Specialty chemicals in personal care products: Opportunity for unique positioning

Introduction

Almost all of us are attuned to using hair care, skin care & bath products, cosmetics and fragrances. Together these products form the personal care product market. You switch on the TV and you will find several advertisements of these products trying to differentiate themselves using their functionalities like anti-ageing, fairness, and anti-bacterial properties etc. What we may be oblivious to is the fact that all these functionalities are a result of the specialty chemical ingredients used in these products.

Specialty ingredients in personal care products account for physical properties (inactive ingredients) as well as functional properties (active ingredients). The inactive ingredients include: surfactants, preservatives, colorants and polymers. Whereas the active ingredients include: anti-ageing materials, exfoliators, conditioning agents, UV agents etc.

Personal care ingredients market in India is currently valued at ~$450 million.

Personal care ingredients market ($ million)

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<tr>
<th>Year</th>
<th>Active</th>
<th>Inactive</th>
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<tbody>
<tr>
<td>2005</td>
<td>119</td>
<td>180</td>
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<tr>
<td>2011</td>
<td>180</td>
<td>270</td>
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Demand is shifting to products suited for specific needs. For e.g.: products specific to different skin types; hair solutions ranging from strengthening to shining to long lasting properties; lipstick needs vary depending on season or geography (matte in summer – glossy in winter; brighter shades in north – subtle shades in west). These urban users are also willing to pay a premium for customized products.

These trends provide an opportunity for product manufacturers like HUL, Dabur, Godrej, L’Oreal, Nirma, J&J, Lakme, P&G, Himalaya Herbal etc. to differentiate themselves by catering to the specific needs of different regions and demographic segments.

**Possibility of increasing penetration in both urban and rural markets**

India is a diverse market with urban, semi-urban and rural consumers. The penetration of personal care products in urban areas has been high and the target is to develop new consumer segments. Some product manufacturers have effectively innovated to increase sales in urban areas. For example, you may find that children are keen to buy hand sanitizers that come in small bottles. This trend is the result of increased awareness and innovative packaging. Such trends can create niche markets for some specialty chemical ingredients.

As for semi-urban and rural India the penetration has been relatively low. The rural consumer’s high price sensitivity, lower disposable income and lack of awareness have been the major constraints. However, increasing economic wealth, growing urbanization, changing lifestyles and increasing awareness owing to exponential rise of mass media advertisements is likely to result in an increase in penetration, as well as increase in per capita consumption.

Despite improved penetration, rural users continue to remain price sensitive; hence there is pressure on product manufacturers to continue providing them generic personal care products at affordable prices. The pressure is simultaneously translated backwards in the value chain onto the specialty ingredients producer. For example, polymer ingredients and surfactants are key cost drivers for cosmetics and hence a major focus of cosmetics manufacturers’ cost reduction.

Increasing competition will lead to differentiated positioning

The market is also seeing the advent of large specialty ingredient producers (like Cognis, Dow Corning, BASF, ISP, DSM, Merck, Lubrizol etc.), willing to take long-term investment decisions in India. There are many Indian players aiming to provide local substitutes for active ingredients. Indian players are leveraging their local knowledge of herbs and Ayurveda and helping product manufacturers to launch new products. In turn, they are creating a niche position as suppliers for these ingredients.

Domestic players like Vivimed laboratories, Sami Labs and India Glycols are also gaining prominence – both in domestic and export markets. Going ahead, there is an imminent need for establishing a unique or differentiated positioning to ensure long-term sustainability and growth.

**Investments in technical innovation are driven mostly by market/ consumer needs**

The market is exhibiting demand for natural ingredients, as customers are becoming more aware about the contents of the products they use. With some products being considered carcinogenic and already being banned in foreign countries, there is a shift in Indian markets too, though outright bans have not yet been im-

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<th>Application</th>
<th>Key trends</th>
<th>Implications</th>
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<td>Colorants</td>
<td>Special effect pigments – colour shifting effects, heat-reflection etc.</td>
<td>Need for joint product development with formulators.</td>
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<td>Customer demand for newer shades.</td>
<td>Intense colours and new metallic shades being developed.</td>
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<td>Preservatives</td>
<td>Reduction of dependence on synthetic preservatives.</td>
<td>Small, local players with niche solutions gaining prominence.</td>
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<td>Concerns about carcinogenic properties.</td>
<td>Movement towards bio-based products.</td>
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<td>Anti-aging</td>
<td>Increasing preference for natural products.</td>
<td>Opportunity to use local knowledge of herbs and Ayurveda to introduce new products.</td>
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<td>Conditioning</td>
<td>Increasing demand for moisturization.</td>
<td>Increased use of hair care humectants.</td>
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<tr>
<td></td>
<td>Increasing competition in other related fields like skin care etc.</td>
<td>Hair care emollient demand acts as a potential growth area.</td>
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Figure 4: List of applications, trends & implications for personal care ingredients

Source: Industry reports, Research by Tata Strategic

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posed by the government. For example, “go-green” motto for surfactant industry is being adopted due to allergenic effects of synthetic surfactants.

Micro-encapsulation serves as a good example of technical innovation in delivery mechanism of end products. In this, specialty ingredients are packaged in microcapsules, which are released when applied. This prolongs the shelf-life, enhances the impact of ingredients, masks their undesired properties and allows reactive ingredients to be protected from environmental contact.

**Regulatory regimes will drive investments in R&D and increase consolidation/tie-ups**

In India, there are multiple and complex regulations under different bodies, leading to a lack of implementation of set guidelines and laws. This makes the creation of a reputation amongst product manufacturers a critical success factor. Improving standards due to entry of foreign producers is not going to make this easy.

India also has non-uniform licensing policies across states. Each state has its own FDA and the license is granted by the state for the manufacturing locations. There are considerable variations in various norms followed by each state. This acts as a regional entry barrier, protecting regional specialty ingredient producers. Thus for foreign MNCs, who are trying for a faster and pan-India presence, it is desirable to tie-up with some regional producers.

Going ahead, an integrated legislation like REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), could come into effect resulting in reduction of regional entry barriers. This would imply that either the regional manufacturers invest or perish. A proactive investment decision could lead to brand building and a global presence.

A successful example for the same is observed in Indian pharmaceutical companies, which were quick to streamline their operations to comply with US-FDA requirements.

**Way ahead**

The needs of product manufacturers are driven by end consumers.

**a. Premium segments** in India have good growth potential based on increasing awareness and evolving consumers. These consumers are also ready to spend more on quality products. Product customization/differentiation is a direct result of specialty ingredients being used. This makes R&D of specialty ingredients a key focus area. Specialty ingredient producers can leverage their local presence and work in tandem with product manufacturers to map the evolving needs of different regional and demographic segments. With this market research and proactive investment towards technical innovation they can enhance the differentiation/customization of products and in turn develop a niche position.

**b. For generic segments**, increased penetration in rural areas is likely to increase the market size. Hence the thrust on these products is expected to continue in the next 4-5 years. Specialty ingredients account for a significant portion of cost for these products. To address the need of price-sensitive end-consumers, the pressure of cost reduction will fall upon specialty ingredient producers. This will imply that specialty ingredient producers should increase their focus towards developing robust sourcing strategy and streamlining of operations.

Also, some specialty ingredient producers would not be able to invest in R&D on a large scale or grow beyond certain regions. Hence the market will see consolidation, mergers & acquisitions, and alliances. Foreign MNCs may also need to tie-up/acquire local producers to increase their pan-India presence at a faster pace for both segments.

Overall, the time has come for specialty ingredient producers to clearly define their future objective and develop a strategic roadmap to establish their desired position in this continuously evolving value chain.