



## EXECUTIVE INSIGHTS

# Tapping Growth in Plumbing Services

The macroeconomic environment has been challenging recently for much of the construction sector. However, plumbing services provide some potential resilience. While consolidation in the sector is increasing, it remains highly fragmented and offers attractive acquisition opportunities. Companies that pursue platform expansion will be at a significant advantage due to market dynamics that favor scaled players.

### Solid market fundamentals

A combination of market attributes — including steady growth, recession resiliency and expected increase in demand — make plumbing services a sector with potential.

### Stable base and recession resistant

Plumbing services benefit from a large underlying pool of demand. It is primarily driven by the size of the installed base of homes, which grows in tandem with the overall population. While the population growth rate in the United States fell during COVID-19, it is currently recovering, albeit more slowly than in prior years, due in part to lower immigration. Meanwhile, the number of households has shown steady and consistent growth as households continue to form, particularly among millennials. Similarly, the U.S. housing stock is expected to grow at a steady rate through 2026. Together, these trends indicate a large and relatively stable pool of demand for plumbing services in the near future.

A handful of factors help insulate plumbing services against economic downturns such as the one we are currently experiencing. First, plumbing skews more toward repair and remodel (R&R) services and is viewed as nondiscretionary, making it less volatile than other product categories. Plumbing services are also considered noncyclical compared with other types of

building and construction spend. Although bathroom and kitchen remodels (front-of-wall plumbing) are a bit more cyclical than other plumbing services given that these projects can be delayed, they benefit disproportionately during economic rebounds. Furthermore, homeowners are often more willing to spend on premium products (e.g., faucets and HVAC) that they use more frequently.

### **Service diversity**

Plumbing services are highly diverse, and unlike services for which there may be a rule of thumb for a standardized service, plumbing services are hard to define and price discretely, especially for break-fix services. Prices can also vary dramatically depending on the scale and complexity of the job, time of day (e.g., daytime versus after hours), day of the week (e.g., weekday versus weekends), and size of the provider. Nevertheless, the need for plumbing services tends to occur frequently. The need for services can also be unexpected, and timeliness is often critical. Indeed, between 70% and 80% of plumbing services are viewed as urgent, which reduces a customer's willingness to price shop.

### **Aging housing stock**

Housing stock in the United States is getting older, with median age increasing from 38 years in 2015 to 42 years in 2021. As a result, more plumbing problems are likely to arise.<sup>1</sup> Homes that are over 30 years old may have aging fixtures or problems due to poor original installation.<sup>2</sup> They may also have lead, galvanized steel or polybutylene pipes, all of which can cause problems with drinking water and are more likely to require replacement. Other issues include bellied lines — as the soil that homes are built on settles over time, the underlying pipes may slope or bend.

### **Recurring services**

Most homeowners don't have regular maintenance plans for plumbing in the same way they might for HVAC systems, but service companies that provide both HVAC and plumbing services have found that the loyalty and repeat business of their HVAC customers can be cross-sold to their plumbing customers. There may also be an opportunity to expand service plans to plumbing where there is a recurring need. For example, a typical water heater should be serviced about every five years, and drains should be cleaned around every four years. This is a clear revenue expansion opportunity, especially for integrated players that can offer plans in which they visit the home (e.g., every six to 12 months) and provide preventive services.

