



Strategy | Consulting | Digital | Technology | Operations

A large, stylized orange arrow pointing to the right, positioned behind the text "High performance. Delivered.".

High performance. Delivered.

Achieving High Performance
in Industrial Equipment

**Engineering a
Global Advantage**



Engineering a global advantage

To become high performers in the emerging growth markets of tomorrow, industrial equipment manufacturers will need fast and flexible operating models that support the delivery of intelligent, energy-efficient, end-to-end solutions. They will also need to become forward-looking risk managers.

The future outlook

Emerging markets are the future for industrial equipment. Between now and 2015, industrial production in China, will grow on average by more than 9 percent a year, while Brazil, Mexico, South Korea, and India are all expected to register average growth rates of between 4.1 percent and 6.6 percent.¹

In fact, while industrial output in most mature markets languishes in the low, single digits, industrial equipment manufacturers from emerging markets are becoming increasingly powerful at home—and internationalizing aggressively. As they expand overseas, they will force down prices across a widening range of industrial segments. At the same time, the new entrants will move steadily up the industry value chain as they shift away from a focus on pure, low-cost commodity manufacturing and start to compete on service, the key profit driver for major players in this industry.

These developments will require companies from mature markets to integrate emerging markets fully and seamlessly into their operating models.

Exporting or offshore sourcing is no longer sufficient to drive competitive advantage.

All players, in mature and emerging markets alike, will struggle to secure scarce resources, especially engineering and technical talent. With product life cycles shrinking, the pressure to fill innovation pipelines fast will intensify, especially in the “green” technologies that more and more customers demand. Economic and environmental risks, and volatile demand cycles will make forecasting and scenario planning—key factors in maintaining business success—increasingly complex.

¹ Source: Accenture Research analysis based on “Growth Forecasts of Industrial Value Added as Percentage of GDP,” Economist Intelligence Unit, 2011

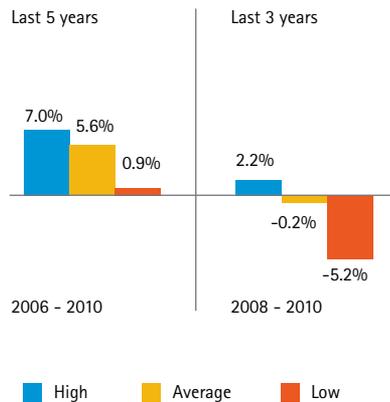
The industry background

Industrial equipment is a highly fragmented industry, comprising more than 40 different segments and sub-segments. The financial crisis in 2008–2009 and subsequent slump hit all segments hard, and demand for industrial machinery and equipment fell away in many markets. The industry

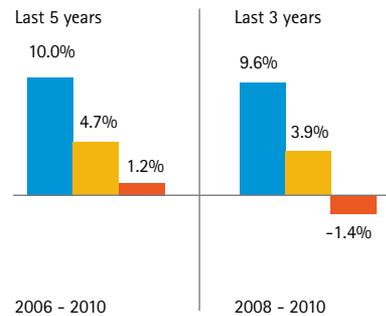
as a whole responded by cutting costs and consolidating. After the industry addressed the crisis, it faced the primary challenge of how to boost operational capacity, adjust operating models accordingly, and open up innovation processes to ensure greater speed to market and fully capitalize on the pre-crisis growth.

Economic uncertainty continues to loom. Although the United States is recovering and shows attractive growth rates, the European debt crisis and reduced growth expectations for emerging markets are beginning to impact negatively on order books of industrial machinery and equipment manufacturers. Consequently, forward-looking companies are preparing their businesses accordingly, increasing their focus on risk and volatility management strategies and the corresponding operating model adjustments.

