

Asian Paints: Changing Rules of the Game

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INDUSTRY PROFILE:

THE INDIAN PAINT INDUSTRY

The paint industry of India is more than 100 years old. Its beginning can be traced to the setting up of a factory by Shalimar Paints in Kolkata in 1902. Till the advent of World War II, the industry consisted of just a few foreign companies, and some small, indigenous producers. The war led to a temporary stoppage of imports leading to many more local entrepreneurs setting up manufacturing facilities. Nevertheless, foreign companies continued to dominate the industry. Even now, they remain active contestants, though their foreign shareholdings stand reduced, with two of them having become totally Indian.

Today the Indian Paint Industry produces about 1050,000 MT per annum. The corresponding value base is about INR 8,800 crores (USD 1.95 Billion). The Indian Paint industry enjoys a global market share of about 1.8%. Per capita consumption of paint in India is 800-900 grams compared to 15-25 kg in the developed countries. Market Growth of Indian Paint industry is estimated to be about \$200 - \$400 million per year over the next 5 years.

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: PaintIndia, 2007

The industry is composed of two sectors, the organized and the unorganized. The organized sector controls 70 percent of the total market. The remaining 30 percent is in the hands of the unorganized sector, consisting of 2000 odd small-scale players. The industry is not capital intensive. It is however working capital intensive. The demand for paints is fairly price-elastic and is linked to economic and industrial growth. Demand is somewhat seasonal in nature-low during monsoon months, high during festival seasons.

THE MAIN SEGMENTS

The industry comprises of two main segments -decorative/architectural and industrial paints. The decorative/architectural paint segment accounts for 70 percent of the total paint market while the industrial paint segment accounts for the remaining 30 percent. The industry is, however, expected to undergo a structural shift towards industrial paints in the next few years, when its share is expected to go upto 50 percent in line with the global trend. Industrial paints thus hold greater growth potential in the coming years. Actually, with the decorative segment gradually bottoming out, companies are already increasing their focus on industrial paints. Industrial paints are technology intensive. The industrial paints segment can be further classified into automotive paints, marine, powder coatings, high performance coatings, and others. Original equipment manufacturers (OEM) of products such as automobiles, furniture and white goods such as refrigerators are prime consumers of industrial paint. The automobile industry accounts for 50 percent of the industrial paint market. A good part of the demand are from shipping and heavy industry.

THE MAIN PLAYERS

Asian Paints, Goodlass Nerolac, ICI (India), Berger, Jenson & Nicholson and Shalimar are the leading companies in the organized sector. The top ten manufacturers account for about 80 percent of the market in the organized sector in value terms. APL is the industry leader, with an overall market share of 33 percent in the organized sector. Threat of global competition is minimal in the industry. APL dominates the decorative segment, with a 29 percent market share. Berger Paints is number two with a 10 per cent market share. Nerolac and ICI have 8 percent and 6 percent shares, respectively, in this segment followed by Shalimar, with 3 per cent.

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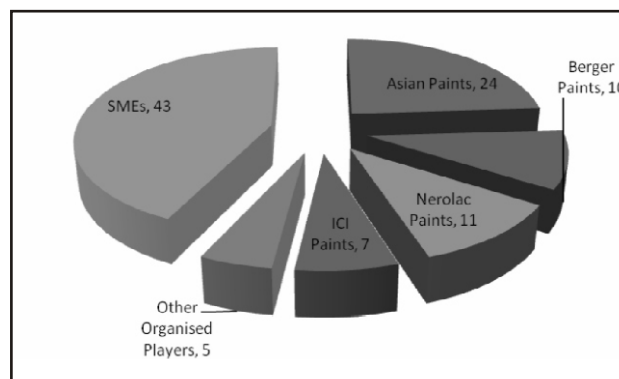
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Table 2: Indian Paint Industry - PLAYERS		
Parameter	Organised	SME
Number of players	10-12	2,500
Paint Volumes (MT pa)	600,000	450,000
Paint Volume Share (%)	57%	43%
Influence	National	Mostly Regional
Architectural Paints (MT pa)	465,000 (56%)	375,000 (44%)
Industrial Paints (MT pa)	135,000 (65%)	75,000 (35%)

Source: PaintIndia, 2007

Goodlass dominates the industrial paints segment, with 41 percent market share. APL is a poor second here; with a 15 percent market share. Berger, ICI, and Shalimar are the other substantive players in the sector, with 10 percent, 9 percent and 8 percent shares, respectively. The dominance of Goodlass in 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. Goodlass has a lion's share of 70 percent in the OEM passenger car segment, 40 percent share of two-wheeler OEM market and 20 percent of commercial vehicle OEM market. Goodlass also holds 20 percent of the white-goods segment.

