The Cosmetic & Personal Care Sector in India
Market Research 2008
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1. INTRODUCTION

1.1 Background

This study has been commissioned by Italian Trade Commission, Trade Promotion Section of the Italian Embassy, New Delhi.

Ace Global Private Limited, a consultancy company based in New Delhi, has been appointed to undertake the study.

1.2 Objectives

To identify potential areas of business for Italian companies in the sector based on insights into the Indian Cosmetics and Personal Care Sector, especially with regard to the following:

- The current state of the sector in India
- Principal factors driving the growth of the market
- Level of competition in various segments
- Regulatory and other influences
- External trade trends
- Key factors and challenges for potential entrants

The results of the research would enable the users to take strategic decisions as to:
- Evaluation of specific business opportunities for Italian companies in the Indian market
- Selection of appropriate products, market segments and channels
- Selection of an appropriate business and marketing strategy for introducing their products in India.

1.3 Coverage and Methodology

The coverage of the report is as per the illustrative index provided by the client, covering the following aspects specifically related to the cosmetics and personal care products market:

- Market size and structure
- Market Characteristics / Competitive landscape
- Trade, Distribution and Market Promotion
- Business and regulatory environment

In addition, a general overview of the demographic and psychographic characteristics of the Indian market is also provided.
The study is based on a mix of secondary and limited primary research for compiling information/data from government, sector and company specific sources, as follows:

1.3.1 **Secondary research:**
- Macro-economic scenario
- Demographic reference data on India’s consumer classes
- Sector/company specific details
- Compilation of import-export statistics at the national level
- Compilation of information pertaining to relevant Government policies, technical standards, regulations etc.
- Compilation of the available published information on market size, production, imports, market segments, growth trends etc.
- Identification of key players in each segment.

The main sources of secondary information have been
- Economic Survey of India 2007
- Govt. of India websites regarding relevant regulations and policies
- Websites of companies
- Industry reports available in the public domain (print media, Internet etc.)
- Imports and exports statistics from DGCIS, Govt. of India
- Catalogues of Indian manufacturing and marketing companies

1.3.2 **Primary Research**

Based on the above, a primary research was undertaken, covering key players, such as importers, distributors and retail outlets of cosmetics and personal care products, in Delhi region, through telephonic interviews.

A total sample of 30 companies was covered through the primary survey, as follows:
- Importers/Distributors 10
- Retailers / malls 20

A list of names, addresses and contact numbers of importers/ distributors and retailers met during the primary survey, is enclosed as Annex 1- List of Contacts.

1.4 **Draft Report**

This Draft Report has been prepared based on the compilation and analysis of all information/data collected through secondary and primary research.
2. INDIA- BRIEF ECONOMIC SCENARIO

2.1 Geography

- Total area: 3.28 million sq km (of which land area is approx. 2.97 million sq.km.)
- Land boundaries: 14,103 km
Border countries:
- West: Pakistan 2,912 km
- North: China 3,380 km, Nepal 1,690 km, Bhutan 605 km
- East: Bangladesh 4,053 km, Myanmar (Burma) 1,463 km

- Coastline: 7,000 km, bordering the Indian Ocean (South), Arabian Sea (South West) and Bay of Bengal (South East)
- 29 states and 6 union territories. Many of the states are larger than some of the European and Asian countries, both in terms of area as well as population. For example, area of Madhya Pradesh, the largest Indian state (443,446 sq km) is bigger than that of Italy (301,230 sq km).

### 2.2 Population

- 1.131 billion people (Italy 59.206 million)
- Population growth rate 1.4% per annum
- Major religions: Hindu 80.5%, Muslim 13.4%, Christian 2.3%, Sikh 1.9%, Buddhists and others 1.9%
- Literacy: overall 59.5%; male: 70.2%; female: 48.3%
- National language – Hindi (spoken by 30% of the population)
- 14 officially recognized regional languages - Bengali, Telugu, Marathi, Tamil, Urdu, Gujarati, Malayalam, Kannada, Oriya, Punjabi, Assamese, Kashmiri, Sindhi, and Sanskrit.
- English has associate level status in India and is widely used in business, as well as everyday life

### 2.3 Main Cities

- Top ten most populated cities are Mumbai, Kolkata, Delhi, Hyderabad, Chennai, Bangalore, Ahmedabad, Pune, Vadodara and Kanpur
- Delhi is the seat of government and an important business centre
- Mumbai is the commercial centre of India, also the fashion and film capital
- Chennai is the commercial capital of south India
- Bangalore and Hyderabad are major centres for IT
- Kolkata is an established industrial and commercial centre and a key trading port for East Asia
2.4 Demographics

India is a unique market on account of its diversity in age, income, and urban-rural demographics. Compared with several advanced countries, where the overall population is aging, India is a very young nation: 85% of its population is below the age of 45, and 55% of its people are below 25 years of age. Young adults, the group between 20 and 35 years, represent nearly 25% of the consumer base in the country, and drive consumer and lifestyle trends.

Table 1. Age distribution of Indian population (Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Kids 0-4</th>
<th>Children 5-14</th>
<th>Adolescents 15-19</th>
<th>Young adults 20-34</th>
<th>Mid aged 35-54</th>
<th>Aged 55+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>119.5</td>
<td>233.2</td>
<td>90.7</td>
<td>224</td>
<td>178.1</td>
<td>88.7</td>
<td>934.2</td>
</tr>
<tr>
<td>2001</td>
<td>108.5</td>
<td>239.1</td>
<td>109.0</td>
<td>246.8</td>
<td>207.3</td>
<td>101.7</td>
<td>1012.4</td>
</tr>
<tr>
<td>2006</td>
<td>113.5</td>
<td>221.2</td>
<td>122.4</td>
<td>279.1</td>
<td>239.2</td>
<td>118.7</td>
<td>1094.1</td>
</tr>
</tbody>
</table>

Source: Statistical Outline of India, 2000-01.

The increase in the economically active population of young Indians - especially the 24-45 age group - holds the keys to India’s prosperity and its economic potential over the next twenty years, and is expected to unlock a new wave of consumer demand.

Urban-rural distribution

Nearly 58 million households, comprising 32.3% of India’s dwelling units, live in urban areas. Nearly 38% of urban households are in middle and higher income strata, and only 14% of rural households have similar income levels.

Socio Economic Classes

Besides income groupings, Indian households are also categorized by the education and occupation levels of the chief earning member of the household. These groupings are referred to as SEC classes, and are used extensively by market planners of new products in establishing the target market segments for their goods and services.

Table 2: Socio-Economic Classification
In 1997, the population of upper strata consumers (SEC A and B) was estimated to be 5.88 million households, concentrated in 16 Indian cities. The top seven cities Mumbai, Delhi, Chennai, Kolkata, Hyderabad, Ahmedabad and Bangalore account for more than 80% of the total population of SEC A and B households. However, with increasing economic prosperity, this population of high potential consumers is growing by 10% annually and is expected to rise to 9 million households.

**Income Classification**

The discrepancy between income levels in the country, where fabulous wealth and dire poverty co-exist, can be shocking to citizens of developed countries. India has the largest population of poor people (nearly 400 million people) among all countries. On the other hand, a large consuming class of 300 million people outnumbers several of the world’s large markets in terms of market potential.

India’s official income classifications, based on census data, are probably inadequate to map the target market segment for up-market goods. For instance, the National Council for Applied Economic Research (NCAER) classifies the richest category of households in India as having average household income greater than the figure of Rs.140,000 per year, which is indeed very low compared to western standards. Official income classifications can also be misleading, given that less than 8% of India’s population is assessed for tax. Farm incomes are tax-exempt; even though a large percentage of India’s rich households are in rural India. As a result, India has a large unofficial economy, estimated to be at least as large as the reported GDP.

Based on economic data compiled by the NCAER, it is estimated that there are approximately 600,000 households in India with an annual income of Rs.1 million and 150,000 households with an annual income of over Rs.5 million, or a standard of living comparable to a middle class European. This represents an even much larger disposable income in purchasing parity terms. The actual experience in the market suggests that these numbers are grossly underestimated:

- There are close to 80,000 high net worth Individuals in India, with saving and assets exceeding US$1 million.
- At least 50,000 households are buying premium cars every year (priced at US$ 30,000 and above).
- The market for luxury goods is estimated to be Rs 100 billion, with over 2 million Indians estimated to be engaging in some luxury purchase or the other each year.

This super-rich class of Indians is a ready market for all up-market lifestyle goods reflecting the latest trends found in developed economies. This is the segment most intensely pursued by international brands entering India.
### Table 3. Classification of High Income Groups and Relative Affluence

<table>
<thead>
<tr>
<th>Consumer Classification</th>
<th>No. of Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Indian households</td>
<td>192 million</td>
</tr>
<tr>
<td>Rich households as classified by average income levels</td>
<td>30 million</td>
</tr>
<tr>
<td>Very rich households as classified by average income levels</td>
<td>2 million</td>
</tr>
<tr>
<td>Rich households owning refrigerators</td>
<td>5.6 million</td>
</tr>
<tr>
<td>Rich households owning washing machines</td>
<td>4 million</td>
</tr>
<tr>
<td>Households buying at least one expensive car every five years</td>
<td>0.25 million</td>
</tr>
<tr>
<td>Households earning more than Rs 1 million per year</td>
<td>0.6 million</td>
</tr>
<tr>
<td>Households earning more than Rs 5 million per year</td>
<td>0.15 million</td>
</tr>
</tbody>
</table>

*Source: compiled from National Council of Applied Economic Research (NCAER)*

### Wealth dispersion among cities

India’s top five wealthiest cities are Mumbai, Delhi, Kolkata, Chennai and Hyderabad, closely followed by Bangalore. As these figures represent an index of the market size of cities calculated from a range of indicators, some cities are not included, such as Chandigarh. Although Chandigarh has the highest average annual household income, it has a relatively small population and therefore does not appear in this definition of a wealthy city.

*Source: National Council of Applied Economic Research (NCAER)*


2.5 **Policy Reforms (Business environment)**

- The business regulatory environment is fairly open, and follows free-market competition principles
- Trade and Investment policies have been progressively liberalized since 1991, which have resulted in an increasing integration with the world economy
- Trade openness (trade as a percentage of GDP) has risen from 13% in 1991 to nearly 30.2% in 2005-06
- All quantitative restrictions on trade, removed in 2001, except for a few highly sensitive goods
- Import tariffs are being reduced in a phased manner to attain parity with ASEAN tariff levels
- Foreign investment up to 51% has been allowed in retail trade, for single brand retail only

2.6 **Recent Macroeconomic Trends**

- Among the fastest-growing economies in the world, posting close to 8% annual growth since 2002
- Gross Domestic Product of Rs.32.50 trillion (at factor cost) in 2005-06
- World’s fourth largest economy in terms of purchasing power parity
- Positive economic outlook, with a forecast of approximately 8% growth rate for the next 5 years
- Inflation rate has remained below 5% since 2001

**Trade and Balance of Payments**

- Small current account deficit, around 1% of GDP
- Exports grew from US$ 43.83 billion in 2001 to US$ 103.09 billion in 2005-06, and imports grew from US$ 51.41 billion to US$ 149.1 billion in the same period.
- Principal imports are petroleum and oil goods, capital goods/machinery, gold & silver, precious and semiprecious stones, electronic goods and chemicals
- Principal merchandise exports are textiles/clothing, gems & jewellery, engineering goods, chemicals/ pharmaceuticals, agriculture products, and leather goods.
- Foreign exchange reserves of close to US$ 180 billion in June 2007

**Foreign Trade Trends**

<table>
<thead>
<tr>
<th>Table 4. India’s foreign Trade (figures in US $ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>Total exports</td>
</tr>
<tr>
<td>Year</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>2000-01</td>
</tr>
<tr>
<td>2001-02</td>
</tr>
<tr>
<td>2002-03</td>
</tr>
<tr>
<td>2003-04</td>
</tr>
<tr>
<td>2004-05</td>
</tr>
<tr>
<td>2005-06*</td>
</tr>
<tr>
<td>2006-07*</td>
</tr>
</tbody>
</table>

* Figures for 2006-07 are provisional

### 2.8 Currency and Exchange Rates

The monetary unit of India is Indian Rupee (1 Indian Rupee = 100 paise). The fluctuations in exchange rate of Indian Rupee vis-à-vis US Dollar and Euro in the last five years, were as follows:
### Table 6.: Exchange Rate trend for Indian Rupee

<table>
<thead>
<tr>
<th>Year (March to April)</th>
<th>Exchange Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>1 US$ = Rs. 48.39 1 Euro = Rs 51.49</td>
</tr>
<tr>
<td>2003-2004</td>
<td>1 US$ = Rs. 45.95 1 Euro = Rs.53.17</td>
</tr>
<tr>
<td>2004-2005</td>
<td>1 US$ = Rs. 45.33 1 Euro = Rs.56.58</td>
</tr>
<tr>
<td>2005-2006</td>
<td>1 US$ = Rs. 44.64 1 Euro = Rs.54.19</td>
</tr>
<tr>
<td>2006-2007 (December 2007)</td>
<td>1 US$ = Rs. 39.32 1 Euro = Rs. 56.75</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India*
3. **Overview of India’s Cosmetics Sector**

3.1 *Demand Side Scenario*

3.1.1 Urban Personal Care Habits and Attitudes

“**Global Consumer Confidence Index**” Survey 2007 - conducted every six months by A. C. Nielsen – the well known international market research organization. 26,486 consumers from 47 markets across Europe, Asia Pacific, North America and the Middle East, participated in the survey.

- Indian consumers emerged on top for the fifth time in a row - Index score of 135 against global average of 97.
- Almost two-third (61%) of the respondents considered this time to be the good or excellent time to buy their needs.
- 93% of the consumers in India rated their job prospects in the next 12 months, as “good” to “excellent,” 90% of them were quite confident of their personal finances.
- 39% were spending their savings on travel and leisure activities, 32% on buying new clothes, 32% on home improvement and decorative items….

Penetration of most cosmetics and toiletries is still quite low in India. Current consumption of many products is well below that of many countries in Asia. The low market penetration of many cosmetics and personal care products offers room for growth. The Indian toiletries market is well developed and dominated by major multinational companies and a few large Indian players.

The urban population with increasing purchasing power is the major force driving demand for cosmetics and toiletries. India is a very price-sensitive market and mass-market products constitute the major part of the cosmetics and toiletries market. As per ASSOCHAM – an industry body - the per capita consumption of cosmetics in India is approximately US$ 0.68 cents as compared to US$ 40 in Hong Kong, US$ 12 in Japan, and US$ 1.5 in China.

Consumption of personal care products centers on young women, with the age group 15-44 years accounting for about 70% of the market. Consumption begins in the teens and tapers off after 45, and declines substantially after 55.
Market Survey on India’s Cosmetics and Personal Care Sector

Table 7.: Consumption of make-up products among women in India

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Share of population</th>
<th>% Share of make-up product sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 15 years</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>15-34 years</td>
<td>34%</td>
<td>50%</td>
</tr>
<tr>
<td>35-44 years</td>
<td>12%</td>
<td>20%</td>
</tr>
<tr>
<td>45 – 54 years</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>Over 55</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Extrapolated from assorted secondary sources

Expenditure levels

The average expenditure on personal care and cosmetics products indicated during the primary survey is **Rs 500 per month by men**, and between **Rs. 500 to 1000 by women**. Interestingly, the male respondents spend an average of Rs 2000 per year on perfumes.

Urban and Rural Market Trends

Urban India leads consumption, with about two-thirds of all personal care products by volume, and more than four-fifths of the cosmetics segment consumption. However, rural consumption exceeds urban consumption in toilet soaps and is almost equal to urban sales of hair oil, the lowest end of the hair care market. Many companies are targeting the rural markets to push volume sales in categories like lip and nail care, and some skin care products as well.

Meanwhile, urban consumption is evolving, moving from basic functional to more advanced and specialized products, and greater expenditure levels. There is a rise in consumption of men’s products, including skin care products, which were earlier considered purely the woman’s domain.

Table 8. Rural Market share, selected personal care products (% of national volumes)

<table>
<thead>
<tr>
<th>Product</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toilet soap</td>
<td>57.25</td>
</tr>
<tr>
<td>Hair oil</td>
<td>47.24</td>
</tr>
<tr>
<td>Talcum powder</td>
<td>43.12</td>
</tr>
<tr>
<td>Face cream</td>
<td>30.91</td>
</tr>
<tr>
<td>Shampoo</td>
<td>33.93</td>
</tr>
<tr>
<td>Other creams</td>
<td>25.01</td>
</tr>
<tr>
<td>Nail enamel</td>
<td>20.53</td>
</tr>
<tr>
<td>Lipstick</td>
<td>6.57</td>
</tr>
</tbody>
</table>

Source: culled from ORG retail data and NCAER data

Essentiality Perceptions

In an emerging market, budgetary constraints influence the usage levels of various products, and create hierarchies in product needs, with more products in the ‘essential’ category than ‘desirable’ or purely ‘luxury’ categories. Therefore, essentiality perceptions define the market’s maturity in terms of various personal care products.
Essentiality perceptions, gauged by a survey by the Italian Cosmetic Association (2004), indicate that shampoo and hair oil are perceived to be the **most essential** products (polled by 96% and 94% respondents respectively), followed by face wash and fairness creams (84% and 83%), while moisturizers (63%) and sunscreen lotion (40%) are not as popularly perceived as **essential personal care** products. At the same time, anti-ageing and anti-wrinkle products are perceived as **non-essential, luxury products** by more than 70% of all respondents. To an extent, liquid soap (36%) and sunscreen lotions (29%) are also perceived as non-essential products.

