

Analyzing mature and saturated markets

The life cycle curve seen in Chart 1 depicts a typical journey of a product or market's life from cradle to grave or, from the development to the decline stage. We can quickly observe something most of us in the paint and coatings industry already know, which is that most of these segments are either already in or are about to enter the mature stage of development.

It is noteworthy to observe that very little is in the introductory pipeline. Even further, some of the mature segments are about to enter a declining phase as well.

While our industry can be aptly described as a plodder, moving along in growth at comparatively slow GDP rates and largely mature, our global \$72 billion industry does have a fairly substantial upside growth prospective.

MATURITY VS. SATURATION

Contrary to popular belief, growth possibilities do exist beyond maturity. In fact, Chemark has determined that a space exists above maturity and below saturation, where growth potential exists beyond simple replacement and under the

so-called saturation point of a market.

Market maturity. A period of a slowdown in sales growth because the product/service offering has reached acceptance by most potential buyers; profits usually stabilize or decline due to increased competition.

Market saturation. Occurs when enough of the potential market has been reached that the average cost of reaching additional customers or participants is greater than the average return to the marketing venture from sales to these additional customers or participants.

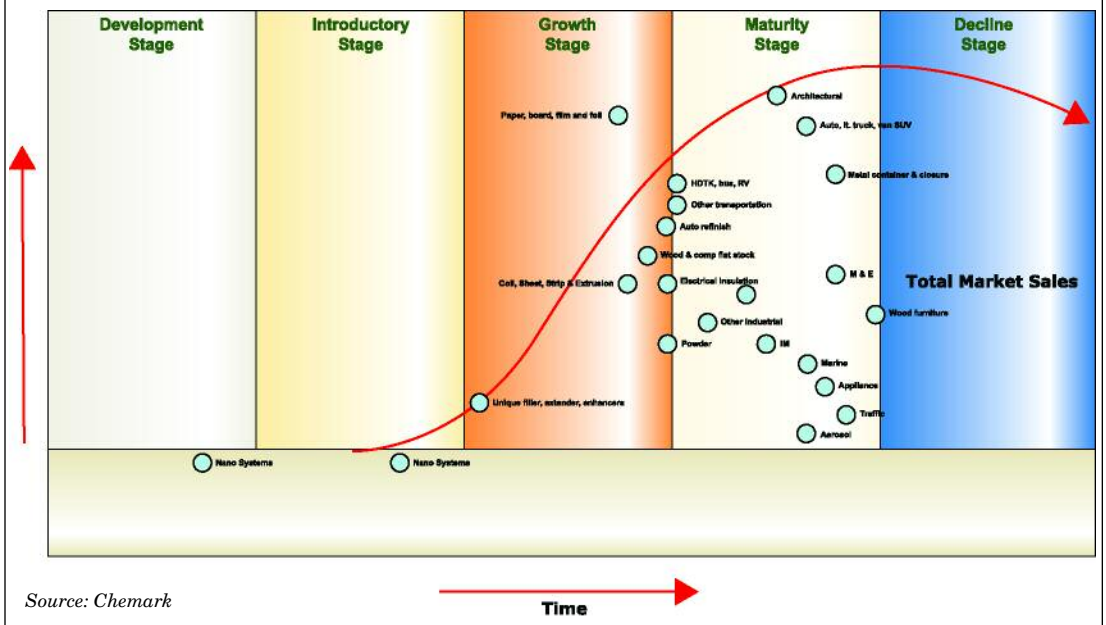
For marketing purposes, there are two important corollaries.

Corollary one. Regardless of the product being marketed, there is a limit to the number of customers who will purchase no matter how much time and money is spent on the marketing venture.

Corollary two. No marketing venture ever reaches the full limit of the market for its product because the law of diminishing returns prohibits the grossly disproportionate expenditures necessary to reach customers on the outside fringe of a product's market.

