



Horváth Study

Trends, opportunities and challenges in construction industries

Christoph Weber

13. Wiener Gespräche TU Wien

Vienna, November 2023

After a decade of growths, a massive recession has taken place in building construction

Challenges in building construction



Increased construction material prices of 10-20% (2022)



Highest inflation in the last 60 years

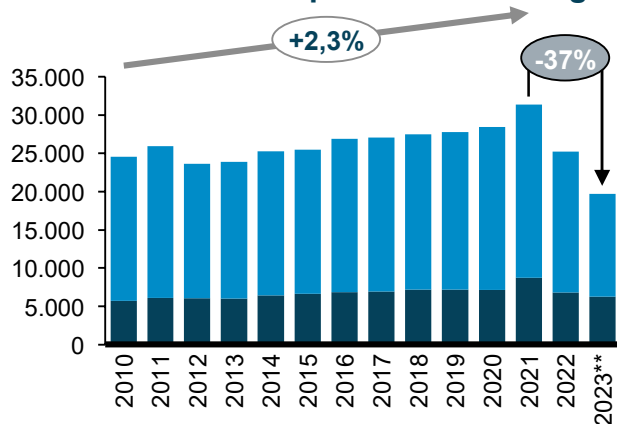


Increased lending requirements

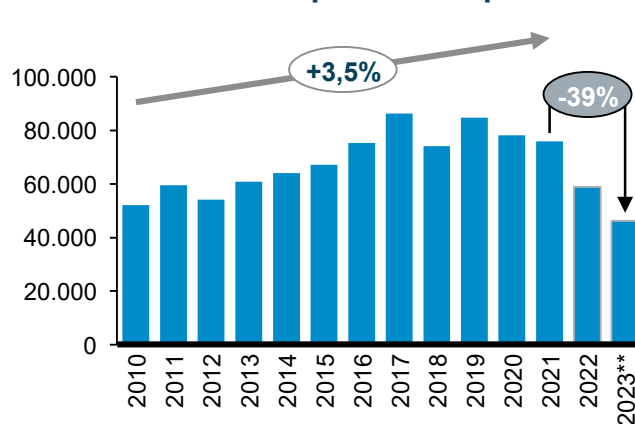


Increased interest rates

Construction permitted buildings



Construction permitted apartments



Challenges



- Increased construction prices do not meet market expectation any more
- New requirements for lending credit leads to difficult funding scenarios
- Property development projects are on hold based on the actual high interest rates
- Upcoming wage increases will raise up more challenges for small and mid-size construction and property development companies

*Source: Statistik Austria

**extrapolation

The European green deal will lead to increased infrastructure expanses in public and industry

Trends in decarbonization will lead to increased infrastructure investments



European green deal



Energy transition



Austrian
Mobilitätsmasterplan 2030



outdated infrastructure
in Germany



Examples for planned investments in decarbonization



Rahmenplan 2024–2029
(Zielnetz 2040 following)

21bn EUR
till 2029



Mission V

15bn EUR
till 2030



Decarbonization
Strategy

13bn EUR
till 2030

Opportunities



Hugh investments are necessary to reach the target of the green deal

- Many companies already have defined clear decarbonization targets and announced billion-investment-volumes for their green transformation
- A major part of these investments will be in the construction area

*Source: publication of each corporate

General Study Information

>430 global CxOs

in dialogue with
Horváth



10 weeks

of conversations between
April and June 2023



35% CEOs

other C-levels also strongly
represented



>200 h

Personal discussion time
with top decision makers



13 strategic priorities

to manage business sustainably
in the mid- and long term



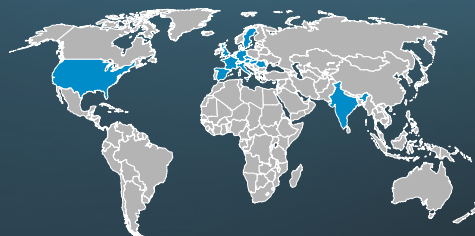
>360 revenue forecasts



**Discussion on strategic priorities and
relevance of industry-specific trends**



**Headquarters in
19 countries**



13 industries

reporting on industry trends



CxO Priorities 2023 – Rebuild your business in a multipolar world

Management Summary



Overall Results



Strategic Priorities

- Top priority are people-driven topics
- Profit-related topics and liquidity gain in importance
- Digitalization and sustainability have lost in importance.

