FROST & SULLIVAN

# The UK Facility Management Market – Near to Mid Term Trends and Opportunities

## Technology and Sustainability to Dictate Success After the Pandemic


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*The Growth Pipeline™ Company*
*Powering clients to a future shaped by growth*

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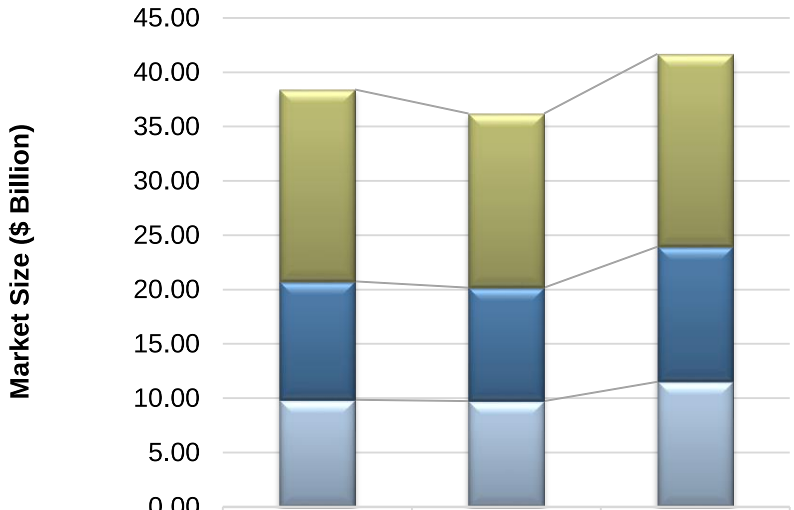
# UK MARKET IN NUMBERS

| | |
|---|---|
| **$41.70 B** | UK FM market revenue by 2025 |
| **(5.8%)** | UK FM market decline in revenues in 2020 |
| **1.4%** | Compound Annual Growth Rate (CAGR) for FM revenue |
| **27.6%** | UK penetration of IFM by 2025 |
| **2.6%** | UK CAGR for IFM services |
| **35%** | Combined UK market share of top-5 FM suppliers by 2025 |
| **4.1%** | UK CAGR for energy management services |
| **0.1%** | UK CAGR for single service FM |
| **1** | UK's position in terms of M&A activity globally for 2013 to 2098 |

**Total FM Market, Revenues by Service Delivery Model, Revised for COVID-19 Impact, UK, 2019, 2020 & 2025**

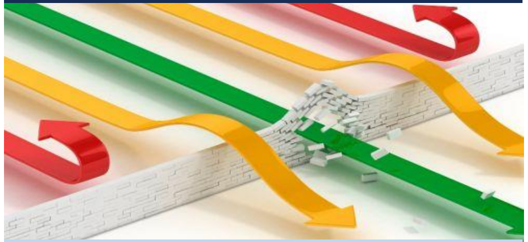



| | 2019 | 2020 | 2025 |
|---|---|---|---|
| Single Services | 17.66 | 16.03 | 17.75 |
| Bundled Services | 10.90 | 10.44 | 12.43 |
| IFM | 9.86 | 9.74 | 11.52 |
| **TOTAL** | **$38.42 Billion** | **$36.21 Billion** | **$41.70 Billion** |

Note: All figures are rounded. The base year is 2019. Source: Frost & Sullivan

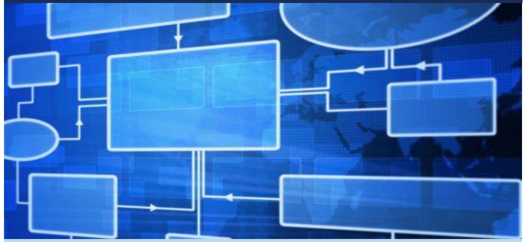
# COVID-19 – CHALLENGES STILL TO BE OVERCOME

### Market Decline in 2020



Global FM market revenue drop in 2020, full rebound by 2022

### Customer Sector Impact



Slowdown in many primary end-user segments

### Diminished Sales Pipelines

Delayed, deferred or even cancelled decisions

### Safety of Workers

Cost increases, enhanced PPE, COVID testing, and higher hygiene levels

### Deep Cleaning and Sanitation

Higher cleaning standards make sanitation critical to all services

### Workforce Motivation

Workforce morale impacted by fear and uncertainty.  Safe return to work is critical

