



Contractors Speak Out

Motivating Contractors for Growth

Introduction

Understanding customer needs is core to understanding how to motivate individuals as well as to satisfy their needs. With this as a prerequisite to developing performance enhancement strategies, HMI Performance Incentives (hmiaward.com), a leader in the performance incentive industry with a focus on helping companies in the construction industries optimize performance, sought insights into the decision drivers for contractors.

The core question guiding this report is: What drives the decision-making process for contractors when selecting a distributor? Additional insights were also gathered relative to their channel selection, eCommerce usage and needs, and how they market themselves.

HMI commissioned Channel Marketing Group (channelmkt.com), a strategy and marketing consulting firm focused on the construction trades, to conduct the research.

The insights were gathered through an eSurvey during Q2 2021.

Prokeep (prokeep.com), a text management platform designed exclusively for distributors to deliver better customer service, and SproutLoud (sproutloud.com), a Through-Channel Marketing Automation (TCMA) company founded with a mission of simplifying channel marketing to increase brand sales through partners in local markets, shared questions to enable broader insight into key contractor issues. Both companies are strategic partners of HMI.

HMI clients supported the research by allowing their incentive program participants to be solicited and by sharing the survey to other customers. HMI also procured an email list from a third party to ensure an unbiased response. Contractors were incentivized to respond via a raffle for an iPad and other rewards.

Based upon its client base, contractors in the electrical, plumbing, HVAC/R, building materials, roofing, and landscaping industries were surveyed. Over 750 individuals responded.

Key findings included:

- 1** Distributors earn 72% of contractor spend, but channel erosion is occurring, with at least 66% of contractors now purchasing at least some materials from online-only suppliers.
- 2** Contractors focus their support, on average, with three distributors in their market. Their key decision criteria relate to inventory availability, competitive pricing, and accurate, on-time delivery.
- 3** eCommerce usage is growing. Contractors are using distributor websites for omni-service support and purchasing. 75% report purchasing some materials online.
- 4** People and Process matter. These are distribution differentiators. Inside sales relationships matter the most.
- 5** 61% of contractors have been involved in a distributor incentive program, with 72% of contractors being influenced in their purchasing decisions by incentives if all else is equal. Incentive programs have the power to capture incremental sales.
- 6** Contractors currently spend little money and time on marketing.

Respondent Profile

Respondents came from five construction trades and represented a range of company sizes (See Charts 1-3). Respondents were primarily senior management / ownership of their company, hence decision-makers who strongly influence from which channels, and distributor(s), their companies purchase materials; determine (and approve) their company marketing efforts; and decide whether / which distributor incentive programs to support.



Chart 1: **Industry**

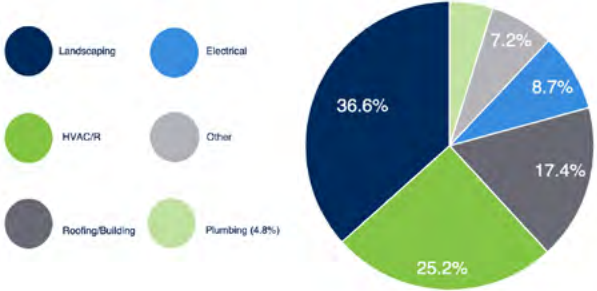


Chart 2: **Role**

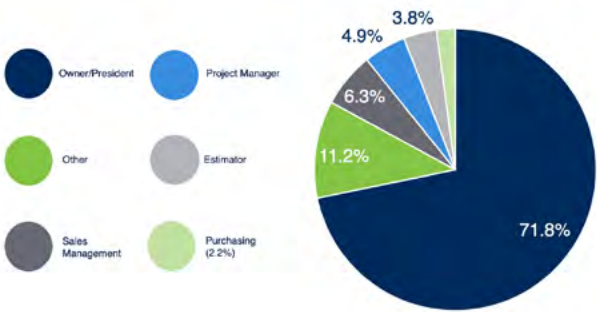
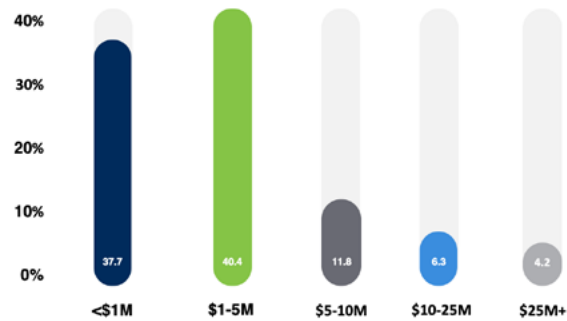


Chart 3: **Size of Company**



Contractors Buy from Multiple Channels

The advent of Home Depot and Lowes twenty-five years ago, and their subsequent expansion of their Pro initiatives, generated an alternative purchasing channel for contractors. More recently, newer “competitors” to distributors, such as online-only companies (e.g. Amazon, Supplyhouse.com, Zoro.com, and other smaller sites) as well as manufacturers selling direct, now provide contractors with further alternative sourcing selections.

Distributors remain the primary source of material for contractors. However, these other channels are generating revenue; hence the notion that the distribution channel is experiencing “channel erosion.”

While Chart 4 shows that only a small percentage of contractors report a significant percentage of their business being purchased from online-only suppliers or directly from manufacturers, respondents shared that they have been purchasing some from these channels.

