BUT NATURALLY!

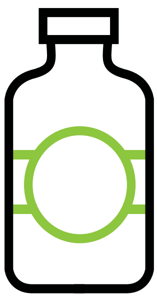
GOING BACK TO NATURAL IN INDIA'S PERSONAL CARE SEGMENT

- **The Natural segment in India's personal care market is estimated to be INR 18,500 crore (USD 3 bn) which is 41% of the total personal care market.**

- **Traditional 'goodness' and the absence of harmful chemicals are the key perceived benefits drawing Indian consumers to natural offerings.**

- **The natural segment of personal care is growing at almost 1.7 times that of overall personal care.**

Indians are increasingly concerned about the quality and origins of ingredients available in the market, and the abundance of information around them has made for some picky shoppers. There is a growing trend among Indian consumers who look for natural ingredients in personal care products – an affinity and innate belief in the goodness of ancient Indian wisdom. Consumers are now seeking fundamental solutions from brands that are both safe for them as well as the environment. They want products that are devoid of harmful chemicals and ensuing side-effects.



CONSUMERS ARE NOW SEEKING SOLUTIONS FROM BRANDS THAT ARE BOTH SAFE FOR THEM AS WELL AS THE ENVIRONMENT. THEY WANT PRODUCTS THAT ARE DEVOID OF HARMFUL CHEMICALS AND SIDE-EFFECTS.

The natural segment is particularly relevant for personal care products and can be broadly divided based on two criteria:

CRITERIA	EXAMPLES
Set of ingredients	Aloe vera, Tulsi, Neem, Lemon
Brand proposition	Herbal, Natural, Ayurvedic

SIZE AND SCOPE OF NATURAL PERSONAL CARE

Nielsen did an analysis of five big personal care categories to find out the composition and trends of products with natural ingredients. These categories were:

- Toilet Soaps
- Skin Creams
- Hair Oil (non-sticky oils only)
- Hair Wash
- Toothpaste

According to the Nielsen retail index, the natural personal care segment is estimated at INR 18,500 crores (USD 3 bn) and comprises about 41% of total personal care sales.

SIZE OF THE NATURAL SEGMENT IN PERSONAL CARE

CONTRIBUTION TO PERSONAL CARE (%)

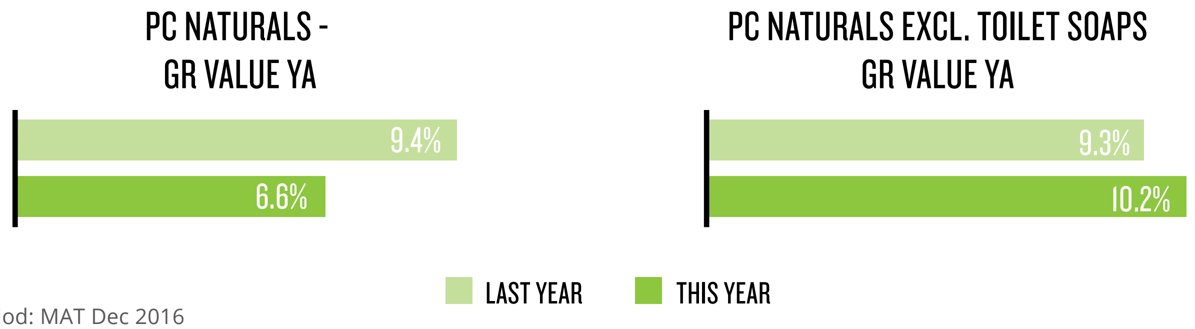
41% NATURAL

59% NON-NATURAL

Time Period: MAT Dec 2016
Source: Nielsen

The value growth of the natural segment is racing ahead at almost 2.2 times that of non-naturals (2.9%).

