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The next normal in construction:

How disruption is reshaping the world's largest ecosystem

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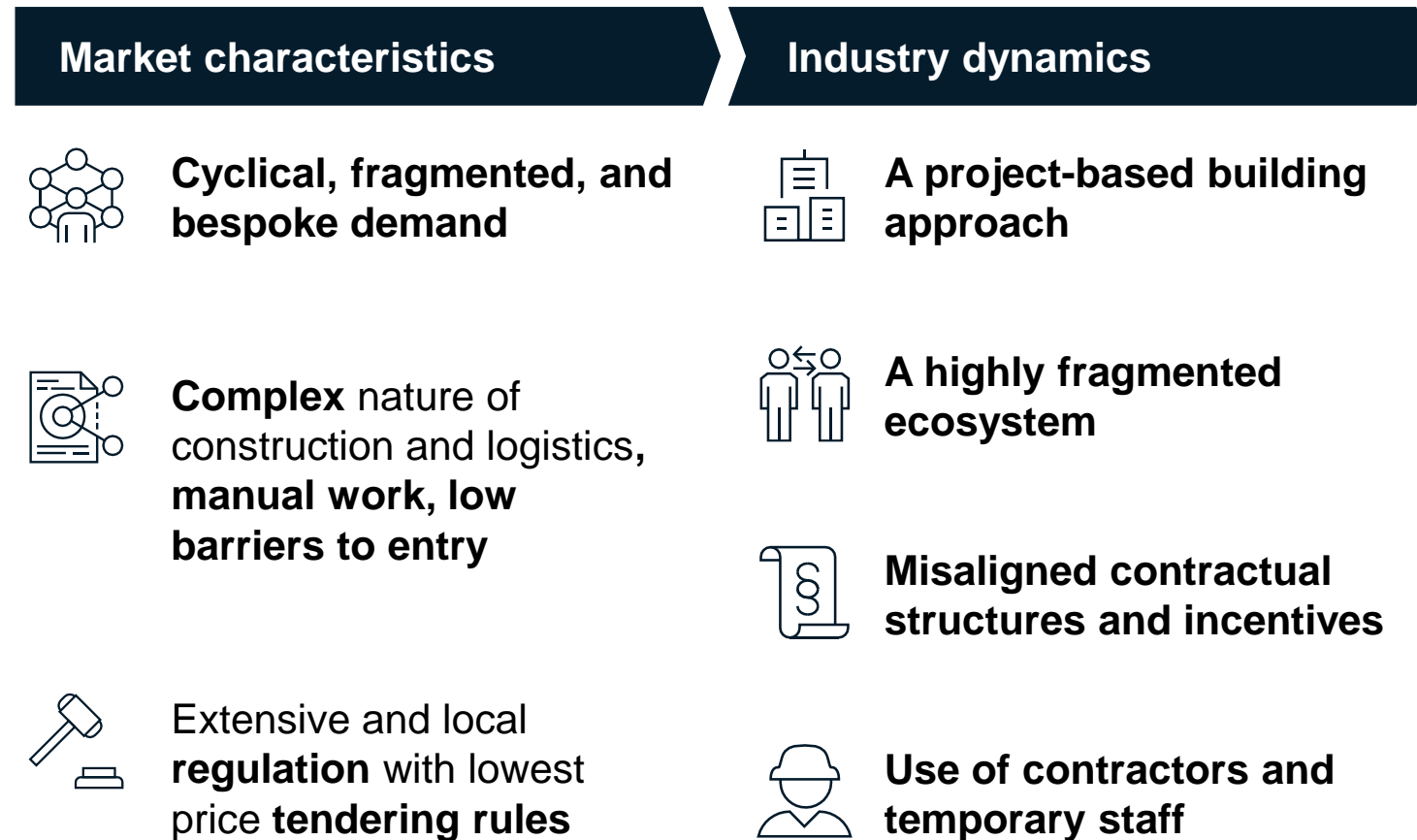
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Key messages