This omni-channel trend has been happening for some time now in the building materials space. From a consumer standpoint, the number of touches needed to purchase a product has increased significantly [since 2000](#). This suggests that the more information available online, the better positioned a product will be for purchase. As well, it suggests that as omni-channel expectations grow, purchasing behaviors from consumers bleed into purchasing behaviors of contractors.

The percentages may change by industry, however only one-third of respondents shared that they do not purchase anything from online-only suppliers. ***In other words, two-thirds of contractors are now purchasing at least some of their materials online.*** The result, if distributors don’t take action to expand their online or omnichannel presence, is lost distribution sales or channel erosion.

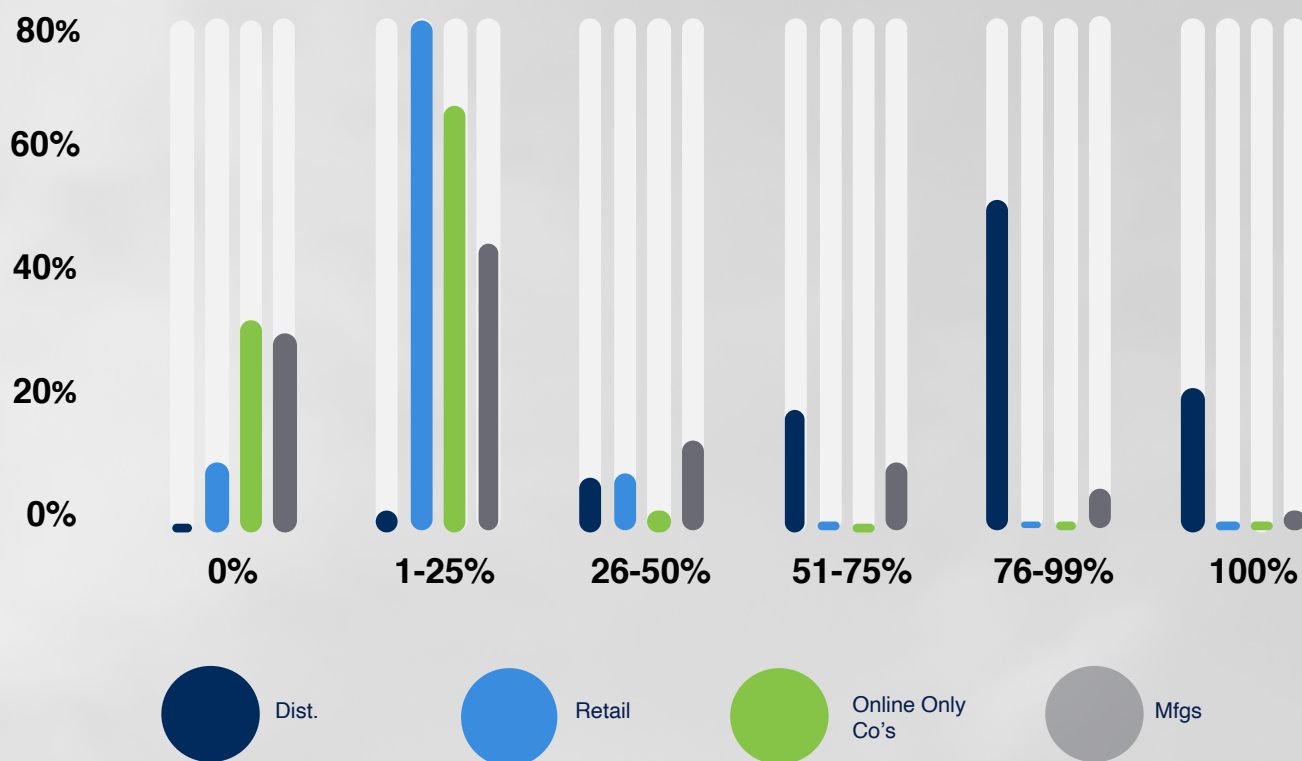
For more information by industry, contact HMI.

Further research highlights that the reasons for this channel erosion relate to product selection, the need for “hard-to-find / obsolete” products, price, inventory availability, or convenience.

To combat this, distributors have needed to accelerate their eCommerce initiatives ... launching systems, populating them with rich content, and marketing their offering to more than their traditionally supportive account base.

Only 72% of contractors shared that more than 76% of their business is with distributors.

Chart 4: % of Material Purchased from Distributor



Two-thirds of contractors are now purchasing at least some of their materials online.

Are Contractors Loyal?

Chart 5 depicts the number of distributors a contractor typically does business with.

Another important research finding is that while contractors are supportive of distribution, they also value “choice”.

Rarely do contractors commit all of their business to one distributor. In fact, 47% of them use either two or three distributors, with the average being 3.5 distributors as shown in Chart 5.

Of their options, however, contractors do have “preferred” distributors:

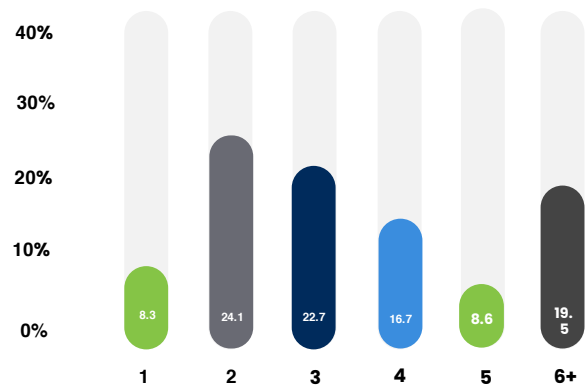
21% state they are “loyal” to one distributor

32% are “loyal” to two distributors, and

19.5% are “loyal” to three distributors.

