Impact of Digital on Beauty and Hygiene

12 February, 2016

Executive Summary

Online: Rise of the 2nd India

650M people online by 2020; rural, women, mobile to be growth drivers

Beauty & Hygiene: The future is digital

B&H to be ~$17Bn (2020); 2/3rd sales could be digitally influenced; 20% will be sold online

Digital households: Leading the way

Digital households spend 2x vs non-digital; Emerging category penetration 2-3x

Digital Influence: On the rise

Leverage digital differentially to accelerate growth

Attention! Disruption ahead

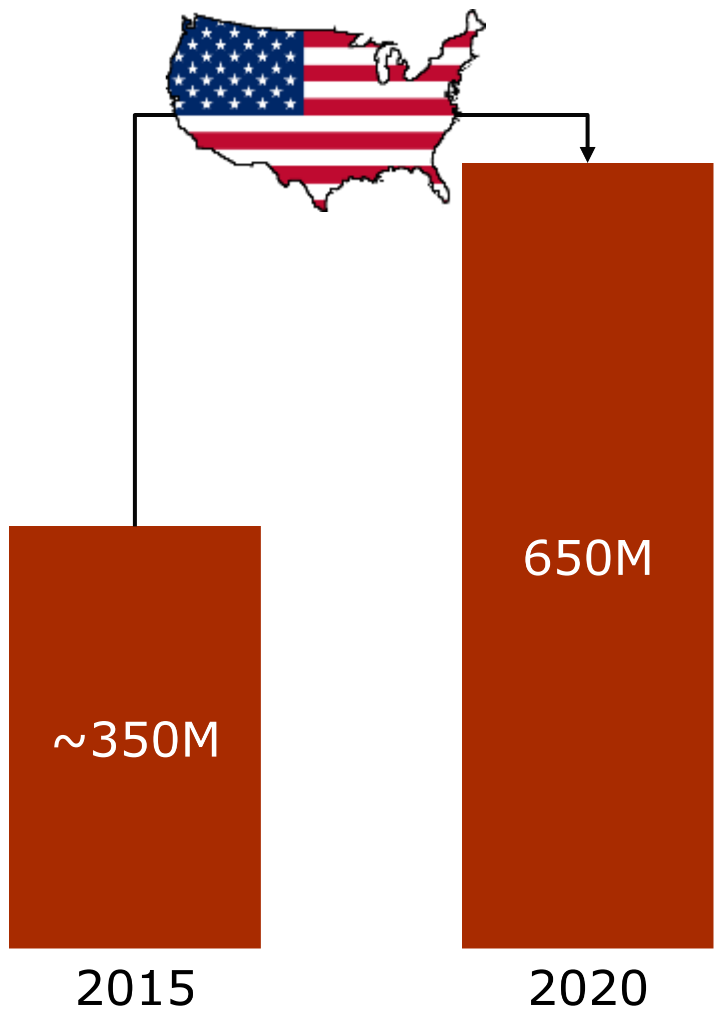
Established business models are being disrupted. FMCGs yet to tap digital full potential

The time is now, get ready for a long ride

Plot your digital transformation journey – what are your no-regret moves

India is moving **online**[1]…

BY 2020, INDIA WILL ADD ~300M NEW INTERNET USERS = POPULATION OF USA



200M+
Women

200M+
Screenagers

250M+
Rural Users

90%+
On mobile

40%
transacting online

with consumers spending **more time** on internet

50%

online at least once a day[2]

1.5x

time spent on smartphones vs. TV[3]

1/4th

online while watching TV[2]

