



REACTION TIME

How FM players must
respond to new technologies
and new competitors

SUMMARY

The Global FM market has entered a period of significant change

- Savvier, more aggressive buyers are fuelling a healthy M&A landscape
- New entrants are making significant moves, with CBRE's £1.1bn acquisition of Johnson Control's Global Workplace Solutions just one of over 40 acquisitions in 2015 alone
- New technologies like the Internet of Things have the potential to disrupt whole swathes of the industry

Digital technology in particular presents incumbent FM providers with both challenges and opportunities

- **Challenge:** Digitally-led new entrants will challenge long-standing business models that rely on an increasingly outdated approach to service delivery
- **Opportunity:** Longer-lasting, more lucrative, well defended client relationships for those that embrace the goldmine of today's data-rich FM contracts

1. FM CONTINUES TO BE AN ATTRACTIVE MARKET FOR WINNERS

Amongst the largest global FM players, at least 10 have been able to consistently increase cash EBITDA year on year since 2011 with a combination of organic growth and M&A-fuelled expansion. In some cases, the average annual growth has been above 10% over the last five years - although players with smaller FM revenues have been the ones achieving this by growing from a smaller base.

2. COMPETITIVE PRESSURES ARE GROWING BOTH FROM WITHIN FM AND FROM OUTSIDE

Infrastructure players and property managers are increasingly moving into FM as a way to leverage existing client relationships and provide a full lifecycle service (eg, CBRE acquisition of GWS). The blurring of the competitive landscape places incumbent FM players in direct conflict with aggressive new players that bring significant global scale and a strong reputation to the table.

3. SCALE ALONE IS NO LONGER SUFFICIENT TO WIN

The fastest growing size segment of FM players has been those in the £0.5-2.5bn FM-only revenues range (+7.6%pa 2011-15 CAGR), which neither have the scale of the truly global players with >£2.5bn in FM revenues (+3.8%pa) nor the narrow focus of smaller competitors (<£0.5bn in FM revenues, +3.2%pa).

4. THERE IS A WINNING FORMULA

Winners will increasingly need to deploy technology to innovate (eg, Internet of Things), extend capabilities beyond FM (eg, energy consultancy), and deliver in a vertical way (tailored to a specific industry) that appeals to CEO concerns.

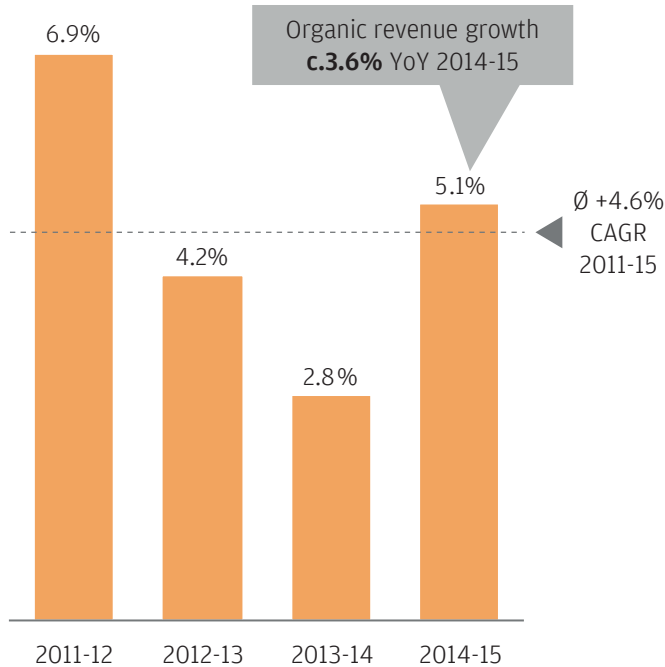
These components of a winning formula are available to all players, although careful choices and detailed analysis must be carried out to distinguish between the hype and fundamental trends that are affecting every FM business around the world.

THE QUESTION IS: ARE YOU POSITIONED TO WIN?

1. FM CONTINUES TO BE AN ATTRACTIVE MARKET FOR WINNERS

WEIGHTED AVERAGE REVENUE GROWTH FOR TOP 35 FM PLAYERS, 2011-15

% Growth YoY



The largest FM players have seen revenues grow on average c.4.6%pa over the last five years.

