Facilities Management (FM) is relatively new to the GCC market, having developed on the back of significant real estate and infrastructure investment over the last decade. Total spend on FM in the GCC in 2012 is estimated at $21.8bn, the majority of which was in Saudi Arabia, the UAE and Qatar.

Key drivers of FM market growth are the total spend on FM (shown below as a percentage of GDP) and the proportion outsourced to FM suppliers. By plotting different markets against these criteria we can assess market maturity and what growth will be driven by. For example the UK, arguably the most mature FM market, has a high FM spend and high outsourcing, hence growth there is limited.

With relatively low overall levels of spend, all GCC markets will benefit from increasing FM expenditure. However, outsourcing levels vary widely, with the UAE approaching levels seen in the US and UK. In other parts of the GCC such as Saudi Arabia, Oman & Qatar, FM markets have significant headroom in outsourcing rates. This gives these countries a higher potential for FM market growth.
We spoke to c.35 GCC market participants to get their view on how FM would develop in the region. They believed that the UAE, specifically Dubai, would experience the fastest FM market growth, followed by Saudi Arabia & Qatar. The high levels of planned investment in each of these countries was the most common reason given in support of these views.

Other parts of the GCC, including Oman, Bahrain and Kuwait, were rarely mentioned, if at all. When questioned, a combination of lack of awareness of the benefits of outsourcing and relatively low levels of investment were cited as the perceived barriers to growth.

Total spend on FM is driven by GDP and construction expenditure. Comparing forecast growth of these metrics across different markets provides insight into the relative growth rates, against which we have tested the views of market participants above.

These views are largely supported by this analysis. In particular, high GDP and construction growth in the UAE & Saudi Arabia, combined with their relatively large FM markets, support their leading position in FM market growth.

Countries outside of the UAE were highlighted as having higher barriers to entry and growth, in line with their less developed FM markets. This offers margin opportunities for firms that are able to overcome them.
Supplier margins are determined both by the prices that can be charged for FM services, and the costs of providing these services. As FM markets mature, margins typically fall. Over the past 5 years, supplier margins in the Dubai FM market have decreased significantly from over 15% to 5-10%. This is a result of falling prices and rising costs, as shown below.

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FM prices in the region have fallen in recent years, largely as a result of the recession forcing customers to look for savings at the same time as competition escalated from a surge of new players entering the market. A small but growing sub-set of the market is starting to recognise quality in addition to price when choosing suppliers (see opposite). However, we do not expect significant increases in the price of FM going forwards in the GCC, particularly as market participants indicate that price remains the most important factor in purchase decisions.

The main cost for an FM company is that of labour. Various forces have pushed the cost of labour up within the GCC market in recent years including minimum wage regulation (domestic & international) and higher costs associated with getting new visas.

Going forwards, we think that the cost of labour in the region will in the long term continue to rise. Historic trends are forecast to continue and competition for blue-collar labour will increase from other sectors (e.g. hotels).
Given the expectations of falling prices and rising costs, it seems likely that supplier margins will continue to tighten in this region going forwards. Suppliers will need to find strategies to combat this general margin decline.

Higher margin opportunities are likely to exist in niche / specialised sectors such as healthcare, or in less mature markets such as Saudi Arabia or Qatar. Alternatively, suppliers here can look to the contract and delivery strategies of their peers in in more mature markets, who have been forced to evolve as margins have declined.

According to both our customer and supplier interviewees, price remains the most important purchase criteria for contracts at present. This suggests that prices are unlikely to have significant room to rebound in the short term.

However, some customers seem less interested in price than suppliers believe, and more interested in technical specialisation and skill. There may be opportunities here for some suppliers, although this is thought to be confined to a relatively small but growing subset of the market.
As markets mature and margins decline, suppliers tend to look to more sophisticated contract and delivery mechanisms as a means of differentiating and protecting margin. In our experience, there are four different categories of development typically seen – Bundling & TFM, Performance & Control, Contract Length & Investment and Delivery. The degree of progress within these categories provides insight into how mature the market is. As can be seen below, we believe suppliers in the UAE have made most progress within Performance & Control and Bundling & TFM to date.

When speaking with customers, awareness of the benefits from these approaches was understood to varying degrees and most were open to discussing them further with suppliers. The one exception was regarding Long Term Partnerships & Investment, where customers were apprehensive about the risks from being tied into contracts over three years.

As a result, we would expect to see most development in Bundling & TFM, Performance & Control and Delivery in the short term.
Credo is the leading strategy consultancy to the FM sector, with international experience across the full range of hard and soft FM, energy services and broader business services.

We have worked for many of the leading companies in FM, supporting them in issues ranging from corporate strategy and M&A support, bid engine optimisation and major bid support, through to operating model implementation, restructuring and cost reduction.

We operate globally and have carried out assignments in over 40 countries. We now employ a team of around 50 world-class professionals. Our commitment to growth is further supported by the recent opening of our new office in Dubai, cementing our position in the Middle East & Asia and strengthening our ability to serve our clients’ global needs.

### EXAMPLE CREDO FM CLIENTS

![EMCOR](EMCOR.png)
![NORLAND](NORLAND.png)
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![Balfour Beatty](Balfour Beatty.png)
![Interserve](Interserve.png)
![Facilities Services Group](Facilities Services Group.png)
![Dalkia Energy Services](Dalkia Energy Services.png)
![ISS](ISS.png)
![G4S](G4S.png)

### CAPABILITIES

**Corporate strategy**
- Corporate strategy
- Market, trend and competitive analysis
- Portfolio optimisation

**Business growth**
- New market prioritisation and entry
- Major bid strategies and support

**Performance improvement**
- Cost reduction
- Organisational structuring
- Operating model standardisation

**Transaction support**
- Acquisition / disposal strategies (incl. target identification)
- Commercial Due Diligence
- Post-merger integration and restructuring

### Developing practical strategies

### Driving revenue growth

### Producing more efficient and effective organisations

### Supporting transactions for corporate and private equity clients

### ABOUT CREDO

**Chris Molloy**
Partner

Chris has 20 years of international consulting experience in both strategy and performance improvement. Chris co-leads Credo’s Business and Support Services capability, and has broad Facilities Management experience, both in the UK and internationally.

**Simon Bones**
Partner

Simon co-leads Credo’s Business and Support Services capability, with a particular focus on Infrastructure Markets, Facilities Management, Process Outsourcing and wider Business Services and Distribution and Mail Services. Simon also leads Credo’s Private Equity practice.

**Alistair Stranack**
Partner

Alistair heads the firm’s Dubai office. He has over 20 years of strategic consulting experience and has advised governments, corporations, and private equity firms on policy, strategy, and transactions.
Contact
Alistair Stranack
alistair-stranack@credo-group.com
+971 56 350 7895

Chris Molloy
chris-molloy@credo-group.com

Simon Bones
simon-bones@credo-group.com

London Office
12 Arthur Street
London, EC4R 9AB,
United Kingdom

Dubai Office
2908, Platinum Tower,
Cluster I, JLT
Dubai