

Analysis of the paint industry



**ASSIGN
BUSTER**

Color has captivated everyone throughout the history, be it myriad cultures, age-groups, occasions, etc. Color has become a significant part of every family. Every age and every region has produced dyes and pigments based on the availability of the resources. The history proves the existence of colors from past thousands of years, discovered in the caves of Southern Europe.

Paint is defined as the group of emulsions, consisting of pigments suspended in a liquid medium, for use as decorative or protective coatings. Today, contemporary paints and coating consist of countless of hundreds of thousands to fulfill the varied requirements of hundreds of thousands of applications." Paint" ranges from the broad group of environmentally sound latex paints that many consumers use to decorate and protect their homes and the translucent coating that line the interior of food homes and the translucent coating that line the interior of food containers, to the chemically complex, multi-component finishes that automobile manufacturers apply on the assembly line. Paint made its earliest appearance about 30, 000 years ago . Cave dwellers used crude paints to leave behind the graphic representations of their lives that even today decorate the walls of their ancient rock dwellings. The utility of paints has evolved from a decorative use to a surface protection use. Also, know as surface coatings, paints can be classified on the basis of end use, solvent system and solid content.

Paint is comprised of three separate things working together. A pigment is used for the color. A binder is used to hold the pigment to the wall. And lastly, a carrier is used to apply the pigment and binder to whatever. There are many types of paint but they all have these components. For white latex

paint, the carrier is de-ionized water, the pigment is very finely ground Titanium dioxide, and the binder is a synthetic polymer that resembles liquid rubber. The pigment and binder are put together with force (grinding) and then the two are slowly dispersed into the water.

Titanium dioxide is the single largest input used in the manufacture of paints. It is a pigment (non-petro-based) that accounts for about 30% of material costs. Phthalic anhydride (PAN) and pentaerythritol (Penta) are the other two important petro-based inputs used in the manufacture of resins. Organic pigments, solvents, oils and a range of chemical additives are also used in the manufacture of paints.

INDIAN PAINT INDUSTRY

The Indian paint industry has come a long way from the days when paints were considered a luxury item. Today the awareness level on preventing corrosion through paints is relatively high, a development that should be a huge boost to the paint industry. The Indian paints industry offers lucrative scope for stable revenue streams to manufacturers of both decorative and industrial paints. The Indian Paints sector is valued at Rs 66 bn in value terms and is very fragmented. The current demand is estimated to be around 650, 000 tonnes per annum and is seasonal in nature. The per capita consumption of paints in India stands at 0. 5-kg p. a. as compared to 1. 6 kg in China and 22 kg in the developed economies. India's share in the world paint market is just 0. 6%.

The typical characteristics of the Indian paints industry include raw material intensiveness, working capital intensiveness, seasonality of demand, price

elasticity of demand and low entry barriers with respect to technology and funds.

Crucial parameters that make India a favorable proposition include the low per capita consumption of paints (1.0 kilogram), growth in construction sector (it is being offered industry status) and growth in the auto/white goods market respectively spurring demand for decorative and industrial paints. The industry has also witnessed increased activity in the industrial variety of paints with the entry of MNCs in auto, consumer durables etc, which has been gaining steadily over decorative paints in the last one decade.

Indian paint industry is century old and the can be retraced by the history of Shalimar paints which was set up in the year 1902 in Kolkata. Till the 2nd World war, industry consisted of small paint producers and 2 foreign companies. Post World War 2, imports were restricted which led to the birth of many domestic manufacturing facilities producing paint. Nevertheless, foreign companies ruled the market. Initially, British paints such as Goodlass Walls (currently famous as Kansai Nerolac), ICI, British Paints (now known as Berger Paints), Jenson Nicholson and Blundell & Eomite dominated the market.

The Indian paint industry has evolved a lot in recent times, both in terms of industry structure and product portfolio. Not long ago, paints were largely considered to be a luxury item. Such a mind-set has changed significantly of late due to the growing awareness on preventing corrosion through paints,

by providing a massive fillip to the paint industry. Indian paints industry is Rs. 15, 000 crore market

Growth drivers for Indian paint industry

Per capita consumption at 1. 5kg is currently very low as compared to the developed countries (20kg/annum). Usage of lime extracts (chuna) in rural and semi-urban markets as well as lesser awareness of the protective attributes of paints can be one of the reasons for lower consumption levels. With growing income levels, both in urban as well as rural India on the back of various government initiatives like NREGS, Farm loan waivers, pay commission led salary hikes etc, the per capita consumption will improve in the medium as well as long term.

