

# Review Of SKUs In The Indian Paint Industry

*\* Devendra Kumar Pandey*

---

## ABSTRACT

A stock-keeping unit or SKU is a unique identifier for each distinct product that can be purchased. SKUs are used in data management, enabling the company to systematically track its inventory or product availability. Each SKU is attached to a Product, Shade and Pack Size. The Decorative or architectural segment (which constitutes upto 70% of the total paint market) involves a very wide choice in terms of products, shades and pack sizes. In addition to this, in order to offer innovative products, companies are continuously offering newer shades to match the colour of carpets/curtains etc. Initially, these shades are produced in anticipation and once the market accepts these shades, they are produced regularly. While Industrial Paints are available in bulk packs of 20lt and 200lt, decorative paints are available in 20lt, 10lt, 4lt, 1lt, 500ml, 200ml, 100ml and 50ml packs. Enamel category alone has got around 720 SKUs. The combination of different products, shades and packs sizes resulted in over 2500 SKUs for Asian Paints. Through a survey of paint dealers, effort has been made to analyze the reasons for accumulation of slow moving stock, and the solutions adopted by the dealers to liquidate these stocks. The paper concludes by suggesting remedies to deal with high inventory cost and a large number of SKUs.

**Keywords:** SKU, Inventory, Paint Industry, Slow Moving Stock

---

## THE INDIAN PAINT INDUSTRY

Colour is a significant part of every Indian family. What else, our great festival of colours - Holi seconds this. Visit any Indian house, one would find the house painted with cheerful colours. Nowadays, people have become more choosy and conscious about the way their house should look. Not only the look, but also the benefits of the paints are scrutinized before application. Taking this advantage, the paint companies have started taking this business very seriously. They have come up with a range of paints and coatings that are not only attractive, but are also corrosion, fungi, water and weather resistant. Apart from being an attractive phenomenon, the paint industry in India and around the globe has evolved considerably.

The Paint Industry of India is around 110 years old. Its beginning can be traced to the setting up of a factory by Shalimar Paints in Kolkata in 1902. Till the advent of World War II, the Industry consisted of just a few foreign companies, and some small, indigenous producers. The war led to a temporary stoppage of imports, leading to many more local entrepreneurs setting up manufacturing facilities. Nevertheless, foreign companies continued to dominate the industry. Even now, they remain active contestants, though their foreign shareholdings stand reduced, with two of them having become totally Indian.

Post-liberalization, the Indian paint market has grown by around 1.5 to 2 times real GDP every year. Dominated by the organized sector comprising of 65-70 per cent of the total paint market, decorative paints hold a maximum share of 70-75 per cent. However, per-capita consumption remains well below international norms, pointing to tremendous future potential. Both interior and exterior paints have improved considerably. Earlier, only cement paints were available for exteriors. Today, exterior acrylic paints and water-resistant and fungus resistant paints have made inroads in the decorative sector. The paint market in the country is estimated at around INR 210 bn as in March 2010 and around 35% of this market is with the unorganized players (Figure 1). Asian Paints is the largest paint company in the country controlling around 30% of the overall paint market. Nerolac Paints enjoys an overall market share of over 21%, with a market leadership in industrial and automotive coating business. Market share in the industrial sector is over 45%, and in the automotive sector, it is around 65%. The industry is not capital intensive. It is, however, working capital intensive. The demand for paints is fairly price-elastic, and is linked to economic and industrial growth. Demand is somewhat seasonal in nature-low during monsoon months, and high during festive seasons.

