



# State of the Residential Construction Industry

Perspectives Spanning the Value Chain

**BUILDERS**

# State of the Residential Construction Industry

Perspectives Spanning the Value Chain

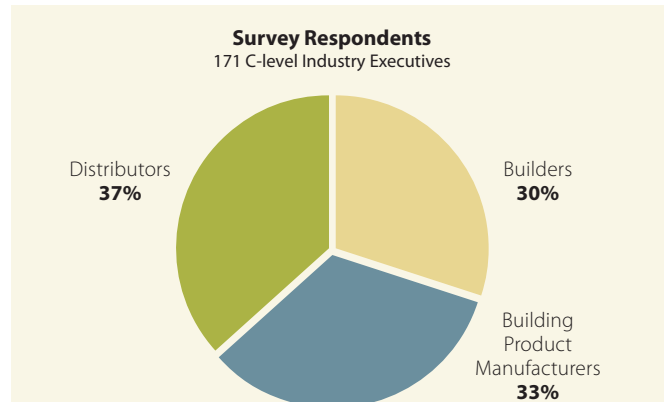
The residential construction industry remains in a state of flux. On one hand, survey respondents see 2011 shaping up to be no worse than 2010. Overall indications are that 1st half of 2011 was slightly below 1st half 2010 and the overall year looks to be flat.

However, all respondents (building product manufacturers, distributors and builders) expect next year to show a slight rebound of around 3% to 5%, which has been the perennial hope of the last few years.

Principia believes that industry executive's sentiment is mirroring consumer confidence, or lack thereof. There have been signs that the economy is stabilizing but lingering fears of a double-dip recession continue to undermine confidence in an imminent strong recovery. We do see pockets of expansion especially in the area of repair and remodeling activity and in the product categories typically associated within this sector.

Interestingly, for each time period surveyed builders were more positive in their outlook than distributors who in turn were more positive than building product manufacturers as shown on the subsequent figures. This is most likely a reflection of the margins achievable at each step of the value chain – with greater margins achievable closer to the property owner.

To a large extent, building products companies are looking to similar tactics that they have used in the past to weather the storm. The combination of the top three initiatives that industry participants are using indicate that they will hunker down with efforts focused on customer retention along with evaluations of which customer groups are profitable and which are less profitable. An active customer management program enables building products companies to cultivate the most beneficial relationships and fiscally manage lesser profitable accounts.



