

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



Six Minutes with Robert Rourke

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In April 2012, Amazon.com Inc. launched *Amazon Supply*, an online store targeted at business and industrial customers. Amazon Inc. is perhaps the Internet's most disruptive company; "your margin is my opportunity" – a favorite aphorism of its CEO Jeff Bezos – has sent shivers through executives in industries as diverse as publishing and portable electronics. Two years after *Amazon Supply's* launch, how should the building-products industry respond to this aggressive new entrant?

Drawing from his experience advising companies in the building products industry and a recent L.E.K. survey of 550 residential and commercial contractors, Rob discusses how e-commerce sites, mobile technology and social media are changing the building and construction industry in the United States.

Q How is *Amazon Supply's* presence in the building products industry playing out?

It's still early innings. There are some categories that currently don't lend themselves to e-commerce, in most cases because the products are heavy or awkward to transport so the shipping cost consumes most of the gross profit. That said, *Amazon Supply* is happy to survive on razor-thin margins, and they seem committed to this industry. *Amazon Supply* has averaged 50,000 unique visitors per month since launch and carries approximately 500,000 SKUs in more than a dozen building-product-related categories – they have almost 5,000 SKUs in the HVAC category and in kitchen and bath fixtures they have more than 7,500 SKUs. That's a pretty substantial offering already. Also remember that other companies offer an online channel, including build.com and homedepot.com. Although growing from a small base, online channel share has more than doubled since 2006 and contractors indicate it now accounts for roughly 3% of sales; we believe the online channel will grow substantially in the coming years.

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Q Should those figures worry established players in the industry?

If you're a manufacturer, *Amazon Supply* can be your friend in the short term – it creates tremendous channel access. Longer-term it can be a question because of the inevitable channel conflict it may create with potentially more profitable (and important) channels. But if you're a distributor, and *Amazon Supply* just entered your category, that is terrifying and if you're not scared you should be. The question is how to respond. Bricks-and-mortar distributors' competitive advantage remains speed and service. If a contractor needs something on a new build or renovation and they don't want to wait 48 hours for *Amazon Supply's* shipping, that's an opportunity for a traditional distributor who has a localized inventory. Anything that requires a service proposition such as job-site delivery, advice on product selection, physical inspection of the product before purchase, installation guidance, or ease of product returns, remains an area of competitive advantage for traditional distributors.

Q Will that change? Can Amazon ever compete on time?

That becomes the longer-term challenge. Amazon.com's consumer business is estimated to be able to ship to 70% of the U.S. GDP within a day and they are experimenting with same-day delivery in many markets. They are investing heavily in decentralized distribution centers. If they crack the code of same-day delivery in consumer and apply it to *Amazon Supply*, what's to stop them from delivering straight to the job site? Distributors need to make sure they have the most attractive brands in the quantities that are required for jobs at the local level, and they have to up their game in terms of service.

Q What can established industry players do to use the Internet to their advantage?

Contractors were late to the Internet, but they are now regular users. In our most recent survey of contractors in 2013, we found that more than 80% of contractors now own smartphones and around 60% use a smartphone for work – usually to exchange emails with clients but increasingly to check specs and prices for materials, among other tasks. Homeowners are themselves becoming increasingly web-savvy and using the Internet to research products and influence contractors' purchasing decisions, particularly for finished products.

For distributors or retailers, an online presence is now table stakes in an increasingly competitive game. And for branded building-product manufacturers, social media should be used to build loyalty among homeowners and to help generate demand. Leading companies are already doing this. Manufacturing giant Kohler now has almost 700,000 followers through YouTube, Twitter and Facebook; Moen is not far behind with more than 580,000.

Q The contractor survey also asked about visualization and analytics apps and other innovations. What role will such tools have in the future?

Contractors tell us that they anticipate apps for smartphones and tablets will become increasingly integrated into their work in the coming years. Already, some paint and roofing companies offer visualization software that allows contractors to take a picture of a roof or wall and then demonstrate for homeowners how the roof or wall will appear once certain colors and types of materials have been applied. They can then use the same software to estimate how much material they might need for a given job. I think these innovations offer great value to contractors, and the reward will be contractor loyalty, which is the holy grail of building-products businesses because it enables better access and negotiating power with distribution.

Visualization and analytics software help a contractor close the deal with the homeowner and it saves the back-end hassle of trying to spec-out an estimate. It thus increases the switching cost for that contractor – once they've used an app, they'd have to recalculate entire inventory estimates if they switched brands. What's more, as anyone who uses apps can attest, you build a muscle memory with certain apps, and once you become comfortable you're unlikely to switch to a different app.

Q Any parting thoughts?

Compared to other industries, the Internet revolution arrived late to the building products industry. But I think there's a general recognition now that cyber will affect every part of the industry's value chain. Increasingly, competitiveness will be determined by how quickly, how efficiently and how intelligently companies can invest in this new technology.

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