

SALES AND DISTRIBUTION IN CHINA'S RESIDENTIAL WATER TREATMENT MARKET

Launch Factory
a chc group member



WHAT YOU WILL LEARN



State of China's Water



Market Entry and IPR Protection



Distributor Best Practice



Insights from Industry Experts



Key Market Developments



Obtaining Product Certification



Case Studies



Associations and Trade Fairs



Foreign and Domestic Product Offerings



Chinese Consumers Purchasing Behaviour

ABOUT US

Launch Factory 88 supports industrial SMEs in the water technology sector to increase their sales and become more competitive in the Chinese market. We do so by offering two core services; a distribution support platform and localized manufacturing and assembly.

Launch Factory 88 is part of the CHC Group which was established in 1998 by two Dutch entrepreneurs and has since then developed multiple market leading companies in diverse industries in China. We help your company succeed in China using the same careful methods we employed to build our own businesses.

[Learn more about our experience and sector expertise on our website.](#)

KEY TAKEAWAYS

Faced with severe water pollution and a lack of a municipal answer to these problems, Chinese consumers have long been forced to find an independent solution in order to secure a safe source of water. As large parts of the Chinese population become better educated and more aware they simultaneously find it more difficult to find a source of potable water that they can fully trust. As a result, more and more Chinese residents are turning to residential water treatment as their answer, making China the world's largest residential water treatment market in 2015.

There is no doubt as to the extent and severity of China's pollution problems. Air pollution commands the most media attention due to its more obvious nature, but the country's water problems are equally as serious. The government is investing heavily in upgrading the country's water systems, but many doubt the effectiveness of much reform. China's municipal tap water, for the moment, remains almost entirely undrinkable.

Interest in, and demand for, residential water treatment products are both rapidly and consistently rising and there are an increasing number of domestic and foreign companies in the market. However, the market is highly fragmented and still in its early stages. We identified three primary reasons that will contribute to continued future growth:

- Severe water pollution with no short or mid-term solution
- Growing public awareness and education about health issues and water contamination
- Rising living standards and income levels

Consumer trust in domestic companies is extremely low in China, providing foreign companies an opportunity to leverage their foreign brand name and demand a premium price for their products. However, it is unclear how long this trend will continue and local competitors will one day catch-up in terms of quality, brand name and service.

The right approach offers the best chance of success in a market which will exceed \$20 billion by 2019. Most of this market is for point-of-use devices and demand for all types of residential water treatment products is breaking traditional confines and is now becoming more widespread in 2nd and 3rd tier cities. Many foreign companies are already successfully distributing their products in vast areas of China, and are taking advantage of a market in which domestic companies are weak and there is a preference for foreign brands.

Severe water pollution, growing public awareness and rising incomes are combining to create an ever more important residential water treatment market in the eyes of foreign manufacturers.

Through interviews with multiple newly established and starting foreign companies in China one thing has been made clear: without a local presence to support distributors and key clients, your full potential of the Chinese residential water treatment market cannot be reached.

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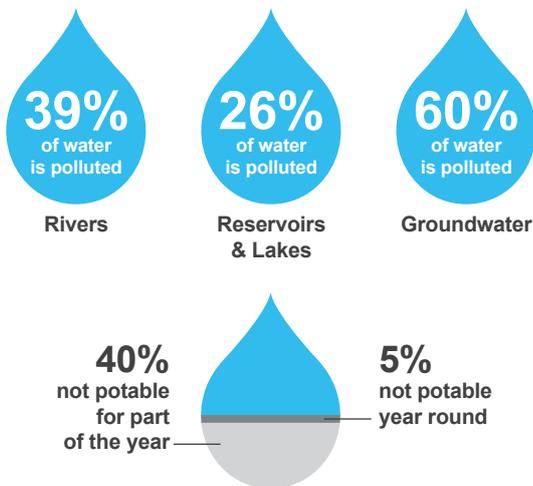
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01. SOURCES OF WATER POLLUTION IN CHINA

With 19% of the world population and only 7% of global fresh water resources, both unevenly distributed across the country and severely polluted, economic growth in China has come at the expense of a population’s access to potable tap water. Every year nearly 200 million residents in China fall ill from drinking contaminated tap water, whilst also exposing themselves to long-term health problems.

China’s Water Sources are Polluted

In 2011, the Chinese government declared that of China’s 634 rivers, lakes and reservoirs 40% were not potable for part of the year, and 5% were not potable year round.



Source: China Water Risk

Only slight improvement was seen over the period 1987 to 2011, but was confined to a select few water sources due to ineffective control mechanisms on water abstraction and pollution discharge, inadequate enforcement of punishments, and conflicts of interest.

Water source quality in China is assessed using a 6-grade system. Grades 4, 5 and 6 are polluted to varying degrees of severity.

China’s River Pollution Grades

SURFACE WATER QUALITY

- I The source of the water body and national nature reserve
- II Class one water source protection area for centralized drinking water supply, natural habitat for rare species of fish, and spawning grounds for fish and shrimps.
- III Class two water source protection area for centralized drinking water supply, sanctuaries for common species of fish, and swimming zone.

POLLUTED

- IV Mainly applicable to water bodies used for general industrial water supply and recreational waters in which there is no direct human contact with the water (non-physical).
- V Mainly applicable to water bodies used for agricultural water supply and for general landscape requirements.

HIGHLY POLLUTED

- V+ Essentially useless

Source: China Water Risk

Municipal Water Supply

China’s water sources are severely polluted and tap water in China is still not potable. Water standard GB 5749 – 2006 raised the number of water quality parameters from 15 to 106, and legislation has been redrafted. However, much reform and punishment is still not implemented or enforced effectively.