## THE INDUSTRY PLAYERS

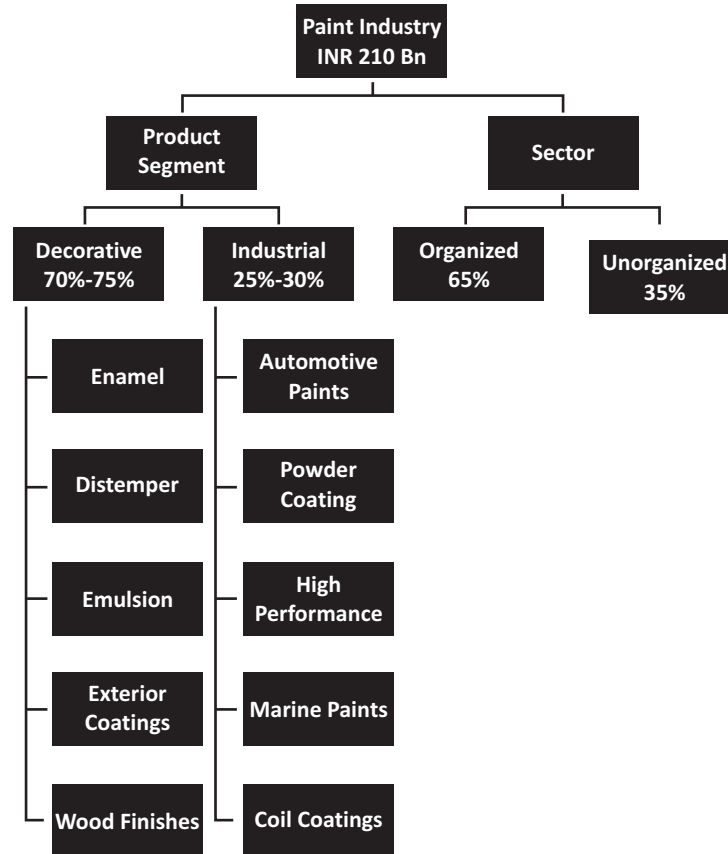
Several industry players are functioning in this industry. From the Graph 1, it can be concluded that all companies

---

*\* Lecturer, Amity Business School, Amity University Madhya Pradesh, Maharajpura, Gwalior - 474020, Madhya Pradesh.*

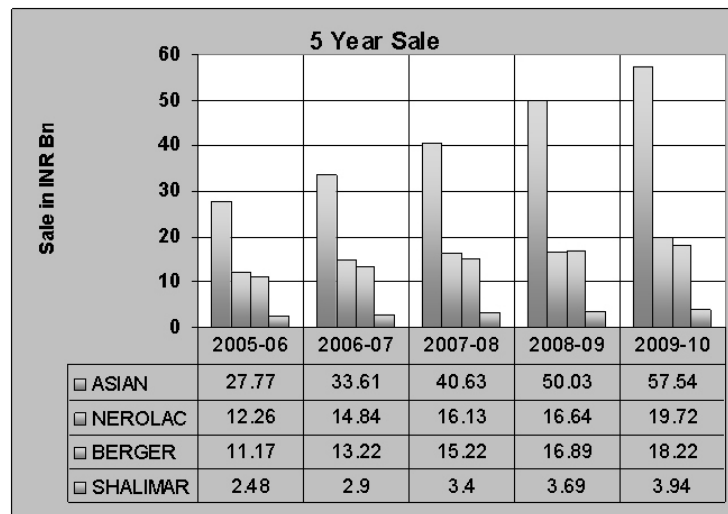
E-mail: dkp567@gmail.com

**Figure 1 : Showing Industry Size, Product Segment and Sectors of The Indian Paint Industry**



Source: Indian Paint Industry analysis and research report-2011 (<http://stockshastra.moneyworks4me.com>)

**Graph 1: Showing Five Years' Sale of Asian, Nerolac, Berger and Shalimar Paints in Billion ₹**



Source: Annual reports of respective companies

(Asian, Nerolac, Berger and Shalimar Paints) have been growing consistently in terms of sales. Asian Paints is the market leader, Nerolac and Berger Paints are the closest competitors to each other and are fighting neck to neck to retain the second position in the Indian Paint Industry (Graph 1).