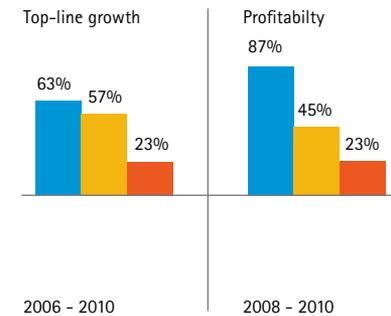
Top-line Growth¹ [2006-2010, 2008-10; CAGR]



Profitability² [2006-2010, 2008-10;Ø]



Consistency³ [2006-2010, 2008-10; CAGR]



Note: (1) Top-line growth = Compound annual growth rate of group revenues; (2) Profitability = Return on invested capital (ROIC) minus Weighted Average Cost of Capital (WACC); (3) Fin. Performance measured along Top-line Growth, Profitability and Consistency in achieving both. Source: Annual Reports; Accenture Research Analysis

Figure 1. Key metrics for peer group of 24 industrial equipment companies, 2006-2010 and 2008-2010

The high performers

Accenture defines high performers as companies that outstrip their competitors over economic cycles. In order to identify the high performers in the industrial equipment sector, Accenture's High Performance Business (HPB) research methodology was applied to a peer group of 24 leading companies. The companies were identified by the size of eligible industrial equipment revenues. We examined the full set of financials on a group level from 2006-2010, based on comparable accounting and reporting standards. We measured the peer set across the following key metrics (see Figure 1):

- Growth: Increase in revenue growth as compound annual growth rate (CAGR) over three and five years. Growth rates were calculated based on local currency data.
- Economic profitability: Return on invested capital (ROIC) minus the weighted average cost of capital (WACC) over three and five years
- Consistency: The company's ability to outperform the annual mean in terms of revenue growth and economic profitability over a five-year period.

The high performers not only grew their revenues throughout the economic downturn; they also achieved consistently high profitability.

Market Focus & Position	Capitalize on growth in emerging markets to achieve sustainable market leadership. Focus on select emerging and developing high-growth markets (geographies and segments) where it is feasible to achieve a sustainable leadership position and adjust operating model accordingly.			
Distinctive Capabilities	Volatility Management Adapt operating model to increase flexibility and scalability of business functions, nimble enough to react on volatile markets and quickly scale on attractive business opportunities.	Risk Management Manage risks and opportunities based on a holistic and interactive approach, linked to strategic objectives and embedded visibly into corporate organization with adequate influence.	Fast Innovation Open the innovation process to expand idea generation and accelerate results. Build in end-to-end innovation to capture entire innovation life cycle.	Green Potential Combine economic opportunities with ecological responsibility in business strategy to fully realize green business potential and act as an environmentally responsible player.
Performance Anatomy	Commitment to people and leadership based on core values that support change. Globally standardized people development based on fundamentals, derived from strategic focus with objective view on local characteristics and distinctive capabilities.			

Figure 2. Building blocks of future high performance for industrial equipment companies

The building blocks of future high performance

The handful of companies that emerged from Accenture's research as high performers in industrial equipment owe their financial success primarily to:

- Aggressively expanding sales to emerging markets, not confined to Brazil, Russia, India and China
- Successfully integrating mergers and acquisitions
- Investing in innovation despite the financial downturn
- Executing cost-cutting programs
- Achieving process excellence aligned with lean operations

These factors will remain important, but Accenture's research indicates that three building blocks will assume even greater importance for industrial equipment companies' future success. See Figure 2.

Like high performance businesses in all industries, the leaders in industrial equipment share a "competitive essence" made up of three building blocks of high performance:

- Market focus & position—the strategy adopted to secure competitive advantage
- Distinctive capabilities— differentiated processes and systems that enable value creation
- Performance anatomy—the culture and mindset that sustain success

Market focus & position

What are the high performing industrial equipment companies doing now to ensure that they maintain their future high performance positioning? High performers of the future are selecting emerging, high-growth geographies that best complement their offerings in terms of product and service quality, process complexity, and pricing levels. They also align their target geographies with emerging industry segments. By tracking mega trends assiduously, they constantly seek out opportunities to build and defend strategic advantage, focusing on intelligent technologies to stay at the forefront of developments in digitalization, urbanization and climate change.

Not only do high performers export to select markets—deriving 40–50 percent of revenues from emerging markets—they also modify their operating models to establish a global functional footprint encompassing the purchasing, R&D, production, sales, and aftersales functions.² As a consequence, leading global industrial equipment companies have already started to expand their functional footprints in markets abroad, and some are almost regarded as local players.

