

# INSIDER'S PERSPECTIVE

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## Europe's machinery, moment of truth

by Thomas Trautmann, Steffen Petersen, Daniel Hoess, and Fabian Czilwa



## Introduction

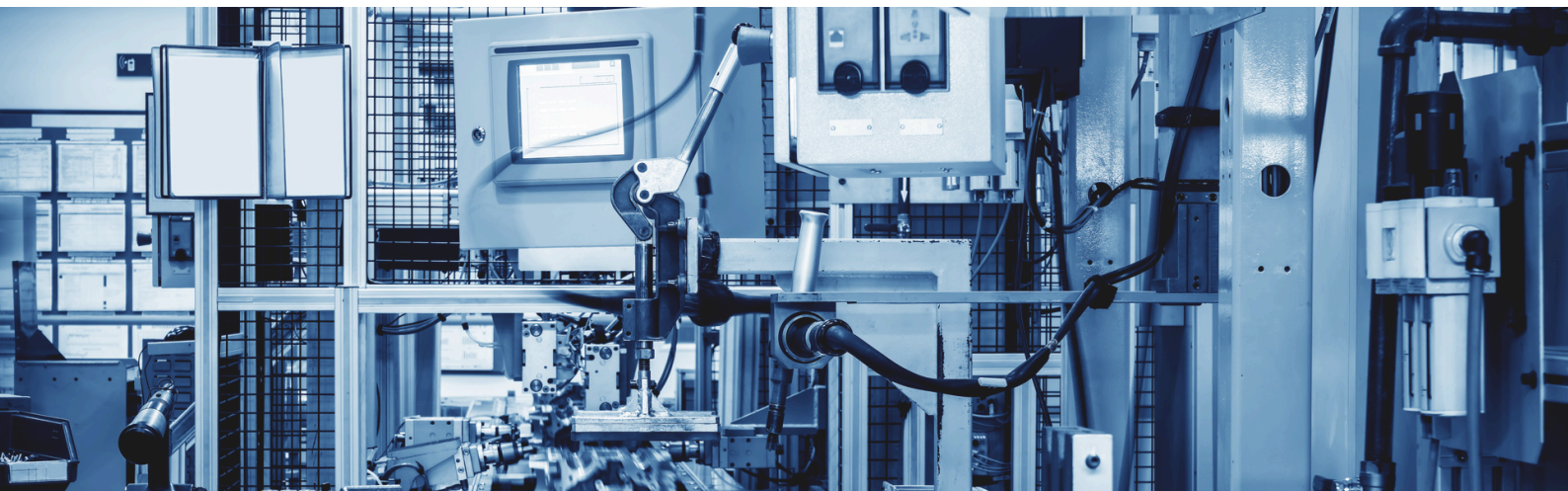
In a world where economic tides shift rapidly and global competition never sleeps, the machinery and equipment (M&E) industry stands at the crossroads of unprecedented change. Many European firms are perilously close to strategic irrelevance unless they act now.

The global landscape is shaped by diverging regional growth trajectories, rising geopolitical uncertainty, accelerating industrial policy intervention, and intensifying international competition.

In this new reality, standing still is the fastest way to fall behind

Many established operating and business models are facing the stark risk of becoming obsolete. At the same time, competitive intensity is rising: the United States are turning to protectionism, while China has evolved from a low-cost competitor into a global challenger in higher value-added segments.

For Europe's M&E players, the choice is stark: adapt decisively – or fade into irrelevance.



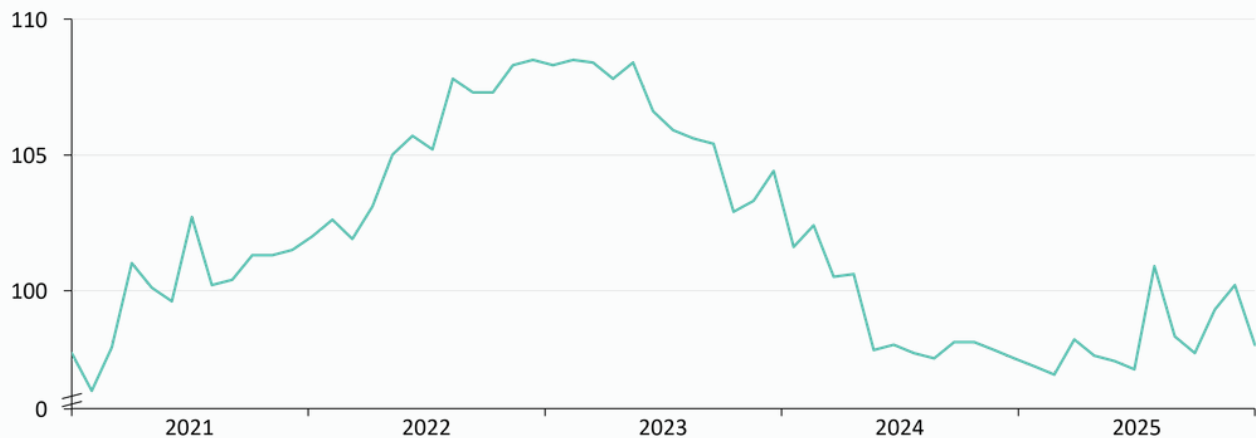
# The global situation of the machinery & equipment industry