The insights into the consumer habits and attitudes towards personal care and cosmetic products, gained through the primary survey in Delhi, are summarized below:

<table>
<thead>
<tr>
<th>Most important benefits sought</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Prevent dryness of skin</td>
<td>- Bring ‘glow’ on the skin</td>
<td>- UV care in creams is a basic essential need.</td>
</tr>
<tr>
<td>- Protection against UV rays, as they have to be out in the sun for long periods</td>
<td>- Fairness – for younger men</td>
<td>- Acne is not a prevalent problem</td>
</tr>
<tr>
<td>- Perfumes – fragrance should be as per personal liking; should be long lasting</td>
<td>- There is a lot of scope for men’s range offering benefits such as anti wrinkle, anti pigmentation.</td>
<td></td>
</tr>
<tr>
<td>- There is a lot of scope for men’s range offering benefits such as anti wrinkle, anti pigmentation.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Usage of professional services for personal care (salons, parlors…)</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Salons for hair cut, facials (more popular among younger men), massage</td>
<td>- Rarely specify the products/brands to be used – usually pick from options available.</td>
<td>- Visit to salons are for bleaching, waxing, hair cut, facial.</td>
</tr>
<tr>
<td>- Not aware of services like free facial treatment etc. for men offered in any department store/malls in India. In any case do not have the time to indulge in such things. It is only for ladies.</td>
<td></td>
<td>- It is relaxation that they look for.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- A feeling of being pampered.</td>
</tr>
</tbody>
</table>

### 3.1.2 Consumer Buying Behavior

The neighborhood general store continues to be the most popular purchase location for personal care products. Interestingly, chemist shops/pharmacies are also emerging as important purchase points. Department stores and women’s boutiques are emerging as new settings in urban areas. Yet, more than half of urban consumers have never shopped for personal care in department stores. However, the boom in organized retailing and the emergence of high-end stores is changing the market experience in all cities.
The key aspects of consumer buying behavior are summarized below:

<table>
<thead>
<tr>
<th>Sources of information for latest and new products in cosmetics &amp; personal care products</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>- TV advertisements</td>
<td>- TV advertisements</td>
<td>- Advertisements</td>
</tr>
<tr>
<td>- Hoardings and print advertisements</td>
<td>- Hoardings and print advertisements</td>
<td>- Friends</td>
</tr>
<tr>
<td>- Window/Shelf display in stores</td>
<td>- Window/Shelf display in stores</td>
<td>- Window shopping</td>
</tr>
<tr>
<td>- For international brands</td>
<td>- For international brands</td>
<td>- Word of mouth</td>
</tr>
<tr>
<td>o Friends’/recommendations</td>
<td>o Friends’/recommendations</td>
<td>- Personal visits</td>
</tr>
<tr>
<td>o Visits to shops</td>
<td>o Visits to shops</td>
<td></td>
</tr>
<tr>
<td>o Advertisements are important for creating awareness but not very important for purchase decision</td>
<td>- Advertisements are important for creating awareness but not very important for purchase decision</td>
<td>- Some shops are very old and well established – so it is safe to buy from there due to competitive pricing and genuine products.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Frequency of purchase</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>- As and when required, say once in a month</td>
<td>- As and when required, say once in a month</td>
<td>- For regular use - usually pre-decided</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Non non-regular products such as perfumes – impulse buying (e.g. while visiting a shop for some other purchases)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Where</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Neighborhood shops - general store, chemist (often servants are sent for purchase of routine items)</td>
<td>- Neighborhood shops - general store, chemist (often servants are sent for purchase of routine items)</td>
<td>- Neighborhood General Store</td>
</tr>
<tr>
<td>- Department Store/Super market</td>
<td>- Department Store/Super market</td>
<td>- Drug/Chemist Store</td>
</tr>
<tr>
<td>- ‘Smuggled goods' outlets - not genuine products</td>
<td>- ‘Smuggled goods' outlets - not genuine products</td>
<td>- Department Store/Super market</td>
</tr>
<tr>
<td>- Purchased abroad – Yes, e.g. Perfumes (duplicate/spurious products is the main apprehension)</td>
<td>- Purchased abroad – Yes, e.g. Perfumes (duplicate/spurious products is the main apprehension)</td>
<td>- Direct Marketing companies</td>
</tr>
<tr>
<td>(Company exclusive showrooms, Mail order catalogue, Direct Marketing companies are not popular among men)</td>
<td>(Company exclusive showrooms, Mail order catalogue, Direct Marketing companies are not popular among men)</td>
<td>- Special Women's boutiques – Not regularly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Company Showrooms - Not regularly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Smuggled goods' outlets, Mail order catalogue are not popular among women consumers)</td>
</tr>
</tbody>
</table>

### 3.2 Market Size

The personal care market in India was estimated to be about Rs. 141 billion in 2006-07 (Rs 128 billion in 2005-06) recording a value growth of about 10%. This includes two important daily hygiene product categories - personal wash (soap) and dental care (toothpaste and powders), which cannot really be classified as cosmetic products. Excluding these products, the size of the Indian cosmetics market is Rs. 64 billion (Rs. 57.5 billion in 2005).

The major segments, by value, are skin care and shampoos, followed by men’s grooming products (which includes also shaving accessories). A key market characteristic is the state of increasing competition and aggressive pricing.
Table 9. Major Segments in Personal Care Market

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Rs. Billion</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shampoos</td>
<td>16.5</td>
<td>11.7%</td>
</tr>
<tr>
<td>Skin Care</td>
<td>21</td>
<td>14.9%</td>
</tr>
<tr>
<td>Hair Dyes &amp; Colours</td>
<td>7</td>
<td>5.0%</td>
</tr>
<tr>
<td>Colour Cosmetics</td>
<td>3.5</td>
<td>2.5%</td>
</tr>
<tr>
<td>Oral Care</td>
<td>22.5</td>
<td>15.9%</td>
</tr>
<tr>
<td>Men’s Grooming</td>
<td>12.75</td>
<td>9.0%</td>
</tr>
<tr>
<td>Personal Wash</td>
<td>55</td>
<td>38.9%</td>
</tr>
<tr>
<td>Deodorants &amp; Perfumes</td>
<td>3.1</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141.4</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

India: Personal Care Market Segments, by Value share

![Pie chart showing the value share of different personal care segments]

The market has enormous diversity in products as well as enterprise profiles, ranging from small and cottage scale entities to large multinationals. In all there are over 150 organized sector players in the market. The dominant international players include Hindustan UniLever, the subsidiary of Unilever with all its international and Indian brands, L’Oreal, along with its subsidiary Maybelline and Garnier brands, Revlon, Nivea, Biersdorf, Schwarzkopf, Palmolive, and Proctor & Gamble including Gillette.

3.3 Market Structure

The sector is highly dispersed, as a result of extensive monitoring and licensing restrictions imposed by the government over thirty years: there are close to 100 organized players, including several multinational players, besides hundreds of small-scale units that are exempt from formally reporting their details.
3.3.1 Types of Companies

There are three principal types of companies in the organized sector:

- **Foreign-owned / international companies**: Unilever, P&G, Colgate-Palmolive, L’Oreal, Revlon, Oriflame, Avon, Amway, Gillette, Wella AG, Shisaido, Schwarzkopf, and several Italian companies;

- **Large indigenous companies**: Ayur herbal, Dabur, Marico, Godrej, Cavin Kare, Emami, Biotique and Paras;

- **Small/medium companies**: about 100 players

In addition to the organized sector, there is a very large unorganized sector comprising of hundreds of micro/cottage scale enterprises, spread across the country, thriving on products based on traditional and local recipes.

3.3.2 Product Spectrum

Stiff competition has resulted in an increase in the range of new products being introduced for newer application concepts in the last few years. In the skin-care segment, from just creams and moisturizers, there has been an upgrade to value-added products such as under-eye wrinkle removing creams, dark circle removing creams toners, sunscreen lotions, fairness creams, and many more. The colour cosmetics market saw new products such as smudge-proof lipsticks and mascaras, liquid lip colour, and long-lasting lipsticks being introduced.

However, low and medium-priced categories / variants account for almost 85-90% of the cosmetics market in terms of volume.

Only one player, Unilever, is present in all segments of personal care. However, several players operate in more than one segment; at least five players are present in three or more segments.

3.4 Principal Market Segments

Keeping in view the product range of the cosmetics portfolio, the relevant market segments in the Indian cosmetics products market are briefly described below.

3.4.1 Skin and Body care

Skin-care, a crowded market, estimated at Rs 21 billion, has been growing at a 16%. Besides Lakme, Ponds and L’Oreal, others significant players in this category include VLCC, Biotique,
Revlon, Amway, Avon and Marico’s Kaya. Procter & Gamble is the latest entrant to the category, having launched its Olay brand in July 2007.

Skin care consists of products ranging from moisturizing, cleansing lotions to anti marks and anti-ageing products. The skin care market is hotly contested, with more than 170 companies and 350 brands in close to 1500 SKUs reported to be on the market shelves.

The market size of the skin-care segment is estimated at Rs 21 billion. Fairness creams, with a market of around Rs 11.75 billion, account for around 56 per cent by value. The contribution of moisturizing lotions and creams was 17 per cent; antiseptic creams 14 per cent and cold creams 13 per cent of the total skin cream market by volume. Vanishing creams, calamines and foundations, snows and astringents remained marginal categories within the skin-care market.

Table 10. Market Segmentation of Skin Care Products by Volume & Value

<table>
<thead>
<tr>
<th>Category</th>
<th>% Volume</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antiseptic Creams</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Astringents</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Calamines/Foundations</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Cold Creams</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Fairness creams/lotions</td>
<td>48</td>
<td>56</td>
</tr>
<tr>
<td>Moisturizing Creams/lotions</td>
<td>17</td>
<td>11</td>
</tr>
<tr>
<td>Snows</td>
<td>1</td>
<td>Neg.</td>
</tr>
<tr>
<td>Vanishing Creams</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The premium skin care products have a market size worth Rs. 4.5 billion - approx. 22% of the total skin care market. The market for premium cosmetics products in general and skin care products in particular has been growing faster than the overall market, driven by the changing lifestyles and increasing disposable incomes. The segment has been attracting several big names over the past one year, with niche products such as anti-ageing, anti-wrinkle and suntan creams flooding shop shelves.

The market for more specialized skin care products such as sun screens, toners, cleansers, astringents, dark circle removing creams, anti-wrinkle creams and day and night creams seems to have grown steadily in recent years. Moisturizing lotions, fairness creams and face cleansers are the popular categories in the skin-care segment and account for approximately 60 percent of the skin-care segment.

However, the distribution of premium skin-care products is still restricted to metro and mini-metro cities - about 30 cities all over India, through specialty beauty clinics, wellness chains and lifestyle stores. This segment is just opening up, and expected to record even higher growth rates in the next 5-10 years.
Fairness Creams:

Over 90 per cent of women in India cite skin lightening as a high-need area. Indeed fairness, by itself, stands for a bundle of skincare benefits (like oil-control, blemish reduction, sun protection, etc). Also, most women in India tend to use only one cream (usually fairness cream) for all these benefits as an economical alternative. As a result, India is a huge market for fairness creams.

In 2006, fairness products accounted for nearly Rs. 12 billion, and annual growth rate ranging from 10 to 15 per cent in the past five years. Media blitz, especially on TV, has added to the light skin mania. An interesting new trend is that men account for about 25 per cent of fairness cream use across the country and the figure is growing. This has seen launch of nine new fairness products in the market since 2005.

- Emami Fair and Handsome – Introduced for men to take on industry leader, HUL Fair & Lovely for women.
• **HUL Men 6 in 1 Whitening Moisturizer** – Launched in 2007, following its Menz Active Nivea.
• **Avon Lotion & Cleanser** – contains licorice and prevents tanning to work on the epidermis as an emulsion/moisturizer to soften the skin and prevent tanning.
• **Godrej FairGlow soap and face wash** – contains natural vegetable extracts to oxidize and redistribute melanin to give the skin a more even tone.
• **Cavin Kare Fairever** – contains saffron and milk, acts as sun screen to enhance and improve the skin.
• **Revlon Fairness Line** – claims that it gives a visible change by a shade or two in two to three weeks.
• **Oriflame** – contains sunflower extract, natural glycerin, moisturizer, lactic acid, whitening agent and liozone plant extract. Claims fairer skin in 5 to 6 weeks.
• **Kaya Skin Lightening** – contains natural products like honey, apple, vitamin C, sugarcane extracts and beta-carotene. Claims to lighten the skin by keeping a check on melanin. Requires repletion after 3 months under a doctor’s supervision.

### Table 11. Skin Care – Fairness Creams Market Shares by Value

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUL</td>
<td>76.00</td>
</tr>
<tr>
<td>Cavin Kare</td>
<td>15.00</td>
</tr>
<tr>
<td>Godrej</td>
<td>3.00</td>
</tr>
<tr>
<td>Others (Emami, Vicco etc.)</td>
<td>6.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

The fairness products are generally promoted through endorsements by some of the top Indian film stars. Esha Deol has been chosen as the new brand ambassador for a fairness cream launched by **Garnier**. Before Esha many pretty faces like Kareena Kapoor, Simone Singh and Isha Koppikar have endorsed Garnier brand. Emami’s Fair and Handsome is being endorsed by India’s top film star Shah Rukh Khan.

### Anti-septic creams:

The market for anti septic creams, a traditional product on the market for several decades, is estimated to be 3.5 million litres in volume, valued at Rs 2.30 billion in 2006. The market is dominated by three domestic players: Emami’s Boro Plus with a 64 per cent share, Boroline with a 21 per cent share and Paras Pharmaceuticals’ Boro Soft with a 12 per cent market share and 3 percent others. This is a volume-driven segment, and selling purely on functionals. The most frequent application for the product is in case of shaving cuts.

### Table 12. Skin Care – Antiseptic Creams Market Shares by Value

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emami</td>
<td>64.00</td>
</tr>
<tr>
<td>G.D. Pharmaceuticals</td>
<td>21.00</td>
</tr>
<tr>
<td>Paras Pharmaceuticals</td>
<td>12.00</td>
</tr>
<tr>
<td>Others</td>
<td>3.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
Cold Cream, Moisturizing lotions:

A category most consumed in the cold parts of North and East India, the cold cream market is currently pegged at Rs. 1.45 billion. Major players are HLL with its Ponds brand and J.L. Morrison with its Nivea brand. Several other players like Colgate-Palmolive, Ayur, Simmco, Cavinkare, Himalaya etc are also in the market with small shares. The moisturizing creams and lotions segment, closely related to the cold cream segment, is around Rs. 2 billion in market value.

Table 13. Skin Care – Cold Creams Market Shares by Value

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ponds</td>
<td>38.00</td>
</tr>
<tr>
<td>Nivea</td>
<td>17.00</td>
</tr>
<tr>
<td>Others</td>
<td>45.00</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>
3.4.2 Hair Dyes and Colours

The hair colours market has transformed in the last ten years, from a purely black dye-based segment to a range of user-friendly applications in a variety of colours. When hair colours first came to India, more than a decade ago, it was largely to cover grey hair. But with the increasing consumption by youth, it has become a fashion statement.

The total hair colour industry in India is estimated to be about Rs 6.50 billion, divided into two segments - retail (Rs 4.50 billion) and salon (Rs. 2 billion). The Rs 4.50 billion retail segment is growing at a 20 per cent annually. L’Oreal is the market leader with 38% share, followed by Godrej’s market share at 25 per cent, Henkel (Schwarzkopf) at 7 percent and Revlon at 6 per cent; with all other brands make up the remaining per cent. The two big brands in the salon category are multinationals L’Oreal and Schwarzkopf. The professional segment encompasses not only the selling of hair colour products but also the training of stylists at high-end salons. Industry sources peg Schwarzkopf’s share in the salon segment at 24 per cent with L’Oreal dominating at 76 per cent.

Hair colours were traditionally aimed at the 15-45 age female segments. But market research shows that there was a growing population of 15-45 males, which patronizes the category in a big way. This is because of the corporate culture that places an emphasis on young male employees looking smart and trendy.

