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A plan for analysing Construction West



Written by:

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Mesta - A plan for analysing Construction West

Introduction¹

Mesta was established on 1 January 2003, when the production activities of the Norwegian Public Roads Administration were spun off as a separate limited company and opened up to competition. Mesta is 100% owned by the Norwegian Ministry of Trade, Industry and Fisheries.

The company has both public- and private-sector customers all over Norway. The public sector makes up the majority, with the Public Roads Administration and the county administrations being the largest individual customers. Mesta has almost 1700 employees. The head office is at Skøyen in Oslo, but Mesta has operations, local offices and construction sites all over the country. In addition, Mesta engages many small- and medium sized contractors with a local affiliation throughout Norway.

The company has four business areas:

Operation and Maintenance

Operation and Maintenance is Mesta's largest business area, representing approx. 60 per cent of total revenue. The main activity is operation and maintenance of national and county roads, and the biggest customers are the Public Roads Administration and the county municipalities. In addition, Operation and Maintenance carries out a number of other tasks associated with e.g. airfields, the railway and wind farms.

Construction and Specialist Production

Construction and Specialist Production represents approx. 25 per cent of Mesta's total business. The main activity is projects and construction work involving roads, tunnels, railways etc. Examples of projects include tunnel rehabilitation; crash barrier installation; landslide protection for roads and railways; construction work on roads, bicycle paths and pavements; construction work on and in connection with railways and stations; operations and construction work at quays and ports; building and maintenance of bridges, etc..

Electrical Engineering

Electrical Engineering represents approx. 10 per cent of Mesta's total revenue. Mesta Elektro is a leading company within road related electrical engineering, carrying out maintenance, new builds and rehabilitation. The project department undertakes work throughout Norway and has established itself as a strongly preferred supplier of electrical engineering services in connection with tunnel rehabilitation.

RAIL/RIAS

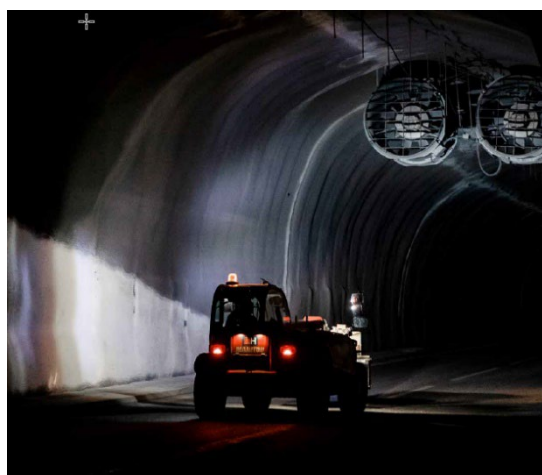
RIAS represents approx. 5 per cent of Mesta's total revenue. The main activity is construction projects on the railway within signaling, electrical engineering, high voltage plant and telecoms, as well as work on the track and track substructure.

¹ https://www.mesta.no/wp-content/uploads/2022/08/Mesta_Arsrapport_2021_ENGELSK.pdf

The challenge



Bjørn Granviken is the Executive Vice President, Construction and Specialist Production at Mesta. This business area has seen good revenue growth but, at the same time, a number of onerous contract have reduced profitability.



In connection with the Norwegian regional reform², the county municipalities have established roads administrations and assumed responsibility for the secondary (county) roads. For Mesta's part, this means that the company has acquired significantly more public-sector customers. Changes on the customer side, tenderer side and in contracts mean that Mesta's framework conditions are in flux. The inflow of new contracts shows that Mesta is acquitting itself well in the competitive situation.

The future looks bright for Mesta, but there are some issues that Bjørn Granviken needs to address. The business area Construction and Specialist Production is divided into regional areas. Bjørn has compared two of these regions, the east and west regions, and has found differences in performance. From the table below we see that, although the revenue generated is almost the same in both regions, the margins obtained by Construction East are larger than those of Construction West. (The numbers are in million NOK). We see that in 2022 Construction East obtained a result of 35.3 million NOK from a revenue of 259.5 million NOK giving a coverage ratio of 13.6%. In the same period, Construction West obtained a result of -8 million NOK from a revenue of 222.3 million NOK giving a cover ratio of -3.6%.

