

Demystifying the future of **BEAUTY AND PERSONAL CARE**

Deconstructing and Rethinking the Value Chain



FOREWORD



Organizations all over the world understand the importance of addressing consumer needs. These needs are evolving rapidly, leading to significant challenges for companies to keep up with the pace.

“Demystifying the future of beauty and personal care” unearths current and future trends that are strongly expected to drive the Indian beauty and personal care industry. The report also highlights the key imperatives for organizations looking to strive forward in the evolving environment.

Insights from leading experts, and CXOs of leading organizations, have been instrumental in shaping this study. This report shares the highlights from such conversations.

The key takeaway for readers of this report are on the evolving nature of the beauty and personal care, along with its outlook. The report highlights eight key consumer trends, along three broad dimensions - “who is consuming”, “what is being consumed and where”, and “why is it being consumed”.

Overall theme for the key industry players is ‘innovation’. Rapidly evolving consumer trends necessitate industry stakeholders to focus on innovation across multiple dimensions: product portfolio (tapping into growing product categories), supply chain (flexibility to enable traceability and personalization), go-to-market (business model and channel innovation to reach consumer in different ways) and consumer engagement (digital innovation to track and manage complex consumer journeys).

This innovation will be core to the beauty and personal care companies that stay relevant in the journey ahead and “win the future”.

Himanshu Bajaj

Partner, Consumer Industries and Retail
A.T. Kearney

EXECUTIVE SUMMARY

The Indian Beauty and Personal Care (BPC) market is expected to grow at a CAGR of 5-6%, from ~US\$ 8 billion in 2016 to ~US\$10 billion in 2021. India's per capita spend on beauty and personal care is significantly lower than developed nations, however, it is in line with India's GDP growth. The industry can be categorized into five major categories - body care, hair care, face care, hand care and color cosmetics. Body care, the largest category among these, grew at about 4% CAGR between 2014 to 2016 while color cosmetics was the fastest growing category, at ~12%. The premium segment is expected to grow at 6.3% per annum, compared to the 1.1% growth predicted for the mass market products¹. Currently, grocery stores are the primary outlets for sale of BPC products, accounting for about 63% of sales by value. However, chemists and pharmacies are increasingly becoming an important channel with ~15% year on year growth. The market is predominantly urban centric. However, going forward, growth is expected to be spearheaded by rural markets.

There is a paradigm shift in consumer preference from 'looking good' to 'feeling good', and the industry is innovating to address the evolving consumer awareness and aspirations. This report unearths eight key consumer trends, along three broad dimensions.

Who is consuming is transforming

Arrival of the 'Martians':

Men are increasingly opting for grooming products

Chronicles of the 'Bride-to-be':

Consumers are seeking memorable weddings and are willing to spend a fortune

Where and What is consumed is evolving

Emphasis on 'Inner well-being':

Consumers moving to all-natural, anti-fatigue, anti-pollution, anti-ageing products

Emergence of 'i-Beauty':

Growing interest in usage of technology in beauty products, services

Rise of the 'Right Here, Right Now' attitude:

Consumers opting for at-home services, using e-commerce

Why it is being consumed is changing

The Republic of 'People's Choice':

Peer feedback, product reviews increasingly affecting purchase decisions

Climbing up the 'Consumption Ladder':

Consumers willing to "trade-up", with larger repertoire of products

Evolution of Generation 'Me':

Millennials looking to personalization as form of self-expression

In this scenario of rapidly evolving consumer preferences industry needs to take focused actions to stay relevant. Industry stakeholders need to tailor their value chain to be able to adapt to evolving industry:



Ideate

Analytics and consumer insight driven product innovation



Adapt

Flexible new age manufacturing and supply chain



Amplify

New channels of selling and unique brand messaging



Encapsulate

Next level consumer engagement and personalized experiences



Integrate

Partner collaboration and co-creation



Moderate

Regulatory thrust to enhance product innovation and partnership

1. Growth rate for premium and mass market segments for 2015-2016



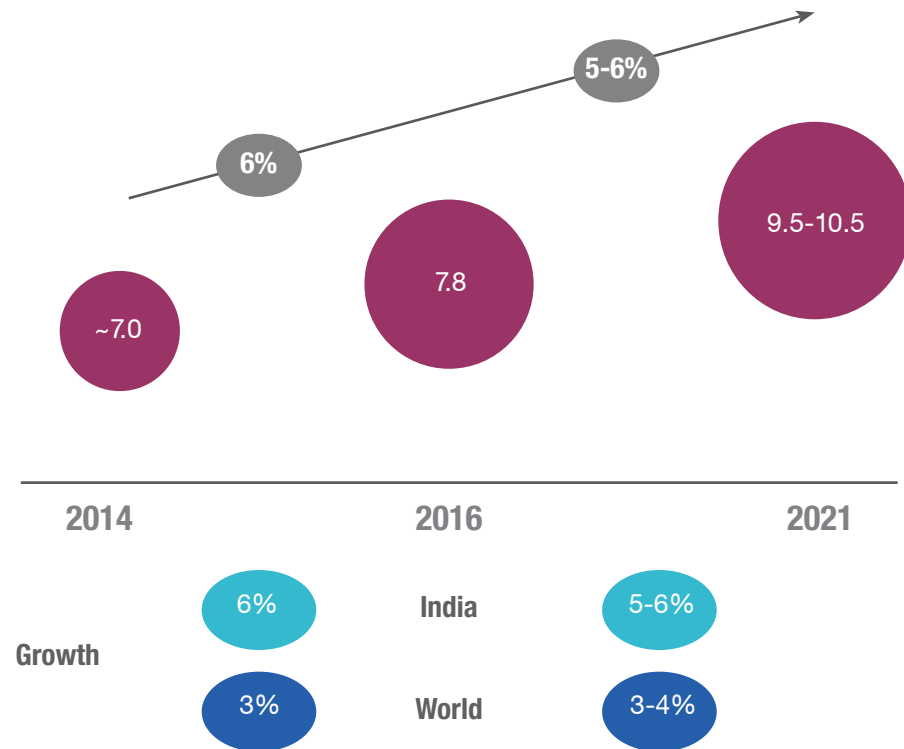
**BUILDING BLOCKS FOR BEAUTY AND
PERSONAL CARE**

BUILDING BLOCKS FOR BEAUTY AND PERSONAL CARE

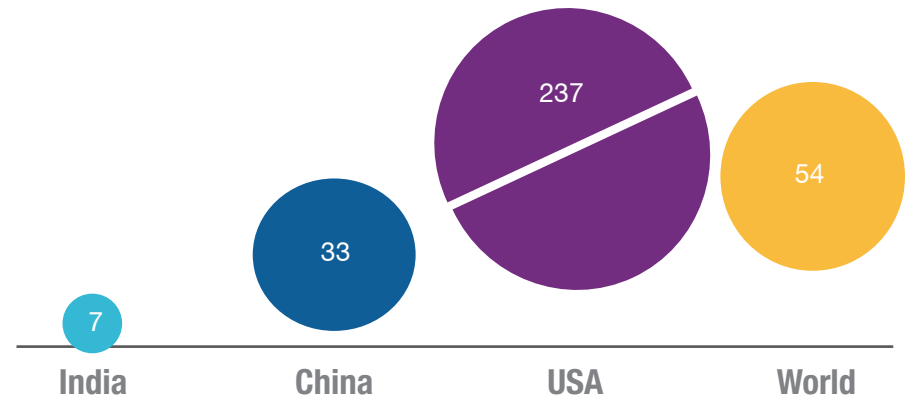
Beauty and Personal Care (BPC) is a ~US\$ 8 Billion Market in India

Indian beauty and personal care (BPC) industry is estimated to be worth ~US\$ 8 billion. It is primarily categorized into five major categories - body care, face care, hair care, hand care and color cosmetics. Overall, the market is expected to grow at CAGR of ~5-6% over the next 4 years. India's per capita spend on beauty and personal care is significantly lower than developed nations, however, it is growing in line with India's GDP growth.

India BPC Market (US\$ Billion) 2014-2021¹



Per Capita Spend (US\$) on Beauty and Personal Care Products



1. Excludes oral care, FX rate of INR 67.2

Source: Nielsen RMS data, Euromonitor, A.T. Kearney

FACE CARE, COLOR COSMETICS AND HAND CARE ARE KEY GROWTH CATEGORIES

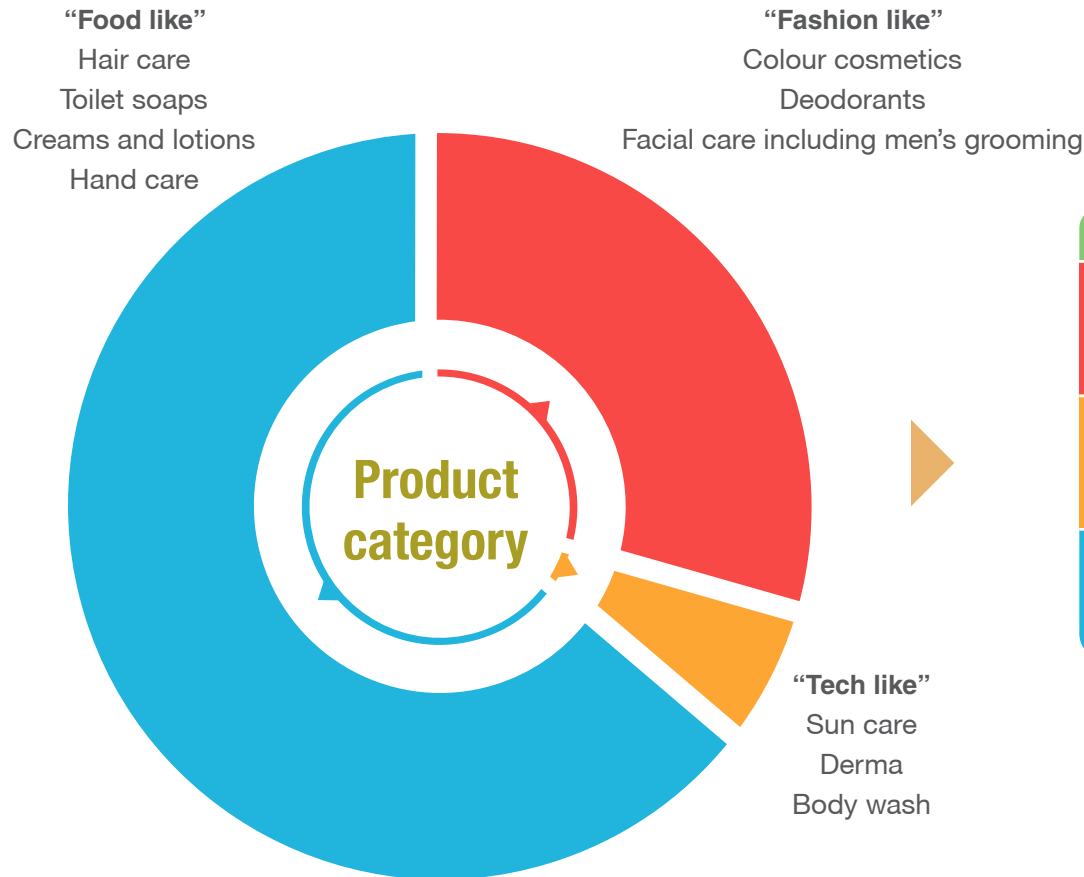
Body care and hair care segments dominate the market, while color cosmetics and face care are the high growth categories

