

Opportunity in wood

Through a local take over one of the global giants of wood finish based out of East Europe, ASF Inc, have decided to take the plunge into the fast evolving and strong market in India. ASF Inc operates in the wood finishes market across product segments (mass to premium) and has managed to garner a very good market share in Europe esp eastern Europe through its technological superiority in high end finishes. The takeover in India will give them a basic infrastructure of market supply as well as a scalable manufacturing set up, although currently the company in India has a low single digit market share and is currently limited to North India. As a first move they had appointed an agency to understand the market and market practices in further depth. Along with that they have picked up their Marketing Head for the India operations, Sameer Bhagnani.

Sameer has worked in multiple industries including FMCG as well as the cement industry. He brings an inherent understanding of the influencer-based industries. However he is new to the world of paints and top coat finishes.

As is common with most top level positions there is little time to get down knee deep and understand the market before starting the process of marketing strategy definition. The Global leadership team have booked a slot for the next week to understand the initial views of Sameer on the various market drivers and his thoughts on the market entry strategy which ASF should be taking for succeeding in the Indian market. They have asked Sameer to evaluate all aspects but they want him to definitely touch upon the following points in the presentation

- A. Which specific product categories ASF should focus on in India?
- B. Whether they do national launch or phased out launch?
- C. Which competitor(s) should we benchmark our product range ?
- D. What would be the recommendations on ATL and BTL communication?
- E. Projections on Volumes/ value sales and market shares for next 3 years at least.

They have requested Sameer to also send a brief note on entry strategy as a pre read so that Leadership team can focus on details in the subsequent presentation.

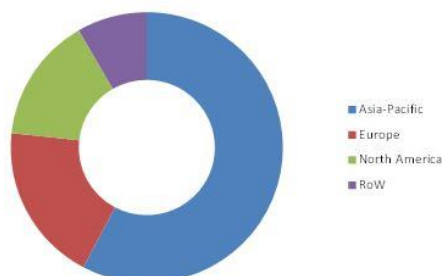
Sameer sits with the report and rolls up his sleeves. One report and his thinking will decide the direction which ASF will be taking from here on. The next few days will decide the fate of this new venture.

Wood Finishes and Wood Finish Markets

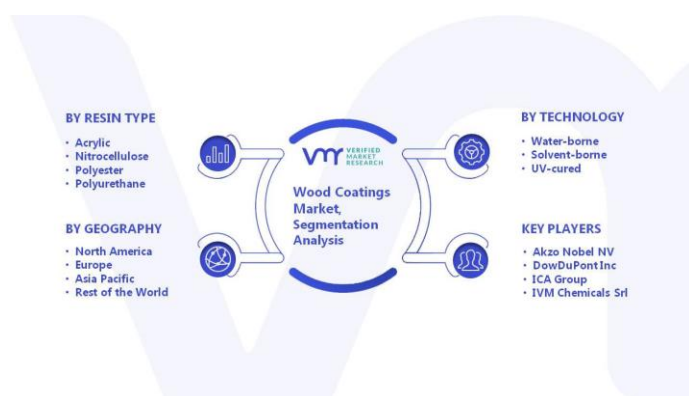
The pre-covid world was seeing a steady growth of the category worldwide. The average growth rates hovered around 6% with an expected TO of \$1985Mill by 2020 (pre-covid est). This trend is expected



to continue going ahead. The European and American markets have been stable while China and India have driven the market. The overall economic growths in these markets along with the increased



demand and versatility of usage in these markets. Along with pure wood products bamboo, cane etc also forms a very integral part of the wood finish portfolio.



Wood Finish categories in a snapshot

The categories can be divided as per usage, as per resin type and as per technology used for manufacture.

Understanding these differences is critical to have an idea of the market movements associated. Primarily we the finishes are based on nitrocellulose (melamine), polyurethane and polyester. Some acrylic

bases products are also in use. Melamine has been the most popular and traditional solution for all products because of its extremely strong and durable coat. PU based products offer high durability with a lot of versatile features, and more importantly a very classy look. Polyester finishes are extremely versatile and high on features.

Indian Wood-finish Market Overview

The Indian wood product market has been age old. New Delhi has the one of the biggest furniture hubs of the continent. Primary wood finish usage is traditional gala-spirit varnishes which are used to polish the wood and give a shine. This technique is limited in its ability of surface protection as well as longevity of the shine and luster. However, it continues to be an ocean in terms of usage preferences.

