

Outlook for personal care ingredients industry: An Indian perspective

*The Indian personal care ingredients (PCI) industry has taken rapid strides in the last few years, as more and more personal care products (PCP) incorporate specialty ingredients in their formulation. However, a comparison with per capita consumption of PCP in China reflects the largely untapped nature of the Indian market. Favorable demographic factors and increasing beauty consciousness indicate high future demand for personal care products and specifically for active ingredients. Key trends, including nanotechnology and green chemistry besides others, will influence the strategies of PCP and consequently PCI players. The eventual winners would be those who ensure better value offerings to meet the needs of the Indian consumer say **Pratik Kadakia, Abhishek Nigam and Ashwin Rao** of Tata Strategic Management Group*

Chemicals & personal care

From soaps and shampoos in the morning to overnight repair face creams, from sunscreen products in summers to moisturising lotions in winters; personal care products literally touch our daily lives. The personal care products we use are in some measure the signature of our lifestyles and standards of living.

The awareness about ubiquitous personal care products is perhaps matched only by the total ignorance or misinformation about the chemicals that make these products what they are. From the metallic salts of fatty acids used to make the common bath soaps to the high end cosmeceuticals that combine the beauty related properties of cosmetics with the functional benefits of pharmaceuticals, chemicals (whether derived from natural or synthetic sources) are an integral part of personal care products. Specialty chemicals are widely used in personal care products as active ingredients in the form of emollients, foaming agents, and stabilizers. Their performance characteristics like thickening, foaming, imparting smoothness and conditioning are the key functionalities sought in several personal care products. Before we delve into the personal care ingredients (PCI) industry, let us present an overview of the Indian personal care products (PCP) market and its key trends.

Indian personal care products market

The personal care products (PCP) market in India is estimated to be worth ~USD 4 Bn p.a. Personal hygiene products (including bath and shower products, deodorants etc.), hair care, skin care, colour cosmetics and fragrances are the key segments of the personal care market (Refer Fig 1).

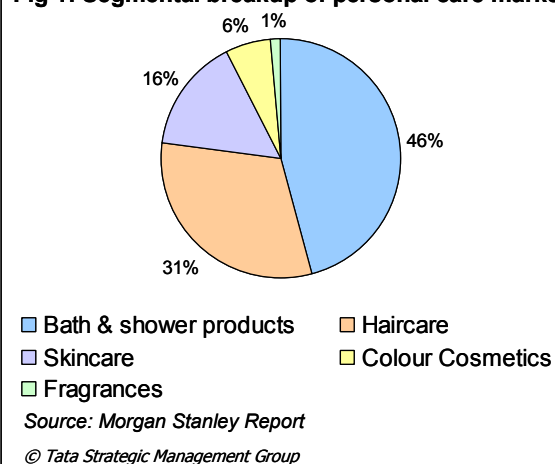
Each of these segments exhibits its unique trends and growth patterns. For example, the largest segment of personal hygiene products, largely dominated by bar soaps has grown at ~5% p.a. over the last five years. In comparison, the second largest segment, hair care products has seen a much higher growth of ~9-10% p.a. during the same period.

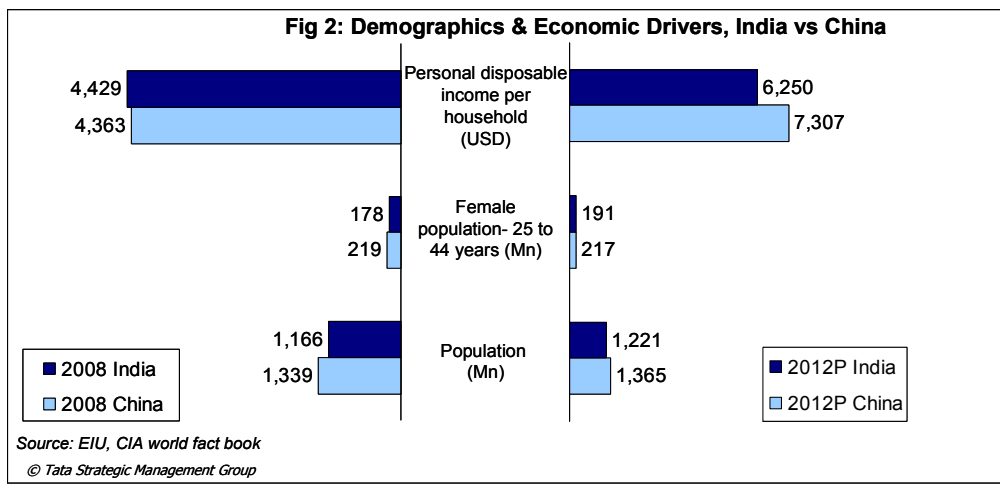
The skin care market is relatively smaller and is growing at a relatively high rate while moving away from basic creams and moisturizers to specialized products such as anti-wrinkle and dark circle removing creams. For example, the anti-ageing segment, though only 2% of the skin care market has been growing at a rate of greater than 90% p.a. over the last few years.

