

THE STATE OF THE INDUSTRIAL GOODS SECTOR

2024

Optimism in the face
of uncertainty

TABLE OF CONTENTS

Overview of sector development	3
Key findings and trends	4
Inside the industry	5
Leading the world	5
Back to basics	10
Supply chain resilience	12
Artificial intelligence	13
Workforce performance	15
Sustainability	17
A bright future, tempered by uncertainty	19
Methodology	20

OVERVIEW OF SECTOR DEVELOPMENT

The North American industrial goods sector continues to be strong: Profits are up, CEOs are optimistic, and companies are looking to expand. Overall, it's a rosy picture — but one that requires consideration of some important nuances and caveats to properly evaluate.

To get a comprehensive perspective on the state of the industry and its biggest priorities and challenges going forward, we interviewed leaders in the field, conducted online surveys, and analyzed more than 1,000 public companies worldwide. As was the case the previous year, the prevailing sentiment was very positive. For example, on average, executives we spoke with rated the sector's condition an 8 on a scale of 1 to 10.

Still, industrials are subject to the same macro factors that are disrupting businesses in other sectors. Government regulation and protectionism, volatile inflation, and geopolitical turmoil constantly threaten to erode stability and spiral costs to unmanageable levels. Difficulties with inventory and regulations on Scope 3 emissions are seemingly always looming on the horizon.

All this uncertainty leaves the industrial goods industry at an inflection point. The sector has ample reason to feel good about itself now. To keep things that way, it will need to remain steady when adopting hedging mechanisms and making decisions on future investments amid the ever-changing landscape.

KEY FINDINGS AND TRENDS

Our analysis yielded several key takeaways about current conditions in the industry and the outlook for its future.

North America has emerged as a leader: While the industrial goods industry is strong globally, market capitalization and value have been shifting toward the United States and Canada. A myriad of factors — including consolidation, protectionist policies, and a relatively rapid recovery from the COVID-19 pandemic — have driven profits up 4.4% over the past five years, the highest increase of any region. North America-based companies in industrial software, semiconductor manufacturing equipment, and industrial components have led the way in value inflow.

Return to basics: In the past, many company leaders emphasized involvement in megatrends such as artificial intelligence, digitalization, and sustainability. Under strain from inflation and geopolitical strife, however, they are now shifting to internally focused issues, making use of multiple levers to better serve their customers and solidify their home turf and more tangible growth opportunities.

A rebalanced supply chain: Supplier resilience has stabilized as a result of the sector's tremendous efforts to shore up its supply base and networks following the pandemic. New supply chain concerns are likely to emerge, however, as a new presidential administration in the US implements policies that diverge from those of the previous one.

AI acceleration: AI is a prime tool for supporting the back-to-basics approach. While industrial goods businesses universally agree the technology will create great customer-facing revenue generation opportunity, they have moved their focus away from aspirational “shiny object” opportunities toward actionable applications for internal operations, leveraging rapidly changing customer data to help grow the business.

Getting creative in the war for talent: As competition for top employees continues, companies are exploring new applications of AI to support greater workforce productivity. They have also been more strategic in their recent M&A activity to bring tech skills into the industry. Meanwhile, many businesses must adjust to the challenges of recruiting, managing, and upskilling a workforce that spans five generations.

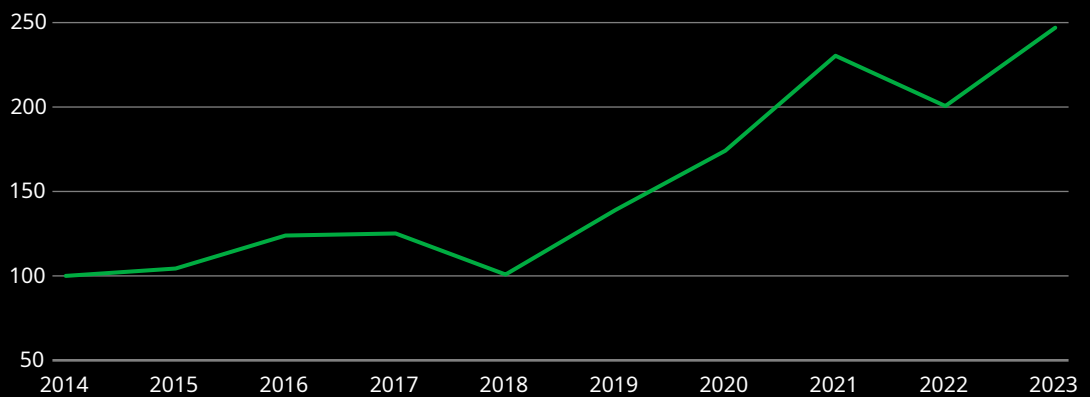
Sustainability is now viewed as being here to stay: The industry's focus on sustainability has shifted from grudging and aspirational compliance with regulations to staying competitive and preserving the right to operate through actionable compliance initiatives. Forward-looking companies are applying sustainability initiatives to their strategies for developing new products and business models and increasing their top lines. That approach could change, however, in reaction to policies from the new US presidential administration.

