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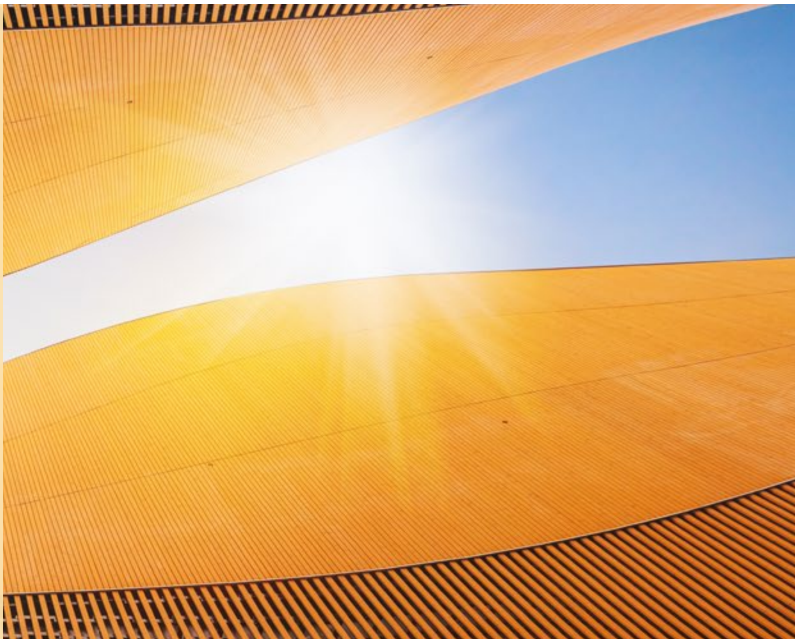
The Building Industry: What It Will Take to Stay in the Game

A human capital and governance agenda for leaders in a rapidly changing ecosystem



For the past 30 years, the equation for success in industrial businesses — and particularly the construction, building products and B2B distribution markets — has remained relatively stable: scale, modern systems, a deep talent pipeline of people who know the industry and longstanding customer relationships. Those four factors still matter — but they are no longer enough.

Consolidation, technology acceleration, new entrants and leadership scarcity, forces that moved at a glacial pace for decades, are now rapidly evolving, increasing the intensity of the competitive landscape.

In today's environment, we are beginning to see that those that are willing to change the rules have the upper hand. They are faster, more data-fluent, more willing to disrupt their own model, and deliberate about who sits in the operating seats and around the boardroom table.

We recently sat down with more than 20 CEOs, executives, board members and private equity investors to discuss the future of the industry. This article, based on those conversations and on our work as advisers to industry leaders, looks at the forces resetting the industry, and the important levers that CEOs and boards control directly: talent, leadership, culture and governance.

Six forces reshaping the building industry

1. Consolidation	2. Technology	3. Cyclicality
Sustained M&A for scale, moving up value chain	Moves from cost of entry to competitive advantage	Balancing counter-cyclical markets

4. Disintermediation	5. Talent	6. Value Proposition
More value-added services and direct-to-end-users	Looking outside industry for new and different talent	Performance gap widens; middle squeezed

All in all, six main forces are reshaping the building industry. While none of these forces are new on their own, what is new is the rate at which they are compounding, and at the same time reshaping competitive positioning.

1. Consolidation is fueling growth and scale as a competitive imperative

Consolidation accelerates both economies of scale and capital to the industry. The top 50 distributors hold about 35% of the market today, a 15-percentage-point increase over the past two decades, and M&A activity is ramping up, with expectations that the top players will have close to half the market by 2030. Strategic consolidators such as The Home Depot, Lowe's and QXO have the capital to roll up segments, and their operating scale may impact the historic margins of the industry. Private equity is moving up the value chain into contracting services roll-ups with higher margins. Home builders are also finding new sources of capital to fund growth, such as the Taylor Morrison/Berkshire Hathaway deal. This in turn may squeeze the middle of the market, when compared to top-tier peers or fast-moving acquirers. Family-owned and undercapitalized players without succession plans risk being absorbed. Two-step distribution is evolving toward specialized product categories and smaller-margin roles within the ecosystem, as larger consolidators and retailers enable direct-to-contractor purchasing at scale.

2. Technology has moved from table stakes to a significant source of advantage

Industry digitization started more than 15 years ago, as one large industrial distributor has seen e-commerce customer transactions increase from 20% to over 80% since 2013. Now, the next frontier is AI and how it may be applied to efficiency, revenue generation and the customers' experience. This industry is well suited to AI's benefits: hundreds of thousands of customers, millions of SKUs and decades of transactional data. That said, adoption and investment are uneven, and a lot of work must be done to ensure lasting success.

