Indian companies vs MNCs

Race is still on

Indian paints & coatings industry has been showing healthy growth over last few years. This has attracted investments from many multinationals companies (MNCs). While few MNCs are consolidating their presence in India, new players are planning to enter the market. Indian market is all set to witness an interesting competition between domestic companies and MNCs, as they try to increase their marketshare.

Dr Mosongo Moukwa

India is one of the fastest growing countries in the world, with a nine per cent GDP growth. In the current recession period (2009-10), the government is projecting 6-7 per cent GDP growth. The country is consuming coatings at a rate well above the GDP growth rate. The increase in volume has been 12-14 per cent.

The scenario is attracting a number of new entrants. A few multinationals also include the list. Akzo (through the acquisition of ICI) and Sherwin Williams (through the acquisition of Nitco) have recently strengthened their positions in the decorative segments; while Jotun and Nippon Paints have enhanced their presence in the industrial segments. Recently, Nippon has been repositioning itself in the decorative segment. A number of raw material suppliers such as Rohm and Haas, BASF, Eastman and Dow are also opening shop and setting up distribution & manufacturing facilities to take advantage of the opportunities.

India is now open to foreign competition in most key industries, making it highly attractive to MNCs, which appear increasingly aggressive and long-term in their investment time horizons in this market. China and India account for more than two-thirds of all new research and development (R&D) centres established by MNCs in recent years. Their total incoming capital investment into China and India combined is high compared to the amount flowing into other emerging economies.

What will be the ranks of the world's leading MNCs in the paints & coatings industry in 25-50 years from now? And, what will be the effect of the rebalancing of economic activity towards India, in particular, if it continues to grow rapidly? These are some of the questions that one needs to answer to know the future of paints & coatings industry.

The industry

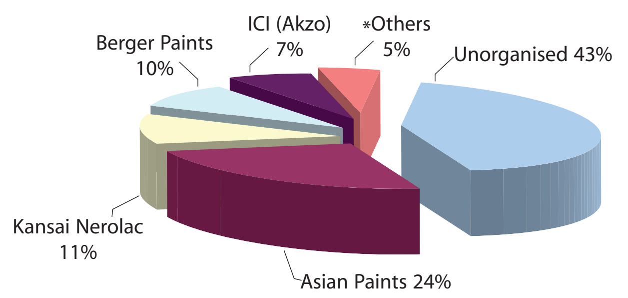
The paints & coatings industry is marked by global consolidation. The top three producers of paints & coatings represented about 30 per cent of the industry value in 2008, and many operated in multiple segments and regions. Akzo, Sherwin Williams, and PPG led the pack (Table 1). Their size gives them a tremendous advantage in the market with respect to manufacturing,

supply chain and R&D. Globalisation of the paints & coatings industry, with a movement towards Asia, will continue.

The scenario of the Indian paints & coatings industry is depicted in Figure 1. The organised sector comprises indigenous companies as well as subsidiaries of MNCs. The top four are Asian Paints, Kansai Nerolac Paints, Berger Paints and ICI Paints (now part of Akzo). The other players in the segment are BASF Coatings, Akzo Nobel Paints, Sigma Coatings, Jotun Paints, Nippon Paints, Sherwin Williams, DuPont, Valspar and PPG. The organised sector represents 57 per cent of the volume. The unorganised sector consists of about 2,500 small-scale manufacturing, operating regionally. Asian Paints, with $ 1 billion in sales, is the only Indian company making into the top 20 list of companies in paints & coatings sector, ranking 19th globally.

Indian scenario

The markets and operating environments in India are radically different from MNCs' home markets, making it possible a wide range of competitive encounters and outcomes. For example, there are several layers of product and customer segments that reward different approaches from competitors, making it possible for both local challengers and patient MNCs to find different starting places and, over time, compete more directly.



* Others include Jotun, Nippon Paints, BASF Coatings, Sherwin Williams, Sigma, Valspar, DuPont, etc

Source: Paintindia

Figure 1: Indian paints industry (marketshare in volume)

Table 1: Top paints & coatings companies (2008)

Rank	Company	Sales (in $ billion)
1	AkzoNobel (The Netherlands)	13.4
2	Henkel (Germany)	10.3
3	PPG (USA)	10.2
4	Sherwin-Williams (USA)	6.5
5	DuPont (USA)	4.3
6	BASF (Germany)	3.6
7	RPM (USA)	3.3
8	Valspar (USA)	3
9	3M (USA)	2.5
10	Kansai Paint (Japan)	2.18
11	Nippon Paint (Japan)	2.15
12	Sika (Switzerland)	2.1
13	Masco (USA)	1.53
14	Jotun (Norway)	1.5
15	H.B. Fuller (USA)	1.4
16	DAW (Germany)	1.34
17	Comex (Mexico)	1.3
18	Hempel (Denmark)	1.27
19	Asian Paints (India)	1.2
20	Beckers (Sweden)	1.15

Source: Coatings World

While India was relatively open during the British rule, independence in 1947 brought a shift to self-sufficiency and socialism. It was only in 1991 that it re-opened to foreign competition, and even then, in many respects to a lesser extent than China. It is, therefore, less ideal for observing the competitive outcomes of MNCs versus challengers. This is still unfolding in India. Nevertheless, data on manufacturing industries in the country shows that in the years after India started opening up in the early 1990s, MNCs, muck like in China, performed better in faster-moving businesses and worse in slower-moving or capital-intensive commodity businesses.