Indian BPC Market Size (%) by Category



Category	Growth '14-'16	Sub-category and growth	Evolution
Hand care	16%		Newly emerging category consisting of nail, cuticle care and moisturizing creams
Color Cosmetics	12%		Shift in usage of color cosmetics - from only special occasions to everyday use
Face care	9%	Fairness 7%	Consumers moving towards integration of health & wellness and skin care products
		Male shaving 9%	
		Cleansing 15%	
		Lip care 20%	
		Foundation 20%	
Hair care	5%	Other creams 9%	Consumers are warming up to more evolved, western style hair care regimes
		Oil 5%	
		Shampoo 5%	
Body care	4%	Conditioner 10%	Non-traditional product categories such as Derma, body wash, sunscreen are growing
		Toilet Soaps 2%	
		Deodorants 3%	
		Creams/Lotions 8%	
		Derma 32%	
		Sunscreen 9%	
Body wash 9%			

“FASHION LIKE” AND “TECH LIKE” HIGHER INVOLVEMENT CATEGORIES ARE DRIVING GROWTH IN THE BPC INDUSTRY



Definition	Size ¹ (US\$ bn)	Growth ('14-'16)
“Fashion like”: Trend driven categories	2.7	11%
“Tech like”: Science and tech driven categories	0.2	16%
“Food like”: Daily needs, relatively lower involvement categories	5.0	4%

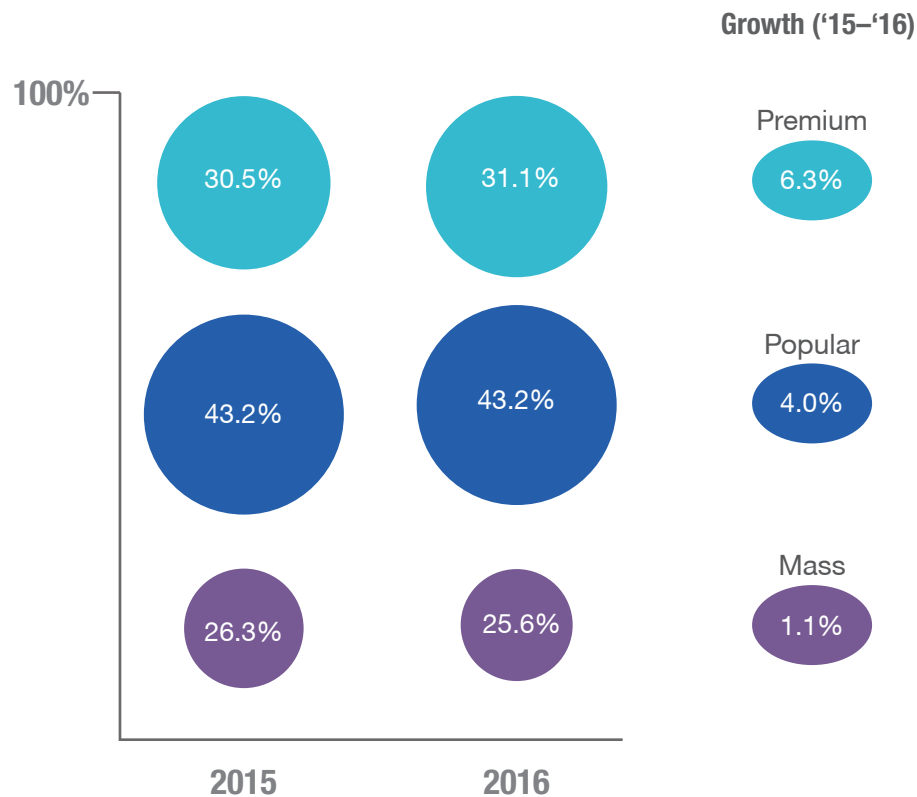
1. Size in 2016

Source: Nielsen RMS data, Euromonitor, A.T. Kearney

PREMIUM SEGMENT GROWING FASTER THAN MASS SEGMENT, SIMILAR TREND TO CONTINUE IN THE FUTURE

Overall the market is moving towards premiumization, with premium segment growing at 6.3%, as compared to 1.1% for mass market. Indian brands (both regional and national) have a sizeable presence in the mass category, while premium markets are largely dominated by the international brands.

Industry Landscape by Market Segment (Share %) - 2015-16



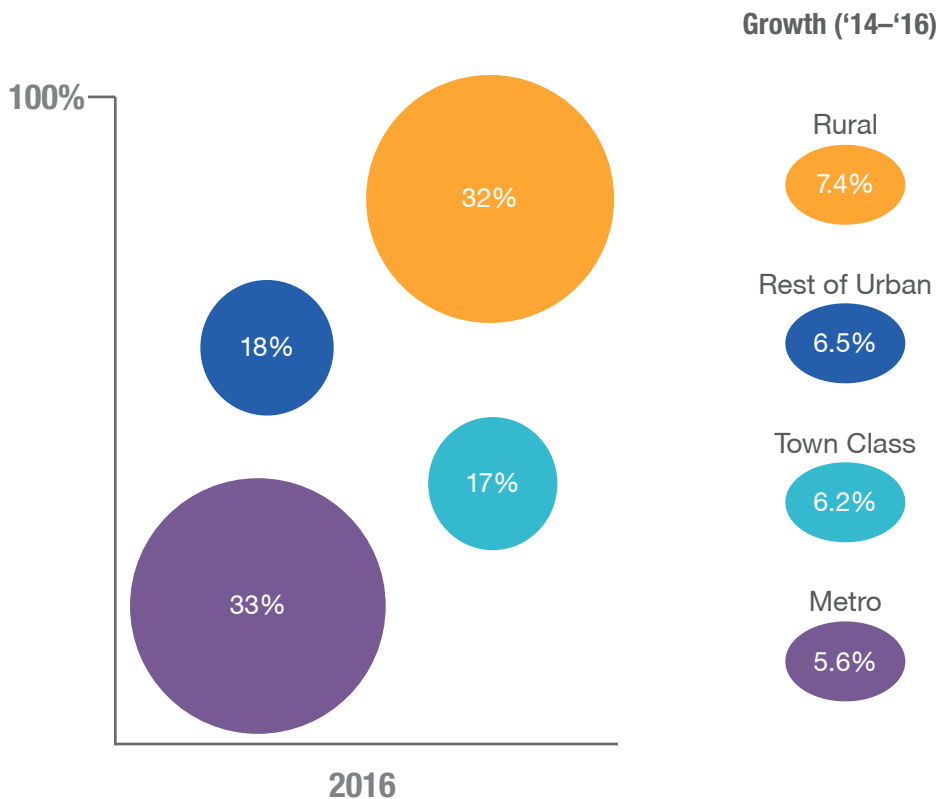
Key Insights

- Indian brands (both regional and national) have a sizeable presence in mass category
- Prestige markets are largely dominated by international brands

RURAL TO GROW FASTER THAN OTHER MARKETS

Rural markets have witnessed the fastest growth, but are still largely untapped contributing to only a third of the total beauty and personal care sales. However, rising awareness along with consumer aspirations to mirror urban consumers is making rural markets attractive for personal and beauty care companies.

Sale of BPC by Rural vs Urban (2016)



