Impact of Organised Retail on Home and Personal Care Industry

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Agenda

1. What is contributing to the increasing penetration of organized retail in India?

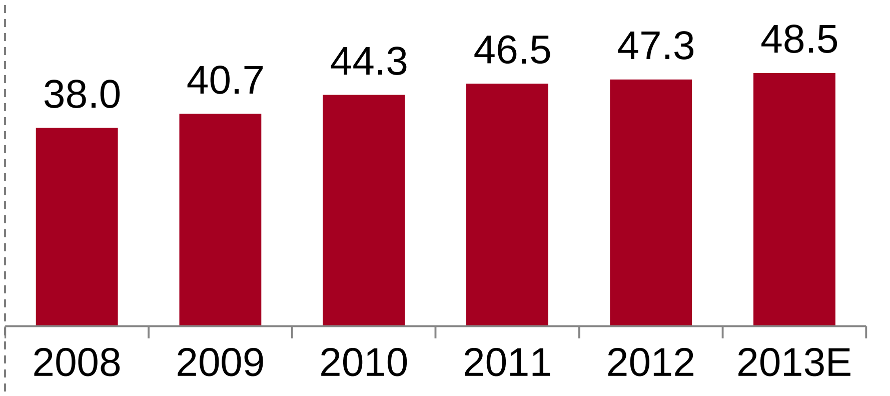
2. How is growth in organized retail influencing trends in home and personal care industry?

3. What are the opportunities for suppliers to these industries?

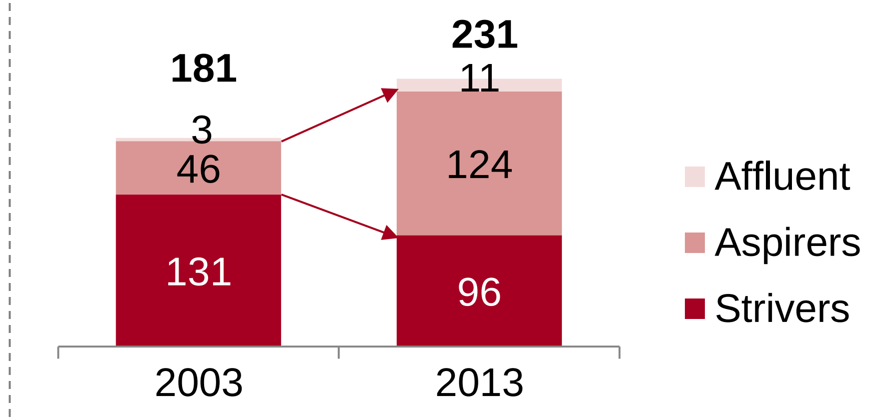
4. What does it take to capitalize on these opportunities?

Organised retail has received a fillip by the rise in per capita income and the growth in the middle- and upper-class population

Per capita Income– India, Rs '000



Changing pattern in Households based on income , Mn units



Source: IMF World Economic Outlook, April 2012, HUL Investor Report, Avalon Consulting Research and Analysis

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An emerging class of savvy consumers is constantly looking beyond traditional ways to shop

Nuclear Families…

…and working couples

Looking for better shopping experiences…

…armed with technology enablers

Penetration of organised retailing in India is therefore on a steady uptrend

Historical and Forecasted Penetration Of Organized Retail

	FY 01	FY 12	FY 21(F)
Share of organised retail	4%	7%	20%
Estimated retail market opportunity	*120 USD Bn*	*490 USD Bn*	*810 USD Bn*

As we go to polls, FDI in retail remains mired in controversy. However, the pace of organised retail penetration is unlikely to be diminished. If permitted, entry of international players will only quicken the pace

Source: Euromonitor, Avalon Consulting, Reasearch and Analysis

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Growth of organised retail, along with favorable headwinds in FMCG are creating opportunities in home and personal care