INSIDE THE INDUSTRY

LEADING THE WORLD

The Oliver Wyman Industrial Goods (IGO) Index, an aggregated metric representing the development of market cap of more than 140 industrial goods companies in the US, grew 23% year-over-year in 2023, the largest change of any region. The sector's value more than doubled over the 10-year period ending in 2023, according to the IGO, with a 10.6% compound annual growth rate. And while performance has been strong globally, North America is expanding its market share, which rose three percentage points to 39% between 2022 and 2023. North America's 4.4% growth in profitability over the past five years also was the largest of any region and was twice that of Europe.

Exhibit 1: IGO index performance, 2014-2023



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

Exhibit 2: Value migration by region, 2022-2023

In percentage



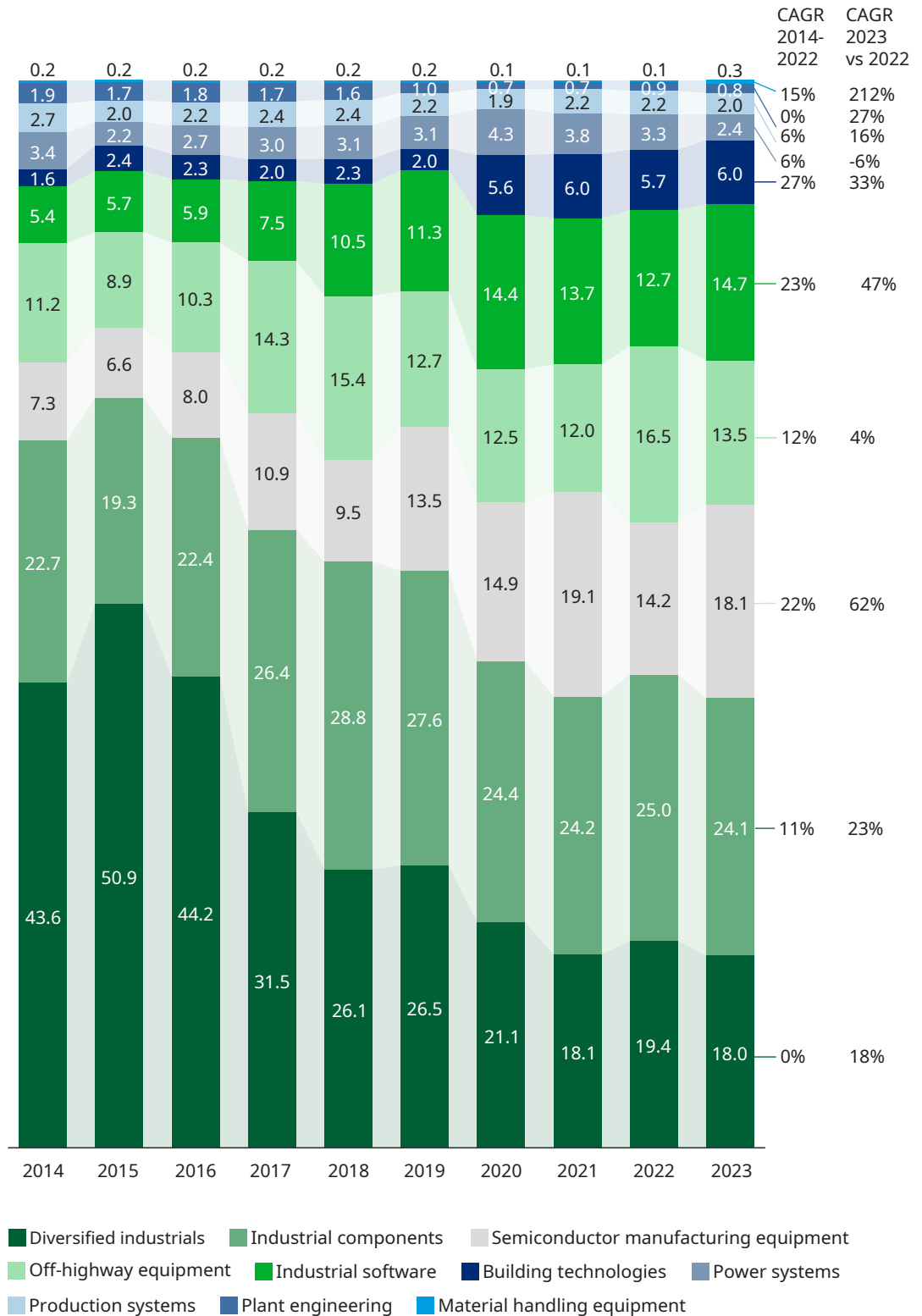
Rest of world (ROW) Asia/Pacific China Europe United States and Canada

Rounding may impact total.

