SURVEY Industry Watch

Supplier consolidation continues

Following the announcement of several significant acquisitions and divestments in the rail supply sector, in our quarterly survey we asked our panel of senior executives how they expect this trend to evolve in the next few years.

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RAIL SUPPLY INDUSTRY WATCH

Over the past few months, there has been a relatively intense spate of merger and acquisition activity in the rail supply industry, with several companies looking to extend their geographical reach.

Last month saw the completion of the merger between Chinese companies CNR and CSR to create the world's largest rolling stock builder. Hitachi Rail Europe's deal to acquire AnsaldoBreda and a stake in Ansaldo STS from Finmeccanica is expected to be concluded by the end of the year.

But at the same time, other firms are looking at divestments to spin-off 'non-core' activities. Vossloh is looking to sell off its rail vehicles and vehicle components activities, in order to focus on the rail infrastructure business. Bombardier is planning an Initial Public Offering of a minority stake in its transportation business, and it is not long since a sale of Alstom Transport to either GE or Siemens was under discussion.

We asked our panel of senior executives from the railway supply industry to select one of six alternative scenarios for how the industry would develop over the coming years (Fig 1).

Just over half of all participants felt that there would inevitably be further consolidation in the industry, and that in a few years there would be only a handful of large suppliers in the world. One possible scenario might see four to six large system suppliers providing rolling stock, rail control and infrastructure systems, with annual revenues in the range of about €8bn to €10bn per company. Firms from Asian countries such as China and Japan are likely to emerge among the leading players, rivalling those from Europe and North America.

A second group, accounting for 25% of the votes, believes that further consolidation will continue at a slower pace, but that the industry landscape will remain relatively fragmented. Looking at the world market for rail supply, there are segments where niche players have been very successful, for example in infrastructure components, certain types of rolling stock such as regional multiple-units, or as independent service providers. The respondents in this group clearly feel that such niche players will continue to have an important role.

To find out more about the survey and apply to join our panel, visit the RSIW website at: **www.railsupplyindustrywatch.com**

A further 11% of the participants believe that consolidation will only take place among lower-tier and subsystem suppliers, while the larger groups break up into separate businesses focused on specific niches. Only 4% of respondents felt that there would be consolidation among the lower tier suppliers but no change among the systems integrators, and a similar proportion expected no significant changes at all.

Taken together, more than three-quarters of our survey respondents think that industry consolidation will continue, despite the overall growth projections predicted in the latest Unife World Rail Market Study published in September 2014, and the optimistic business outlook for 2015 reported in our January survey. One potential reason for this view is that the respondents believe there are significant economies of scale to be harnessed in the railway industry. Businesses need a certain critical size to support an international presence in major existing railway markets as well as emerging markets, but companies can also gain economic advantages by leveraging their world-wide sales organisation and administration across a broad product portfolio.

Of course, this reasoning implies that the mergers are successful and are implemented in a professional manner. Based on Roland Berger's experience of post-merger integration, success is dependent on several factors, such as (in order of importance) retaining key personnel, pursuing a clear strategic concept, taking management decisions early, practising open communication, installing the right PMI project team, managing cultural differences and setting up a realistic road map.

With the expectation of continued consolidation, the question arises whether this will lead to less competition, taking into account that some markets are still effectively closed to foreign suppliers and the supply industry seems to be a long way from achieving a level playing field. However, the opposite might become true, as a tight oligopoly can lead to increased competition between the key players, encouraging innovation, driving up quality and passing on cost reductions to the customers. This in turn could be beneficial for railways and public transport operators as well as their end customers, leading to an increased market share for rail.

There are two major prerequisites for such successful competition. Firstly, any type of hidden collaboration between the large systems suppliers must be avoided and breaches heavily sanctioned. And secondly there needs to be a level playing field with all markets accessible to all of the players. This would clearly require further standardisation of technical norms as well as the opening up of international tendering procedures. ■