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**NIPPON PAINT (M) SDN BHD:
Marketing Strategy 1998-2000**

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NIPPON PAINT (M) SDN BHD: Marketing Strategy 1998-2000

By

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Table of Contents

Part 1: CASE WRITING	2
1. CRITICAL INCIDENT	3
2. COMPANY BACKGROUND.....	4
3. PRODUCTS	9
4. SALES PERFORMANCE	14
5. BRAND AWARENESS.....	20
6. AVAILABILITY OF RESOURCES.....	27
7. RESEARCH AND DEVELOPMENT	29
8. OVERVIEW OF PAINT INDUSTRY	30
9. THREAT OF SUBSTITUTE PRODUCTS.....	33
10. COMPETITION IN MALAYSIA	34
10. ECONOMIC TURMOIL.....	36
11. CONCLUSION	39
Part 2: CASE ANALYSIS	40
A. SWOT ANALYSIS	41
EXTERNAL ENVIRONMENT ANALYSIS.....	43
INTERNAL ENVIRONMENT ANALYSIS.....	47
Opportunities	50
Threats	52
Strengths	54
Weaknesses	55
SWOT Matrix.....	56
B. SPACE ANALYSIS	57
SPACE Chart.....	61
C. PRODUCT LIFE CYCLE.....	62
D. RECOMMENDED STRATEGY.....	71
E. CONCLUSION	79

Part 1:
CASE WRITING



1. CRITICAL INCIDENT

On 20th October 1997, Mr. James Leong, General Manager of Nippon Paint (M) Sdn Bhd (NPM), was considering options for the future marketing strategy of the company, after the 1998 Budget Proposals had been presented by Finance Minister, Datuk Seri Anwar Ibrahim in the Parliament three days ago. NPM had been established in Malaysia for nearly 30 years and currently held about 27% share of the Malaysian paint market. In a recent turbulence in the financial and currency markets in South East Asia countries that caused about 30% depreciation on Ringgit against US Dollar, the manufacturing costs had risen dramatically. Most of the paint companies had no choice but to pass the burden to the consumers.

Mr. Leong called for a meeting to discuss NPM's strategic options for 1998-2000. The group—which included Mr. Lim Kha Tuan, the Marketing Manager, and Mr. Lee Kim Sun, the Product Manager—had to discuss how to protect its current position as the leading paint producer in the country, and at the same time overtake ICI Paint as the most profitable paint producer in Malaysia. *“According to the Economic Report 1997/98, the output of domestic oriented industries expected to be at a slower rate of 10.4% for next year compared with 13.7% this year. This may indicate how tough the situation we are facing in the next few years!”* said Mr. Leong, *“A management meeting will be held on 1st December 1997, that is about one month from now. We are asked to present a marketing plan on that day!”*



2. COMPANY BACKGROUND

Nippon Paint Malaysia (NPM) was incorporated in Malaysia on 21 December 1967 with an authorized share capital of RM500,000, through a joint-venture between the Japanese conglomerate, Nippon Paint Co. Ltd., and local Wuthelam Holding Sdn Bhd (which was now renamed as Hua Joo Seng Enterprise Bhd when listed on the Main Board of Kuala Lumpur Stock Exchange in 1996). The Japanese currently held 21% of equity in this company. Its core business was the manufacturing and trading of paint and paint-related products. NPM's organization structure is depicted in Figure 1. The hierarchy was relatively flat. It was divided into 9 functional departments, all reporting to the General Manager. There were two Japanese in NPM to act as Technical Advisor to the company.

In Asia, Nippon Paint had a total of 24 manufacturing and marketing operations in 10 countries, including: Japan, Singapore, Malaysia, Philippines, Indonesia, Taiwan, South Korea, China, Vietnam, and Hong Kong. Each plant was fully integrated and capable of independent operations, from sourcing to production, warehousing and distribution. This decentralized system of management autonomy enabled each operation to respond more immediately to market changes. Nippon Paint Group was rated as the sixth largest paint producer in the world. Its values and objectives are shown in Figure 2.

