

# Analysis of asian paints integration of supply chain management



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In this paper, we have analyzed the Asian Paints strategic decision of being a superior technology driven company to achieve a competitive edge. The focus on technology is visible in various decisions taken by Asian paints namely in harnessing the powers of state-of-the-art supply chain system using cutting edge technology to integrate all its plants, regional distribution centres, outside processing centres and branches in India. Asian Paints is the only company in India to have integrated Supply Chain Management (SCM) Solution from i2 Technologies, and Enterprise Resource Planning (ERP) solution from SAP.

## **Introduction – Paints Industry & Asian Paints**

India's paint industry can be classified into decorative paints, which account for 75% of the market, and industrial paints, which make up the remaining 25%. Asian Paints is India's largest paint company. The leaders in the organized paint industry in India are Asian Paints with over 40% market share, Kansai Nerolac (20%), Berger Paints (19%) and AkzoNobel (12%).

Asian Paints is a market leader in the decorative segment while Kansai Nerolac dominates the industrial and automotive segment. Asian Paints is a market leader in the decorative segment while Kansai Nerolac dominates the industrial and automotive segment[1].

Asian paint is ranked at No 10 among the top Decorative Coatings Companies in the World. Asian Paints and its subsidiaries has operations in 22 countries across the world and 27 paint manufacturing facilities, servicing consumers in 65 countries. Asian paints was started by Champaklal Choksey, Chimanlal Choksey, Suryakant Dani and Arvind Vakil as " Asian oil and Paints company" . Within three years, their turnover reached 3. 5 lacs. In April <https://assignbuster.com/analysis-of-asian-paints-integration-of-supply-chain-management-analysis-paper-samples/>

2009, it reported its turnover for year 2008-09 as Rs 5463 Crores[2]. Asian Paint is listed in Bombay Stock Exchange[3]and in National Stock Exchange[4].

The three main promoters of the company are the Dani, Choksi and Vakil Families. Out of the 14 member board of directors, 7 belongs to the founders family[5]. Mr Aswin Choksi is the chairman of the board of directors and Mr P. M. Murthy is the MD and CEO. In an interesting decision, Mr. Murthy was asked to come out of retirement and run the company as CEO in April 2009[6].

Asian Paints aims to become one of the top five Decorative coatings companies world-wide. They intend to achieve this through alliances with established global partners[7].

One of the main issues with company could be that it has to compete with the same established global players in the international market with whom it has alliance in domestic market.

As far as the social issue are concerned All the paint plants have achieved ‘ zero industrial discharge’ capability.

## **Asian Paints product lines**

Ancillaries: Primers, Filler strainers and wall putty

Automotive: for automotive application

Decorative paints : Walls, metal and wood surface

Industrial: Protective coating, floor and road coatings

Ancillaries

Wall Primer

Primer

Wall Putty

Redoxide Oil Primer (Rust Protector)

Thinner Melamyne Brushing

Wood Stains

Knifing Paste Filler

Exterior Sealer

Wood Filler

Floor Colour

Asian paints PPG

Deltron

Delfleet

2K Nexa Autocolor

Decorative Paints

Royale

Emulsion

Wood finish

Utsav

Industrial Products

Protective Coatings

Floor coatings

Powder Coating

Road Marking

Phthalic

Resource Based View of Asian Paints

Resources in Management

## **Planning and Controlling**

### **Strategic Planning**

Vision: Asian Paints aims to become one of the top five Decorative coatings companies world-wide by leveraging its expertise in the higher growth emerging markets. Simultaneously, the company intends to build long term value in the Industrial coatings business through alliances with established global partners.

The diversification in terms of products has already been covered.

