



Time for Cooperation? The Chinese and Western European Coatings Market

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Key Coatings Markets China and Western Europe

In 2015, the global coatings market had a size of about US\$130 billion. By region, Asia (APAC) is now leading with 44%, followed by about 30% for Europe (EMEA, i.e., including Africa and Middle East) and 26% for the Americas (Fig. 1).

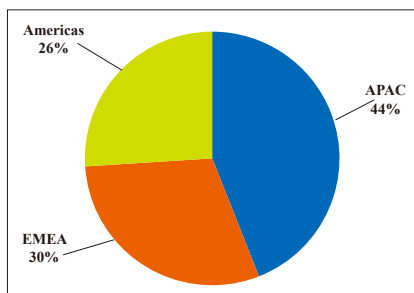


Fig. 1: Regional share of global coatings market 2015 (source: company reports, PPCJ, MCC)

Both the EMEA and the APAC region are in turn dominated by much smaller geographical areas, Western Europe and China, each of which account for about one quarter of the global market. These two regional coatings markets are the focus of this paper.

Similarities

The two markets share a number of characteristics. Compared to other regions, the Western European and the Chinese coatings market are still highly fragmented despite an ongoing consolidation process. While the top 10 players have a combined global market share of about 55%, their share is below 50% in both Western Europe and China (Fig. 2 and 3).

The fragmentation of the coatings market is partly due to historical reasons, but also a consequence of the large range of

coatings applications, each of which requires different products (Fig. 4). Most coatings producers focus on only a limited number of applications rather than truly competing in the whole market. As a result, mid-size players – particularly in Western Europe – are among the leading players in specialty segments such as Jotun in marine coatings, Hempel in protective coatings, DAW Caparol in decorative paints, Mankiewicz in auto interior, Mader in rail, Tiger for specialty powders coatings, Beckers in coil coatings or Treffert for wood flooring.

Coatings applications include both those which are dominated by B2B business and those (such as decorative coatings) in which B2C plays an important role, requiring channel and brand strategies adapted to the specific coatings segment.

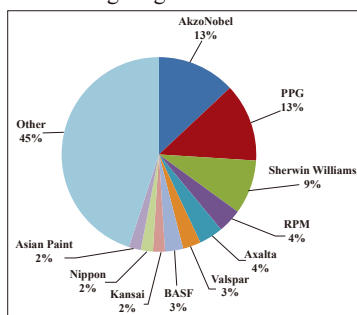


Fig. 2: Market share of top 10 leading global coatings producers. Top 10 producers account for 55% of total global market (Source: Company reports, Coatings World, MCC)

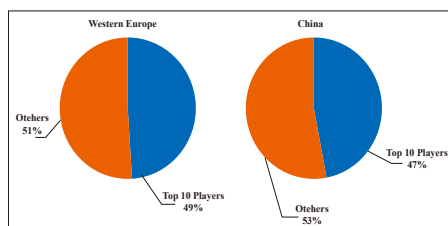


Fig. 3: Combined market share of top 10 leading coatings producers in Western Europe and China (source: company reports PPCJ, Coatings World, MCC)

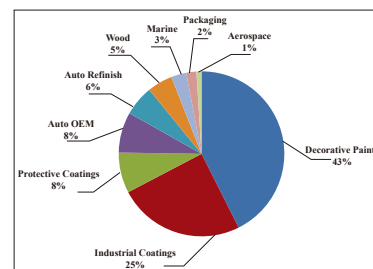


Fig. 4: Value share of global coatings market by application (source: company reports, MCC)

Finally, as environmental regulation in China becomes stricter, both the Western and the Chinese coatings markets are affected by a similar trend towards certain coatings types (e.g., water borne) and away from others (e.g., solvent based). Other trends also affecting both markets are increasing performance requirements for all types of coatings, customer demand for increased productivity of coatings application and increasingly global setup of the industrial value chain.

Differences

Despite these similarities, there are also many differences between the coatings markets of the two regions. Europe’s coatings market is mature and offers limited opportunities for future growth. In contrast, China’s coatings market has been growing at an approximate annual rate of 18% in the past decade. In particular, whole customer segments grew much faster in China than elsewhere, which has thus turned China into the leading center of excellence for applications such as marine coatings, container coatings and coatings for consumer electronics and appliances.

A second obvious difference is the market participation of local Chinese players. In fact, three groups of players compete



for market share in China – not only the leading global players and international mid-size companies, but also local Chinese companies.

