EXECUTIVE INSIGHTS

Building and Construction Distributors Can Increase Their Margins More; Here Are 10 Ways To Do It

In the building and construction business, many distributors keep their return on capital high by earning healthy margins on high-turn products. This strategy has paid off especially well in recent years, even after accounting for post-COVID-19 pricing concessions. But the trend has continued long enough that industry watchers are left wondering whether it still has room to run.

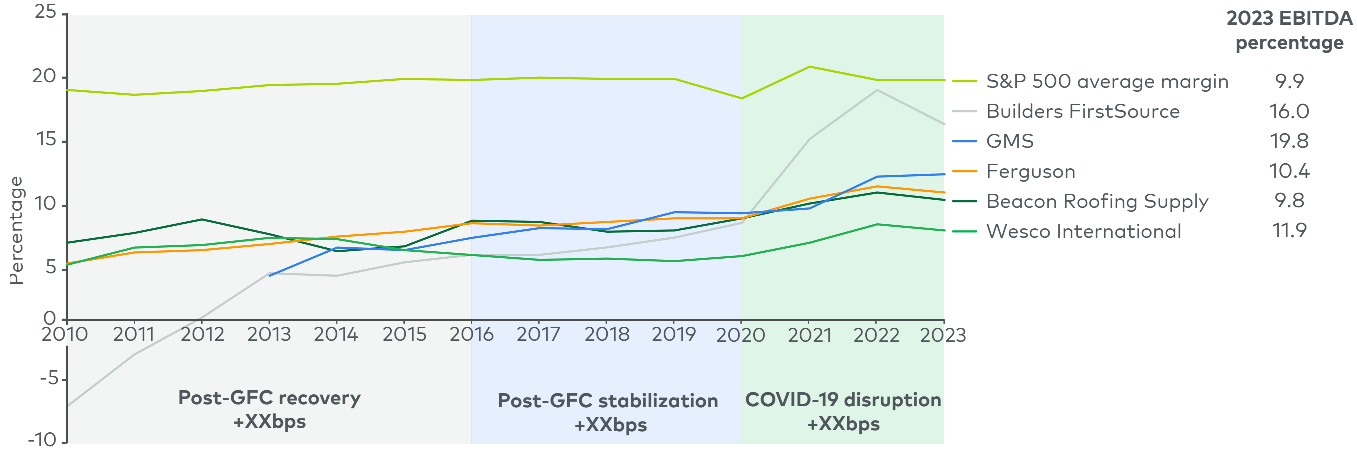
In this *Executive Insights*, we'll look at the conditions that have enabled distributors to expand their EBITDA (earnings before interest, taxes, depreciation and amortization) margins. Then we'll examine where remaining opportunities for EBITDA margin uplift can be found and what distributors can do to capture them.

A supportive environment for margin growth

Public building products distributors have materially expanded their EBITDA margins over the last 10 years (see Figure 1).

Figure 1

Margin performance among national building products distributors, 2010-2025



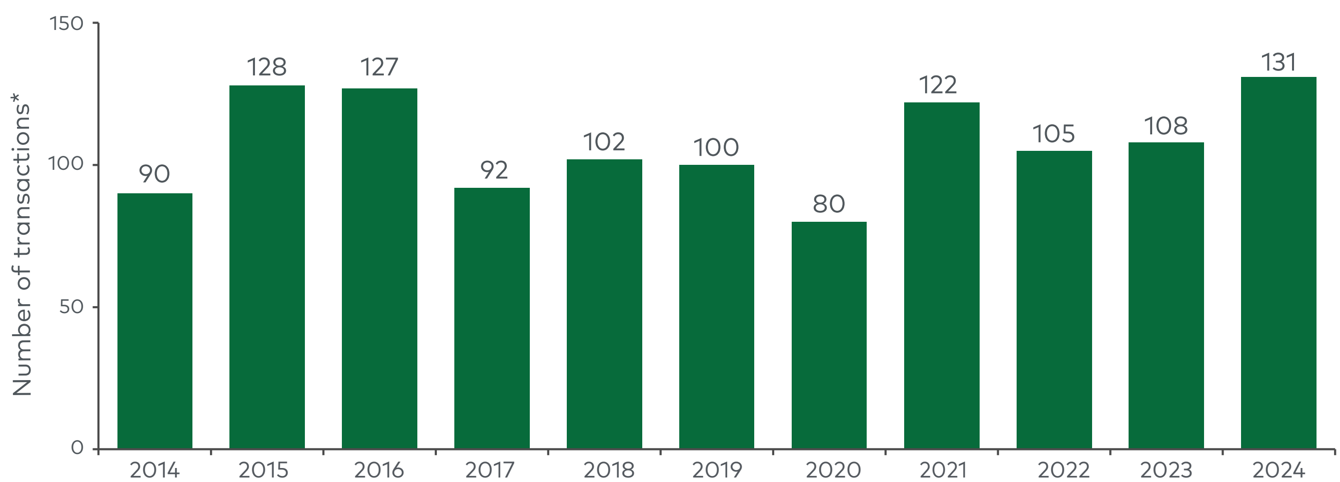
Note: EBITDA=earnings before interest, taxes, depreciation and amortization; GFC=great financial crisis; bps=basis points
Source: S&P Capital IQ; SEC filings; L.E.K. research and analysis

