

The LP logo consists of the letters 'LP' in a bold, white, sans-serif font, centered within a dark blue square with a white border. The background of the entire page is a deep blue, with a large orange shield-shaped graphic in the upper half. Below the shield is a perspective view of a long, narrow tunnel or shaft, lined with corrugated metal, receding into the distance.

**LP**

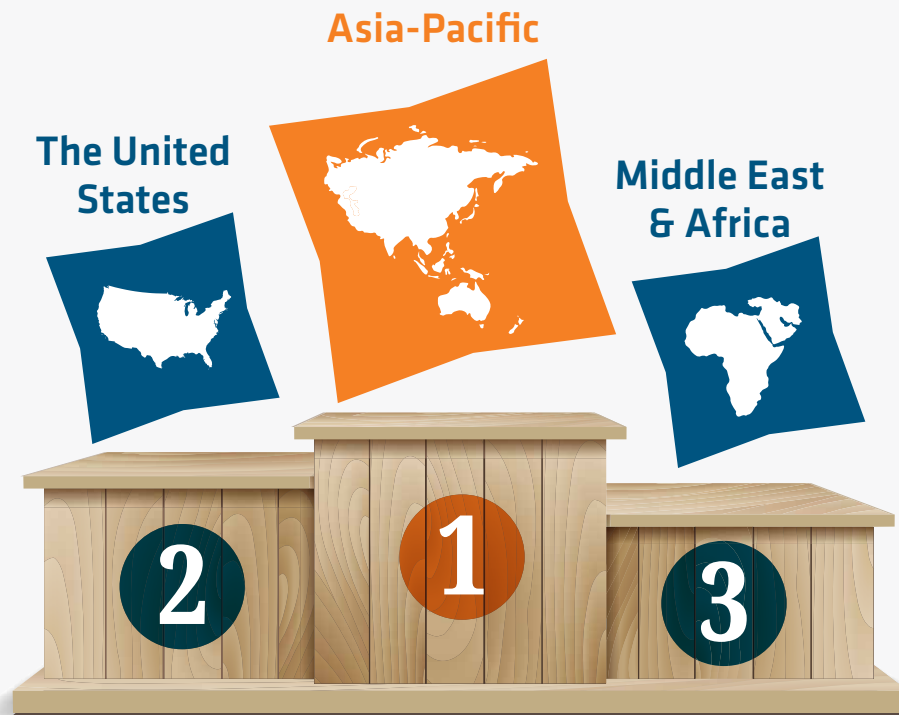
**BUILDING YOUR BUSINESS IN THE  
BUILDING  
MATERIALS INDUSTRY**

A photograph of a house under construction. The house has a stone facade and a gabled roof. Scaffolding is visible around the house. In the foreground, there are several white and green buckets, a blue barrel, and a green trash can on a dirt and gravel surface. The sky is blue with some clouds.

## INTRODUCTION

In 2015, Global Industry Analysts, Inc. (GIA) published a study painting a rosy picture the future of the global construction materials market. According to the report, the industry is projected to exceed \$1.1 trillion by 2020, thanks largely to recovering construction activity across multiple sectors and a sunnier world economic outlook. The report also named the U.S. the market with the second greatest potential for growth, after the Asia-Pacific Region.

## TOP THREE REGIONAL MARKETS THAT HAVE THE MOST POTENTIAL FOR GROWTH



Compounded Annual Growth in Construction Materials Sales will top 5.9% through 2020.  
Source: Global Industry Analysts, Inc. April 2015.

Three years later, do these projections still hold true? What are the current trends in the building materials industry and how are they affecting wholesalers, retailers, contractors and end consumers? These are some of questions we will be delving into in this e-book.

### Who should read this e-book?

This e-book is for building materials distributors, dealers, contractors and industry shareholders looking for opportunities to increase or retain their market shares in 2018. It serves as a primer on the current state of the industry, the different challenges facing market players and the best practices that can help you gain an advantage over your competitors.