### Supply Chain Disruption

Impeded supplies, changes in demands and higher hygiene standards

### Staff Training

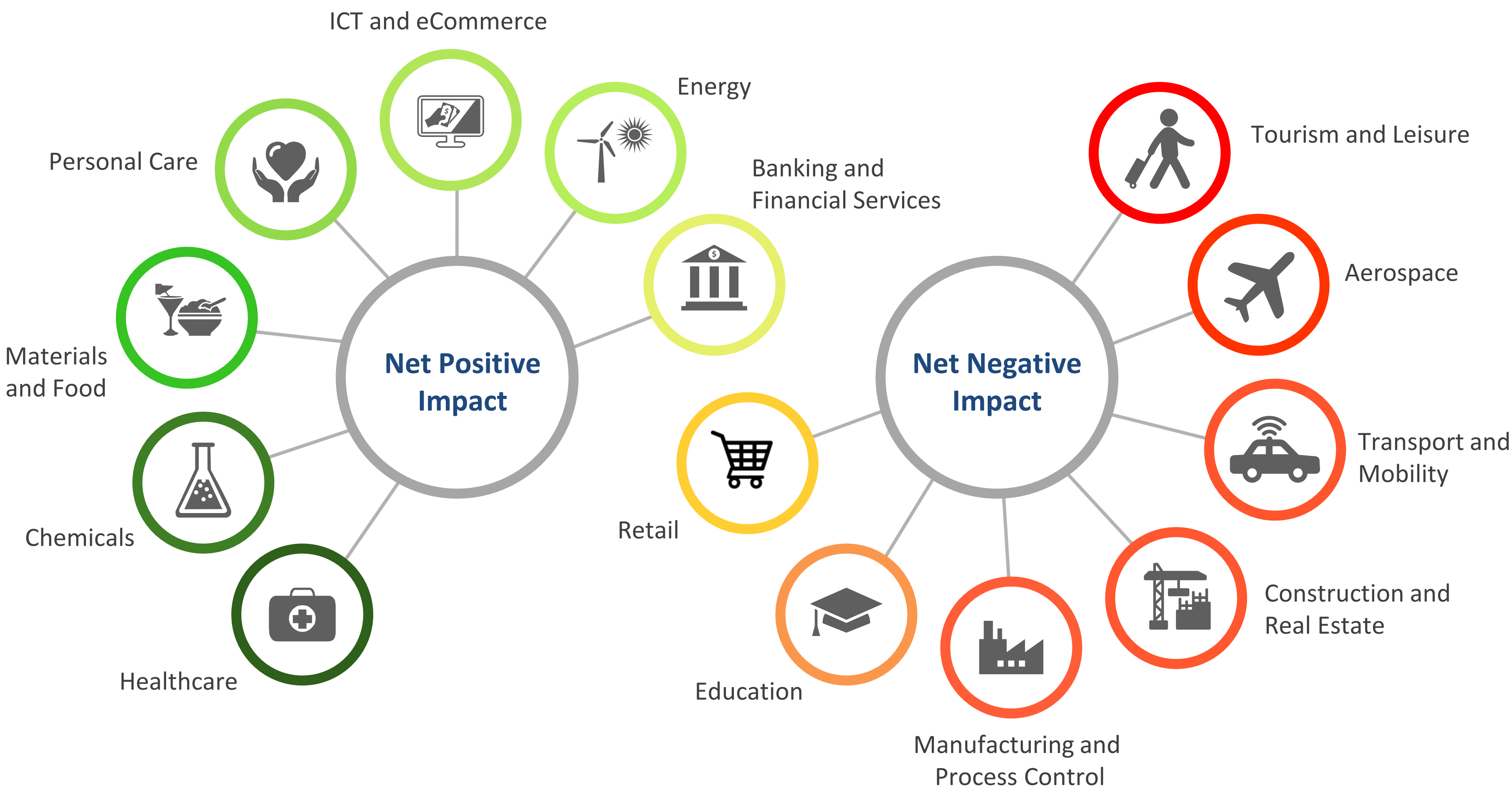
Many existing FM workers under-prepared for working through pandemic