² <https://www.ks.no/om-ks/ks-in-english/local-government-reforms-in-norway/>

2022				2021		
Region	Revenue	Result	Coverage ratio (%)	Revenue	Result	Coverage ratio (%)
Construction East	259,5	35,3	13,60	231,7	29,3	12,65
Construction West	222,3	-8	-3,60	221,4	7	3,16
Sum	481,8	27,3	5,67	453,1	36,3	8,01
Overhead Group		-20,2			-19,0	
Result	481,8	7,1	1,47	453,1	17,3	3,81

Fig 1 Results 2022 and 2021 in million NOK

Both regions have many ongoing projects but not all are active in a certain period. For example, they may have a contract for a certain period (a certain number of years) for clearing trees along a portion of a railway line. However if there is no need for clearing trees a certain year, this project generates no revenue that year.

Construction East had 117 ongoing projects in 2022, of which 44 were active and generated revenue in 2022.

Construction West had 109 ongoing projects in 2022, of which 53 were active and generated revenue in 2022.

The situation in the two regions is very similar as regards volume of work. We do however see a difference in the number of employees when we compare the two regions.

Category	Construction East			Construction West		
	Jan.22	Jan.23	Difference	Jan.22	Jan.23	Difference
Area Manager	1	1	0	1	1	0
Project Leader	3	3	0	3	3	0
Site leader	9	12	3	10	8	-2
Forman	7	8	1	2	4	2
Admin Consultant	1	1	0	0	0	0
Geomatic engineer	2	3	1	5	7	2
Project engineer	0	0	0	0	0	0
Junior engineer	0	1	1	2	1	-1
Project support	1	1	0	1	2	1
Skilled worker	21	24	3	32	33	1
Worker	12	13	1	9	7	-2
Apprentice	1	1	0	6	4	-2
Assistant worker	0	0	0	8	8	0
Total	58	68	10	79	78	-1

Fig 2 Number of employees

Competitors

Both regions meet similar competition. The main national competitors are Presis Vegdrift³, Vaktmesterkompaniet⁴, Veidekke⁵ and Svevia⁶ - a Swedish company. In addition to these, Mesta meets competition from local companies. Local entrepreneurs with expertise to compete for smaller projects. These projects can be anything from ploughing roads in the winter to smaller construction projects. Local entrepreneurs are sometimes subcontracted to perform smaller jobs in a large project.

Conclusion

Both regions, Construction East and Construction West, have, as we have seen in the list of employees, a broad spectre of expertise. Construction and Specialist Production has seen good revenue growth but, at the same time, a number of onerous contracts have reduced profitability.

Bjørn Granviken's goal is to increase the profitability of the Construction and Specialist Production business area, and in particular to address the difference in performance between Region East and Region West. He feels there are certain areas that need to be looked into. Is Region West be focusing too much on growth in volume, rather than focusing on the margins in each project? Should they be reducing fixed costs, favouring variable costs instead, using subcontractors rather than doing the job themselves? Do they need the broad spectre of expertise they have on their payroll?

This is where you come in. Bjørn Granviken needs a plan for further analysis of Region West. He should be able to use the plan for analysing the other regions as well.

Your task

Your task is to make a plan for a project analysing the structure and operations of Region West at Mesta's Construction and Specialist Production business area. You should specify:

- Your goal for the project
- The information you need to do the analysis and how you will use this information
- The areas of structure and operations you would focus on
- A timeline for the project
- The expected results of the project

In addition, you should specify how the project could be used for a similar analysis of other regions.

Good luck!

³ <https://www.presisvegdrift.no/>

⁴ <https://www.vk.no/>

⁵ <https://www.veidekke.no/>

⁶ <https://www.svevia.se/norge/svevia>