

A Research approach to paint industry in India-A Study of its marketing Strategies in Tamil Nadu

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Introduction

Paint has been in use for time immemorial. The evidence can be found in the cave paintings. The Chinese are considered to be the pioneers of manufacturing paints thousands of years ago. In modern times paint is made artificially and is used in many different ways.¹ Paint is a mixture of four elements solvents, binders, pigments and additives. Solvents give the paint a liquid flow while the binder binds it to the surface. Pigments impart colour and opacity to the paint and the additives give it special resistance properties.²

The Indian paint industry is over 100 years old. Its beginning can be traced back to the setting up of a factory by Shalimar Paints in Calcutta (now Kolkata) in 1902. Until World War II, the industry consisted of small producers and two foreign companies. After the war, the imports stopped, which led to the setting up of manufacturing facilities by local entrepreneurs, still, the foreign companies continued to dominate the market. Initially British Paint companies such as Goodlass Walls (now Goodlass Nerolac), ICI, British Paints (now Berger Paints), Jenson & Nicholson and Blundell & Eomite dominated the market.³

The Indian paint industry historically grew by 1.5 to 2 times of India's real GDP growth on a year – to – year basis. Now with the Finance Minister announcing his vision of achieving 10 per cent economic growth it only augurs well for paint sector.

Raw Materials

Raw materials which constitute 60 per cent of the total cost for the paint industry is an important factor for maintaining operating margins. Around 600 raw materials are required by the paint industry and all the materials are directly related to crude oil prices. But the most important raw materials is titanium dioxide, which accounts for 25-30 per cent of the costs. Other important raw materials being used in the industry comprise sector, linseed and soybean oils and turpentine. Products such as paint, timber finishes and others surface coatings are also included in this industry category.

The paint industry was divided into two consumer segments. Industrial (such as automotive) and decorative (such as housing). In India the industrial paints segment accounts for 30 per cent of the paint market while the decorative paint segment accounts for 70 per cent of paints sold in India. In most developed

countries, the ratio of decorative paints vis-à-vis industrial paint is around 50:50. Similarly, the per capita consumption of paints in India is very low at 800 to 900 grams per annum if compared with 4 kgs in the South East Asian Nations and 22 kgs in developed countries. The global average per capita consumption is 15 kg.⁴

Decorative paints can further be classified into premium, medium and distemper segments. Premium decorative paints are acrylic emulsions used mostly in the metros. The medium range consists of enamels, popular in smaller cities and towns. Distempers are economy products demanded in the suburban and rural market. Nearly 20 per cent of all decorative paints sold in India are distempers and it is here that the unorganised sector has dominance.

Industrial paints include powder coatings, high performance coating and automotive and marine paints. But two thirds of the industrial paints produced in the country are automotive paints while industrial paints are used for protection against corrosion and rust to steel structures on vehicles, white goods and appliances; decorative paints, on the other, are used in protecting valuable assets like buildings.

Indian Paint Market

Indian paint market consists of both organized and unorganized sectors, with 43 per cent coming under the latter. So the majority is under the organized sector. Altogether the total turnover of this industry is estimated to the A.11,200 Cr., and the growth rate was put at 16 per cent per annum during 2006-2007.

Specifically speaking, the decorative paint market in India, a highly competitive segment with a few major players at national level and a large number of regional players, enjoyed a total turnover of A. 7880 Cr., during 2006-2007. Its fragmented retail had an

exponential growth in the last ten years with an ever increasing “Dealer Tinting Systems”. It is reported there are 16000 companies in this market.⁵

Similarly the industrial coatings market in India had a turnover of about A. 3400 Cr., during 2006-2007. while 45 per cent of industrial coatings market is accounted for automotive coating segment, another 30 per cent goes for protective and powder coating segment and the remaining is accounted for new emerging segments like road markings, floor coatings, coil coatings and so on.

Facets of Paint Industry in India

There are various dimensions of paint industry in India. They are as follows.

- i. Promotional Bodies
- ii. Quality Parameters.
- iii. Price Sensitivity Factors.

i. Promotional and Regulatory Bodies

CAPEXIL (Formerly Chemicals and Allied Products Exports Promotion Council) a non-profit making organization, was set up in March 1958 by the Ministry of Commerce and Industry, Government of India over the years has been playing an important role to promote exports of paints from the country.