While “loyalty” can be a subjective concept, when a contractor says that they are “loyal” to more than one supplier, in reality, their “loyalty” tends to be spread across multiple suppliers to ensure that they are able to support their customers.

Chart 5: # of Sources



Having the lowest price in the market is not a driver of loyalty.

When asked for the five most important reasons why they are loyal to distributors, (See Chart 6) contractors stated:

- **Product availability**
- **Competitive Pricing**
- **Delivery**
- **Brands**
- **Location**

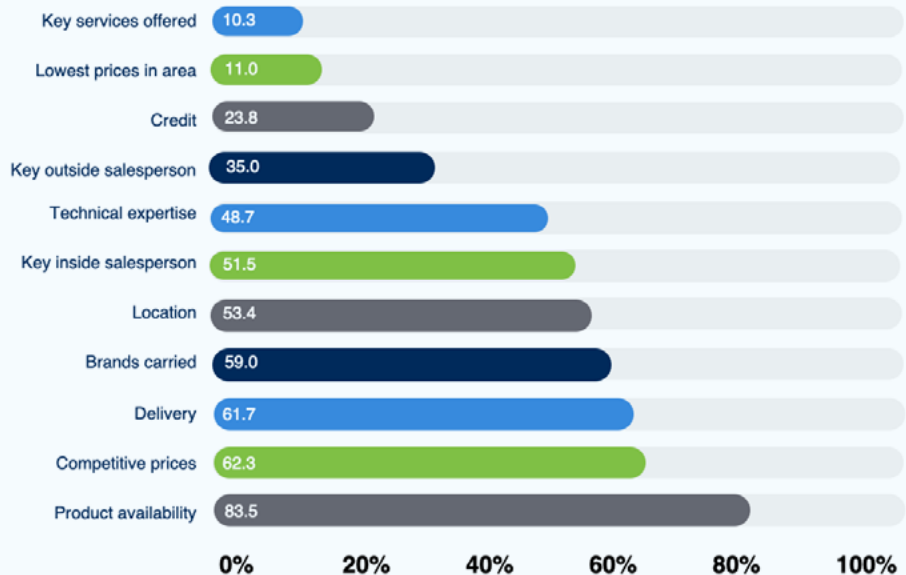
It should be noted that the COVID-19 pandemic may have played a part in product availability being a heightened driver, however data suggests, product availability has stood as a [key driver as early as 2010](#).

Other key elements include credit and personal relationship.

Having the lowest price in the market is not a driver of loyalty.

Interestingly, inside salesperson relationships are more strongly valued than those with outside salespeople. While this could be due to the pandemic, contractors typically interact more frequently with an inside salesperson than an outside salesperson (and some are not assigned to an outside salesperson), so the technical support and customer service provided by the inside salesperson becomes, essentially, the face of the distributorship. Offering customers the option to communicate with those inside sales reps via text messaging is a prime way many distributors have bolstered these relationships by alleviating frustrating hold times and miscommunications. Texting provides a more convenient way to check on inventory and place orders.

Chart 6: **Distributor Loyalty**



How Contractors Interact with Their Suppliers

To further understand how contractors interact with their suppliers, respondents were asked about the various modes they use in submitting orders, whether it is via calling, email, physical visits, or electronically. Additionally, they were asked what percentage of their orders are placed via each mode. The breakdown of their responses can be found in Chart 7.

Highlighted are the primary modes of interaction between contractors and their suppliers with the number one point of contact being inside sales via telephone or email (a combined 45% of respondents place more than 50% of their orders with inside sales). Pairing this information with the responses in Chart 6 leads us to believe that key inside sales reps can be a key driver of loyalty and bolstering your inside team could make a major positive impact on loyalty.

The rows “visit distributor counter” and “visit retail store” refer to in-person purchasing. This is more prevalent with smaller contractors as well as in the plumbing and HVAC industries given the role of technicians and the focus on the residential market.

Interaction with outside salespeople may be more of a “pre-sale” or quotation support role.

From an eCommerce viewpoint, defining eCommerce as “any type of electronic purchasing interaction (online, EDI, eProcurement systems, vending machines)”, 75% of contractors report that they have purchased some of their material online and 50% have some “electronic” interaction other than text.

Looking forward, when asked how they expect to interact with their suppliers in three years, 37% of contractors expect to increase their electronic interaction and

decrease physical ordering. In fact, according to a 2018 survey conducted by Prokeep, 94% of contractors already want to be able to text with their distributors. As texting becomes an even more ubiquitous way to communicate in daily life, contractors are expecting to be able to connect in the same way with the distributors they do business.

Thus, distributors should consider where eCommerce and other digital communication tools fit within their strategic plan or services offering, and, if they do not currently offer an eCommerce solution, they should solicit the voice of their customers to ascertain the importance of this. Relying on sales to solicit input from their “important” customers is not gathering broad-based input to drive investments and strategy decisions.

The challenge for distributors with this shift is that the influence of “relationships” will change to be more people- and service performance-driven rather than personal- / relationship-driven.

To sum up, although traditional ordering methods remain prevalent, an evolutionary change is occurring. Aside from technology and processes becoming more user-friendly, a key reason for this emergence to an omni-channel / omni-service model is that contractors are seeking increased productivity and more of a “system-to-system” experience as well as the ability to be self-sufficient.