## / High costs, low momentum: Europe's machinery challenge

Across Europe, market conditions for machinery and equipment companies have become more challenging in recent years. The region's typically cautious investment behaviour is now compounded by structural cost disadvantages relative to key peer economies, most notably higher energy and labour costs, a heavier regulatory and reporting burden, and slower permitting and project approval processes.

This is reflected in investment trends. Business investment grew by 6.8% in the euro area between Q4 2021 and Q4 2024, significantly lagging the 15.4% cumulative growth recorded in the United States over the same timeframe<sup>[1]</sup>. Investment in M&E is even weaker. While the US grew slightly, EU investments turned negative (approximately -1%).

Figure 1. M&E production in the EU (Indexed, 100 = Average 2021)

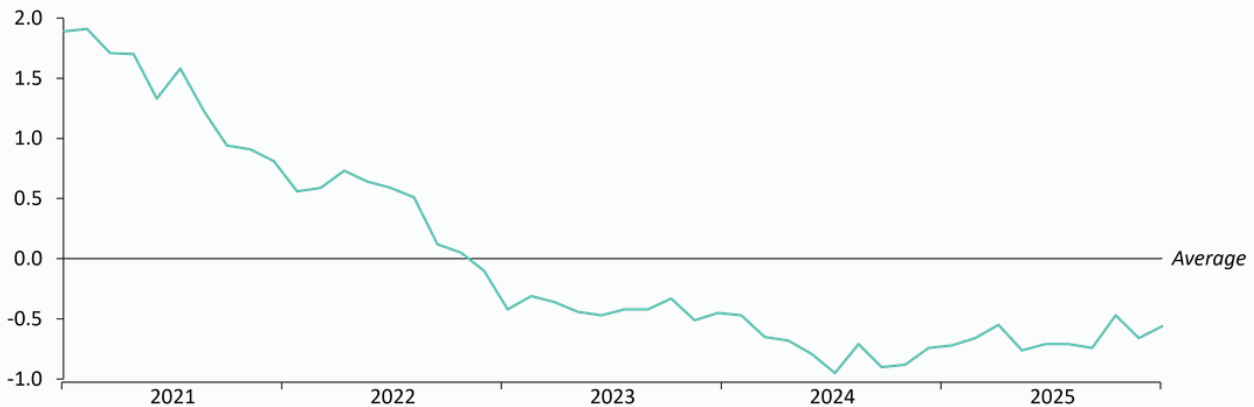


This is reflected in output data. M&E production in the EU declined by ~5% in the past 2 years<sup>[2]</sup>, while in Germany (accounts for 26% of the EU's sold industrial production value) it even fell by 7.5% in 2024 alone, alongside a 5% decline in machinery exports<sup>[3]</sup>.

[1] European Central Bank  
[2] Eurostat  
[3] Reuters

Accordingly, the euro area Business Climate Indicator remained below-average throughout 2024/25.

Figure 2. Business climate Index



Germany's machinery-sector business climate indicator shows a similar picture, though with a slight upswing at the end of 2025<sup>[4]</sup>. At the same time, the volatility of energy prices, especially hurtful for financially constrained or energy-intensive firms<sup>[5]</sup>, geopolitical risk exposure in Ukraine and the Middle East, and demand uncertainty in export markets, esp. China and the USA, suppress long-term capital expenditure.

Consequently, many European manufacturers are focussing on replacing their ageing equipment (~8%p more than pre-pandemic) rather than expanding production capacity (~12%p less than pre-pandemic).

While there are upside scenarios, e.g., inflation approaching 2%, and lower financing costs, the outlook remains subdued. Consequently, European machinery players should not rely on domestic demand but seek global competitiveness and success in export markets.

