



RELATIONSHIPS RULE IN Architectural Coatings

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Overcoming the challenges presented by the slowed economy and devastated housing market while facing rising raw materials prices, issues with some raw material availability, and increasing regulatory burdens will not be easy for the architectural coatings segment. The building of stronger relationships between various links in the supply chain, however, is one approach that contractors, raw material suppliers, coating manufacturers, and architects find to be highly beneficial.

Fortunately, it appears that business is improving in the coatings industry overall. In an Economic Benchmarking Survey conducted by the American Coatings Association in the second half of September 2010, nearly half of the manufacturers and 85% of suppliers and distributors that participated in the survey reported that business had improved over a year ago. The most significant perceived risks facing the coatings industry for both manufacturers and suppliers, according to the survey results, are raw materials pricing and availability, lagging consumer demand, and regulatory pressures.

In response to raw material constraints, companies reported that they had substituted a

different raw material or switched to a different supplier or grade of material where possible, or, alternatively, had only partially filled orders, discontinued production of one or more product lines, or idled production capacity. A number of respondents characterized the problem as an issue of their inability to pass along price increases to customers. Respondents indicated that volume reduction and margin shrinkage due to market price resistance as well as limitations on growth are resulting from raw material shortages and rising prices. Some respondents, though, view supply issues as short-term concerns, with increasing regulations and political uncertainties presenting a greater risk for the long term.

Recently, however, the availability of supply and the issue of rising raw material prices have placed some stress on the relationships between resin, additive, and pigment suppliers and paint manufacturers. "We have very strong relationships with most paint manufacturers—nationals, big regionals, and independents—and work closely with them to identify market needs and direct product development efforts," notes Joseph R. Johnson, field marketing manager for Architectural Coatings with Dow

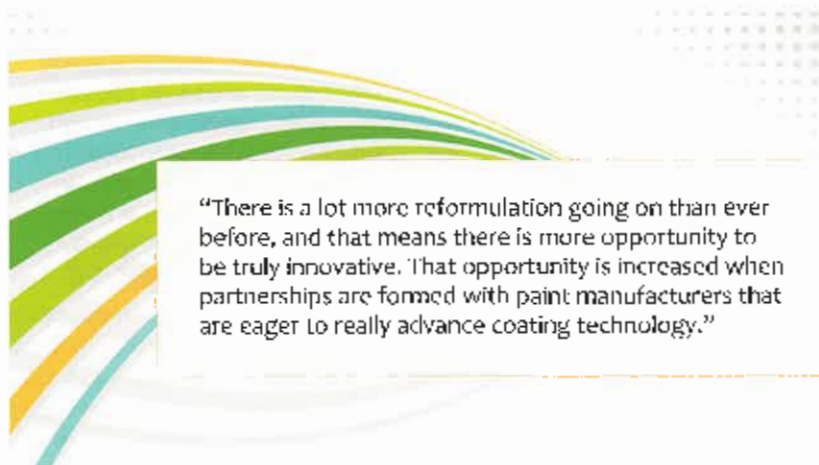
Coating Materials. "The sales controls, allocations, and force majeurs on certain raw materials have led manufacturers to reevaluate the relationships they have with their suppliers, though, and many are looking to identify co-suppliers rather than rely only on a single source for key raw materials. Add in the fact that resin, additive, and pigment producers have been forced to frequently pass price increases on to their customers in recent years, and it is not surprising that some tension has developed."

In general, there is a trend for paint manufacturers to be conservative on cost, agrees Diana Strongosky, vice president of R&D for the Coatings Division of The Sherwin-Williams Company. "People have been focused largely on the short term, particularly availability of raw materials. This intense focus has led to a deepening of some paint manufacturer/supplier relationships and a weakening of others. There is no doubt that the situation has forced paint producers to evaluate their options."

Whether it is raw material availability or increasing regulatory restrictions, Strongosky emphasizes that the solution to overcoming these challenges is innovation. "Innovative technology that can really move the industry forward is crucial for continued growth. Our customers want coatings with novel functionality that can do things not previously expected, and we need to come up with the technology to provide those products. Such advances will require collaboration with suppliers and partners inside and outside the coatings industry. Despite the tensions resulting from raw material availability and pricing issues, we plan to continue partnering with our strategic suppliers in order to achieve that goal."

Johnson agrees that suppliers and paint manufacturers must keep working closely together, not only to develop new products, but to find ways to make the end user understand that price increases are necessary in order to keep the coatings industry healthy and viable. In addition, suppliers must provide real value. "We continue to have multi-level and multifunctional relationships with paint manufacturers in order to be able to provide new technologies that will enhance the value of coating products. Without that added value, we will revert back to a simple pricing game that will be truly detrimental to the industry. Having those strong relationships with our customers makes it possible to provide that value."

