

# Italian O&G valve sector: challenges ahead

The Italian valve sector for the oil and gas industry traditionally has a strong position on the global stage. Like its competitors, the sector has suffered from relatively significant oil price and margin pressure. To remain competitive in a global market, the Italian sector needs to improve, even though it belongs to the global top 3.

By Lucien Joppen



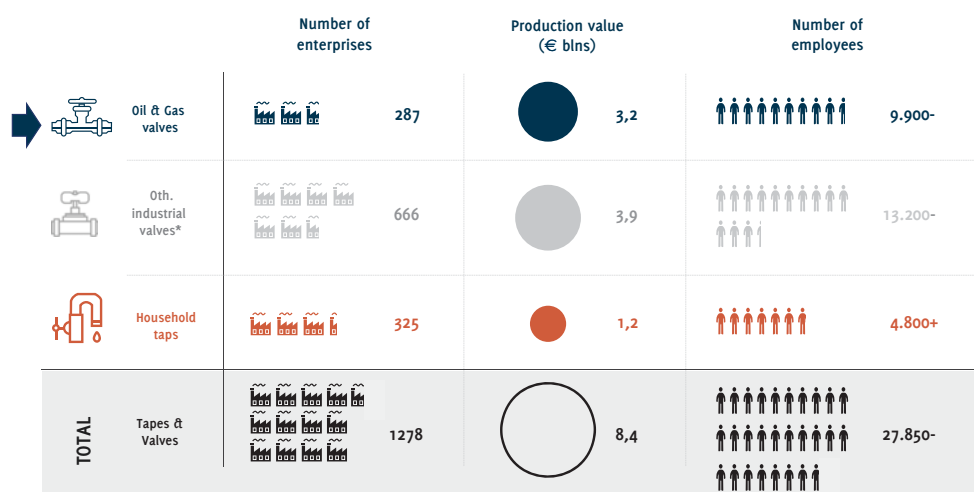
View on the old city of Bergamo. The city and the surrounding area is a center of the oil and gas valve sector in Italy and harbors many first- and second-tier suppliers.

Recently several research reports have been published on the Italian valve sector for the oil and gas business. In 2019, the research agency Prometeia and Confindustria Bergamo published a comprehensive study on the oil and gas valve industry. Within the Italian valve sector, this section represents 40 per cent of the total turn over, which was approximately 8,4 billion euro in

2017 (oil and gas: 3,2 billion euro; source: calculation Prometeia on ISTAT data and companies' balance sheets).

According to Prometeia and Confindustria Bergamo, Italy's O&G valve sector has also evolved into a powerhouse in its segment, producing one of out every three O&G valves in a 9 billion euro market in Europe. Germany and the United Kingdom are second and third with market shares of respectively 27 and 8 per cent.

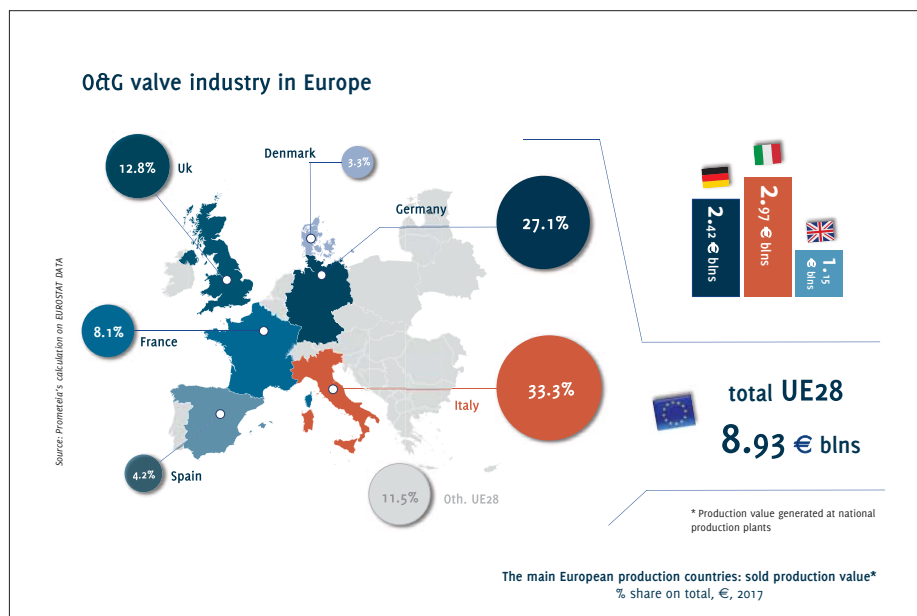
## The Italian industry of tapes and valves