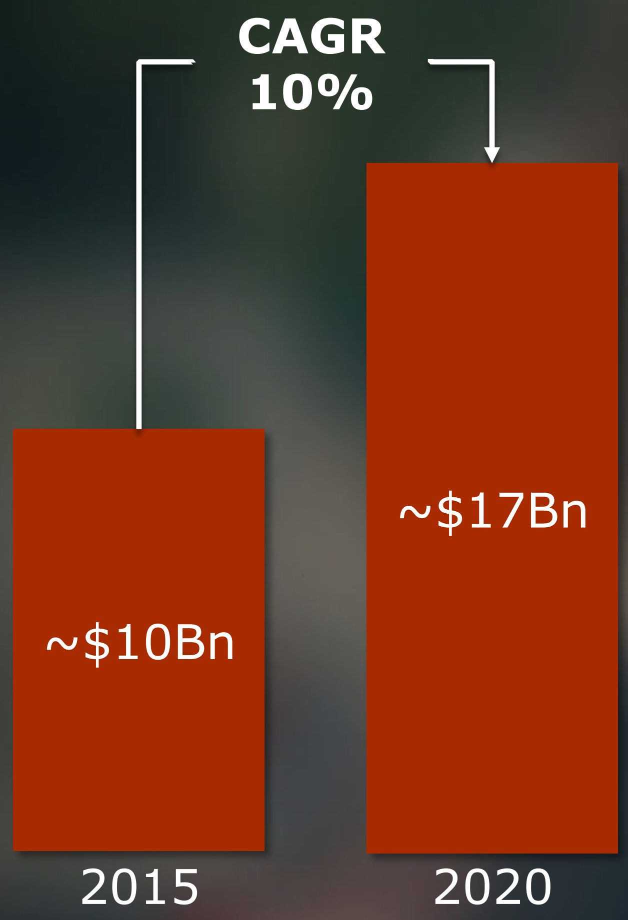
FMCG expected to witness **high** Digital Impact[1]

1/3rd
($35Bn) FMCG spends to be **digitally influenced**

8-10%
FMCG sales to move **online***

* By 2020. Revised upwards from the previous estimate made in Adding to Cart report
Source: Bain analysis 2016

with Beauty & Hygiene to be **doubly** impacted



2/3rd

(**$11Bn**) B&H spends to be digitally influenced

20%

(**$3Bn**) B&H sales to move online

10%

(**130M**) Indians to buy B&H online

Source: Bain analysis 2016

Digital households are **2x** more valuable for B&H[4]

