



# Building Products Distribution

Accelerating Towards a Digital Future



**5 November 2020**

These materials are intended to supplement a discussion with L.E.K. Consulting. These perspectives will, therefore, only be meaningful to those in attendance. The contents of the materials are confidential and subject to obligations of non-disclosure. Your attention is drawn to the full disclaimer contained in this document.

# Introducing your presenters



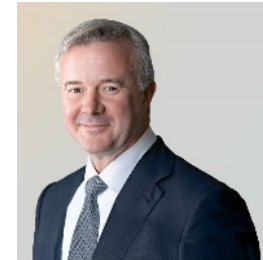
**Jeremy Wheatland**  
Partner

- Global Co-Head of L.E.K.'s Industrials Practice
- Works across the building & construction value chain



**Tom Diplock**  
Partner

- Partner in L.E.K.'s London office
- Focuses on building & construction, and industrial digital
- Leads L.E.K.'s European data & analytics practice

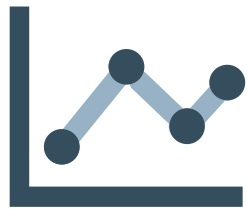


**Phillip McCreanor**  
Managing Director

- Head of Lincoln's European Industrials Practice
- Has a long history of advising in the building products and services sectors
- Leads Lincoln's operations in the U.K. and Nordic region

## Key themes for today's session

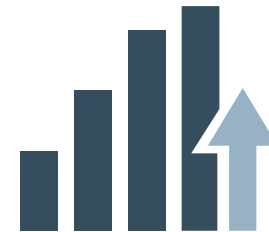
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**How have building products distributors performed since lockdown?**































**What are the opportunities and threats they face from the rise of digital?**



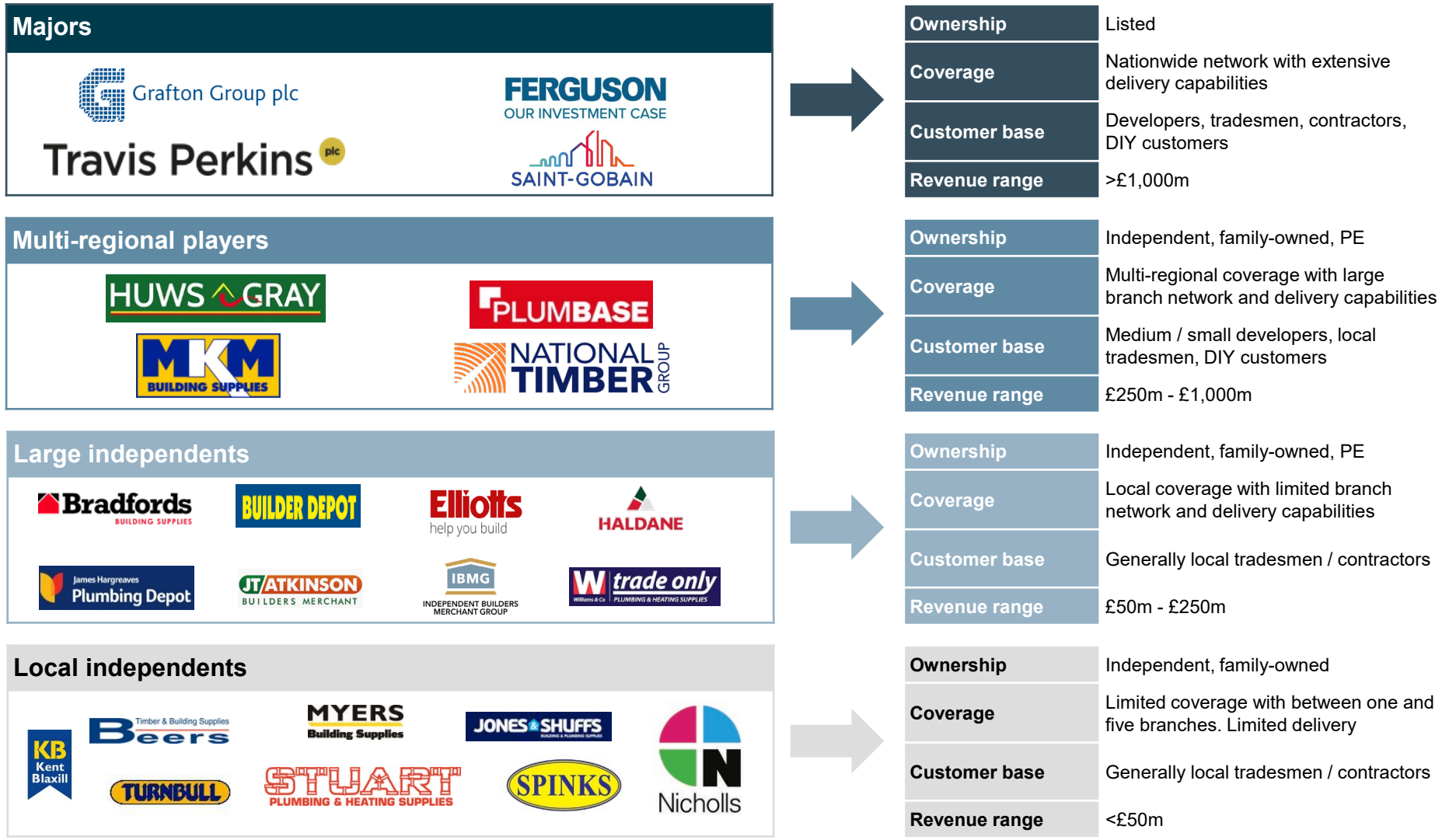
**What will help them succeed?**

# Different types of building products distributors

	Heavy	Light	DIY
Products			
Companies	<div data-bbox="217 529 733 691">     </div>	<div data-bbox="799 529 1328 691">     </div>	<div data-bbox="1396 529 1914 691">    </div>
Companies	<div data-bbox="217 748 733 919">     </div>	<div data-bbox="747 748 1328 919">      </div>	
Companies	<div data-bbox="217 982 733 1148">  </div>	<div data-bbox="799 982 1328 1148">     </div>	

Notes: The companies have been grouped based on the most appropriate classification for the majority of their product range, but some sector overlap does exist

# Building products distributors' market structure



# Confidence has quickly returned to the building products distribution sector

## Grafton Group

30 June 2020

- “[...] based on current trends the Group should deliver a similar level of adjusted operating profit in the second half to the comparable period last year.”
- “Selco [...] benefitted from the marked post-lockdown recovery in the residential RMI market.
- “Selco strengthened its digital capability with a major upgrade to its website in February of this year. [...] Online click & deliver and click & collect accounted for 18% of revenue in May. [...] Digital contributed 12 % of revenue in June as customers availed themselves of the self-select service option to make purchases.”

