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Caterpillar Trails in China

Smaller Japanese Rival Komatsu Is Racking Up Higher Sales in Crucial Market

By JAMES R. HAGERTY

Caterpillar Inc. is trailing well behind smaller Japanese rival **Komatsu** Ltd. in China, a market both companies consider critical, data released Tuesday show.



Reuters

Caterpillar equipment is used at the construction site of the Shanghai Disneyland theme park after its ground-breaking ceremony in April.

Caterpillar said its sales in China totaled \$3.27 billion in 2010, or 7% of global sales for the world's largest maker of construction and mining machinery. Komatsu earlier reported that its sales of construction, mining and utility equipment in China totaled 334.27 billion yen (\$4.12 billion) in the fiscal year ended March 31. Komatsu also had 93.94 billion yen of sales in China of industrial equipment and other items not made by Caterpillar.

Caterpillar doesn't release sales data for China but disclosed some details of its business there as part of correspondence with the staff of the Securities and Exchange Commission, released Tuesday. The SEC staff sought greater detail on several matters discussed in

Caterpillar's 10-K results filing for 2010, including the geographical breakdown of sales.

The Chinese market has been one of Caterpillar's priorities since the 1970s, when it sold pipe-laying equipment there in the wake of a historic visit to China by President Richard Nixon.

The company has about 8,500 employees in China, or 8% of the world-wide total, and operates more than a dozen factories, along with research and development centers. Caterpillar's global head of construction-equipment operations, Richard Lavin, transferred from company headquarters in Peoria, Ill., last year to Hong Kong so he could keep closer tabs on China.

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Caterpillar executives acknowledged in a March meeting with analysts that the company didn't have enough capacity in China to keep up with strong demand for some products, including excavators, which

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are used in a wide variety of construction tasks. The company plans to more than double its machine-manufacturing capacity in Asia as a whole by 2015.

Along with Komatsu, Caterpillar faces tough competition from China-based equipment makers such as LiuGong Machinery Corp. and [Sany Heavy Industry Co.](#), which tend to sell lower-priced gear. Caterpillar is

struggling to persuade Chinese customers to pay a premium for products it touts as more durable and sophisticated. It also is offering equipment there under the lower-priced SEM brand, produced by a company Caterpillar acquired in 2004.

A Caterpillar spokesman declined to comment on the gap between his company and Komatsu in China. But, he said, "we feel positive about the progress we are making toward our objectives" there.

Caterpillar also disclosed sales in China of \$1.96 billion in 2009 and \$2.65 billion in 2008. In 2009, the China sales accounted for 6% of total sales, depressed by recession. For 2008, the figure was 5%. Last year, China was the largest national market for Caterpillar outside the U.S., surpassing Canada, which accounted for 6% of sales.

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