### **Internationalization:**

The international market strategy of Asian Paints is to mainly enter the high growth emerging markets. For this they have developed an emerging market business model. As per this the following steps are followed

Introduce new products suited to local needs

Introduce and continuously strive improve the technology aspect

Focus to improve operations especially supply chain for maximum efficiency

### **Corporate Policy:**

As per the Asian paints corporate philosophy, the following values are prescribed

Satisfaction of the spirit of the law through ethics in business

Full transparency in all the workings

Truthful communication regarding how the company is run

Simple and transparent corporate structure driven by the business needs

Establish an efficient structure to manage the company`s affairs

## **SWOT Analysis**

### **Organization**

#### **Strategic Planning**

**AP has acquired short-term competitive advantages by using its distribution strength and logistical efficiency in order to raise the Cost of doing business for all its competitors to attain this advantage.**

**The advantage is short-lived and ultimately imitable.**

**Moreover, AP has established such an extensive network that getting incremental advantage would be very difficult.**

**Futuristic approach should be gaining competitive advantage through channel control or occupying mind space.**

### **Organizational Structure**

**Depot**

**Regional Office**

**RDC**

**Plants**

**Head Office**

**DM Office**

### **Fig. 1 Organizational Structure of Asian Paints**

Continuous line: flow of instruction/authority

Dashed line: flow of information

## **Group Subsidiaries**

Apco Coatings is a subsidiary of Asian Paints in the South Pacific islands.

Asian Paints operates in Australia, Fiji, Tonga, Solomon Islands and Vanuatu under the brand name of Apco Coatings.

Asian Paints Industrial Coatings Limited has been set up to cater to the powder coatings market which is one of the fastest growing segments in the industrial coatings market.

Over the years Berger expanded its operations across oceans, to cover numerous geographies. In 1994, Berger units were brought under the single umbrella of the holding company ' Berger International Limited (BIL)' with headquarters in Singapore, which was also listed on the Singapore stock exchange. In November 2002, BIL became a part of the Asian Paints Group. Today, the name of Berger is synonymous with quality and innovation. BIL has presence across three regions viz. Middle East, Caribbean and South East Asia.

Founded in 1979, SCIB Paints today is a reputed name and ranks amongst the top five paint companies in Egypt. SCIB Paints became a part of the Asian Paints group in August 2002.

Asian PPG Industries Limited, a joint venture between Asian Paints (India) Limited and PPG Industries, Inc. USA with 50: 50 equity sharing was established in March 1997 with the objective of providing solutions to the paint requirements of Indian Automobile manufacturers. The joint venture brought together two leading companies with strengths in technology, manufacturing and customer insight.

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Taubmans Paints Fiji, the fourth largest paint company in Fiji, became a part of the Asian Paints family in September 2003. Taubmans Paints is the dominant player in the project sales segment in the country and is a leader in the neighbouring Samoa Islands. It has two manufacturing facilities, one in Suva (Fiji) and the other in Samoa.

## **Manufacturing/Operations factors**

Size advantage in relation to competitors.

Finesse in production planning , scheduling , matching with marketing requirements

In-house production -outsourcing -high reliability suppliers – superior quality assurance.

Four production location -spread benefits

## **Information Technology**

**Asian Paints, at a very early stage of its growth, recognized the importance of IT and how it could use the technology to its advantage. In 1983, it was the first company in India to use computer technology on its shop floor. The use of computers provided an automated way of generating details of dispatches to the depots. AP also invested in branch computerization which helped zonal distribution centers to get daily stock position levels. This information was tracked and analyzed to determine the performance of the dealers, thus helping forecast sales, take corrective actions in case of low sales and incentivize the high performing dealers. Also, around 1994, Asian Paints installed terminals which connected factories to depots and helped in accounting and planning procedures.**

Asian Paints was also one of the first paint companies to use Supply Chain Management (SCM) and Enterprise Resource Planning (ERP) software for streamlining and automating its processes. It selected the SCM solution offered by i2 Technologies and later also started using SAP's ERP solution, much before other companies adopted similar solutions. This helped the company to connect to all their vendors and suppliers.