- Construction is the biggest industry in the world, and yet, even outside of crises, is **not performing well**
- **Nine shifts** will radically change the way construction projects are delivered — and similar industries have already undergone many of the shifts
- **COVID-19 crisis will accelerate change** that has started to occur at scale already before
- A **\$265 billion** annual profit pool awaits disrupters
- To survive and thrive, **incumbents must respond**



Market characteristics have shaped an industry response with unfavorable outcomes



Outcomes

-  **Lagging productivity growth**
-  **Slow innovation and digitization**
-  **Low profits and high risks**
-  **Regular time and budget overruns**

Industry leaders believed in a different ecosystem already pre COVID-19 – crisis expected to accelerate transformation

*Pre
COVID-19*

90%

Believed that the industry needs to change now, and that need was more acute than 5 years ago

Today

80%

Believed the industry will look radically different in 20 years

2/3

Believe Covid crisis will accelerate industry transformation, and...

+50%

...have already increased investments to adopt to the Next normal

Changing characteristics and emerging disruptions expected to drive change in the industry and transform ways of working

Changes in market characteristics



Changing customer demand



Shifts in construction inputs and characteristics



Changing market rules and regulations

Emerging disruptions



Industrialization



New materials



Digitalization of products and processes



New entrants



Nine shifts that will radically change the way construction projects are delivered



Product-based approach



Specialization



Value chain control and integration



Consolidation



Customer centricity and branding



Investment in technology and facilities



Investment in human resources



Internationalization

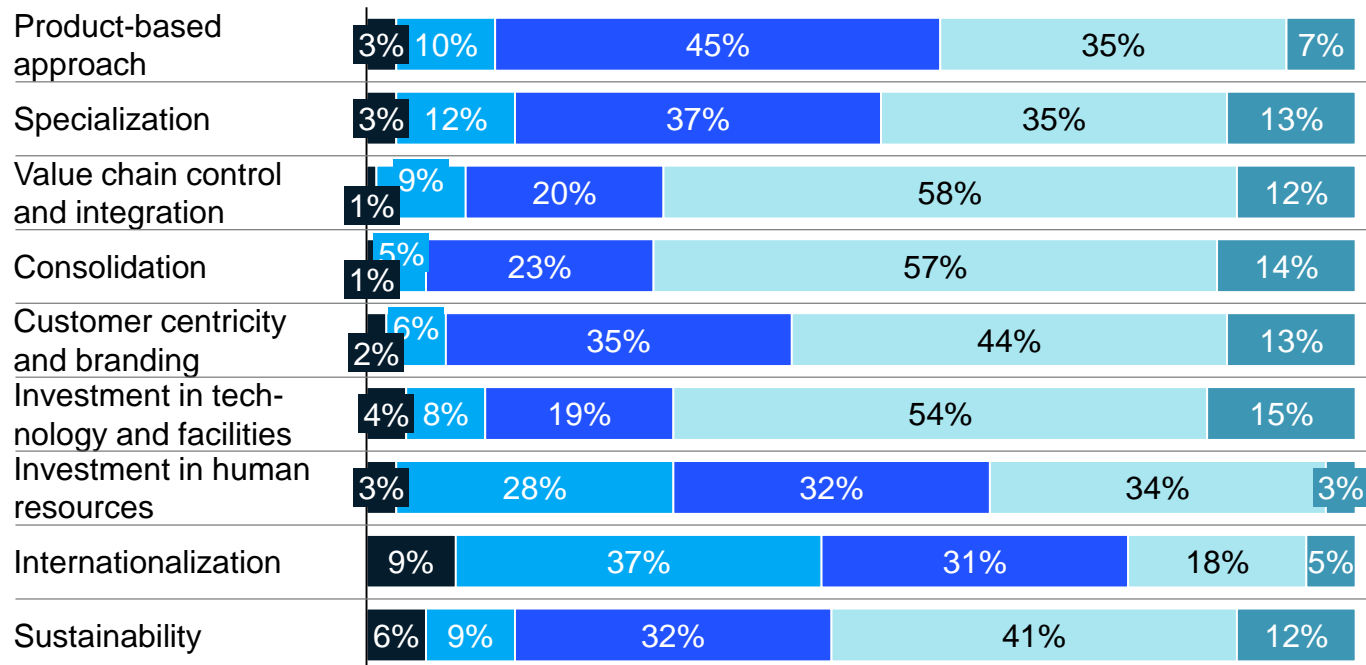


Sustainability

Most shifts expected to accelerate in light of COVID-19

Because of the COVID-19 crisis, which [of these shifts] do you believe will accelerate, stay the same, or slow down?

