Introduction

The US paint industry, with revenues of $16.1 billion in 2003, includes companies engaged primarily in the manufacture of paints in paste and ready mixed form, varnishes, lacquers, enamels, and powder coatings. It is associated with such allied products as fillers and sealers, thinners and paint removers, and other miscellaneous products. In total, product shipments of the larger paint and allied products industry were $17.25 billion. Paints are a part of the chemical and allied products industry (NAICS 325, SIC 28) with shipments of $470 billion, the fourth largest U.S. manufacturing industry. While its products touch every sector of the U.S. economy, paint industry shipments, regardless of how measured, represent only 0.16% of GDP in 2003 down from 0.24% in 1990. Figure 1-1 at the beginning of this report presents an overview of paint industry shipments, structure, markets and profitability.

Figure 1-2 shows the structure of the paint industry. It provides a picture of the flow from raw material derivation through manufacturing and packaging to end-use. As shown, the raw materials used in paint manufacturing are derived mainly from fossil fuels, but also from minerals and agricultural-based materials.

Shipment data in units and dollars for paint, varnish and lacquer are available from the U.S. Census Bureau in *Current Industrial Report M325F* (formerly *M28F;* published quarterly and annually). Industry economic data are also reported as Paints and Allied Products (NAICS code 32551, old U.S. SIC 2851) in the Annual Survey of Manufactures (ASM) or every fifth year in the Economic Census, Manufacturing—Industry Series EC97M-3255A (formerly Census of Manufactures). Companies who report to the U.S. Census Bureau are classified in the industry that they mainly serve. They also report detailed information on all products as classified in the **S**tandard **I**ndustrial **C**lassification system, which after 1997 was reclassified as the **N**orth **A**merican **I**ndustry **C**lassification System. As a result, the value of industry shipments includes

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Economics

Highlights

FIGURE 1-1 Structure of the U.S. Paint Industry

Shipments

Million dollars	2003	2008
Architectural coatings	$7,626	8,850
OEM Product Finishes	5,256	6,800
Special purpose coatings	3,242	4,400
Total	$16,124	20,050
Million gallons		
Architectural coatings	781	850
Product finishes	384	495
Special purpose coatings	173	210
Total	1,338	1,550

Structure

	1997	2003
Companies	1,206	1,200
Plants (Establishments)	1,495	1,460
Employees	53,091	51,000
Production workers	28,407	26,700
	$ Million	$ Million
Materials purchased	$7,710	$8,500
Payroll (production)	878	890
Capital investment	415	338
Inventories	2,180	1,950

Markets

	Million gallons
Architectural coatings	
Contractors	395
Do-it-yourself consumers	240
Commercial accounts, government	146
Total	781
OEM Product finishes	
Manufacturers	384
Special purpose coatings	173
TOTAL	1,338

Profits

Margin on sales	5.6%
Return on net worth	16.1%
Return on assets	5.9%
SGA to sales	26.0%
Inventory turnover/yr.	8.5
Sales to LBE	4.5
Sales/employee (000)	$316.1

data on secondary products also made by manufacturers classified in the paint industry. Due to reclassification of some types of products, and to the time required to convert some of the reports to the new system, some data may not be directly comparable to previous years or to each other.

Table 1-1 shows shipments of primary products and re-sales totaled $18,922 million in 2002. Important non-paint products include plastics, adhesives and sealants, and polishes. As shown, product shipments were 94.8% of industry shipments, including only 2.6% made as secondary products by manufacturers classified in other industries. The data in the Table differs from information in the Guide, which exclude allied products and coatings used for electrical insulation and on such non-durable products as textile, plastic film, paper and paperboard.

The paint industry is a mature business that is highly fragmented in types of paints, end uses and technology, and can be characterized by change in practically all segments. Many grades of paint have become commodity type products. However, due to emission and hazardous waste regulations, considerable effort continues to be spent on developing water-base coatings, high-solids and solvent-free liquid finishes, powder coatings and radiation curable materials.

The industry is very competitive and concentrated. There have been constant acquisitions and consolidation as illustrated by the reduction of the number of companies in the industry. The total dropped from 1,288 in 1977 to 1,206 companies in 1997 and an estimated 1,200 in 2003.

