

Through what channels can you get pipes and process equipment onto the European market?

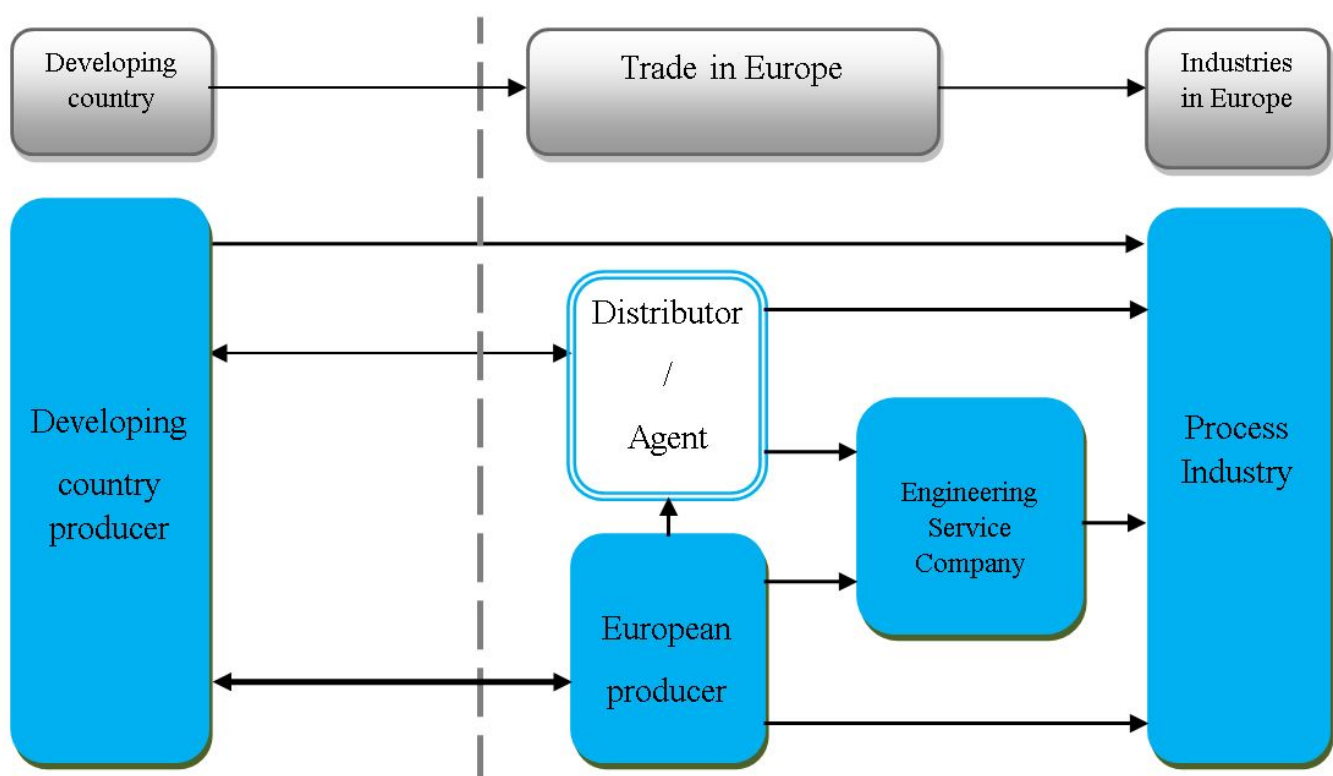
The most prominent targets in Europe are producers of pipes and process equipment (through subcontracting). The best opportunity for producers from developing countries is to focus on a few products that can be considered specialities. For these specialities as well, European producers are the most important target, as some of them may be interested in subcontracting some of their production to low-cost countries. Distributors are also good targets, as they have good access to local markets in the European region.

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1. Market channels

Figure 1: Trade structure for pipes and process equipment in Europe



Distributors and agents

Distributors are attractive targets for exporters from developing countries who aim to export large volumes of commodity-type products, such as most flanges, fittings and common valves. This is because distributors often buy or import commodities in relatively large volumes on a scheduled basis.

Characteristics of distributors:

- Distributors can be the link between the exporter from a developing country and the European customer.

Usually, the distributor also adopts the role of importer.

- Distributors have several suppliers, who do not know the distributor's customers.
- Distributors are one of the most important channels for exporters from developing countries. This is because they have thorough knowledge of local markets and an extensive network in the European target market.
- Distributors often have their own stock, which is the reason why they are also called 'stockists'. Products need to be kept in stock, as they have to be available to end-users in the event of an urgent delivery.

