



Engineering the future: Fully digitizing is key to industrial equipment success

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Industrial equipment (IE) companies that have not yet begun their digitization journey are facing severe competitive disadvantage as their forward-looking competitors move to capitalize on technology.

While many IE firms have made moves in the right direction by partially digitizing their existing value chain, this alone will not bring long-term success. Serious competitors are moving to implement new, fully digitized business models, preparing themselves for a future in which customers buy outcomes and services, rather than strictly products.

Accenture Strategy research shows digitization will be one of the key drivers of revenue growth and profitability in the industry in the next several years, contributing approximately 40 percent EBITDA growth in 2020 on average over all considered industries (automotive supplier/original equipment supplier (OES); industrial electrical equipment; heavy equipment; and consumer durables), with significant potential beyond 2020 anticipated as well.¹ Accenture developed a comprehensive digital strategy framework mapping strategic options and value areas for IE companies, which clearly shows that enterprises digitizing their existing operations and moving to new business models with full digitization have a clear advantage.

Heavy equipment companies are already selling digital subscription services or telematics solutions to agricultural farms enabling customers to get fast and accurate information about the location, utilization and condition of their equipment through remote monitoring. Original equipment suppliers are expanding their customer base by offering fleet management services to end-customers. Additionally, industrial electrical equipment firms use data collected via sensors and analyzed through applications to digitally revamp industrial operations. The firms can then sell access to their software platform—and specific applications built within it—to help companies save money and become more productive. That's a big selling point at a time when industrials and commodities companies are trying to do more with less, foregoing big capital investments.

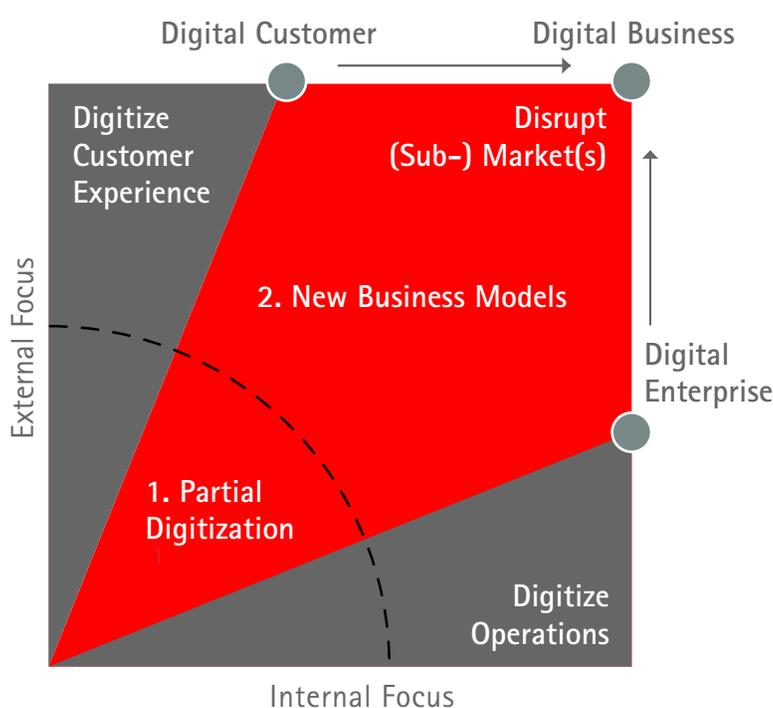
In addition, companies digitizing internal operations stand to save significantly going forward. The time to capitalize on opportunity is now.



Digital value creation opportunities abound. Ready, set, go.

The digital strategy framework for the industrial equipment industry shows two strategic options: partial digitization (partially digitize the existing value chain) and new business models (defining new business models that will result in completely new revenue streams). See Figure 1 for detail.

Figure 1: Digital Strategy Framework



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Strategic Options

-  **1. Partial Digitization**
Realize EBITDA opportunities through digitization of existing value chain
-  **2. New Business Models**
Realize EBITDA opportunities through development of new revenue streams enabled by a new value chain

Value Areas

-  **Digital Customer**
Apply digital technology to address customers in a more sophisticated way to increase revenues and profitability
-  **Digital Enterprise**
Decrease costs of the existing value chain's primary functions (e.g. R&D) as well as support functions (e.g. HR)
-  **Digital Business**
Digitize your current business model or develop new business models generating profits based on digital technology

Companies that are partially digitizing their existing value chain have two opportunities. They can implement digital initiatives with an external customer-facing focus, which mainly include marketing and aftersales activities. And they can digitize their internal operations including R&D, manufacturing and support functions like finance, HR, IT and procurement.

