



## EXECUTIVE INSIGHTS

# Materials Suppliers, Get the Most Out of the Road-Building Boom

Over the last several years, the federal government has distributed more than \$216 billion to the states to repair or improve the nation's aging network of roads.<sup>1</sup> That's on top of an estimated \$600 billion that state and local governments spent on highways and roads during the same time frame.<sup>2</sup>

But it's still the early days. Many of the millions of miles of U.S. roadways remain in dire need of modernization.

Whether it's heavy materials (e.g., aggregates, asphalt) or more specialty chemicals and materials (e.g., asphalt additives, geotextiles), materials suppliers have an opportunity to capture share of the ongoing ramp-up in infrastructure projects. The approach, however, to each of these broader product categories requires a different strategy to drive success.

## Heavy materials

### Understand changing supply/demand dynamics

Despite recent uncertainty, the continued rollout of the Infrastructure Investment and Jobs Act, supported by state and local governments with generally strong balance sheets and a need to invest in roadway infrastructure, is expected to lead to increased demand for road construction materials and services overall.

However, not all regional markets will benefit to the same extent: Some have already seen a large jump in demand driven by large projects that are in the process of tapering, while others are poised to benefit from high growth over the next five years. These differences by region are also true on the supply side, as some markets are already very well served by existing production capacities, while others are clearly underserved.

In a recent review of hot-mix asphalt supply/demand dynamics in over 20 local markets, L.E.K. Consulting found a broad range of outcomes ranging from oversupplied markets with negative growth prospects to currently undersupplied markets with outsized growth potential.

Market operators that can understand these local dynamics at the right level of detail are likely to uncover opportunities for production capacity additions, acquisitions and pricing optimization.

### **Identify pricing opportunities**

Spotting future supply/demand imbalances will not be the only source of driving outsized returns. Best-in-class players are making good use of advanced data and analytics solutions and delivering cost estimates to optimize their pricing strategy.

In a recent buy-side due diligence on an asphalt asset, L.E.K. was able to identify consistent underpricing by the target company for recurring road maintenance. In a relatively slow-moving industry like building materials, many businesses remain unsophisticated from a pricing standpoint, resulting in value-creation opportunities for consolidators.

### **Drive innovation**

While departments of transportation (DOTs) have long had a reputation for being risk-averse and conservative when it comes to material innovation, this has been changing in recent years. The rate of new material approval has been particularly striking in concrete and cement, as evidenced by the rapid switch to Portland limestone cement (PLC/1L cement), the increasing use of pozzolanic cements (1P) and the exponential adoption of ultra-high-performance concrete (UHPC) in bridge applications. This increasing openness to innovation is showing no sign of slowing down, with DOTs known to be testing calcined clay cements, polymeric cements and novel types of binders. Innovation has been slower in asphalt, but reclaimed asphalt, proprietary asphalt emulsions and fiber-reinforced asphalt are gaining ground.

With DOTs more open to adopting innovative materials than they have been in decades, best-in-class material producers are looking for opportunities to create differentiation.

Specialty materials and chemicals

Know your stakeholders

Road-building is complex because of all the stakeholders. Besides state DOTs and local municipalities, any given project will have engineering, procurement and construction (EPC) firms along with a range of contractors in the mix. Although the boundaries between these roles can be fluid, the table shows a typical breakdown.

Stakeholder	Level of influence
DOT	<ul style="list-style-type: none"><li>• Maintains the approved product list</li><li>• Defines the project</li></ul>
EPC	<ul style="list-style-type: none"><li>• Specifies the type of product</li><li>• Sets broader performance requirements</li></ul>
Contractors	<ul style="list-style-type: none"><li>• Can select their preferred product or supplier so long as the product is approved and meets performance requirements</li></ul>

Keep in mind this is only a general guide. The decision-making is similar for public and private roads, but not the same. And the general contractor — the one managing the overall road-building project — isn't necessarily conducive to cross-selling. The reason is that services are often subcontracted out to more specialized providers. These specialty contractors are very diverse and focused (e.g., a paving contractor typically doesn't conduct line striping) and often have the final say on product selection, within specs. That means you need to think about which contractor is actually making the decision to buy.

Sharpen your sales strategy

A well-put-together sales strategy for specialty chemicals and materials is necessary to cut through the complexity and pinpoint the key decision-maker in the value chain. Start by thinking about where you want to play. For instance:

- Should you target small, independent contractors or larger, consolidated specialty contractors?
- What are the implications of targeting different customer sets? Smaller contractors require more boots on the ground due to high fragmentation, while the consolidated specialty contractor landscape brings higher volume but also more pricing pressure and higher service requirements.
- Where does your value proposition fit best?

From there, evaluate what your sales approach should be. That includes determining who the decision-makers are for each product you're trying to sell and how to structure your sales force to achieve your commercial and financial targets.

### **Pull the advocacy lever**

A distinguishing feature of road construction is the role of DOTs. Since they're the ones that maintain product specification lists and define project requirements, materials suppliers have an opportunity to drive sales through advocacy.

Advocacy works better for some products than for others. Those that reduce project costs, increase safety (for roads, workers, the environment, etc.) or come with lifetime performance returns are in a better position to succeed. It's harder to advocate for products that are less critical to safety or that bring only marginal improvements over other solutions.

Sometimes, advocacy within the road-building materials industry isn't enough to move the needle. You may need a broader ecosystem of stakeholders to weigh in with their influence. Automakers, for instance, have started to support policy for lane line initiatives that enable advanced driver assistance systems (ADAS) features, providing a welcome boost to suppliers of road safety-related materials.

## Paving the way to success

America's roads have long been in need of attention — and now they're finally getting it. But where the money is going and the opportunities it presents have varying implications for suppliers of road-building materials. As states continue to roll out construction projects, a finely tuned strategy can set up market participants to expand their presence, accelerate growth and build industry relationships that pay off well into the future.

Please don't hesitate to [contact us](#) if you'd like to know more about capitalizing on the road-building boom.

## Endnotes

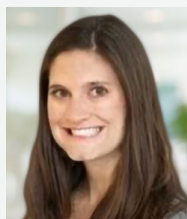
<sup>1</sup>"Highway Authorizations Under the Infrastructure Investment and Jobs Act (Public Law 117-58)," U.S. Department of Transportation Federal Highway Administration, [https://www.fhwa.dot.gov/infrastructure-investment-and-jobs-act/docs/highway\\_authorizations\\_nov302021.pdf](https://www.fhwa.dot.gov/infrastructure-investment-and-jobs-act/docs/highway_authorizations_nov302021.pdf).

<sup>2</sup>Chad Shirley, "Testimony on The Status of the Highway Trust Fund: 2023 Update," testimony before the Subcommittee on Highways and Transit Committee on Transportation and Infrastructure, U.S. House of Representatives, Oct. 18, 2023, <https://www.cbo.gov/publication/59667#>.

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## About L.E.K. Consulting

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