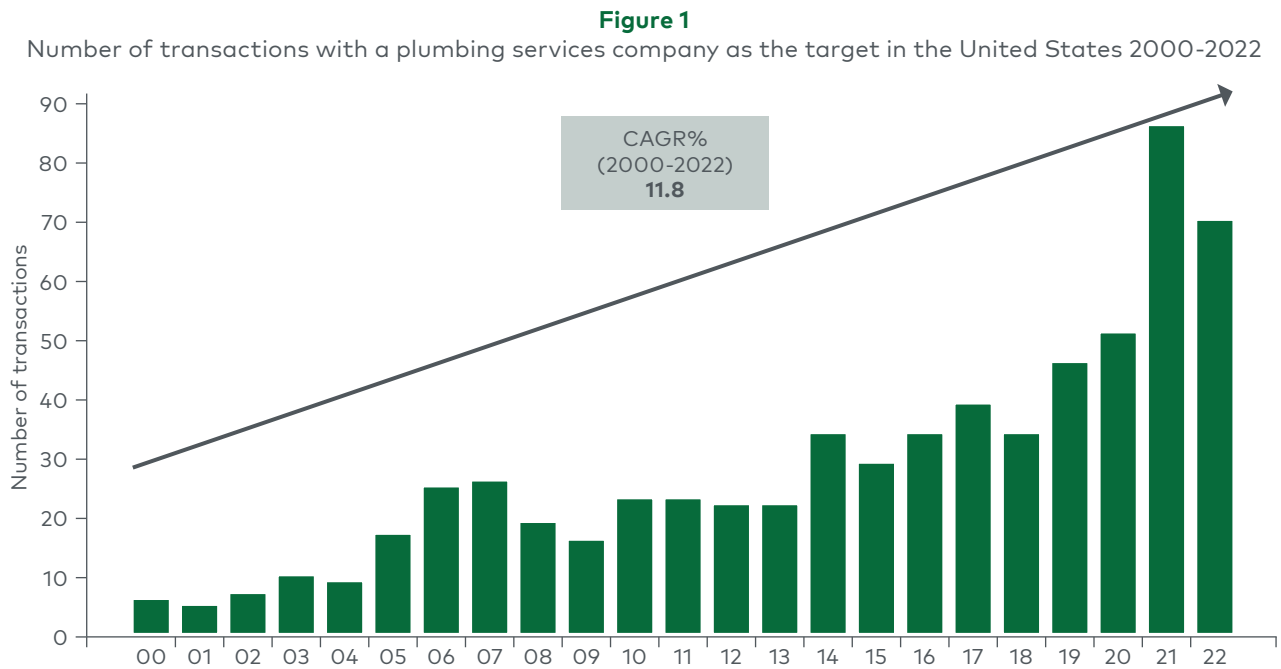
Some larger players are already offering these types of plans to customers. For instance, Mr. Rooter Plumbing has maintenance and 24/7 emergency services. Its maintenance plans and Advantage Plan<sup>3</sup> include preferred pricing, priority scheduling and other benefits. F.H. Furr has a

Preferred Partner Plan<sup>4</sup> that provides preventive maintenance, priority service, discounts of 15%, special coupons and campaigns, and free HVAC, electrical and plumbing home inspections.

Maintenance plans are a clear win for providers. Not only do they ensure recurring revenue and the opportunity to identify additional service needs, but they also increase customer stickiness. Research shows that around 40% of homeowners call a previous plumbing provider for their next service need, and maintenance plans can support and extend this loyalty.

### Consolidation versus fragmentation

The plumbing services market is highly fragmented, with many small providers and practitioners. That said, the pace of consolidation in the plumbing services market is increasing. Indeed, M&A activity has increased on average by nearly 12% a year since 2000, with a noticeable jump in activity over the past two years (see Figure 1).



Note: Includes M&A transactions for target companies with U.S. headquarters and offering plumbing services  
Source: S&P Capital IQ

At the same time, the number of plumbing companies is actually rising, with an average annual growth rate of ~1% since 2010. This provides an ongoing opportunity for consolidators to continue hunting for attractive acquisition candidates. In fact, a number of consolidation platforms have formed in recent years, each with a somewhat different growth model. For instance, some players are regional. Len The Plumber has geographic coverage in Delaware, Maryland, New Jersey, Pennsylvania, Virginia and Washington, D.C., and has made several

