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# How Building Product Manufacturers Can Outsmart Amazon's "Easy" Button, Part I

By Keven McCook

**How to develop a business strategy that outwits Amazon Business at its own game.**

As Amazon's business-to-business (B2B) commerce platform, Amazon Business, continues to make headway in the building products distribution industry, the magnitude of its push is unprecedented.

It's no surprise, really. In the business-to-consumer (B2C) arena, the e-commerce behemoth has all but annihilated traditional retail by offering a seemingly endless array of products online at very competitive prices. And to cap it off, those products are delivered within hours of ordering, thanks to Amazon's unbeatable logistics.

According to Forbes, Amazon has amassed 300 million users and has grown from \$33 billion in sales at the beginning of this decade to an estimated \$230 billion in 2018. This tremendous growth in revenue and users provides the fuel that funds future expansion.

In this two-part article series, we explore Amazon Business' push into the building product manufacturing (BPM) world, assess the risk landscape that this disruption is creating, and highlight several paths building product manufacturers and their distributors are taking to address the opportunity.

## Growing at Breakneck Speed

Undeniably, Amazon Business is growing at breakneck speed, surpassing \$10 billion in annualized sales since launching less than four years ago, with projections of \$25 billion in sales within the next two years, according to [Bloomberg](#). To put that into context, Amazon Business is now roughly the same size as Grainger and has managed to reach a million customers in year one alone, faster than any other business unit in Amazon's history.

Oh, and let's not forget that Amazon's CEO Jeff Bezos doesn't even expect new initiatives to contribute to profits during its first six or eight years of existence—a brilliant strategy that has led to lower Wall Street expectations than any of its competitors. This helps Amazon keep prices low and think long term, which will thrill any construction project owner's procurement department. All of this is happening while some of the nation's largest retailers shutter their physical locations, liquidate, close completely and/or hit multiyear lows on their stock prices.

Here at FMI, we're surprised that more building product firms haven't shown higher levels of concern for Amazon Business' entrance into B2B building products distribution. Maybe the construction industry is crediting the retail segment's troubles to other factors, like the oversupply of malls or the slowing of multi-residential construction, with retail as a significant component. But even with these factors in play, e-commerce remains the overwhelming driver behind the declining store construction spending, and there's no end in sight for this trend.

## Taking on the Giants

Amazon Business has accomplished transformational growth while maintaining very high levels of customer satisfaction. According to the annual American Customer Satisfaction Index (ACSI), Amazon consistently ranks in the top one or two of Internet retailers. Less than four years ago, Amazon rebranded its struggling Amazon Supply business as Amazon Business. With a tag line of "Procurement as easy as Amazon," the new entity helps existing B2B distribution leverage Amazon's technological expertise and geographic reach to gain share and better serve existing customers. Bezos took on this marketplace by implementing another one of his winning formulas:

1. **Amass a treasure chest of expert, talented people, including executives and former sales professionals from the largest distributors.** You accomplish great things with a great team of people.
2. **Have a learn-it-all mindset versus a know-it-all mindset.** This growth mindset keeps great people from thinking they have all the answers going into a project.
3. **Play the long game.** Understand that it will take time to achieve worthwhile goals—like fundamentally changing the way people select, buy and deliver building products.
4. **Get started now.** Develop a culture that fails fast and forward, with leadership that can learn and build success from their misfires.

Most of Amazon's logistics infrastructure is built around transporting things that are easy to handle, segment and ship (e.g., books). Amazon has always excelled in shipping products that require little expertise to sell.



Within the construction segment, Amazon started with items that look and feel the most like books. These are often presumed to be commodity products that include, but are not limited to, paint, plumbing, lighting fixtures, tile and drywall, especially those products that are easy to handle and those that are more common with individual purchases rather than large, contractual complex customers.

Additionally, Amazon prefers to focus on discrete, one-off products rather than more complicated, systemized products such as complex and heavy mechanical systems. This approach not only dictates what industries Amazon targets, but also what sectors it focuses on. For example, Amazon Business chose to focus more on renovations, building operations and maintenance. Why? Once again, the giant looks for the “easy” button, or products that require less specialized knowledge to process.

## Don't Stick Your Head in the Sand

Factoring in Amazon's record of disruption within other established industries, it's important and increasingly urgent that BPMs and their distribution channel partners prepare and execute their own personalized and strategic e-commerce initiatives for continued growth today. In other words, simply sticking your head in the sand and hoping that the threat disappears is a failed approach.

As current U.S. construction spending finishes 2018 at \$1.3 trillion (according to [“FMI's U.S. Construction Outlook”](#)), and as the U.S. construction economy completes its 10th consecutive year of annual construction spending increases, it's time for BPMs to plan. Do it while profit margins are good and the necessary resources are available for investment.

The question is, what type of response is warranted. The answer is that BPMs first need to understand Amazon's B2B passion for their customers and then begin to keep score of how Amazon Business could impact revenue streams. Developing and implementing a winning strategy requires understanding the context, making choices and acting on those choices. Addressed intentionally, the right decisions can thrust your business forward on the road to growth and expansion. Ignore the threat, and parts of your business may be rendered ineffective and irrelevant.

The stakes are too high for firms to wait too long to act. The challenge is to determine the best plan to put into action and to move quickly, especially on an Amazon buyer-seller platform that will prove increasingly difficult to displace later.

## The Time to Act Is Now

Construction projects are increasing in complexity and scale. Project teams are consolidating around new alternative project delivery methods. Skilled labor continues to be difficult to hire, train and retain. Cost overruns and compressed project schedules seem the norm.

These are just a few of the trends that, when coupled with slowing U.S. construction growth (11% in 2014, 11% in 2015, 6% in 2016, 4% in 2017, 6% in 2018, 5% in 2019 and 4% in 2020), clearly demonstrate continued pressure on growth and profits across the entire construction project value chain. This context will lead to increased competition, an ideal advantage for Amazon Business.

In the short term, largely due to a strong economy and 10 years of construction spending growth, building product distributors' sales have remained strong. But as Amazon continues to grow rapidly, and as more B2B sales move online, this situation could quickly change. Add a slowdown in construction spending or disruption in the U.S. and global economy to the equation, and we could see some real threats to building product manufacturers and their supply channels.

*In Part II of this article series, we'll look further at the threat that Amazon Business poses to BPMs and show what can be done to differentiate and win in this competitive business environment.*



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## About FMI

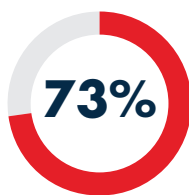
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FMI serves all sectors of the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for our clients and the industry.

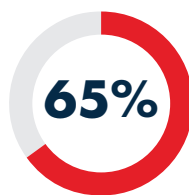
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## FMI Client Highlights



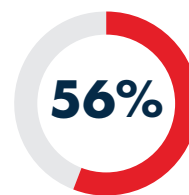
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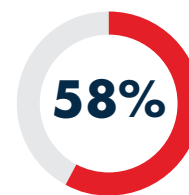
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