Table 14. Hair Dyes & Colours Market Shares by Value

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Godrej</td>
<td>24.61</td>
</tr>
<tr>
<td>L’Oreal</td>
<td>38.46</td>
</tr>
<tr>
<td>Revlon</td>
<td>6.15</td>
</tr>
<tr>
<td>Henkel</td>
<td>7.70</td>
</tr>
<tr>
<td>Others</td>
<td>23.08</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Hair Care Market by Value

India: Hair Care Market by Value

- L'Oreal: 38%
- Godrej: 25%
- Revlon: 6%
- Henkel: 8%
- Others: 23%
3.4.3 Colour Cosmetics

The color cosmetics segment is very competitive and has a high penetration level of 80 percent. The colour cosmetics segment, consisting of lipsticks, nail enamels, mascara, and eye-liners, has a turnover around Rs 3.5 billion, an increase of about 15 – 17% over the previous year. It is the most competitive segment, with many multinational companies and several small Indian companies in the fray. The organized players account for Rs 1.8 billion in market turnover, or about 52% of the market. Hindustan Unilever dominates with its Lakmé (a brand originally introduced by the Tata group, later bought over by HUL) and Elle 18 brands, followed by multinational brands such as Revlon and L’Oreal.

Mass-market products account for a major share, while the premium segment accounts only for a mere 9 per cent in lipsticks and 5 per cent in nail enamels. Revlon and L'Oreal's Maybelline have a dominant share of the small premium lipsticks and nail enamels market.

The lipsticks market is estimated to be Rs 1.75 billion in size, of which Rs 1 billion is with the organized sector. The market leader Lakme has a 40 per cent share; Revlon's share is 19 per cent, followed by Maybelline at 14 per cent. In the Rs 1.5 billion nail enamel market, the organized sector accounted for Rs 0.5 billion.

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>HLL</td>
<td>49.0</td>
</tr>
<tr>
<td>Modi Revlon</td>
<td>36.0</td>
</tr>
<tr>
<td>Others</td>
<td>15.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

3.4.4 Men’s Grooming Products

That the young Indian males in the age group of 15-34 are grooming better is evident from the burgeoning male grooming market. Spending on men's grooming products is growing fast, and expected to rise from the present level of Rs 12.75 billion to about 15 billion by 2010. However, the largest share of this market is shaving accessories- blades and shaving foam/ gels etc.
accounting for Rs 7.5-8 billion. However, the fastest growing segment of the male personal care market is toiletries - grooming products other than shaving aids.

According to industry experts, an average upper middle-class man today is willing to spend anywhere between Rs 800 and Rs 1,000 every month on grooming, most of which goes into his hairstyle. As far as beauty is concerned, hair care is most important for a man, leading

Earlier, most styling and beauty products were unisex, but now there are a range of products exclusively for men. The domestic shaving preparations market is estimated at about Rs 1.50 billion. The market in this category stacks up as 13 per cent for gels and foams in aerosol cans, 6 per cent for tube gels and 81 per cent for shaving creams. Now, the trend was moving towards greater usage of tube gels and foams in SEC A and B cities.

Table 16. Men’s Grooming Market Segmentation by Value

<table>
<thead>
<tr>
<th>Brand</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shaving preps/after shaves</td>
<td>12</td>
</tr>
<tr>
<td>Hair Care</td>
<td>17</td>
</tr>
<tr>
<td>Toiletries</td>
<td>21</td>
</tr>
<tr>
<td>Shaving blades</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Global Consumer Report on Personal Grooming: AC Nielsen surveyed 25,408 Internet users in 46 markets from Europe, Asia Pacific, North America and West Asia about their attitudes to personal grooming, how often they invested in beauty products and treatments and on what they would spend if money was not a problem.

- 84% Indian men are more interested in grooming today than they used to be
- 86% of under 20 respondents want to look stylish and well groomed always
- 30% Indian of men spending more on beauty products and treatments to enhance their appearance
- Market is now mature to accept specialized products meant for specific purpose rather than a mass general product

3.4.5 Fragrances & Deodorants

The fragrances and deodorant market in India is around Rs 3.1 billion of which deodorants are Rs 2.3 billion and perfumes around Rs 0.8 billion. There is a large grey market estimated to be Rs. 1 billion. The organized market in deodorants is estimated at Rs 1.25 billion, of which sprays account for 95 per cent, despite roll-ons being more effective. The penetration of deodorants and perfumes is less than 1% even in the urban market. Deodorants were initially aimed at the urban elite, but with brands deciding to come out with affordable variants of deodorants, this sector will start targeting the middle class customers. A unique aspect of the perfumes market is that almost 60% of the market is for gifts.
Table 17.: Deodorant Market Shares by Value

<table>
<thead>
<tr>
<th>Brand / Company</th>
<th>% Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>HUL</td>
<td>58</td>
</tr>
<tr>
<td>Henkel</td>
<td>8</td>
</tr>
<tr>
<td>TTK</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

The prestige fragrance market, which has seen a steady influx of foreign brands, is mainly bought by the affluent sections. An average annual growth rate of 15 percent has been estimated for this segment for the next few years. The body spray category is the fastest growing segment within the fragrance category. The body spray market is estimated at approximately 100 million cans in 2007.

3.4.6 Herbal Products

In the last decade, there has been a renewed interest in herbal cosmetic and personal care products, especially in the skin care segment with the growing belief that chemical-based cosmetics are harmful. Shahnaz Hussain, Biotique, and Lotus Herbals are the major players in this segment estimated at about Euros 90-100 million.

Many companies, including international majors, have expanded their range to include herbal variants. The growing popularity for natural products has also attracted many primarily health-care companies such as Himalaya Drugs (with its Ayurvedic Concepts range), and Dabur to launch natural-based cosmetic products.

Major herbal cosmetics brands such as Shahnaz Hussain and Biotique also operate chains of salons through franchisees and offer specialized training courses to customers.

3.4.7 Professional Products

The professional beauty care market is still pretty unorganized in India. There are an estimated 75,000 – 80,000 beauty salons in towns with over 1 million population, of which more than half
are in the 'home' segment, which means they are run by a single individual, mostly from the home.

Given the small base, the professional beauty business in India is projected to grow at 35-40% per year. The major reason for companies creating a professional products category is the increasing population of working women, as well as in increased interest in professional grooming among men.

In the Indian context, professional products are meant for use in beauty parlours and salons. Till the late 1980s, beauty salons were typically hair-cutting salons, which had diversified into other beauty treatments, such as facials, bridal make-ups, waxing, threading etc. However, 1990s saw a professionalization of beauty salons, heralded by leading personal care companies offering specialised training to beauticians. This trend was further strengthened with the entry of international companies such as L’Oreal, Wella etc. who not only offered training programmes, but also maintained a distinction between professional and personal use product formats.

Major brands have separated the promotion, channels and brand identities of professional products from personal use products of the same companies. For instance, L’Oreal has its Excellence range of hair colourants for the consumer segment, and Majirel and Dia Colour for the L’Oreal Professional or salon division. On the other hand, some brands like Wella, Keune, Tigi and Schwarzkopf have focused only on the professional segment. Schwarzkopf from Henkel offers a range of shampoos, conditioners, moisturizers, sprays and other hair treatment products, for use by professional hair stylists.

Some of the Indian companies have also ventured into the professional segment. Shahnaz Hussain runs over 200 salons and spas worldwide offering herbal beauty treatment. Shahnaz Hussain also operates a chain of training institutes offering specialized training for aspiring beauty professionals in ayurveda and cosmetology. Marico set up 42 Kaya Skin Care clinics in 14 Indian cities and 2 in Dubai. Lakme has 88 beauty salons across India offering hair, skin and body care services as well as bridal make-up packages. The VLCC group, started in 1989 currently spans across nearly 102 locations in 52 cities across India & 5 locations in UAE, targeting 300 centers in India by end of 2008.

Brushman India, one of the leading Indian organized sector players in the professional beauty care industry, launched professional hair care range in 1996 with Denman hairbrushes, which later on evolved into hair cosmetics skin care, make-up and beauty appliances. The company has also introduced the world’s leading hairdressing brand Toni & Guy in India, followed by Sally Hansen - the nail care brand.

An exhibition-cum-seminar Professional Beauty 2006 was organized at Greater Noida, near New Delhi, in December 2006, which attracted about 60 exhibitors from 7 countries.

3.5 Export Trends

India’s exports of cosmetics have been rising continuously except for a fall in 2004-05 and are almost three times the imports. Men’s toiletries, Skin care products and Hair dyes & lacquers account of 65% of the total cosmetic exports. However, the cosmetic products exported from
India are essentially ethnic and traditional products, and not really comparable to the international products.

Table 18. Export trends in personal care (CIF Value, US$ Million)

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<thead>
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<tbody>
<tr>
<td>Hair oil</td>
<td>5.41</td>
<td>2.46</td>
<td>2.96</td>
<td>5.44</td>
<td>3.23</td>
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<tr>
<td>Shampoo</td>
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<td>2.85</td>
<td>6.15</td>
<td>6.06</td>
<td>6.36</td>
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<tr>
<td>Hair dyes &amp; lacquers</td>
<td>17.01</td>
<td>12.21</td>
<td>15.21</td>
<td>56.62</td>
<td>0.74</td>
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<tr>
<td>Colour cosmetics</td>
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<td>3.70</td>
<td>3.24</td>
<td>2.92</td>
<td>1.70</td>
</tr>
<tr>
<td>Skin care</td>
<td>62.02</td>
<td>38.28</td>
<td>18.15</td>
<td>60.77</td>
<td>36.85</td>
</tr>
<tr>
<td>Oral / dental hygiene</td>
<td>39.07</td>
<td>37.78</td>
<td>22.8</td>
<td>30.56</td>
<td>26.35</td>
</tr>
<tr>
<td>Fragrances</td>
<td>19.69</td>
<td>30.99</td>
<td>33.15</td>
<td>39.39</td>
<td>32.61</td>
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<tr>
<td>Toilet soaps</td>
<td>18.46</td>
<td>20.71</td>
<td>16.07</td>
<td>19.23</td>
<td>17.80</td>
</tr>
<tr>
<td>Men’s toiletries</td>
<td>47.35</td>
<td>55.57</td>
<td>53.42</td>
<td>63.35</td>
<td>57.02</td>
</tr>
<tr>
<td>Total</td>
<td>213.72</td>
<td>204.55</td>
<td>171.15</td>
<td>284.34</td>
<td>182.66</td>
</tr>
</tbody>
</table>

Source: DGCIS

3.6 Supply Side Scenario – Competitive Landscape

3.6.1 Leading International Companies

The Indian personal care and cosmetics market is dominated by international players many of whom have been present in India for a long time and have set up manufacturing facilities as well. However, they continue to market their global brands in India. Some of the important international players in the Indian cosmetics market are profiled below:

- **Unilever (Hindustan Unilever Limited - HUL)**

  Hindustan Unilever Limited (HUL), a 51%-owned subsidiary of Anglo-Dutch giant Unilever, is India's largest consumer goods company, manufacturing and marketing products such as beverages, food, and home and personal care goods. The company also sells bottled water and over-the-counter healthcare products.

  Earlier known as Hindustan Level Ltd., the name of the company was changed to Hindustan Unilever Ltd. during early 2007, after 51 years of the Unilever subsidiary's existence in India as HLL.

  HUL reported close to double-digit growth in sales in 2006 maintaining the momentum gained in 2005 after a gap of six years. The 2006 annual results show a 9.5 per cent growth in total sales at Rs. 121 billion against Rs. 110 billion in 2005. Personal care products accounted for Rs. 33 billion in sales, up 14% from Rs. 29 billion in 2005. The improved showing has been attributed to
broad-based growth across categories with both the home and personal care (HPC) and foods business growing 14 per cent and 8 per cent, respectively.

HUL has a formidable presence in India’s personal care sector: it is the largest player in most of the nine business areas it operates in, with an overall 40% share in the total cosmetics and toiletries sales. HLL has managed to hold on to its market leadership through a multi-pronged strategy:

- Retention of its consumer base through price-correction and brand makeover initiatives
- Enhanced rural volume sales for its lower end toiletry offerings
- Innovation and premium offerings in facial moisturizers, colour cosmetics, sun care and fragrances, targeted at the middle and upper income consumers

Growth for HUL has come from different factors at different times: in the early 90s, from a reduction in indirect taxes (excise duties); in the mid 90s, from opening of the market, and the late 90s from operating efficiencies and growth in rural areas.

In the last few years, HUL has embraced growth at the expense of margins. Volumes started looking up from 2004 only after deep price cuts. HUL also pared its portfolio to 35 brands from 110, strongly influenced by Unilever, which itself slashed hundreds of food and personal care products. Internet and direct selling initiatives are also an integral part of HUL’s growth strategy.

In June 2002, HUL launched its Health Care portfolio with Lever Ayush ayurvedic health and beauty care products, using the herbal platform. However, Ayush was withdrawn from retail shelves in September 2004, and HUL decided to sell the brand directly through the HUL Network, its direct marketing arm, and through the Ayush Therapy Centres.

Lakme Lever, an HUL subsidiary, has 88 Lakme Beauty Salons in over 35 cities.

HUL maintains a strong manufacturing presence in India, with some 80 factories located throughout the country; the company also subcontracts to more than 150 third-party producers.

- **L’Oreal India**

L’Oreal India is the 100% subsidiary of Paris-based L’Oreal SA, the world’s largest cosmetics company with a presence in over 120 countries. The Indian operation started in the mid 1980s as Indelor India, a venture promoted by an Indian exporter, to produce cosmetics for the export Russian market, under the license of L’Oreal. However, in 1992, after India liberalized foreign investment regulations, the venture became a subsidiary of L’Oreal, initially producing Synergie skin care lotions and Ultra Doux hair conditioners under the Laboratories Garnier licence. In 1994 Laboratories Garnier became a 100% subsidiary of L’Oreal. In 2000 L’Oreal launched its range of cosmetics in the Indian market.

In India the brand is present with seven international brands in the hair care, hair color, skin care and make up categories - L’Oreal Paris, Maybelline New York, Garnier, Vichy, L’Oreal Professionnel, Matrix, Kérastas.
The company set up its state of the art manufacturing facilities (GHP) in Chakan, Pune, in 2004, in strict compliance with L’Oreal worldwide quality standards, and is also sub-contracting its products, to control its prices in the Indian market. L’Oreal India employs over 400 people across India and their products are available across 300 major towns & cities.

For the aspirational products the company has adopted an international pricing strategy, which may not be the case for the rest of the products. Besides, the company has also been customizing its products for the Indian market and there is expected to be a blend of both international, as well as Indian formulations for its products.

L’Oreal’s target segment is urban women belonging to SEC A and B2 homes, in the age group of 18-35, having growing needs in hair, skin and lip care. Indian skin types are different and require specific formulations, which call for technology and research investments. L’Oreal’s consumer focus remains the search for feature-driven, technologically superior products, addressing tangible needs of the modern, independent Indian woman.

All of L’Oreal’s brands are personalities in their own right. L’Oreal’s brand focus worldwide has been to match the right brand personalities with the right markets, and this focus extends to the Indian market as well. L’Oreal uses Indian pageant winners as its brand ambassadors, exemplifying Indian women with poise, grace and achievers in their chosen fields of activity. In India, the brand is endorsed by Aishwarya Rai. The campaigns of L’Oreal also have international models and the ads were positioning this brand as a premium brand. Indian premium class who used to globetrot knew this brand and there was no problem in accepting the Indian version.

- Revlon

Revlon entered India in 1995, in a joint venture with an established business house Modi, which had no earlier presence in consumer products. Modi Revlon is in the business of manufacturing/marketing colour cosmetics, hair colour, fragrances and other personal care products based on the experience of the parent company adapted to suit the Indian woman's needs.

The brand started with two ranges of lipstick - Super Lustrous and Velvet Touch. It also offered a range of nail enamels. While Revlon did carry a price-disadvantage during the launch phase, the 'aspirational' value associated with the brand ensured that upscale urban women picked out the merchandise quickly off the shelves. It is interesting to observe that the premium positioning in India was in contrast to the mass-market platform that Revlon had adopted in other countries.

The company has been growing at 25 per cent on a year-on-year basis, clocking a turnover of about Rs 1.7 billion in 2006.

Currently, 70 per cent of its turnover comes from its colour cosmetics range. The cosmetics major is planning to beef up its offerings on the skincare and fragrance segments and will be pitting its products against players such as HUL and L'Oreal at the premium end of the market.

In August 2004, Modi-Revlon Ltd charted out new marketing plans to spur volumes of its ‘Revlon’, ‘Street Wear’ ‘Liquid Lip’, ‘Lip Glide’ and ‘Lip Gloss’ lip colours across the country,
by beefing up their distribution network for Revlon lip colours, Liquid Lip and Lip Glide along
with subsequent increase in beauty advisors at new stores by the end of 2007.