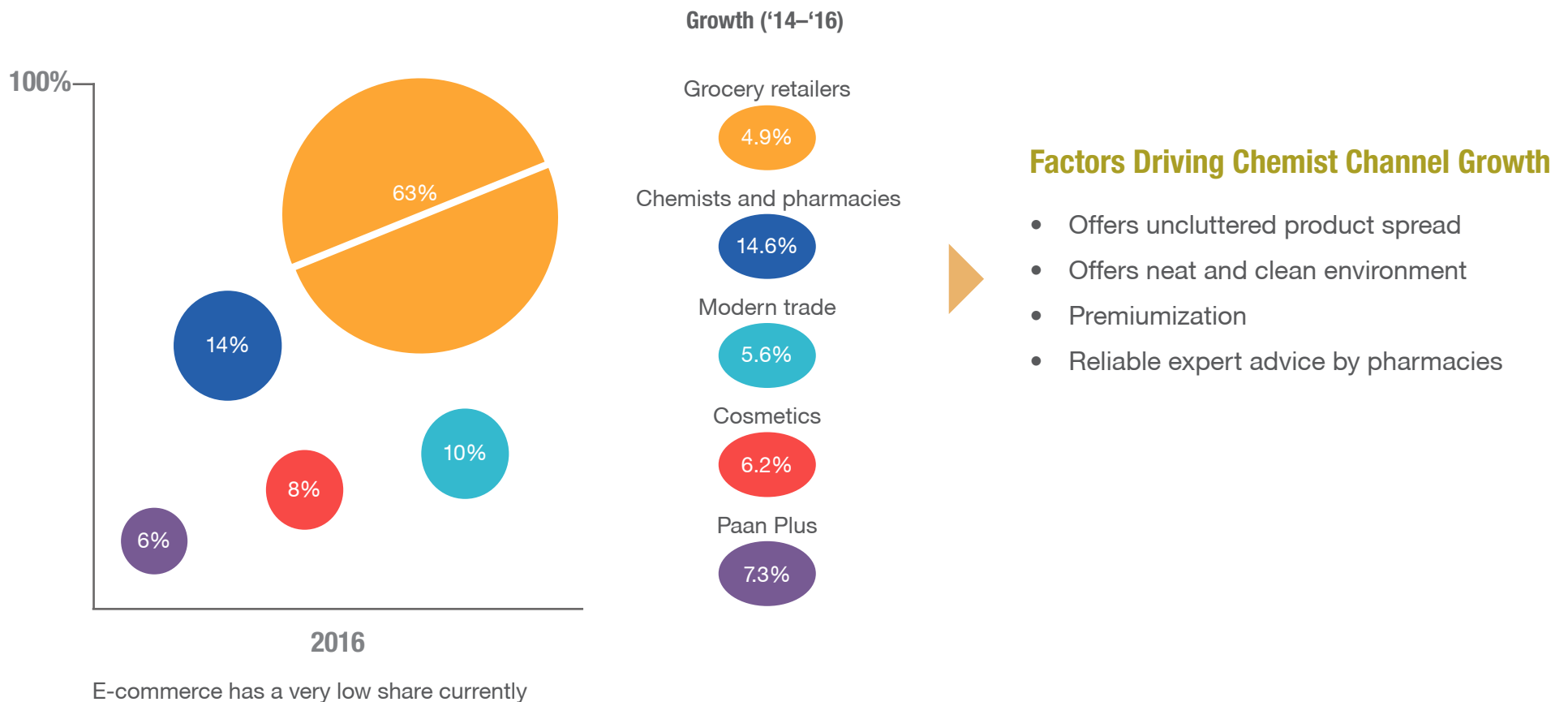
Factors Expected to Drive the Rural Market

- Trend of growing consciousness about grooming, with 50% of rural population aged below 25 years
- With increased awareness, the rural lifestyle and habits have started mirroring urban aspirations and lifestyle
- This has brought about a shift from homemade solutions to branded products

CHEMISTS STORES EXPECTED TO BE NEXT BIG DISTRIBUTION CHANNEL

Amongst the multiple sales channels, grocery retailers continue to lead the pack. However, share of specialist channels such as chemists, beauty stores and modern trade is expected to grow in the next few years, with chemists and pharmacies expected to gain significant traction. Decluttered and clean environment, reliable expert advice by pharmacies and rise in premiumization are expected to accelerate the shift in channel distribution.

Distribution Channels for BPC (%)

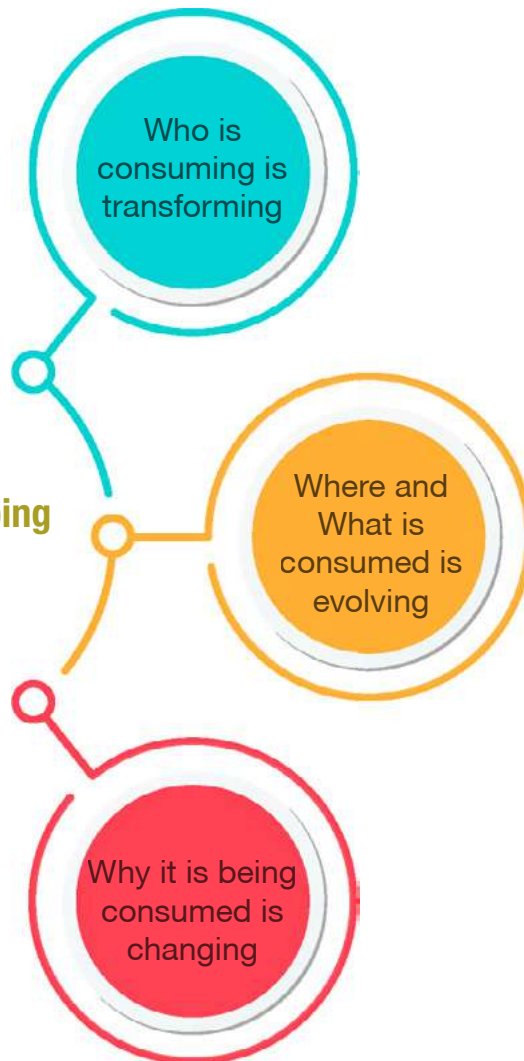


A flat-lay photograph of various makeup products and brushes arranged around a central text area. The items include a large dark brown brush, a white jar with a gold band, green leaves, a gold rectangular box, a red lipstick, a white geometric box, a black brush, a black compact with a light-colored powder, a mascara wand, a black brush, a brown tube, a large black brush, a small brush, a silver eyelash curler, a pink blush compact, and a dark brown compact. The background is a plain, light-colored surface.

UNEARTHING TOMORROW'S TRENDS

UNEARTHING TOMORROW'S TRENDS

Eight Consumer Trends are Shaping the Indian BPC Market



Arrival of the 'Martians'

Increased adoption of men's grooming products



Chronicles of the 'Bride-to-be'

Higher spending on holistic bridal solutions such as pre-wedding photo shoots, year-long skin care regimes



Emphasis on 'inner well-being'

Shift towards mental and physical well-being through use of natural, organic, anti-fatigue, anti-pollution, anti-ageing products



Emergence of 'i-Beauty'

Increasing use of beauty devices and technology infused products and services



Rise of the 'Right Here, Right Now' attitude

Consumers opting for at-home services, online buying



Evolution of Generation 'Me'

Heightened sense of individualism in purchase and choice among Millennials



Climbing up the 'Consumption Ladder'

Interest and willingness to trade-up, increased use, bigger repertoire of products



The Republic of 'People's Choice'

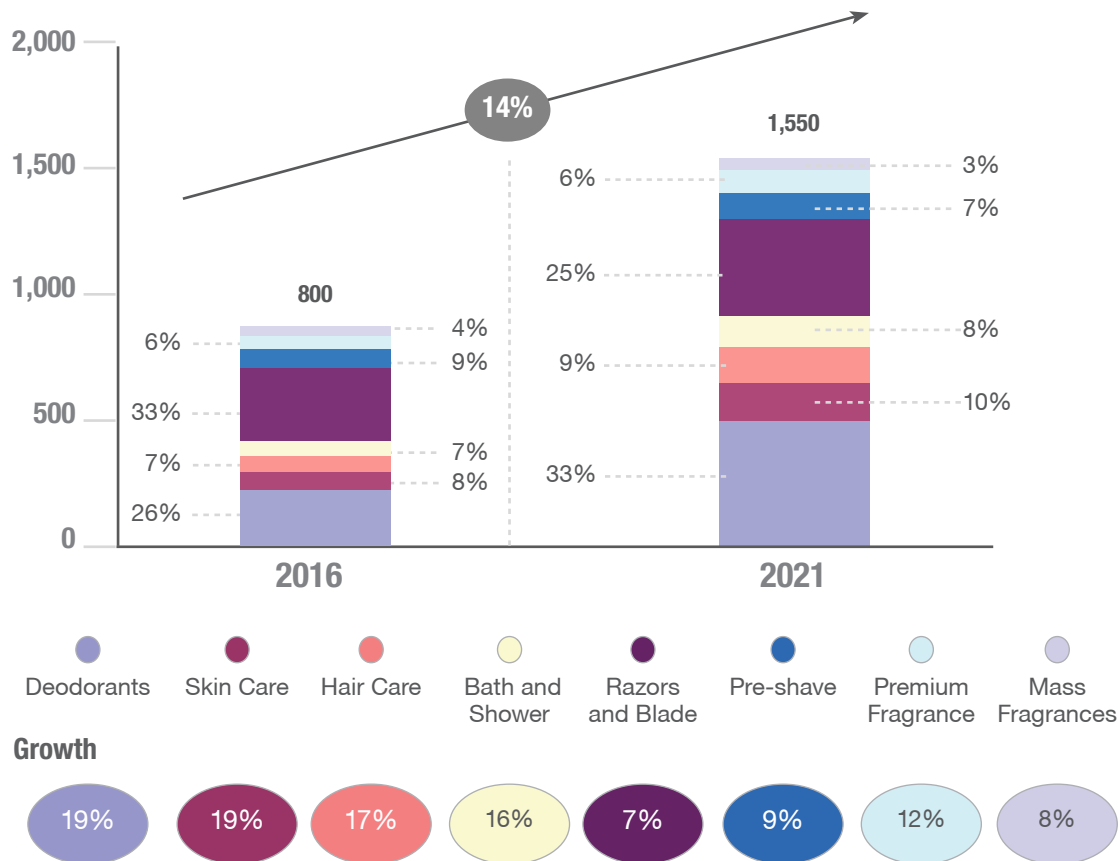
Growing importance of peer feedback and product reviews in purchase decisions

ARRIVAL OF THE 'MARTIANS'

Men are Increasingly Opting for Grooming Products

A long-neglected segment is now under the radar of BPC players. Male consumers were generally considered to be BPC product-averse, however, there has been a significant shift in demand for male grooming products. Companies are also offering a plethora of products for their male consumers. Men's grooming market is expected to grow by double digits in the next 3-4 years.

Beauty Care for Men (Market size by Category US\$ Million) 2016-21



Insights

- Men's grooming market growth to be driven by hair care, skin care and deodorant categories
- Men's grooming spend per capita in India is ~\$1-2, as compared to \$6-7 globally¹
- Large BPC players focusing on men's grooming -
 - Launch of new products by L'Oréal, tailored for men through their Men Expert series
 - Unilever's purchase of Dollar shave club
 - The trend is not limited to international players with Indian BPC players such as Emami launching men's products e.g. Fair and Handsome

"Male grooming is one of the fastest growing categories (in India and probably in the world) ..."