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

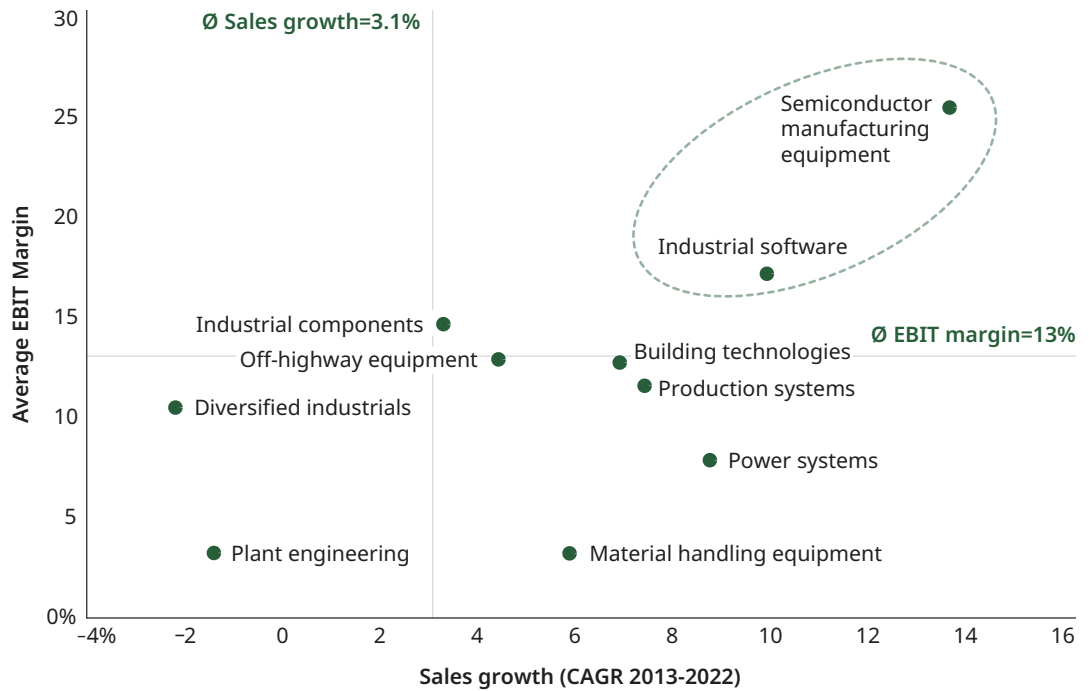
Multiple reasons accounted for this shift. First, North American companies have greater pricing power because of consolidation in the region, while protectionist policies have further helped support local businesses. The US in particular has had advantages, including comparatively high productivity and a stable economic base, which facilitated a quicker recovery from the pandemic.

Exhibit 3: Value migration by sub-sector, 2014-2023
In percentage



Source: Company sample, S&P Capital IQ, Oliver Wyman analysis






Exhibit 4: Development of operating performance in North American industrial goods sector



Source: Company sample, S&P Capital IQ, Oliver Wyman analysis

A closer look shows the value has continued to move toward a handful of industrial sub-sectors, driven by the strong performance of certain key industries such as semiconductor manufacturing equipment and industrial software (see Exhibit 4). On the other hand, other sub-sectors, such as off-highway equipment and power systems, are subject to orthogonal market forces. For example, building technology and construction equipment have managed to achieve stability buoyed by increased demand for construction stemming from population growth and large infrastructure projects. The North American construction market reached \$2.5 trillion in 2024, according to market research firm Mordor Intelligence, and will increase to \$3.1 trillion in 2029 at a compound annual growth rate of 4.8%. Contrast this with the agricultural equipment market, which is facing the fallout resulting from decreased demand from farmers (see Exhibit 5).

Exhibit 5: A sampling of the current state of industries impacting industrials sub-sectors

Equipment sub-sectors	Current state
 Construction	<ul style="list-style-type: none"> • Strong fundamentals leading to growth • Despite a recent temperting of large projects, non-residential sector is growing from high value projects in infrastructure, manufacturing facilities, and commercial developments • Residential market is slowing because of high interest rates and housing affordability
 Agriculture	<ul style="list-style-type: none"> • Farm cash receipts have declined compared with previous years on the heels of softening commodity prices and persistently high input prices • Agriculture equipment and machinery companies are grappling with higher inventory levels as farmers scale back new investments
 Power generation	<ul style="list-style-type: none"> • Overall technology trends show that non-renewable sources continue to be important, with greater optimization to become cleaner and more efficient • Fuel flexibility is a key priority, with many exploring hybrid strategies • Electricity demand growth is accelerating the build-out of clean energy solutions, creating opportunities in industrial sub-sectors
 Rail	<ul style="list-style-type: none"> • The freight rail sector remains strong; demand for freight rail and investments into rail infrastructure have led to renewed investment in rail equipment production
 Commercial trucking	<ul style="list-style-type: none"> • The industry has rebounded strongly from disruptions from COVID-19 • Growth in e-commerce and demand for goods have led to significant uptick in freight volumes • Used truck market remains strong with rising costs in new truck prices impacted by rising operational costs and freight rates

Source: Oliver Wyman analysis

BACK TO BASICS

In the past, industrial companies were more open to pursuing new or experimental initiatives in fields like AI and digitalization, often with few concrete goals in mind. Now, however, a common thread among CEOs we interviewed is a return to basics as a way to manage an uncertain economic and political environment. That means developing plans to simplify their organizations, become more vertically integrated to derisk supply chains, and strengthen core competencies. As just one example, a company might break up its shared back office to better serve the specific needs of its individual businesses. Even for an area such as AI that executives widely recognize as a massive opportunity, the focus now is largely on applications for internal operations.