Indian Woodfinish Market INR Crore					
Category	FY19	FY20	FY21	CAGR	WASP
Polyester	90	105	120	15%	450
2K PU+	1000	1200	1450	20%	700
Water-based	60	70	82	17%	500
Melamylne	1200	1250	1300	4%	350
1K PU	450	470	500	5%	200
Clear Finishes Total	2800	3095	3452	11%	
Pigmented Polyester	15	25	40	63%	1000
Pigmented PU	100	130	145	20%	1200
Other Pigmented System	130	140	150	7%	400
Pigmented Finishes Total	245	295	335	17%	
Thinners	500	550	620	11%	175
Undercoats & Fillers	800	900	1020	13%	90
WF Category Total	4345	4840	5427	12%	

In the 90s APL entered the market with a single coat PU based product. This helped in building the first wave of conversion from gala polish market. Usage of melamine based finish too has been there for long. The 90s saw a bridge between the premium melamine based finishes and gala-varnish for the first time. The true PU based (2K) products hit the market in the 2000s and since

then they have continued to gain profitability due to their classy finish, variety of features and strong durability.

The melamine and 1K PU markets have matured and the practice is moving steadily towards the newer finishes. Melamine however continues to rule in terms of volumes. The conversion from gala-polish market has slowed down with the dip in focus on the 1k PU products. Tinted finishes have caught the imagination of the customers especially in the northern parts of the country.

The market can be broadly divided into organized players who control 40% of the market. Among the unorganized segment the local products and the gala-polish players control roughly 50% of the market. The balance 10% odd is filled up with imported Italian brands which are distributed by local distributors.

Top 3 players, Rs Cr						
Players	FY19	FY20	FY21	MS 19	MS 20	MS 21
AP	875	1000	1135	20%	21%	21%
ICA-Pidilite	350	400	475	8%	8%	9%
Sirca	190	200	250	4%	4%	5%
Top 3 Total	1415	1600	1860	33%	33%	34%
Rest of market	2930	3240	3567	67%	67%	66%
WF Total	4345	4840	5427			

In terms of the key players, APL continues to rule the market with the largest single player in the market, they are also driving the category proactively. Pidilite had entered the market with a force after acquiring ICA and are stabilizing their presence. Sirca is the other brand of note. They have been in the market for some time now and have strong preference from the furniture manufacturer segment.

Recently a lot of global players have started entering the market with variety of finishes and offerings. The Chinese players are also being imported and they add a strong cost benefit. However the stability of these products have been in question. Going ahead one can expect a shake out within all these new players.

Geographical Imperatives

With Delhi having the biggest furniture hub in the whole continent the north of the country leads in terms of consumption and usage. Punjab in itself is another huge market where all premium finishes and especially exterior finishes have a very strong market. This is thanks to the economical reasons as well as the fact

Clear Finishes Geography	FY19	FY20	FY21	CAGR
Delhi	252	279	362	20%
Punjab (Chandigarh+Ludhiana+Jldr- Amritsar)	504	557	621	11%
Mumbai	224	248	242	4%
Kolkata	140	155	207	22%
Guwahati/NE	84	93	173	43%
Bangalore	56	62	104	36%
Rest of India	1540	1702	1743	6%
Total	2800	3095	3452	11%

that all cities in the state have a strong bungalow culture and hence the Wood Finish product go into the doors-windows along with furniture.

In east, Kolkata being a hub of the East India timber market makes it a relevant hub of the wood finish market too. Even Guwahati is coming up strongly in the category thanks to the wood and bamboo products which are growing very strongly in the region. In south Bangalore is fast coming up as a furniture hub and a Wood Finish market. There is already a strong organized wudfin contractor community in the city. In terms of region, Kerala also sees a very strong usage of the category, especially the Exterior variants in households.

Key Player Profile: APL

APL has been an established player in this market for over three decades. They have been proactive and dedicated in growing this category and adding new variants and finishes. They have technological tie-ups with many global majors and continue to draw from these tie ups.

In the last decade clearly they have been focusing on new age finishes and products like melamine and 1K PU have not been focused on as much. This has affected the overall funnel into the category from the spirit gala universe. However APL has managed to help create relevance of categories like tinted PU , polyester etc.

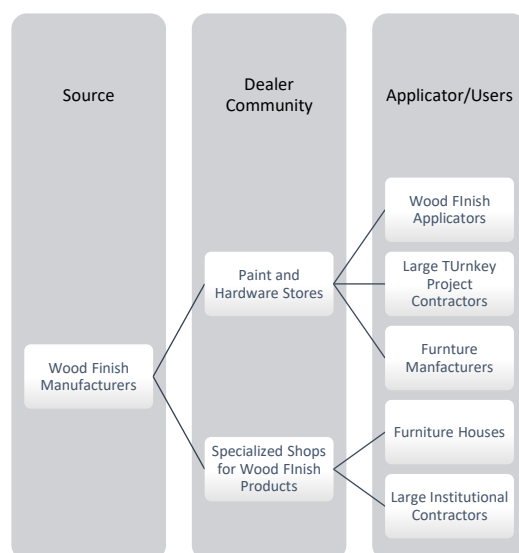
Clear Finishes AP	FY19	FY20	FY21	CAGR
Polyester	15	25	35	53%
2K PU+	200	260	310	24%
Water-based	12	18	22	35%
Melamyne	285	299	320	6%
1K PU	88	95	101	7%
Clear Finishes Total	600	697	788	15%

APL has majorly focused on working with their dealers and applicators to create the markets and gain market shares. While their relative absence from direct consumer messaging through advertising or social media may raise eyebrows the fact remains that they have gained success over the years through focused BTL and partnership work in dealer and influencer segments.