For a distributor this represents an opportunity for improved internal resource productivity, albeit at the risk of less customer interaction and fewer personal sales interactions that can result in upsell / cross-sell opportunities as well as fewer opportunities to gather customer-driven market insights (or input for a project quote.)

Chart 7: **How Contractors Interact with Suppliers**

Purchase Behavior	Never: 0%	Rarely: 1-10%	Occasionally: 11-50%	Frequently: 51%-75%	Almost Always: 76%-100%
Call inside sales	7%	29%	37%	13%	14%
Call outside sales	26%	40%	24%	5%	6%
Email inside sales	18%	28%	33%	11%	11%
Text inside sales	47%	34%	15%	2%	2%
Visit distributor counter	12%	36%	33%	9%	10%
Visit retail store	16%	53%	23%	4%	5%
Order via ecommerce	25%	43%	23%	5%	5%

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eCommerce...

What is Wanted?

eCommerce, as previously mentioned, is gaining contractor usage momentum and is expected to be in greater usage in the next three years.

while 75% of contractors shared they are using some eCommerce tools to purchase some material online, survey respondents were asked specifically what eCommerce tools they use.

- 42%** of contractors are using websites
- 22%** use text ordering (and this is highest in the plumbing and HVAC industries)
- 15%** use apps, either from retailers or distributors
- 10%** interact via their estimating /procurement system directly to the distributor
- 37%** stated they do not purchase anything electronically.

Chart 8: **Process**

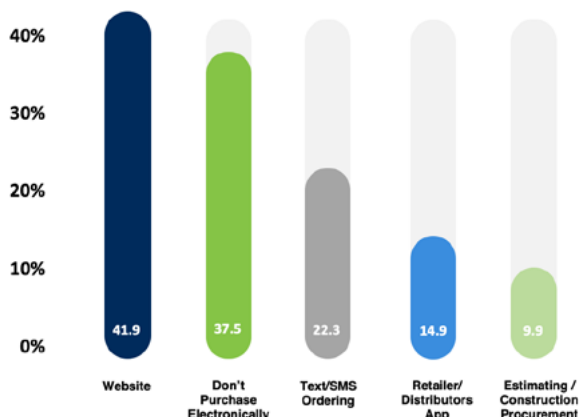
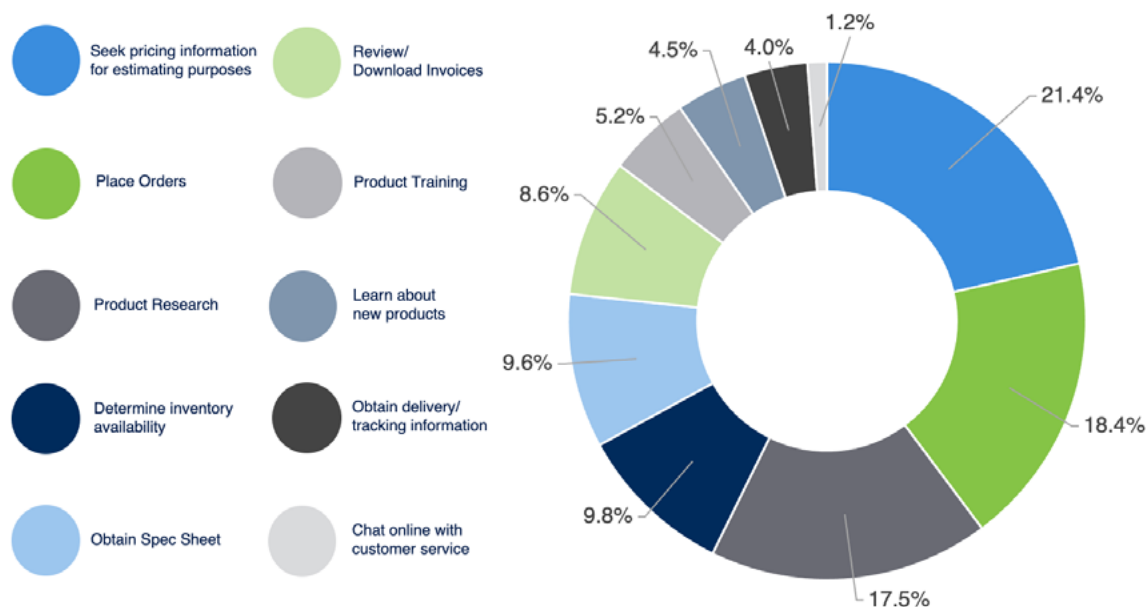


Chart 9 displays responses to the question “why do you use a distributor’s website?” Contractors shared:

