McKinsey&Company

Building across borders: The state of internationalisation in European public construction tenders

Capital Projects & Infrastructure October 2018

Authored by:
Niklas Berglind
Martin Hjerpe
Erik Sjödin
Jacob Staun

Capital Projects and Infrastructure
October 2018

Designed by the US Design Center
www.mckinsey.com

Building across borders: The state of internationalisation in European public construction tenders

Executive summary

Government tenders are one of the main engines of the European infrastructure sector. The extent to which tenders can foster effective competition, within and across borders, is an important determining factor for realising the full potential of the construction sector, for governments, tax payers, and private companies. Today, there are low levels of participation by international contractors in European public tenders, with no sign of an increase over time. Although an increasing number of European construction workers are posted abroad in another EU country, the majority are working on private sector contracts or as subcontractors to domestic companies. Thus, while the private construction market in Europe is already international, the market for publicly tendered infrastructure and building projects is not.

Participating in tenders abroad might not be the right strategy for every construction company, nor is it a priority for every tendering authority to attract foreign bidders; some may, on the contrary, prefer working with local contractors[1]. But for many, there is large, untapped potential in this €100 billion ($125 billion) market. For companies seeking to internationalise, there is the opportunity to enter a high-value market with a predictable and transparent landscape. Government agencies could benefit from a wider choice of available expertise, more bidders for every tender, and increased value for money.

Based on our analysis of more than 150,000 public construction contracts across 15 countries, we explore strategies for overcoming the obstacles to a more international construction tender market. Our research found:

1. **Low levels of international contractors in public tenders.** Whereas other areas of the European construction market are already integrated and internationalised, only 4.5 percent of large—over €1 million ($1.25 million)—public tenders were awarded to foreign companies, including their local subsidiaries, in 2017. In a comparison of cross-border bidding in 44 industries, construction ranked 39th, with only highly local services such as education and recreation behind it in the list. The number of foreign contractors in public construction has not visibly changed over the past five years.

2. **Significant difference between European countries.** In Norway, international firms account for more than 15 percent of awarded contracts, compared with just 0.1 percent in France. That said, in Norway and elsewhere, regional companies from neighbouring countries with the same (or similar) language dominate foreign tender wins, whereas companies from outside Western Europe are barely visible at all. For example, Polish companies, which have a large presence as low-cost subcontractors and in smaller building projects across Europe, have won no more than 40 public construction tenders in Western Europe over the past five years.

1 The EU Procurement Directive generally does not allow tenders to include local content or local labour requirements, or any other criteria that limit potential suppliers to a specific geography, or discriminate against bidders from other EU member states.

There are also striking differences in the way agencies structure and carry out tenders and in how they evaluate bidders. Europe's largest economies often find themselves at different ends of the spectrum. The United Kingdom is one of the leaders in joint and central purchasing and in issuing large contracts with the potential to attract the leading companies from around the continent. Germany and France, in contrast, have extremely fragmented buyer landscapes, with large numbers of small contracts and a local supplier focus. Our analysis shows that German construction tenders are evaluated 90 percent of the time on price alone, whereas British and French bidders in 80 to 90 percent of tenders need to compete on quality criteria too—and these measures can also vary considerably.

3. **Varying roles of price and quality criteria.** The larger the contract, the more emphasis buyers typically put on quality when they evaluate bidders. At the same time, the larger the contract, the more often foreign companies win. However, this does not mean that foreign companies are more likely to win because quality is weighted higher than price; on the contrary, the share of foreign winners is consistently three to five percentage points higher in price-only tenders across all contract size classes, including the very large ones, compared with price-and-quality evaluations. Instead, this reflects the local knowledge advantage enjoyed by domestic companies—and, in some cases, a tendency for quality criteria to explicitly favour local contractors.

   Our deep dive on national transport infrastructure agencies in Sweden and Denmark illustrates some of the difficulties that foreign bidders face when it comes to pricing and making tactical decisions on tender participation. At Trafikverket, a Swedish agency that actively promotes international bidders, foreign companies participate rather frequently. However, foreign firms are only half as likely to win as Swedish companies, and half as likely to offer the lowest bid price. They are much more likely to place an inaccurate bid—over 10 percent more expensive than the lowest bid—a pattern that can also be observed at Vejdirektoratet, the Danish Road Directorate. Foreign companies are also more likely to participate in highly competitive tenders with five or more bidders, whereas local companies more often pursue tenders where there are no or few competitors.

With this analysis in mind, we propose best practices for tendering authorities or construction firms that wish to look abroad:

Tendering authorities that wish to attract international bidders

Attracting international bidders can increase competition and ensure that the most competent, relevant contractors are in the race for every project. Statistical analysis indicates that each additional bidder in a tender, on average, reduces contract costs. And in smaller national markets, reaching international contractors is often the only possibility to increase the number of bidders, or even to find the right expertise for specialised contracts. In its 2017 announcement[2], the European Commission named public procurement as a focus area for improvement of government operations, and increased cross-tender bidding one of the prioritised levers. In the member states, many large infrastructure

2 "Increasing the impact of public investment through efficient and professional procurement," European Commission, 3 October 2017, http://ec.europa.eu/growth/content/increasing-impact-public-investment-through-efficient-and-professional-procurement-0_en.

agencies already see these benefits and are actively promoting international participation; nevertheless, construction companies say they still see a bias against foreign bidders as the single biggest barrier to cross-border tendering. To counter this, we suggest several measures that can be taken at the European, national, and individual agency level, ranging from broad policy considerations to information and education efforts, as well as design choices in specific tenders.

After bias, regulatory challenges are cited as the next-biggest tendering hurdle by construction companies, as companies must navigate complex and diverse policies from one country to the next while ensuring full compliance with local regulation in each segment. To overcome this complexity in the short term, governments could provide a central resource that includes regulatory guides and lists of the documentation required to build in their country. National agencies responsible for tendering could also offer additional information and training, and encourage sharing of best practices between local and decentralized procurement agencies, to improve tenders—with or without international bidders.

Tendering authorities hoping to attract a broader range of bidders could consider restructuring their contracts for flexibility and value: for example, by allowing participants to choose to bid on a small part of a contract or the full package, or by separating more advanced tasks such as bridge and tunnel construction or building special-purpose buildings from generic, volume-driven tasks such as ground works. Agencies could also make all documentation available in more than one language—typically including English—and make it possible to submit bids in those languages. These measures would help not least small and medium-sized enterprises, which often otherwise lack the resources to manage the complexity of cross-border bidding.

Construction firms seeking to formulate dedicated tender strategies

With a dedicated, holistic strategy for public tenders, and the right capabilities to back it up, many construction firms can overcome the barriers to cross-border bidding. Tendering strategies should reach beyond the mechanics of the individual bid and make use of the unique transparency and predictability of public tenders. Market analysis followed by targeted, proactive market contacts—those made before a tender is issued, in accordance with the relevant regulations—enable more accurate decision making. This market analysis, combined with a data-based approach to tender pricing, can enable higher win rates in the tenders the companies choose to participate in while reducing waste on unsuccessful bids.

The strategy must be supported by a strong infrastructure that includes tailored process guidelines, tools, and organisation for every step in the cycle. Construction companies should develop dedicated commercial and analytical expertise to identify the relevant tenders, conduct the right analyses, make more targeted decisions on participation, and formulate better bids with more accurate pricing. These teams should also be responsible for collecting the insights and lessons learnt over time in order to facilitate continuous improvement.

Ultimately, it's not only the construction companies that will benefit through effective tender strategies, but also the tendering authorities—and the taxpayers who finance them—as they receive increasing numbers of more competitive and more relevant tenders from all parts of the European Union and beyond.

The value at stake in public construction tenders

The construction sector is rapidly internationalising. According to the McKinsey Global Institute (MGI) report *Reinventing construction: A route to higher productivity*, firms with more than $1 billion revenues outside the home market of the mother company, grew from 36 to 89 between 2005 and 2015, a 250 percent increase in ten years. In this traditionally domestically focused industry, MGI notes, new foreign entrants and a market environment with increasing transparency have the potential to cause significant disruption. In Europe, the trend is visible in trade data: intra-European direct exports of construction services grew by 43 percent between 2010 and 2015, whereas total construction output only increased 7 percent.[3] Over the same period, the number of European construction workers posted by their employer to another member state increased by about 40 percent; more than 600,000 such postings were reported in 2015.[4] The clear majority of these—around 80 percent—originated from Central or Eastern European countries, and 96 percent were posted in Western Europe, reflecting the long-established practice whereby construction firms across the European Union use subcontractor personnel from member states with lower labour costs.

