

Don't Complain, Improve Your Game

05/04/2024 Affordable housing is in short supply, and we also need more schools and preschools. These are typical jobs for project developers in collaboration with construction trades. But contracts in the sector have abruptly fallen off. The economy is weak, and bankruptcies loom. "To survive in the construction industry, you'll now have to restructure — regardless of what role you play," says our author Roland Sitzberger. He is a civil engineer, an experienced industry expert, and Partner at Porsche Consulting.

When the construction industry falters in the wake of a boom, a domino effect typically sets in. The pieces at the front of the line begin to fall, while the ones at the back are still standing strong. Seemingly strong. While the first companies are starting to slump, other market players are still filling their order books from the boom phase. And then? Then it will hardly be possible to keep businesses from declining; it's just a matter of time — like with dominos.

The pieces at the very front, which are affected early on, include the project developers. These are specialized companies that identify sites, conceptualize suitable properties, and arrange funding and permits. Industry experts anticipate a major market shakeout here. A bleak mood is spreading. After the developers, it will be the trades' turn if they don't take prompt action. A new and unusual mindset — for

the construction sector — is needed, namely, a focus on customer needs instead of individual success. Traditional thought patterns that promote specialized and operational isolation instead of collaboration are outdated, as is skepticism about industrialization. Without a cross-trade approach to prefabrication, whether of 2D elements or complex modules, the sector will no longer be viable in the future. If for no other reason than the shortage of skilled workers and specialized expertise, which are needed for new technologies. Especially in civil engineering.

Too aggressive, too expensive

The switch from "turning down work because order books are full" to "actively seeking work and customers" is difficult for many companies in the real estate and construction world. And it's not very helpful to ascribe clients' abrupt caution to the rise in mortgage rates alone. Even when interest rates on loans go down, the problems will remain. And government subsidies are not the answer for long-term stability and resilience. No, the sector needs to learn from underlying mistakes if it wants to protect itself from serious risks.

Niklas Köster, a professor of real estate management at Hamburg's Fresenius College, lists some of the main reasons for many project developers' difficulties, which have dramatically increased in 2024. "The problems are especially severe for companies that have moved aggressively into the market, acquired a lot of overpriced property, and now are unable to go through with their projects," writes the expert in the "Handelsblatt" business paper. Without financial reserves from rosier times or solid rental income from existing properties, the road will be rough. The consequences are gradually rippling through the entire industry, and can only be curbed by a comprehensive new approach. Coordination, collaboration, and providing solid overall performance "from a single source" are competitive advantages that can save the day, particularly in hard times. In short: Don't complain, improve your game!

Where is the added value?

Companies that want to attract and retain customers need to align themselves to these customers and their needs. Quality, reliability in price and performance, punctuality, first-class coordination, innovative thought, and perfect service are the time-honored competitive keys to winning lucrative contracts. With the construction boom having subsided, customers are taking a stronger position. As shown by a survey from Porsche Consulting, they expect added value from providers. A "two-bedroom apartment" is no longer enough. Instead, they seek sophisticated, holistic concepts that combine housing and quality of life into attractive products.

However, offers of this type are in short supply. Unfortunately, development projects in the housing sector generally start by looking at the property, possibilities for construction, and anticipated rental income in their business cases. Buildings are traditionally viewed from the outside in. What shape will the structure take, and what will its façade look like? The resulting shells will usually contain more or less homogeneous one□, two□, or three-bedroom apartments. Developers take this approach to

generate return-optimized concepts, but these are often standard solutions without much character.

Planning — and then what?

Whether for residential, commercial, or industrial buildings, a large number of project development companies have traditionally left the actual implementation to other players in the sector. Their teams typically consist of business advisors, sales specialists, attorneys, architects, and engineers. But what comes after the planning, the official permits, and the contracts with buyers and investors? Construction itself has traditionally been quite fragmented in nature and therefore susceptible to impediments, disturbances, delays, and shortages — even under the direction of a general contractor.

Specialized teams from Porsche Consulting have been active in the construction industry and large-scale projects for nearly three decades now. Right from the start, the consultants have observed the following: in many places there is a sharp divide between planning processes and implementation. Only a few construction companies have thus far succeeded in bridging this divide. Precisely here, however, is the opportunity that could enable the sector to master its crisis: project development should no longer be considered finished when the groundbreaking ceremony is over.

As consultants, we recommend integrating the trades into the preliminary planning stages. The ideal set-up here includes shared office space with interdisciplinary teams. This initial collaboration is advantageous for all concerned. Consortiums can be formed early on that work hand in hand until the owner receives the keys — with the aim of shared overall success. Subsequent business opportunities are also in the cards. Why shouldn't satisfied new owners commission their facility management and technical maintenance services from what are now trusted business partners?

Much greater use of innovations

Companies that want to keep their ambitious performance and price promises should also look into advanced construction technologies. Possibilities in the realm of serial and modular construction are rapidly undergoing further development — from simple grid schemes to highly flexible yet nonetheless standardized solutions. Components of industrially prefabricated buildings are known for reliable quality, shorter production times, cost advantages, and scheduling benefits. The construction industry can already point to intelligent solutions here, fueled by real innovations in mechanical engineering and completely digitalized processes at smart factories. The best way to achieve customer-centric solutions these days is with the help of pre-structured or modular construction systems. And for this, the sector needs industrialization — along its entire chain.

Regardless of how beleaguered the construction economy might be, the situation also offers opportunities. They require a willingness to consider new organizational forms, to optimize coordination and collaboration, and to integrate technological innovations in every stage from preliminary planning to building occupancy. Once again, the automotive industry can serve as a model here. Without close

cooperation and integration of all departments right from the early stages of vehicle development, the industry's highly complex series production lines could never run smoothly and yield the cars that each customer has individually configured in advance.

About the Author

Roland Sitzberger, a civil engineer and Partner at Porsche Consulting, joined the management consultancy in 2013. He had previously led a department at an international engineering company specializing in transport and infrastructure planning. Today he advises companies, developers, and suppliers in civil engineering, infrastructure, and plant construction. The emphasis is on safeguarding and increasing companies' competitive and future strengths in project-based settings. With future-oriented development of products, services, processes, new business models, and high-performance organizations, he guides successful transformations by large companies in the construction and real estate sector.

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