In addition, even if China's water sources were to be cleaned up, a polluted distribution network would render it undrinkable once again. 60% of China's water distribution network is corroded, so the government is now renewing more than 90,000 kilometres of piping.

"The water leaves many municipal water treatment plants in good quality. The biggest problem is the distribution network, which is usually aging and not well maintained in some areas".

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

In an attempt to improve water quality in China the government will invest \$300 billion between 2016 and 2020, but for the moment municipal water remains undrinkable and short or mid-term improvement seems highly unlikely. Consequently this sustains the need for other sources of potable drinking water.

Seeking Alternatives to Municipal Water

For several decades now, Chinese residents have been left with no choice but to find a source of potable water independently, given the absence of municipal answers thus far. The solution-of-choice has changed over time, and is closely related to levels of national development, wealth and awareness. Let's take a look at some of the most popular sources of potable water.

Boiled Water

Boiled water remains a popular treatment method, due to its tangibility and the fact that most Chinese prefer to drink warm or hot water. Boiling water is deeply engrained in Chinese culture. Until the 1980s this was the only option for most Chinese residents, and still today it remains the method of choice for the majority of the population despite its inability to remove all impurities. It will take much education to raise awareness as to its shortcomings.

"This could be a point that we can advertise and emphasize. We provide purified water that does not require additional boiling. We also provide dispensers that offer both hot and cold water."

[Sandy Tsai](#)

Business Development Manager for Asia and Oceania at Oasis

"It's not about whether the water quality is better or not. It's about how the consumer believes the water quality to be."

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

"Some researchers would also say that boiling increases some toxic concentrations. Before the disinfectant [chlorine/chloramine] can evaporate from the water, it might react with some organic matters in the water and produce toxic compounds."

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

Bottled Water

Bottled water promises a safer source of water than boiling and China is now the largest bottled water market in the world. However, the popularity of bottled water is decreasing due to many recent scandals that have affected consumer trust. In 2013, leading Chinese bottled water brand Nongfu Spring was accused of using water standards lower than those for tap water. According to Mintel, increased consumer awareness coupled with better alternative water sources will significantly slow down growth of this particular market between 2014 and 2019.

“Some toxic compounds are released from the plastic, particularly when bottles are left in the sun for extended periods of time. Bottled water is not a final solution to China’s water problems.”

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

Community Based Water Vending Machines

These systems are one type of reverse-osmosis point-of-use water treatment, but typically are based outdoors in a community. Water quality results are usually displayed on the front of the machine, in order to aid consumer trust. However, there is usually a lack of incentive for any one party to maintain the system and they often go neglected resulting in non-use.

Residential Water Treatment

“Water quality issues are a historical problem, but finally it seems that point-of-use is the preferred method for residents to take.”

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

With no centralized solution and a dearth of other sustainable options residential water treatment has emerged, for those who can afford it, as the preferred source of potable water. These systems, which take the water treatment process into the home, offer a more sustainable and convenient solution. They are increasingly affordable, particularly for the urban public.

At the same time, this group is becoming increasingly well educated and well aware of the water problems they face, and the shortcomings of other sources of potable water.

An Increasingly Affluent and Aware Public

As Chinese society changes at a staggering rate, so too has that society’s preferred source of potable water. Leading the adoption of residential water treatment products is the rapidly growing urban populace who are:

- Growing richer with increasing disposable incomes
- Better educated than ever before
- More aware of health problems than ever before

A survey by Xylem Inc. found that:

- 96% of urban Chinese categorized the water issues faced by China as serious
- 88% of urban Chinese willing to pay more money to be able to drink water directly from their tap.

02. MARKET CHARACTERISTICS

Residential water treatment is emerging as the solution-of-choice among more educated and affluent consumers seeking clean drinking water, and demand is growing rapidly. Compound growth rates estimates are in the range of 20 to 25%, and the market is forecasted to reach \$15 billion in 2017, or almost \$20 billion by 2019. This is not to mention the market for after-sales that in 2017 is forecast to be worth over \$1.9 billion alone.

Market barriers for the residential water treatment market are low compared to other areas of the water industry, making market entry significantly easier. Specifically, once your product has received Ministry of Health approval, and CCC approval if it has an electrical supply, you can begin to sell in the Chinese residential water treatment market.

However, this market is highly fragmented. Consumers lack education, and with a flood of new products into the market in recent years they find it increasingly hard to differentiate between different technologies and offerings.

Additional Product Offerings

It should also be remembered that not all treated residential water is used for drinking. Increasingly common in China are showerhead or bath-tap filters, so this could become an additional product from your company for the Chinese market. Ubiquitous on Chinese online shopping platforms, the solutions currently offered are usually low end.

Studies have shown that showering can inhale and absorb more toxic by-products of chlorine than ingestion does. In addition, bathing in poor quality water often leads to hair and skin problems.

Growth Of The Residential Water Treatment Market

Penetration rates of residential water treatment in China remain low at around 5% in urban areas, and 2% in rural areas.

In 2013, A.T. Kearney reported 20% growth in water treatment sales in China compared to the previous year. Annual growth rates are forecast to remain around 20% for at least the next five years, and in 2015 the Chinese residential water treatment market became the biggest in the world. By 2019 the market, by some estimates, will exceed \$20 billion.

Point-of-use technology will continue to dominate the market with around 90% of market share, being cheaper and easier to install, but point-of-entry will increase its share slightly by 2017. Most growth is forecast in counter-top and under-sink systems that provide a more thorough filtration.