Modi-Revlon Ltd also forayed into direct-marketing activities. As part of the strategy, the
company planned to provide Revlon products to its 200,000 women customers through direct-
marketing activities.

In the premium segment, the company consolidated its retail strength and increased the number of
‘beauty advisors’ at retail outlets.

On the retail front, Modi’s targets are to increase presence from 10,000 stores to 25,000, for
colour cosmetics. For personal care, they plan to increase presence from 25,000 stores to 40,000.

Since the Government allows exemption from income-tax and excise in the North-East, Modi
now plan to set up their second manufacturing base in Assam. This plant will be set up for the
manufacture of fragrances. It will take about a year for the production to commence. Meanwhile,
production at Kamakhya Cosmetics & Pharmaceuticals Ltd, their wholly-owned subsidiary and
first manufacturing facility in Assam, is on in full swing. They had begun the production of
colour cosmetics and skin-care products early 2003.

While Modi Revlon continues to import bulk chemicals and some packaging material, over three-
fourths of the production is now indigenized. With the exception of the production of fragrances,
which requires different stipulations and licenses, they locally manufacture all their product lines.
Overall, they expect to indigenize production of 90 per cent of their products.

After several initial trials and learning, Revlon now follows a strategy of ‘affordable premium’
pricing in its colour cosmetics range. Given the high import duties (Revlon initially imported all
its product ingredients except the lipstick outer plastic case), a competitive pricing approach was
impossible against formidable domestic players. Therefore, Revlon redefined its pack sizes and
brought its large product variety in small, affordable mini packs, which has been a successful
strategy to induce trials and also to economize on colour stocks, given that women frequently
change nail colours. The mini pack formula brought Revlon within the budget for even teenage
consumers without actually dropping its prices on a unitized basis.

• **La Prairie, Switzerland**

La Prairie entered the Indian market about three years ago, through an exclusive distribution tie-
up with Euro Traditions, which takes care of all aspects of imports, distribution (including hiring
of shelf space), promotion etc. La Prairie experts have trained and certified trainers of Euro
Traditions, who in turn train the sales staff manning the retail counters.

La Prairie products are presently retailed through just 14 select counters in the four metro cities of
Mumbai, Delhi, Bangalore and Kolkata. About a year back, the company also entered into a tie
up with a leading beauty spa in Delhi – Asian Roots – for providing beauty treatment using La
Prairie products and also for retail sales. However, as per discussions with Euro Traditions, this
arrangement is likely to be discontinued soon, due to commercial reasons.
In addition to the retail sales, the company also accepts direct sales orders through regional offices of Euro Traditions to cater to the demand in other cities.

The company has so far introduced 72 SKUs in India. The product range and retail price list of La Prairie products introduced in India is provided in the subsequent section of this report.

- **Shiseido, Japan**

The $568 million Japanese cosmetic company Shiseido, the world's fifth largest and the largest cosmetic company in Japan, entered India in 2001, through an exclusive distribution and marketing arrangement with Baccarose, one of the leading importer/distributors of luxury cosmetics products. India is its 62nd market in the world and the 12th country in Asia where Shiseido has a presence.

The company offers a range of products both for men and women. For women, the range includes make up items like lipsticks and moisturizing and cleansing lotions like Skincare (for normal skin), pureness (oily skin) and Benefiance (dry skin), Shiseido fragrances (unisex). For men it is Shiseido Basala.

“Our target consumer is a person who is rich and wants to understand skin care”.

The prices are at par with international markets, ranging between Rs. 1000 (lipstick) to Rs. 5000 (Fairness cream), retailed through high-end lifestyle stores using shop-in-shop model (dedicated sales counters). Some of the stores also have a multi micro sense at the outlet, a machine that can identify the skin type of an individual through a scientific method.

Shiseido has a long-term interest in the Indian market. A major chunk of investment is devoted to training of employees and sales people.

- **Direct Marketing Companies**

- **Amway**

The Rs 6.5 billion Amway India Enterprises - a wholly owned subsidiary of the US-based, $5-billion Amway Corporation - is among the largest direct marketing companies in India. Its product range includes personal care, home care, cosmetics, nutrition & wellness, agriculture-based products and soft toys. Amway started its India operations in 1995, with an FIPB approval that allowed it two years of test marketing of products before beginning local manufacturing. It has more than 450,000 active independent Amway Business Owners/distributors and 74 Amway Distribution Centres, 55 warehouses, serving a total of 2000 towns and cities nationwide. It has 74 products in four categories.

Amway focuses on self-consumption with 50-60% sales being consumed by its distributors themselves.
Amway India now manufactures 85 per cent of its products indigenously through third-party contract manufacturing partners such as Naisa Industries at Daman, Yodeva Plastics at Hyderabad, Sai Mirra Innopharm at Chennai, and Golcha Talkum and Cosmetics at Mumbai.

The company proposes to make India a manufacturing base for servicing other markets in Asia, for products in the categories of personal care, cosmetics, home care and nutrition. Exporting Amway products made in India to other Asian markets is an opportunity, as certain sizes - such as 4 ml sachets and 65 ml bottles - are not available anywhere except in India. The company also proposes to introduce many other products in small unit packs, an exercise it began a couple of years ago, and could also consider foraying into rural markets in the future.

Meanwhile, the FIPB has also permitted the company to import and test market a whole range of 'technologically advanced' products in India. These include fragrances and deodorants, shampoos and other hair care items, skin refinishing and replenishing lotions, body firming gels, the 'Satinique' range of special use hair care products, and the 'Glister' range of oral care products such as mouthwash, cookware systems and electromagnetic wave shields for mobile phones.

**Oriflame**

Subsidiary of the Oriflame International group, Swedish major, the company began operations in India in 1997, focusing on personal care. It started with 160 products, mostly in the premium range, considered essential to establish the high quality Swedish parentage. Subsequently, it launched several mass-priced and lower grammage products to enter middle class homes. Currently the company has a product portfolio of 550 products in skincare, toiletries and fragrances, and plans to add more products and increase investments in India.

About one-third of its products have been priced to cater to the mass segment. The company intends to split its new launches between the mass and premium segments.

India is among our top three priority markets for Oriflame, besides China and Mexico. The company has invested heavily in the beauty care market in India so far and is contemplating to get into other segments like oral care and wellness products.

The company plans to launch at least 120 products in the entry level and premium segment this year and has recently launched the 'Optimals' range from its kitty of natural products.

Oriflame has only three manufacturing facilities globally, including India. The company had invested Rs 550 million in Indian operations since 1996, and Oriflame India’s manufacturing unit in Noida, Uttar Pradesh, has become a sourcing hub for Oriflame's global operations accounting for 30 per cent of worldwide production.
From India, the company exports products in the foot care, fairness cream and lotion, talcum powder and roll-on antiperspirant categories.

The company has more than 250,000 independent sales consultants in Asia of which India and Thailand have a majority 80 per cent share.

Besides the above, there are several other international brands on the Indian market, such as Avon, Schwarzkopf, Nivea, Olay etc., which have a presence in limited number of categories.

- **Italian brands in India**
  - **Ferrari:**
    Ferrari introduced their Fragrances collection in 1996 with the launch of Ferrari Red by the design house of Ferrari. In 1999 an addition was done with the launch of Ferrari Black. The Brand is present in India through an exclusive distribution and marketing arrangements with Baccarose, one of the leading importer/distributors of luxury cosmetic products.

    Targeted at the Elite, Ferrari products are available in India only at High end stores like Shopper’s Stop and Lifestyle.

    The Market Price of a 125ml fragrance pack is INR 2,650.
  - **Canali**
    Canali is present in India with an Exclusive Marketing and Distribution arrangements with Baccarose, a leading importer/distributor of luxury cosmetic products. Canali started as a tailor workshop for high quality clothing in 1934. Now they have a diversified product portfolio covering tailored clothing, Sportswear and Accessories. Canali has also ventured into Fragrances segment.

    The Market price of a 100ml fragrance pack is INR 2,750.
  - **Versace**
    Gianni Versace S.P.A. was founded in 1978 as a cloth showroom in Milan. Since then the company has flourished in Clothing, Accessories, Eye wear, Home collection, Watches and jewellery etc.

    The company has a presence in India through its import, marketing and distribution partnership with Euro Traditions, a leader into luxury cosmetic imports. Targeted for the elite, Versace products are available at high end retail stores only.

    The price of a 100ml pack is kept at INR 3,450 comparatively cheaper than the tag price of £56 in UK.
  - **Salvatore Ferragamo**
Salvatore Ferragamo forayed into this segment in 1998 with the launch of Pour femme. The company created a subsidiary for fragrances in 2001. Globally, Salvatore operates with its own stores but in India they are present with exclusive marketing and distribution rights with Beauty Concepts, a renowned name in luxury cosmetic import.

Salvatore Ferragamo attracts elite people as its target customers and has found place in stores catering to the elite. The price of a 90ml pack is INR 4,350 which is higher compared to a 100ml pack at £40.00 in UK.

- **Bvlgari**
  Bvlgari S.p.A started in 1884 as a Jewellery Store. Since their inception into perfumes and fragrances segment in early 1990s, they are considered as one of the world’s most sophisticated and elegant perfumes.

  The company offers a wide range of perfumes to its customers and specialized products for different occasions and dressing.

  In India, Bvlgari is present through an exclusive marketing and distribution rights with Beauty Concepts.

  The price of a 100ml “Aqua pour Homme” is INR 5,300 in India, higher when compared to £49.00 in London markets.

- **Pupa**
  This 30 years old brand is a part of MICYS Company S.p.A. which started with Beauty kit concept. Now Pupa has gone ahead to add full line of makeup, Bath and After Bath products, a Sun care range and Fragrances.

  Baccarose is the exclusive importer and marketer of this brand into India. The Pupa Fragrances exclusively target women customers.

- **Dolce & Gabbana**
  D&G is a high-end fashion house started by the Italian designers Domenico Dolce, born near Palermo, Sicily, and Stefano Gabbana, born in Milan, Italy. The Product Line ranges from Clothing for Men, Women and juniors to Accessories.

  Dolce & Gabbana is present in India through an exclusive distribution and marketing arrangements with Baccarose, one of the leading importer/distributors of luxury cosmetic products. The price of a 100ml fragrance pack is INR 2,800.

- **Max Mara**
  Max Mara is one of the largest and most popular fashion houses in Italy with about 20 labels under its name. Max Mara launched its First Fragrance in 2004.
In India, Max Mara is Marketed and Distributed by Baccarose. The brand has been discontinued by Shopper’s Stop, one of the leading stores in Luxury and Imported cosmetic Collection.

- **Clarins Paris**
  The brand Clarins Paris originates from France but the products are made in Italy. The product range includes a variety of beauty care products and fragrances for women. They also offer shaving gels, tanning creams and other wash products targeting men.

  The products are marketed and distributed in India by Baccarose.

- **Patricia Milton**
  The brand was founded in 1954 as a cosmetic division of the pharmaceutical company, Chimipharma. It began by developing and producing skin care treatments and then went on to develop an interest in make-up. Its avant-garde scientific and technological research programmes soon led to the creation of new, top quality lines. Patricia Milton products are currently distributed in over 20 different countries. Bare Body Essentials, India's first high-end retail destination dedicated to personal care, cosmetics and perfumes, launched the STARDUST make-up collection from Patricia Milton on 4 December 2007.

  Deborah Group currently sells to over 30 countries and is a household name throughout Europe with offices in Italy (Deborah Italia), France (Deborah France) and Spain (Deborah Iberica). The Group's main aim is to strengthen its branch network and raise its profile in emerging areas such as Eastern Europe and the Mediterranean. Deborah Group also plans to further tailor its commercial efforts in Central Europe and locate new markets such as Latin America and Asia. As per its web site Deborah has a distributor in India

### 3.6.2 Leading Indian brands

There are a number of home-grown Indian brands, which have created their own niches in specific categories. Some of these are profiled below. Others such as Himalaya, Shahnaz Hussain, Godrej, Paras, Dabur, Marico also have national presence in their respective categories.

- **Cavin Kare**
  Cavin Kare has touched a turnover of over Rs. 5 billion in 2006-2007. The company has employee strength of 576, an all India network of 1300 stockists catering to about 2.5 million outlets nationally.

  Cavin Kare, which had managed to garner a significant share of the shampoo market despite being a small company, focused on scaled-down versions of its brands and herbal shampoos - two
Market Survey on India’s Cosmetics and Personal Care Sector

segments where the market leader HUL did not have a presence – managed to grow faster than the overall market. Eighty per cent of its total sales come from small pack category whereas 20 per cent comes from bigger packs.

In the year 2006, Cavin Kare Pvt Ltd went beyond conventional mass media to get consumers to buy its brands, experimenting with mobile beauty parlours. Vans branded Chik Shampoo Parlours were rolled out in May 2006 and did the rounds of 900 towns across a large part of the country. CavinKare aimed to provide 50,000 hair washes and hoped to contact 2.5 million people as part of this road show. The mobile parlour exercise aimed to provide a complete brand experience by having hair stylists use Chik on volunteers and distribute its Re 1 sachets as samples.

Fairever-fairness cream has been a significant contributor to growth of the company. During late 2006, the company introduced Nyle cold cream and moisturizer, making Nyle an umbrella herbal brand spanning both skin-care and hair-care.

CavinKare also tied up with Radio Mirchi an FM radio channel for special promotional spots including on-site commentary and contests in Chennai, Jaipur, Kolkata and Indore.

• Emami Limited

Emami Ltd is the flagship company of the Kolkata based Emami Group, with interests in traditional (ayurvedic) healthcare and personal products, paper, plastics, engineering and other industrial activities. For decades, the company had been identified with vanishing cream and talcum powder. Later while the two products bowed out of the market as outdated beauty concepts, the company evolved rapidly to provide well-researched and well-placed cosmetics to Indian consumers. Today, Emami is a major player in the country’s existing cosmetics manufacturing and retail market, with a turnover of Rs. 5.2 billion in 2006-07.

The company spent Rs 250 million to launch its Madhuri Dixit range of personal care products under the brand Madhuri’s Beauty Secrets in March 2002. It roped in the then India’s No 1 film star Madhuri Dixit herself for endorsing the brand. This campaign helped the company double its turnover in the last three years.

Emami’s products are manufactured in seven fully owned manufacturing units located in Kolkata, Pondicherry, Guwahati and Mumbai, and seven third party manufacturers. The company's dispersed manufacturing facilities are complemented with a strong and robust distribution network of over 2100 direct distributors and 400,000 retail outlets. With a view to reach its products deeper into the country, direct selling has been extended to rural villages. The company's branch offices are located across 27 cities in India.

It exports products to more than 40 countries and is now exploring business opportunities in Africa, Asia, the Middle East and Europe. Apart from expansion of the existing businesses, the group was also actively pursuing growth through acquisitions, both of companies and brands in the FMCG sector.
Two subsidiaries of Emami - Emami UK Ltd and Emami Bangladesh - are expected to commence operations shortly.

Traditionally, the company has been strong in the eastern and northern regions. However, increased attention is being given to the west and south regions, which are major markets for beauty products driven by higher disposable income levels.

Emami’s competitive strategy has been to retain trade loyalty through high margins - upto 60% in some products, which are difficult to match for large competitors. Emami believes that high margins adequately offset advertising costs in established products.

Given the market acceptance of its brands, it focuses on efficient supply chain management to generate value through cost efficiencies, which provide it with additional margins to play with in the market.

While the traditional health products will continue to provide volumes, Emami is consciously shifting its consumer focus in personal care to the upmarket young professionals in the 21-35 age group. In that direction, it has set up a premium line of beauty products under the label Emami-Madhuri, endorsed by one of India’s leading film actress Madhuri Dixit, to underscore its upmarket focus.

- **Ayur Herbals**

Ayur Herbal Cosmetics, from a humble beginning of Rs.100 million turn over in the year 1996, has been able to achieve a group turn over of over Rs.1600 million during 2005.

The company caters to more than 300,000 retailers – in turn serviced by over 1700 stockists, 25 C& F Agents and 3 super-stockists. AYUR has more than 150 SKUs under the skin care, hair care, face-care, body care and health-care Products.

The company has set up an Ayur Academy of Natural Beauty, affiliated with beauty schools In Italy & USA, to impart latest scientific knowledge on beauty culture to students with an objective to create beauty professionals.

- **Biotique**

Biotique was born in 1992, backed by eight years of research and development with a panel of doctors and scientists. The company began by exporting its first consignment of products for the hair, skin and body to Switzerland. Subsequently, the products were rolled out in the domestic market.

Exports account for about 65 per cent of company’s current Rs 2 billion turnover. Italy, the Netherlands, Belgium, Spain, the US, Singapore, Malaysia, Nepal, Sri Lanka, and of course, Switzerland, are among the key export markets.
In addition to its range of skin, hair and body care products for women and men, the Biotique range includes specialized make-up and colour cosmetics.