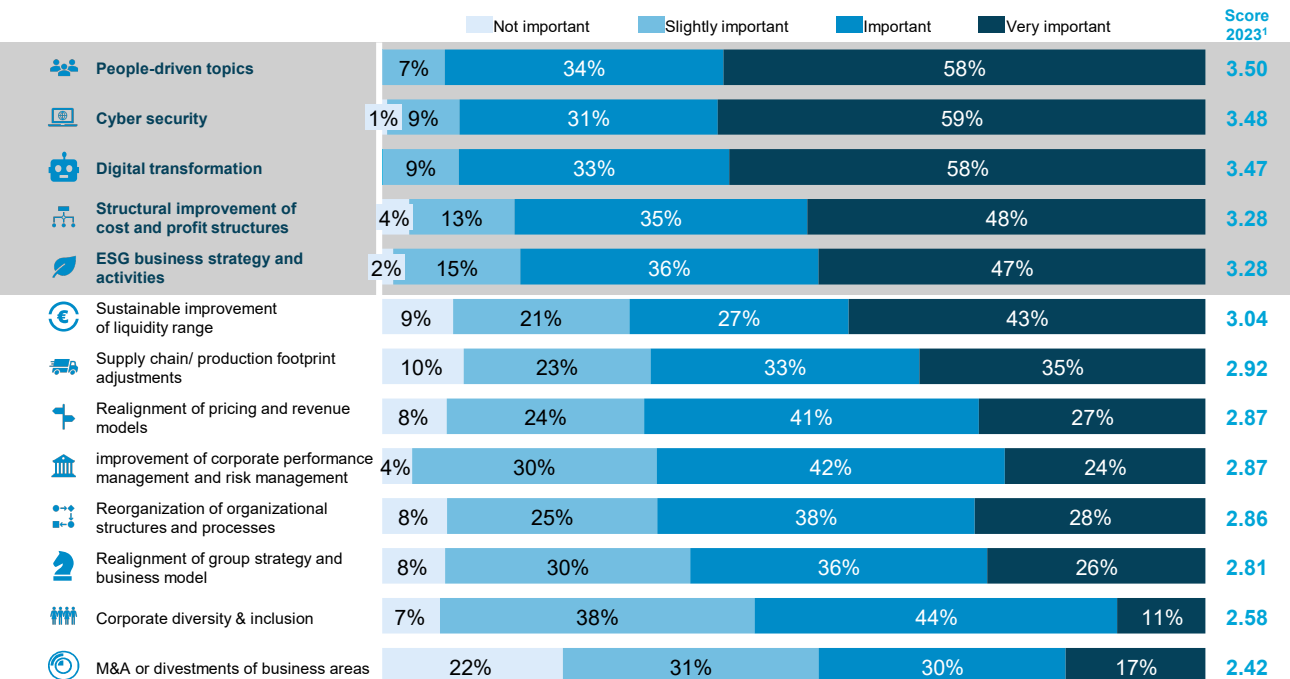


Revenue Development

- **Companies still expect revenue growth**
(strongly depends on industry, mainly based on inflation)
- **The economy is not in a crisis**, but a profit-driven tailwind will turn into a headwind

After three consecutive years as a top priority, digital transformation is this year only ranked 3rd

Strategic priorities 2023 to ensure steady mid- and long-term growth



Key findings



C-Levels' priorities state the broad range of challenges to be solved:

