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Infrastructure & Transportation Services

Achieving High Performance in the Construction Industry

High performance. Delivered.

New operating models for new markets

Today's multipolar world, characterized by multiple centers of economic power and activity, has shaken up old business models and approaches, posing numerous challenges for construction companies. But the new macroeconomic environment also offers a wealth of opportunities for those companies that can favorably position themselves in the changing landscape. Global companies will need to be exceptionally agile, efficient and customer-focused to compete successfully with increasingly powerful emerging-market players and to achieve high performance in the construction markets of the future.

The future outlook

The macroeconomic environment and consumer trends are making a deep impact on the construction industry. Over the next decade, the global construction industry is expected to grow—and nowhere more strongly than in the rapidly emerging economies of Asia, Latin America, the Middle East, Africa, and Eastern Europe. Fuelled by urbanization, globalization, infrastructure renewal and the burgeoning needs of developing "megacities," construction in emerging markets is expected to double within a decade and will become a $6.7 trillion business by 2020, accounting for some 55 percent of global construction output, according to the "Global Construction 2020" report published by Global Construction Perspectives and Oxford Economics.[1]

To take full advantage of the opportunities these trends and market growth generate will require adopting new business approaches. Construction companies will need to learn how to better position themselves to manage the supply side and capture the increased demand.

For instance, companies will increasingly draw project funding from a wide range of sources. In economically ailing developed countries, there has been increased scrutiny of public infrastructure investments. Although emerging economies are not facing the same difficulties with budget deficits, they too are pushing for more public-private partnerships. Access to capital, for both public and private sponsors, is becoming more challenging. In this context, construction players have the opportunity to diversify the upstream infrastructure value chain mainly by promoting and financing infrastructure and/or building alliances with investment banks and infrastructure funds.

Construction companies must also respond to growing customer and end-consumer demands for sustainable built environments and harness technology to drive innovation, especially in energy efficiency.

Competition is also expected to intensify as the growing appetite for specialist construction services attracts new, more nimble entrants and forces all players to diversify along the infrastructure value chain. Already, Chinese companies, leveraging huge internal demand, are becoming a force to be reckoned with in global construction markets. Construction companies based in Brazil and India may soon follow suit and join the new class of powerful emerging market multinationals.

[1] "Global Construction 2020," Global Construction Perspectives and Oxford Economics. See www.globalconstruction2020.com.