**One of the biggest advantages of implementing these solutions was the accurate demand forecasts – this helped them bring down inventory stock costs and working capital costs. For e. g., white color was always in high demand, so these was always kept in stock. The Retails outlets could blend the whites with other tints to meet the requirements of customers. Warehouses that were situated nearby used to supply the requested paints within a day. This helped minimize supply chain inefficiencies. It is estimated that these initiatives gave AP an estimated savings of INR 100 million, 25% of which came due to reduction in finished goods inventory.**

## **Research & Development**

At Asian Paints, Research & Development has played a significant role in the growth of the organization. The company has continuously invested in R&D. The entire decorative coatings portfolio for the Indian market and for overseas ventures has been developed in-house. Our technologists not only develop new products and improve upon existing formulations; but also act as a pillar of support to other functions, viz

Supports Manufacturing in process cycle time reduction & improves productivity by alternate / break through processes

Provides solutions to environmental issues by minimizing waste at the time of generation and also in recycling

Aids Marketing in providing technical tools/USPs to demonstrate and push new products

Support Materials by providing new Raw Materials as alternate to current one to give them negotiating power and also alternate vendors for supply chain flexibility

It consists of 140 strong R&D team consisting of 7 doctorates and around 115 qualified scientists, has always backed the company's business plan and demands of the market place. Asian Paints' R&D team has successfully managed to develop High-end exterior finished and wood finishes in-house.

## **Supply Chain**

Asian Paints has harnessed the powers of state-of-the-art supply chain system using cutting edge technology to integrate all its plants, regional distribution centres, outside processing centres and branches in India. All the company's paints plants in India, two chemical plants, 18 processing centres, 350 raw material and intermediate goods suppliers, 140 packing material vendors, 6 regional distribution centres, 72 depots are integrated.

The supply chain runs through a wide spectrum of functions right from materials planning to procurement to primary distribution. It has played a pivotal role in improving operational efficiencies and creating agile procurement, production and delivery systems. It has also enhanced the flexibility of operations, lowered output time and reduced delivery costs, while improving customer-servicing levels and profitability.

The Supply Chain Management is backed by IT efforts that help the company in demand forecasting, deriving optimal plant, depot and SKU combinations, streamlining vendor relationships, reducing procurement costs and scheduling production processes for individual factories.

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## **Licensing of Product**

Asian Paints Ltd has put in place a new business strategy to generate additional revenues by licensing out its brands and technology. As part of a massive review of its global business, the company has taken a re-look at its operations across all its plants. As per the new business strategy, Asian Paints out-licensed the brand name and the paint manufacturing technology. The company licensed out its brand and technology to PT Abadi, a leading paint company in Indonesia also. Asian Paints also licensed its technology to Berger Paints, Pakistan.

## **Merger & Acquisitions**

Asian Paints (India) Ltd acquired 50.1 per cent stake in Berger International Ltd (BIL), a holding company incorporated in Singapore. BIL has no operations in India in 2002.

As part of its strategy to transform itself to a global player, Asian Paints acquired Taubmans, promoted by Axo Nobel, for \$1.42 million in 2003. The acquisition increased the market share of Asian Paints to over 50 per cent from the current 40 per cent.

Asian PPG bought ICI India unit for 520 million rupees in 2007 expanding its presence in India. The company became the largest player in the auto refinish (paints) market in India.

## **Organization & Environment**

### **Customer Focus**

Over the last 10 years, the average Indian customer has become more involved in the painting activity. AP realized this earlier than its competitors and devised marketing strategies to develop its brand image in the customer's mind and hoped to convert this increased 'mind share' into 'market share'. This was done in two ways; one was to explain the advantages of their products directly to the customer and offer them more services. The second was to improve AP's brand value and image among customers.

### **Increasing product awareness**

This strategy was aimed at helping the customer in making the right choice and in the process of doing that select AP products. A few key initiatives taken by the company are explained below.

**Color World Stores:** These were specialty AP stores which had an in shop 'Shade Display Unit' which displayed over a thousand unique shades along with ready-to-use combinations. Customers had the advantage of seeing how their rooms would appear in those colors before they bought the paint. Asian Paints worked with academic institutions in India and kept the Indian customer in mind while designing these shades. An interactive computer system allowed the customer to change the colors and select the one they liked. Also, these stores gave the customers shade strips, on which the colors selected by the customer were printed by an automated paint mixer machine. Customers could take away these strips back to their homes and

see if the color suited the room. There are about 15000 such stores and machines across India and the company believes that a substantial amount of sales will be coming from these stores.

