

Luxury Personal Care in India: On the growth trajectory



The demand for luxury personal care products in India has surged in the recent past. Leading global brands have expanded their India footprint, have buffered their 'India special' product portfolio and have launched innovative marketing campaigns. Competition has intensified. However, the market is ready for many more brands as the current penetration levels are low and an increasing number of affluent Indians are entering the consumption curve.

Introduction

Since time immemorial, luxury has been an integral part of the Indian lifestyle; only with time its context is changing. In the past, the Maharajas were synonymous with luxury, and today luxury is fast becoming a way of life for the über rich of modern India.

The world of luxury is a heady one, a world that Indians are embracing quite fast, each year. Although compared with the developed markets, the Indian market is presently small, persisting high growth rates is fast bridging the gap.

Table 1: Indian Luxury Goods Market Size

Category	2009 (USD million)	2009-10 Growth
Real Estate	1,440	15%
Cars	745	36%
Jewellery	730	30%
Hotels	440	10%
Fine Dining	270	40%
Personal Care	230	24%
Apparel & Accessories	205	30%
Wines & Spirits	180	25%
Electronics	160	35%
Watches	50	29%
Travel	32	22%
Stationary	9	25%
Yachts	2	12%
Others (Incl. Services)	1,257	-

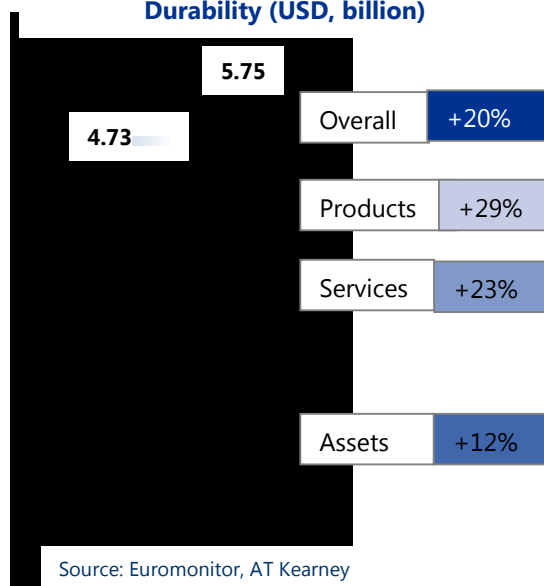
Source: AT Kearney

During the past few years, the Indian luxury products' market outperformed most industry projections. The market reported robust growth (averaging 20% in FY10) and was expected to reach USD 5.75 billion in revenues by the end of FY2011. During the same period and segmented by durability, luxury 'products' category grew the fastest at 29%, followed by luxury 'services' at 23%, and finally by luxury 'assets' at 12%.

Revenue growth in jewellery, electronics, cars and fine dining categories surpassed the expectations. On the other hand, growth in luxury real estate lagged due to expectations of price correction, while the growth in the sales of yachts remained largely flat due to an absence of supporting marine infrastructure.

While the sales of luxury goods across all categories have increased, the personal care category has reported one of the steadiest growth rates, averaging 24% per annum for the recent past. Should inherently high valued categories such as real estate, jewellery, cars and hotels be excluded in the comparison,

Fig 1: Indian Luxury Market Size – by Durability (USD, billion)



luxury personal care also accounts for the largest share of the Indian luxury market by size.

With estimated revenues of USD 230 million in FY2010, Luxury Personal Care accounted for about 5% of the overall luxury goods market in India. Rising disposable incomes, growing consumer awareness and the launch of several international brands has fuelled personal care sales growth.