Product formulation head, Leading skin clinic

Industry Speak

"Men are increasingly looking at personal care – apart from men's shaving, face cleansing is picking up...one whole generation of consumers who have not been very open to trying products are now opening up."

Business head, Leading personal care firm

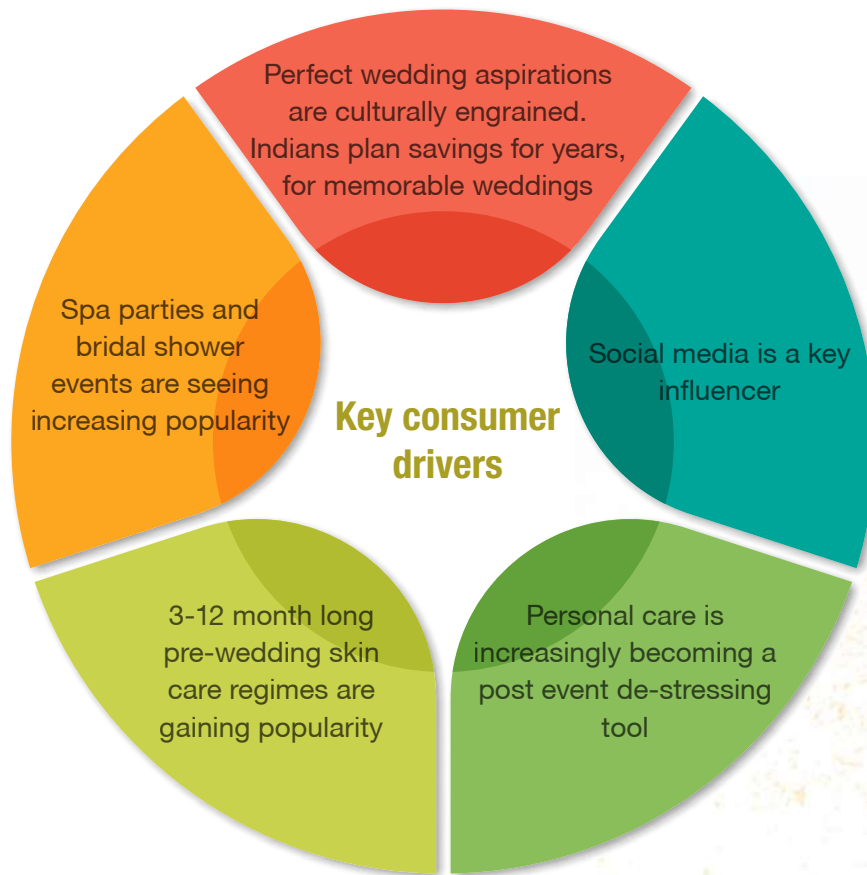
1. 2015 figures

Source: Euromonitor, Primary interviews, Secondary research, A.T. Kearney

CHRONICLES OF THE 'BRIDE-TO-BE'

Consumers are Seeking Memorable Weddings and are Willing to Spend a Fortune

Bridal grooming is a rapidly expanding market, with the Indian wedding industry estimated to grow at 25-30% annually. Besides the bride and groom, their friends and families also willingly spend considerable time and money on grooming. Bridal grooming has now shifted from a day's affair to months-long regime prior to the wedding.



"It's not just the bride but also her friends, family and guests, who are flocking to salons to get the right look"

Make-up artist

Industry Speak

"Bridal care has enormous potential due to the amount of money people are spending on weddings"

**Head, Marketing,
Leading luxury beauty
and personal care
brand**

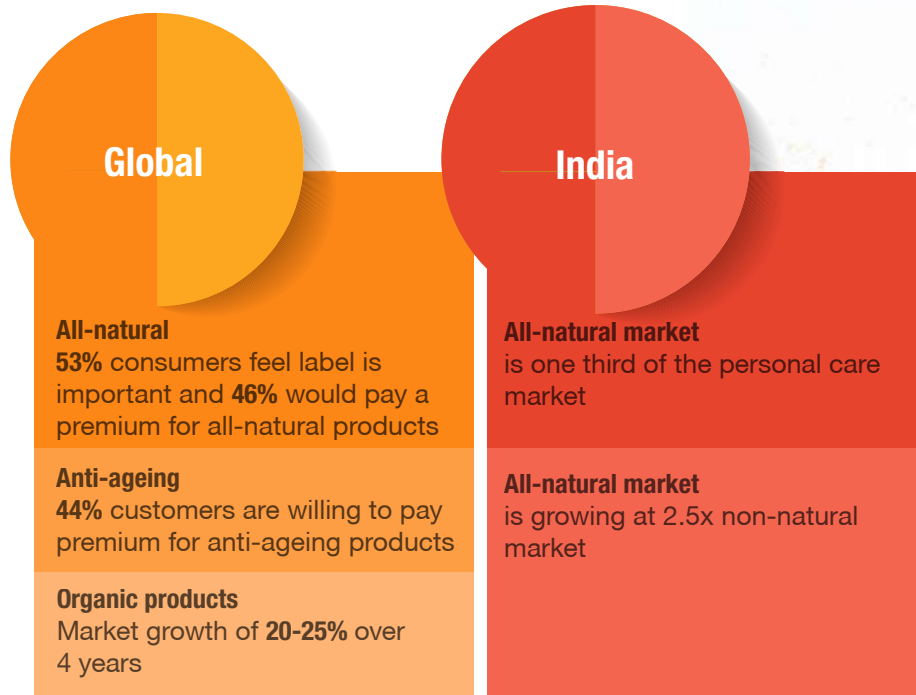
EMPHASIS ON 'INNER WELL-BEING'

Consumers are Moving to All-natural, Anti-fatigue, Anti-pollution, Anti-ageing Products

There is an increased emphasis on overall well-being. Good aesthetics is an old trend; consumer preferences are now centered towards feeling good. Hence, there is an increased demand for safe and non-toxic natural products.

Increasing pace of urban lifestyle is a major cause of sleep deprivation and higher fatigue levels. Consumers have become cognizant about its implications and are actively looking for suitable options in their beauty and personal care regime. The most visible manifestation of this willingness is seen in the growing demand for products with anti-fatigue and anti-ageing attributes.

Consumer Insights



Industry Speak

"Globally, preference for natural and organic products has been a disruptive trend"

"Beauty is not limited to looking good, but feeling good is gaining importance ... people are looking at beauty and wellness as one"

Business head, Major flavor producer

"Stress / pollution are most common problems that Indian consumers face. Consumers want products that address these concerns and prefer it to be natural"

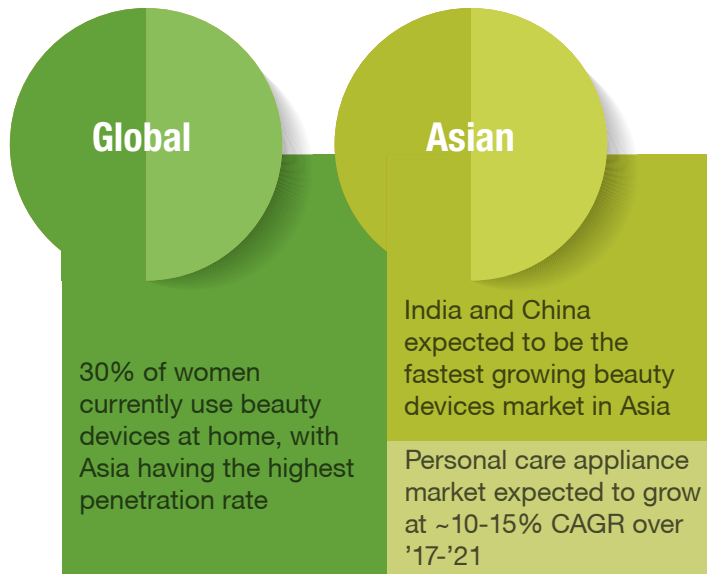
Product formulation head, Leading skin clinic

EMERGENCE OF 'I-BEAUTY'

Growing Interest in Usage of Technology in Beauty Products/Services

Technology is not only affecting consumer purchase decisions, but is also making inroads into consumer products. Globally, the industry is seeing a rise in the usage of beauty devices. Similar trends are expected to emerge in Indian beauty and personal care space.

Consumer Trends

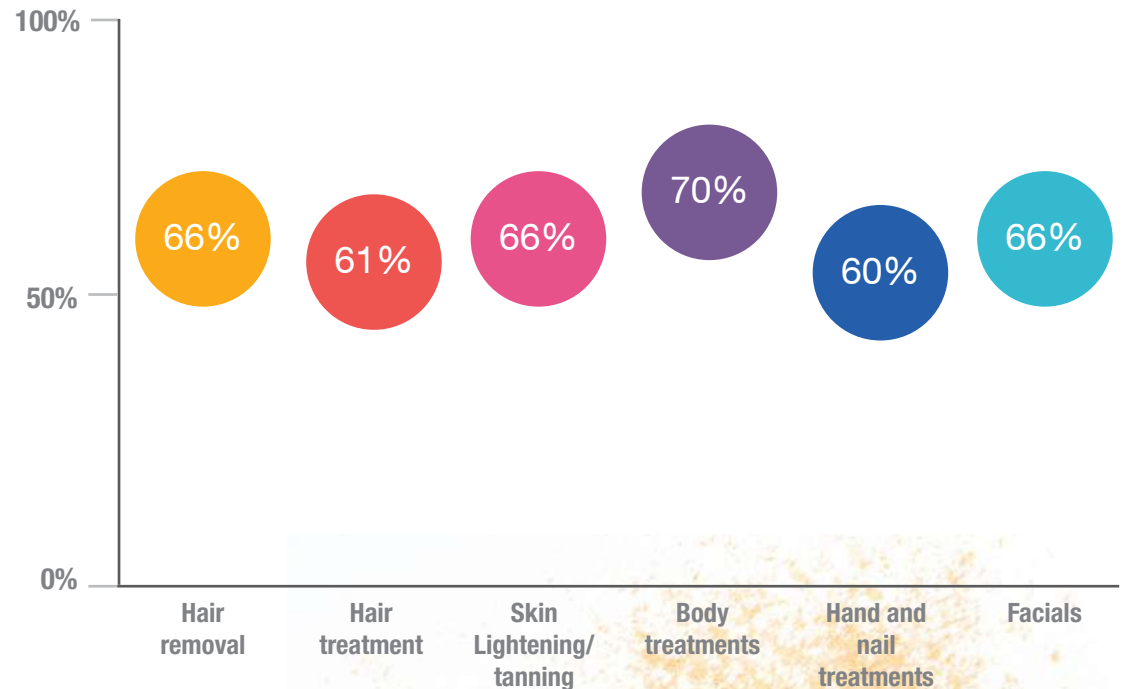


Industry Speak

"Globally, technology is integrating with beauty... new tech enabled products are being introduced in markets"

