OliverWyman

Europe Edition

THE STATE OF THE INDUSTRIAL GOODS SECTOR 2024

Value growth, mixed realities, and concerns about Europe

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INTRODUCTION

Welcome to our 2024 State of the Industrial Goods Sector report.

"Hot and cold," a quote from one of the CEO interviews that complemented our methodology this year, was a strong contender in our internal debate for the best title for this year's issue. Indeed, the data and interviews reveal mixed messages, with different realities emerging depending on whether a company benefits from global megatrends like electrification and digitization, its exposure to recessionary pressure due to the inherent cyclicality of a business, and factors such as size, global diversification, and specific country risks.

While there is some dampening of the mood in the industry, the quantitative overall development could hardly be better: Valuations of Europe-based industrial goods companies are up by more than 25% year-on-year, with main value drivers like revenue up 7% (but beware inflation!) and profitability increasing by 1 percentage point. And analyst recommendations — which are largely based on expectations for the future — are at an all-time high.

These topics, along with the top challenges and opportunities that keep CEOs up at night, are analyzed in Part 1 of our report. We've enhanced this section with an AI-based analysis of the shareholder letters from the annual reports of our European company sample. And we have included a company ranking that highlights the top value creators of the year — led by, guess who?

In Part 2 of the report, we take a deeper look at how the competitiveness of European companies is evolving in the context of geopolitical shifts, the large-scale entry of Chinese industrial goods companies into international markets, and worsening competitive conditions in Europe. We encountered serious concerns from CEOs — not just for their individual companies, but for Europe as a business location. However, for their own companies, they believe they still have levers to succeed on the international stage, such as making improvements at home, shifting manufacturing footprints, and rethinking global operating models, all of which we discuss in detail — along with some common blind spots.

Despite challenges and recessionary pressures, European industrial goods companies are holding up well. However, the competitive forces at play demand an accelerated transformation, which will reshape both companies and the industry. That's the conclusion of our 2024 report, and I hope you enjoy reading it.

Yours sincerely,

Wolfgang Krenz
Partner, Sector Leader Industrial Goods

10 KEY FINDINGS

Mixed realities beneath the industrial goods sector's robust performance

Our analysis shows key numbers of particular interest:

Value Growth, Continued: Our IGO Europe Index has shown 6.8% higher annual value growth than the MSCI Europe Index since 2014.

Mixed Realities: Value of the three top performing sectors (semiconductor equipment OEMs, industrial components, industrial software) grew by 33% year-over-year [YoY], a stark contrast to the -1% of the three lowest performing sectors (power systems, off-highway equipment, production systems).

Regional Value Migration: In 2023, value migrated towards North America (+3pp). Europe held up well (+1pp) while China lost ground (-4pp).

Performance: Semiconductor equipment OEMs posted standout revenue growth (25% YoY), while on the profitability side industrial software players saw the biggest decline.

Winners: Top value creators are from the semiconductor equipment and industrial component sectors. ASML and Siemens led the charge, jointly adding nearly €100 billion in value YoY.

Inflation: Despite significant nominal revenue growth in 2023, the sector's overall development in real terms remained flat.

Sustainability: While sustainability is taking more of a backseat in boardrooms and some companies even rescinded targets, absolute emissions still decreased by 12% YoY for Scope 1 and 2.

Concerns: Two-thirds of executives cite escalating geopolitical tensions and recessionary pressure across Europe as top concerns. Worries about supply chain bottlenecks have subsided, dropping from second to eighth place.

Opportunities: Executives see opportunities in honing core competencies (76%) and developing green tech products (68%) in line with megatrends and increased regulatory pressure. Expanding into new markets like Southeast Asia, India, and the Middle East is also viewed as key.

Outlook: Despite a complex landscape, a substantial 74% of analyst recommendations for European industrials are "Buy" or "Outperform," marking an all-time high.

OVERVIEW OF SECTOR DEVELOPMENT

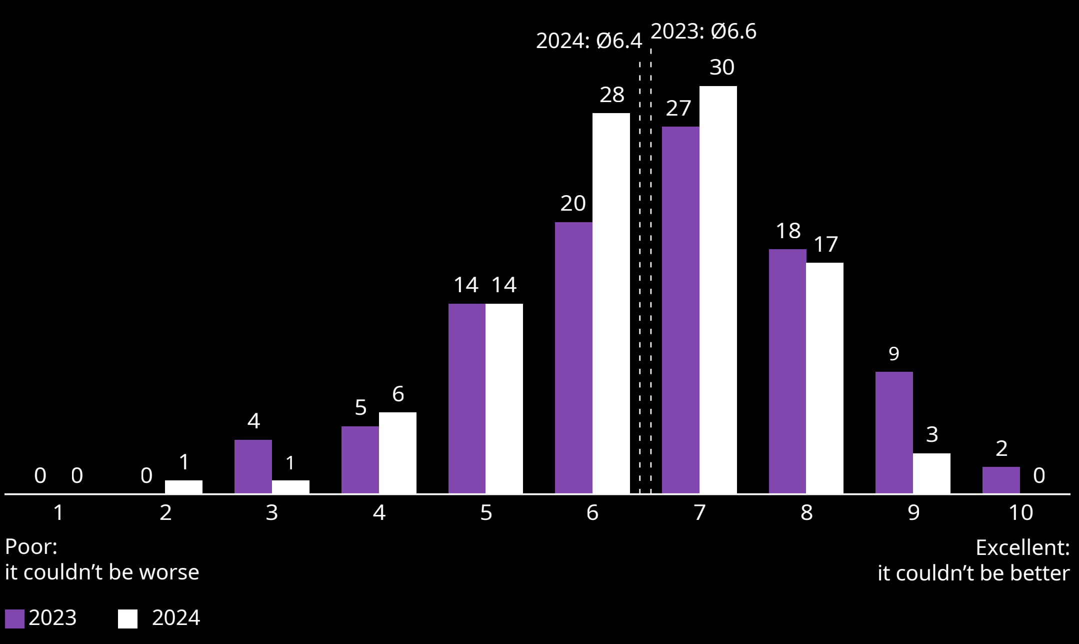
SOLID SENTIMENT

Despite recent headwinds from global demand weaknesses and market uncertainty, industrial executives maintain a solid level of confidence in the industrial goods sector. However, compared to our 2023 report, the feedback is slightly more tempered, reflecting concerns over weak order intake and adverse political developments.

Sentiment varies significantly across sub-sectors, driven by end-market dynamics. Sub-sectors linked to supercycles, such as energy transition, e-mobility, and military shifts, exhibit robust confidence. In contrast, executives in the construction sector and combustion-heavy automotive markets are more pessimistic. As the CEO of a global producer of special metals succinctly summarizes: "It is hot and cold at the same time, with defense, power generation, electrification, and semiconductor being hot, and automotive, chemicals, and construction being cold".

