

Construction 2030

Trends and strategies in the global construction market

October 2013



Construction 2030

Agenda

- The market: Trends that change the building construction landscape
- The implications: How to benefit from upcoming opportunities



We believe that seven global trends will shape the building construction landscape in the next 10-20 years

Construction trends





The diffusion of green and sustainable technologies stimulates global construction and improves living standards

Trend 1: Building construction goes green & sustainable

Global Eco systems change

- Scarcity of resources, i.e. water, energy and raw materials
- Climate change and global warning
- Environmental problems in emerging countries



People react

- "Lifestyle of health and sustainability"
- "Organic" trend in all aspects of life



Global construction adapts

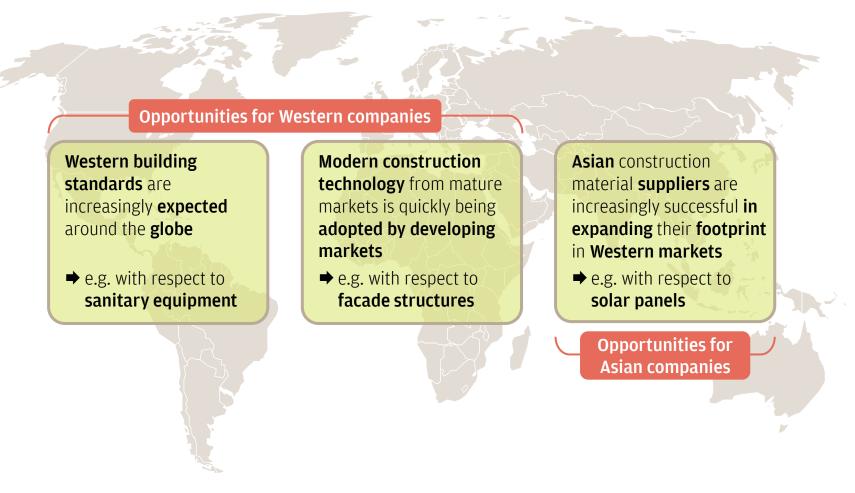
- Energy efficiency
- Recyclable and sustainable building materials
- Carbon-neutral living
- Solar power utilization





Globalisation of quality standards aligns products in East and West - creating new opportunities for companies

Trend 2: Quality standards go global





Demographic and social developments cause new needs and stimulate growth of speciality categories

Trend 3: Categories address new needs and go **specific**

Ageing population with increasing desire to grow old in their own homes...

...demand specific "barrier free" products, such as:

- Walk-in showers
- Lower build-in ovens
- Wide range of safety handles
- Lifts
- Emergency alarms

"Democratisation" of design decoupling of aesthetic appeal and price...

...results in wider supply and demand for affordable **design products** through players like IKEA -, e.g.:

- Bathroom furniture
- Living room furniture and decoration
- Lighting
- ...and thus requires new ideas for category differentiation

Security focus - driven by increasing number of risks and local conflicts...

...results in demand for **specific products**, such as:

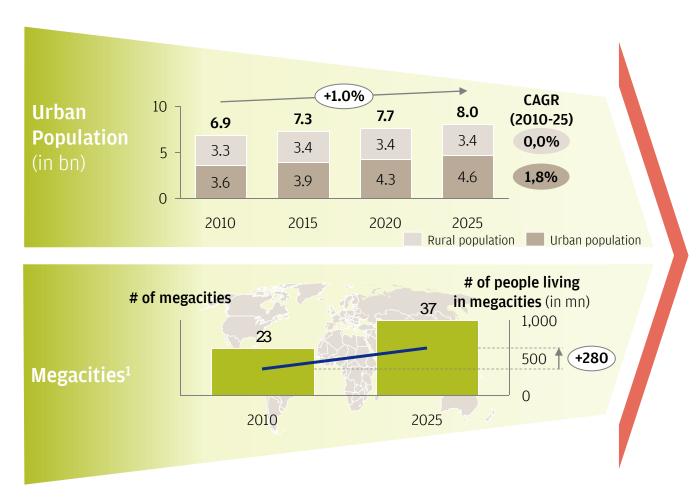
- Security doors and windows
- Door access controls
- Video surveillance devices
- Automated security systems, incl. break-in sensors, motion sensors, alarms, etc.

