

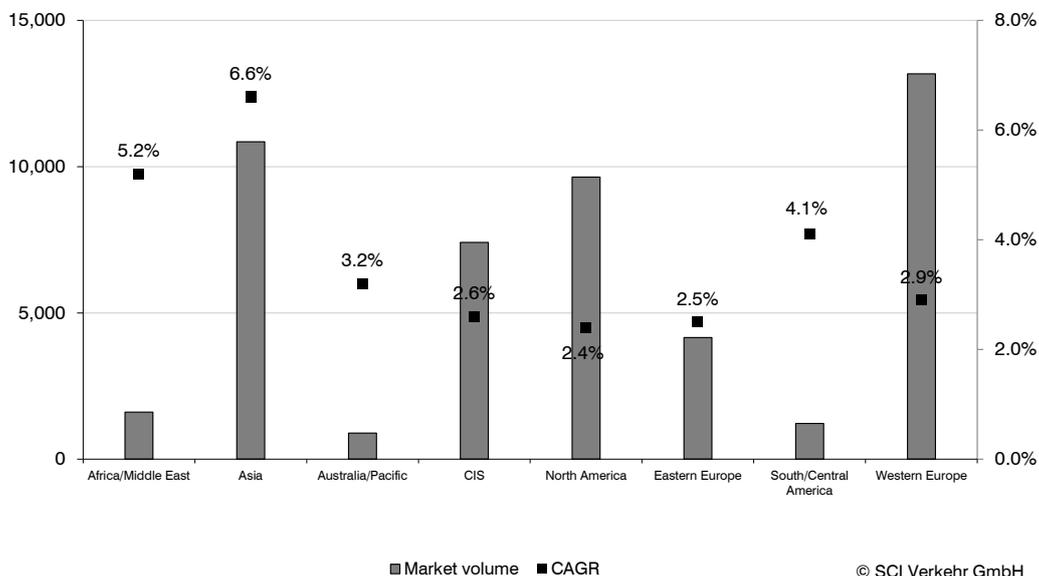


## Fierce battle for market shares: pressure growing in the highly heterogeneous market for railway vehicle After-Sales – highest growth in metro segment offers good prospects for the industry

The worldwide market volume for rail vehicle after-sales continues to grow more strongly than the market for new vehicles and with substantially lower volatility. This has been determined by SCI Verkehr, a consultancy firm specialising in railway markets, in its latest MultiClient Study ‘Rail Vehicle Maintenance – Global Trends in the After-Sales Market’. Besides a few independent suppliers, rail vehicle manufacturers and railway operators are fighting over this attractive market. State railways have entered the competition and recognised maintenance as an important business area. Within the relatively rigidly structured vehicle maintenance markets which see only slow transformations, the Russian state railway RZD is revolutionising its domestic market through massive privatisations. In addition, extensive new procurements in almost all world market regions are leading to further growth in after-sales volume. The largest growth potential is in high-speed rail (HSR) and urban rail transport (especially metro) in the regions of Asia, Africa and South America, due to extensive new construction and expansion projects.

Market volumes: Western Europe continues to be the largest market, and remains an important target for the industry due to its heterogeneous market structures and small distances. Asia is the main driver of the future development of the market volume.

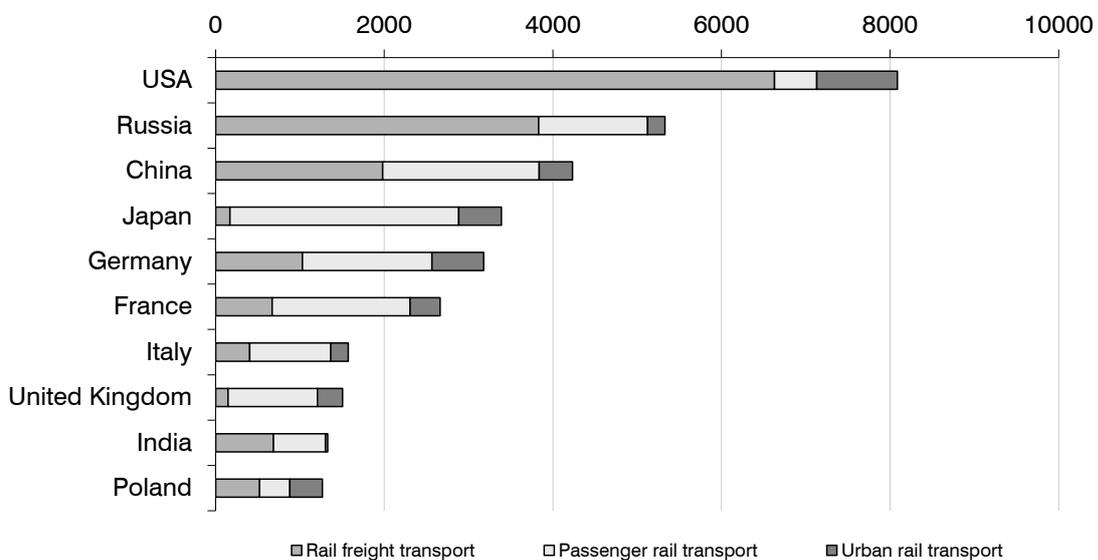
World: Market volume for After-Sales [EUR million] and CAGR [%] 2013-2018 by region