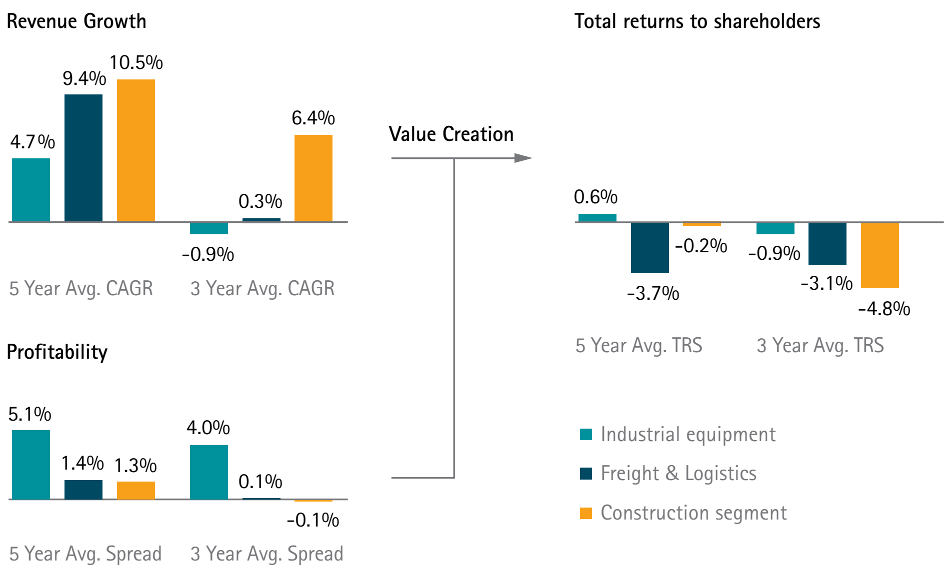
New competitors from China

Buoyed by the sheer scale of internal demand, Chinese construction companies outpaced the overall industry in the past three years and registered double-digit revenue growth over the past five years, according to Accenture analysis. This astounding expansion has been driven by public funding of infrastructure, real estate and health care. In 2010, four Chinese construction companies entered the top 10 of the Engineering News-Record "Top 225 Global Contractor Rankings" (in terms of revenue)—displacing some North American, Japanese and European companies that have traditionally dominated.[2] Although not one of the companies even ranked in the top 10 in 2002, by 2010, the combined revenues of the four top Chinese companies (US$238.5 billion) easily overshadowed those of the six other companies in the rankings (US$180 billion).[3] While the majority of the Chinese companies' business has been domestic, their ambitions are global. In particular, the largest Chinese construction companies are increasingly active in fast-growing markets in Asia Pacific, Africa and the Middle East, forming consortia to bid aggressively on large infrastructure projects. Chinese construction companies are now looking to expand in North America where they have linked up with Chinese rolling stock companies to compete for high speed rail projects. As the Chinese construction companies expand into more highly regulated developed markets, however, it remains to be seen how successfully they adapt to local competitive and commercial conditions.

[2] Engineering News-Record, "Top 225 Global Contractors Rankings." 2002, 2006, 2010 (See: www.enr.com)

[4] Engineering News-Record, "Top 225 Global Contractors Rankings." 2002, 2006, 2010 (See: www.enr.com.)

Figure 1: Construction industry value creation



The industry background

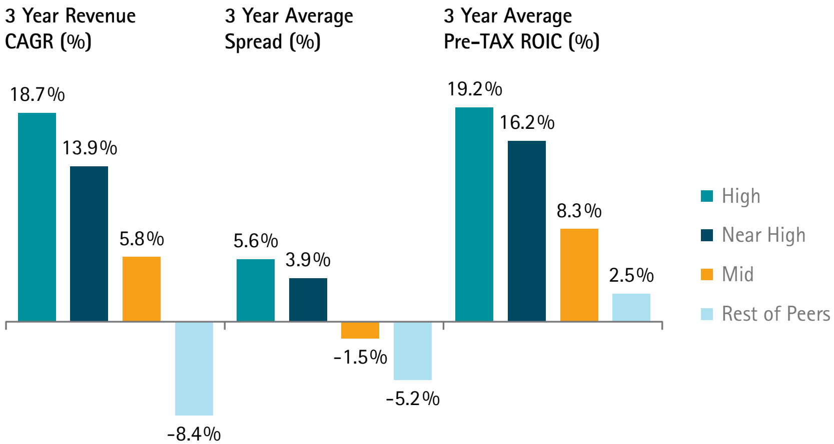
While the downturn in 2007-2009 heavily affected the construction segment globally, the impact was not felt evenly. During this period, the emerging-market construction companies started to pull away from their developed market competitors. Although construction market output has begun to recover, thanks to continued emerging market growth and stimulus packages, emerging-market players remain better positioned to capture demand. In Brazil, for example, population growth is spurring large government investment in housing and energy. Similarly, India's ongoing program of urban renewal, energy and transport development will help make the country the world's third-largest construction market by 2018, just behind the United States (second) and China (first).[4]

Revenues of the largest construction companies have grown rapidly; for some like China Railway Construction Corporation, revenues have increased fourfold, from US$17.3 billion in 2006 to US$ 76.2 billion in 2010.[5] The largest construction companies from developed economies have also continued to grow, though not at such dramatic rates, largely fueled by mergers and acquisition. As a result, the largest companies are taking a bigger piece of the pie. For instance, in 2002, eight construction companies had revenues greater than US$10 billion, representing 2 percent of global construction output. Whereas in 2010, 23 companies had revenues in excess of US$10 billion, making up 8 percent of global construction output. And of those companies, seven exceeded US$20 billion in revenues.[6]

Although these larger companies have achieved high growth, this has not translated into greater profitability. In fact, Accenture's High Performance Business analysis indicates that the construction industry overall has registered low profitability over the past five- and three-year period, despite having registered high revenue growth. What becomes clear is that growth alone cannot drive value creation.