2. Companies are leveraging on "Premiumisation"

1. Convenience and wide range offered by superstores is spurring sales of home and personal care products

3. Emergence of the "Convenience" segment of FMCG products

7. The rise of private labels

4. Shorter product lives and shorter time-to-market

6. New consumer categories

5. Rising health and hygiene consciousness among customers

Source: Avalon Consulting, Research and Analysis

1. Driving Sales : Organised retail drives consumption in FMCG segments through a number of factors

FMCG Growth Drivers

Convenience

Wide Choice

Savings

Premiumisation

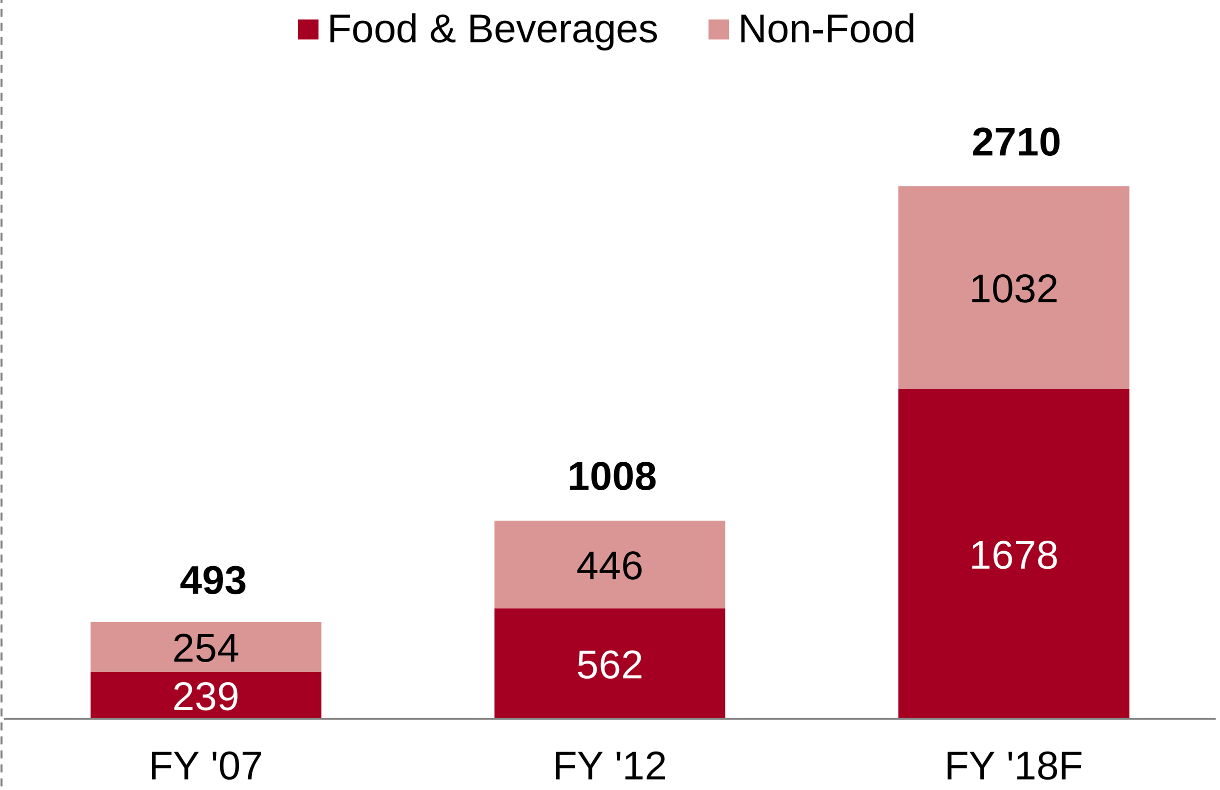
Impulse buys

Cross -selling

Source: Avalon Consulting, Research and Analysis

1. Driving Sales : FMCG industry as a whole is therefore expected to maintain its healthy growth rates across categories

FMCG Industry Size, FY 07-18, Rs. Bn



	CAGR FY07-12	CAGR FY12-18(E)
Total:	***15%***	***18%***
Non-Food	12%	15%
Food & Beverages	19%	20%

