

Feature Article

Growth Strategy for Rapidly Growing Repainting Market in China



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PROFILE

Eric Chung is the CEO of Nippon Paint China, currently heading all its business units in Greater China. He held managerial roles in two subsidiary companies of Master Kong Holdings Co. Ltd. before joining Nippon Paint China in 2007. Armed with a clear business vision, he has spearheaded company-wide transformation in areas of corporate strategy, image, branding and product technology. He has also expanded Nippon Paint's scope, overseeing its evolution from paint manufacturer to a provider of overall coating solutions. Under his leadership, Nippon Paint China has achieved more than double digit growth for the past 10 consecutive years.

1. Growth opportunities and potentiality of repainting market in China

China's property market has entered the era of stock housing

Under the influence of the "Domicile Not Speculate" policy, China's Property Market has plateaued. In 2021, China's property development investment made up 25.2% of total fixed asset investment, down by two percent points from 2020. In terms of construction scale, from 2005 to 2015, Compound Annual Growth Rate (CAGR) of property development investment was 20%, CAGR of project commencement was 8.5%, CAGR of housing transaction was 8.8%, and CAGR of project completion was 6.5%. From 2016 to 2021, these 4 indicators dropped respectively to 7.5%, 3.5%, 2.7% and -0.9%. It is estimated that in the next two decades, annual transaction volume of new property will drop to below 1B m², down 40% from its current level.

Sustained policy control has led to a decline of new property transaction volume, and consequently increasing the proportion of stock housing gradually in the property market. It is estimated that stock property

housing will reach 350M units by 2025, and 420M units by 2030. As a key indicator of the arrival of stock housing era, since 2016, Resale Housing has made up over 40% of China's total housing transactions. In 2021, Resale Housing transaction was 41% of the total transaction.

China's Tier 1 cities have crossed over into Era of Stock Housing, Beijing's resale housing transactions are close to 70% of total property transaction, while in Shanghai it stands at 60%, while for Shenzhen and Guangzhou they are at approximately 50%. For Tier 2, 3 & 4 cities, resale housing transactions have made up over 30% of total property transactions and are also steadily increasing.

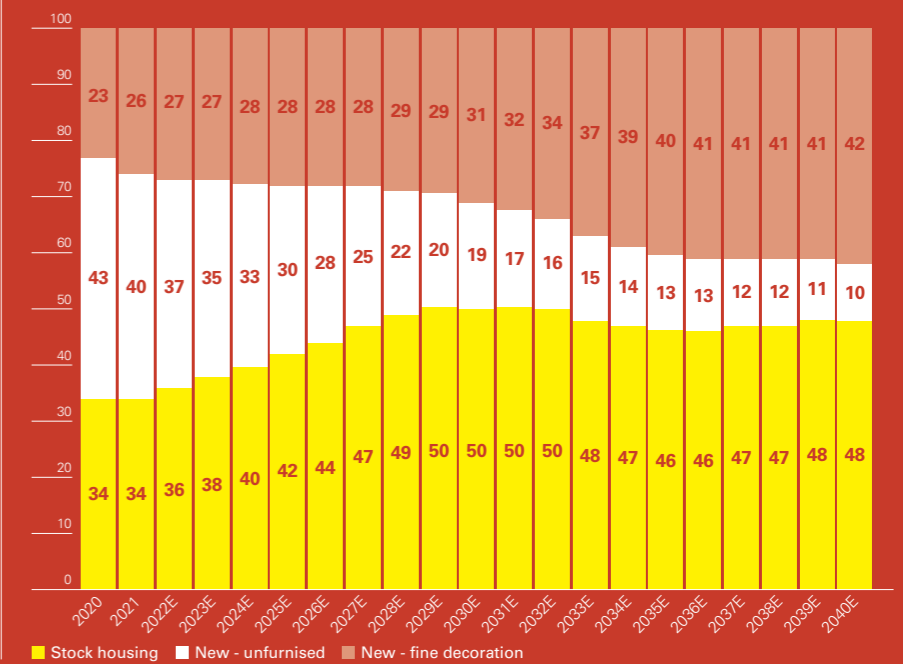
The 1998-2008 period was known as the Golden Decade of China's property market. Judging from the repair and maintenance cycle of 10-15 years, a large amount of stock housing has reached or exceeded the "Refreshing" threshold. Repainting of stock housing is set to overtake new property to become the key support for demand for home decoration. By 2025, it is estimated that renovation of stock housing will make up 42% of total demand of housing renovation. By 2030, this ratio will rise to over 50% of total renovation.

