L.E.K.

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Right Time for Branding Building Products

While the housing recovery has been slow, the pace is finally starting to pick up. With single-family starts expected to rise more than 15% in both 2015 and 2016, manufacturers of residential building products should be primed for growth. However, many firms may be missing key opportunities to increase sales by not focusing on the value of building their brands. Many building products companies have historically focused on other components of their value propositions — distribution, product performance, supply chain efficiency, etc. — and have not invested (or not invested enough) in building brand differentiation.

Often considered the domain of the consumer products crowd — Coca-Cola, Gillette and Nike — branding for building products has proven to be a successful strategy to boost revenue, capture market share, sustain differentiation and improve profitability. L.E.K. Consulting believes current industry dynamics in the building products sector are providing the best opportunity in the past 20 years for building a strong brand.

Branding Matters and Matters Now

Thanks to the internet, self-directed consumer research is an everyday occurrence. Product selection is increasingly consumer-directed and displacing physical merchandising or sales associate advice. This same dynamic is playing out in many categories of building products. Take plumbing fixtures and faucets, for example. Recent L.E.K. research suggests that more than 30% of homeowners start their faucet selection research online, which explicitly reduces the value-add of traditional in-store merchandising and sales assistance. This same dynamic is also playing out in pro channels (e.g., those channels typically visited by pro/contractors) where leading distributors are increasingly emphasizing value drivers other than the product education of their customers.

Consider the following macro trends as further evidence of the importance of brand building:

- According to the Joint Center for Housing Studies, millennials are twice as likely to take on do-it-yourself (DIY) projects as the broader population; millennials are the same demographic group that has embraced e-commerce and self-empowered shopping with the greatest intensity

- Homeowners are conducting more self-directed research when selecting building products and relying on the websites of brands more than any other online source for information about product selection (See Figure 1). In addition, homeowners are becoming significantly more influential in the brand selection process according to L.E.K.'s most recent contractor survey

- Contractors also rely on brands' websites for information about product selection, placing nearly 50% greater

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importance on this source than the advice of in-store sales associates (See Figure 2)

- Do it for me, or DIFM, still represents 83% of the remodel expenditure[1] and the contractor represents the majority influencer in product selection in nearly every residential category; three of the top five purchase criteria of contractors have to do with product features / value proposition across most categories (elements that branding can help reinforce)

- More than 50% of contractors are willing to pay a premium for the best brands in a given category and their willingness is 35% higher than paying a premium based solely on the recommendation of the sales associate, according to L.E.K.'s most recent contractor survey

- Online retailers / e-tailers of building products are becoming increasingly relevant to contractors, with their share of contractor expenditure nearly doubling in the past four years; in general, these channels do not help with brand building (best case) and can drive category commoditization (worst case)

The Benefits of Branding

Clearly, these trends point to the benefits of branding. Strong brands help capitalize on these opportunities and defend against these risks. But what about companies that have already built strong brands in the building products sector? What can we learn from looking at these businesses? What benefits do they realize and how did they build these brand positions?

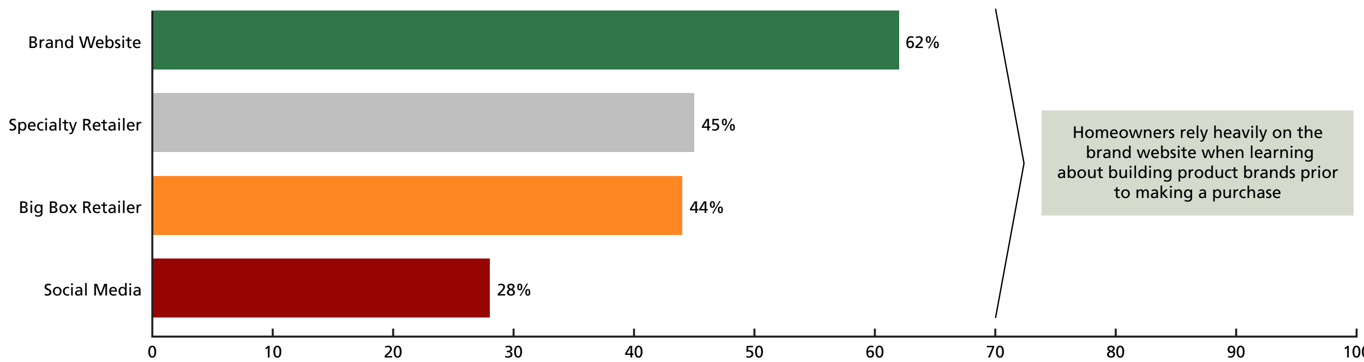
L.E.K. recently profiled more than 30 companies in building products across categories looking for evidence of brand leadership and the benefits realized by companies that were able to build strong positions relative to their competitors. These companies were compared against competitors within their respective segments. In other words, we did not benchmark a roofing company against a wall board company. Instead, we benchmarked the roofing companies with strong brands against other roofing companies and repeated the same comparisons across eight different product categories.

