Equipment Markets in Motion

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Leaders in equipment markets are facing strong challenges, but also opportunities. There is almost no part of the traditional business model of an equipment manufacturer which is not undergoing significant changes. These changes are happening simultaneously, which increases the complexity for leadership, risks for investors and difficulties for defining a differentiating and successful strategy.

Major trends

Equipment manufacturing markets (understood broadly, including markets for turnkey production /automation lines, production and process equipment, tools, as well as components such as pumps, valves, etc.) are impacted by a large number of trends.

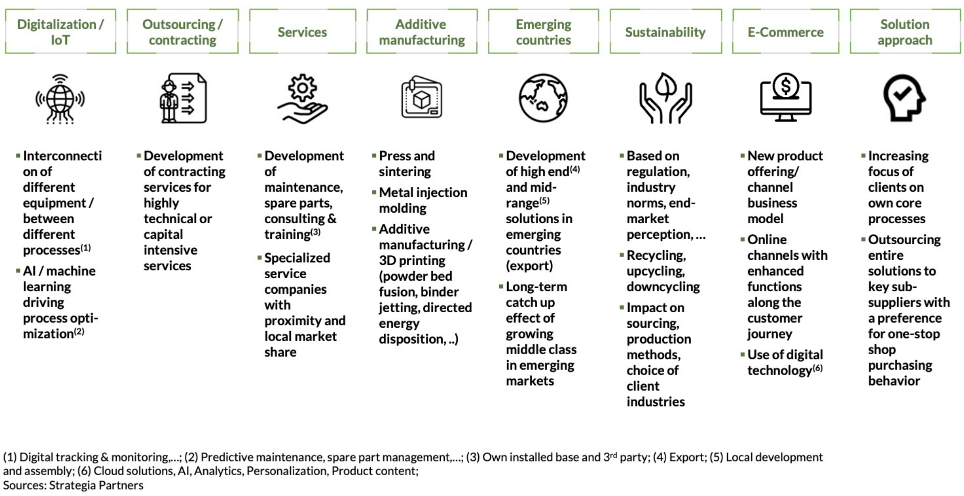

Figure 1: Overview of trends impacting equipment markets

Some of these trends have already been driving the equipment markets for some 20 to 30 years, such as the shift from mature to emerging countries and the linked arrival of low-cost models, along with the respective challenge for premium equipment manufacturers. Meanwhile, especially in mature markets, growth has been shifting from new equipment to replacement and after-market and a large set of services.

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Other trends, including digitalization, accentuated by the separation of value-chains and the increasing importance of quality control, connected devices and also the rapid development of B2B e-commerce as a sales channel started in the early 2000s to only in the recent past having their strongest impact on equipment manufacturing markets.

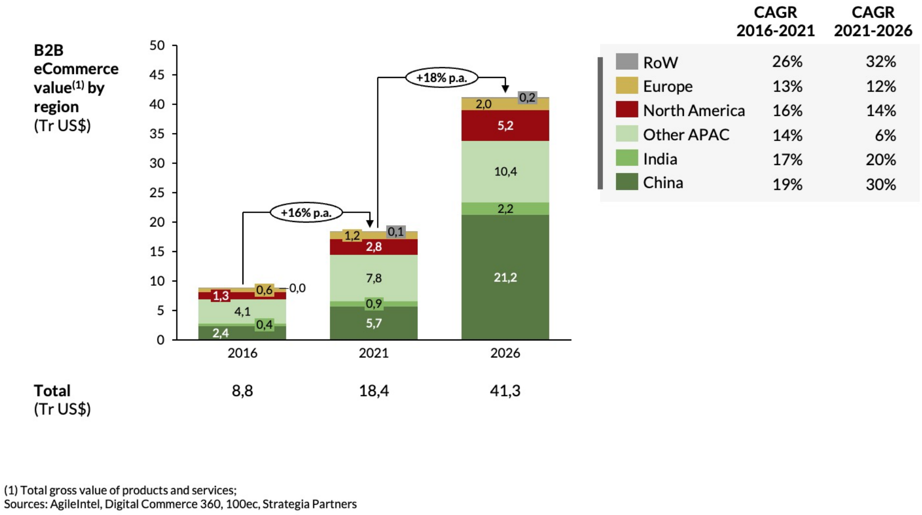


Figure 2: Growth of B2B e-commerce 2016-2026

In many industries, the next stages of digitalization such as artificial intelligence and machine learning are still not using the full potential. The strongest impact of the trend is yet to happen. At the same time, new technologies in production, such as additive manufacturing are about to leave behind the stage of prototyping, have reduced costs massively and will become available for large scales and are set for growth over the long term.