Global **niche markets** with **specific customer groups** and **demands** emerge

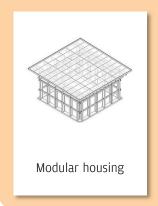


Ever-growing populations in cities around the world require innovative solutions to optimize space and convenience

Trend 4: Living goes **urban**



- Living space for the masses with innovative building concepts
- Fast housing through prefabricated and combinable building blocks
- Provision of adequate infrastructure (energy, water, waste, traffic, etc.)







- 1. Megacity is defined as a metropolitan area with population in excess of 10 million people
- 2. Picture shows schematic erection diagram of 34 storey tall residential building at Atlantic Yards, Brooklyn (US) Source: UN: OC&C analysis

Global construction favours low-cost and high-end applications while medium price segments loose

Trend 5: Prices go extreme





Price range for construction and home improvement products







- Growing demand through growing population
- Non-visible elements without status symbol character



 Not enough for luxury customers



• Too expensive for commodities





 House, as status symbol and interior

• Upcoming middleclass (e.g.

• Growing wealth

India)

"Stuck-in-themiddle"



Mass production and scale effects





Installers evolve into more specialized, niche oriented solution providers to secure their business

Trend 6: Installation goes **commodity**

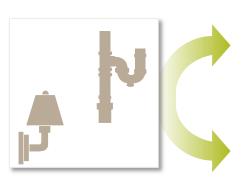
Roles of installers today

2030





EASY-TO-INSTALL-PRODUCTS



"Diligent" DIY customers -"Do it myself"



"Lazy" DIY customers -"Buy cheap workforce"



COMPLEX / INTER-CONNECTED SYSTEMS



- System offers on the rise
- Individual customer groups
- New job descriptions
- Niches for "Conception and Fulfilment"

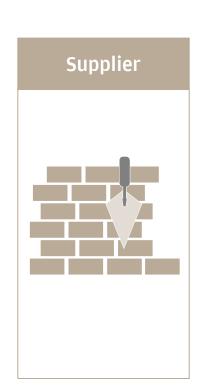


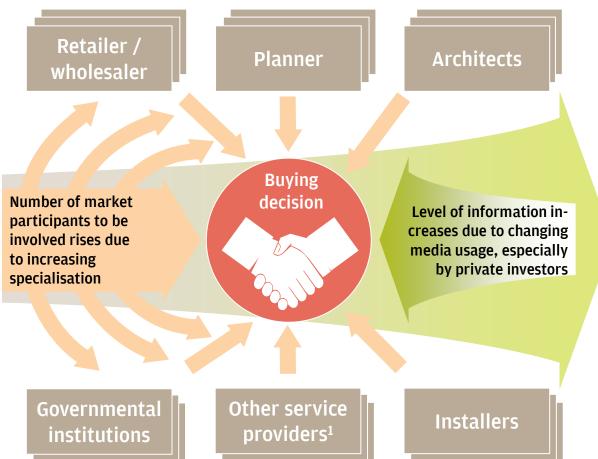


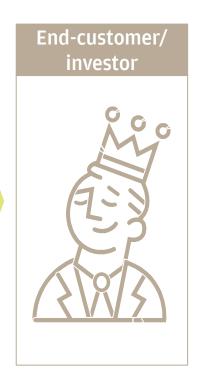


Construction players have to deal with more competent and better informed investors – and find ways to approach them

Trend 7: Buying decisions go to **investors**







The trends lead to a building construction world that will look different - and provide for specific opportunities

Construction 2030 - An outlook

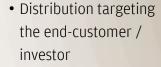
End-Customer / Investor

• Better informed - higher demands



- More variety in product and brand choice
- Higher willingness to pay

Wholesaler / Retailer



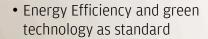


 Multichannel and eCommerce very important

CONSTRUCTION MARKET 2030

- Two **overarching effects** fully visible:
 - Globalization: Players from East and West will operate globally
 - Increasing interconnectedness and online integration
- The market will be more selective in its distinction between winners and laggards

• Higher customer demands better products



 Sales stimulus through increased standards and global distribution

Producer



- Installers as solution. providers, identifying problems rather than just bundling and applying products
- Convenience to the customer very important





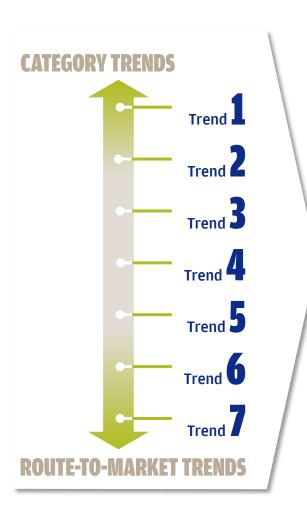


Source: OC&C analysis

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Global construction trends translate into opportunities and challenges – strategic answers need to be found

Challenges for the global players



- What could be my long-term vision in this game?
- How can I benefit from the trends and "win the game" by moving forward - rather than following late?
- Which steps do I need to take in order to implement my vision - in terms of categories, footprints, route-to-market, processes, organisation etc.?



