Czech construction industry in a crisis

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The study, conducted by CEEC Research, established in cooperation with the consultancy KPMG ČR, is based on personal interviews with the representatives of selected 80 companies in the Czech construction sector. Additional analyses provide an overview of the behaviour and experience of the suppliers of construction companies – 239 firms, suppliers of materials, building products and equipment. The interviews were held at the end of April 2009, and therefore give an updated view of the “subjective” situation in the whole sector, i.e. how the companies themselves perceive the current situation and its future development.

Future: slight pessimism and uncertainty

Almost two-thirds, namely 59% of the questioned firms expect a decline in the production of the sector by 3% on average this year; almost a fourth of the respondents estimate it at 6 – 10%. In this respect, we should mention the latest data of the Czech Statistical Office, according to which in April the domestic construction production grew for the first time since last September, specifically by 2.1% year-on-year.

As regards long-term projections, the Czech building management teams are very hesitant. As regards the medium-term development in the sector (2010 – 2011), they especially emphasize the high rate of uncertainty and the largely limited possibilities to predict the development after 2009. If, however, the economic situation does not deteriorate any further, the firms expect that the construction sector could see its renewed growth during that period (by an average 3%). The relatively pessimistic projections for this year are closely related to the fact that the construction firms have seen another decline in the utilization of their capacities – from 89% in 2008 to the current 83%.

A total of 85% of the poll participants feel restrictions in the business, not surprisingly. The share of companies limited by insufficient demand has grown most of all (from 13 to 49% of all companies), just like the share of companies limited by insufficient financial resources (from 15 to 43%). The most frequently mentioned obstacle to growth is tough competition (72%).

The main factor that determines the construction firms’ future, agreed by almost all respondents, is the development and changes in the demand of customers (mentioned by 94% of the respondents). Almost a half of all companies referred to insufficient demand as the hottest problem of their current business, and therefore the further development of this factor will be crucial for the companies as well as for the development of the whole sector.

In connection with the dwindling demand, the Czech construction firms therefore want to invest into innovating their offering (61%) and into the search for and establishment of new business contacts (51%) in the years to come.

Crisis marketing without any change

The key sources of information on new contracts are long-term contacts and the Internet for the Czech building firms. If we focus only on the methods of using the Internet, the results show that 100% of the participating companies use it for their presentation and 93% and 83% of them for searching information and for selling, respectively.

The most frequent way to obtain contracts currently involves personal contacts, whose share has grown significantly compared to last year. The share of companies using personal contacts has grown, just like the importance of their contribution. The use of personal contacts was mentioned by 85% of the construction firms.

Even though the Czech Republic is not greatly renowned in terms of corruption, quite a large portion of the companies (59%, which is one percent more than last year) say that they have never been asked for a bribe. On the contrary, 23% of the firms state a clear “yes” and 19% chose the answer “without comment”, because of the high sensitivity of this issue.

The issue of transparency of public procurement is closely related to the occurrence of corruption. This time, the Czech builders rated it at 5.3 on a scale of 1 to 10 points (10 being the maximum). The results show that, compared to the previous periods, there have been no significant changes (5.2 points in 2008 and 2007).

Bigger emphasis on prices

The current crisis and the poor demand have an intersting impact on the commitment of construction companies to break their own risk management rules in order to obtain a contract – 43% of the respondents mentioned this possibility this year, while a year ago the figure was 48%. The companies therefore seem to be more cautious in spite of their selling problems.

The same reason could also lie in the background of the larger emphasis on personal contacts to obtain suppliers. General long-term contracts have grown in significance for their selection (78% in 2009, 72% in 2008), just like the mentioned personal contacts, where 68% of positive answers constitute a significant increase vs. the 54% a year earlier. As regards the main criteria for the choice of suppliers, the last twelve months have seen a huge change. The price is a new phenomenon with a distinctly growing share in the answers of the participating firms – it was mentioned by 84% of the respondents as the first factor of choice (but only by 38% a year ago). As regards the supplier’s experience, the builders consider it as important as they did in the past (82%), and the importance of references has grown slightly (62% vs. 56% in 2008).

The Study of the Czech Construction Sector 2009 is available for download at the webpage of CEEC Research www.CEEConstruction.Eu.

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