❖ **Paint Segments:** The industry comprises of two main segments - Application wise- Decorative (architectural) paints and Industrial paints. The decorative/architectural paint segment accounts for 70 percent of the total paint market, while the industrial paint segment accounts for the remaining 30 percent. The industry is, however, expected to undergo a structural shift towards industrial paints in the next few years, when its share is expected to go up to 50 percent in line with the global trend. Industrial paints thus hold greater growth potential in the coming years. Actually, with the decorative segment gradually bottoming out, companies are already increasing their focus on industrial paints. Industrial paints are more technology intensive.

The industrial paints segment can be further classified into automotive paints, marine, powder coatings, high performance coatings, and others. Original equipment manufacturers of products such as automobiles, furniture and white goods such as refrigerators are prime consumers of industrial paint. The automobile industry accounts for 50 per cent of the industrial paint market. A good part of the demand is from shipping and heavy industry, navy being the largest customer in the shipping sector.

## STOCK KEEPING UNITS (SKUs)

A Stock-Keeping Unit or SKU is a unique identifier for each distinct product that can be purchased. SKU is used in data management, enabling the company to systematically track its inventory or product availability. Each SKU is attached to a Product, Shade and Pack size. SKUs are often used to refer to different versions of the same product. Mathematically, the total number of SKUs can be calculated as per the following equation :

$$\text{Total SKUs} = \sum \text{Product} \times \text{Variety} \times \text{No of Shades} \times \text{No of Packs}$$

❖ **Paint Segments and SKUs:** The Industrial segment (which constitutes of 30 percent of the total paint market) is considered as the bulk buyer segment. Products in this segment are generally packed in 20 litres drum packs or 200 litres barrel packs and they are produced against orders/indents. Hence, production in anticipation or SKU management does not play a major role in this segment. In contradiction to this, decorative or architectural segment (which constitutes 70 percent of the total paint market) involves a very wide choice in terms of products, shades and pack size. In addition to this, in order to offer innovative products, companies are continuously offering newer shades to match the colour of carpets/curtains etc. Initially, these shades are produced on anticipation and once the market accepts these shades, they are produced regularly. The same cycle is repeated regularly.

❖ **Product Line and the SKUs:** Considering the requirement of the retail consumers, decorative paints are available in 20 litres, 10 litres, 4 litres, 1 litres, 500ml, 200ml, 100ml and 50ml packs. As shown in the Table 1, the Enamel category

Table 1: Showing No of SKUs in The Enamel Category					
Product	Variety	No of Shades as per Shade Card		No of Packs as per MRP	Total SKUs
Enamel	Apcolite Whites	2	x	8	16
	Apcolite Shades Group M1	2	x	4	8
	Apcolite other shades	64	x	8	512
	Gattu Enamel White	1	x	5	5
	Utsav Enamel Whites	2	x	8	16
	Utsav Enamel Shades Group 1	10	x	8	80
	Utsav Enamel Shades Group 2	9	x	7	63
	Satin Enamel White	1	x	5	5
	Satin Enamel Shades	5	x	3	15
		Total Shades			720
Source: Asian Paints All India MRP List No M/4 dt 24/11/2010 and Shade card Nos V.NO.7/K, 04/2010 and V.NO.4/S, 06/2009					

Table 2: Pack Size and Application		
Packs	Packing volume	Application
Small Pack	50ml, 100ml, 200ml	Window, Grill, Touch-up work
Retail Pack	500ml, 1lt, 4lt	Door, Opposite wall colour combination
Bulk Pack	10lt, 20lt	Multiple rooms, Entire House, Industrial application
Source: Asian Paints All India MRP List No M/4 dt 24/11/2010 and Shade card Nos V.NO.7/K, 04/2010 and V.NO.4/S, 06/2009		

has got the maximum number of SKUs. As shown in the table, Asian Paints offers 536 SKUs Apcolite Enamel quality (16+8+512), 5 SKUs in Gattu quality, 159 SKUs in Utsav quality and 20 SKUs in Satin quality. In total, this comes out to 720 SKUs in the Enamel category alone. Similarly, other products like Emulsions and Distempers have got different shades and packs. The combination of different product, shades and packs sizes resulted in over 2500 SKUs for Asian Paints. All these SKUs are distinct items of paints, none of which is strictly a substitute for the other.

