

Strategic Marketing - Contemporary Issues
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Lecture – 14

In the last few sessions, we have looked at the process of identifying market opportunities, the process of qualifying those market opportunities in terms of current position, future growth opportunity, competitive intensity and several other factors. We have then also looked at different frameworks matrices, how we can evaluate these opportunities? Classify them and having chosen 2 or 3 opportunities, the process of targeting those opportunities, creating the value bundle, positioning them for winning those opportunities. We have also looked at the analysis of competitors, analysis of industry life cycle position, product life cycle position, and taking all of that into consideration to decide upon the marketing mix, and other components of the marketing strategy.

We have also looked briefly at how customers, particularly consumers in the business to consumer market or B to C market as we call it, how they make their buying decision. And therefore, how we can strategies to make it easy to make it pleasant convenient for the customer to acquire our products or services. In this session I have planned to take up a case study present to you some scenarios, some history and some present perspective in a particular industry segment quite well-known to you. It is an industry segment where you should be able to gather good market intelligence from your local market. And lot of published material is available for your secondary market research.

So, this is an industry, you are quite familiar with as I mentioned you should be able to get primary data from your own city town location as well as you should be able to get enough published material on the internet to do some secondary research for deeper understanding. And if you search through the websites of the business magazines; you will be able to find lots of reports in this.

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So, this is the paint industry in India, first of all in this industry we know 70 percent of the industry. So, first set of data that we have tells us that this industry the paint industry in India 70 percent is in the organized sector. And this is the sector that we will be looking at, because the unorganized 30 percent sector we may not have enough information to do our case analysis. In the year 2000, we are starting with a historical background in the year 2000, this industry the organized sector was divided in two parts, major areas decorative that is which is used for interior finish off building rooms etcetera, that accounted for 70 percent.

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And the 30 percent was the industrial use automotive special purpose industrial applications, anti corrosion applications and marine applications, another big area. Worldwide, this ratio actually is not 30 70, but about 50 50. And so we expected at that point of time that the industrial growth will be faster the industrial demand for paints will grow faster. And so over the next 5 years it was expected to reach that that international level a 50 50.

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At that stage, in the year 2000 this was the competitive scenario Asian paints was the dominant player with 33 percent market share, remember this is 33 percent of the 70 percent of the organized market. And then followed by Nerolac at 18 percent, Berger paints at that stage at 14 percent, ICI 11 percent and Jenson and Nicholson at 6 percent. The total market was about 2300 to 2500 Crores, at that stage. So, Asian paints was at 700 Crores in the year 2000, they had excellent distribution, they had been quite innovative in creating new markets.

Many of you may be aware of the interesting work they did by developing many rural applications like for example; they created that famous chota dabba for paint which was quite popular in the rural market for painting the horns of bullocks, used for ploughing or house on festive occasion's descent a small example of their innovativeness. They had good management and decorative paint incidentally can again be subdivided in types like

high end acrylic emulsion paint, sometimes called plastic paint. And then we had of course, the enamel paint and the distemper range.

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Just the kind of low end and as you can imagine that the high end acrylic emulsion. The main market was in the metros for high grade residential projects and the medium range which is the, so called enamel paint. The market was mainly in the tier 2 cities, but this is this are broad generalization; obviously, in a tier 2 city like Kanpur, there will be or in Lucknow, there will be many people who will be quite capable of affording the highest level most sophisticated paint available. But generally distemper was linked to low end housing middle class, lower middle class housing, the enamel was middle class, and the acrylic high finish paint was targeted towards the affluent customers. The industrial segment which accounted for 30 percent at that point of time would again be subdivided almost 66 65 66 percent was for automotive and the balance 35 percent or so was in other applications like marine or special purpose industrial applications that we discussed.

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PLAYERS - ICI PLC., UK

- **\$15 BN, Diversified, ICI India - ₹ 200 Crores**
- **Strengths**
 - Financial, Industrial Paints
- **ICI India**
 - Paints 43% of sales - thrust area!
 - 'The 10 X Plan'

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Now, something interesting happened in 2000, if you dig through the business magazine, you will find interesting stories on this that at that point of time, ICI which was a British company, a global player very large company 15 Billion Dollar at that stage. But their Indian business was small 200 Crores as opposed to the 700 Crores of Asian paints, But they wanted to purchase at that stage Asian paints, ICI made an effort, and because they decided that paint will be their thrust area. And they wanted to grow 10 times over the next period of planning. And they want it one of that steps they wanted to it was acquire Asian paints.

