



## L.E.K. Contractor Behavior Survey: Optimism Creates New Openings for the Building Products Industry

There continue to be strong signs that the building and construction market is beginning to rebound after a considerable decline. In addition to recently improved housing starts, L.E.K. Consulting's findings from its annual Contractor Behavior Survey show that residential contractors have increased their optimism across a number of business drivers during the past year.

To better understand contractor purchasing priorities and preferences, L.E.K. surveyed 650 residential contractors across the United States for its third L.E.K. Contractor Behavior Survey.

For the first time, the L.E.K. report also identifies top-rated manufacturers across 14 categories based on contractor responses.

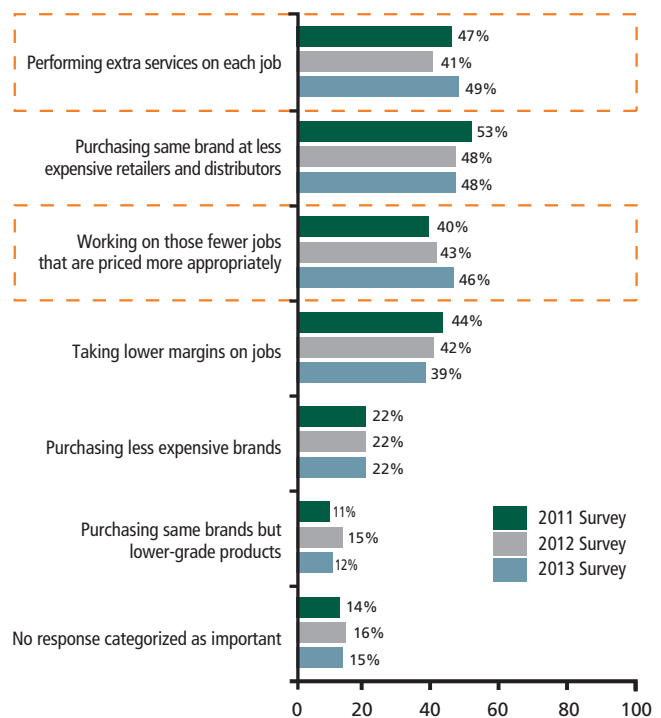
### Protecting Margins by Selecting the Right Products, Adding Services

Contractors' behaviors reflect their renewed sense of optimism. Many are simply walking away from jobs that they don't expect will provide appropriate margins (see Figure 1). They are also increasingly finding non-price mechanisms to address pricing pressures, with nearly half of those surveyed performing extra services rather than reducing their quotes.

When selecting products, contractors have continued to value their trusted brands during the downturn and generally remain loyal to proven products rather than risk purchasing less expen-

sive alternatives by other manufacturers. Contractors are also decreasing their searches across multiple retailers and distributors to purchase their favored products at the lowest prices.