Exhibit 1: What is your general sentiment regarding the state of the industrial goods sector?, 2023-2024

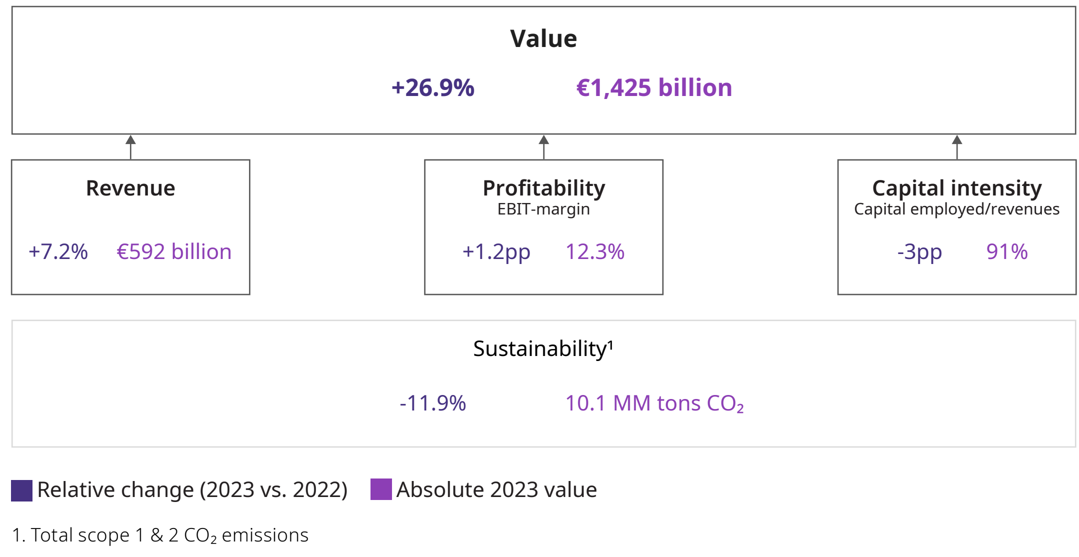
Share of respondents in %



Source: Oliver Wyman survey June 2024, Oliver Wyman survey June 2023

To examine the quantitative developments in the sector, we are using the established Oliver Wyman value driver framework. Key drivers include revenue growth, profitability increases, capital intensity improvements, and sustainability in terms of emissions. This year, all four drivers improved year-over-year and hence supported positive value growth.

Exhibit 2: Development of key value drivers, 2022-2023
European company sample



1. Total scope 1 & 2 CO_2 emissions

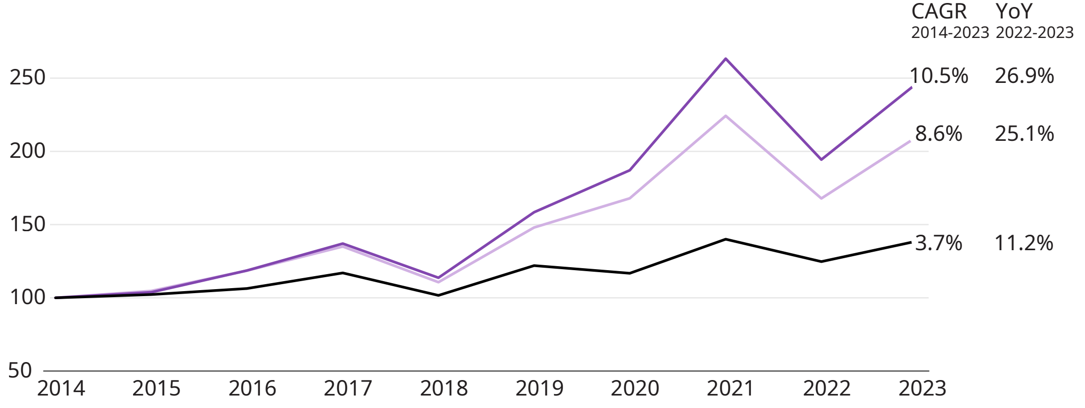
Source: Refinitiv Eikon, S&P Capital IQ, company publications, Oliver Wyman analysis

CONSISTENT VALUE GROWTH

The industrial goods sector continues to generate value, outpacing many other business sectors in Europe. The Oliver Wyman Industrial Goods (IGO) Europe Index has demonstrated a 6.8pp higher annual value growth than the MSCI Europe Index since 2014. Following a period of relative weakness in 2021-2022, value growth rebounded from 2022-2023, surpassing the MSCI Europe by 15.7pp. Notably, the standout performer ASML significantly contributed to this resurgence by 1.8pp, and alone, represented a whopping 19% of the index's total value. However, even excluding this company, the sector's value growth remains strong, reflecting sustained investor confidence.

Exhibit 3: Stock index performance, 2014-2023

Indexed (2014=100), price at year end



MSCI Europe Index — IGO Europe Index — IGO Europe Index (excl. ASML)

Source: S&P Capital IQ, Eikon, Oliver Wyman analysis

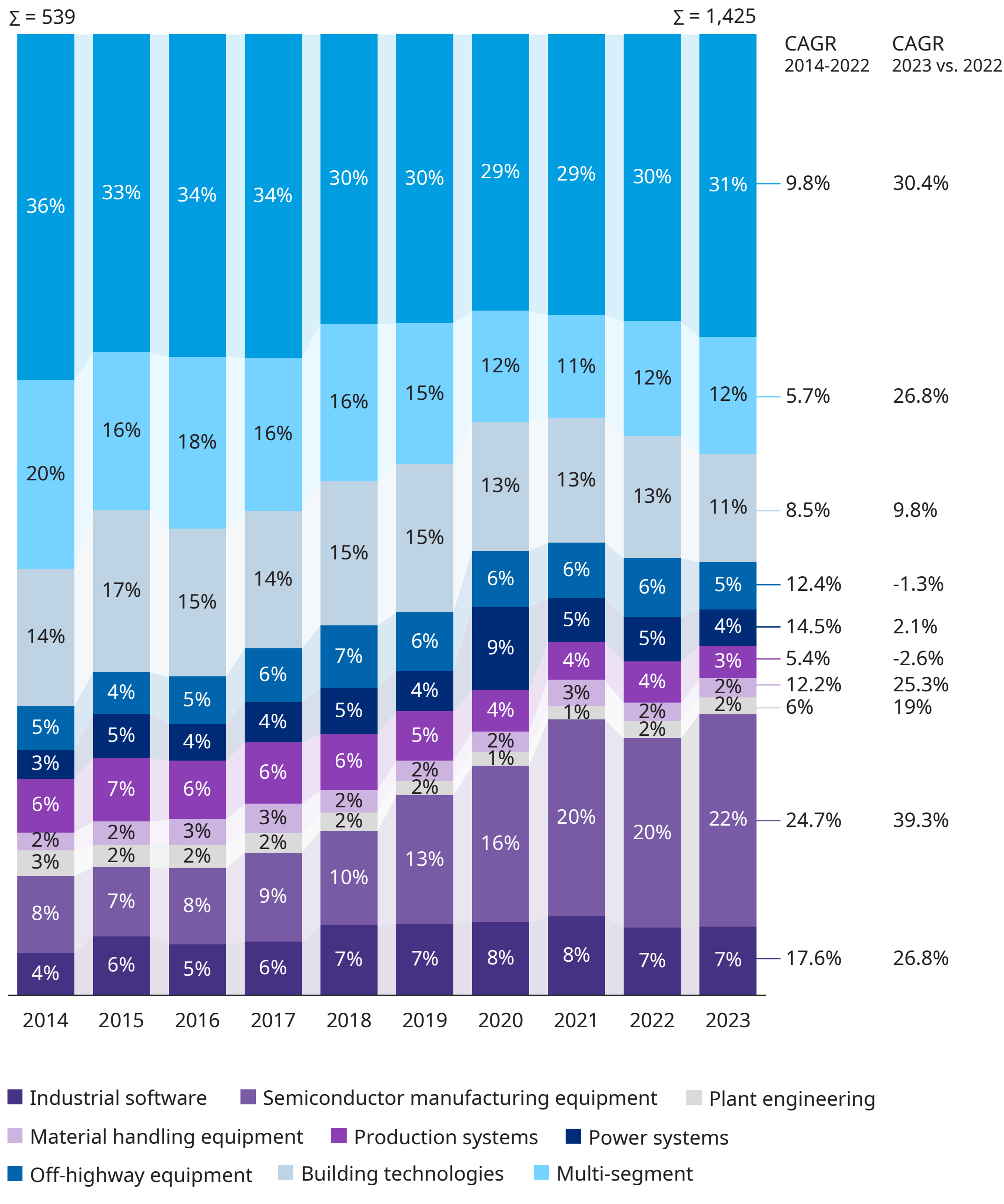
VALUE SHIFTS ACROSS SUB-SECTORS

Value developments within the industrial goods sector vary by sub-sector. Software and semiconductor-related businesses continue to rise, accelerating from 2022 to 2023. Industrial components remain the largest sub-sector, showing the second highest growth over last year. Material handling equipment firms have also experienced a positive market valuation resurgence.