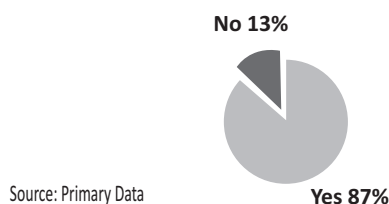
❖ **Smaller Packs:** Earlier, paint companies were supplying paints in containers of 500 ml or larger packs, referred to as Retail or bulk packs (Table 2). Then companies realized that there was a need in the market for paints in smaller packs. All end users, particularly touch up jobs, did not require a large quantity of paint. Moreover, it was a common practice for consumers to buy paint initially in a larger quantity and supplement it with small size purchase to complete the job. Asian Paints was the first company to identify this gap and decided to harness the business opportunity and started supplying its paints in small packs- in 200 ml, 100 ml and 50 ml packs. Other companies also followed suit.

❖ **Impact of Pack Size On Realization of Company:** As shown in the Table 3, companies get maximum realization in smaller packs i.e. 50 ml and minimum realization in bulk pack of 20 litres. Comparison shows that Asian Paints realization in 50ml pack of Apcolite Brilliant White is higher by 231 percent than 20 litres bulk pack.

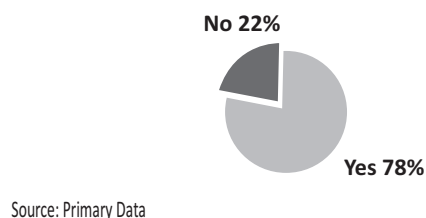
❖ **SKUs' Impact on Dealers - High Inventory Cost:** Asian Paints offers over 2500 Stock Keeping Units (SKU: one SKU would mean a product of a particular shade and pack) of which around 350 are fast moving. The shelf life of fast moving SKUs are 3 to 10 days (depending on season), whereas the shelf life of slow moving SKUs is a few weeks to a few months. Since paint is a chemical formulation, longer shelf life may affect its quality/performance. Hence, dealers hesitate to stock such SKUs. However, to meet the customer's demand, they are forced to stock them unwillingly.

Table 3: Showing Rate Comparison of 50ml and 20lt		
	Rate of 50 ml Pack	Rate of 20 Lt Pack
Apcolite Brilliant White Per pack rate ₹	19A	3290 B
Rate conversion to 1 Lt pack	19A x 20	3290 B / 20
Converted rate to 1 lt	380	164.5
% increase in rate of 50 ml	231%	
Source: All India MRP List No M/4 dt 24/11/2010 of Asian Paints		

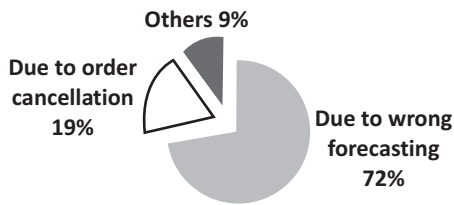
**Chart 1 : Showing Dealers' Response For The Question: "Do You Think Larger SKUs Help You In Retaining Your Customers Significantly? "**



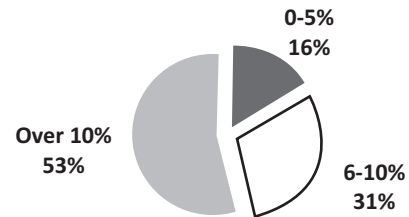
**Chart 2 : Showing Dealers' Response For The Question: "Do You Stock Slow Moving SKUs?"**