A Market Attracting Significant Interest

Aquatech, held in Shanghai, has quickly become the world’s largest water technology exhibition since it’s inception in 2008. Last year, the exhibition attracted over 1,400 exhibitors from 35 nations. The 2015 exhibition will move to a new venue in order to accommodate growth, and the approximate 20% rise in the number of exhibitors between 2013 and 2014 is in line with market growth between these years.

The residential water treatment industry is undergoing increased market segmentation as vast numbers of companies enter the market.

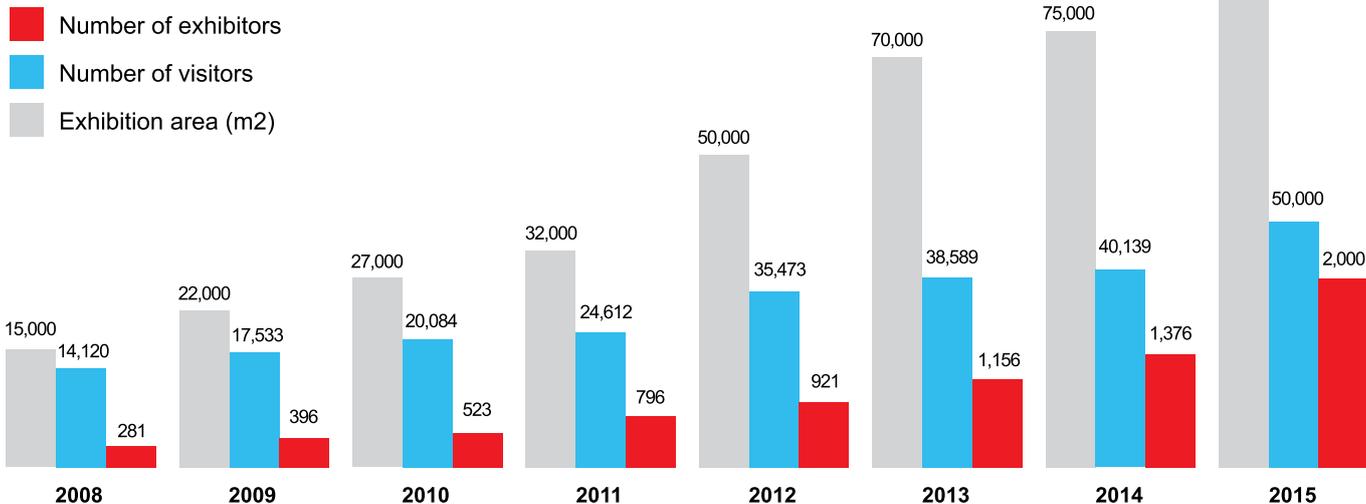
Geographic segmentation

China’s vast size presents a unique set of challenges. There are vast differences both between regions but also between urban and rural areas. Wealthy urban households will remain the main growth drivers in the market, and traditionally this market has been confined to tier 1 cities.

Breaking Boundaries

Ten years ago most residential water treatment companies sold almost exclusively in tier-1 cities, namely Beijing and Shanghai, often using a very small number of distributors.

AQUATECH SHANGHAI COMPARISON



“Aquatech China has seen huge growth in the past seven years, from less than 300 exhibitors to over 1300 exhibitors in 2014. In 2015, we will reach 2,000 exhibitors. Aquatech has proven to be a huge success in China, as it has benefitted from rapid growth in the Chinese water markets.”

William Wang
 General Manager at CHC Expo
 (Supporting Partner of Aquatech China)

However, Huidian Research, a leading Chinese research firm, found in 2012 that the wealthier Southern and Eastern provinces of China accounted for 63% of market share for water treatment systems. Although this remains high this also indicates that growth has now spread into other areas. In particular, tier-2 and tier-3 cities are now playing an increasingly important role.

“We do not only focus on coastal provinces. We have requested our distributor to expand the market coverage to 2nd tier cities. The demand for good and reliable products in developing cities is larger than in developed cities.”

[Sandy Tsai](#)

Business Development Manager for Asia and Oceania at Oasis

“The majority of our products can be found in the majority of provinces. We are also expanding further, for example, to Tibet. We cover, let’s say, 85% of China.”

[Jeremy Liu](#)

China Business Development Manager at Rainsoft

“The Northern and Eastern regions of China pay more attention to water purification, but our sales cover all provinces except Tibet and Xinjiang”.

[William Liu](#)

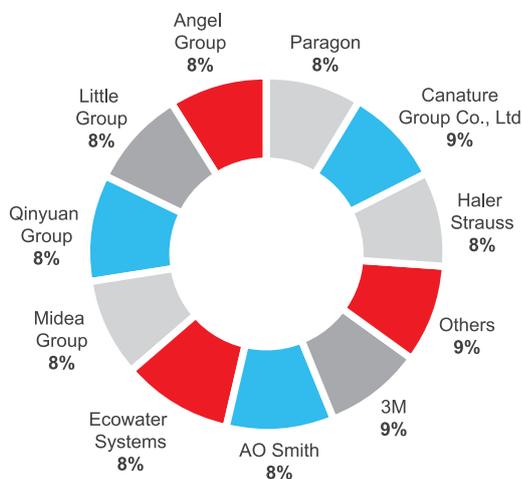
Marketing Manager at Culligan China

The spread of the Internet and better delivery networks have opened up vast parts of China that previously had little access to these types of consumer products. Economic development is raising incomes to various degrees but rural disposable incomes remain just one-third of urban levels and awareness is even lower, so very different offerings are required. Despite this, sales of residential water treatment are even forecast to grow in rural areas.