Conversely, off-highway equipment and production system OEMs are struggling with slow end markets. Overall, megatrends are the primary drivers of value, and companies in megatrend-relevant sectors have an edge. Consequently, industrial firms must scrutinize and potentially adjust their portfolios to position themselves in the (b)right spot.

Exhibit 4: Value migration by sub-sector, 2014-2023

Market capitalization at year end in % of total and € billion, European company sample



Source: S&P Capital IQ, Oliver Wyman analysis

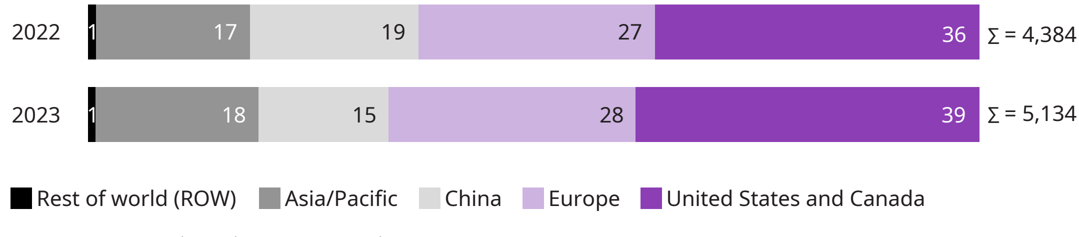
It is hot and cold at the same time, with defense, power generation, electrification, and semiconductor being hot, and automotive, chemicals, and construction being cold

CEO of a global producer of special metals

Value development also varies by region, with favorable economic conditions in the United States driving a value shift to North America from 2022 to 2023 — a trend also noted in last year's report. This shift has primarily come at the expense of Chinese industrials, which have been hampered by slowing internal demand and economic crises in key sub-sectors like housing. Chinese firms even saw an absolute decline in value, losing more than €80 billion YoY, which also reflects sluggish profit growth (0.4pp compared to over 1pp for US and European players). European industrials, which lost relative share to North American corporates in 2021-2022, managed to maintain their share in 2023 despite negative press and political headlines.

Exhibit 5: Value migration by region, 2022-2023

Market capitalization at year end in % of total and € billion



Rest of world (ROW) Asia/Pacific China Europe United States and Canada

Source: S&P Capital IQ, Oliver Wyman analysis

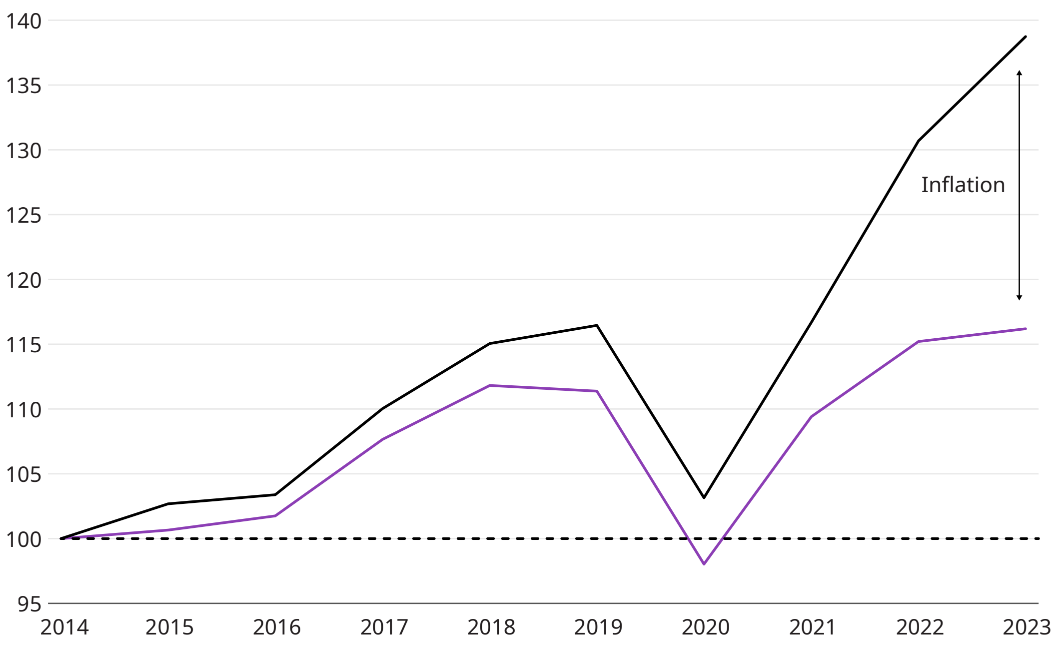
EVALUATING TRUE GROWTH IN THE SECTOR

On the surface, the European industrial sector appears to be thriving. However, in real terms, the sector's development is flat. The sector experienced significant revenue turnover growth in nominal terms in 2023 compared to 2022, primarily driven by high inflation following the Russia-Ukraine war and the energy crisis. However, if we examine the European machinery-related sub-sectors, which represent a major share of the full industrial goods sample in this report, real unit production remained relatively flat. The situation varied by country: Nordic countries saw significant increases in machinery-related production volumes, while Germany experienced a decline. The outlook for some machinery sectors might even worsen, given that order intake is decreasing — down more than 12% in the first half of 2024 compared to the same period last year on average in Germany, with some sub-sectors like off-highway and paper machinery experiencing declines of over 20%.

Overall, the industrial sector is entering more challenging terrain in terms of volume development, following an exceptionally strong period for some sectors, including the end of post-COVID rebounds.

Exhibit 6: Inflation effect on revenue growth, 2014-2023

Revenue and production volume, indexed (2014=100), European machinery-related sub-sectors



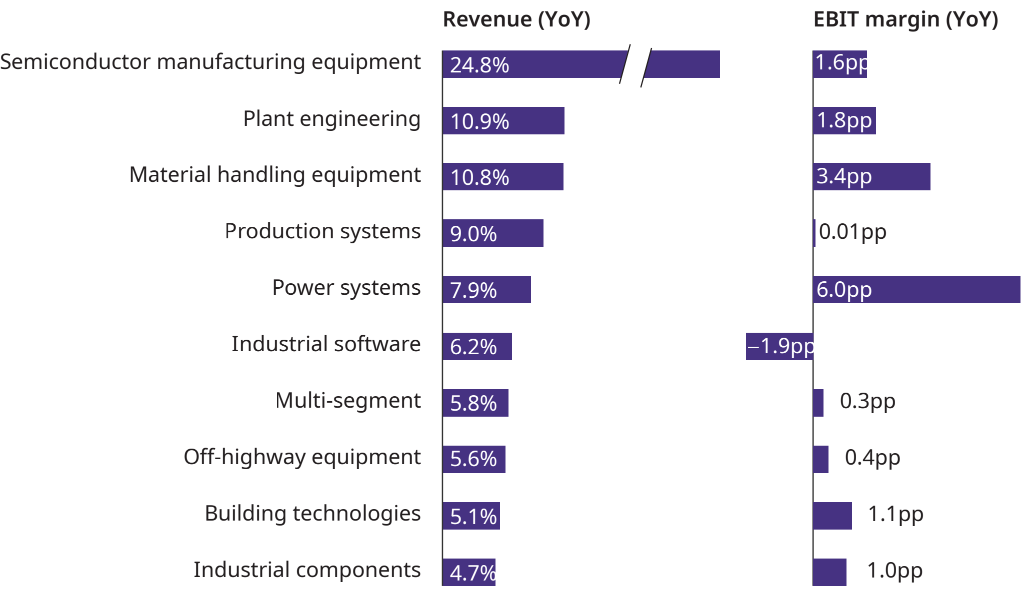
— Revenue — Production volume --- 2014 index