MD, Leading fragrance producer

Usage and Interest of Asia-Pacific Consumers in Beauty Devices

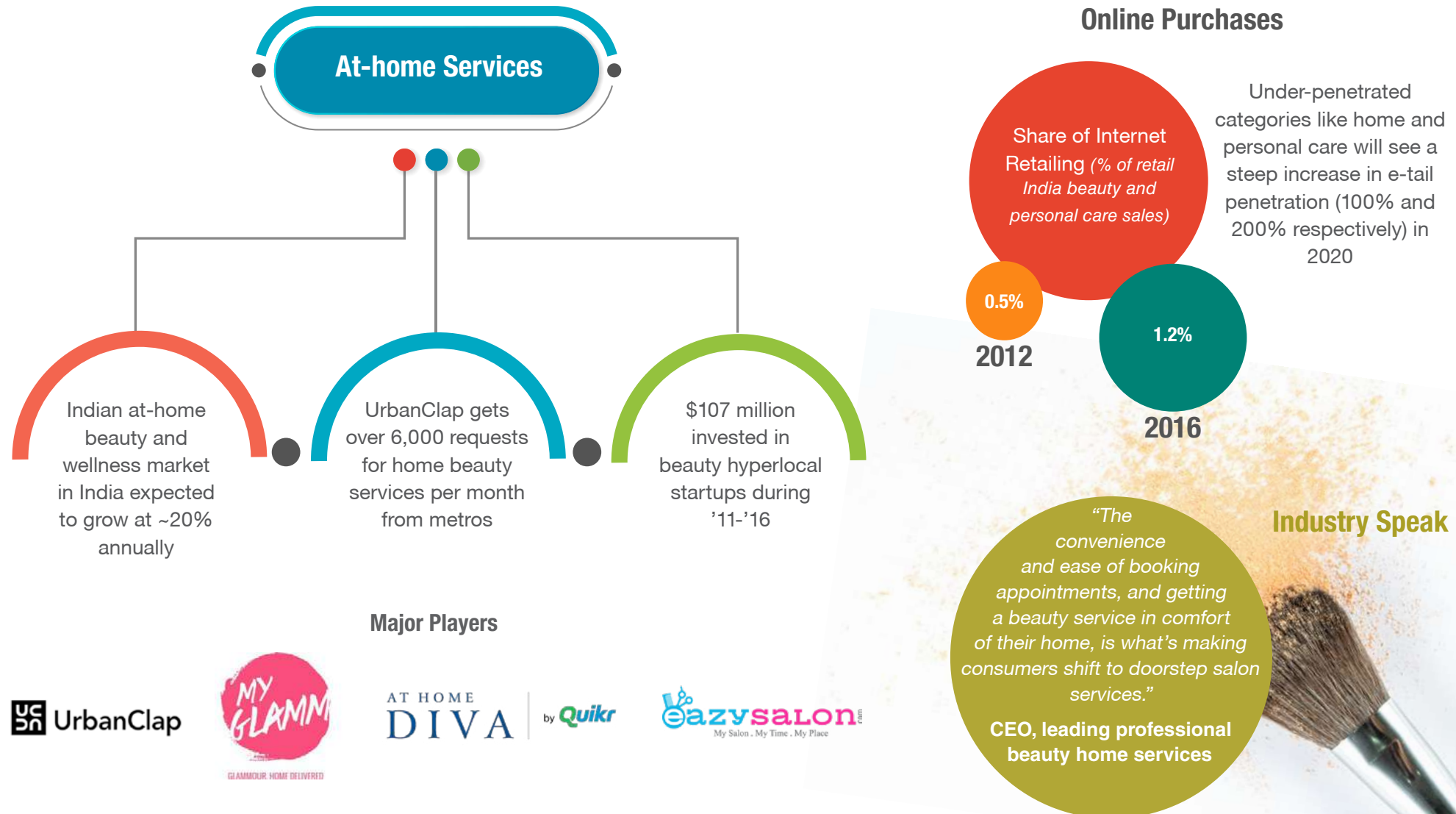


RISE OF THE 'RIGHT HERE, RIGHT NOW' ATTITUDE

Consumers Opting for At-home Services, Using e-Commerce

The desire for getting quality beauty service in the comfort of one's home is leading to a growing demand for at-home services. Indian at-home market is growing rapidly fueled by the consumer's need for convenience and on-demand service.

Need for convenience is also driving online purchases. Share of internet retailing in beauty and personal care sales is expected to rise two-fold in next four years.



EVOLUTION OF GENERATION 'ME'

Millennials Looking to Personalization as Form of Self-expression

India is a young nation with ~65% of people below 35 years of age. A growing segment of the youth can be categorized as anti-establishment, with no set loyalty towards standard beauty norms. There is a growing interest in products that are personalized for them.

Personalization can range from mass personalization to bespoke model. Mass personalization includes tweaking a mass-produced product to suit an individual's preference. A mass-produced perfume bottle engraved with customer's name is an example of mass personalization. Whereas, in bespoke model, a product is completely custom made for an individual, per his or her requirement.



CLIMBING UP THE 'CONSUMPTION LADDER'

Super-premium Market is Expected to Grow at a CAGR of 15% Over 2016-21

The super premium and premium segment is witnessing a rapid growth. Expansion of modern retail outlets have resulted in increased availability of premium products. Rising aspiration, awareness and income levels have further fueled the growth of premium segment. Both urban and rural consumers are willing to trade up, if the product addresses a unique need and has superior performance.

Moreover, comparing the repertoire of products, consumers have moved from the traditional regime of soaps and talcum powder to an evolved regime consisting of several products including facewash, scrub, shower gels and such products. Increasingly, people are shifting from home based remedies to readymade products as they want to use the right, specialized product.

Globally, Several Attributes Define 'Premiumness'



36% of Indian consumers are willing to stretch wallet capacity to buy premium products vs 14% globally

In India, premium products are seen as status symbol

"... in the past, women's beauty regiment constituted of soap, talcum powder ... but now a millennial's repertoire takes up a whole shelf"

MD, Leading fragrance producer

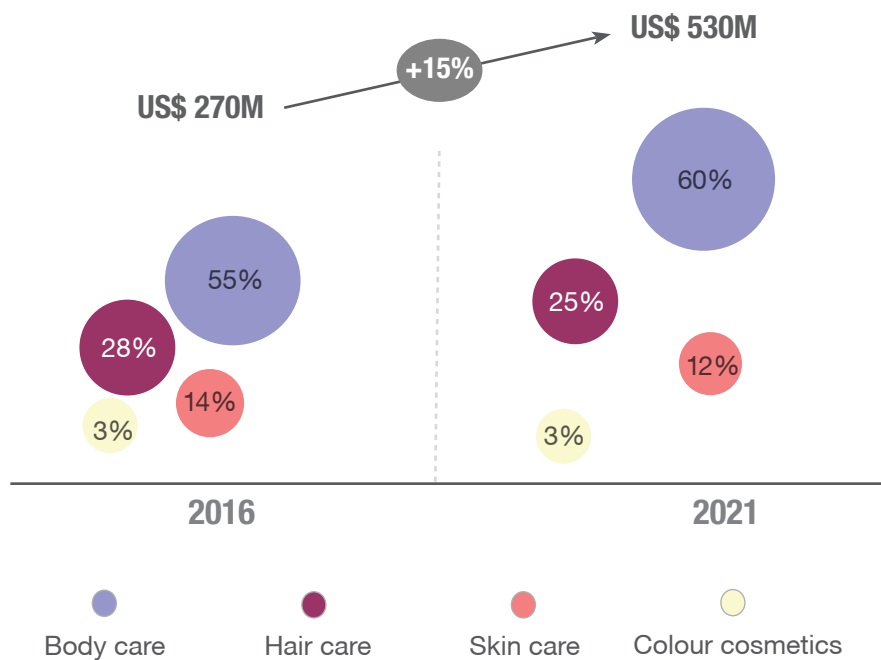
Industry Speak

"Awareness level of brands is seeing a rise in rural India ... consumption habits for branded grooming products are increasingly mirroring those of the urban consumer"

Executive of a leading personal care firm

CLIMBING UP THE 'CONSUMPTION LADDER'