MGI's *Reinventing Construction* also highlights the construction industry's enormous potential for productivity gains. According to the report, boosting construction productivity could add €400 billion ($460 billion) to the European economy, using the same costs and resources as today. One of the most important levers to achieve this is tendering and contract management; improving these processes could achieve 6–7 percent global savings. In this context, it is critical to take a closer look at government tendering, one of the construction sector's key engines. The extent to which public tenders can foster effective competition and adoption of best practices, in full regulatory compliance, is an important determining factor for realising the sector's potential for governments, tax payers, and private companies.

3 Direct exports defined as "construction services carried out abroad" by an EU28 actor in another EU28 country. Data from Eurostat, *International trade in services (since 2010) (BPM6)* table *bop_its6_det*; output data from Eurostat, *Annual detailed enterprise statistics for construction (NACE Rev. 2, F)*, table *sbs_na_con_r2*.

4 Based on *Posting of workers, Report on A1 portable documents issued in 2015*, European Commission, 2016. A worker can be posted several times, so the number of posted persons is lower than the number of postings.

Every year, European governments invest about €200 billion ($250 billion) in building, upgrading, and maintaining roads and railways, schools, hospitals, public housing, stadiums, power plants, and just about anything else that can be built.[5] While in-house infrastructure agencies do some of the work, the main instrument for government construction activities are competitive public tenders for private contractors. In the past five years, more than 200,000 public construction works contracts, worth about €100 billion ($125 billion) per year,[6] were awarded in Western Europe,[7] far more than for any other product, service, or sector.

For the European Commission, public procurement is a prioritised lever for improving government performance and for strengthening the single market. In its communication Making public procurement work in and for Europe, published in October 2017, the Commission writes: "Public authorities can use [tenders] in a more strategic manner, to obtain better value for each euro of public money spent and to contribute to a more innovative, sustainable, inclusive and competitive economy. Moreover, improving procurement is part of a stronger single market."[8] International, in particular intra-European, cross-border bidding for tenders is promoted in various ways, and the Commission notes that "the penetration of cross-border purchasing in public procurement is a gauge of the extent to which public procurement rules have successfully created transparent and competitive markets for public purchasing across all EU Member States."[9] Whereas international participation does not necessarily increase quality or reduce costs for governments, there is ample evidence that a higher number of bidders in tenders reduces prices and actual costs of the procured service[10]; and in limited markets, reaching beyond borders is often the only way to achieve that, or even to

5 Estimate based on Eurostat investment statistics (2014): *Cross-classification of gross fixed capital formation by industry and by asset (flows)* table *nama_10_nfa_fl*, with asset class *Total construction and industry Public administration, defence, education, human health and social work activities.*

6 Estimates-based contract award notices in EU TED (Tenders Electronic Daily, ted.europa.eu) for works contracts with CPV (Common Procurement Vocabulary) codes 450–454. The period covered is January 2012 to August 2017. The analyses in this article are based on TED data unless stated otherwise. In total, 154,859 contracts in 83,998 separate tenders were analysed.

7 The geographic scope of this report includes the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. These countries account for approximately 85 percent of construction contracts in the EU, Norway, and Switzerland.

8 *Making Public Procurement work in and for Europe*, European Commission, 2017, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2017%3A572%3AFIN.

9 *Measurement of impact of cross-border penetration in public procurement*, European Commission, 2017, https://publications.europa.eu/en/publication-detail/-/publication/5c148423-39e2-11e7-a08e-01aa75ed71a1/language-en.

10 See for example, Hanák, T. and Muchová, P., "Impact of competition on prices in public sector procurement," *Procedia Computer Science*, 64, 2015, pp. 729-735; or Amaral, M., "Expected Number of Bidders and Winning Bids: Evidence from the London Bus Tendering Model," *Journal of Transport Economics and Policy*, Vol. 47, No. 1, January 2013, pp. 17-34 for an analysis of the actual operating costs in contracts with different numbers of bidders.

find any bidders with the right competences for highly specialised projects. To this end, the mandatory publication of all tenders on TED (Tenders Electronic Daily), a Europe-wide open online tender repository,[11] is a key enabler, as is, of course, the legal requirement that all tenders must be open to bidders from other member states.

Consequently, tendering authorities are increasingly looking beyond their national borders when planning their procurement. Often struggling with too few or poor-quality proposals in their bids, more and more authorities are seeking to take advantage of the single market and the benefits of harmonised tendering procedures in order to raise competition, put pressure on prices, reduce waste and inefficiencies, and attract the best contractors from near or far. They are moving from a mere compliance approach to EU tenders—publishing on TED and accepting international bidders—to active and targeted promotional strategies. In Sweden, the Association of Public Housing Companies (SABO) recently published its report Making it easier for foreign construction companies in Sweden, in which it emphasised the importance of attracting more foreign bidders to construction tenders and listed 13 specific proposals to encourage international participation.[12] Trafikverket, the Swedish Transport Administration, has dedicated staff for international tender promotion; the Norwegian National Rail Administration has changed its contract structure to make tenders more attractive to large foreign companies; meanwhile, in the Netherlands, the Dutch infrastructure agency has visibly stepped up its efforts to court foreign companies.[13]

Construction firms across Europe are closely following this development—with anxiety or optimism. On the one hand, foreign competitors that come with lower prices, or better technology and quality, may threaten traditionally protected home markets. Longstanding customer relationships may not suffice when facing superior competition in tenders that by law must be open to all firms, local or foreign. On the other hand, open public markets offer great potential for international expansion, and TED provides a range of options that can easily be matched against a company's business profile and geographic strategy. Entering a foreign market brings both risks and costs—although direct cost disadvantages related to labour, for example, can be levelled by using local or third-country subcontractors. However, by taking advantage of the transparency and predictability inherent in public contracts, and the clearly defined criteria and procedures for bidding, many construction firms could use them as an initial stepping-stone when entering new countries, or strengthen their position in markets where they are already present. Clearly, many players should have a strong case for building a structured and dedicated public market strategy.

International contractors in the Western European government construction market: what does the data say?

With both buyers and sellers on the internationalisation track, supported by the European Commission, we might expect to see a high—and growing—number of international construction contractors engaged in public tenders. Yet, this is not the case.

---

11 See ted.europa.eu. The TED reporting requirement applies to tenders above value thresholds defined by the European Commission. For public works contracts, the threshold is currently (2018) €5,548,000 ($6,921,000); authorities are encouraged to publish smaller contracts too.

12 Some of the proposals are adopted here; for the full list, see *Making it easier for foreign construction companies in Sweden*, SABO, 2016, www.sabo.se.

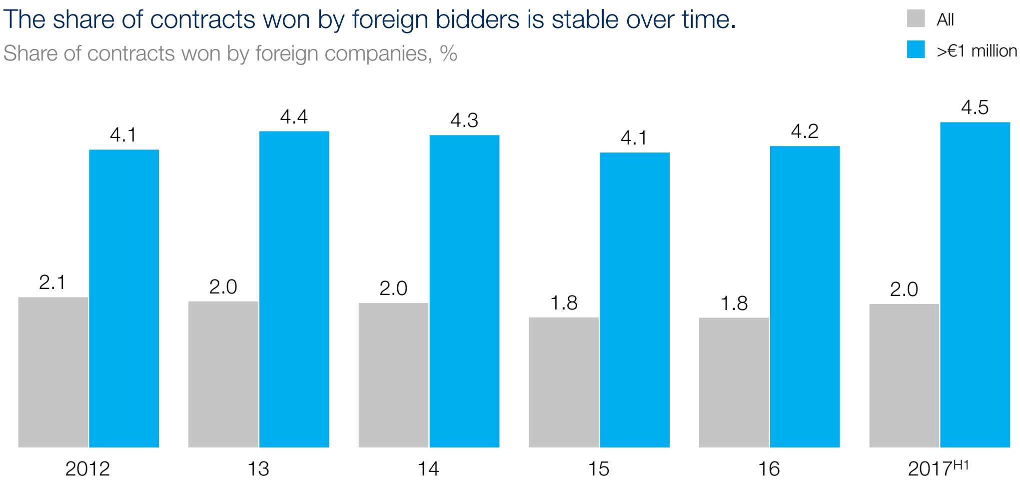
13 "Rijkswaterstaat moet niet leuren in buitenland aldus Verhagen", Bouw en Uitvoering, 8 April 2015, https://www.bouwenuitvoering.nl.