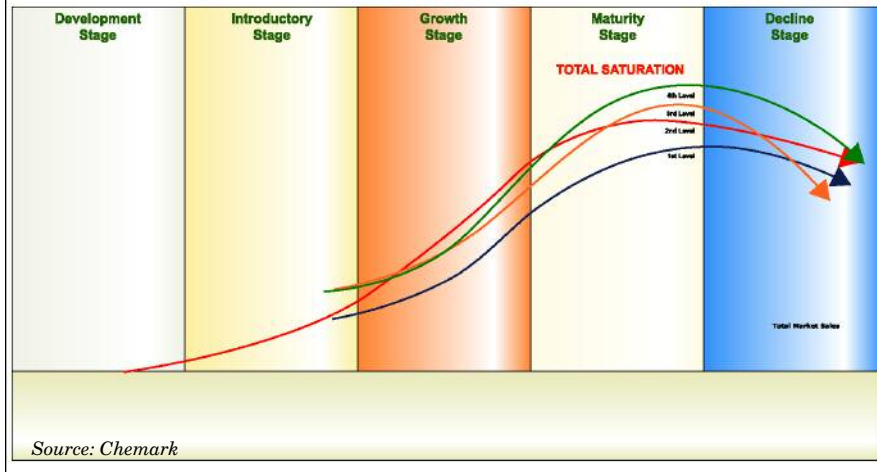
Does industry really understand that a mature market normally does not mean it is also saturated?

Chart 1: Journey of a product or market's life from cradle to grave.



Source: Chemark

Chart 2: Four levels of saturation in the mature stage.



While the law of diminishing returns influences all markets there are four levels of saturation within the maturity stage (see Chart 2).

Relative to the succeeding three levels, the first level of saturation is considered easy when it comes to its initial penetration. The second level of saturation is more difficult to penetrate for a combination of reasons. The third level of saturation is even more difficult than the second level for technical reasons, while the fourth level of saturation is the “final frontier” and the space where the true law of diminishing returns in fact applies—the economic cost-effectiveness level.

For example, consider the electrostatic (ES) sprayable powder coatings product line, as opposed to radiation curables, in North America and the EU. In these two regions we would aptly describe these powder coatings as mature. However, these coating products within the mature sector of the life cycle have more life left beyond simply replacement markets.

Let’s consider powder coatings within the framework of the four levels of saturation.

SATURATION LEVEL NUMBER ONE

The space where powder coatings—

valued at \$2.181 billion (\$1.015 NA and \$1.166 WE)—currently reside. This is where most all of the obvious applications are fulfilled and the conditions for acceptance were uncomplicated and relatively easy in powder-liquid (or porcelain) substitution.

The conditions in this level include uncomplicated metal shapes (no non-metal substrates of significance); few colors to meet most of demand; the level of smoothness (orange peel, appearance) was acceptable; relatively wide variations of dry film thicknesses were ok—1.5-3.5 mils on same object was acceptable as was the economics; and the toughness of the powder coating was superior to the incumbent liquid/porcelain targets.

Examples in this level include major appliances such as refrigerators, freezers, ranges, air conditioning, microwave ovens and water heaters; and metal furniture such as office desks, book cases, files, chair bases and outdoor-casual pieces.

SATURATION LEVEL NUMBER TWO

The space where powder coatings could reside. The second level of saturation is more difficult to penetrate for a combination of reasons.

The conditions at this level

include; more complicated metal shapes (Faraday Cage)—still little non-metal substrates; more numerous color change demand (capital investment); smoother films are required (higher cost powder coatings and handling system); there is more stringent film thickness control; and toughness remains as powders core strength.

Examples in this level include automotive OEM exteriors—primers and topcoats.

SATURATION LEVEL NUMBER THREE

The space where powder coatings are hampered in growth by technology barriers. The third level of saturation is even more difficult to penetrate than the second level for a combination of reasons.

The conditions at this level include metal and non-metal substrates; throughput speed increases noticeably; rapid color change requirements are key decision points; ultra-thin consistent coating films <1.2 mils; ultra-smooth films; DOI equal to the best liquid acrylics or urethanes; post-forming at rapid speeds and sharp angles; and ultra-low cure and processing temperatures to accommodate non-metals (<180F).

Examples in this level include coils and blanks; auto refinish; auto OEM topcoats; wood systems; and plastic systems.

SATURATION LEVEL NUMBER FOUR

The space where powder coatings reaches true saturation and is the “final frontier” and the space where the true law of diminishing returns applies—the economic cost-effectiveness. In the words of our adopted definition of saturation, “...when enough of the potential market has been reached that the average cost of reaching additional customers or participants is greater than the average return to the marketing venture from sales to these additional customers or participants.” *CW*

See Chemark’s ad this month on page 79.