



Indian Cosmetics Industry

A short perspective document on the cosmetics retail sector

Published in July 2017

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RedSeer
Consulting

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Summary (1/2)

An overview of Cosmetics industry and its market size

The Indian cosmetics industry is majorly categorised into skin care, hair care, oral care, fragrances, and colour cosmetics segments. It currently has an overall market standing of USD 6.5 billion and is expected to grow to ~ USD 20bn by 2025 with a CAGR of 25%. In comparison, the global cosmetics market is growing steadily at 4.3% CAGR and will reach ~USD 450 billion 2025. This means that by 2025, India will constitute 5% of the total global cosmetics market and become one of the top 5 global markets by revenue.

With the improving purchasing power, demand for enhanced products and increasing image consciousness of the Indian clientele, many international brands started establishing footprints in India – among them are Mac Cosmetics, Avon, Estée Lauder, L’Oreal, and Willa professionals - across various retail formats. By 2020, a pool of luxury brands such as Labiocos, Bodyography, and Victoria secret are expected to clamour for the Indian consumer wallet and mindshare. Social media & favourable demographics are playing an important role in spreading awareness about cosmetics products and developing fashion consciousness, not only in metros but also in tier-1 & 2 cities. This is a golden opportunity for many cosmetics companies to expand beyond the top-8 cities and generate handsome revenue from all across the country.

Coupled with multiple other factors, herbal cosmetics products are driving growth due to increasing adoption, and the segment alone is expected to grow at 15%, as people become more aware of the possible perils in consistently using chemical formulations switch to ‘safer’ herbal and Ayurvedic products like Himalaya, Biotique, Dabur, Lotus, Patanjali, etc.. Many Indian & international brands have been trying to seize the established player position in this segment by launching multiple products across categories. With rising demand, luxury and super luxury brands such as Shahnaz Hussain, Forest Essentials and Kama Ayurveda have also launched products in this space.

The herbal brands are not only catering to the domestic market but also expanding to overseas market - the export recorded for FY 2015-16 was approximately USD 0.093mn and is expected to grow at a 20% CAGR.

Factors fuelling growth in cosmetics industry

The major factors that drives the cosmetics industry are:

Cosmetics trial ups consumption | Increasing channel penetration | Adoption of natural products

Changing retail landscape | Rising disposable income | Globalization impacting lifestyles

Summary (2/2)

Alternative channel: online cosmetics market

With the increasing internet penetration, online market has seen a rapid growth in last 3-4 years, along with horizontal players like Flipkart, Amazon adding this category as a key focus area. The online cosmetics market, valued at USD 50 mn, is 2% of the total Indian cosmetics market. This category has attracted a few vertical specialists like Nykaa, Purplle, etc. who are riding on increasing e-tailing growth and vying for a significant pie in online cosmetics space. Nykaa, a vertical online market place started in 2012, offers more than 600 brands in both offline and online stores. It recorded a total sale of USD 43 million in 2016, out of which offline stores contribute 5%. Nykaa, as part of its future expansion strategy, plans to increase its offline footprint by establishing 35 stores pan-India and targets a yearly sale of over USD 155 mn by 2025.

Market share category wise and channel split

The split to be seen in the Indian cosmetics market as per category and revenue is as follows. Hair care products, with market leader Marico, are leading with the share of USD 3 bn. This is followed by oral care products, led by Colgate Palmolive, with market share USD 1.74 bn. Skin care products, in which HUL leads, have a slice of USD 1.63 billion, followed by fragrances product, led by Vini Cosmetics, with USD 0.47 billion. Lastly, color cosmetics, led by HUL again, has a market share of 0.16 billion.

The Indian cosmetics industry caters to the population by two channels - organised and unorganised. Currently, the organised market constitutes only 25% of the total pie, out of which online stores has 2% market share. They consist of EBOs, MBOs, LSF, direct selling channels etc., which offer premium to luxury brands. The unorganised market, in contrast, makes up 75% of the total pie, and majorly deals with mass market positioned products from brand like Lakme, L'Oreal, Fair & Lovely etc.

Business opportunity for foreign brands and online players

With the compelling demand for branded products, the Indian cosmetics industry has opened up the market to foreign brands for investment. On a related line, it also throws an opportunity for online players to establish the vertical marketplace and increase customer touchpoints to better cater to the latter's needs.

