



TIME FOR EVOLUTIONARY CHANGE?

The South American automotive refinish coatings market remains highly attractive. By Francisco Rácz and Washington Yamaga, Rácz, Yamaga & Associates.

The strong need for mobility in a continent with huge distances for a growing middle class is the major driving force for this market. South American countries will continue to show a growth in their car park.

The net growth of the car fleet is continuous in all countries; regardless some hiccups in several countries' economies and even after some major political unrest, the need for mobility drives the growth of the fleet back to their long-range projections or trend lines (Table 1).

Response came from automakers' globalization strategy through flexible value onboard platform adaptable to any part of world. Colour and repair services are part of this challenge as it is related to auto protection and glamour.

REFINISH MARKET THE MOST ATTRACTIVE COATINGS SEGMENT IN SOUTH AMERICA

The refinish market grows at similar rates as the fleet. The volume of refinish products sold in 2016 was 150 million litres and should grow to over 180 million litres in 2021, representing a revenue for the coatings industry close to USD 1,3 billion.

The combination of size with continuous growth, resulting in good levels of ROI (Return on Investment), turned the refinish market into the most attractive coatings segment in South America in the last decade and should continue as such.

The competitive environment has changed in the recent years, with

local companies, taking advantage of good margins with a pragmatic market approach. In total, local companies have grown much faster than the global leaders in total. The global leaders are Akzo Nobel, Axalta, BASF, PPG and Sherwin-Williams. Except for Sherwin-Williams most of the global leaders reduced their focus in the area in several countries, mostly driven by inside out type of market approaches. These local companies have shown better growth rates than global companies in general not only in their home countries, but several of them expanded their position to the neighbouring countries. A basic reason for success has been their value for money approach.

MARKET ATTRACTIVENESS IS CLEAR INVITATION FOR NEWCOMERS

The brightness of the refinish market also attracted traditional international suppliers such as 3M, Roberlo, Evercoat, Sprint, increasing their focus in the area with imports or local manufacturing attempts. This attractiveness has been a clear invitation for newcomers, like the Asian competitors. These companies are mostly focused in gaining position with ancillaries' products but with adequate price/benefits rates without losing mi-long range perspective to establish a full service and product portfolio.

The consequence of the market changes can be summarized: the five global leading companies in refinish had dropped their added share from 52% in 2011 to 42% in 2016. In fact their total volume declined from 71 million litres to 63 million litres in the same period and as mentioned, the exception for Sherwin-Williams (Figure 1).

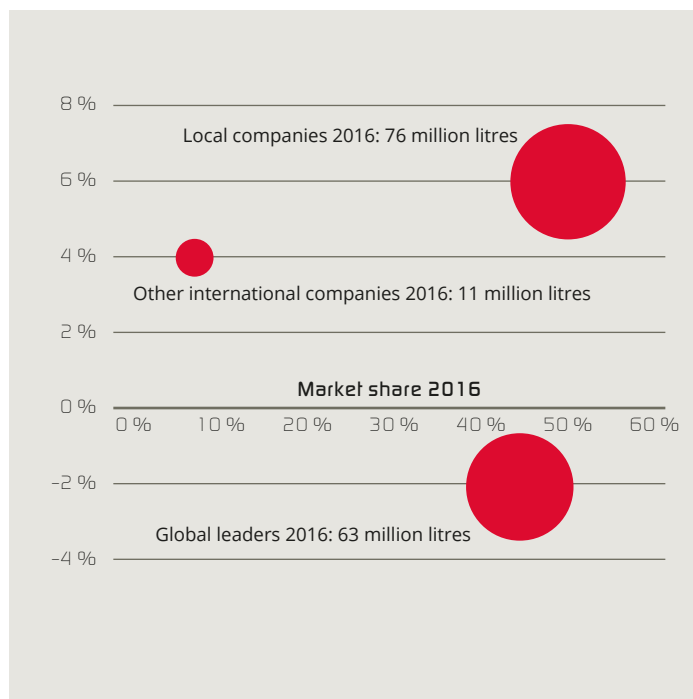


Figure 1: Competition in the refinish market in South America from 2011 to 2016.

Country	2016	2030
Argentina	15,500,000	22,000,000
Bolivia	780,000	1,700,000
Brazil	51,300,000	85,00,000
Chile	5,200,000	7,700,000
Colombia	5,200,000	9,200,000
Ecuador	2,400,000	4,100,000
Guyana	200,000	330,000
French Guiana	100,000	180,000
Paraguay	800,000	1,500,000
Peru	2,900,000	5,800,000
Surinam	200,000	350,000
Uruguay	1,000,000	1,400,000
Venezuela	6,300,000	7,800,000
Total SAM	91,880,000	147,060,000

Table 1: Automotive fleet per country (not including motorcycles) in 2016 and 2030 (forecasted).

In the same period the local companies increased their added share from 41% to 50%, with their volume increasing from 56 million litres to 76 million litres from 2011 to 2016.

The international companies had grown in volume from 9 million litres to 11 million litres, with their share reaching 7.4% in 2016.

However the market dynamics, mainly as far as the end user, demand for more productivity in the repair jobs. In the case of the main markets of South America, it can be translated into faster jobs, which means not only fast application process, but mainly colour accuracy and availability added to fast/simple ancillary products.

The colour issue, which used to be addressed by ready mixed (fac-pack) colours in Brazil or mixed by jobbers or even eye shaded colours over the counter, is showing a different perspective.

COLOURS IN THE SOUTH AMERICAN CAR FLEET IS LIMITED TO A SELECTED NUMBER OF SILVERS, BLACKS AND WHITE

The colours in the South American car fleet used to be very much concentrated in a selected number of silvers, blacks and whites. The increased level of rivalry and globalization of platforms amongst the automobile producers is increasing very quickly the variety of car models and colours circulating in all countries.

Thus the need for increasing the usage of machines at body shops level is adding complexity for the manufacturers: faster responses to the body shop's demands.

This is already been seen in the market, the global leaders are perceiving it as an opportunity to take advantage of their broader colour data banks and instrumental colour measurement and formulation. For these companies it may be the opportunity to change the competition game in their favor.

Most local companies have the challenge to keep up with the digi-

tal colour diagnosis and solution as well as colour measurement and preparation world. Some of them are already moving or will be forced to move to technology agreements to speed up their colour expertise.

COMPETITIVE ENVIRONMENT TO CHANGE IN THE COMING DECADE

In the coming decade, the competitive environment may change again, and we all may start to see a reversion of the trend of recent years: some companies resuming growth better and faster due to a short cut opportunity for advanced service and product consolidation. The technologies of color accuracy and availability added to a faster repair at right value cost, may be the factors for the reversion or evolutionary step change. The technologies will be more competitive so that the speed of changes and the right approach to the different markets /countries will make the difference.

More than ever is the name of the game is: "Deliver right the quick and invisible repair".



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