While Biotique's pricing remains fairly upmarket, the company doesn't foresee their existing basket of products competing with the regular cream, shampoo, or soap bar on the grocery store shelves. In international markets, Biotique products are priced six-eight times more than in India. However, back home, the company is toying with the idea of extending the Biotique brand to the mass segment, though details are yet to be finalized.

One immediate area of expansion for Biotique now will be on the retail front. The idea is to expand brand presence to smaller towns and cities such as Chandigarh and Coimbatore through exclusive showrooms.

These would be in addition to the 45 existing exclusive Biotique showrooms in SEC-A cities and 4,000 multi-brand outlets the brand is being retailed from.

Setting up branded beauty salons is another area of diversification Biotique is looking at. On the international front, Biotique is investing over Rs 500 million for setting up spas in Switzerland, France and Germany, and are also rolling out specialized spa products developed for the European market.

In addition, there is a Biotique Spa training institute in Delhi for specialized spa training and consultation.

Biotique is aiming for 'at least' Rs 5 billion by way of sales turnover in the next five years.

3.6.3 New/Potential Entrants

- **Dabur India**
  A symbol of Indian traditional enterprise, Dabur has been in business for more than hundred years in traditional medicinal preparations (ayurvedic), personal care, and of late into pharmaceuticals and other consumer products. With more than 400 products, Dabur is among the most-recognized family products brands in India, especially in North and East India.

  Dabur India Limited is the fourth largest FMCG Company in India with interests in Health care, Personal care and Food products. Dabur has a turnover of almost Rs.22.5 billion with brands like Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola & Real.

  In 2007, Dabur India has, for the first time, decided to tap the premium skin-care market. With its acquisitions plans for South East Asian personal care company Unza Holdings not materializing; the company is adopting the organic route. Dabur proposes to create two new brands in skin-care, at least one of which will hit shelves by 2007 year-end. The second brand is expected to be launched early 2008.
Dabur’s existing presence in the skin-care category is limited, accounting for just about Rs 450-500 million of overall sales. As of now, two of its brands — Gulabari rose water and Vatika shampoos and hair oil — have a minor presence in skin-care. Vatika, for example, is present in skin-care only through face packs while Gulabari has rose water. Vatika’s focus will be on hair-care products, and the Vatika face pack range is expected to be migrated to one of the new brands. Other plans include extending its Rs 300 million Gulabari to moisturizers and talcum powder by the third quarter.

Dabur India has six existing manufacturing facilities — at Sahibabad (Uttar Pradesh), Baddi (Himachal Pradesh), Alwar (Rajasthan), Katni (Madhya Pradesh), and Narendrapur (West Bengal). About half of all Dabur’s FMCG products comprising health-care and ayurvedic specialties are manufactured in-house, while the personal care products portfolio is outsourced to eight contract manufacturers.

The north and east have been the principal regions for Dabur, generating more than 80% of sales. Rural markets have been traditional home grounds, even though urban sales now account for 40% of sales. However, the company is seeking to increase its presence in other regions, beginning with its more universal family products portfolio.

With a heritage of more than hundred years and a middle-of-the-road market image, strategy in new products is competitor driven in high urban penetration products.

Dabur has been an ayurvedic company and intends to remain so while retaining high sales growth. The brand is associated with natural and traditional medicinal knowledge, applying exotic concepts from India’s heritage of ayurvedic literature.

Dabur is also making a foray into retail, with plans to initially set up 350 stores, with the goal of ultimately reaching 1000 stores in three years. The first store is expected to go on stream in 2008-09. The total investment for this retail venture will be about Rs. 1400 million.

**Wipro**

Wipro Ltd. is India's third-largest software exporter, but the company also has interests in such consumer products as detergent, lighting and diapers. In July 2007, the company announced that it is buying Singapore-based Unza Holdings, a leading manufacturer of cosmetics and toiletries, for 10.1 billion rupees (US$246 million), which is expected to make the combined entity a strong force across Asian markets. The acquisition would help double the size of the market for personal care products that Wipro could now address.

Unza operates plants in Malaysia, Vietnam, China and Indonesia, and its portfolio includes such brands as the Enchanteur and Romano range of toiletries and the Safi range of skin-care products.

UNZA has built a portfolio of 48 brands supporting over 275 products in 1,500 packaging formats that are sold in over 36 countries. This portfolio includes established, developing and newly launched brands each carefully addressing specific consumer needs. The major categories of the personal care market that UNZA is in, are skincare, hair care, body care, children’s'
toiletries, female fragrances and male fragrances, Shower foam, feminine hygiene, hair colourants, talc, baby care.

UNZA’s leading brands include Enchanteur, Safi, Eversoft, Romano, Izza, Sumber Ayu in the personal care products market and, Vigor and Maxkleen in the household products market.

- P&G

Procter & Gamble is the latest entrant to the premium skin care products category, having launched its Olay brand in July 2007. The launch has been accompanied by a high decibel advertising campaign, with former Miss Universe Sushmita Sen as the brand ambassador. The company has also sponsored beauty related programs on popular satellite TV channels like Zoom TV etc.

3.6.4 Imports

In 2006-07, total imports of cosmetics and other personal care products were US$ 106.5 million, compared to US$ 85.07 million in the previous year, an increase of almost 25%. However, the imports still account for only about 3% of the sector value.

Traditionally, France and USA have been the major exporters of personal care products to India, but recently Chinese products are finding an increasing place in the Indian market.

Share of Italy in imports of cosmetics to India is about 6% in skin care products, but insignificant in other categories.

Table 19. Imports of Cosmetics and Personal care products into India
Commodity 3303: Perfumes and Toilet Waters

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Import from Italy US$ Million</td>
<td>0.07</td>
<td>0.29</td>
<td>0.20</td>
<td>0.26</td>
<td>0.21</td>
</tr>
<tr>
<td>Total Import</td>
<td>2.75</td>
<td>5.18</td>
<td>7.23</td>
<td>10.96</td>
<td>11.44</td>
</tr>
<tr>
<td>%Share of Italy</td>
<td>2.5</td>
<td>5.5</td>
<td>2.76</td>
<td>2.37</td>
<td>1.8</td>
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Commodity 3304: Preparations for Beauty/Make Up For Care Of Skin (Excepting Medicaments) Including Sun Screen Or Sun Tan Pedicure/Manicure

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<tbody>
<tr>
<td>Import from Italy US$ Million</td>
<td>0.13</td>
<td>0.27</td>
<td>0.24</td>
<td>0.69</td>
<td>1.32</td>
</tr>
<tr>
<td>Total Import</td>
<td>4.97</td>
<td>6.55</td>
<td>8.67</td>
<td>13.67</td>
<td>20.96</td>
</tr>
<tr>
<td>%Share of Italy</td>
<td>2.54</td>
<td>4.09</td>
<td>2.73</td>
<td>5.04</td>
<td>6.28</td>
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</table>

Commodity 3305: Preparations for Use on the Hair

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<tbody>
<tr>
<td>Import from Italy US$ Million</td>
<td>0.02</td>
<td>0.09</td>
<td>0.07</td>
<td>0.11</td>
<td>0.08</td>
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## Total Import

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</thead>
<tbody>
<tr>
<td>Total Import</td>
<td>23.16</td>
<td>15.07</td>
<td>29.34</td>
<td>25.98</td>
<td>33.15</td>
</tr>
<tr>
<td>%Share of Italy</td>
<td>0.09</td>
<td>0.57</td>
<td>0.24</td>
<td>0.41</td>
<td>0.25</td>
</tr>
</tbody>
</table>

### Commodity 3306: Preparations For Oral/Dental Hygiene Denture Fix Paste/Powder & Dental Floss In Individual Packages.

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<tbody>
<tr>
<td>Import from Italy US$ Million</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total Import</td>
<td>31.30</td>
<td>11.32</td>
<td>25.29</td>
<td>17.22</td>
<td>17.62</td>
</tr>
<tr>
<td>%Share of Italy</td>
<td>0.00</td>
<td>0.04</td>
<td>0.00</td>
<td>0.01</td>
<td>0.00</td>
</tr>
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</table>

### Commodity 3307: Shaving/Pre & After Shave Preparations Bath Preparations Depilates & Other Perfumery Cosmetics Toilet Preparations; Prepared Room Deodorizers W/N Perfumed

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<tbody>
<tr>
<td>Import from Italy US$ Million</td>
<td>0.17</td>
<td>0.16</td>
<td>0.15</td>
<td>0.35</td>
<td>0.26</td>
</tr>
<tr>
<td>Total Import</td>
<td>4.51</td>
<td>6.38</td>
<td>7.89</td>
<td>17.24</td>
<td>23.30</td>
</tr>
<tr>
<td>%Share of Italy</td>
<td>3.66</td>
<td>2.57</td>
<td>1.90</td>
<td>2.00</td>
<td>1.11</td>
</tr>
</tbody>
</table>
4. STRUCTURE OF TRADE & DISTRIBUTION

4.1 Types of Distribution Structures

The traditional distribution model in cosmetics has followed a multi-tiered structure consisting of regional or zonal distributors, C&F agents, super stockists, stockists and retail outlets, depending on the size of the market in consideration. Typically, the larger cities and metros have up to four levels in the distribution network till the final point of sale. Of late, new distribution models, especially multilevel marketing, direct selling and on-line marketing have begun in India, and operate in several personal care segments.

At the all-India level, personal care products have attained penetration levels of between 12% (lip care) and 99.8% (toilet soap). Toilet soap and hair oils have the largest distribution network, extending to more than 1.5 million outlets for national level players, while basic skin care and shampoo products now reach at least 0.5 million outlets, including several rural areas. Colour cosmetics and premium skin care products have a nationwide reach of less than 100,000 outlets, essentially in the large urban cities only.

Increasingly, companies are adopting different distribution networks for rural and urban areas given the stark difference in logistic needs and the off take levels. Rural distribution sees coverage through rural super distributors or super stockists in charge of several stockists, including mobile stockists that carry products in vans to all villages in their territories, and leverage a large product range (including several brands) over the circuit costs.

Building an effective distribution channel is a major entry barrier in personal care business. An analysis of the distribution depth of selected companies reveals that:

- Personal care calls for an average coverage of 270 retailers per million rupees of sale;
- Companies with sales below Rs 1 billion require a network of 300 retailers per million rupees of sale i.e. 300,000 retail outlets;
- Companies like Hindustan Unilever Ltd. (HUL), with sales of more than Rs 10 billion, require only 20 outlets per million Rupees of sales, i.e. 200,000 retail outlets for a sale of Rs. 10 billion.

However, the three principal players in the distribution structure for cosmetics and personal care products are distributors, retailers and import agents. The key characteristics of these three channel partners are summarized below, based on secondary research and primary research conducted in Delhi.

4.1.1 Distributors

Distributors are the principal link between retail outlets and the brand within the city/region.
On an average, a distributor in personal care products services 400 to 450 retailers, and certainly less than 2000. In most cases the region/territory of each distributor is defined by the company. Even where there are multiple distributors of the same company in a city, their territories are seldom overlapping. For example, HUL has divided the Delhi market into different zones, each zone being catered to by independent distributors.

Distributors often work for more than one brand, but rarely in the same or competing product lines. For example, one of the cosmetics distributors also carries beverages, food products, spices, dry fruit and confectionery products.

About 60% of the distributors met during the primary survey, are exclusively handling products of a single company, while 40% carry products of multiple companies. The exclusive distributors generally represent one of the leading cosmetics companies, such as HUL, P&G and L’Oreal, who have a wide product range and adequate business volume. The non exclusive arrangements are generally for second tier companies such as Lotus, Ayur, Himalaya etc.

The distributors’ turnover from cosmetics products varies widely, ranging from Rs. 200,000 per month to Rs. 25 million per month, depending upon the share of cosmetics in their overall business portfolio - the lower turnover from cosmetics indicating that it is not their main product.

Most distributors have their own godowns / storage space, with capacity ranging from 250 sq.ft. to 4,000 sq.ft. depending upon the volume of business as well as geographical area of the territory covered. Most distributors also maintain their own showrooms for display of products – size ranging from 100 sq.ft. to about 800 sq.ft.

The distributors’ sales staff is responsible for managing supplies to retail outlets. The sales personnel go to each retailer to book orders, provide details about new products / promotional schemes, etc. The average number of sales personnel employed by distributors is around 15 of which 4-5 are for cosmetics only.

The customer profile of cosmetics distributors (details made available by a large brand) is as follows: Stockists/sub-distributors 23%; General stores 32%; Chemists 15%; Department stores 13%; Beauty salons 10%; and others 7%. However as per the primary survey, the customer profile of cosmetics distributors is as follows: Stockists/sub-wholesalers 47%; Single brand stores 10%; General stores/Chemists 13%; Department stores 10%; Beauty salons 12%; and others (such as imported goods stores) 8%. The higher share of stockists/sub-wholesalers in Delhi (as compared to all India average given in the previous paragraph) indicates that in large cities the distribution chain is longer than in smaller cities where distributors are able to supply directly to retailers.

The business growth trends indicated by the distributors are as follows:
Table 20. Business Growth trends – Distributors (primary research in Delhi)

<table>
<thead>
<tr>
<th></th>
<th>Average over last 3 years</th>
<th>Projected for 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>&gt; 20%</td>
<td>&gt; 30%</td>
</tr>
<tr>
<td>Skincare</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>Colour cosmetics</td>
<td>22%</td>
<td>29%</td>
</tr>
<tr>
<td>Men’s grooming products</td>
<td>27%</td>
<td>35%</td>
</tr>
</tbody>
</table>

The business growth trends indicated by distributors in Delhi paint a much brighter growth scenario for cosmetics market in India, which could be due to a combination of the following factors:

- Higher concentration of high income and high profile households, resulting in a larger market for premium cosmetics products
- Higher penetration and impact of media advertising
- Increasing shift towards branded (organized sector) products

Commercial terms offered to customers:

- Payment terms usually comprise of 25% to 50% advance/upfront payment and balance against a credit of 2-3 weeks. About 50% of the distributors mentioned that they receive credit facility from the parent company, which they pass on to their customers on a back to back basis.
- The average frequency of supplies is once a week for stockists/sub-distributors; fortnightly for retailers and monthly for beauty salons.

The distributors usually do not share the cost of publicity material, print and electronic media advertising, which is entirely borne by the principal. However, some of the distributors offer volume based discounts and other promotional schemes to retailers in addition to the company’s schemes.

Expectations from new brands/products

- Assured timely supplies
- Promotional schemes
- Advertisements and publicity (posters, POP displays)
- Free samples
- Demonstration
- Training of the sales / counter staff
- Margins minimum 8-10%
- Incentive schemes
- Credit minimum 15 days (bill-to-bill)

4.1.2 Retailers

Retailers generally receive supplies from distributors or sub-distributors appointed by companies. However as a means of direct contact with the outlets, companies also depute their own sales persons to book orders from retail outlets, which are then supplied by distributors.
Type of retail outlets:  
- Department stores in main shopping centres: 40% 
- Malls / Shopping plaza: 15% 
- General store in local shopping centres: 40% 
- Imported goods stores: 5% 

Retailers often carry more than one brand - average 3-4 brands of each product category, except in the case of single brand outlets.

The turnover of the retailers from cosmetic products:

<table>
<thead>
<tr>
<th>Turnover in Rs. Per month</th>
<th>% of retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25,000</td>
<td>5%</td>
</tr>
<tr>
<td>25,000 – 50,000</td>
<td>25%</td>
</tr>
<tr>
<td>50,000 – 100,000</td>
<td>50%</td>
</tr>
<tr>
<td>100,000 – 300,000</td>
<td>20%</td>
</tr>
<tr>
<td>More than 300,000</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Infrastructure:
The average size of the retail outlets is 750 sq.ft. (ranging between 100 sq.ft. to 7,500 sq.ft.), with average no. of employees being 4 (dedicated staff for cosmetics sales: 1 to 2, wherever available). Shopper’s Stop, one of the leading retailers in India, have about 60 sales persons at their store in NOIDA (near Delhi) of which 10 are exclusively for cosmetics.

Only two of the retailers reported godowns for storage of goods, while others stock only at the retail outlet.