Rising income levels:

According to McKinsey, proportion of low income groups was expected to decline from 24% in FY05 to 10% in FY10e, and it has. This has acted as a significant catalyst for demand growth in decorative paints.

Increasing media exposure:

With better awareness levels, a gradual shift from unbranded to branded segment as well as improvement in product mix for various players like Kansai Nerolac, Asian Paints as demand for emulsions continues to outpace enamels and distempers.

Rising urbanisation:

This has led to creation of new homes, in-turn, fuelling incremental demand. Currently, only 28% of Indian population is urban.

Urban Share of total population**Increase in nuclear families:**

This is a consequence of younger demographics (60% of India's population is below 30 years of age), with proportion of working population expected to increase from 40% in FY05 to 48% in FY15e.

% of population in 15-64 age group**Healthy growth in consumption levels expected for both, urban and rural India****Growth in Auto Sector**

With production of passenger cars expected to grow, demand for automotive paints will continue to remain healthy as sales are expected to grow in double-digits. And with realty majors launching new projects, construction activity is expected to gain momentum and generate demand for decorative paints. Globally, the industrial paints segment accounts for a major share, indicating that this segment offers many opportunities for paint manufacturers.

Growth in Auto Segments (FY06-10)**The emerging trends in the decorative industry are:**

- Consumers are increasingly involved in making purchase decisions.
- Consumers expect better and more relevant functional benefits from paints.
- Emulsion paints are outgrowing the industry growth rate.
- Trend of dark shades complementing light shades continues.
- Tinting systems at store level are the order of the day.

- Companies are getting more consumer-centric and a lot of value-added services are being offered, like application support, colour consultancy etc.
- Strong growth in the Indian powder coatings segment, as new applications and their advantages are discovered
- Greater interest in water-based coatings technology while awareness of VOCs and legislation increases.

3. INDUSTRY SEGMENTATION

The paint industry can be segmented as follows:

1. End Usage classification: Paints are grouped in either decorative or industrial paints. Decorative paints are used for household and construction purposes while latter can be used for industrial products. Decorative Paints consists of myriad types like enamels, acrylic emulsions, distempers and exterior paints. Industrial ones include the marine, anti corrosive metal coatings, etc.
2. Solvent Based classification: Paints which use petro products or water as main solvents. These days water based paints are becoming popular on environment friendliness.
3. Solid Content: Classified based on type i. e. liquid or solid. Powder coatings find application mainly in white goods industry.

The Indian paint industry has surprisingly only private manufacturing units. This can be reasoned by the fact that in the past, government perceived paints as luxury product and hence taxed heavily, thus regulating the industry to a non-core business.

Sector wise Division

Classification of paint industry can be done either product-wise or sector-wise. Sector-wise implies organised and unorganized sectors. The pie chart indicates the same.

Organized Sector is dominated by 6 large players and the unorganized sectors owned by about 2500 units manufacturing various categories of paints. Though the organized sector controls 65% of paint market, unorganized sector with 35% of market share is still a force to reckon with.

Organized sector can itself be divided into 2 distinct segments (Product wise): Industrial segment which is growing at 15% approximately and decorative segment which is growing at 8% approximately. As shown in the graph, most of sales are accounted for primarily by decorative segment. Decorative segment enjoys almost 77% and industrial segment owns 23% of the market.

Organised Market Segment Division

Decorative Segment

It caters to the housing sector. The following falls under decorative segment.

- Acrylic Emulsions: Premium decorative paints are acrylic emulsions used mostly in the metros.
- Enamels: The medium range consists of enamels, popular in smaller cities and towns. Used on substrates like steel, wood, concrete, etc.
- Cement paints: Used for exterior purposes

- Distempers are economy products demanded in the suburban and rural markets. Nearly 20 per cent of all decorative paints sold in India are distempers.