This trend is partly due to consistent demand for building products following the 2008 financial crisis and the subsequent collapse in new residential construction. Key construction measures have shown steady growth. Between 2010 and 2023, spending in commercial and residential construction increased 5.7% and 9.9% per year, respectively.

Another factor is the stable deal environment for building and construction distribution (see Figure 2). Lately, margin uplift has been a consistent rationale for M&A in the sector.

Figure 2

US building and construction distribution transaction volume, 2014-2024



*Includes transactions with "building and construction distribution" or "construction material distribution" parties as of Dec. 16, 2024, as reported and available on S&P Capital IQ
Source: S&P Capital IQ

That hasn't always been the case. When Wesco International acquired RS Electronics in 2012, for example, the strategy was to expand Wesco's electronic product offerings and customer base for industrial original equipment manufacturers.[1] But when Wesco merged with Anixter in 2020, margin improvement was a core financial rationale.

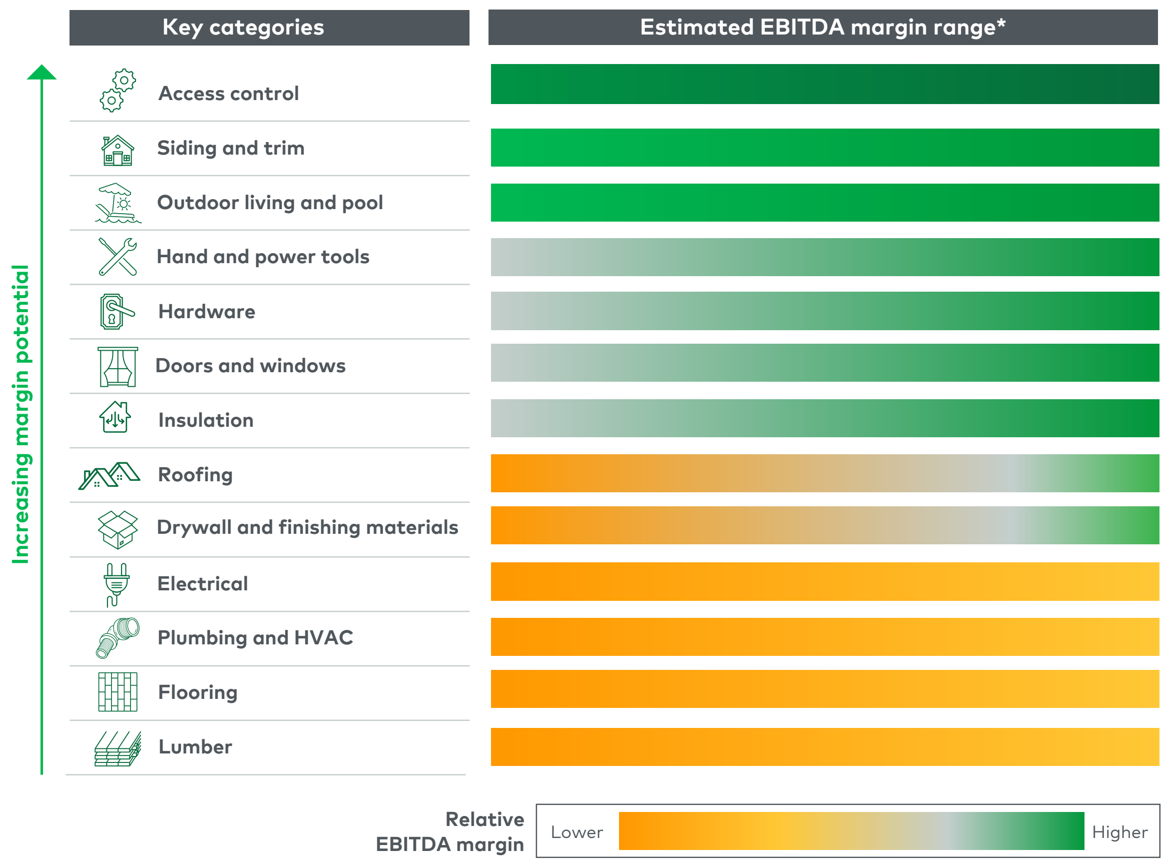
When it comes to acquisition targets, scaled building products distributors tend to generate higher margins than do smaller ones. Reasons include purchasing synergies, favorable pricing and cost efficiencies. M&A can help distributors improve margins by addressing other exogenous conditions like shifting customer preferences or supplier consolidation and fragmentation.