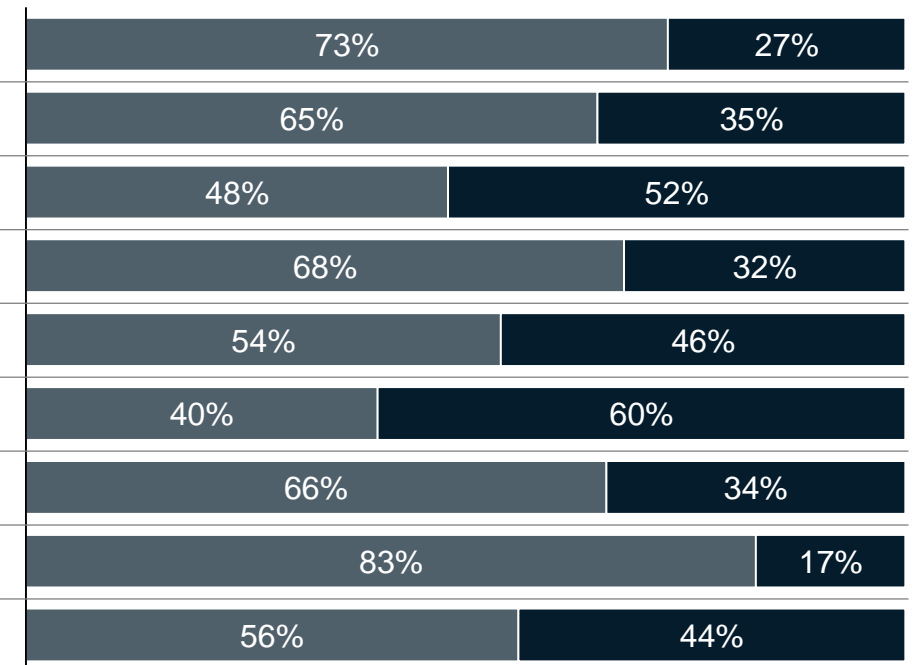
Share of respondents rating shifts, percent



Significantly slow down
 Stay the same
 Significantly accelerate
 Accelerate
 Slow down

Because of the crisis, has your company increased investments in the respective shifts?