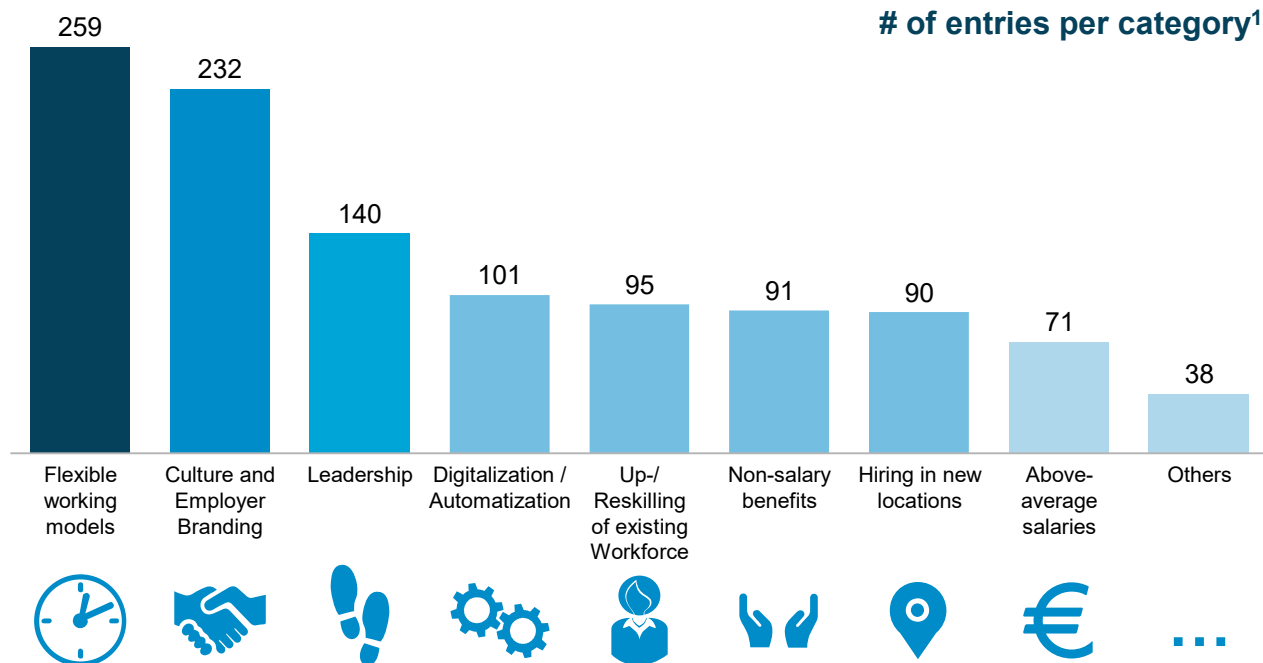
- People-driven topics gained importance due to labor shortage and the relevance of transformational topics
- Cyber security and digital transformation are long-term tasks that need to be pursued over the years
- Due to limited growth expectations, EBIT pressure and rising interest rates, profitability and liquidity gains importance
- Sustainability has been slightly pushed aside by other topics but is still a key issue

N = 415

¹ Importance of priorities on a scale of 1-4: 4=very important, 3=important, 2=less important, 1=not important, 0=not applicable

To address labor shortage, companies use two main levers: flexible working models and culture

Relevance of different approaches to counteract the labor shortage



Key findings



- Employer attractiveness is a key issue in gaining and retaining employees in the future
- Companies try to avoid above-average salaries
- The main levers are flexible working models, culture, employer branding, and leadership

