

# INDIA: A POTENTIAL GOLDMINE FOR FOREIGN BEAUTY BRANDS

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Expanding into a new market can be a successful way to leverage your core business for growth. However, believe me when I say, it takes a disciplined process to accurately assess the full potential of each growth opportunity. A bad bet can easily bog down your business in the blink of an eye. With a growing economy that plans to see annual income triple by 2020, India is booming. Seeing numbers like these can make any foreign company jump at the idea of tapping into this ever-growing market. However, the Indian business culture is unlike any other around the world and to thrive in this market, new entrants need to have a thorough understanding of the practical challenges they will face if they want to succeed there. So, below we have put together a few tips that will help you and your business navigate in clearer waters and avoid pitfalls when expanding into the Indian Market.

## *An overview of the Indian Beauty Market*

India is one of the most populated countries on earth, with a staggering 1.21 billion inhabitants (1/6<sup>th</sup> of the world's population). The economy, 4<sup>th</sup> largest in the world, is one of the fastest growing in the world with a current GDP growth rate of 7.5%. Today, there are about 450 million middle class consumers which is more than the entire population of the United States! The population is growing young, urban and rich with 55% of the population below 25 and 65% below 35. The purchasing power and disposable income of the Indian middle class is continually spiking, allowing for increased awareness and attention to grooming, glamour and presentation as well as an inclination towards luxury brands and premium products. Higher disposable incomes, peer pressure and ever-increasing exposure by the media is leading customers to spend more on higher-value services such as manicures, pedicures, facials, hair modification treatments and massages, just to name a few. The number of independent working women is on the rise and men are emerging, creating a huge category for salon, spa services and cosmetics. About 38% of women visit the salon twice a month and 61% of men visit it once a month.

According to Euromonitor, the Indian beauty market value is estimated at \$950 million and experts say that it will grow to \$2.68 billion by 2020. In the coming years, the annual growth for this market is estimated to be between 15% and 20%, a growth twice as fast as that of the United States and European beauty markets. This incredible expansion has been driven mainly by product innovations, continued demand for naturally positioned products, premiumisation and consumer willingness to move out of their comfort zones and experiment with new products. India is currently the 10<sup>th</sup> fastest growing market at global level in the Beauty & Wellness sector and is growing at CAGR of 18.6%. The sector is thriving on the raise in affluent and middle-class population that has started considering beauty and wellness as a necessity rather than a luxury. The increased emphasis on a holistic wellbeing with people's desire to look good and young are other key motivators for the industry. The rejuvenation segment is no longer perceived as a mere luxury service but it is now acknowledged as an essential tool to de-stress.



The make-up market has been growing at a strong pace (+20.9% in 2016) and has reached \$546.3 million. In 2020, the market is forecast to have a value of \$1,258.2 million, meaning a total increase of 130.3% since 2015, highlighting lip make-up as the largest segment of the make-up market (57.9% of the market's total value). India, along with China, has been leading by far the growth in the Asian colour cosmetics sector. Key drivers of this incredible progress are: rising disposable incomes, high population growth and rise in consciousness about appearance. The Indian make-up market grew by 20.9% in 2015 to reach a value of \$546.3 million.

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Skincare and fragrances have also experienced strong and steady growth since 2011. Over the next five years, experts say this trend is expected to continue, encouraging even more newcomers than ever before. Indians' appetite for both skincare and fragrances has been fuelled by the rise of the middle classes, increased incomes, technological developments within the industry and the increasing health, wellness and appearance awareness. As urbanization continue to rapidly increase, Indians are leading busier lives, prompting them to look for more convenient skincare products in order to save time. Female fragrances are the largest segment of the fragrances market in India, accounting for 46.7% of the market's total value.

International companies such as Unilever, L'Oréal, Colgate-Palmolive and Coty are big players in the industry. Unilever is the leader in the make-up market (25.6% market shares) whereas Coty continues to outdo competitors in the fragrance market (30% market shares). Other prominent international players with a strong presence in the market include Gillette India, Johnson & Johnson and Procter & Gamble. Domestic players have been trying to play catch up by tapping into new growing trends such as natural, herbal and Ayurveda products.

### ***Key consumption patterns***

1. Indians are driven by cultural traditions.
2. Mass-market represents the biggest untapped opportunity for foreign brands.
3. Indians have a strong appetite for localized products.
4. The cosmetic market remains a gold mine for newcomers.
5. Consumers are increasingly educated and informed.

International brands can't simply enter the Indian market, offering the same products and ranges as they do back home and expect to be successful. In fact, Indian tastes and needs strongly differ from Western ones. Brands must adapt their offerings to satisfy local styles. Triumph is, in part, being able to create suitable products.