History at a glance

Indians have had a long heritage of using cosmetics and beauty products.



Past generations used home/backyard products like turmeric, sandalwood paste, lemon and aloe vera gel for beautification and personal care which lost their charm in the advent of chemical formulations. They are making a comeback especially in the premium segments which market a chemical-free beauty routine.



Owing to increased demand, a large number of local as well as international manufacturers like Lakme, Loreal, Shahnaz, Mac, Oriflame etc. have gradually extended their product range pan-India.



The cosmetics industry has become a force to reckon with, after the 1991 liberalization and the victories of many Indian women in international beauty pageants,.



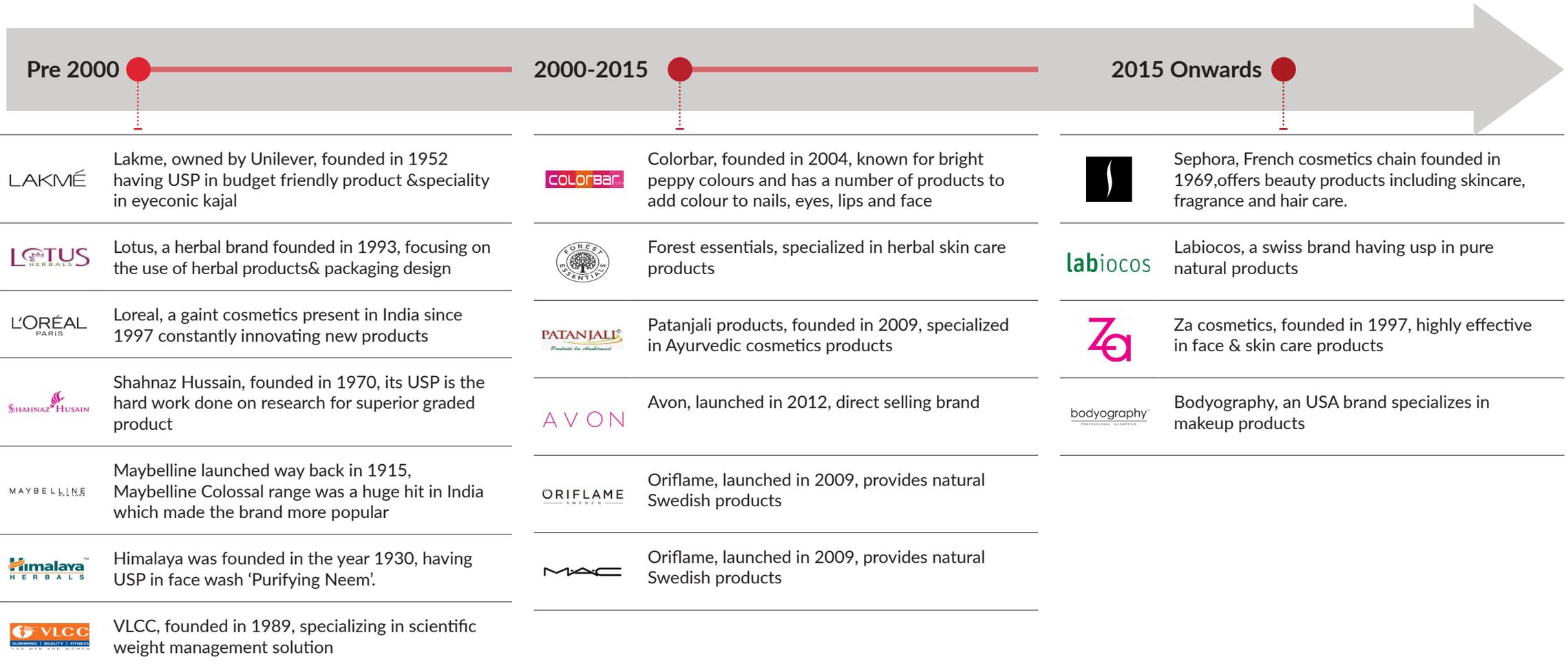
Aesthetic makeup products, used since the olden days, have helped India fast-track its race to the position of the largest cosmetics consuming country in the world. By 2020, the cosmetics consumption in India will be 5% of total world cosmetics consumption.



Indian homegrown cosmetics companies, especially herbal brands such as Himalaya, Forest Essentials, Juicy Chemistry and Patanjali, are also establishing their overseas footprints.