Figure 1: NPM ORGANISATION CHART

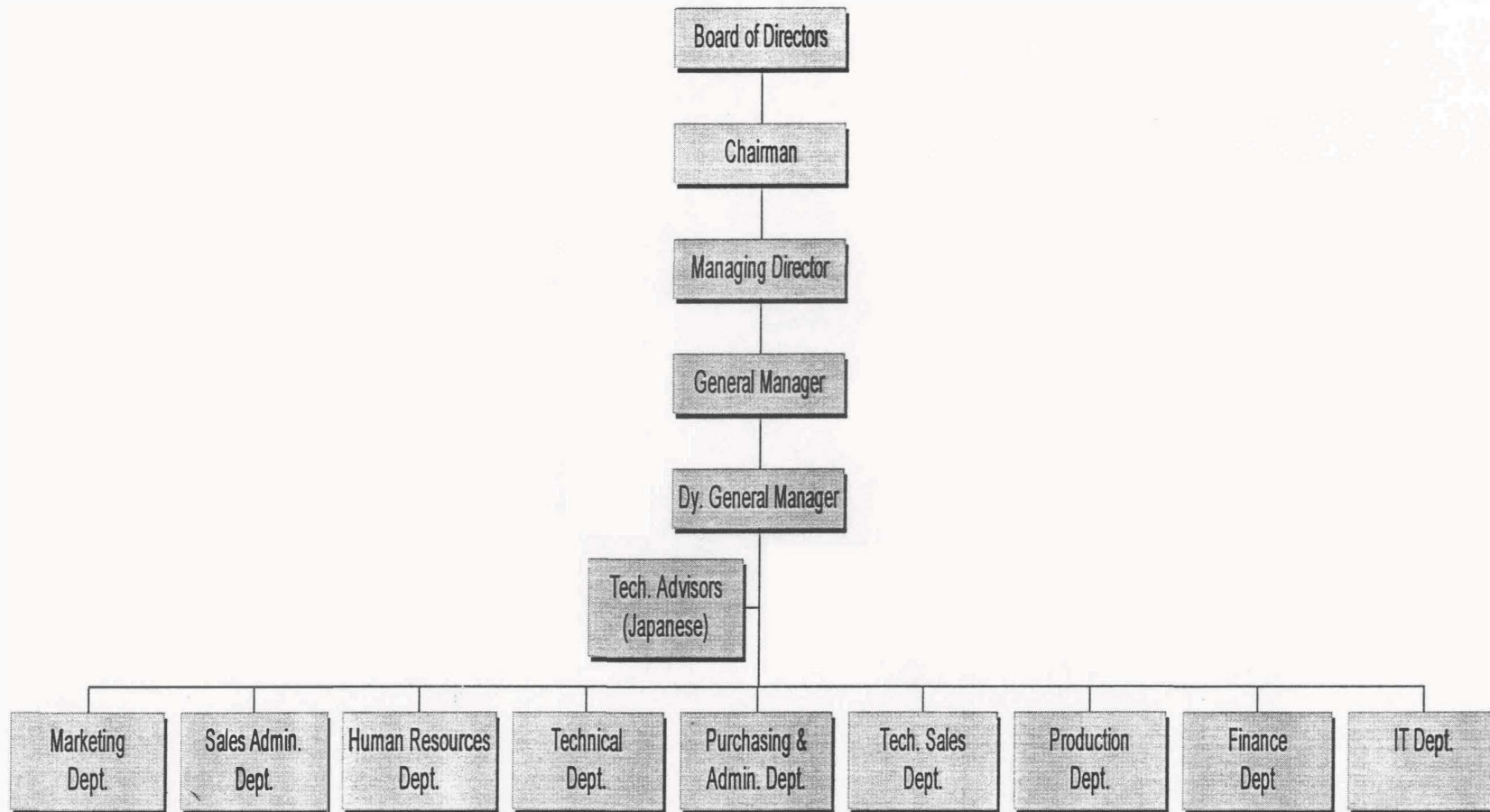


Figure 2: VALUES & OBJECTIVES OF NIPPON PAINT

<i>VALUES</i>	
ENTREPRENEURSHIP	- nurturing the powerful entrepreneurial spirit Installed by the founder to satisfy our customers
PARTNERSHIP	- cultivating and strengthening productive relationships with our business partners
FAIRNESS	- ensuring we are fair and seen to be fair in all business dealings

<i>OBJECTIVES</i>	
CUSTOMER SATISFACTION	- to provide the best value and the highest quality at competitive prices
GROWTH	- to pursue steady and sustainable growth
PEOPLE	- to develop our people to their fullest potential
CITIZENSHIP	- to contribute to the economic and social well being of the community
PROFIT	- to ensure a fair return to our shareholders