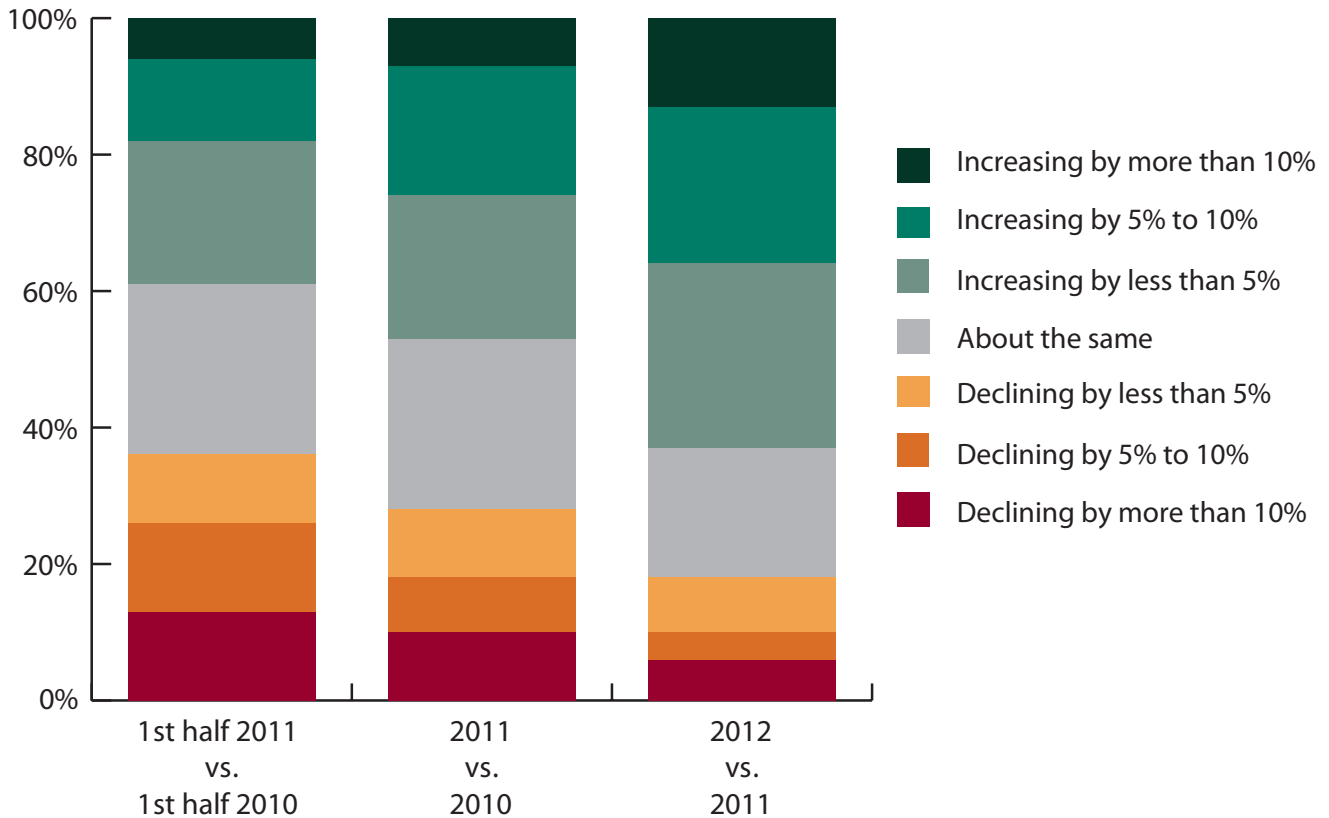
*In mid 2011, Principia conducted a survey with 171 C-level executives at 52 builders, 62 distributors, and 57 building product manufacturers to evaluate the current state of the residential construction industry, short term trends and outlook and tactics they were using to improve company performance during the industry downturn.*



On the operation side of the ledger, we see cost efficiency and pricing and margin management as concurrent activities with customer relationship management. Many of our clients either systematically or manually scrutinize every opportunity for the value it may bring to the company. Finally, the fourth factor, increasing share, reflects the fact that in stagnant markets better performing companies are active, not passive.