Source: Euromoniter, Avalon Consulting Research and Analysis

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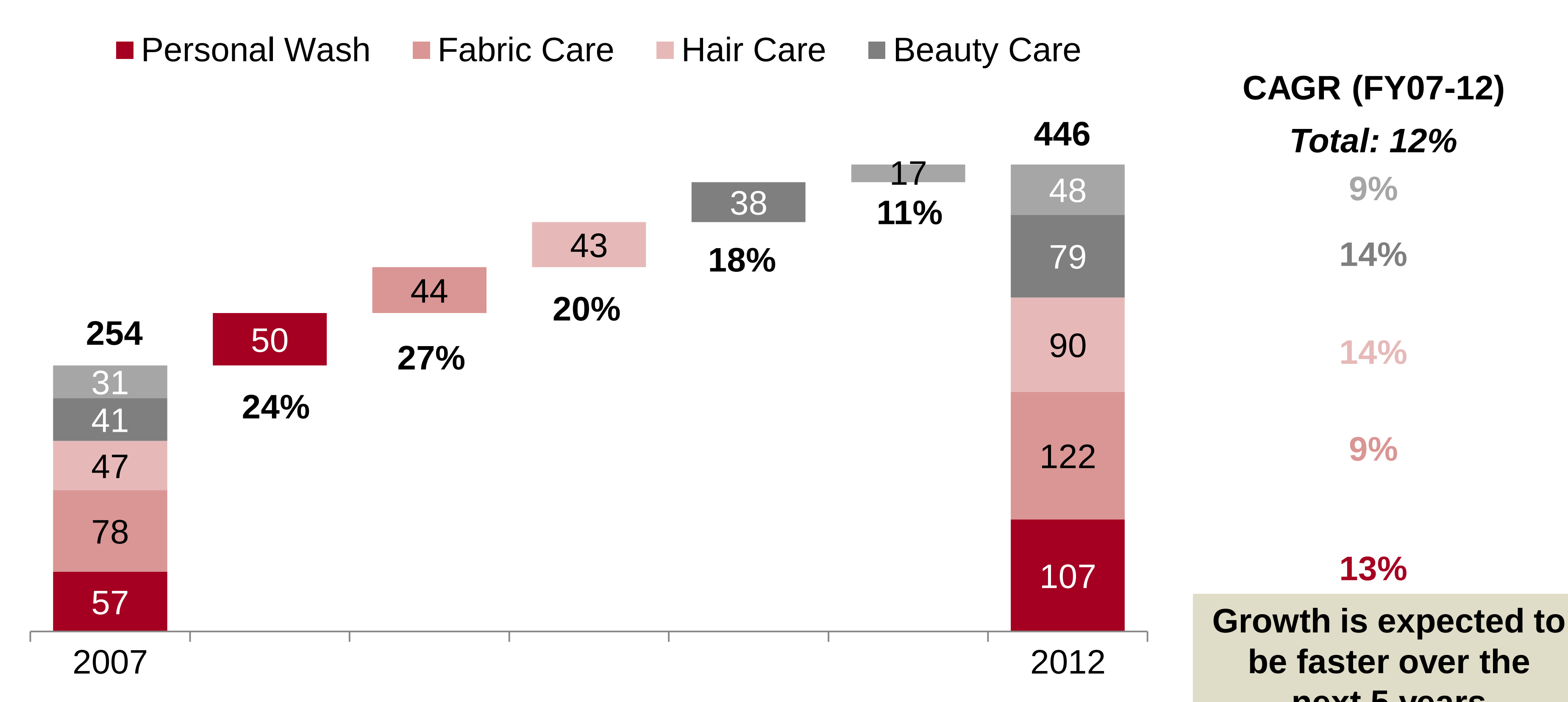
1. Driving Sales : Hair and Beauty care are the fastest growing sub-segments withing Home and Personal Care