03. FOREIGN AND DOMESTIC WATER TREATMENT OFFERINGS

China’s water treatment market is increasingly fragmented with more firms, domestic and foreign, looking to enter the market. There are estimated to be more than 3,000 firms of vastly different sizes now operating in the market. Even *Xiaomi*, best known for their recent conquests in the mobile phone market, plans to launch an Internet connected water treatment product at the time of writing.

There are no dominant players in the market, with the 10 strongest companies (foreign and domestic) estimated to hold between 8% and 9% of the market each in 2013. A large number of companies make up the remainder of the market. The vast majority of the market is for point-of-use systems, being easier and cheaper to install than point-of-entry.



Source: TechSci Research, 2013

The price of residential water treatment products ranges from economic domestic brands to high-end foreign offerings. Besides price, there are often significant quality, service or performance differences.

“I would rather say we compete with our competitors on performance. We also always use the best materials and components.”

Laurence Dai
China Business Development Manager at Bluewater

Many companies face stiff competition from a rapidly increasing number of domestic producers, often offering similar technology for a more economical price. Localization of manufacturing is a good way to respond to increasing competition from domestic companies.

Some domestic companies are beginning to show innovation. However, foreign companies’ technologies, treatment results, and control of input material on the whole are still superior to those of Chinese companies.

“The technology helps massively. Control of the input of raw materials is also vital. Certainly when we’ve seen some local manufacturers, and their control of raw materials can be very variable.”

Andrew Dahl
Managing Director at KLT Filtration

Foreign products are, almost without exception, more expensive than domestic. The most expensive foreign devices are selling at around 800% the price of their Chinese equivalents, but price premiums are usually around 300% or 400%.

Often foreign companies choose to maintain their production abroad, and this contributes to a higher retail price. However, at their current stage in development this is often a premium that Chinese consumers will pay for peace of mind regarding quality and product safety.

Increasingly, however, we are seeing industries that reach a tipping point where the foreign price premium is rapidly eroded. This happens when Chinese companies reach a certain level of brand strength, innovation or quality whilst remaining extremely competitive on price. A great example is electronics company Xiaomi.

As our clients and we have experienced, localizing all or part of your manufacturing and assembly will soon become crucial to compete with domestic companies.

“We have some product ranges that are manufactured in China to compete against price competitive products.”

[Sandy Tsai](#)

Business Development Manager for Asia and Oceania at Oasis.

All companies we interviewed stressed the importance of branding in China, as a recognized brand is often the only way for a Chinese consumer to trust a product. Foreign companies have an automatic advantage, enjoying a good reputation simply because they are foreign.

“The difference from product to product is so large so sometimes they [Chinese consumers] have to rely on brand.”

[Laurence Dai](#)

China Business Development Manager at Bluewater

Create another brand to compete with domestic devices.

Some foreign companies opt to develop and manufacture a China-specific product to cater to local market conditions and become more price-competitive in the local market.

“Maybe down the road, we’d consider making a third brand so we can do some assembly here.”

[Jeremy Liu](#)

China Business Development Manager at Rainsoft

Offering another brand, with some or all manufacturing done in China, may also be able to target less affluent consumer groups in ways that your premium, manufactured-abroad, foreign brand cannot.

KLT Filtration manufactures their filter part in the UK, but they are sourcing some components in China in order to better suit local conditions.

A flexible approach like this is advisable.

“We can change the housing. We can change the media inside the filter. We can offer gravity systems in the countryside, rather than pressure systems. You can tailor the offering.”

[Andrew Dahl](#)

Managing Director at KLT Filtration

Marketing Your Foreign Product in China

Marketing can differentiate your product from domestic companies, who are typically weak at such activities. Therefore, most foreign companies work independently on marketing their product in China.

Marketing should effectively leverage your foreign brand name by continuously emphasising that you are a foreign company. For example, by retaining your foreign brand name and providing consumers with enough information for them to see the product is designed and manufactured to high foreign standards.

A smarter consumer

In addition to treatment results, aesthetics and unique features are becoming ever more important in the eyes of the Chinese consumer. Choice is growing and consumers are conducting more extensive pre-purchase research, making it more important to distinguish your brand and to show your value added.

“Some people are now more educated with water treatment than before. People are also smarter about comparing what they are going to buy.”

[Jeremy Liu](#)

China Business Development Manager at Rainsoft

Selling online

In order to reach customers in smaller cities and to leverage China's booming e-commerce market, more and more companies are now using online platforms such as Tmall and Taobao to reach Chinese consumers. However, be wary not to compete directly with your offline distributors.

“Online and offline products need to be differentiated, otherwise you will compete with your offline distributors directly which is not reasonable.”

[Laurence Dai](#)

China Business Development Manager at Bluewater

Educating the market

The majority of consumers in China lack awareness and generally have little knowledge about water quality, its effect on health or about water treatment products. Creating awareness and educating the consumer are therefore important marketing tools to consider.

“I would say that the main difference (between Western and Chinese consumers) is the lack of real knowledge of the products. That requires a lot of education that we do in our experience centres. In addition, Chinese consumers are highly suspicious due to the many environmental problems of this country. That requires again a lot of work in educating the customers, as well as giving them confidence not only in our brands, but also in our organization, thanks, for example, to an excellent after sales service.”

[Matteo Oppici](#)

COO at Euroidea

Customer care and creating trust

Service is nearly non-existent in many markets in China. Offering this can differentiate your product from domestic manufacturers, help overcome extremely low levels of consumer trust, and provide a significant revenue stream.

“The challenge is actually to get people convinced that it works. One of the things we’ve learnt is that we need some very simple visible tests to show people that this will work.”

[Andrew Dahl](#)

Managing Director at KLT Filtration

“I think it’s fair to say that people don’t really trust unbranded product or product where they can’t see or understand its provenance. The concern is that such a product, often manufactured locally, is made without the necessary quality controls or testing needed to ensure it actually does what the sales proposition says it does.”