In addition, succession dynamics in European firms are emerging as a structural factor. As generational handovers become more difficult, consolidation is likely to accelerate, driven by the need to stabilize management capacity, fund required investments and achieve scale advantages.

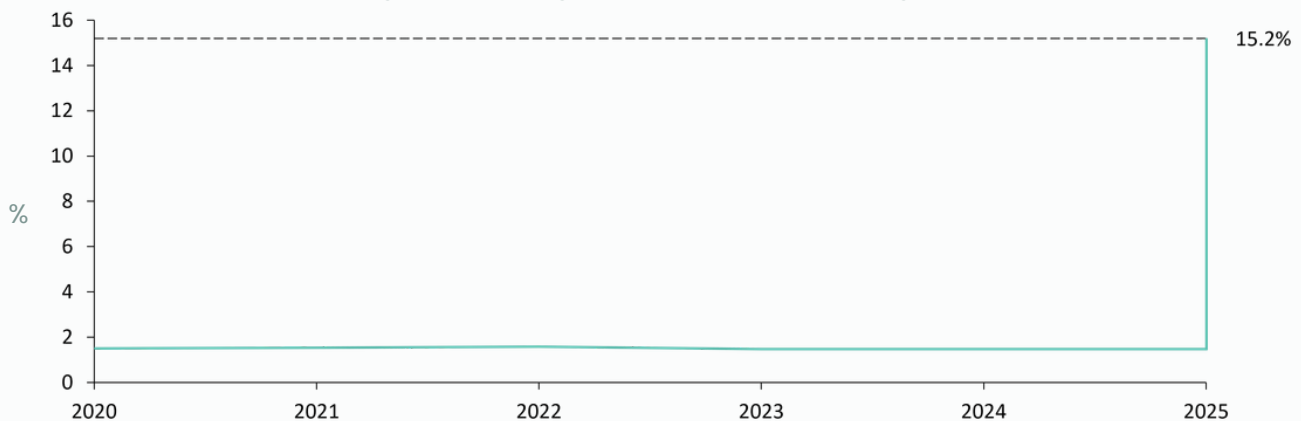
[4] ifo Institut für Wirtschaftsforschung  
[5] European Central Bank

## / United States: AI-driven Capex surge amid a protectionist turn

A markedly different picture emerges when looking across the Atlantic. The United States remain an attractive destination for growth-oriented capital expenditure. This is partly driven by persistent and large-scale investments in AI infrastructure (forecast: > \$500 bn in 2026)<sup>[6]</sup> as well as re-industrialization and reshoring trends<sup>[7]</sup>, supported by sizeable public investment programmes (e.g., the Infrastructure Investment and Jobs Act)<sup>[8]</sup>.

However, US trade policy has increasingly shifted from liberalization towards protectionism.

Figure 3. Average US import tariffs on EU goods



Source: Bruegel, *The economic impact of Trump's tariffs on Europe: an initial assessment*

Lately introduced tariffs increased the average US levy from ~3% at the end of 2024 to ~17% in 2025 (EU: ~15%)<sup>[9]</sup>, representing a surge in trade barriers and the highest level in nearly a century<sup>[10]</sup>.

As a result, a significant share of German machinery companies report weakening order intake, with some expecting to lose revenue by more than 10%<sup>[11]</sup>. And the past shows that tariffs often prove “sticky”.

A well-known example is the US “Chicken Tax”. Introduced in 1964 as a 25% tariff on light trucks in response to European tariffs on US chicken, it remains in effect today and continues to incentivize production localization<sup>[12]</sup>.

