



## Building Products Outlook 2013

Executives in the building and construction industry face many strategic questions as they plan critical next steps for their businesses. To help navigate the road ahead, L.E.K. Consulting has developed a high-level forecast for three central issues facing this market in 2013 and beyond. In addition to our insights below, we have also developed similar outlooks for a number of additional market sectors across the economic spectrum.



### What are the Biggest Challenges and Opportunities Facing the Building Products Industry During the Next Year?

With strengthening construction fundamentals, one of the biggest challenges building products industry executives will face in the coming months involves the decisions related to bringing capacity back online. This is both a challenge and an opportunity. On one hand, adding a second shift (or restarting previously idled manufacturing plants) might allow you to capture volume and gain share. On the other hand, if your competitors also bring back capacity, pricing power might erode. Striking the right balance between market share gains and the resultant operating leverage vs. pricing (and profit) discipline should be very carefully considered.

While there is no one-size-fits-all solution to this challenge, there are a series of important factors to consider when shaping your production and pricing strategies, including:

- Confidence in demand/growth forecasts within relevant markets (e.g., channel, customer, product, region, etc.)
- Understanding relative cost positions of competitors for relevant market segments
- Customers switching costs (including contracts)
- Historical (and announced) changes in capacity by competitor
- Recent changes in industry pricing

While L.E.K. cannot predict the shape of the recovery, we are increasingly confident that the industry is growing. The operating leverage derived from increased volumes will likely drive unprecedented levels of profitability for many building products industry sectors. Therefore, it is critical to strike the right balance between volumes and price given this potential opportunity.



### What's the Current State of the Industry?

Overall M&A activity in the building products industry picked up slightly in 2012. We expect this trend to continue based on several factors likely to fuel an increase in activity, such as:

- Multiples have been increasing for high-quality companies given the improved confidence in cyclical recovery
- Many private equity (PE) firms have vintage investments (from 2006 or earlier) that they look to monetize in the face of these strengthening fundamentals
- Many corporates have been closely scrutinizing their businesses and portfolios during the past several years in advance of the recovery. And they will likely divest non-core assets to help fund new growth strategies (frequently including inorganic growth)



## What Burning Issues are Senior Executives Facing?

There are a number of additional important issues facing organizations during the coming year, including:

- **Innovation (Commercialization and Pipeline Development):** Based on our industry experience and the perspectives of industry leaders that we work with, many organizations have significantly curbed their R&D investments in an effort to manage costs through the slow cycle. Rebuilding the innovation pipeline will be critical to future share trends. Importantly, optimally commercializing existing innovations will ensure strength in current share and profits.
- **Talent Gap(s):** Similar to R&D, many organizations slashed SG&A to weather the storm. These cuts may create capability gaps in functions critical to driving profitability growth – including corporate development, marketing and sales force management.
- **Social Media and E-Commerce:** With few exceptions, the building products industry has been somewhat late to this party vs. consumer-oriented segments. However, increasingly homeowners (and contractors) are turning to the Internet to research products and to fulfill demand. This trend is irrefutable and will only accelerate with players like Amazon Supply expanding their B2B offerings and companies like Build.com disrupting channels. Even conventional building materials companies have started to embrace it – witness GAF's 82,000 likes on its Facebook page. Brand-driven building product companies will need to tackle these online opportunities and challenges to protect and grow their industry leading positions in their respective segments.

## Our Building Products Practice

L.E.K. Consulting is renowned as a leading adviser to the diverse Building Materials & Industrial Products sector, with more than 3,000 projects completed around the world. L.E.K. understands the fiercely competitive industrial building materials market across the entire life cycle, from commodity materials to specialty building products and construction.

### Capabilities Overview

- **Growth Strategy Development:** Identify new market opportunities, develop the appropriate commercial and strategic approach, and support execution to create momentum within the organization.
- **Product and Portfolio Strategy:** Optimize product and services portfolios to address key markets and ensure brand cohesion. Also create new product roadmaps.
- **Market and Channel Strategy:** Provide strategic guidance on distribution strategies while also addressing new market and channel opportunities domestically and internationally.
- **Supply Optimization:** Achieve competitive advantage through supply chain optimization. Identify cost savings through capacity planning, substitutions and other initiatives.
- **Sales Force Effectiveness:** Enable rapid sales performance improvement by optimizing the structure and performance of a company's sales force.
- **M&A Support:** Serve as a strategic advisor throughout the transaction support services life cycle – from initial due diligence and valuation through post-merger integration.

### Meet Our Experts



**Chris Kenney**

Vice President



**Thilo Henkes**

Vice President



**Lucas Pain**

Vice President



**Darren Perry**

Vice President



**Rob Rourke**

Vice President



**Chris Rule**

Vice President



**Aaron Smith**

Vice President



**Carol Wingard**

Vice President

Please contact us at [industrial@lek.com](mailto:industrial@lek.com) for additional information.

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