## Kingfisher (Screwfix)

31 July 2020

- “[In the six months to 31 July 2020] e-commerce sales accounted for 19% (7%) of Group sales [...]. E-commerce sales [...] excluding Screwfix was 8% (3%) on average [in the same period]. Group e-commerce sales grew by 164% and by 173% excluding Screwfix.”
- “Click & collect sales, our largest and fastest growing channel at a Group level, grew by 243% [in the same period], accounting for 79% of Group e-commerce sales (66% excluding Screwfix).”
- “Screwfix, having operated on a 100% online basis since late March 2020, reopened its stores for in-store purchasing in late July.”

## Travis Perkins

22 October 2020

- “Like-for-like sales grew by 3.9% in Q3 [to 30 September 2020]. [...] There have been significant differences in performance across the Group's end markets, with particular strength in domestic RMI, manifesting as strong sales in DIY categories in Wickes and Toolstation, and good trading levels with local trade customers in Toolstation, Travis Perkins and P&H.”
- “Like-for-like sales growth [in the same period] was 25.5% at Toolstation and 18.3% at Retail (i.e. Wickes). Like-for-like sales growth 2020 YTD is 17.3% at Toolstation and 0.2% at Retail.”

# Government support

## Housing supply



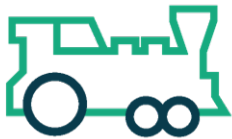
- From September 2020 permitted development rights have been extended that allow the addition of two storeys to existing houses and the demolition of vacant buildings and replacement with residential accommodation
  - Boris Johnson: “We will focus relentlessly on boosting supply and home ownership [...] we’re determined to close the opportunity gap and give millions of young people the chance to own their own homes”
  - £4.5bn Home Building Fund

## Green Package



- £3bn of energy efficiency measures
- Continuing efforts to boost house building
  - £2bn towards new Green Homes Grant for the installation of insulation and low carbon heat sources
  - £1bn for insulation of public buildings

## Government infrastructure spending



- HS2
  - Phase One: London to Birmingham (£45bn)
- Hinkley Point
  - Construction of Hinkley Point C expected to cost £22bn
- Green economy initiatives
  - Investment in Teeside and Humber wind turbine infrastructure (£160m)

# The rise of digital has a range of implications for building product distributors

## Key themes for discussion

1



### Customer engagement

Suppliers need to use digital channels to engage effectively throughout the customer journey

2



### Responding to Amazon

Amazon and other online players are becoming an increasingly common channel for building products and materials

3



### Evolution of the traditional model

The purpose of branches and stores is at an inflection point, with order collection as a primary role on the rise



# Customer behaviours are changing, with digital adoption continuing to increase

In recent years... (past 12-36 months)

**25%**

of customers have increased their online research on how to undertake specific jobs



**40%**

of customers are performing more transactions through digital mediums



Today

Building product customers are digitally savvy with

**>80%**

regularly using a smartphone at work



At least

**35%**

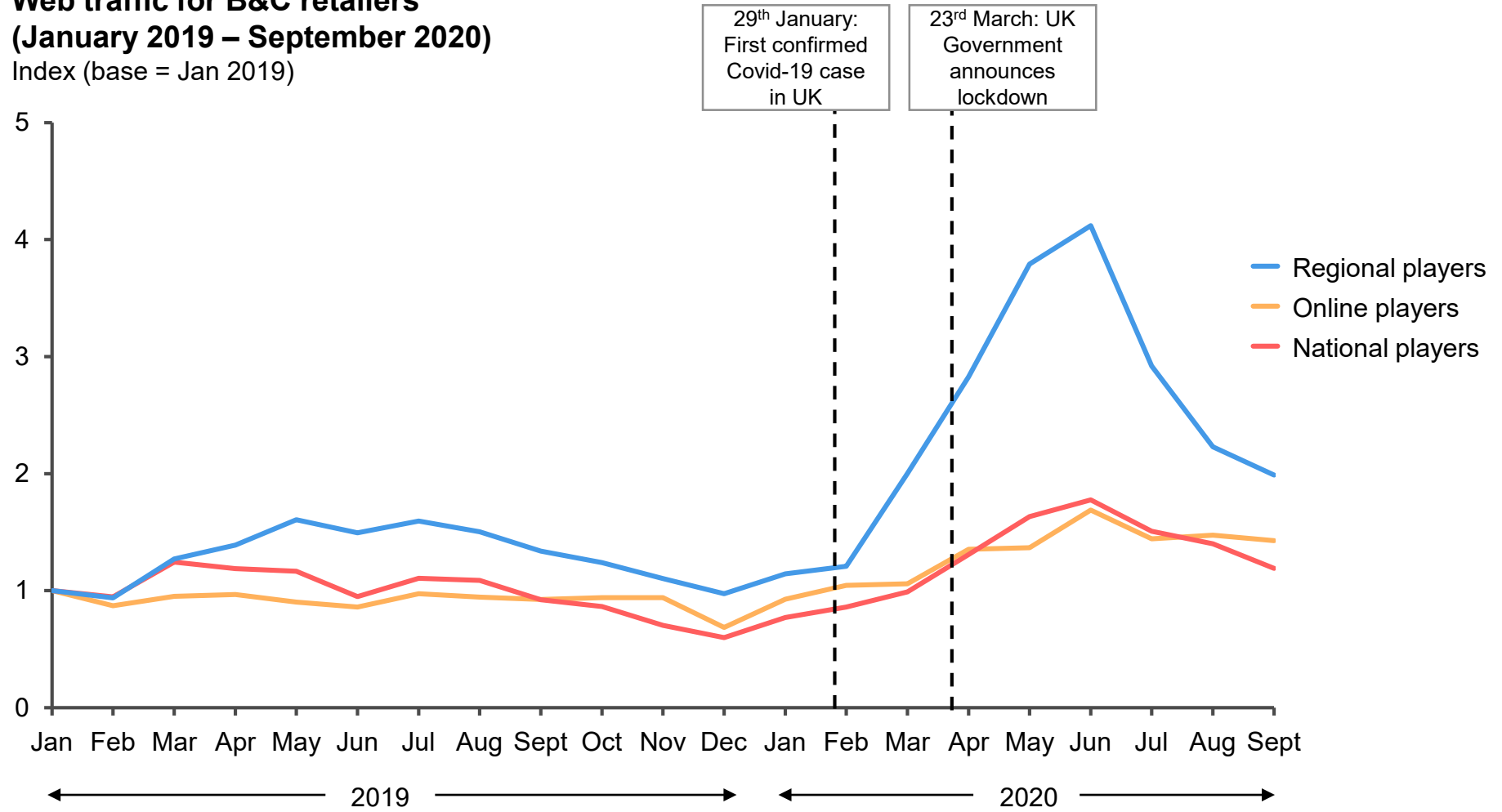
of customers have installed and regularly use a supplier's app