We hope the information presented here will be of use to your business.



## Part I:

### **BUILDING MATERIALS INDUSTRY SNAPSHOT**

Here is a quick look at the current state of the industry and the different trends that are shaping its future, for better or worse.

## 101: Definition, Scope, Outlook

The building materials category encompasses all materials used in construction activity, from new works to repair and maintenance. This includes:

Sand, stone, brick, cement, concrete and other raw materials



Lumber, wood, wood paneling and other millwork products

Glass, polymers, recycled materials and byproducts



Sealants, adhesives, waterproofing compounds and other construction chemicals

All associated building products used in the residential, commercial and infrastructure sectors



Over the past few years, the sector has seen considerable growth as a result of a number of interrelated factors, the largest of which a growing population, a rise in urbanization, expanding industry and the upswing in the global economy. According to George Reddin of FMI Capital Advisors, market conditions for buying and selling building materials businesses in 2018 are among the best the industry has seen in a decade.



The positive outlook is expected to continue until 2020, when the global industry construction supplies is projected to exceed \$1.1 trillion.

## Buyer Behavior Trends

Two watchwords are dominating consumer behavior regarding building materials in 2018: resiliency and sustainability.

	Focus
 RESILIENCY	“[The] intentional design of buildings, landscapes, communities and regions in response to vulnerabilities to disaster and disruption of normal life.” Source: Resilient Design Institute
 SUSTAINABILITY	“[Meeting] the needs of the present, without compromising the ability of future generations to meet their own needs.” Source: The Brundtland Report

## Increased demand for resilient products.

Resiliency took center stage in the U.S. after the onslaught of natural disasters in 2017. The Federal Emergency Management Agency (FEMA) placed last year's damage totals at \$4.4 billion for earthquakes and \$2.7 billion for fires. The National Oceanic and Atmospheric Administration (NOAA) also reported a total disaster-related financial hit of \$306 billion—and this estimate continues to climb.

In light of these figures, the boom in consumer demand for building products that can better resist damage—both natural and manmade—is understandable. Initiatives focused on funding resiliency improvements for infrastructure are also underway at local, state and federal levels.



## Increased demand for sustainable products.

In 2017, North America took the largest revenue share in the green building materials market. Two factors were key to this development: favorable government policies for green building and increasing demand from the residential sector. This moderate to significant growth is expected to continue over the next few years.

Globally, the green building materials market is projected to exceed \$364 billion by 2022.

## Construction Industry Macro Trends

Any major development in the larger construction industry will have an effect on its sub-industries; however, the following two trends will have the most tangible impact on the building materials market.





## **Increased demand for easily installed products.**

The construction industry has long been plagued by labor shortages, a problem that persists despite last year's increase in job openings. With framing crews being among the hardest to recruit, one obvious trend has been the rise in prefabrication. There is a greater need for construction products that can be installed onsite with smaller crews.



## **Increased emphasis on construction efficiency.**

The pressure is on the building materials industry not just to help make up for the short supply of workers, but to help improve onsite efficiencies. Increasing the load on the supply and fabrication side—be it through prefabrication or offsite or modular construction—can absorb a significant fraction of a project's time, labor requirements and overall costs.

In Parts II and III of this e-book, we'll take a closer look at some of the other pressures faced by the building materials industry and what businesses can do to thrive in spite of them.



## Part II:

### **COMMON CHALLENGES TO MARKET PLAYERS**

Despite the optimistic outlook for the building materials market, these challenges still threaten distributors, dealers and industry shareholders.