Source: Eurostat, Oliver Wyman analysis

VARYING PERFORMANCE ACROSS SUB-SECTORS

Sub-sector operating performance varied significantly last year, influencing the extent of value creation. Semiconductor equipment OEMs emerged as the standout winners from 2022 to 2023, driven by robust demand for chip production and artificial intelligence (AI). Other sub-sectors, such as material handling equipment and plant engineering, exhibited strong recovery performances. While production system OEMs saw solid revenue growth, they struggled with EBIT, leading to weaker value performance. Meanwhile, industrial software players faced slower growth compared to previous years and a decline in profitability.

Exhibit 7: Performance by sub-sector, 2023 vs. 2022
Weighted average revenue growth in % and EBIT margin in pp, European company sample



Source: S&P Capital IQ, Oliver Wyman analysis

Not only do region and sector matter, but size also plays a crucial role. Larger industrial firms in most sub-sectors achieve higher profitable growth (on average by 1.5pp), thereby also typically driving higher value creation. This size advantage in most cases helps them safeguard against multiple crises and navigate significant future transformations, such as those in AI and sustainability.

MIXED PROGRESS IN SUSTAINABILITY

Emission transparency, particularly for Scope 1 and 2, continues to improve, although at a slower pace. Only one in three industrial companies report Scope 3 emissions, primarily due to the complexities of data collection and forecasting, especially for multi-variant customized machines.

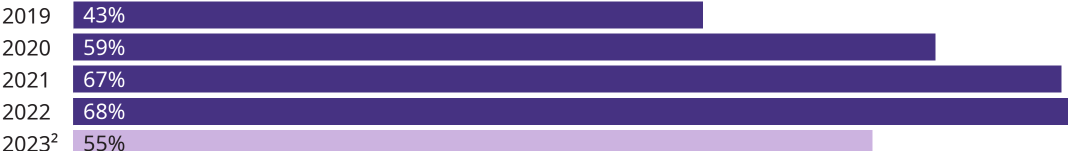
We observe that some companies have adopted a "wait and see" approach to emissions reporting, and that sustainability as an overall topic is taking less priority in boardrooms and budgeting rounds than in previous years. Notably, for the first time, a few industrial companies have rescinded their previously set Science Based Targets initiative (SBTi) targets, following companies like Microsoft or Walmart in other sectors.

Despite this, absolute emissions have decreased compared to last year, with a reduction of 12% YoY in Scope 1 and 2, accelerating from a 6% reduction in the previous year. This suggests that tangible decarbonization actions are being implemented, resulting in a positive sustainability impact. However, significant work remains to align with the 1.5-degree path, particularly concerning Scope 3 actions. In some cases, overwhelming regulation and reporting requirements appear to hinder short-term progress.

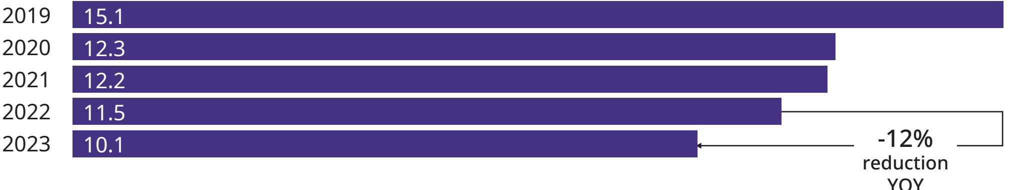
As several Chief Sustainability Officers noted during our interviews, "Our teams are drowning in preparation for CSRD [Corporate Sustainability Reporting Directive] reporting, keeping us away from achieving a positive emission reduction impact."

Exhibit 8: Scope 1 and 2 emissions performance, 2019-2023

Development of scope 1 and 2 emissions reporting (% ratio of companies reporting in data sample[1])



Development of scope 1 and 2 CO_2 equivalent emissions (in million tons, absolute per year[3])



Development of scope 1 and 2 CO_2 intensity (in tons per million € revenue[4])

1. Data sample includes 233 listed European companies
2. % of 2023 as of 30.06.2024; additional companies are expected to still publish their data
3. Based on 97 listed European companies with numbers published consistently over last five years
4. Ibid. footnote 3

Source: Refinitiv Eikon, company publications, Oliver Wyman analysis

NOTABLE VALUE CREATORS EMERGE

According to our analysis, the top value creators predominantly originate from the semiconductor equipment and industrial components sectors. Many of these leading firms are headquartered in Scandinavia, France, and the Netherlands.

The most significant relative gains in valuation were achieved by smaller to mid-sized companies, with Koncar D&ST and BE Semiconductor Industries being the two frontrunners. Both are serving markets in supercycles (transformers and semiconductor equipment).

The largest absolute gains were achieved by major, often multi-segment corporations, with ASML and Siemens at the forefront, jointly adding almost €100 billion in value YoY. The top 5 list suggests that, in addition to playing in markets exposed to megatrends, size and diversification continue to offer a safe haven for investors during times of turmoil.

Exhibit 9: Top 5 industrial value creators, 2023 vs. 2022

Top 5 by relative value creation

Change in market capitalization in %, European company sample

	Country	Name	Segment	Revenue 2023	Market capitalization 2023	Change in market capitalization
1		Koncar D&ST	Industrial components	€0.3 billion	€0.4 billion	**+164%**
2		BE Semiconductor Industries N.V.	Semiconductor equipment	€0.6 billion	€10.6 billion	**+134%**
3		Alimak Group AB	Material handling equipment	€0.6 billion	€0.8 billion	**+119%**
4		Scana ASA	Industrial components	€0.1 billion	€0.1 billion	**+114%**
5		ESI Group SA[1]	Industrial software	€0.1 billion	€0.9 billion	**+108%**

1. ESI Group SA was acquired by Keysight Technologies in January 2024

Source: S&P Capital IQ, Oliver Wyman analysis

Top 5 by absolute value creation

Change in market capitalization in € billion, European company sample

	Country	Name	Segment	Revenue 2023	Market capitalization 2023	Change in market capitalization
1		ASML Holding N.V.	Semiconductor equipment	€27.6 billion	€269 billion	**+€68 billion**
2		Siemens AG	Multi-segment	€78.1 billion	€133.7 billion	**+€31 billion**
3		Schneider Electric S.E.	Industrial components	€35.9 billion	€102 billion	**+€29.4 billion**
4		ABB Ltd	Multi-segment	€29.2 billion	€73.9 billion	**+€20.9 billion**
5		Atlas Copco AB	Industrial components	€15.5 billion	€72.7 billion	**+€20.6 billion**

Source: S&P Capital IQ, Oliver Wyman analysis

WHAT KEEPS CEOS UP AT NIGHT?

