BY PHIL PHILLIPS, PHD
CONTRIBUTING EDITOR
PHILLIPS@CHEMARKCONSULTING.NET

The automaker reshuffle

The paint and coatings industry is adapting to shifting tides in the global auto industry.

The global auto market is in a state of flux and everybody knows it. Knowing the market is in a space it has not experienced for more than 70 years and knowing exactly what to do about it is news worthy.

We also know that as vehicles are produced, so are coatings, adhesives, sealants and all the other chemicals the vehicle producer depends on. Therefore, accurate forecasting of vehicle production is key to understanding what will occur with these critical chemicals.

Globally, Chemark estimates industrial production to follow this regional growth pattern in 2010:

North America: 2.8%
EU: 2.2%
UK: 1.8%
Ireland: 3.8%
Germany: 1.6%
France: 2.0%
Italy: 1.5%
Spain: 2.0%
Emerging Europe: 5.3%

Per capita wealth trends are important elemental predictors of potential vehicle purchases. We see for the average global individual wealth will increase more than 75% by the year 2030. The current key industrialized nations—the U.S. and EU—will remain rich, sustaining strong vehicle demand and during the same time frame, China will reach wealth levels similar to today's Czech Republic while India will reach levels of today's Russia or Turkey. Obviously, growing economies and increasing wealth will require increased numbers of vehicles.

The annual change by country of vehicle production from 2009 to 2010 shows Asia Pacific and Oceana regions growing strongest with Brazil, Saudi Arabia, South Korea, Turkey and Mexico also showing positive growth rates between three and four percent year-over-year. The remaining countries will have sluggish, no growth or they will decline. Annual percentage change of vehicle production is as follows:

	2009	2010
China	+8	+9
India	+6	+6
Indonesia	+4	+4
Australia	+1	+2
Brazil	-1	+4
Saudi Arabia	-1	+4
South Korea	-1	+4
South Africa	-2	+2
France	-2	+1
Canada	-2	+2
Argentina	-2	+2
US	-3	+2
Spain	-4	-1
Netherlands	-4	+1
UK	-4	+1
Italy	-5	0
Germany	-5	0
Japan	-5	+2
Turkey	-6	+4
Mexico	-7	+3
Russia	-8	+2

Where will the innovation breakthroughs driving market share achievement in this market take place? Through 2014, Chemark sees the greatest surge of sustained innovation and, therefore, the most likely region to prosper in the race for global share in Asia, EU and NA at a rate of 5.2, 3.6 and -2.7% respectively. This development backdrop will manifest itself in share-of-market (SOM) in six years with Asia controlling 53%; EU 36%: and NA 8%.

Innovation will challenge consumers' decision-making abilities. Customers will be able to specify more than 300 interior options and an equal number of exterior options. The design engineers will control as customers will enjoy "built-to-order" versus "built-to-stock" in their selection process. One of the major auto suppliers in Europe removed 700 of the 1,000 functions of its engine control module.

Outside suppliers provide components and systems for 70% of the vehicle value.

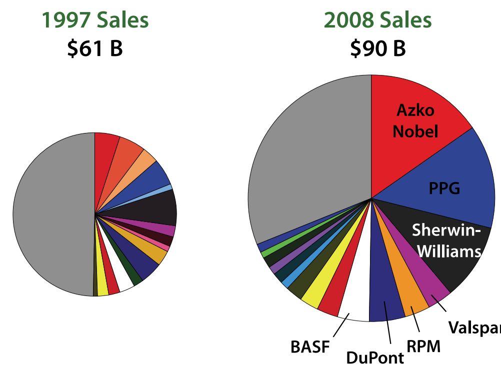
The following global trends will influence and shape the automotive industries' way of doing business. Trends include:

- OEM "insourcing";
- Large Tier I restructuring;
- Lack of liquidity will continue;
- Chasm between winners and losers will become clearer;
- OEM and large Tier I suppliers will be less tolerant of supplier restructuring;
- Most consolidation will be in the form of liquidations;
- Strength in balance sheet and liquidity equals significant advantage;
- Large Tier II commodity suppliers will emerge in each commodity; and
- Private equity influence will be on the sidelines now.

As a result of these trends a whole new and challenging industry will emerge and, with it, a less fragmented base of supply but one with a magnified need for real partnering never experienced before.

From the PPG data at right we see 10 years of dynamic consolidation activity resulting in an increase of $29 billion (47.5%) increase in industry value and a significant decrease in the numbers of formulators. In 2008, seven formulators control more than 55% of the global marketplace while in 1997, 16 formulators controlled 50%. ***CW***

Global Coatings Industry



Consolidating But Remains Fragmented