> **"Scale matters in distribution. OEMs typically prefer strong channel partners, and distributors that can expand across existing and new territories reinforce their position with those OEMs and can leverage density to drive margins. Customers value the product breadth, inventory availability and geographic coverage that scaled distributors offer."**

CARY STATHOPOULOS,
MANAGING DIRECTOR, WARBURG PINCUS

3. Companies are seeking to more strategically address cyclicality

The industry, by nature, is cyclical. A slow construction market can drive growth in maintenance, repair and operations (MRO) for facility repairs, which remains fragmented and resilient. At the same time, the market for large-scale commercial construction projects driven by demand for data centers, pharma and biotech, and water and wastewater infrastructure, can offset residential softness. All in all, the industry is being reshaped by investors' interest in establishing a balance between build-versus-repair offerings, residential and commercial/industrial construction, manufacturer consolidation and a generational shift in how contractors and builders buy.

4. Disintermediation is real, but selective

Manufacturers in some segments are pursuing direct-to-contractor and direct-to-consumer models, and big-box retail is committing capital to the Pro segment, stitching together all of the categories necessary to support building and maintaining a home. They are becoming the one-stop solution for a builder. This space is valued at more than $5 billion. However, wholesale disintermediation is unlikely due to last-mile economics, the physical nature of distribution and weather-dependent demand. The defensible position lies beyond order-taking: Companies cannot just take orders and fulfill them. They need value-added services including specification, training, on-site vending and project management to increase margins, customer loyalty and the ability to integrate AI to its fullest extent.

5. The 'native' talent pool is shrinking

It is well known that the number of tradespeople retiring is higher than those entering the workforce, which will turn customer-value-creating services from a courtesy into a differentiator. At the leadership level, the math is just as tight: Senior leaders with the skills and attributes needed for the future have become materially harder to recruit, and more companies are going outside of the industry to find the talent they need.

6. The need to reinvent value propositions

Well-capitalized players are disrupting the market with their deep pockets and ability to invest and move faster than the industry's traditional pace. As a result, smaller players face their highest strategic risk in years. Leading companies are redefining their role within the ecosystem. Rather than acting as transactional intermediaries, they are increasingly positioning themselves as partners in project design, specification and execution. Data is also emerging as a central pillar of competitive advantage. Organizations are creating visibility across pricing, inventory and customer behavior to make faster, more informed decisions.

The board and CEO agenda: Four levers

Boards and CEOs have little time to waste in making some decisions in this environment. We see four key areas where they can ensure their organizations are not just staying afloat amid today's disruption, but pulling ahead.

1. Talent selection

Industry tenure, customer relationships and operational discipline still matter, but they are no longer the only factors at play when it comes to finding the right people to lead your organization. In fact, over-relying on industry experience can lead to entrenched thinking that scuttles innovation. Outside perspectives, particularly from B2C and higher-growth/innovative sectors, can bring a much-needed sense of urgency, user experience best practices and a digital orientation necessary for the next stages of growth.

"I keep a wide lens, including B2C, to understand where B2B is headed," said Sandy Mattinson, president of Zoro. "When evaluating talent for key roles we are intentionally asking ourselves about the key traits and skills needed, rather than just deep B2B expertise. We search across sectors for curiosity and critical thinking to ensure we are innovating forward."

"Private equity consolidation of contractors and smaller distributors may create talent churn as acquired businesses integrate or transition leadership," said Keith Rozolis, CEO of ABC Supply. "Distributors facing succession challenges create recruitment opportunities for larger consolidators to acquire leadership talent along with business assets."

The most sought-after strategy for developing people for this environment is to hire curious, agile, strategic leaders who are adept at integrating external partnerships rather than only relying on traditional talent. The stakes to deliver are particularly high in PE-backed distribution, where roughly half of CEO and CFO hires fail to complete the sponsor's hold period.

Talent selection: What boards and CEOs can do

- **Assess finalists for judgment under pressure** and the discipline to focus on the three to five things that will drive value over the next 24 months.
- **Build the pipeline for "hybrid" commercial leaders** who have the relationship credibility with contractors coupled with data fluency in pricing, inventory and brand.
- **Recruit from B2C, high-growth retail and large-scale logistics.** Make learning agility, curiosity and innovation the hiring bar, not just the depth of industry experience.
- **Add digital and AI fluency, comfort with ambiguity and pace under pressure** to the executive scorecard as explicit criteria.

2. Leadership development

One of the biggest risks we often see happens when a company has a long-time CEO but no well-developed succession plan. It is critical to have a long-term succession playbook that gives the organization the time and space to develop strong candidates.