Agents can represent your company in a particular market or country. They are usually in contact with potential buyers for your products and sell the product on behalf of the exporter. You should use agents if you want to maintain direct control of overseas sales, as they must sell at the exporter's price under specified conditions. However, you have to be willing to bear the credit risks of all sales if you choose to use agents.

Characteristics of agents:

- Agents look for buyers or for manufacturers that are looking for subcontractors.
- Agents receive a commission, which depends on variables such as the character of the product and the size of the order.
- Agents mostly sell products that do not have to be available from stock, which are usually tailor-made products such as knife valves, lobe pumps and positive displacement pumps.

European producers of pipes and process equipment (through subcontracting)

These companies have a strong appeal to suppliers of parts, but also potentially for some finished product providers. Subcontracting offers the best opportunities for specialities: (parts of) pumps (particularly special pumps such as positive displacement pumps), some special valves (such as knife valves) and special flanges (for example, flanges with a large diameter).

Characteristics of this channel:

- European producers can manufacture pumps or valves, among other things.
- Exporters from developing countries can act as a supplier of parts and (partly or completely) finished products for European producers, according to the specifications of the European producers. This often concerns labour-intensive production, while the European manufacturer takes care of design, research and development.
- The willingness of European producers to form subcontractor relationships with exporters from developing countries differs from country to country. Generally speaking, the German companies take the lead in the European Union in this area, in several cases forming joint ventures with exporters from developing countries. Spanish companies still produce simple products such as standard types of valves themselves. It is expected that they will increasingly outsource the production of these valves as well.
- Scandinavian producers make more sophisticated products in low volumes and they are very much used to subcontracting several production processes.

Engineering service companies

Engineering service companies build, maintain and/or repair machinery and/or plants that contain pipes and process equipment. They are also called 'contractors', as they close the main contract with the process equipment owners.

Characteristics of this channel:

- Engineering service companies only buy from respected brand manufacturers.
- The customers of engineering service companies are process equipment owners such as petrochemical companies, refineries, and water distribution and sewage companies. Note that these process equipment owners may own installations all over the world, which means that they can award installation or maintenance projects for any of these installations to the European engineering service company.
- A major part of the activities of engineering, procurement and commissioning by the service company takes place in the European Union. By contrast, actual installation takes place directly at the end location, which

can be anywhere in the world.

Process equipment owners

Process equipment owners are the end-users of pipes and process equipment. They sometimes buy directly from producers in case of high volumes. Characteristics of this channel:

- Process equipment owners may buy in developing countries, but only from respected brand manufacturers.
- Process equipment owners can operate in a wide range of process industries: chemical, power generation, oil and gas, water management, pulp and paper, mining and other general industries.
- Process equipment owners may own installations all over the world, which means that they can award installation or maintenance projects for any of these installations to engineering service companies from Europe or elsewhere.

Ongoing consolidation among distributors

The main expectation among industry experts is that further consolidation among distributors is going to be a main trend in the next years. The distributors that remain will be either wholesalers for a wide range of pipes and process equipment, or distributors specialised in one or only a few market segments. The specialists will increasingly offer engineering support to customers, and therefore they will also require their suppliers to offer engineering support to them.

The ongoing consolidation will reduce the number of potential buyers for exporters from developing countries. At the same time, it is an opportunity for exporters from developing countries, because the average potential sales volume to distributors will increase. However, the larger the distributor, the higher the chance that producers have to meet strict supplier selection criteria (so-called Approved Producers List (APL)). Several of the large distributors operate a vendor performance evaluation program, including on-site assessments, monitoring and evaluation of the quality of the valves produced.

Most exporters from developing countries should focus on specialised distributors, as the generalists usually deal with commodities rather than with the products which exporters from developing countries should focus on. Exporters from developing countries who can offer engineering support have the best opportunities with specialised distributors in the European Union.

Tips:

Make an overview of distributors in Europe and map their characteristics and target markets. Choose to target the ones that match with your own target market.

If you target specialised distributors, you need to realise that you have to offer engineering support as well. In that case, develop a sales engineers department in your company.

2. Market segments

The market for pipes and process equipment can be divided into specialities and commodities.

