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Industry Report - Chauffering & Cab Industry

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Construction Industry

Analysing the construction industry and determining the future of the contractors

- *Labour Shortage*
- *Positioning and Ecosystem*
- *Geographical demand*
- *Future Growth and Opportunities*

Executive Summary

The UK construction industry is a vital and diverse sector, contributing approximately 6-7% to GDP with a market value of around £117 billion as of 2021. It accommodates a wide range of participants, including large corporations, small businesses, and self-employed contractors. As of the second quarter of 2023, there were approximately 783,000 self-employed workers in the industry, the highest of all sectors. This diversity is reflected in the market concentration, which features a mix of large players and numerous smaller firms. There are approximately 153,600 construction firms in Great Britain with just one employee, while 47 firms employ 1,200 or more people, illustrating the sector's wide-ranging scale. Thus, the ratio of solopreneurs to large firms in the UK construction industry is approximately 16,660:1. This ratio highlights the significant number of self-employed individuals compared to the relatively few large firms in the sector.

The overall industry is oligopolistic, characterised by high barriers to entry that favour established players and large corporations. However, certain segments of the industry exhibit different behaviours and features. The industry is structured into several segments, including residential construction, commercial construction, infrastructure, and industrial construction.

In large-scale infrastructure projects (e.g., HS2, Crossrail), the market is dominated by a few large firms such as Balfour Beatty, Kier Group, and Laing O'Rourke. These companies have the financial resources, expertise, and capacity to handle complex and extensive projects, leading to an oligopolistic structure in this segment.

Residential projects and small commercial projects have seen significant growth due to government initiatives and a strong demand for housing, competition is fierce among numerous small firms and solopreneurs. Considering the presence of product differentiation, many firms with some degree of market power, non-price competition, and relatively easy entry and exit, the residential construction industry in the UK aligns more closely with monopolistic competition.

Employment within the industry exceeds two million people, covering a variety of roles from skilled trades to professional services, with a heavy reliance on skilled labour. The supply chains are diverse, requiring a variety of materials such as concrete, steel, and timber, and equipment needs are met through both ownership and leasing, depending on project requirements.

The regulatory environment is stringent, with building regulations ensuring safety, energy efficiency, and accessibility. Planning permissions are governed by Local Authorities (LA), and health and safety are overseen by the Health and Safety Executive (HSE). Several key trends and challenges shape the industry, including an increasing focus on sustainability with green building practices and energy-efficient designs, and the adoption of technological advancements such as Building Information Modelling (BIM) and prefabrication.

However, the industry faces challenges from numerous exogenous macroeconomic shocks from recent years including Brexit, impacting labour supply and material costs, and a persistent shortage of skilled labour, exacerbated by an aging UK workforce. Economic uncertainty also affects investment levels and project pipelines.

Despite these challenges, the construction industry in the UK is expected to grow steadily, driven by government infrastructure projects, housing demand, and commercial investments. Innovation and sustainability are anticipated to play pivotal roles in shaping the future of the industry, ensuring it remains a key contributor to the UK economy.

Industry Overview

Current overview of construction industry in the United Kingdom

The construction industry stands as a cornerstone of the United Kingdom's economy contributing significantly to GDP and providing employment opportunities for millions. According to RICS, in 2022, 9% of the entire UK workforce was in the construction industry, contributing 7% of UK GD. In recent years, the industry has witnessed steady growth, driven by factors such as urbanisation, population growth, and government infrastructure investments. It is a diverse sector, accommodating large corporations, small businesses, and self-employed contractors alike.

As of the second quarter of 2023, there were approximately 783,000 self-employed workers in the construction industry in the United Kingdom which was the highest of all sectors as can be seen in Figure 1.

There is medium market concentration in the UK construction industry, characterised by a mix of large players and numerous smaller firms as shown in Figure 2 indicating a partially fragmented market. There were approximately 153,600 construction firms in Great Britain with one employee. On the other hand, there were 47 construction firms with 1,200 or more employees. This proves to be an intensely competitive landscape with players such as Balfour Beatty or Morgan Sindall Group.

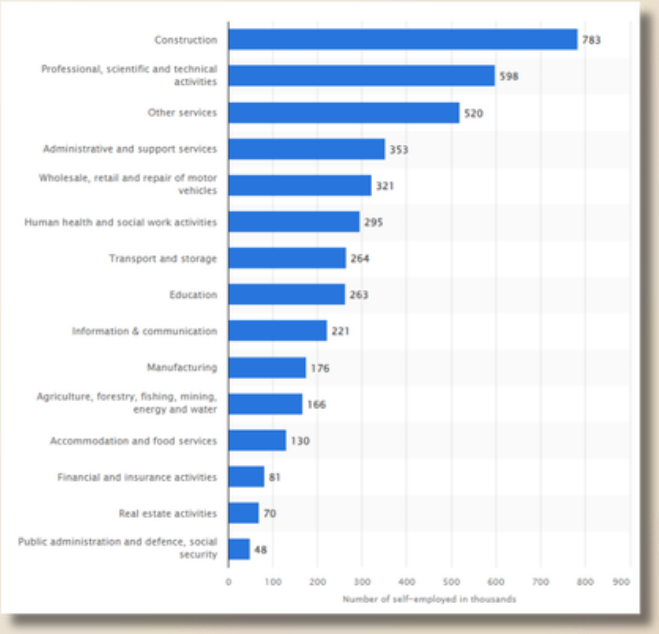


Figure 1: Number of people self-employed in the United Kingdom as of 2nd quarter 2023 in thousands, by industry

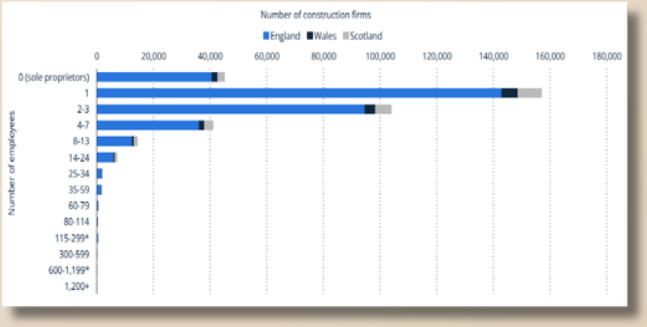
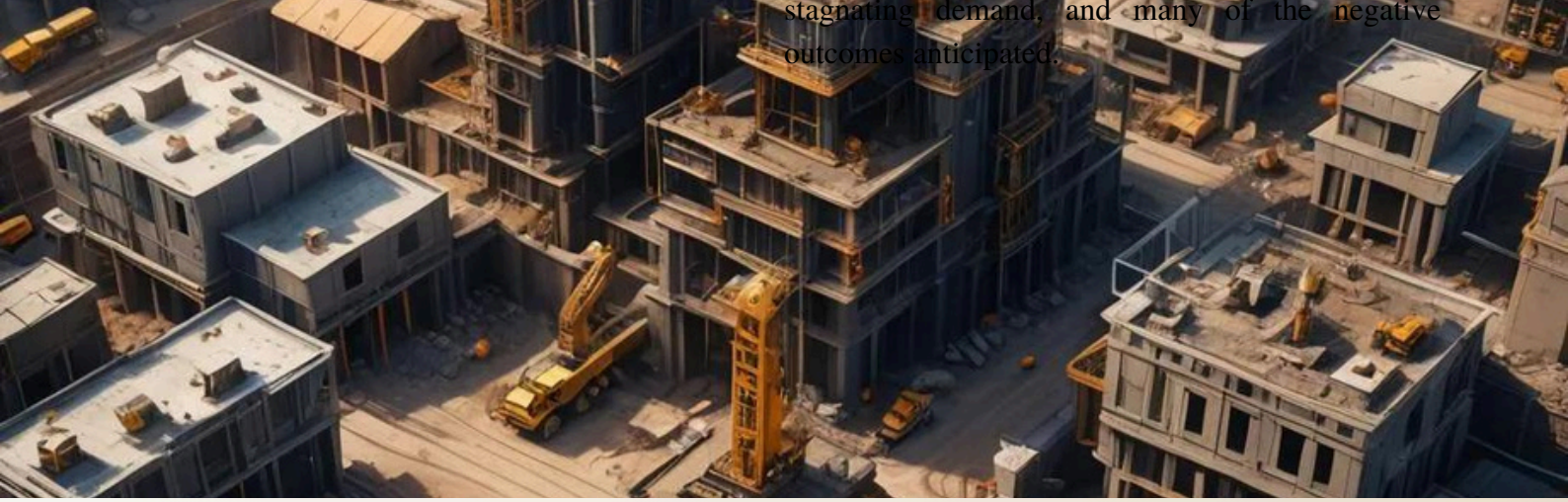


Figure 2: Number of construction firms in Great Britain in the 3rd quarter of 2022, by employment size

The COVID-19 pandemic had a significant impact on the UK's construction industry in 2020 due to strict enforcement of the measures to stop the spread of the disease. Contractors suffered from project postponements, cancellations, delayed completion timelines, and cash flow issues.



stagnating demand, and many of the negative outcomes anticipated.