[4] "Global Construction 2020," Global Construction Perspectives and Oxford Economics. See www.globalconstruction2020.com.
[5] Engineering News-Record, "Top 225 Global Contractors Rankings." 2002, 2006, 2010 (See: www.enr.com.)
[6] Accenture analysis based on Engineering News-Record, "Top 225 Global Contractors Rankings." 2002, 2006, 2010 (See: www.enr.com.)

Figure 2. Performer Grouping Analysis



The high performers

Accenture defines high performers as companies that outstrip their competitors over multiple economic, industry and leadership cycles. In order to identify the high performers in the construction sector, Accenture applied its High Performance Business methodology to a peer group of 37 leading international construction and engineering groups, selected from diverse geographies. We measured the peer set across the following key metrics:

- Growth: Increase in revenue growth as compound annual growth rate (CAGR) over three and five years .
- Economic profitability: Based on the spread of return on invested capital (ROIC) minus the weighted average cost of capital over three and five years.
- Consistency: The company's ability to outperform the annual mean in terms of revenue growth and economic profitability over a five-year period.

The high performers achieved superior operating performance across most of these measures, particularly in terms of pre-tax return on invested capital (ROIC).

Figure 3. High performance framework for construction

Market Focus & Position

Agile positioning to capture revenue

Profitable growth in new geographies
Differentiation and competitive positioning in changing value chains
Get closer to clients and to final customers

Distinctive Capabilities

Excellence on delivery to improve profit

Improved risk management and finance performance modeling in capital allocation
Efficiency in construction operations
Streamlined logistics and supply chain optimization

Performance Anatomy

Business anatomy to generate high performance

Move to agile, efficient and well-balanced operating model
Develop, keep and make best talents collaborate globally

The building blocks of high performance

Accenture's High Performance Business research revealed three basic building blocks to sustain high performance in the construction industry:

- Market focus & position—the strategy adopted to secure competitive advantage.
- Distinctive capabilities—the systems and processes that enable value creation.
- Performance anatomy—the culture and mindset that sustain success.

The handful of companies that emerged from our research as high performers in construction owe their success to mastery of these building blocks, all of which will assume even greater importance in the future as the market continues to evolve rapidly. (See Figure 3.)

Market focus & position—agile positioning

In construction, the essence of market focus and position is targeting the right business at the right moment in the right market. The industry's leading players have bolstered their competitiveness by securing strategic positions in high-growth emerging markets such as Brazil, India, Russia and China, taking advantage of domestic infrastructure opportunities while securing lucrative contracts overseas.

They have also diversified their portfolios both upstream and down, morphing from pure construction companies into general, project management contractors and concession companies, managing and maintaining facilities beyond their completion. These full-service infrastructure businesses manage projects in their entirety, from the raising and structuring of funding, through program management and design to construction, systems integration, and lifetime operations and maintenance.

High performers strike the right balance between competing opportunities. They get in (and out) fast to minimize risk, but without damaging the tactical and strategic partnerships they forge. And some have made calculated shifts into high-margin segments of the construction industry, like oil and gas, as well as extensively using joint ventures with local players to enter new markets. They also nurture valuable client relationships. Moreover, by carving out a specific role dedicated to client relationship management within their organizations, these companies stay strategically close to key customers.

High performing construction companies also maximize their differentiation along new, extended value chains. And by diversifying across the value chain to develop innovative services for end customers—the users of the buildings they erect and manage—they are on the leading edge of the industry's shift from a Business-to-Business (B2B) to a Business-to-Business-to-Customer (B2B2C) model.