US paint companies operate 1,463 plants, of which 62% have less than 20

FIGURE 1-2 Structure of the Paint Industry

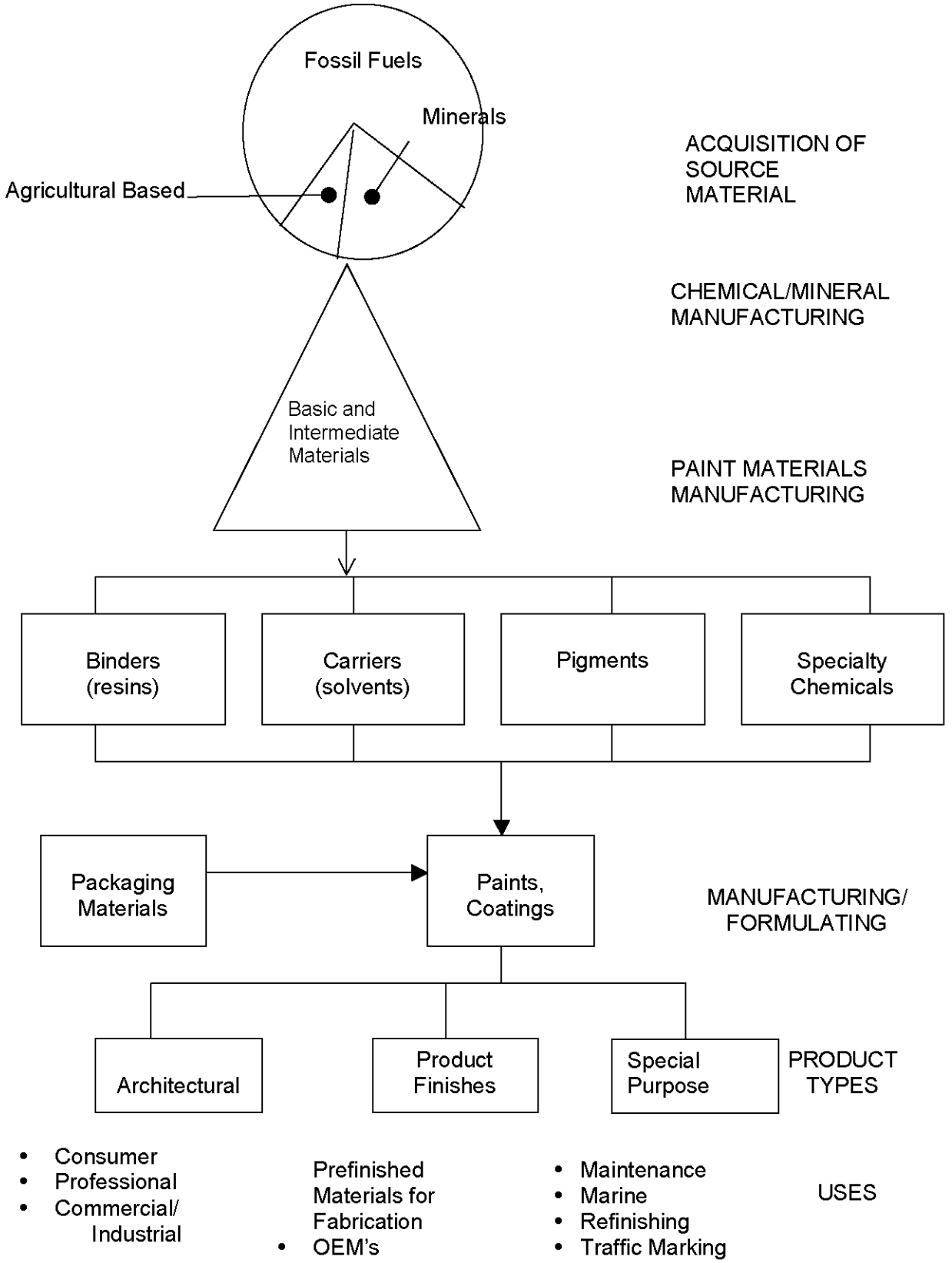

TABLE 1-1 Paint Production by Class of Manufacturer 2002

	Product Shipments (Million Dollars)			*Industry Shipments (Million Dollars)*	
Primary products	$18,126.2	94.2%		$18,126.2	97.4%
Secondary products	254.4	1.3%	Made by other industries	481.9	2.6%
Miscellaneous receipts		4.5%			
Resales	795.6				
Other-a	80.9				
Subtotal	876.6				
TOTAL	$19,257.2	100.0%		$18,608.1	100.0%

a- Includes contract work, sales of scrap and refuse, receipts for R&D, and miscellaneous receipts.

Source: *Economic Census EC02 M 3255A* for NAICS 3255.

employees. The ten leading U.S. producers controlled over 75% of the U.S. market in 2003, and Sherwin-Williams, the leading company, held approximately a 16% share. Although a number of companies have sales nationwide, the paint industry remains a regional business. Factors causing this are cost of shipping, difficulties in maintaining prompt deliveries to distant locations, and other distribution problems.

TABLE 1-2 Characteristics and Competitive Factors in the Paint Industry by Segment

Paint Segment Description	*Competitive Factors*
ARCHITECTURAL COATINGS	
Commodity products with well-known formulations Onsite application to interior or exterior surfaces of residential, commercial, institutional or industrial buildings	Consumer brand recognition, price, quality, product innovation, color merchandising, order response
OEM COATINGS	
Non-standard, customized products Sold direct to users (original equipment manufacturers)	Technical capabilities, product innovation with quick response, application support, price
SPECIAL PURPOSE COATINGS	
Specially formulated products but are stock or shelf goods; niche markets	Completeness of product line, new product technology, high performance, distribution, technical service, price

There also is a high degree of product and market specialization among major producers. For example, Sherwin Williams is the largest supplier to the Do-It-Yourself (DIY) and contractor market segments, the leader in private-label business, and also the largest retailer through company owned stores; Valspar is the leading supplier of coil coatings; PPG, DuPont, and BASF are leaders in OEM automotive finishes; PPG ranks number one in automotive refinishes; Ameron leads in marine coatings; ICI (Glidden), which developed epoxy waterborne coatings for beverage cans, is the dominant supplier of interior can coatings; Ennis Paint is the largest producer of traffic paints; and Rohm and Haas and Valspar are the leaders in powder coatings.