As part of this shift, customers are a primary area of attention. In Exhibit 6, an AI analysis of the shareholder letters from North American industrial companies' annual reports from 2022 and 2023, we found that customer engagement was mentioned more frequently than any other topic.

Back-to-basics also is part of a broader movement to prioritize growth. In our analysis, growth and expansion had the highest increase in the number of mentions of any topic. That fits with [Oliver Wyman Forum research](#), in which 56% of CEOs from across industries selected a growth driver — such as organic investment in new revenue streams or revenue uplift through pricing and customer loyalty — as their number one priority to increase shareholder value.

Companies are thinking pragmatically, investing in an accretive manner rather than making huge bets that risk a negative discounted cash flow for the next 10 years. Prevailing sentiment among executives is that the businesses are focusing on one product type that promises steady future demand instead of chasing multiple types based on changing regulatory requirements. Or as a heavy machinery sector executive succinctly put it, “We’re not taking big swings, but focusing on getting 1% better each day.”

Exhibit 6: Top keywords from annual reports, 2023 vs. 2022

Number of companies with respective keyword in annual report¹, North American sample

Most important topics		Biggest changes	
2022	2023	Increase	Decrease
1 Sustainability (83)	Customer engagement (82)	Growth and expansion (+45)	Environmental responsibility (-39)
2 Corporate social responsibility (74)	Investment in technology (73)	Market trends (+37)	Corporate social responsibility (-28)
3 Investment in technology (73)	Financial performance (73)	Industry trends (+35)	Sustainability (-21)
4 Product development (60)	Product development (65)	Customer engagement (+29)	Economic trends (-20)
5 Disruptive innovation (58)	Disruptive innovation (64)	Talent development (+24)	Health and safety (-19)
6 Diversity and inclusion (57)	Sustainability (62)	Financial performance (+19)	Sustainable management (-13)
7 Environmental responsibility (57)	Digital transformation and solutions (60)	Digital transformation and solutions (+18)	Employee engagement (-12)
8 Financial performance (54)	Market trends (60)	Alternative energy (+18)	Community engagement (-12)
9 Customer engagement (53)	Diversity and inclusion (57)	Mergers and acquisitions (+17)	Revenue growth (-12)
10 Supply chain disruptions (44)	Growth and expansion (57)	Partnerships and collaborations (+17)	Quality (-11)

1. Topics were identified based on a screening of 2022 and 2023 annual reports of 62 companies using artificial intelligence; similar categories may have been combined.

Source: Company annual reports, Oliver Wyman analysis

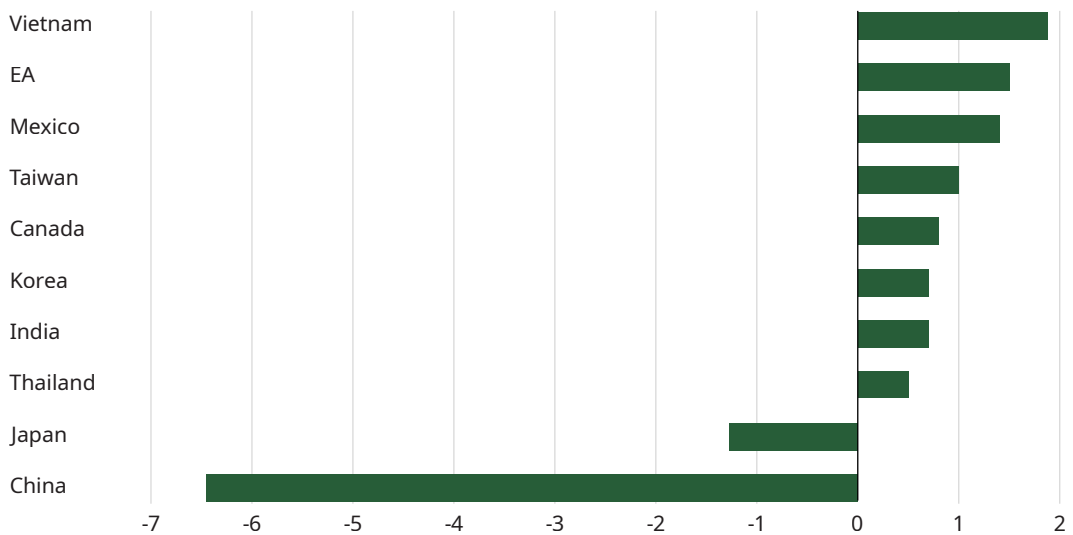
Among other growth strategies, companies are looking into investments in product development (which was also in the top five topics), indicating that they will be pushing for opportunities to introduce new business models or re-thinking their products to cater to more environmentally conscious buyers.

Ultimately the back-to-basics trend will have far-reaching implications for companies of all types. It will drive many of them to retrench, expanding within their primary regions and causing them to encroach upon another business’s product territory. For example, equipment dealers, finding their growth stunted by the demands of their original equipment manufacturers, may look to move into new — but safe and not overly ambitious — lines of business outside of their core services. Other companies will double down on reliable aftermarket and parts revenue to protect themselves against business cycles and other volatility. In lean times, aftermarket can serve as a mechanism for packaging and monetizing fancy digital technologies that customers are unwilling to pay for directly.