Despite the difficulties, there was also a strong recovery in 2021 as can be seen in Figures 3 and 4, and against many predictions for 2022 indicating that certain segments of the construction industry would face significant challenges the industry has demonstrated remarkable resilience amid stagnating demand, and many of the negative outcomes anticipated.

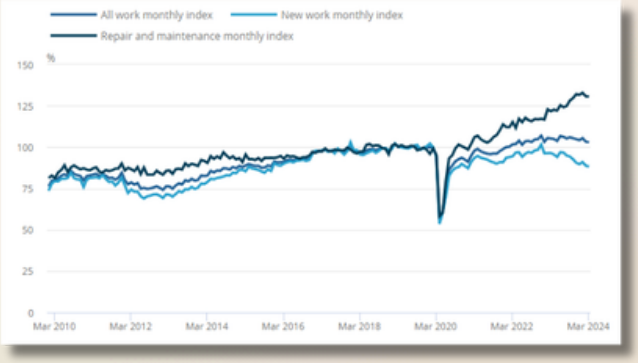


Figure 3: Monthly all work index, chained volume measure, seasonally adjusted in the United Kingdom

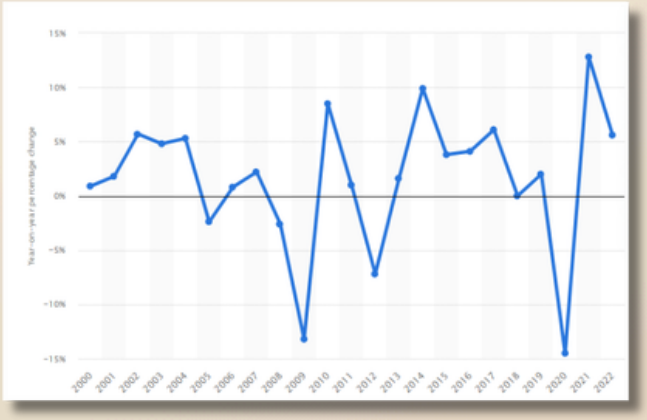


Figure 4: Percentage change on previous year of overall construction output in England, Scotland and Wales from 2000 to 2022

The construction industry's growth has slowed down in early 2023 but that positive outlook remained throughout the country

Key Players and Segmentation

The presence of numerous small firms (SMEs, self-employed contractors and solopreneurs) in the industry indicates a more complex market structure. As of the second quarter of 2023, there were approximately 783,000 self-employed workers and around 153,600 firms with just one employee. This high level of fragmentation is not typical of an oligopoly. Hence, it is more accurately described as a mixed market.

The UK's construction industry can be categorised into segments that form smaller markets offering construction services to varying clients and demands. The largest segment belonged to private housing wherein housing and non-housing repair and maintenance together amounted to almost 39 % of the construction output that year as seen in Figure 5. The pandemic shifted demand patterns, with an increased focus on residential construction due to the work-from-home trend and decreased demand for commercial real estate as businesses adapted to remote working. Post-pandemic recovery follows a similar trend in which work-from-home is more prevalent and normalised than pre-pandemic. Although businesses and the government are trying to get more people into offices through various private and public schemes.

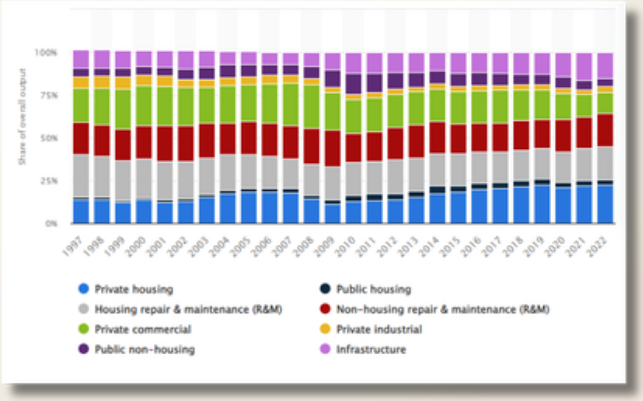


Figure 5: Structure of the construction industry in the United Kingdom from 1997 to 2022, by share per sector

The main indicators show growth, but it is important to remember that the construction industry has been facing many challenges. Inflation increased the price of materials, oil, energy, and more, effectively increasing the prices of construction. Furthermore, there is a constant labour shortage exacerbated by a confluence of socio-political and demographic factors. There is a high demand for construction services but a shortage of skilled workers leading to higher worker costs.

The UK's construction industry size is estimated at USD 398.68 billion in 2024, and is forecasted to reach USD 466.57 billion by 2029, growing at a CAGR of 3.19% during the forecast period, 2024-2029. Within this billion-dollar industry, the major players come out to be Kier Group plc, Morgan Sindall Group plc, Mace Ltd, Winvic Group and ISG plc. Furthermore, the industry is expected to grow during the forecast period due to increased construction investments and upcoming major projects in the United Kingdom.

Figure 6: Industry market leaders in the UK

A fragmented market with multiple segments entails many regional and local players and a few global companies with the emergence of niche markets. Furthermore, the residential and transport construction sectors have a huge potential for growth in the forecasted period, stimulating opportunities for other market players. London's annual percentage change in private rental prices was 4.3% in the 12 months leading up to January 2023.

London's high demand for housing with the increased rental and property prices is indicative of more growth for the residential sector, as construction labour is a derived demand for housing construction. Many small firms and self-employed contractors specialise in niche areas such as sustainable building, heritage restoration, or bespoke renovations. This specialisation allows them to carve out unique market positions despite the dominance of larger firms in other segments. Therefore, the industry's diversity and segmentation, with both large players and a vast number of smaller operators, creates a dynamic environment and a positive current and future outlook.

Geographical demand for construction

The geographical demand for construction varied across the whole UK, with some regions having a significantly smaller proportion of firms and employees in the construction industry where as some, such as London and the South East of England together account for approximately 3 in 10 of the total.

The differences between the regions are clear and are most likely due to various factors. London and the Southeast are economic powerhouses with high levels of economic activity and population density. As major hubs for business, commerce, and investment, these regions attract significant construction demand for residential, commercial, and infrastructure projects. Furthermore, they have received substantial government investments in infrastructure projects, including transportation, utilities, and public amenities. Figure 7 and 8 show how exactly the firms and employees are distributed across the UK.