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MARKET SNAPSHOT - 2010

- **Market Growth of about ₹1000-₹2000 Crore per year over next 5 years**
- **Per capita consumption of paint in India is 800-900 grams compared to 15-25 kg in the developed countries**
- **Growth rate in the Organized sector expected to be 15 – 17% per annum**
- **Bin Housing sector to fill demand for over 30 million new homes.**

₹2 billion Indian Paint Industry

Sector	Value	Percentage
Organized Sector	\$1.2 billion	70%
Unorganized Sector	\$0.6 billion	30%

Source: HDFC Securities Analyst Report

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It did not happen; why it did not happen? That is more with respect to financial valuation merge as an acquisition strategies which companies adopt to protect themselves against hostile takeover. And all that is not exactly what we will be looking? We will be looking at that that was the market.

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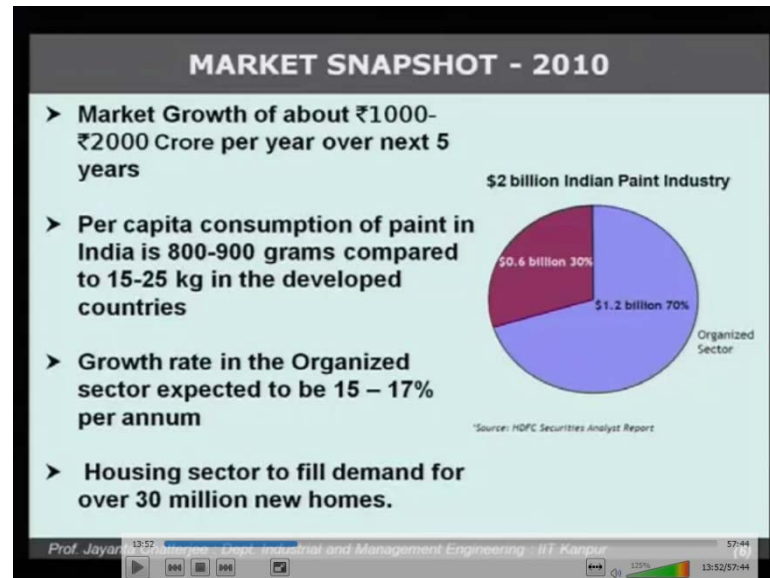
Where we had a dominant position for Asian paints, 33 percent market share? The market itself was about 700 Crores for industrial and decorative for 1600 Crore.

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So, this 2300 to 2500 Crore market in the year 2000 we find that in 2010 the market has reached from that scenario in 2000 an excellent position, the market was growing at the rate of thousand to 2000 Crores per year.

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For example, I can look at the net sales of the different competitors in 2011, the Asian paints, the net sales was 6607 Crores, and they were projected to grow at the rate of 22 percent. So, as you can see here, that we were looking at one company growing at the rate of about 132 to 135 Crores per year. An Asian paints was doing as market leader pretty well, because against their 6607 these are all taken from their annual reports against their 6607.2 Crore sales, their net profit in the financial year 2000 was 773.55 more than 10 percent which is quite excellent in a consumer focused industry. The other people were also doing quite well, Nerolac at 2266.2 Crore of annual revenue was projecting to grow at the rate of 15 percent cumulative, annual average growth rate against there are 2266 Crore revenue, their net profit in 2011 was 186.52, Bergers paints was 2096 was quite close to the Nerolac.

So, you see the relevant the market positions had changed, because this was the market position where Berger was at 14 percent against at Nerolac's 18 percent over the 10 years period that we are looking at Nerolac at that time had become Kansai Nerolac with and Berger has closed up the gap. So, in 2011 against Nerolacs 2266, Berger was at 2096 with 184 Crore of a net profit at. So, noble which actually had acquired some businesses

here, was quite far behind 1087, not even a very significant player with 121 Crore of net profit.