Consequently, Indian Super-premium Segment is Witnessing Rapid Growth



Consumers Moving to Newer Categories

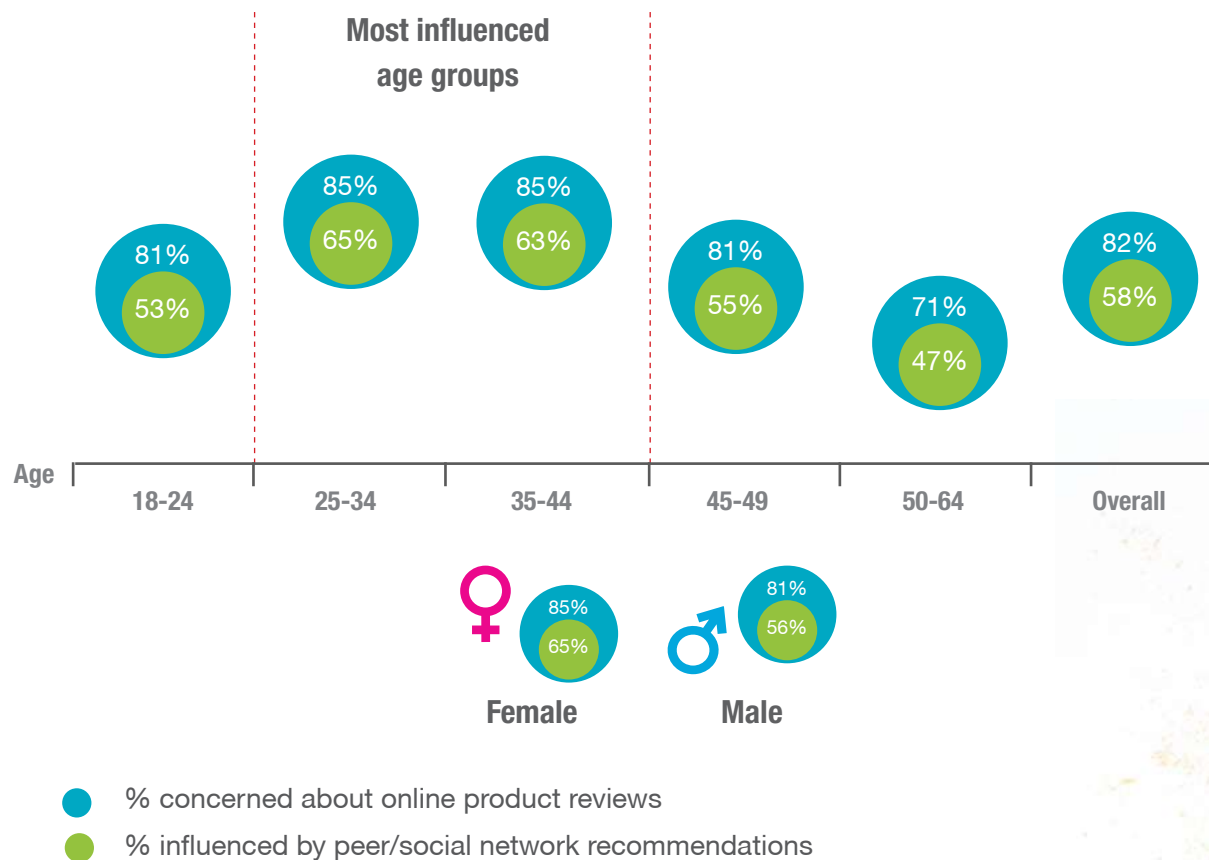


THE REPUBLIC OF 'PEOPLE'S CHOICE'

Peer Feedback, Product Reviews are Increasingly Affecting Purchase Decisions

Social media and connected customers are disrupting the way purchase decisions are made, more likely affected by product reviews, peer / social and expert recommendations. Earlier, consumers were dependent on salespersons to understand product details, but now are increasingly opting for online reviews. Also, personalized recommendation by beauty experts play an equally significant role, especially for the higher-end of the consumer spectrum.

Impact of Online Comments and Peer, Social Views (%) 2016



Industry Speak

"Recommendations and peer feedback play an important role ... brands are investing in influencers to tell experiences about their products, as beauty is experiential not tactical"

Editor, Major lifestyle magazine

"Younger generation is very experimental, influenced significantly by people they follow on social media"

Head, Marketing and Branding, Leading luxury beauty and personal care brand



RETHINKING THE VALUE CHAIN

RETHINKING THE VALUE CHAIN

Top Imperatives for the Industry Due to Changing Consumer Trends



IDEATE



By the Consumer, for the Consumer: Understand Your Target Customer and Utilize Analytics to Innovate Faster

As consumer preferences evolve, so do the companies. To keep up with the consumer needs, it is necessary that a company builds capability to identify and predict these needs. Companies must explore advanced data analytics and consumer tests to innovate products guided by consumer themes. Additionally, they should invest in capabilities to translate these uncovered insights into products for the market.

Consumer-Centric Products

Develop tailored products to address target consumer needs

Case Study

Gillette entered India in 1984 but failed to gain significant market share for decades by selling lower-end razors developed for USA.

Gillette developed single blade Gillette Guard tailor-made for Indian needs (cost effective, safety focused, not dependent on running water).

Impact:

- Within 3 months after its launch, Gillette Guard became the best-selling razor in India
- By 2013, Gillette Guard contributed to more than 50% of razors sold in India

Data-Driven Product Innovation

Deploy analytics to shrink new product development time

Case Study

After struggling for 3 months to develop a stable formulation for a body lotion using natural ingredients, **Beiersdorf** adopted predictive modeling based on existing experimental data.

Impact:

- Significantly reduced product development time
- Increased probability of experiment success as model ruled out infeasible experiments
- Enhanced research team's understanding of impact of ingredients on stability of formulations

ADAPT

Flexible New Age Manufacturing and Supply Chain: Invest in Innovative Packaging, Mass Personalization, 3D Printing

Companies need advanced and innovative manufacturing and packaging capabilities to cater to dynamic consumer preferences. Additionally, rising trends such as premiumization, personalization and convenient service demand the need for flexible manufacturing and supply chain.

Manufacturing Innovations

Innovation in packaging

- Innovate packaging to make high-end products available at affordable price
- Explore packaging that enables necessary attributes (such as extended product shelf life)

Mass personalization

- Explore personalization models / products such as “blend it yourself”, skin tone analyzers, “pick and choose” color palettes
- Invest in just-in-time manufacturing and programmable robotics to personalize goods at scale

3D printing

- Invest in products such as 3D make up pen that prints the look on consumer’s face as per his/her choice or personalizes makeup products
- Explore rapid prototyping for manufacturing and packaging to reduce time to market

Examples

P&G, Johnson & Johnson use bio-based flexible packaging and paper packaging

Dupont produces Tyvek, a moisture absorbing active packaging material used for fragrance sachets

Examples

LOLI provides “blend it yourself” beauty boxes

Ittse provides pick and choose cosmetic palette

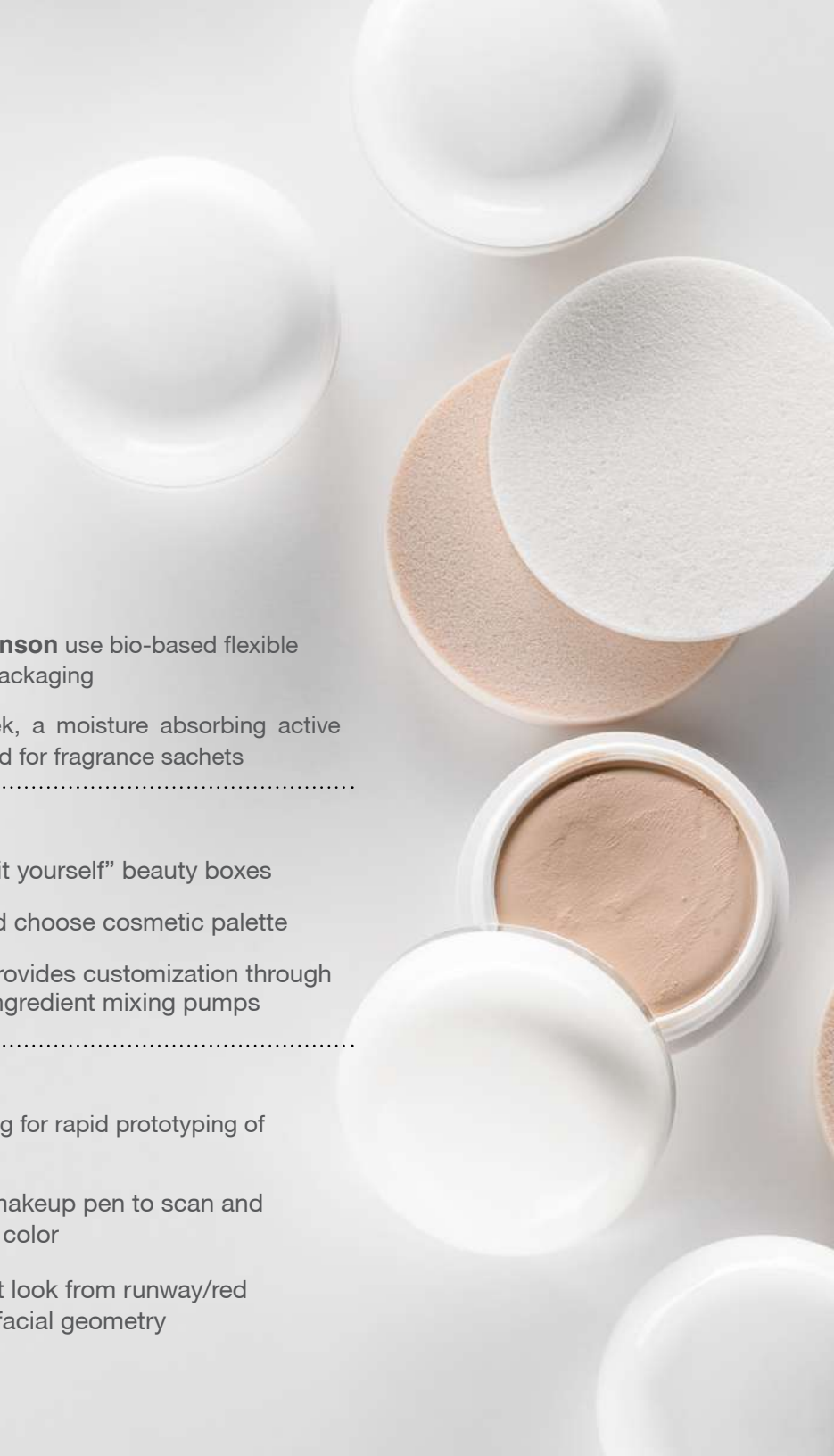
Function of beauty provides customization through computer-controlled ingredient mixing pumps

Examples

L’Oréal uses 3D printing for rapid prototyping of packaging design

aDORN provides 3D makeup pen to scan and print exact foundation color

MODA prints a pre-set look from runway/red carpet after scanning facial geometry



AMPLIFY - NEW BUSINESS MODELS

Explore Digital, Subscription, Co-branding Models

Embracing and innovating in digital will be critical for going to market. Focus of business models is shifting towards selling to consumers directly. This is evident in the new age digital models such as digital peer-to-peer model. Subscription based models, which allow control over revenue stream, indirect selling through beauty services training centers and selling co-branded products, are also gaining traction.