SUPPLY CHAIN RESILIENCE

Industrials CEOs are focusing on supply chain resilience to reduce risk and manage geopolitical instability, protectionism, and government industrial policies. The US is quickly changing the mix of countries it imports from, as well as looking at entirely new options for potential trade partners. By comparison, companies in Europe have been slower to diversify their supply chains, and many have yet to develop workable plans for operating in a landscape that’s increasingly divided between US- and China-led spheres.

Exhibit 7: Percent change in market share of US imports since 2018



Source: BoA Global Research

But while their speed has varied, in general industrials firms have seen considerable success solidifying their supply chains. Of the nine industries in [Oliver Wyman's Global Supply Chain Risk and Resiliency survey](#), the global industrials sector had the highest number of “Leaders,” or companies that had made significant improvement in supply chain resilience and were ahead of their target and peers. Overall, 65% of respondents from across the sector (comprising industrial products, retail and consumer goods, automotive, and other industries) were above the global average in supply chain improvements.

Firms in the North American industrial products especially stood out, with 85% of respondents scoring above the global average. The survey found the ones that have made significant progress prioritized supply chain as the most important boardroom topic, enabling them to overcome a lack of budget, talent, capacity, or tools. “The industry hasn’t gotten enough credit for how much they have done to adjust their network and their flows,” one executive told us. “Nearshoring and onshoring get a lot of attention, but companies have done more.”

Exhibit 8: Strategic topics according to relevance at board level

Percent of leaders¹ of North America industrial companies that rated topic as high priority

Supply chain resiliency

100%

Overall risk management strategy

91%

ESG strategy/net-zero strategy

73%

Top-line increase

73%

Cost reduction

64%

AI/digitalization strategy

45%

People-related topics (such as workforce availability and skills)

18%

1. Leaders are defined by survey responses and Oliver Wyman's determination of those that have made significant improvement in supply chain resiliency and were ahead of their target and peers. Dataset also includes firms that were above average in supply chain resiliency.

Source: Oliver Wyman Global Risk and Resilience Survey, Oliver Wyman analysis

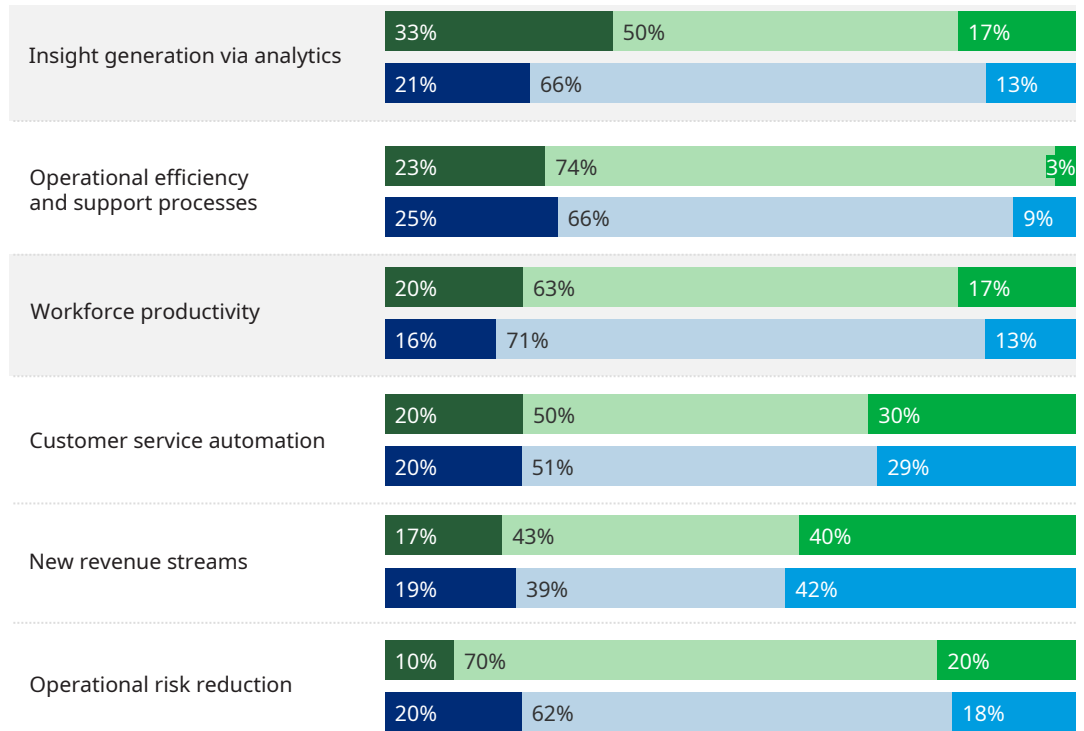
Looking ahead, there may be some major new disruptors, such as environmental problems that affect the cost and timeliness of freight transit and port strikes that delay delivery of goods. Further geopolitical tension could also be on the horizon, stemming from tariffs on additional imports (including certain steel and aluminum products, ship-to-shore cranes, and personal protective equipment) from China and elsewhere. To combat this, firms will need to take advantage of alternative ports of entry and modes of transport, among other levers many already have been using in response to past disruptions.