Our findings offer a compelling case for branding. The companies with the strongest brand positions realized one or more of the following benefits:

- Higher margins and better pricing
- Strong – and sustained – market share
- Pull-through demand (homeowners and contractors alike are looking for the brand)
- Greater channel influence

Perhaps what was surprising from our research was that these benefits were realized in categories that would lend themselves to more of a pro/contractor-influenced decision

Figure 1
Importance of Brand / Product Information Source for Homeowners
Percent of Contractors Rating 6 or 7



Source: As reported by contractors (residential only) in 2014 L.E.K. Contractor Survey (e.g., ceiling tiles), as well as categories where the homeowner would have greater relative influence (e.g., windows). Surprisingly, these benefits were also apparent in categories where the brand is not easily identifiable post-installation (e.g., siding, wall board).

It may be easy to understand why branding works for bathroom faucets that are out in the open and where the product design can cater to varying buyer preferences. So why bother if your product is invisible to the consumer after it's installed? There's no apparent benefit to stamping your brand on a product that may be covered by a wall or painted – right? For companies that don't think branding applies to their product category, consider USG Corp (United States Gypsum) with its universally known brand – Sheetrock, which has a leading position in the drywall (also called wallboard) market. Though drywall has been generally regarded as a commoditized product, USG differentiated Sheetrock against other products with a focused effort on branding.

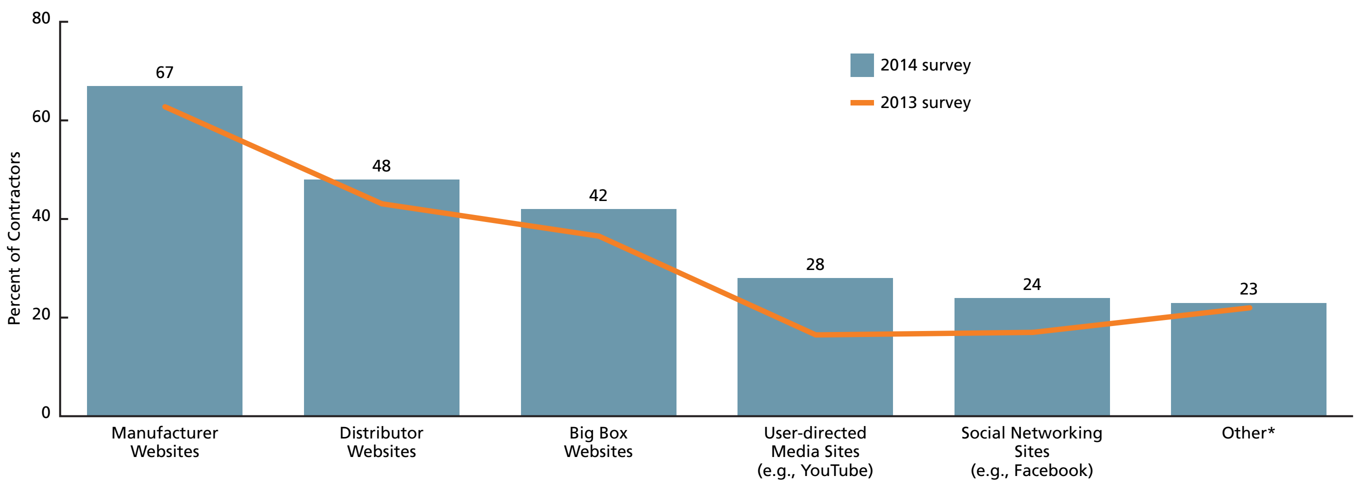
The case for branding leads to the following questions: How do you build brand leadership in the building products sector? How did these companies establish brand leadership in their respective categories and what are the lessons learned?

To answer these questions, we analyzed building product companies that have built strong brands and found three common concepts that we call the "Brand Builders":

1. Message management
2. Aligned product value proposition
3. Target audience optimization

To be clear, we are not suggesting that all of the companies we analyzed employ only these three concepts to build their brands. Likewise, we are not saying you have to adopt all three to be successful. It's also important to note that employing Brand Builders concepts will not offset other important drivers of a company's success (e.g., making a bad product or having a poor channel strategy).