[Andrew Dahl](#)

Managing Director at KLT Filtration

Customer care should be tailored to local needs. For example, according to Dr Lei at Tongji University in Shanghai, the severity of China’s water pollution means that the lifespan of your product and its components will likely be shorter than in countries with less serious water pollution.

Adapting Your Product to the Local Market

“Most of the time there will be no bacterial problem, so inorganic particles are the major concern.”

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

The type and severity of pollution in China is very different to other countries meaning that certain types of technology or certain products may be more or less suitable for the local market. Concerns of Chinese residents about drinking water are centred on basic potability, whereas in developed markets where potability is often taken for granted, softening the water and odour reduction are more relevant.

Some slight product adjustments may be needed in order to ensure your product is fit for purpose in the China. Bear in mind that even within China there are large regional differences in the type and severity of pollution. Different cities even use different disinfectants to counter their pollution. For example, Beijing uses chloramine whilst Shanghai uses chlorine.

“Usually, I would say the technology is the same but you might do some sort of modification such as specific targeting of particles or chlorine.”

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

“If the organic matter pollution is very serious, we may need to increase the volume of the activated carbon filter. In this case we can get better absorption or removal.”

[Dr. Li Lei](#)

Assistant Professor at Tongji University, Shanghai

Due to the severity of the water pollution in China, some choices may simply not be an option for the Chinese market such as the trade off between removal capability and flow-rate.

“We actually have two types of membranes, one is high flow-rate. The other one is high rejection. In China, we always use the high rejection membrane.”

[Laurence Dai](#)

China Business Development Manager, Bluewater

04. MARKET ENTRY, PROTECTION & COMPLIANCE

What is the best way to enter the Chinese market? What type of market entry barriers will you have to deal with? How can you properly safeguard your intellectual property in China? In order to succeed in the rapidly growing residential water treatment market in China, it is not only important to identify likely challenges but to know how to counteract them. In this chapter we will briefly answer the above questions and provide you with tips and advice on how to enter the market prepared.

Selecting Your Mode of Entry

The Chinese residential water treatment market is open to foreign investment and poses relatively low entry barriers. To sell in China you do not need to setup your own Wholly Foreign Owned Enterprise (WFOE) or participate in a joint-venture. There are several strategies you can use to enter the market depending on your budget and IPR requirements.

Using distributors in China

The vast majority of foreign water treatment companies coming to China will initially choose to work with distributors - which is essential in a country the size of China. Finding distributors is not a difficult task, but finding the right distributors may prove to be. We highly recommend using a network of regional distributors, rather than one exclusive distributor.

Working with merely one distributor puts all power in your distributor's hands. In addition, because of the size of China, distributors tend to be well established in their home city or province, but less so in more distant regions. Working with multiple distributors that are each well grounded in their respective home markets is therefore a more effective method for nationwide distribution.

We also advise never solely relying on your distributors. To effectively control your brand and service your customers, it is important to continuously offer support and training to your distributors and key stakeholders. Without doing this you run the risk of losing control over your brand and positioning whilst being pushed out by competitors that offer a more comprehensive product and service offering.

Constant management of distributors is absolutely necessary, and the best way to do this is to have feet on the ground in China. *See [chapter 5 \(link\)](#) for more information.*

Utilizing a distributor support platform

Using a distributor support platform like we offer at Launch Factory 88 can be a good way to jump-start your operations in China and effectively manage your distribution partners.

For instance, we help guide our clients through pre-distribution processes such as IPR protection, product registration, and simultaneously recruit a dedicated Chinese business development manager that will operate in our shared office space under our supervision.

We provide back-office support (IT, HR, Finance) and strategic advice. This can provide a presence in China without high upfront investment and can shorten lead-times and the learning process significantly. Finding a support platform that specialises in your sector is most important, so as to utilise industry-specific knowledge and networks.

Participating in a joint venture

Entering China through a joint venture means you can take advantage of market knowledge and a local network. The majority of joint ventures in China fail because of communication problems and mismatching goals. A JV structure can also expose you to a higher risk of IPR theft. However, technology license models and minority or majority shareholder structures with clearly defined roles and responsibilities are some of the options that can mitigate many of the problems involved in JVs.

Establishing a wholly-owned foreign enterprise (WOFE) and sales office

Establishing a WOFE in China gives you full control over your company's direction and brand, and can enhance intellectual property security. This approach does give you a vital presence in China, but requires significant upfront investment and there may be a long incubation period. In addition, it can be lengthy and difficult to disband operations in China if needed. We recommend gaining market validation before investing significant resources in developing your own operations. For instance, at Launch Factory 88 we assist companies to first gain market validation through our Distribution Support Platform before they establish their own WOFE and sales offices.

Product Registration and Certification

All products entering China have to comply with standards set by the General Administration of Quality Supervision, Inspection and Quarantine, and, if equipped with an electrical supply, must receive CCC certification.

“CCC is for appliances that use electricity and this is an obligatory certification for relevant products. If a reverse osmosis system needs electricity to operate, it needs both Ministry of Health and CCC certificate. To do this, companies need to contact 2 different organisations.”

[Simon Ding](#)

China Representative at the Water Quality Association

Obtaining Ministry of Health (MOH) Approval

The process to obtain Ministry of Health approval is broadly split into three steps: qualification, testing and permit approval. The time and cost taken to successfully register your products can vary widely, and mainly depends on whether you utilise a contractor to aid you through the process.

“For foreign manufacturers, the whole process can take anywhere from 6 months to 2 years and it's really more of public relations exercise than anything else”.

