

2021, a year of challenges & opportunities BMBI Experts Views

April 2021

As featured in:



Overview

Mike Rigby, CEO MRA Research



In last year's Leading Lights, many BMBI Experts were understandably preoccupied with enduring industry issues rather than the emerging pandemic. A unique roller-coaster of a year later the industry faces a new set of challenges and opportunities.

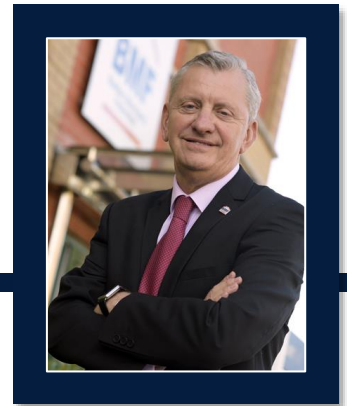
"The pandemic turned our world upside down, and overnight changed our lives and our understanding of what's normal," says Mike Rigby of MRA Research who produces the BMBI reports. "It proved a tipping point for digital, which has come into its own. How merchants, their customers and suppliers trade will never be the same again. With three national lockdowns and lots of disruption in between, the spectre of Brexit diminished in comparison.

"Lockdown 1 started very badly with the Government closing construction without actually meaning to, but it turned out to be one of the most positive 12 months for construction in a long time. High-profile recognition from Government enabled the industry to stay open, and the instruction to 'stay at home' and 'work from home if you can' triggered a boom in home improvements that is not abating. House prices are rising strongly driven by an exodus from major cities to work remotely and, whatever the arguments, house building is now firmly a top priority. A number of Britain's priorities were challenged and changed in 2020, and there'll be no going back. Twelve months on, the prospects for construction look stronger than they've been for years."

A number of BMBI Experts explain the impact of Covid and Brexit on their markets, and global insight agency GfK and the Builders Merchants Federation (BMF) add additional insight and perspective.

Merchants' View

John Newcomb, CEO BMF



So far we have seen very little impact from Brexit on the merchant sector. We are in a fortunate position where 76% of all the building materials used in the construction of homes are manufactured in the UK. Although we've seen some Brexit-related delays due to paperwork and confusion around administration, the supply issues we've experienced are mainly Covid related.

However, there is a concern around product regulations and product markings. The European CE mark is being replaced by the UKCA mark at the end of this year and this may have an impact on goods imported from Europe and vice versa. Depending on how this is addressed, we may see a reduction in the amount of trade with Europe, particularly if it gets too complex to export products. Potentially, we may see new non-European markets springing up as companies try and divert some of their investment and resources away from Europe. It really depends how easy the flow of goods is going to be.

A bigger issue right now is product availability. One problem area here relates to container shortages and the flow of goods into ports from the Far East and India. Although this is easing, it raises questions on the reliability of these routes.

The other area to look at is movement of people. If it is going to be increasingly difficult to bring in labour from Eastern European countries, then we must develop more people from within the sector. We are crying out for new talent and more diversity and I hope initiatives like the Kickstart scheme will encourage companies to take on younger people in roles that lead into apprenticeships. We need to do better in this regard. We have an estimated 2,000-3,000 apprentices in a sector with a turnover of £38 billion and employing over 200,000 people. That's a lot lower than other industry sectors.

Consolidation, digitalisation and the race to zero carbon present three further opportunities for our sector, which should not be ignored.

We are seeing large regional merchants growing rapidly through the acquisition of smaller independents. This consolidation is likely to continue bringing both challenges and opportunities to those involved – but the larger groups may be better positioned to invest in the other trends we identified.

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Merchants' View

John Newcomb, CEO BMF



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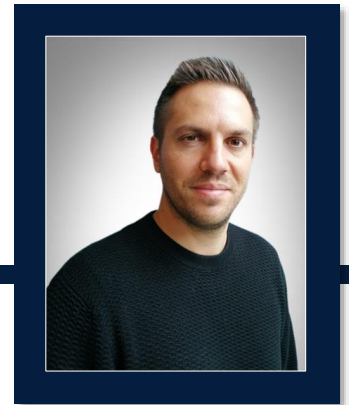
Covid has pushed digitalisation to the fore and we expect this to progress strongly, with transactional websites highlighting the importance of data exchange between suppliers and merchants and the need for digitised classification systems like ETIM.

The Government's target of zero carbon emissions by 2050 makes the drive towards this goal vital for construction to thrive. Working with the Construction Leadership Council we recently launched ConstructZero, an initiative aimed at helping every construction-related business reduce their carbon footprint and benchmarking the impact of their actions.

Any business that does not embrace digitalisation and the race to carbon zero will be left behind - but the BMF is here to help.