Established in 1962, the Indian Paint Association is the apex body of the Indian paint industry, which represents both the organized sector and the small scale sector in the paint industry. It is a voluntary non-political and non-profit organization which promotes the interest of the paint industry and the society. The IPA is a unique forum in which even the very small scale manufacturers are members beside all the major paint producers in India. The representative character of the association is amply demonstrated by the fact that more than 80 per cent of the total paint production in the country is accounted for by members of IPA.⁶

When paint is manufactured in a factory, because of the ingredients used, it can harm the

environment and the workers who work in the factory. In order to void the damage to the environment and humans every country has a regulatory body. This regulatory body keeps an eye on the procedures used by the companies.

In order to regulate such a huge volume of paint trade inland and abroad, every country has rules and regulations. In India, there are many as follows.

- (i) Pollution Control Acts and Regulations of India is responsive to control and regulate the pollution part of the paint manufacturing process.
- (ii) Packing Commodity Rules
- (iii) Standard weights & Measures Act,
- (iv) Industries, Energy and Labour Department Act
- (v) Factory Act, 1948 lists paints, varnishes, lacquers or thinners as flammable solvents so due care has to taken
- (vi) MRP Rules under Packaged Commodity Act.
- (vii) Petroleum Act

Bureau of Indian standard has some specifications are

- (i) General requirements
- (ii) Products specific requirements.

ii. Quality Parameters

Paint manufacturers very careful to produce high quality paints. They normally use different quality control measures. All the ingredients and the paint manufacturing process are put through very rigorous standard tests and the finished product is once again checked observed for the quality. So the paint is inspected for its.

- (i) Density,
- (ii) Dispersion,

- (iii) Viscosity and
- (iv) Fineness of grind, then the paint is applied to test the drying time and the texture.

iii. Price Sensitivity Factors

In accordance to the fluctuating cost of raw materials, the ultimate price level of paints would change correspondingly. So the price level of paints in hypersensitive mainly on account of raw material cost and of course marketers. Various factors that have influenced the pricing of paints are summarized below:

- (i) The industry is raw-material intensive. Of the 300 odd raw materials, nearly half of them are imported petroleum products. Thus, any deficit in oil reserves affects the bottomline of the player.
- (ii) The major raw materials titanium dioxide, ophthalmic anhydride and peutarithrithol constitute 50 per cent of the total cost. Besides, this there are other raw materials such as castor, linseed soybean oils and turpentine. The costs of raw materials sum up to almost 70 per cent. Any increase in the prices of these raw materials could adversely affect prices of paint.
- (iii) Most of the paint majors have to import nearly 30 per cent of their raw materials requirements, thus changes in import policies can affect the industry.
- (iv) The prices of packing materials as HDPE, BOPP and tinplate have reduced considerably. However, the decision of the Central Government to ban import of tinplate waste could lead to a spurt in the prices of the tinplate in the near future.

Need for the Study

In India, the demand for paints from new housing would constitute approximately 30

per cent of total demand the rest comes in from repainting, mainly after the monsoon rains and before festive season. Competition is very strong in the Indian paint market.⁷ The growing paints market is witnessing a shift from solvent - based paints to water - based paints, like distempers, and this should be viewed by the tiny and SSI sectors as a major opportunity to grow along with the large units.⁸

The industry progressed well so far and is likely to be influenced by the changing global scenario, technologies, new innovative products which will characterize future development.⁹ On the basis of the above it is very important to conduct a research on the marketing strategies of paint industry at Tamil Nadu level with a general focus on its performance at all India level.

Statement of the Problem

There is a clear indication that the paint industry in India is poised for a growth further, based on changing national and international

economic developments. However, such a growth is likely to be affected by certain inherent local specific problems. These problems call for an in depth study so as to bring about suitable corrective mechanism and through which relieving the industry of such problems of a free and fair growth.