Shalimar paints, small player 404 with revenue with 13 percent growth rate projection 11 Crore of profit. So, as you see that if you add up I will repeat the FY11 result which is even better. Then these results that you see on your screen for 2010, I just gathered this data this morning that at the end of financially year 11, that means as on 31st march 2011 about we had Asian paints at 6607 Crores projecting to grow at 22 percent Kansai Nerolac at 22 66.2 Crore, 2200 66 Crore planning to grow at 15 percent annual average growth rate, Berger paints close to Nerolac 2096.2 at 16 percent projected growth rate.

So, the top three players were projecting to grow at 15 percent to 22 percent. And so the market was you can see overall the organised sector. One can say that was planning to grow at 15 to 17 percent per annum. There was a surge of demand from the housing sector and construction activity all over India. And as a result in 2000, it was expected that 70 percent domestic or housing sector and 30 percent industrial sector, that demand pattern will change to 50 50 pattern prevalent in other parts of the world.

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MARKET POTENTIAL

- **Boom in Indian Housing Sector:**
 - Increasing urbanization, cheaper housing loans and a shift from semi-permanent to permanent housing structures have been driving growth in decorative paints segment, which constitutes 70% of the ₹ 10,000 Crore paint industry in India
- **Strong Industrial growth:**
 - An average growth of about 10% in the automobile sector which provides 50% of the revenues in the industrial paints segment. Industrial paints account for 30% of the paint industry revenue in India
- **Heavy Infrastructure Spending:**
 - New projects in roads, ports and industrial segments increases revenues from protective coatings for civil applications and road-marking paints to all parts of the building paints sector, whether interior, exterior, waterproofing or floor coatings.

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But 10 years later, the housing sector or the decorative segment as we also call it, was still quite dominant, almost at the same level of 70 percent. So, the market potential for that 70 percent segment was very good, because of the boom in the Indian housing

sector, and also, because of the heavy infrastructural painting. The infrastructure painting attracts both the industrial type of inside as well as the decorative type of paints.

So, if you look at bridges and flyovers and construction of metro and such activities, you will see that there are both types of demand coming from there will be industrial type of paints needed for the structures, for the exposed metal structures. And there will be decorative paints needed for internal say of a metro station and so on and so forth. But net situation was, the decorative paint market was still dominant 70 percent 30 percent industrial.

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MARKET POTENTIAL

- **Increase in manufacturing activities:**
 - Over 40% of the industrial sector takes the form of OEM finishes, which is expected to grow steadily as a result of increasing demand for consumer goods in India as well as India's position now as a leading manufacturing hub for the supply of goods to the southeast Asian and other world markets
- **Less Seasonality :**
 - About 65 per cent of the demand for decorative paints stems from repainting. Rising aspirational levels, Shift in the perception of paints as having a protective value rather than a mere decorative have diminished the impact of seasonality
- **Rise in Income :**
 - Lifestyle based spending by Indian middle class is helping decorative segment of this industry. Contemporary wood finish formulations are replacing the more traditional lacs and exterior emulsions take over from cement paints..

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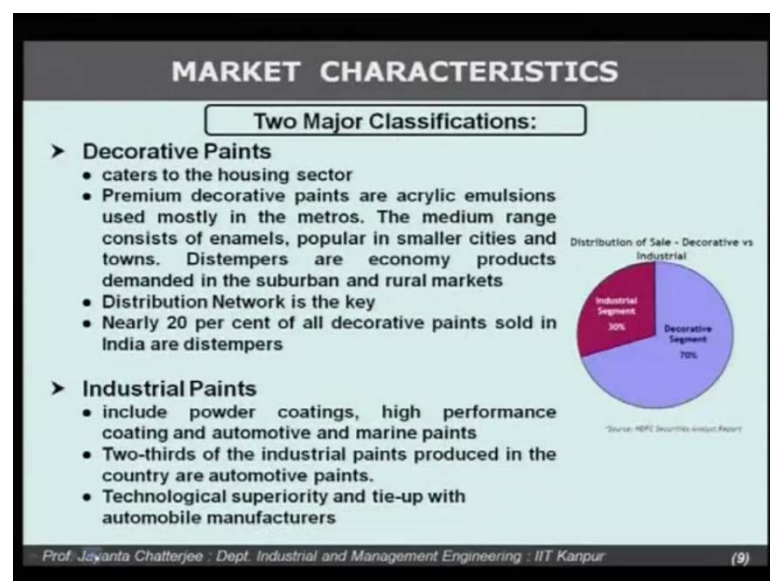
Some forecast from the industry is that the increasing manufacturing activity was going to again the projection that there will be a high level of growth in the industry sector. And there were few interesting observations from the decorative sector, that they were more aspirational buyers that mean people trying to improve their own environment more and more. So, there was a faster rise in demand for repainting sector that means people replacing their lower end distemper or enamel paints, with the acrylic paints, the washable paints and so called plastic emulsion paints and so on.