[6] Goldman Sachs

[7] Valco

[8] US Government Publications

[9] Bruegel

[10] Reuters

[11] Handelsblatt

[12] Medium.com

## / Aggressive at home, disruptive abroad: China's escalating machinery competition

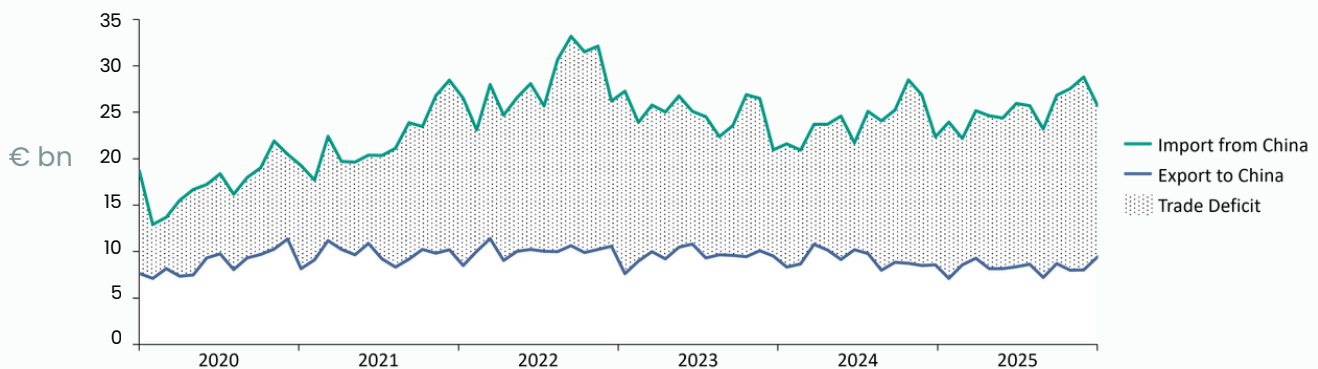
Historically, China was primarily competing in low-cost segments. Over recent years, however, Chinese manufacturers have moved into higher value-added industries, as for example vehicles and M&E. As a result, Chinese exports have increasingly challenged European firms both in their domestic markets and in third-country export markets<sup>[13]</sup>

This development has been particularly impactful for Europe's export-oriented industrial base, including the German machinery sector<sup>[14]</sup>.

China has transformed from a major importer of European M&E products to a major competitor. European manufacturers are no longer primarily competing in China but against China, globally and at home.

Trade data underlines that EU M&E imports from China increased by around 100% between 2014 and 2024, while exports have stagnated, resulting in a €176.7bn trade deficit in 2024<sup>[15]</sup>.

Figure 4. EU versus China M&E trade deficit



Key drivers for China's push into global machinery markets are overcapacity and weak domestic demand<sup>[16]</sup>; together they have increased<sup>[16]</sup> the pressure on Chinese manufacturers to seek external demand "vents for surplus" through exports<sup>[17]</sup>. In 2024, 15% of all exports from China went to the United States.

[13] BNP Paribas

[14] Centre for Economic Policy Research

[15] Eurostat

[16] Neue Zürcher Zeitung

[17] European Central Bank

However, following the latest US tariff policy, export to the US declined by 20% in 2025. These goods have been partly redirected to Europe, making an increase of 8% in exports to the EU, contributing to increasing price pressure in the EU market<sup>[18]</sup>.

Chinese OEMs now offer comparable technology at disruptive prices, undercutting European competitors by 20–30% for comparable technology<sup>[19]</sup>, and in extreme cases even by factor 10.

This creates a twofold challenge for EU manufacturers. First, Chinese OEMs gain traction in Europe through aggressive pricing, and second, competition within China itself has become increasingly ruinous.

## 5 Strategic levers to win in a structurally volatile world

The next phase of the machinery cycle will reward speed, focus, and structural adaptability rather than scale alone.

The five levers outlined below capture where leading OEMs are reshaping their operating and business models to defend margins and create sustainable advantage.



### 1. Innovation & time to market

Complexity has become a structural disadvantage. Many European firms have accumulated excess organizational layers, regional silos, and over-engineered governance. But simpler organizations move faster. In volatile markets, speed translates directly into performance. Companies that decide and execute faster protect EBIT and capture opportunities.

This is particularly critical for new product time-to-market. In a market pressed by rapid Chinese technology cycles and rising customer expectations, speed of innovation can be the difference between premium pricing and margin erosion.

[18] AP News  
[19] Institut der Deutschen Wirtschaft

To reduce time-to-market, companies need shorter innovation cycles and a more iterative development model. Time-to-market improvements typically require a combination of four enablers: lean decision-making with fewer approvals, end-to-end product ownership with cross-functional accountability, platforms and modularity to increase reuse, and dynamic resource allocation to react to shifting priorities.

ABB illustrates how organizational design and structured innovation processes can directly improve time-to-market. Under the “ABB Way” operating model and its ABB Accelerator, the company encourages business teams to make decisions themselves and helps develop promising ideas through collaborative, ecosystem-driven innovation<sup>[20]</sup>.

## 2. Geographic rebalancing

Global manufacturing footprints optimized for cost and scale are by design exposed to tariffs, geopolitical fragmentation, and supply-chain volatility. It is no longer sufficient to produce the right products for a market, but to produce them in the right location for resilience and regional relevance. For example, Audi's China deliveries declined by 5% in 2025, while its strongest-performing model was largely developed and manufactured by its Chinese partner SAIC<sup>[21]</sup>.