First, the supply of paints in India is limited on account of low capacity utilization of production of paints. Equally limiting factor is its per capita consumption or demand for paints in India. It is reported, "Today the Indian paint Industry produces about 1050,000 MT per annum. The corresponding value base in about A. 8,800 Cr., (USD 1.95 Billion). The Indian paint industry enjoys a global market share of about 1.8 per cent only. The per capita consumption of paint in India is 800 to 900 grams compared to 15 to 25 kgs in the developed countries. Market growth of Indian paint industry was estimated at about \$200 to \$400 million per year over the Past 7 years. Since 1999-2000 as given below in Table 1.¹⁰

Table – 1
Indian Paint Industry – Growth Over the Years

Parameter	99-00	00-01	01-02	02-03	03-04	05-06	06-07
Per capita consumption (gms)	525	580	600	625	680	740	815
Volumes ('000 MT pa)	515	580	612	650	720	880	1050
Revenue (USD Bn.)	0.73	0.9	0.95	1.07	1.26	1.56	1.96
Growth (%)	-	23	6	13	18	24	25

Source: Dilip Raghavan, "An Overview of Indian Coating Industry", Paintindia, Vol. 57 No. 5 Mumbai, 2007. P. 66.

It is disheartening to note that the Indian share of global paint market is well below 2 per cent and the per capita consumption is also low at 5.33

per cent to 3.6 per cent. The demand pattern was difficult to predict even with the support of historical data/trends as consumer preferences

were changing fast. The high efficiency is in physical distribution. The poor forecasts of demand result in poor distribution. As a result, companies are investing in sophisticated supply chain management tools. Margins have remained under pressure due to dropping prices, which have been more strategic and forced by the market leader. Companies have been working on improving internal efficiencies to retain profits. The pressure from OEMs to reduce prices has also been a cause for low profits for paint companies.¹¹

The performance of the decorative division also hinges on rainfall. (Due to heavy corrosion). In the last five years, the country has witnessed three years of poor rainfall which has impacted paint demand. So the demand for and supply of paints in India need to be improved by strengthening the existing systems.¹²

Secondly, India has a large number of paint shops or outlets, more than 50,000. Unlike in most of the developed world, there is a large number of small paint and hardware shops that cater to the local population. There are no company owned outlets or large retail formats

for the DIYer. The distribution policy of Indian paint companies to directly cater to most of these more than 25,000 shops is unlike other industries where companies operate through distributors. Each company has a large number of depots to service those outlets and a large sales force for this purpose. A large number of shops have automated / manual dealer tinting system. There are more than 20,000 in operation probably the highest for any country. In contrast, there are only approximately 7,000 tinting systems in china for a market two and half times India's size.¹³ "One of the main challenges faced in handling a vast number of SKUs to serve a large base of retailers/ customers that are geographically spread out", says Saini. (Ashok Saini, Vice president-special projects with Kansai Nerolac paints Ltd., (knp)).¹⁴

Thirdly, the Indian paint industry has more or less equal and highly competitive players on both organized and unorganized sectors. Unorganized sector consists of small and medium enterprises (SME). It is explained in Table 2.

Table - 2
Indian Paint Industry - Players

Parameter	Organised	SME
Number of players	10-12	25,00
Paint volumes (MT pa)	600,000	450,000
Paint volume share (%)	57%	43%
Influence	National	Mostly Regional
Architectural paints (MT pa)	465,000 (56%)	375,000 (44%)
Industrial Paints (MT pa)	135,000 (65%)	75,000 (35%)

Source: Dilip Raghavan, "An Overview of Indian Coating Industry", Paintindia, Vol. 57 No. 5 Mumbai, 2007. P. 66.

Asian paints, Goodlass Nerolac, ICI (India), Berger, Jenson & Nicholson and Shalimar are the leading companies in the organized sector. The top manufacturers account for about 80 per

cent of the market in the organized sector. Threat of global competition is minimal in the industry. APL dominates the decorative segments, with a 29 per cent market share.

Beger paints is number two with a 10 per cent market share. Nerolac and ICI have 8 per cent and 6 per cent shares, respectively, in this segment followed by Shalimar, with 3 per cent.