And similarly, it was seen that there was a market was getting upgraded there was a slower growth in the distemper or the low end paint market, and another interesting thing the industry innovated was the focus on exterior paints of buildings, because previously most Indian buildings paid not too much attention to the exterior paints. It usually was

just some paint mixed with the cement structure, and decorative paint outside the building was not a major segment. But when we are looking at 2011, 2012 situation that has changed, that can be easily perceived from the market promotion of the different players. If you look at the TV ads, if you look at the ads in print media, if you look at even ads popping up on your internet during your internet surfing, they will mainly relate to internal high end decorative painting, where painting a wall is often being compared with the even creating an art work it is being highly related to lifestyle, to mood setting, to making your home, a more desirable environment for even making an romantic proposal compare to the traditional settings.

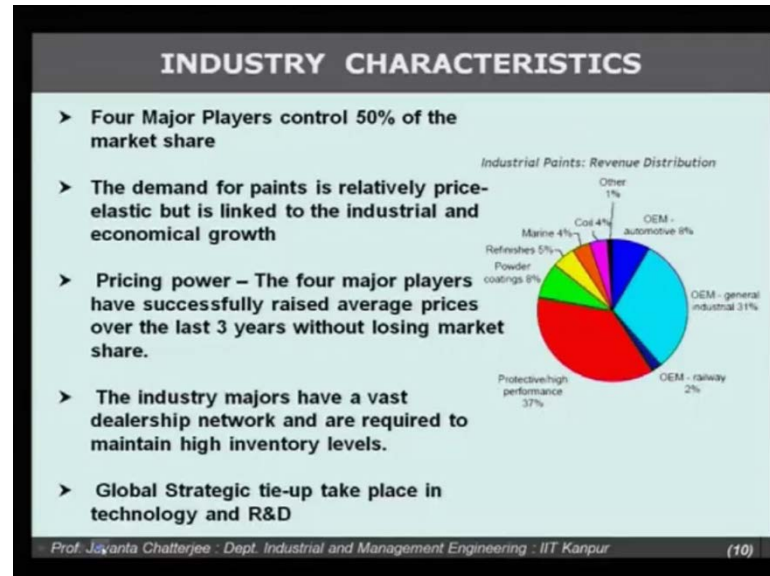
So, home improvement, aspirational sector is being addressed quite heavily in the current promotional campaigns of the paint industry. In the same way the exterior paint is another very segment getting a lot of attention from the industry players. Now, if you therefore, take these activities that the rise in income and its impact, when to do this case analysis or build your scenario analysis, you should relate to the frameworks. And the tools that we have discussed in the earlier sessions, how to look at changing trajectory of consumer preference, how to understand the consumers income disposable, income related buying behaviour and so on. The lifestyle impact on buying behaviour, and you should use those frameworks to build your own projection in this scenario.

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So, market characteristics remain focused on those two major classifications decorative and industrial. We are summarizing here all the different usages.

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Four major players as I read out to you, Asian paints, Kansai Nerolac, Berger paints and Akzo Nobel still control the most of the market, and paint the demand for paint as you have seen is relatively inelastic. That means the economy is going up and down, their economy had quite a shock during the financial year of 2008 2009 nine. But the growth rate of the paint industry was quite healthy, as we saw that what was the size of the industry in 10 years back has now become the annual growth rate almost. But of course, it still is related to the industrial growth rate at the growth rate of the housing industry, the real estate industry, the spending power disposable income in the hands of customers for discretionary at the expenditure.