Industrial Segment

Industrial Paints include powder coatings, high performance coatings and automotive and marine paints Two-thirds of the industrial paints produced in the country are automotive paints.

Structure of Paint Industry

4. MARKET PROFILE

The leaders in the organized paint industry are Asian Paints (India) Ltd. (APIL), Goodlass Nerolac Paints Ltd. (GNPL), Berger Paints, Jenson & Nicholson Ltd. (J&N) and ICI (India) Ltd.

“ Asian paints” is the industry leader with an overall market share of 33 per cent in the organized paint market. It has the largest distribution network among the players and its aggressive marketing has earned it strong brand equity. The Berger Group and ICI share the second slot in the industry with market shares of 17 per cent each. GNPL has a market share of 15 percent in the organized sector.

APIL dominates the decorative segment with a 38 per cent market share. The company has more than 15, 000 retail outlets and its brands Tractor, Apcolite, Utsav, Apex and Aceare entrenched in the market. GNPL, the number-two in the decorative segment, with a 14 per cent market share too, has now increased its distribution network to 11, 000 outlets to compete with APIL effectively. Berger and ICI have 9 per cent and 8 per cent shares

respectively in this segment followed by J&N and Shalimar with 1 and 6 per cent shares.

GNPL dominates the industrial paints segment with 41 per cent market share. It has a lion's share of 70 per cent in the OEM passenger car segment, 40 per cent share of two wheeler OEM market and 20 per cent of commercial vehicle OEM market. The company is also venturing into new areas like painting of plastic, coil coatings and cans. APIL, the leader in decorative paints, ranks a poor second after Goodlass Nerolac in the industrial segment with a 15 per cent market share. Berger and ICI are the other players in the sector with 10 per cent and 9 per cent shares respectively. Shalimar too, has an 8 per cent share.

Asian Paints enjoys leadership position in the Indian Paints industry, with nearly 55% share of the organized segment.

Major Market Player

5. COMPANY PROFILE

Incorporated in 1920, Kansai Nerolac Paints Limited (KNPL) is the second-largest coating company in India. It is a subsidiary of Kansai Paints, a Japanese company, which holds approximately 69.3% stake. KNPL operates in the decorative as well as the industrial paints segments, and is the market leader in automotive and powder coating segments. It manufactures decorative paints, automotive coatings, general industrial coatings, high performance coatings, powder coatings and speciality coatings.

Its manufacturing plants are located at Ratnagiri (Maharashtra), Kanpur Dehat (Uttar Pradesh), Perungudi and Hosur (Tamil Nadu) and Bawal (Haryana). Its employee strength is approximately 2, 000.

The company has a strong distribution network of ~12, 000 distributors, 5, 000 colour tinting machines and 69 sales locations, as of FY10. The installed capacity for various products as of FY10 is: Paints, varnishes, enamels and powder coatings 2. 08 million tonnes (MT), Synthetic resins 79, 380 tonnes and pre-treatment chemicals 2, 400 tonnes. Exports contributed less than 1% of FY10 revenues. The proximity of the company's plants to the customers' plant locations offers KNPL a strong logistical advantage.

Kansai Nerolac Paints Ltd. is a cognized leader in chosen fields. The company has won many prestigious awards such as National Energy Conservation Award from the Ministry of Power, Government of India for its Jainpur plant, the Golden Peacock Award for Corporate Governance in 2005, the Business Innovator of the year award in 2006 from the CTO Forum Magazine and Best Managed Company award from Business Today in 2004.

History

It is the second largest coating company in India and market leader in Industrial Coatings. Its Industrial Coatings has a wide range of products in the Automotive, Powder, General Industrial and High performance Coatings space. Nerolac paints, as it is popularly known, are an established brand in decorative paints.

Kansai Nerolac Paints Ltd is a subsidiary of Japan based Kansai Paint Company Limited, which is one of the top ten coating companies in the

world. The technological edge of Kansai helps us constantly innovate and come up with products that meet consumer need gaps. Kansai Nerolac has always believed that the key to its business is:

- Technology
- Research & Development
- Innovations
- Quality

Year 1920, a paint company was born as Gahagan Paints and Varnish Co. Ltd. in Mumbai. The journey is marked by moving from strength to strength in every sphere of business – be it product introductions through innovation, value engineering and superior technology.