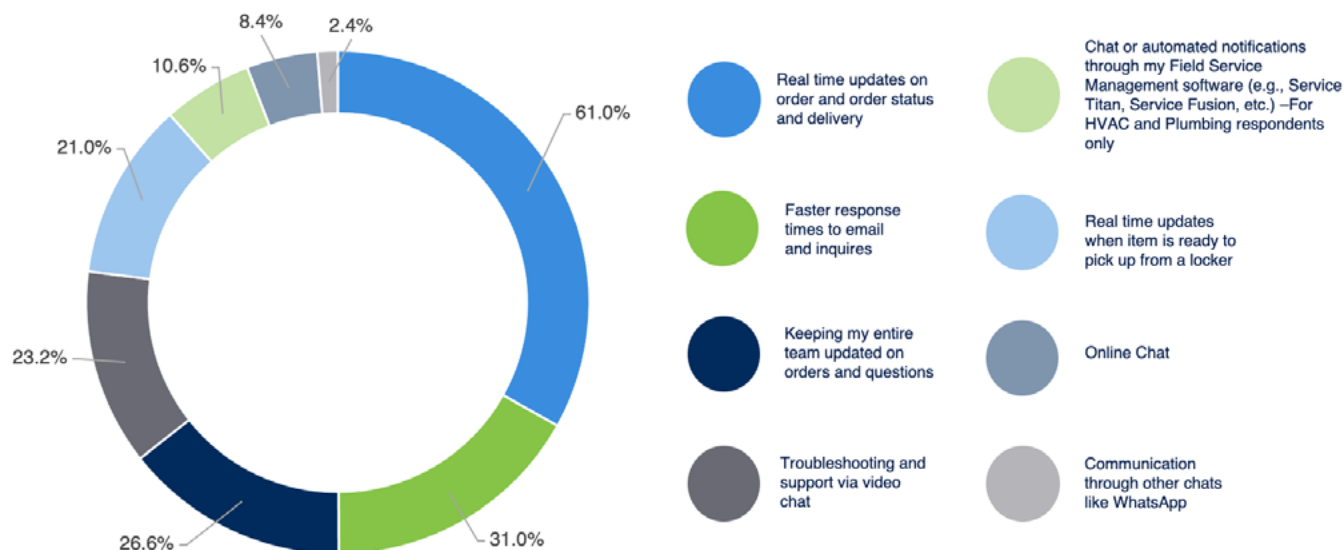
Chart 9: **Website Usage**



While online purchasing may still be in its nascent stages, contractors are currently using distributor sites in an omni-service mode in order to be self-sufficient. For a distributor site to be effective, the transactional information (price, inventory, delivery information) must be “real-time” and accurate. From a product content perspective, the information must be current and robust, distributors should offer a large quantity of content on their site to serve contractor needs.

When asked what other functionality contractors would like to see on distributor sites (or what they have seen that they liked), respondents shared responses shown in Chart 10:

Chart 10: **Website Functionality**



The integration of real-time order status (for projects and stock and flow material) as well as delivery information would be beneficial to contractors so they can prepare for material delivery. Furthermore, this information, available via an app or a website, would be beneficial for jobsite personnel.

What Differentiates Distributors

While contractors are relatively loyal, there are differences that distinguish distributors and, depending upon the need, these differences can drive contractors to seek to work with one versus another for a specific opportunity or on a longer-term basis.

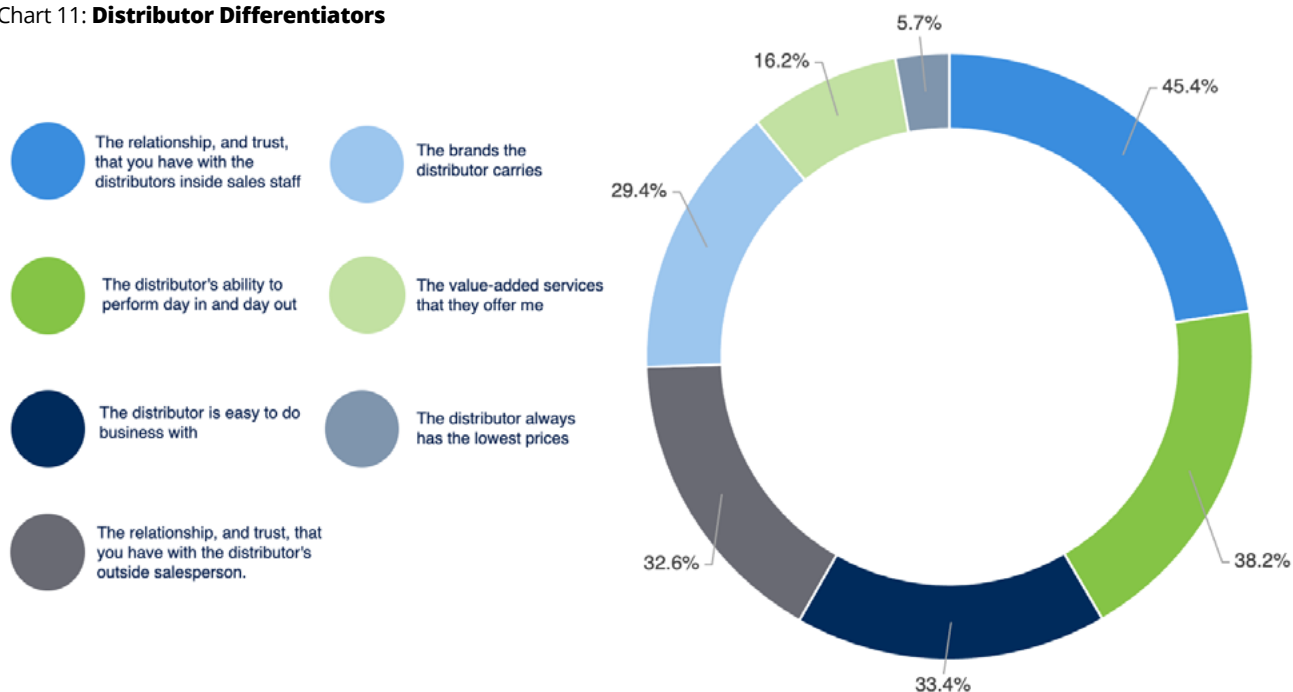
There are essentially four areas that can distinguish a distributor. They are:

- People
- Process
- Products
- Price

When categorized in this manner, contractors shared that a distributor's PEOPLE are the primary difference.