A SHIFT IN CHALLENGES

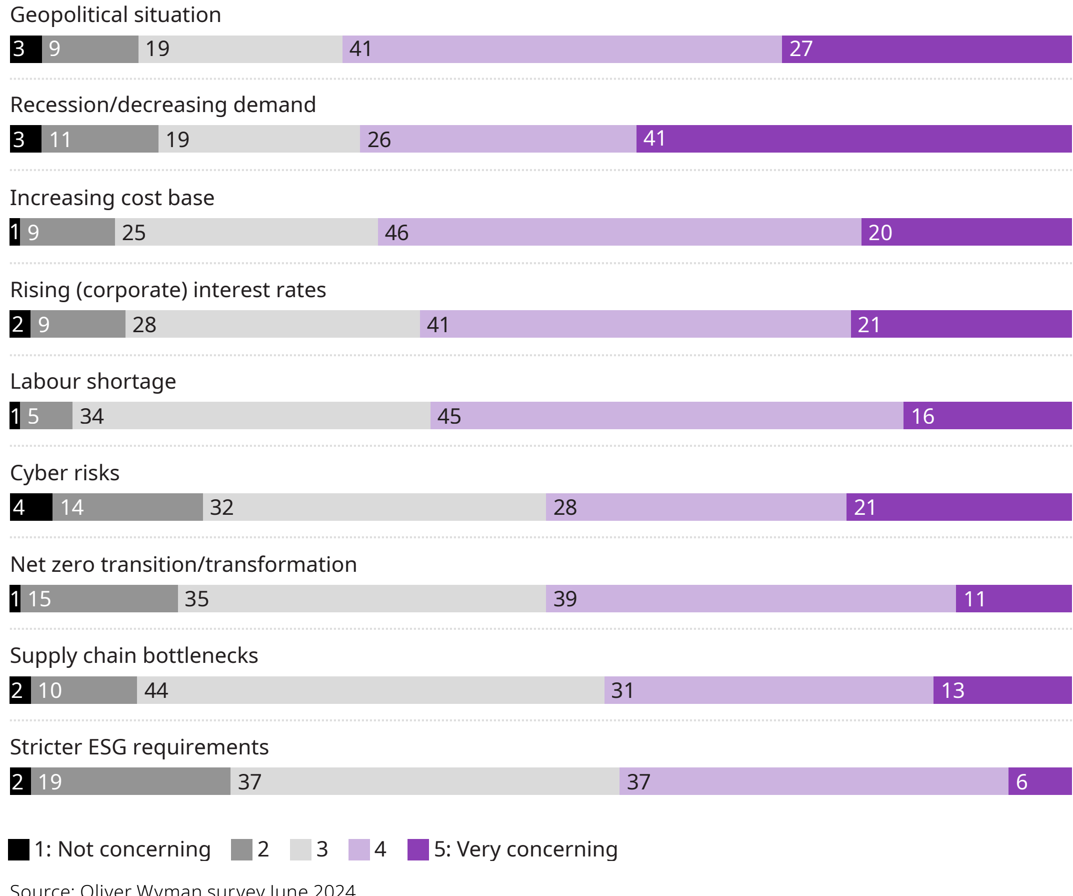
Industrial executives surveyed express most concern over escalating geopolitical tensions and the recession in several European countries. These worries are underscored by a noticeable decline in order intake across numerous sub-sectors and persistent economic and trade uncertainties, particularly in relation to China.

Rising costs and interest rates also weigh heavily on executives' minds, though these concerns were mentioned less frequently compared to our 2023 report. Key reasons for this change in our ranking entail decreasing commodity price volatilities and hopes for falling refinancing rates. Nonetheless, inflationary labor costs continue to hinder profitability.

Supply chain bottlenecks, once a major issue, have nearly vanished, falling from the second most pressing concern in 2023 to eighth place in 2024. This improvement is attributed to the resolution of most operational issues. As the CEO of a global production system OEM confirms, "The big challenges from previous years, such as supply chain bottlenecks and high inflation risks, are now under control. Of course, cost pressure remains for us in all markets."

Exhibit 10: From your perspective, how concerning are the following challenges for your company?, 2024

Share of respondents in %



Source: Oliver Wyman survey June 2024

NEW OPPORTUNITIES FOR GROWTH AND INNOVATION

In 2024, European industrial executives perceive the greatest opportunities in honing core competencies and developing green tech products. This focus likely reflects heightened uncertainty and a reduced appetite for risk in entirely new ventures.

Opportunities in green tech are driven by global megatrends, emerging profit pools, more mature technologies, and increased pressure from tightening climate regulations. For some equipment manufacturers in energy-consumption-sensitive environments, this is already materializing. “We see opportunities from green tech, especially with increased energy efficiency requirements, which is a potential differentiator,” stated the CEO of a production plant engineering company. Energy efficiency not only meets bureaucratic requirements but also helps reduce operating costs. However, the share of disruptive green tech revenues, such as hydrogen, remains small for equipment OEMs.

As the CEO of a mid-cap components and materials player noted, “The ‘green promise’ has not been fulfilled — the demand is much delayed.”

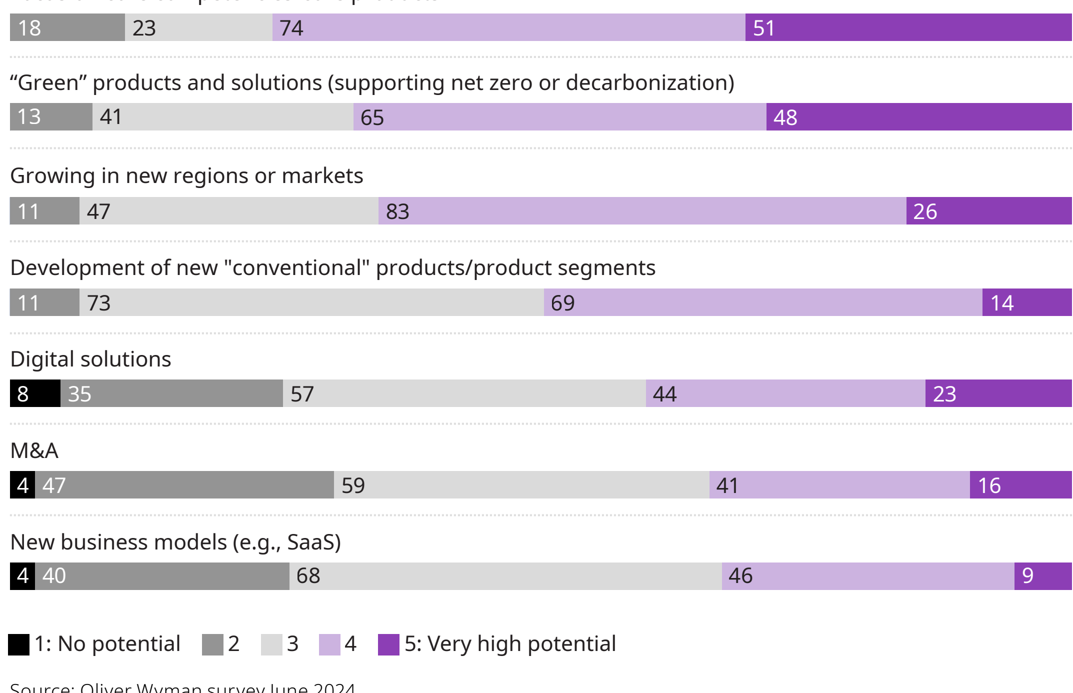
Expanding into new markets is also seen as a key opportunity, driven by current geopolitical challenges. Many companies are seeking growth markets and locations outside the bipolar world, such as Southeast Asia, India, and the Middle East. As the CEO of a global automation player notes, “India is most fun these days. We are growing and hiring like crazy. But it is a super price-sensitive market.”

