Global Construction Industry
Building bridges to the future
The construction industry has successfully answered the call for more globalization and diversification, embarking on greater geographical expansion, consolidation and a search for new sources of business. The purpose of these moves is to meet market demand for integrated solutions and to ensure best performance in the development of ever larger projects.

While some segments have been hit by the current economic crisis, especially in developed countries, as a whole the industry has managed to adapt to the situation and maintain growth. And while growth is not as strong as it was in the boom years, business results have at least been positive, driven by large infrastructure projects throughout the world.

However, the road ahead is not free from hurdles. Problems include difficulty in accessing financing, strong competition from Asian countries, a drop in trade margins caused (among other factors) by an increase in the cost of raw materials, etc. Yet there are also opportunities, as attested by the good performance of the organizations that today make up the global construction industry.

An industry with solid foundations

Despite the difficulties of the current economic climate, the construction industry has managed to maintain marginally positive results in the sectors of port, airport and transport infrastructure and civil engineering (e.g. nuclear power stations).

This trend is partly powered by a firm commitment amongst many governments, who view the creation of new infrastructure as a way of generating wealth and employment. Nonetheless, the industry needs to face up to a series of challenges in order to maintain its strength to date.
Major trends: internationalization and diversification

Generally speaking, the strong position of large construction companies is a result of a series of strategic moves which they embarked on several years ago, before the downturn. These moves have now proved to have been the right ones and are having an increasingly important impact on the industry.

Two major trends can be seen underpinning the strategies of leading organizations: diversification and internationalization.

**Internationalization**
The process of globalization experienced in recent years, combined with a reduction in demand in (developed) domestic markets has pushed locally-focused construction companies to expand their horizons in search of other markets characterized by higher demand, with a view to guaranteeing their sources of growth.

One of the markets with the greatest potential demand for construction firms is the U.S., given the priorities set out by the American administration, which envisages plans for developing major rail corridors, highways, hospitals and energy-related facilities, among others. European construction may want to consider the opportunities presented in the changing U.S. marketplace.

India and China, for their part, are characterized by high demand relative to the residential housing supply and have large-scale programs for developing infrastructure. The same is true of countries in Eastern Europe which are currently benefitting from EU structural funds provided to promote convergence with other member states. Latin America is another geographical area of interest from this perspective.

**Diversification**
Hand in hand with this process of internationalization, there has been another move among organizations in the industry: diversification.

Companies that traditionally have focused almost exclusively on their core business, construction, are now getting involved in alternative activities, for example areas related to energy and telecommunications. The main aim is to search for anti-cyclical business with long-term, steady earnings to counter the effects of the negative economic situation.

High-performance businesses are aware that part of their competitive advantage derives precisely from this diversification.

**Alliances and consolidation of the industry**
Given that this type of project is typically on a very large scale in terms of financial and human resources, and cannot therefore be undertaken by any single group on its own, it is unsurprising that the industry has seen major business alliances in recent years. This trend is set to increase even further in the future.

This move towards business alliances is currently being driven even harder. The industry is moving towards a level of consolidation that will enable it successfully to develop the two master trends, globalization and diversification. The essential pillars for success in this type of operation are management of the alliances and creation of a uniform corporate culture for the newly-created corporate groups, with due care taken by the senior managers in charge of running the merged companies.
Major challenges for the industry

The twin strategies of internationalization and diversification have led to the emergence of large corporations in the industry, run in an entirely different way to the traditional model of single-business companies operating in the domestic market. Key challenges in this new business model include access to financing, assurance of trading margins through efficiency of operations and integration of the capabilities and talent needed to meet the demand from the markets, in addition to a commitment to sustainability.

Redefinition of the operating model
With the need for entirely different resources, an ever greater move towards centralization – in order to improve internal efficiency and rationalize costs – and new operating and control requirements, these organizations must develop the skills required by their new size (common and uniform operating models in all regions and business areas), as well as redefining their business model to make the most of market opportunities.