We analysed more than 150,000 public construction contracts across the 15 major countries in Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. We found that across these countries, the share of public construction tenders won by foreign companies has remained consistently low at around 2 percent since 2012 (Exhibit 1).[14] Looking solely at contracts worth over €1 million ($1.25 million), which are more likely to attract foreign interest, the trend is equally stable at around 4 percent. Out of 44 product and service groups measured by the Commission, construction has the fifth-lowest share of direct and indirect cross-border contract awards.[15]

Exhibit 1

The share of contracts won by foreign bidders is stable over time.

Share of contracts won by foreign companies, %



SOURCE: TED; McKinsey TREAT

There are striking differences among these countries as to how open—or attractive—their public markets are to foreign companies (Exhibit 2). In Norway (which is not a member of the EU) and Finland around 15 percent of public construction contracts are awarded to foreign companies. In Spain and France, that number is less than half a percent. Judging by the numbers, international firms find it harder to cross mountains than water: Italy, Switzerland, and Austria are all found at the very bottom of the list, while Ireland and the UK are both in the upper half in terms of foreign winners. Large French, Dutch, and other European contractors are relatively visible on the UK and Irish markets, perhaps due to lower language barriers experienced in English-speaking countries. That said, British companies are remarkably inactive—or unsuccessful—in the Irish market, and vice versa, accounting for only a fraction of foreign tender wins—an unusual pattern in the rest of Europe, as the next section will illustrate.

14 Unless stated otherwise, foreign/international bidders are classified as companies incorporated in a different country from the tendering authority, including their international subsidiaries. For instance, Skanska is classified as a Swedish company and hence foreign in all other states, even if operating through a local subsidiary (for example, "Skanska UK plc"). They were identified using various techniques, including reported location directly in the tender; matching names against a list of 300 large construction firms; keyword search for national company forms (such as GmbH for German-speaking firms), and manual controls.

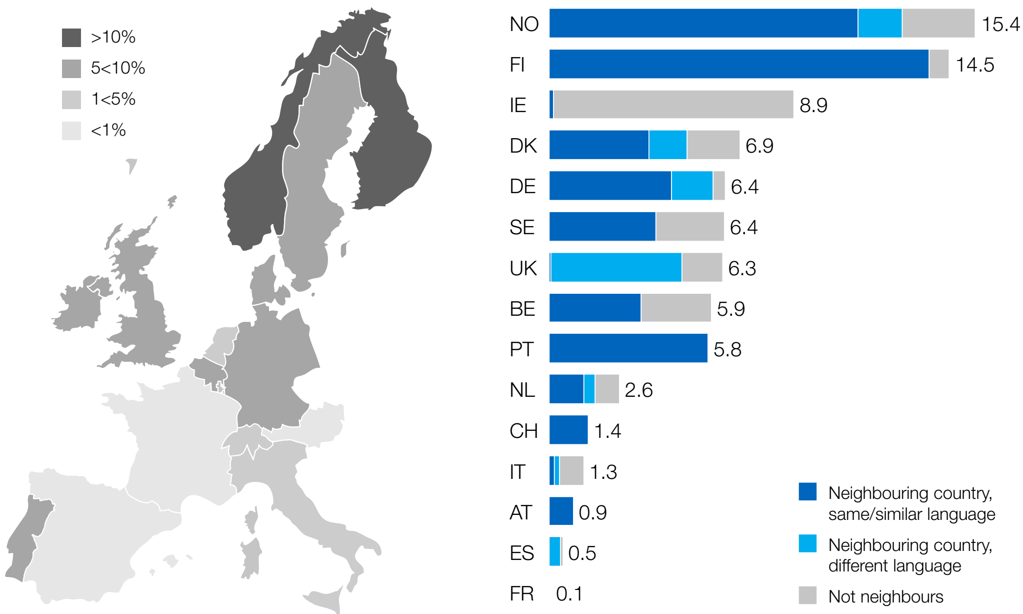
15 Agricultural products, education and training services, transport services, and recreational services have lower share of cross-border contracts. The highest shares of international contractors are seen for pharmaceuticals and medical devices, laboratory and precision equipment, IT software, industrial and electrical machinery.

Language is a contributing factor to explain these differences among states, but certainly not the only one. Many structural factors specific to the country (such as authority/buyer fragmentation, regulatory landscape, culture), the construction market (for example, local competition, industry-level margins, ease of access to local subcontractors and suppliers), and tendering practices (for instance, contract sizes and structures, procurement and evaluation methods, market communication) determine the openness and attractiveness of a country's tender market.

Exhibit 2

The Nordic tender market is relatively integrated, whereas France and Spain stand out with an extremely low share of foreign winners.

Share of contracts >€1 million won by foreign companies by country, 2012–17, %



SOURCE: TED; McKinsey TREAT

Not-so-foreign foreigners

The successful "foreign" or "international" companies are not necessarily very foreign at all. Most often, they come from a neighbouring country, where the same (or a similar) language is spoken; this is the case in 60 percent of the international contracts we studied. In practice, many of these are companies that already have a strong domestic presence. Language is more important than borders alone: neighbours without a common language account for only a fifth of foreign-won contracts, even if they make up about half of the potential neighbour countries.

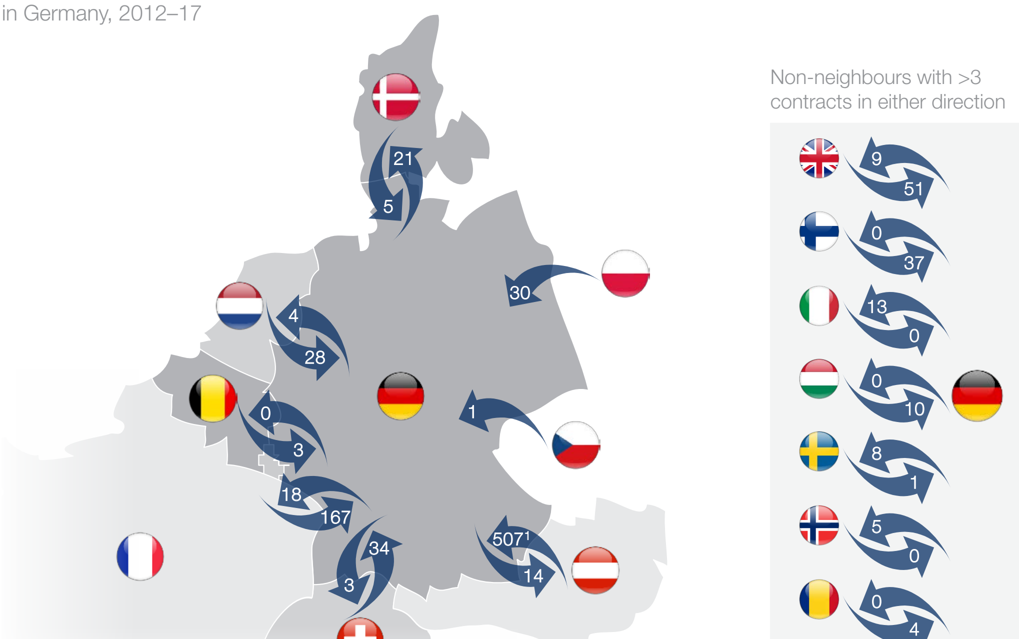
For example, Swiss and Austrian firms account for 70 percent of foreign contract awards in Germany, while French, Belgian, Dutch, Danish, Polish, and Czech companies win fewer than 25 percent. Just about 1 in 20 foreign contracts go to non-neighbouring countries, almost all of which are found within Europe. This is well below the Western European average of 16.8 percent non-neighbour contractors, as a share of foreign winners. Perhaps surprisingly, however, relationships are not necessarily reciprocal: Swiss and Austrian companies, such as Austrian company Strabag that has a long history in the German market, are taking a substantially larger share of the German tender market than vice versa. German companies only won a handful of contracts from their alpine neighbours' public authorities (Exhibit 3).