ARTIFICIAL INTELLIGENCE

While industrial firms see artificial intelligence as a growth opportunity, the applications they are pursuing mainly are focused on internal operations. This is very much in keeping with the back-to-basics strategy, with lofty, aspirational initiatives giving way to the goal of stitching the technology into the fabric of what the company does every day. Specifically, the Oliver Wyman Forum's 2024 CEO survey found, compared with other sectors, industrials are investing heavily in applications for workforce productivity and analytics-based insight generation.

Exhibit 9: CEO level of investment in AI capabilities across the following areas

% CEOs selected for each area



Industrial CEO responses

- Invest heavily to be a market leader
- Invest incrementally to build capabilities
- Not investing in this area yet

Overall CEO responses

- Invest heavily to be a market leader
- Invest incrementally to build capabilities
- Not investing in this area yet

■ More frequent Industrials CEO responses than overall CEO responses

Source: Oliver Wyman Forum x NYSE CEO survey, Oliver Wyman Forum analysis

Examples from the sector of these types of use cases abound. AI is enabling agriculture and construction equipment manufacturers to use data they collect, which they struggled to leverage effectively in the past, to gain extensive insight into their products’ reliability and their customers’ maintenance practices and usage preferences. [Heavy equipment manufacturers are exploring AI solutions](#) to standardize data so disparate technology systems (such as communication buses, attachments, even machines of different brands) can communicate with one another. And many other companies’ R&D departments are using AI to automate software engineering, expedite the product prototyping process, identify design conflicts, and negotiate RFPs, RFQs, and RFIs, making the workforce more productive.

On the supply chain, procurement and logistics side, companies are using AI for functions such as forecasting demand, managing inventory and safety stock, and determining optimum order sizes, resulting in working capital and operating expense reduction, improved customer service levels, and increased revenue. One of our clients, for example, improved its demand planning through AI-based forecasting models, leading to more than 50% inventory reduction, 25% improved forecast accuracy, and 80% faster process throughput.

Even with all of AI's promise, some roadblocks to widespread implementation remain. Executives we interviewed cited the need for industrials to find the right partners to more rapidly improve their capabilities with the technology and set up their AI governance and organization. Some companies are trying to speed up their adoption of targeted AI tools through acquisitions. "A big trend that is gaining momentum in M&A is that there are a lot of stranded assets as startups run out of cash," one executive says. "Industrial companies are very, very savvy at picking through the rubble and saying, 'I can do something with this that helps me.'"

Perhaps an even greater concern is the need for deeper understanding and expertise in AI technology, from the management level down to rank-and-file employees. By 2027, the Oliver Wyman Forum finds, 60% of employees across industries will need reskilling or upskilling on AI. It will be imperative for companies to prepare effective training programs.

WORKFORCE PERFORMANCE

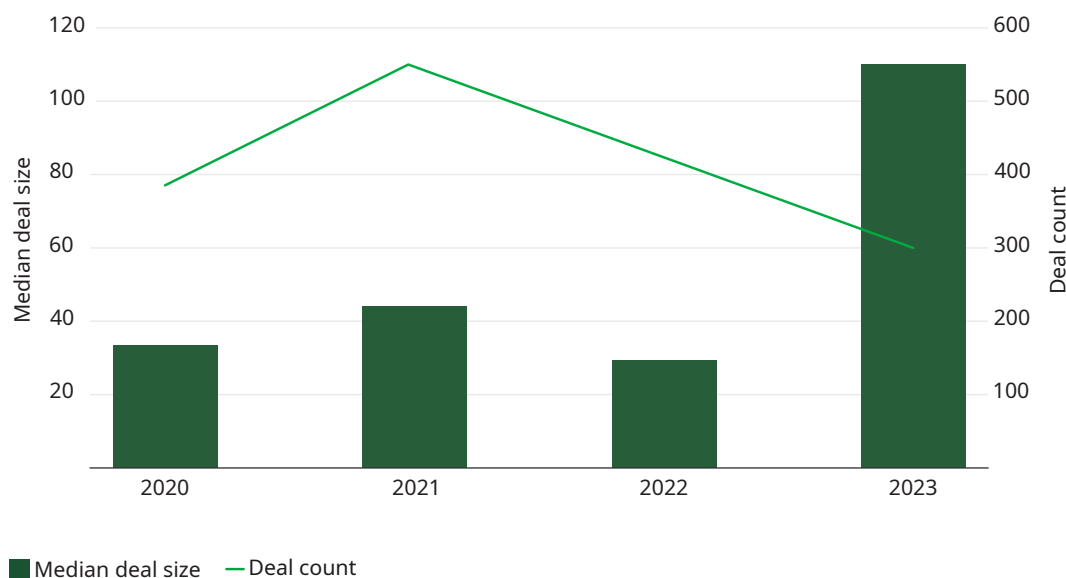
The industrial goods sector has other significant labor issues besides the need for upskilling. First, like many other industries, it is facing a generational shift in the workforce. Companies now employ teams comprising workers from Generation Alpha all the way up to the Silent Generation — five distinct groups in all. Oliver Wyman Forum research finds that 83% of companies of all types say these diverse groupings are vital to their growth and long-term success. But managing people with highly divergent values and expectations is fraught with the potential for conflict and even age discrimination. Doing so effectively will be a high-wire act that requires extremely careful planning and a deft touch.