Opportunities for further improvement

Despite years of chasing margin uplift, there's still a good deal of untapped opportunity across numerous building and construction product categories (see Figure 3).

Figure 3

Building and construction EBITDA margins by category

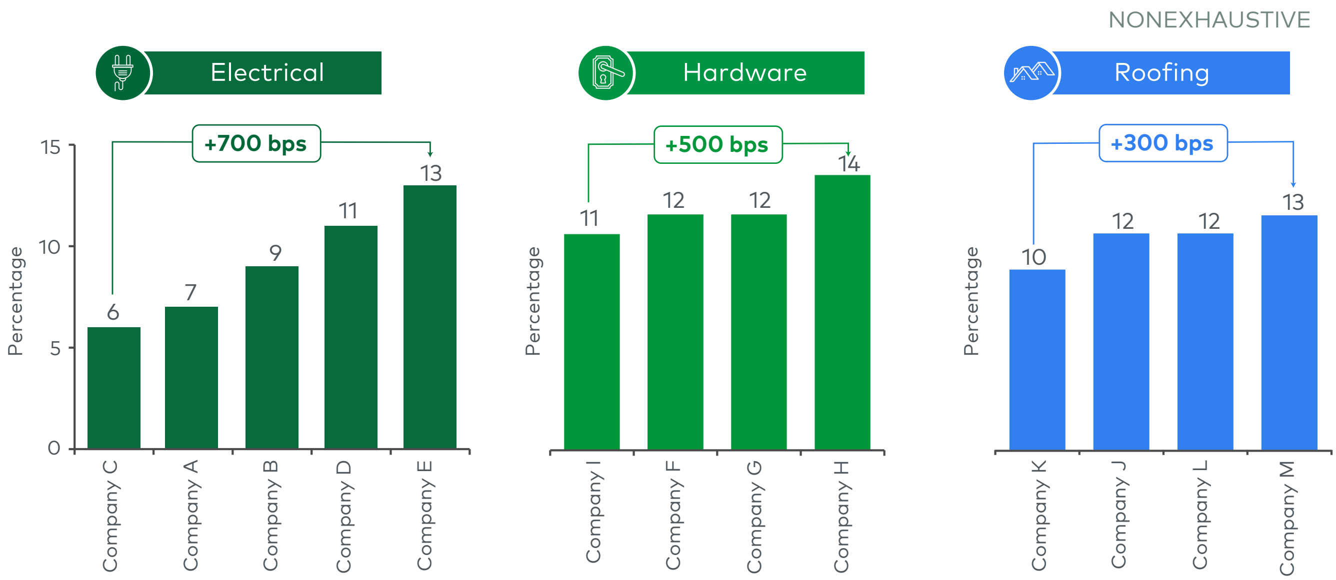


*Typical margins – some company margins can exist outside these ranges
Note: EBITDA=earnings before interest, taxes, depreciation and amortization; HVAC=heating, ventilation and air conditioning
Source: S&P Capital IQ; D&B; Grata; SEC filings; L.E.K. research and analysis

Building products EBITDA margins can be highly variable by category. Access control products tend to have the highest margins, reflecting the growing consumer appetite for technology. The lowest margins, perhaps predictably, can be found in lumber. Even within categories, margins can vary (see Figure 4).