"Any CEO who turns 60 and isn't thinking about succession is making a big mistake," said Doug Yearley, executive chairman for Toll Brothers. "I thought about it for five years, and the conversation with the board went for more than three years. My successor candidates were with me at investor meetings and analyst conferences for the last three years. I made sure at least half an hour of every board meeting was dedicated to them."

The best plans for internal succession run on a five-year preparation window, with deliberate exposure to four stakeholder groups: associates, customers, suppliers and shareholders. While developing a high-potential internal bench, organizations should also monitor external talent pools for both a line of sight on exceptional leaders, as well as a clear-eyed perspective about their current talents' strengths and development gaps.

Crisis is the proving ground: How a person handles missed margins, integration setbacks and unsolicited approaches reveals more than any structured assessment.

"The winners and losers separate around how they handle adversity," said Erik Gershwind, former CEO and non-executive vice chairman at MSC Industrial. "As I was planning for succession, I wanted to see my CEO successor in action. Specifically, assess how she led and engaged with the board, the street, our associates, our customers and our suppliers in critical moments."

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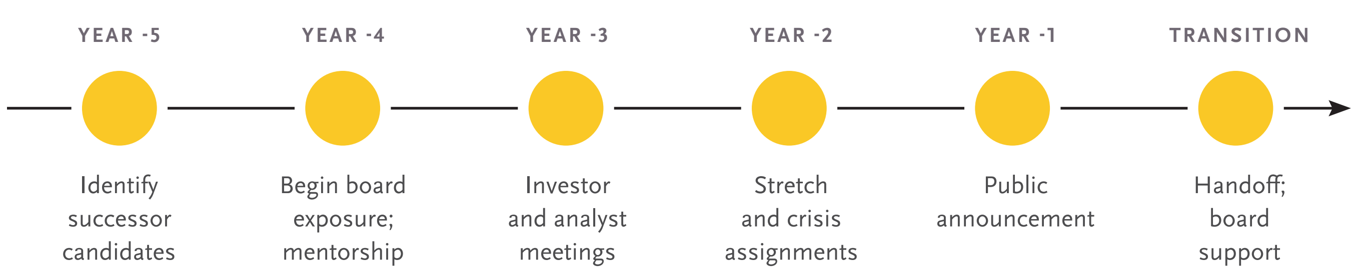
DOUG YEARLEY
EXECUTIVE CHAIRMAN,
TOLL BROTHERS

THE STRONGEST SUCCESSION PLAYBOOKS RUN ON A FIVE-YEAR PREPARATION WINDOW



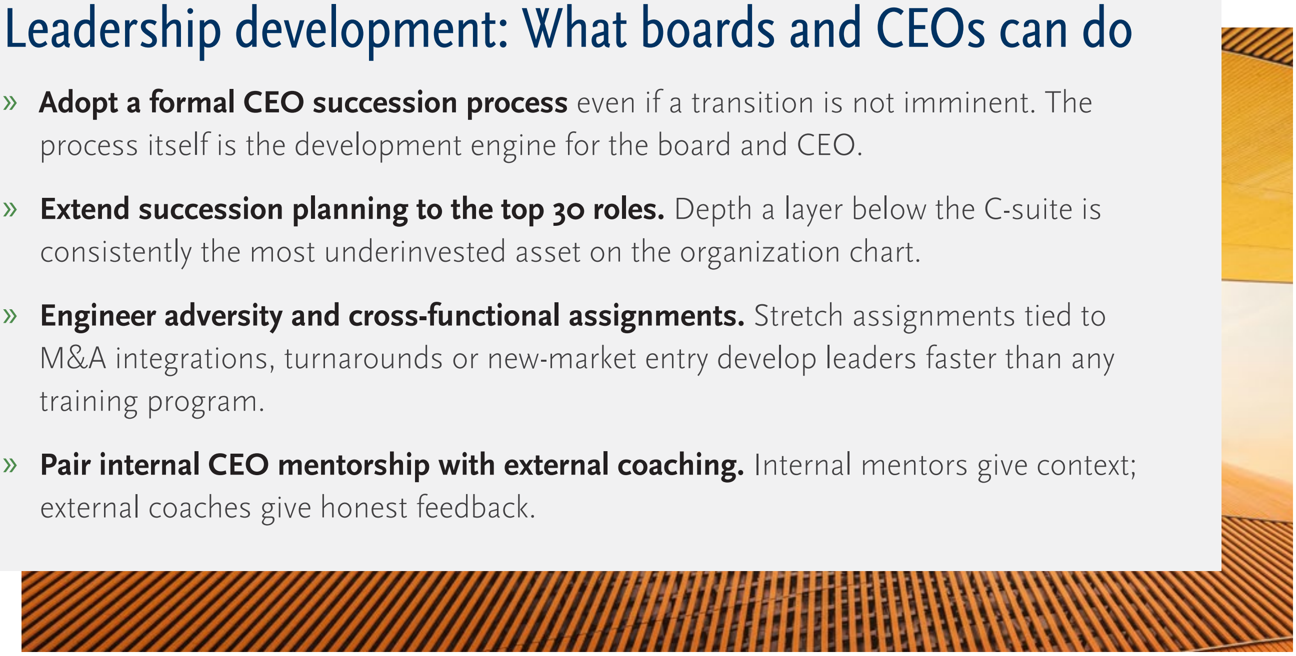
> **“You must be a complete athlete — understand the financial statements, understand a strategic plan and how to execute it, how to hold people accountable. We are asking a lot more of our people in the future.”**
>
> **JONATHAN SKELLY**
> PRESIDENT OF NORTH AMERICA BUILDING PRODUCTS, JAMES HARDIE