1920: A company named as Gahagan Paints and Varnish Co. Ltd at Lower Parel in Mumbai, was born.

1957: Goodlass Wall Pvt. Ltd grew popular as Goodlass Nerolac Paints (Pvt) Ltd. Also, it went public in the same year and established itself as Goodlass Nerolac Paints Ltd.

1976: Goodlass Nerolac Paints Ltd. became a part of the Tata Forbes Group on acquisition of a part of the foreign shareholdings by Forbes Gokak.

1983: Goodlass Nerolac Paints Ltd. Strengthened itself by entering in technical collaboration agreements with Kansai Paint Co. Ltd, Japan and Nihon Tokushu Tokyo Co. Ltd, Japan.

1999: Kansai Paint Co. Ltd, Japan took over the entire stake of Tata Forbes group and thus GNP became wholly owned subsidiary of Kansai Paint Company Ltd.

2006: On the 11th of July, Goodlass Paints Ltd. name was changed to Kansai Nerolac Paints Ltd.

KEY HIGHLIGHTS

Capacity expansion n plans

KNPL's most recent capacity addition was a new plant at Hosur, which commenced operations in the last quarter of FY10 with a capacity of ~15,000 tonnes. The company plans to spend another ~Rs 2.5 billion (bn) to expand manufacturing capacity at Hosur to 0.28 million (mn) tonnes per annum. A further Rs 1.5 bn will be spent on increasing production capacity in other plants, taking total cost to Rs 4 bn

Strategic Alliances

Nerolac has developed strong relationships with automakers, such as Maruti, which facilitates it in maintaining its market leadership position in the industrial paint segment. Nerolac's parent company Kansai is a global supplier of paints to Suzuki – Maruti's parent company – which further strengthens the relationship. Nerolac has also taken initiatives to strengthen its existing relationship with automakers, which include placing technical teams at automakers' paint shops to provide them with services. Such initiatives have proved to be fruitful, and Nerolac has 9 out of 11 automakers as its customers. The other major a well-established client base from the automotive industry includes Tata Motors, Bajaj Auto, Ashok Leyland, Mahindra & Mahindra, etc

Targeting Rural Market

Nerolac has stepped up its efforts to increase its presence in the rural market. The company has introduced some products, such as Beauty Emulsions in the range of 80-100 rupees per litre, which cater to the price-sensitive market. It has also formed an alliance with ITC on its E-Chaupal initiative to improve its presence in the rural market. The company is also making efforts to strengthen its dealer network to improve sales.

6. KANSAI NEROLAC – MARKETING PROFILE

Marketing Strategies

Marketing defines the fact that “ Customer is King” and always every management strives to identify, anticipate and satisfy their Kings’

Kansai Nerolac is the organization which works on this aspect and it’s been one of the pillars behind building a successful organization. Nerolac believes that the key strength lies in understanding the consumers and communicating with them in a language they understand and relate to the best. Over the years, Nerolac has undertaken many initiatives, which have met with unprecedented success and really made people sit up and take notice of the same.

6. 1. Brand -Nerolac

Nerolac commercials have been well -loved over the years and its jingle – ‘ Jab ghar ki raunaq badhaani ho...’ is now a familiar tune in every Indian household. Many set the same jingle as their caller-tunes.

Beginning with the introduction of the new Brush stroke logo, this stands for the ‘ process of painting, depicts motion, dynamism and progress through

change. The signal red color, which is the color of Nerolac, is a symbol of eternal joy and hope. It has now become an integral part of Nerolac’s brand identity and now appears as a sign-off on any kind of communication.

The Slogan of Brand Nerolac: “ Kuch Change Kare Chalo Paint Kare”

Brand Ambassadors: Presently, Shah Rukh Khan, internationally famed Bollywood hero endorses Kansai Nerolac and has proved to give the brand a touch of glamour and the hope that a famous face will provide added appeal and name recognition in a crowded market. The famous Bollywood celebrity being the co-owner of IPL -Kolkata Knight Riders team is indeed a popular ambassador to the recall value of the brand.