### Working Capital Shortages

Clients delaying payments and projects puts huge pressures on cash & liquidity

Source: Frost & Sullivan

# IMPACT ON KEY INDUSTRIES




Source: Frost & Sullivan

# TOP TRANSFORMATIONAL TRENDS IN FM

= Reduced importance due to COVID-19

= Importance unaffected by COVID-19

= Increased importance due to COVID-19


**Business Productivity**
Value propositions to drive customer profitability

**User Experience and Human Touch**
Satisfaction and engagement


**Sustainability**
Corporate and government initiatives, moving beyond energy & environment

**AI and Robots**
Entering the era of cognitive facilities


**Selling Outcomes**
Performance contracting & guaranteed efficiency outcomes

**Partnerships and Collaborations**
Skill sharing


**IoT and Cloud Services**
Digital transformation, data analytics and 'Cloud FM'


**Health & Wellness**
Happy, healthy, engaged workers

Source: Frost & Sullivan

# HOW TO ACHIEVE A FOCUS ON WORKPLACE OUTCOMES?

*CONVERGENCE OF SERVICES WITH TECHNOLOGY AND CONNECTIVITY WILL CREATE THE PLATFORM FOR DELIVERING PROPOSITIONS BASED ON CUSTOMER OUTCOMES AND PRODUCTIVE WORKPLACES.*

## Service Trends

- Service Bundling & Integration
- Self Delivery
- Partnering & Collaborating
- XaaS
- User Centricity
- New Business Models
- Performance Contracting

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## Technology Trends

- IoT and Cloud
- Big Data and Analytics
- Robotics
- Location Services
- Artificial Intelligence (AI)
- Virtual Reality (VR) and Augmented Reality (AR

=

## Outcomes

- **Asset Optimisation**
- **User Experience**
- **Business Productivity**
- **Energy Performance**
- **Sustainability**