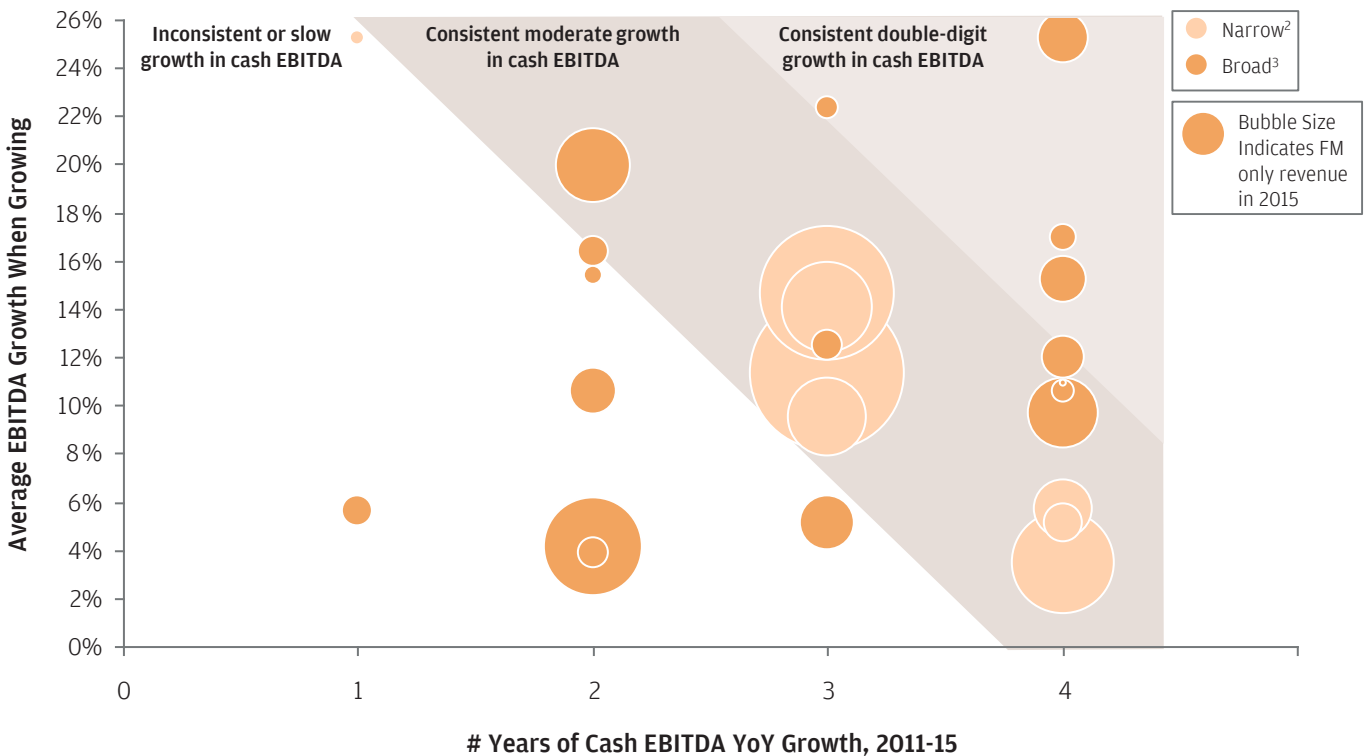
Growth in 2014-15 of c.5.1% reversed a declining trend, this was in part by M&A activity, although organic revenue growth was a healthy 3.6%.

However, FM has experienced consistently slower growth than the broader B2B landscape (+4.6%pa FM v. 7.3% B2B 200) as clients continue to seek out savings in what is often a labour-intensive service delivery model.

But there are clear winners: 10 providers have been able to consistently increase cash EBITDA year on year.

Double-digit growth is possible, although it has primarily been the reserve of smaller, nimbler players able to deploy capabilities across both Hard and Soft FM.

AVERAGE CASH EBITDA GROWTH AND NUMBER OF YEARS OF POSITIVE YOY INCREASE, 2011-15



1. OC&C's ranking of the top 200 global players
 2. Narrow: Only 1-2 core offerings, only in either Soft or Hard FM
 3. Broad: Multiple core offerings, in both Soft and Hard FM
 Source: Annual Accounts, OC&C analysis