\* Hydraulic valves, valves for food & beverage industry, valves for pharmaceutical industry, etc.

Source: Prometeia's calculation on ISTAT data and Companies balance sheets., 2017

The oil and gas sector is very important for the Italian valve sector and the global sector in general.



The Italian oil and gas valve sector is on top in Europe.

As for potential reasons for this position, Prometeia states the Italian sector has specialised in ball valves, traditionally a substantial product segment within O&G, and is particularly strong in engineered products.

### Valve hub Bergamo

This specialisation and emphasis on R&D and product development is also reflected by a patent analysis, carried out by Prometeia. The research agency also reviewed the quality of patents that are relevant to the oil and gas valve sector. In this review, Italy has come out fourth in terms of numbers and third in terms of quality, compared with its European competitors. Within Italy, the region around Bergamo (in a 100-kilometre radius) is very active in this domain which is not surprising given the concentration of O&G valve manufacturers.

As for the product quality and reputation on the global stage, Italy ranks among the top 4 worldwide. This is one conclusion from another report, a comprehensive end-user survey, carried out globally by the American research agency SAI Industrial.

### Critical success factors

In 2018, SAI interviewed representatives from 150 O&G companies in 34 countries. The goals of the study, commissioned by VALVEcampus in Bergamo, was to gain perceptions of the Italian valve sector, to identify critical success factors and to gain insights into the (near) future for the O&G valve business.

From the study, it becomes apparent - as mentioned before - that Italy ranks with

Japan - after the US and Germany - as a second-tier in terms of product quality. "Italian manufacturers rank high on mechanical reliability, quality of materials and design/engineering", Bruce Deckman, President of SAI, says. "When you look at the end-users in various regions, Italy scores significantly better in the Middle East than its direct competitors. In the US and Europe, respectively, American suppliers and German manufacturers seem to have a preferred position."

### Cautious

Back to the oil and gas market. As mentioned before, this sector has been far from buoyant due to lower price levels,

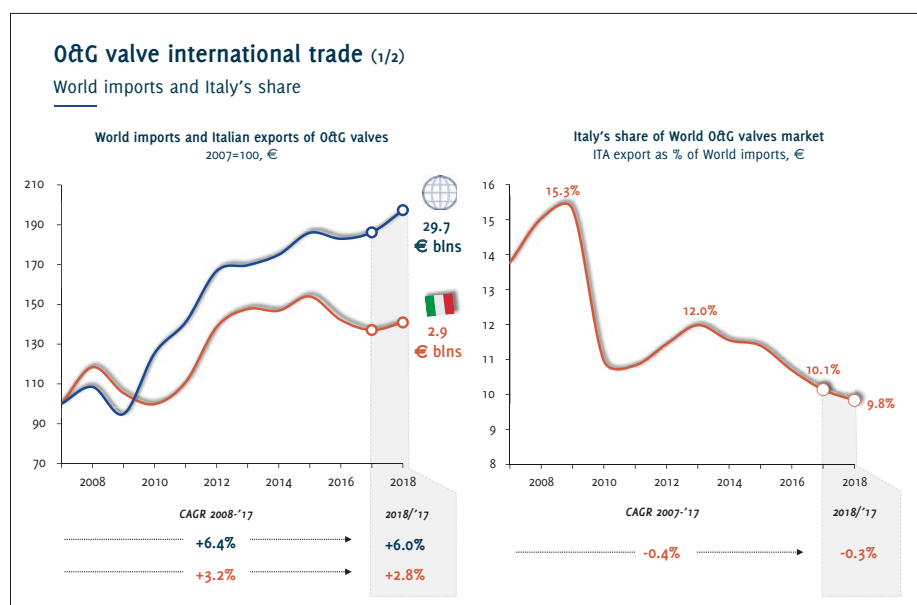
making oil and gas companies very cautious in terms of new project development. The latter has also been the result of oil price volatility which has made it increasingly harder to predict return-on-investment in a relatively short period.