Non-Food Segment Break-up, 2007-2012, Rs. Bn



Growth is expected to be faster over the next 5 years

Source: Euromoniter, Avalon Consulting Research and Analysis

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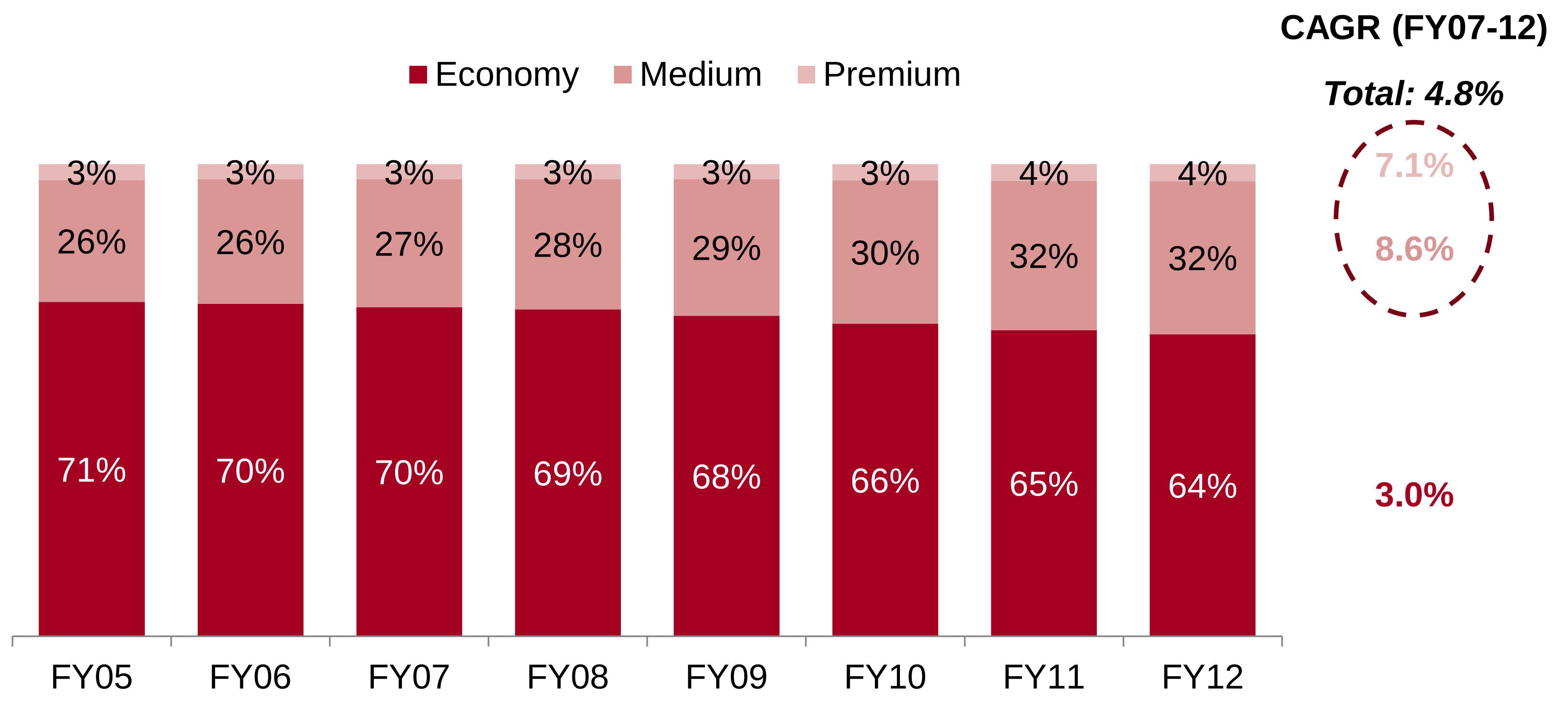
2. Premiumization : There is a clear shift in preference for medium & premium brands across Home and Personal Care segments

Home and Personal Care Trends by Brand Class (FY05-12)



Source: Euromoniter, Avalon Consulting Research and Analysis

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2. Premiumization : Products previously considered niche / premium are growing fast and entering the mainstream category

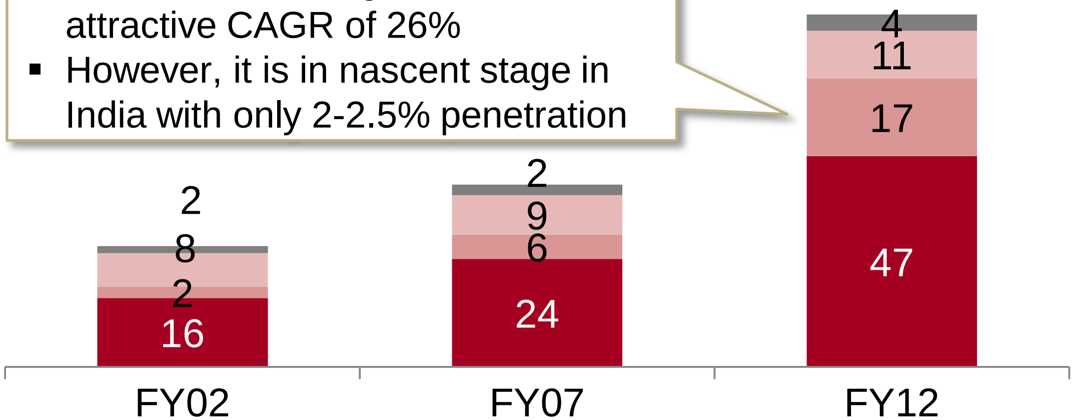
Products previously considered niche are becoming mainstream