The pervasion of social media is playing an important role in spreading awareness about cosmetics products, making consumers aware of reviews and establishing trends. It has become a norm for cosmetics companies and multibrand aggregators to have a strong social media presence.

Evolution of cosmetics industry in India



Evolution of retail channels in India

Product launched and reached to the customer via



Key growth drivers (1/2)

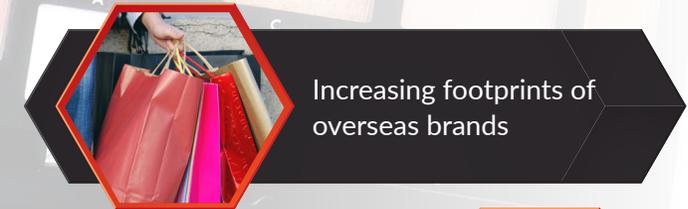
Rising disposable income



Globalization impacting lifestyles



Changing retail landscape



Key growth drivers (2/2)

Cosmetics trials increases consumption



Providing beauty trainings to staffs, store manager

Providing services like makeup trials, salon service etc.



Brands also offer advance beauty treatment methods / guides to consumers

Increasing penetration of channels



Increase in number of exclusive brand outlets, malls, supermarkets

Increasing click rates at cosmetics e-store



Growing consumption of direct selling brands

Adoption of natural products



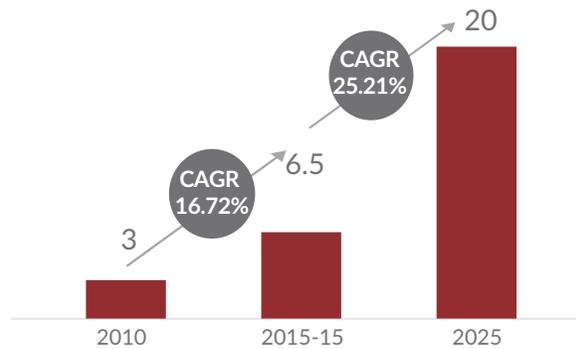
Increased awareness of the long term harm from using chemicals in beauty products

Companies dealing in herbals and ayurvedic products also conduct awareness programs to educate the consumer about the probable side effects of chemical cosmetics as opposed to natural ones

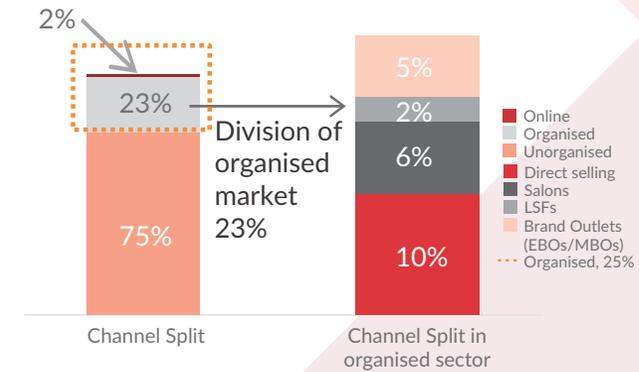


Cosmetics Industry market size, growth & channel split

Cosmetics market Size, USD bn



Organized vs. Unorganized market (2016-17)



01

The size of India's cosmetics market will touch \$20 billion by 2025 from the current level of \$6.5 billion, growing with a CAGR of 16.72 % over a period of five years, and it is expected to grow @ 25% for next 5 years.

02

The global cosmetics market is expected to garner \$450 billion by 2025, with a CAGR of 4.3%.

03

By 2025, India will be among the largest cosmetics consumers, with 5% market share in the global beauty pie.

01

The unorganized channel caters 75% of total cosmetics market, and pushes products from mass positioned brands like Lakme, Loreal, Patanjali, Himalaya etc. They keep inventory of the price not more than 1000 per product.

02

The organized market caters to 25% of the total demand, and push luxury and premium positioned brands like Organix, Forest Essentials, Estee Lauder, Mac, Revlon, etc.

03

Out of 25% of organized sector, online cosmetics market place share is 2% which houses all types of brands. Flipkart, Amazon, Nykaa and Purpille are some of these successful web portals.

Cosmetics Industry market size: Category and subcategory wise



Hair Care accounts for majority of the market share, followed by oral care, skin care, fragrance and color cosmetic.