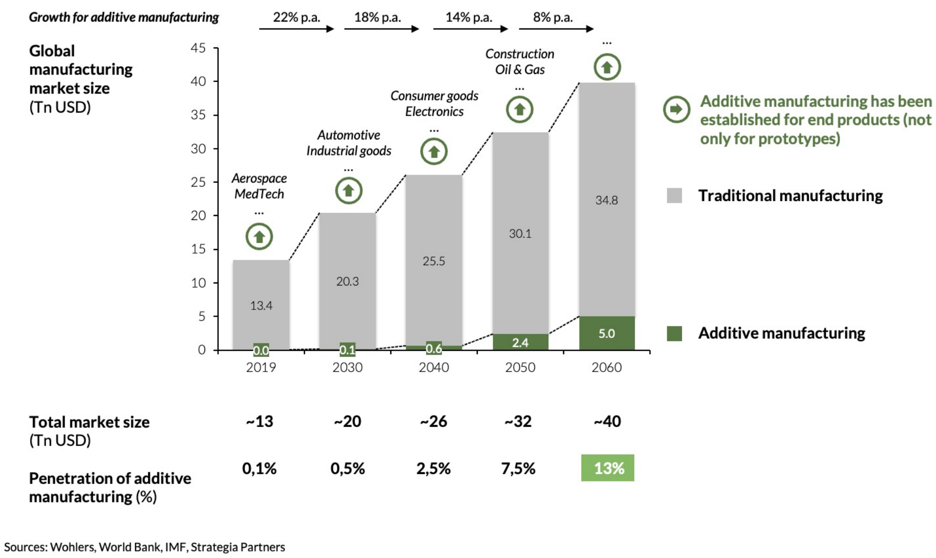


Figure 3: Additive manufacturing long-term growth

Nonetheless, the trend towards sustainable value-chains is stirring up equipment markets as well. Starting from issues with the supply chain, towards more sustainable production processes, remote services (inline with digital monitoring models), major shifts in entire client industries and equipment or components (example of EVs changing supplier structures in automotive industry) and increasing requirements for environmental audits and documentation processes – sustainability trend is alone impacting the entire value-chain.

Impact on equipment markets

The impact of several strong trends acting simultaneously on the entire value chain cannot be ignored.

First of all, each of these trends requires companies to develop answers on key questions to adjust the business model and to maintain competitiveness

- *Digitalization / IoT*: what are the potentials linked to digitalization of the offer? What is considered a benchmark in the industry and what would be a differentiating offer? For which digital offer are clients ready to pay and at what price? What differentiation can a proprietary SW development signify? Does the company have the competencies and means to develop its own SW solution?
- *E-commerce*: What are potential options to benefit from strong growing B2B online channels? Which type of online channels to use for what segments? What features and prices to offer online vs. traditional channels? Is it beneficiary to (co-) invest in proprietary e-commerce B2B platforms?
- *Outsourcing / contracting*: at which steps in the value chain are there options for outsourcing? Where can the company successfully benefit from outsourcing? Where is company's own offer sub-critical, making it preferable to outsource?
- *Services*: what is the share of services covered on the company's own installed base of equipment? Is there ample room for market share gains? Are there options to address third party equipment? In which market segments is the density of the installed base high enough to justify a strong presence with close proximity? What are potentials from digital service models (i.e. pre-dictive maintenance, continuous monitoring, …)? Would it be beneficiary to acquire specialized small service companies to increase market share?
- *Additive manufacturing*: which components could be manufactured with alternative production processes? What would be benefits in terms of development speed, integration of process in suppliers / clients value-chain? What are likely future cost advantages?
- *Emerging countries*: Is there still room for accelerated growth in emerging countries? What are, beyond China and India, attractive potential markets – benefitting from a stronger, dedicated local sales presence ? Would localized industrial presence allow to be competitive against low-cost competition and resolve sourcing issues?

- *Sustainability*: How will sustainability impact client industries, supply-chains and market potential for key products? What are future regulatory restrictions? What processes will need to be implemented to achieve ESG standards?
- *Solution approach*: Which clients would obtain what advantages from an "all out of one hand" approach? Which parts of the value chain / offer could be bundled and would present a real advantage to clients ? What market share gains can be expected through the solution approach? Which parts of the solution would need to be integrated by the solution provider and which ones can be outsourced? Is it feasible to integrate in the intended parts of the value chain and does the company dispose of the means to invest in all steps required to develop competitive positions?

On top of these questions regarding each trend individually, there are overall strategic issues which should not be neglected.