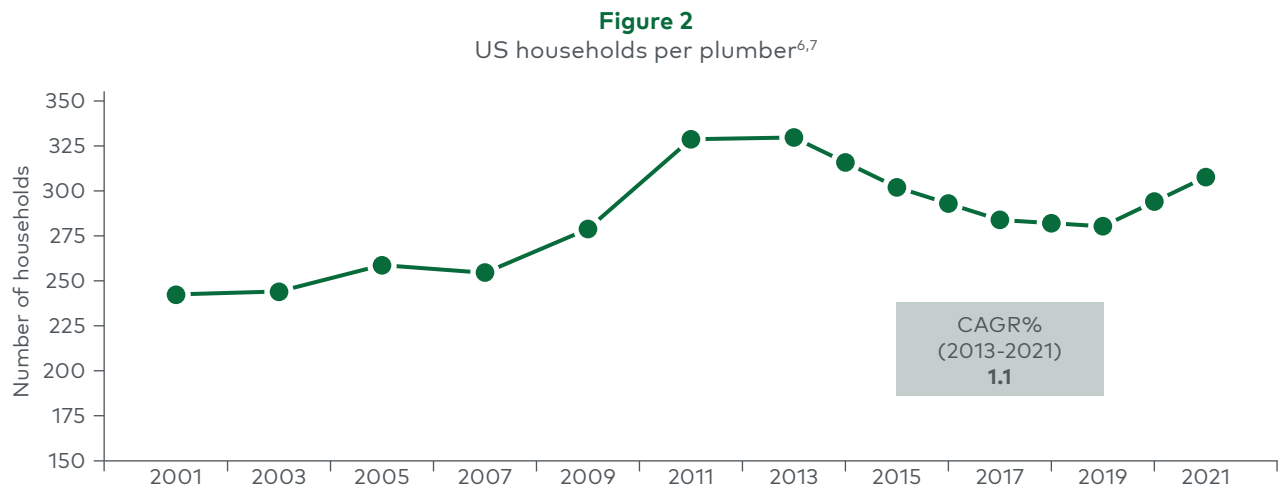
acquisitions (e.g., Canady's Heating Air & Plumbing in March 2022, Russo Bros. & Co. in December 2021 and Service Today Inc. in November 2021). Roto-Rooter has over 600 locations throughout all 50 U.S. states, as well as in Washington, D.C., and Canada, and claims to service 90% of the U.S. population. Mr. Rooter has over 300 locations and has grown through a franchise model.

**The case for scale**

Plumbing service providers can profit from scale in a number of ways, from better access to talent to technology leadership. These advantages underscore the benefits of inorganic growth.

**Talent management**

There continues to be a shortage of plumbers (see Figure 2), and bigger companies are better able to offer the pay, benefits, education and other perks that can attract scarce talent. Their larger labor force allows these companies to charge a price premium relative to smaller competitors (one analysis found a premium of 15%-25%) because they can offer faster response times as well as additional resources and expertise.<sup>5</sup>



Source: Bureau of Labor Statistics; U.S. Department of Housing & Urban Development

Larger players can also better develop leading-edge, systematic and consistent training programs. For instance, Len the Plumber has invested in an academy to build apprenticeships and had its first graduating class in 2021.<sup>8</sup> ARS Rescue Rooter has a Plumbing Training Academy,<sup>9</sup> and Mr. Rooter<sup>10</sup> offers continual training to employees on new procedures, tools and practices. In addition, bigger companies are better equipped to partner with trade schools, develop and apply e-learning platforms, and take advantage of more expensive recruiting systems.

### **Service offerings and delivery**

Larger plumbing companies also have the upper hand when it comes to standardizing their service delivery models across multiple metropolitan statistical areas (MSAs). For instance, if they serve multiple geographic areas, they can set up call centers to centralize and track call handling and extend that value-add to subsequent acquisitions. In addition, they can apply a robust technical and measurement back end to support measurement and metrics.

Scaled providers are typically able to offer more responsive customer service, including after-hours service. They can also extend a broader set of services to their clients. Financing is a good example. Given the increasing cost of all home services, including plumbing, financing is becoming more important to buyers. Larger competitors are better able to invest in, and incorporate, third-party financing programs such as GreenSky, which requires amending the selling model and training personnel on those programs. Larger players will also have access to rebates from financing companies.

### **Digital and referral leadership**

The selection process for plumbing services is often relatively short, with customers typically spending an hour or less researching providers and evaluating fewer than three companies prior to deciding. And because rapid service is usually paramount, many customers select a previous provider to accelerate the process, meaning they are likely to be repeat customers after initial servicing.