*Findings supported by results from L.E.K.'s UK Building Contractor Survey, completed by almost 500 UK builders, registered tradespeople and installers in late 2019, covering the buying process and use of digital channels.*

# The importance of online channels has been accelerated by COVID

**Web traffic for B&C retailers**  
**(January 2019 – September 2020)**  
Index (base = Jan 2019)

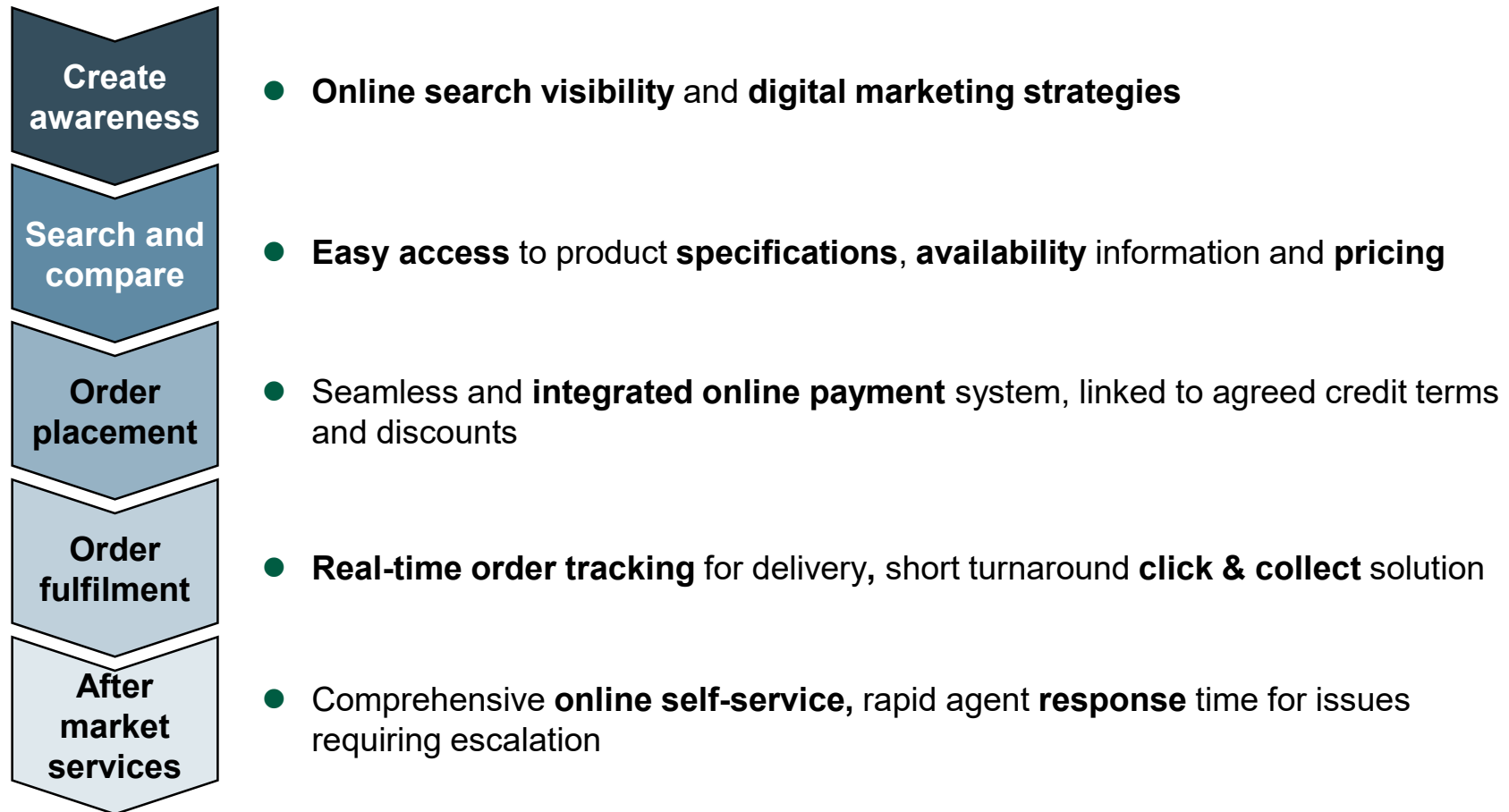


# There is a role for digital at all stages of the customer journey

1

Customer engagement

## Building products: Role of digital in customer journey



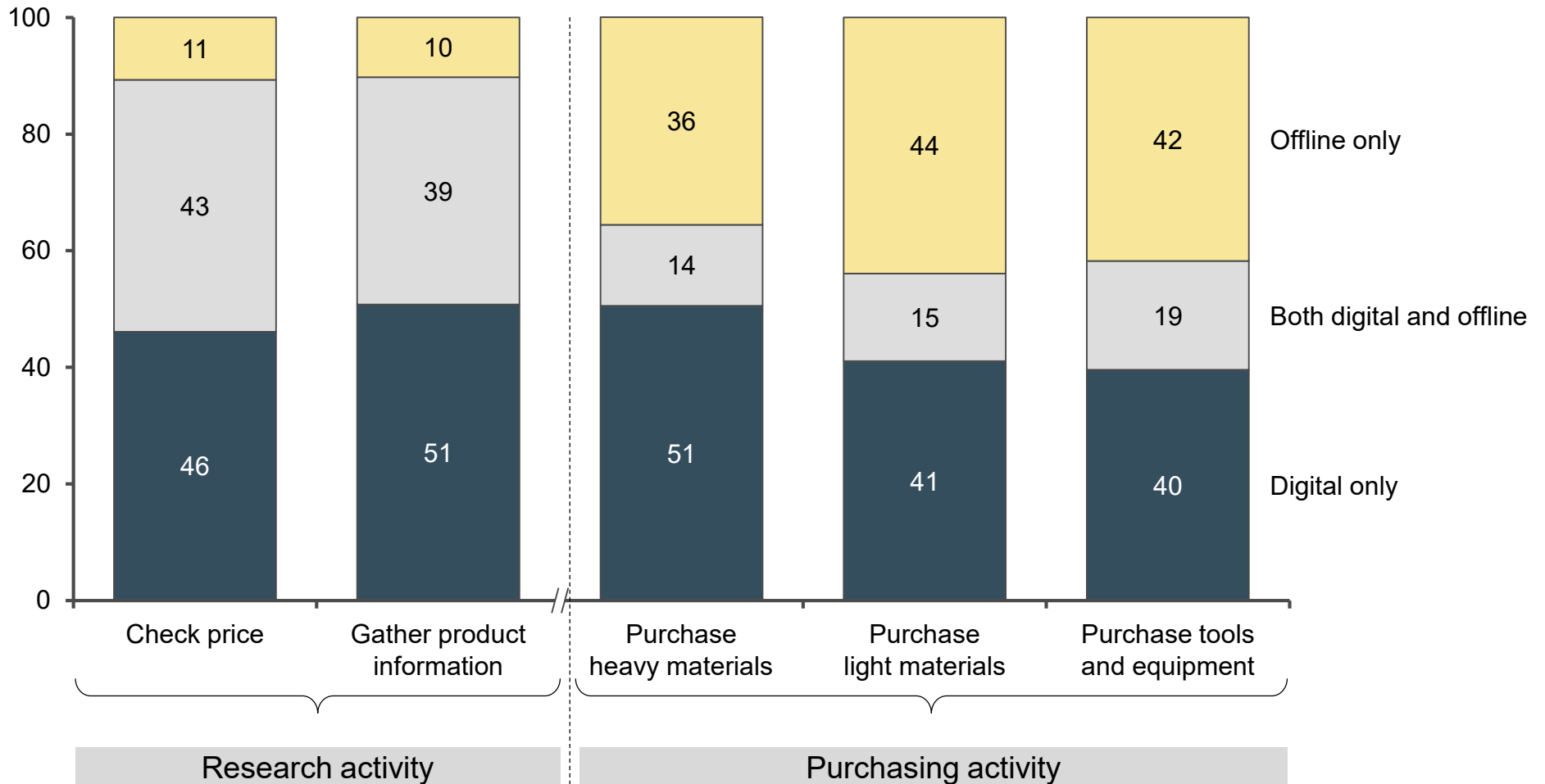