Based on this framework, we see three main value areas of digital opportunity—customers, business operations and reorientation of the business with new models. A few examples in each area are listed below to get you thinking about your own opportunities for growth and efficiency.

Digital customer

Digitizing the customer experience in marketing and sales increases EBITDA by an average of 10 percent in 2020. For example, predictive and personalized offers can increase sales due to customization and additional services available through connected products. Implementing digital CRM systems, including advanced analytics, is a good first step to moving the needle.

Addressing customer needs by creating a direct, online sales channel helps many companies to realize higher price-points and eliminate unnecessary intermediaries. Implementing 3D printing can potentially reduce inventory and production costs of specific low-volume exotic aftermarket parts. Major airline suppliers, for instance, can now 3D print a fuel nozzle that used to be comprised of disparate parts from individual suppliers, to save time and money.

By comparing the four sub-industry segments, our research shows that industries with customer-facing operations have higher digital value potentials compared to other IE segments. The digital potential will be particularly leveraged in marketing and sales through increased direct online interaction with the customer. However, even for mainly B2B (or B2B2C) companies, the value is substantial.

The consumer durables industry for instance reacts to a rising demand to influence the product development by customizing products via digital interaction channels (e.g. build-to-order, smart home products).

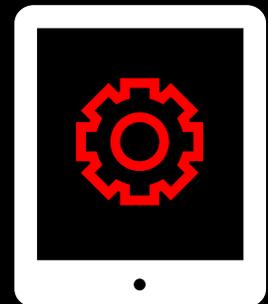


Digital operations

Professionalizing internal processes such as R&D, manufacturing and support functions by digitizing them contributes on average 21 percent to EBITDA in 2020. All IE segments show high potential in digital operations for the next several years.

With almost double the potential of consumer durables in digital operations, the OES captures the major stake because it contributes the largest share of added value for R&D, as well as the production of parts and systems for vehicles. Therefore, realizing efficiencies in R&D and manufacturing through digitization of processes will be key in order to tackle upcoming challenges. Manufacturing for example generates more data than many areas of the business. Harnessing this data to boost equipment utilization, reduce factory footprint and lessen sourcing complexity only makes good business sense.

Since support functions have already been digitized intensively in the past, there is only limited potential left. This potential expected primarily in the field of robotic process automation (RPA) to further professionalize back-office processes leading to significant cost efficiencies.



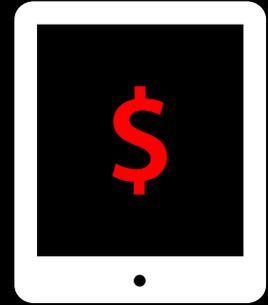
Digital business

Connected features as-a-service allows IE companies to sell an outcome versus a function via a license. Farm equipment suppliers now offer everything from precision agriculture to remote support. Buyers are not just buying a tractor; they are buying a system that is part of a larger platform.

In an era in which every conceivable object has become a sensor or smart node in a networked Internet of Things (IoT), a product without an accompanying platform is of little use. So much so that 45 percent of the IE companies we surveyed in 2015 were already using digital platforms to integrate with digital business partners. And the better the platform, the better the outcomes for industry's customers.

Data monetization is the collecting, enriching and anonymizing of product sensor data as sellable insights. Tire manufacturers, for example, now use tire sensors to collect data on tire pressure and temperature on trucks, then offer that data as an add-on service for fleet managers and insurers.

By investing in new digital business models, IE companies can boost their profitability on average by 10 percent in 2020. Until 2020, new business models will be a key strategic differentiator to set the right path for the upcoming digital transformation. Their digital potential, however, will be rather weak compared to the years beyond. This is mainly due to the low maturity level of technologies in the beginning. In addition, companies will have to adapt to complex requirements from new markets, changing customer behavior, and systems. From 2020 to 2025, new business models will have a tremendous digital potential in all IE segments and companies need to invest now in order to reach a leading position. From 2025 onwards, the digital potential will significantly outpace growth rates in digital customer and digital operations. In particular, consumer facing operations (e.g. consumer durables) will leverage higher digital value potentials than industries with limited end customer contact.