Step 1: Qualification

The very first step on the road to MOH approval is for the foreign company to find a Chinese representative to act on their behalf during the application. We recommend using a specialist agency that can speed up the process. Do not make a distributor your representative as this transfers too much power (*See case study*). Alternatively, some larger companies, set up a business in China, and go through the process alone.

Whichever approach you choose, a contractor can act as a guide in preparing complicated and extensive paperwork and dealing with potential language barriers. Even though this entails extra cost, the entire process is still likely to be cheaper than most other water treatment product certifications.

Expect to pay around \$13,500 for a contractor to guide you through the entire Ministry of Health process. From our experience approximately 60% of foreign companies choose this method. Contractors offering English-speaking services are now available, although finding a reliable and trusted contractor is most important. Usually, with a contractor, the qualification process should take between 3 and 6 months.

“Documentation poses a problem, as it’s often filled out incorrectly. It’s not uncommon for companies to have their documentation returned 5 or even 10 times.”

Step 2: Testing

The Centre for Disease Control conducts testing of 3 sample units. The testing fee is divided into a ‘system test’ at \$4000, whilst ‘core components’ must also be tested separately at approximately \$1,400 per component. MOH testing places great emphasis on spike

testing and the filtered water must meet China’s Standards for Drinking Water Quality (GB5749-2006) requirements. The timeframe required for testing is roughly two months, but depends on the volume of applications ‘in the queue’ at that time.

Step 3: Permit Application

Once testing is passed, the manufacturer will be granted the testing reports required for permit application. At this stage, the documentation required is even more comprehensive. The permit application stage of the process is free of charge, and generally takes around three months. If successful, the permit is valid for five years before another application is required.

The case study below demonstrates the dangers of using a distributor as your Chinese representative in the Ministry of Health (MOH) registration process. We strongly advise against this.

CASE STUDY

We interviewed one foreign company, primarily active in the POU market, that has experienced problems with renewing their product registration in China. The company has been present in China for a number of years but do not have their own sales office here. Originally using distributors, they later realised that they had not established a good match and decided to work with different distributors whilst at the same time putting feet on the ground in China to avoid the same problem occurring again.

Despite seeing sales improve after establishing a local presence, they experienced problems as their original distributor owned their product registration rights and caused problems when the time came to renew their registration.

After their certification expired they are now stuck in a middle ground as their previous distributor, who acted as their Chinese representative, refused to hand over required documentation from a previous application unless they paid.

The company expressed their frustration at being stuck between expiration and renewal despite repeated attempts to have their certification updated. As this is an increasingly common problem, we advise not using your distributor as your Chinese representative in the product registration process.

Additional Product Certification

In addition to the compulsory approval from the Chinese Ministry of Health, your company's products can secure additional certification in order to boost your brand's reputation and increase consumer confidence. Amongst the most well known are the Water Quality Association (WQA) and National Science Foundation (NSF) certification. In recent years, increasing numbers of domestic companies are gaining foreign certification as they compete better with competition from abroad.

Countering false certification

However, many domestic companies operate in the market using false certification. The only way for consumers to be sure of the authenticity of any certification is to check the certifier's online database. Similarly, many companies include serial numbers and warranty cards with the sale of each item in order to ensure the traceability of each individual product. Additionally, it is important to note the difference between Water Quality Association membership, and Water Quality Association testing certificates.

"Many of the local players may purchase a membership and then they put the WQA logo on their product as if they had been tested"

[Laurence Dai](#)

China Business Development Manager at Bluewater

Intellectual property rights protection

The protection of intellectual property rights (IPR) can often be of great concern to foreign companies who are considering entering the Chinese market. It may even act as a deterrent for some companies, but surprisingly many foreign companies still come to China without having sufficiently protected their intellectual property. Our advice is simple. Before coming to China, even if only to a trade fair, adequately protect your IPR. For legal matters, we advise working with a local law office in China.

Intellectual Property Infringement

Nowadays, it's far easier to successfully protect your IPR in China. There are many things you can do that can go a long way to preventing infringement. For example, manufacturing only basic components in China and importing your IPR-sensitive parts. For instance, at Launch Factory 88 we work with multiple trusted suppliers and assemble the final product in our own secured assembly space so that no one party has complete knowledge of the final product. Additionally, such things like conducting appropriate due diligence on your potential distributors is also essential.

"We usually assemble our clients' final products within our own secured assembly facilities and consequently decrease the risk of suppliers attempting to copy the product. If your product possesses advanced technologies, you can also consider outsourcing basic component manufacturing to China and importing your advanced components."

[Gijsbert de Bruin](#)

CEO of Launch Factory 88 and CHC Product Development

For their first full system offering in China, KLT Filtration will continue to manufacture their ceramic filter in the UK, but source their housing in China.

"The manufacturing technology is very closely guarded."

[Andrew Dahl](#) Managing Director at KLT Filtration

Adequately Protect Your Intellectual Property

Although copycat activities on behalf of Chinese companies occupy the minds of many foreign companies, the main source of intellectual property infringement is the negligence of foreign companies. In the case that their intellectual property rights are infringed, they are without a legal standing to mount a case. The Madrid Protocol is not sufficient protection. Instead, we suggest working with a local law firm that possesses particular knowledge of your specific industry, in order to mitigate your risks.

05. DISTRIBUTOR BEST PRACTICES

Whilst the Ministry of Health is approving your products, it is time to formulate your sales and distribution strategy. It takes consistent time and effort to find your distributors, but even more to manage them. It is therefore important to gain a good understanding of how distribution works in China.

Finding your distributors

There are multiple ways to find distributors and here we will explain some of the most common ways to find a distributor in China's residential water treatment market.