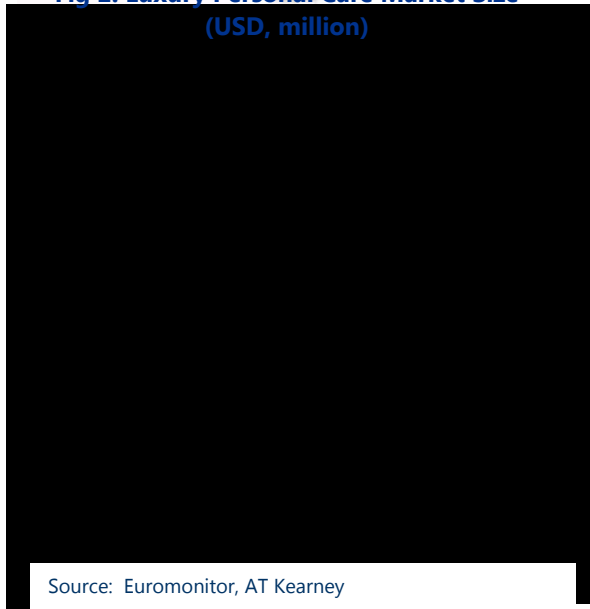
Luxury Personal Care: On the Growth Trajectory

Secular luxury goods growth driving up personal care demand as well

The Indian luxury market is expected to touch USD 30 billion in revenues by 2015 and the country is expected to become the world's fifth largest consumer market by 2025. Benefiting from overall economic growth and nearer home growth in overall demand for luxury products, the personal care segment will also thrive as more and more Indian consumers enter the consumption curve.

With USD 280 million in revenues 2010, the luxury personal care category is forecasted to grow at 22% per annum in foreseeable future. This category accounted for about 8% of the overall personal care market in India in 2010, pegged at USD 3.2 billion.

Fig 2: Luxury Personal Care Market Size (USD, million)



Source: Euromonitor, AT Kearney

Cosmetics, skin care products, fragrances and hair care products constitute the personal care market in India. Though the Indian personal care market is small compared with even neighbouring markets such as China (USD 2.1 billion) and South East Asia (USD 2 billion), it has grown at a robust rate and is expected to grow to USD 700 million by 2015 (which would take it to 13% of the total personal care market)



"Indian consumers really care about brands. Almost 22 percent of Indian consumers try foreign products and brands."
Laxman Narasimhan, Director, McKinsey & Company, July 2011

Luxury personal care presence spreading to smaller cities

Luxury personal care product distribution has penetrated well beyond the large metros to other smaller cities. For instance, tier II cities, Hyderabad and Pune, together had more than 30 stores that dealt in luxury personal care products (2011).

Similarly, North Mumbai and Gurgaon (a suburb to New Delhi) are fast emerging as attractive clusters for new luxury establishments. Luxury personal care sales have grown with improved purchasing power parity of customers in tier II cities.

Recently permitted 100% foreign direct investment in single brand retail is likely to provide major regulatory boost to luxury personal care companies planning to expand their direct presence in India.



"The Indian government has allowed foreign investors to float and run wholly owned single brand retail stores; the bigger reform measure of opening multi-brand retailing to international investors remains mired in political cobweb."- VCCircle, January 2012

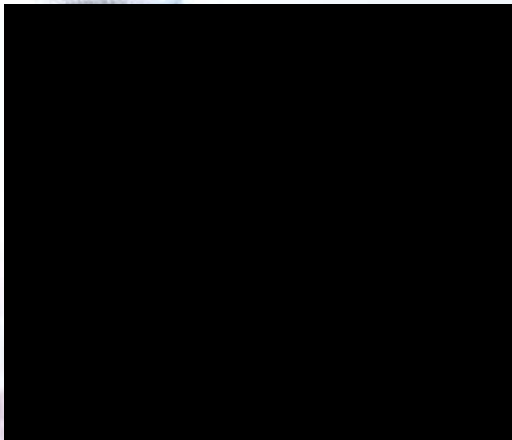
Market Segmentation: Key Characteristics

Fragrances dominate the luxury personal care market in India

In most markets personal care is female customer dominated, with cosmetics and skin care accounting for the largest share of the segment. However, in India, fragrances dominate other categories.

While the overall Indian personal care market is dominated by hair care (55%) and skin care

Fig 3: Luxury Personal Care Market Segmentation (by value, 2010)



Source: India Luxury Review 2011, CII- AT Kearney

(28%) categories with fragrances accounting for a mere 4%, the break up in luxury market is quite the opposite, dominated by fragrances that account for 51% of the sales.

Interestingly, the revenue share in the luxury personal segment in the country is dominated by male customers who spend significantly on fragrances.