Business Models

Digital Channels

- Players are focusing on e-commerce channel and direct-to-consumer channels
- Digital peer-to-peer – Customers selling products online as independent presenters

Benefits

Faster Growth:

Nykaa, a beauty focused e-commerce store registered ~300% growth in '15 over L9M

Enhanced Customer Reach:

Younique leveraged digital peer-to-peer model and acquired ~4 Million customers resulting in US\$ 400 Million revenue in 2016

Makeup Studios / Training Centers

- Indirect channel - Trained executives promote usage of company products
- Product information reaches customers when they are in a receptive frame of mind from sources they trust as experts

Wider Reach into Untapped Markets:

Lakme Academy operates 260 salons in 60+ cities and has 1300+ franchisees

Additional Marketing Avenue:

Naturals has 550+ salons with 3 Million+ customers who are exposed to Naturals products in a favorable environment

Subscription Based Models

- Subscribers engaged on a regular basis
- Allows companies to optimize inventory management, stabilize revenue stream
- Encourages food-like habit driven purchasing behaviour

Reliable And Recurring Source Of Revenue:

Birchbox grew exponentially in 5 years to ~ 1 Million subscribers. The firm successfully raised US\$ 70 Million funding in the process

Co-Branding

- Brands team up with other reputed brands from adjacent industries
- Brands mutually benefit from partner's reputation
- Brands enjoy increased customer interest

Strong Brand Value:

Bonne bell has been very successful in creating co-branded smash hits such as the iconic Dr. Pepper Lip Smackers.

Continued Customer Engagement:

The firm has continued its co-branding strategy with subsequent partnerships with Starbucks, Skittles and Swarovski

AMPLIFY - NEW CHANNELS

Explore Specialist Channels, Partner Selling

Intensifying competition, business dynamics and emerging technologies are revealing the limitations of traditional distribution channels in terms of reach and ability to adapt to new age customer values. Channel innovation is critical for both tapping into rural markets, where there is maximum potential for growth, and increasing penetration into premium urban markets, where customers are looking for more reliable advice and an aided, uncluttered environment for decision making. As a result, unorthodox distribution mechanisms such as partner selling, specialist channels and expert-managed kiosks are gaining popularity.

Distribution Channels

Partner Selling: Motivate consumers to act as distribution agents in rural areas

Specialist Channels: Chemist, Health and beauty specialist stores gaining popularity

Kiosk Retailing with Experts: With Trial stations where experts reach out to walk-in customers and deliver live experience to attract customers

Benefits

Increasing Reach to Untapped Markets:

HUL's project Shakti works with women to provide credit, training to sell products: The project now has 70,000 sales agents serving 165,000 villages as HUL's brand ambassadors. They form a very important sales channel as the rural markets are seeing higher growth than the urban counterparts

Uncluttered Environment with Receptive Customer Mindset:

Vichy & La Roche-Posay (L'Oréal brands) – pharmacies a key channel; La Roche-Posay posted its seventh consecutive year of double-digit growth in 2016

Increase in Customer Confidence for New Launches:

Maybelline, set up display and interaction kiosks at over 100 key locations around India, on the occasion of Karwachauth, and introduced its new 'Color Sensational' range. The event served over 15,000 unique customers



AMPLIFY - UNIQUE BRAND MESSAGING

Explore Unique Brand Messaging

Connecting with customers at a fundamental level to drive customer loyalty is essential in an age where product characteristics can be replicated at an ever-increasing pace. Keeping in mind the customer trends and new age value systems discussed in earlier in this report, messaging hinged on environmental and social impact or fundamental human sentiments such as patriotism are likely to resonate the most.

Highlight Social / Environmental Benefits

Brands appealing to social and environment level impact

Benefits

Banjara's launched #ProudOfMyColor campaign to take stance against color-bias

Garnered 5+ Million views

Consumer Sentiment Focused Messaging

Brands focusing on sentiments such as confidence, patriotism

Patanjali launched "Made in India" or "Swadeshi" focused messaging

111% rise in turnover to ~INR 100 Billion in 2017



ENCAPSULATE

Next Level Customer Engagement: Focus on Digital Engagement, Personalized Consumer Experiences

The number of online shoppers in India is expected to grow to ~USD 175 Million by 2020. Consumer expectations now include ability to look up product information, offer and receive feedback, receive personalized recommendations and services. Companies need to explore digital platforms such as DIY, viral videos, influencer testimonials to directly connect to online shoppers.

Digital Engagement Mechanisms

Do it yourself Videos

Utilize posts as an active marketing medium with high customer engagement

Social Media

Leverage social media for creating a brand image and shaping brand perception

Testimonials / Product Reviews

Engage with influencers as testimonials, expert reviews are valued by customers

Personalized Consumer Experience

Invest in integrating consumer data to offer personalized consumer experience

Benefits

Exponential Sales Growth:

Estee Lauder bought Becca cosmetics which logged new product with YouTube star - sold out in 4 hours of launch

Enhanced Customer Connect:

“**Dove real beauty sketches**” garnered 4 Billion+ PR blogger and media impressions

Increased Customer Trust:

Bevel focuses on first-person testimonials

360 Degree Understanding of the Customer:

NYX incorporated UGC and other digital content into brick-and-mortar locations



INTEGRATE

Partner Collaboration and Co-creation: Actively Engage Suppliers in Product and Supply Chain Innovation

In today's dynamic environment, companies should reevaluate the end-to-end value chain to identify opportunities for innovation and productivity enhancement. To that end, companies should explore collaboration with suppliers and ecosystem partners for product co-creation and supply chain innovation.

Collaborate for Innovation

Portfolio Management – New product design and innovation to meet consumer demand

Business Planning – Align processes across packaging design, shelf placement, marketing, brand messaging

Industry Example

Chemical supplier **BASF**, has invested in R&D for creating anti-ageing and natural ingredients such as OligolinTM and CollaliftTM 18 which are key focus areas for several BPC companies

Collaborate for Infrastructure

Explore Infrastructure sharing, collaborative inventory planning

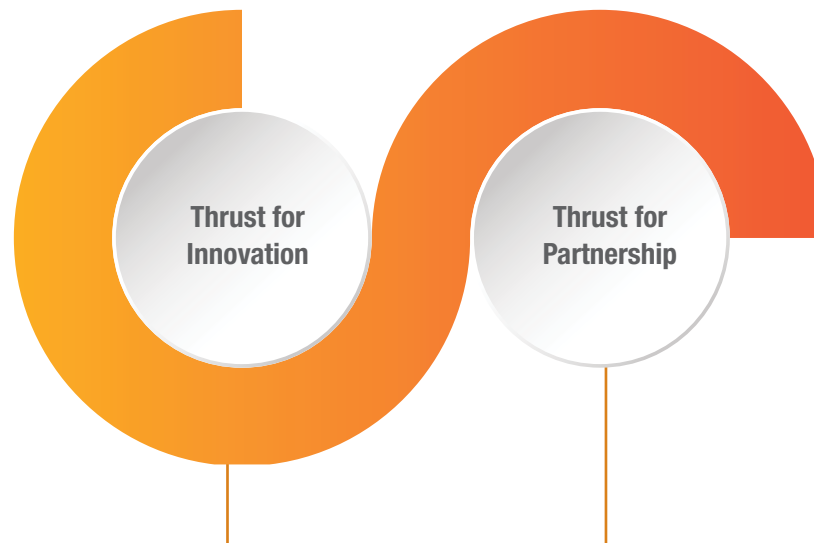
Invest in Partnering with right IT infrastructure and solution provider

Henkel, collaborated with **BASF**, to make palm oil sector more efficient and sustainable in Indonesia as palm oil is a key ingredient of beauty products such as soaps

MODERATE

Institutional Support: Need for Regulation on Thrusting Product Innovation and Stakeholder Collaboration

While there have been significant improvements in the regulatory environment and ease of doing business, additional impetus needs to be provided to encourage innovation and partnerships.



Simplify regulatory framework for cosmetics – cosmetics are currently treated as drugs irrespective of their end usage

Distinguish regulatory adherence issues which are **administrative in nature from the ones that are safety hazards** while banning / recalling products

Align permissible limits for substances such as heavy metals **with global modern standards**

Continue to bring in process efficiencies and speed up communication of regulatory reforms

Curb tendency to be over prescriptive while formulating laws – technical feasibility and limitations should be considered while formulating rules

Align state FDA with central FDA – Updates to central FDA norms are not recognized by state FDAs until fully formalized and published

Harmonize regulations across state FDAs – at present product licensed in one state might get rejected in other

Instate repetitive consultative mechanism – consult industry players prior to making a draft to include operation feasibility aspects

Follow due process for product recall and its communication – Establish clear roles and authorization for mass communication