Source of supply:  
- Directly by company: 30% 
- Through distributor/stockist: 70% (order booked by company – 25%)

Frequency of supply: 7 to 15 days depending upon the size of the retail outlet

The business growth trends indicated by the retailers are as follows:

| Table 21. Business Growth trends – Retailers (primary research in Delhi) |
|---------------------------|---------------|-------------------|
|                           | Average for last 3 years | Projected for 2007 |
| Overall                   | 18%            | 25%               |
| Skincare                  | 18%            | 25%               |
| Colour cosmetics          | 16%            | 23%               |
| Men’s grooming products   | 14%            | 21%               |

Commercial terms for supplies: 7 to 15 days credit
  Only 15-20% retailers pay at the time of delivery

Services/facilities offered to customers:
- Free home delivery – 50% of the retailers
- Engagement of beauty instructors for promotion of sales – 20%
- Live demonstrations – 50%

Consumer buying criteria (ranked)
- Price
- Brand
- Product features
- Packaging
- Promotion schemes

Consumer buying behavior (ranked)
- Influence of Advertising
- Preference for imported products
- Brand loyalty
- Preference for natural / herbal products
- Trial of new products

Expectations from new brands/products
- Assured timely supplies
- Frequent visits by company representatives (consumer interaction)
- Promotional schemes
- Free samples
- Demonstration
- Training of the sales / counter staff
- Credit minimum 15 days (bill-to-bill)
- Cash discount about 10-15%
- Margins minimum 15- 25%
- Incentive for sales target 5%

4.1.3 Import Agents

The creation of this tier is partly on account of regulations that prohibit foreign investment in India in domestic distribution or retail. As a result, while market access was opened up, the distribution structure of imported goods has been with Indian entities. In some cases, a large distributor may double up as the national importer, on behalf of one or more international companies, or an import agent may double up as the national distributor for an imported brand.

The most important role of the importer is to comply with the import regulations dealing with packaged consumer goods, which involve labeling requirements and the declaration of the **maximum retail price** on each pack. Invariably, this is done physically after the consignments arrive into a customs-bonded area before clearance. Packs should also contain the name of the importer and any other mandatory information under Indian laws (more details in the section on “Regulatory Environment”).
Beyond the mandatory role, there is enormous variation in the role of importers with regard to obtaining government approvals, handling customs clearance procedures, appointment of distributors, stockists and retailers; pricing decisions; training of sales staff, promotion campaigns, etc. The role depends to a great extent on the category and product in consideration.

**Baccarose**, one of the leading importer/distributors of premium cosmetics products in India, handles several international luxury brands in fragrance, skincare and cosmetics, namely
- Skin Care – Clarins, Elizabeth Arden, Nina Ricci, Shiseido
- Fragrances – Cartier, Chevignon, Isse Miyake……33 brands
- Make-up - Chambor, Clarins, Elizabeth Arden, Nina Ricci, Max Factor….

The company has established a sales network of luxury retail stores spanning 16 cities across the country. The important aspects of their marketing strategy are:
- dedicated beauty consultants, trained by international experts of respective companies
- signature counters for perfumes at select retail outlets, to maintain the exclusivity value
- boutiques for premium skincare products
- internationally trained Brand / category trainers

**Euro Traditions**, another leading importer distributor, has exclusive tie-ups for marketing and distribution of leading international brands such as Givenchy, Versace, Dolchy & Gabbana, Dior etc.

### 4.2 Organized Retail

The retail network consists of more than 3.5 million outlets all over India. However, the emergence of organized retail as an industry in itself has been a highlight of India’s economic liberalization in the nineties. India has a highly fragmented retail industry: the highest density of retail outlets in the world (5.55 per 1000) but the lowest per capita retail space in the world (2 sq.ft. per 1000).

Organized retail in personal care products accounts for less than Rs 10 billion at present, with less than 0.5 million square metres retailing space all over India. However, more than 7 million square metres are under construction in the top metro cities. As per a study of the Indian market by WalMart, organized retail in India is growing rapidly and is expected to reach 35% by 2015, from the present level of only 4% of total retail.

Large format retail outlets are virtually absent in the cosmetics sector in India. However, a small beginning has been made in the metro cities in the form of Lakme exclusive outlets, and chain stores such as Guardian, Health & Glow and Life Spring, besides the new department stores being set up in the major cities. International presence in retail has been mainly through franchise route, as foreign investment in retail trade was not allowed till April 2006. However, recently, foreign investment has been allowed in cash and carry wholesale activities, and in single brand retail, which is considered a prelude to the eventual opening up of the retail industry.
4.2.1 Different formats of organized retailing

Organized retailing in India, though still a small segment of the market, has already witnessed emergence of a large number of formats, which are often overlapping in size, structure and value proposition.

**Malls:** Large enclosure housing different retail formats. Floor space leased out to individual shops, with the advantage of economics resulting from the sharing of costs (examples InOrbit Mall, Ansal Plaza, Spencer Plaza..)
- About 40 malls operational
- Total retail space 9.5million sq.ft.
- Total number expected to reach 500 – 600 by 2010

The Shop-in-Shop format of retailing is gaining in popularity for a wide range of products, including cosmetics. Several imported, premium cosmetics brands, have used this strategy initially, such as Christian Dior, Chambor, Elizabeth Arden, Shiseido, Nina Ricci. The main advantages are:
- Sales counter manned by brand’s own trained personnel
- Greater visibility vis-à-vis sharing shelf space

**Exclusive Brand Outlets:** Exclusive stores owned/ operated/ franchised by a specific brand or company offer complete range under a specific brand with certified product quality. Can be stand-alone stores or located in a mall (examples: Raymond, Samsung, Tanishq…). However, there are hardly any such outlets in cosmetic sector in India.

**Multi-Brand Stores:** Stores stocking merchandise of more than one brand. Direct purchase from manufacturers allows these stores to offer lower prices than Exclusive Brand outlets.

**Department Stores:** Multi-brand / Multi-product stores. Large stores organized into separate departments for different product categories. Offer convenience of one-stop shopping for various consumer needs. (Examples: Shoppers Stop, Pantaloon, Trent, Westside).

**Specialty Stores:** Focus on a specific product category with multiple brands. Medium sized but in a strategic location. Offers greater choice to consumer, with comparison between brands possible.

For example, **La Galleria Perfumerie**, an exclusive perfumes store, offers a wide selection of international perfumes and fragrances. A subsidiary of Designer Brands Retail Network Private Ltd, it has set up a retail chain of perfume boutiques in August 2004. The company aims to expand the retail market for premium brands and to provide an excellent ambience of international standards. It already markets about 90 brands from all over the world. It has three outlets in Mumbai (Hotel Grand Hyatt, Inorbit Mall), and one each in Delhi (stand-alone store in Connaught Place in central Delhi) & Goa (Hotel Taj Exotica Benaulim, Salcete, Goa).

**Supermarkets:** Typically located in a busy market in metros and large cities, with self-service layout. (Examples: Apna Bazar, FoodWorld, Big Bazar, Reliance Fresh, Bharti Field Fresh…)
Hypermarteks: Huge multi-divisional layout with a warehouse-like appearance and self service layout, generally located in remote parts of a city (example: Metro Cash & Carry, Big Bazar…).
- 5 companies with 20 outlets
- Total retail space 970,000 sq.ft.

Discount Stores: General merchandise retailer with wide variety of merchandise, limited service and low prices. (Examples: Subhiksha and Margin Free Markets)

Convenience Stores: Medium to small retail outlets, in a convenient location for purchase of daily need products such as food, petrol etc. Usually open seven days a week for extended hours.

Franchise Stores: Economic liberalization, competition and foreign investment in manufacturing, have led to a proliferation of strong Indian and foreign brands in India. With this, franchising has emerged as a retail format. There were over 5000 franchised outlets in 2002. (Examples: Pizza Hut, Nike, Lacoste, Arrow)

4.2.2 Leading retailers in India

Shopper’s Stop
The stores have about 400 sq.m. space for cosmetics near the main entrance. It has counters for most of the leading Indian and imported brands of cosmetics of all types.

Other outlets of Shoppers Stop are in Rajauri Garden Mall, New Delhi, Shipra Mall, Ghaziabad, and Metropolitan Mall, Gurgaon.

The purchases are controlled centrally from Head office in Mumbai (022-66997688).

Some of the major new entrants in organised retail in India are:

Reliance Retail
- Launched Reliance Fresh in November 2006 (now 220 stores in 19 states)
- First hypermarket ‘Reliance Mart’ to go on stream in Ahmedabad on 15th August, 2007
  - 250,000 sq. ft. space
  - 500,000 products (SKUs), from 95,000 stocklines under 3,900 product categories
  - Planning 55 hypermarkets in Gujarat
  - Next stop - Delhi

Subhiksha
- Biggest retail chain in the country with 780 stores across 50 cities
  - To reach 1300 by March, 2008
- Positioned as a ‘deep discount’ grocery retail chain
  - No-frills, Non-AC, small sized
- Offering Food & Grocery, Vegetables & Fruits, FMCG, and Pharmaceuticals

**Bharti- Wal-mart**
- JV between the world’s biggest retailer & India’s biggest telecom player
- To set up Wholesale retail (cash and carry) business
- Wal-mart will also provide technical and sourcing support for Bharti’s front-end retail stores
  - First store to be launched by the mid-2008
  - 200 large stores by 2015 (supermarkets, hypermarkets and convenience stores)

**Dabur India**
- Initially setting up 350 stores
- First store in 2008-09
- 1000 stores in three years
- Total investment Rs. 1400 million (US$ 35 million)

**Aditya Birla Group**
- Begun rolling out food and grocery chain ‘More’
- Recently acquired South-based Trinethra Supermarkets chain through its retail arm Aditya Birla Retail
- Aditya Birla Nuvo (ABN) to initially invest Rs. 4 billion in new retail chain of family apparel and accessories stores from April 2008

**Pharma Retailing**
- Market size Rs. 300 billion; growing at 15%
- About 600,000 chemist shops
- Organized retailing is new to the sector
- Notable organized players are Apollo Pharmacy, Medicine Shoppee, Subhiksha, Dial for Health, Lifeken, Guardian, 98.4, and Planet Health.
- Also carry imported premium cosmetics
- Fortis Healthworld (Ranbaxy Group) is rolling out retail pharmacies cum healthcare stores
  - Already 12 outlets in the upmarket National Capital Region (NCR)
  - 150 stores by this year end
  - 1,000 stores over the period of next five years.

**Duty Free Shops at international airports**
- Average spend in India is $2 per person (internationally - $14)
- Retailing at airports in terms of space, ambiance and environment is still evolving.
- Several recent tie-ups
- Alpha, UK, with Pantaloon (Delhi airport)
- Nuance Group (Switzerland) with Shoppers’ Stop (Raheja Group)
- Aer Rianta International with Flamingo India
- Aldeasa, Spain with ITDC (Mumbai airport)

4.3 Beauty Salons/Spas

Beauty Salon Chains: Many beauty care companies like Lakme-Lever, L’Oreal, Godrej, Emami, Lotus, Ayur Herbals, Shahnaz Hussain etc. as well as many health clinics either have ventured into or are planning to start their own retail operations. Some players in beauty services retailing like Vandana Luthra Curls & Curves (VLCC), Lakme and Health & Glow are growing at 40% to 50% per year. These centres, primarily slimming and weight loss centres, have also begun offering salon services in addition to their regular slimming services. Further, branded players are seeking a niche for themselves and taking an expert positioning. For example, VLCC is now specializing in slimming and Kaya skin clinics in skin treatment. They have a highly qualified team of dedicated professionals comprising cosmetologists, doctors, nutritionists and psychologists along with over 3,000 employees to serve 400,000 customers in 78 centres in 41 cities across India. Lakme-Lever has established 72 salons across 27 cities for facial care, hair care, personal grooming like nail care and bridal make up. Average store space is 75 sq. meters.

As described above, beauty salons / spas can be categorized as follows, based on their operational model:
- Exclusive: e.g. Lakme, L’Oreal, Fitt Plaza
  - Essentially a franchise model, where
    - the space is provided by the franchisee
    - the investment in equipment is shared by franchisee and the company, and
    - the spa is managed by staff employed by the franchisee, but trained and certified by the company
- Partnership model: Asian Roots – La Prairie
  - Investment in the set-up is by the owner
  - The spa has a dedicated section for the company, where all beauty treatment is carried by company staff, using equipment and products supplied by the company
  - Profit sharing and/or rental basis
  - The spa also provides retail space to the company, on a monthly rental and/or profit-sharing basis. Additional retail space is available for new products / companies. Commercial arrangement can be either rent based or profit sharing.
- Non-exclusive: Bindiya at Maurya Sheraton Hotel, Silhouette (Hair and Beauty Salon) at Hotel Oberoi Intercontinental

4.4 Direct Marketing

Direct Marketing including multi-level marketing has emerged as a sizeable alternative marketing channel in India, led by companies like Amway, Oriflame, and Avon. The hottest categories in
the portfolio of most direct selling companies are: dietary supplements, home care and personal care products.

The concept of multilevel marketing, based on high-involvement selling, suits the skincare segment’s consumer needs rather well, besides promising lower costs for own consumption. Beauty products form an important part of the business of Oriflame and Revlon, while even Lever has chosen the multilevel marketing model for its premium skin care range Aviance.

At the national level, direct marketing industry has about 50% ladies as their distributors, and companies like Avon appoint only ladies as their distributors. Though direct marketing is seen as an emerging alternative marketing system, the task of reaching 30 million middle and upper income homes that form the base of consumers requires the development of at least 2 million independent distributors, which is still a long way off.

### 4.5 Trade Commercial Terms

The overall trade mark-up in personal care products varies widely, depending on the strategy adopted by the brand. Companies interested in mass-market segments tend to offer lower trade margins, while offering large volume business, as in oral hygiene and toilet soaps. However, the penetration and the volumes being lower in other segments, the trade margins tend to be higher. Some companies, especially those in the premium end categories where price is not sensitive, operate using a push strategy, offering high dealer margins.

The overall trade margins can range from 25% to 35%, shared by all trade channel partners, depending on the segment in consideration.

- Distributors and sub distributors earn between 4% to 8% each, and are expected to bear a share of local promotion costs in some cases. The terms with distributors often include costs of warehousing and transportation. The total mark-up at different levels upto the retailer is between 12 – 20%.
- Retailers, on an average earn a 12-14% margin in most products.

Payment terms vary among companies/suppliers considerably, depending on the brand strength and market standing of the products. However, most often, the supplier collects payment at the time of next supply, which reveals an average 1-2 week’s credit.

Trade Incentives
The most popular promotional schemes are in the form of cash discounts, volume-based incentives, besides sharing of displays, banners and glow sign advertisements, etc.
4.6 Advertising and Market Spends

As per a recent study, about 70% of ad spends of FMCG companies goes to television. The rest goes to outdoors, merchandising like danglers, posters, wall painting, print and radio. Radio is also emerging as an important medium, particularly after introduction of private FM channels.

The overall spend on media advertising in India was estimated at about Rs. 100 billion in 2004-05 (up from Rs. 65 billion in 2001). Of this television advertising contributed close to 60%, while print media accounted for about 35%. Media spends range from 5 to 15% in consumer products, personal and lifestyle products having the highest spends. The largest group of advertisers is the food marketers, followed by marketers of drugs and cosmetics, soaps, automobiles, tobacco, appliances, and oil products. The major Indian advertising media are newspapers, magazines, television and radio, business publications and billboards. Hindustan Unilever was the top spender, with Rs 6 billion in media spends.

Organizing and/or participating in high visibility events is considered extremely important for creating a consumer pull for new brands. For example, Baccarose, owners of the Chambor brand organizes tea party make-up sessions in major Indian cities. There are also a number of fairs and exhibitions around the year, which provide an effective platform for visibility.

Increasing awareness and social consciousness in Tier-II cities, increasing usage of cosmetics by both the sexes, greater awareness of brands and segments, etc. are positive trends for new companies entering the Indian market.

Print Media advertising:

The following trends were observed in advertising in Print Media:

- Personal care in three categories, with 32% share in advertising spends in 2005, was among the top three categories advertised
- Three of the top ten advertisers among FMCG companies, were from the cosmetics/personal care products categories
  - Hindustan Lever Ltd. (4% share; rank 3)
  - L’Oreal India Pvt. Ltd. (2% share; rank 7)
  - Emami Ltd. (2% share; rank 8)
- Women’s magazines carried 21% of the print advertising

Table 22. Top advertising categories

<table>
<thead>
<tr>
<th>Rank</th>
<th>Category</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Durables</td>
<td>43%</td>
</tr>
<tr>
<td>2</td>
<td>Food &amp; Beverage</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>Personal Healthcare</td>
<td>16%</td>
</tr>
<tr>
<td>4</td>
<td>Personal Care/Hygiene</td>
<td>10%</td>
</tr>
<tr>
<td>5</td>
<td>Hair Care</td>
<td>6%</td>
</tr>
<tr>
<td>6</td>
<td>Laundry</td>
<td>4%</td>
</tr>
<tr>
<td>7</td>
<td>Others</td>
<td>4%</td>
</tr>
</tbody>
</table>
Television advertising:
- Personal care accounted for 48% of TV spends in 2005.
- Among the top ten spenders were HLL (15%), Paras 5%, P&G 4%, Dabur 3%, L’Oreal 2% and Emami 2%.