By end of 1997, NPM had four manufacturing plants in Malaysia with two in Shah Alam, one in Johor Bahru, and one in Kota Kinabalu. The

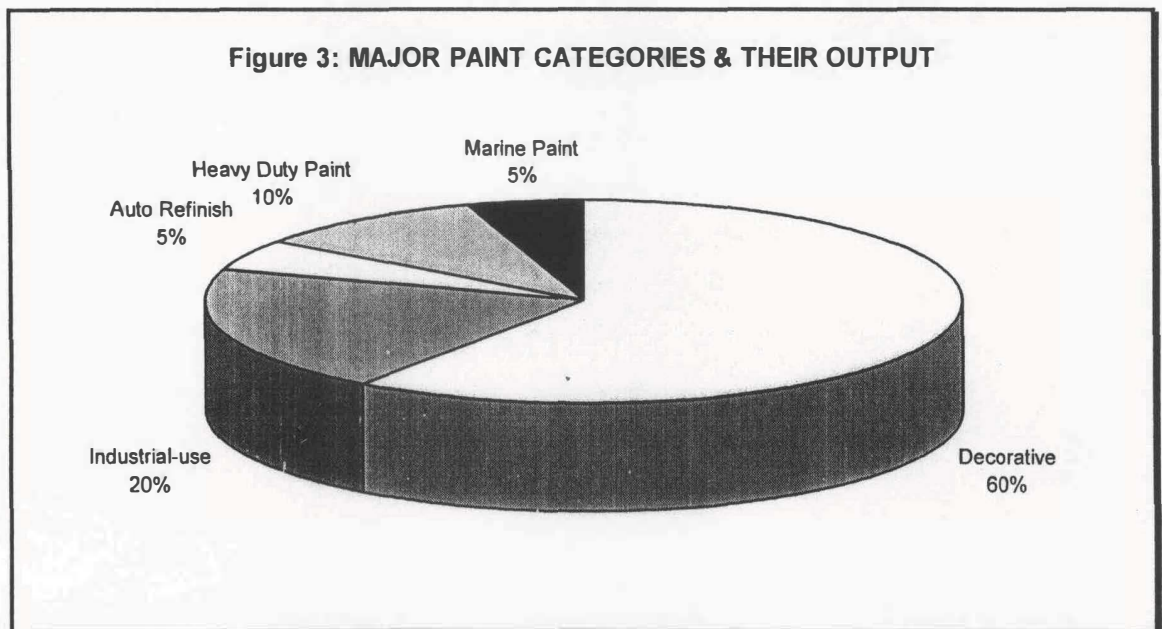
company currently had a maximum annual production capacity of 60 million liters. However, its current sales volume was around 43 million liters. The latest plant in Shah Alam, which was built in 1993, represents part of NPM's expansion plan to meet the increase in domestic demand for paints as well as the expected growth in paint industry in Malaysia.

NPM currently manufactures over 4000 different paint formulations and the paint manufactured can be categorized under five major categories:

- Decorative or architectural coatings;
- Automotive refinish;
- Industrial use coatings;
- Heavy duty coatings;
- Marine paints.

In term of turnover, 60% of the sales came from decorative or architectural coating, 5% from automotive refinish, 20% from industrial use coatings, 10% from heavy duty coatings, and 5% from marine paints (refer to Figure 3). About 98% of the products were sold locally, whilst 2% sold overseas (including Philippines, Singapore, Cambodia, Myanmar, Hong Kong, China and Indonesia). As a testimony of the company's drive to manufacture paint of high and premium quality, products such as *Nippon 9000 Gloss Finish*, *Matex*, *Super Vinilex 5000*, and *Nippon Weatherbond* had been acknowledged by the Standards and Industrial Research

Institute of Malaysia (SIRIM) in meeting with the quality and safety standards specified by them. In addition, NPM was awarded an MS ISO 9002 certificate in 1994 thus signifying its 'quality' image.



3. PRODUCTS

Nippon Paint had formulated and manufactured many different types of protective and decorative coatings for application to all kinds of substrates and in a variety of price ranges. In other words, it was a 'total supplier' of a complete range of paints for every conceivable application. The product range included architectural products (decorative coatings for buildings), industrial coatings (protective, heavy-duty products for protection against harsh, corrosive and destructive environments), Cationic Electro-Deposition (CED) paints for the automobile and motorcycle industries; coatings for electronic appliances, furniture and other industrial products; and marine paints.