Respondents were asked to share which two of the following were the most important to them. Their feedback included:

Chart 11: **Distributor Differentiators**



As can be seen in Chart 11, the first two criteria relate to PEOPLE.

Of greatest importance is relationship. This is primarily with the inside sales organization whom the contractor works with regularly, if not daily.

Next is a distributor's staffs' ability to perform for the distributor on a consistent basis. Essentially, contractors want to know that they can rely on the distributor to deliver for them. Texting is an example of a digital tool that can foster this type of trust. Because it has traditionally been used for personal communications, extending texting to business communications can help to personalize and strengthen customer relationships.

Third is PROCESS. Being easy to do business with is important to a contractor as it reduces the "hassle" and ensures that their interactions with the distributor are profitable and that they can focus on what they need to do to manage their business.

The fourth and fifth areas relate to PRODUCT. This refers to the brands that the distributor carries as well as the value-added SERVICES that the distributor offers. These services are different than expected services such as delivery. They may relate to training, design services, specialists, on-site storage facilities, pre-fabrication capabilities, engineering services, and conducting take-offs to facilitate quotations.

Lastly, price does not seem to be a large differentiator for distributors. Though competitive pricing can be a *strong loyalty driver*, as seen in Chart 6 (62.3% of contractors stated that competitive prices are a loyalty driver), for most distributors, this is not a driver to typically *earn new business* on a regular basis. In fact, some use this solely as a negotiating tool, already knowing with whom they want to place an order.

The main takeaway for distributors is to focus on and invest in the systems and resources necessary to effectively service the contractor wherever their needs lie. Hiring long-term reliable people is of paramount importance, which in turn leads to ease of doing business. Finally, having stock and providing added benefits of being a long-term customer can create a sense of relationship with the contractor.

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The Role of Incentives

Contractors do business with distributors based upon people, process, and product; however, there are times when all are relatively equal in the eyes of the contractor. In these cases, incentives can play a significant role.

In general, distributors may offer an incentive or loyalty program to persuade contractors to do business with them.

Incentive programs are typically growth-oriented and focus on rewarding the contractor for supporting the distributor with incremental business over a defined time period.

Loyalty programs, on the other hand, are more akin to airline frequent flyer programs. This is when the contractor is rewarded for their existing business with a distributor, essentially earning “something” every time they make a purchase.

Findings from the study revealed that incentives are quite prevalent in the distribution space. 74% of contractors shared that at least one of their distributors has offered them either an incentive or a loyalty program at some point in time. These programs may have involved a group travel program, individual travel rewards, merchandise rewards, gift cards, material credit, credits towards services, incremental co-op marketing funds, or a cash rebate.

Only 6% of contractors did not know if their company had been offered a program. These respondents were generally non-senior management personnel, **which highlights the need for these programs to be effectively promoted within a company.**

According to respondents, reward options for these programs can vary (See Chart 12).

61% of contractors have been exposed to a program that rewards them with gift cards or merchandise rewards.

52% are involved in volume-based cash rebate programs

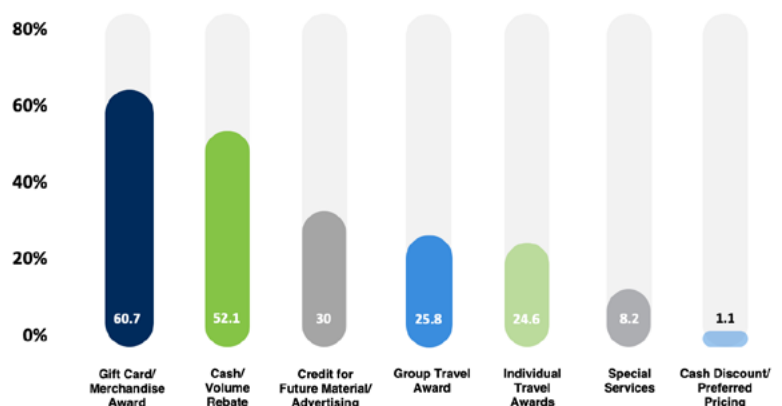
30% receive credit for future material or funds towards advertising support.

Note: Advertising support is most prevalent in the plumbing and HVAC industries.

26% of contractors (pre-pandemic) have been exposed to group incentive travel programs, which distributors utilize in incentive programs and for larger customers in loyalty initiatives to strengthen relationships.

25% have been involved in programs that reward them with individual travel opportunities.

Chart 12: **Reward Options**



But do these programs influence business?

For many years, distributors have questioned if incentive or loyalty programs influence contractor behaviors. For those who have implemented programs, they know from word-of-mouth that many of their participating contractors have been influenced by their program. However, is there quantitative data to back this up?

This then gets to the famous John Wanamaker quote, “Half the money I spend on advertising is wasted; the trouble is I don’t know which half.” To address this, we asked respondents a series of questions regarding their attitude toward these programs:

53% of survey respondents shared that they would purchase more from a sponsoring distributor

41% stated that programs do not influence their material purchasing behavior, and

6% do not receive the rewards and therefore the programs do not influence them.

These findings seem to suggest that incentives can play a significant role in contractor behavior, gaining mind and market share from at least half of those surveyed.