Share of respondents, percent



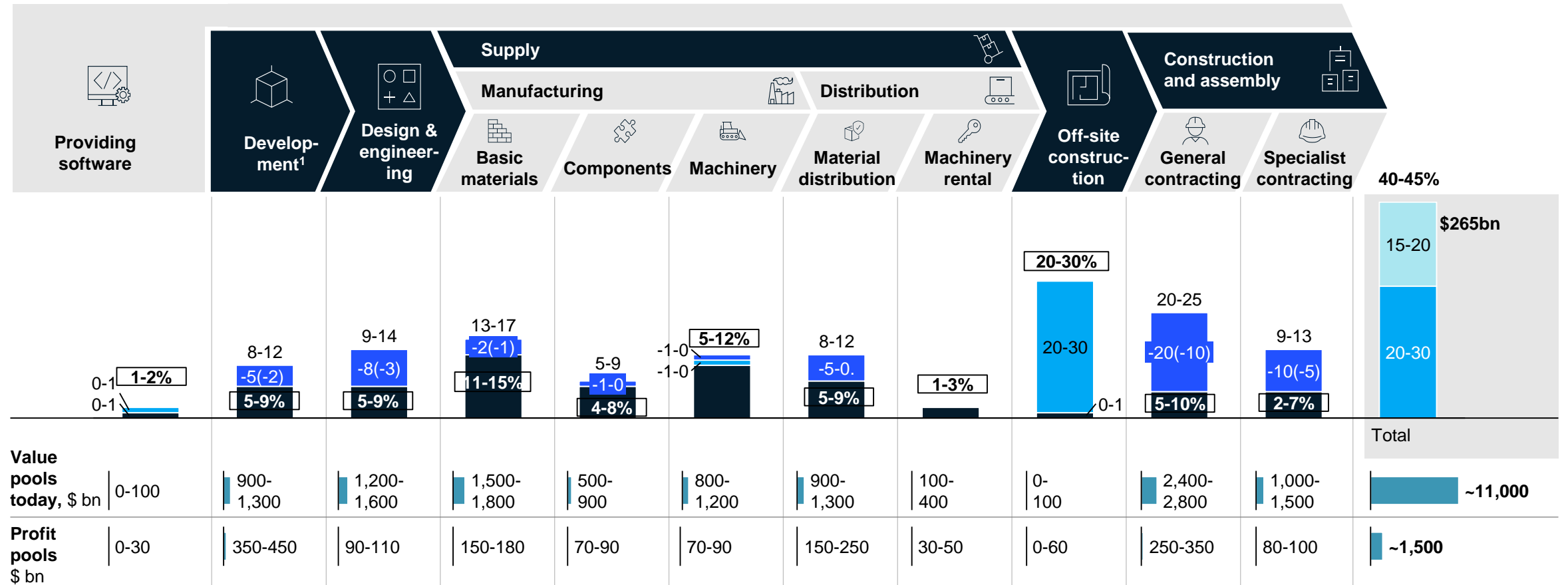
No
 Yes

40-45% of value could be at stake in most affected segments

Example fully productized value chain

Value captured Value at risk Value shifted Remaining value added

Current and future value pools (p.p.)



Source: Euroconstruct, FMI, CapitalIQ, expert interviews, McKinsey Engineering, Construction and Building materials service line, McKinsey survey of 400 construction industry CxOs, Nov-Dec 2019

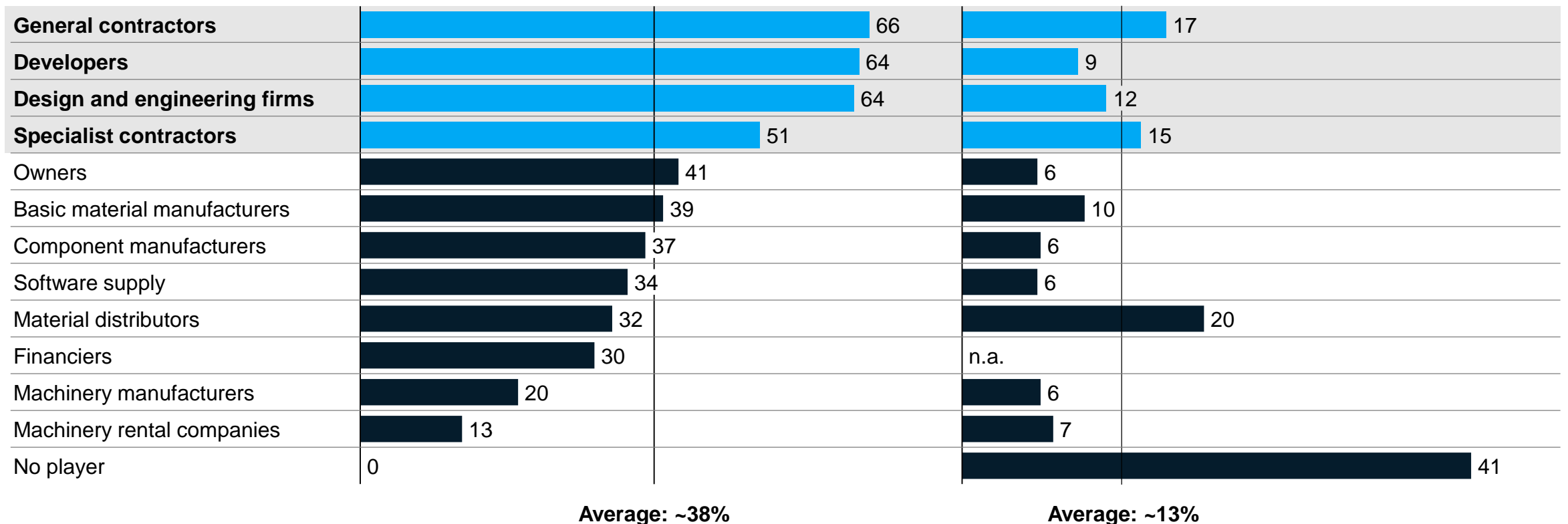
Industry believes general contractors will be required to move first, and material distributors to see largest decline

