (or mobile applications)?"

Source: L.E.K. Building Contractor Survey 2017

Figure 3
Reasons why building contractors use the internet



Question: "You mentioned visiting or using traditional builder's merchants websites, manufacturers websites or online distribution pure players websites. Among the following reasons why you visited or used these websites (or mobile applications), what are the ones that best fit with your personal case?"

Source: L.E.K. Building Contractor Survey 2017

buy regularly on Amazon (i.e., several times per month/per week). With such low purchasing rates, it seems Amazon is not, at present, an obvious channel for them. This could slow Amazon's progress in the building materials marketplace.

L.E.K.'s survey showed a positive correlation between companies that already shop online and those that were excited about Amazon supplying building and construction materials. Yet companies that buy little to nothing online, such as those specializing in roofing or plumbing, are unlikely to increase their online ordering in the short term as a result of Amazon Supply's entry into the French market.

Figure 4 shows that building contractors do not currently consider Amazon to be a viable alternative. For the nine product sectors tested, they are not inclined to buy on Amazon instead of another online platform. Thus, currently Amazon does not appear to be a disruptive presence and could be considered an alternative purchasing channel to PPE and hardware stores, where online purchasing is already strong.

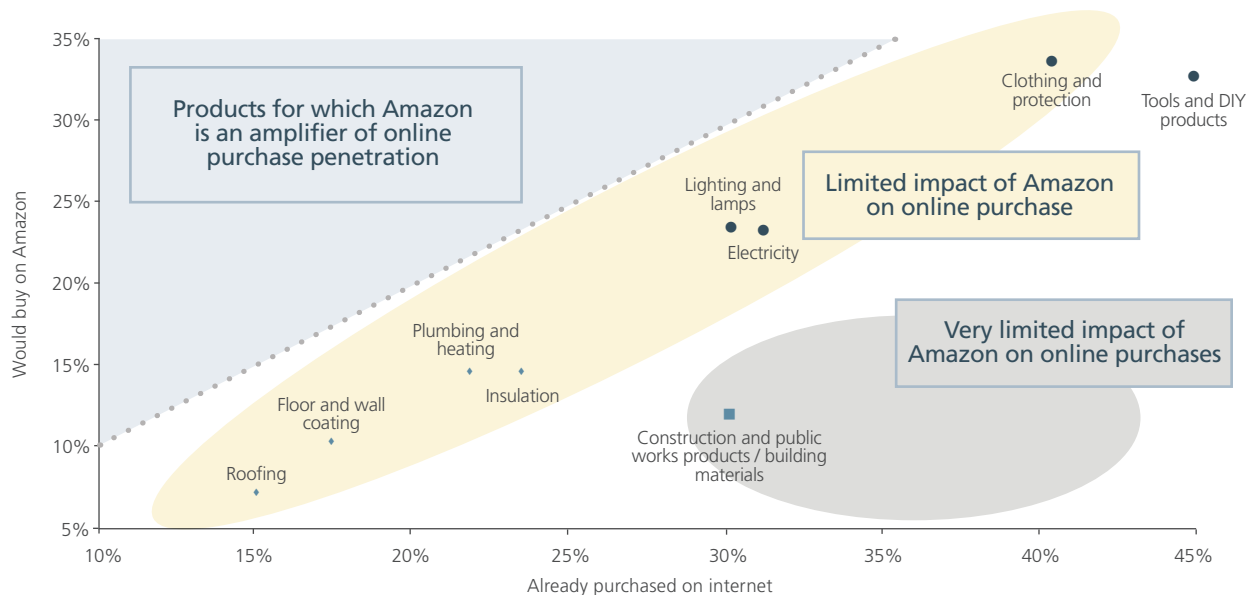
Other than PPE, contractors surveyed stated that they would be prepared to buy from Amazon only core range products with which they are already familiar, such as electrical products for electricians, plumbing and heating supplies for plumbers, and so on (see Figure 5). This highlights the need for advice on products that are less familiar to the purchaser.

What two elements differentiate the channel?

In its survey, L.E.K. identified four key levers to make building product manufacturers and merchants stand out from their competition.