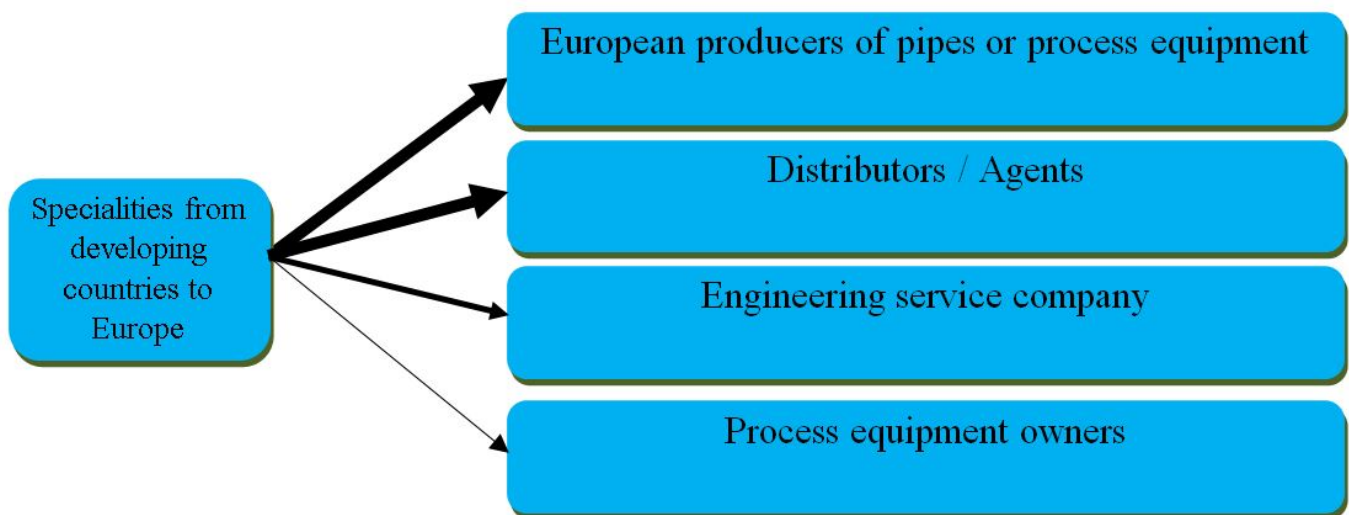
Specialities

Specialities are tailored to the needs of the customer and are therefore less suitable to hold in stock, such as corrosion resistant control valves. The share of specialities in pipes and process equipment products depends on the application of the product. In recent years, China has started to tap into this market as well; however, its share of trade is still limited, leaving clear opportunities to exporters from other developing countries.

For the medium term, these main characteristics remain:

- The product specifications are defined by the customer.
- Customers in Europe are producers of pipes and process equipment (through subcontracting), intermediaries (indirect trade) or engineering services companies and process equipment owners (direct trade). Figure 2 shows that subcontracting is most common for the export of specialties to Europe.
- The share of trade through intermediaries is low (less than 20%), while the share of direct trade and trade with European producers of pipes and process equipment is rather high (80%).
- Margins for European buyers are in the range of 20-50%. It depends on the level of care and attention that must be given to the product. In addition, it also depends on the costs (and risks) involved in the sourcing process.
- In the years to come, the market share of specialties will continue to increase, due to process equipment owners that continue to strive for cost reduction, reduce risks, and therefore increasingly automate processes. This offers opportunities to producers from developing countries who can fulfil that specific need.

Figure 2: Trade structure for specialties in Europe



Commodities

The market for commodity-type products is dominated by China. The Chinese exporters compete mainly on price, leaving very limited opportunities for other developing countries. For the medium term, these main characteristics remain:

- The leading market channel is via distributors.
- There is strong competition among commodity producers, mainly on price.
- Customers in Europe are intermediaries (indirect trade: distributors/agents) or engineering services companies and process equipment owners (direct trade).
- In contrast with the specialty market, only 10-20% of commodity trade in Europe is direct trade, the balance is for indirect trade.
- Margins are relatively low and maximally 20%. They reflect the level of care and attention that an intermediary has to give to the sales and handling process. Products that do not need much extra care, such as finished and ready-to-use products, will be sold with a smaller margin than products that need extra handling or even need to be stored.

Although the commodity market does not seem to be very attractive, some opportunities may arise now and then. For example, in recent years, valve users in Europe have increasingly demanding service requirements. It includes aspects such as higher pressures and temperatures, and very high abrasive and/or corrosive services.

In addition, low emission valve testing requirements have become a common industry standard. As a result of

this development, some European valve manufacturers have focused on producing speciality valves for these demanding customers. As a result, these manufacturers have neglected the commodity valves to some extent. According to some experts, if this development will continue, it could seriously hamper the supply of certain commodity valve types in Europe and even on a global scale.


Tips:

Stay well-informed of trends and developments in the global market. Visit trade fairs and contact your network partners on a regular base to stay up to date on recent trends. If a specific type of commodity faces availability problems, this could offer good opportunities to producers from developing countries.


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