Spend more on
Established *categories*

2x

Spend vs
Non digital Households*

Are early adopters of
Emerging# *categories*

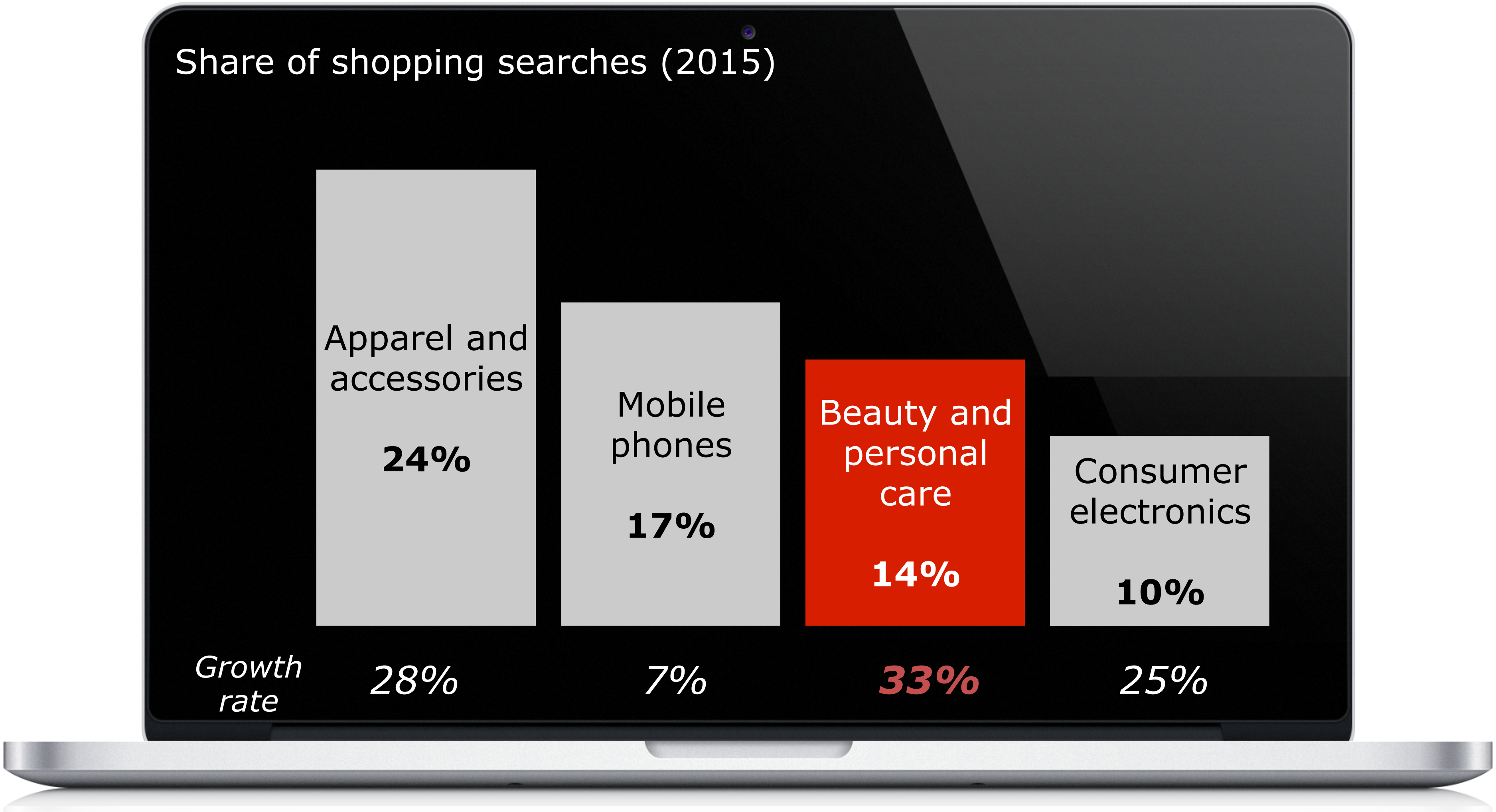
2-3x

Penetration vs
Non Digital Households

*Total spend per digital HH on a basket of 20 FMCG categories vs Non digital HH; #Face wash, Hand wash, Deo specific examples
Source: Bain Analysis 2016

Rising digital influence evident in high share of **searches**

3rd largest in shopping searches and growing the fastest



Source: Google Search data from Jan-Dec 2015. 'Growth rate' corresponds to growth in search volumes: Oct-Dec 2015 over 2014

And rising demand for beauty **video** content

5X
increase in YouTube viewership,
10x increase in vernacular content*

DIY & Easy/Quick
videos most popular on YT

95%
of global YouTube content owned by Beauty creators, not brands[5]

*Increase in YouTube viewership over 2 years (2015 over 2013)

The consumer journey is increasingly moving **online**[2]

