



**ESMT
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Europe and China: Different Stages of Industry Consolidation

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Contents

1. Industry Consolidation Survey Europe/China	5
2. Interpretation of Survey Results	7

Foreword

Extensive industry consolidation is taking place in Europe in many industries. The aviation industry, for example, has seen mergers between Air France and KLM, as well as Lufthansa and Swissair. The German banking industry just recently started to consolidate with the takeover of Dresdner Bank by Commerzbank and the partial takeover of Postbank by Deutsche Bank.

But how about consolidation in one of the biggest growth-markets worldwide—China? A recent survey by ESMT has looked at the differences between Europe and China when it comes to consolidation.

1. Industry Consolidation Survey Europe/China

The survey is based on the opinion of 160 executives from Europe and China. The European executives represent 6 large incumbents in the aviation, finance, telecom and utility industry. The Chinese executives represent 24 mainly small and medium-sized companies of different industries. The survey analyzed whether European and Chinese companies are ready to face global industry dynamics—especially in regard to industry consolidation in a global economy—by looking at topics such as drivers of market development, characteristics of the new global competition, corporate strategies and key success factors for industry consolidation.

- *Drivers of market development*
European as well as Chinese executives predict extreme changes in their industries within the next 10 years. Drivers for those changes depend on the respective industry, but the major ones seem to be customer behavior, competitive intensity and competition policy/regulation.
- *Characteristics of the new global competition*
Depending on the industry they represent, sixty to eighty percent of the European executives see new entrants into their home markets as being a high threat, with the potential competitors coming from Europe, the US and the Middle East. The dominant profile of the new competitors is the generalist that covers all segments of the market. Thereafter, the competitor profile points to a mixture between generalist and niche player. The competitors in Europe offer at least partially different parts of the value chain than the incumbents do.

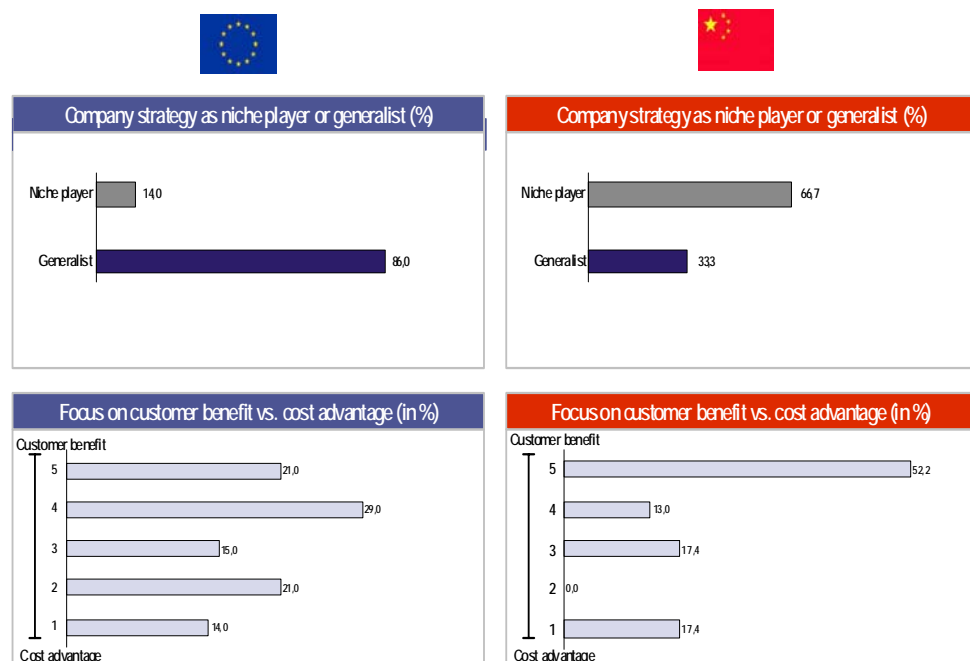
In China about fifty percent of the executives see new entrants into the home market as being a major threat, with the vast majority of competitors

coming from within China itself, followed by competitors from the US and Europe. Sixty percent of these competitors will follow the strategy of a niche player, offering identical or at least partially identical parts of the value chain.

