

# THE IDEA FILE

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## Innovative Ideas To Grow Your Business

Specializing in Construction - Mining & Aggregate - Environmental & Recycling

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**Strategic Planning  
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## CHINESE-CHINESE WAVE TO HIT

### Combating Future Price War

So far, North America and Europe have seen only a relatively small number of construction equipment-related product lines manufactured and directly sold by Chinese (Chinese-Chinese) and Indian (Indian-Indian) manufacturers. However, during 2008-2009 this will change fast. Just look at the number of these companies joining AEM and exhibiting on their own at CONEXPO-CON/AGG 2008 in March.



As further evidence, Latin America and Asia are swarming today with equipment sold on price from these two low-cost manufacturing powerhouses. The 2008 World of Concrete (WOC) had numerous Chinese manufacturers exhibiting on their own outside of the Chinese Pavilion and, as we all know, SANY has stepped up to the plate with a future U.S. manufacturing facility.

If we think that manufacturing in or buying product from Chinese and Indian companies will be a continuing solution to remaining price competitive, we need to think twice. Many manufacturers have employed one or both of these options to remain either price responsive or to drive the competitive bar even lower.

### A Low Yet To Be Seen

The bottom line is cheap imports from both countries will continue to drive a new low in equipment pricing. We've already seen this in scaffolding, concrete saw blades, trowels, other hand tools, and even in complicated slipform pavers where the price of one unit was close to US\$140,000 less than the U.S. manufactured machine the Chinese emulated. At WOC, SANY was pricing their concrete pumps, motor graders and loaders as much as 40% lower than comparable North American manufacturers.

We are also now witnessing many major equipment dealers investigating and/or taking on these far lower priced lines, especially in excavation equipment, with the plan to offer North American contractors who buy on price, a low-cost line.

### They Will Come

So, will North American contractors buy Chinese-Chinese and Indian-Indian manufactured and sold equipment like their counterparts in Latin America and Asia? BMG's 16 years of experience says "YES" – since about 30% of

contractors today primarily buy on price, we can expect to see anywhere from 25-50% of those contractors to line up – especially if they can cost out equipment on a single job or two. Pressuring these contractors further will be the continued slowing of the U.S construction equipment market. Equality in design and availability of service and parts to support this foreign equipment will certainly influence a portion of these price buyers, but there will still be a market for them.

### **Four Solutions That Work**

Based on BMG's experience helping manufacturers compete in North America and globally, here are four ways to expand your business, without competing against lower pricing.

1. Sell innovative and/or premium, performance-driven equipment at a premium price to those 60% of the contractors who see the value in such quality equipment and support and recognize how it helps make them successful.
2. Related to #1, focus on the niche markets that traditionally require innovative and performance-driven equipment and can expense it over a longer period of time, including mining, aggregate, road and bridge building, transportation, utility, pipeline, municipalities, etc.
3. Do what Caterpillar just did and acquire a Chinese manufacturer for the flexibility to compete for its dealers and customers.
4. Develop and sell a lower-cost product line to your specifications, but without the bells and whistles, and use it as an initial price-sensitive door opener and then up-sell. This strategy has helped several manufacturers regain their retail business and has actually led to greater sales than expected with their premium brand lines.

For those manufacturers facing the Chinese-Chinese and Indian-Indian threat, preparing for it now with strategic planning and the execution of solid strategies and tactics will certainly provide your company with many options.



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