An outcome of the dominance of APL in the organized segment is that primarily wood finishes have not been able to move out of the paint stores and move into non paint, wood product stores in a big way. This may be an opportunity especially for furniture segments.

In the 2000s when APL moved focus from melamine and 1KPU segments to more profitable and premium categories the conversion mechanism slowed down from spirit gala.

Wood Finish : Key movers and shakers in the category



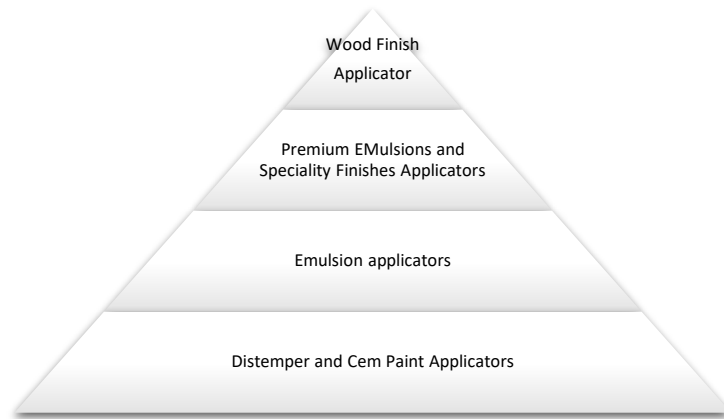
Most manufacturers operate through the standard channels. It is important to understand here that the users of the product are not the user of the end products. They make the end-products and improve the end products. The customer who buys the end products is most of the time not aware of the finishes used. And mostly they are not too interested. This is apart from when specific re-application projects are under-taken by the contractors for existing furniture or wood products.

There is a substantial number of specialty shops in the three metros of Delhi, Kolkata and Mumbai. For the rest of the market mostly paint and hardware stores cater to the wood finish demand.

Wood finish Applicator

Wood Finish Applicator (WFA) is at the pinnacle of the pyramid in terms of painter community. All WFAs somewhere mostly started as a painter.

WFA is a profession which requires a very high level of skill and continuous learning about new finishes and application processes. The risks are also very high. A mucked up job in WF can cost up to four times that of a normal emulsion site. In case there is wood damage then this value can go up further by 3-4 more notches.



The WFA requires years to develop his expertise. And it involves interning under senior WFA as well as multiple rounds of training. All these factors make a WFA the most premium and highest paid in the industry.

It has been seen that while these WFA appreciate value schemes and programs their focus on their craft and offering also makes them very cautious of trying any new brand. And they appreciate information sessions and trainings much more than other painters.

Furniture Manufactures (FM)

The furniture segment contributes to around 30pc of the entire wood finish portfolio. The key drivers in this community are mostly price and logistics support. They also look out for ways to premiumise their offerings. Entering these units require good price strategy, sustained involvement and follow up. But more importantly a strong retail support.

Delhi, Kolkata and Guwahati have strong presence of FM units.

The demand and quantity here is high and regular. However sampling and entering there business is the tough part. More than promotional inputs this segment requires sustained efforts. Once we have cracked an account sustained regular servicing is critical. Also regular education on the various new developments and products and how the same can help them develop their own offerings.

The Dealer: Supply Hub

Though the category is specialized, most paint dealers carry some levels of wood finish portfolio in their shops. There are obviously specialized shops which focus solely on wood finish products. However mostly general paint shops cater to the demand in retail. Specialized shops focus more on institutional customers.

Unlike other paint categories however the demand in this category is not primarily retail in nature. It is primarily channeled through contractors. And contractors in this category are loyal to the retailers they are attached to. This is unlike normal paint categories.

ASF Perspective

The dominance of the Europe and later Asian markets for ASF started with their Melamine portfolio. It started as a Melamine company. This segment is their clear strength. They have been pioneers in most of the bylines in this category. Today the width of the category itself is the sign of their dominance in the category.

Having said that their offerings in both PU as well as Polyester coatings category are also very strong and successful.

The clear core competency of the company has been innovation and adaptability. They have managed to build variations in a rigid category like melamine. They also have displayed their ability to come up with customized solutions for new markets they enter.

Key questions

The key questions in front of the ASF leadership are as follows

- Which markets should become the pilot centres for the launch?
- Which categories should we get first?
- Do we need to start research on any new product? If so in which segment and why?
- What kind of product seeding plan should we have?
- What will be the influencer strategy we need to follow? And why?
- What will be our overall BTL strategy?
- What should be our ATL strategy?
- What should be the overall timelines for entering the various market segments?
- What will be the pricing and incentivization strategy for the network? (broad directional)