## Challenge 1: A lack of consistency in demand.

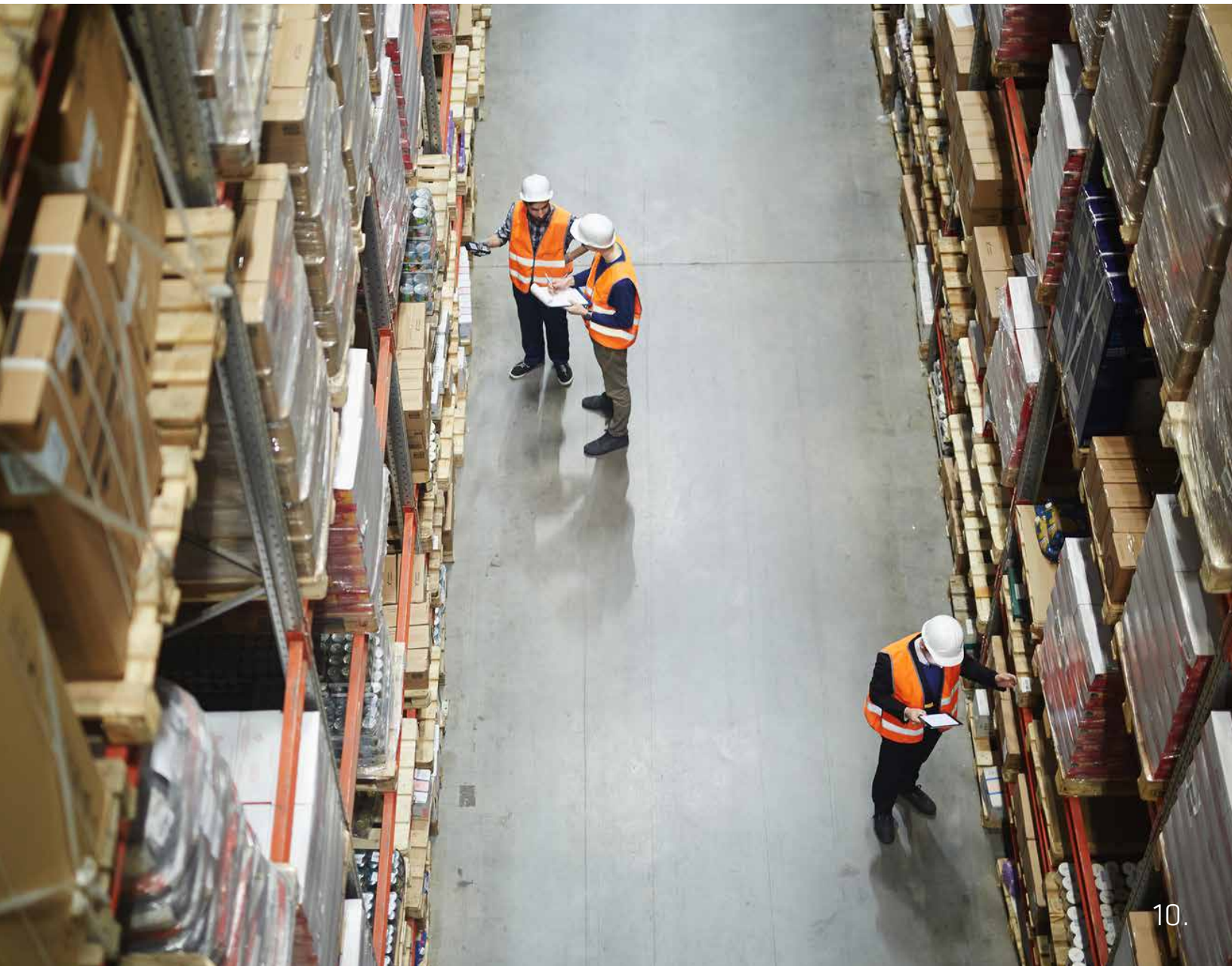
The volatile and cyclical nature of demand in construction is a given. The industry as a whole is significantly affected by seasonality and product life cycles. Fluctuations in the global and national economy also affect the demand for building materials. It's a domino effect: interest rates impact the cost of loans and mortgages, which impact consumers' buying decisions.