Figure 4

Estimated EBITDA margins by primary category, 2023



Note: EBITDA=earnings before interest, tax, depreciation and amortization; bps=basis points
Source: SEC filings; L.E.K. research and analysis

Although all categories have opportunities to increase margin, certain attributes are particularly favorable to achieving higher margins. They include:

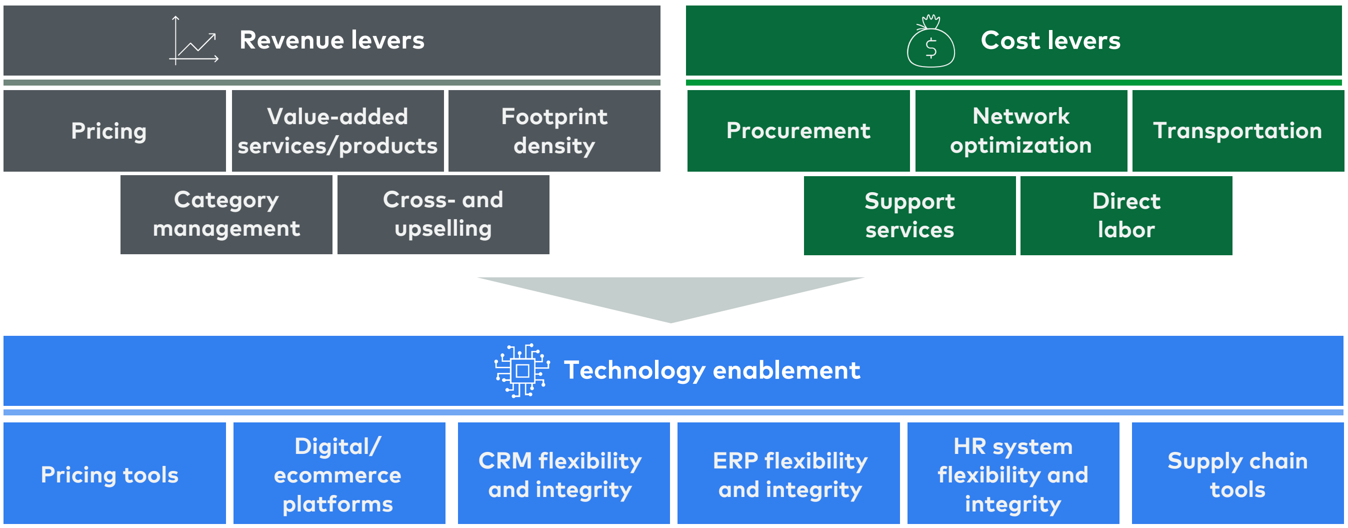
- Exposure to repair & renovation
- Alignment with mission-critical end-user needs (e.g., emergency repair)
- Distributor consolidation
- Supplier consolidation
- The need for value-added services

These attributes may be more present in some categories than in others.

The 10 levers of margin uplift

Against that backdrop, what levers can distributors pull to unlock margin upside? Here are 10 that we've identified, with technology enabling many of them (see Figure 5).

Figure 5
Levers of margin uplift



Note: Levers organized between revenue and cost based on which aspect they affect most; there can be some overlap (e.g., category management also reduces footprint requirements)
Note: CRM=customer relationship management; ERP=enterprise resource planning; HR=human resources
Source: L.E.K. research and analysis

1. **Pricing.** Systematically assess whether you're charging the optimal price for the value of different services, taking into account variations at the regional level along with the timing of different needs

2. **Value-added offerings.** Find new ways to build up your capabilities in value-added products (think private label or prefabricated) and services (like installation or inventory management capabilities).

3. **Footprint density.** Customers typically won't drive more than 10-20 minutes to buy. So increasing your share of the local market can boost customer loyalty and position you to sell more value solutions.

4. **Category management.** Create upside by diversifying stock-keeping unit assortments, optimizing for high-turn products and prioritizing higher-margin sales.