**Figure 1**  
Contractor Response to Price Pressure  
Percent of Contractors Rating 6 or 7

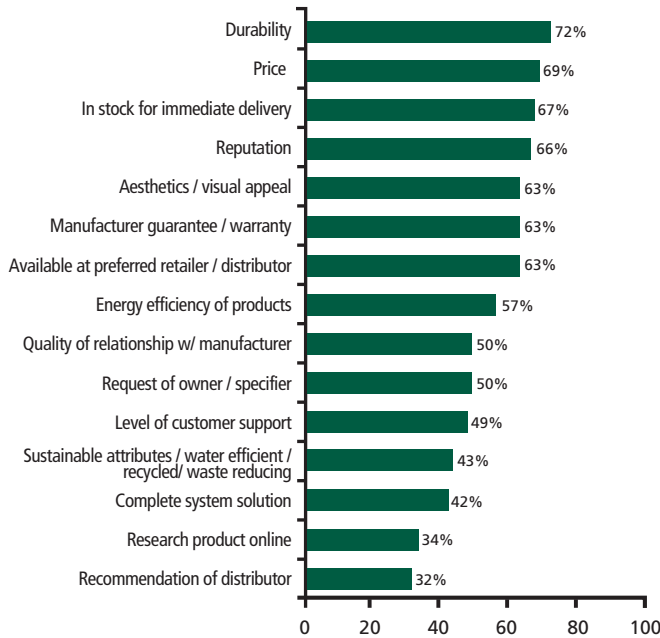


Source: 2013 L.E.K. Contractor Behavior Survey

L.E.K. Contractor Behavior Survey: Optimism Creates New Openings for the Building Products Industry was written by **Thilo Henkes** and **Aaron Smith**, both Vice Presidents at L.E.K. Consulting in the North American Basic Industries Practice; and **Robert Rourke**, a Vice President and Head of L.E.K.'s Chicago office. Please contact us at [industrial@lek.com](mailto:industrial@lek.com) for additional survey findings or related information.

Figure 2

**Contractor Product Purchase Criteria Importance**  
Percent of Contractors Rating 6 or 7



Source: 2013 L.E.K. Contractor Behavior Survey

with related attributes including product reputation and warranty also among the top-10 product selection considerations (see Figure 2). Price remains a significant influencer on contractor purchasing, but has run second to durability during the course of the three L.E.K. contractor surveys. Energy efficiency is also significant, with 57% of contractors stating that it is an important consideration.

Measuring Channel Shifts

In the two previous L.E.K. surveys, contractors stated that price was a major reason for shopping at big box stores, but that the big box channel was underperforming on other services relative to the pro channels (one-steppers/specialty chains, two-stepper/specialty independents and broadline distributors). While price is important this year, more than half of contractors said that convenience has driven them to spend more at big box stores, citing benefits such as close proximity to job sites, inventory and product selection. Having the right products in stock enables contractors to purchase materials as needed at the big box channel rather than tying up capital in materials or worrying about storage logistics of purchased items.

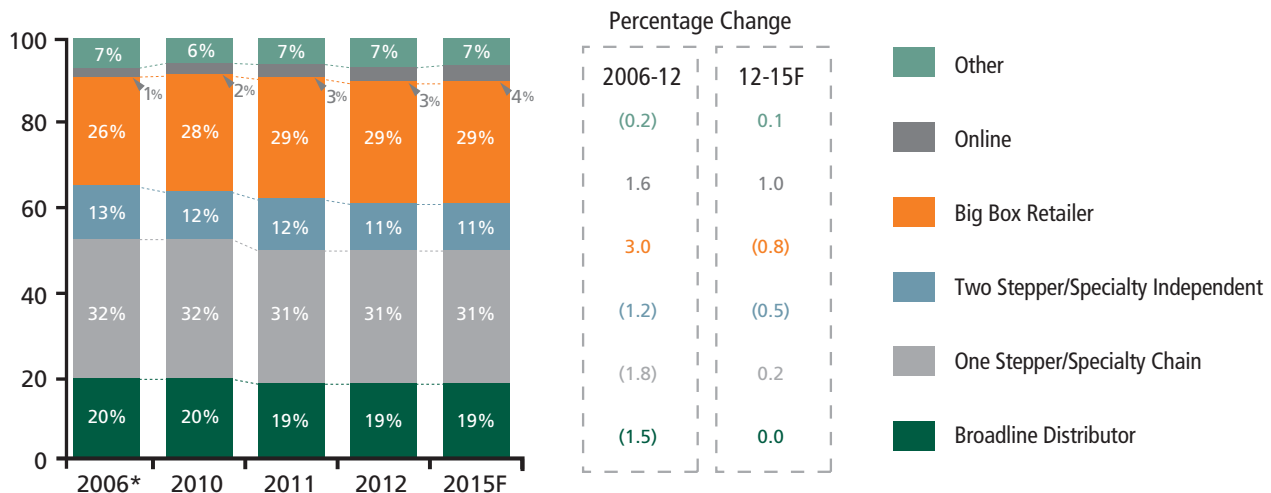
Examining Product Purchasing Drivers

The importance of using trusted brands reflects contractors' belief that durability is the number-one product purchasing criterion,

But there are still other factors that are drawing contractors away from the big box channel. As the importance of price becomes slightly de-emphasized, our data shows that the shift towards big

Figure 3

Contractor Average: Purchase Frequency By Channel (2006-2015F)



Note: \*2006 data from 2010 survey adjusted to reflect change in view of 2010 market  
Source: 2013 L.E.K. Contractor Behavior Survey

box stores appears to have plateaued and is expected to decline slightly (stated -0.8% decrease) in projected purchasing frequency during the next three years (see Figure 3).