Being successful requires products designed around local customer needs and regional manufacturing networks that can absorb shocks. Sites that cannot meet these expectations should be reviewed critically, including repurposing or closure where warranted.

The winning operating model is region-to-region rather than global-to-local, with each major region managed as an economically viable unit, not as a satellite of headquarters. Those dynamics are accelerating the “rightshoring” trend. Rightshoring can take multiple forms: reshoring, nearshoring, and friendshoring.

For example, Schneider Electric is shifting towards a more regional operating model, reinforcing supply and production closer to end markets. In the context of accelerating US demand (e.g., data centres), Schneider explicitly positions this regionalization as a competitiveness lever to improve resilience and execution speed<sup>[22]</sup>.

The key question is no longer “Where can we manufacture cheapest?” but “Where can we manufacture profitably, reliably, and competitively under disruption?”.

[20] ABB  
[21] Handelsblatt  
[22] Financial Times

### 3. Aftermarket & installed base monetization

New equipment is cyclical; the installed base is not. As investment cycles weaken, M&E firms cannot rely on new machine sales. But the installed base keeps running, requiring uptime, spare parts, and service support regardless of CapEx sentiment. The strategic shift is therefore to manage the installed base as a commercial asset with lifetime value. The rationale is compelling. Aftermarket services typically provide 2 to 3 times higher operating margins than new equipment sales<sup>[23]</sup>.

During economic downturns, the value increases further as customers extend asset lifetimes and prioritize sustaining performance over replacing equipment. Through actively pushing retrofits, modernization, and upgrade paths, earnings can be stabilized even when machine orders decline.

KONE illustrates what can be achieved. Through maintenance contracts and modernization, the company generates more than 90% of its annual profit from existing customers<sup>[24]</sup>.

### 4. Software-enabled hardware

Machinery OEMs must shift from “machines sold” to “outcomes delivered”. Differentiation increasingly depends on measurable customer impact such as uptime, throughput, and yield, rather than mechanical performance. Software can help with this.

Connectivity and a scalable software platform must be the foundation of the offering, not an optional add-on, meaning every machine ships “software-ready”. Value-add software must also be embedded in the core sales motion. It should be bundled, configured, and priced upfront as an integral part of the machine proposition, rather than being pushed later as a separate add-on or even by a different sales team.

To make this scalable, engineering, software, and service must converge into one integrated product roadmap, supported by clear ownership, platform governance, and lifecycle management.

For example, HOMAG, a woodworking machinery manufacturer, offers a modular digital platform that connects customer sales, configuration, and production workflows end-to-end<sup>[25]</sup>. The payoff is structural. A software-enabled hardware model shifts OEM economics from cyclical equipment revenues towards recurring, high-margin value streams.

[23] Forbes

[24] The Dutch Investors

[25] Homag

## 5. Portfolio optimization

Broad portfolios with many low-volume variants and heavily customized offerings dilute margins, inflate complexity, and consume scarce engineering and management attention.

What once supported growth (“serve every niche”) increasingly becomes a structural handicap under intensified price pressure. Thus, portfolios must focus on profitable offers. In many organizations, a large share of variants adds limited revenue while driving overhead – consistent with the 80/20 pattern, where a small subset of the portfolio accounts for most revenue.

Consequently, custom-heavy machines, low-scale niches, and price-driven segments should be standardized, migrated to modular configurations, or exited, even at the cost of short-term revenue. In structurally weak markets, disciplined shrinking is often the fastest path to higher EBIT.

Exiting structurally unprofitable lines also releases capacity across functions and frees management bandwidth, helping to focus on those offers that truly drive P&L performance. NORMA, a connecting and joining technology manufacturer, illustrates this through its decision to divest the water management business, sharpening its focus on the core business of industrial joining technology<sup>[26]</sup>.

## So what?

Europe's machinery and equipment OEMs are entering a structurally different cycle – one defined less by predictable investment waves and more by regional divergence, geopolitical friction, and intensifying competitive disruption. European firms can no longer rely on domestic momentum as a dependable anchor, the United States is reshaping industrial growth through policy-backed re-industrialization and more restrictive market access, and China is pushing into higher value-added segments under conditions that increasingly compress margins and raise the bar for differentiation.

In this context, performance will be determined by more than operational excellence. The critical question is how quickly companies can adapt their business model to a world where volatility is structural, not temporary. The 5 levers presented will differentiate the leaders in the next cycle.

*The question is less whether change is needed, and more how quickly companies are prepared to act before today's pressures harden into tomorrow's constraints.*

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