2. COMPETITIVE PRESSURES ARE GROWING FROM WITHIN FM AND FROM OUTSIDE

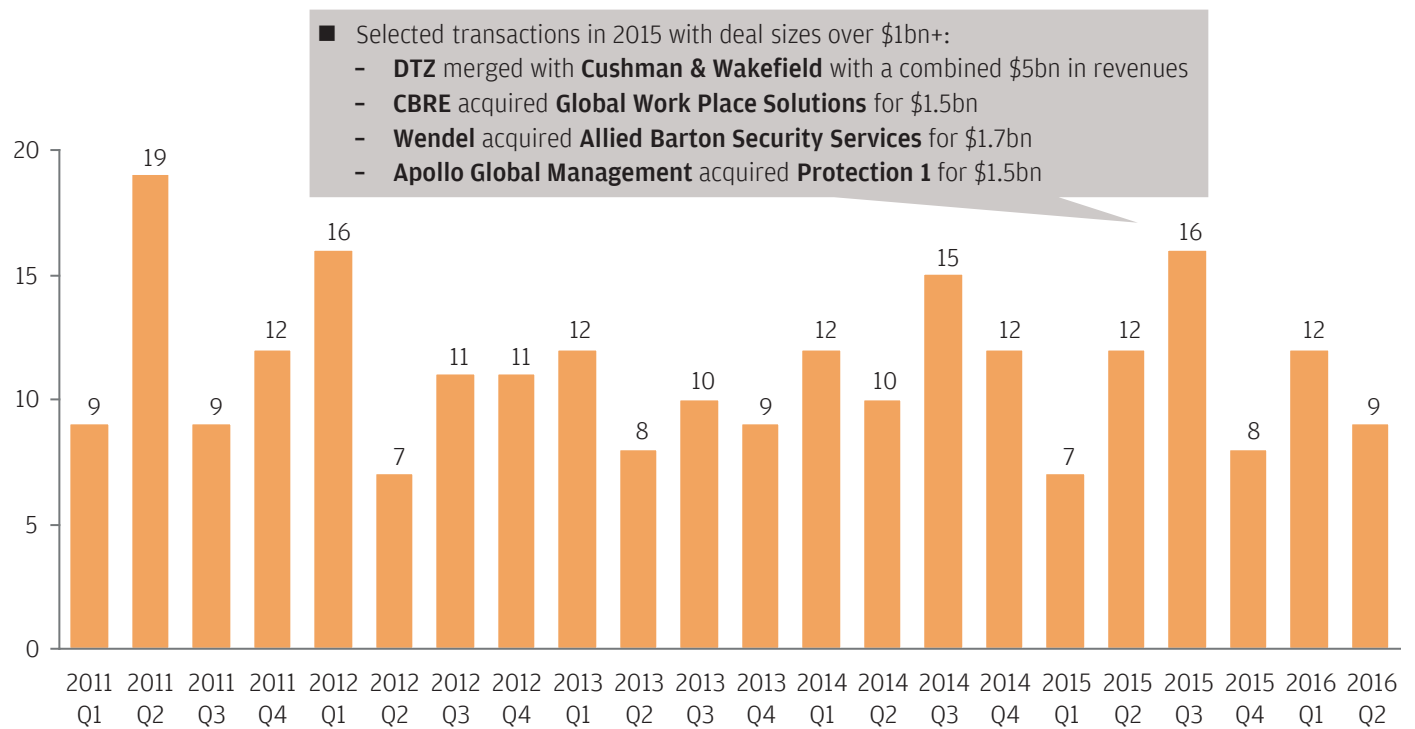
Real Estate players are moving more into FM		There is a real risk to incumbents	
CBRE	<ul style="list-style-type: none"> Acquisition of Trammell Crow in 2006, of Norland in 2013 and Johnson Control's GWS (for \$1.5bn) in 2015, focussing on Hard FM Acquisition of other smaller FM services and FM consultancies indicates intent to expand in FM 	Key risks to FM incumbents' position:	Key risks to Real Estate players:
JLL	<ul style="list-style-type: none"> Largely organic expansion into FM services Acquisition of Integral in 2016 A prime competitor of other FM players, often winning FM contracts from incumbents 	<ul style="list-style-type: none"> RE providers are able to provide FM within a wide suite of building services, ie the full 'life cycle' RE players have a strong reputation for their scale and international presence, and therefore compete directly with FM incumbents on contracts where international uniformity of service is a KPC 	<ul style="list-style-type: none"> Real Estate players entering the market will need the ability to extract synergies from recent acquisitions, otherwise they will remain an independent part of a portfolio Vertical-specific capabilities and technical knowledge may take more than just M&A to prove to clients
Cushman & Wakefield	<ul style="list-style-type: none"> Already providing FM services, and gaining success largely via leveraging existing client relationships 		