**Color Store:** AP recently opened its flagship store in Mumbai. The store, the first of its kind in India does not sell any paint but sells a concept of a lifestyle to the customers. The store was inspired by ' Holi', the Indian color festival and provides a complete solution to customers including help in selecting the colors based on customer's inputs, volume and price estimates and also includes a home painting service. This has a direct impact on the customer's minds who will then buy paint from dealers. By customizing the colors for the customer, in a way AP is locking the customer as the customer may not get the same color/shade from a competitor. This store was recently awarded the ' Store of the year' by the Retail Design Institute in India.

**Asian Paints Home Solutions (APHS):** This is an end-to-end paint service provided by Asian Paints. Started as a pilot project in 2000 in Hyderabad, this service has gained momentum over the years and is now available in 13 Indian cities. To the customer, this provides a hassle free painting service. In the Indian context, this was unique as the actual paint job is usually done by small paint service companies, which were not that reliable and sometimes difficult to deal with. The trusted brand name of Asian Paints was helpful in attracting customers as well. Also, the company gave a 1 year warranty with this service, something which is not common in the paint industry.

## **Building Brand Name**

The company aggressively invested in consumer research efforts in order to build its brand name. In 2002, the company started marketing its paint under the Asian Paints brand name instead of the name of the paint and also changed its logo which strongly portrayed the name of the company. The company also played with the psyche of the Indian consumer to popularize its brand name by exploiting the emotional connect a consumer has with his / her home. It realized that Indian consumers preferred painting their homes before festivals and other important family functions such as marriages. Painting the home signified a new beginning, and, fittingly, Asian Paints brand unveiled its new tagline “ Celebrate with Asian Paints” to tap into this consumer demographic of the Indian market. This was the first step the brand took in establishing an emotional connection with the consumer in a low-involvement category.

The company also invested a lot of money in advertising and roped in famous bollywood stars to attract the end customers with the hope that they will buy Asian Paints to paint their homes.

## **Joint Ventures**

Asian Paints along with PPG Inc, USA, one of the largest automotive coatings manufacturers in the world has begun a 50: 50 joint venture, Asian PPG Industries to service the increasing requirements of the Indian automotive coatings market. Another wholly owned subsidiary, Asian Paints Industrial Coatings Limited has been set up to cater to the powder coatings market which is one of the fastest growing segments in the industrial coatings

market. This wholly owned subsidiary of Asian Paints has entered into a tie-  
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up with Canada-based Protech Chemicals which is one of the top ten powder coatings companies in the world for technological know-how in the area of powder coatings.

## **Competitors**

### **Company Name**

### **Net Sales**

### **Net Profits**

### **Net Profit Ratio (%)**

Asian Paints

5,367.72

774.5

14.4

Kansai Nerolac

1,814.71

165.5

9.119914

Berger Paints

1,510.96

88.76

5. 874411

Akzo Nobel

937. 7

159. 3

16. 98838

Shalimar Paints

333. 25

3. 56

1. 068267

Jenson Nicholson

37. 47

-7. 61

-20. 3096

Hardcastle

13. 63

0. 58

4. 255319

Killick Nixon

4. 32

-1. 57

-36. 3426

## **Reputation:**

### **Environment and Safety:**

Asian Paints approaches the environment issue from the perspective of waste minimization and conservation of resources.

Its attempt is to reuse, recycle and eliminate waste, which results in less and less waste being generated. Accordingly, the material losses in manufacturing have been reduced substantially over the last few years.

It has ISO 14001 certification for environment management standards.

It has achieved 'zero industrial discharge' capability. These have been achieved by the installation of upgraded effluent treatment facilities and installation of reverse osmosis plants in conjunction with appropriate recycling and reuse schemes. Our emulsion manufacturing facility has

### **Quality Policy:**

We shall provide products and services that meet stated standards on time, every time.