Paints and coatings are used to decorate walls and other surfaces, provide a pleasing, but long-lasting finish on durable products, and protect and maintain most surfaces and goods produced. Some 45% of paint shipments are used on existing surfaces and equipment. For the most part, paints are in liquid form and are applied as a thin film by a variety of methods. Products are grouped as architectural coatings, OEM product coatings, and special purpose coatings. A brief overview of segment characteristics and competitive factors is shown in Table 1-2.

The paint industry is a mature business that is highly fragmented in types of paints, end uses and technology, and can be characterized by change in practically all segments.

Many grades of paint have become commodity type products. However, due to emission and hazardous waste regulations, considerable effort continues to be spent on developing water-base coatings, high-solids and solvent-free liquid finishes, powder coatings and radiation curable materials.

The industry also faces competition from alternate materials for interior and exterior surfaces. Vinyl wall coverings compete with interior paints, vinyl siding competes with exterior paints, and plastics compete with automotive OEM coatings. Corrosion-resistant metals or polymers have niches in markets where coatings might otherwise be used.

The paint business continues to endure many challenges such as shifting technologies, intermittent raw material shortages, varying costs, increased imports of finished goods, changing consumer living patterns, and slowing population growth. All this is occurring in an environment of increasing regulation by federal and state authorities, including regulations on air pollution, hazardous waste, worker and consumer safety, labeling, packaging and transportation. Customer needs, such as ease of application, VOC and HAP levels, and aesthetics also increasingly influence product development.

INDUSTRY SHIPMENTS

As shown in Table 1-3, the value of shipments for paints, coatings, varnishes and lacquers totaled $16,124.7 million in 2003,

TABLE 1-3 US Shipments of Paint, Varnish and Lacquer in Dollars 1980-2003

	Million Gallons				*% Change*			
Year	*Architectural Coatings*	*OEM Product Finishes*	*Special Purpose Coatings*	*Total*	*Architectural Coatings*	*OEM Product Finishes*	*Special Purpose Coatings*	*Total*
1980	$2,812.5	$2,445.5	$1,239.4	$6,497.4	—	—	—	—
1985	3,830.8	3,486.4	1,962.2	9,279.4	7.6%	0.2%		
1986	4,010.0	3,634.9	1,901.9	9,546.7	4.9	2.6	−3.2%	2.3%
1987	4,245.4	3,782.5	2,139.7	10,167.6	5.9	4.2	11.3	6.6
1988	4,426.8	4,104.5	2,251.8	10,783.1	4.3	8.5	5.2	6.1
1989	4,713.6	4,236.9	2,370.7	11,321.2	6.5	3.2	5.3	5.0
1990	4,913.6	4,032.6	2,781.5	11,727.7	4.2	−4.9	11.3	3.5
1991	4,900.7	4,005.4	2,910.8	11,816.9	−0.3	−0.8	4.6	0.7
1992	5,294.3	4,213.5	2,933.8	12,441.6	8.0	5.2	0.1	5.2
1993	5,615.3	4,788.3	2,933.8	13,337.4	6.1	13.6	0.1	7.2
1994	5,888.3	5,069.9	3,197.3	14,155.5	4.9	5.9	8.8	6.1
1995	6,057.1	5,279.9	3,076.7	14,413.7	2.9	4.1	−3.4	1.8
1996	6,246.3	5,474.1	3,263.8	14,984.2	3.1	3.6	6.1	4.0
1997	6,264.9	5,750.7	2,896.0	14,911.6	0.3	5.1	−11.3	−0.5
1998	6,115.2	6,050.7	3,365.4	15,575.9	−1.7	5.2	16.2	4.5
1999	6,617.9	6,208.2	3,496.2	16,296.5	8.2	2.6	3.9	6.1
2000	6,461.4	6,110.4	3,837.0	16,601.3	−2.4	−1.6	9.7	0.5
2001	7,038.3	5,566.6	3,408.1	16,217.6	8.9	−8.9	−11.2	−2.3
2002	7,123.1	5,548.2	3,351.5	16,022.8	1.2	−0.4	−1.7	−1.3
2003	7,626.3	5,256.4	3,241.9	16,124.7	7.1	−5.3	−3.3	0.1
		Average annual growth rate 1980-1990			5.7%	5.1%	8.4%	7.1%
		Average annual growth rate 1990-2003			3.4%	2.1%	1.2%	2.5%

e-Estimated.
Source: U.S. Census Bureau: *Current Industrial Reports* M28F and M325F and estimates by *Impact Marketing Consultants*.