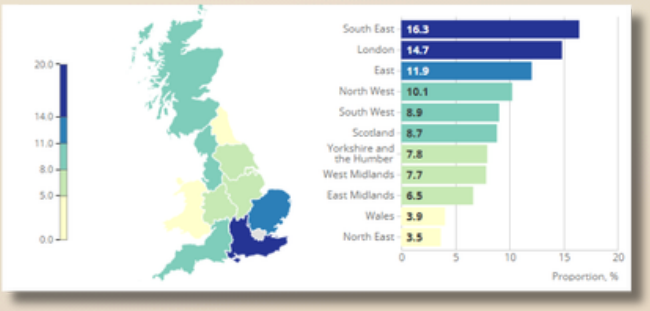


Figure 7 .Proportion of total construction employees in Great Britain, by ITL1 region of registration, classified as of Quarter 3 2022

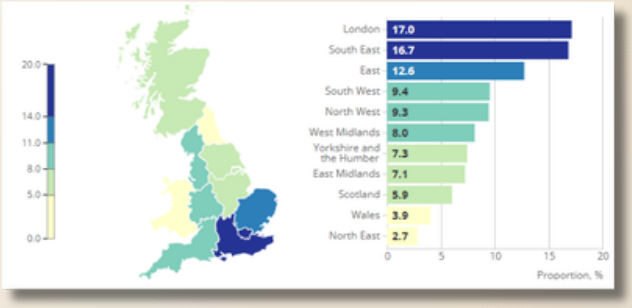


Figure 8. Proportion of total construction firms in Great Britain, by ITL1 region of registration, classified as of Quarter 3 2022

London and the Southeast are economic powerhouses with high levels of economic activity and population density. As major hubs for business, commerce, and investment, these regions attract significant construction demand for residential, commercial, and infrastructure projects. Furthermore, they have received substantial government investments in infrastructure projects, including transportation, utilities, and public amenities. These investments stimulate construction activity and create opportunities for firms. In contrast, other regions face challenges such as lower demand, limited investment in infrastructure, regulatory barriers, and weaker economic fundamentals, which can deter construction firms from operating in those areas.

Self-employed contractors often struggle to find the right contracts due to low demand in some of the areas. Due to that, many places have become increasingly popular for offers posting such as Facebook marketplace or LinkedIn but there are also countless dedicated posting boards like MyBuilder.

Its important to note that the distribution of firms and employee is not the same as construction output value of all work, however, there is strong correlation between them as can be seen in figure 9.

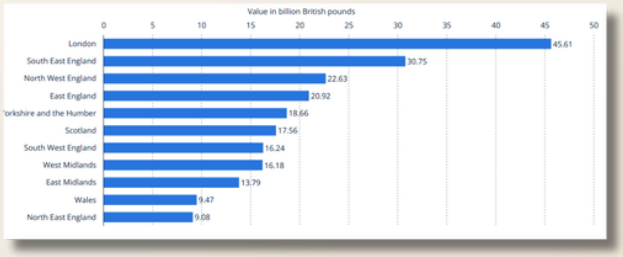


Figure 9. Construction output value of all work in England, Scotland and Wales in 2023, by region (in billion British pounds)

London's output, with £45.61 billions is 48% larger then South East, whereas the distribution of firms and employees does not have that significant difference, however, the rankings are similar for both distributions.

Market Structure Analysis

This section provides an analysis into the economic theory and evidence of the market structure of the overall UK construction industry and the residential construction segment. Focusing on the economic assumptions that hold and characteristic of the wider industry and the segment in which Besa Construction operates in. The conclusion we make is consistent with economic theory and observations, as well as the data gathered from industry sources.

UK Construction Industry

The UK construction industry is best characterised as oligopolistic based on several economic assumptions, each substantiated by evidence and analysis.

The market is predominantly controlled by a limited number of large firms. Companies such as Balfour Beatty, Kier Group, and Laing O'Rourke possess significant market shares, particularly in large-scale infrastructure and commercial projects. For instance, the top ten construction companies in the UK account for approximately 30% of the market share by revenue, with Balfour Beatty alone reporting revenues of £8.1 billion in 2023. This concentration of market power enables these firms to exert considerable influence over market prices and outputs. The dominance of these few firms means that their actions can directly impact the others, leading to interdependent decision-making.

As of the second quarter of 2023, there were approximately 783,000 self-employed workers in the construction industry in the United Kingdom, 374,332 out of which 153,600 construction firms had one employee. On the other hand, there were 47 construction firms with 1,200 or more employees. When considering market size from 2022, the total market share of top 50 construction firms adds up to 20.2% with the top 3 firms having 2.5%, 1.2%, and 1.0% of market share.

Interdependence among firms in the UK construction industry is evident as they must consider the potential reactions of their rivals when making decisions. This characteristic is a hallmark of oligopolistic markets. Changes in pricing, output, or marketing strategies by one firm often prompt responses from others. For example, if Kier Group lowers its bid prices for public contracts, competitors like Balfour Beatty may adjust their bids to remain competitive. Such strategic behaviour can result in price rigidity, where firms avoid changing prices to prevent retaliatory actions, leading to stable prices over time despite fluctuations in demand or costs.

High barriers to entry further define the oligopolistic nature of the UK construction industry. These barriers include substantial capital requirements, economies of scale, access to essential technology or resources, and regulatory constraints. The initial capital investment for a mid-sized construction firm can exceed £500,000, posing a significant challenge for new entrants. Regulatory compliance, such as obtaining planning permissions, can be complex and costly. For example, securing necessary permits for large-scale projects can take several years and involve significant legal and administrative expenses. Established firms benefit from economies of scale and entrenched relationships with suppliers and clients, creating further obstacles for new competitors. According to the Construction Products Association, regulatory and administrative costs can account for up to 10% of a project's total budget, highlighting the significant barriers new firms face.

Product differentiation is another characteristic of the UK construction industry. While basic construction services might appear homogeneous, firms differentiate themselves through specialisation, brand reputation, and technological capabilities. Companies specialise in various sectors such as residential, commercial, and infrastructure projects. For instance, Laing O'Rourke's focus on digital engineering and off-site manufacturing distinguishes it from competitors. Additionally, brand reputation plays a significant role, with firms like Skanska being known for their green building expertise, which helps them secure contracts for environmentally sustainable projects. A 2023 survey by the Royal Institution of Chartered Surveyors (RICS) found that 68% of clients were willing to pay a premium for construction firms with a strong track record of quality and timely project completion.

Non-price competition is prevalent in the UK construction industry as firms often engage in methods to avoid destructive price wars. This includes advertising, product innovation, improved customer service, and loyalty programmes. Companies invest in marketing and branding to differentiate their services. For example, Balfour Beatty emphasises safety and innovation as key components of its market strategy. Product innovation is also significant, with companies investing in new construction technologies and methods to improve efficiency and quality, such as Laing O'Rourke’s use of modular construction techniques. According to a report by the Chartered Institute of Building, UK construction firms increased their spending on research and

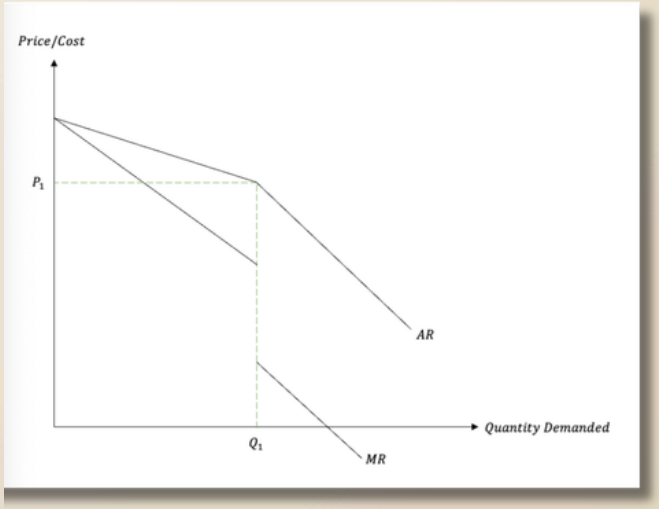
development by 15% in 2023, underscoring the emphasis on innovation and technological advancement.

The potential for collusion, both explicit and tacit, is another defining feature of the oligopolistic structure of the UK construction industry. Collusion can lead to higher prices and reduced output, resembling monopoly outcomes. The industry has a history of investigations into anti-competitive practices. In 2009, the UK Office of Fair Trading fined 103 construction firms a total of £129.5 million for colluding on contract bids between 2000 and 2006. Tacit collusion can occur as firms might implicitly understand the benefits of maintaining stable prices and avoiding price wars. This informal understanding helps firms sustain profitability without formal agreements. A study by the Competition and Markets Authority in 2022 indicated that collusion, even when not explicit, could lead to price increases of up to 15% above competitive levels.

In conclusion, the UK construction industry demonstrates key characteristics of an oligopolistic market, including the dominance of a few large firms, interdependence, high barriers to entry, product differentiation, non-price competition, and the potential for collusion. These features collectively contribute to a market environment that is competitive yet highly concentrated, aligning with the theoretical framework of oligopoly in economic analysis.