The market shares of the leading companies are shown in following graph:



Market shares by volume in Percentage

Source: PaintIndia, 2007

COMPANY PROFILE

Asian Paints is India's largest and Asia's third largest paint company today, with a turnover of Rs 44.04 billion (around USD 1.1 billion). The company has an enviable reputation in the corporate world for professionalism, fast track growth and building shareholder equity. Asian Paints operates in 20 countries and has 28 paint manufacturing facilities in the world servicing consumers in over 65 countries. Besides Asian Paints, the group operates around the world through its subsidiaries, Berger International Limited, Apco Coatings, SCIB Paints and Taubmans.

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.

MANUFACTURING FACILITIES

Asian Paints along with its subsidiaries has operations in 20 countries across the world and 28 paint manufacturing facilities, servicing consumers in 65 countries through Berger International, SCIB Paints-Egypt, Asian Paints, Apco Coatings and Taubmans. Asian Paints operates in 5 regions across the world viz. South Asia, South- East Asia, South Pacific, Middle East and Caribbean region through the five corporate brands viz. Asian Paints, Berger International, SCIB Paints, Apco Coatings and Taubmans. In 10 markets, it operates through its subsidiary, Berger International Limited; in Egypt through SCIB Paints; in 5 markets in the South Pacific it operates through Apco Coatings and in Fiji and Samoa, it also operates through Taubmans.

MARKETING STRATEGIES BY ASIAN PAINTS TO PENETRATE IN URBAN AND RURAL AREA

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. Market was largely controlled by MNCs. Mr. Choksey found that to fight MNCs, he has to look at the market segment so far neglected by them and found that near vacuum exists in semi-urban and rural markets. 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 feedback from the market. It was one of the first companies to come up with 50 ml and 100 ml paints packs for rural markets where consumers needed very small quantities. For the rural market, they changed communication and promotion strategy as well. For example, Asian Paint supported Pola fair in Maharashtra by painting the horns of the bulls.

Another example is the launch of Utsav brand by Asian paints. This is to cater for first-time users of branded paints in rural India. Amit Syngle, Asian Paints' general manager, marketing, Asian paints, spent six months in the interiors of Rajasthan and Maharashtra. He observed that rural buyers are becoming brand conscious and are willing to look at "value-for-money" products. According to him, "people in rural areas are definitely saving less and that they are willing to upgrade to higher categories of any product." Asian Paints promoted its Utsav brand of paint by painting the village Sarpanch's house a few months prior to the launch to demonstrate that the paint does not peel off and is an ideal replacement of chuna.

One of the strategies of Asian paints for becoming a leader is to maintain a good relationship with the dealers. Mr. Choksey's style of functioning was informal as he kept friendly relations with the depot staff and the sales team, and could be seen having tea in some rural dealers' shops.

Asian Paints differentiation strategy starts from market segment, distribution, and packaging. With increasing volumes in chosen segments, Asian Paints achieved economies of scale for cost leadership. With their dominant position, they diversified in product range as also market and geographic segments. It diversified into manufacturing raw materials for paints. Product Diversification also included industrial paints. Now, with a large market share, they have a strong distribution network even in metros. Asian Paint's strategy of quick response translates into supplying 95 percent of the orders supply in 48 hours, which is a positive competitive advantage.

The latest offer by Asian paints is Asian Paints Samplers. These are small 200 ml paint packs which can be bought at Asian Paints Colour World outlet, and can be used to sample how the colour would look on the wall and then the final decision can be taken. It offers a low-risk small trial pack so that customers are more comfortable in taking their final decision.

Asian Paints realized the need for brand building even during sixties. The brand focused on mass and rural market. Asian Paints had a mascot called Gattu, who was created by the celebrated cartoonist R. K Lakshman. These efforts made the brand a leader during the late sixties. It also was the first to come up with the tinting machine option; "Mera Walla Yellow" campaign that would remind readers of the initiative. The consumers could pick and choose a shade in at the dealer, who would mix the appropriate colours and deliver the paint. It had a two fold impact, reduction in inventory at the dealer point, because now he could manage with the base and few other additives, and for the consumers, he need not move from one outlet to the other in search of shades. Then came the Asian Paints Home Solutions, wherein a consumer could give a call on a toll-free number and avail services of trained painters who would provide all services needed. Any one who has gone through the hassle of getting his house painted would realize the benefits that such a service offers for consumers. The success of these initiatives can be assessed by the fact that all other players in the industry have followed Asian Paints in offering similar services to consumer. All these initiatives have kept the consumer interest at the forefront, be it in providing samplers or the total bouquet of services of painting houses to the increased choice through the tinting machine option.

