



## EXECUTIVE INSIGHTS

# Laying the Foundation for Growth: Synthetic Solutions in Building and Construction

The construction industry has always depended on certain go-to materials for building everything from homes to decks to marinas. But traditional materials such as wood and natural stone come with some significant drawbacks. While they provide an aesthetic appeal preferred by some homeowners and businesses, the need for ongoing maintenance and frequent repair or replacement drives up the lifetime cost of ownership and owner frustration for products built with these materials.

This challenge has sparked a number of suppliers across a wide range of product categories to begin developing synthetic solutions that offer similar aesthetic appeal while addressing these drawbacks. It's a significant trend with broad implications for the industry.

## Eye on the trend

Given the durability, low maintenance, lifetime value and aesthetic benefits of synthetic materials, a continued shift toward synthetic solutions can be expected. Indeed, in some cases it has already begun:

- Composite wood grew from 16% of U.S. decking market volume in 2014 to 20.5% in 2020
- Fiber cement's overall share of new U.S. single-family home siding volume rose from 15% in 2011 to 21% in 2020
- Plastic lumber's share of outdoor living materials in the U.S. increased from 11% in 2015 to 14% in 2020
- Similar trends have been seen across other categories like flooring, countertops, trim, roofing and more

But share gain is only part of the story. Perhaps the most exciting part is that the companies bringing these products to market are scaled leaders and innovators that enjoy higher margins than their traditional-products peers. In many cases, we believe these margins will be sustainable due to scale benefits and high barriers to entry.

Given the benefits of these products, despite the higher upfront cost, we believe the trend toward engineered products is likely to continue and that it will create opportunities across a range of end markets (e.g., residential, commercial and infrastructure construction) and product categories. Therefore, it benefits players in current end markets and adjacencies to take a close look at what leaders in engineered solutions are doing to gain share and develop sustainable competitive advantages in their markets.

Likewise, for financial and strategic buyers looking to gain a foothold in these markets through acquisition, investing in synthetic base material companies can be a winning strategy.

### How the winners are winning

In those categories where adoption of engineered base materials is trending upward, there are generally one or two clear leaders that have been able to scale, innovate and capture market share. This often leads to a well-structured market with high barriers to entry and substantial margins for the leaders. Our analysis of these market leaders reveals that they tend to adopt a handful of approaches to achieve and maintain their positions.

#### Focus on innovation as a tool for product expansion

Not surprisingly, innovation is at the core of these companies' strategies. Many have invested in research and development (R&D) to improve the performance and experience of their products and tackle customers' unmet needs. This not only creates strong barriers against competitors, but allows companies to expand their product offerings. Some examples include:

- **Trex**, a leader in composite decking material. Trex uses its technology across multiple product lines. For example, its entry-level product, Enhance, offers a number of material benefits (e.g., durability, low maintenance) and is priced to compete head-to-head with treated lumber, significantly expanding Trex's addressable market. Trex also provides a more premium decking line, Transcend, with a broader range of colors and higher scratch resistance to cater to more design-focused customers.
- **Tangent**, a supplier of high-quality synthetic lumber with a broad range of outdoor applications, including outdoor living, playgrounds and park amenities, structural support, and marine docks. The company continually invests in R&D to develop new products (e.g., wood-grain) and improve processes and capabilities (e.g., tri-extrusion, embossing).

**Leverage multiple channels and expand strategic partnerships to increase product reach.**

Engineered-materials leaders have strong relationships with their channel partners and make full use of them to get their products into as many markets as possible. These providers often go beyond existing channels, seeking other avenues to reach customers, including via direct sales. In addition, these companies often use their high-quality products to try to lock in exclusivity or preferred supplier agreements. Example companies include:

- **Fiberon**, a provider of composite and polyvinyl chloride (PVC) decking, railing and cladding. The company maintains a direct relationship with Home Depot for select products (e.g., ArmorGuard), while also recently launching Fiberon Furniture by Breezesta to be sold exclusively online. These partnerships enable Fiberon to diversify its channel exposure, selling both directly through ecommerce and through the traditional big-box retailers.
  - **LP Building Solutions**, a leader in strand-based engineered building products. The company has developed partnerships across a range of channels, including co-ops, pro dealers, distributors and retailers, to expand product access and promote LP SmartSide, its engineered wood siding product.
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**Invest in marketing and education**

Another key theme among these leading synthetic solutions companies is their ability to communicate their story and why their products are superior. Because they are leaders in a relatively limited competitive set, these players' educational efforts tend to pay off, since they can reach a high proportion of the addressable market with their messaging. They often focus on education at multiple levels — distributors, dealers, retailers and contractors — as well as the end consumer. Examples include:

- **AZEK**, which supplies nonwood decking, trim and other outdoor items made from recycled material to both residential and commercial markets. The company's "Go Against the Grain" marketing campaign is designed to educate distribution partners, contractors and end consumers about the benefits of composites. AZEK provides marketing materials to home centers and offers customer service support on its websites. It also advertises directly to the mass consumer market and publishes an environmental, social and governance (ESG) report that lays out its environmental and recycling goals.
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- **Sunbrella**, which is another example of skilled marketing in the synthetic solutions space. Sunbrella synthetic fabrics are designed for use in outdoor furniture, indoor furniture, window treatments, boats and other products. The company invests heavily in marketing content and brand strategy, and its high-production-quality print and video advertising showcases the premium nature of Sunbrella products.

### Riding the wave to success

The use of synthetic base materials in building and construction continues to rise. These products offer durability, low maintenance and lower lifetime cost of ownership when compared with traditional materials, driving increasing adoption of synthetic materials. Companies that are leading in this space are well positioned to continue their market leadership. Not only are they able to gain scale by leveraging their innovation and marketing capabilities, but their astute channel management can make it difficult for new competitors to enter or for subscale competitors to grow in the market cost-effectively. The combination of these factors can help these businesses earn substantial (and sustainable) margins over the long term.

Those looking to cash in on this trend should consider investing in engineered technologies either directly or via acquisition. While it may be difficult to break into the space in certain markets, strategic investors and operators should be on the lookout for adjacent markets that might be receptive to synthetic solutions, as there are a range of different product categories where similar dynamics could be realized and there is still time to get in on the ground floor. These operators also need to be on high alert for competitors that are starting to introduce products with the benefits of engineered solutions.

For financial investors, buying into the synthetic solutions trend can be a sustainable growth strategy that often yields strong returns. These opportunities should continue to emerge across the building and construction industry, so staying on top of new product introductions is the best way to build a winning portfolio.

Material substitution is just one of many potential effective strategies for sustained growth. Stay tuned for the next *Executive Insights* in our "Sustainable Strategies and Successful Positioning Series." We'll dive into the benefits of scale across building products categories, examine where scale can drive the greatest degree of competitive advantage, and look at how investors and executives can leverage the accumulation of scale to drive outsized returns.

For more information, please contact [industrials@lek.com](mailto:industrials@lek.com).

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## About L.E.K. Consulting

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