Which players in the value chain do you think will be required to change their way of operating first to adjust to the new construction industry landscape?

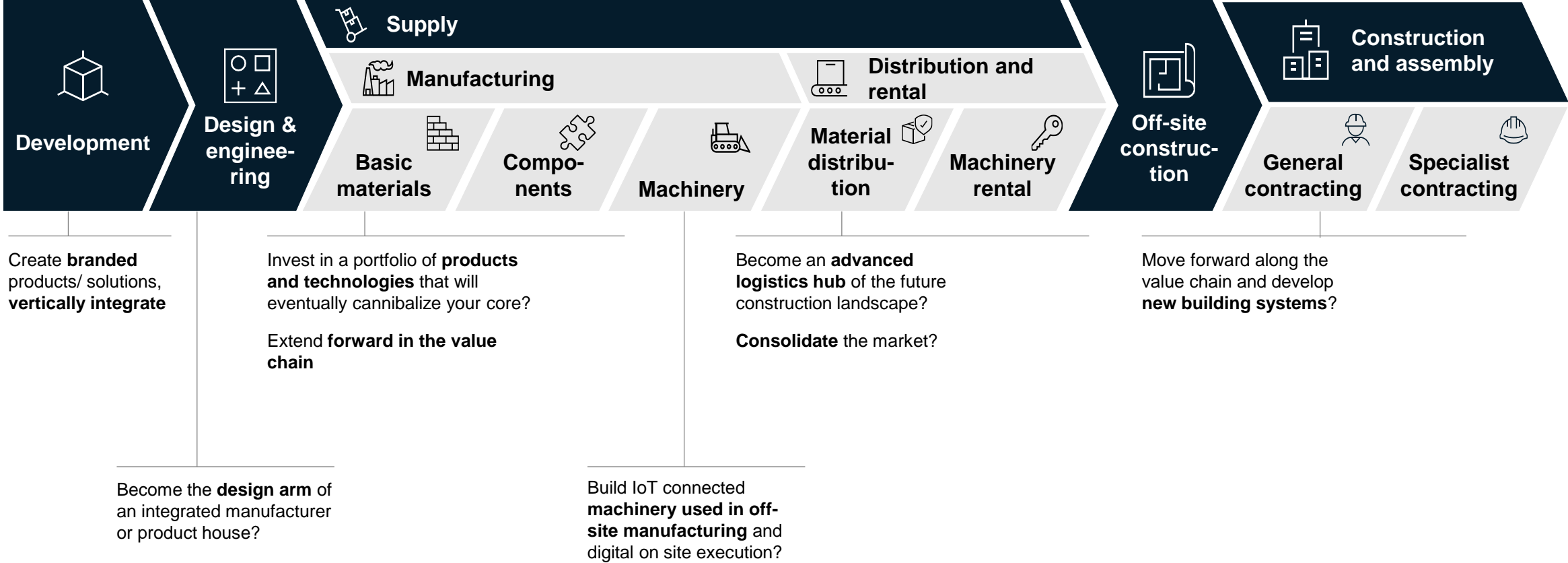
Share of respondents rating player types as “required to change first”

Which type of E&C player do you think will see the largest decline in 10 years (or even stop existing)?

Share of respondents rating player types as “will see the largest decline (or even stop existing)”



What could forward leaning strategies look like?



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