To keep their position dominant, Asian Paints has always put more stress on vigorous R&D for innovative products, increased the number of depots for covering the entire country, advertise separately for each market segment and advertise Asian paints as a whole and the continuous market research to enhance their competitive advantage.

DISTINCTION BETWEEN BERGER AND ASIAN PAINTS

Berger Paints, India is the country's third largest paint manufacturer and the second largest decorative paint player. It is headquartered in Calcutta and it services the market through a distribution network comprising of 75 stock points and 12,000+ paint retailers. The concept of the company was envisaged by the legendary paint chemist, Mr. Lewis Berger in 1760. Berger Paints, India is a 70 year old company.

Asian paints is India's number one company and it is the largest paint manufacturer in India. It is headquartered in Mumbai. Asian Paints operates in 20 countries and has 28 paint manufacturing facilities in the world, servicing consumers in over 65 countries.

Asian Paints, the group operates around the world through its subsidiaries, Berger International Limited, Apco Coatings, SCIB Paints and Taubmans. Berger International Limited (BIL) with headquarters in Singapore was also listed on the Singapore stock exchange in November 2002. BIL became a part of the Asian Paints Group. It's a subsidiary of Asian paints. Acquisition of BIL was a step of Asian Paints to make its presence across Middle East, Caribbean and South East Asia.

CHALLENGES FOR INDIAN PAINT INDUSTRY

1) SEASONAL DEMAND :

Paint Industry is a seasonal industry. The demand shoots up during the Diwali season and it will be low in the rainy season.

2) INVENTORY MANAGEMENT AT DEALER LEVEL

The product differentiation is minimal in paint industry. The very close substitutes are readily available (e.g. ICI Dulux can be a very close substitute for Asian Paints Royale). Hence the inventory management at the dealer level is of a prime importance. It is also important for brand visibility and occupying the shelf space.

3) DISTRIBUTION COSTS

Distribution costs are important for a lower price product like Distemper. The Distemper is a stiff paint and is sold on weight basis. It is called as the "Bread and Butter" of the paint industry as the consumption is highest for this product. Hence, the cost associated with distribution of it is of prime importance.

4) SHADE OFFERINGS

As the shades offered by the paints companies are very high in number, (e.g. Asian paints offers more than 1200 own shades), the problem of distribution becomes very significant. The demand for a particular shade may peak up suddenly in a particular region. The inventory management at the distributor and dealer level is of great importance.

5) LOWER PER CAPITA CONSUMPTION

As mentioned earlier, the per capita paint consumption in India is in one of the lowest. It stands at mere 815 gms per person per annum as compared to the 25 kg per person per annum in US. This shows the lower penetration of the paint industry in the country.

The paint companies have to educate the customers that they should go for the repainting of their houses frequently. This is a very unique feature of the industry that the Indian people will go for repainting either for some festival such as Diwali or occasions like Marriage or when the repainting is absolutely unavoidable.

• OVERCOMING THESE CHALLENGES BY ASIAN PAINTS

DEALING WITH SEASONALITY OF DEMAND

To cope up with the seasonality of the demand, Asian Paints has created one of the best distribution networks in India. They are probably second only to Hindustan Unilever. Asian paints services around 20,000 dealers through its 70 sales offices. Their distribution covers entire country. The co-ordination between them is achieved by using VSATs, ISDN lines and PSTN lines. This entire infrastructure has helped APL to do better demand planning. APL has around 1600 SKUs to manufacture, out of which around 300-350 are fast moving with extremely high liquidity at the counter.

Therefore planning for such a large number of SKUs requires high analytical skills and excellent tools. Also, the distribution network covers the rural market also, so it increases the challenges ahead for the logistic team. Besides this, various other factors have to be considered while forecasting and planning of demand for paint.

i) Peak to average: Paint is the commodity though it is sold throughout the year but its demand increases tremendously during Diwali and to a certain extent during other festive seasons. Therefore, its production has to start according to its demand (forecasting right from July). Since APL has to take care of 300-400 fast moving SKUs, planning has to be done in such a way that it results in high inventory turnover and the company is left with least stuck stock.

ii) Promotional activity: Keeping in mind the expected demand, the promotional activities are also to be planned. Accordingly, a company decides scheme promos during that period and arrives at variable sales that happened due to these promos. Considering the SKUs, the production needs to be scheduled. It is a tedious job for the distribution department to determine the variable sales.

iii) Large user business: Sudden demand from the large institutions needs to be factored in all of the above. These

prominent large institutes do not give much lead time; therefore such huge orders need to be processed in between such hectic months.