- *Corporate strategies*

Almost ninety percent of the investigated European companies follow a generalist strategy. In terms of focus on customer benefit vs. cost advantage, they show a certain balance (see exhibit 1). In contrast to that, sixty-seven percent of the Chinese companies follow a niche player strategy, with a strong focus on customer benefit.

Exhibit 1: Corporate Strategies: Europe – China



Source: ESMT Consolidation Impact Survey 2008.

- *Key success factors for industry consolidation*

Executives of both regions believe that within the next five years, their industries will experience the strongest and most decisive consolidation period thusfar. But whereas European executives predict that consolidation will take place on a global and European level, the Chinese executives see a strong concentration of their consolidation taking place within China. Consequently, when it comes to the required competencies for the consolidation process, Chinese executives give somewhat less importance to the internationalization competence than to the other competencies, such as competition competence as well as financial and change competence.

2. Interpretation of Survey Results

When interpreting the results of the survey one has to distinguish between large incumbents on the one hand and small and medium-sized enterprises (SMEs) on the other hand. The survey concentrated on large incumbents in Europe and SMEs in China. Looking at the whole industry structure including incumbents and SMEs from Europe as well as China one can draw following conclusions.

European incumbents have reached a high level of maturity. They have a balance in their focus between customer benefit and costs since they offer high quality products but have to fight against low cost competitors. They still follow their traditional generalist strategy since they can hardly afford to concentrate on niches due to the fact that this would generally require a massive lay off of staff. In terms of consolidation they have been quite active in their home market as well as in Europe with some of them also playing an active role in the global consolidation process.

In China we can find some very big incumbents in terms of revenues which are due to the fact that the local Chinese market is huge. In 2007 already 29 Chinese companies are in the Fortune 500 list. These companies are starting to take part in the global consolidation process as the examples of the Chinese PC producer Lenovo taking over the PC business of IBM and the attempt of the Chinese oil company CNOOC to buy the US company Unocal has shown.

In the category of small and medium-sized enterprises the European companies focus on customer benefit with high quality products and they generally follow a niche strategy but this on an international level since their home market does

not provide them enough growth potential. These companies are also quite mature being active internationally in the core markets they need in order to play a major role in their area of business globally. In that context they are and have been active in an international consolidation process.

In contrast to that the Chinese SMEs still have huge growth potentials in their home market allowing them to concentrate on this market with a niche strategy. They focus on customer benefit. Costs are not an issue due to the cost advantage they have especially in labor costs. Consolidation for them is only an issue on the local Chinese market.

The survey shows that especially Chinese SMEs are still more concentrated on their home market with a niche strategy and a clear focus on customer benefit. They do not fear much new competition in their home market, even though they foresee consolidation taking place in China in the near future. In contrast to that, European incumbents are more globally oriented and they follow a generalist strategy with a balanced customer-benefit / cost-advantage focus. They see a major threat of new entrants into their home market, also driven by strong consolidation tendencies.

The authors

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About ESMT

ESMT European School of Management and Technology was founded in October 2002 on the initiative of 25 leading German companies and institutions. The founders aimed to establish an international business school, based in Germany, with a distinct European focus. As a private institution of higher education, ESMT provides executive education (since 2003) and an international MBA program (since 2006). ESMT headquarters is located in Berlin with a further campus in Cologne. ESMT is fully accredited by German authorities as a private institution of higher education.

High impact learning

ESMT research and teaching focuses on practice relevance and applicability. High impact learning allows participants to translate what they have learned into action as soon as they get back to their companies and to bring about changes on the job. ESMT imparts participants with state-of-the-art analytical methods in management and teaches them to solve real-life management issues. The aim is to enable participants to take responsibility and accomplish change. ESMT faculty, made up of both practice-oriented academics and theory-oriented experts, supports this style of teaching.

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