Goodlass dominates the industrial paints segment, with 41 per cent market share. APL is a poor second here; with a 15 per cent market share. Berger. ICI and Shalimar are the other substantive players in the sector, with 10 per cent, 9 per cent and 8 per cent shares, respectively. The dominance of Goodlass is

industrial paints is largely the result of its technical associated with the Japanese paint major, Kansai paints, which has a 29.5 per cent equity stake in the company. Goodless has a lion's share of 70 per cent in the OEM. Passenger car segments, 40 per cent share of two-wheeler OEM market and 20 per cent of commercial vehicle OEM market. Goodlass also holds 20 per cent of the white goods segment.

The market shares of the leading companies are shown in Figure. 1

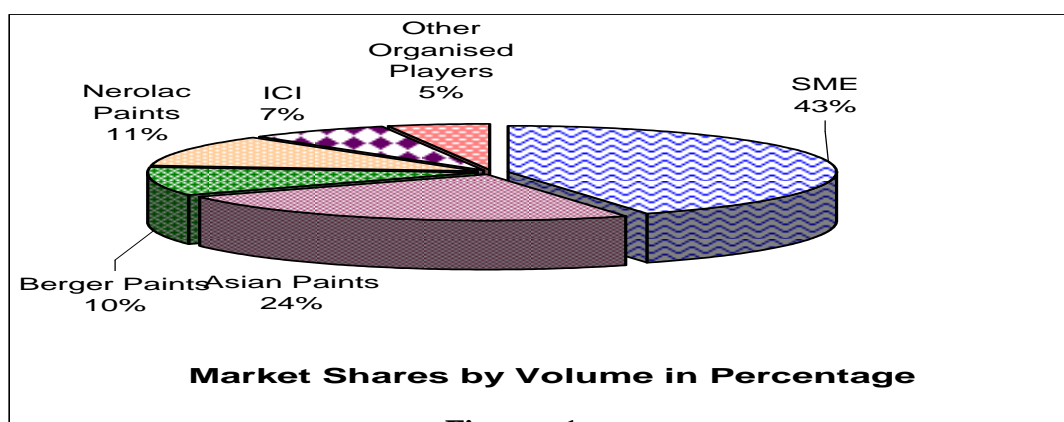


Figure - 1

Source: Dilip Raghavan, "An Overview of Indian Coating Industry", Paintindia, Vol. 57 No. 5 Mumbai, 2007. P. 66.

In this connection it could be stated that the sales promotion measures taken by the organized sectors has yet to reach the customers of both organized and unorganized sectors. Fourthly, the advertisement of paint industry do not serve the purpose by which the producers of unorganized sector encash upon, affecting the rural consumers.

The one important thing to look at here is that the strategic advertising opportunities were not really explored well enough. The awareness of the brand has almost diminished in places where it was already low. There is no brand recognition in most rural areas whatsoever. The brand is far from being recognized as a paint manufacturer, it has lost its identity in most developing urban areas as well. There was

a marginal increase in sales and in the monthly average survey of the brand knowledge. In India there has been no other marketing and brand strategizing as good as its Indian competitor. The very classy advertisements do not really resonate with the elite Indians also. What they need is something that touches them and not just inform them.¹⁵

Fifthly, the marketing strategy of both organized sector and unorganized sector does not yield desired results. During 1960's, market for paints was at a dead end. It was totally dominated by MNCs and Indian companies were looked down upon. MNCs had a cartel approach and had dealers with long standing relationship in an oligopoly market. Entry barriers were not there as paints were low tech low capital projects. Alternate product was lime based low cost used by most in poverty ridden India. In reach homes and offices, wood paneling was being used. They however had special needs. "Low cost paint in small containers". The segment needed new distribution system as well. Asian paints value for customers was to build through innovative packages (size), distribution and communication. In 1970's it decided to computerize and network their 30 depots round the country to provide proper feed back from the market. It was one of the first companies to come up with 50ml and 100ml paints packs for rural markets where consumers needed very small quantities. Asian paints differentiation strategy starts from market segment, distribution and packaging. Such strategic management practices are rarely done by manufactures in the organized sector and not at all done by producers of in the unorganized sector.

It is clear from the above that paint industry in India is not comfortable in the delivery of the desired services to the target audience in view of the problems stated above. So a thorough enquiry is undertaken to study the

problems and prospects of paint industry in India with spec

ial reference to Tamil Nadu on the basis of the objectives listed below hence the study.