The regional pattern is even more pronounced in the well-integrated Nordic market, where large construction firms such as Skanska, NCC, Veidekke, and Lemminkäinen have long since expanded their home markets to include neighbouring states. However, beyond these regional giants, only a few small and mid-sized construction firms have ventured across Nordic borders for public contracts (whether small or big).

Exhibit 3

Cross-border tendering between Germany and its neighbours.

Number of contracts awarded to German companies abroad, and foreign companies in Germany, 2012–17



1 Of which 393 contracts to Strabag, an Austrian-incorporated group with Austria and Germany as core home markets

SOURCE: TED; McKinsey TREAT

Little direct competition from outside Western Europe

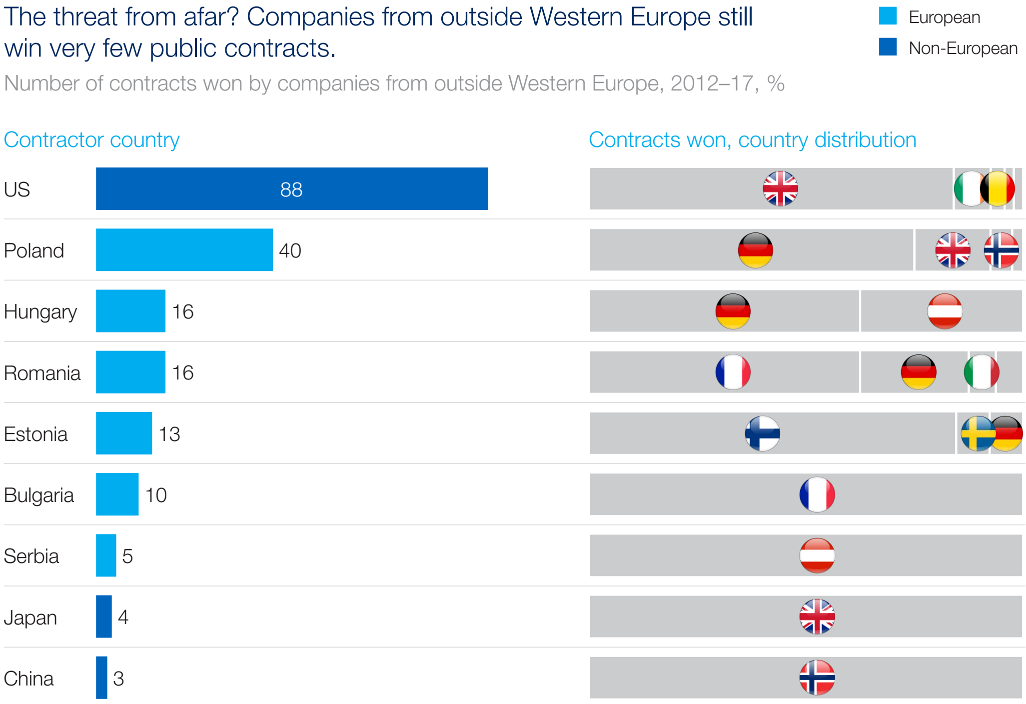
While public market integration has been limited and seemingly stable over time in the studied Western European countries, it is also worth zooming in on competition from outside Europe, specifically from Central and Eastern European countries. As noted above, the latter have already established a significant presence in Western Europe since joining the EU 14 years ago, with hundreds of thousands of posted workers, often as subcontractors for domestic firms. While this reduces the potential price advantage that companies from lower-labour-cost countries might enjoy, these firms could still use the opportunity to climb up the value chain and join public tenders as main contractors. Individual past cases have garnered much attention, such as when a Latvian construction firm as early as 2004 triggered a labour market conflict in Sweden, when it priced itself into a municipal school building contract—a case that initiated major legal and regulatory activity of international significance.[16] A less controversial case, but also noted with interest within the industry, was when Sichuan Road and Bridge Group (SRBG), a Chinese company that so far had only been active in emerging markets, won a competitive €93 million ($115 million) bridge construction tender in Norway in 2013. In *Reinventing construction*, MGI notes that more than half of all large construction companies that internationalised in the past ten years are from emerging countries, mostly from China, a major emerging market.

In spite of some high-profile cases that garnered attention at the time, the data suggest that direct competition from outside Western Europe is essentially a non-factor in publicly tendered construction markets (Exhibit 4). Over the studied five-year period, only 200 contracts were awarded to companies from outside this area, representing about 0.1 percent of total contracts. Half of these went to US companies, predominantly in Britain, with which the United States shares its language and has traditionally strong business ties.

Exhibit 4

The threat from afar? Companies from outside Western Europe still win very few public contracts.

Number of contracts won by companies from outside Western Europe, 2012–17, %



SOURCE: TED; McKinsey TREAT

Central and Eastern European companies, with full access to the EU internal market and potentially some remaining cost benefits, together won a similar number of contracts, and most of them were small—often worth less than €1 million ($1.25 million). SRBG's first Norwegian bridge contract was only followed by two more Chinese tender awards, also in Norway, to SRBG once again and to Shenzhen CIMC-TianDa, an airport construction specialist.

16 See for example "Swedish labour model at risk after Laval ruling," *Financial Times*, 19 December 2007, for details on the case.

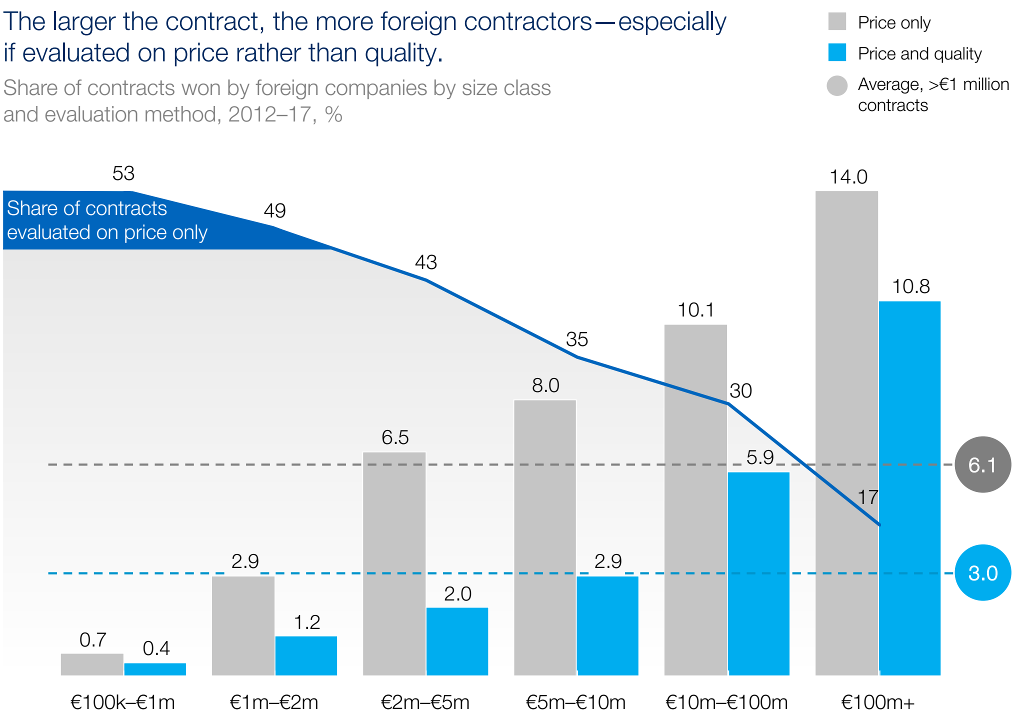
The importance of size and price

If low-cost competition from abroad is not a large-scale phenomenon, that is not to say that price is not a factor for if, and when, foreign bidders enter the game. On the contrary, when tenders are evaluated on price only (as opposed to weighting price and quality criteria), foreign companies are more than twice as likely to win (6.1 percent versus 3.0 percent). This trend is particularly apparent for medium-sized contracts worth €2 million to €10 million ($2.5 million to $12.5 million), where they are more than three times as likely to win in price-only tenders compared with price-and-quality tenders (7.0 percent versus 2.4 percent). In this segment, 35 to 45 percent of tenders are evaluated on price alone. For larger contracts worth €10 million ($12.5 million) or more, quality is weighted higher, and while foreign firms win a larger share of quality-weighted contracts here, their edge on price-only contracts remains striking (Exhibit 5). Domestic companies' local market knowledge will always be to their benefit in quality evaluations, which sometimes even explicitly reward local experience or presence. Construction companies bidding abroad need to compete on price—whether they have lower costs or not—and may be willing to do so to gain a foothold in new markets.