*“ Shift away from problem solving to delivering positive outcomes”*

Source: Frost & Sullivan

# Workplace Productivity Outcomes … Why do Companies Care?

Staff Retention

Labour Law Management

Personal Performance

Employee Satisfaction


Brand Protection

Operational Excellence

Sustainability


Technology Optimisation

Source: Frost & Sullivan

# Workplace Productivity Outcomes
# … And what about Employees?

Ability to do my job


Enjoyment & Fun

Health & Wellness

Career Progression

Personal Comfort

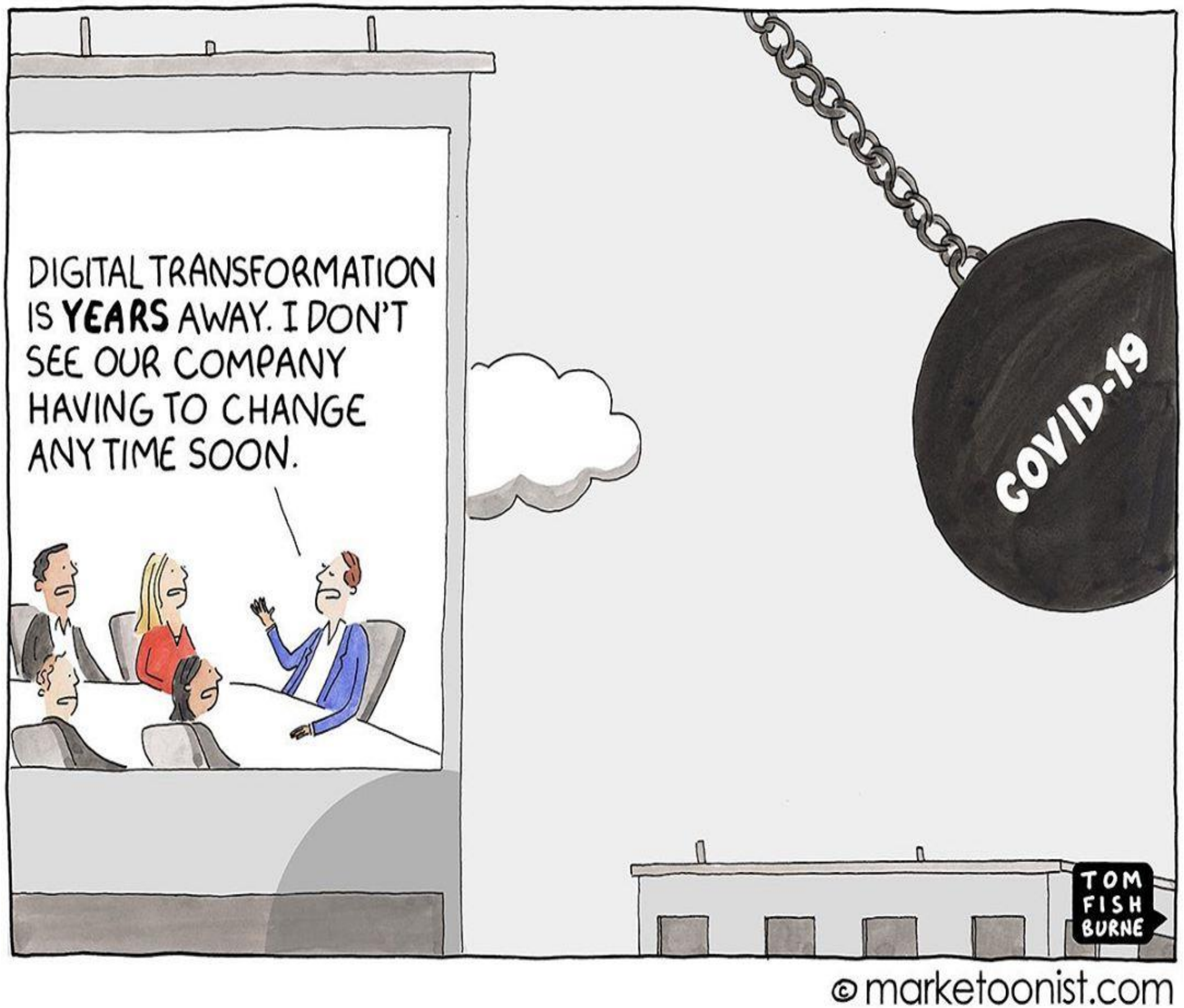
Working Environment

Tools & Technology

Collaboration

Source: Frost & Sullivan

# COVID IMPACT ON TECHNOLOGY INNOVATION IN BUILDINGS



# TECHNOLOGY INNOVATION AREAS DURING COVID-19

**XaaS along with IoT to be a Highly Preferred Data Monetization Model Enabling Digital Service Solutions**


**AI-driven Building Optimization Solutions Provide Value-based Outcome to End-users**

**Cloud-based Remote Services for Critical Building Systems to be part of Core Offerings**

**Pandemic Situations Emphasize the Importance of Smart City Infrastructure**

**Integration of Digital Twin and Smart Building Platform to Promote Digital Sustainability of Buildings**

**Indoor Air Quality Products and Services to be in Great Demand in Post-COVID Environment**

Source: Frost & Sullivan

# 4 BIGGEST IMPACT AREAS OF COVID-19 ON FM

*“office occupancy will return to no more than 80% of 2019 levels by 2022”*

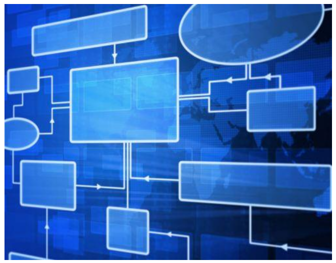
| | Impact | Opportunities |
|---|---|---|
| **Economic Recession** | • Businesses failing in hardest hit sectors (retail, hospitality etc.)<br>• Cost constraints for building owners/operators<br>• Resurgence of price as a competitive factor | • ***Increased risk sharing*** and vested outsourcing business models<br>• ***Organisational resilience*** as a key value proposition to clients<br>• Increase ***focus on critical infrastructure*** |
| **Working from Home** | • Building vacancy rates already increasing across the UK.  Occupancy rates very low<br>• Delayed capital projects and net drop in spending on facilities<br>• Many businesses extending WFM and/or looking at long term flexible working | • ***WFH training***, technology, advisory and cyber security<br>• Remote ***IT platform management***<br>• ***Home support***, assessments, working environment, health & safety etc. |
| **Unemployment Surge** | • COVID-triggered redundancies likely to impact for 1-2 years<br>• Contracting businesses require smaller facility footprints<br>• Ability to perform in-house services may be dented | • Signs of ***increased outsourcing*** from companies currently performing in-house FM services<br>• ***Availability of skills***/talent coming onto the market? |
| **Social Distancing** | • New cleaning standards and need for indoor air quality monitoring (benchmarking, sampling, continuous real-time analysis)<br>• Requirements for new office configurations | • ***Occupant tracking***, routing and crowd control<br>• ***Reconfigure facilities*** for social distancing and lower occupancy<br>• ***Contactless technologies*** and services for space planning, booking etc. |

