EXECUTIVE INSIGHTS

Finding Building Product Categories With Sustainability Potential

With more consumers prioritizing energy-efficient solutions[1] for their homes, sustainability[2] has become a watchword in the building and construction industry. But which categories of building products and materials are most effective in reducing emissions?

The answer depends on what you're trying to achieve and how much difference the product would make. To get a clearer picture of the market for sustainable building products, we surveyed builders, general contractors and architects about the impact they're seeing and where they think the market could go. Here are the highlights.

What drives sustainability?

Different factors drive product sustainability. Industry professionals say the three that will go furthest in reducing greenhouse gas emissions are the use of sustainable materials, the recyclability of materials and energy efficiency (see Figure 1).

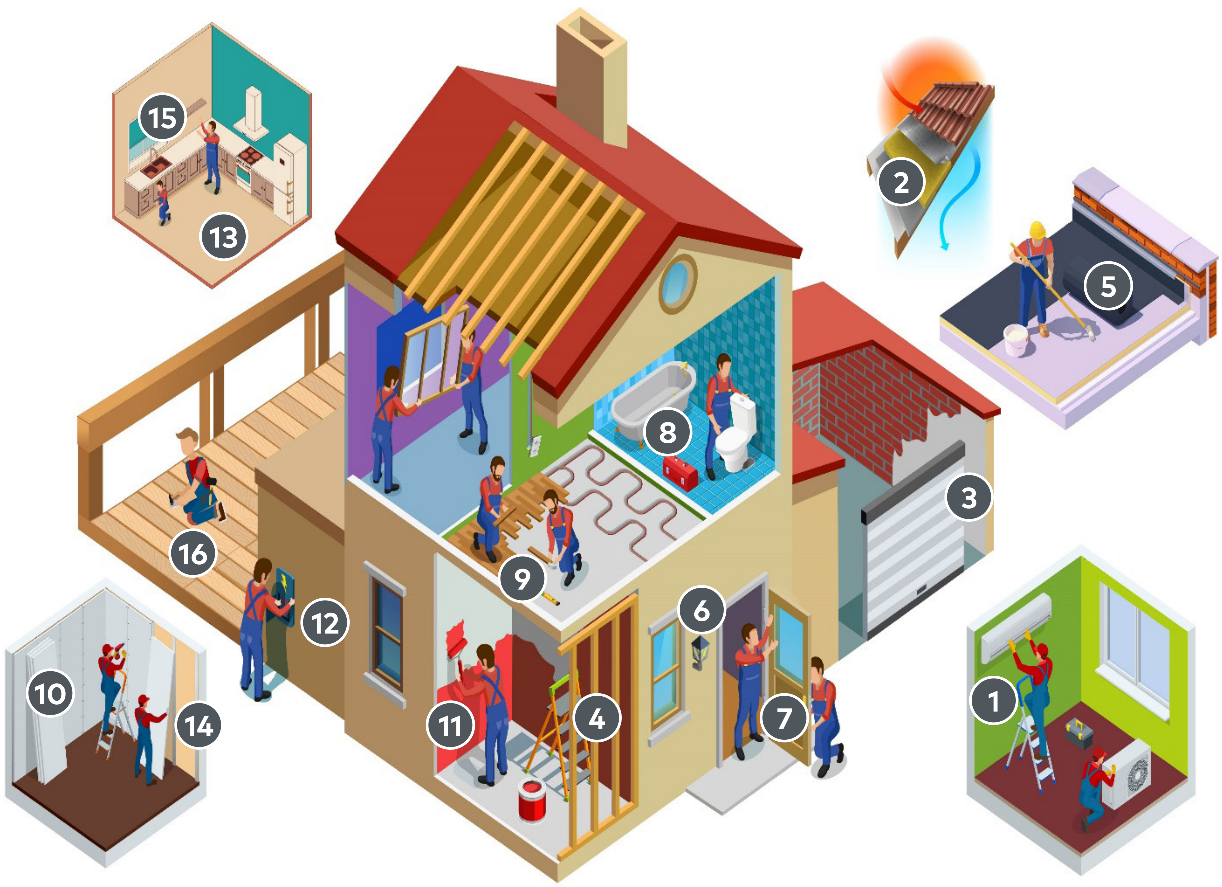
Figure 1
Factors that drive building product sustainability (N=190)*

*Survey questions: Which of the following factors drives product sustainability? (Please select up to three choices in order of importance); What building materials and products do you believe will have the biggest impact on sustainability in the next three years, defined as supporting lowered greenhouse gas emissions? (Please select up to three choices in order of importance)
Source: L.E.K. survey analysis

According to our survey respondents, HVAC (heating, ventilating and air conditioning) products have the biggest impact on sustainability. Insulation and concrete[3] take second and third place, respectively (see Figure 2).