What is paint? By definition, paint is a coating that is suspended in fluid form, which when dried will leave a continuous hard film. There are two major usage of paint:

1. to protect the substrates from chemical attack, abrasion, corrosion, etc.
2. to decorate the substrates through its gloss; hue, and textures.

The basic composition of paint are pigments binders, solvents, and some additives. Table 1 shows the functions of each composition.

Table 1: **BASIC PAINT COMPOSITION**

PIGMENTS	To give color, provide hiding and build to the paint.
BINDERS	To bind the pigments and additives together. <i>For water-based system, the binder is latex.</i> <i>For solvent-based system, the binder is resin.</i>
ADDITIVES	To provide specific properties to the paint. <i><u>Example</u>: drier, anti-settling agents, anti-cratering agents, preservatives, thickeners, etc.</i>
SOLVENT	To facilitate paint processing and application. <i>In the case of a water-based system, water acts as solvent.</i>

A complete paint system normally consist of

- ☞ PRIMER or SEALER
- ☞ UNDERCOAT
- ☞ TOP FINISHING COAT

A primer/sealer is the first coat of paint applied to an unpainted or new surface. It seeks to protect the substrate from corrosion (PRIMER) or prevents corrosion from within the substrate (SEALER). An undercoat, on the other hand, is a coating that is applied after the substrate being primed or sealed. It serves to smoothen and level up the surface to give better foundation and build to the top finishing coat. A top-finishing coat is the

final coat of paint applied to give the decorative and protective properties as a full paint system.

The following Table 2 showed some of the popular architectural coatings that were manufactured and marketed by NPM.

Table 2: **NPM ARCHITECTURAL PAINTS**

PRIMER AND SEALER

Nippon 9000 Aluminium Wood Primer
Nippon Red Oxide Primer
Nippon Zinc Chromate Primer
Nippon Etching Primer 120
Nippon Acrylic 5170 Wall Sealer
Vinilex 5100 Wall Sealer

UNDERCOAT

Nippon 9000 Undercoat
Nippon Economy Undercoat

PRIMER AND SEALER

Nippon Weatherbond
Super Matex Emulsion Paint
Super Watex Emulsion Paint
Super Vinilex 5000 Emulsion Paint
Nippon 9000 Gloss Finish
Nippon 9000 Aluminium Paint
Nippon Satin Glo
Nippon 3-in-1 Elastomeric Paint
Nippon Q-Lite Emulsion Paint
Nippon Q-Lac Gloss Finish
Nippon Polyurethane Finish
Nippon PU Recoatable Finish
Nippon Floor Dressing
Nippon Timber Finish
Nippon Tilelac Texture Finish
Nippon Roof Coating

In the area of automotive coating in OEM (Original Equipment Manufacturer) market, NPM was the only paint producer in Malaysia to offer an 'entire' paint system to the automotive industry. The process began with chemically cleaning the car body off contaminants and then protecting it with a layer of chemicals against corrosion. Cationic Electro Deposition (CED) followed next, a method of applying paint electrically to reinforce the protective properties of the chemical coating. This was later followed by a primer and finally, adding the finishing touch with a choice of topcoat in either pearl, metallic or solid colors. NPM's high quality products such as Superlac, Superpylac, and Orga Paint had been generally well received by the market. Its customers included some leading cars' makers like Toyota, Honda, Nissan, Mercedes-Benz, Peugeot, and also our national car producers like Proton and Perodua, etc.

Besides, NPM was also the market leader in supplying paint to the local motorcycle industry. It gained about 80% market share in this area.

To propel Malaysia toward the status of the developed nation, the government had embarked on a number of aggressive projects. Amongst these were infrastructure projects for power plants, telecommunication and the expansion of port facilities. These efforts had directly or indirectly generate a greater demand for heavy-duty paints. Structures like steel pipes, bridges, and storage tanks were susceptible to corrosion. NPM managed to offer a wide range of sophisticated heavy-duty paints such as Copon EA-4, Copon EA-9, Copon 8048, Copon Arocoat, etc., to protect the



substrate corrosion and weather elements and thus enhanced their life span.