Previously Mr. Amitabh Bachhan and Mr. Mohanlal were the brand Ambassadors. Amitabh had embodied Nerolac and had showed “ how it touches the lives and dreams of people...no matter whom they are and where they come from”. The essence of this thought was captured in the new baseline ‘ Yeh Rang hain jo har kisi ko chhoota hain’.

6. 2. Product Range (Decorative segment)

Paints	Interior Range	Exterior Range	Enamels
Primer	Marble Finish	Ever last	Impressio
(Impressio			ns High
ns)	Metallic Finish	Excel Total	Performan
	Disney	Excel AntiPeel	ce
	24 Carat		

Impressions – Eco-clean : Ultra luxury

Emulsion(odorless) – Low VOC

		Flexi		
				Satin
		Premiu		Enamel
	Beauty	m	Advance	
	Emulsio		d, and	
	n	Silver	Plus	Synthetic
		Smoot		Enamel
Popular		h finish	Suraks	
			ha	
		Acrylic		
		Oil		
	Beauty	Bound	Superior	Pearl
	Distemp		Protectio	Luster
	er	Premiu	n	Finish
		m		
		Acrylic		

Wood coatings include: Wonder wood 2k PU, Wonder wood melamine crystal Clear, Wonder wood melamine and Wonder wood 1 KPU.

6. 3. Segmentation

Market segmentation represents an effort to increase a company’s targeting precision.

All businesses operate in “ markets” . A market is the set of all actual and potential buyers of a product or service. This definition suggests that a market is the total value and/or volume of products that satisfy the same customer need.

In defining a market, it is important not to focus only on products/services that currently meet the customer need. Thinking about customer needs first – and then identifying the products that meet those needs – is the best way to define a market.

However, it is also important not to define a market too broadly. For example, it is not particularly helpful for a marketing manager to define his or her market as the “ food market” or the “ transport market”. The purpose of market definition is to provide a meaningful framework for analysis and decision-making.

Bases of segmentation

It is widely thought in marketing that than segmentation is an art, not a science.

The key task is to find the variable, or variables that split the market into actionable segments. There are two types of segmentation variables:

1. Needs
2. Profilers

The basic criteria for segmenting a market are customer needs. To find the needs of customers in a market, it is necessary to undertake market research.

Profilers are the descriptive, measurable customer characteristics (such as location, age, nationality, gender, income) that can be used to inform a segmentation exercise.

The most common profilers used in customer segmentation include the following:

Geographic

- Region of the country
- Urban or rural

Demographic

- Age, sex, family size
- Income, occupation, education
- Religion, race, nationality

Psychographic

- Social class: Premium, Middle Upper Class and also Lower Class
- Lifestyle type
- Personality type

Behavioural

- Product usage – e. g. light, medium , heavy users
- Brand loyalty: none, medium, high
- Type of user (e. g. with meals, special occasions)

Demographic segmentation

Demographic segmentation consists of dividing the market into groups based on variables such as age, gender family size, income, occupation, education, religion, race and nationality.

Customer wants are closely linked to variables such as income and age.

Company Kansai Nerolac Paints has manufactured paints as per customers' requirements and the products are described above.

The main demographic segmentation variables used in this are summarized below:

Income

Kansai Nerolac has targeted affluent customers with luxury products like the impressions. Various convenience services as previously mentioned are introduced for the ease of customers. Economy range products are being developed by the company and would be introduced soon in the market. Premium class impression products for children based of their interests on sports, cartoons are produced and company extends in paintings services with its well equipped painters.

Social class

Many Marketers believe that a consumers “ perceived” social class influences their preferences for cars, clothes, home furnishings, leisure activities and other products & services. There is a clear link here with income-based segmentation.

Age & Lifestyle

The cultural dominance in India is targeted and paints based on Vastu are carried on to pull in prosperities with paints. Kansai Nerolac provides this with established vastu veterans and help the customers. It also works on splendid work as per the ambience with various methods like 30-60-90.

Marketers are increasingly interested in the effect of consumer “lifestyles” on demand. There are many different lifestyle categorisation systems, many of them designed by advertising and marketing agencies as a way of winning new marketing clients and campaigns!

Behavioral segmentation

Behavioural segmentation divides customers into groups based on the way they respond to, use or know of a product.