Key Insights



Under **fragrance category**, deodorants dominate the market with the current market size of INR 25.5 bn while perfume along with its innovations is growing fast.



Under **skin care category**, facial care products share 34% of total skin care market, dominate the market along with its various variants.



Under **hair care category**, hair oil dominates the market having market share of 57% followed by hair shampoo along with its various variants.



Under **oral care category**, Toothpaste segment dominate the oral care market with the market share of 50% along with its various variants.

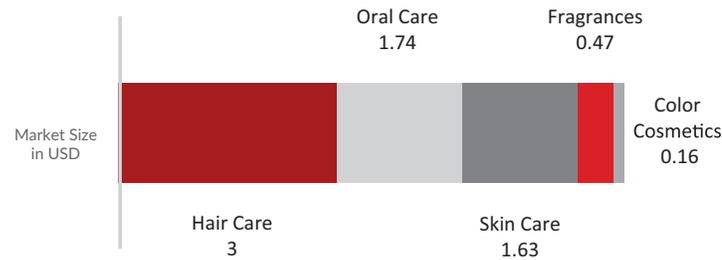
* Above figure depicts revenue category wise FY 2016

Note: Assumptions: Based on current market share of leading companies, category wise market share value is assumed.

Cosmetics Industry: Segmentation (1/2)

Cosmetics Industry

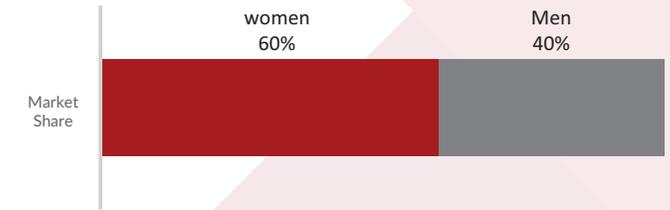
Category-Wise



Channel-Wise



Gender-Wise



Skin care

- Facial care
- Body care
- Sun care
- Hand care
- Makeup removal & depilatory products



Fragrance

- Perfumes
- Deodorants



Hair care

- Oil
- Shampoo
- Colours
- Styling products



Oral care

- Toothpaste
- Toothbrush
- Toothpowder
- Mouth wash



Colour cosmetics

- Eye makeup
- Facial makeup
- Lip products
- Nail products



Retail stores

- Supermarkets
- Brand outlets
- Drug stores
- Mom & Pop stores



Online stores



Direct Selling



Beauty Salons



Men



Women

Cosmetics Industry: Segmentation (2/2)

The cosmetics market consists of five segments

Skin Care



India **skin care** market is segmented into five categories such as facial care, body care, sun care, hand care and other makeup removal & depilatory products. Facial care products dominate the market along with its various variants.

Hair Care



India **hair care** market is segmented into four categories such as hair oil, hair shampoo, hair colors and hair styling products. Hair care products are among the highest penetration categories within beauty and personal care in India, and are expected to continue to perform positively in the years to come.

Fragrance



Fragrance market is divided into two segments viz. Perfumes & Deodorants. The fragrance market in India is one of the largest in terms of production, consumption, import and is in the process of taking off as more youngsters wear a fragrance in the form of perfumes and deodorants.

Color Cosmetics



Color cosmetics market consists of four broad categories according to their products viz. Eye Makeup, Facial Makeup, Lip Products and Nail Products. The market for colour cosmetics is only expected to increase in the future, as people grow more image conscious, and social media acts as a messenger of beauty trends from around the world.

Oral Care



India **oral care** market is segmented into five categories such as toothpaste, toothbrush, toothpowder, mouthwash and other oral care products that include dental floss, oral care chewing gum, etc.

It has the following leading brands for each of the 5 segments...