Figure 2

Building products in order of impact on sustainability



1. HVAC	**5.** Roofing	**9.** Flooring	**13.** Cabinetry
2. Insulation	**6.** Lighting	**10.** Drywall	**14.** Sheathing
3. Concrete	**7.** Windows/doors	**11.** Paint	**15.** Countertops
4. Framing	**8.** Plumbing	**12.** Siding	**16.** Decking

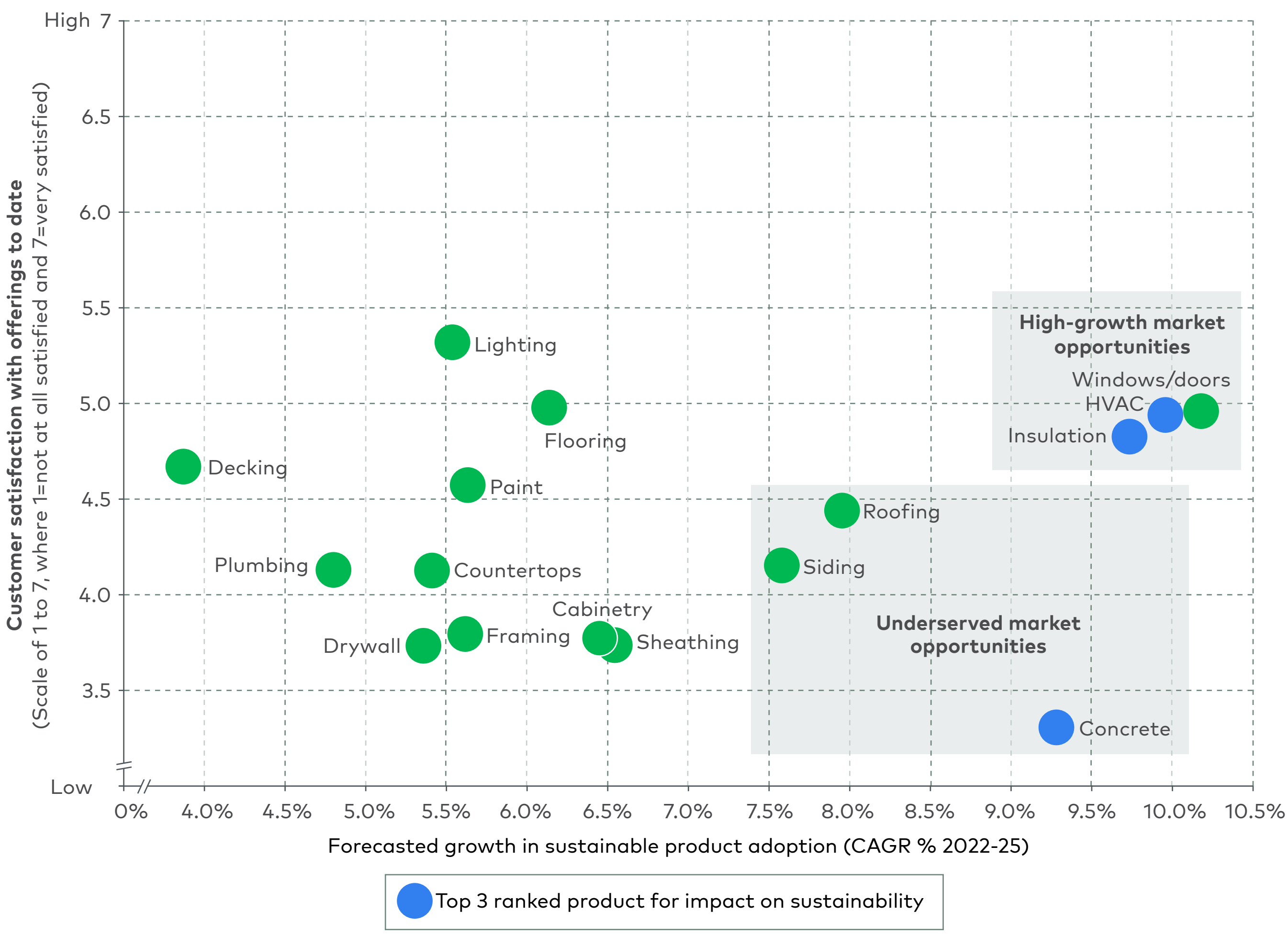
Source: L.E.K. research and analysis

New and unmet opportunities

But the sustainability picture isn't static. Industry professionals say they expect to adopt more of some categories of sustainable products — including HVAC, insulation and concrete — than others. Satisfaction also varies by product category. On average, professionals are most satisfied with the number of options for sustainable lighting and least satisfied with the sustainable offerings in concrete (see Figure 3).