Exhibit 5

The larger the contract, the more foreign contractors—especially if evaluated on price rather than quality.

Share of contracts won by foreign companies by size class and evaluation method, 2012–17, %



SOURCE: TED; McKinsey TREAT

How European agencies structure their tenders

Whether they want to attract international bidders or not, tendering authorities in any given project aim at optimising the price-to-output ratio. They can achieve that by minimising the money they spend, or by maximising the quality they obtain. Ideally, they achieve both, encouraging and rewarding higher quality without compromising strong price competition. Evaluating bidder quality is, however, more complicated than simply comparing prices; it requires higher-skilled procurement professionals, and increases the risk of costly and time-consuming appeals against award decisions. By setting quality criteria that indirectly favour local players, tendering authorities may also set barriers to international competition and cost pressure, whether deliberately or not, without necessarily achieving higher quality.

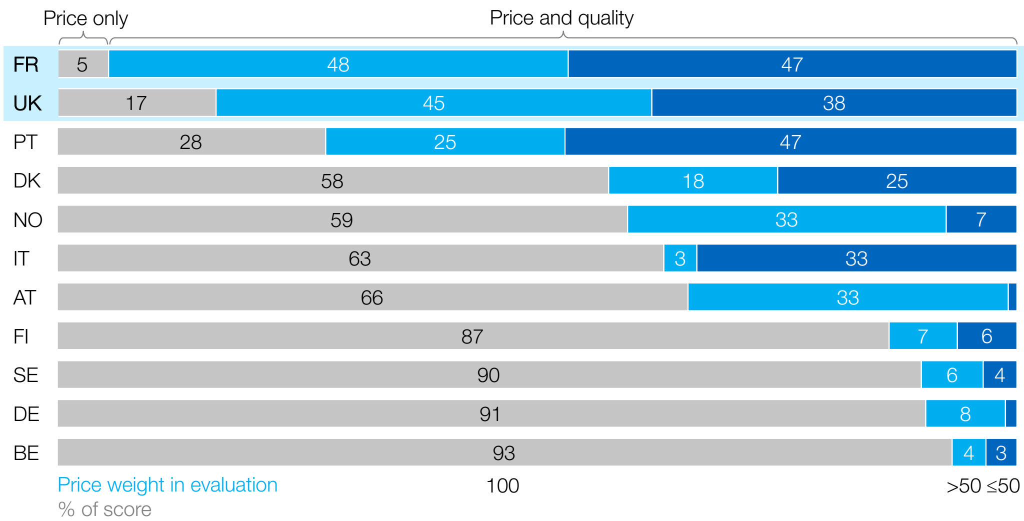
It is clear that the countries we studied have chosen radically different approaches to price and quality (Exhibit 6). In France—the country where only 0.1 percent of public construction contracts are won by foreign companies—just 5 percent of tenders are evaluated on price alone. Moreover, in almost half of the tenders, quality criteria are weighted 50 percent or more. Just across the Rhine, and at the other end of the spectrum, German construction tenders are in 91 percent of cases evaluated on price alone. Looking westward across the Channel, UK tenders seem to follow a similar pattern as in France: 17 percent are price only while 45 percent of tenders have a quality weighting above 50.

Exhibit 6

The importance of price to win tenders varies significantly between countries.

APPROXIMATE

Price weighting in evaluations of tenders >€1 million, by country[1],
2012–17, % of tenders



Note: Figures may not sum to 100% because of rounding.
1 In Ireland, the Netherlands, Spain, and Switzerland no reliable analysis can be done as the share of N/A values exceeds 30%.

SOURCE: TED; McKinsey TREAT

However, this is only one part of the picture. Apart from the obvious fact that quality evaluations can be designed in many different ways, UK and French authorities have also chosen different structural approaches to tendering. Firstly, they use different procedures. In France, 75 percent of all tenders follow the traditional open procedure—bid, evaluate, award—without any opportunity for bidders to adjust their offers or assess the competition. Negotiated procedures are used in 13 percent of cases. By contrast, 65 percent of tenders in the UK follow a multi-step restricted procedure, whereby only prequalified bidders are invited to submit offers. Negotiations are used in 18 percent of tenders. Regardless of quality weighting and precise criteria, the UK's approach typically mandates a higher degree of sophistication for both buyer and bidder. In the preamble to the 2014 update of the European procurement directive (in force as of 2016) it is noted that "a greater use of those procedures is also likely to increase cross-border trade, as the evaluation has shown that contracts awarded by [those procedures] have a particularly high success rate of cross-border tenders."

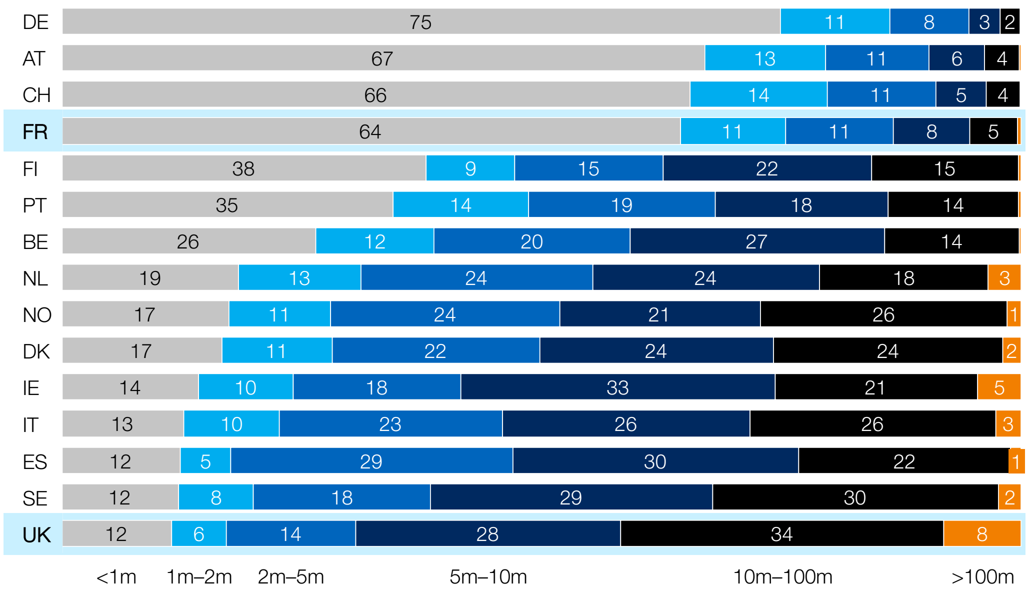
Secondly, and more importantly: while French and UK authorities tender construction services for approximately the same value, the French issue almost ten times as many tenders. In France, 13 percent of contracts have a price tag of €5 million ($6.25 million) or more; in the UK the corresponding figure is almost 70 percent. British authorities have awarded 165 major contracts worth €100 million ($125 million) or more in the past five years, compared with 68 awarded in France.

National governance structures clearly play a major role here (Exhibit 7). In France, with some 35,000 municipalities (communes) each with its own budget, and no fewer than 130,000 tendering authorities, agencies, government enterprises, and regulated bodies, a certain fragmentation is to be expected. While decentralisation has many advantages, this regional structure may make effective high-quality tendering more difficult, in spite of France's limited use of price-only tenders. The European Commission noted in a study on administrative procurement capacity, "the dispersion of authority and responsibility among

Exhibit 7

Great variation of contract size distributions reveals both national governance structures and active policy choices of tendering agencies.