VALUE GROWTH OF PERSONAL CARE NATURALS VERSUS A YEAR AGO

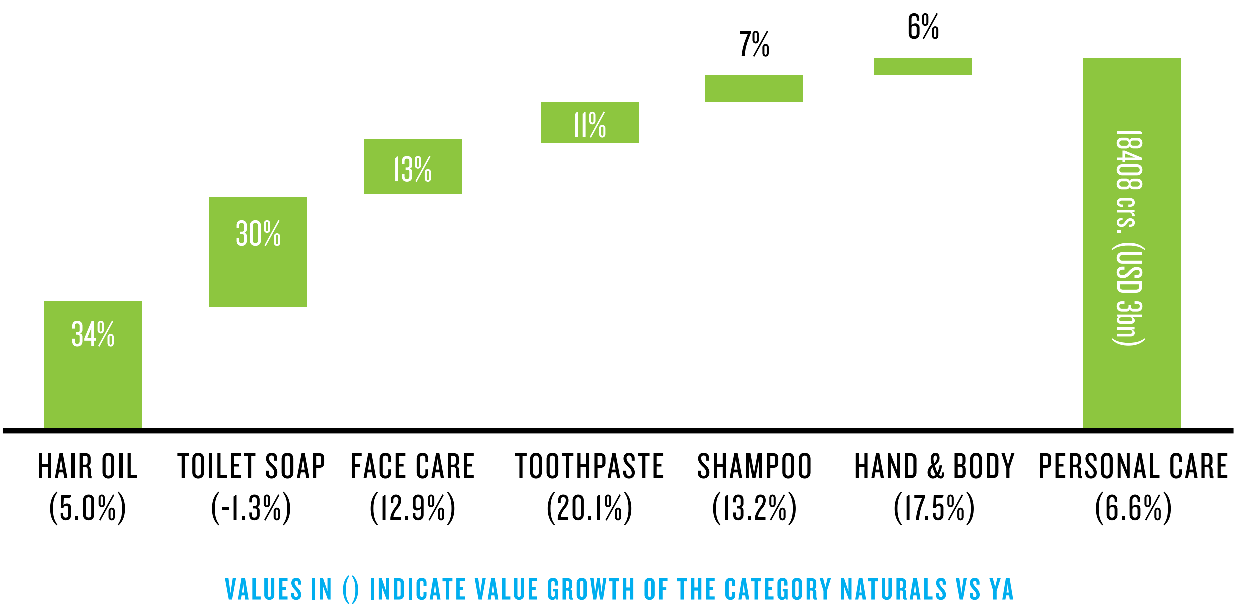


Time Period: MAT Dec 2016
Source: Nielsen

The value sales growth for PC naturals came down in 2016 because of toilet soaps; even the overall personal care growth declined in 2016 on account of toilet soaps. However, when you exclude toilet soaps, you can see from the chart above that there has been significant growth in PC naturals.

THE PERSONAL CARE NATURALS MARKET COMPOSITION

CONTRIBUTION OF CATEGORIES TO NATURALS



Time Period: MAT Dec 2016
Source: Nielsen

THE REACH OF NATURALS

An analysis of key personal care categories—namely skin creams, toilet soaps, hair wash and toothpaste—uncover some interesting trends about the markets, channels and town classes.

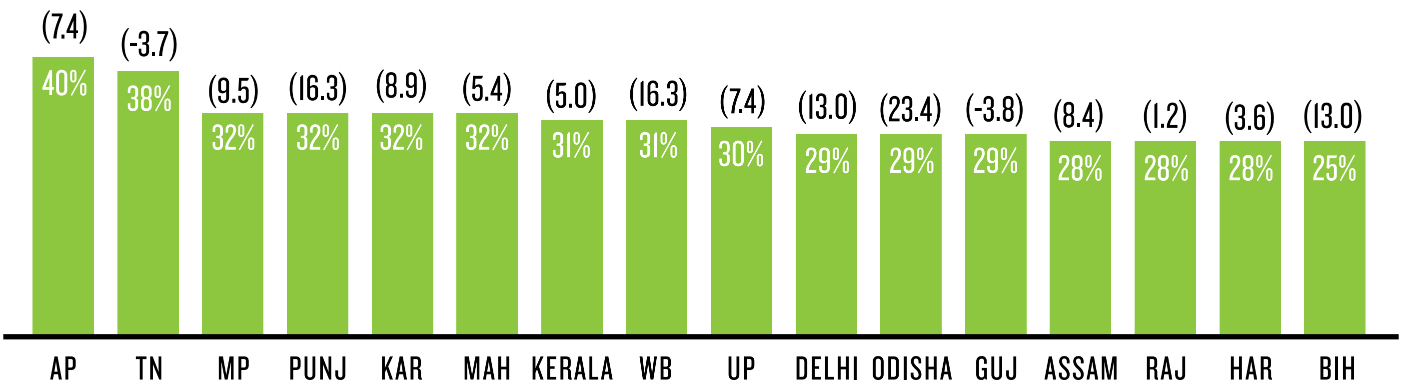
Consumers across different regions in India display varying degrees of preference for naturals. Our figures show that the South, Maharashtra, MP and Punjab are primary markets for naturals.
However, in West Bengal, Delhi and Uttar Pradesh, though the natural segment contributes less than the national average, we see the segment growing faster than all-India, indicating that these are regions where the opportunity lies.