Again, industrials companies also are contending with workforce issues created by the use of AI and other technologies. For example, dealers we surveyed reported encountering difficulties when their manufacturers roll out new digital tools. Customers aren't asking for these products to begin with, and their sales teams aren't equipped with the knowledge and skills to sell them. Further, the dealers' organizational processes often aren't well-suited to serving up new digital solutions. Clearly there's a need to change many of these legacy processes, along with employee upskilling efforts.

At the same time that industrial firms are navigating challenges with their existing workers, they also must contend with the difficulty of finding new talent in a tight market. With labor shortages in areas such as industrial equipment, manufacturing, and construction, many jobs are going unfilled. Large North American industrial goods companies, many of which combined through mergers and acquisitions, are now seeking strategic deals with cash-strapped startups and other smaller entities to bring in skilled tech workers without having to develop them from scratch.

In recent years, a rocky macroeconomic environment and high borrowing costs have lowered the appetite for M&A. According to research firm Pitchbook, since 2020, the median M&A deal size among North American industrials has been less than \$40 million and there has been a substantial decline in the total number of deals.

Exhibit 10: Median deal size and deal count within North American industrials sector
 Median deal size in million \$



Source: PitchBook data, Oliver Wyman analysis

However in 2023, while the number of deals declined, the median deal size nearly tripled to \$110 million. Larger deals may indicate acquirers are engaging in M&A to increase their access to talent and technology or to increase their value, while sellers are rationalizing portfolios and aligning investments around their core areas. In acquisitions by industrial companies since 2020, 39% of the targets were in the information technology industry. The largest deals came in software, semiconductors, IT services, and computer hardware.

SUSTAINABILITY

In 2022, our AI analysis found, sustainability was the most frequently mentioned topic in industrials firms' shareholder letters. It's fallen from the top spot since then but, as customers increasingly seek eco-friendly products and services, remains a key consideration in these companies' strategic plans. In other words, sustainability initiatives are no longer a requirement that executives grudgingly adopt. They have become squarely among the "basics" — a market demand that executives are prioritizing to preserve their companies' right to operate and remain competitive.

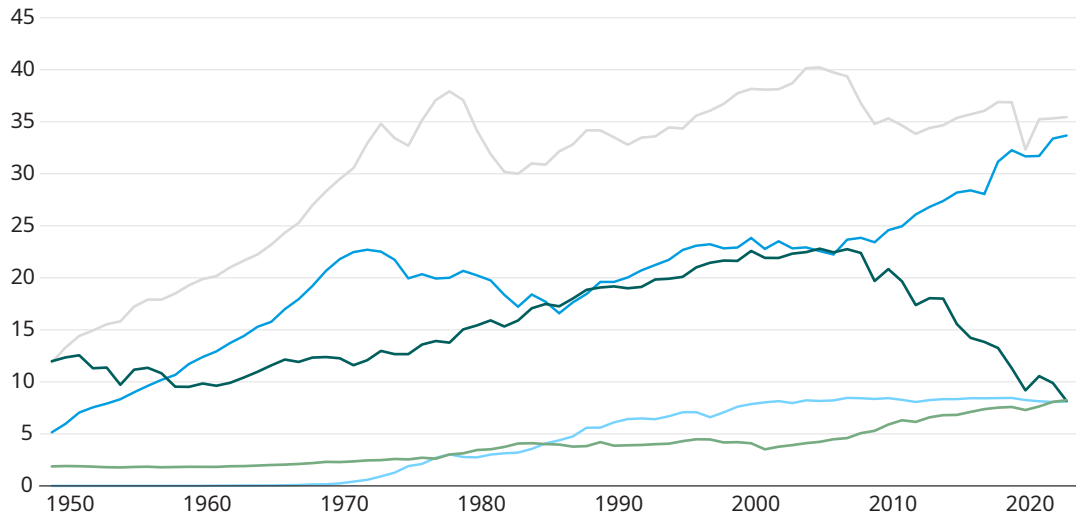
As a result, smart industrials businesses increasingly are adapting their business models to position sustainability as a product offering. A well-crafted strategy featuring assiduous reporting of Scope 3 and other emissions can drive positive business outcomes in multiple ways. For instance, adopting more energy-efficient practices — such as using alternative materials for products or changing modes of transportation to move freight — often reduces costs. "We're going to meet a whole new level of emissions over the next couple of years," said one executive from a power generation company.

In select industries, there is a growing market for "green premium" products, which are sustainably produced and have lower carbon intensity scores. Examples include green steel, sustainable aviation fuels, and certain agricultural commodities. Furthermore, there are emerging business models and markets for carbon credits, which can provide additional avenues for growth in the future.