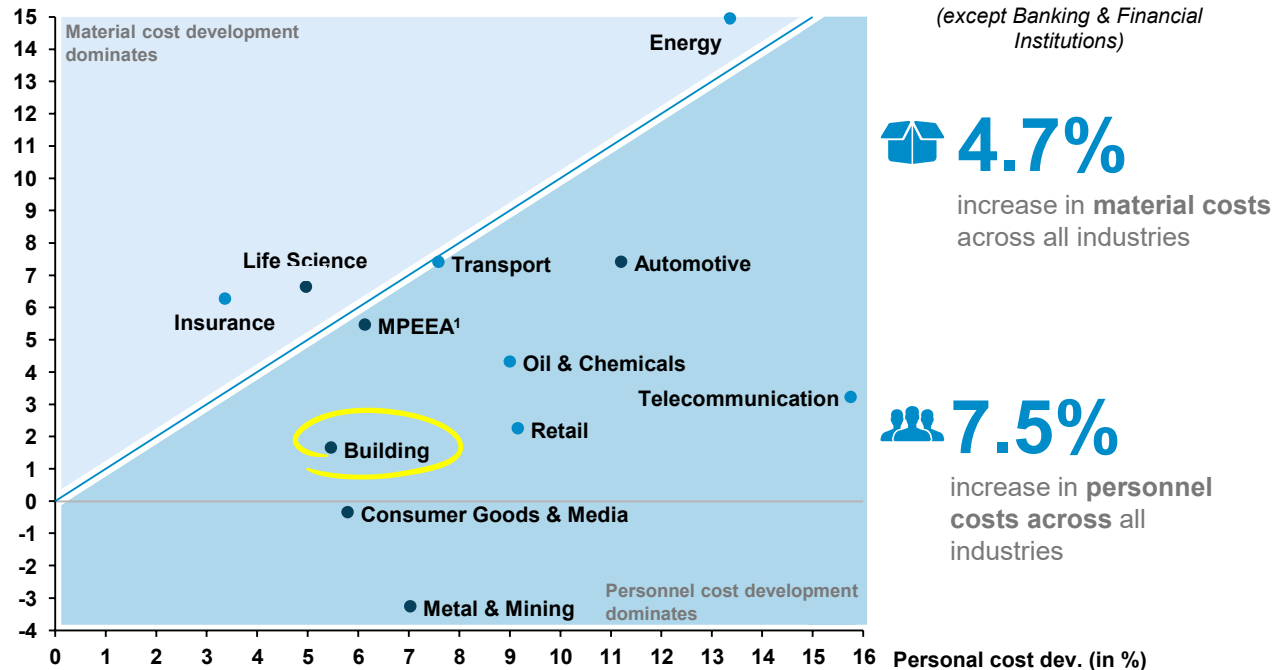
N = 389

¹ Each participant was allowed to select up to 3 categories

The economy is shifting from a material shortage to a personnel shortage

Estimated material and personnel cost development in 2023 compared to 2022

Material cost dev. (in %) ● Service industry ● Manufacturing industry



Key findings



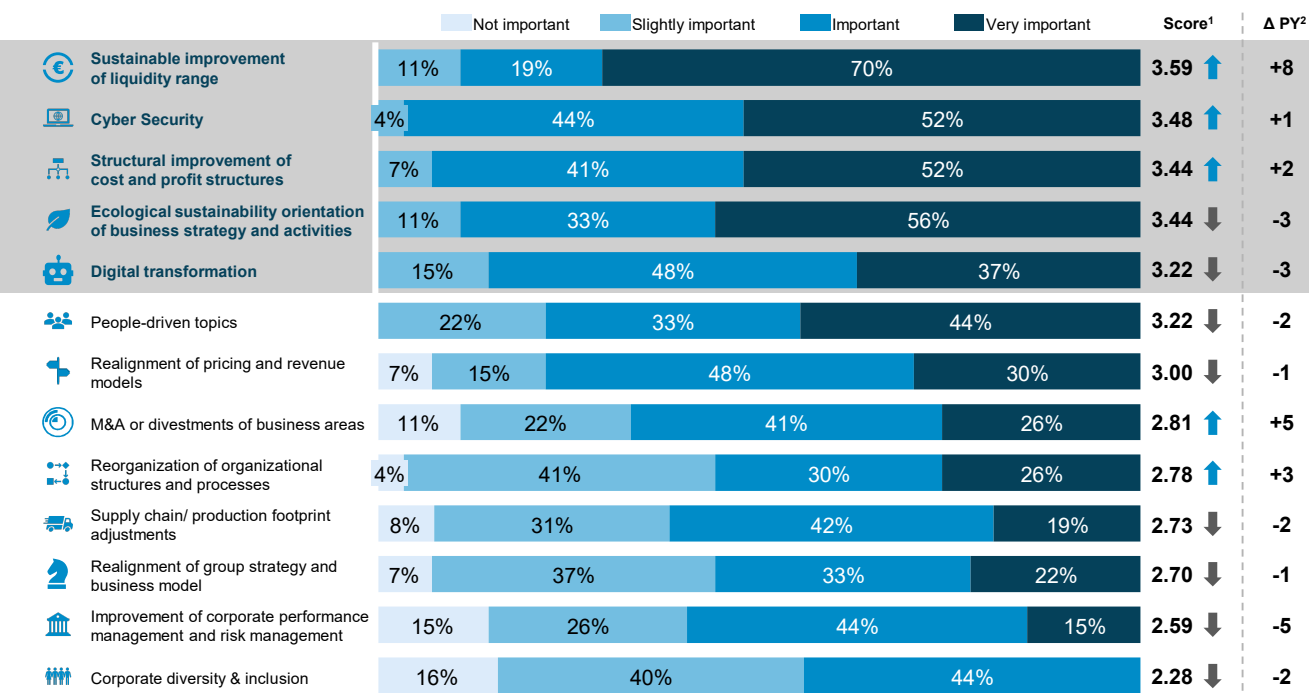
- Material costs as well as personnel costs are still expected to increase further in 2023, but personnel costs are expected to increase stronger than material costs
- Combined with the currently present labor shortage the economy is shifting from a period of material shortage into a personnel shortage
- Looking at different industries, there are huge differences:
 - The Metals sector is expecting dropping material costs as they already reached a peak in the past
 - Automotive expects also this year strongly increasing personnel costs as well as material costs