5. **Cross-selling and upselling.** Online cross-selling and upselling tactics not only help retain customers; they can also lead to higher-margin sales and a bigger basket size.

6. **Procurement.** Scale — whether achieved organically or through M&A — can give you the power to obtain better terms from manufacturers.

7. **Network optimization.** Other benefits of organic and M&A growth include the ability to right-size locations, serve customers from the most optimal branch, and build new branches to bring products and services closer to customers.

8. **Transportation.** Increasing the number and size of shipments gives you more flexibility as to how much of your fleet is owned versus leased to manage costs.

9. **Support services.** Combining and eliminating overhead functions delivers reliable savings, although impact may or may not be as high as other levers.

10. **Direct labor.** Improved and expanded analytical capabilities can help you streamline staffing through better labor forecasting, distribution center slotting and facility workflow.

Additionally: Technology enablement. Any of the margin uplift levers we've just described can be enhanced with technology (see Figure 6). Examples include pricing and supply chain management tools as well as platforms for ecommerce, customer relationship management and human resources.

Figure 6

Role of technology in margin uplift

Technology enablement	Lever impact	Pricing tools	Digital/ ecommerce platforms	CRM flexibility and integrity	ERP flexibility and integrity	HR system flexibility and integrity	Supply chain tools
Revenue levers							
Pricing	High	✓✓	✓	✓✓	✓✓		
Value-added services/products	High	✓	✓	✓✓	✓✓		
Footprint density	Medium/high			✓	✓✓		✓
Category management	Medium	✓	✓	✓	✓		✓
Cross- and upselling	Medium	✓	✓	✓✓	✓✓		
Cost levers							
Procurement	Medium/high				✓✓		✓
Network optimization	Medium/high				✓✓	✓	✓
Transportation	Medium/high				✓✓		✓✓
Support services	Medium		✓		✓✓	✓✓	
Direct labor	Medium/low				✓✓	✓✓	✓

Technology criticality for full realization of impact: ✓✓ Critical ✓ Useful

Note: CRM=customer relationship management; ERP=enterprise resource planning; HR=human resources
Source: L.E.K. research and analysis

Margin uplift in action

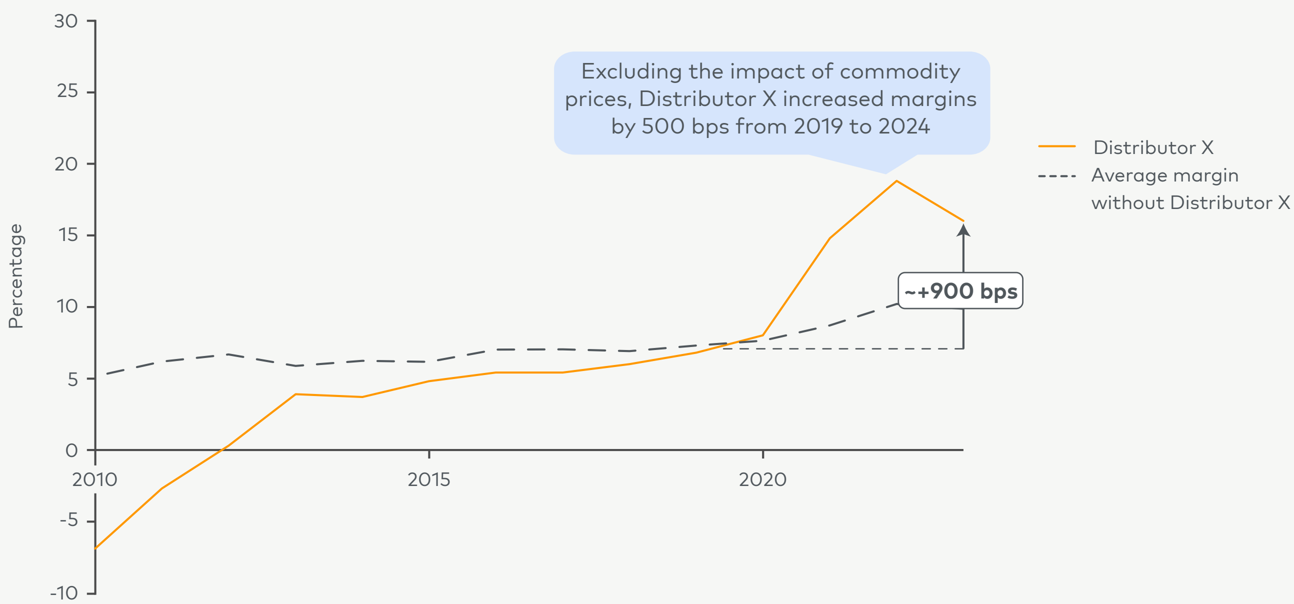
A company we'll call Distributor X pulled several uplift levers to expand its EBITDA margins.