Hair Care Products	Oral Care Products	Skin Care Products	Fragrance Products	Color Cosmetics Products
<p>Market leader</p> <p>Marico</p> 	<p>Market leader</p> <p>Colgate-Palmolive</p> 	<p>Market leader</p> <p>HUL</p> 	<p>Market leader</p> <p>Vini Cosmetics</p> 	<p>Market leader</p> <p>HUL</p> 
<p>Leading Brands</p> <ul style="list-style-type: none">• Parachute Advanced• Livon• Mediker• Hair and Care	<p>Leading Brands</p> <ul style="list-style-type: none">• Colgate Total• Colgate Sensitive Pro-Relief• Colgate Luminous White• Colgate PLAX	<p>Leading Brands</p> <ul style="list-style-type: none">• Fair & lovely• Ponds• Lakme• Dove• LEVER Ayush	<p>Leading Brands</p> <ul style="list-style-type: none">• FOGG• White Tone• Glam Up• 18+• Delicca	<p>Leading Brands</p> <ul style="list-style-type: none">• Lakme• Elle 18• Toni and Guy

Evolution of alternate channels: Online cosmetics market

India has witnessed income growth of about 10% YOY, enabling large sections of its population to move up the consumption, fashion and lifestyle pyramid. This had naturally driven demand for organised retail space as opposed of traditional stores. The online market place that has emerged in India a decade ago, increases its penetration among consumers via innovative promotion and advertising strategies.

Online penetration of cosmetics is lower than all key online categories except broader FMCG

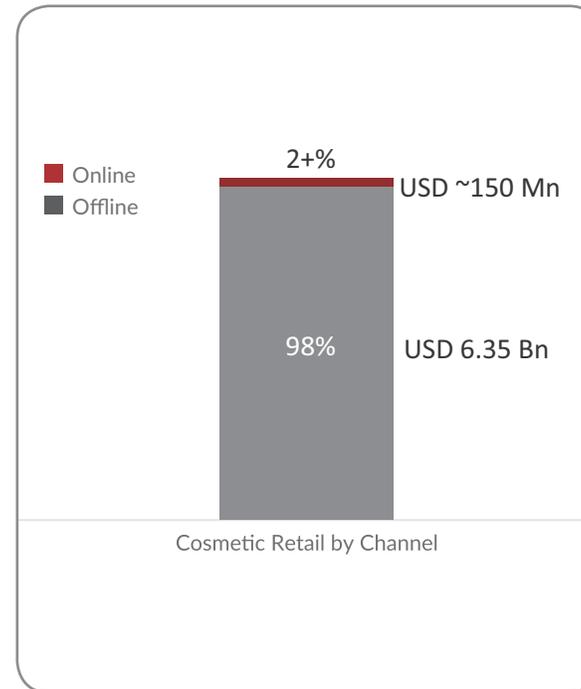
Categories	Overall Retail Market Size USD Bn (2016)	Share of online sales (2016)
 Mobiles	26	●
 Fashion	100 ¹	●
 Large Appliances	10 ²	●
 Furniture and Home	30	●
 FMCG and Grocery	450	●

1 USD = 60 INR

● >25% ● 5-25% ● >1-5% ● <1%

Source: RedSeer analysis

100%= USD 6.5 Bn (2015-16)



Clear leaders are yet to emerge in the market but Amazon is well positioned

01

The online cosmetics market sees a close fight between the likes of horizontal like Amazon and Flipkart with the likes of Nykaa, Bigbasket and other following close behind

02

However, Amazon's strong offerings in the on-demand FMCG market e.g. Amazon Now and Amazon Pantry gives them a clear advantage

Future prospects of cosmetics industry

1 Market Size

- India's beauty, cosmetics and grooming market will reach \$ 20 billion by 2025
- Market share of organised:unorganised will be 45:55 by 2025 from the current ratio of 25:75.
- The online marketplace share will increase by 8% from current value of 2%

2 Factors fuelling growth

- Rise in disposable income of middle class families
- Growing aspirations of people to live good life and look good
- Reaching the rural population with improvement in infrastructure

3 Influx of brands

- Several international brands opening or planning to open exclusive stores over next 3 years
- Existing brands are expanding their reach into tier 2 and 3 cities too, due to the increased demand

4 Increasing demand of herbal products

- Region with most demand will be Southern India in future, due to a pre existing inclination to herbals.
- Export potential is also increasing. The export data for herbal cosmetics brands for FY 2015-16 is approx USD 0.093 mn.