Stock housing era, coupled with government policies, pushes repainting to highs

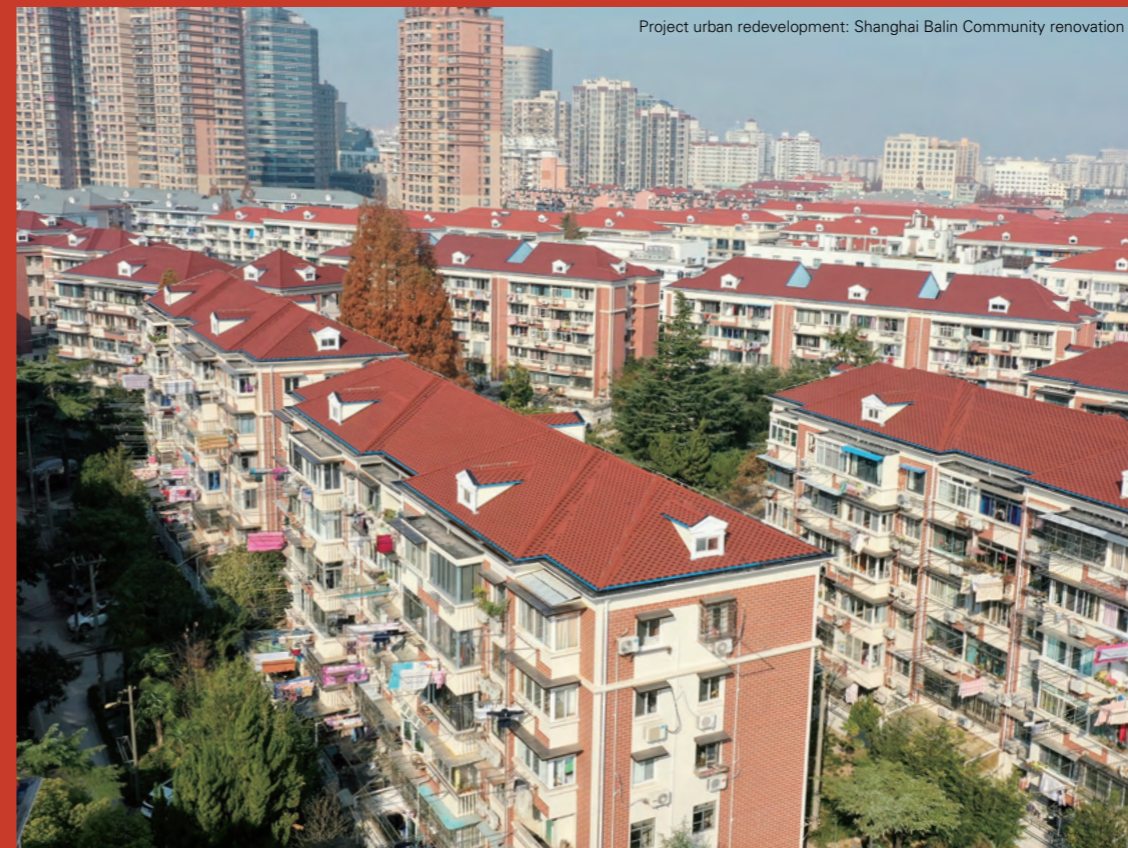
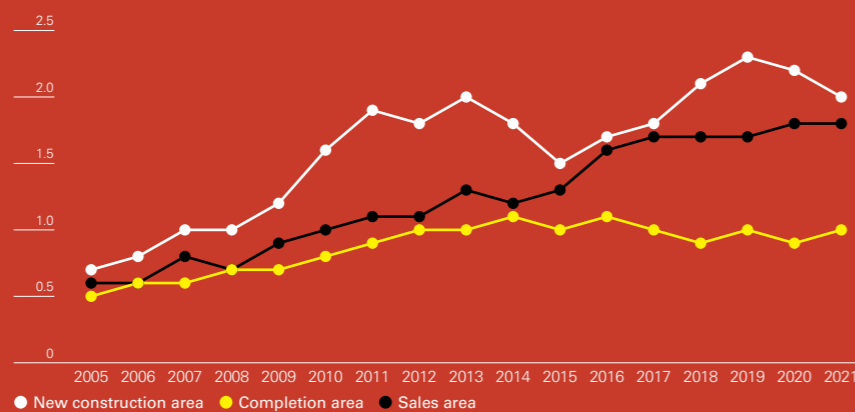
In 2020, China's State House issued a Guide on Upgrading of Aged Housing Estates in Cities and Townships, which categorized the upgrading of aged housing estates into an initiative of social security housing and entitled it for subsidies from central government. The 14th 5 Year Plan, formulated in 2021, stipulates that housing estates completed before the end of 2000 will be upgraded within the 14th 5 Year Plan period. "City Upgrading" has been escalated to be a national strategy.