# Around 90% of customers use at least one digital channel when researching products; this reduces to 50-60% for product purchases

1

## Customer engagement

### Channel split for research and purchasing activities

Percentage of respondents



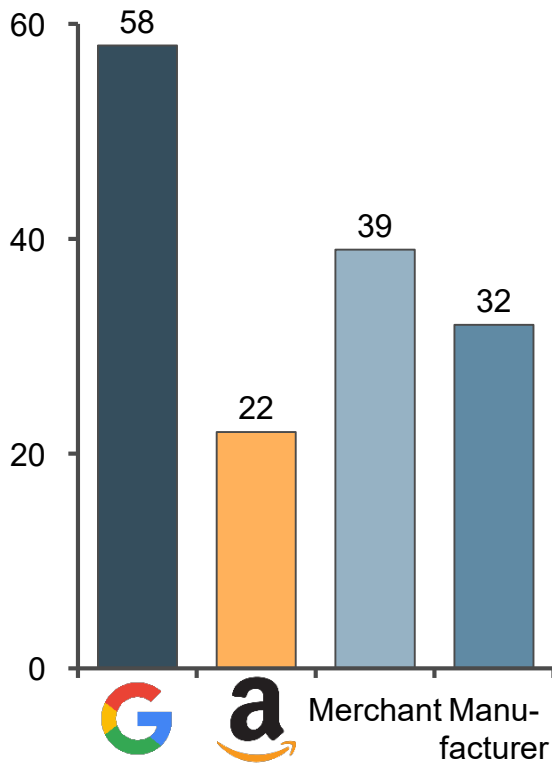
# Customers are not only using merchants' and manufacturers' websites whilst researching options; use of Google and Amazon is commonplace

1

## Customer engagement

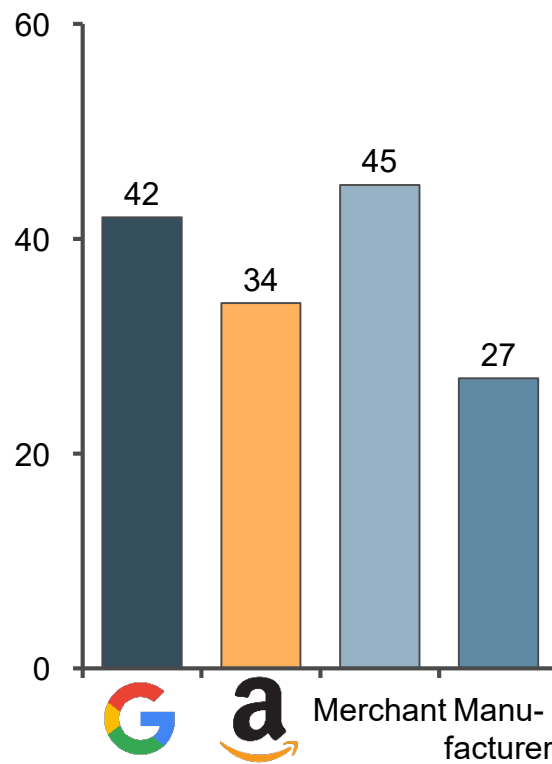
### Resources used for research: Gather product information