We accept Zero Defect as a quality absolute, and shall design and operate our quality system accordingly.

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We will organize our work practices to do a job right the first time, every time.

We are committed to continuous improvement in quality in all business processes and shall track such improvement through measurable indicators.

## **Leadership**

### **Name**

### **Designation**

Ashwin Choksi

Chairman / Chair Person

P M Murty

Managing Director & CEO

Amar Vakil

Director

Dipankar Basu

Director

Deepak Satwalekar

Director

S Sivaram

Director

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Abhay Vakil

Director

Ashwin Dani

Vice Chairman

Mahendra Choksi

Director

Tarjani Vakil

Director

Mahendra Shah

Director

R A Shah

Director

S Ramadorai

Director

Ina Dani

Non Executive Director

## **Human Resources with Sub categories**

Asian paints has a talent pool of over 4700 employees employed across 23 countries bring in a unique blend of mindsets and skills. They recruit only from the top schools and believe in getting the people from the highest calibre in the company. To enable better interface, initiatives like HR help desk, Employee self service, and e-learning applications were done during the previous year. People development is a key area of focus for Asian paints. Though every employee plays a part in his own development, focused activities are also carried out for ensuring synergy and growth. E-Learning was introduced as new concept, to meet the ever growing diverse developmental needs of the organization. With the multiple locations throughout the globe, the present of e-learning will help the employees. The year 2009-10 also saw the stabilization of the PMS that was put in place during the previous year. They do follow a 360 degree method of appraisal.

An open and interactive work culture brings out the best in the people. A sense of ownership and freedom to experiment at their workplace brings out creativity and innovation in every individual. Excellent training is provided to develop leaders and re-strengthen competencies from within the organization. They believe in encouraging achievers from within the organization to climb up the hierarchy and take up bigger roles and assignments. Thus, the task is cut out for every individual within the framework of result-orientation market insight, customer perspective, trust, respect and problem solving. AP looks forward to the commitment of the people and their sense of discipline and ownership continue to drive growth for the company

## **Resources – A bird’s eye view**

### **Specific Level Concrete Level**

#### **Tangible Assets**

Fixed assets

Equipment (Eg – Machinery, hard- and software), facilities, plant, land

Current Assets

Inventory

(Eg- raw materials, semi finished goods)

#### **Finances**

Assets

Investments, cash reserve, trade receivables, factoring

Capital

Equity Capital, liabilities (loans, leasing, salaries and wages), financial incentives (eg- social contributions, private use of company’s car)

#### **General Characteristics**

Location, areas, type of product and services, size (eg- turnover, market size, goodwill, physical value, competition position)

#### **Non-Financial indicators of the company**

1) Raw Material: Paint is a raw material intensive industry. It takes over 300 different raw materials to produce paint, most of which are petroleum-based.

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Titanium dioxide is the largest consumed raw material. It constitutes approximately 30% of the total manufacturing cost. Besides this, there are petroleum-based raw materials, which constitute 40-50% of the total raw material consumed. Hence any movement in crude oil prices impact prices and profitability in the paint industry.

2) Research and development[8]: At Asian Paints, Research & Development has played a significant role in the growth of the organization. It has set up a new Research & Technology centre at Turbhe on the outskirts of Mumbai (India).

3) Supply chain[9]: Asian Paints has harnessed the powers of state-of-the-art supply chain system using cutting edge technology to integrate all its plants, regional distribution centres, outside processing centres and branches in India. All the company's paints plants in India, two chemical plants, 18 processing centres, 350 raw material and intermediate goods suppliers, 140 packing material vendors, 6 regional distribution centres, 72 depots are integrated.