Construction 2030

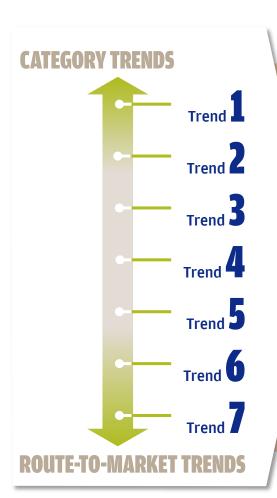
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Successful players will benefit from market opportunities by finding a clear USP within their specific strategic playground

Potential (re)actions of players



Long-term vision

Select the strategic playground:

- Full-line supplier vs. niche category solution player
- Mass-market distribution vs. specific customers
- Global vs. local player

Define clear positioning within selected field:

- Category leadership
- Solution leadership
- Operational excellence

Strategy

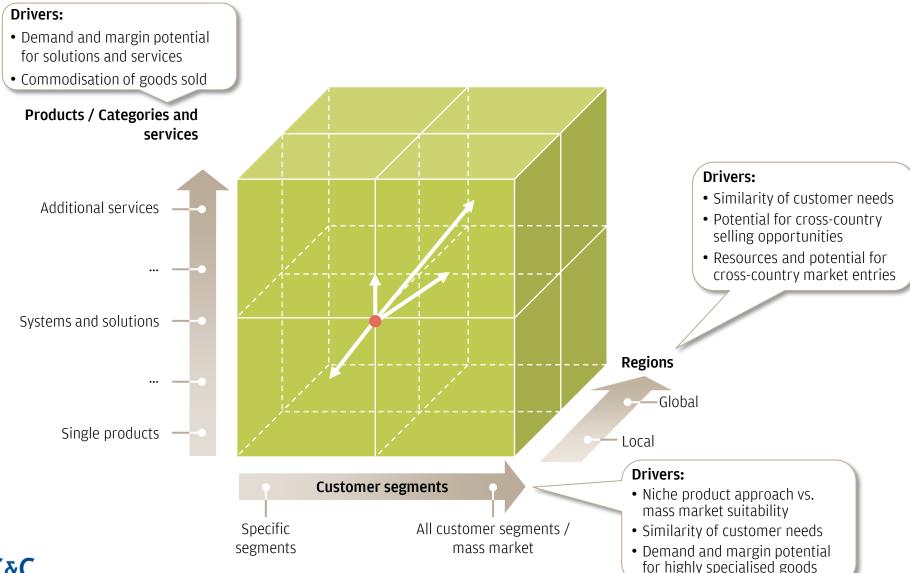
- Use individual strategic levers to benefit from market trends and define a clear USP, e.g.
 - Optimise the global supply chain
 - Focus on system offers potentially in a niche and drive innovation
 - Introduce multi-channel offers to customers
 - Generate valuable customer insights through direct customer interaction

Short-term Tactics

- Define actions to capitalize from emerging opportunities, e.g.
 - (Re)focus products and services
 - Improve marketing and sales performance
 - Improve operations efficiency



The strategic playground is defined by a clear positioning for products / categories, segments and regions



Players will focus their market positioning and craft the corresponding value delivery system

Axes describing market positioning

CUSTOMER STATEMENTS:

"The innovation leader"

- "Continuous improvement and always new ideas"
- "Leading edge quality"

Product- or technology leadership: First class quality or most innovative

CUSTOMER STATEMENTS:

- "A great deal"
 - Excellent / attractive price
- Minimum transaction costs
- Low handling costs
- "A hassle free supplier"
 - Convenient
- Reliable product and services

Operational excellence:

- Low total life cycle cost
- High reliability
- Hassle free business processes



CUSTOMER STATEMENTS:

"Exactly what I need"

- Customized products
- Personalized communication
- Available through preferred channel
- "They're very responsive"
- Exception handling
- Locally outsmarting rivals moves
- "We know each other and I'm very loyal to them"