Figure 2
Percent of Contractors Using Internet Sources (2013-2014)



Key Activities

Manufacturer Websites	Distributor Websites	Big Box Websites	User-directed Media Sites (e.g., YouTube)	Social Networking Sites (e.g., Facebook)	Other*
• Learn about new products • Gather product specs • Review how-to guides	• Price comparisons • Purchasing • Read reviews or discussions	• Price comparisons • Purchasing • Gather product information • Read reviews or discussions	• Review how-to guides • Read reviews or discussions • Learn about new products	• Read reviews or discussions • Contribute commentary / feedback • Review how-to guides • Post questions	• Read reviews or discussions • Contribute commentary / feedback

Note: *Includes 3rd-party sites such as trade magazines, product review sites, how-to sites, etc.
Source: As reported by contractors (residential only) in 2014 L.E.K. Contractor Survey

1. **Message management.** All of the best-in-class businesses we analyzed have made significant investments in controlling the message of their brands. In some cases, the businesses have gone so far as to forward integrate and own distribution. In other cases, the businesses have category-leading sales force coverage calling on end decision makers and telling the differentiation story directly. Most importantly, these businesses are not relying on third parties, channels or others to communicate or sell their value proposition.

2. **Aligned product value proposition.** Best-in-class businesses have tailored their product's message to convey a value proposition that matters to the decision makers of the category, uniquely, and that is fundamental to the category itself. For example, in the case of paints and coatings, what matters to pro/contractors is uniformity of color and single coat application assurance; these are messages that are core to Sherwin Williams' product messaging. In the case of kitchen and bath fixtures – the "jewelry of the home" – design matters; Kohler is seen as synonymous with design.

3. **Target audience optimization.** This concept may be the hardest of the three to fully execute and control. It involves ensuring that your brand's value proposition is aligned with your targeted customer segments (and channels). For example, when trying to address a positioning of premium pro-grade products, you cannot sell solely through home centers. There are additional points to consider with this factor that are important: Is the market segment large enough to warrant the investments required to build a brand leadership position? Will the segment value a differentiated brand? Are competitors already occupying this segment with a strong brand aligned with the needs of the space? Working through these questions is very important. Not doing so – and not doing it thoroughly and thoughtfully – can result in diluted returns on your brand investment.

Lessons Learned From Consumer Products

In many cases, consumer products are the gold standard in branding. Therefore, any exploration of brand building in building products would be remiss without casting an eye toward the lessons learned in that segment. These lessons can be particularly useful when viewed through the lens of trying to create a brand that is differentiated from a strong incumbent. Consumer products companies constantly face similar market challenges (see Figure 3). If smart branding can reinvigorate, exploit and renew the success of products like laundry detergent, canvas sneakers and rental cars, building product companies can also distinguish themselves.

Branding Now

With the housing crisis behind them and fundamentals showing strong signs of recovery, building products companies need to reconsider the conventional wisdom that customers

Figure 3
Representative Lessons Learned
Consumer Companies Address Branding Challenges

CHALLENGE	SOLUTION	BRANDS
Many brands, same consumer	Differentiate as "must have"	Apple, J. Crew, Louis Vuitton, Victoria's Secret
Value-add unapparent	Establish as top brand and only choice	Gillette, Kleenex, Nike, Tide
Big players dominate	Innovate so brand becomes superior	Spanx, Tesla, Udi's Gluten Free
All products same in mature market	Segment market, identify core consumer	Hertz, Planet Fitness, Smashburger, Urban Decay
Crowded market	Make product top-of-mind at point of purchase	Anheuser Busch, Coca Cola, Geico Insurance, GM
Brand tired, losing traction	Dynamically reposition	Domino's, Keds, Old Spice

care most about cost and little about features and aesthetics. With contractors and homeowners often working more closely, manufacturers have to understand the different drivers of the buying decision. Ease of installation is going to matter more to the builder; finishes/color more to the consumer.

For building product companies, now is the ideal time to invest in brand building. A business cycle in recovery means that share gains are compounding and profits are expanding, so there's money to invest, and consumers and homeowners are increasingly involved in the purchase decision. This last factor is especially important given that more homeowners are going online to consider building products from the brands they trust.

It is critical, however, that manufacturers fully understand the life cycle of their product line and its current market position when figuring out how to take advantage of the business cycle through branding. Such data, and resource-intensive research, is often beyond the scope of a building products company. In every case, branding must be preceded by a careful analysis of factors such as channel behavior, product purchasing behavior, sales productivity and pricing.

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