

“The coatings industry must work together to get the real value of its products recognized”

Akzo Nobel CEO Cees van Lede speaks at 50th anniversary of CEPE

Arnhem, the Netherlands, June 1, 2001 – “The paint industry faces an uncertain future and there is still much room to enhance our performance until we get the full value of our products recognized,” said Cees van Lede, Akzo Nobel’s Chairman of the Board of Management. At this year’s annual CEPE conference - the European Council of the Paint, Printing Ink and Artists’ Colours Industries - marking the 50th anniversary of the European trade association, he called upon the coatings industry to better promote the added value of coatings.

“There are two main issues which are currently driving the coatings industry - growth and profitability - and they are intricately interlinked,” Mr. Van Lede said. “Growth in mature markets has been low, mainly following GDP for years, and it will stay that way. There are growth opportunities in emerging and newly industrialized markets, where per capita consumption is between 1 and 5 liters, as compared to 18 liters in mature markets. However, growth opportunities also come with technology switches, new technologies and products, and last but not least, the added value with which we support our customers. We don’t just sell cans of paint, but we provide training, services, process and supply integration, and so on.”

Van Lede explained that the drive towards more growth would lead to further consolidation in the industry. “Coatings companies have mainly grown by acquisition. We have the impression that consolidation in the industry is far advanced. However, if we look at the mergers and acquisitions of recent years, we find that this was primarily consolidation among the top 15 companies. In total, the number of coatings companies has not changed very much. The industry as a whole is still very fragmented, Akzo Nobel as biggest player, for example, still has only a market share of about 8 percent. This means that the consolidation process has really just started.”

“We have to prepare ourselves for new demands and challenges: our industry faces increased customer and supplier power and we have to take care we do not get squeezed between the two. Increasingly, our customers operate on a global scale and demand world-wide supply. This power translates itself into demands for more higher quality services, greater liability, but at the same time lower prices. Suppliers are also going global and attempting to widen their role and influence our customers with joint marketing and branding activities. All this makes it difficult to increase the profitability of our industry which is, in general, comparatively low at 8 to 12 percent of sales. This means that the real value of our products is still insufficiently paid for.”

Our margins are further threatened by low volume growth due to technology changes and new demands in the area of health, safety and environment. We must get away from the idea that growth only depends on volumes sold. Rather we should make use of the HSE issues. They are of course a double-edged sword, because they drive up investments, in particular in R&D, when more and more ingredients of our products come under scrutiny and might have to be replaced in the future. However, they can also provide new and exciting marketing and sales opportunities.?

We have to be creative and look at all areas to get profitability up. For example, most companies can improve their cost structure by concentrating manufacturing, improving logistics or supply chain management and simplifying the manufacturing process. Let's focus on the profitability of our customers: if we help them with services and to improve their performance, we can share the benefit. And most important of all: we need to focus on added value!?

The cost of the paint is only a small part of the applied cost of a product. As a result the product is often undervalued. However, coatings increase the lifespan and maintain the value of assets, and provide decoration and functionality. We have every reason not to sell our paints under value. Rather we need to find ways to enhance what I'd call the 'total coatings package': we don't just sell paint, we sell style, service, technology, experience, problem solving, and so forth.?

Van Lede closed his presentation by calling upon the coatings industry to promote the added value of coatings: Then we can realize our growth potential, increase our profitability and get recognition for our performance – hopefully also on the stock markets.?

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Note for the editor

Akzo Nobel, based in the Netherlands, serves customers throughout the world with healthcare products, coatings and chemicals. Consolidated sales for 2000 totaled EUR 14 billion (USD 13 billion, GBP 8.5 billion). The Company currently employs 68,800 people in more than 75 countries. Financial results for the second quarter of 2001 will be published on July 25, 2001.

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