Distribution of contracts by value (€ millions) and country, 2012–17, %



SOURCE: TED; McKinsey TREAT

regional and local authorities [in France] is a significant barrier to standardisation of methods, resulting in highly varied outcomes.[17]"

The United Kingdom, on the other hand, is one of the European leaders in terms of central purchasing and purchasing groups acting on behalf of several authorities, with a strong focus on aggregating purchasing power and bundling contracts.[18] In combination with a preference for long and broad (and hence big) service contracts, UK tenders stand out as the largest and most concentrated in Western Europe. These are important contributing factors behind the fact that construction firms from ten different countries have participated in, and won, public construction tenders in the UK in the past five years.

Scandinavian zoom: construction tenders at Swedish and Danish infrastructure agencies

A bit further north, Sweden and Denmark are interesting subjects for a deep-dive case study on foreign bidders' performance. There are strong domestic and regional players—some of the largest construction firms in Europe are Scandinavian—but also a business climate that is generally known to be open to international collaboration. In terms of the share of foreign tender winners, they are in the middle of the field in Europe, especially when we remove the effect of regional players with a long tradition on all Scandinavian markets.

Their respective national road infrastructure agencies—Trafikverket (Swedish Transport Administration)[19] and Vejdirektoratet (Danish Road Directorate)—are, by far, the largest and most important tendering authorities in each country (and among the largest in Europe, as road infrastructure is a decentralised responsibility in many other countries). They issue hundreds of construction tenders worth several billion euro every year, and are often actively promoting international participation in tenders. Operating in countries known for their open economies, and in an environment where it is easy to work in English also increases their appeal to international bidders.

As Exhibit 8 indicates, foreign players represent 3.5 percent (Trafikverket)[20] and 2.2 percent (Vejdirektoratet) of all bids placed for contracts above €1 million ($1.25 million).[21] However, the data reveal a marked difference between the success rates—the share of placed bids that any company wins—of foreign companies between the two agencies: at the Danish

---

17 *Study on administrative capacity in the EU, France Country Profile*, European Commission, 14 April 2016, http://ec.europa.eu/regional_policy/en/newsroom/news/2016/04/14-04-2016-public-procurement-a-study-on-administrative-capacity-in-the-eu.

18 Joint purchasing accounts for 21 percent of contract awards (all products and services) in the UK, compared to the EU average of 8 percent; cf. *Stock-taking of administrative capacity, systems and practices across the EU to ensure the compliance and quality of public procurement involving European Structural and Investment Funds*, European Commission, 13 April 2016, https://publications.europa.eu/en/publication-detail/-/publication/d1082259-0202-11e6-b713-01aa75ed71a1.

19 Trafikverket is also responsible for rail and inland sea transport planning; for comparability purposes only road contracts are studied here.

20 It should be noted that foreign companies account for a higher share of the contract value, 32 percent at Trafikverket (2017), as they typically participate in larger tenders. See *Trafikverkets arbete med produktivitet och innovation i anläggningsbranschen*, Trafikverket, 2018, https://www.trafikverket.se/contentassets/faf06a1e99bf4024ab4e8680e9ed59aa/trafikverkets-produktivitetsarbete_slutversion.pdf.

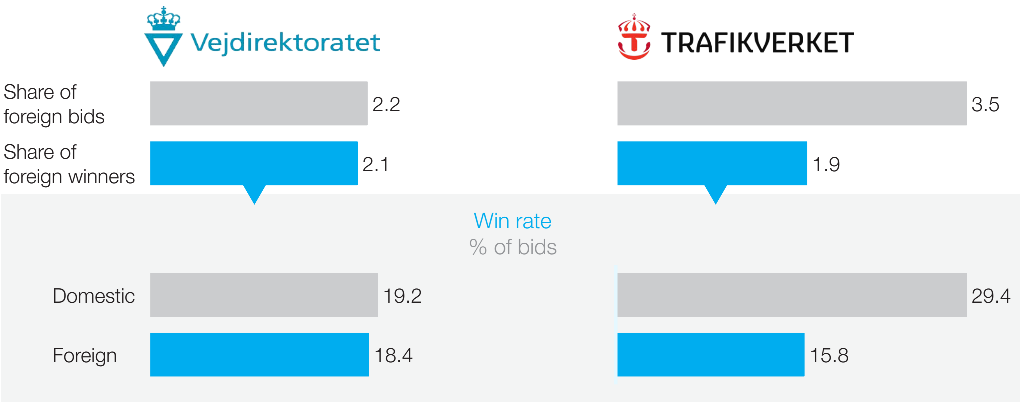
21 In this section, regional companies with a strong domestic presence are excluded from the "foreign" definition. For example, Skanska and NCC are considered to be domestic companies in Denmark, and Veidekke and Lemminkäinen are seen as Swedish companies in Sweden.

agency, foreign companies are about as likely to win a tender as the average Danish company[22]; at Trafikverket, however, foreign bidders are only half as successful as domestic competitors, winning on average 15.8 percent of tenders they participate in, compared with 29.4 percent for Swedish companies.

Exhibit 8

Trafikverket attracts a higher share of foreign bidders than Vejdirektoratet, but international firms are struggling to be more successful.

Contracts >€1 million, 2012–17, %



SOURCE: Trafikverket; Vejdirektoratet; McKinsey TREAT

One explanation is a difference in competitive intensity, measured by the number of competing bidders participating in every tender (Exhibit 9). Foreign companies bidding for Trafikverket's contracts on average compete with 1.5 more bidders than Swedish companies in Swedish-only competitions (5.1 versus 3.6)—at Vejdirektoratet, there is no such difference. At Trafikverket, foreign companies are also much more likely than Swedish companies to participate in tenders with five bidders or more, and much less likely to join tenders with only one or two bidders, so they have to work harder for every win.

This may be good news for Trafikverket, as it is a sign that the foreign companies actually increase competition and bring additional options on top of, rather than instead of, the local companies in those tenders where most money is at stake.

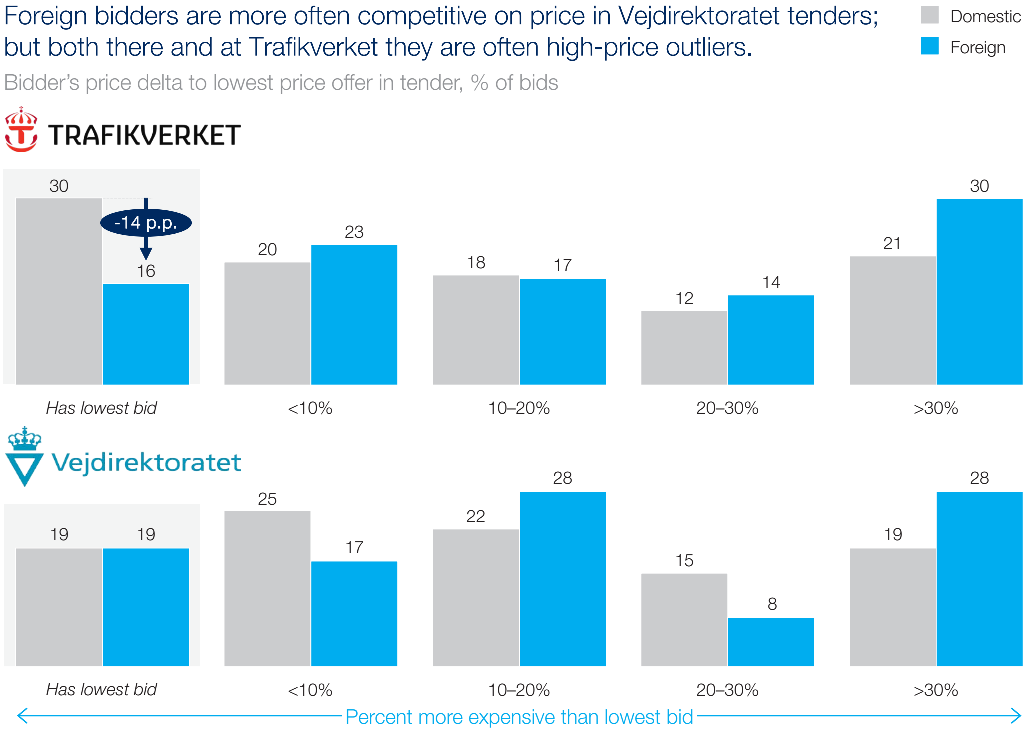
But do they contribute to lower prices? As noted above, foreign bidders are in general more successful when evaluated on price, which may be an indication that they do. Or does this simply mean that foreign firms struggle more to score well on quality, because they lack local market knowledge? The Scandinavian road construction tenders offer no conclusive answer, but may hint at the second explanation—overall, foreign firms tend not to be more competitive on price than local players are.