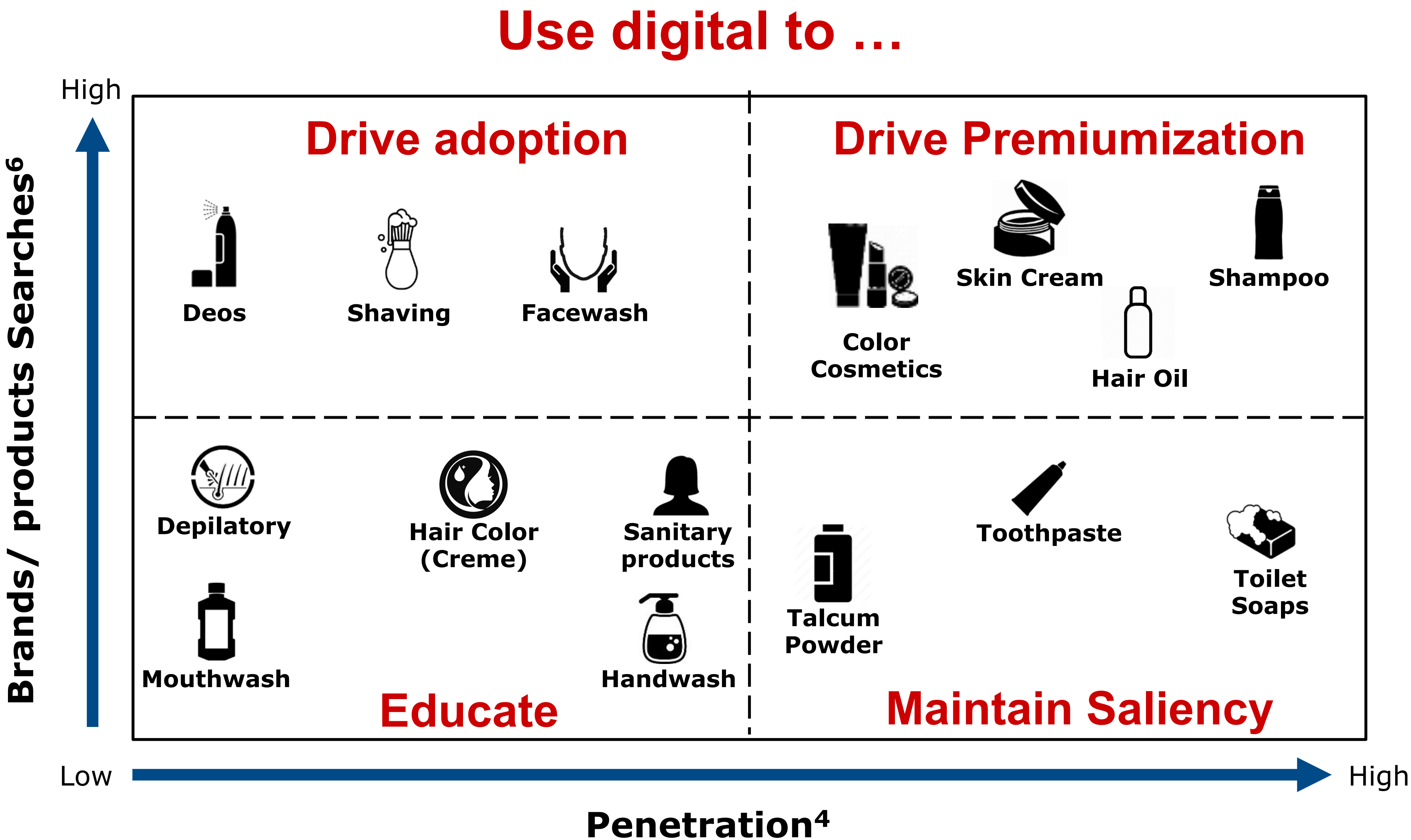
Hair Care	India	China
PLANNING THE PURCHASE	**89%**	**93%**
	1 out of 4	*2 out of 3*
RESEARCHING ONLINE	**25%**	**64%**
	1 out of 8	*1 out of 2*
BUYING ONLINE	**3%**	**33%**

With **category-specific** nuances[6]

	Share of B&H searches (2015)*	Branded Share	Top Themes
Hair Care	41%	**1/6**	*hairstyles* *hair loss*
Skin Care	24%	**2/5**	*fairness* *skin care*
Makeup	19%	**2/3**	*bridal makeup* *eye makeup*
Male Grooming	12%	**2/5**	*shaving styles* *hair removal*

*3% oral care and 2% feminine hygiene

Digital can be **differentially** leveraged to unlock growth



Note: Positions within a specific quadrant are representative
Source: Bain Analysis 2016

Online purchase becoming important for both regular and premium categories

	Regular B&H categories	Premium B&H categories
Who	**~65%** women; 75% under 35	**80%+** women between 22-35 years
How much	>**50%** of bill **volume**, ~**25%** of average basket value (ABV)	**~4x ABV** of Regular B&H
What	Personal Wash Shampoo Oral Care	Cosmetics Fragrances Skin Care
Why	Convenience Deals Assortment	Information Assortment Genuine