Figure 3

Forecasted product adoption and sustainable product satisfaction (N=190)*



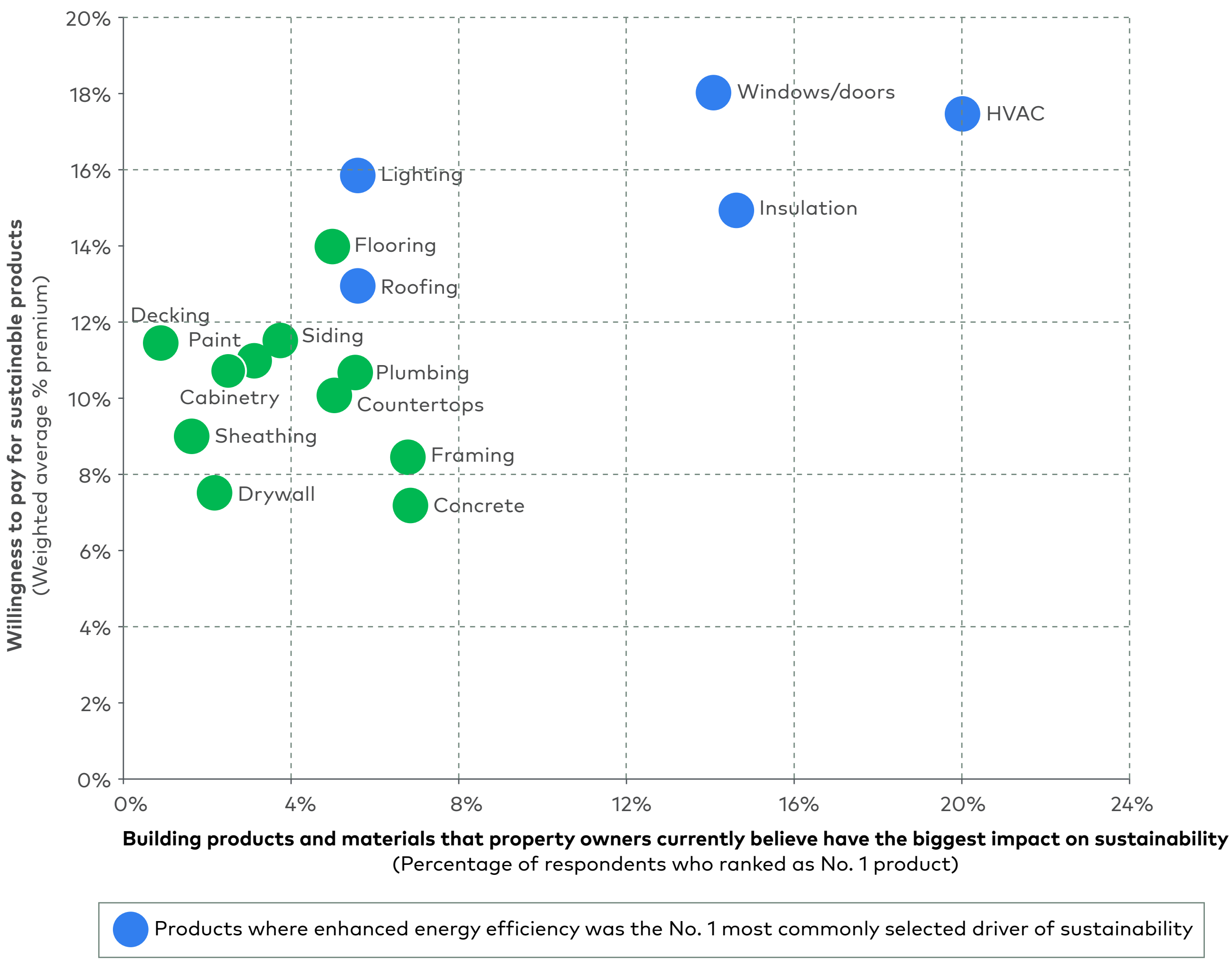
*Survey questions: Over the last 12 months, approximately what percent of your jobs that used the following products were completed with a product you would consider sustainable, defined as supporting lower greenhouse gas emissions? What percent of your jobs used sustainable products three years ago (2019) and what percent of your jobs do you expect will be sustainable three years in the future (2025)? For the following products, to what extent do you believe there are currently sufficient sustainable product options available on the market, defined as offerings that lower greenhouse gas emissions?
Source: L.E.K. survey analysis

In the world of sustainable building products, lighting, windows, doors, flooring and insulation are high-growth categories (despite being at the more mature end of the market) because they have an obvious energy efficiency benefit. Concrete, roofing and siding are underserved markets that also offer high growth, albeit at a greater level of investment.

This brings us to the question of pricing. We asked survey respondents how much they thought their customers (i.e., property owners) were willing to pay for different categories of sustainable building products. Not surprisingly, the products most likely to command a premium are the ones believed to pack the biggest sustainability punch given the available options on the market (see Figure 4).