The O&G sector has also rationalised its operations in terms of CAPEX and OPEX, lowering the threshold for making new projects profitable against oil prices around the 40 USD-mark per barrel. Another factor is the public and private focus on non-fossil energy sources which has an impact on resource allocation for fossil-energy companies that also engage in renewable energy (wind, solar, hydro, biofuels, etc.).

### Shaky situation

The global O&G valve sector has felt the implications of the shaky situation in oil and gas. This is the also the case with Italy. Prometeia analysed the financial performance of 149 companies in Italy, Europe, Asia, Japan, Korea and Asia. On average, these companies experienced a decrease of 1.5 per cent CAGR between 2014 and 2017. Also, the profitability of these companies was affected. The global EBITDA as a percentage of the total revenue stood at 7 per cent on average for 2017. Compared with 2014, this is a decline of 8 percentage points. According to Prometeia, the Italian sector fared better than its competitors with a 6 percent point decline.

Nevertheless, roughly 20 Italian companies went belly-up, and roughly 1,000 employees lost their jobs.



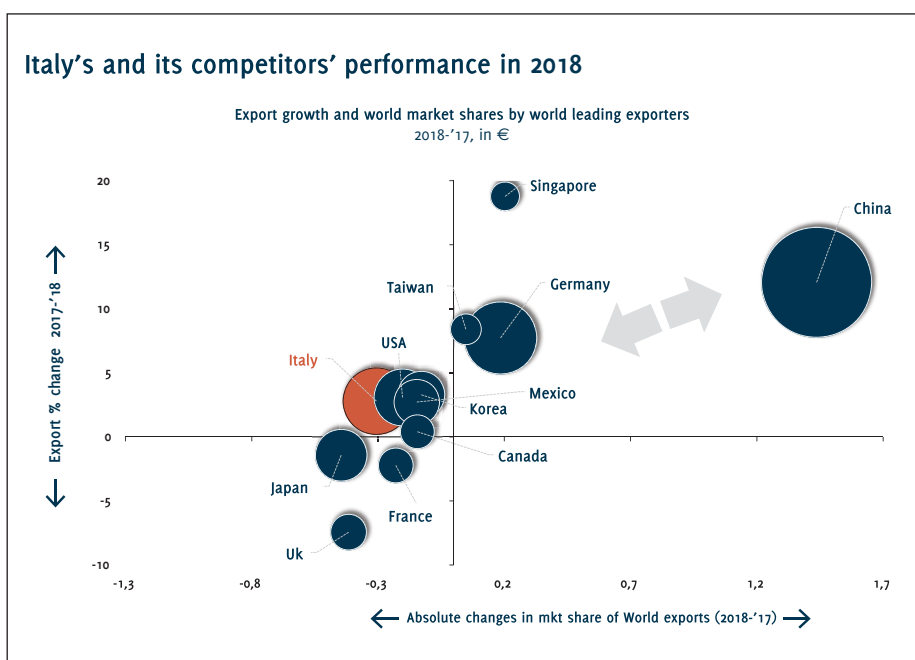
On the world stage, the Italian sector is losing market share, partly due to underexposure in emerging markets.