But relatively the paint industry is inelastic to seasonal or periodic variation. The industry has done well with respect to some of the marketing mix elements like distribution the place. Even packaging, there has been lot of interesting innovation there was a problem earlier of forecasting that which kind of paint, what shade earlier there used to be pure house painter or your architect will come with shade card. But today sufficient technological innovation makes it possible that a large variety of shades can be created at the dealers' outlet.

They have been provided with the where we call to mix and match different basic colours to create a unique combination that you would like. So, the variations the variants available on the shade cards have multiplied many fold, that again has scattered very well to the repainting growth segment of this industry.

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GROWTH OPPORTUNITIES – YOUR PLAN

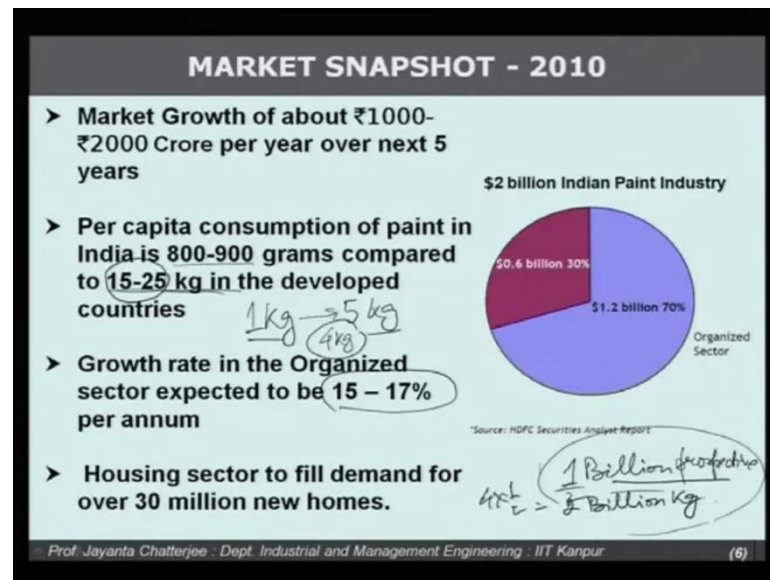
- Over the next few years, the ratio of industrial paints to decorative paints is expected to be 50:50, more in line with the global trend. Currently it is 30:70. With the decorative segment bottoming out, companies are increasingly focusing on industrial paints
- Demand for paints from new housing is expected to constitute approximately 30 percent of total demand; the rest comes in from repainting, mainly after the monsoon rains and before the festive season. This is a function of disposable income, so improvement in rural incomes will boost the growth in the paint sector. Lending institutions continue to make it easier for a consumer to gather up the finances needed to buy homes
- Within the decorative coatings segment, considerable growth is being observed in the exterior coatings segment. Paint manufacturers have launched premium products in this category which are doing well due to superior quality and durability.

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So, these are the growth opportunities on which you should base your marketing plan. Now, you can approach this exercise in two ways; a you can assume that you are the marketing manager, the marketing strategist for Shalimar paints which is the smallest player based on financially year 2011 that means their revenue was 404 Crores. And their nearest rival Akzo Nobel had almost two and half times of that which was 1087 Crore and the market leader had 6607 Crores.

So, Shalimar paints a small niche player what should be? How do you develop the strategic marketing plan for Shalimar paints? The other way you can approach this exercises is you can assume that you are a global player strong in European or American market. And you are planning to come into the Indian market, that is an entrenched strong competition with a doubt, Asian paint a very strong local competition, Akzo Nobel or Kansai Nerolac global players. You have the growth opportunities in front of you the market is still 70 percent in decorative and 30 percent in industrial.

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And another significant factor that in front of you is that this market is far from saturated, because we had this interesting statistics here that per capita consumption of paint in India is only 800 to 900 grams less than a kilogram, compared to the developed world, where per capita consumption is about 15 to 25 kilogram. So if you consider that in India we have say about, let us take say one Billion a maybe half a billion prospective customers. Use the chain ratio method that we discussed in the previous discussion to understand that what is therefore, the growth opportunity. Today the per capita consumption is 1 kg, even if we are taking only half of the less than half of the Indian population. Even taking these half billion people and instead of 15 to 25 kg of global consumption level, even if we see, we are just looking at 5 1 kg to 5 kg are just to make it a little easier. It is supposed to be 6 kg or I think not that I think the 5 would be a better one option to.