Traditional manufacturers and merchants retain a competitive edge over online channels through their ability to offer technical

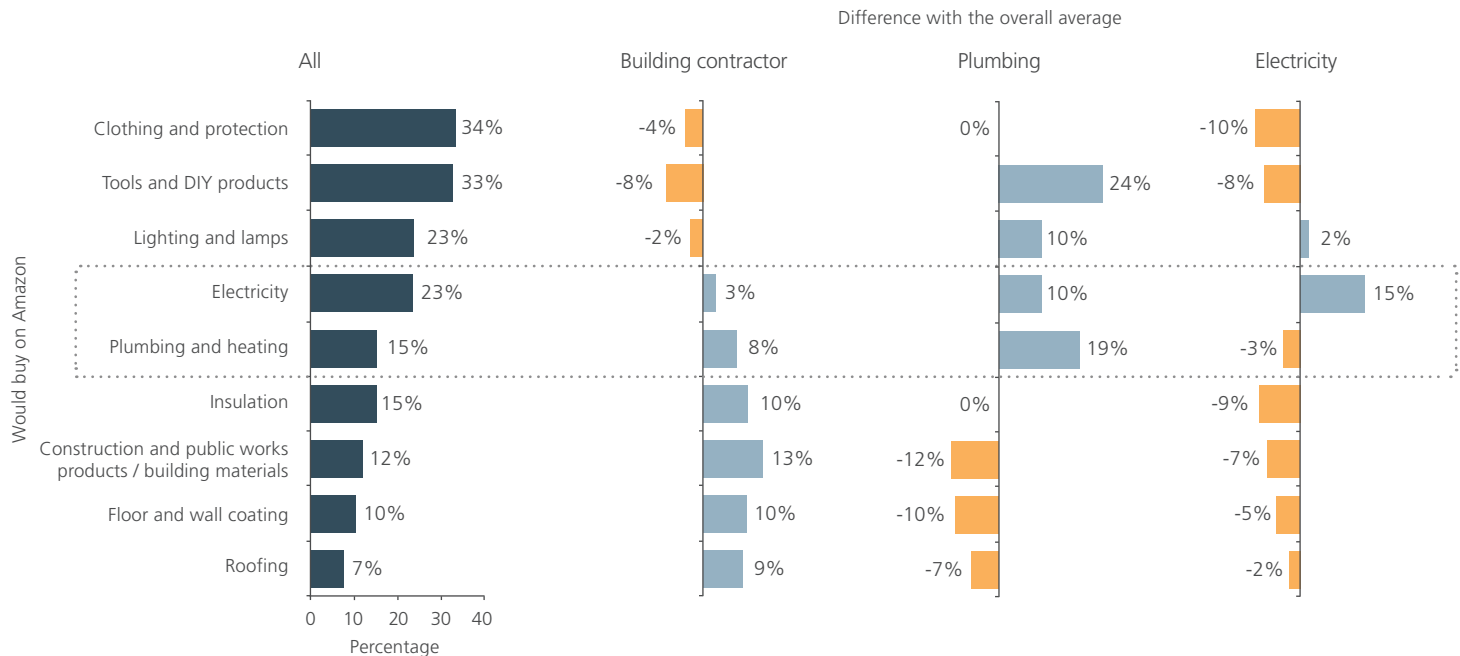
Figure 4
Correlation between actual online purchase and potential purchase on Amazon of building products and materials



Questions: "As part of your professional building activity, do you purchase the following building products and materials on the internet? If Amazon offered the following building products and materials, would you be willing to purchase them on this website, as part of your professional building activity?"

Source: L.E.K. Building Contractor Survey 2017

Figure 5
Risk of potential purchase on Amazon of building products and materials by type of enterprise



Question: "If Amazon offered the following building products and materials, would you be willing to purchase them on this website, as part of your professional building activity?"
Source: L.E.K Building Contractor Survey 2017

guidance. This means providing information, helping customers select the right product, and having salespeople who are knowledgeable about installing and implementing equipment. The ability of established merchants to offer a regular salesperson acting as a designated point of contact is also important. Of the construction companies surveyed, 60% said the absence of technical advice or contact with a salesperson or store discouraged them from buying on Amazon. In addition, 40% of construction companies cited the lack of a regular, designated point-of-contact as an additional concern.