Deodorants | *Fabric Softeners* | *Hair Color* | *Mouthwash* | *Conditioners*

Beauty Care Market: FY02-12, Rs. Bn

- Skin Creams
- Talcum powder
- Deo and Fragrances
- Others-Beauty Care*

- Deodorants have grown at an attractive CAGR of 26%
- However, it is in nascent stage in India with only 2-2.5% penetration



	CAGR (FY02-07)	CAGR (FY07-FY12)
Total:	***8.6%***	***14.1%***
	7.9%	8.9%
	3.2%	3.9%
	17.3%	26.0%
	9.4%	14.3%

** Others" include products like Shaving creams, Toners etc*

Source: Euromoniter, Avalon Consulting Research and Analysis

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2. Premiumization : Companies are taking advantage of this trend by concentrating on medium and premium products

Customers are now willing to pay

HUL Toni & Guy

L'Oreal Matrix

P&G Wella

Companies are launching medium and premium variants of existing brands

Dove Elixir

Ponds Gold Radiance

Lux Deo

Oral B

Brands previously considered niche are being romoted aggressively

Olay-
anti-aging

Dove-
Shampoo

Dabur
Gulabari

Revive
Starch

Source: Company Websites, Avalon Consulting Research and Analysis

3. Convenience : Pressed for time consumers prefer products in forms which are more convenient to use, and save time

Convenient to use forms of products are being preferred

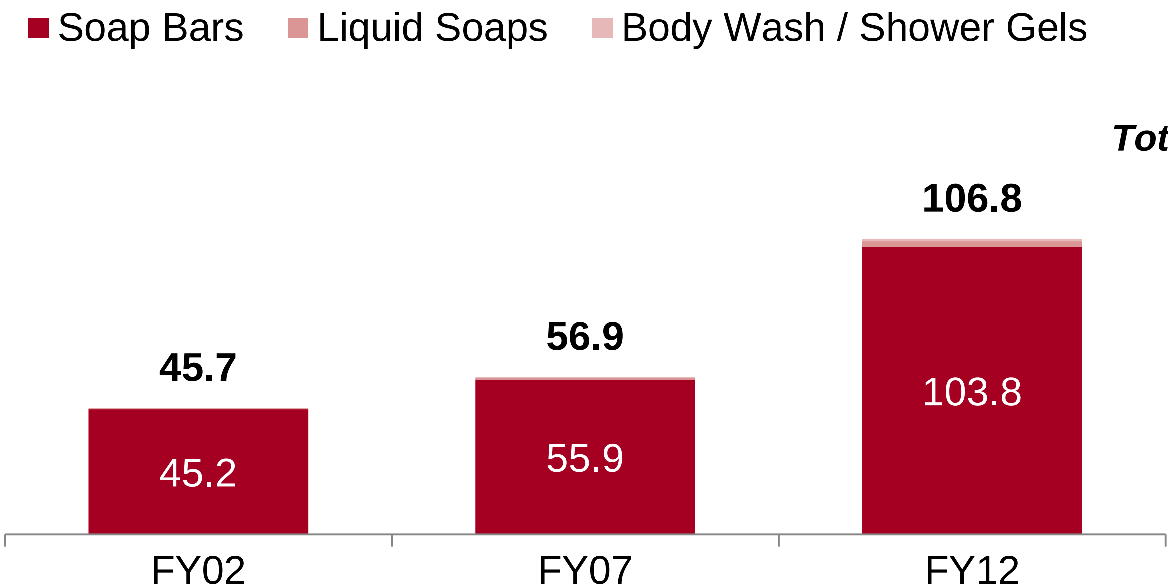
Liquid Soaps

Hand Sanitizers

Liquid Utensil Cleaners

RTEs

Personal Wash Market: FY02-12, Rs. Bn



	CAGR (FY02-07)	CAGR (FY07-FY12)
Total:	*4.5%*	*13.4%*
Body Wash / Shower Gels	20.0%	14.9%
Liquid Soaps	11.1%	30.6%
Soap Bars	4.4%	13.2%

Source: Euromonitor, Avalon Consulting Research and Analysis

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3. Convenience : Preference for convenience is also being articulated in the form of new packaging solutions

Smaller packs makes it convenient for people who are constantly on the go to use it as well as attract new customers because of the affordable price

Packets

Bottled products

Large Quantity

Tetrapak

Sachets & Small tube

Disposable cups

Aroma Locks

Bottles with Nozzle

4. Time to Market : Product life cycles are getting shorter, requiring swiftly developed, yet differentiated products

Recent Launches That Have Timed The Market Perfectly…and Speedily!