So, today's consumption is at the level of 1 kg the, it can grow to 5 kg per capita. Therefore, 4 kg per capita is the growth opportunity multiplied by half a billion; you are looking at 4 into. So, 2 Billion kg of paints is a growth opportunity, it do not happen over 1 year but even if we take 5 years, this is huge opportunity for growth. So, the market growth opportunities there, you have the data with respect to the different players. You have the data with respect to the market composition, and in one segment like the industry segment we even have some finer usage data.

Based on this, you have to develop a plan as I said, you can develop that plan on behalf of Shalimar paints or you can develop that plan as a new entrant into this market growth opportunities are there. You can also use some of the other concepts like Porter's 5 forces analysis, the, where we had supplier power, buyer power, power substitution, threat of substitution and new entry barrier or new entry. So, here you can see; one can say the supplier power is medium, because the main ingredients for paint like pigments or different petrochemical products are quite. There are number of suppliers in the local market.

So, one can say that the supplier power is medium, low to medium. The threat of new entry is again somewhat medium there are many companies around the world where interested, because of this fantastic growth opportunity and the very impressive performance over the last 10 years of this industry. The availability of substitution that means something that will replace paint material, where paint will no longer be needed. That is kind of it is still the almost a science fiction rather than science fact at this stage.

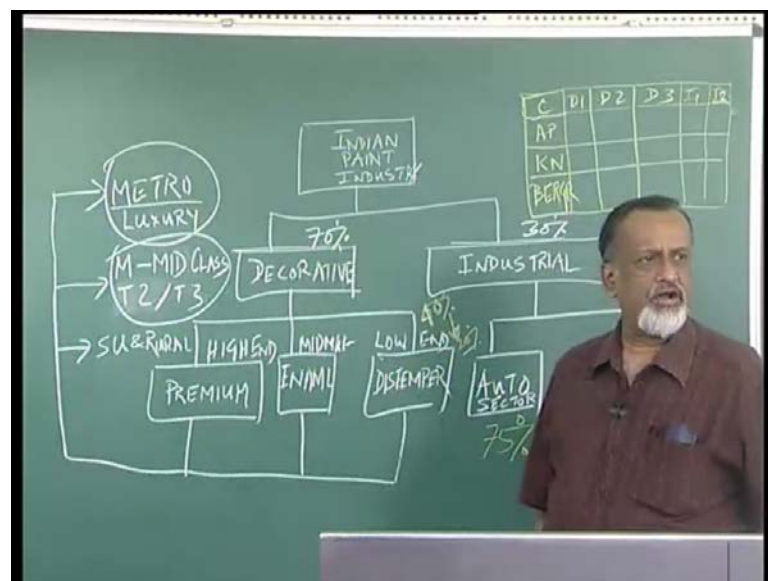
So I would say, the threat of substitution will be low in some segment, it could become a medium, because some of the industrial usages materials are coming up which are they needed, not that much of painting, because the various basements and multiple coatings those needs are getting eliminated, because of the material improvement. So, the substitution threat will be say low or medium and so on. But of course, one power is of the five forces; one force which is the buyer power, that is highly enhanced at this stage, because there are at least 5, 4 5 major players. All of them are regularly innovating coming up with solutions with paint exterior paints which promise to keep the insight cool paint that enhances the energy efficiency of the building paint that is washable, and therefore more durable paint can be mixed and can create infinite numbers of shades, all of these innovations are happening.

So, the competitive intensity fuels the buyers interest, and the buyer has many options. So, the buyer power is high, the supplier power is low to medium, the threat of substitution is low, the threat of new entry into the Indian market is about medium and the buyer power is very high. This is the five forces scenario. So, we presented certain facts figures about the Indian paint industry. And now it is your task to develop a marketing strategy either for Shalimar paints which is the smallest player in the market. If you remember having only 400 Crores sale in 2011 against the market leader Asian

paints, revenue of about 6600 Crores or you could also develop a marketing strategy for a new entrant, using some of the concepts and frames tools that we have already discussed.