The Indian beauty market is one-of-a-kind. Cultural traditions are tremendously important and Bollywood has a powerful influence on purchasing decisions. Beauty products have become extremely popular. Many international brands that entered the market in the late 90s were offering premium products to an urban clientele who could afford it. Today, beauty is becoming universal and there is a demand from not only the upper classes.



In addition to this, disposable incomes in big cities are jumping to record high and Indians are spending more and more money on beauty products. Expanding out of urban areas will be a strategic manoeuvre for mass-market brands offering lower price points. Improvements in links with the cities by roads and telecommunication will allow brands to reach out to the people in villages and small towns more easily.

It's no secret that Indian consumers are becoming more and more aware on the various beauty products and brands available on the market. Customers are looking for both quality and value for money and the rise of online shopping is reshaping the retail landscape (62% of urban young consumers have prefer to buy beauty products online). E-commerce is rapidly growing, accounting for the strongest growth in retail sales. Online sales, including those of beauty products, are expected to quadruple over the next five years due to the increasing use of smartphones and will ease up the process of reaching customers in more rural areas. Online shopping is extremely convenient, as lifestyles are getting busier. Indians no longer want to have to visit numerous stores before finding the right product to suit their needs.

Moreover, Indian consumers are becoming extremely brand conscious with a readiness to try new brands and products. As they become better informed, they are embracing international cosmetics brands regardless of higher prices compared to domestic brands. Over 68% of young adults feel that using grooming product boosts their confidence. The increased desire to look good, combined with a young population provides astounding opportunities for new brands to break through.

As people become more brand-conscious, companies are beginning to use the services of famous brand Ambassadors such as Bollywood megastars and cricket players, helping them to build a strong brand loyalty.



Finally, the behaviour of the male consumer has been shifting considerably over the last few years. Men are becoming more indulgent and discerning and are slowly moving from unisex products towards gender specific products for maximum results. Surprisingly enough, Indian men who fall in the age group of 18 to 25 spend more money on grooming and personal care products than women. It is estimated that today about 25 to 35% of total salon business comes from men's treatment.

### ***Challenges and how to overcome them***

At International Luxury Brand Consultancy, we know that expanding into a new market can be a tough decision, especially if you are navigating in unknown waters. We work with our clients so that we can provide them with clarity backed up with years of expertise and knowledge. With many years of experience under our belt, we can help you avoid pitfalls that may be encountered along the way.

Of course, the Indian beauty market offers a myriad of enticing opportunities to newcomers but needless to say that it is a highly complex market to penetrate due to various factors, both endogenous and exogenous. It is crucial for brands to be fully aware of the different entry barriers and to understand what is at stake before attempting to enter any market. India is no exception, far from it.

Entry barriers include:

- Fierce established competition
- Complexity of the retail sector
- Heavy investment needed
- Tough regulation

Newcomers will have to face fierce established competition with widely recognized companies such as Unilever and L'Oréal, who all have strong market positions. Because they benefit from scale economies, large international brands have the ability to compete effectively on prices, making it hard for new entrants to strive especially if they move into a more concentrated market segment. In addition to this, big players benefit from much larger marketing budgets and are able to utilize the services of celebrities such as Aishwarya Rai (L'Oréal) and Kareena Kapoor (Unilever) to boost the appeal of their brands. Whilst on the same topic, substantial capital is required for investment in production, distribution and advertising, which are crucial for success in this complex market. However, due to the high sales volumes of make-up products and low product differentiation, it is common for companies to enter the lower end of the make-up market. One potential method of establishing a new brand is through celebrity endorsement, but this too can be very costly for new players.

Today, big international companies are the main manufacturers in the market. They invest heavily in both product innovation and the building of brand portfolios. Newcomers must be able to persuade stores to stock their products. However, major retailers are aware of their importance in the distribution chain and may be reluctant to displace existing well-established brands for new ones.

When entering the skincare market, new entrants are required to establish production facilities, demanding significant capital outlay on machinery and factories. Skincare products are generally sold in high volume to a large number of consumers, and the reasonably high level of consolidation seen in most skincare markets suggests that scale economies in manufacturing are likely to be important to the margins of players, acting as another entry barrier for potential new entrants. However, despite the importance of economies of scale, it can be possible to start small by focusing on a niche market. The growing market for male skincare is one example of a potential entry point. The use of natural skincare products provides new entrants with an opportunity to enter a niche market but such products can be expensive to produce and leaders such as Dove are already well established in this sector, deterring new entrants from venturing in such waters.