Additionally, when asked if they would switch business to a distributor who offers an incentive or loyalty program, 44% of contractors stated “possibly”. The other 30% responded “yes” if the services and pricing were comparable. In essence,

74% said business could be moved based on incentives if all else is equal.

The net result is that an incentive or loyalty program, when effectively structured and communicated, can be a strong value-add tool to capture incremental business and differentiate a distributor among their competition. The results of this study show that these programs can be more than just the “cherry on the top of the cheesecake”. They can actually be a deciding factor when it comes to earning new business, especially for independently owned businesses.



Growing their Business

Within the industries surveyed, there are hundreds of thousands of contractors. Many of these companies are small, independently owned businesses. As such, their key issues are:

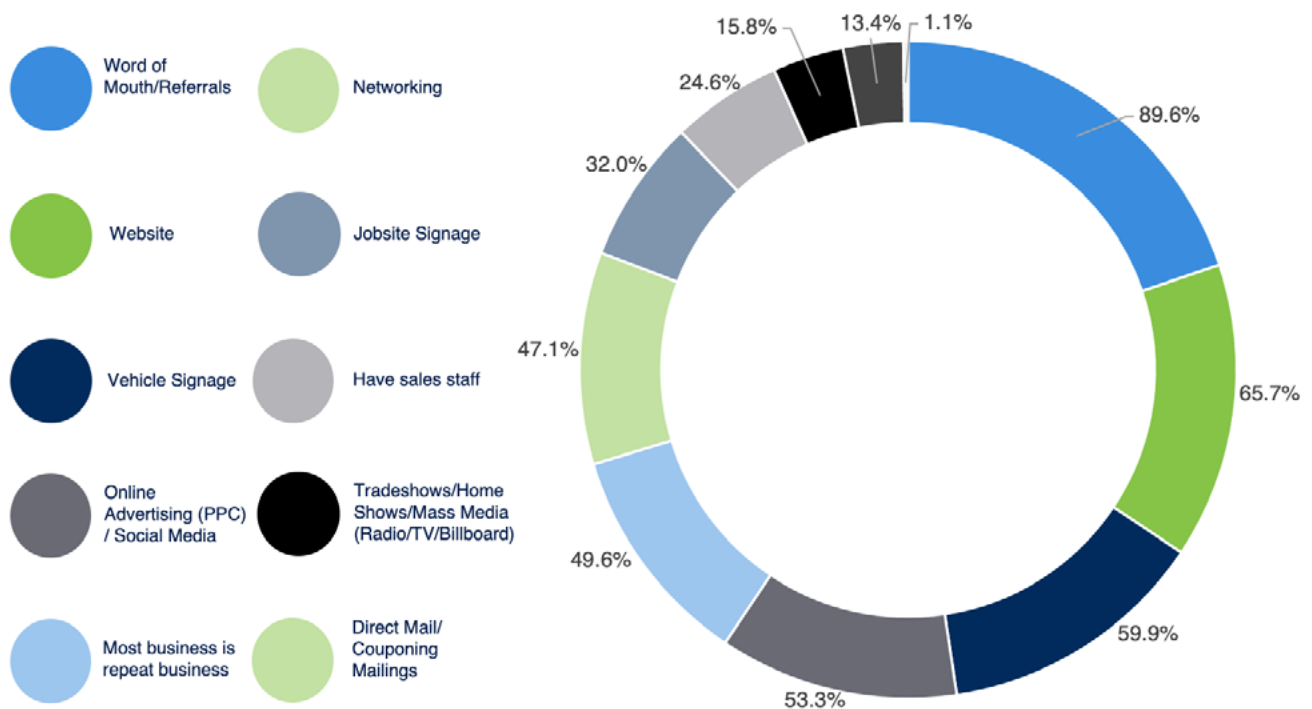
- Finding and retaining labor
- Technology utilization and adoption
- Marketing their business

While electrical, plumbing, HVAC/R, building materials, roofing, and landscape contractors operate slightly differently, the commonalities within these trades are that they all serve the residential, commercial, and industrial sectors.

Furthermore, the opportunities within these markets segment into service, remodeling / renovation, and new construction opportunities.

When asked how they solicit new business, survey respondents shared the responses shown in Chart 13.

Chart 13: **Soliciting New Business**



Additional strategies that were mentioned included church bulletins, soliciting referrals from complementary trades, public bidding sites, and partnering with builders.

Of note, most of these strategies are essentially “free” and highlight that few monies are invested by contractors into marketing.

Of those reporting spending in online advertising, tradeshow, and direct mail / couponing, the preponderance was in the HVAC, plumbing, and landscaping industries.

Whether they are too busy, do not have the internal expertise, or cannot afford to outsource marketing support, most contractors rely on customers to find them (via online search) or based upon their reputation.

Within the plumbing and HVAC industries there has been a practice by some manufacturers and distributors to offer co-op marketing funds to contractors. Some suppliers in other industries offer similar funds, however the practice is not widespread.

25% of survey respondents shared that they receive some co-op marketing funds from distributors and/or manufacturers to support specific brands. These programs are comparable to the co-op programs that manufacturers offer distributors with similar criteria and processes. In some instances, to qualify the contractor must be “certified” and have received some training (which could be as little as registering for the program and watching a video) or, in some instances, they have to pay to be part of a “preferred” program.

These programs can also be more prominent in selected product categories within selected industries.