N = 303

¹ Mechanical, Plant, Electrical Engineering & Automation
Round differences may occur

Sustainable improvement of liquidity range represents the top strategic priority

Strategic priorities 2023 to ensure steady mid- and long-term growth



Key findings



- Liquidity is important for two reasons:
 - Inventories are at a peak, binding a lot of capital. At the same time, prices for sold products are decreasing, causing the stored products to lose value
 - Revenue development in the Building & Construction industry is far below the average in other industries
- In recent years, the industry has been in a very comfortable situation, therefore strategic and structural topics were less in focus – they become significantly more relevant now
- Topics like sustainability and digitalization have been pushed aside by the current market developments

N = 27

¹ Importance of priorities on a scale of 1-4: 4-very important, 3-important, 2-less important, 1-not important

² Delta compared to previous year's rank

³ Share of total (%)

Digital Transformation

Key Insights

Findings

- For **the first time** since the CxO Priorities Study was conducted, **digital transformation is not ranked as the number one strategic priority**. Nevertheless, on 3rd rank it remains on top of the management agenda.
- Many C-levels state that **major investments** in digital transformation programs such as SAP S/4HANA **already been decided**, projects are being implemented or have even been completed.
- Accordingly, management is currently focused on using **digital solutions in order to increase efficiency** and optimize processes, not least to counteract the shortage of (skilled) workers.

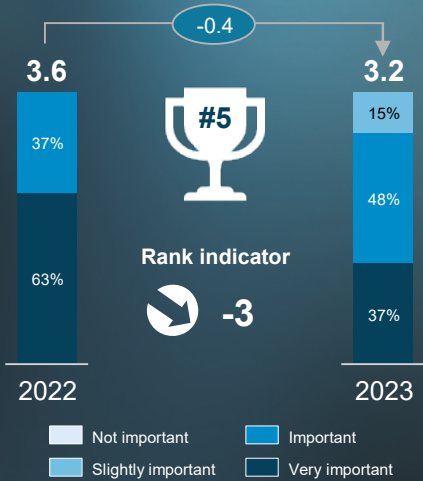
Industry Specifics

- Digital transformation already has been established** in the major corporates within the last five years
- The usage of **BIM** has been tested and **corporates knows** when and **how to use it**
- Most companies **just started** with the **usage of AI** and test the possible applications