We can first develop on behalf of either the Shalimar paints or this new company a global company or a third alternative is as we have discussed, that 70 percent of the paint industry is in the organized sector or may be 65 percent. But there are 30 35 percent market share still with unorganized companies. Now, these are companies which are capable of high growth. If you look at the history of even companies like Asian paints or Nerolac, they also started small maybe they started small 50 years back. Today in 2012 there is strong entrenched competition, but that does not mean that a new entrant cannot challenge, if it has some significant technical advantage or if it develops some compelling proposition for a niche area. So, either whether it is for Shalimar paints or it is for a new multinational entrant, or for a challenger from the unorganized sector establishing a key position in the organized sector.

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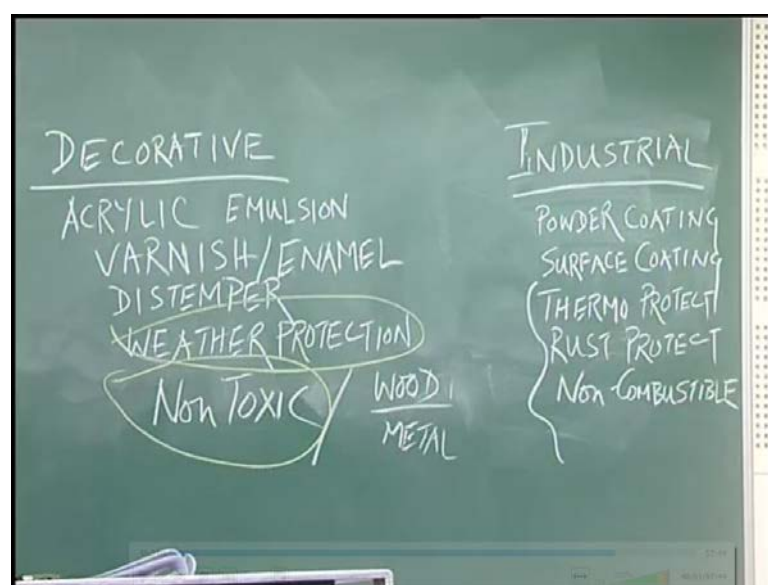


In any one of these scenarios, some of these will be quite useful. First to understand it is always good to put it on visual. If this is the Indian paint industry, we have already said 70 percent is decorative; this is the B to C business to consumer, a market which depends highly on retail distribution and different kinds of price and promotion.

So, this is where all the piece of marketing will be fully at play. Now, this decorative market from the previous description you know can be divided in 3 major chunks. One is the high end. So, the premium decorative paints mid market the enamel paint, and the low end which is the distemper. Another way of looking at the segmentation is that metro usually associated with luxury that means this premium brand. But there is in metro also middle class housing tier, 2 tier 3 cities housing which will be primarily which has been primarily the market for the enamel. And the semi-urban and the rural market which has been primarily the market for the distemper, but as we discussed a little while back there are exceptions. This is just a broad generalization we discussed a key driver of this industry, the aspirational aspect.

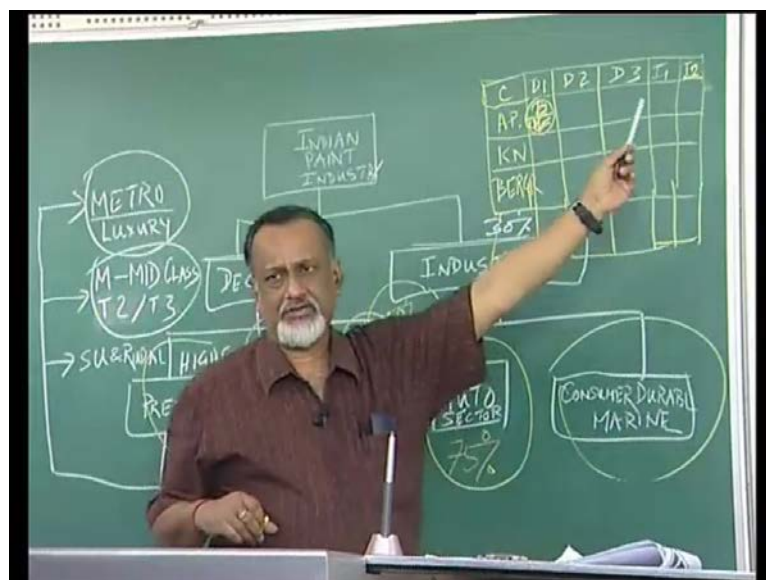
And therefore, there will be a market for in the tier 2 tier 3 city for the premium variants. In case of the industrial as you see here, mainly it is divided in the automotive sector and the consumable durable and the marine market. Automotive sector accounts for nearly 75 percent of the industrial demand, and about 25 percent comes from consumer durables and marine and other specialized applications. On this kind of diagram you can also superimpose some of these sort of issues like, for example, the distemper market 10 years back use to be about 40 percent of this 70 percent. But it has now come down to a about 20 percent, these are some understanding of the market trends which will be important for you to decide on your entry strategy or your growth strategy.