Large companies have a competitive advantage in this regard. They can garner greater brand visibility through investment in marketing, digital advertising, websites and search engine optimization. They can also use marketing analytics to optimize their spend and reduce lead-generation costs by spreading them across multiple branches. Larger, successful players can have a higher spend, improved ROI (e.g., cost per click) and greater awareness than their smaller competitors.

### **Technology**

Larger players have more capacity to invest in technology opportunities, such as video-enabled leak detection, sensors and automation. For example, ARS Rescue Rooter's LeakSmart<sup>11</sup> Leak Detection System detects leaks in the house and shuts off the water main. F.H. Furr's water alarms<sup>12</sup> detect moisture and provide protection from flooding by sending alerts via text, email or phone.

## Value chain relationships

Upstream in the value chain, the manufacturer and distributor market for plumbing supplies is fairly concentrated. Some of the more consolidated players may favor larger service providers. As a result, these providers have preferred access to manufacturer-based resources such as specialized programs and services, education, and new products. With more options, they can choose to closely align with a particular manufacturer or opt for private-label brands. They have multiple choices of distribution partners that offer various forms of support, including helping plumbers provide more professionalized services. Most importantly, they have access to customer discounts.

## Getting the scale and growth model right

To be sure, scaling up can give companies potential advantages. But simply buying and aggregating mom-and-pop businesses that may have competing acquirers is not enough. Aggregators must add value to the companies they acquire. To scale successfully, companies and aggregators need to define a model and playbook for realizing these advantages. For instance, an aggregator might add meaningful value to acquired companies by negotiating purchasing savings from OEMs or distributors on installed products. Other sources of value might come from an aggregator's ability to win and service more jobs due to superior recruitment and retention, enhance performance through better measurement and metrics (e.g., through a customer relationship management system), or provide more effective digital marketing.

Once the aggregation platform is defined, companies can determine a potential platform for growth. Service providers can grow geographically by systematically identifying the most attractive MSAs/local markets based on a range of macroeconomic and demographic factors or by mapping and identifying the MSAs that are most like the service company's current profile. They can also grow into new services. Examples include drain cleaning and sewer line inspection. A core platform of plumbing services can be supplemented with HVAC as well as electrical services. Some companies have also expanded by adding new construction to their R&R businesses, and vice versa, as well as by moving into certain categories within the multifamily space.

There are a variety of alternative and successful models for expansion and consolidation, as laid out in Figure 3 and L.E.K. Consulting's article "Building Winning Home Services Platforms."<sup>13</sup>