Oligopoly Equilibrium

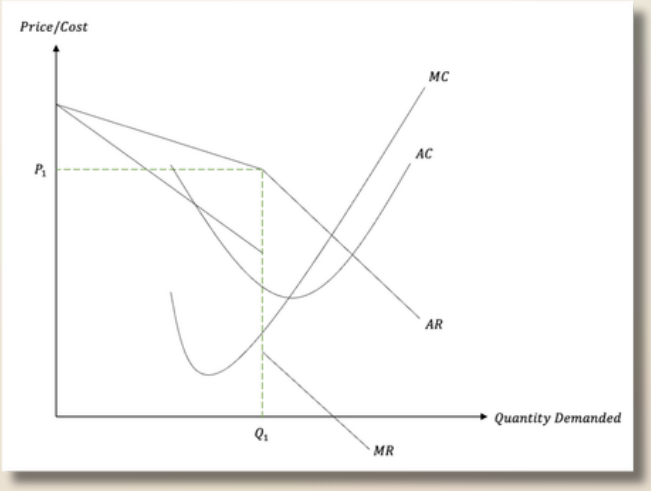
In the short run, firms in the UK construction industry operating under oligopolistic conditions maintain stable pricing strategies despite fluctuations in demand and production costs. These firms possess substantial market power, allowing them to set prices above marginal cost (MC) to maximise profits.



In an oligopoly, the demand curve is more elastic above the price level P1 because of the interdependence and competitive dynamics between firms. The interdependence of firms to each other means they closely monitor each other's pricing strategies. If one firm raises its prices above P1, other firms may not follow suit as consumers will likely switch to competitors who have not increased their prices. Since the percentage decrease in quantity demanded is greater than the percentage increase in price, the demand curve is considered elastic in this range. Hence each firm aims to maintain or increase its market share by keeping prices lower than or equal to their competitors.

Conversely, below P1 is more inelastic wherein if one firm lowers its prices, others follow suit, negating any competitive advantage and leading to a less than proportional increase in quantity demanded. This leads to all firms experiencing a decline in total revenue and profit.

Firms within an oligopoly are profit maximisers and therefore produce at the point where marginal cost (MC) is equal to marginal revenue (MR). This gives a price level of P1 and quantity of Q1.

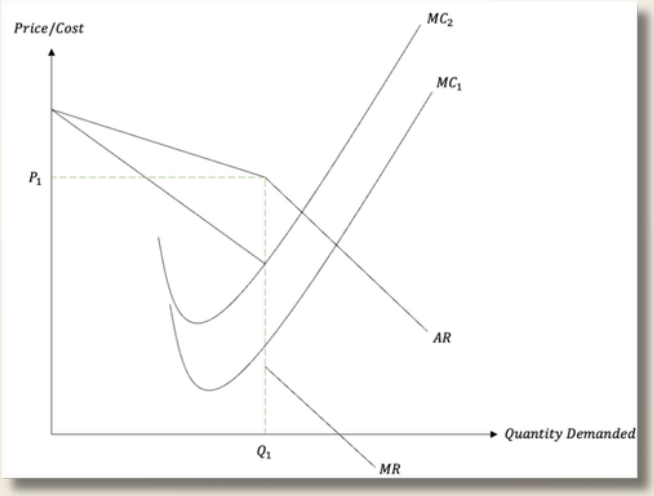


The elasticities of the demand curve (also the AR curve on the graph), provides insights into the discontinuity of the marginal revenue (MR) curve. The marginal revenue (MR) curve, which represents the additional revenue from selling one more unit, typically lies below the demand curve. This 'kink' occurs at the prevailing price level (P1), where the demand curve transitions from elastic above P1 to inelastic below P1. When the demand is elastic above P1, the MR curve drops sharply, indicating that a small increase in price results in a significant decrease in quantity demanded.

Conversely, when the demand is inelastic below P1, the MR curve declines less sharply, reflecting that a price decrease leads to a relatively smaller increase in quantity demanded. This discontinuity highlights the strategic pricing challenges firms face in an oligopolistic market and potential profitability.

This kink leads to a scenario called 'price rigidity' as firms avoid aggressive price competition (lowering prices to attract consumers) that could destabilise the market and erode profitability. Empirical evidence from the UK construction industry supports this concept. For instance, Balfour Beatty reported a pre-tax profit of £164 million in 2023, demonstrating their ability to maintain profitability through strategic pricing and project management despite economic uncertainties. This stability is crucial in the short run as firms navigate immediate market conditions and competitive pressures while safeguarding profit margins. As a result of this discontinuity, firms maintain a price level of P1 even if marginal costs increase within the vertical gap (MC1 to MC2).

In the long run, oligopolistic equilibrium in the UK construction industry is shaped by entry barriers and strategic interactions among firms. Barriers to entry such as high capital requirements, regulatory compliance, and economies of scale limit new firms from entering the market, preserving the dominance of existing players. Firms invest in differentiation strategies, technological advancements, and sustainable practices to maintain competitive advantages and enhance market positioning over time.



Price rigidity persists in the long run equilibrium of oligopoly due to the strategic interactions among dominant firms. These firms recognise that aggressive price cuts could lead to retaliatory actions by competitors, potentially triggering a price war detrimental to all participants, losing profit and revenue. Therefore, firms maintain stable prices above marginal cost to signal stability and maintain profitability. This behaviour is reinforced by customer expectations and industry norms, where sudden price changes may signal instability or lower quality.

Strategic investments in sustainable construction practices illustrate long-run equilibrium in the UK construction sector. Companies like Persimmon Homes have integrated eco-friendly building materials and energy-efficient designs into their projects, responding to regulatory mandates and consumer preferences for environmentally sustainable housing. This differentiation strategy not only enhances market appeal but also contributes to long-term profitability and resilience in the face of evolving market demands.

In conclusion, the UK construction industry's oligopolistic market structure dictates pricing behaviour and competitive strategies in both short run and long run contexts. Price rigidity and strategic interactions among dominant firms characterise short run equilibrium, enabling firms to maintain stable profits amidst competitive pressures. In the long run, barriers to entry and strategic investments in differentiation and sustainability sustain oligopolistic equilibrium, shaping market dynamics and fostering industry resilience. Understanding these economic dynamics is crucial for stakeholders and policymakers aiming to promote fair competition and sustainable growth within the UK construction sector.

Residential Construction and Maintenance Segment

It is accurate to assert that the residential housing construction, repair, and maintenance sector in the UK exhibits characteristics more aligned with monopolistic competition rather than oligopoly. This sector features a different market structure when compared to large-scale infrastructure or commercial construction. This sector is characterised by a large number of firms. These include numerous small to medium-sized enterprises (SMEs) and individual contractors, smaller markets may operate within specific localities.

Monopolistic competition, as the name implies, is a hybrid market structure of perfect competition with a slight monopoly power via firms' price-setting ability and the existence of supernormal profits in the short-run.

The Austrian-American economist Joseph A. Schumpeter identified two main avenues for technical change in economics either via the innovation of products or the innovation of process. The entrepreneur (or the firm who successfully invests in R&D) will deem old inventories, technologies, ideas and skills to be obsolete, "destroying" them in the process of creating a new innovation. Thus, product differentiation plays a crucial role in this market.

While firms offer similar services (like in perfect competition), they differentiate themselves through various means such as eco- friendly building practices, luxury finishes, bespoke designs, or superior customer service. This differentiation allows firms to wield some pricing power, as consumers often choose based on specific preferences for quality, features, branding, or service standards. Research from the Home Builders Federation (HBF) indicates that consumer demand reflects a preference for unique offerings, with significant numbers opting for contractors who provide specialised services tailored to their needs.

Furthermore, customers exhibit varying degrees of loyalty and preference based on perceived quality and reputation, allowing firms to maintain competitive positions without resorting to drastic price reductions. This differentiated market environment encourages firms to continually innovate and enhance service offerings to retain and attract customers amidst competitive pressures. This is particularly relevant to firms and SMEs operating within a geographical area or locality. Building rapport and reputation among residents to maintain a stable and returning client base.

