The China Market for Centrifugal Pumps

Specificities of the Chinese centrifugal pump (CP) market result from the country's fast recent economic development. This has led to considerable needs arising in a range of industrial, agricultural and municipal applications for sophisticated products that the domestic pump industry is struggling to produce. As a result, the production and commercialization of counterfeit and very low quality products has developed, often purchased by customers with little knowledge of either the market or the product itself.

There is however in 2009 rising expectation from end-users as to the potential of newly developed products, the need for which is arising from rapid developments in the chemicals industry, modernization of the metallurgy and water treatment sectors, and massive state investment in power and petrochemical infrastructures. The regular growth of the construction market is also a stable source of demand for water supply pump.

Through direct governmental action or through the concerted action of industry associations, there is a willingness of regulatory authorities to upgrade the general level of quality on the CP market, despite still uneven enforcement of existing regulations. Additionally, the attention of international markets and the action of the central government have made local authorities and industrial sectors in Chinese regions increasingly responsive to pressure on environmental concerns, driving demand for higher quality of CP products.

In this RMB 20 BN market growing at 10% a year and largely unaffected by the recent crisis, conditions are therefore met for a developing mid to high-end segment to grow exponentially in coming years, offering foreign suppliers ample opportunity for development.

Suppliers of CP in China fall into three categories: suppliers of water solutions, of HVAC solutions, and of industrial solutions. Core capabilities of large suppliers can be segmented into these three backgrounds, while an expertise in the domain of centrifugal pumps is most often developed in the frame of this main activity.

Market leaders are mainly domestic suppliers (six of the top ten) based in the industrial regions of Shanghai, Shandong and Liaoning, and with widespread connections countrywide through reputation, SOE networks and well established channel structures. Foreign leaders rely essentially on SOE and government contracts for high pressure, high quality pumps in the petro./power and water treatment application segments. However, some leading foreign suppliers are beginning to develop better marketing through valuable channel partners and more affordable medium and low pressure pumps that could address the growing chemicals and industrial segments, where demand and customer awareness and are gradually rising.

The willingness of the authorities to provide the energy and petrochemical infrastructure with high-quality equipment, coupled with intense pressure put on local governments and industrial players in the most economically developed areas of the country to achieve better levels of environmental awareness are very strong drivers for the CP market in China. This leads suppliers to deal with SOEs and design institutes with ties to local governments on a number of occasions when seeking to establish long-term and close relationships with their customers, and represents both an opportunity and a challenge in this respect.

Other major customers are construction companies and manufacturers in the metallurgy, chemicals and light industrial sectors. While contractors are major influencers in the construction industry, sales of CP to light manufacturing, chemicals and metallurgy industries are usually direct to the end-user, who is most likely to be the sole decision maker.

Analysis of Opportunities

The most powerful driver for growth in the China CP market is the large scale government investment in infrastructures and industrial sectors announced in late 2008. This is widely expected to boost demand for pumps. This offer numerous opportunities in the power, petrochemical and water treatment sectors. The water treatment and water distribution sectors also receive investment and regulatory attention from central and local governments. Both offer numerous opportunities for suppliers linked to China's sprawling urban construction and pressing needs for modern and effective water solutions. Regulation of the market is currently limited to a series of technical standards defining product characteristics that are unevenly enforced. Stricter regulation of the market is expected to take place in coming years but is slowed by fears of the possible social consequences of driving large swathes of the domestic industry out of the market through strict quality and conformity control.

Manufacturers of pumps in China are increasingly seeking to adapt their products to local needs, developing pumps suited to specific applications for a value acceptable in the Chinese market. This implies a comparatively low price for a competitive level of performance and reliability. Foreign suppliers are currently investing in localization efforts in this direction

Offsetting the strong drivers of the China CP market growth, the low product awareness of end-users makes sales and relationships with customers heavy to handle for suppliers of high-end products, despite a growing awareness in some segments (e.g. water). Slow enforcement of regulations and difficult relationships with government and are additional challenges for foreign suppliers in this market.

The China CP market is at a stage of development when low-end, very low-cost domestic suppliers are beginning to feel the threat of large domestic and foreign suppliers of hardware appliances already competing on the mid to high-end segment. With customers still unable to distinguish high quality products and services from lower ones, this creates a very challenging situation for suppliers wishing to establish long-term partnerships.

Low quality products give the market a reputation for unreliability, undermining its potential for serious and long term relationships between suppliers and potential customers. Developing and marketing new technologies at a reasonable price suitable for the Chinese market is a challenge faced by domestic and foreign suppliers alike.

Best opportunities for high-end suppliers are in the water treatment and distribution sectors. With high growth in the construction market, pump solutions for tall building and municipal water supply are increasingly sought after. Improving quality of raw material and engineering in this industry is a boost for high-end suppliers of CP, especially in coastal regions, where the

push for high-quality products took root, later gradually expanding into northern regions where domestic low-end products still remain common.
The power and petrochemicals industries, bolstered by the recent government stimulus package, are the second highest opportunity segment, playing heavier in supplier's interest as large contracts for high pressure pumps in these markets are very likely to be sold direct, or through a local agent.

The third segment offering opportunities here is the industrial sector, where applications in the chemicals and metallurgy industries offer some scope for development as domestic industries thrive on a growing share of the world market and exponential domestic demand in both these industries. Reliance on the global economy's fare and uncertainty in this regard are liabilities for growth in these applications however, and opportunities favor channel partners as sales of CP to industrial sectors is less likely to be direct.