Make up gaining market share

Though make-up products have the smallest share within luxury personal care (at 9%), it is growing rapidly at 30-35% per annum. Rising disposable incomes, increasing awareness in both men and women of grooming have contributed to this segment's high growth.

Entry of international brands such as Estee Lauder, Lancome and Clarin are further driving up the growth up make-up products.

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"India has three million affluent households, defined as those with more than \$100,000 (about Rs 50 lakh) of investable surplus. The number of high net-worth individuals, who have assets of USD 1 million or more, will more than double to 403,000 by 2015."- Global affluence study by research firm TNS, January 2012

Increasing footprint of international brands

The surge in purchasing power and growing awareness of global brands has contributed to the growth of international brands.

L'Oreal, Clarins, Christine Dior, Nina Ricci, Estee Lauder, Shiseido, Schwarzkopf and Lancome etc have entered and expanded their India footprint.

Some of these brands that once failed their Indian venture, have re-entered the market with better strategy, customised products and prices that better suit the Indian customer.



Market Trends

Men's grooming gaining ground

Men's luxury personal care products are gaining market share. Apart from the usual products such as pre-shave products and razors, luxury skin care and hair care products are also becoming popular in the country.

The findings ASSOCHAM Survey (2000-2011) highlighted that Indian men's monthly expenditure on cosmetics rose 60-80% more than the corresponding rise in spend by women.

Indian brands such as Wills and Orosilber have launched luxury personal care products especially for men. India's first retail chain catering only to men's grooming needs, MEN & BOYS, opened in 2010. It specialises in luxury cosmetics, skincare products, hair care products and fragrances. A new website, Fetise, dedicated entirely to men's luxury personal care products from global brands was also launched.



*"More beauty products targeting men are bound to appear. Increasing disposable incomes, urbanization and greater exposure to the West are the main drivers."
- Anand Ramanathan, Analyst, KPMG, June 2011*



"The market size of cosmetics industry which is currently estimated at Rs.10,000 crore will double to be worth Rs. 20,000 crore by 2014."- ASSOCHAM, December 2011

Beauty conscious, working women drive luxury cosmetics' growth

A growth in the number of young working women (with high paying jobs) and in the number of those with increased awareness of global beauty trends has driven up the demand for high-end cosmetics, skin and hair care products.

ASSOCHAM survey findings suggest that women in the age group of 30 years and above are very selective about the type of products they choose. As older women have better spending propensity and are conscious of their appearance, are open to investing in high-priced skin care products.

Colour cosmetics and sun care products are two new categories that are also growing fast.



Product experience drives decision making

Most customers in the segment make their purchase decisions based on either on their experience or on recommendation. In the past, the lack of adequate and proper information dissemination at the points of sale soured customer experience.

To overcome the challenge, subscription based services such as Lushbox, BlingBox, Blisscovered have emerged that offer 4-5 trial samples at a small price. The customer thus experiences the product before making the significantly expensive purchase.



Customer preference for standalone stores

Customers in this segment prefer standalone stores over departmental stores. Customer experience is perceived to be enhanced at standalone stores through focused branding, trained sales staff availability and complete product range stocked under one roof.

As a result of an increase in the footfall in premium shopping malls, several luxury personal care brands have shifted away from hotel lobbies to exclusive stores in high-end shopping malls.

The sooner the brands customise their products to suit the Indian needs and pocket the sooner they will gain accepted by the average Indian customer.

Brands will have to follow it up by extensive promotions using a combination of print,

outdoor, digital and social media campaigns.

Catchment area of luxury care products is extended

The affluent customers' distribution in India is fairly uneven. While large cities such as New Delhi and Mumbai have a large concentration of urban rich, satellite towns and proximate cities also have a meaningful number of potential luxury care customers. Such customers do not mind travelling long distances to enhance their luxury care shopping experience.

At the recent luxury shopping festival in Delhi's DLF Emporio mall, about 18% of the shoppers were from smaller cities around Delhi. Such affluent customers from smaller cities such as Ludhiana and Jalandhar, make regular trips to shopping malls in larger metros to purchase luxury personal care products, amongst others.

