



TIME FOR COOPERATION?

The Chinese and Western European Coatings Market: A look at similarities and at differences in both markets, as well as how medium-sized European and local Chinese companies could benefit from each other through cooperations.
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In 2015, the global coatings market had a size of about 130 billion USD. By region, Asia-Pacific (APAC) is now leading with 44%, followed by about 30% for EMEA and 26% for the Americas. 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.

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.

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. 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. As environmental regulation in China becomes stricter, both the Western and the Chinese coatings market are affected by a similar trend towards certain coatings types, e.g., water borne. Other trends also affecting both markets

are increasing performance requirements, increased productivity of coatings application and increasingly global setup of the industrial value chain.

DIFFERENT APPROACHES TO CAPTURE MARKET SHARES

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 turned China into a global center 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 depending on the coatings segment (*Table 1*).

MARKET STRUCTURE IN VARIOUS SEGMENTS

Some markets such as decorative coatings or auto refinish are very local. In these markets, the global leaders have been quite active in establishing and expanding local production. Domestic players have also benefited from the growing market via expansion of their production capacities. In contrast, mid-size European players have generally

Table 1: Expansion strategies in China’s coatings industry by coatings segment and type of company.

Segment	Type of player	Licensing/ distribution	Greenfield production	Capacity expansion	Minor acquisition	Major acquisition
Decorative Refinish Protective Coil appliances	Global top		x	x	x	
	Global mid	x				
	Local			x		
Auto OEM Packaging Marine Aerospace	Global top		x	x		
	Global mid					
	Local					
Wood auto components Container Consumer electronics Transportation	Global top		x	x		
	Global mid	x	x			
	Local	x		x		
Heavy machinery Energy Appliances Electric insulation	Global top		x	x		
	Global mid	x		x		
	Local					

only made token 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 shifted strongly towards China. This has given local players opportunities for capacity expansions, particularly as many customers in these segments are 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.

MEDIUM-SIZED COMPANIES ARE INVESTING CAUTIOUSLY

Over all market segments, the global leaders have focused on establishing and expanding production capacity. For example, Akzo now has production at 11 different locations in China, a clear indication of their ongoing localization process. PPG has 4,000 employees at eight 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., Akzo’s acquisition of Prime, which allows them to target the lower end of the market, or the strengthening 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. Interestingly, local players so far have relied on organic growth for their development rather than on the acquisition 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 benefit less from the expected further growth of the mar-

ket. 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 as well as and 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 be able to achieve on their own. Cooperation with Chinese partners will reduce the risk of entering the Chinese market and facilitate local production and sales. Local production will in the medium term be vital as the global benchmark cost of coatings will more and more depend on the price of raw materials and production costs 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.



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