Source: Based on insights shared by an online grocery retailer and a beauty e-commerce player

Digital is **disrupting** established ways of doing business

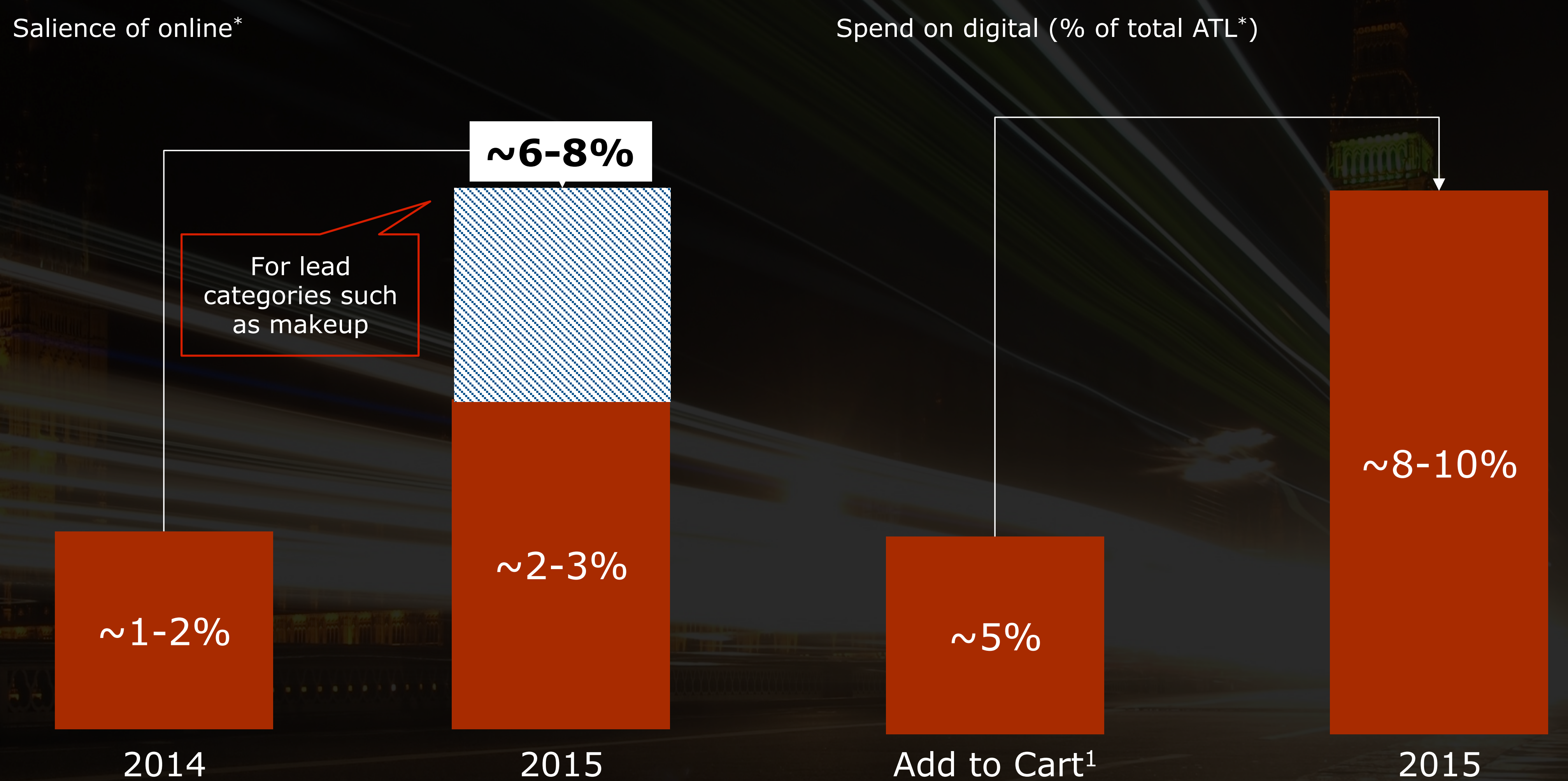
Nyx	**Sephora**	**Jahwa**
Brand building by co-creating on digital	**Seamless integration** of online and offline	**Using data** to power growth
Joint NPD and promotion with vloggers 5 months from concept to launch	Discovering new ways to connect	Comprehensive data collection and application
Building trust, solving for ‘touch and feel’ via online	High quality, personalized shopping experience – offline and online	Digital for marketing, inventory, payment