5 Innovative distribution & marketing strategies



High influence of bloggers on consumer trends



Cross-Border E-Commerce: New Channel for Foreign Brands



Adding facilities like beauty tip, treatment, trail makeup and salons

Key takeaways for brands & retailers

With the rise in disposable income and growing aspiration to look good, consumer demand for more brands & categories is at an all time high

Current economic & political scenario gives a solid opportunity to International brands to increase customer touch points as well as establishing their footprints in next potential markets

Customer ever increasing aspirations & affordability in Tier-2+ towns combined with constraints of organized brick & mortar retail, throws an opportunity for online majors to shift their focus on cosmetics industry and new vertical players like Nykaa & Purple will emerge



Low penetration of organized market, is an opportunity for brands for expansion of EBOs & SIS with LSFs with a focus on salon cum trial concepts to increase adoption

Both for online & offline retailers (especially malls), growth in fashion is tapering and their focus would shift to this high growth potential category



Appendix

International cosmetics brands (1/2)

Positioning	Cosmetics Brand	Origin	USP	Store in India	Revenue in USD (2015/2016)
Luxury	Elizabeth Arden	America	Innovative products	Mumbai	966.73 mn
	Estee Lauder	New York	Skin care, makeup, fragrance and hair care products	Mumbai, Gurgaon, New Delhi	11.26 bn
	Chanel	Paris, France	Luxury around the world	New Delhi	7.3 bn
Super premium	Clarins	France	Serum, Toning oil , restorative day cream	Exclusive malls	2 bn
	Clinique	New York	Skin care products	Mumbai	Parent company : Estee lauder, revenue shown above
	SmashBox	Culver city, California	Lipstick and eye products	Available at Cosmetics E-commerce portal	Parent company : Estee lauder, revenue shown above
Premium	Mac	Toronto, Canada	Easy to use	Metro, next top 11 cities	Parent company : Estee lauder, revenue shown above
	Faces Canada	Canada		Mumbai	0.01 bn
	Olay	United States	Foaming Cleanser	PAN India	2.5 bn
	The Body Shop	London		Exclusive Malls	0.36 bn
	Bourjois	France	Velvet lipstick	Exclusive Malls	Parent Company Coty.inc, revenue - 4.34 bn
	Ponds	European Union	Skin Cream	PAN India	Subsidiary company Lakme lever limited revenue shown above
	Nivea	European Union	Skin care creams	PAN India	6.37 bn (global revenue)

International cosmetics brands (2/2)

Positioning	Cosmetics Brand	Origin	USP	Store in India	Revenue in USD (2015/2016)
Luxury	Lancome	France	Perfumes	Exclusive Malls	Parent company: L'Oreal, revenue shown below
	Schwarzkopf		Hair care	Available at Cosmetics E-commerce portal	4.2 bn
Super premium	Chambor	Geneva	Known for makeup products	PAN India	N/A
	Matrix	France	Hair care products	Exclusive Malls	Parent company: L'Oreal, revenue shown below
Premium	Revlon	New York	Comparatively expensive	PAN India	2.34 bn
	Rimmel London	London	Wide range of lipsticks	Metro cities	Parent Company Coty.inc, revenue - 4.34 bn
	Maybelline	New York	Low price	PAN India	51.8 mn
	Neutrogena	California, London	Face washes	PAN India	N/A
	Loreal	France	Hair shampoo	PAN India	7.71 bn



Indian cosmetics brands

Positioning	Cosmetics Brand	Origin	USP	Store in India	Total global revenue (in USD) for FY 2015 - 2016)
Luxury	Colorbar Cosmetics	India	Matte Lipstick	Mumbai, New Delhi	0.04 bn
	Forest Essentials	India	Skin care	Mumbai, Delhi	3.5 mn
	Shahnaz Hussain	India	Anti-ageing treatments, Ayurvedic kajal	PAN India	97.74 mn
Super premium	Lakme	India	Budget Friendly Product	PAN India	2.29 bn
	Elle 18	India	Young Girls, Budget friendly products	PAN India	Subsidiary company Lakme lever limited revenue shown above
Premium	VLCC	India	Skin care products	PAN India	0.12 bn
	Sunsilk	India	Hair care	PAN India	Subsidiary company Lakme lever limited revenue shown above
	Natures	India		PAN India	N/A



Ayurvedic brands

Positioning	Cosmetics Brand	Origin	USP	Store in India	Total global revenue (in USD) for FY 2015 - 2016)
Super premium	Kama Ayurveda	India	High price	PAN India	N/A
	Just Herbs	India	Organic Products, low price	PAN India	N/A
Premium	Aroma Magic	India	Spa, Skin care products	PAN India	N/A
Mass	Jovees	India	Sun Screen lotion	PAN India	N/A
	Khadi Naturals	India	Hair Oil	PAN India	0.23 bn
	Lotus Herbal	India	Skin care	PAN India	1.7 mn
	Emami Limited	India	Health care products	PAN India	0.37 bn
	Himalaya Herbals	India	Face wash	PAN India	N/A
	Biotique	India	Budget friendly products	PAN India	N/A



