

The China Market for Anti-Corrosive Coatings

Introduction

A recent study evaluates at USD 276 BN/year the cost of corrosion on the American economy alone, all surfaces included. In China, where unchecked economic growth has caused extensive damage to the environment, the potential costs of unheeded corrosion might be even higher. Such a huge cost calls for action, and open wide opportunities for suppliers of anti-corrosive coatings (ACC).

Corrosion control can be achieved through the coating of exposed surfaces. Although cutting-edge technologies have appeared in recent years that allow some hardware appliances to be corrosion resistant without outside coatings, the application of an extra layer of a liquid or powdered substance remains the only way to prevent or delay corrosion in almost all industries. Most commonly used raw materials for this are polymer resins such as epoxy, polyurethane, acrylic, or alkyd. Chlorinated rubber is still widely popular in China for its low cost, but is now forbidden in many industrialized countries due to its toxic properties. The only known effective alternatives to resins are metallic coatings, including organic and non-organic formulas, and galvanized coats applied through dipping.

The market at a glance

Corrosion is rife in industries such as construction, transport, power and petrochemicals or chemicals, where it has so far been seen by industrial players as a minor concern. Indeed, in some industries (metallurgy, construction), some structures even went entirely unprotected, leading to rapid

ageing and security risks. This is now changing fast as Chinese industrial markets take a more rational approach to production processes, and increasingly perceive the importance of corrosion control in the context of long-term cost limitation. The marine and container industries, until now the largest consumers of ACC in China, are being joined by the sectors mentioned above in a USD 3.5 BN market set to keep growing at 10.5% over the next five years. The main market driver expected to support growth in this period is government investment in industrial sectors and infrastructures. A constant rise in domestic consumption is understood to be a second factor of growth, although on a scale difficult to evaluate in the current economic climate.

The major foreign players in this market usually trade across all product and industry segments, while leading domestic companies tend to focus on a limited number of trademark product and applications. Very wide price differences exist between products and segments, but variations between foreign and domestic products reveal active competition between these, as mid-range products of foreign suppliers compete on the China ACC market high-end segment with top range products of the largest domestic suppliers.

In this moderately concentrated market, the top ten suppliers control fewer than 40% of market shares. Foreign suppliers dominate, with higher pricing than domestic companies but comparable growth rates.

A majority of end-users are regular buyers of ACC keen to buy again from a supplier they are satisfied with, and engage in long term partnerships with their suppliers. The type of customer ACC suppliers are led to deal with vary according to the industry one sells, from shipyards in the marine segment, to container manufacturers, construction companies, manufacturers of chemicals,

public transport vehicles and hardware appliances, oil corporations, power stations and steel makers or steel mills. With a total nearing 150,000 potential customers, the China ACC market is large, diverse, and wields several shades of customer types.

Analysis of Opportunities

The large stimulus package unveiled in late 2008 is widely perceived as the main driver in this market for years to come, and a timely bulwark against the effects of the crisis. The effect of government investment on the petrochemical, transport and construction industries should act as a regular fuel for demand in the ACC market over the next few years, securing continuous growth in these segments. This is accompanied by a general trend in Chinese industrial sectors towards gradual upgrading of quality standards, and growth increasingly driven by domestic demand, as household spending is expected to increase regularly by about 7% a year to 2019. Parallel to this, very fast growth of the last twenty years now offer opportunities in recoats of existing items and structures, a significant market set to growth at faster rates in the coming ten years.

Inhibitors posing problems to suppliers seeking to invest in the China ACC market are the difficulties encountered when dealing with SOE customers, generally difficult to approach and very slow in making decisions. Highly centralized structures make these challenging targets for foreign companies, as well as the choice of the right channel partners. The improving level of product quality on offer, albeit a market driver, makes competition all the more challenging for market entrants, and may bring in their wake threats to technologies and possible poaching of qualified staff, another liability for all

foreign companies. Intense competition tightens the profit margins of suppliers and tends to drive smaller players out of the market, although medium size domestic suppliers dodge the issue by specializing in a limited number of niche segments.

Conclusion

The still large though decreasing number of local suppliers and the wide scope of application of ACC products across all industries are likely to keep China ACC market concentration moderate in years to come.

Although clearly ahead on product innovation and reputation, as well as on the range of guarantees they are able to offer following a sales, foreign global suppliers of paints and chemical active on the China ACC market are beginning to feel the heat of increasingly competitive high-end domestic companies who are better connected, more focused on a limited number of market segments (industry /product technology) and better equipped to understand customers' sometimes complex decision making.

Ultimately, in a market where product performance can significantly affect the viability of a whole project (ship, power plant, and pipeline), quality, lifespan and technical support (application, regular inspection of finished surfaces) are the criteria making a difference. Innovation and product development are crucial in this process, as well as the right marketing approach.