These three groups have adapted rather different approaches to capturing market share in China, with the specific approach chosen also depending on the coatings segment, as shown in Fig. 5.

Some markets such as decorative coatings or auto refinish are very local markets. In these markets, the global market leaders have been quite active, establishing local production, expanding it, and covering some lower ends of the market by minor acquisitions of local companies (e.g., AkzoNobel’s acquisition of local auto refinish company Prime in order to better target the mid-level market via a two-brand strategy). Local players have also benefited from the growing market via expansion of their production capacities. In contrast, mid-size European players have generally only made efforts to participate in this market via distributor-driven imports and licensing.

The leading global coatings producers have also made substantial investment in China targeting markets such as Auto OEM, marine coatings and aerospace. These markets are quite global – products have a consistent worldwide specification, and key accounts are the main customers. The need to supply these key accounts locally was a strong motivation to establish local production and also guaranteed some sales volume right after production start. Due to the high technological level and global nature of the market, local players so far have only shown limited activities in these segments.

Coatings markets such as wood, consumer electronics and containers have shown a strong shift towards Asia and particularly China in the more recent past. This has given local players more opportunities to compete via capacity expansions, particularly as many of the key customers in these segments are also Chinese rather than global companies. These local players now strive to improve their technology in order to capture more than just the lower end of the market. Mid-size European players globally specializing in specific segments have also set up local capacity in China in order to maintain their global market share.

Finally, in smaller, more fragmented markets such as heavy machinery, agricultural equipment, machine tools or electric insulation, the picture is less consistent as the approaches taken by the different types of players vary substantially by segment and individual company.

Over all market segments, the global leaders have mainly focused on establishing and expanding production capacity – for example, AkzoNobel now has production at 11 different locations in China including some in Western Chinese provinces (Sichuan), a clear indication of their ongoing localization process. PPG has 4 000 employees at 8 different Chinese locations and has just started local production of high-performance electrocoat coatings. Both have also made some smaller acquisitions with a China component, e.g., AkzoNobel’s acquisition of Prime, which allows them to protect their brand while allowing them to target the lower end of the market via the acquired Chinese brand, or the strengthening

of local competitors.

The current momentum thus seems to be with the leading global coatings producers, while both local players and mid-size European players may be less well-positioned to benefit from the expected further growth of the Chinese coatings market – though for different reasons. We believe that cooperation between mid-size European players and domestic coatings producers has the potential to allow them to compete with the leading global players on a more even footing. Such cooperation would benefit both sides:

Chinese coatings producers would profit from access to advanced Western technologies such as water borne coatings, UV coatings, green technology and many others. The aspect of access to technology also includes areas such as modern application processes. Furthermore, typical mid-size European players have close customer relationships and market knowledge in strategic market segments such as transportation, wood coatings, and energy.

Mid-size European coatings producers could utilize such cooperation to gain critical mass – something they may not have the investment capital to achieve on their own. Perhaps more importantly, cooperation with Chinese partners would allow them to reduce the risk of entering the Chinese market, and to facilitate the establishment of local production. Local production will in the medium term be vital to be competitive, as the benchmark cost of coatings will more and more depend on the price of raw materials and production costs in China. And of course, partnering with Chinese companies gives them access to end customers in China.

As the coatings market becomes more global, in the long run only players with a global presence will remain competitive. The leading global coatings producers already have such a global presence. For Chinese producers and mid-size European players, cooperation offers a chance to achieve at least some of the benefits of developing and producing for a global market. ■

Segment	Type of Player	Licensing/ Distribution	Greenfield Production	Capacity Expansion	Minor Acquisition	Major Acquisition
Decorative Refinish Protective Coil Appliances	Global Top					
	Global Mid					
	Local					
Auto OEM Packaging Marine Aerospace	Global Top					
	Global Mid					
	Local					
Wood Auto components Container Consumer Electronics Transportation	Global Top					
	Global Mid					
	Local					
Heavy Machinery Energy Appliances Electric Insulation	Global Top					
	Global Mid					
	Local					

Fig. 5: Expansion strategies in China’s coatings industry by coatings segment and type of company

of PPG’s distribution in China via the IVC acquisition. In contrast, the activities of mid-size European players have been restricted to some careful investments but also show a general trend towards some localization of production. Interestingly, local players so far have relied on organic growth for their development rather than on the acquisition