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Also, we can look at the decorative market, we can look at these different types mainly acrylic emulsion, varnish enamel, distemper, weather protection these are some very niche areas like non toxic or this weather protection but as you see from the recent promotion that is going on, that these are being highly promoted. Now, in the media by almost all the players, the key players like Asian paints or Nerolac or Dulux, because as these markets sort of saturate or differentiation becomes difficult, only price becomes the determinant. Then these are some niche areas where one can develop. So, for a new entrant these are some interesting options, and the industrial as you see there is powder coating, surface coating. But then there are also they are special niche types like the thermo protect or thermal protection, thermally sensitive paint or rust protection or non-combustible paint and so on.

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If you take all of these, you can develop number of matrices like this, like you can put say decorative 1 decorative, 2 decorative, 3 decorative; 1 decorative, 2 decorative 3, and industrial 1 automotive sector and industrial 2. The other industrial usages like marine or consumer durable, and then you can try to do for your competitor analysis. You can put Asian paints here, Kansai Nerolac here, Berger here, or you can extend it further if you want to look at. And from this you can develop your the position, we were discussing that Asian paints, we can use these types of symbols for an easy at a glance picture of the competitive scenario.

So, this is how we can and then of course, as we have discussed you should look at geography vice, application vice competitive position. This is actually by the broad classification of the products a similar one can be developed for application. The similar one can be develop for geography, because these will lead us to the gaps that a new entrant or a challenger can address. Some of the interesting inputs that have come in and these are some other ways of looking at it for example, what are the growth drivers of the paint industry in India? So I often mentioned these social or economic aspects that drive market growth, and should be considered as an interesting or significant input in strategy.

So, for example, it is observed by the market research agencies that educated consumers are now quite brand conscious for buying paint. And therefore, paint companies offering value added features like non toxicity, weather protection, texture, eco friendly production, will attract more demand. And these are value added products which can actually help you to get better premium. And if you observe the television ads for paint industry coming from almost all the key players you will see this particular factor at play. Similarly, another interesting observation is that as urbanization expands the number of nuclear families expand more nuclear families means more nuclear homes and very often these homes of young homemakers are small.

But they are interested in making such homes stylish elegant and the demand for high end paints go up, because of this divers of nuclear families both partners working couples and so on. The growth of the automotive industry drives the growth of the industrial paints. The increasing market dynamics of the consumer durables drives those other types of industrial paints. So, these are all so it is expected of course, we have been expecting this for almost last 10 years that in the developed world industrial versus decorative is about 50 50, in India it is 70 30. So, there is possibly a higher rate of growth expected out of the industrial if our GDP growth picks up faster goes back to some of the level that we had in 2006 7.

And we are seeing some good science from the 2011 results. So, if you look at a good way to also develop your marketing strategy to look at the reports from the stock market analysts, because they are also interested in the growth of such companies who are not yet the market leader, because as it happens when you start from a lower base. So, if the strategy is right then that market challenger will be a better investment option. And that is why if you are developing the marketing strategy for one of these challengers then it is

good to look at what the analysts are saying? Where do they find opportunities? Identify opportunities for growth from the analysis of the competitive movements.

So I think you have now enough inputs for developing your marketing plan developing a qualitative side of strategy as well as some quantitative targets that you will build into your strategic plan. So, we will be expecting to hear from you and do not forget to compliment your secondary research or gathering of secondary data from the internet with some field exploration go out into your local market. And absorb what is happening in the paint distribution, retail outlets, talk to some architect's, talk to some builders, talk to your friends and associates. And find out what do they think about? What kind of paint options there going in? For all these need to be put in for your final strategy document.

Thank you.