“THE LARGE REAL ESTATE PROVIDERS HAVE SUCH A WIDE RANGE OF SERVICES IN THEIR PORTFOLIO...THEY CAN ALWAYS OFFER MORE TO CUSTOMERS, ONCE THEY ARE INCUMBENT”
- FM

“WE DEFINITELY HAVE A LIST OF FM PROVIDERS WE ALWAYS INVITE TO TENDER...THE BIG REAL ESTATE NAMES AND OUR CURRENT PROVIDER TYPICALLY MAKE THE LIST”
- CONSUMER GOODS

QUARTERLY M&A VOLUME TRENDS, 2011 Q1 - 2016 Q2

Deals by Size



Source: Annual Accounts, OC&C analysis

3. SCALE ALONE IS NO LONGER SUFFICIENT TO WIN

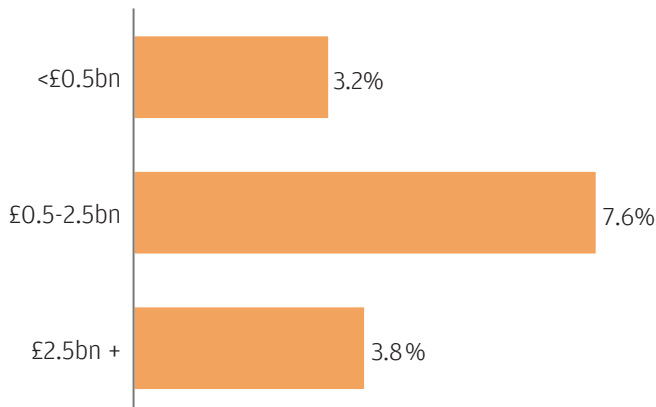
Growth has been fastest in the middle tier of large players. These mid-sized players often have the scale required to deploy a differentiated technology platform, but are not yet suffering from the complexity of larger players that have grown through significant M&A.

Players of all sizes are facing rising costs of participation. Although bigger, more complex contracts and rising demand for IFM may look attractive, this also means placing higher bets in bid costs, operating costs, longer-term commitments, technology investment, M&A required to gain capabilities, and take on additional risk (either performance or financial).

The same is true from a geographic perspective - ‘Globetrotter’ FM players with more than 50% of their revenue coming from outside their home country grew at close to half the rate of their more domestically-focused competitors.

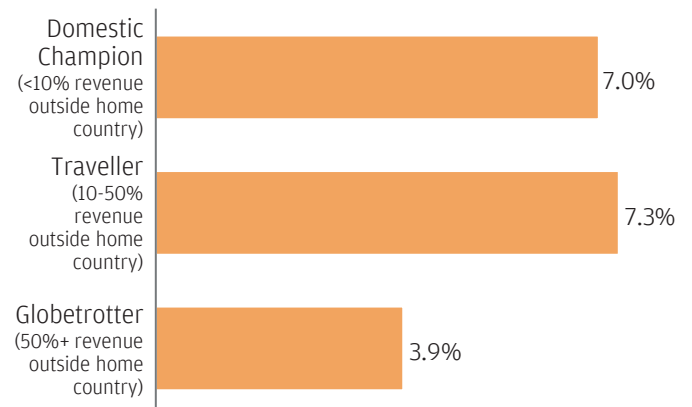
As we have seen across the broader B2B industries in our recent ‘Sink or Swim’ insight, the past few years of expansion, both organic and through acquisition, to fill in a portfolio of services and markets does not appear to have delivered winning results to these players.

REVENUE GROWTH BY COMPANY SIZE, 2011-15
% Revenue CAGR



Source: Annual Accounts, OC&C analysis

REVENUE GROWTH BY INTERNATIONAL FOCUS, 2011-15
% Revenue CAGR



Source: Annual Accounts, OC&C analysis

“WE NEED A PROVIDER WITH STRONG TECHNICAL FM DELIVERY CAPABILITIES AND NOT NECESSARILY THE CHEAPEST”
- AUTOMOTIVE

“WE ARE LOOKING TO ADOPT THE IFM MODEL FOR OUR US AND EMEA FACILITIES, BUT A LARGE INTERNATIONAL FOOTPRINT IS NOT ONE OF OUR MAIN KPIS”
- CONSUMER GOODS

“WE PROCURE OUR FM VENDORS ON A REGIONAL LEVEL BECAUSE IT PROVIDES US WITH MORE FLEXIBILITY AND TRANSPARENCY”
- INDUSTRIAL