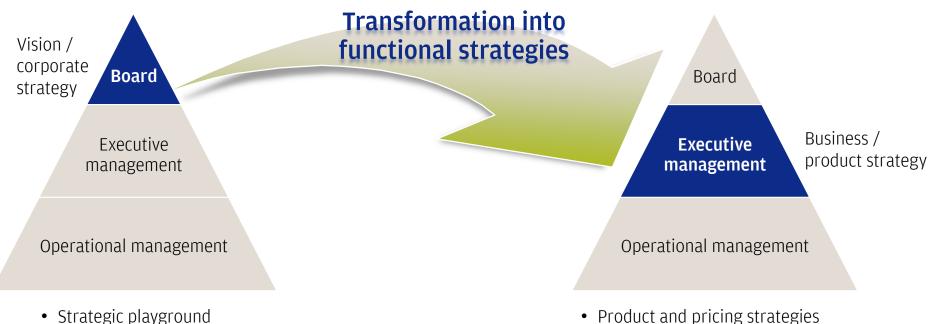
Solution leadership / customer intimacy:

- Valuable consulting
- Providing best in class solution
- Customized products and services



Corporate vision needs to be transformed into tangible and implementable functional strategies

Corporate vision vs. business and product strategies



- Strategic playground
- Clear positioning

- Innovation strategy
- Route-to-market Single-/ Multi-Channel strategy
- Marketing and Brand positioning
- Production and supply chain strategy



Example: Multi-channel strategy offers new opportunities especially to manufacturers

Business strategy example: Multi-channel approach

Example

VALUE CHAIN IN CONSTRUCTION INDUSTRY

Producer

Wholesaler / Retailer

Architect / Planner

Installer

OPPORTU-NITIES / THREATS

OFFLINE OPPORTUNITIES

ONLINE OPPORTU-NITIES



- Distribution via own outlets, wholesale and DIY
- Efficient brand building through active online content management
- Direct market feedback through online interaction with architects, installers, and end customers



- Distribution via own network of outlets
- Increase of reach through offering of excellent online services
- However: competitive position endangered by other players pursuing multi-channel strategies



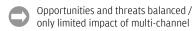
- Direct marketing and tenders
- Offering of planning or configuration tools may complement offline service offering
- However, as architect / planning services is a people business, impact of online is limited



- Direct marketing and tenders
- Marketing of services on installer / craftsmen platforms
- In Europe and Northern America, examples for successful e-Commerce businesses started by installers



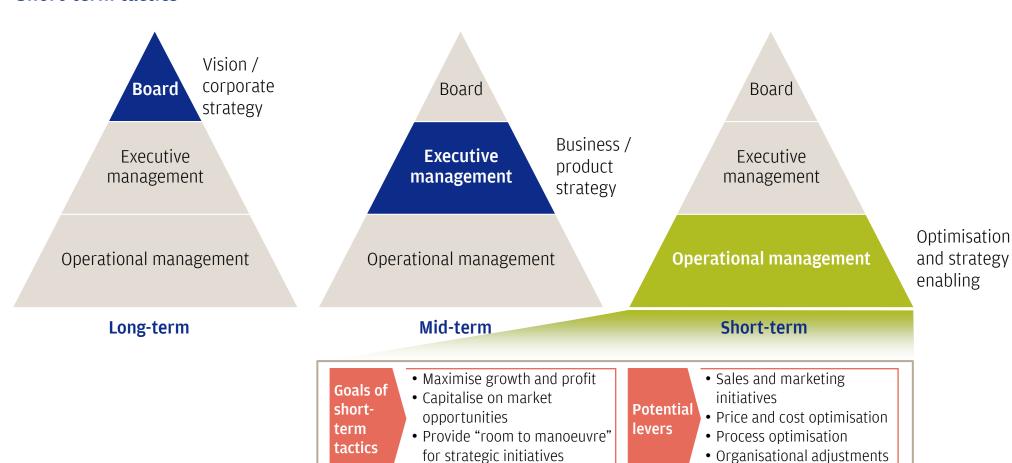






Short-term tactics must not be neglected on the strategy path

Short-term tactics



OPTIMISATION OF ON-GOING BUSINESS AND FLEXIBLE REACTION TO MARKET AND CUSTOMER OPPORTUNITES



We look forward to discussing your own experiences in dealing with current trends in global construction industry

Key questions for discussion



Do you share our view on the global trends and our vision of the market? Are there other trends that you see as relevant?



Do **you** already **encounter these trends** in **your business**? Which ones have the **biggest impact**?



Do **you feel** that your company is already **well prepared** to **benefit** from the **opportunities?** What are the **main strategic levers that you apply?**



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