Figure 4

Property owner willingness to pay for sustainable products (N=190)*



*Survey questions: What building materials and products do your customers believe can have the biggest impact on sustainability, defined as supporting lowered greenhouse emissions? (Please select up to three choices in order of importance.) Approximately how much of a price premium do you estimate your customers are willing to pay for a sustainable building material or product in each of the following categories? (Note: Weighted average calculated using midpoints of premium categories and used 70% as midpoint for 51%+ category.) Which of the following factors drives product sustainability? (Please select up to three choices in order of importance.)
Source: L.E.K. survey analysis

Lack of options isn't the only thing holding back the market for sustainable building products. Building professionals identify a number of barriers to adoption. The most important are cost and limited awareness of what's available (see Figure 5).

Figure 5
Barriers to adoption (N=190)*

*Survey question: Which of the following factors drive product sustainability? (Please select up to three choices in order of importance.)
Source: L.E.K. research and analysis

Implications for market participants

What can manufacturers and distributors do to break down the barriers and encourage adoption of sustainable building products? Consider the following actions:

- **Promote** product offerings available in the market, with an eye to boosting awareness
- **Demonstrate** the impact products have on sustainability and other benefits (e.g., payback) in order to educate customers and investors
- **Innovate** cost-competitive products that sell property owners on the benefits of sustainability
- **Expand** the number and range of sustainable product offerings to cater to different customer subsegments, bearing in mind that even for categories like drywall, a desire for more sustainable offerings exists (see Figure 6)
- **Influence** government policy, directly or indirectly, to support sustainable product options and change perceptions of key decision-makers (such as architects)

For their part, investors seeking a presence in sustainability need to evaluate where they want to play: in a high-growth category, a more-or-less-accepted sustainability offering, or some other part of the market.

- **Underserved, high-growth product categories:** Concrete, roofing and siding
- **High-growth categories where current sustainable offerings meet property owner needs:** Windows/doors, HVAC and insulation
- **More well-established and mature markets:** Lighting, windows/doors, flooring and insulation

Figure 6

Sustainable product offering availability, by product category*

	1, 2, 3 (Fewer to no options)	5, 6, 7 (Many options)	Average rating (1 to 7)	Participant size
HVAC	16%	74%	5.1	N=82
Insulation	14%	16%	4.9	N=97
Concrete	58%	19%	3.1	N=85
Framing	53%	31%	3.4	N=87
Roofing	23%	58%	4.5	N=79
Lighting	12%	70%	5.2	N=82
Windows/doors	8%	72%	5.3	N=85
Plumbing	33%	43%	4	N=87
Flooring	17%	70%	5	N=84
Drywall	53%	25%	3.3	N=80
Siding	31%	47%	4.3	N=83
Paint	35%	49%	4.3	N=79
Sheathing	48%	30%	3.7	N=80
Cabinetry	44%	31%	3.6	N=81
Decking	23%	51%	4.5	N=77
Countertops	39%	41%	3.9	N=83

*Survey question: For the following products, to what extent do you believe there are currently sufficient sustainable product options available on the market, defined as offerings that lower greenhouse gas emissions? Please rate on a scale of 1 to 7, where 1 means "there are few to no options" and 7 means "there are many options."
Source: L.E.K. survey analysis

Hence, a consideration is whether to invest in categories with a relatively strong sustainability profile versus categories that have significant opportunities for improvement. Indeed, the need to improve a category/subcategory's sustainability performance and/or the sustainability performance of companies within the category might be viewed as an opportunity rather than a risk management area to be avoided. Factors such as the energy intensity per dollar of revenue or per unit of production, the emissions profile, the degree of exposure to regulation and/or customers, and the company's lack of adoption of sustainability actions (e.g., operations initiatives, new product development) are factors that indicate potential opportunity for sustainability and business improvement. Investors can develop frameworks to evaluate where an opportunity to improve the sustainability profile exists and combine them with traditional growth selection criteria such as size of market or growth rate to identify subcategories and the companies within them.

The value in building green

Sustainability is a nuanced challenge in building and construction. The approaches that are most effective according to science and measurement may not be practical from the perspective of an industry professional. In our survey, builders, general contractors and architects reveal that satisfaction and the pace of adoption vary not just across, but within, product categories. Those gaps spell opportunity for those looking to invest in the future of building products and materials.

For more information, please contact industrials@lek.com.

Endnotes

[1]L.E.K., "Sustainable Home Improvement: A Big Priority for Consumers." https://www.lek.com/insights/ar/sustainable-home-improvement-big-priority-consumers

[2]L.E.K., "Global Corporate Sustainability Survey 2022." https://info.lek.com/sustainability-strategy

[3]L.E.K., "The Quest for Clean Concrete: Why Carbon Capture Should Be Front and Center." https://www.lek.com/insights/ei/quest-clean-concrete

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