In fact, those collaborations are becoming increasingly necessary, according to Master Painter's Institute (MPI) president Barry Law. "Consolidation of paint manufacturers combined with the recession has resulted in declines in R&D investment by formulators, with this function transferred back to the level of the resin and additive suppliers," he



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notes. In addition, with regulation and certification requirements changing so rapidly, paint companies do not have time to completely develop new products that are compliant, and thus are relying more on the raw material suppliers to come up with the best solutions possible given the time frames in which they must work. "Therefore," he observes, "the relationships between coating manufacturers and raw material suppliers must strengthen in order for both to be successful."

Regulatory pressures are not always viewed as a negative, though. "We choose to look at the changing regulatory environment as an opportunity to create novel materials. Regulations have opened the paint can and enabled resin and additive suppliers to ramp up their R&D efforts. There is a lot more reformulation going on than ever before, and that means there is more opportunity to be truly innovative. That opportunity is increased when partnerships are formed with paint manufacturers that are eager to really advance coating technology."

With the short development windows often created by changing regulations, it is also critical that formulators get reliable information from end users such as architects and contractors about what improvements are needed. Sherwin-Williams, according to Strongosky, interacts with architects on a number of levels, including marketing and sales, which take part in the specification process for different projects, and R&D, which may get involved in product development to meet unique product properties for a specific application. Company representatives work closely with architects to help train them on general coatings issues, the properties and characteristics of new products, and other areas such as product compliance with standards and regulations.

For Peter Pfeiffer, a principal with Barley & Pfeiffer Architects, the quality of the paint is absolutely critical, as is choosing the right paint for each



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application and following the proper preparation and application procedures. While he knows something about paint from his days painting rental properties with his siblings for his parents, he still finds the advice he gets from knowledgeable paint company representatives to be invaluable. "I am always looking to learn more about the coatings that are available and the technology behind them so that I can be sure I am specifying the proper prep and application procedures and the most durable paint for the job," he comments. "I have good relationships with the paint manufacturers whose reps can provide that information quickly and are also responsive if there is a problem at a job site and are willing to help address the issues, whether it is product- or application related." He adds that distribution channels are also important, because easy access to the product is crucial for time-constrained projects.

Meanwhile, Mike Kolansky, an associate with ADA Architects, prepares specifications for public painting projects (schools, municipal buildings, etc.) and works from a MasterSpec[®] for many materials that require the paints he specifies to comply with MPI standards. "Because most of the architects working from these specs, and many of the contractors as well, aren't familiar with MPI standards, I find it best to identify products that meet the standards and include them in the specifications. As a result, my interactions with paint company reps have increased in the last 5-10 years, and having access to knowledgeable people is very important."

The changes in coating formulations as the result of regulations and the growing green building movement are also having an impact on the relationships between members of the supply chain. As mentioned above, these pressures are driving raw material suppliers and coating manufacturers closer together, but they are placing some strain on interactions between architects, paint companies, and contractors. "The green move

ment is driving growth for some aspects of the coatings market, but it also is having unintended consequences, which are largely derived from the reduced performance of many of the 'greener' products now in the marketplace," Law says. He does add that quality is improving for many waterborne alternatives to traditional solvent-based coatings, but in certain applications improvement is still needed.

Paint companies and suppliers are committed to sustainability and the development of "greener" products at the highest corporate levels, according to Johnson. There is still some question about what "green" means, though, and this uncertainty can be troublesome. "It seems that most people are wrestling with the definition of green products: does it mean low odor, low VOCs, no alkyl phenol ethoxylates (APEs), or minimized carbon footprint? The existence of numerous different standards and certifications adds to the confusion for everyone from raw material suppliers to contractors and do-it-yourselfers." Recently the Federal Trade Commission issued Guides for the Use of Environmental Marketing Claims to prevent the false or misleading use of environmental terms in product advertising and marketing and reduce consumer confusion. It remains to be seen if this action will have any real impact.

The end consumer is also an influential audience in the supply chain, and this group is becoming more aware than in years past about the subject of green, so this trend will continue to grow as their demand for greener products increases, according to Debbie Zimmer, Director of Communications and Alliances for the Paint Quality Institute (PQI), an independent source of information on the benefits of using high quality paints and on cutting-edge trends such as color, decorative techniques, and innovative new ways to use paint.

Therefore, the problem also stems from the fact that everyone feels that they need to be seen as being green. As an example, Law points to architects that specify exterior paints that meet the LEED standard for interior coatings. There is no exterior standard for LEED, and often the products selected do not perform as well as the conventional materials. That can lead to problems such as rusting metal pipes (due to reduced corrosion protection from waterborne primers); but, often, the pipes are simply repainted rather than having the specification changed. "The end result is increased consumption of resources, which can be more detrimental from a 'green' perspective and certainly is more costly," Law states.