Enthusiasm for digital business models has significantly waned. The hype in the industrial sector has cooled compared to last year’s survey, where digital was the top-ranked opportunity. This shift is also evident in the rather mediocre performance of industrial software players, who saw only modest revenue and profit growth last year.

M&A has lost its luster this year, with the number of transactions in the industrial sector down by about 10%. EBITDA multiples have also cooled, now sitting below the 10-year average. This environment could present a prime opportunity for strategic investors to “buy cheap.”

Exhibit 11: How do you assess the potential of the following opportunities for your company?, 2024

Share of respondents in %



Source: Oliver Wyman survey June 2024

Looking ahead, I see more opportunities than challenges for us

CEO of global production systems
and plant engineering firm

SHIFTING FOCUS IN CAPITAL MARKET COMMUNICATIONS

The evolving landscape of challenges and opportunities is distinctly reflected in capital market communications, particularly in annual reports. Our proprietary, AI-based multi-year analysis of the annual filings of our sample companies reveals notable shifts in keyword prominence in the opening statements year over year. In 2023, terms such as "economic downturn," "AI," and "fears around Middle East conflicts" emerged among the top keywords. In contrast, mentions of the "Russia-Ukraine war", "COVID-19", and "supply chain bottlenecks" have markedly decreased compared to 2022. One enduring keyword — most naturally — remains "organic growth," a staple on most CEOs' agendas, regardless of the prevailing crisis. This trend is not unique to Europe, as a similar AI-based analysis of companies in the United States shows a comparable profile of keyword shifts.

Overall, it is evident that corporate priorities are shifting rapidly each year, necessitating more flexible corporate strategies rather than overly static three-to-five-year plans.

Exhibit 12: Top keywords from annual reports, 2023 vs. 2022

In number of companies with respective keyword in annual report[1], European company sample

	Most important topics		**Increase and decrease**	
	2022	2023	Biggest increase	Biggest decrease
1	Organic revenue growth (128)	Solid foundation (115)	Sustainability (+27)	Ukraine war (-67)
2	Geopolitical instability (112)	Organic revenue growth (113)	Management transitions (+20)	Impact of COVID-19 (-65)
3	Innovation and market leadership (107)	Innovation and market leadership (108)	Artificial intelligence use (+19)	Supply chain bottlenecks (-64)
4	Ukraine war (103)	Solid foundation/ financial resilience (96)	Conflict in the Middle East (+19)	Geopolitical instability (-32)
5	Solid foundation/ financial resilience (103)	Sustainability (92)	Workforce Development (+17)	Cost of energy (-26)

1. Identified based on screening of annual reports of 150 companies using artificial intelligence

Source: Company annual reports, Oliver Wyman analysis

POSITIVE SECTOR OUTLOOK WITH HIGH ANALYST CONFIDENCE

As we conclude our 2024 State of the Industrial Goods Sector report, it is evident that the sector is navigating a landscape marked by both significant achievements and challenges. Notably, the industry is experiencing a dichotomy — a “mixed reality” that varies significantly across sub-sectors and regions.

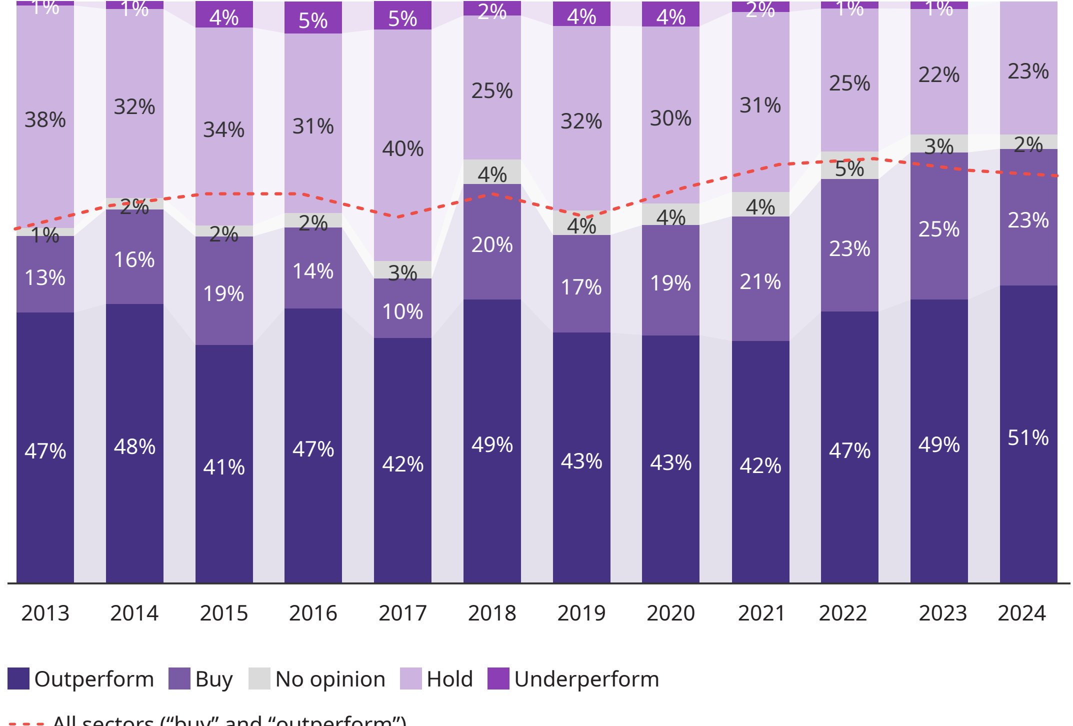
Our analysis reveals a resilient sector, with European industrial goods companies continuing to demonstrate robust value growth, buoyed by global megatrends such as electrification and digitalization. Key metrics such as revenue growth and profitability have shown positive trends, and the majority of European industrial executives surveyed remain optimistic. “Looking ahead, I see more opportunities than challenges for us,” remarked the CEO of a global production systems and plant engineering firm, summarizing the sentiment at the end of our interview.

This mid-term confidence in the sector is echoed by equity analysts, who express a strong belief in the sector’s capacity to adapt and thrive in the coming years. Indeed, a record 74% of analyst recommendations for European industrials are “Buy” or “Outperform,” marking an all-time high. This exceeds the average across all business sectors covered by equity analysts.

Yet, underlying concerns temper this optimism. Broader economic challenges in Europe, including exposure to geopolitical tensions, recessionary dynamics, and rising costs, weigh heavily on executives’ minds. There is an urgent need to address the structural and competitive pressures that could undermine the long-term position of European players in the global industrial arena.

Exhibit 13: Average analyst recommendations, 2013-June 2024

In % of companies, European company sample



Source: CapitalIQ, Oliver Wyman analysis

In the following deep-dive section we delve into these concerns about Europe and explore strategies for executives to adapt and maintain their competitive edge in a rapidly changing global market.

ENSURING INTERNATIONAL COMPETITIVENESS

"Doing international business is damn difficult these days," says the CEO of a globally operating supplier of power equipment, echoing a sentiment we've heard frequently in our conversations with industry leaders while preparing this report. Indeed, despite European industrial goods companies outperforming the broader market by 6.8pp in terms of value creation and outgrowing our China company sample even by 36.9pp, there is a palpable concern about the competitive forces at play and the ability of European companies to remain competitive in the long run. This sentiment may be amplified by the current worldwide demand crisis affecting many industry sub-sectors, but it is clear that more structural shifts are occurring. In this section of the report, we take a deeper look at the drivers of these competitive changes and explore what European companies can do to thrive under these new conditions.