New entrants may be able to start on a small scale, operating within a niche, such as make-up with anti-ageing components. However, product testing and research would be both time-consuming and costly. In addition, new entrants will need to persuade stores to stock their products, and major retailers aware of their importance in the distribution chain, may be unwilling to risk displacing existing brands for the sake of new ones.

The Indian retail sector is especially complex because it is both organized and unorganized. Unorganized retail format is extremely popular while the organized one is a lot smaller. Traditional family run stores and small shops constitute a majority of the market and it is estimated that over 95% of retail in India is done through the unorganized channel. There is a huge



potential for growth in the organized retail sector leaving big untapped opportunities for new players. Shopper Stop (68 outlets), Lifestyle (57 outlets), Pantaloons (28 outlets), Sephora (8 outlets), and Parcos (54 outlets) are among the major organized retailers in India.

In India, regulation is heavy. The government legislation covers all aspects of the market, from labelling, to testing methods, to safety. This is mainly due to the fact that in the past, a lack of regulations led to counterfeit cosmetics flooding the market. Cosmetics production must comply with the Drugs and Cosmetic Act 1940 and Rules 1945 (D&C act). The latter requires all import of cosmetic products to be registered. Labels (both inside and outside) need to show the name of the product, name of the manufacturer and address.

The International Fragrance Association (IFRA) monitors the fragrance and is also responsible for regulating worldwide legislative trends and keeping check on health problems related to fragrance usage (e.g. allergies, asthma, etc.) As you might be aware, fragrance formulas are treated as "trade secrets" and manufacturers are not obliged to reveal them, even to regulatory agencies. Nevertheless, products must meet environmental and safety standards and this can pose a serious threat to newcomers. In fact, introducing a new fragrance on the market can cost up to US\$100 million and maintaining a good reputation can be just as expensive. Established players have developed and acquired extensive portfolios of such products, backed by large marketing and advertising budgets. Newcomers will have to have a consequent budget in order to be able to compete with such big brands and win the hearts of the Indian customers.

India's fragrance industry is rapidly growing yet sales are considerably lower than in the West. Most of Indian consumers still prefer traditional scent of Oud and Attar; scents that have been used in the entire Eastern world for thousands of years. This might be problematic for fragrance companies wanting to enter the Indian market. To counter this problem, many fragrance retailers have adapted their offerings to the tastes of Indian consumers and introduced a number of Ouds under their brand name (e.g. L'Autre by *Lancôme*, Y M7 Oud Absolu by *YSL*).

In addition to this, Indian consumers are paying more and more attention to what comes directly in contact with their skin. Prevention of skin irritations has given rise to natural ingredients or at least products free from parabens and aluminium or alcohol. Indians prefer to use products made using natural ingredients (e.g. aloe vera, tulsi, neem, lemon, honey, etc.). They have used these products for generations and perceive them to be of superior quality. Hence, manufacturers are introducing more exclusively natural skincare and cosmetics ranges to attract these discerning consumers.

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The threat of substitution for fragrances is very strong. In fact, fragrances used to be considered luxury products. Even though this trend is rapidly changing, many personal hygiene products provide a fragrance. The low price of such products compared to that of fine fragrances greatly increases the threat of substitution.

Last but not least, counterfeit goods cause great threat and cost the industry billions in lost revenues, especially for fragrance. The major issue is that clear imitation of a particular fragrance can make it hard to differentiate between the counterfeit good and the real one. Ebay and Flipkart are among the online marketplaces that poses the greatest danger because it is extremely hard to filter between genuine and counterfeit goods, as there is no guarantee that the picture you see online is an actual picture of the fragrance bottle or cosmetic you'll actually get. Moreover, flea markets, street strands and bargain stores abundantly sell fake perfumes and cosmetics.

Expanding into the Indian market can be extremely tough for many reasons, one being the highly complex structure of this market and in turn, the country. Many brands avoid entering this market altogether because the stakes are high. High import duty and taxes on beauty products, lack of skilled technicians, high attrition rates of staff, low standard of living and spending capacity, high income inequality, value for money mind-set that does not promote splurging money are among the numerous challenges foreign beauty brands will have to overcome. However, believe me when I say that India is a potential goldmine and one to watch in the near future. Of course, it is no easy task to succeed but with the right strategic plan and the adequate partner, India could definitely be your next eldorado.

For more information on how IL Brand Consultancy can help you expand your brand into different markets such as India, please contact us on [info@ilbc.co.uk](mailto:info@ilbc.co.uk) or visit our website at [www.ilbc.co.uk](http://www.ilbc.co.uk)