**Figure 3**  
Plumbing services platforms



Source: L.E.K. research and analysis

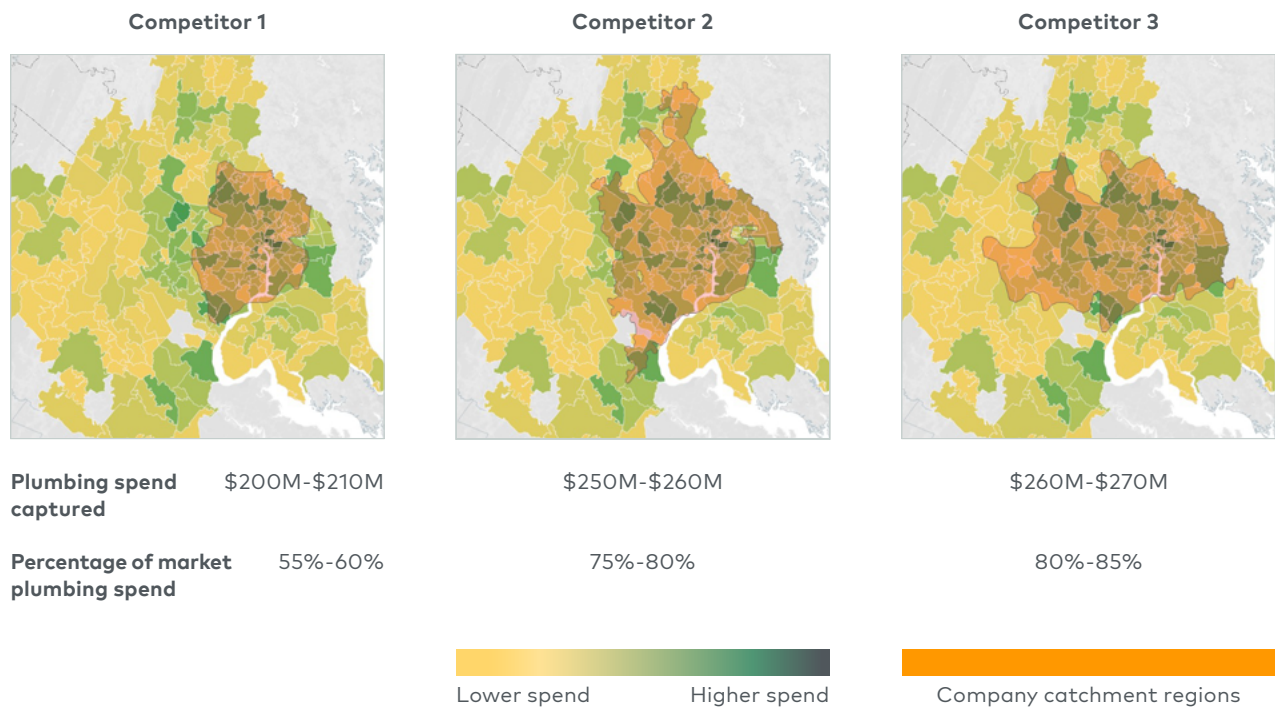
Success in this sector requires achieving relatively high local market share, particularly in regions or locations that have higher revenue or profitability potential, as laid out in a recent L.E.K. article “How Data and Analytics Can Sharpen Your Branch Network Strategy Amid Rising Costs.”<sup>14</sup> Hence, geographic expansion is often going to be a critical component of growth, even when service expansion is involved.

As companies grow geographically, they need to ask themselves two primary questions:

- What are the optimal geographic growth opportunities?
  - What are the most attractive MSAs/local markets for expansion?
  - What are the optimal branch locations, given spend levels and competitive density?
  - Are there opportunities to expand branch density within our existing markets?
- What does our geographic growth model imply for the potential target M&A opportunities we might pursue?

For instance, a branch-based business can assess to what extent its branches are in locations that capture the most spend, as shown in Figure 4.