There are 282 thousand jobs in the construction of buildings segment out of 879 thousand jobs in the whole UK construction industry. Additionally, there are 57,752 residential building construction firms in the UK as of 2023, an increase of 4% from 2022, and, assuming equivalent distribution between the output and number of firms in a given segment, there were 145,989 firms from maintenance and repair segment in 2022. The presence of SMEs in this segment ensures a competitive landscape where no single firm dominates. The Federation of Master Builders (FMB) highlights the presence of over 40,000 firms within this sector, underscoring its fragmented nature and the robust competition among companies of varying sizes.

The barriers to entry and exit in this sector are relatively low, facilitating easy market entry for new firms and allowing existing ones to exit if profitability declines. Starting a small construction business typically requires a manageable initial investment, which includes costs for equipment, materials, and compliance with local regulations. This ease of entry fosters a competitive environment where firms are responsive to market conditions and consumer demands.

Independent decision-making is a hallmark of monopolistic competition within this sector. Each firm sets its prices and determines output levels based on individual cost structures, market demand dynamics, and competitive pressures. The absence

of collusion among firms ensures that pricing strategies are driven by individual profit motives rather than coordinated efforts to manipulate market outcomes. Regulatory oversight by authorities like the Competition and Markets Authority further reinforces fair competition practices within the industry.

Firms in the residential housing construction, repair, and maintenance sector possess some degree of market power due to their ability to differentiate their products and services. This allows them to set prices above marginal cost, leveraging factors such as brand loyalty and perceived quality advantages. Trusted local contractors, for instance, can command higher prices as customers are willing to pay premiums for reliability and superior service delivery.

The demand curve for each firm's services in this sector is downward-sloping, indicating that higher prices lead to reduced but not eliminated demand.

In conclusion, the residential housing construction, repair, and maintenance sector in the UK exemplifies monopolistic competition. With its diverse array of firms, product differentiation strategies, low barriers to market entry and exit, independent pricing decisions, some degree of market power, and a demand curve influenced by consumer preferences, this market structure promotes both competition and consumer choice while sustaining profitability for firms able to meet evolving customer demands.

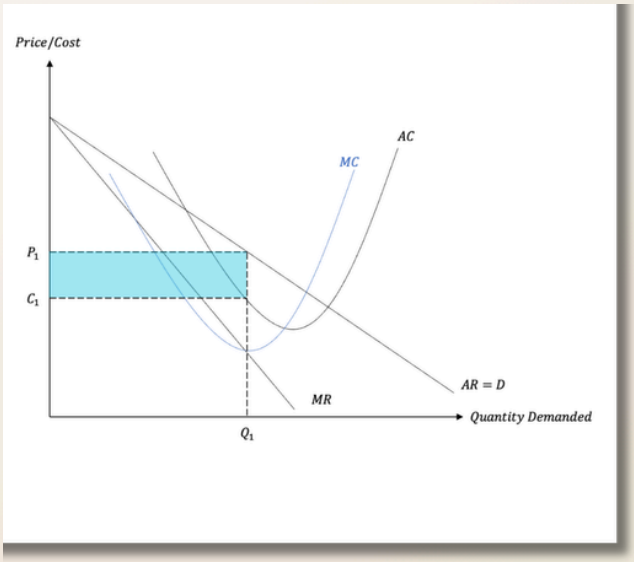
Monopolistic Competition Equilibrium

In the short run, firms in the UK construction industry under monopolistic competition strive to differentiate their offerings to capture market share and establish brand loyalty. Each firm faces a downward-sloping demand curve for its unique products or services, allowing them to exert some control over prices. Pricing decisions are influenced by factors such as quality, customer service, and brand reputation rather than pure competition on price alone. For example, small to medium-sized enterprises (SMEs) like local builders in London differentiate themselves through specialised services, customer relationships, and niche market segments.

The short-run equilibrium behaviours of firms in the market reflect a monopoly long-run equilibrium where the firm maximises profit where MR=MC. This leads to a price point P1 greater than the average cost C1 of producing per unit output. As a result, firms experience supernormal profits in the shaded blue area,

$$\pi = TR - TC$$

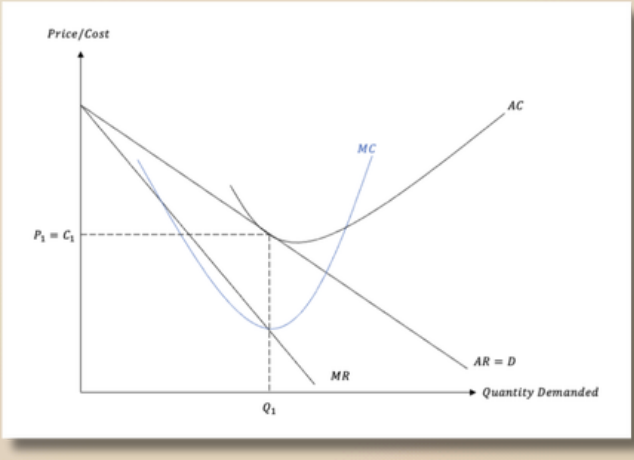
Total revenue (TR) is given by price times quantity P x Q and total cost (TC) is given by average cost times quantity AC x Q.



Entry into the UK construction market is relatively easy for new firms due to lower barriers. This means that the presence of supernormal profits attracts potential entrants, posing a competitive threat to incumbent firms. These new entrants seek to capitalise on the lucrative profit opportunities available, thereby intensifying market competition. However, new firms must differentiate themselves to establish a foothold in the market and compete effectively. Conversely, unprofitable firms may exit the market or adjust their strategies to remain viable. This dynamic adjustment process ensures that economic (supernormal) profits are eroded over time as competition intensifies and firms strive to maintain market relevance.

This highlights the important of product differentiation. Firms differentiate their products to meet diverse customer needs, driving innovation and improving living standards. This differentiation captures niche markets by catering to unique preferences and offering variety that helps build a loyal customer base and remain relevant in the market. Examples such as the adoption of sustain-able construction practices illustrate firms' responses to market demands and regulatory pressures. Companies like Taylor Wimpey UK have integrated eco-friendly building materials and energy-efficient designs into their housing projects, appealing to environmentally conscious consumers and complying with stringent environmental regulations. This proactive approach not only enhances market competitiveness but also positions firms favourably in the long run by addressing societal expectations and regulatory requirements.

In the long run, monopolistic competition in the UK construction industry is characterised by continuous product innovation, entry and exit of firms based on profitability, and limited barriers to entry. Firms invest in research and development, technological advancements, and marketing to sustain competitive advantages and differentiate their offerings. While firms can earn economic profits in the short run, these profits attract new entrants seeking to capitalise on market opportunities.



As more competition enter the market, consumer demands are split between more firms which drain economic profits until it reaches an equilibrium (in the long run) where no supernormal profits are left at P1=C1.

In conclusion, monopolistic competition shapes this segment of the UK construction industry's market dynamics, influencing pricing strategies, product differentiation, and market entry dynamics.

In the short run, firms leverage product differentiation to establish market presence and earn profits. In the long run, competition intensifies as new firms enter and existing firms innovate to maintain competitiveness.

Opportunities

Non-Price Competition

Building brand loyalty within the residential housing construction, repair, and maintenance segment in the UK presents a strategic opportunity for SMEs, rooted in economic principles of monopolistic competition. This market structure allows firms to differentiate their offerings and capture a loyal customer base through several key strategies:

SMEs can leverage brand loyalty to establish a strong reputation for reliability, quality, and customer satisfaction. According to economic theory, in monopolistic competition, firms differentiate their products to create brand identities that resonate with consumers' preferences and values. By consistently delivering superior service and meeting or exceeding client expectations, firms build trust, which becomes a valuable intangible asset. This trust not only fosters repeat business but also enhances the firm's competitive position by reducing customers' willingness to switch to competitors.

Successful SMEs often differentiate themselves by specializing in specific aspects of residential construction, such as eco-friendly building practices, heritage preservation, or high-end renovations. This specialization allows firms to cater to niche markets where consumers are willing to pay premiums for expertise and quality. Economic theory suggests that product differentiation enables firms to exert some control over pricing, moving away from the perfectly competitive model where prices are dictated by marginal costs alone. By focusing on specialized services, SMEs can command higher prices, thereby improving profit margins and sustainability.