“WE ARE SWITCHING FROM A GLOBAL TO A REGIONAL MODEL BECAUSE WE WANT TO CHOOSE VENDORS PURELY ON PERFORMANCE RATHER THAN INTERNATIONAL FOOTPRINT”
- INDUSTRIAL

4. THERE IS A WINNING FORMULA

The market is shifting and the stakes are rising for incumbents - any of the current leaders who fail to act will be over-run. However, the performance of some players that have achieved consistent growth over the last 5 years confirms that there is a winning formula:

1 EXTEND CAPABILITIES BEYOND FM

“FM providers usually have a couple of core competencies and struggle to deliver the same quality for the other services they offer. FM can offer these non-core competency services to win contracts by making themselves more attractive via bundles (looks like more for less)” - Automotive

2 DELIVER IN A VERTICAL WAY, TAILORED TO A SPECIFIC INDUSTRY, TO APPEAL TO CEO CONCERNS

“You need to be known in the sector, otherwise you will have a very difficult time winning a contract” - Industrial

3 DEPLOY TECHNOLOGY TO INNOVATE

“Some FM players are getting smarter, learning to use labour better and putting into use the latest technologies” - Consumer

IMPLICATIONS OF DIGITAL DISRUPTION

THEMES	DESCRIPTION	EXAMPLE	KEY QUESTIONS
SUBSTITUTION OF DEMAND	<ul style="list-style-type: none"> Risk of ‘virtual’ and in-life monitoring supplanting labour-led maintenance (eg, sensor readings on foot traffic, status of consumables) Reduced need for high-touch activities during the life of an asset 	FM through 3D building visualisation	<ul style="list-style-type: none"> What is the likely speed of adoption by builders / clients? What barriers exist to limit this impact (eg, regulatory requirements for certification)? How long will they last? How does increased information from facilities affect current contracts and services being offered? How much data access will clients give to FM providers?
NEXT STAGE IN EFFICIENCY OF OPERATIONS	<ul style="list-style-type: none"> Enabling technology to drive potentially step-change improvements in utilisation and operational efficiency for labour forces (eg, pre-emptive maintenance, flexible schedules) 	Use big data for FM across 100+ buildings in client campuses	<ul style="list-style-type: none"> How much headroom is there to reduce costs and automate processes? What kind of investments will be required for FM players to integrate into an IoT-enabled asset estate? (eg, data storage, IT processes, skilled labour) What kind of security is required to safeguard data? What regulation is in place?
NEW PROPOSITIONS ALONG THE VALUE CHAIN	<ul style="list-style-type: none"> Stakeholders (eg, construction companies, property managers, clients) can benefit from intelligent analysis of data FM providers generate 	Digital monitoring and management of energy use	<ul style="list-style-type: none"> Who installs sensors & manages the data collection? Who owns the data? Which stage of the value chain will capture benefits? How likely are FM players to be the ones delivering data analytics services? How can FM players leverage their historical knowledge of assets, usage patterns and client requirements?
COMPETITIVE END-GAME	<ul style="list-style-type: none"> Multiple new potential competitors from different parts of the value chain (eg, engineering consultancies, construction, software developers) 	FM software developers selling directly to property owners as well as service providers	<ul style="list-style-type: none"> Who will win when the dust settles? Which providers will be the ‘prime’ holding the customer relationship? What types of partnerships and alliances are needed? Do FM providers need to become software developers?

QUESTIONS TO CONSIDER



DO YOU HAVE A COMPELLING INTEGRATED FM PROPOSITION?



HOW VERTICAL-SPECIFIC ARE YOUR CAPABILITIES?



WHAT ACTIONS ARE YOU TAKING TO EXPAND THE IMPACT ON THE CEO AGENDA?



DOES YOUR ORGANISATION HAVE CLARITY ON WHAT TO OFFER BEYOND FM?



IS YOUR ORGANISATION READY TO EMBRACE AND LEVERAGE NEW TECHNOLOGIES?



WHAT STEPS ARE YOU TAKING TO DEFEND AGAINST COMPETITIVE THREATS FROM OUTSIDE THE MARKET?

METHODOLOGY

For each provider we have stripped out non-FM revenues and corresponding profits, to paint a clearer picture of what the evolution of the FM market has been, and where it will evolve to.

Belo Horizonte	Munich
Düsseldorf	New Delhi
Hamburg	New York
Hong Kong	Paris
Istanbul	São Paulo
London	Shanghai
Mumbai	Warsaw

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