Objectives of the Study

The study includes following objectives

- (i) To study the position of demand for and supply of all types of paints in India.
- (ii) To analyse the strengths or otherwise of the distribution pattern of various paint manufacturers / marketers in Tamil Nadu.
- (iii) To study the various sales promotional measures adopted by paint manufacturers/ marketers in Tamil Nadu.
- (iv) To study the effectiveness or otherwise of the advertisements of paint manufacturers on the consumers in the study area.
- (v) To study the factors influencing the strategies of marketing of paints in Tamil Nadu (Pricing, Market Segmentation, Product line) from the user/consumer point of view and
- (vi) To offer remedies and suggestions for further improvements.

Research Methodology

The present study is based on both primary and secondary data. The secondary data will be collected from relevant Reports, Periodicals, Journals, Magazines, Newspapers and Company Annual Reports. The primary data to be collected by the researcher in person by both observation method and discussion with the sample respondents chosen from company officials, paint dealers, both whole sellers and retailers, and paint consumers both general public and construction contractors. Separate schedules will be prepared to administered upon them for collection of first hand information

from the sample population. The sample frame and size are explained later. The period of study is five years from 2005-2006 to 2009-10, with reference to analysis of secondary data. The period of collection primary data is 2010. The researcher has plans to use statistical tools like correlation, Regression analysis and scaling techniques like 'F' test, 't' test, chi-square test and ANOVA, besides employing simple statistical tools like percentage analysis. Also there will be an elaborate use of graphs, pie-diagrams and bar diagrams where ever necessary.

Sampling Frame and Size

As already stated the paint industry in India consists of manufacturers both under organized sector and unorganized sector. There are 5 manufacturers under organized sector and around 2500 manufacturers in the unorganized sector in India who form the universe of the study. Ten manufacturers is taken as sample, (two in the former and eight in the later) whose units are spread over in Tamil Nadu.

The total dealer population taken from various sources indicate that there are 11,625 dealers in Tamil Nadu and as such considering their huge number, 3 per cent of the dealers (348) is chosen for the study. Tamil Nadu state has 10 city corporation districts and 22 municipal districts. 15 dealers each are taken from 10 city corporations, and out of 15 dealers, 10 belonged to district capitals and 5 dealers from any one taluk headquarters of the same districts. However in the 22 municipal districts 9 dealers each are taken and out of which 5 dealers from the district capitals and 4 from any one taluk headquarters of the same districts. Similarly, 64 painting contractors and 64 paint workers and 576 direct house hold consumers are chosen for the study. Out of 64 painting contractors and 64 paint workers one each from 32 district capitals and any one taluk headquarters of the same districts. Out of 576

customers 9 customers each are chosen from 32 district capitals and an equal number of customers are chosen from any one taluk headquarter of the same districts. Accordingly the grand total of the various groups of sample population stood at 1062. Judgement sampling method is chosen for fixing proper sampling frame of the study.

Pretest and Pilot Study

A pretest of the schedule needs to be conducted during the pilot survey not only to modify the schedule in accordance to the current trends in the paint industry but also to understand the pulse of the respondents Ten per cent in each category of the chosen sample population will be contacted during the pilot survey viz., 1 manufacturer, 34 paint dealers and 57 direct domestic consumers and 6 painting contractors and painters each in the study area.

Hypotheses of the Study

The hypotheses framed for the study are listed below:

- i. There is a significant difference in the demand pattern of paint users of different regions in Tamil Nadu.
- ii. There is a significant difference among modes of company advertisement, sales promotion, pricing and supply pattern between major manufacturers of paint in the study area.
- iii. There is a significant different among consumer behaviour according to their socio-economic characteristics and standard of living of the consumer in the area of study.

Limitations of the Study

There are certain limitations of the study as stated below:

- (1) Industrial paint consumers or users are not under the purview of this study, the researcher does not include industrial users as part of the sample respondents.
- (2) The sample respondents are contacted only once during the period of the study. So their responses may vary from time to time depending the circumstances and environment. However it may not affect the validity of the findings of the study.
- (3) Since the study is mostly based on opinion survey, simple statistical tools were used in many places. However the study undertaken could accomplish its set goals and objectives.

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