The 219,000 housing estates targeted for upgrading are estimated to have 4Bm² in construction area and bring about investment of 4 trillion RMB. The resulting market potential for construction materials will amount to 240B RMB, of which 40B will be in construction paint and coatings.

Renovation demand (%)



Property investment development (Billion square meters)



Project urban redevelopment: Shanghai Balin Community renovation



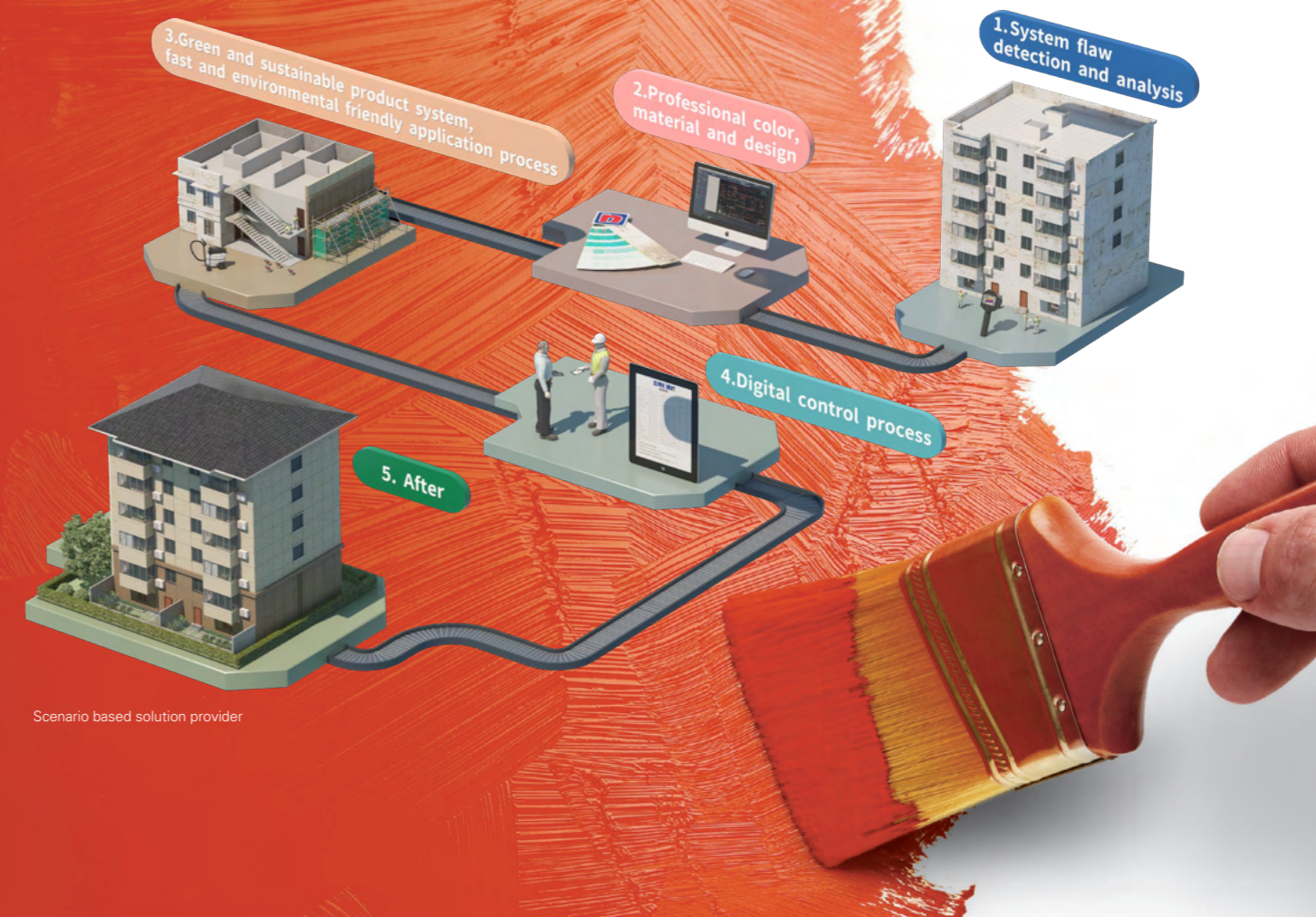
Project: Beijing Chaoyang Hospital redevelopment