Media costs:
- Advertising rates, newspapers: Rs 2,000-6,000 per column cm
- National TV prime time rates: Rs 100,000 per 10 second spot
- Satellite TV News prime time rates: Rs. 25,000-75,000 per 10 second spot
- Satellite TV Soap prime time rates: Rs. 50,000-125,000 per 10 second spot
- Print advertisements in magazines: Rs. 60,000 to 200,000 per full page (colour)

Internet/Online advertising:
- Online ad revenues doubled from Rs 340 million in 2003 to Rs 700 million in 2004 and further to Rs 1.62 billion in 2005. The figure is expected to jump to Rs 2.20 billion by 2007.
- The ballooning number of Internet users is fuelling marketers’ interest in the medium. In 2005, the number grew to 38 million and is expected to grow to 100 million by 2008. A huge attraction for marketers is the demographics of the online user segment, which is skewed towards people with the maximum purchasing power.
- Close to 50 per cent of online users are young adults (22 to 30 years) and 60-70 per cent of brand decisions are taken by young adults in this age group.
- A number of “specialist interactive agencies” that focus on making ads and selling online space for companies, have mushroomed in the past two or three years.
- Since portals ask users for basic details when registering, it’s easier for them to profile users, enabling marketers to send mailers only to users who fit their target audience profile. For instance, if a website gets the maximum page views from women between 30 and 40 on week days, a cosmetics company that sells products for the older female consumer can book space for its ads on that website only on week days. That explains why Hindustan Lever Limited (HLL) the biggest spender on television advertising, has been launching online campaigns for brands like Sunsilk and Dove.
- Another advantage of the online medium is in tracking the effectiveness and response of ads placed online, because it is easy to measure the number of clicks that an ad receives and the actual time spent on the page. Rediff has a Pay4Clicks programme where advertisers get to list their ads free and only have to pay for the clicks the ads receive. The cost per click varies from Rs 10 to Rs 15.
- However, while Internet advertising’s future in India seems bright, it is still far from touching the 40 per cent share of the total advertising pie that it enjoys in the US.

<table>
<thead>
<tr>
<th>Ad Type</th>
<th>Dimensions</th>
<th>File Size/Frame Length</th>
<th>Cost/per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Mega Banner</td>
<td>468x60 Pixels</td>
<td>21k max</td>
<td>Rs. 1,20,000</td>
</tr>
<tr>
<td>Center Banner</td>
<td>400x100 Pixels</td>
<td>21k max</td>
<td>Rs. 1,00,000</td>
</tr>
<tr>
<td>Island Banner Ad</td>
<td>300x200 Pixels</td>
<td>12k max</td>
<td>Rs. 80,000</td>
</tr>
<tr>
<td>Panel Banner Ad</td>
<td>120x90 Pixels</td>
<td>12k max</td>
<td>Rs. 60,000</td>
</tr>
<tr>
<td>Full Skyscraper Ad</td>
<td>120x600 Pixels</td>
<td>21k max</td>
<td>Rs. 1,30,000</td>
</tr>
</tbody>
</table>
5. POTENTIAL OF DEMAND IN INDIA

5.1 Growth Potential (growth drivers)

The market for cosmetics and personal care products has been growing and will continue to grow in the coming years. Some of the key factors driving the market growth in the sector are:

- Indian economy has witnessed a consistent healthy growth of 8+% in the last several years, which has led to higher disposable incomes per household in purchasing power parity (PPP) terms.
- The consumer confidence index is high, which is converting the traditional savings-oriented mindset to greater consumption and spending on leisure, lifestyle and even luxury - experiment, try new things, spending more on “feeling and looking good”-entertainment, durables, apparels, appliances, home improvement products, lifestyle accessories, beauty products etc.
- India is a young nation, with majority of its population in the age group that is most likely to use cosmetics and personal care products.
- The present low per capita consumption leaves tremendous potential for increase in consumption the coming years.
- Indian consumers, particularly in the metros and tier I cities (young, wealthy, increasingly internationally exposed and well educated) are demanding products and services of international standard and quality.
- Availability of specialty products addressing specific consumer needs are further driving the demand for niche products, thereby expanding the market.

5.2 Factors influencing demand in India

The rapid demographic transition, burgeoning demand, rising affluence and more working women force are key drivers for rapid growth in the beauty and cosmetics sector in India. With per capita cosmetics spend of $ 0.68 per year, the Indian market offers a huge opportunity to international beauty cosmetics companies, for whom markets around the world are saturating.

Familiarity with the brand name, price and recommendation of friends/relatives who are users, are the key factors taken into consideration while taking a purchase decision. Television advertising, the most important source of information, is interestingly not considered important. Women consumers also consider the beautician’s advice as a useful input for decision-making.

Brand loyalties are high, even though consumers are willing to try out new brands in many categories. Overall, trial of new products is likely to be influenced most by positive feedback from friends and relatives. Promotional schemes are important triggers for purchase of regular use products.
### Factors taken into consideration while buying any personal care product

<table>
<thead>
<tr>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
</table>
| - Recommendation of friends who are users  
- Brand name (which has a quality connotation)  
- Suitability for need (skin type etc.)  
- Inclination towards herbal products  
- Price | - Recommendation of friends who are users, Brand name (should be known and reputed), Suitability for need (skin type etc.) and Price are all equally important.  
- Ingredients - a trend towards herbal products  
- Recommendation from beautician is also considered - it helps  
- Benefit(s) offered  
- Fragrance  
- Expiry date  
- Face products – suitability is the most important factor. Perfumes - fragrance and long lasting. |

### Key influencers in decision making (ranked in order of importance)

<table>
<thead>
<tr>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
</table>
| - Friends/ Relatives’ recommendations - is the most important  
- Brand is very important  
- Price/discount schemes - for daily use products.  
- Shopkeeper’s recommendations  
- TV Commercials and Print Advertisements - creating awareness  
- Beautician/Doctor – have never come across but would believe them and take their advice seriously  
- Write ups and print articles – not important. | - Friends/ Relatives’ recommendations  
- TV Commercials  
- Print Advertisements  
- Beautician/Doctor-’s advice  
- Brand  
- Price/discount scheme  
- Shopkeeper’s recommendations  
  - Advice of beauty instructors at retail outlets helps in selecting. |

### Influencers for willingness to pay more

<table>
<thead>
<tr>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
</table>
| - Brand name  
- Attractive packaging - to some extent  
- Buy back guarantee.  
- Superior product which promises more benefits  
- High media presence through advertisements | - Quality  
- Ingredients  
- Safety in use (should not harm skin, hair etc.)  
- Status value |

### 5.3 Market Growth Trends

The sector has seen impressive growth since the 1990s, following a series of economic reforms-reduced import tariffs and lower excise duties, principally- resulting in lower manufacturing costs and improved affordability by the consuming class that has also seen a rise in disposable incomes in recent times.
Driven by rising penetration of essentials like hair oil and shampoo, the sector has grown by an average of 7-8% per annum since 1992, and almost 10% per annum in the last 3-5 years. Some categories have been growing at more than 15% per annum. Meanwhile, several new sub-categories and niches are emerging in each segment, especially in skin care, shampoo and colour cosmetics. The industry foresees a steady 10% growth rate for the next five years as well, driven by increased product usage intensity and wider market coverage, with increasing penetration in rural areas.

**Table 24. Growth trends by category (secondary research)**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2006-07 growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td></td>
</tr>
<tr>
<td>Personal care</td>
<td>10%</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>11-12%</td>
</tr>
<tr>
<td>By Category</td>
<td></td>
</tr>
<tr>
<td>Shampoos</td>
<td>7-10%</td>
</tr>
<tr>
<td>Skin care</td>
<td>16%</td>
</tr>
<tr>
<td>Hair care (dyes and colours)</td>
<td>15%</td>
</tr>
<tr>
<td>Color Cosmetics</td>
<td>15–17%</td>
</tr>
<tr>
<td>Oral care</td>
<td>5%</td>
</tr>
<tr>
<td>Men’s grooming products</td>
<td>10-15%</td>
</tr>
<tr>
<td>Personal wash</td>
<td>7%</td>
</tr>
<tr>
<td>Perfumes and Deodorants</td>
<td>30%</td>
</tr>
</tbody>
</table>

### 5.4 Projected Market Size

The overall growth personal care products sector in 2006-07 was about 10%, while the cosmetics sector grew at a slightly higher rate of 11 – 12%. The growth rates of the individual segments are summarized in the table below:

Assuming that the segment wise growth continues at the same rate, the projected market size for the next 5 years is as follows:

**Table 25. Projected Market for Personal Care and Cosmetics sector in India (Rs. Billion)**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shampoos</td>
<td>16.5</td>
<td>17.8</td>
<td>19.2</td>
<td>20.8</td>
<td>22.4</td>
<td>24.2</td>
</tr>
<tr>
<td>Skin Care</td>
<td>21.0</td>
<td>24.4</td>
<td>28.3</td>
<td>32.8</td>
<td>38.0</td>
<td>44.1</td>
</tr>
<tr>
<td>Hair Dyes &amp; Colours</td>
<td>7.0</td>
<td>8.1</td>
<td>9.3</td>
<td>10.6</td>
<td>12.2</td>
<td>14.1</td>
</tr>
<tr>
<td>Colour Cosmetics</td>
<td>3.5</td>
<td>4.1</td>
<td>4.7</td>
<td>5.5</td>
<td>6.3</td>
<td>7.4</td>
</tr>
<tr>
<td>Oral Care</td>
<td>22.5</td>
<td>23.6</td>
<td>24.8</td>
<td>26.0</td>
<td>27.3</td>
<td>28.7</td>
</tr>
</tbody>
</table>
## Market Survey on India’s Cosmetics and Personal Care Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Men’s Grooming</td>
<td>12.75</td>
<td>14.3</td>
<td>16.1</td>
<td>18.2</td>
<td>20.4</td>
<td>23.0</td>
</tr>
<tr>
<td>Personal Wash</td>
<td>55</td>
<td>58.9</td>
<td>63.0</td>
<td>67.4</td>
<td>72.1</td>
<td>77.1</td>
</tr>
<tr>
<td>Deodorants &amp; Perfumes</td>
<td>3.1</td>
<td>4.0</td>
<td>5.2</td>
<td>6.8</td>
<td>8.9</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141.4</strong></td>
<td><strong>155.1</strong></td>
<td><strong>170.6</strong></td>
<td><strong>188.1</strong></td>
<td><strong>207.8</strong></td>
<td><strong>230.1</strong></td>
</tr>
</tbody>
</table>

Based on industry expectations and current growth trends, the sector is projected to have a market size of Rs. 230 billion by 2011-12. Yet, from a global perspective, India’s personal care sector is tiny, even smaller than the turnover of some of the major international cosmetic companies.
6. **REGULATORY ENVIRONMENT**

6.1 **Investment and Trade Regulations**

Until the 1990s, India imposed severe regulatory controls over foreign controlled companies. However, the economic reforms of 1991, especially the opening up of foreign investments in several industrial sectors, have changed the scenario completely. The subsequent rounds of liberalization, the last being in August 2000, have completely unshackled foreign investment potential in the sector. The present state of regulations on investment and trade in the sector are summarized below.

**Investment regulations**

- A few cosmetic and personal care products are reserved for exclusive production in the small-scale sector i.e., manufacturing units for such items shall be allowed a maximum investment of Rs 10 million (Euro 0.23 million) (including CIF value of imports) in plant and machinery. The personal care items under small-scale industries (SSI) reservation are: natural essential oils, formulated perfumery compounds, tooth paste, tooth powder and hair oils.
- Larger investments for SSI reserved products - exceeding the specified Rs 10 million (Euro 0.23 million) ceiling- can be made, only under a special export- obligation of at least 50% of the entire production of such units.
- Investment in any SSI unit by non-SSI undertakings, other SSI undertakings and even foreign investors, is restricted to 24% of the former’s equity. Foreign investment in any small-scale undertaking requires prior approval of the Government of India and is not automatic.
- Foreign investment, including upto 100% equity holding, is allowed in cosmetics and personal care products (in line with most other products), on a repatriable basis, in all items except those exclusively reserved for the small-scale sector. The approval is automatic and requires only a filing of the investment details with the Reserve Bank of India.
- However, in case of bulk drugs, intermediates and formulations (except those produced by recombinant DNA technology), upto 74% foreign investment is allowed on the automatic approval route, while higher levels of investment would require specific approval on a case-by-case basis.

All foreign investments are **fully repatriable** for both profit as well as principal values, subject to payment of applicable Indian taxes and obtaining due clearances from the Reserve Bank of India.

**Technology Agreements**

- Foreign technology agreements, including licensing rights, lump sum payments and royalty payments are allowed on an automatic approval basis provided the value of the lump sum does not exceed US$ 2 million, royalties do not exceed 5% of net domestic sales or 8% of FOB exports, and the total value of payments over a seven-year
production period is below 8% of the total revenues of the company receiving the know
how.
- Foreign companies are also entitled to receive royalties on account of licensing fee, brand
name rights, etc., upto 1% of net sales from their Indian subsidiaries or ventures even
without a technology transfer agreement, on an automatic approval basis.

Export Fiscal Incentives and Concessions
India offers an attractive scheme of incentives on exports, especially through its Export Oriented
Unit (EOU) Schemes. By definition, export oriented units are required to export all their
production (less rejects and wastage), attaining a minimum (specified for various types of
activities) level of net foreign exchange from their operations.

However, based on achieving their obligations, they are entitled to sell, upto 50% of their FOB
value of exports, in the domestic market on concessional terms as well.

The most important provisions concerning EOUs are as follows:
- All capital goods, raw materials and consumables are allowed to be imported free of duties,
and all locally procured supplies are exempt from sales tax and excise duties
- Sales in the domestic market attract a lower customs duty: that is half the normal tariffs
applying to imports (translating into a 28.4% concession on CIF value for personal care
goods, at present rates)
- Profits of an export unit are fully exempt from income tax until April 2010, including profits
on domestic sales upto 25% of the production.

6.1.1 FDI Policy

India’s foreign investment regulations are based on the following principles:
- In most sectors/activities, foreign direct investment up to 100% is allowed through the
automatic route, subject to sector rules / regulations as applicable.
- Foreign investment up to 100% is permitted under the Automatic route for Wholesale/ Cash
& Carry trading, and trading for exports.
- Foreign investment is prohibited in
  - Retail Trade (except Single Brand product retailing, for which 51% FDI is
    permitted);
    o Lottery business;
    o Gambling and betting; and
    o Atomic Energy
- All Activities/ Sectors require prior Government approval for FDI in the following
circumstances:
  - where applications are from entities already having an existing previous joint
    venture/technology transfer/royalty agreement in the same field in India;
  - Where more than 24% foreign equity is proposed for manufacture of items reserved
    for the Small Scale sector.
- FDI in Retail Trade is presently restricted to Single Brand product retailing, for which 51%
  FDI is permitted. However, it is likely to be further liberalized.
It is worth mentioning here that there is growing political opposition to allowing FDI in retail trade, mainly to safeguard interests of small traders and farmers. The political lobbies are opposing both MNCs as well as Indian corporates entering the retail space. After Kerala and West Bengal, Tamil Nadu state government is also considering methods to prevent entry of big corporates into retail trade. In Kerala, entire organized retail business is being banned through legislation. Uttar Pradesh state also recently witness violent protests against organized retail, which resulted in closure of several stores of Reliance Retail in the state.

- Franchising
  Govt. of India is reviewing the policy on franchisee arrangements between Indian companies and overseas partners. Numerous international cosmetics brands like Chanel, Ferragamo, Valentino, Tiffany etc. are present in India through the franchise route and others like Gucci and FCUK are also expected here soon. However, the review of this policy with a view to prevent foreign retail companies entering the Indian market through franchisee route circumventing the FDI restrictions, has resulted in several ventures being put on hold or being modified, the most high profile example being that of Walmart’s entry into through a joint venture with Bharti group.

6.2 Taxes and Duties

- Import duties

Import of cosmetics products in to India, attract Import Duty @ 34.13%, as per detailed duty structure provided below. The same rate of Import duty is applicable on various types / categories of cosmetics products, as can be seen from the detailed listing below:

Table 26. Import Duty on Cosmetics products

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Item Description</th>
<th>Basic</th>
<th>CVD¹</th>
<th>SPL CVD²</th>
<th>Total Duty with 3% EC³</th>
</tr>
</thead>
<tbody>
<tr>
<td>3303</td>
<td>Perfume &amp; Toilet Waters</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>3304</td>
<td>Preparations for Beauty/make-up for the care of skin, including sun screen or sun tan, pedicure/manicure</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>33041000</td>
<td>Lip makeup preparations</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>33042000</td>
<td>Eye makeup preparations</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>33043000</td>
<td>Manicure or Pedicure preparations</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>330491</td>
<td>Powders, whether or not compressed</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>330499</td>
<td>Other beauty/makeup preparations</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
<tr>
<td>33049901</td>
<td>Creams face (excl. turmeric)</td>
<td>10</td>
<td>16.48</td>
<td>4</td>
<td>34.1307136</td>
</tr>
</tbody>
</table>

¹ CVD – Countervailing Duty or Additional Duty - equivalent of Excise Duty levied on domestic manufactured goods
² Special CVD or Special Additional Duty - equivalent of local taxes on sale/purchase in India.
³ EC – Education Cess
### Corporate Income Tax for Indian companies
- Rate of Corporate Income Tax – 30%
- Surcharge of 10% of the income tax
- Education Cess @ 2% of Income Tax + Surcharge
- Effective rate of Corporate Income Tax – 33.66%

All companies incorporated in India are deemed as domestic Indian companies for tax purposes, even if owned by foreign companies.