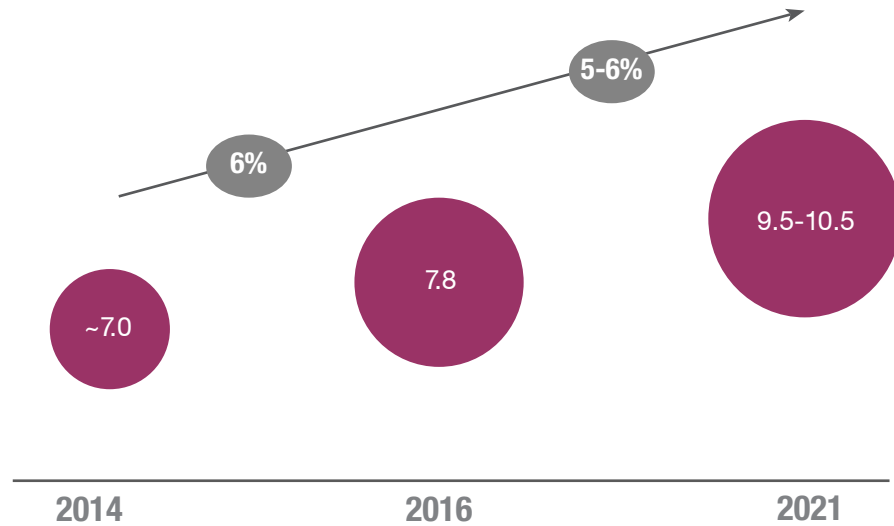


STEERING AHEAD

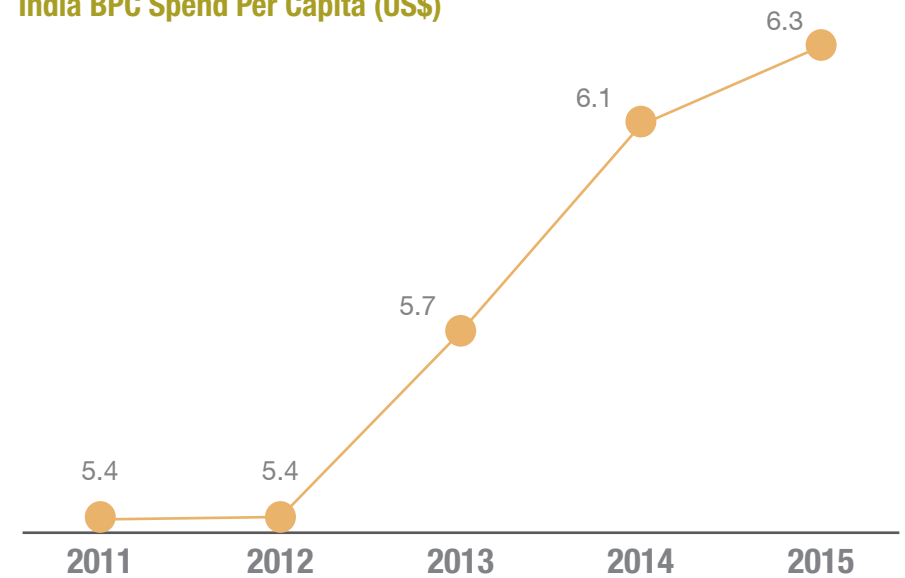
STEERING AHEAD

In summary, Indian Beauty and Personal Care Market is Attractive and is Characterized by Rapidly Evolving Customers...

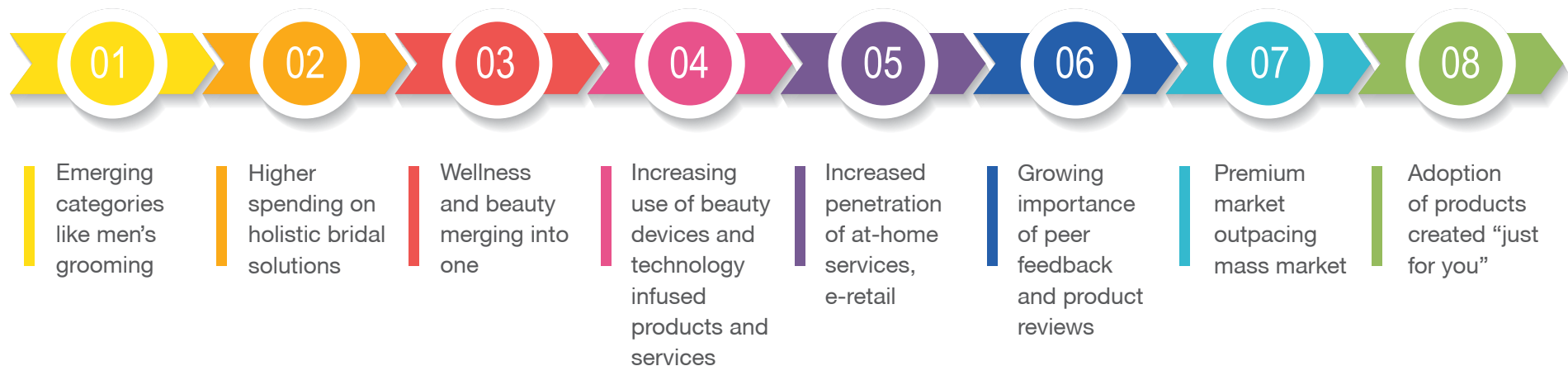
Indian BPC Market is Growing Rapidly (US\$ Billion)



India BPC Spend Per Capita (US\$)



...with Evolving Consumer Needs



It is necessary for industry stakeholders to take focused actions to stay relevant in the journey ahead.





Innovate Products Guided by Consumer Needs and Invest in Analytically Driven Agile Supply Chain

Product Portfolio Innovation

- Focus on strategic M&A targets, niche players and start-ups to acquire “innovation” capabilities and access high growth “tech like” and “fashion like” segments
- For example –
 - High M&A activity globally with 200+ transactions in the past 5 years, ~50+ transactions to access innovation capabilities and 100+ transactions to access new consumers
 - Leading Global and Indian BPC companies acquiring niche players and brands to access high growth “tech like” and “fashion like” categories
 - Globally, top players have set up funds or entities focusing on start-ups
- Leverage “Crowd” to source product ideas
- Shift to a “service” oriented mind-set to succeed in the personalized and premium segments
- Institutionalize longer term focus on value creation
- Embed a structure to drive and sustain success and growth of “innovation”
- Invest in a customized big data analytics platform to understand and translate evolving consumer insights

Agile and Flexible Supply Chain

- Collaborate and integrate with strategic suppliers and supply chain partners to develop new scalable and cost efficient technologies and solutions
For example – L’Oréal accelerated packaging design with rapid prototyping techniques like 3D printing to further reduce time-to-market
- Adopt responsive supply chain practices to ensure ingredient traceability, iterative prototyping and market testing
For example - L’Oréal implements sustainable sourcing methodology; 100% of plant-sourced ingredients are currently tracked from their country of origin

Challenge(s) Facing BPC Players

- Slow innovation, low “success” rates deters focus and investment – Typically, in larger organizations <5% of product innovation is successful, however niche firms/ start-ups enjoy higher hit ratios and growth rates (upwards of 300%)
- Regular R&D investment is required to develop high quality scientific research capabilities that are essential to address rapidly evolving customer preferences

Challenge(s) Facing BPC Players

- New demand of all-natural/ organic necessitates ingredient traceability in the supply chain, which in turn increases the supply chain complexity and cost
- Rapidly evolving consumer preferences and need for personalization requires new investment in technologies such as rapid prototyping, JIT manufacturing and programmable robotics



Explore direct-to-consumer go-to-marketing(GTM) models, engage consumers digitally and collaborate with channel partners

Go-to-market (GTM) Innovation

- Strategically partner with or acquire niche players and start ups already ingrained in the new business models such as DTC and subscription
Example for DTC M&A – Dollar Shave Company (US\$ 250 Million revenue estimate in 2016) was acquired by Unilever, Younique (US\$ 250 Million revenue estimate in 2016) was acquired by Coty
- Experiment/ pilot emerging business models such as direct-to-customer (DTC), subscription
- Acquire/ build products suited for emerging channels such as Chemists
- Build in-house capabilities to succeed in emerging channels, shift to a “service” oriented mind-set
- Provide consistent messaging and experience across channels

Digital Consumer Engagement

- Develop “digital” capabilities, by building in-house teams and creating an external partner ecosystem
- Partner with technology providers to unlock innovative use of digital and develop an ecosystem
- Analyze consumer digital foot print and engage them digitally through social media observatories
- Leverage influencer bloggers, consumer testimonials, peer feedback, DIY videos
- Move from passive to real-time processing of PoS information

Ecosystem Engagement

- Co-create and innovate with strategic suppliers, institutionalize benefit sharing with ecosystem partners
- Implement collaboration technology such as cloud based data sharing platform to help facilitate analytics, joint planning

Challenge(s) Facing BPC Players

- High cost to serve associated with penetrating new business models (direct-to-consumer, subscription, at-home services) and new channels (chemists, pharmacies, beauty specialists)
- Emerging channels require a different set of capabilities

Challenge(s) Facing BPC Players

- Exploding internet penetration and evolving consumer behavior making it pertinent for BPC players to collate and rapidly act on data being digitally generated
- Limited ability to focus on digital, big-data analytics (collating and acting on data being generated)
- Traditional media (TV, Print) continues to capture 80-90% of marketing spend, inadequate focus on digital marketing
- Limited “omni-channel” capabilities compared to developed markets

Challenge(s) Facing BPC Players

- Collaboration hindered due to lack of technology
- Organizations reluctant to collaborate with suppliers due to trust issues and limited management focus

ABOUT INDIAN BEAUTY & HYGIENE ASSOCIATION (IBHA)

Indian Beauty & Hygiene Association (IBHA) is the voice of beauty and personal care industry in India. As a trade association, IBHA plays a pivotal role in regulating public policy through regular government interface thereby protecting the industry interests. It is one of the oldest trade associations in India and is registered under Section 8 of Companies Act 2013.

The association has on its roster several small, medium and large organizations. Formerly known as ISTMA (Indian Soaps and Toiletries Makers' Association), it was rechristened as IBHA in October 2012. Established in Kolkata in 1937, the Association shifted its operations to Mumbai in 1973.

IBHA has brought into focus issues of critical importance to the industry starting with the government during the pre-liberalization era. As an apex trade body, they represent the industry in several policy issues with major statutory authorities. For further information, please visit <http://ibhaindia.com/>

ABOUT A.T. KEARNEY

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. We have 61 offices in major business centers in more than 40 countries. For more information, visit www.atkearney.com

IBHA SEMINAR: REDEFINING BEAUTY - THE CHANGING INDIAN SCENARIO

The theme for IBHA seminar 2017 is "Redefining beauty: The changing Indian scenario". IBHA seminar 2017 will see a gathering of key industry stakeholders including CXOs, bloggers, media personalities from the beauty and personal care industry. The aim is to bring the best brains of the industry together to deliberate and discuss the changing face of the industry and defining trends and imperatives for tomorrow. IBHA has earned the reputation of being a knowledge-sharing platform over years, where those in attendance learn about the industry best practices and trends that can be applied for improving business efficiency.



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