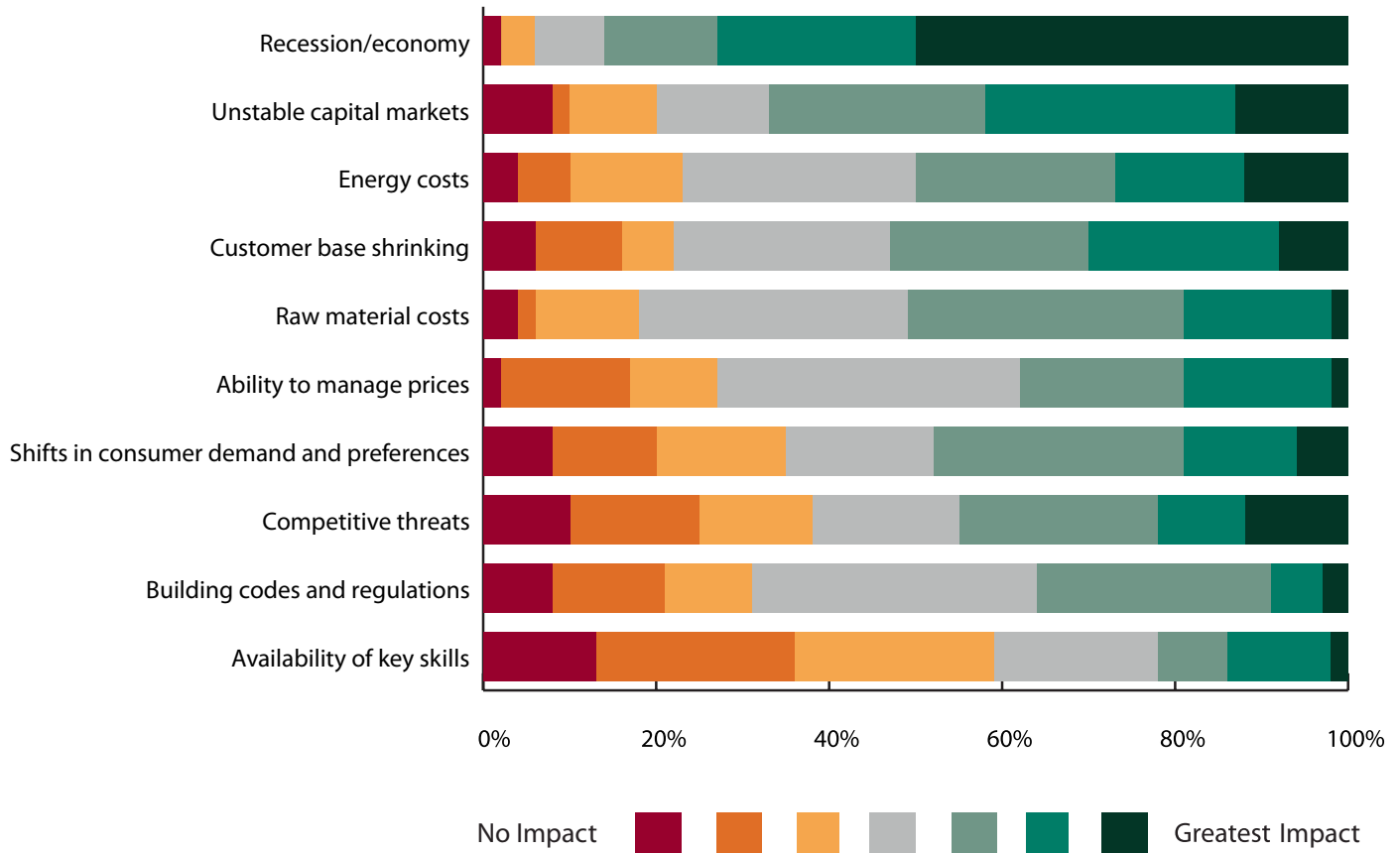
Identifying where and how to grow business in this environment is critical to success and separates leaders from the rest of the pack.

### How do you see building products demand changing in the near term?



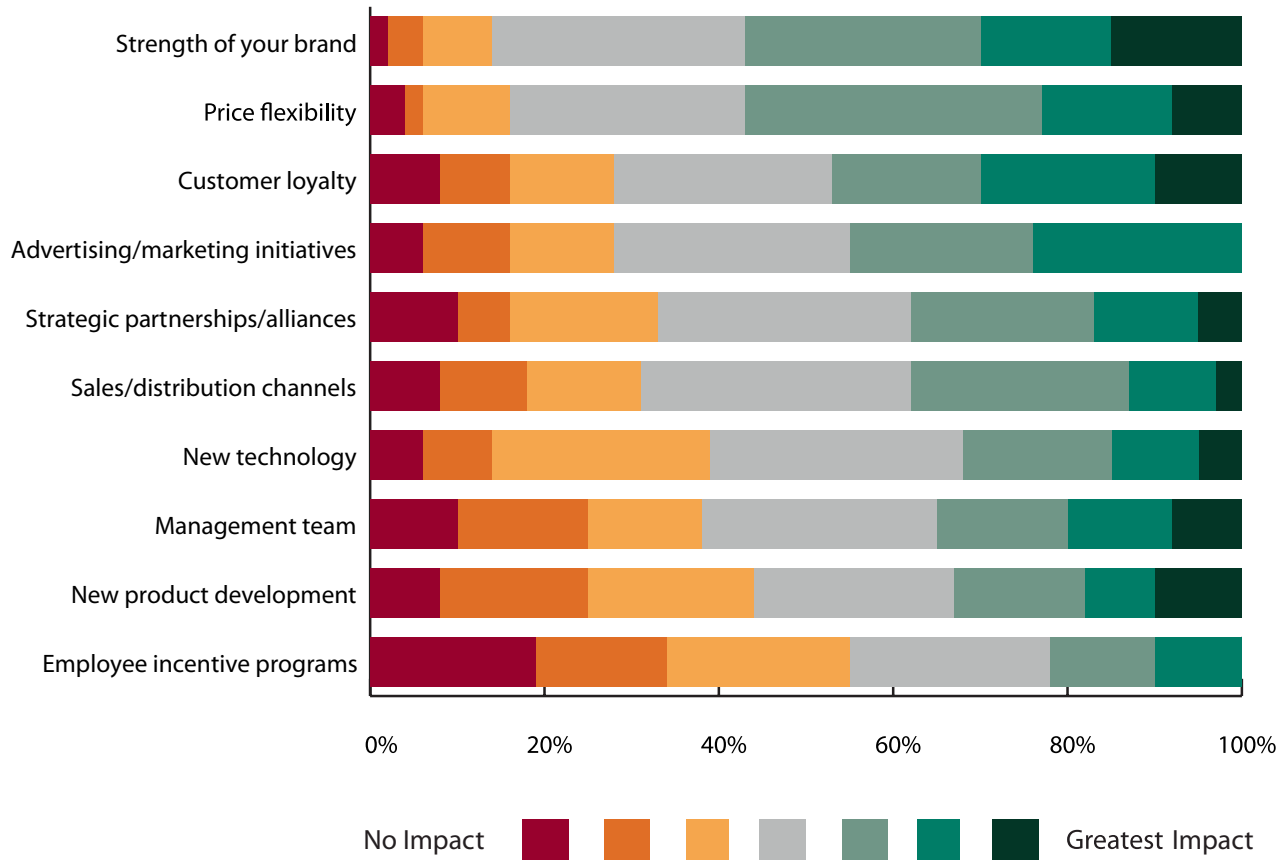
- Builders were only slightly more positive going forward from the 1st half 2011 with half expecting modest growth increases for the remainder of this year.
- However, 80% of builders see next year at least as strong as this year and 2/3 see growth of 5% or more next year.