Key findings

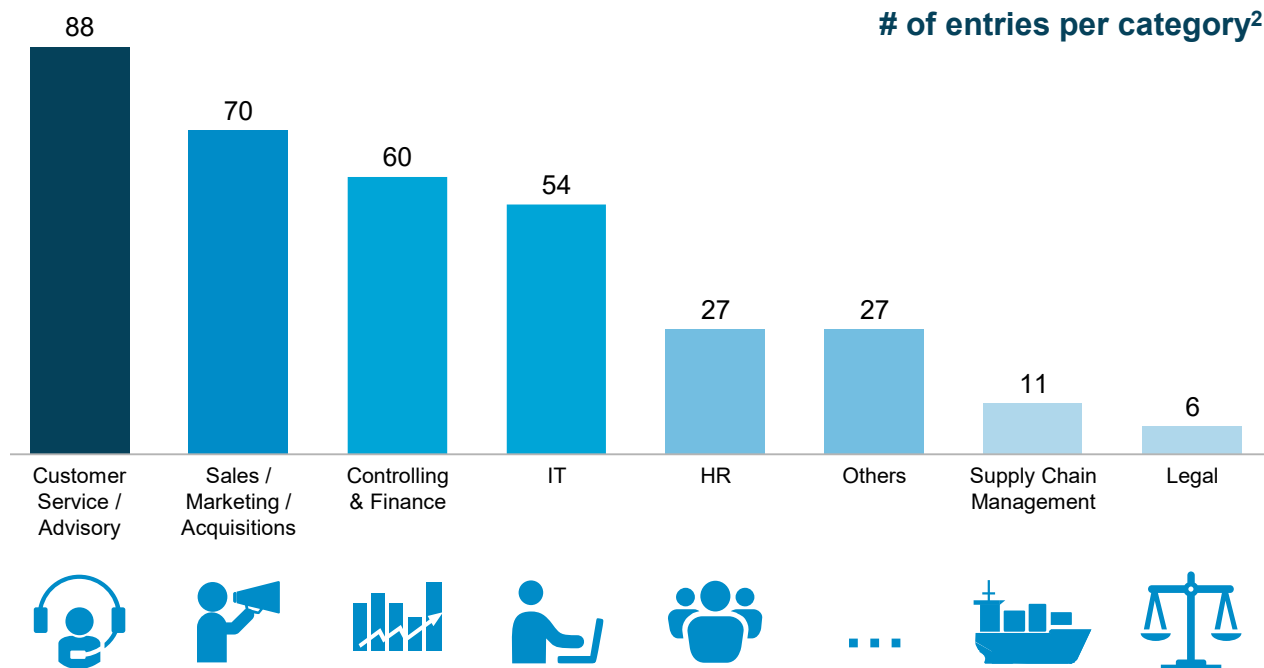


Building & Construction Deep Dive



Client-facing functions offer the highest potential for automatization and digitalization

Potential of different areas for automatization / digitalization¹



Key findings



- Digitalization offers many opportunities in the service industry and reaches deep into core processes
- Especially in the areas close to the customer, like sales and customer service, automatization potentials are seen, e.g., using chatbots or digital customer interaction models
- But also, in functions like controlling & finance, IT, or general back-offices, the use of digital tools or AI offers a high potential for automatization

N = 144

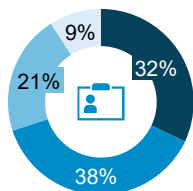
¹ Only refers to service industries

² Each participant was allowed to select up to 3 categories

AI applications will have the greatest impact on internal function

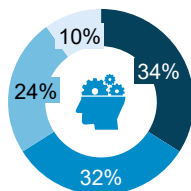
Impact of AI applications on different areas¹

Internal Functions



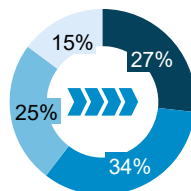
70% of the companies see a moderate or high impact on the **internal functions**

Service Portfolio



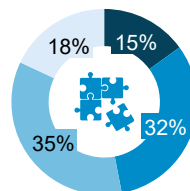
66% of the companies see a moderate or high impact on the **service portfolio**

Value Chains



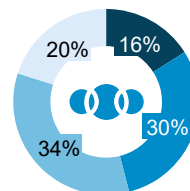
61% of the companies see a moderate or high impact on the **value chains**

Business Model



47% of the companies see a moderate or high impact on the **business models**

Product Portfolio



46% of the companies see a moderate or high impact on the **product portfolio**

■ No Impact
 ■ Low Impact
 ■ Moderate Impact
 ■ High Impact

Key findings



- In many areas more than half of the managers believe that AI will only have a moderate impact
- The service industry is already thinking much more about optimizing internal functions through artificial intelligence, while the manufacturing industry is evaluating the application in products
- Currently, artificial intelligence is still in an application stage comparable to the early Internet, the major use cases for the broad mass of companies will emerge in the future




N = 364

¹ Share of total entries per category

Ecological sustainability orientation of business strategy and activities

Key Insights

Findings

-  Sustainability **continues to be one of the top priorities for management**. Across all industries, regulation and legislation are highlighted as key drivers.
-  Most companies state that their **customers are currently less of a driver**. Often, other factors such as low-priced products are still considered more important. According to this, for **many companies** it is currently sufficient to **anchor sustainability goals in their strategy**.
-  **Current focus** is very often on **internal sustainability** and fulfillment of **basic regulatory requirements**; working on sustainability with regards to product portfolio is not pushed heavily as customer requirements esp. in B2B are not yet a key driver.

