Overcoming the challenges presented by the slowed economy and devastated housing market while facing rising raw materials prices, issues with suppliers, 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 challenges 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 pressure.

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 reductions and margin shrinkages 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 materials 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 majeure 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's 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 reliable values. "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 Berry 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 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 new coatings issues, the properties and characteristics of new products, and other areas such as product compliance with standards and regulations.

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For Peter Pfeifer, a principal with Bates & Pfeifer Architects, the quality of the paint is absolutely critical, as is choosing the right paint for each
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 specify 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 always available 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 Kotsakis, 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 ADA standards. "Because most of the architects working from these specs, and many of the contractors as well, aren't familiar with the ADA standards, I find it best to identify that products meet ADA requirements 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 manufacturers and the specifiers. 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 movement is driving growth for some aspects of the coatings market, but it also brings 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. "There are 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. Paint contractors are the first-line of defense for contractors and do-it-yourselfers." Recently the Federal Trade Commission issued Guidelines 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.

Shervin-Williams, for example, is investing in its consumer marketing. "As the marketplace has evolved, Shervin-Williams, like everyone else, has had to evolve to maintain its position," says MarkStock, vice president of national sales. "We are committed to delivering the best possible products that meet our customers' needs, and we are constantly looking for ways to improve these products. Our team is dedicated to providing our customers with the highest quality products and services possible."
“...Dow Coating Materials does conduct focus groups and surveys with contractors to learn about the products they use and how to find out what needs, problems, and issues they have with them.”

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 Tabriz has not had interactions with new material suppliers, Dow Coating Materials does conduct focus groups and surveys with contractors to learn about the products they use and how to 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 improved by the formulation and the ingredients in it,” Johnson remarks.

Independent paint retailers, although responsible for a shrinking percentage of the architectural coatings market, remains important 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 often know their manufacturers better than the large distribution option, and we are fortunate that many realize the value that we provide and continue to aggressively support us,” comments Ryan Koerber, president of Badeke’s Paint in Baltimore, MD.

For Koerber, building strong relationships is the key to success. He is therefore very active with the ALLPRO* buying cooperative comprised of 250+ independent paint and decorating 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 new personal “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 decor 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.

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