## Challenge 2: Difficulty tracking trends in a diverse and dynamic market.

Two things make demand forecasting especially challenging for building materials suppliers.

The first is the broad scope of the industry. The construction materials category encompasses so many product types that changes in demand are difficult to track, much less analyze. The second is the rapidity at which consumer preference can change. Supplier marketing can have some measure of influence over what buyers choose however, things like evolving style trends can quickly render a distributor's inventory obsolete.





### **Challenge 3: Difficulty exercising good stock control.**

Good stock control is key to maintaining profitability in nearly every industry. Construction materials is no exception.

Inventory control is what helps suppliers avoid the common pitfalls of understocking (which results in lost market shares) and overstocking (which results in inventory obsolescence). But as mentioned above, the diverse range of building products and their sensitivity to changes in demand makes effective stock control extremely challenging.

The good news is there are proven ways to mitigate the negative effects of these challenges on your bottom line. We'll take a look at some industry best practices and other ways to build business in the final part of this e-book.



## Part III:

### **BUILDING MATERIALS INDUSTRY BEST PRACTICES**

These are the guidelines that must be taken into consideration by wholesalers, retailers and other shareholders who want to gain or maintain an advantage over competitors.

## Best Practice 1: Leverage contacts at all levels within the trade.

High-level communication with businesses across the industry's many sectors is one key to staying ahead of the curve. By establishing multiple contacts within the trade, you get a bird's eye view of emerging and deteriorating markets. Knowing which new areas to exploit and which ones to gradually pull away from earns you the following benefits:

- More time to develop new investment strategies.
- Fewer competitors and more customers in new areas of investment.
- Reduced risk of outages and inventory waste.

Trade contacts are especially crucial for wholesale distributors, who are one step removed from end consumers and for whom timely and accurate demand tracking can be more difficult.



## Best Practice 2: Leverage data-gathering and forecasting technology.

Few things are as valuable to a building materials supplier as real-time information and data-driven forecasting. In an industry as competitive as this, it means a lot for a business to have the ability to identify trends not just when they emerge, but as they emerge.

The right business intelligence software makes you more effective at:

- Discovering new sales opportunities.
- Optimizing your inventory.
- Establishing leaner purchasing habits.
- Adapting to seasonality and sudden shifts in product demand.
- Seeing how the latest trends affect your bottom line.