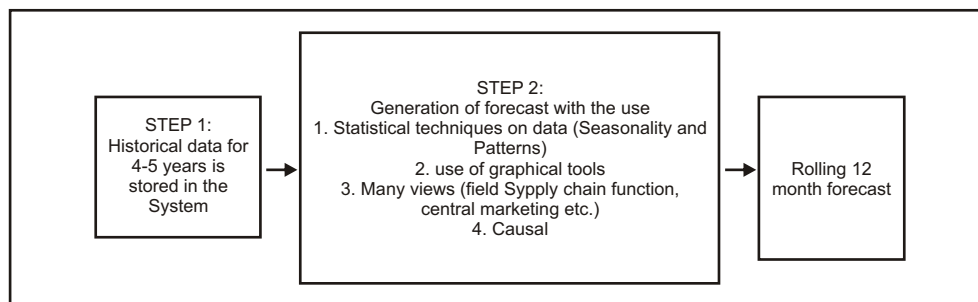
• SUPPLY CHAIN SOLUTION BY ASIAN PAINTS

Asian Paints has used various IT tools to improve its internally developed planning distribution and logistics system. This has resulted in not only differentiating the company from its rival companies but also put it ahead of several large FMCG companies.

Asian Paints uses best of the IT tools available for Supply Chain Management which consists of 4 modules viz. Demand Planner, SCM Planner, Factory Planner, Production Scheduler. Demand Planner helps in demand forecasting. SCM planner helps in master planning for inventory i.e. which plant will produce what material and when. Factory Planner helps in procurement of raw material and packing material. Production Scheduler: Helps in day to day scheduling in each and every plant.

SUPPLY CHAIN MANAGEMENT PROCESS FOR APL

I. DEMAND MANAGEMENT:



Significance of this method:

- ✓ Improved performance due to use of BMW method as well as techniques such as triple exponential smoothing.
- ✓ Since the data is processed into a server at supply chain office, it saves the time and also makes correction to statistical forecast.
- ✓ The software allows marketing function at HO and supply chain function also logs in, thus helping in best estimate of sales.
- ✓ The software also allows good exception reporting to help in correction of forecast.

II. MASTER PLANNING AND INVENTORY DEPLOYMENT

The process uses the demand forecast and forecast accuracy as well the cycle time for product replenishment to arrive at optimum cycle and safety stock that should be held at each location.

III. PROCUREMENT PLANNING

The process helps in raw material procurement based on detailed daily production sequence for one month. It also helps in determining realistic safety stock level to account for external variability only.

Total computerization of the physical distribution and the credit control system: Effective computerization of the distribution system, inventory control and control of credit outstanding is the other factor that helped APL to control distribution costs without lowering service level. A totally computerized and a totally integrated distribution system was evolved by the company beginning from 1976. Computerization of sales and inventory data and the use of rational distribution models helped the company increase its service levels by 10% with no increase in the overall level of inventory carried. Computerization also enabled APL to process recent sales data for the 100 fastest moving SKUs. This analysis was used to project sales of specific products, which helped plan production, raw material purchases and advance stocking.

• ATTRACTIVE SCHEMES BY APL

The Company offers the dealer's attractive incentive schemes to induce them to keep Asian paints stalk.

For example:

- i. A special discount of 3.5% is to be passed on at the end of the year, provided that each and every payment throughout the year was made within the stipulated time norms. This is refereed to as the discount for *perfection in payments*.
- ii. A cash discount of 5% for all outright cash purchases. The cash discount was given whenever payments were received within 24 hours of the supply/invoice.

The scheme became a grand success. APL's credit outstanding always stood below 25 days while the outstanding of competitors were mostly in the range of 40 days.

• STRATEGIC LOCATIONS OF MANUFACTURING FACILITIES

Having plants spread across the region being serviced is very important for cheaper products like distempers but not so for emulsion paints. The high transportation costs as a fraction of the COGS would wipe out a substantial portion of the profit margin otherwise (The distempers sell for about Rs. 50/kg and the exterior paints and emulsions for Rs.150 to 300 per litre. The transportation cost from Mumbai to Kolkata is about Rs. 1,500/kilolitre.)

Plant Locations:

Company	West India	North India	South India	East India
Asian Paints	Mumbai	Kasna	Patancheru	
	Ankleshwar		Sriperambathur	
Goodlass Nerolac	Ahmedabad	Kanpur	Chennai	
Berger Paints	Vithal		Pondicherry	Howrah
ICI	Thane	Balanagar	Rishra	
Jenson & Nicholson		Bulandshahar		N -24 Parganas

The plants are located in the areas of high demand so as to reduce the transportation and distribution costs. The same trend is followed by the other players as well depending on their strong areas.