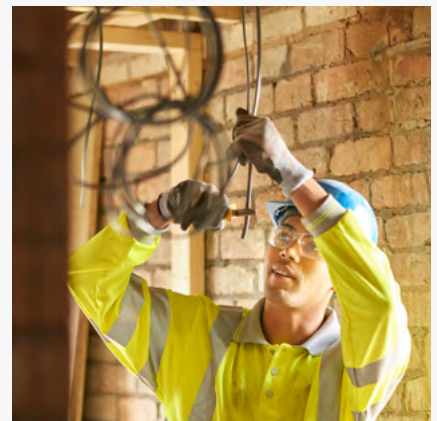
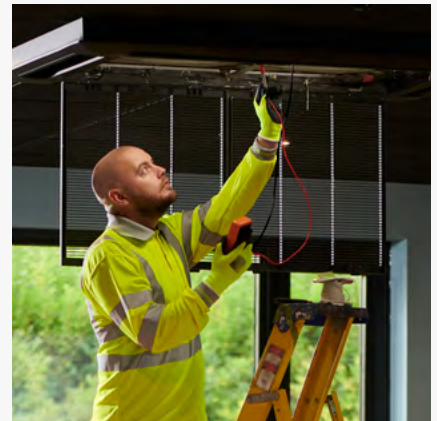
When asked what would cause the contractor to utilize more / utilize more effectively their earned funds, contractors ranked these as their priorities:

1. A higher co-op reimbursement rate
2. Getting the money up-front to reduce their out-of-pocket expense to promote a supplier's/brand's pre-approved marketing messages
3. Pre-approved supplier/brand marketing materials they can customize
4. Gaining access to the money without having to submit a claim for reimbursement
5. Getting help from local marketing experts
6. The supplier/brand offering turn-key digital marketing programs.

While it is expected that contractors would want more funding as well as the ability to receive the monies up-front, this may also highlight that the funding amounts are nominal (.5-2%) and therefore not enough to conduct effective marketing. Furthermore, supplier-supported tools that are easily customizable would help contractors reduce their marketing development / graphic design costs and enable them to implement marketing more quickly.



Most contractors rely on customers to find them online or based upon their reputation.



Conclusion

While there are differences among construction trades, on the major issues of what drives their channel choices and distribution relationships there is much commonality.

eCommerce and digital communication tools are having a growing impact on distributor business. It is stimulating channel erosion as contractors seek omni-service relationships. They want information “when they want” and “how they want” and they need the information updated. While the pandemic accelerated this process, and eCommerce is forecasted to have further impact in the next three years, the role of the inside salesperson as the “lynchpin” of a distributor’s relationship with customers is important.

A fragmented customer base consisting of many independently owned businesses highlights that relationships matter. Therefore, PEOPLE are the number one reason why contractors do business with a distributor, followed by people-friendly processes.

Incentives also have a role in continuing to help connect contractors to their “preferred” distributor, offering the potential to support customer acquisition and helping optimize a distributor’s share of customer wallet.

HMI’s goal in conducting this research to support its clients and the key industries is to shed light on the changing dynamics in the construction trades. Effective, performance-based incentive marketing strategies that are supported by communications campaigns that deliver targeted information about a company’s value proposition can help distributors strengthen relationships, communicate offerings to capture share of wallet and influence buying decisions – all culminating in accelerating sales performance.

72% of contractors indicated that they only put ¾ of their business with distributors

To obtain additional information specific to the electrical, HVAC/R, plumbing, roofing / building materials or landscape industries, please contact HMI Performance Incentives for industry-specific survey results.

Research Sponsors

About HMI

People are an organization's most important asset. Using data and behavior-driven methodologies, strategic design, creativity, and empathy, every company can achieve their growth and profit goals through a comprehensive incentive loyalty strategy. Founded in 1980 in Cambridge, MA, HMI Performance Incentives is a global leader in designing and managing incentive loyalty solutions.

About Prokeep

We're on a mission to modernize and strengthen the relationships that are the fabric of the construction industry and the backbone of the built-world we live in every day. Prokeep's messaging platform is purpose built for construction and it allows customers to text pictures, orders and more directly to counter or inside sales representatives - saving time and preventing mistakes.

From homes and offices to museums, schools, storefronts and more, we believe the buildings around us reflect the story of our times. And we're honored to support the flow of communications in the construction industry that allows this story to come to life.

About SproutLoud

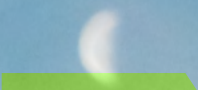
SproutLoud, an industry leader in Distributed Marketing, makes local marketing easy and delivers measurable results for category-leading brands and their local resellers. Built to increase brand sales through dealers, distributors, agents, brokers, retailers, and multi-locations, SproutLoud's marketing automation technology spans ad building, campaign execution, funds management, partner engagement, and marketing analytics, as the all-in-one platform for brand-to-local marketing.

Market Research Partner

About Channel Marketing Group

Since 2001, Channel Marketing Group has offered strategy and marketing consulting services to manufacturers, distributors, manufacturers reps, and associations focused on the electrical, lighting, HVAC, and plumbing industries. With its principals' channel expertise, the company also serves the broader construction and industrial trades.

More importantly, our experts have worked in and with those industries, so their knowledge, experience, and relationships within the marketplace run deep. With exposure to more than 60 industries as well as over 100 years of industry experience, the team has completed successful engagements with more than 150 companies, from \$10-million organizations to national and multi-national chains.





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