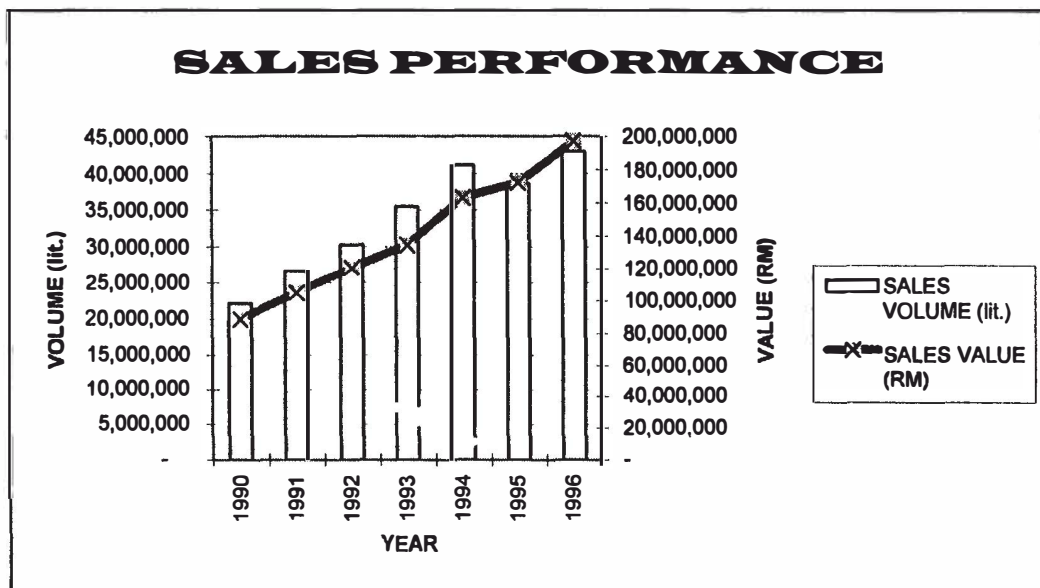
Being a company with a Japanese identity NPM's paints enjoyed greater preference among Japanese manufacturers in Malaysia. Some examples were the Matsushita Group, Sharp Roxy Appliances Corp. (M) Sdn Bhd and Sanyo Industries (M) Sdn Bhd.

4. SALES PERFORMANCE

Malaysia's buoyant economy during the mid-1990s had created a positive impact on NPM. During this period of time, demand for paint had increased tremendously resulting in a great improvement in the sales performance of the company. Sales of paint had increased in almost all categories, namely decorative and architectural coatings, automotive refinish, industrial use coatings and heavy-duty coatings.

The following Figure 4 shows the overall sales performance of NPM from 1990 to 1996:

Figure 4: SALES PERFORMANCE 1990-96



In term of sales value, NPM recorded more than 11% growth annually throughout the years, except for 1995, which achieved only 5.4% growth rate. In that particular year, a major price increase of NPM's products due to increase of raw material prices had affected the company turnover. In 1996, NPM had earned RM197.2 million, i.e., an increase of 122% compared to 1990. In term of volume, it registered a 94% growth from 1990 to 1996.

In 1996, the construction sector registered a growth rate of 13%, higher than the real GDP growth rate of 8.2%. This together with the increase in disposable income of Malaysian in general had fueled the increase in demand for this category of paint. Remarkable growth had been shown in the sales of decorative and architectural paints such as Nippon Weatherbond, Satin Glo, Nippon Roof Coating, Super Vinilex, Pylox and Q-Lite Emulsion. In August 1996, a new technological breakthrough product known as Nippon 3-in-1 was introduced to the market. It was the only household paint available in the market to solve three of the biggest problem that affected walls, namely, stains and dirt, hairline cracks and watermarks. This paint was washable, able to cover hairline cracks through its elastomeric nature, and waterproof. About RM2.8 million was spent on television advertisements to create greater public awareness of the product. Sales promotions were also carried out nation-wide at high-traffic superstores to attract the general public. Sales for this product had been well within expectation.



The number of vehicles on the road was growing for the past few years. This had resulted in an increase in demand for 'touch-up' and 'total re-spray' automotive refinish paints. Sales of Nippon Automotive Refinish recorded moderate increases throughout the years.

