

Paint sector looks to innovation as it fights off impact of COVID-19 and devastating riots

By Nicola Jenvey in Durban

The annual value of South Africa's paints and coatings market will nudge US\$2.1bn (South African Rand ZAR33.3bn) by 2026 after growing at a compound annual growth rate (CAGR) of 5.6% between 2021 and 2026.

These predictions from market researcher IndustryARC came in May (2021) as the industry battled the continued impact of the global COVID-19 pandemic. They also were released just before the week-long riots in July that state insurance company Sasria estimated caused US\$1.7bn (ZAR25bn) in damage to the entire South African economy. Violence erupted in KwaZulu-Natal (KZN) and Gauteng due to the imprisonment of former President Jacob Zuma, with KZN's Durban and Pietermaritzburg being the hardest hit – Zuma is a Zulu, who make up around 77% of the province's population.

According to the 'South Africa paints and coatings market' report by research company IndustryARC¹, rising construction is boosting the demand for paints and coatings, a demand factor that may grow as the riots' damage is repaired.

■ NEW INNOVATIVE AND SUSTAINABLE FORMULATIONS

The report commented that South African paint manufacturers are enhancing their ability to meet this growing demand by developing new innovative and sustainable formulations. This comment is accurate, said South African Paint Manufacturing Association (SAPMA) Executive Director Tara Benn. Her group represents companies making 90% of the paint manufactured in South Africa, with members drawn from manufacturers, raw material and services suppliers, retailers and contractors.

She said the July riots affected some companies more than others, with mainly Durban-based companies suffering from "a gambit of issues", from simply closing down for safety reasons, to being wholly "cleaned out" (looted) or completely razed by fire and



criminal damage. Companies in the riot zones whose premises were not destroyed endured about two weeks of trading loss.

Benn acknowledged the riots were "the final straw" for some smaller retailers already struggling due to the pandemic and the two issues saw about 6% of the industry's retailers and contractors shut their doors permanently.

■ DEMAND FOR ANTIMICROBIAL AND ANTIBACTERIAL PRODUCTS

On the plus side, during the past year local companies have displayed their innovation by introducing antibacterial and antimicrobial paints to their ranges. These were initially sourced from Europe, but increasingly produced locally as technology is approved by South African regulators. With the country at the heart of the latest COVID-19 variant outbreak (Omicron) this shift in demand towards new sanitation coating products, particularly in hospitals and other buildings facing a high risk of disease transmission, is likely to be sustained.

However, SAPMA Chairman Sanjeev Bhatt believes the country's coatings sector will not experience "significant business recovery" before the second quarter of 2022, as it battles supply chain "nightmares" including soaring freight costs

and a July 22 cyber-attack on national rail, port and pipeline company Transnet that further delayed shipments.

■ DEGLOBALISATION TREND

Looking ahead, "among COVID-19's logistical effects is a growing deglobalisation trend," noted Bhatt, which could be good news for a regional manufacturing centre such as South Africa. "As economic difficulties mount, the inevitable growth of nationalism and politics will encourage companies to localise business operations favouring national and regional supply chains," he said. "Unfortunately, the rioting and looting witnessed in July... were not conducive to such sentiments," he added, potentially deterring investors.

The industry faces other problems too. In the past year, unstable politics and raw material shortages were credited with affecting the sector. Outgoing SAPMA Chairman Aggie Argyrou told the online annual general meeting in August that the country's political instability, notably the corruption cases brought against Zuma, and the pandemic's impact were causing severe hardships to manufacturers and retailers.

"Coating producers are concerned about the declining South African economy – fraught with corruption and rotten politics... it has resulted in a volatile rand-to-dollar exchange rate, significant increases in the costs of raw materials and fuel shortages," he said.

Add to that, regular breakdowns in electricity supplies because of production shortages – in the six months to August, electricity costs rose 16% and larger manufacturers invested in generators – and a lack of quality water supplies, operations have been very difficult.

This has been compounded with raw material price increases of 80-100% during 2020 and the first semester of 2021, taking account of data in the IndustryARC report. This includes higher plastic and

tin packaging costs, with rising prices potentially forcing customers to shop for inferior products, eroding the sector's reputation and integrity.

Benn said the complex mix of demand, global chemical plant production issues and transport issues are straining the supply chain. Affected raw materials include epoxy resins and solvents typically imported from Europe. Since January 2020 the costs of key components, such as epoxy resins, has risen 60% and solvents 123%.

To better lobby for the interests of beleaguered hardware and paint retailer members, SAPMA has established the sister organisation Retail Hardware and Paint Association, during July (2021). Association Chairman Gary van der Merwe said retail members need "a dedicated effort to effectively safeguard against increasing government regulation of private wholesale and retail companies".

This comes as the government departments of trade, industry and competition, and employment and labour plan to regulate the hardware and paint sector. Under level 5 lockdown restrictions, do-it-yourself (DIY) products, including paints and home maintenance, were deemed non-essential and banned from sales between March 26 to April 30, 2020. The ban was lifted for manufacturers and retailers at level 4 between May 1-31, 2020, and contractors in level 3 after June 1, 2020, meaning the industry lost about eight weeks' worth of sales in 2020.

Van der Merwe says currently under discussion within the government are broad-based black economic empowerment (BBBEE) requirements, which could see the state Retail Charter Council and a Retail Bargaining Council more tightly regulate wages and employment conditions. The paint industry has secured a two-year moratorium on implementing changes while these



issues are examined. Van der Merwe said the association will "counter existing (government) plans... for preposterous new employment equity targets for hardware and paint retailers". These include measures demanding only certain BBBEE-compliance companies (with black South African ownership structures) can tender for public sector supply chain contracts.

■ LANDMARK LEAD VICTORY

On a more positive note for consumers, in October (2021), South African Health Minister Joe Phaahla announced that effective October 22, 2022, no paint (or painted products) with lead above 90 parts per million (0.009% instead of the current 0.06%) can be sold in the country.

Medical Research Council Environmental Health Research Unit Director Angela Mathee said the new limit is "tantamount to a ban on the addition

of lead to paint" and, while lead as a contaminant "is everywhere", it can no longer be added.

"This represents a landmark victory for decades of lobbying... that should stop lead from cropping up in homes and schools, on playground equipment and in the coatings of toys; all places it continues to be found," she said.

This regulation will require sustainability innovation and the IndustryARC report predicts that the growing popularity of green coating resins in the architectural and decorative paints that dominate the South African market will potentially aid growth. The rise in urban housing, with growing spending on infrastructural repairs and maintenance, will also promote such sales.

Benn believes COVID-19's work-from-home trend, which is expected to persist, will continue driving DIY sales as people focus on home maintenance and home office upgrades. The pandemic will also boost demand for antibacterial paints as South Africa follows European and US trends.

That said, while consumers are turning to online platforms for painting coating sales, Benn said South African consumers remain tactile and "want to touch the colour charts in-store" when choosing new paint colours. This means they are minimising the time in-store by using technology to determine how colour schemes match their lifestyles but prefer purchasing paint in-store where they can discuss issues with specialists face-to-face.

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References

1. <https://www.industryarc.com/Report/18991/south-africa-paints-and-coatings-market>

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