Generally, architects receive minimal training on coatings, and most of that is related to selection of paint colors. Therefore, it is imperative that

they develop good, long term relationships with paint manufacturer representatives. The interactions between architects and contractors is often more contentious. Architects, according to Law, tend to be suspicious of many contractors, fearing that they will provide only self-serving advice. "While they are rightfully skeptical, there are many very good contractors that can help save money on a job, either by identifying a higher performing product for a demanding application, or recommending a less expensive alternative where a high level of performance isn't required."

Contractors, in turn, are often frustrated by architects. Allen Tabrizi, president of national painting firm Raider Painting, typically interacts with architects through the general contractor, but also receives calls from architects who are looking for advice on a regular basis. He has found that most difficulties arise when a specialty coating is required for highly technical applications. "It would be beneficial to the industry if there were more training for architects on the chemistry and physics of paints and coatings, particularly for high performance applications," he notes.

Not unlike architects, though, Tabrizi highly values the relationships he has developed with knowledgeable paint manufacturing representatives. "Having access to reps that really understand their products and the fundamentals of paint performance and are responsive to calls for information and assistance is critical because they can help save everyone a lot of time and money, particularly when there is a problem on a job." He adds that the training that paint producers provide is also important, especially for new products, and particularly if new application techniques are required, as is often the case with the newer, greener products that are being marketed today.

Sherwin-Williams, in fact, relies heavily on a wide network of contractors for field testing and validation of both new and existing products. "This network of contractors, with whom we have developed sustainable long-term relationships, provides crucial information about not only our specific products, but also about general qualities and aspects they want to see with respect to application characteristics and the performance of coatings once they are applied," Strongosky observes.

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Training of contractors is also crucial, particularly when introducing new products. In recent years, training has become even more important because contractors often need to understand why they have to switch to a new product as well as learn about the product itself. "New products can be developed to meet new regulations (lower VOC), make it possible to save time (self-priming) or extend the painting season (tolerant to low temperatures or higher humidities). As the regulatory environment continues to remain in flux, and as new and innovative technologies are brought to the market, it is as important to train contractors on the reasons for trying new products as it is to share with them the proper preparation and application techniques, potential areas for use, and the coating performance profiles," believes Strongosky.

While Tabrizi has not had interactions with raw material suppliers, Dow Coating Materials does conduct focus groups and surveys with contractors to learn about the products they use and find out what needs, problems, and issues they have with them. "We also want to learn about their work flow, where the major costs lie in their jobs, and other aspects of the application process that can be impacted by the formulation and the ingredients in it," Johnson remarks.

Independent paint retailers, although responsible for a shrinking percentage of the architectural coatings market, remain important nonetheless and have interactions with most other members of the supply chain. "Because we live and work in the same communities as our customers, independent paint stores offer paint manufacturers a more personal distribution option, and we are fortunate that many realize the value that we provide and continue to aggressively support us," comments Bryan Koerber, president of Budeke's Paint in Baltimore, MD.

For Koerber, building strong relationships is the key to success. He therefore is very active with the ALLPRO[®] buying cooperative comprised of 250+ independent paint and decorative dealers, is a member of and regularly supports and attends local architect association functions, and has numerous outside sales representatives that work closely with local contractors. The ALLPRO group serves as an information and networking resource, and also helps put individual independent retailers on a more level playing field in the marketplace. "Without the buying group, it would not be possible

for independent retailers to remain competitive. It also makes it possible for paint manufacturers to interact with the group as a whole at different events during the year, providing an additional route for effective two-way communication," Koerber says.

Different retailers elect to target different markets. Some prefer to work with national paint manufacturers, while others offer boutique products from smaller or regional producers with a focus on specialty and niche markets. The choices are narrowing, though, according to Koerber. "We have chosen the first option, and have aligned ourselves with Benjamin Moore because we feel they are a company we can easily do business with and who we want to have as a trading partner." He adds that his relationship with the leadership at Benjamin Moore is very strong and definitely a two-way interaction.

Designers and others in the home and commercial décor community are also playing an increasing role. "Many architects and professional contractors

are increasing their interactions with design professionals, and we expect this triangulated approach to achieving 'surface protection and color decoration' will continue to grow," notes Zimmer.

Clearly, the continued development of the architectural coatings market is integrally linked to the interactions between the various members of the supply chain. Underlying those interactions are both tangible and intangible drivers. Product quality and performance are a must. Having good products is not enough, though. "Business is built on relationships. At the end of the day, you need to understand your customer, whoever that may be, and have an established rapport with them in order to provide the products that meet their needs and expectations," observes Koerber. "Future success depends on a foundation of happy customers, but more importantly on how we are doing business today and our plans for doing business tomorrow. And all three are based on developing strong relationships," he concludes. 