Challenges

Customers stock up on trips abroad

Few customers prefer to stock up on their overseas trip as they feel that the shopping experience and the range of products outside India is significantly better compared with those back home.

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"By 2022, the Indian luxury products and services segment will require about 1.76 million trained people to work at all levels."- Economic Times of India, March 2012

Shortage of trained staff

Most international brands entering India face difficulty in recruiting trained and experienced associates who have good product knowledge. Undertrained point of sale staff leads to an increase in customer complaints related to subpar buying experience.

To overcome, a training venture, Luxury Connect was launched in India recently. Luxury Connect aims to partner with luxury brands and provide luxury industry specific training to untrained staff.

High overheads and low conversion dents profitability

Luxury brands have to invest in expensive retail space at prime properties. Real estate prices in India have remained firm both for capital leases as well as rentals, leading to high outlay on floor presence. Despite heavy footfalls in malls and premium retail spaces, the sales conversion rate remains low.

As a result of the high overhead coupled with disproportionate sales, several luxury personal care brands in India are facing severe margin pressures. A good alternative could be multi brand retailing, but it is still restricted to international players.

Opportunities

Luxury brands get good response at duty free shops

Duty Free in India is a huge untapped retail resource. Construction of new international airports across the country offers the international brands an opportunity to display and sell their products to a niche audience.

Delhi Duty Free Services, at the Delhi Airport plans to come up with a section especially for luxury personal care brands.

High sales during the wedding season

Wedding season drives growth for many luxury brands in India. Salons offer bridal packages for skin, hair care and makeup. Indian customers don't mind paying more for personal care products which promise good results for the 'once in a lifetime' event.

International brands can tie up with makeup artists to distribute their products widely.

Brands need to customise their products

International brands need to customise their products to suit Indian skin type needs, for better acceptance. Some of the brands have been launched with skin care products that are more suited to European or Oriental skin types.



Get the customer to experience the brands

To reach out to new customers, brands will need them to experience the products before purchase. Therefore, luxury personal care brands will have to invest into running campaigns that distribute samples for trial.

Recent Strategic Initiatives

Diversification of product portfolio & grooming multiple brands

A few luxury personal care brands in India have innovated and launched, 'India Centric' products. For instance, Estee Lauder launched a range of Pure Color Lipstick in 35 New Shades in November, 2011.

Similarly, the market leaders are trying to defend their market share by grooming a portfolio of sub-brands. This strategy is allowing for mitigation of risk of poor performance of one or more sub-brand (s). For instance, L'oreal is marketing its luxury personal care products through a family of brands such as Kiehl, Diesel, Kerastase etc. Following suit, ITC Personal Care has launched a portfolio that comprises 'Essenza Di Wills', 'Fiama Di Wills', 'Vivel UltraPro', 'Vivel' and 'Superia' brands.

Investing in research and development to customize the offering

A few brands have set up research & development centres in India to understand and adapt with Indian consumer behaviour. L'Oreal has set up its R&D centre in Mumbai, which will conduct studies to understand Indian consumer behaviour and practices, and develop India-specific products for the company. Similarly, Fiama Di Wills has set up Laboratoire Naturel,

its centre for Consumer and Product Interaction, in Bangalore which will enable them to deliver products backed by research and innovation.

Forging strategic partnerships and acquisitions of local brands

Existing participants have penetrated into the market through strategic deals and acquisitions. Some of the acquisitions are driven to unlock the value stored in local brands that have strong brand presence. For example, Estee Lauder acquired a minority stake in Forrest Essentials in 2008. Some brands have tied up with mass retailers to increase accessibility. Estee Lauder sells its products in partnership with Shoppers Stop, an Indian multi brand outlet. Similarly, L'Oreal partnered with another local retailer, Planet Retail, to launch Kiehl's in India. L'Oreal also ties ups with salons to promote and sell its products.

To conclude, the Indian luxury personal care market is at the inflection of a steep growth curve. There are numerous opportunities for personal care brands to grow their presence and benefit from the buoyant sales. However, the probability of success hinges upon an ability to understand market nuances and offer products that enhance the 'value' perception for the affluent but careful Indian customer.