Functional silos are giving way to “player-coaches” who operate credibly across the supply chain, commercial, product and technology functions.

“This functional mentality, where you just do your function really well but don’t know any others, I think that is becoming obsolete,” said Jonathan Skelly, president of North America Building Products for James Hardie. “You must be a complete athlete — understand the financial statements, understand a strategic plan and how to execute it, how to hold people accountable. We are asking a lot more of our people in the future.”

Leadership development: What boards and CEOs can do

- **Adopt a formal CEO succession process** even if a transition is not imminent. The process itself is the development engine for the board and CEO.
- **Extend succession planning to the top 30 roles.** Depth a layer below the C-suite is consistently the most underinvested asset on the organization chart.
- **Engineer adversity and cross-functional assignments.** Stretch assignments tied to M&A integrations, turnarounds or new-market entry develop leaders faster than any training program.
- **Pair internal CEO mentorship with external coaching.** Internal mentors give context; external coaches give honest feedback.



3. Cultural transformation

Distribution has been a steady, relationship-centric sector — an attribute that remains a competitive advantage. The work is not about dismantling culture, but instead evolving it, so it is faster, more data-fluent and open to disrupting a company's own model before someone else does. "Be bold; try new things, especially when it comes to technology and AI," said Dave Banyard, president and CEO of MasterBrand. "Try things in a small way, see what works, then rapidly adopt it if it does work. Trust your leaders to make good decisions and take risks. Do not lose sleep when you don't get things right the first time."

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> **DAVE BANYARD**
> PRESIDENT AND CEO, MASTERBRAND

Relationship-based selling is not disappearing, but younger contractors and procurement professionals expect distributors to integrate into their regular workflow rather than show up with coffee and a catalog. Continuous improvement adoption is also accelerating — "Six Sigma light," one CEO called it — focused on identifying the root cause and addressing it in a pragmatic way.

"We've got to break free of the incumbent's curse and traditional thinking about how it's always been done," said Kevin Murphy, president and CEO of Ferguson. "New industry entrants don't care about what historical behaviors looked like."

Cultural transformation: What boards and CEOs can do

- **State your company's cultural ambition** to compete in this new world in one or two sentences. "Agility" and "customer focus" are no longer differentiators; they are table stakes.
- **Tie operating cadence to the ambition.** Management routines and team communications should reinforce this daily or weekly, not monthly or quarterly.
- **Address the digital shift head-on** with the sales force. Long-tenured sellers are assets when equipped with digital tools and retrained as solution advisers.
- **Use M&A integration as a cultural accelerator, not a culture clash.** The most-cited failure is the integration that tries to preserve parts of both cultures rather than exploit the best of each.