> **IN WEST BENGAL, DELHI AND UP, THOUGH NATURALS ARE CONTRIBUTING LESS THAN THE NATIONAL AVERAGE, IT IS GROWING FASTER, INDICATING THAT THESE ARE REGIONS WHERE THE OPPORTUNITY LIES.**

REGIONAL PARTICULARS IN THE NATURAL SEGMENT OF PERSONAL CARE

CONTRIBUTION OF NATURALS WITHIN EACH STATE

ALL INDIA AVERAGE - 32%
ALL INDIA GROWTH - 7.4%



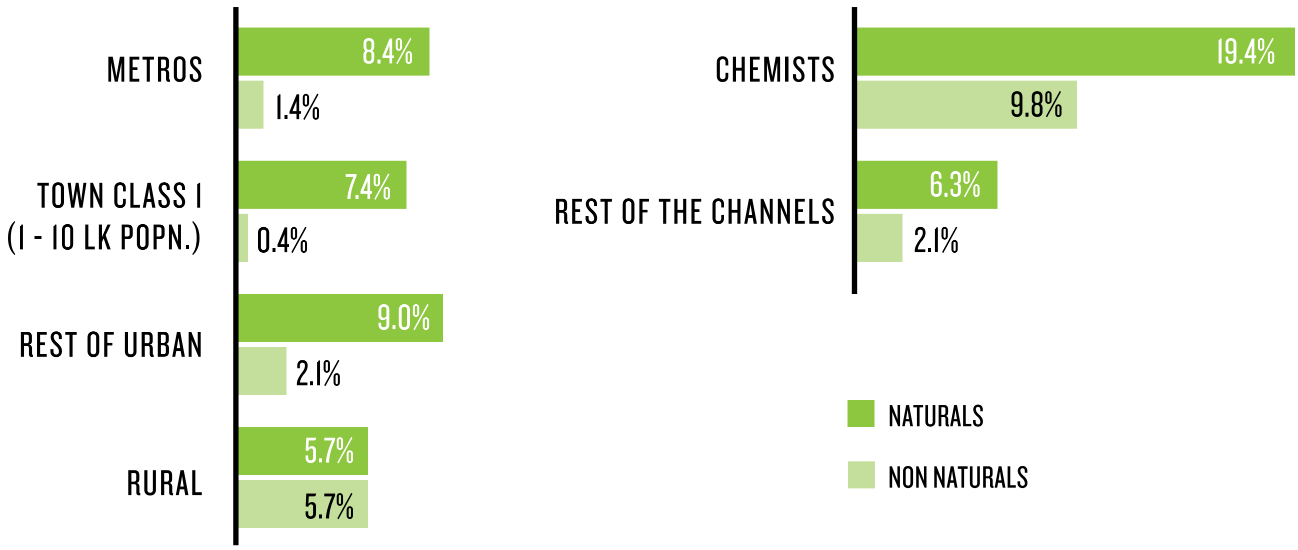
VALUES IN () INDICATE VALUE GROWTH OF THE NATURAL SEGMENT VS YA

Time Period: MAT Dec 2016
Source: Nielsen

A granular look at retail channels and town classes also reveals a pattern of preferences for naturals. While naturals are growing faster than non-naturals across population strata and channels, chemists emerge as the fastest growing channel for naturals.