Access to financing
With a reduced level of public borrowing in most developed countries, private initiatives are driving the development of construction projects. However, difficulties in accessing financing constitute a major stumbling
Only financially healthy companies, with a degree of balanced financial leverage, will be capable of finding the investment needed for construction projects of this kind.

Public Private Partnership (PPP) models, involving a joint commitment by government and private organizations to fund the design, construction and operation of infrastructure, have become the order of the day, especially in Europe.

In addition to the difficulty of managing the complicated structures created to undertake projects of this size, there is also the business risk, generally assumed by private organizations. Such corporations need to draw a delicate balance between their business decisions and the requirements of the organization itself. They can achieve this balance using tools that will allow them to monitor their operating and financial risk.

**Integrated solutions**
To add to this complexity, customers of the construction industry require integrated solutions. This demand from the market has brought about another change in the traditional business model. Customer management is another of the challenges for organizations in the industry, which, either internally or by way of strategic intra and inter-sector alliances, must provide themselves with the capabilities they need to meet the needs of their end customers.

**Talent – the key**
Another of the great challenges faced by construction firms is a shortage of talent. There are various reasons for this trend in developed countries: an aging population; technological developments that require staff to learn new skills; and insufficient appeal of professional and salary conditions in the construction industry.

In addition, because of the cyclical nature of the industry’s business, staff numbers have to be reduced in periods of less dynamism, leading to a sense of instability and a drain on knowledge resources. Together, this has a direct impact on productivity and on reducing quality in project developments.

These factors combine to hinder the recruitment of highly qualified professionals, making it necessary to resort to subcontracting — a less than ideal solution, since it reduces cost visibility and requires greater monitoring and control by the organizations.

**Increasing margins**
The main causes of the increase in the cost of building materials have been higher demand for raw materials —especially by China and India to satisfy their housing and civil engineering programs— and high energy and transport costs caused by peaking oil prices.

The result has been a reduction in the trading margins of companies in the industry, which have had to optimize their procurement processes and rationalize their processes to maintain operating efficiency and increase profit margins.

Accenture has developed a tool known as CEA (Construction Enterprise Architecture), specially adapted to the needs of companies in the construction industry. It is designed to ensure efficient site management, a key stage in preventing losses resulting from possible inefficiency.

**Towards a sustainable future**
As the main actors in urban development, firms operating in the construction industry need to incorporate tools that will allow them to reduce their environmental impact. They can do this by developing innovative initiatives and introducing more environmentally-friendly materials, with a view to tackling projects in a “greener” way. Many construction organizations that have been taking positions in activities related to energy are well aware that the future inevitably involves meeting the challenge of sustainability.
Beyond the horizon

Organizations that want to keep on track for high performance must be capable of efficiently tackling the great challenges of the market.

The future strategies of organizations in the construction industry will continue to be characterized by the need to develop into global organizations. This will help them make the most of economies of scale and expand into regions with more dynamic domestic demand for homes and infrastructure. And it will drive diversification. Industry players will be able to obtain new sources of profit that are less sensitive to economic cycles and satisfy the demand from customers for integrated solutions.

Opportunities to be found in emerging countries, which are helping offset the current weakness in more developed countries, also constitute a challenge in the form of ever greater competition.

Organizations that want to keep on track for high performance must be capable of efficiently tackling the great challenges of the market, by redefining their traditional business models and using tools that favor internal efficiency, cost rationalization and greater control of operations.

Accenture can offer all sectors its knowledge of the challenges and essential trends in the industry, together with the expertise it has built up working with leading enterprises throughout the world. It can develop the best tools and processes and the most suitable methods to help companies in the construction industry not only overcome today’s obstacles but to be prepared for the opportunities offered by the immediate future.
For further information please contact:

Jordi Roca
jordi.roca@accenture.com

Jean Nicolas Brun
jean.nicolas.brun@accenture.com

Glenn J. Thomas
glenn.j.thomas@accenture.com
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 236,000 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.