In term of product mix, 42% of the sales came from premium product range such as Nippon Weatherbond, Satin Glo, Nippon 3-in1, Nippon Roof Coating, Nippon 2K-1K Metallic Auto Refinish, Nippon Auto Refinish, i.e., an increase of 13% compared to 1990. This might be due to higher standard of living and increased purchasing power The following are some of the major products' sales figures from 1990:

Table 3: **MAJOR PRODUCT SALES PERFORMANCE**

(A) SUPER MATEX

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	29.78	
1991	33.26	12%
1992	36.49	10%
1993	37.86	4%
1994	42.01	11%
1995	39.97	-5%
1996	41.31	3%

(B) NIPPON WEATHERBOND

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	3.23	
1991	4.78	48%
1992	6.96	45%
1993	9.39	35%
1994	13.23	41%
1995	14.38	9%
1996	17.39	21%

(C) SUPER VINILEX

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	0.20	
1991	0.28	40%
1992	0.76	173%
1993	0.88	16%
1994	0.68	-23%
1995	0.53	-22%
1996	0.96	81%

(D) SUPER WATEX

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	0.90	
1991	1.63	81%
1992	1.75	8%
1993	1.82	4%
1994	2.61	43%
1995	2.18	-16%
1996	2.46	13%

(E) SATIN GLO

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	0.24	
1991	0.51	118%
1992	0.91	76%
1993	1.56	72%
1994	2.45	58%
1995	2.73	11%
1996	3.51	29

(F) Q-LITE EMULSION

YEAR	SALES (RM'000,000)	GROWTH RATE
1994	0.01	
1995	1.90	20,285%
1996	3.32	75%

(G) NIPPON ROOF COATING

YEAR	SALES (RM'000,000)	GROWTH RATE
1995	1.07	
1996	1.23	15%

(H) NIPPON 9000 GLOSS FINISH

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	12.54	
1991	14.47	15%
1992	15.77	9%
1993	16.24	4%
1994	21.52	32%
1995	21.91	2%
1996	21.46	-2%

(I) NIPPON SUPREME GLOSS FINISH

YEAR	SALES (RM'000,000)	GROWTH RATE
1994	0.89	
1995	1.53	72%
1996	0.31	-80%

(J) NIPPON TIMBER FINISH

YEAR	SALES (RM'000,000)	GROWTH RATE
1992	0.55	
1993	0.72	31%
1994	0.98	37%
1995	1.40	45%
1996	1.47	5%

(K) NIPPON 2K-1K METALLIC

YEAR	SALES (RM'000,000)	GROWTH RATE
1992	0.26	
1993	0.51	97%
1994	0.76	49%
1995	0.73	-4%
1996	0.91	25%

(L) NIPPON AUTO REFINISH

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	4.36	
1991	4.06	-7%
1992	4.25	5%
1993	4.47	5%
1994	5.02	12%
1995	5.64	12%
1996	6.44	14%

(M) BINTANG AUTO REFINISH

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	0.23	
1991	0.72	212%
1992	0.98	37%
1993	1.04	6%
1994	1.37	32%
1995	1.57	14%
1996	1.54	-2%

(N) PYLOX

YEAR	SALES (RM'000,000)	GROWTH RATE
1990	0.52	
1991	0.78	50%
1992	0.93	19%
1993	1.06	14%
1994	1.41	33%
1995	2.07	47%
1996	3.16	52%

5. BRAND AWARENESS

NPM had been in Malaysia for 30 years. It was presently the largest paint producer in this country, enjoying about 27% market share. Its products were particularly well received as high quality products in construction and industrial sectors. NPM had appointed more than 2,500 dealers in all strategic locations and upcoming towns in order to bring its product nearer to its customer so as to widen its customer base. To further shorten the delivery time to the customers, 15 sales depots were set up throughout the country, i.e. at least one in every state, to stock up the paints. More than RM3 million was spent each year to advertise its products in all type of media, including television, magazines, newspapers, etc. Despite all this, it was found that the brand awareness on Nippon Paint's products was still behind its closest competitor, ICI Paint. *"Every time people mentioned about paint, they automatically relate it to ICI. I think this is mainly because they had been here for more than 45 years, and most importantly, they afford to spend a lot of money on extensive advertising program throughout the years."* said Mr. Lee, the Product Manager. *"We're spending RM3.3 million this year for TV commercials, whereas ICI spends around RM4.2 million."* added Mr. Lim, the Marketing Manager.