## Overexposure in underperforming markets

However, not all's well for the Italian O&G valve sector. Recent trade data show that it hasn't capitalised on the cautious upswing of the market since 2016. Whereas Chinese and German valve suppliers have managed to profit from the upswing, with the Chinese export growing 12 per cent in 2018 (compared to 2017) and the German 7 per cent, Italy's export grew with 'only' 2.8 per cent. This means that the Italian only managed to capture half of the global growth. According to Prometeia, this can be attributed for a great deal to the geographical presence. "The Italian industry is overexposed in markets that underperformed against their peers (Europe, MENA) and at the same time is underexposed in markets that are seen nowadays as the world's most dynamic regions (Asia, North America)", says Federico Ferrari from Prometeia.

## Room for improvement

Besides the geographical factor, Italian companies also have some room for improvement in their operations. As mentioned before, it is not so much about improving product quality as the country is situated in the global top 4. The Italian sector, however, could improve its performance in after-sales and reduction of lead times. These points were mentioned by the end-users that were interviewed for the SAI-survey. It was also mentioned that Italian suppliers would win more business if they would be more cost-effective and score



A comprehensive overview of the global exporting nations and their trajectory in 2018. China is clearly leading the pack, accounting for more than a quarter (26.5 per cent) of the global oil and gas valve market.

higher regarding the availability of their products. Bruce Deckman: "We have devised some recommendations for the Italian valve sector to increase its competitiveness and subsequently enlarge its global market share. The first to get specified by O&G end users in future growth areas, most notably in such future growth areas as the USA and the Middle East. Secondly, invest in setting up or strengthening a distribution/sales network and working closer together with local partners in overseas markets. Furthermore, capitalise more on its strengths (reliability, quality, design/

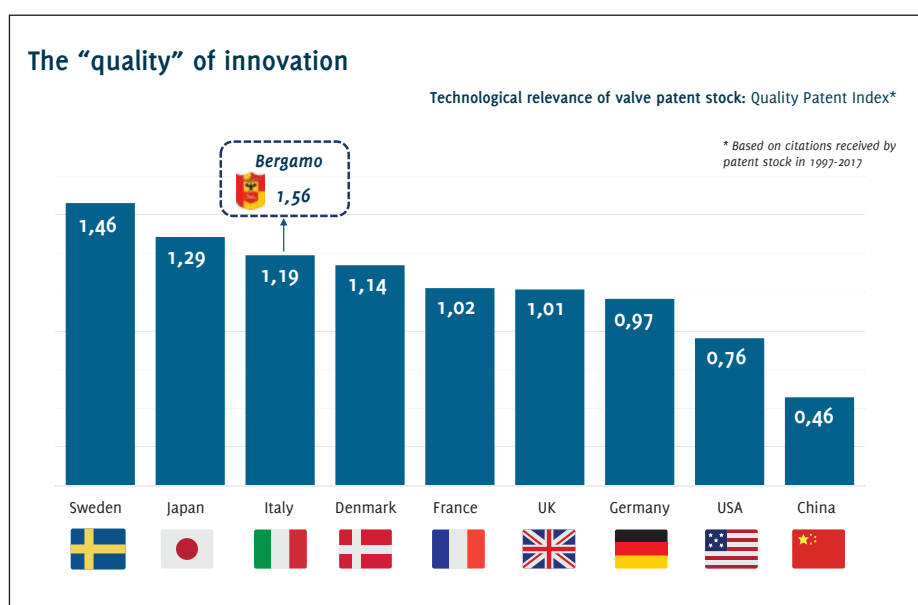
engineering, ed.). Last but not least, reduce lead times and improve cost efficiency by investing in supply chain/logistics. Also, improve customer insights and post-sales assistance."

## Join forces

Maurizio Brancaleoni, former director of AUMA Italy, is one of the founding fathers of VALVEcampus, an association for Italian valve manufacturers (40 members) supplying the O&G and power generation industries.

