Time to modernise China’s fused-cast sector

By Carlo Ratto, Owner of fused_cast@technologist.com

When I wrote for Glass Worldwide about glass and refractory market trends at the end of 2009, we thought we were on the verge of a relatively fast recovery. One year (and a few major financial crises in the old continent) later, the optimists are again talking happily about being on the doorstep of a robust recovery, while pessimists swear the pre-crisis level of Western economies will never return and the perverse loop of upcoming financial and economical troubles will progressively drive western capitalist systems downhill toward an undetermined level, matching the growing BRIC in a global economy.

Looking at glass, last year was spent repositioning businesses for a financial recovery which, in most cases, has been achieved, moving organisations closer to the fastest growing economies and conceding the fight for a recovery in the West. Glass manufacturing bases in North America and Western Europe have been maintained at the level of supplying local customers but only when de-localised production cannot bear the associated transportation costs.

Looking at the fused-cast refractory business, no further consolidation has taken place within the western ‘club’. Most companies have manufacturing bases in low cost countries, while those with US and EU manufacturing operations only have been able to maintain their position thanks to an integrated portfolio, including a leading position in basic sinter refractories for glass regenerator applications etc.

Chinese fused-cast products are still sold in the West at significantly lower prices, in spite of increasing costs for raw materials, energy and [yes!] labour. More often than not, financial profitability has been compromised in an effort to maintain the price leverage necessary to penetrate Western markets.

An obvious question to be asked is why most Chinese fused-cast manufacturers struggle to maintain their position when faced with a very price-oriented client base? Having direct experience of low cost manufacturing units over a period of several years, I believe that most of these companies have not substantially improved their level of technology in recent years, in spite of an existing significant margin for cost reduction and quality improvement. In the meantime, these same manufacturers have not, as a general rule, adequately invested in technical sales organisations and technical support for customers. Instead, they operate mostly commercial sales teams and various agents, promoters and facilitators, with a low technical profile.

These are the root causes for maintaining the price leverage as the major driver for the penetration of Western markets.

The next question to consider is why are these companies struggling to fix these quite obvious deficiencies? Looking at the evolution of fused-cast technology around the world, it is clear that major progress has been difficult to perform and expensive to achieve. Most ‘low cost’ manufacturers, leveraging on sales prices far beyond levels their actual costing situation permits, are not sufficiently financially productive to invest in business development, including the technological, technical and marketing aspects previously mentioned or to buy an overall revamp from an external source.

In fact, based on cost model computations, it is my belief that most Chinese manufacturers, when selling in the USA or EU at a delivered price below the cost of Western competitors, are unprofitable. For a number of understandable reasons, exporting to Western markets is a valuable asset, so these low cost manufacturers are receiving financial support to stay in business. But this situation does not leave resources available to develop processes, products, marketing and technical support for customers.

The lack of development, in an effort to maintain the price leverage necessary to penetrate Western markets.

Furthermore, revamping the technical and marketing knowhow. The ‘exceptional effort’ referred to could be direct investment or a proper agreement with a partner, able to supply the necessary technical and marketing support. I believe we will see operations of this type in the future in China. Furthermore, revamping the first player will ultimately lead to consolidation and increased profitability in the sector.

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