In order to determine the effectiveness of its advertising program and also to monitor the paint market trend, NPM had engaged a survey firm, Frank Small & Associates, to conduct a paint market tracking study. The following are some of the statistics obtained.



Figure 6: 'FIRST BRAND' WHEN PURCHASE PAINT

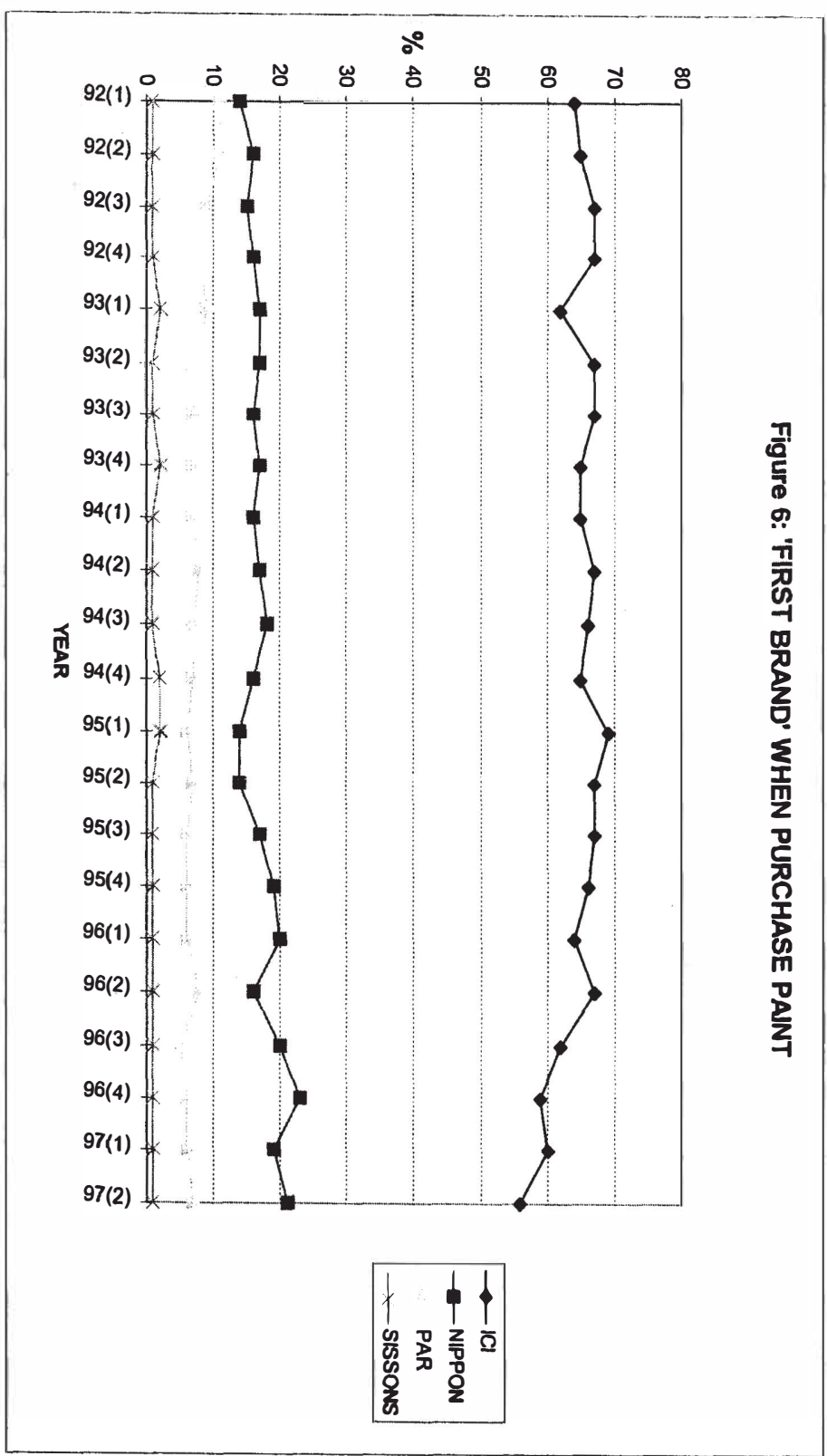


Figure 7: MENTAL PRESENCE OF NIPPON PAINT, BY RACE