Trade fairs

There are an increasing number of water technology related trade fairs in China, the biggest being Aquatech in Shanghai. Trade fairs offer a good way to meet potential distributions partners, and better understand the local commercial environment. Before attending any trade fairs, adequately protect your intellectual property.

“Aquatech gave us such a great platform to be able to meet our domestic partners.”

[Jeremy Liu](#)

China Business Development Manager at Rainsoft

“We launched the Bluewater brand at Aquatech in 2013 and then several months later we did it again in the US, also at Aquatech in Orlando.”

[Laurence Dai](#)

China Development Manager at Bluewater

KLT Filtration initially came to Aquatech China in 2013, with their stand-alone filter. They noted that most distributors, despite showing great interest at the time, made clear that they wanted a branded finished product to sell rather than merely a single component.

“We came to Aquatech in Shanghai as KLT filtration. We were bowled away with the interest and the response that we got.”

[Andrew Dahl](#)

Managing Director at KLT Filtration

Chambers of Commerce

Various nations Chambers of Commerce may be able to assist you in searching for distributors. They offer advice, direction and can make you aware of other companies and their experiences in China. They may also organise other events, such as trade missions.

Service Providers

Using a service provider can help to provide necessary due diligence in the distributor search, and can find the right distribution partners for your needs. At Launch Factory 88, we utilise our nationwide database and local experts to offer a comprehensive distributor search.

Training and Managing Your Distributors

Some companies choose to use one exclusive distributor, whilst others use a network of distributors to cope with regional differences and provide a more tailored offering. We strongly recommend using multiple distributors to avoid handing too much power to one party.

Also, due to China's size and variation between regions, distributors tend to be most well established in their home area whereas large nationwide distributors tend to lack strong local connections.

“We will, as many foreign brands do, set provincial distributors in each region. They will be responsible for promoting our brand in the local market.”

[Laurence Dai](#)

China Development Manager at Bluewater

Distributors in China are often accustomed to selling purely on price, which doesn't align well with most foreign product offerings. Distributors will often overlook your product's real selling points if not managed properly. Therefore, it is important to educate and manage your distributors on how to properly sell your product and control your brand.

Also, a high employee turnover rate makes it very difficult to sustain an effective and motivated distribution force that will sell your product. However, training your distributors properly, offering the correct support and communicating effectively can make all the difference. The best way to do this is by having feet on the ground in China.

Use of performance-based contracts

Chinese distributors generally favour whichever company offers them the highest commission. Your sales in China may suddenly drop if your distributor begins to favour other companies and their offerings.

Maintaining a good relationship with your distributors, keeping a close eye on market developments, and utilizing performance-based contracts and milestone targets can all help towards securing long-term success.

Train your distributors

Distributors in China often suffer from high employee turnover, and lack experience selling on anything but price. Therefore training them is a time-consuming process. Typically a small group are trained, who, in turn, train others.

“There's a big learning curve, a big training process. We've been working on it from the start of our collaboration. It's a consistent work, there's always a new dealer that needs to be trained... always new information.”

[Jeremy Liu](#)

China Business Development Manager at Rainsoft

“The more you speak to the distributor, and work with the distributors, the better. You need to constantly provide them with information.”

[Andrew Dahl](#)

Managing Director at KLT Filtration

Dissemination of information is crucial, and some companies even utilise video databases to aid in the training process. It is important to train distributors to sell your products in the right way, not merely on price.

“One of the things that came over loud and clear is that, whoever is selling it, you need to provide a pack of sales information. That might be videos or a practical demonstration in store.”

[Andrew Dahl](#)

Managing Director at KLT Filtration

Distributors can even be trained to provide installation, after-sales and maintenance services.

“We are training our distributors to provide installation and after-sales, maintenance work and other things. The dealers should be able to perform that.”

[Jeremy Liu](#)

China Business Development Manager at Rainsoft

Distributors alone will likely not be able to communicate your added value, particularly if your product is new to them or highly specialised. Therefore they need support and the best way to do this is by having a presence in China.

Have a presence in China

Employing feet on the ground in China is often the only way to offer distributors and key clients the level of support that is required. Doing this not only enables constant management of distributors, but also helps to maintain lines of communication between China and head office and can enable better response to feedback from the market. It also enables better management of brand positioning, as distributors left alone will focus on price. It also means you can respond faster to any problems that may arise.

Launch Factory 88’s distributor support service can provide this often-vital presence in China.

“Half the battle of succeeding in China is to understand the country, the people and their culture. In order to do that, having a trustworthy representative permanently based in China is crucial and I would recommend trying to learn the language too. From the reverse perspective, China is here for the long run and they want to see that long term investment and commitment from the foreign side too. Effective relationships take time to build in China and it is reassuring for the Chinese to see that you are here to stay.”

[Josh Lane](#)

Business Development Manager
at the British Chamber of Commerce Shanghai

RECOMMENDATIONS

China is suffering from serious water pollution, and no short or mid-term solution is in sight. At the same time, Chinese consumers are becoming more educated and more aware of the health and environmental problems they face. Rising income levels also mean that residential water treatment solutions are becoming more affordable to large parts of the Chinese population. Foreign companies have unique offerings to offer the Chinese market and are generally favoured over domestic products. However, the market poses challenges and uncertainties. Here are some recommendations to consider when entering China:

- **Gain a strong understanding of the market and business environment in China**

Before coming to China, understand your options for market entry and that, for example, Chinese consumers are faced with a different set of problems and solutions in their search for potable water. Be aware of the local business landscape and China-specific issues such as product registration and IPR protection.