# POST COVID GROWTH OPPORTUNITIES

### Back to Work (Office Re-Entry)

- Bring employees back to work safely and ensure a safe working environment for all
- Space optimisation for ideal occupancy & social distancing. Plus occupant tracking and crowd control
- Implement, support, and enforce new practices by region
- Air filtration and air quality optimisation

### Critical Customer Sectors



- Focus on continuity for ‘stretched’ sectors such as healthcare and critical infrastructure
- Support environments with workers delivering key frontline services
- Target most resilient customer industries (such as chemicals, e-retail, pharmaceuticals, materials, food etc.)

### Switching On & Ramping Up

- M&E equipment re-commissioning and HVAC optimisation
- Efficiently support multi-phase returns to working/production across building portfolios
- Accelerated use of technology (example, remote diagnostics, predictive analytics etc.)
- Optimising maintenance schedules and programs

### Sustainability

- Renewed focus on a low-carbon future
- Promote circular economy in all supply chains
- Expanded opportunities for energy management equipment and services
- Improved working conditions for all (comfort, health, safety, support tools etc.)
- Selling sustainability outcomes and ‘Sustainability as a Service’

### Healthy & Safe Buildings

- New cleaning, hygiene, and disinfection standards
- Social distance management, routing/navigation, space booking etc.
- Indoor air quality monitoring (benchmarking, sampling, continuous real-time analysis)
- Robots and drones in the workplace etc.

Source: Frost & Sullivan

# POST COVID GROWTH OPPORTUNITIES

### Augmented Operations

- Augmented and virtual reality (AR and VR) in operations to enhance technician performance and optimise costs
- Using artificial intelligence (AI) and machine learning (ML) to gain insights across the organisation from the augmented workforce

### Contactless Services

- Automated supply and contactless delivery of products and services
- Reduce risk of contaminated surfaces through sensor-based interfaces
- Predictive demand planning/tracking enables contactless 'remote' service delivery, payment, and maintenance

### Workplace Optimisation & WCM

- Focus on workplace in terms of design, comfort, safety, efficiency, sustainability, wellbeing, and staff productivity
- Integrated solutions focussed on addressing the business productivity of clients
- Entry barriers are relatively low for building service firms

### Energy Management

- Energy performance contracting is the key growth business model
- Opportunity to compete with energy utilities and ESCOs in industrial and commercial segments
- XaaS, real-time reporting, and sophisticated data analytics for energy

### Data Analytics

- New delivery models creating value-adding insights for customers and suppliers
- Integration of front-end data analytics to complement service delivery skills and drive margins

Source: Frost & Sullivan

# KEY CONCLUSIONS

| | |
|---|---|
| 1 | Post COVID-19 **innovation must focus on the digitalisation of buildings, workplace optimisation, providing healthy and safe buildings, new customer-centric business models, user experience, and holistic productivity solutions**. There will be increased need to focus on organisational resilience, sustainability, and augmented operations. |
| 2 | The UK FM market will see a **drop in revenues of -5.8% in 2020** as a result of the impact of COVID-19. The market will return to growth in 2021 but will not return to 2019 levels until early 2022. Further steady growth will deliver a CAGR of 1.4% to 2025 (versus 1.8% in pre-COVID forecasts). The total global 'lost' revenue for 2020 to 2025 will be $9.6 billion. |
| 3 | COVID-19 will force the FM world to move **beyond Total Cost of Ownership (TCO) and building efficiency**. Next-generation solutions are focussed on the convergence of digital technology and services to deliver value propositions to enhance total business productivity and user experience with sustainability at the heart. |
| 4 | After a period of unprecedented technology innovation and advancement, the emphasis is on shifting to **business model innovation to bring technology to life**. The COVID-19 crisis will accelerate the rollout of technology and the highest impact will be seen in customer-centric business models based on guaranteed outcomes, typically enabled by IoT. |
| 5 | **Partnership, collaboration, and co-creation of services** will be key to meeting the growth objectives and sustainability visions of customers. The factors defining productivity are unique to each company and success depends on the definition, capture, management, and optimisation of core performance data across the enterprise. |

Source: Frost & Sullivan