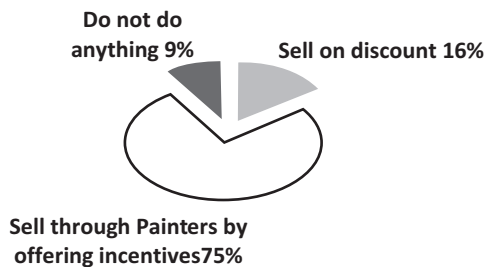
**Chart 3 : Showing Dealers' Response For The Question: "What is the Reason for Accumulation of Slow Moving Stock? "**



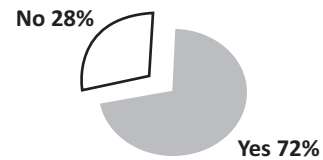
**Chart 4 : Showing Dealers' Response For The Question: "What % of Your Total Stock Comprises of Slow Moving SKUs? "**



**Chart 5 : Showing Dealers' Response For The Question : "What Do You Do to Clear the Slow Moving SKUs? "**



**Chart 6 : Showing Dealers' Response For The Question : " Do You Think Tinting Machine Is A Better Solution To Solve The Problem Of High Inventory Cost Due To Larger SKUs? "**



Source : Primary Data

❖ **Dealers' View On SKUs:** A survey was conducted on 32 paint dealers in November 2010 to know their views on SKU management. The findings have been presented in Charts 1 to 6.

The Chart 1 shows that 87 percent dealers agreed that larger SKUs helped them in retaining customers, whereas 13 percent disagreed with the statement. They were of the opinion that they can convert the deals on other available shades or packs. The Chart 2 shows that 78 percent dealers stocked slow moving SKUs, whereas 22 percent said that they did not do so. The Chart 3 shows that 72 percent dealers admitted that the reason for accumulation of slow moving stock was their wrong forecasting. 19 percent dealers said that sometimes, they purchased material against some specific order. Due to delay in supply from the company or payment problem with customers, they did not supply the material, or the orders got cancelled. Hence, material procured against specific orders ultimately becomes slow moving stock. 9 percent dealers said that sometimes they get wrong material from the company itself, which they didn't return in anticipation to sell. This response has been categorized as "Others". The Chart 4 shows that 53 percent dealers stated that over 10 percent of their stock was slow moving. 31 percent dealers said that 6-10 percent of the total stock was slow moving stock, whereas 16 percent dealers said that they had less than 5 percent stock as slow moving stock.

The Chart 5 shows that 75 percent dealers tried to sell their slow moving stock through painters by offering them incentives. 16 percent preferred to sell on discounts, whereas 9 percent dealers did not make any special efforts to clear their slow moving stock. The Chart 6 shows that 72 percent dealers agreed that a tinting machine is a better solution to solve the problem of high inventory cost. 28 percent dealers didn't agree with this statement, and said that the stock of bases required for tinting machines also resulted in a high inventory.

## SOLUTIONS TO DEAL WITH SLOW MOVING STOCKS

**1) Tinting Machines:** A Tinting machine is a concept which gives an opportunity to dealers to produce smaller quantity of paint at their shop. They are not required to keep the stock of slow moving items, and can provide a wider choice to their customers by providing an option of choosing from over 1000 shades with the help of a computer. The computer directs the tinting machine to drop the measured quantity of colour concentrates as per the formula stored into the Base of Paint/Emulsion. This Paint/Emulsion is packed tightly and kept in gyroshakers. This gyroshaker shakes the

container at a very high speed so that the colour concentrates are dispersed in the base uniformly, resulting in the desired shade production. The gyroshaker machine works on the principal of gyroscopic rotation (360° revolution and 360° rotation) for fast and homogeneous paint mixing. The automatic clamp mechanism intelligently controls the pressure according to the can size and keeps the paint container safe and in good working condition during the rotation (mixing of paint). The Tinting machines come in two versions:

**a) Fully Automatic :** Containing a computer, a tinting machine and a gyroshaker.

**b) Semi Automatic :** Containing a tinting machine and a gyroshaker. In this version, the job of the computer is done manually by referring to the formula manual.