- **Pricing:** It aggregated data and optimized pricing by region and local branch.
- **Value-added offerings:** It provided customers with visualization tools and value-added products, then added more value-added products via M&A and organic investments.
- **Procurement:** It centralized purchasing as much as possible to maximize buying power.
- **Network optimization:** It consolidated locations to slash overhead costs.
- **Direct labor:** It captured synergies through M&A.

The result? Excluding the impact of commodity prices, Distributor X was able to expand its margins by 500 basis points over 2019 and 900 basis points over 2010 (see Figure 7).

Figure 7

Distributor X EBITDA margin performance, 2010-2023



EBITDA=earnings before interest, taxes, depreciation and amortization; bps=basis points
Sources: S&P Capital IQ; SEC filings; L.E.K. research and analysis

Distributor X's experience has implications for other distributors of building products. First, it takes multiple levers to have a significant effect on margins. It also takes time — five or more years may pass before the benefits are fully realized. To be effective, some levers may need additional analytical capabilities, technology investments or both. Finally, although M&A can speed things up, distributors don't have to engage in dealmaking to bring meaningful improvements to their margins.

Charting a path to sustained margin improvement

Building products distribution has enjoyed a decade of steady EBITDA margin expansion, thanks to a favorable macroeconomic environment, strategic M&A activity, and sustained demand in both the residential and commercial markets. But as margin gains become consolidated and new margin uplift becomes harder to achieve, distributors must shift from riding tailwinds to actively engineering further improvements.

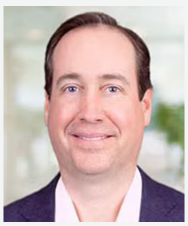
The good news: Meaningful opportunities remain. By making the most of margin-rich product categories and pulling targeted cost and revenue levers, distributors can unlock the next wave of profitable growth. The path forward will require a realistic assessment of the time, capabilities and resources involved, with an eye toward achieving real impact in the medium term. If you are a distributor or investor seeking to improve margins and drive value creation, reach out to L.E.K. Consulting to discuss how we can help.

Endnote

[1]Wesco Q2 2012 earnings call transcript, Roic AI, July 19, 2012. https://www.roic.ai/quote/WCC/transcripts/2012-year/2-quarter

About the Authors

Paul Bromfield
Paul Bromfield is a Managing Director and Partner at L.E.K. Consulting, focused on the building and construction and industrial distribution sectors within the firm's Industrials practice. Paul has more than 20 years of experience, with a strong record of helping companies across the value chain accelerate growth, including in service innovation, multichannel strategy and M&A.



Lucas Pain
Lucas Pain is a Managing Director and Partner based in L.E.K. Consulting's Chicago office and is co-head of the firm's Global Industrials Sector. With over 20 years of experience, Lucas guides growth strategy for building products, materials, distribution, and construction clients. His work focuses on tackling industry challenges including pricing, labor shortages, and shifting construction cycles, and providing M&A and deal support.

Matt Korsch
Matt Korsch is a Managing Director and Head of L.E.K. Consulting's Chicago office. Matt leads the Building & Construction practice and advises clients on growth strategy, profitability, international expansion, and M&A support including diligence and acquisition screens. He also has experience across industrial distribution, equipment, energy, and private equity.

Knute Gailor
Knute Gailor is a Principal in L.E.K. Consulting's Boston office focused within distribution and building products. Knute advises corporate and financial sponsors on growth strategy, channel strategy, margin uplift strategy, and M&A. He is a contractor by trade and is a licensed construction supervisor.

About L.E.K. Consulting
We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia-Pacific and Europe — has guided leaders across all industries, from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit **www.lek.com**.