4. Corporate governance

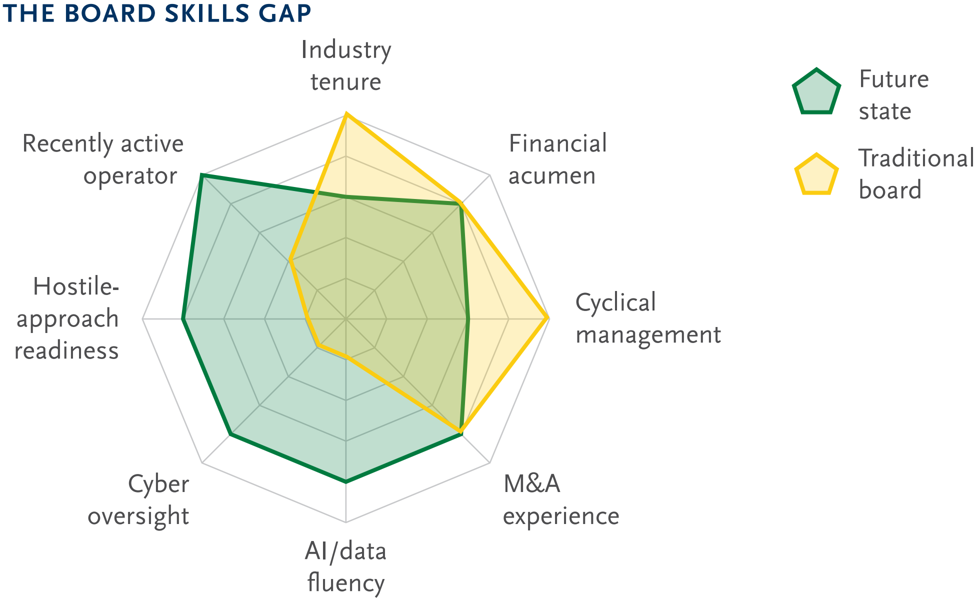
Of the four levers, governance in the industry is the widest gap between current practice and what the next cycle requires. Boards built from long-tenured industry executives are equipped for cyclical management but underprepared for the pace of decisions needed in an environment of AI and potential of hostile takeovers or activists. The board skills mix is shifting from cyclical management to AI, cyber and operating pace.

"You better be on your toes," said Julian Francis, former president and CEO of Beacon Roofing Supply (acquired by QXO). "The game has changed completely. What you've been used to in the past isn't the game anymore. The question to ask is, what do I have to do right now so I'm ready for whatever happens tomorrow?"

"The art of scenario planning is becoming the norm," said Dee Merriwether, chief financial officer at W.W. Grainger. "We are constantly looking at multiple scenarios to manage risk and opportunity."

Furthermore, the shelf life of "executive experience" on boards is shortening. Board selection committees, CEOs and investors are consistently opting for sitting/recently retired executives over long-retired directors, regardless of credentials, because they are more familiar with this volatile environment and accelerated pace. There is a real gap between the current skill set of board members and what's needed for the future — and therefore a real risk that boards will be unprepared.

THE BOARD SKILLS GAP



"On many boards there is little churn, and the average age keeps moving up," said Sheryl Palmer, chair and CEO of Taylor Morrison. "From a governance standpoint, long-term success is about refreshing, and making sure your skills matrix truly represents the challenges you're dealing with."

"Board expertise in AI and technology is often a critical gap," said Mitch Lewis, board member and former CEO for BlueLinx. "Many board members lack personal expertise in utilizing AI for implementation, marketing applications, sales optimization and workforce optimization strategies."

Also important is taking steps to ensure that your current board is being educated regularly about today's business world.

"You need to ensure that current board members remain up to date with relevant, real-time knowledge," said Anesa Chaibi, CEO at Global Industrial. "They need to know enough to ask the right questions, how to lean in, and be confident that the company is protected and secure."

Corporate governance: What boards and CEOs can do

» **Refresh the board skills matrix** against the company's strategy for the next three to five years.

» **Pressure-test potential actions for the first 72 hours after an unsolicited approach:** your communications, board availability, decision protocols, counsel and financial advisers. Do it before the call comes.

» **Conduct ongoing board education on AI, cyber and data governance** to evaluate management's choices and recognize when answers are insufficient. Recruit for AI and data fluency in adjacent industries that may be further along in adoption and lessons learned.

» **Move enterprise risk from an annual compliance review to a recurring strategic conversation** covering geopolitics, tariffs, AI, cyber, talent concentration and integration risk.

» **For private and PE-backed boards, build the independent seats around growth-pillar expertise:** two to three sponsor representatives paired with three to five functionally specific independents.

Conclusion: The next cycle starts now

The building industry has traditionally been known as slow-moving. But the next cycle will not be slow; disruption is here. For leaders and boards, the challenge is not simply to respond to change, but to anticipate where value is moving and position the organization ahead of it.

Amid consolidation, technology, new entrants and leadership scarcity, it is likely that there will be the winners and a larger number of organizations that find themselves acquired, restructured or displaced by new competitors.

The new cost to compete — scale, modern systems, a deep bench and basic digital fluency — keeps a company on the field, but it does not guarantee success. The incumbents that lead, over the near and medium term, will be the ones that reset or reinvent themselves.

These four areas aren't new, but the speed of the cycle is — as is the cost of waiting. The difference between the winners and losers will become plainly visible in terms of valuations, retained talent, board composition, and M&A cycles. And it's being decided now.

Acknowledgments

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