Percent of respondents who use desktop/  
mobile



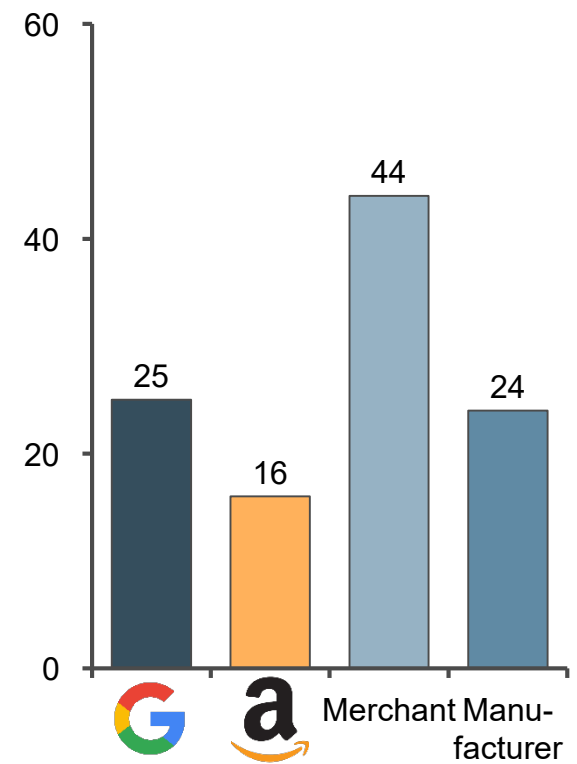
### Resources used for research: Compare prices

Percent of respondents who use desktop/  
mobile



### Resources used for research: Check availability

Percent of respondents who use desktop/  
mobile



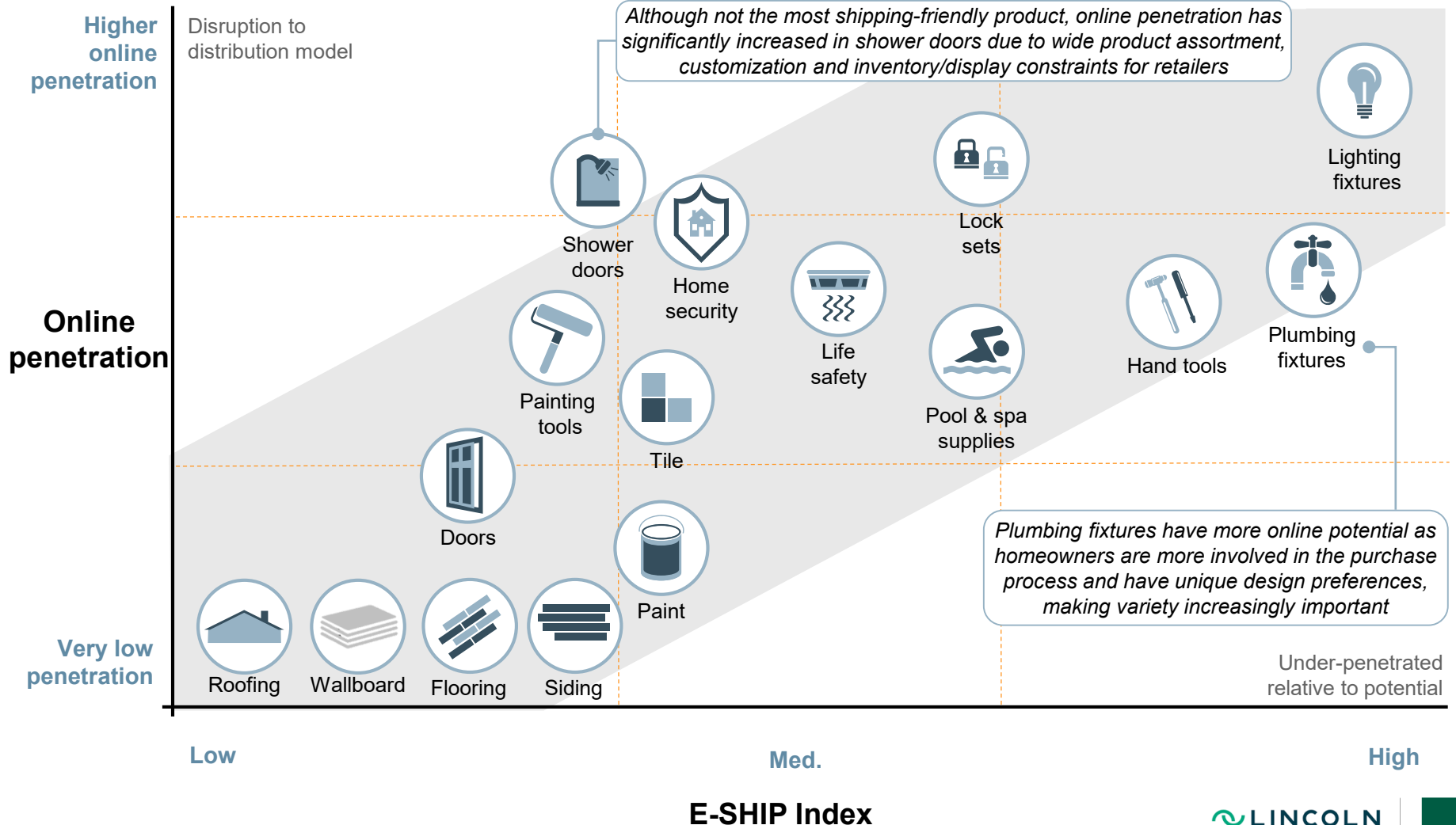
Google comparison
  Amazon
  Builders merchant website
  Manufacturer website