² Source: Accenture Research analysis based on the 2010 annual reports and 2010/2011 investor relations presentations of the 24 industrial equipment peer group companies

Distinctive capabilities

Volatility management

Thanks to the flexibility and scalability of their operating models, the high performers can react swiftly to market volatility. Shared services for cross-business and support functions coupled with globally standardized processes and structures

enable flexibility, allowing them to counterbalance geographic demand shifts at reasonable cost and to optimize the use of their assets. Global sourcing contracts, especially for expensive and rare materials, ensure flexible order lot sizes based on constant prices over time. And flexible working arrangements help them avoid layoffs in downturns and leverage first-mover advantage in upswings. Moreover, by embedding lean and globally standardized processes, organizational structures, and core functions, leading companies can scale up or down with ease.

Risk management

High performers take a holistic and interactive approach to the management of risk. Their risk management framework is linked to their strategic objectives and embedded, with dedicated resources, right across the organization. Deep Enough Market Insight (DEMI), derived from constant market investigation and trend tracking based on standardized analytical processes, enables structured scenario planning and connects market intelligence with the risk management process. Leading industrial equipment players have an integrated framework for Enterprise Risk Management (ERM) that connects with the company's financial reporting process and is closely integrated with its internal control systems across the enterprise.

Fast innovation

High performers capture the full innovation life cycle by building innovation into their organization, end to end. They leverage the innovation power of the entire workforce—and reward it visibly and transparently. Their R&D functions have been transformed into effective and efficient networks, which stimulate an atmosphere of open exchange of expertise and best practices. These networks extend beyond the

company, encompassing customers as well as strategic alliances with universities, think tanks, research institutions and other firms. This approach encourages a constant flow of ideas and enables high performers to get new products with the highest customer benefit to market faster than their competitors. A leading company, for example, integrates external problem solvers with its innovation processes via the Internet, leveraging "e-brokers" to help the company resolve innovation challenges.

Green potential

With their energy-efficient product portfolios, high performers are exceptionally well positioned as environmentally responsible players. In fact, these companies communicate a specific sustainability vision, which starts within the organization as a commitment to CO₂ emission reduction and is recognized by suppliers, competitors and customers alike. "Green" revenues constitute a growing proportion of their total revenues. At one world leader in energy-efficient networks (or smart grids), the share of revenue accounted for by premium green products increased to one-third of total revenues in 2010, with the company targeting two-thirds by the end of 2011.

Performance anatomy

In industrial equipment, as in all the industries that Accenture investigates, the Performance Anatomy building block concerns people and culture. High performers attract—and retain—high-potential talent, globally. They recruit systematically, after carefully assessing managerial needs in consultation with the C-suite. And they develop talent by leveraging leadership development programs that reflect their strategic focus, both worldwide and at the local level. They also create stimulating, collegial working environments that encourage open and honest communication and support change, allowing the companies to execute programs that will enable future high performance.

Achieving high performance in the future

As the industrial equipment marketplace continues to evolve, the key to sustainable growth in the future will be the ability to anticipate the emergence of new growth markets—and to move swiftly to service them with innovative, energy-efficient solutions. Increasing volatility and shrinking product life cycles will underscore the importance of fully integrated risk management capabilities to ensure sustainable and profitable growth. Flexible and scalable operating models, bolstered by globally standardized processes, structures and functions will make the difference. Meanwhile, as the battle for talent intensifies, corporate cultures that both support and endorse change will become increasingly important differentiators for winning companies.



Intrigued?

Accenture is committed to helping its clients achieve high performance. To find out more about how Accenture can help you meet your business imperatives and create a road map for high performance, contact:

Sergio Colella
Industrial Equipment Industry Lead
sergio.colella@accenture.com

Jan Burger
Industrial Equipment High Performance Business Lead
jan.burger@accenture.com

Matthias Wahrendorff
Industrial Equipment Research Lead
matthias.wahrendorff@accenture.com

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US \$25.5 billion for the fiscal year ended Aug. 31, 2011. Our Internet address is www.accenture.com