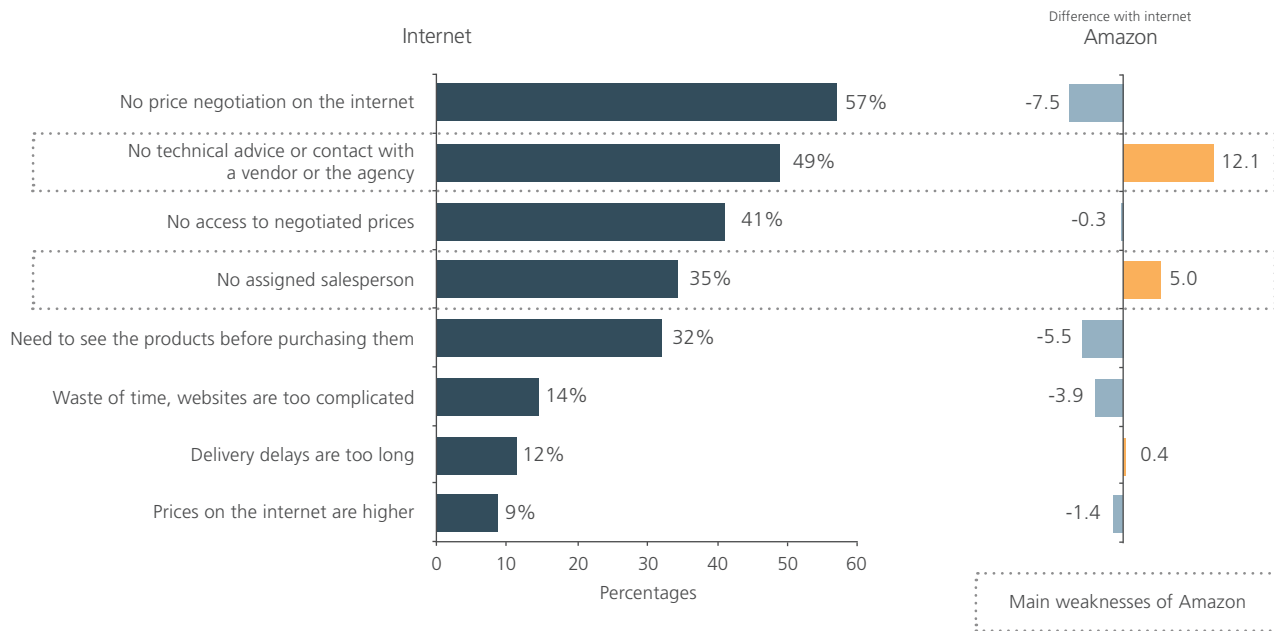
When comparing online sales with established manufacturers and distributors, in general companies value several factors (see Figure 6):

- The ability to negotiate prices (a concern for 57% of businesses surveyed when it comes to online purchases in general, and for 50% with respect to Amazon purchases) and the possibility of customized pricing
- Being able to touch and see the products before purchase
- The speed of purchase, in terms of both ordering and delivery time (same-day, on-site delivery is a prerequisite for many tradespeople)

To help established building products manufacturers and merchants stand out from online rivals, L.E.K. identified four principal areas of differentiation:

1. Reinvigorating the role of itinerant and store-based salespeople. Competition between manufacturers and merchants to attract the best talent is growing even stronger. A company that can retain its salespeople builds long-term customer loyalty. Improving salaries, status and training opportunities are all ways of reducing employee turnover.
2. Enhancing the role of the retail store as a hub for technical advice and social interaction. In a world where Amazon is buying up retail chains, traditional retailers need to capitalize on the strength of their customer relationships.
3. Tailoring prices to customers' needs. Many building firms favor discount schemes and the ability to negotiate prices. Such systems are better suited to established merchants and manufacturers than to online players.
4. Providing flawless service and seamlessly combining online and in-store purchasing. To avoid losing their more innovative customers, who are more likely to purchase online, established merchants and manufacturers need to ensure they

Figure 6
Main strengths and weaknesses of Amazon compared with the internet



Questions: "Among the following reasons that can bring concerns when purchasing building products and materials on the internet, which are the ones that best fit your personal case? And if Amazon had an online purchase offer for building professionals, would you have the same concerns, new concerns or more concerns compared to internet purchases?"

Source: L.E.K Building Contractor Survey 2017

have a valuable proposition, a high-performing website (with information about products in stock and access to a reliable point-of-contact), an impeccable transaction function and state-of-the-art logistics. Execution must be seamless, as there are no second chances when it comes to online retail.

Established building products merchants and manufacturers have what it takes to withstand the challenges of ecommerce and maintain their relationship with their core customer base of contractors. However, merchants and manufacturers shouldn't underestimate the appeal of purely online offers for end-users (industrial maintenance crews, facility managers, etc.) who are more at risk of switching to new supplier models.

About the Authors



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