



Builders' merchant market optimistic about 2012

Published: 14 December, 2011

UK: A new report on the builders' merchants market from MTW Research suggests that while growth has been erratic in 2011, sales of building products have continued to grow, with above inflation growth set to return in mid-late 2012 as government stimulus plans and refurbishment activity prompt growing optimism.

MTW describe the builders merchants market as having experienced '4 distinct phases' since 2008, with the market troughing at 60% of its normal volume by mid 2009 followed by a stabilisation of market demand during H2 2009, modest yet tangible growth returned in 2010 followed by more erratic trading conditions in 2011. The report forecasts continued difficulties in the market for the first half of 2012 though highlights a number of opportunities and strengths which should underpin more positive performance from mid-late 2012 onwards.

Builders' merchants have endured a challenging trading period since 2008, with more than £1.8bn being wiped off the market value since its peak in late 2007- early 2008 in real terms, according to the report. In addition, MTW states that customer characteristics and needs have changed significantly in the last 3 years, with a rapid shift toward a more 'lightside'

product bias as contractors' work increasingly comprised of second fix activity rather than new build projects. This change in market characteristics has had a dramatic impact and reinforced the need for merchants to respond quickly to these changing demands, as well as having immediate implications for building product manufacturers and distributors.

The report forecasts that the builders' merchants market will grow in real terms from mid-late 2012 onwards, reflecting more positive demand patterns in terms of volume coupled with less price sensitivity across the industry. However, it illustrates that the builders' merchants market of 2012 will have very distinct characteristics to the 'pre-recession' market.

Critical success factors such as management flexibility, branch level decision making, enhanced service levels, back office efficiencies, organic growth, and higher levels of imports are considered pre-requisites by the report in order for merchants to maintain profit and sales growth in the challenging environment expected in the near term.

In terms of longer-term prospects, the builders' merchants market is forecast to gain momentum from 2013 onwards, as macro-economic conditions continue to improve and consumer and business confidence strengthens alongside an improving construction market.

Sales of building products and equipment through builders merchants are set to be worth some £2.4bn more by 2015 than current levels, with MTW forecasting steady increases in terms of both value and volume performance during the next four years.

Despite the report's assurances that the worst is over, a note of caution is raised with a review of the builders' merchants industry, finding that some merchants are unlikely to survive the current climate of low profitability.

The research found that 5% of UK builders' merchants remained in the 'low' or 'at risk' credit rating category in late 2011, suggesting that further business closures are likely in the sector in the short-term. However, MTW also points to the fact that more than 70% of merchants have a 'good' or 'excellent' credit rating and that more than 90% of the industry has healthy balances sheets and are well placed to take advantage of the upturn in market conditions in 2012 and beyond.

Original link:

www.buildersmerchantsnews.co.uk/news/fullstory.php/aid/5241/Builders_merchant_market_optimistic_about_2012.html