Insights

**Emile van der Ryst,
Senior Client Insight Manager - Trade, GfK**



With Brexit and the pandemic completely interlinked, the next six months will be a period of uncertainty. Our initial view is that things are probably going to get slightly worse before they get better. They'll be affected by changes to regulations, a heightened skills shortage from the reduced freedom of movement, and stockpiling or stock shortages. Some parts of the market are currently struggling to find certain materials, timber particularly, and ports are affected. It's been well documented that shipping companies have been avoiding the UK because of problems at its ports.

Looking longer term, at the next three years, we expect to see people getting used to the changes and how to react to them. Human capital will become increasingly important. Where people are not necessarily able to work because of Covid-related instances, leadership in companies has to be more emotionally in tune with what is happening. On top of that, they're having to actively manage pricing. With shipping containers in some instances costing two to three times as much as they usually do, businesses will have to assess the impact on pricing and ultimately their bottom line.

It is a perfect storm. We have the unknown of the pandemic and the affect that's having on the global economy, changing regulations and reduced labour from Europe, and stock shortages putting our supply chains under massive pressure. Some distribution centres are affected too. For many businesses, these put them in uncharted territory. We expect smaller companies and, probably by extension tradespeople, to be most affected as they may not have the financial buffers to navigate this level of exposure to risk.

The immediate short-term opportunities lie in the RMI market. Homeowners are currently sitting on a lot of money and not spending on historical leisure purchases, so they're investing in their homes. We expect RMI will continue to be buoyant while we're still in lockdown and restrictions are in place. As the second half of the year opens up and people have the freedom to spend their money in different ways, we expect this market to start dropping off.

Agile businesses will be most rewarded, as will those that adopt digital. Historically, builders' merchants have been mainly bricks-and-mortar with human interaction, not online focused. But the last year has changed that. Going forward, it will be bricks-and-mortar plus online. Recent research shows tradespeople have become more comfortable with online platforms. Merchants that adapt to a digital strategy will benefit most.

Expert Panel

Mineral Wool Insulation

(Part of Heavy Building Materials)



Neil Hargreaves, Managing Director Knauf Insulation is BMBI's Expert for Mineral Wool Insulation.

The pandemic has superseded most issues over the last 12 months and has become the primary thought. Without it, I expect there would have been a lot more focus on Brexit. Nevertheless, leaving the EU raises concerns over two key issues. The first is on skills shortages, which will undoubtedly impact house building and achieving the Government's target of 300,000 houses a year. So we need to work harder at developing skills within the construction industry. It's a short term pain for a longer term gain.

The other major issue is non-tariff barriers, in particular product testing and certification. The industry has yet to realise how much more complex it will become to import and export products. The EU will not accept products where testing has been carried out by a UK approved body or laboratory. Testing has to be done in the EU to achieve full acceptance. The UK Government is likely to do the same, which means all CE marked products will have to get re-tested. Mutual recognition is the ultimate goal but there is no transition period for it. Duplicated paperwork, extra costs and product delays are expected. It's going to be an erupting volcano for many manufacturers, across all sectors.

On the positive side, leaving the EU gives our Government and the UK a stronger opportunity to drive its low carbon agenda, and take the lead on climate change and become the world leader in energy efficiency and zero carbon. One third of our carbon comes from buildings, and 70% comes from heating so a Fabric First approach is essential. The Green Homes Grant failed, but it was launched as a six month initiative, which was never going to be long enough to get the support of the supply chain. It's also a complicated scheme design borne from a lack of understanding of what is actually involved in planning for these schemes and incorporating them as part of what you do. A mix of recruiting, upskilling and training is needed. That's a cost builders and contractors are not going to invest in, while they've got more fruitful work to be getting on with, like servicing the core housebuilding market.

Ideally, Government should use policy to drive improved energy efficiency in homes. For example, linking Stamp Duty rates to the relative energy efficiency of the building would be a strong incentive to buyers, and create a solid pipeline of work for all. It would also contribute to the Government's ambitious targets of powering all homes through wind by 2030. A win, win.

Expert Panel

Civils & Green Infrastructure

(Part of Heavy Building Materials)



Steve Durdant-Hollamby, Managing Director Polypipe Civils is BMBI's Expert for Civils & Green Infrastructure.

Covid has dominated the scene over the last 12 months, but rising material costs, congestion at ports and product delays have also caused significant disruption. I don't see that changing quickly. Leaving the EU has had an effect, but Brexit has been completely masked by Covid.

Companies who solely rely on material supply from Europe, compounded by issues at ports and delays and rising costs face the biggest risks. Going forward, UK manufacturing is vital, so we control our own supply chain and are less reliant on imports.

The supply of labour and skills shortages are significant issues that will affect housebuilders' ability to meet Government's housing targets. So it's vital we attract new skills and talent into our industry. A positive from Covid is that construction never stopped, which may encourage people from sectors that haven't been as fortunate. In turn, this will help boost our industry.