# Categories like plumbing & lighting fixtures have been first to thrive online

2

## Responding to Amazon

### L.E.K.'s "E-SHIP" e-commerce framework for home improvement

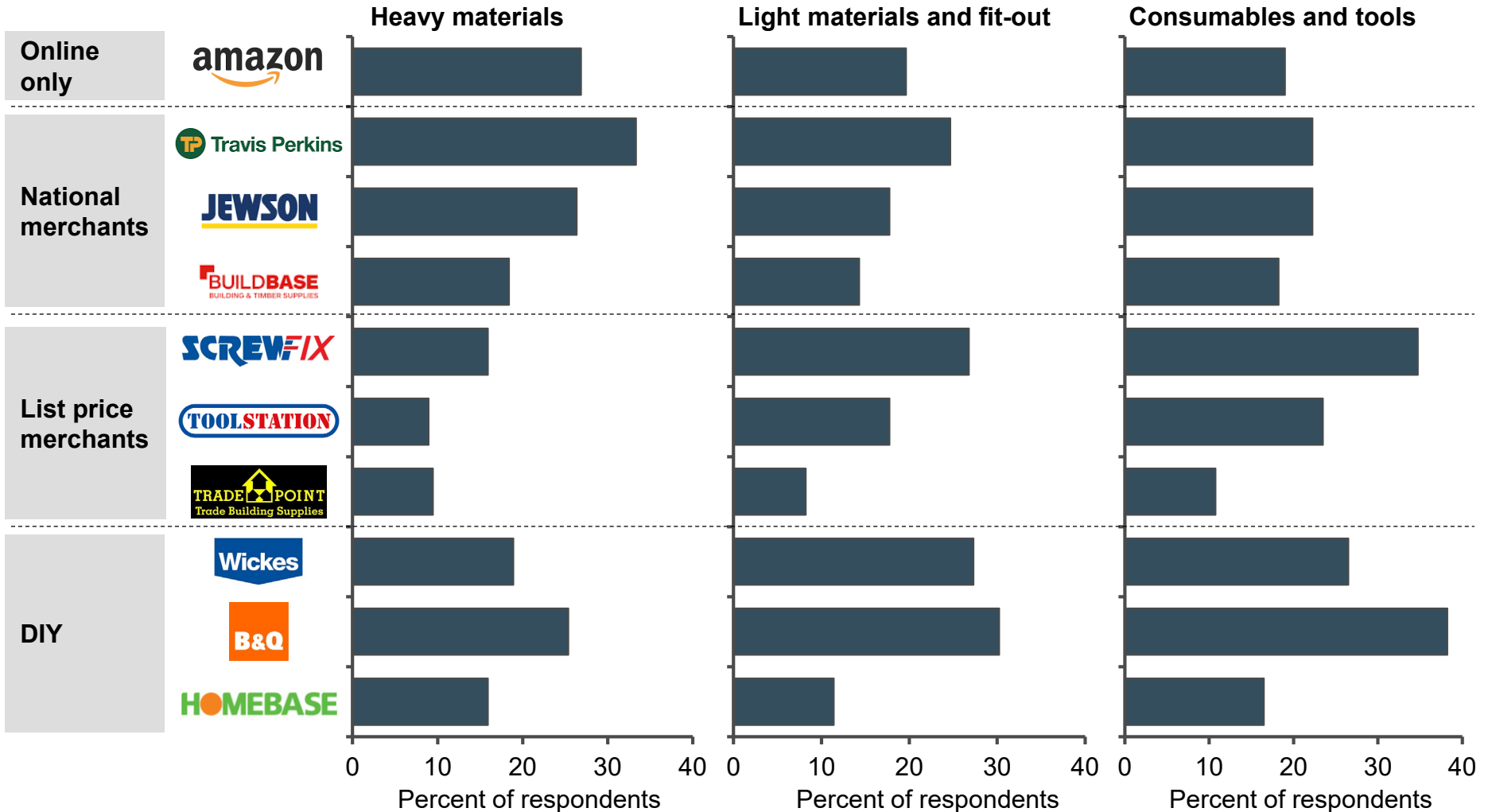


# Use of Amazon is already prevalent for both light and heavy building products...

2

## Responding to Amazon

### Websites used in past year, by material purchase



# ...and is expected to increase as Amazon develops as a credible supplier

2

Responding to Amazon

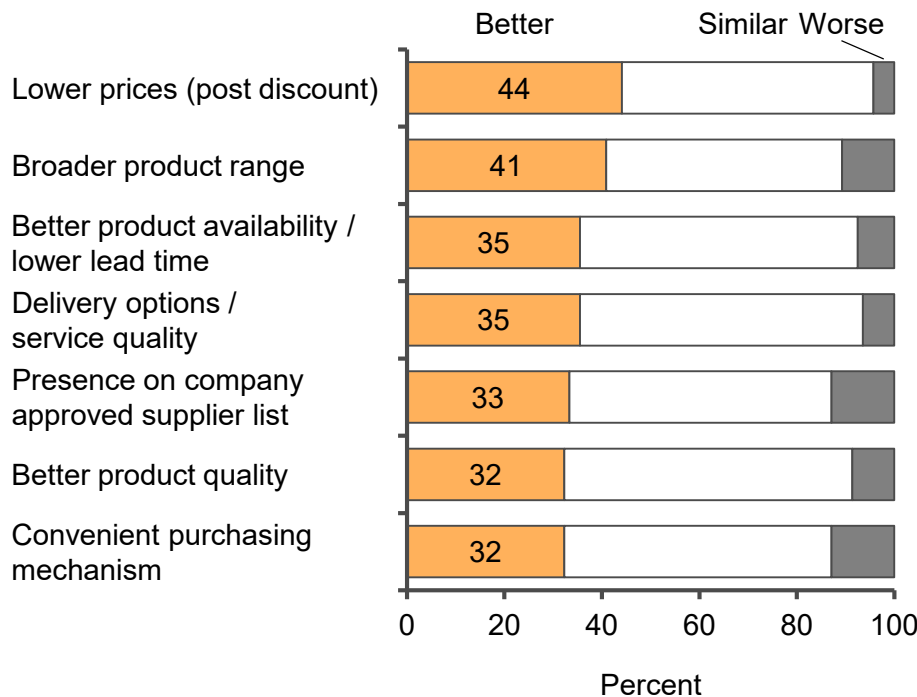


Amazon is viewed as **highly price competitive** with a **robust selection of products**