HOW POPULATION STRATA AND RETAIL CHANNELS INFLUENCE PERSONAL CARE NATURALS

VALUE GROWTH IN 2016 VS YA



Time Period: MAT Dec 2016
Source: Nielsen

DECODING NATURALS IN PERSONAL CARE

Core natural brands form a bulk of the segment: The entire range of products for core natural brands are natural. For example, three such brands—Patanjali, Himalaya and Dabur—have propositions that are ayurvedic, herbal and the like. Non-core brands have some natural variants in a larger portfolio, like Lifebuoy, which has a natural lemon fresh variant even though the main variant is non-natural. Core brands account for approximately 77% of value sales in the natural segment.

CORE NATURAL BRANDS LEAD THE CHARGE

VALUE CONTRIBUTION TO PC NATURALS

Time Period: MAT Dec 2016
Source: Nielsen

Brands with problem-solution benefits grow faster: If divided by benefits, natural brands/variants fall into three buckets.

#1 PROBLEM-SOLUTION:

Variants that promise solutions to problems on their packaging. Some examples include anti-hair fall, anti-dandruff and anti-acne offerings.

#2 ENHANCEMENT:

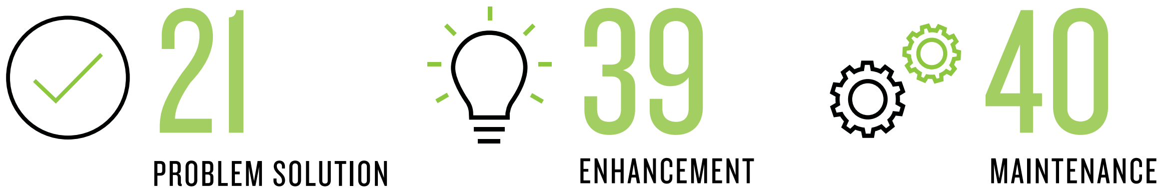
Variants that promise something beyond the primary benefit on the pack, such as instant glow, brightening, energising and illuminating products.

#3 MAINTENANCE:

Maintenance variants have no stated benefit on the pack, like products labelled for normal hair and normal skin.

CONTRIBUTION OF BENEFIT SEGMENTS TO PERSONAL CARE NATURALS

CONTRIBUTION TO PC NATURALS



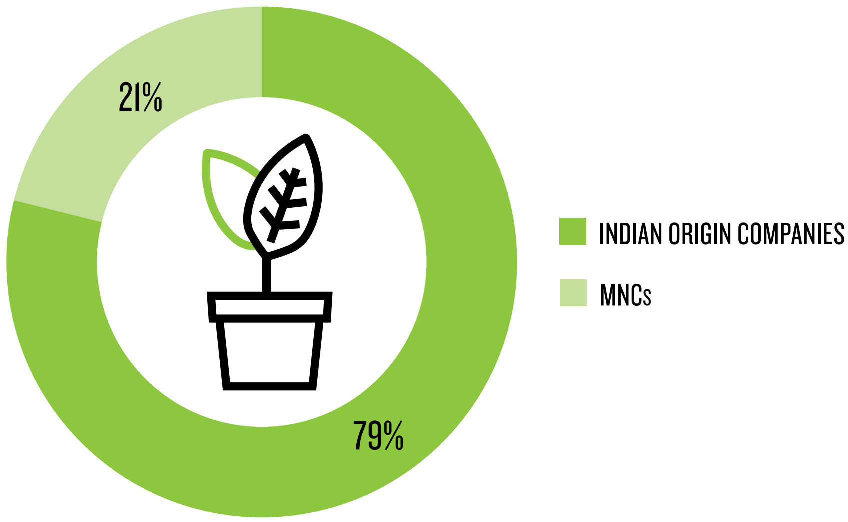
Time Period: MAT Dec 2016
Source: Nielsen

Of the three buckets, brands that offer a problem-solution benefit, are growing at two times that of the natural segment average.

Indigenous manufacturers are driving natural personal care and growing at four times the pace of multi-national corporations: According to Nielsen data, consumers are drawn to Indian brands when it comes to naturals, under the assumption that manufacturers of these brands use 'common kitchen ingredients', making it safe for consumption and less likely to result in side effects or allergies.