Key trends and growth drivers in India

As in other parts of the world, the driving force behind personal care products has evolved considerably in India. Starting from purely health notions and moving on to fitness, the current

Fig 1: Segmental breakup of personal care market



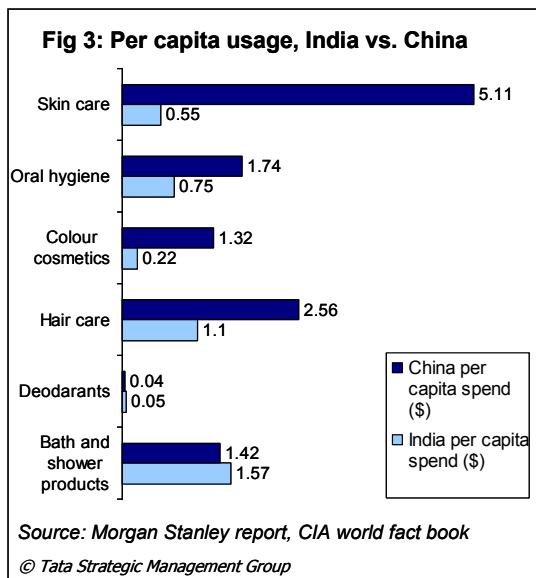


trend is towards well-being coupled with beauty. In an effort to adapt to these changes, the industry has moved from basic products such as soaps, shampoos and hair oils to functional products such as cold creams and now to specialized products such as sun block lotions, body exfoliating creams and skin whitening & anti-ageing products.

The sizable Indian population base with rising disposable income offers the personal care industry a burgeoning middle class to market a large variety of consumer products. As compared to China, India has a fairly similar personal disposable income per household and a growing population of women in the 25-44 age group, the key consumer segment (Refer Fig 2).

However, China spends almost 10 times as much on skin care, 6 times as much on cosmetics and more than 2 times on hair care on a per capita basis (Refer Fig 3). These figures indicate the huge unrealized potential of the Indian market especially for select PCP segments.

Several social, market and industry trends signal the possibility of Indian personal care industry realizing this huge potential in the near future. Increasing urbanization, rising participation of women in urban work force and growing importance of looks and personal grooming not only for personal but professional reasons are some of the key social drivers. Market trends like spread of organized retail to Tier II cities, development of non-traditional segments like men's cosmetics (with products like hair gels and fairness creams) and development of a wide range of products at different price points are all factors which could contribute to the growth of the domestic personal care market. Industry trends like increasing competition with entry of large MNCs, increased brand building and customer awareness initiatives by companies are accelerating growth. Subject to sustained overall GDP growth rates of ~8-9% p.a., the overall Indian personal care market has the potential to grow at 15%-16% p.a. (much higher rates for select segments like colour cosmetics, skin care and deodorants) and thereby double to ~USD 8 Bn by 2012-13.



Personal care ingredients: Key global trends

The changing face of the personal care products market is perhaps best reflected in the corresponding developments in the personal care ingredients industry. Specialty chemical manufacturers supplying to personal care are adopting 'green chemistry' principles to better meet consumer demand for natural and safer products and increasingly stringent regulatory requirements. This includes both product changes featuring higher proportion of natural ingredients as raw materials and a move to 'greener' production processes based on better energy conservation, safer solvents and minimization of waste generation.

Advances in the area of nanotechnology are helping researchers create breakthroughs in

biotechnology thereby enabling greater usage of natural ingredients in PCI industry. Nano-scaled encapsulation techniques are being used to develop better systems to deliver the active ingredient to the intended target area. Also, strong demand for multi-functional products such as silicones with improved sensory characteristics and surfactants with anti-oxidant and anti-inflammatory properties is being witnessed.

Personal care ingredients in India

The Indian personal care ingredients market is currently estimated at ~USD 300-350 Mn. The relatively higher price sensitivity of the Indian personal care market has traditionally limited the role of high value personal care ingredients. This has also contributed to lower R&D spends and fewer innovations by the Indian personal care product formulation companies, few of which are backward integrated in the personal care ingredients space. However the recent market developments and changed competitive landscape with the advent of large corporations willing to take investment decisions for a longer time horizon have contributed to changing the scenario. Global trends like high demand for green products are already well established in the domestic context due to long standing preference of the Indian consumer for herbal products. Other trends like consumers demanding better performance from products, whereby a minimum addition of the active ingredient to justify marketing claims is no longer sufficient, are relatively new.