DRIVERS OF SHIFT IN COMPETITIVENESS

Geopolitical dynamics change where and how European companies can play
Geopolitical conflicts, especially between the US and China, as well as sanctions, tariffs, and protectionist regulations, are reshaping market accessibility and comparative cost positions for European players. More than 80% of our survey respondents expect a growing divide between a China-led and a US-led economic sphere. The outcome of the US election may further complicate trade even within the US-led sphere, with potential additional tariffs of 10% on imports from Europe. These changes impact European companies' accessible market size, attainable scale position, cost competitiveness, and competitor landscape, potentially threatening the export model foundational to many European industrial goods firms. The dynamic nature of these conditions makes it challenging for firms to devise effective strategic responses.

While this section of the report focuses on global market competitiveness, it's important not to overlook that — despite the current relative stability of global supply chains — geopolitical risks continue to represent massive threats to the supply of essentials like raw materials and semiconductors for European companies.

The Chinese ante portas — or already through the door

With a stagnant (or in many segments shrinking) domestic market, excess production capacity, and depressed company valuations, Chinese manufacturers are increasingly targeting markets outside China. Non-domestic revenue for Chinese manufacturers grew from 22% in 2020 to 27% in 2023, primarily through exports (their domestic asset base has gone up from 75% to 80% in the same period). Imports of machinery and electrical equipment into the EU surged by more than 50% since 2020, reaching to €93 billion in 2023. Half of our survey respondents report high or very high pressure from Chinese competitors, with 60% expecting this pressure to even increase. "But the small companies bite the dust first," comments the CEO of a larger manufacturer of off-highway equipment sarcastically. Agricultural and construction equipment are segments where the Chinese share in international markets has traditionally already been high (and is further growing). Now Chinese activities spread to many more sectors, including robotics, intralogistics, inverters and wind turbines. While Chinese industrial policy plays a role in the international success of Chinese companies, there is broad acknowledgement that there are real cost and scale advantages in China and that Chinese manufacturers have advanced technologically and often have products that fit the needs of less sophisticated markets better than those of their Western counterparts. "The technology gap with the Chinese has closed. Many people still underestimate what the Chinese are capable of today, also in the combination of hardware and software," the CEO of a manufacturer of construction equipment confirms.

Exhibit 14: Revenue distribution of Chinese companies, 2020-2023

In % of total revenue, Chinese company sample

Source: Oliver Wyman survey June 2024, Oliver Wyman analysis

Exhibit 15: Asset distribution of Chinese companies by region, 2020-2023

In % of total assets, Chinese company sample

Source: S&P Capital IQ, Oliver Wyman analysis

It would be wrong, though, to assume that the main battleground for industrial goods is in Europe. Only 19% of Chinese industrial equipment exports are directed to Europe. The real action and competitive battlefield lie in “neutral” countries, which collectively receive nearly 50% of Chinese exports.

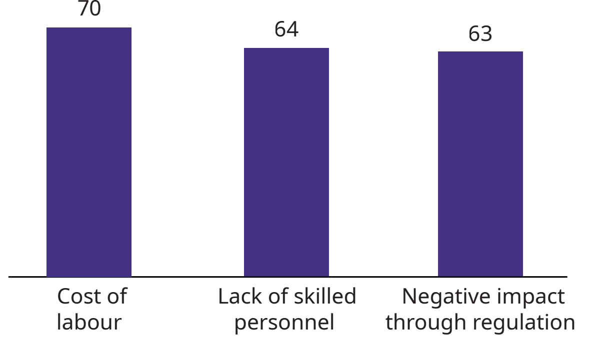
Europe losing ground as a business location

CEOs expressed deep concern and frustration regarding the deteriorating business conditions for manufacturing companies in Europe. “I’ve seen a lot of changes. But what has happened in politics in the last four years has caused more massive damage to Europe than anything in the 30 years before,” says the CEO of a mid-cap materials company. “Toxic” business conditions was the description used in another interview. Labor costs, skilled labor shortages, and excessive regulation are the top negative factors cited. Many interviewees indicated that they would not make greenfield investments in Europe under current conditions if not for existing legacy structures. The feared erosion of the industrial base is particularly concerning for suppliers and service providers who directly rely on that infrastructure. “We need an explicit political commitment that we want to keep heavy industries in Germany,” the CEO of an industrial service company demands. However, the picture is not uniform across Europe. According to the IMD World Competitiveness Yearbook, while Italy and especially Germany have lost ground, Switzerland, Sweden, and Denmark have improved their competitiveness, demonstrating that improvement is possible “even within the EU,” as the CEO of a metal producer points out.

Despite European industrial goods companies outperforming the broader market, there is concern about the competitive forces at play and the ability of European companies to remain competitive in the long run

Exhibit 16: Which drivers are negatively influencing the competitiveness of European companies?, 2024

Top three drivers[1], share of respondents in %



Less relevant drivers
(in descending order of importance)

- Limited access to financing
- Insufficient governmental support
- Cost of energy
- Cost of material
- Political instability
- Non-EU protectionist measures

1. Based on number of respondents answering "very strong impact" or "strong impact"

Source: Oliver Wyman survey June 2024

WHAT CAN EUROPEAN COMPANIES DO?

The answer to this question is company-specific and depends on many factors. Size plays a role, as does a company's current international footprint. It makes a difference whether you are a component manufacturer with high-volume production or a producer of highly complex production systems, and whether you already have significant competitors outside of Europe or not. The sector the company operates in plays a major role, too, especially whether it is a sector prioritized in the China 2025 framework or not. In some fortunate cases, you may not have to worry much at all. "We are 40% more expensive than the competition and yet we grow at 20% plus per year," says the CEO of a supplier of power grid technology.

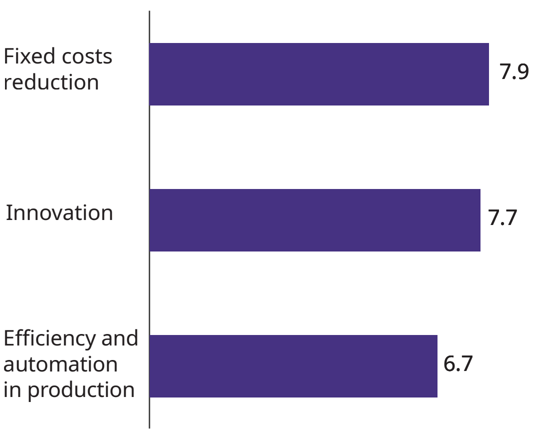
Despite these differences, three common areas of action can be identified.

1. IMPROVE AT HOME

"We cannot only look to the politicians for solutions. Companies have to find entrepreneurial solutions. Change always holds opportunity — we have to adapt," states the CEO of a manufacturer of plastic machinery. There is broad consensus that there is still significant potential to improve operations in the home market. Fixed cost reduction, automation, and innovation top the list of levers to increase competitiveness in our survey. Reinforcing traditional strengths like technical innovation power or service strength played a big role in our CEO interviews. "Our service competence and network are still strategic control points. Therefore, we also do not offer service for our Chinese brand when it is exported," shares the CEO of an automation player. The ability to differentiate through technology can be further fortified by developing technical standards and norms, especially in digitalization and sustainability, in such a way that they create a de facto barrier to entry for international competitors. This strategy is increasingly applied in some sectors and promoted by industry associations. Lastly, many companies have started programs to make their organizations faster, simpler, more agile, and more innovative — "more Chinese," as one of our interview partners put it.