High cost of tinting machines are subsidized through various schemes by paint companies. Companies also offer easy finance schemes to dealers on these Tinting machines, apart from bearing the cost of maintenance of the machine and computer software. Companies insist on the dealers for keeping a mini stock of Emulsion bases (considered to be more profitable to companies) under annual schemes for /during the subsidizing/ maintenance period.

**2) Dealers' Association:** Small dealers who cannot afford Tinting machines are forced to continue with the stocking up of slow moving SKUs in anticipation to retain the customers. Over the time, these slow moving SKUs pile up and block a large volume of working capital. To overcome this problem, smaller dealers may form an association within their city/locality. During the meetings, they can exchange their list of slow moving SKUs with each participating dealer. On the basis of requirement, they can exchange/sell/purchase the listed products on the cost price basis. This way, they would be able to liberate their blocked working capital, which is in some cases over 10 percent of their total stock value. This liberated working capital can be utilized wisely for purchasing fast moving SKUs.

**3) Company Involvement:** Companies may also develop a formal system, where dealers can be cautioned when they place an order of slow moving SKUs and supplies be effected only after reconfirmation of order of slow moving SKUs.

## REFERENCES

- 1) Gupta, J. K. (2008, January 30). "Paint industry has grown to see a double-digit growth year-after-year." *The Financial Express*, <http://www.financialexpress.com/news/paint-industry-has-grown-to-see-a-doubledigit-growth-yearafteryear/161438/0> viewed on January 14, 2011.
- 2) "Indian Paint Industry analysis and research report-2011." (n.d) <http://stockshastra.moneyworks4me.com/paints-indian-paint-industry-analysis-and-research-report-2011/> accessed on December 5, 2012.
- 3) "Interiors World Paints." *Construction World - Indian Edition*, October (2006), <http://www.constructionupdate.com/products/constructionworld/2006/cwoctober2006/018.html> accessed on December 5, 2012.
- 4) "Kansai Nerolac Q2 net profit at Rs 536.1mn." (2010, October 29) , *Indiainfoline*, <http://www.indiainfoline.com/Markets/News/Kansai-Nerolac-Q2-net-profit-at-Rs-536.1mn/4978477658> accessed on January 14, 2011.
- 5) Ramaswamy, V.S., and Namakumari, S., (2002). "*Marketing Management: Planning, Implementation & Control.*" Macmillan India Ltd., New Delhi.
- 6) Rao, L. (2010, September 14). "The Indian paint industry will grow by 18-20% every year." *Projectsmonitor*, <http://www.projectsmonitor.com/CHEM/the-indian-paint-industry-will-grow-by-1820-every-year> accessed on January 14, 2011.
- 7) Shalimar Paints Corporate Presentation (March 2011) [Powerpoint slide], [http://www.shalimarpaints.com/images/pdf/Shalimar\\_Corporate\\_Presentation\\_Mar2011.pdf](http://www.shalimarpaints.com/images/pdf/Shalimar_Corporate_Presentation_Mar2011.pdf) accessed on December 5, 2012.
- 8) Stock-keeping unit (2007) *Wikipedia*, [http://en.wikipedia.org/wiki/Stock-keeping\\_unit](http://en.wikipedia.org/wiki/Stock-keeping_unit) viewed on January 14, 2011.
- 9) Supply Chain of Asian Paints (n.d) <http://www.scribd.com/doc/14156278/Asian-Paints-SCM> accessed on December 5, 2012 .
- 10) The Indian Paint Industry - An overview (2007, April 7) , *Domainb*, [http://www.domainb.com/industry/paints/200012\\_paint\\_overview.html](http://www.domainb.com/industry/paints/200012_paint_overview.html) accessed on January 14, 2011.