Indian personal care industry typically uses specialty chemicals such as surfactants, fragrance compounds, polymer compounds and UV filters as active ingredients. Growing demand is leading to development of high end specialty active ingredients with a stronger emphasis on organic (natural) ingredients. Driven by increasing consumer preference for products with better functional benefits, the personal care ingredients market is expected to surpass the growth of the personal care products market.

Way ahead for personal care industry in India

What do all these trends mean for the Indian personal care industry in general and individual companies in particular? The PCP industry needs to self regulate to ensure performance claims made in product advertisements are commensurate with benefits delivered to consumers. The outlook of more stringent regulation governing usage of active ingredients in personal care products implies the need to

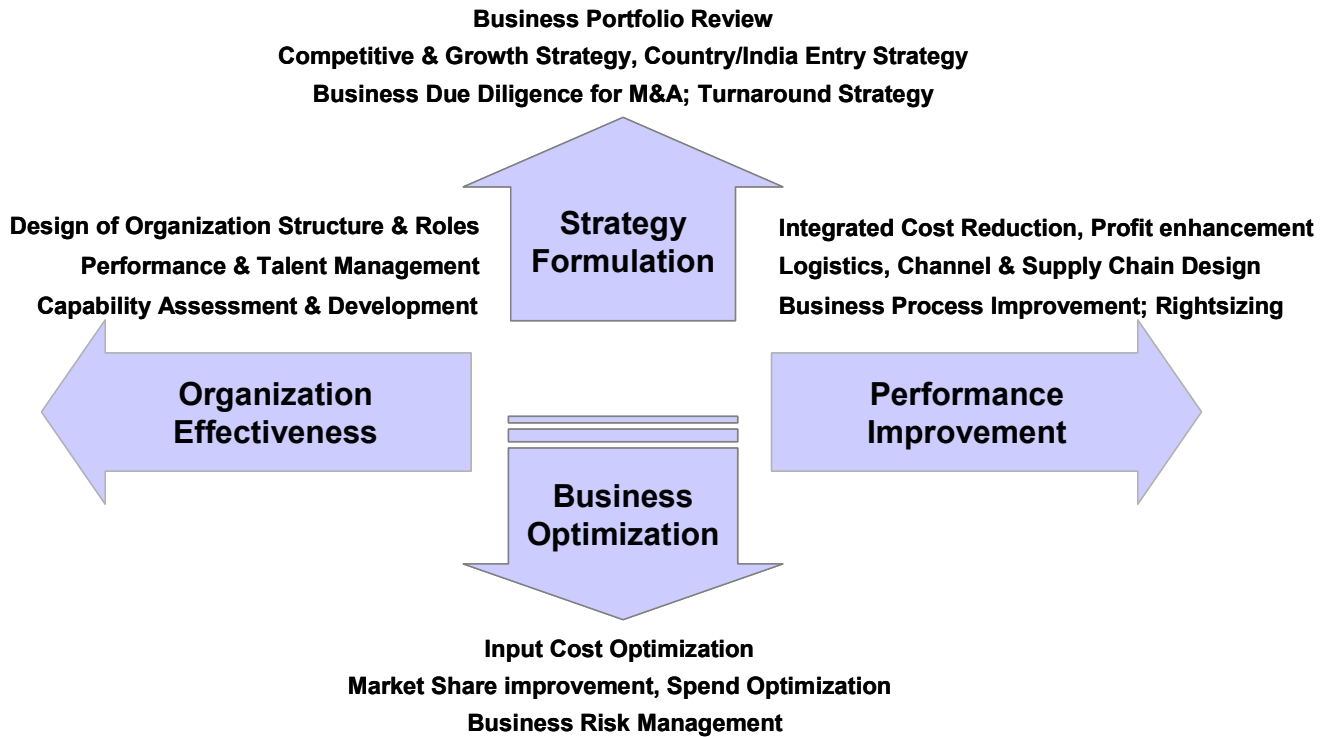
strengthen testing capabilities to ensure adequate product safety especially for PCI players. Also, the surging demand for green products calls for better product and application R&D capabilities to use natural ingredients more effectively.

Multinational players with international brands have a strong presence in the Indian formulation segment. Local brands too are gaining a foothold in the market by innovatively developing value offerings to meet the unique needs of the Indian consumer. Going ahead, it will be important to develop R&D capabilities to further customize products for Indian consumers, create greater awareness among the burgeoning middle class and ensure effective distribution reach to service them. The companies that are able to develop a judicious mix of the above will be the eventual winners.

The time is ripe to review one's strategy and come up with innovative approaches to help realize the full potential of the Indian personal care sector, where the ingredients market is likely to double in the next four years.

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