22 At Vejdirektoratet, foreign and domestic firms have similar win rates; individual firms in either group win about 18–19 percent of the contracts they bid for.

Exhibit 9

Foreign bidders are more often competitive on price in Vejdirektoratet tenders; but both there and at Trafikverket they are often high-price outliers.

Bidder's price delta to lowest price offer in tender, % of bids

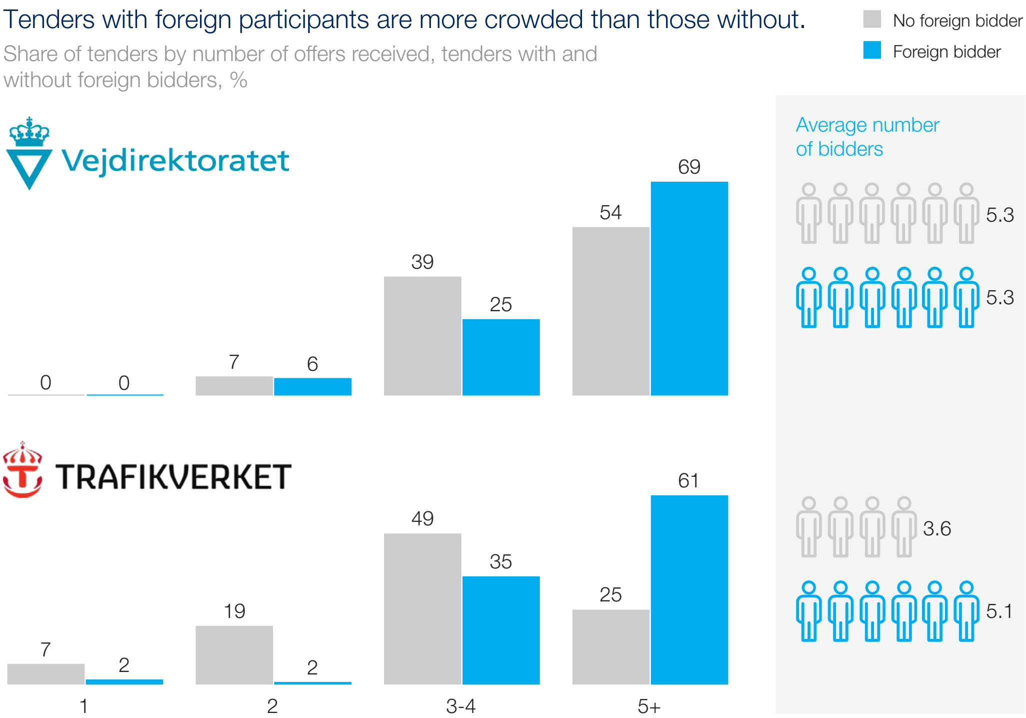


SOURCE: Trafikverket; Vejdirektoratet; McKinsey TREAT

In Denmark, pricing is largely at par. The average international company manages to place the lowest offer in 19 percent of its bids, the same as its Danish peers. When foreign firms are more expensive, the pricing spread to the winner remains similar, with one exception—foreign companies are much more likely to be way off, placing a bid that is more than 30 percent more expensive than the lowest bid in the tender (Exhibit 10).

This is true in Sweden too, in Trafikverket's tenders, where foreign companies are also over-represented in the price outlier group. However, more dramatic is the difference in their ability to place the lowest bid: foreign firms are just half as likely as a Swedish company to do so. Without any evident edge on quality, and with Trafikverket being one of the infrastructure agencies in Europe that evaluates most on price alone, foreign bidders have an obvious problem when their prices are so high, so often. Whether this is a result of actual cost disadvantages or a failure to calculate bids accurately because of a lack of market knowledge remains to be addressed—construction companies, Trafikverket, and other agencies looking at similar numbers should consider this as they seek to take better advantage of the cross-border opportunity.

Exhibit 10



SOURCE: Trafikverket; Vejdirektoratet; McKinsey TREAT

Taking the international revolution to European public tenders: attracting foreign bidders

The construction sector is in many ways a good example of European integration and cross-border business and labour flows: direct intra-European trade in construction services is worth some €15 billion ($19 billion). However, when it comes to the €100 billion ($125 billion) publicly tendered in Western Europe every year, the single market still has a long way to go. As our data show, the share of international bidders and successful (main) contractors is as low today as five years ago—and in some countries barely measurable. Foreign bidders struggle disproportionally to win, a fact that in the long term may reduce their enthusiasm to invest the resources needed to prepare large infrastructure tenders. And while not all procuring agencies depend on international participation, those that aim to widen their potential supplier base and increase competition should look at how tenders can be kept open and attractive to bidders beyond their national borders.

Some barriers are difficult to change. Language is always a factor. Knowledge about local conditions on the ground, established supplier and subcontractor contacts, and work experience with and contacts at the contracting agency all offer an inherent advantage to local incumbents. Regional control over critical assets such as quarries, asphalt, and concrete plants can mean a big cost advantage in some cases. Moreover, local players can often accept lower margins as their cost contingencies are lower thanks to their local knowledge, and because they may need to keep existing workforce and machinery utilised to cover fixed costs.

If national authorities want to increase the number and quality of foreign bids they receive, there are additional steps they can explore:

Increase transparency. This is a key enabler on every level—not only for international competition, but also for the industry and taxpayers at large. According to a recent European Commission survey, 49 percent of all construction companies with tender experience think that a "perceived preference among contracting authorities for local bidders" is a highly relevant barrier to success in cross-border tenders.[23] This is not necessarily the result of informal contacts and favouritism, but also because buyers "have an underlying perception that a more international version of their call for tenders is more complicated than one that implicitly expects only domestic bidders", the Commission notes. To overcome their caution, procurement officials could be offered additional training in relation to international tenders, typically by the national ministry or agency responsible for procurement oversight; additionally, agencies could share knowledge and experiences internationally and between authorities in their own country.

Streamline regulation. Nationally, a forest of country-specific technical norms, standards, and regulations acts as a barrier to new entrants: 46 percent of the surveyed construction firms see regulation as a barrier, compared with 30 percent of firms providing other services abroad. For example, according to the European Construction Sector Observatory, the French construction sector has to navigate the complexities of more than 4,000 different standards across issues such as heating regulation, power and gas, building materials, building access, and sound proofing.[24] In countries such as Germany with a federal system, building and design regulations differ between states. Meanwhile, in Spain, foreign construction companies must receive special permission to operate based on evidence of compliance with health and safety regulations, a process they have to repeat each time their authorisation expires. To mitigate these and other hurdles, simplification and streamlining of the regulatory environment for construction could be high on the priority list in many EU member states, and often it is.[25] Further, governments could provide a central resource to help companies, including guides to regulation and lists of the documentation required to build in their country. Conversely, foreign bidders need to ensure they fully understand and follow all the applicable regulations—it is paramount that these bidders comply with local regulations so that any broadening of the market is done in full compliance.

At an EU level, the *Strategy for the sustainable competitiveness of the construction sector and its enterprises*[26] emphasises both reduction of the administrative burden and harmonisation of standards. The promotion and adoption of Eurocodes, a set of standards and common approaches for the design of buildings and civil works, could likely strengthen the EU internal market for construction services.

---

23 *Measurement of impact of cross-border penetration in public procurement*, European Commission, 12 May 2017, https://publications.europa.eu/en/publication-detail/-/publication/5c148423-39e2-11e7-a08e-01aa75ed71a1/language-en.

24 European Construction Sector Observatory (2016): *Policy Measure Fact Sheet France*.

25 Cf. eg the E*uropean Construction Sector Observatory's* country profiles. (https://ec.europa.eu/growth/sectors/construction/observatory_en), which describe policy initiatives to this end in all member states.

26 Communication from the Commission to the European Parliament and the Council: *Strategy for the sustainable competitiveness of the construction sector and its enterprises*, 31 July 2012, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2012:0433:FIN:EN:PDF.