The executives we interviewed also pointed to energy diversification as a major growth opportunity. High energy demand and government policies are driving investment in renewable energy, and costs of technologies like solar and wind are dropping. Meanwhile, coal usage in the United States has been declining over the past five years, the US Energy Information Administration reports, and fell below usage of aggregated renewable energy sources (geothermal, hydroelectric, solar, wind, and others) in 2023. Given the uncertainty of the regulatory landscape, though, some companies we spoke with are hedging their bets in their portfolios and product offerings, aiming to serve both coal and renewables without taking an outside chance on either.

Exhibit 11: Primary energy consumption by source in US

Quadrillion Btu



— Nuclear electric power consumption — Total renewable energy consumption
 — Natural gas consumption (excl. supplemental gaseous fuels) — Coal consumption
 — Petroleum consumption (excl. biofuels)

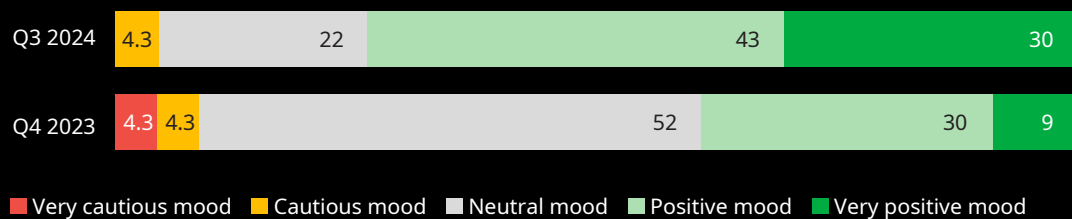
Source: US Energy Information Administration, Oliver Wyman analysis

A BRIGHT FUTURE, TEMPERED BY UNCERTAINTY

A confluence of factors has provided ample reason for optimism across the North American industrial goods sector. When we conducted a second AI-based analysis of firms' investor presentations, we found considerable improvement in the mood executives conveyed. Overall, their language was far more positive and less cautious nearing the end of 2024 than it had been in the last quarter of 2023.

Exhibit 12: Mood shift¹ of company investor reporting, Q4 2023, Q3 2024

Count of degree of changes in percentage



1. Mood was determined based artificial intelligence analysis of word patterns of Q4 2023 and Q3 2024 investor presentations of 23 companies representing a sample of industrial sub-sectors.

Rounding may impact total.

Source: Company investor presentations, Oliver Wyman analysis

Of course, the nature of the industry and the global influences on it mean that the outlook can turn dramatically at practically any time. With a new presidential administration in the United States will likely come an adjustment in priorities, an overhaul of the regulatory landscape, and a host of new tariffs. Other macroeconomic and geopolitical shifts will assert additional pressures and concerns on day-to-day business.

Industrials firms will need to take a hard look at all these changes as they arise. The back-to-basics approach that much of the sector has already adopted is an important step in that effort. But it's just one among many that will serve those companies well and keep them on solid footing through 2025 and beyond.

METHODOLOGY

The findings in our “The State of the Industrial Goods Sector” report are based on extensive research, as well as our experience as trusted advisers in the industry. Our assessment encompassed a robust data sample of approximately 1,300 listed industrial goods companies worldwide, including about 240 listed companies each with revenues exceeding €100 million. The North American sample comprised 143 companies. The analysis is based on publicly available information as of year-end 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 and recent investor presentations. Complementing this, we conducted 10 interviews with C-suite executives in leading North American industrial goods companies to understand their concerns and gather their perspectives on the market outlook.

Oliver Wyman is a global leader in management consulting. With offices in more than 70 cities across 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 6,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

For more information, please contact the marketing department by phone at one of the following locations:

Americas
+1 212 541 8100

Europe
+44 20 7333 8333

Asia Pacific
+65 6510 9700

India, Middle East & Africa
+971 (0) 4 425 7000

AUTHORS

Nate Savona

Partner, Automotive
and Industrial Goods

nate.savona@oliverwyman.com

Michael Sharov

Partner, Automotive
and Industrial Goods

michael.sharov@oliverwyman.com

David Whinfrey

Engagement Manager, Automotive
and Industrial Goods

david.whinfrey@oliverwyman.com

Jennifer Wong

Associate Director, Automotive
and Industrial Goods

jennifer.wong@oliverwyman.com

Copyright ©2024 Oliver Wyman

All rights reserved. This report may not be reproduced or redistributed, in whole or in part, without the written permission of Oliver Wyman and Oliver Wyman accepts no liability whatsoever for the actions of third parties in this respect.

The information and opinions in this report were prepared by Oliver Wyman. This report is not investment advice and should not be relied on for such advice or as a substitute for consultation with professional accountants, tax, legal or financial advisors. Oliver Wyman has made every effort to use reliable, up-to-date and comprehensive information and analysis, but all information is provided without warranty of any kind, express or implied. Oliver Wyman disclaims any responsibility to update the information or conclusions in this report. Oliver Wyman accepts no liability for any loss arising from any action taken or refrained from as a result of information contained in this report or any reports or sources of information referred to herein, or for any consequential, special or similar damages even if advised of the possibility of such damages. The report is not an offer to buy or sell securities or a solicitation of an offer to buy or sell securities. This report may not be sold without the written consent of Oliver Wyman.