Project urban redevelopment: application on-site



NP exclusive store



Scenario based solution provider

2. Business strategy that responds to the Chinese repainting market

Nippon Paint China adopts "Refresh and beautify the living spaces" as its corporate mission, and has a vision "To construct with technology a most valuable eco-system, to become the leader in paint and coating total solutions."

It is also in the value system of Nippon Paint China, to Enable Customer's Achievements, to Lead through Innovation, to Cooperate for Winning, and to Encourage Drive to Succeed.

As the leader of China's paint and coatings industry, Nippon Paint China is actively responding to China government's 14th 5 Year Plan, and drive the contribution of paint and coatings industry in City Upgrading,

infrastructure upgrading, refreshing of aged housing estates and improvement of living environment.

Nippon Paint China aims to develop its business in repainting by exploring opportunities through Urban Revitalization Design, Scenario based solutions, Product technology upgrade, Service model innovation, Green and Carbon-friendly transformation & information system support, to deliver products, solutions and services which fulfill requirements of the country, customers and business partners.

As there are different emphasis in the needs of individual consumers and construction project customers, Nippon Paint China has tailored repainting strategies to these two domains.



NP refresh service wall polishing



NP refresh service exterior wall paint spraying

Retail Strategy

Focus on core business & core cities, strive for sustained growth

1. Focus on Art paints, to satisfy demand in consumption upgrade and individualized needs
2. Focus on high-potential cities, enhance efficiency to ensure high-yield

Uplift existing renovation model (Refresh)

1. Leverage on E channel: deep exploration of homeowners' needs, increase penetration of renovation through Refresh

Improve on Net Promoter Score (NPS)

1. Close-loop management of post-sale services, with enhanced service standards and delivery standards, setup supplier management and appraisal system

Multi-faceted innovation to drive growth

1. Business model innovation: Explore partnership system and find growth drivers
2. Eco-system innovation: form alliances in renovation with fellow producers of construction materials, collaborate with leading companies
3. Product innovation: develop product solutions for key scenarios in renovation, such as bathroom, window, balcony, exterior wall, sunroom, basement, rooftop

Project Strategy

Organization: form Upgrade project team

1. Form Upgrade project team, to coordinate strategies, plans and execution of upgrading, to streamline process of product offering, solutions, delivery and quality assurance

Channel: establish regional centers of competency and Upgrade partners

1. Establish centers of competency in sales regions, to develop technical and application expertise in supporting Upgrade
2. To recruit Upgrade partners & jointly manage project leads, promotion and development

Provide scenario-based products and solutions

1. Cloud-based, digitalized & smart systems for complete management of Upgrade projects
2. Establish partnership in Upgrade
3. Scenario based products & solutions