## **Finances**

### **Assets**

Investments, cash reserve, trade receivables, factoring



## **Application Of Funds**

**Mar '06**

**Mar '07**

**Mar '08**

**Mar '09**

**Mar '10**

Investments

274. 55

334. 39

422. 88

234. 77

703. 69

Inventories

348. 79

434. 07

538. 97

546. 71

763. 14

Cash and Bank Balance

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28. 17

42. 47

41. 33

128. 05

28. 58

Total Current Assets

562. 07

712. 5

832. 2

985. 78

1, 123. 15

Net Current Assets

89. 75

166. 06

17. 94

137. 44

-168. 36

Market capital of the company = Rs 17, 357 Cr

Volume of the shares traded = 24, 372

Trading turnover = Rs 43. 57 Cr

Trading turnover/ market capital = 0. 0025

This is a very low figure which indicates that the share of the company are traded very less as compared to market average

## **Capital**

Equity Capital, liabilities (loans, leasing, salaries and wages), financial incentives (eg- social contributions, private use of company's car)

in Rs Crore

Mar '06

Mar '07

Mar '08

Mar '09

Mar '10

## **Total Share Capital**

95. 92

95. 92

95. 92

95. 92

95. 92

## **Equity Share Capital**

95. 92

95. 92

95. 92

95. 92

95. 92

## **Reserves**

526. 36

648. 16

832. 58

998. 55

1, 461. 30

## **Networth**

622. 28

744. 08

928. 5

1, 094. 47

1, 557. 22

### **Secured Loans**

31. 88

66. 9

36. 7

24. 59

25. 59

### **Unsecured Loans**

40. 7

40. 7

40. 7

40. 7

40. 7

### **Total Debt**

72. 58

107. 6

77. 4

65. 29

66. 29

### **Total Liabilities**

694. 86

851. 68

1, 005. 90

1, 159. 76

1, 623. 51

The cost of capital for Asian paints is lesser than KansaiNerolac by nearly 6%, which shows that market has more TRUST in Asian paints.

As the lending rates decrease, Asian paints can further lower its cost of capital by increasing debt usage

As Asian paints diversifies its products and expands its presence in other countries, the difference between the cost of capital for the two companies can increase further

Above numbers indicates that Asian paints is consolidating its position as market leader and has no immediate threat with its nearest competitor.

## **Salient features/Trends**

In case of Asian paints the average tax are more or less equal to the corporate income tax of 33. 99%. This signifies the fact that it is not getting any subsidies from the government.

There is a significant drop in CFO in last years. This can be attributed to two events

- i) Global economic meltdown which had an impact on both construction and automobile business which are the main source of income for the company.
- ii) Increase in the value of oil prices and hence in the price of raw materials for the company which are predominantly petroleum based products.

Considerable increase in Capex in last two years which means that the company is looking for expansion (mostly outside India) which is a good sign for investors.

Excess cash has consistently been used to buy Investments except for last year.

Cash balance has decreased in last two years, which can be due to adverse market conditions and investments purchases.

Indian paint industry is growing

Asian paints is retaining most of its profits which is supposed to pay high dividends in the future

Asian paints is increasingly investing in total assets which should result in higher dividends returns in future.

Asian paints is planning to invest in a plant at Rohtak (India). The plant is located on 130 acres of land and will manufacture both water and solvent based paints; including emulsions and resins. The project cost for the initial 1.5 Lakh KL capacity will be Rs. 400 Crores and the plant is expected to start production by early 2010 (last quarter of year 2009-10).

Capacity increase at Asian paints in last 4 years:

Year

2006

2007

2008

2009

Capacity

241903 KL

282602 KL

316871 KL

354370 KL

Sales



2678 Cr

3244 Cr

3915 Cr

4819 Cr

Expenditure

1967 Cr

2399 Cr

2868 Cr

3708 Cr

Net profit\*(PAT)

187 Cr

272 Cr

375 Cr

362 Cr

The change in the value suggests that Asian paints has decreased its operating leverage/financial/business risk. This is true as company has slowed down its investment in new plants and in new markets for last year or so.

The company share has become little less risky than what it was in last 5 years

One of the reasons for Asianpaints to sustain such low level of debt could be that it wants to increase its flexibility for future Merger & Acquisition opportunity

Asian paints is a cash rich company which has a g