Pro channels are seen as providing faster, more reliable delivery and also have other attributes such as contractor services and knowledgeable staff. This shift is expected to benefit the one-steppers the most. One- and two-steppers are outperforming big box stores in areas including delivery speed and on-time guarantees, contractor services and knowledgeable staff.

The online channel remains small, but has been growing consistently. Contractors are increasingly using the Internet to gather product information (particularly on manufacturers' sites) as well as pricing information on channel sites.

## Ranking the Highest-Performing Manufacturers Across 14 Categories

Contractors also cast their votes for the highest-performing manufacturers across 14 separate product categories (see Figure 4). Using the contractors' responses, L.E.K. then rated companies based on an aggregate score of the following four attributes: product breadth, quality, price and service level.

Because contractors are loyal to durable brands with strong reputations, earning high performance scores is critical to product manufacturers.

While receiving the highest performance score in each category is notable, these categories remain very competitive. One-third of the categories have leaders that only hold a slightly higher score than the category average – including framing, HVAC, insulation, lighting & electrical and paint.

## Planning for Growth

Renewed confidence in the building and construction market has contractors thinking beyond just price and cost containment, and focusing more strategically about efficiency and productivity.

Product manufacturers have the potential to gain share by providing quality products at a premium that demonstrate energy efficiency or sustainability. Successful product strategies also require original equipment manufacturers (OEMs) to clearly understand the product requirements and pricing thresholds of their primary customer segments.

**Figure 4**  
Highest-Performing Manufacturers\*

Category	Highest-Performing Manufacturer**	Highest Performer Score**	Difference to Avg. Overall Score**
Carpentry	American Woodmark	5.7	0.4
Concrete/Foundation	Lafarge	5.8	0.4
Drywall	USG Corporation	6.0	0.3
Electrical/Lighting	GE	5.5	0.2
Flooring	Anderson Hardwood	5.4	0.4
Framing	Georgia-Pacific	5.4	0.2
HVAC	Trane	5.3	0.2
Insulation	Owens Corning	5.6	0.2
Paint	Sherwin-Williams	5.6	0.2
Plumbing	Toto	6.0	0.7
Roofing	Owens Corning	5.9	0.3
Siding	James Hardie	5.6	0.3
Tile	Dal-Tile	5.5	0.3
Windows/Doors	Andersen	6.0	0.6

Note: \* Based on contractor responses for their top two job types; \*\*Based on company set for which usage rate is greater than 10%  
Source: 2013 L.E.K. Contractor Behavior Survey

As part of this customer segmentation, OEMs must revisit their channel strategies to ensure that they are providing the right products through distinct big box and pro channels. Manufacturers typically trade low margins for high volumes via big box stores, and companies that remain overly committed to this price-sensitive channel may struggle to increase their revenues. To extract sufficient value from their intellectual property, OEMs should strongly consider selling new and premium products through pro channels where profits are traditionally higher and the differentiation is sustainable.

For this strategy to succeed, however, OEMs must have clear pricing strategies among channels and establish programs to support their distribution partners. And they must also understand the right mix of innovation, quality and price that attracts contractors to their products instead of the alternatives next to them on store shelves.

Manufacturers that can develop and position targeted products across key segments of the channel (and provide product and “how-to” information online) will be well-positioned to capture added share as demand continues to grow.

**L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded nearly 30 years ago, L.E.K. employs more than 1,000 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.**

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