The majority of respondents expect to **increase their use of Amazon** in the short medium term

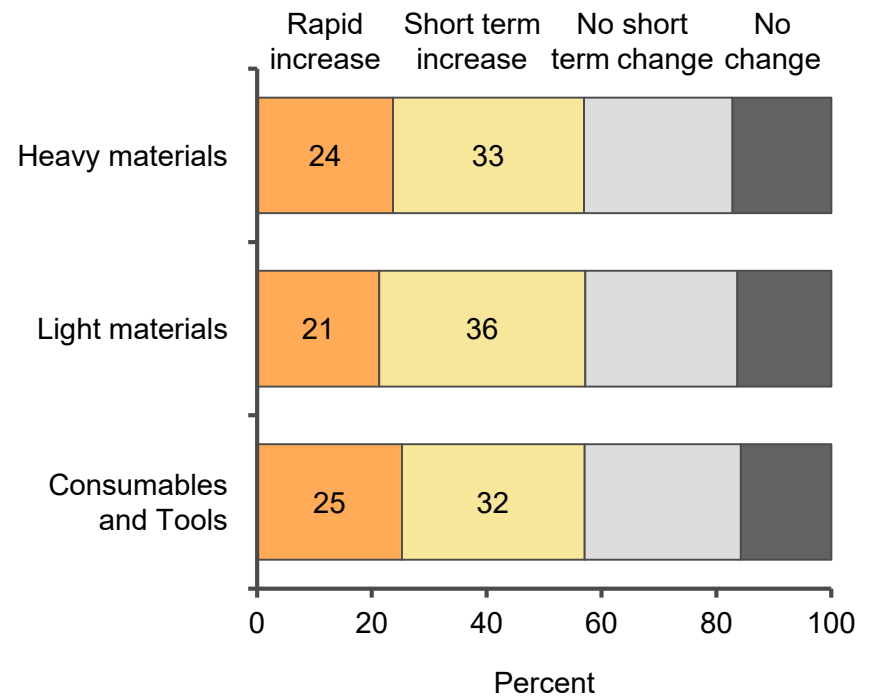
## How Amazon purchase compares with traditional suppliers

Percent of respondents who have used Amazon in last 12 months



## Expected change in usage of Amazon over the next 2 years

Percent of respondents who have used Amazon in last 12 months







# The established benefits of traditional distributors can be enhanced by digital


## 3 Evolution of the traditional model

### Advantages of traditional distributors

**Personalised customer advice** 

**Ability to examine products** 

**Faster access to materials** 

**Easier access to credit / discounts** 



### Questions arising from digital transition

**In what ways can digital be used to enhance, not replace, the traditional merchant model?**

**How can existing branch networks be leveraged?**

# Digital can provide enhancements to the traditional model along the customer journey

3 Evolution of the traditional model

## Traditional sales model

- Distributed **sales force** for lead generation
  - **Branch presence** and local physical marketing
- 
- **Physical catalogues** for information and prices
  - **Store visits, and phone calls** for product availability and specification
- 
- Order and make **payments in store** or via phone
- 
- Collect from store, delivery to home or project site location
  - **Order updates via ad-hoc phone calls**
- 
- **Paper receipts** handed in person or via post
  - Technical support via phone



## Digital enhancements

- **Search Engine Optimisation and Marketing (SEO & SEM)** for lead generation
  - **Digital marketing** e.g., email, social media
- 
- **Mobile app** led
  - A **full suite of information**, e.g. prices, technical sheets, stock availability available digitally
- 
- Order and **check out on mobile app**, or web
  - Integration with customers' ERP systems
- 
- Click & collect from nearest store or partner locations, delivery to home or project site location
  - **Live order tracking** via app, web, or text
- 
- Dedicated **online account management**
  - Integration with accounting software
  - **24/7 online chat** services for support

# A successful digital strategy will drive value across all aspects of the business



# Characteristics of a successful distributor

## Effective digital strategy

- A transactional website is not on its own sufficient: a mobile app is also required
- The customer journey is likely to start with searching for product, then price and then availability
- Depending on the product purchased, the customer will want to arrange the time and place of collection or delivery
- A Help Desk / 24-hour online chat is desirable to support customers and resolve problems

## Back-end benefits of digital infrastructure

- Potential for online account management to encourage repeat purchasing and increased share of wallet
- Integration with the distributor's accounting software
- For larger customers, integration with their ERP systems

## Right-sized branch network

- From a sample of 62 distributors, the revenue per branch varied from over £25m to about £1m, depending on the business model
- Click & deliver can operate from fewer branches, especially if supported by a distribution centre
- Click & collect requires branches, but their function as a 'shop window' has diminished
- The value of branches is enhanced by in-store services, e.g. paint mixing, timber cutting

## Strategy to deal with Amazon

- Amazon competes with conventional distributors for the easily fulfilled part of the product range
- Amazon Marketplace offers small distributors an online but undifferentiated presence
- Established distributors with branch networks and an effective digital presence should be able to compete with Amazon by offering a wider product range and additional customer services

## Q&A: our panellists

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Partner, L.E.K. Consulting

- Global Co-Head of L.E.K.'s Industrials Practice
- Works across the building & construction value chain