### What external factors will have the greatest overall impact on your business growth prospects?



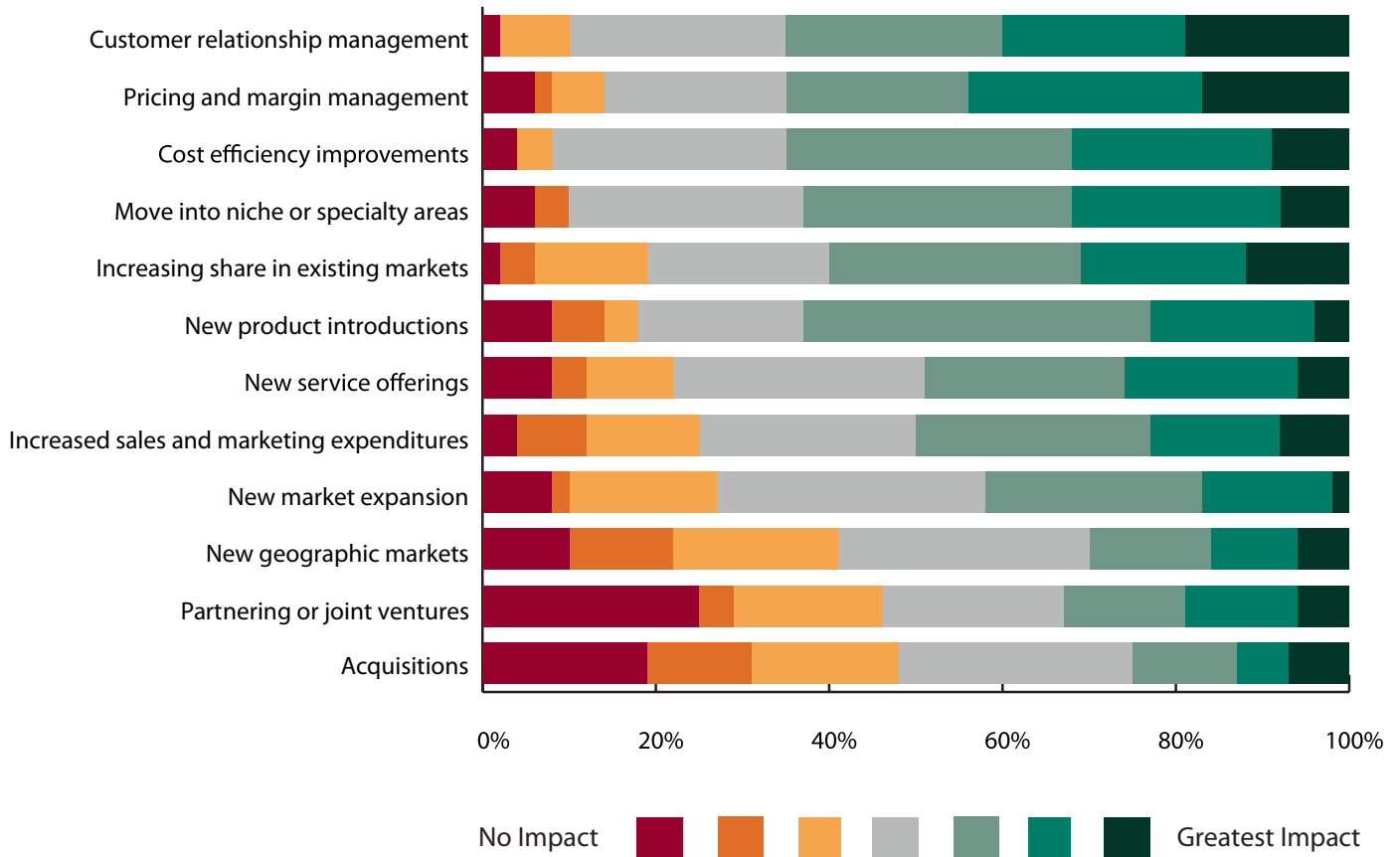
- As expected, 95% of the builders indicated that economic uncertainty is the major factor impacting their businesses.
- Unstable capital markets including lack of credit is also a major contributing factor.
- On the marketing from the ability to find customers in a contracting business as well as the ability to manage prices are the other significant external factors impacting growth.