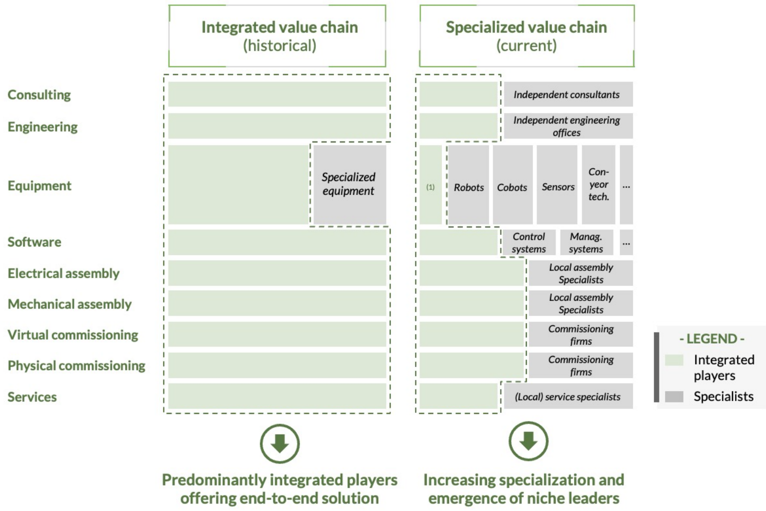
The cumulation of these trends and requirements to remain competitive, leads to the overall question of whether a company in equipment markets has the overall capacity to invest in all domains. For example, can a company, given its restricted financial and human capital resources, simultaneously invest successfully in proprietary SW development, open its own e-commerce channels with related features and digital tools, appropriate services structures, strengthen its presence in emerging markets, and so on, while still continuing to invest in the development of products and technology of addressed markets? Also, it is not only about investing in the different domains to be on par with competition but also about developing a business model that differentiates the company and allows it to grow above the market.

Naturally, every participant in a given market will have to develop answers to similar questions and will face similar bottlenecks (of course with different competencies and magnitudes of investment capacity).

Therefore, it is likely that equipment markets will start to de-segment and value-chains will open up with specialist models and leaders for different parts of the emerging value chain.

As a matter of fact, the emergence of specialist models, is already much advanced in certain industries, particularly in large markets characterized by strong capex needs. For example, in semi-conductors a $650 billion industry, given strong capex needs (foundries, R&D, ...) has been specializing for a long time ago with the development of different types of business models focused on specific value chain steps (specialized equipment, foundries, fabless R&D companies, packaging/EMS, specialty chemical providers, ... etc.).

A similar observation can be made in somewhat smaller industries, such as the automation market, a $350 billion industry. Specialized players, focused on robotics, specified equipment, engineering/planning, software, machine learning and AI, etc. are likely to outgrow companies with a system integration approach.



(1) Client-specific customized equipment; Sources: Strategia Partners

Figure 4: Value chain disintegration in the automation industry

Options for equipment manufacturers

Within this trends, there are three generic strategic options for equipment manufacturers to set the path for the future.

The situation, of course, is always individual and depends on the maturity stage of the industry, the importance of the trends, the market position of the company and its capability to invest.

1. Specialist strategy (within existing industry)

Companies with this strategy will focus on specific segments of the market, within its given industry, based on its existing competencies and where it has the ability to differentiate from competition sufficiently to become a provider to other participants in the industry. Focus areas can represent specific value-chain steps (services, software, equipment, engineering), technologies (depending on the industry), price segments (premium, mid-range, ...) or, if markets are not globally addressed, geographies.

The advantage of this strategy is the bundling of resources (financial and talents), the ability to invest sufficiently in one domain and to possibly benefit from strong scales. Potential risks of this strategy lie in the selection of the focus, the risk of becoming a supplier on a lower tier level and change in trends.

Beyond growth in the existing industry and the rationale to consolidate the addressed focus area, there exist growth options through diversification in other industries where competencies on the focus area potentially can be transferred to.

2. Solution provider within existing industry

Companies with this strategy will develop an approach to offer a complete solution to its clients, combining equipment, services, software, data management, etc. with the aim to cover a maximum of the client's need out of one hand. In most cases, this requires the integration on the value-chain for a large number of steps, as smooth integration, just-in-time principles and in-house competencies for further development need to be assured. In other cases the integration on the value-chain can be optimized, with the organization of partnerships and joint ventures to reduce the capital intensity.

The advantage of this strategy lays in the development of a differentiating business model (compared to traditional equipment manufacturers) and the de-complexification provided to clients based on the "out of one hand" model, with the capacity to gain significant market shares in the addressed industry and to drive consolidation.

The limits of this strategy are the required investments and the necessity to develop competitive positions on different steps of the value chain (i.e. in services, e-commerce channels, equipment, software, machine learning, …) at the same time.

Possibly, this strategy might be only feasible for companies already having a leadership position in a given industry and the means to invest simultaneously (organically and/or through acquisitions) in different parts of the value-chain in order to be ahead of the different trends.

3. Continuation … and exit

Depending on the dynamics of the trends and the impact in a given industry there can be – transitory – a third strategy of continuation and optimization of the existing business model and investment in existing positions. Naturally, and with time, the trends will enlarge the impact and the room for strategic actions will diminish. The remaining option will be an exit and disposal of the activity.

As the value of a company depends largely on its future growth capacity, the third strategy is not an option. It is better to reflect on the strategic alternatives on time.

What to conclude

Companies in equipment markets must find answers to the trends impacting their current position and business model. Depending on their capabilities, underlying market growth, margin conditions and the speed of change, they can either develop a rather capex intensive but differentiating solution approach or will have to focus on specific market segments where they are competitive and set for future value creation.

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