The current market volume for after-sales services amounts to around EUR 49 billion, and will grow at an average of 3.7% per year up to 2018. The maintenance market thus has a market volume roughly equal to that for new vehicles, but is of particular strategic interest for the rail industry due to its substantially lower volatility thanks to long-term contracts.

Through fleet expansions and upgrades in terms of speed and equipment level, the market volume is growing in all world market regions. Nevertheless, Asia remains the driver for the substantial growth: China is ahead of all other national markets with growth rates of 10% per year. This is due to massive investments in HSR transport as well as the construction of numerous metro lines in the countries large cities in order to counteract the negative consequences of a strong increase in individual automobile use. Similarly, in the Africa/Middle East region, HSR transport and metro systems are producing notable growth in the after-sales market.

World: Market volume of After-Sales: top 10 countries 2013  
[in EUR million]



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Between 60% and 70% of the overall market is accounted for by rail companies carrying out maintenance of their own vehicles, which has traditionally determined the market. Behind the most important countries of the USA and Russia, operators in China, Japan, Germany, France and Italy continue to organise the majority of maintenance of their vehicles themselves. As manufacturers have forcefully entered the market, the railway companies have consolidated their position and have increasingly submitted their maintenance divisions to principles of economic efficiency; they are reducing overcapacities in the medium term and increasing the services offered to third parties. Operators have also entered into partnerships with manufacturers in order to make use of synergy effects in

vehicle maintenance. This primarily concerns outsourcing the refurbishment and repair of certain components.

Whereas in China vehicle maintenance is controlled by the state and new arrangements are highly unlikely, India is gradually opening its market to foreign capital due to financial difficulties. The globally active manufacturers in particular should already be planning market entry scenarios.

Competition is also increasing in the USA: while the large freight wagon maintenance companies have had to progressively reduce their networks of depots, the freight wagon manufacturer Greenbier and maintenance service provider Watco have newly positioned themselves in the maintenance market through the founding of a joint freight wagon maintenance and repair company (GBW Railcar Services).

More than any other major national market, Russia is currently in a phase of massive transformation. The state railway RZD has already sold its divisions for heavy locomotives and passenger coach maintenance, and the sales process for two thirds of its freight wagon facilities has already started. The consequences for RZD's core business cannot yet be predicted.

### **Trend: SCI Verkehr expects long-term and sustainable growth in the after-sales market to continue**

The opening of maintenance markets is progressing in many countries: in particular, the inking of maintenance contracts with delivery of new vehicles will lead to growing market shares for manufacturers in the future. In the HSR and urban rail segments in particular, the spatial concentration of infrastructure allows for long-term contracts to be awarded to external service providers. This development is particularly noticeable in emergent markets (e.g. in Africa and South America), since in general these countries do not have sufficient competencies for the maintenance of modern rail vehicles and need to develop these further. In contrast, an opposing trend can be observed in Western Europe: following several years in which manufacturers and independent providers were able to continuously gain market shares, the state railways have now made themselves competitive and consolidated and reorganised their maintenance divisions. Above all, the reduction of overcapacities and the reorganisation of maintenance processes (e.g. increasing the proportion of mobile maintenance, merging light and heavy maintenance, strengthening sales to third-party customers) have substantially increased their economic efficiency.

In addition, the increasing trend towards the creation of vehicle pools by public authorities is also producing opportunities in established markets (e.g. Germany, the USA) for vehicle manufacturers to take over maintenance services.

Furthermore, the financial bottlenecks of many railway companies (e.g. in Eastern Europe and South America) mean the after-sales market remains highly attractive for manufacturers and independent local providers, as necessary procurement plans have failed to be carried out. As a result, old vehicles are also frequently maintained in an operational state beyond their official life span.

The MultiClient Study “Rail Vehicle Maintenance – Global Trends in the After-Sales Market” is available now from SCI Verkehr GmbH ([www.sci.de](http://www.sci.de)).

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