### Which of the following internal factors will affect your company's overall revenue and margin growth in 2011?



- Builders rely most heavily on the strength of the brands that they carry and customer loyalty to drive revenue and margin growth and count their brand strength as key to short term success.
- Builders are looking for referrals from loyal customers and are being flexible in their pricing policy and administration.

### Which initiatives will you use to drive revenue and margin growth over the next two years?



- Builders are using a fairly balanced approach to tip the market in their favor but start with customer relationship management – cultivating the customers with good credit history. Pricing to market conditions with limited purchasing power among consumers has been essential for builders as well. This is evident in the average price of housing – whether it be new construction or existing homes. The decline in pricing is lingering well into 2011 based on the continued high number of homes in foreclosure or behind in their mortgages.
- Where there is construction activity, cost containment, and moving towards upscale markets are key tactics expected. to drive future growth.
- On the internal side factors such as cost efficiency improvements is the leading initiative undertaken. However, these initiatives can only drive margin improvements to a certain degree as the most of the cost of goods sold is in building materials.

## Conclusion

- New home construction is expected to be between 550,000 and 600,000 units in 2011 and commercial construction spending is projected to be essentially flat with 2010. Builders that rely on the “wish” strategy – wishing for the return of 1.5 million new home starts may not be able to last until it happens.
- The number of homes in housing stock, the age of those homes and overall income of homeowners leads to a more optimistic outlook for repair and remodeling. By 2010, the average age of U.S. housing stock was >35 years old. Many builders has shifted emphasis to remodeling programs as a means to weather the downturn.
- Builders and contractors that focus on programs emphasizing areas like energy efficiency and improving curb appeal are most likely to be successful. Key programs include window and door replacement, insulation upgrading, reroofing, HVAC upgrades and façade replacement.



## About Principia

Principia, founded in 1995, is a marketing consulting firm focused on building materials and chemicals. We help our clients increase market share, grow revenues and improve margins.

Our industry focus translates into the knowledge and market access needed to have visibility up and down the value chain. Our end to end coverage, from raw materials through the final user, delivers the acute Voice of Customer insights required to best evaluate market realities.

Our actionable recommendations for better decision making have led to a long track record of client performance improvement based on the foresight delivered in every Principia engagement

Mailing Address:  
101 Lindenwood Drive  
Suite 225  
Malvern, PA 19355

Phone/Fax:  
610-363-7815 Main  
484-252-2118 Fax

Email:  
[info@PrincipiaConsulting.com](mailto:info@PrincipiaConsulting.com)

[PrincipiaConsulting.com](http://PrincipiaConsulting.com)