Exhibit 17: How relevant do you consider the following levers to significantly increase the competitiveness of European companies?, 2024

Top three levers, average rating of respondents



Less relevant drivers
(in descending order of importance)

- Product cost reductions
- Investment in R&D
- Adjustment of product strategies
- Improved flexibility of operating model
- Investment in sales and service networks
- Redesign of manufacturing footprint/supply chain
- Usage of digitization and internal AI tools

Source: Oliver Wyman survey June 2024

2. SHIFT MANUFACTURING FOOTPRINT

Shifting the build-up of manufacturing to countries with lower costs and better availability of labor than what can be found in mature Western European countries has been a trend for years and continues to be a focus going forward. Within Europe, Poland, Bulgaria, Romania, and Serbia were attractive manufacturing locations considered by many of our interview partners. "For our footprint decisions, the availability of qualified labor at acceptable conditions plays a much bigger role than energy prices," says the CEO of a manufacturer of power systems.

Outside of Europe, many countries offer not only lower costs and more attractive business conditions, but also the opportunity to participate in emerging high-growth markets through footprint diversification. India is top of mind for many executives, who acknowledge that while it cannot "replace China," it displays high market growth and consequently attracts significant investment. Southeast Asia is another investment hotspot, driven by the desire to diversify away from China and to compensate for past underinvestment in this dynamic, innovative region with its young population. The Middle East — especially Saudi Arabia, as part of the neutral zone between the two main blocs — is increasingly considered as a manufacturing location not only to meet local content requirements but also due to strong policies and incentives aimed at attracting "advanced" manufacturing to the region.

Many companies are also expanding their manufacturing footprint in the US to better compete in this large market, driven by the US ambition to reindustrialize, supported by subsidy schemes like the Inflation Reduction Act. However, given the scarcity of skilled labor and high wages in the US, Mexico is often considered as an ideal location for adding manufacturing capacity. "Mexico is not only attractive because of low wages, but also as a hedge against a potential trade war with the US. That's why we're looking into it now," shares the CEO of a manufacturer of construction equipment.

3. RETHINK GLOBAL OPERATING MODEL

Many European industrial goods companies have started to adapt their global operating models in the last two years, mainly with the objective to mitigate risks from a potential escalation of conflict with China. Key actions include going "local-for-local" in China, identifying production alternatives in other Asian countries, and diversifying supply chains. While these steps are sensible, many European companies still lack a clear strategy for competing in a world likely divided into a China-led sphere, a US-led sphere, and a neutral sphere open to products from both blocs.

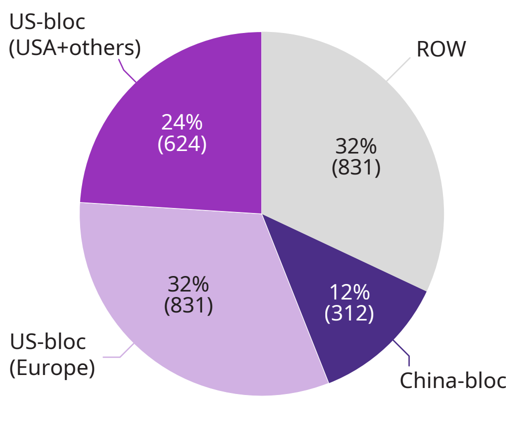
Given the relevance and market sizes of all emerging spheres (see Exhibit 18), a strategic plan on how to participate in them is essential to avoid losing access to or market share in large parts of the world. For some, especially smaller companies or those in sectors like defense, the only realistic option may be to stick with a European-based export model, which implies effectively giving up the China-led sphere and trying to compete with Chinese peers in neutral countries to the extent possible. Others, such as component makers with relatively asset-light production setups, may opt for a strict local-for-local strategy with many production sites globally serving their respective domestic markets.

Many companies have started programs to make their organizations faster, simpler, more agile, and more innovative — “more Chinese”

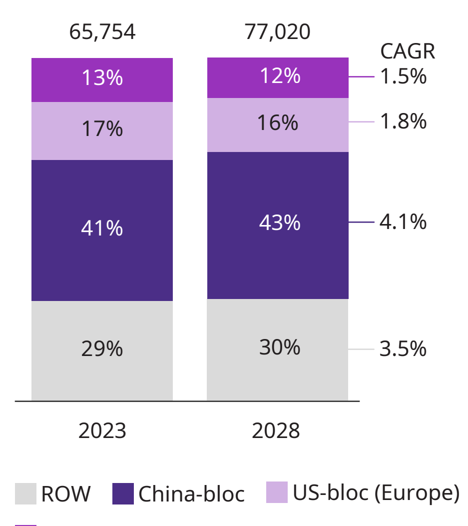
Exhibit 18: Geopolitical spheres and their relevance for industrial goods im-/exports

Geopolitical spheres: USA vs. China[1], 2024
Allocation of geographical regions to spheres

Machinery equipment imports, 2022[2]
In % of global imports and US $ billion



Industrial production[3], 2023-2028
In % of total and US $ billion



1. As assigned by IMF; China bloc: China, Russian Federation, Syria, Eritrea, Belarus, Mali, Nicaragua
2. HS-Code 84: "nuclear reactors, boilers, machinery and mechanical appliances; parts thereof"
3. Gross Output in Industrial Production excl. construction in US $ billion (real) — China bloc: values for Eritrea, Belarus, Mali, Nicaragua not included

Source: UN-Comtrade, Oxford Economics, Oliver Wyman analysis

For many companies, especially those with highly engineered, complex products, a strategy involving two or three hubs with international market scope — including one in China — may be worth considering. An example of this strategy is a manufacturer of production equipment for the automotive industry: "We are not pursuing a strategy of isolation from China — the contrary is the case: We invest there and also export from there." However, this approach is in the minority; only 17% of survey respondents plan to export out of China. Given that many European manufacturers already have large setups in China, which are closest to being able to compete head-on with Chinese players, and that nearly half of the demand for industrial products will be in countries open for imports from China, a strict local-for-local strategy in China could be a missed opportunity.

Of course, deciding on a manufacturing hub and its assigned markets is not the only strategic question to be answered. Issues around intellectual property protection (still an important topic), product differentiation (whether to compete only in the high-end and at European standards or also in the lower end according to local standards), branding, and the management of intra-company competition (which hub will serve the neutral sphere?) are among the additional strategic decisions that need to be addressed.

CONCLUSION

The competitiveness of European companies in international markets is at risk, and on average, they might lose share. However, European companies that plan strategically and act proactively can still succeed. It is likely, though, that these companies will become less European in the process.

METHODOLOGY

The insights and analysis in this report are based on extensive market research, expert interviews, a survey across industrial goods executives, and our experience as trusted advisors to the industry.

Market research encompassed a robust data sample of approximately 1,300 listed industrial goods companies worldwide, with a particular emphasis on Europe, where we assessed around 240 listed companies, each with revenues exceeding €100 million. The analysis is based on publicly available information as of year-end (31.12.2023) unless otherwise stated. To further enhance our insights, we incorporated findings on industry trends and concerns from an AI-based analysis of CEO letters to shareholders.

Complementing this, we conducted 20 interviews with CEOs and CFOs of leading European industrial goods companies to understand their concerns and gather their perspectives on the market outlook.

Furthermore, we ran a comprehensive survey targeting approximately 170 C-level and C-1-level executives across the European industrial goods landscape. This survey featured a balanced portfolio of respondents, varying in revenue size (from over €100 million to multi-billion-euro conglomerates), geography of operations (both inside and outside Europe), and ownership structures (publicly listed and private).

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