Furthermore, brand loyalty empowers SMEs to implement premium pricing strategies. Customers loyal to a particular brand are often less price-sensitive and more willing to pay higher prices for perceived quality and reliability. Economic theory posits that firms in monopolistic competition can set prices above marginal cost due to product differentiation and consumer loyalty. This ability to charge premiums supports revenue growth and profitability, particularly important in industries where service quality and customer trust play pivotal roles in purchasing decisions.

Maintaining strong brand loyalty enhances customer retention rates, reducing the need for costly customer acquisition efforts. Repeat business from loyal clients contributes to a stable revenue stream and improves overall profitability. Furthermore, satisfied customers who trust and value the brand is more likely to recommend the SME to others, generating positive word-of-mouth referrals. Economic theory highlights the significance of customer referrals as credible endorsements that can attract new clients at lower acquisition costs compared to traditional marketing strategies.

In today's digital age, SMEs can amplify brand loyalty through effective use of digital and social media platforms. These channels provide opportunities to engage directly with customers, showcase past projects, and solicit feedback, thereby reinforcing the firm's brand identity. Economic theory underscores the role of information dissemination and consumer awareness in monopolistic competition. By maintaining an active online presence and cultivating positive reviews and testimonials, SMEs can enhance their visibility and credibility, attracting new clients who align with their brand values.

Despite the benefits, SMEs must navigate challenges such as maintaining consistent service quality, adapting to evolving consumer preferences, and managing competitive pressures. Economic theory advises firms to continually innovate and invest in enhancing service offerings to sustain brand loyalty. Strategies such as ongoing staff training, adoption of technological advancements, and adaptation to regulatory changes are essential for long-term success in monopolistic competition.

In conclusion, building brand loyalty within the residential housing construction, repair, and maintenance sector offers SMEs a strategic pathway to differentiate themselves, command premium prices, and foster long-term customer relationships. Grounded in economic theory, these strategies enable firms to leverage product differentiation, establish market presence, and sustain profitability amidst competitive dynamics. By prioritizing customer trust, service excellence, and strategic marketing initiatives, SMEs can effectively harness brand loyalty to achieve growth and resilience in a diverse and competitive marketplace.

Sustainability

Sustainability is a trend spotlighted in many industries, and it is of national and international concern. With firms and governments shaping their long-term strategies and policies to address the problem, this has also filtered down and reflected into recent client preferences. Contractors are increasingly adopting sustainable practices, such as energy-efficient design, renewable energy integration, and more. Green building certifications, such as BREEAM and LEED, are becoming standard requirements for many projects.

Certifications such as BREEAM (Building Research Establishment Environmental Assessment Method) and LEED (Leadership in Energy and Environmental Design) are increasingly sought after in the UK. They certify buildings based on

their sustainability performance across various criteria including energy efficiency, materials used, and environmental impact.

Sustainability initiatives often entail significant upfront costs, including investments in green technologies, materials, and workforce training. These initial expenditures can be prohibitive for smaller firms with limited access to capital. Moreover, stringent regulatory requirements and varying compliance standards across regions add complexity and cost to sustainable construction projects. Educating consumers about the long-term benefits of sustainable practices remains a challenge, as not all homeowners prioritize eco-friendly considerations in their purchasing decisions.

Despite challenges, sustainability presents compelling opportunities for firms. Sustainable construction aligns with a growing consumer preference for eco-friendly homes, providing firms with a competitive edge in a market increasingly driven by environmental consciousness. The UK has stringent energy efficiency standards for new homes. For example, since 2020, new homes in England must meet a Future Homes Standard, which aims for a 75-80% reduction in carbon emissions compared to current standards. Additionally, consumer demand for sustainable homes is growing. According to a survey by YouGov in 2022, 62% of respondents in the UK indicated they would be willing to pay more for a property that is environmentally friendly, reflecting increasing awareness and willingness to invest in sustainable housing options.

Adopting green building practices allows firms to differentiate themselves from competitors, leveraging economic principles of product differentiation to command premium prices and improve profit margins. Over time, sustainable buildings offer potential cost savings through reduced energy consumption and lower operational expenses, enhancing the overall value proposition for homeowners. Furthermore, demonstrating a commitment to sustainability enhances brand reputation and fosters customer loyalty, as environmentally conscious consumers increasingly favour firms that align with their values.

Industry Challenges

Macroeconomic Challenges

The construction industry is susceptible to economic shocks exposing, more glaringly, the underlying financial challenges of companies, especially SMEs. Most notably is the recent pandemic. The COVID-19 pandemic had a significant impact on the UK's construction industry in 2020 due to strict enforcement of the measures to stop the spread of the disease. Construction new orders dropped by 11.9% in 2020 to £55.631 billion, marking the lowest level since 2013. This decline was primarily due to decreases in the private housing, private commercial (mainly entertainment), and public other new work sectors.

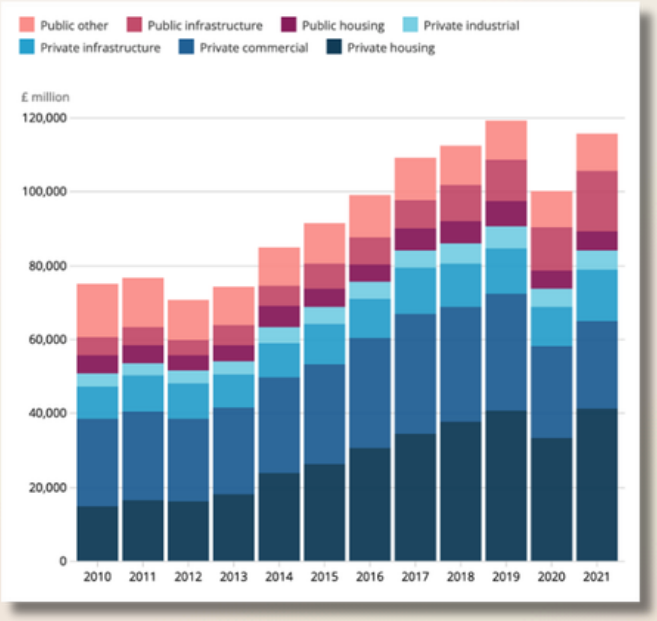


Figure 10: Annual construction output is still below the 2019 pre-coronavirus (COVID-19) pandemic level in 2021 prices

Contractors suffered from project postponements, cancellations, and delayed completion timelines. As a result, the financial challenges of companies became apparent. What emerged as a result is a severe cash flow problem as delayed payments compounded ongoing overheads and operational costs. The ONS provided data showing a sharp decline in construction output during the initial phases of the pandemic. The need to implement health and safety measures, coupled with supply chain disruptions, led to increased costs for materials and labour, which smaller firms struggled to absorb. Many construction firms also faced difficulties accessing finance to sustain operations, particularly challenging for those without significant financial reserves.

The pandemic shifted demand patterns, increasing focus on residential construction due to the work-from-home trend and decreasing demand for commercial real estate as businesses adapted to remote working. Financial strain and reduced project volumes heightened competition among construction firms, necessitating innovation and efficiency improvements to secure contracts. Financial pressures led to increased mergers and acquisitions as stronger firms absorbed weaker ones, aiming to pool resources, optimize operations, and strengthen market presence. While the pandemic posed substantial challenges, it also drove innovation and underscored the importance of flexibility and strategic planning in the construction sector.

Labour Shortages

In recent years, the United Kingdom has been struggling with a labour shortage in the construction industry due to factors such as the pandemic which led many to reconsider their career or Brexit. Post-Brexit immigration policies have stopped the influx of workers from the EU, a vital source of labour for many sectors. Additionally, an aging population has resulted in a smaller pool of working-age individuals. As of now, a significant portion of the workforce nears retirement age and there is a growing gap between the number of experienced workers leaving the industry and the younger generation entering it. With many workers set to retire within the next decade, the industry faces a potential shortfall of skilled workers. The issues are further intensified if we consider that attracting young people to the construction industry is challenging due to its physical demands and the perception of it being less attractive compared to other career options which is reflected in the

decrease of workers in the industry as can be seen in Figure 11.