### Dividend Distribution Tax

Dividends received by the investors are not taxed, but the companies have to pay Dividend Distribution Tax as follows:
- Rate of Dividend Distribution Tax – 12.5%
- Surcharge of 10%
- Education Cess @ 2% of Income Tax + Surcharge

Effective rate of Dividend Distribution Tax – 14.025%

### Value Added Tax

This is a turnover tax applying on sales, and varies state to state; for example 12.5% in Delhi.
6.3 Import Regulations specific to the sector

The specific regulations for imports of Cosmetics products into India are laid down in **The Drugs and Cosmetics Act and Rules** issued by the Department of Health, Ministry of Health and Family Welfare, Govt. of India. The key features are summarized below:

- **Procedure for Imports**
  - All consignments of cosmetics to be imported have to be accompanied by:
    - Invoice or Statement showing
      - name and quantities of each article of cosmetic included in the consignment
      - name and address of the manufacturer
      - name and address of the consignee / importer in India, along with the Importer Exporter Code (IEC) number.
    - Declaration signed by the manufacturer or by the importer that the cosmetics comply with the provisions of Chapter III of the Drugs and Cosmetics Act and Rules.
    - Test or analysis reports on samples of cosmetics. The products must be as per corresponding Indian Standards laid down by the Bureau of Indian Standards (BIS) – see list at Schedule S (page 571/572) of the Drugs and Cosmetics Act and Rules.
  - In case the officer at the port of entry has reason to believe that any cosmetic contravenes any of the provisions of the Act or the Rules, he may take sample of the cosmetic from the consignment for inspection. If on examination of the sample defects are noticed the officer shall advise the Collector of customs for further action to be taken.

- **Restrictions on import of cosmetics containing Dyes, Colours and Pigments:**
  - No Cosmetic shall contain Dyes, Colours and Pigments other than those specified by the Bureau of Indian Standards (IS: 4707 Part 1 as amended) and Schedule Q (page 556 of the Drugs and Cosmetics Act and Rules).
  - The permitted Synthetic Organic Colours and Natural Organic Colours used in the Cosmetic shall not contain more than:
    - 2 ppm (parts per million) of Arsenic calculated as Arsenic Trioxide.
    - 20 ppm of lead calculated as lead.
    - 100 ppm of heavy metals other than lead calculated as the total of the respective metals.

- **Cosmetics prohibited for imports:**
  - cosmetics containing hexachlorophene
  - cosmetics in which a Lead or Arsenic compound has been used for purposes of colouring.
  - cosmetics which contains mercury compounds

- **Labeling and Packaging**
  Products imported into India in retail packing require an Indian importer(s) to be registered with the respective authorities (Ministry of Food Processing, Ministry of Civil Supplies and Consumer
Affairs, etc). The most important role of the importer is to comply with the import regulations dealing with packaged consumer goods, which involve labeling requirements and the declaration of the **maximum retail price** on each pack. Invariably, this is done physically after the consignments arrive into a customs-bonded area before clearance. Packs should also contain the name of the importer and any other mandatory information under Indian laws. For some products, it is mandatory for the foreign manufacturer to have specific approvals under Indian national standards.

Specific labeling and packing requirements for Cosmetics are contained in Part XV (page 184) of The Drugs & Cosmetics Act and Rules, and summarized below:

1. **On both the inner and outer labels:**
   - The name of the cosmetic
   - The name of the manufacturer and complete address of the premises of the manufacturer where the cosmetic has been manufactured
   - If the cosmetic is contained in a very small size container where the address of the manufacturer cannot be given, the name of the manufacturer and his principal place of manufacture shall be given along with pin code

2. **On the outer label:**
   - A declaration of the net contents expressed in terms of weight for solids, fluid measure for liquids, weight for semi-solids, combined with numerical count if the content is sub-divided. *(This statement need not appear in case of a package of perfume, toilet water etc. for which the net content does not exceed 60ml or any package of solid or semi-solid cosmetic where the net content does not exceed 30 grams.)*

3. **On the inner label, where a hazard exists:**
   - Adequate direction for safe use
   - Any warning, caution or special direction required to be observed by the consumer
   - A statement of the names and quantities of the ingredients which are hazardous or poisonous

4. **A distinctive batch number,** as a reference to the batch of manufacture from which the substance in the container is taken. *(This clause shall not apply to any cosmetic containing 10 grams or less if the cosmetic is in solid or semi-solid state, and 25ml or less if the cosmetic is in a liquid state.)*

5. **Manufacturing licence number.**

**Labelling of Hair dyes containing Dyes, Colours and Pigments:** Hair dyes containing Para-Phenylenediamine or other Dyes, Colours and Pigments need to be labelled with a ‘Caution’ legend in English and local languages, specifying the ingredient and its possible effects such as skin irritation. Each package should also contain instructions in English and local languages, giving directions for a preliminary test to be carried out by the consumer before regular use, to determine whether or not special sensitivity exists:

These should appear on both the inner and the outer labels.
Where a package of a cosmetic has only one label, such label shall contain all the information required to be shown on both the inner and the outer labels.

- **Registration for Import of Cosmetics products into India**

Ministry of Health and Family Welfare (Government of India) has published a Gazette Notification GSR no. 604 (E) dated 24.08.2001 under the Drugs & Cosmetics Rules, introducing a provision for **registration of the manufacturing premises of foreign manufacturer and the individual products** prior to their import into the country, with effect from 1 April 2003.

This notification requires the foreign manufacturers to apply for registration certificate (directly or through their authorized agents in India), along with necessary details of production facilities/process, product ingredients, and analysis reports, as specified in the notification.

The registration certificates are valid for 3 years from the date of issue and a fee of 1500 USD is to be charged for the registration of overseas manufacturer's premises and fee of 1000 USD will be charged for every individual product. The rules also provide for inspection of the premises of a foreign manufacturer by Indian Drug Authorities, whenever so required. In such cases, an additional fee of 5000 USD is to be charged. The rules also provided for payment of testing charges by registration holders.

**Although the registration process is applicable to ‘drugs’ and not to cosmetics, it may be required in respect of some of the cosmetic products, such as perfumes and fragrances.**

Feedback of leading Indian importers indicates that while the registration requirement is not mandatory for cosmetics, it is advisable for foreign companies to obtain product registration before exporting to India. This helps in smooth custom clearance of consignments to India.

For product registration, the company needs to submit the product sample, formulation and manufacturing process details to the concerned authorities. According to the importers, the process of product registration is fairly simple, inexpensive and takes only 2-3 weeks.

### 6.4 Import of Samples into India

Italian companies wishing to bring in samples of their products to India for display, demonstration at exhibitions/conferences, can do so, through courier or as a cargo shipment, for which the following documents are typically required:

- Commercial Invoice on the company letterhead
- Packing List
- Product Catalogues
- Shipper’s Letter of Instruction
- Declaration regarding purpose of the consignment, stating that the products are not for sale in India

The courier companies in Italy can be contacted for obtaining specific details and formats for the documents required for sending the consignment to India.
Usually, the Indian consignee’s address and Import Export Code (IEC) number is to be stated in the Invoice. However, we understand from DHL India that for a consignment of value less than Rs. 100,000, it is not mandatory.

The consignment will attract Import Duty at the prescribed rate applicable at the time of import – present rate being 34.13%.
7. **RECOMMENDATIONS**

7.1 **Product Category Selection**

The study clearly brings out that the Indian market is by and large for basic and essential personal care: essential products like hair oil, shampoo and beauty creams (fairness creams, cold creams, etc.) are the most important categories. Therefore a presence in these mainstream segments is essential to develop a national brand in personal care. However, it is also important to have a product portfolio covering as wide a range of products as feasible (hair colours/dyes, colour cosmetics, talcum powder etc.) to optimize the cost and effort of establishing itself in the Indian market.

It is important for a new entrant to offer a new / unique benefit in order to establish a niche for itself. Some examples are enumerated below:

**Skin care:** Fairness (Whitening) products constitute a very large share of the market in India. Also advanced skin care products - anti-ageing and restorative treatments – are also gaining acceptance among up-market consumers.

**Colour cosmetics:** Although the market is fragmented and small, nail and lip care are interesting and less-complicated entry points for a new brand, especially in the OTC channels. This is also because brand loyalty levels for nail enamel and lip sticks tend to be lower than in skin care. This enables visibility as well as an easy entry for a new entrant, based on purely functional aspects - colour range, long lasting, anti smudge properties etc.

**Hair colours and dyes:** Range of colours, long lasting effects are the most sought after features.

**Shampoo:** medication as the functional benefit; products/ variants with anti dandruff, anti lice and other specific hair nourishing properties.

**Men’s grooming products:** There are also opportunities for niches in men’s skin care, especially in moisturizing lotions, facial essence and whitening creams, which are presently clubbed under the general skin care category.

**Natural/herbal products:** emphasis on heritage/natural/ traditional products, natural ingredients like olive oil.

**Customization and Adaptation of Products**

India has its own unique traditional and cultural characteristics, which need to be respected and used favourably. Local adaptation needs to manifest in communications, language, promotions, selection of brand ambassadors, and in the product attributes themselves. Several global brands have had to change their global practice to succeed in India: for instance, McDonald’s serves only
no-beef products in India, and it had to launch its first vegetarian burgers in India. Even L’Oreal rewrote its ad campaigns using Indian models, which resulted in a huge consumer demand for unconventional hair colours. In the personal care segment, the use of natural and herbal ingredients, based on age-old traditional recipes, has been well-exploited by several brands.

Given below are some pointers for customization of products for the Indian market:

**Product features:** The consumers’ concerns and expectations, as perceived by distributors and retailers, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Distributors</th>
<th>Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Skin care</strong></td>
<td>No side effects, fast acting, fragrance, non-oily</td>
<td>Non-oily, preferably herbal, no side effects, moisturizing property,</td>
</tr>
<tr>
<td><strong>Color cosmetics</strong></td>
<td>-</td>
<td>Attractive colours as per Indian consumers’ choice</td>
</tr>
<tr>
<td><strong>Men’s range</strong></td>
<td>No side effect on skin, foaming property, pleasant fragrance</td>
<td>Soft, foaming</td>
</tr>
<tr>
<td><strong>Perfumes</strong></td>
<td>Stable and light fragrance, should last up to 12 hours</td>
<td>Long lasting and light fragrance</td>
</tr>
</tbody>
</table>

**Unmet Consumer Needs**

The following are the important unmet needs of consumers cited by the trade channels during the primary survey:

- Products for tackling skin pigmentation
- Solution for dark circles around eyes.
- Currently not many options are available in Indian brands offering complete men’s range of products in personal care category.
- Avenues for gaining knowledge / consciousness about skin needs such as anti pigmentation, anti wrinkle, fairness

**Small Pack size**

Small pack sizes have proved to be very popular in the Indian market as it offers a consumer lower purchase cost and the opportunity to try new products.

Given the price-sensitivity of the Indian consumer who do not normally prefer to fork out a large sum at one time, many cosmetic and toiletries companies launched their products in smaller pack sizes to make them more affordable.

**Gift Packs**

Since premium cosmetics are quite popular as gift items, it may be worthwhile to introduce special gift packs, including hampers containing a combination of products.

**7.2  Brand Identity and Positioning**

With the easy access to information across the world, and the increasing exposure through international travel, Indians are in greater alignment with international market trends than before.
Therefore, the **history and parentage is an important reinforcer for new international brands being introduced in India.** Traditionally, Europe is considered the face of fashion and beauty, and the easy acceptance of long-standing European brands in India is well explained by the parentage and origin.

Considering the nature of the Indian market, the best bet for new international players is to introduce a wide range of basic, moderately priced products with an extra dimension or feature, without being positioned as a premium brand.

Small and medium sized companies from Italy can take a niche approach, focusing on consumer care as the basic positioning.

The positioning for premium Italian products could be to offer a holistic beauty treatment, which extends beyond specific benefits.

For **professional products**, there is a niche market for advanced solutions, involving intensive and multiple sittings, which are presently not offered by the market.

### 7.3 Geographical Focus

Mumbai is considered to be the most interesting city to launch a new cosmetics brand, for the following reasons:

- Mumbai is the commercial capital of India, and has the largest concentration of business families and overall high disposable incomes
- Mumbai is the fashion capital of India, which makes it a front runner and trend leader in the beauty/fashion circles
- Mumbai is home to Bollywood, the glamour world of films and film personalities, which are expected to be the highest spenders in personal care, and are role models for the masses
- All international luxury brands have been launched in Mumbai first, as a mark of recognition of its preeminence and power appeal.

In addition to Mumbai, Delhi NCR, Chennai and Bangalore are also important markets, given the large corporate working class and also a predisposition to indulgence in personal care and fashion. In fact, all of the top 10 cities by population have the potential to be important markets for personal care and cosmetics products.

**Therefore, while a new player should begin with launch in one city, it should plan to expand its market coverage to all class 1 cities within the first two-three years of launching in India.**

### 7.4 Distribution Strategy

Going by the model successfully used by other international brands, Italian companies planning to enter the Indian market should consider tying up with an Indian Importer-Distributor, with the following roles and responsibilities:
- handling all import related formalities
- appointing and managing retailers in different cities
- arranging logistics and warehousing facilities at various locations as required
- engaging counter sales-staff, including their training
- engaging beauty counselors and experts
- facilitating promotion campaigns
- facilitating participation in exhibitions and fairs

Such an arrangement entails function sharing between the Italian company and the importer-distributor, with the Italian company being actively involved in the following functions:

- Education and training of sales-staff, beauty counselors and other experts engaged by the importer-distributor.
- Brand building and Positioning through advertising and promotion campaigns, participation in exhibitions and fairs etc.
- Developing / exploiting niche opportunities in the market, such as beauty salon / spa segment, specialty grooming clinics for men etc.

Another emerging option is to tie-up with major retail chains, to have an exclusive or preferential presence across their retail outlets. While this route promises scale and reach, the margins tend to be lower. The main advantage of such an arrangement is that the retail chain also functions as the importer.

### 7.5 Business Structure Options

An Italian company entering the Indian market has the options of either setting up a joint venture or subsidiary in India, or to appoint an Indian agent for its operations in India. In case there is no plan for manufacturing in India, setting up a subsidiary or a joint venture is not recommended.

As and when the FDI policy for retail and franchising is further liberalized, new options would emerge for the business structure.
8. BUSINESS PROSPECTS FOR ITALIAN COMPANIES

8.1 Favorable Market Factors

The personal care and cosmetics market in India is growing at a steady 10% per year and the growth is expected to continue in the coming years as well. Indian consumers are well exposed to international brands both in the premium segment as well as in the mass market segments, resulting in high market acceptance for new international brands. India’s economic growth and rise in disposable incomes makes it among the fastest growing consumer markets in the world.

Several Italian brands have been present in the Indian market for many years, making it easier for a new Italian company to enter and establish its brand.

8.2 Entry Barriers

There are no major entry barriers for a new personal care / cosmetics brand entering India, given the fairly open regulatory regime both for trading and manufacturing. Some issues to be given due consideration, are:

- The FDI policy prohibits foreign investment in retail trading, except for single brand retail for which 51% foreign ownership is allowed.
- New cosmetics products to be imported and marketed in India require prior registration with designated authorities. The process for registration, as described in the relevant section, can be lengthy and expensive, particularly for small and medium sized Italian companies.
- Indian consumers are highly loyal to their brands, particularly for the functional hair care and skin care products. Therefore, establishing brand credentials with the target consumer segments is the most important challenge for a newcomer. This necessitates considerable resources for product promotion through mass media advertising.
- Diverse regional habits and preferences in cosmetics products may affect business plans of new entrants targeting nation-wide sales.
- A significant presence of the unorganised sector in the Indian market, which essentially thrives on low priced mass market products, offers stiff competition to new international players targeting the segment.
- Some personal care products categories, importantly hair oil and oral care products, are reserved for exclusive manufacture by small scale units.

### 8.3 Opportunities for Italian Companies

Specific opportunities can only be evaluated in the context of specific Italian companies, such as product range, positioning, and market strategy.

However, in general, considering the market leadership of international companies in various categories, there are more opportunities for Italian companies in the following categories:
- skin care
- hair care
- colour cosmetics, and
- fragrances and perfumes

These categories account for about 25% of the total market, and are also the faster growing categories, with annual growth ranging between 15-30% as compared to overall market growth of 10% per year. Many of these are also high value products targeting upper income group consumers, and do not require mass selling. New players can address and/or create new niches for themselves.