Direct selling cosmetics brands

Positioning	Cosmetics Brand	Origin	USP	Store in India	Total global revenue (in USD) for FY 2015 - 2016)
Super premium	Mary Kay	Texas	All Services offered by trained beauty consultants	Thru agents	4 bn
Premium	Avon	New York	Direct Selling	Thru agents	5.7 bn
	Artistry	Access Business Group	Use Unusual Fruits and Plant to produce the product	Mumbai	N/A
	Oriflame	Sweden	High-quality Ingredients	Thru agents	1.35 bn
Mass	Amway	United States	Health care	Thru agents	8.8 bn
	NuSkin	United States	Anti-Aging products	Thru agents	2.21 bn



Case Study: Estee Lauder

ESTÉE LAUDER

Launched in 1946 at New York

Outlets in India	Mumbai, Gurgaon, New Delhi, Bengaluru, Chennai
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Business Size

Market Size & share	USD 11.26 billion with 8% share in total market
CAGR	Growing @ 4.47%

Future prospects

Future growth & CAGR	Launched in 1946 at New York
Future expansion strategy	Mumbai, Gurgaon, New Delhi, Bengaluru, Chennai

Awards/ latest news

Latest awards	Awarded in 10 outstanding women in business in the U.S by business and financial editors in 1967 which contributed largely towards brand: building of the company
Campaigning	Launched the annual breast cancer awareness campaign



Case Study: Lakme

Founded in 1952 in India

Outlets in India	PAN India
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Business Size

Market Size & share	USD ~1.32 billion with 17.7% market share in color cosmetics
CAGR	Growing @ 17%

Future prospects

Future growth & CAGR	Expected to grow @ 5% by 2020
Future expansion strategy	Mumbai, Gurgaon, New Delhi, Bengaluru, Chennai

Awards/ latest news

Latest awards	Lakmé Salon bagged the 'National Salon Chain of The Year' award at the Indian Salon & Wellness Awards 2016
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Case Study: Patanjali

Founded in 2006 in India

Outlets in India	PAN India
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Business Size

Market Size & share	USD 1.6 billion with market share of 17.5%
CAGR	Growing @64.5% over past 5 years

Future prospects

Future growth & CAGR	Targeted 12,500 crore by 2020
Future expansion strategy	Planning to open outlets in railway and airports, expanding in rural areas. Patanjali also focusing on exports of swadeshi goods

Awards/ latest news

Latest awards	Special recognition award to Acharya Balkrishna
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Case Study: Oriflame

Founded in 1967 at Switzerland

Outlets in India	PAN India
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Business Size

Market Size & share	USD 1.3 billion
CAGR	Growing @ 20%

Future prospects

Future growth & CAGR	Expecting market size of INR 15 billion by 2020
Future expansion strategy	Oriflame India is expecting to be in number 1 position in direct selling category by 2020

Awards/ latest news

Latest awards	Femina beauty award for time reversing eye cream 2015
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Case Study: Nykaa

Founded in 2012 at Mumbai

Outlets in India	Mumbai, Delhi
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Business Size

Market Size & share	NR 280 crore
CAGR	30% annual growth

Future prospects

Future growth & CAGR	Targeted 1,000 crore by 2020
Future expansion strategy	Expanding product range under its private label. Planning to establish offline store in Mumbai, Delhi and Bengaluru

Awards/ latest news

Latest awards	Hosted a Mother's day activity at JCB salon, Mumbai
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Glossary

Abbreviations	Full form
SIS	Shop in Shop
LSF	Large store format
EBOs	Exclusive brand outlets
MBOs	Multi brand outlets



About author

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Shubham Anand is heading Retail-CPG practice at RedSeer and working with clients across fashion, retail and other CPG verticals on Growth, Market Entry & Store Roll-out Strategy. He is also working with PE & VC funds to help them with sector scanning and their portfolio growth. Shubham has an overall work experience of 12 years across Management Consulting, Strategy, Marketing, P&L, etc. He has done his MBA from IIM Lucknow.

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