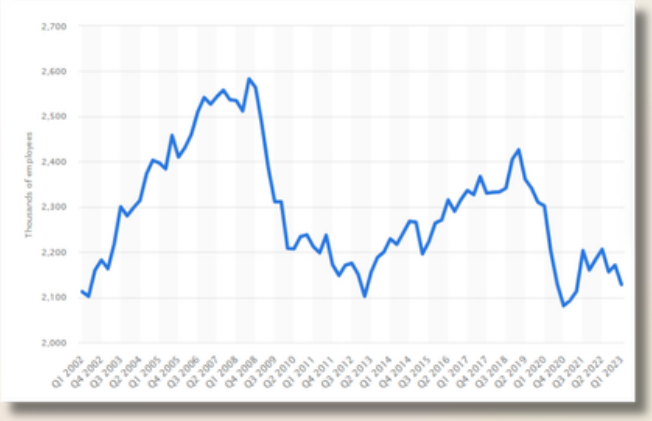


Figure 11. Number of employees in the construction industry in the UK 2002-2023, by quarters

To address the labour shortage, many companies and government organise job fairs and programs aimed at boosting employment in the construction sector however, recruitment through various agencies, online job boards and referrals remain the most effective in the industry.

Regulatory Landscape

Navigating regulatory challenges is crucial for SMEs in the UK housing construction industry, impacting operational efficiency and financial viability. Key hurdles include stringent building regulations covering structural integrity, fire safety, and energy efficiency. For instance, data from the Ministry of Housing, Communities & Local Government indicates that compliance with energy performance standards in new homes is mandatory, aiming for significant reductions in carbon emissions.

Securing planning permission is another critical issue, often prolonged and varying in complexity by location. Delays in approvals can disrupt project timelines and escalate costs, affecting SME profitability. Health and safety regulations require robust compliance measures, with statistics from the Health and Safety Executive highlighting ongoing efforts to reduce workplace accidents and ensure safe construction practices.

Environmental regulations, aimed at reducing environmental impact and promoting sustainability, add complexity and cost. According to industry reports, integrating green technologies and sustainable practices not only complies with regulations but also appeals to eco-conscious consumers, enhancing market competitiveness. This is because the UK government has committed to achieving net-zero greenhouse gas emissions by 2050. This goal influences policies and regulations impacting the construction sector, encouraging the adoption of sustainable building practices to reduce carbon footprints.

Labour regulations, encompassing employment rights and working conditions, require SMEs to navigate complex laws to avoid legal risks and maintain workforce satisfaction. Additionally, financial regulations concerning funding, taxation, and insurance further challenge SMEs' financial management and operational planning.

Recommendations

Non-price Competition: Brand Building, Focusing on Geographical Demand

In monopolistic competition, firms differentiate their products or services to stand out in the market. For Besa Construction, focusing on brand building within the West London area can enhance visibility and attract local clientele. Practical recommendations include:

- **Building a Strong Brand Identity:** Develop a compelling brand message that highlights Besa Construction's strengths, such as quality craftsmanship, reliability, and customer satisfaction. Utilize local media, social media platforms, and community engagement to enhance brand awareness.
- **Customer Relationship Management**: Foster strong relationships with existing clients through personalized service, timely communication, and post-project follow-ups. Positive word-of-mouth referrals can significantly enhance reputation and attract new customers within the local community.
- **Showcasing Expertise and Specialisation**: Highlight Besa Construction's expertise in specific types of projects or services that are in demand in West London. This could include heritage renovations, eco-friendly construction practices, or high-end residential renovations, depending on local market trends and preferences.

Cash Flow Resilience: Pricing Services for Profit Margins

Maintaining healthy cash flow is critical for SMEs to weather economic uncertainties and unforeseen expenses. In monopolistic competition, firms can set prices above marginal cost to ensure profitability. Recommendations for Besa Construction include:

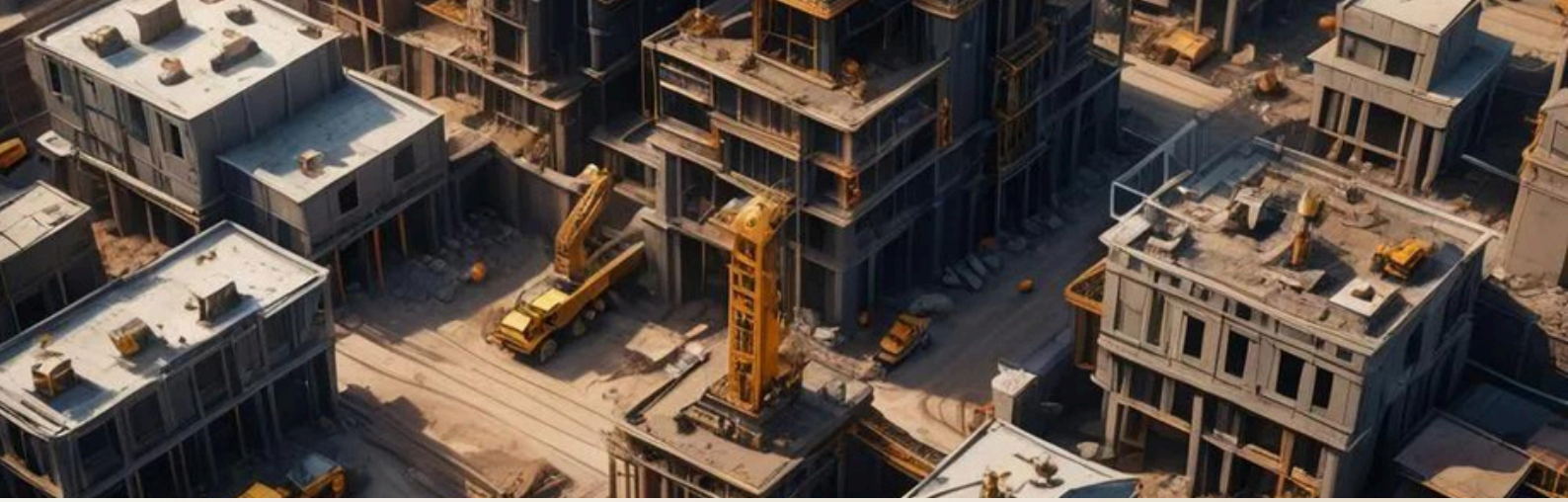
- **Cost Analysis and Pricing Strategy:** Conduct a detailed cost analysis to determine the true costs of delivering services, including materials, labour, overheads, and a reasonable profit margin. Set prices that reflect these costs while remaining competitive in the local market.
- **Monitoring and Adjusting Pricing:** Regularly review pricing strategies based on market conditions, project complexity, and competitive landscape in West London. Adjust pricing as necessary to maintain profitability and respond to changes in demand.

Pricing Strategy: Price Discrimination or Dynamic Pricing

Monopolistic competition allows firms to adjust pricing strategies based on market segmentation and project characteristics. Practical recommendations for Besa Construction include:

- **Price Discrimination:** Tailor pricing strategies to different segments of clients in West London based on their willingness to pay, project size, or specific service requirements. This could involve offering premium services or additional features for clients willing to pay a higher price.

- **Dynamic Pricing:** Implement dynamic pricing strategies that adjust based on demand fluctuations, project timelines, or competitive bids. For instance, offering discounts for larger projects or adjusting prices seasonally based on construction industry trends in the local market.
- **Transparent Pricing Policies:** Maintain transparency in pricing policies to build trust with clients. Clearly communicate the value proposition of services offered at different price points, ensuring clients understand the benefits associated with their investment in Besa Construction.