Increase aggregation and standardisation. Procurement groups—voluntary or mandated from the centre—can overcome structural challenges such as extreme regional fragmentation by aggregating competence and purchasing power and increasing tender method standardisation. Apart from the benefits of scale achieved by this, and the more strategic approach to purchasing it can enable, the administrative burden is typically reduced for both bidders and buyers, and tenders can become more attractive to a wider spectrum of companies.

Design user-friendly tenders. Naturally, individual authorities that hope to attract international bidders to their tenders can also do much on their own. Making sure that all tender materials are available in English or other relevant languages, using international construction codes and standards to the fullest extent possible, and setting requirements and quality evaluation criteria that do not unnecessarily disfavour international companies, are obvious first steps to consider. Such measures, and many others discussed above, are particularly important for opening up tenders to international small and medium-sized companies, which have fewer resources to invest in a local organisation and building country-specific expertise. Authorities can also engage in active international outreach and promotion activities, both for individual tenders of importance, and strategically for the longer term. For example, Trafikverket, before every large construction project, publishes and distributes its procurement strategy—in English—for the specific project, so that suppliers know what to expect and can prepare for that.

Restructure contracts for flexibility and value. The content and structure of the tendered contracts also matter. Authorities with large construction volumes, such as infrastructure agencies, can offer larger tender bundles with higher values. For example, in 2011, when the Norwegian National Rail Administration changed strategy to increase maximum contract sizes from €30 million–€40 million ($38 million–$50 million) to above €100 ($125 million), it saw a significant increase in international bidders, without reducing the opportunities for Norwegian businesses.[27] Flexible tenders, where participants can choose to bid on a small part of a contract or the full package, is one way to increase the number of bidders, while still making the tender accessible for small and medium-sized firms. Further, high-value, technically advanced tasks such as bridge and tunnel construction or building special-purpose buildings can be separated from generic, volume-driven tasks such as ground works. There might not be any one-size-fits-all contract design that suits all buyers, but by analysing previous tenders and engaging in dialogue with both domestic and international suppliers, agencies can move toward the best competitive mix for each of their tenders.

Winning more and losing less: tender strategies for European construction firms

Bidding abroad may not be a key priority for every construction company; but for those that do seek international expansion, the opportunity lies in a more structured, more strategic approach to tenders in general, and international tender participation in particular. For firms wishing to expand internationally, EU tenders offer a catalogue of options for market entry, with credible and financially robust public clients. Those that are already bidding on public tenders could do so more effectively, wasting fewer resources on uncompetitive bids.

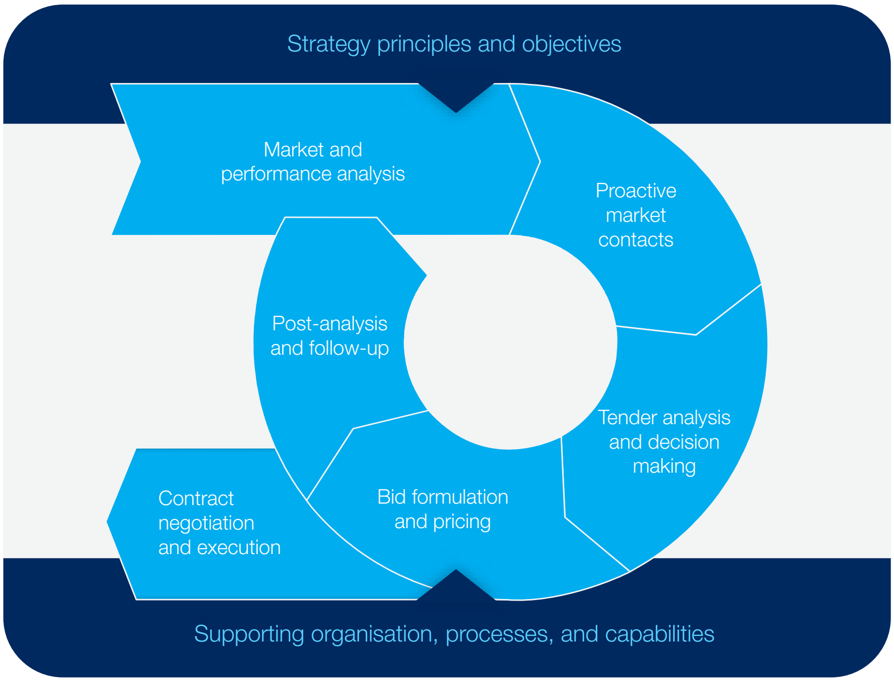
27 "Norske selskaper er konkurransedyktige," Banenor, 5 September 2013, http://www.banenor.no.

To become more successful—at home as well as in foreign markets—many construction firms need to define a dedicated strategy for public tenders, and improve their tendering capabilities and processes. The building blocks of an international tender strategy do not have to be radically different from a domestic one, but some elements such as initial market analysis and local partnership building require greater emphasis.

A holistic tender strategy starts with a clear understanding of the role of public tenders in the company's overall strategy: are they a core—or even the only—part of the business, a way to gain a foothold on new markets, or opportunistically approached when suitable projects arise? This should guide decisions on what type of tendering organisation is needed, where and when the company should be active, the kinds of proactive market contact that should be undertaken for shaping tenders, and what pricing strategy should be employed—for instance, should win rates or contract margins be maximised? Moreover, a holistic, life-cycle approach to the tender market can take tender management from an ad hoc, reactive process to one that is structured, proactive, well-informed, and continuously improving (Exhibit 11).

Exhibit 11

A holistic tender strategy based on clear principles and objectives can enable better win rates.



The logical starting point when entering a new market is a thorough, dedicated analysis of its buyers, competitors, and potential partners. The unique level of transparency around EU tender markets allows companies to access deeper insights on these entities than possible in private markets. A detailed, player- and contract-level understanding of the landscape informs all the other steps in the tender cycle, from macro decisions on new market entry or acquisitions, to tender-level decisions on participation, partnerships, or pricing. Equally, it is crucial to maintain this activity in every established market. Outside-in market analyses can be gradually refined with the lessons from the company's own tendering activities, and systematic post hoc analyses of tender outcomes—including those where the company decided not to bid—are as important as the initial pre-tender work.

The strategy must be supported by a strong infrastructure that includes tailored process guidelines, tools, and organisation for every step in the cycle. While large construction firms cannot and should not try to manage every tender in every location centrally from headquarters, they need to provide this infrastructure—beyond solely the legal aspects on which many tender organisations place so much emphasis. They must develop dedicated commercial and analytical expertise to help local organisations identify the relevant tenders, conduct the right analyses, make more targeted decisions on participation or not, formulate better bids with more accurate pricing, and for the purpose of collecting the insights and lessons learnt over time in order to help the whole company to improve continuously.

With a robust strategy and infrastructure in place for public tenders, construction firms would be better equipped to take on new areas of the €100 billion ($125 billion) EU tender market. It's not just the companies that would benefit, but also the tendering authorities—and the taxpayers who finance them. Such an approach could result in authorities receiving increasing numbers of more competitive and more relevant tenders from all parts of the EU and beyond.

Niklas Berglind *is an expert in McKinsey's Stockholm office, where* ***Martin Hjerpe*** *and* ***Erik Sjödin*** *are partners.* ***Jacob Staun*** *is a partner in the Copenhagen office.*

The importance of tender data

Government procurement is worth €2 trillion ($2.5 trillion) in Europe, equivalent to 15 percent of EU GDP. Well-managed procurement is important both to government and suppliers: for governments and their taxpayers, it is a matter of efficient resource management and effective public service delivery. For many companies—and some industry sectors in their entirety—government contracts are their main or only business, and their ability to respond to the procuring authorities' needs is critical for success. In this context, comprehensive analysis of data at a granular level is vital.

Public tender data represent a rich source of market information at the level of countries, sectors, products, and services down to individual companies, tendering authorities, and specific contracts. Though powerful, such datasets remain an under-used tool for both public and private players to shape market insights and build fact-based strategies.

Data sources and analysis

This report is based on analysis of more than 150,000 public construction contracts across 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. The underlying data is sourced from Tenders Electronic Daily (TED), the EU's central tender repository, and analysed using McKinsey's proprietary Tender Research and Analysis Tool (TREAT), to form the basis of the insights in this report.