Behavioural segments can group consumers in terms of:

Occasions

When a product is consumed or purchased. Nerolac Paints launches new products near the festive seasons and promotions during those times relate to the festivals giving a slice of life touch. Plus offer varied schemes based on different occasions namely Valentine day offers, F1 fever, IPL dhamaka, etc.

Usage

Some markets can be segmented into light, medium and heavy user groups.

Loyalty

Loyal consumers - those who buy one brand all or most of the time - are valuable customers. Many companies try to segment their markets into those where loyal customers can be found and retained compared with segments where customers rarely display any product loyalty.

Importance of Segmentation:

There are several important reasons why businesses should attempt to segment their markets carefully. These are summarised below

Better matching of customer needs

Customer needs differ. Creating separate offers for each segment makes sense and provides customers with a better solution

Enhanced profits for business

Customers have different disposable income. They are, therefore, different in how sensitive they are to price. By segmenting markets, businesses can raise average prices and subsequently enhance profits. Product segmentation of Nerolac Paints has enabled each segment of the society to relate to a product within the income range.

Better opportunities for growth

Market segmentation can build sales. For example, customers can be encouraged to "trade-up" after being introduced to a particular product with an introductory, lower-priced product.

Retain more customers

Customer circumstances change, for example they grow older, form families, change jobs or get promoted, change their buying patterns. By marketing products that appeal to customers at different stages of their life (“ life-cycle”), a business can retain customers who might otherwise switch to competing products and brands.

Target marketing communications

Businesses need to deliver their marketing message to a relevant customer audience. If the target market is too broad, there is a strong risk that (1) the key customers are missed and (2) the cost of communicating to customers becomes too high / unprofitable. By segmenting markets, the target customer can be reached more often and at lower cost. Advertisements relating to different paints of Nerolac Paints are on air each signifying a different target market, a different aspect of life.

Gain share of the market segment

Nerolac Paints is the market leader in the industrial market and gains due to economies of scale. Through careful segmentation and targeting, businesses can often achieve competitive production and marketing costs and become the preferred choice of customers and distributors.

6. 4 Promotional Activities.

a) Advertising:

Kansai Nerolac made a beeline to cricket fever by advertising and booking ad spots on Set Max, the sub continental broadcaster for the IPL matches this summer, for IPL 4.

The company has launched ' Healthy Home Range of Paints' that are safer lead free, odour free, low VOC (VolatileOrganic Compound) and eco-friendly. The brand ambassador endorses a wide range of advancedeco-friendlyproducts in the TV, print and outdoor commercials.

The same ads have been telecasted in Chennai (Sun Network) in the regional language - Tamil in order to remind and recall the brand value of Kansai Nerolac.

Television campaign with Irfan Khan and Konkana Sen for Nerolac Impressions was done on popular channels of West Bengal. The campaign was redone to help build the brand saliency during this period.

There were various other campaigns endorsed by Amitabh Bachhan which proved to be runaway success to name one -" Har Din Diwali " a promotional campaign aimed at the customer.

b) Public Relations

Kansai Nerolac has always been in the fore front for Public Relations, be it marketing or corporate relations. Kansai Nerolac was the first to initiate the dealers meet and painters' meet. It comes up with new product launch activity also.

Corporate relations include the famous Mumbai Marathon (17th Jan 2010) which carried an anti smoking message, with a logo on their T-shirts.

As part of corporate social responsibility, Nerolac has been conducting health camps for needy people every year.

c) Sales Promotions

This includes the dealers meet and painters meet which help regularly to build up a good rapport with the dealers and painters. Promotional offers and schemes with gifts acts as the major sales promotional methods followed by Kansai Nerolac. Incentives to painters include the token exchanges. Foreign trips are also provided for the dealers who qualify in the promotional scheme parameters. Distribution of T-shirts and caps to the paints are also done.

d) Other Services

“ Nerolac Assured Paint Service”: Designed to bring the Nerolac experience right to the consumers’ doorstep, is the service launched by Nerolac. Currently available in Mumbai, consumers can now relax while the Nerolac team takes over the entire paint job right from sourcing to execution. On consumer friendliness platter, the shade cards have been redesigned. The new look shade cards are not only eye catching and consistent in appearance but also try to make the process of shade selection for the consumer lot more interesting and convenient. Nerolac Home Stylers provides profession