He also acknowledges that the Italian sector needs to step up to the plate. "Part of the challenge lies in the DNA of our sector", he says. "It still quite fragmented and as such individual companies lack the necessary economy-of-scale to significantly invest in export-related activities. On the other hand, they could also work together, preferably with a local content provider, to increase their presence - if they have complementary product portfolios - and bundle sales support. Orion and OMB have already joined forces in parts of the Middle East, together with local content providers. Another strategy is to focus on specific niche areas that are highly profitable and difficult to access for newcomers.

A good example is ATV that designs and manufacturers HIPPS-valves for subsea applications. In general, Italian manufacturers have a natural flair for innovation. Therefore investments in R&D for the right market applications can pay off."



Italy and most notably the region around Bergamo belongs to the global top 3 when it comes down to the number and the quality of patents in the oil and gas valve business.

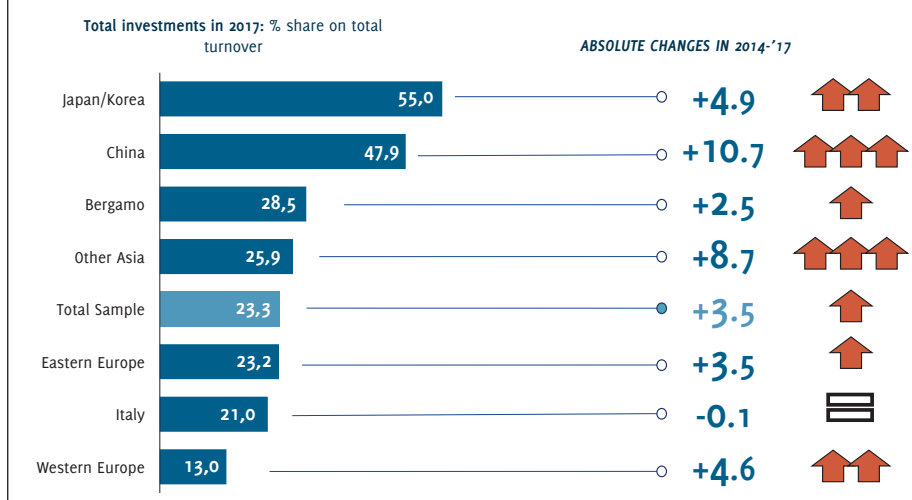
## Focus on after-sales

In general, Italian valve suppliers should focus more on after-sales, Brancaleoni says, especially in saturated markets that are more or less stagnant such as the (Western) European sector. "Europe's O&G sector is not expected to grow in the next five to ten years. My advice would be to concentrate on after-sales to keep close contact with existing clients. By offering technical support and training, manufacturers can provide added-value to their products. I understand it once was customary to deliver and run away to the next customer, but you'd miss out on future business - for example in the lucrative spare parts business - by adhering to this adagio."

## Future for Italian O&G valve sector

Brancaleoni also sees growth perspectives in non-O&G sectors such as water (treatment, purification, desalination, etc.) and power generation. "Water will be growing for years to come due to rising demand and the strain on supply. Power generation is also a promising sector. Unfortunately, there haven't been major investments in our domestic market in this sector both from end-users and valve manufacturers."

## Are the Italian companies ready?



*The Italian - and European - propensity to invest. Major investments are done in Asia, whereas other regions are more cautious. Also noticeable is the propensity to invest in Bergamo which is higher than the average in Italy.*

All and all, the Italian valve sector has its work cut out for the next years. The challenges are clear and to keep their position in the global market, manufacturers need to adapt to global shifts in production and subsequent investments. "Our sector is still vibrant, having witnessed some degree

of consolidation the last 10 to 15 years", Brancaleoni says. "We also have gained considerable expertise and knowledge in O&G and therefore are well-represented in important organisations such as API and ISO. Therefore I do see a prosperous future for the Italian O&G valve sector."