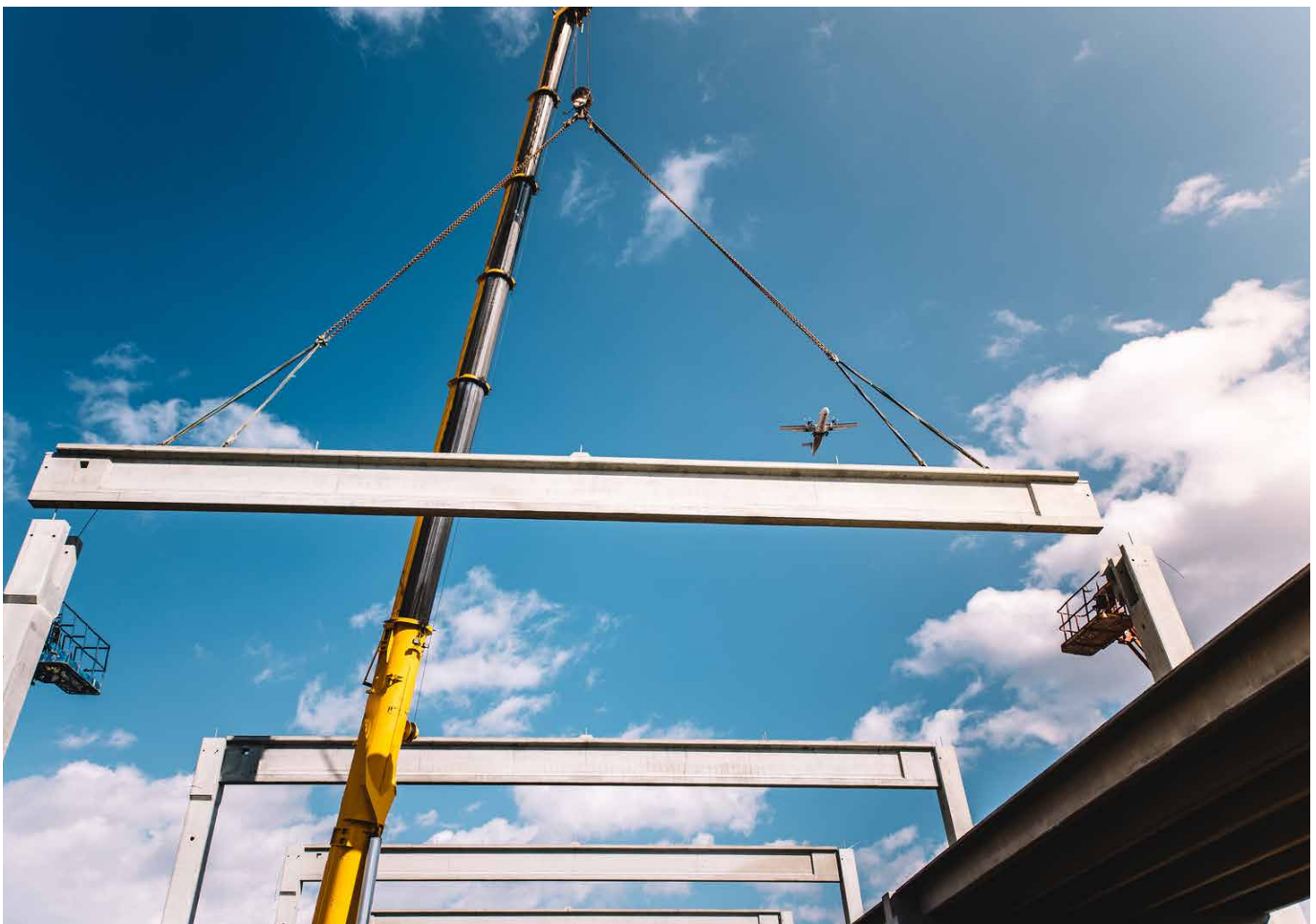




## Additional Ways to Build Business

Beyond gaining access to accurate market information, here are some other ways successful suppliers stay successful.

- They optimize their business and warehouse locations.
- They find out how their customers define excellent service, then exceed it.
- They are not stuck in old ways of thinking, however effective they used to be.
- They educate their sales people about their products and how they are used.
- They hire intelligent, passionate young people—and listen to them.



As with any business, no foolproof formula for success exists for construction materials dealers and distributors. But if you want to build your business in the building materials industry, these are just some of the things worth considering.



## TAKEAWAYS

- The construction materials market is ripe for growth globally and in the U.S.
- End consumers want more resilient and sustainable building materials for residential, commercial and infrastructure projects.
- The larger construction industry wants building materials that can help make up for labor shortages and improve onsite efficiencies.
- The main challenges faced by construction materials suppliers are: inconsistent product demand, difficulty tracking trends and difficulty optimizing stocks.
- Timely access to accurate market information is a big key to success in the building materials industry.



## WORK HARD. WORK SMART.

The **LP® BuildSmart™ Preferred Contractor Program** supports all its members in the quality installation of LP® SmartSide® Trim & Siding products, and offers tools to help you grow your business along the way. Through the program, contractors' hard work is rewarded with access to proven product training, marketing support and priority lead generation.

Visit [LPCorp.com/BuildSmart](http://LPCorp.com/BuildSmart) for more information on the LP BuildSmart program. To learn more about LP SmartSide products, visit [www.LPSmartSide.com](http://www.LPSmartSide.com) or call **1-888-820-0325** (Toll Free).



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