Lessons from China

The general model adopted by multinational companies depends on the type of the industry. MNCs tend to dominate industries in which R&D and advertising represent relatively high percentage of sales; and Chinese companies typically tend to dominate in industries where these measures are low. MNCs tend to move at relatively high speed - fast rates of new product introduction, frequent technological advances, escalating customer demands, or frequent refreshing of the brand message, such as the advanced consumer elctronics and high-performance diesel engines. Further, MNCs are generally not losing these positions and in some cases, are strengthening them.

In contrast, Chinese companies tend to lead in slow-moving businesses where product capability and design change less often, broad distribution is critical, customer needs change less frequently, production cost is a high percentage of price, or factory capital-intensity is high. Major Chinese players, found operating in this area, are generally the survivors of fast-growth rivalries with other Chinese producers, where the basis of competition has been price, product reliability, production capacity growth and distribution.

In the paints & coatings industry, Nippon Paint (China) holds a commanding share of the world's largest and fastest growing paint market - China. It is the largest and most technologically advanced paint manufacturer in China. It has also positioned itself in the high-end products, with sales of VOC-free and eco-friendly powder coatings, growing at an annual rate of 20 per cent.

Strategic leverage

The three kinds of methods MNCs and emerging challengers use to tilt outcomes in their favour are: by aggressively moving into new, fast-growing segments; better managing the convergence in costs across advanced and emerging markets; and reworking the value chain. More generally, R&D- and advertising-intensity are the most robust markers across countries, where MNCs are present. Traditionally, they invest heavily in R&D to fuel their growth. For example, Akzo and PPG invest 3 per cent and 3.2 per cent of sales in

R&D, respectively. In India, Asian Paints is the only company that made to the list of 100 top R&D spenders in India (Business World 2006), ranking 64th, with an R&D expenditure of 0.6 per cent of sales.

MNCs start with advantages in terms of marketing and technological know-how. They can also circulate this know-how globally and adopt the same to local markets. Despite the current recession, both coatings producers & suppliers of raw materials and intermediates are continuing to invest in R&D because of the importance of innovation in exploiting rising demand in a revived economy.

Broadly, MNCs such as PPG and Akzo can be characterised as starting with an advantage in 'aggregating' across the world, as well as the generally more resources available to them. Aggregation is the ability to achieve cross-border economies of scale and scope on the basis of their market positions and broad experience with products, processes, advanced technologies, customers, channels, supplier networks, partners, regulators and so on.

In contrast, local challengers often base their cross-border strategies on leading positions in large home markets and operations well-adapted to the local context. Asian Paints, with over $ 1 billion in sales and operating in 22 countries is such a case. This type of company prevails at home by adapting to what are often severe domestic operating conditions – a large population of rural poor, weak distribution, unreliable suppliers, uneven infrastructure and so on. However, a big chunk of Indian paint companies operate in the unorganised sector (43 per cent of the industry), reflecting their less developed home markets, having few, more standardised product and service offerings, in contrast to the established MNCs' differing regional product lines and even brand positions. Indian companies operating in the organised sector offer stronger quality programmes, and a high level of standardisation than the smaller players.

Having understood the complexity of the Indian scenario, effective MNCs operating in India are adapting to these unique environments, and are working to neutralise any cost disadvantages against local competitors. This takes organisational patience, attitude changes and considerable investment in these local markets. For example, Nippon and ICI (Akzo) have broadened product lines to address needs, and are slowly driving into rural markets by creating new distribution channels. Innovation by MNCs is a major reason why less cost does not always prevail. Large multinationals do not give up on earning price premiums in emerging markets.

Despite the current recession, both coatings producers & raw materials suppliers are investing in R&D due to the importance of innovation in exploiting the rising demand in a revived economy.

Indian challengers need to be careful in going neck and neck with MNCs. In other situations, the optimal response may not be to attack or to ally, but to avoid established MNCs (at least in the short-to-medium term) by focussing on undeserved segments, or on new ones or on emerging segments/industries altogether. There are a number of Indian paint companies that do not see the need to internationalise and operate outside India to retain their advantage.

Indian companies must also move up the arbitrage ladder (the ability to exploit differences in cost or product standard) at home by upgrading their workers and value propositions, especially since the arbitrage opportunity at home may no longer be reserved for domestic companies anymore, as this was witnessed in the IT indsutry. IBM and Accenture, for example, have responded to the explosive profitability and growth of TCS, Infosys and other India-focussed competitors by building up their own operations in India, lowering their costs as well as raising those of their competitors.

Into the future

It would be a mistake to interpret rapid growth in India as a guarantee that many more Indian companies will emerge in large numbers as full-fledged MNCs in the paints & coatings industry. Adaptation in the local markets may be a tall order for MNCs, but aggregation for challengers is equally or more difficult.

There are two significant differences between today's competitive situation when it comes to established and aspiring multinationals, and a generation ago when Japanese companies caught many western MNCs by surprise. The Indian economy is not only big and growing but essentially open, with some notable exceptions, to MNCs. Even Indian politics has shifted to favour atleast partial modernisation.

The other difference is the readiness of MNCs. Twenty-five years ago, they had ageing product lines, no quality programmes, no sense of emerging markets' importance, and kept their rising management stars home. Today, this has changed significantly. The interplay between Indian challengers and established MNCs is bound to be one of the more interesting competitive stories to unfold over the next few decades.

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