



## Spotlight on Industrial Automation

**L.E.K. Consulting's Industrials practice continually monitors industry trends and identifies attractive opportunities for private equity and corporate investors.**

Recently there has been a strong increase in industrial automation investments that will favor automation integration service providers, as well as automation equipment suppliers. Factors driving this increase include:

- Greater willingness to consider the U.S. as a site for manufacturing investment due to:
  - Low and stable natural gas prices
  - The fact that the U.S. is now, in relative terms, a global growth market
  - Increase in costs of doing business (including labor rates) in previously low-cost countries like China
- Enhancements in automation technology that improve financial returns
- Operational efficiencies and cost advantages from automation that can address project delays and high prices/rates, which stem in part from a skilled labor shortage
- Regulations requiring greater sustainability and safety, increased energy efficiency and better product tracking and traceability

Growing investments in automation lead to positive changes for a wide range of industries including those that have always had a high proclivity to automate such as the automotive sector.

### Most Executives See U.S. Manufacturing as Increasingly Attractive *(Percentage of respondents who agree or disagree)*

Our firm is likely to accelerate our growth in U.S. manufacturing in the next five years



Our firm plans to invest more in onshore than offshore manufacturing in the next five years



I believe the U.S. is undergoing a Manufacturing Renaissance



Strongly Agree\* Somewhat Agree Neutral Somewhat Disagree Strongly Disagree

Note: \*Strongly agree = percent of respondents rating 6 or 7 (on a 7 point scale), strongly disagree = percent of respondents rating 1 or 2  
Source: L.E.K. survey

## Industrial Automation Beneficiaries

Technology integrators and equipment suppliers (e.g., automation equipment, sub-assemblies, components and controls) directly benefit from advances in industrial automation.

Providers of technology integration services participate in a fairly fragmented space, and they tend to specialize in certain sectors such as automotive or food & beverage. However, we believe evolving customer needs are prompting greater demand for a broader range of services from these providers.

The landscape for equipment suppliers is quite varied. Major manufacturers of automation equipment (Rockwell, ABB, etc.) participate in a fairly consolidated market. However, many smaller manufacturers go to market with specialized solutions that focus on production activities such as packaging, processing, test & measurement, etc. As these specialized solutions gain more traction, there is an increased tendency to take "off production line" activities and integrate them within the production line – most notably within the test & measurement space. This shift, coupled with a trend toward testing 100% of production vs. the traditional sample testing for quality assurance, is driving high single-digit growth among specialized equipment suppliers.

**Manufacturers' Investments in Automation Equipment** (Percentage of respondents)

U.S



Western Europe



China



Eastern Europe / Russia



Other Asia



Latin America^



Note: Based on response to this question: "We would now like to ask about the extent to which your company is investing in factory automation equipment for your U.S.-based production facilities and other regions where you manufacture. Which of these following statements applies to your company?"; ^Excludes Mexico  
Source: L.E.K. survey

## Benefits to PE Investors

Investing in industrial automation offers the opportunity to build a platform in a fragmented space and achieve attractive returns from specialty providers, while also diversifying across multiple industrial segments to mitigate business cycle risk.

## Contact

Please contact us at [industrials@lek.com](mailto:industrials@lek.com) for additional information.

## About L.E.K.

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