Industry Specifics



Cradle to cradle is one of the major focus areas of the construction industry

The usage of **sustainable products** and **is rising** and **companies are more experiments**

Most companies **just started** with **sustainability targets**, implementation and first results are still missing

Trends, opportunities and challenges in construction industries

Key findings



Over-All



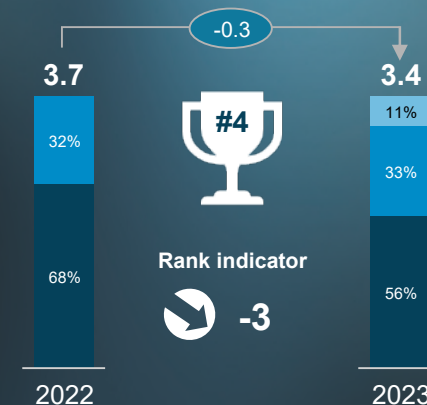
-2





Building & Construction



-3

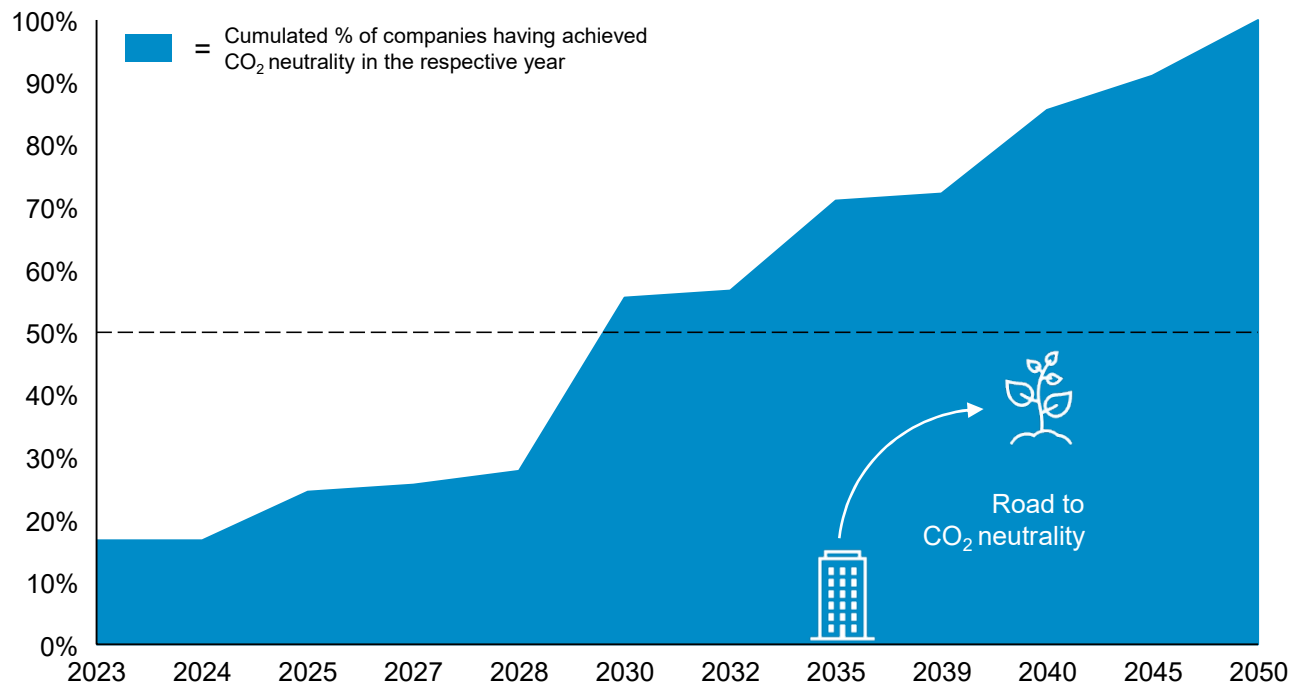
Building & Construction Deep Dive



 Not important
  Slightly important
  Important
  Very important

The target year for CO₂ neutrality is on average set to 2035

Year of achieving CO₂ neutrality (companies that have set a target year to achieve CO₂ neutrality)¹