Time to market is getting as short as seven months!

Customer relationships are getting digitized, lowering time to market

Requires fleet, nimble footed response to pre-empt changes in customer choice

***Nivea Lipcare** - Speed in merchandising ensured sustained leadership in variety and price points*

***Emami Fair and Handsome** - Less than a year from conceptualisation to launch*

Source: Avalon Consulting Research and Analysis

5. Rise in health and hygiene consciousness has created unique opportunities to supply quality ingredients

Demand for Personal and Beauty care products with natural ingredients are on the rise

Awareness about nuances of product differentiation isalso rising, e.g. suncreens

Consumers preference for personal hygiene products is also growing

Source: Company Website, Avalon Consulting Research and Analysis

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6. *Emerging consumer segments* are opportunities for ingredient suppliers – e.g. Children and Metrosexual males

Mothers now want the best for their babies, children are also emerging as a new consumer segment

The metrosexual male is looking for quality personal care products

Products with combined benefits are in demand, quickfixes for multiple problems!

Shampoo
+
Conditioner

Fairness
+
Anti-aging

Source: Company Website, Avalon Consulting Research and Analysis

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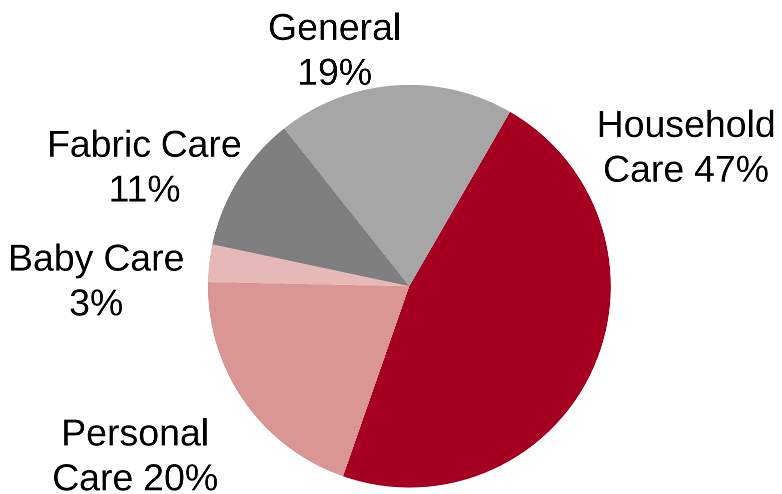
7. Rise of private labels – a small but fast growing opportunity

Private Labels By Segment



Private Labels Overview

- Private labels are ***less than 1%*** of overall retail sales
- However, certain categories such as household cleaners finding favor among consumers
- Private labels provide reassurance of quality. It is therefore the ***perfect Value For Money option to the less discerning consumer***

Private Label Penetration By Country – as % of total retail sales

Country	Switzerland	Germany	UK	France	USA	Japan	India	China
Penetration%	37.7	29.5	27.8	20.5	13.1	7.3	0.6	0.4

Source: The Neilsen Company, Avalon Consulting Research and Analysis

7. Rise of private labels : Big Bazaar has prominent private label brands like Sach, Clean Mate and Care Mate in this segment

Private Labels In Non-Food Segment – A Case In Point

"Sach" range of personal care products were co-created with Sachin Tendulkar

"Clean Mate" brand of dishwash bar is giving stiff competition to established brands like Domex and Pril. Big Bazaar also retails handwashes under **"Care Mate"** brand

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These trends have several implications for suppliers to the FMCG industry (1/2)

Ingredients

a. With unique benefits
b. With differentiation possibilities
c. Natural and Environment friendly

Packaging

a. Easy to carry and use packaging
b. Differentiated packaging
c. Eco-friendly packaging

Product Development

a. Application engineering
b. Faster turnarounds
c. R&D support to develop new formulations

These trends have several implications for suppliers to the FMCG industry (2/2)

Anticipate Market Trends

a. Preparing for growth
b. Identify key growth segments
c. Choose focus areas

New Customer Set

a. Retailers with private label offerings
b. Greater focus on compliance

Cost Pressure

a. Private label proposition is value
b. Need to pass on savings to remain competitive