- **Develop a presence on the ground in China**

Show commitment to your Chinese stakeholders by developing a presence in China. Benefitting from first hand market information and directly supporting your distributors and key clients will provide the best base from which to reach your sales potential.

- **Work together with experienced service providers and experts**

Shorten your learning curve, decrease your risks and avoid common mishaps by working with experienced service providers in your industry that possess specialised knowledge and networks.

- **Find the right distributors, and train and manage them effectively**

Find the right distributor for your needs through conducting appropriate due diligence. Support and manage them in order to reach and sustain your sales potential.

- **Manage your intellectual property in China**

Adequately protect your intellectual property before entering the Chinese market in any capacity. Work with law offices specialised in your industry, and make sure to manage your IPR from within China rather than internationally.

- **Invest in marketing and education**

Leverage your foreign brand name to distinguish yourself from the multitude of domestic competitors in the market. Pay particular attention to educating the market and securing consumer trust.

- **Consider localization of manufacturing and assembly**

Compete more effectively and enjoy global cost advantages by localizing part or all of your manufacturing and assembly processes.

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RESOURCES

Associations

As of now, there are no nationwide Chinese associations that cover the residential water treatment industry. However, there are both a number of Chinese regional associations, and international associations that you should be aware of.

ASSOCIATION	WEBSITE	DESCRIPTION
Water Quality Association	www.wqa.org	The Water Quality Association (WQA) is an international trade association representing the household, industrial and commercial water.
Regional Water Associations	www.ahjsxh.com www.ffjsxh.org Various others	Although there is not yet a national water association for China, there exist a small number of regional associations focused on the water treatment markets.
Chambers of Commerce	Various	Various Chambers can also be a useful source of information. For example the EUCham or AmCham are involved in lobbying the Government, and often organize sector-specific events and seminars.

Key Trade Fairs

The list below highlights some of the key trade fairs in the residential water treatment industry in China, with particular emphasis on those most suitable for those involved in the residential water treatment market. This list is not exhaustive, and this type of exhibition is becoming more commonplace in China. It is important to research these exhibitions thoroughly so as to maximize opportunities for your company.

TRADE FAIR	WEBSITE	DESCRIPTION
Aquatech Shanghai	www.aquatechtrade.com	The world's leading trade exhibition for process, drinking and waste water.
Water China Guangzhou	www.waterchina-gz.com/en/index.html	Now in its 16th year Water China Guangzhou is focused specifically on water treatment companies.
Water Expo Beijing	http://water-expo-china.hk.messefrankfurt.com/	Encompasses all areas of the water industry, including membrane and water purification technology.
Water Ex Beijing	http://www.waterex.com.cn/en/index.html	Focused on the drinking water and waste water treatment sectors.
FlowEx China	http://expo.flowex.com.cn/new_expo/index.php	The largest exhibition for valves, pumps and pipes in China.

OUR CONTRIBUTORS

The residential water treatment industry in China is still relatively young, and is changing rapidly with societal changes in modern China. We are grateful to have benefitted from the insight of the following industry figures which built upon our own experiences.

Simon Ding

Representative at the Water Quality Association in China

Simon Ding has been a representative for the Water Quality Association in China for 6 years. Simon has vast experience of the Chinese residential water treatment market, and we benefitted in particular from Simon's deep knowledge of the Ministry Of Health registration process.

William Wang

General Manager of CHC Expo (Supporting Partner of Aquatech China)

As general manager of CHC Expo, William oversees the organization of a number of leading industrial shows in China, including the rapid growth of Aquatech since its inception in 2008.

Sandy Tsai

Business Development Manager for Asia/Oceania at Oasis

Sandy Tsai is currently overseeing Oasis' entry into the Mainland Chinese market. Oasis is a world leader in point-of-use filtration equipment, drinking fountains and dehumidifiers. They now distribute their product in over 100 countries worldwide. Oasis is new to mainland China, having only entered the market last year.

Andrew Dahl

Managing Director at KLT Filtration

Andrew Dahl is managing director of KLT Filtration, a British water filter company preparing to launch their first branded product in China. He originally trained as a chartered chemical engineer and has worked in a wide range of markets including glass, oil, ceramics and clothing. His main focus has been international business development and brand building based on supplying innovative and technical products.

Jeremy Liu

China Business Development Manager at Rainsoft

Jeremy Liu is Rainsoft's sole representative in China primarily charged with maintaining communication and developing their business throughout the country. Rainsoft is an American company with dealerships in over 20 countries.

William Liu

Marketing Manager at Culligan China

William Liu is marketing manager for Culligan's Chinese business. Culligan is an American water treatments products company, founded in 1936. Culligan first entered the Chinese market in 2004, and subsequently established their first office in China in 2007. The company sells its products in over 90 countries around the world. It is now one of the most established, larger foreign companies operating in the residential water treatment sector in China.

Dr. Li Lei

Assistant Professor at Tongji University

Dr Li Lei is an Assistant Professor at Shanghai's Tongji University and a recognized water expert in China. With numerous publications on the treatment of water, Dr Lei has been recognized for the outstanding quality of his academic work on numerous occasions.

Laurence Dai

China Business Development Manager at Bluewater

Laurence Dai works for Swedish company Bluewater in Shanghai overseeing their entry into the Chinese market. Bluewater offer very high-end water treatment products, and first came to China in 2013.

Matteo Oppici

COO at Euroidea

Matteo Oppici is COO of Euroidea in Beijing. Euroidea is an import and export company focused on bringing leading European household appliance brands to the Chinese market.

Josh Lane

Business Development Manager at the British Chamber of Commerce Shanghai

Josh Lane works in business development for the British Chamber in Shanghai, which now represents over 300 companies in the East China region.

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