Note: Nyx – US based cosmetics brand; Sephora – French based cosmetics retailer; Jahwa – China based skin care co
Source: Bain analysis 2016

Indian FMCGs are **gearing up** to address this fast–paced change

E-COMMERCE SALIENCE: ~3%

DIGITAL SPEND: UP BY ~2X



*Illustrative, data for sample set of CPG Cos in India with material presence in Beauty and Hygiene

And looking for **solutions** to address concerns

DIGITAL ROI

*"The biggest problem with Digital spend is that there are no ways to measure its **effectiveness**."*

BU Head, leading FMCG

Ad Effectiveness Tests

Sales Impact Tests

YouTube Brand Lift Survey

SHOPPER EXPERIENCE

*"Beauty categories pose the limitation of **touching and feeling** the products before any purchase is made."*

CEO, leading Personal Care FMCG

educating customers

user-generated content

Nykaa

Nyx

THE DIGITAL ORG

*"Currently, Digital is synonymous with E-Commerce. CPGs should be thinking about Digital more **expansively**"*

ED – Personal Care , leading FMCG

Consumer Insights

Fulfilment

Sephora

Jahwa

Brand building

Source: Interviews with CPG Cos in India with material presence in Beauty and Hygiene; Bain analysis 2016

FMCGs must plot their **digital transformation** journey, begin with no regret moves

		Beginner	Intermediate	Expert
Digital transformation journey		 **Online marketing and sales system**	 **Integrate online and offline**	 **Consumer-led co-creation**
R&D & Supply chain		Online feedback for upgrades	Real time design Flexible supply chain	C2B
Marketing and CRM		Digital branding Online BTL	Digital store Online communities	KOL marketing Consumer created brands
Channel	Online stores	3P sites	Own site	Social eCommerce
	Portfolio, pricing	Exclusive	Synchronized	Early online release
	Inventory	Isolated	Integrated DCs	Store level integration

Source: Bain & Company 2016

The **Bain Brand Accelerator**[SM] is a proven approach that can help companies realize digital's full potential

Overall approach	**STOP AND RETHINK**	**CHOOSE WHERE TO FOCUS**	**DEFINE SUCCESS**	**RE-ALLOCATE RESOURCES**	**DELIVER & SUSTAIN CHANGE**

Implication for Digital	**Uncover category's digital truths**	**Wisely choose the digital battlefields**	**Ensure digital reinforces brand strategy**	**Budget for digital**	**Organize around consumers, not screens**
	• Digital's impact based on actual consumer behavior	• Seamless online and offline experiences • Sources of digital differentiation	• Clarity on how digital fits within the brand's strategy	• Shift media spends – follow your consumer • Invest in technology/ IT/ Analytics	• Integrate digital across the value chain • Invest in new capabilities and partnerships

Source: Bain & Company 2016

Sources

[1]Adding to Cart (Bain-Google Study, 2015)
http://www.bain.com/publications/articles/adding-to-cart.aspx

[2]Consumer Barometer
https://www.consumerbarometer.com/en/

[3]Ericsson Consumer labs survey 2014
http://www.ericsson.com/news/140722-network-performance-shapes-smartphone-behavior-in-india_244099436_c

[4]IMRB Kantar Worldpanel 2015

[5]Beauty on YouTube 2015 (YouTube Pixability study)
http://www.pixability.com/industry-studies/new-beauty/

[6]Google Search data from Jan-Dec 2015

BAIN & COMPANY

Google