Think holistically

We recommend taking a comprehensive approach by investing in partial digitization at the same time as setting up new business models. Our research results show that companies can reap potential benefits by following a holistic approach: an automotive supplier has the potential to increase its EBITDA by 31 percent in 2020, industrial electrical equipment companies by 42 percent, heavy equipment firms by 78 percent and consumer durables companies by 29 percent (see Figure 2).

Figure 2: Partial Digitization and New Business Model Strategy – EBITDA Potentials in 2020 and Outlook 2025

| | Digital Operations | | | | Digital Customer | | | New Business Models | | EBITDA Growth (in 2020) |
|---|--------------------|---------------|-------------------|--------------|-------------------|-------------|--------------|---------------------|--------------|-------------------------|
| | R&D | Manufacturing | Support Functions | Outlook 2025 | Marketing & Sales | After-sales | Outlook 2025 | New Business Models | Outlook 2025 | |
|  OES | 18% | 39% 78% | 21% | ↗ | 3% 9% | 6% | → | 13% | ↗ | 31% |
|  IEE | 9% | 22% 44% | 13% | → | 7% 20% | 13% | ↗ | 36% | ↗ | 42% |
|  Heavy Equipment | 7% | 22% 43% | 14% | → | 24% 38% | 14% | ↗ | 19% | ↗ | 78% |
|  Consumer Durables | 5% | 20% 40% | 15% | → | 29% 39% | 10% | → | 21% | ↑ | 29% |

Emphasis on the "go"

Existing industry players and cross-industry innovators are already very active in all three digital value areas, making the urgency of smart but rapid digitization apparent. Companies that take advantage of this willingness stand to gain much, even if they only partially digitize. The importance is in taking action now as it maximizes the potential benefits IE companies can reap, while not acting comes with consequences. Losses in the areas of revenue, market share, EBITDA, competitive strength and shareholder value will occur as competitors who are utilizing digital new business models cannibalize traditional players' share of the business.

Leading in the new

The new business is digital. Only those companies who are already well along the digital path or soon to be so will have true competitive advantage in the years to come.

To help your company get up to speed:

Assess the gap between where you are today and your digital vision. As the gap becomes apparent, so will the steps you need to take to bridge it. Be sure to create a true business case, with appropriate performance measures, for each area you intend to cover.

Gain digital traction. Rapid prototyping and design capabilities are mandatory in the new environment. Develop them, hire them or buy them—but be sure they are present.

Operate in dualities. Only those companies that invest in partial digitization in tandem with new business models—and ahead of their competitors—will gain the dominant position. While the depressed IE market may create a digitization funding challenge, making a move now to reap rapid savings creates a potential source of funding for further digitization.

Groom your team for a fast, agile environment. The industrial equipment industry does not have a reputation for speed or agility. Achieving both within your teams will take a culture change, as well as retooling and retraining.

By taking these steps, you are beginning a journey with your customers—from simply selling equipment to providing industrial equipment solutions. The future of the business demands no less.

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Notes

1. All references in this document refer to the following study unless otherwise noted: Accenture Strategy research is based on four Industrial Equipment (IE sub-segments: automotive supplier, industrial electrical equipment, heavy equipment and consumer durables. For each sub-segment, a representative company size was selected with a net revenue of \$23B per year for the Automotive Supplier, \$25B per year for Industrial Electrical Equipment, \$10B per year for Heavy Equipment and \$11B per year for Consumer Durables.

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Our proxy for profitability was EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). We reviewed international companies within these four segments in detail, as well as numerous digitization strategy projects both within and beyond the IE industry. We identified the most successful new business models by leveraging both Accenture global research as well as other available studies concerning digitization. We also identified on average 20 key growth initiatives for partial digitization along the entire value chain of the four IE sub-segment companies. We used market simulations to estimate both the digital impact on other industries and learn from them, and the impact of digitization on IE companies by 2020.

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