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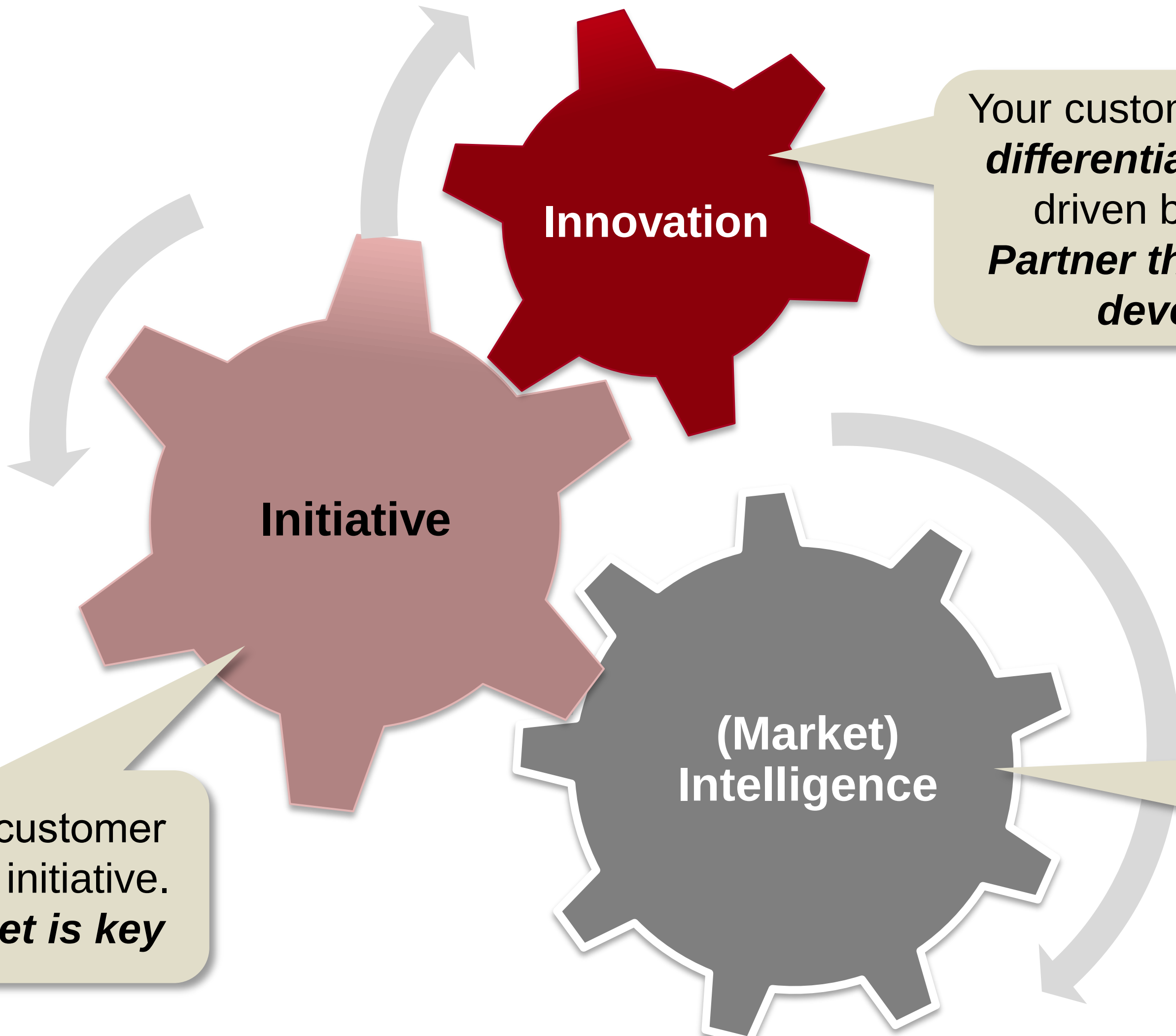
Understanding underlying customer needs to proactively innovate is important to successfully serve the FMCG industry



Your customer is looking for ***differentiation*** and ***value*** driven by innovation. ***Partner them in product development***

Know your ***customer's customer.***

Don't wait for customer brief. Take the initiative. ***Time to market is key***

Drive the change…
or be driven out!

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