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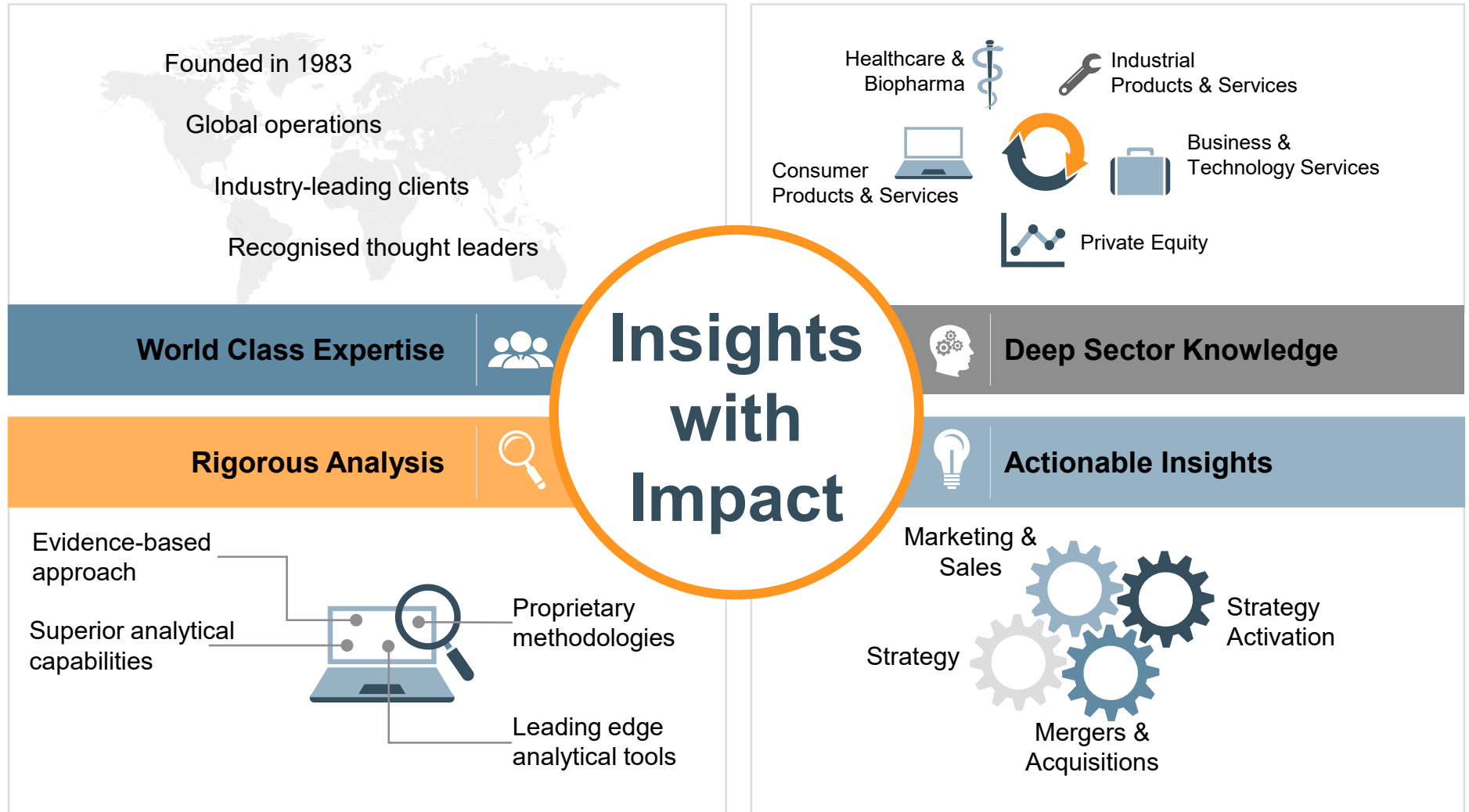
- Partner in L.E.K.'s London office
- Focuses on building & construction and industrial technology
- Advises clients on performance transformation and taking advantage of disruptive trends



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Managing Director,  
Lincoln International

- Head of Lincoln's European Industrials Practice
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# L.E.K. Consulting delivers actionable insights that enable senior executives to achieve high impact results



# L.E.K.'s European Building and Construction practice – key statistics

Supported deployment of

**€8.5B+**  
**capital**



in European building markets

Have led

**550+**

building sector engagements across Europe



**18+**

Partners in Europe with sector experience



**190+**

years of cumulative building sector experience



Advisor of choice to

**Five**



of the largest leading construction companies in Europe

Advisor to over 25 corporate companies with revenues of

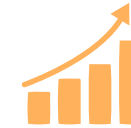
**€1B+**

in the building sector



Supported the growth strategy of

**Global**



players in the building industry based in Europe

Advised over

**130**

building sector companies at CEO / Board of Director levels



Supported several

**>€1B**

building sector acquisitions throughout Europe



Long-term advisor to the

**Largest**

corporate players in the building industry



Capability for

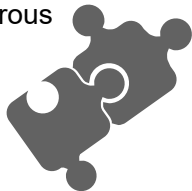
**40+**

building sector cases annually



Published numerous **Executive Insights**

on the building sector in Europe



# Lincoln International is a global, integrated and focused platform with 20+ offices and 500+ professionals worldwide

**270+** bankers in Americas

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**190+** bankers in Europe

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**30+** bankers in Asia



## The Lincoln Difference

Globally integrated investment banking advisory firm

Connected people aligned for client success

Deep industry and product expertise and relationships

Strategic advice with thoughtful execution



# Overview of Lincoln's Distribution group

## Key sub-sectors of focus

<p>IT / Communications</p> 	<p>Building Products</p> 	<p>Chemicals</p> 
<p>Consumer Products</p> 	<p>Electronics</p> 	<p>Food &amp; Foodservice</p> 
<p>Healthcare</p> 	<p>Industrials</p> 	<p>Automotive &amp; Truck</p> 
<p>Jan / San</p> 	<p>Office Supplies</p> 	<p>Plastics &amp; Packaging</p> 

## Highlights of the Distribution Group



Differentiated sector expertise

75

Dedicated bankers worldwide

Extensive private equity relationships

150+

Transactions over the last 5 years



Global strategic buyer access

## Recent participants in Lincoln processes

ANIXER

APPLIED Industrial Technologies

ANNO

AVNET

ERIKS

FASTENAL

GPC

GRAINGER  
FOR THE ONES WHO GET IT DONE

Graybar  
works to your advantage

KAMAN Industrial Technologies

MSC BUILT TO MAKE YOU BETTER

REXEL

Schlumberger

WESCO

WÜRTH GROUP

SYNNEX CORPORATION

scansource

Tech Data

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