Key findings



- The data on the left side only shows companies that have set a clear target year in which they strive to achieve CO₂ neutrality
- More than one third of the companies that were surveyed do not have set a target year to achieve CO₂ neutrality yet
- Therefore, the data from companies having set a goal sheds a very positive light on sustainability goals, as 70% do plan to achieve CO₂ neutrality by 2035

N = 90

Still a long way to go: Even though GHG emission reduction is a key topic, only few company have realized their carbon emission ambitions

Horváth CXO-study | Extract

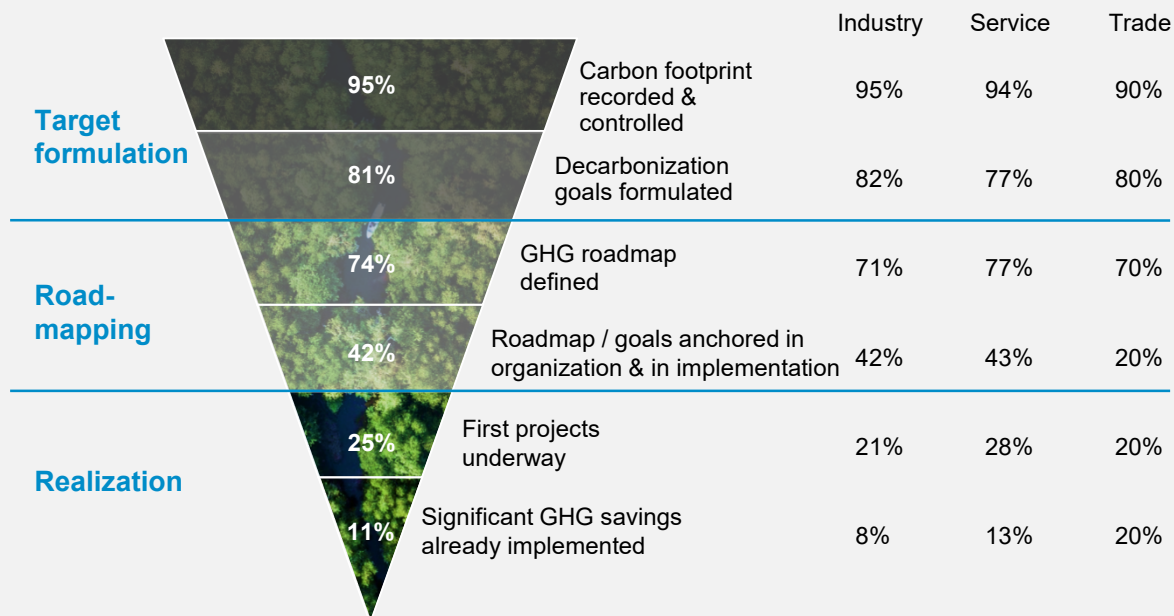
Horváth CXO-study Q1/2023



“Only 11% of companies have successfully implemented measures derived from their sustainability strategy!”

"What level of maturity has your company attained in terms of sustainability?"

(none of the options mentioned: 5 %)



CxO Priorities 2023 – Rebuild your business in a multipolar world



Conclusion

- **Liquidity** as well as **cost and profit structure improvements** are back in the focus
- **Sustainability is in the long-term focus of the CxO**, however the implementation has just started
- From a strategical Point of View, **Digitalization isn't any more in the main focus** of the CxOs, it more seen as an **enabler for efficiency** to deal with **sustainability** and **labor shortage**



Christoph Weber

Principal



Horváth

Canettistraße 5

1100 Wien, Österreich

Mobil: +43 664 88476009

cweber@horvath-partners.com

Thank you for your attention