**Figure 4**  
Locating branches in higher-spend areas

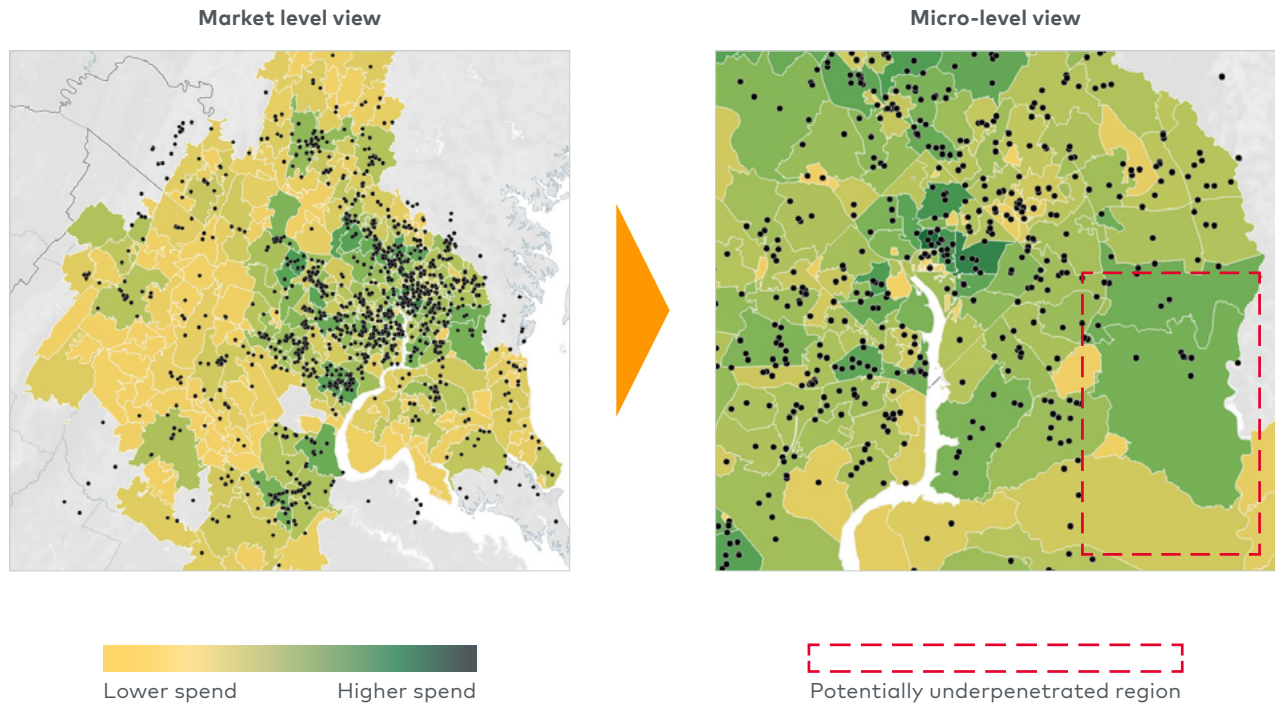


Source: Experian; L.E.K. research and analysis



Businesses can also take account of the level of competitive density across the MSA to identify underserved pockets of demand (see Figure 5).

**Figure 5**  
Market level and micro-market level competitor maps



Source: Experian; L.E.K. research and analysis

### An attractive sector for challenging times

With residential new construction facing some short-term challenges, the combination of nonstandardized services, frequency of purchase, steady growth and inelasticity of demand makes plumbing services attractive. Furthermore, despite increased consolidation, the sector remains highly fragmented, with plenty of opportunity for companies to expand their service offerings and geographic footprint by acquiring smaller players. Scaled players that have a defined, executable and measurable aggregation platform can add meaningful value to successful and already growing local plumbing businesses.

## Endnotes

<sup>1</sup>Allcityplumbing4u.com, "Top 5 Plumbing Problems to Watch Out for in Older Homes." <https://www.allcityplumbing4u.com/blog/2020/october/top-5-plumbing-problems-to-watch-out-for-in-olde/>

<sup>2</sup>Pikespeakmechanical.com, "3 Common Plumbing Problems Found in Older Homes." <https://www.pikespeakmechanical.com/blog/general-plumbing-hvac/3-common-plumbing-problems-found-in-older-homes>

<sup>3</sup>Mrrooter.com, "The Advantage Plan." <https://www.mrrooter.com/about/advantage-plan/>

<sup>4</sup>Fhfurr.com, "Preferred Partner Plans." <https://www.fhfurr.com/about/service-plans/>

<sup>5</sup>L.E.K. research and analysis

<sup>6</sup>BLS.gov, "Occupational Employment and Wage Statistics." <https://www.bls.gov/oes/tables.html>

<sup>7</sup>Census.gov, "Data." <https://www.census.gov/programs-surveys/ahs/data.html>

<sup>8</sup>Lentheplumber.com, "Len The Plumber Celebrates First Graduating Class of LTP Academy." <https://lentheplumber.com/blog/graduating-class-ltp-academy/>

<sup>9</sup>Ars.com, "Careers." <https://www.ars.com/careers#plumbing>

<sup>10</sup>Mrrooter.com, "Careers with Mr. Rooter of Tri-Cities." <https://www.mrrooter.com/tri-cities/careers-with-mr-rooter/>

<sup>11</sup>Ars.com, "Leak-Smart Leak Detection." <https://www.ars.com/smart-home/leaksmart>

<sup>12</sup>Fhfurr.com, "Water Alarms/Flood Security." <https://www.fhfurr.com/plumbing/water-alarms/>

<sup>13</sup>L.E.K., "Building Winning Home Services Platforms." <https://www.lek.com/insights/ei/building-winning-home-services-platforms>

<sup>14</sup>L.E.K., "How Data and Analytics Can Sharpen Your Branch Network Strategy Amid Rising Costs." <https://www.lek.com/insights/ei/how-data-and-analytics-can-sharpen-your-branch-network-strategy-amid-rising-costs>

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