ASIAN COLOR WORLD

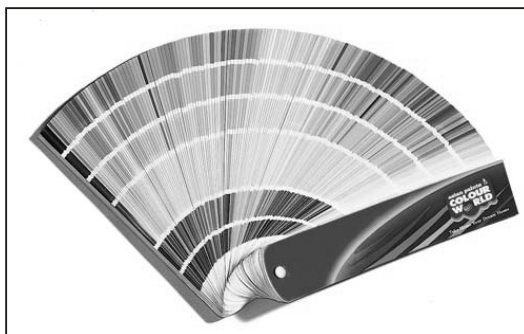
It was early 1996 and the Indian paint market was in the middle of a sea change. For many years, Asian Paints had been a market leader (since the early 1970's) and the premier paint brands like ICI (Dulux), Berger and Jenson & Nicholson were steadily losing market share to Asian Paints due to the sheer distribution muscle of the company.

Asian Paints had further skewed the market in its favour by launching the Color Corner concept made famous by the "Mariana Blue" and "Merawala Pink" ad campaigns. Color corners were specially designated dealers who were servicing 151 shades of colour using manual tinting of shades at the local Asian Paints branches.

In answer to that by 1994, Jenson & Nicholson had come up with an innovative concept- automatic tinting machines at the dealer shops- The machines that could use neutral bases (close to white paint) and make any colour automatically by choosing it in the computer. The pressure was mounting on Asian Paints to come up with something of its own. Thus, the Asian Paints Colour World brand (as it was later christened) was born.

The advent of the colour-world was a revolutionary concept. A complete shopping experience selecting from over thousand shades to interactive "paint your home" software to actual choice of a paint in over 2500 dealer locations across the country.

It was followed by Asian Paints Home Solutions, a hassle-free painting service in which Asian Paints takes over the entire job of painting of one's home, from start to a smooth finish.



NID came up with a truly unique "fan deck" shade card with 1320 shades arranged in 220 strips of 6 shades each.

IMPROVING PER CAPITA CONSUMPTION

Asian Paints Ltd has undertaken various measures to increase the per capita consumption of the Indian Paint market. Some of the strategies are as follows:

SMALLER PACKS IN ORDER TO INCREASE THE PENETRATION

When APL entered in the market, paint was available in a container of size 500ml or larger. APL saw an

opportunity in this situation. It found that many times, consumers do not require the product in larger quantity. Therefore, they buy the paint in a larger quantity and share that paint especially in the rural area. In order to trap this target segment, it started providing products in smaller packages- in 200ml, 100ml and 50 ml packs. This also increased the product depth of the APL.

GOING TO INDIVIDUAL CONSUMERS WITH WIDE PRODUCT RANGE

In order to meet the needs of various customers, offering the widest range of the products in different pack sizes under the umbrella brand of “Asian Paints” is one of the most successful strategies adopted by Asian Paints. It has around 1600 SKU's to fulfill the customer needs.

ENTERING INTO SEMI-URBAN AND RURAL MARKET

In order to enter into semi-urban and rural markets along with the existing urban market, APL has adopted decentralized distribution network rather than keeping its distribution network simple and centralized. It therefore follows the field focused distribution network in which it has depots located all over the country/ marketing territory.

TIME FRAME IN THE STUDY

This paper is an overview of the Asian paints distribution system which evolved since 1942 with the experience and strategy of being a market leader by giving differentiation, thus gaining a competitive edge over its competitors.

This paper raises the following questions that can be useful for other researchers:

1. What are the distribution strategies adopted by APL?
2. Enlist the various issues related to Distribution Management of Indian Paint Industry.
3. How the challenges in the paint industry could be overcome?

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process in identifying the space in the mind of consumer and then fitting the image of brand in that space. A strongly positioned brand assumes more survival and competitive advantage for the company. No doubt, it is quite a tough job but can be achieved by indulging in extensive research regarding consumer behaviour, which again made the marketers gripped with the number of positioning strategies. Whatever the strategy is opted by the organization to position the brand must be unique, pertinent, reliable, evident, convincing and communicable. Moreover patience should be there, because positioning is not a one night game. It takes years to position the brand. So, in the competitive world, the only way to survive in the market is to build a strong positioning for the brands. It is substantiated from the number of examples available in literature that nobody could beat those companies, which had sharpened their positioning edges and hence, for decades the strong positioning walked with grace by wearing the crown of “unbeatable weapon” in the market place.

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