The key for construction is that the Government continues with its build programmes, particularly in infrastructure, and with house purchase initiatives to help get people on the ladder. The Government's commitment to invest in a number of large infrastructure projects is also positive, and there's a willingness from housing developers to meet Government targets and help tackle the shortage.

For our business, low carbon construction is a strong focus this year. With the built environment responsible for around 40% of the total carbon load we must all improve our carbon footprint. We're also investing more in digitalisation to improve efficiencies, to make it easier for customers and our own functions to operate, and ultimately to ease pressure from skills shortages.

We'll continue to manage Covid this year, but there's light at the end of the tunnel, and getting back to some sort of normality will be welcomed!

Expert Panel

Roof Windows

(Part of Timber & Joinery Products)



Jim Blanthorne, Keylite Managing Director, is BMBI's Expert for Roof Windows.

The disruption from Covid-19 has been far greater than any Brexit effect, for which we had long prepared. However, it was immediately apparent that the Brexit deal did not result in frictionless trade with Europe; while there are no tariffs payable, customs arrangements have increased both administrative and haulage costs.

Haulage costs in particular have been exacerbated by a reluctance amongst many hauliers to travel from the continent to GB for a variety of reasons, most notably for fear of a lack of preparation for customs formalities by some consignors, resulting in significant delays for drivers and their equipment waiting to be allowed to continue their journey.

The ongoing need to take Covid tests before being allowed to cross the border has added another reason to stay in Europe, while the number of return loads from GB back into Europe has fallen. One statistic quoted was that 50% of all return loads in Q1 to date have been empty. It used to be 10-15%; that has a huge impact on costs, which are loaded onto the inbound route increasing the prices demanded by hauliers. Currently, we're seeing surcharges of some 25%.

Quite simply, it is easier for hauliers to find work in continental Europe - and more profitable. We expect this trend to continue for at least the rest of the first half and until something closer to equilibrium in import – export volumes is restored.

Volumes crossing the border from Europe have been lower during Q1, the result of both stock piling in Q4 2020 and the decision by some companies to focus their efforts on domestic trade. Volumes are expected to rise during Q2 as trade normalises; we fear this will over load an already strained customs agency capacity. As we import most of our products from Eastern Europe, a smooth and robust supply chain operation is really important. We have been working tirelessly to both maintain supply and mitigate cost impacts. Relationships with hauliers has been key. We're building stocks ahead of what we expect to be a strong year and carrying out risk assessments on our supply chains to ensure we have optimum strategies in place.

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Expert Panel

Roof Windows

(Part of Timber & Joinery Products)



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We also continue to monitor the availability of skilled labour closely. Britain relies on a large number of Eastern European workers in both construction and manufacturing supply chains; the availability of skilled labour to keep Britain building is incredibly important. We don't anticipate a major change amongst those already settled here; many have been living in the UK since as early as 2004 and have families, homes and secure employment; the UK is very much their home.

It is however, likely that there will be lower immigration in future. Right across our group, we continue to focus on the opportunities to de-skill the installation of our products as far as possible, so they're easy to install right first time.

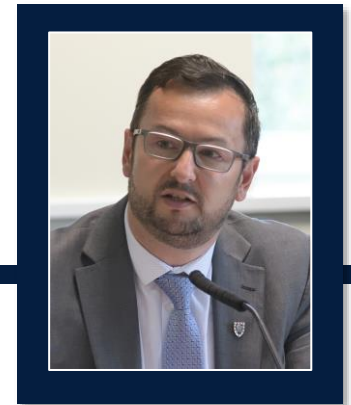
Despite the challenges in our economy, the construction market continues to show its remarkable resilience. Our merchant customers have welcomed the clarity from government around essential trade, allowing them to stay open, and all of us have benefited from a resurgence in RMI demand.

The Covid effect means people are working from home more than ever before, a trend we expect to continue. The nation are using their houses differently; for many, they have become our work spaces as well our homes. Loft conversions and extensions to add quality space, including roof windows to bring in natural light and ventilation will continue to feature highly on wish lists. Volumes are incredibly strong and we remain extremely positive for the year ahead.

Expert Panel

Cement & Aggregates

(Part of Heavy Building Materials)



Andrew Simpson, Packed Products Director Hanson Cement is BMBI's Expert for Cement & Aggregates.

Despite a roller-coaster of a first half, 2020 ended strongly for many manufacturers and stockists. In construction, the RMI (Repair, Maintenance & Improvement) and housing markets benefited most.

A second lockdown triggered huge growth in home improvements including repurposing rooms, garage conversions, house extensions, and well-appointed sheds as homeowners and families adapted quickly to a new way of life. The Government's stamp duty scheme also boosted the market. According to Nationwide, house prices climbed 7.5% in 2020, the highest growth rate for six years.