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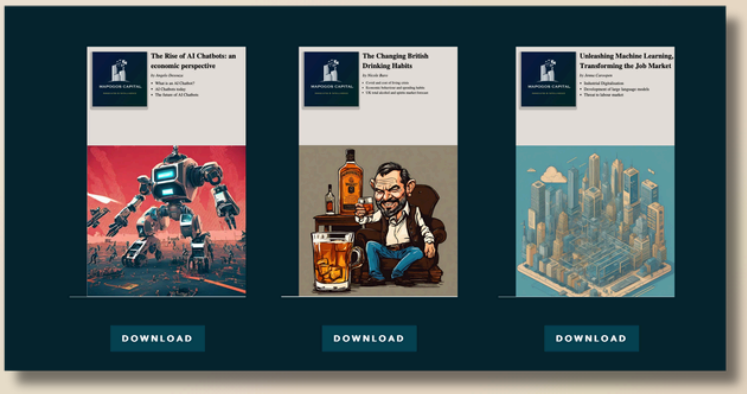

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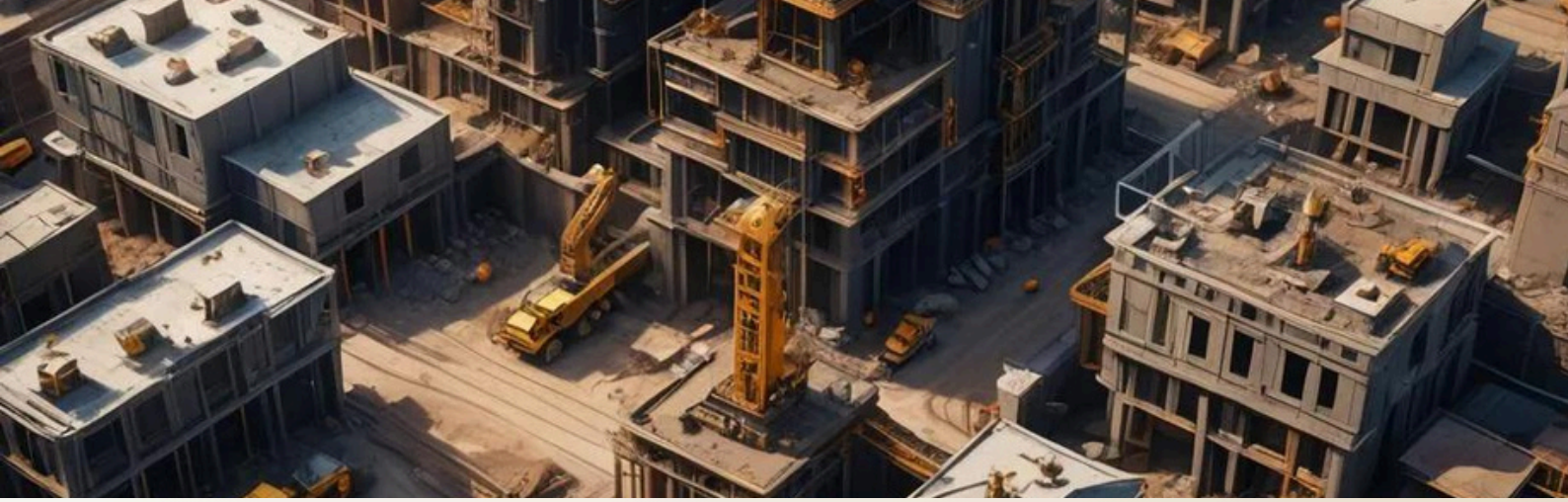
Our mission is to combat financial illiteracy on a global scale and contribute to the betterment of our society. To fulfil this purpose we concentrate our efforts on the backbone of our economy - assisting business owners in making more informed and intelligent decisions.



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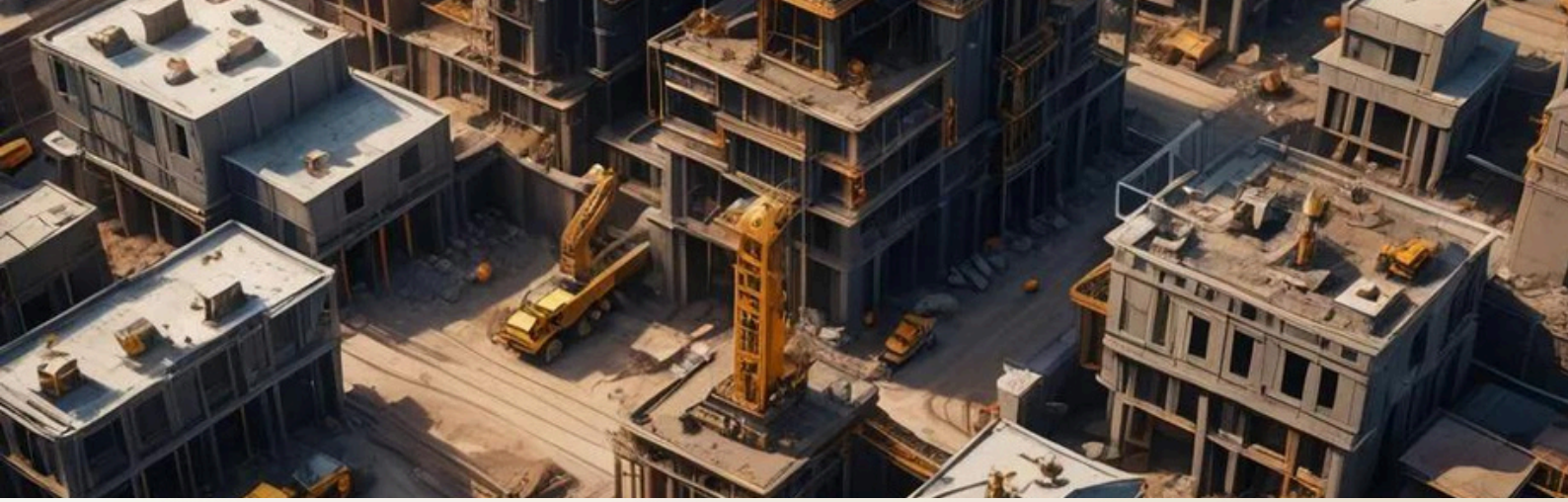

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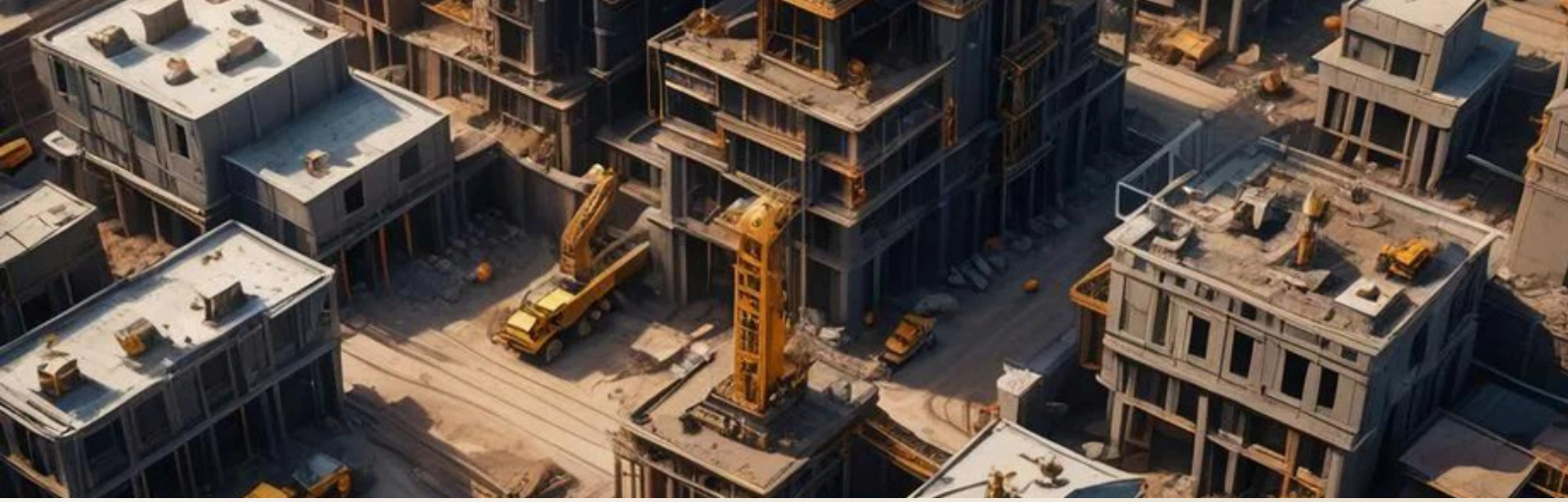

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