Distinctive capabilities—delivery excellence

1. Improved risk management and capital allocation

With ongoing internationalization and diversification taking place throughout the industry, risk management and financial performance modeling capabilities that enable the most efficient allocation of capital are assuming an important role. High performing construction companies know this and are highly efficient financial managers; they have dedicated central teams and streamlined internal processes designed to ensure group-wide access to cash, improve their debt/EBITDA ratios and accelerate the rotation of assets as the construction cycle changes. They also limit their exposure to client defaults and project risk by leveraging sophisticated risk monitoring capabilities.

2. Efficiency in construction operations

Infrastructure owners anxious to minimize both the risk and cost of large, complex and high-value projects find well-integrated suppliers increasingly attractive. High performers have taken integration to a new level, successfully industrializing their construction procedures and processes, as well as leveraging Lean Six Sigma to ensure efficiency across the value chain. These companies also understand the key role of new technologies as an enabler of efficiencies. They have implemented process innovation programs to optimize maintenance services and field-engineering activities. In addition, high performers are starting to use Building Information Modeling (BIM) systems in their engineering and construction processes. And the quality and sustainability of their business processes set industry standards.

3. Streamlined logistics and supply chain optimization

Leading construction companies have reinvented their relationships with suppliers to reduce the administrative costs, boost quality and reduce completion time for increasingly complex products. Some, for example, have extensive global sourcing operations and use e-procurement, while others may have internal programs to ensure subcontractor compliance. High performers have also shortened installation time periods by developing turnkey solutions and pre-fabricated products, embracing a more customer-oriented approach similar to other consumer industries. Because they have invested in analytics capabilities, high performing companies can measure and monitor the volatility of raw material prices, as well as price variations among suppliers. Furthermore, their operational excellence programs ensure that projects come in on time and within budget.

Figure 4: Progression for growth, balancing efficiency and entrepreneurship

Local

- Focus on local market
- Just few international jobs
- Small diversification

Multilocal / Multinational

- Growth in new market through temporary units or stable structures
- Share of capacities & knowledge at regional / country level
- Few global policies, some global processes & systems, but most of them at regional / country level
- Resources belonging to each country and managed at country level

"Virtual" Global

- Organization with common business structures and high level of centralization at BU level
- Some IT and common processes homogenized at corporate level
- Shared Services by BU
- Technical CoEs by BU
- Multiregion / country managed operations in each BU
- Global portfolio management at BU level
- Global regulatory & risk policies
- Process & Systems standardized at BU level with local adaptations
- Outsourced processes at medium level

Global

- Organization with global & corporate responsibility structures
- Global responsibilities cross-BU
- Global resources management
- Standardized and centralized processes
- Global Shared Services
- Global technical CoEs
- Global sharing of know how
- Global networking & alliances
- Intensive use of outsourcing

Performance anatomy

High performance in construction increasingly hinges on maintaining a balance between centralized efficiency and innovative entrepreneurship (see Figure 4). Today's high performers have achieved that balance by combining a highly efficient operating model with an approach to talent management that makes the most of collaboration. The independence of their operating groups fosters leadership initiatives, while group-wide knowledge management ensures that best practices are shared.

High performance in construction increasingly hinges on maintaining a balance between centralized efficiency and innovative entrepreneurship.

Becoming the high performers of tomorrow

The global construction industry is changing fast. More growth opportunities in emerging markets, new funding mechanisms, and evolving customer demands are driving the industry's players to diversify, both geographically and in terms of their offerings. Today's high performers have diversified more than most, developing more efficient and customer-focused operating models to help them.

To compete, companies will need to maintain new approaches to risk management and capital allocation, operational efficiency, and supply chain management. And they will need to develop novel ways of attracting, retaining and deploying a mobile and multilingual workforce with relevant skills. As the industry continues to evolve from B2B to B2B2C—these strengths will become even more critical differentiators for the high performers of tomorrow.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US $25.5 billion for the fiscal year ended Aug. 31, 2011. Our Internet address is www.accenture.com

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Accenture is committed to helping its clients achieve high performance. To find out more about how Accenture can help you meet your business imperatives and create a road map for high performance, contact:

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