According to the Mineral Products Association, sales volumes of asphalt and aggregates dropped 8.6% and 10.5% respectively in 2020 compared to 2019. Demand for ready-mixed concrete (RMC) and mortar was most impacted, with sales volumes down 18.5% and 23.5% respectively over the same period, mainly due to construction site closures during the first lockdown. However, demand improved during the second half of 2020, with volumes picking up faster than expected in Q3 and continuing to grow. Q4 quarter-on-quarter volumes increased 9.1% for RMC, 7.8% for aggregates, 5.5% for asphalt and 3.1% for mortar.

We forecast continued growth in 2021. The Government's strong support for construction, and its focus on national infrastructure projects, including nuclear, rail and road, will drive demand for core aggregates and cement. Barbour ABI identifies 700 major projects worth £300 billion over the next five years.

While the UK is leading with its vaccination programme, the pandemic and the challenge of managing Covid infections will be with us for some time. The industry has been quick to implement robust measures for safe working so production facilities remain open, but it's important for business, our mental health and wellbeing that we get back soon to interacting normally with people. Teams, Zoom and other video software have changed how we communicate, and they have shown us how we can be much more productive, but not everything works well virtually. Networking events and meeting people remains an important part of our industry and are essential for establishing and building customer relationships. We look forward to resuming safely the human, personal and social side of lives from summer onwards!

Expert Panel

Website & Product Data Management Solutions



Andy Scothern, Managing Director eCommonSense is BMBI's Expert for Website & Product Data Management Solutions.

Finally, there are signs with the vaccine roll-out that we are coming out the other side. This will create much-needed hope for many builders' merchants. So what should merchants be doing to emerge in the strongest shape possible and take advantage of the opportunities to make sure that their business thrives during 2021?

Research and case studies examining recent recessions and their impacts on companies help provide the answers. The most interesting findings focus on four areas of difference between success and failure: debt, decision making, workforce management, and digital transformation. The main message running through all of them is that recessions are a high-pressure exercise in change management and those that emerge the strongest need to be flexible and ready to adjust.

During the recessions of 1980, 1990, and 2000, a Harvard Business Review article* showed how 9% of companies didn't just recover in the following three years, they flourished, outperforming competitors by at least 10% in sales and profit growth. The reason was down to one factor: preparation. Firms that made contingency plans or thought through the possible scenarios, fared best. Those who make deep cuts and switch to survival mode in recession are the slowest to recover.

History shows that downturns encourage the adoption of new technologies, but many merchants are asking if they should invest in new digital technologies when money is tight? One reason is that digital makes companies more agile and therefore better able to handle uncertainty. For merchants, digital creates more flexibility around product and volume changes and, importantly, it opens new markets.

One example that supports this strategy has been the emergence of strong growth in retail spend which is predicted to continue with many households holding excess cash for home improvements as they get ready for the post-lockdown party. Most of this spend has come through online and those with high-performing, optimised eCommerce operations have fared the best.

McKinsey warns that investment in digital transformation can create wide performance gaps between companies. Merchants who fail to invest in digital transformation may find those gaps insurmountable.

*Harvard Business Review article: <https://hbr.org/2019/05/how-to-survive-a-recession-and-thrive-afterward>

About BMBI

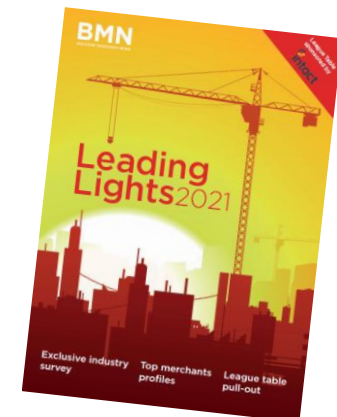
Developed and produced by MRA Research, the BMBI – a brand of the BMF - is a monthly index of builders' merchant sales, and the most reliable, up-to-date measure of Repair, Maintenance and Improvement (RMI) activity in the UK. Monthly reports track what is happening in the market, and an in-depth review, including Expert comments, is published every quarter. The reports and data are based on GfK's Builders Merchant Point of Sale Tracking Data, which analyses sales out data from over 80% of generalist builders' merchants' sales across Great Britain.

The BMBI reaches a wide audience both inside and outside the industry, featuring monthly in the Government's BEIS (Department for Business, Energy & Industrial Strategy) Monthly Construction Update, and widely referenced in construction, and by economists and Government. It has become an effective platform for building recognition of the industry, explaining markets and building brands.

About BMBI Experts

Our panel of industry Experts are an integral part of the Index, positioned as authoritative voices of their markets. The Experts add perspective, meaning and context to the data. They comment on issues, legislation and opportunities affecting their markets and wider industry, and help to make sense of trends for users of BMBI.

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