INDIAN NATURAL BRANDS MOST POPULAR

CONTRIBUTION TO PC NATURALS (%)

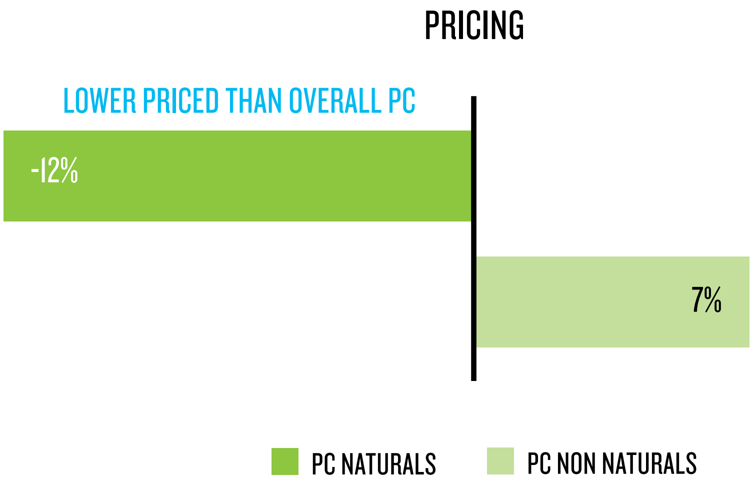


Time Period: MAT Dec 2016
Source: Nielsen

The 'natural' proposition works well for master-brands: In several instances where there are considerably divergent portfolios under one master brand, the 'natural' proposition has served to unify them. Examples include brands like Himalaya and Patanjali who are present across most categories within personal care.

In the Indian market, naturals are not always premium: As far as natural variants go, consumers don't associate quality with price. Natural variants in personal care are priced 12% lower than the category average, making it 17% lower than average non-naturals.

NATURALS ARE NOT ALWAYS PREMIUM



Does not include exclusive outlets (E.g.: Kama Ayurveda, Forest Essentials)
Time Period: MAT Dec 2016
Source: Nielsen

While retail formats, consumer segments and regions within India have their own sub-trends, the move towards all things natural in personal care is a present reality. Factors that are driving the trend are the association of natural ingredients and variants with authenticity and traditional goodness. Brands positioned on the core natural promise seem to be at the most advantageous position.

THE NATURALS SEGMENT

KALPANA SINGH, CMI, HUL PERSONAL CARE, SOUTH ASIA CLUSTER

1. **'Naturals' have been tipped as the new growth frontier. Do you think this trend is here to stay or is it just a temporary phenomenon?**

   Naturals have always been part of Asian culture - mostly in unbranded, raw form through home remedies, kitchen ingredients etc. What we are now seeing, is more branded marketing of naturals as markets like India start developing and consumers continue to seek easier and more convenient solutions to suit their modern lifestyle. Aiding this are factors like higher discretionary incomes and nuclear families where women are able to exercise more choice.

2. **Is the natural/ herbal prevalent only in India or do you think there is scope for it to make huge inroads globally as well?**

   Naturals is a global trend as consumers are seeking more authentic experiences and seeking the 'comfort of roots' due to the impact of globalisation, wars, political turmoil and mass immigration. Asian cultures have a better understanding of naturals and therefore, do not have a sense of newness unlike in the West. However, irrespective of residual usage and awareness of natural products, the wave is a global one - it just plays out differently in each market.

3. **How will consumer loyalty play out amongst natural brands? What would shoppers be more inclined towards - the segment irrespective of the brand, or would the brand come first followed by the benefit?**

   Eventually, the movement towards brands is bound to happen as brands continue to fight to create niches and a space for themselves.

4. **What are the emerging channels for the 'naturals' segment?**

   It really depends on the proposition of the natural brands in question. But naturals are expected to retail through all the standard channels depending on the mix. We have seen standalone stores emerging, though.

5. **In the same way organic food products resonate across age groups, do you think the trend of using herbal products in personal care will become popular among millennials?**

   Younger people in general are far more experimental. The youth of today are also more aware and prone to care more about social issues, and history has shown that youth have been the harbinger of change and trends. So yes, logically speaking, it seems like millennials will be drawn to natural products.

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