

Beauty Business Set To Boom

As household incomes rise, average spend on beauty products & services is growing exponentially. Organized and unorganized players see a huge business opportunity

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Mumbai: Beauty consciousness has dawned on rising affluence. With an increase in the number of households upgrading to a higher consumption lifestyle, there is an explosion of growth in the Indian beauty space. Consider the Living Standard Measurement (LSM) classification, which is the new socio-economic classification to gauge consumption patterns: between LSM 1-4, which is the lowest level, and LSM 8-plus (top end), there has been an 80-fold jump in growth in the consumption of beauty products and services.

That explains why a Hindustan Unilever (HUL) is speeding up to open a Lakme salon a week. Or how a Jawed Habib Hair & Beauty (JHHB), which has grown from 37 salons in 2006 to around 225 at the end of November 2010, is eyeing a similar growth. Or why foreign chains like the contemporary French beauty salon, Jean-Claude Biguine, with annual revenues of 150 million euros, are setting up salons to groom the Indian consumer.

Clearly, the predominantly unorganized locally run beauty salon market is at an inflection point. The mushrooming of branded chains like Lakme is expected to change the landscape completely a few years down the line, ushering in a new era of trained salon personnel, offering services based on global insights and professional products strutting the latest international technologies.

"Step back and look at the way consumption has changed in India. Growing affluence has resulted in increased experimentation. This has accelerated the growth of beauty categories. You see this explosive growth in beauty services as well. Salons are at the centre of that growth. So it's a big opportunity. A couple of years ago, we really decided to pick beauty as a theme. We have dramatically stepped up investment, innovation and go to market capabilities behind our entire beauty portfolio. And the

Makeup Moolah

The Living Standard Measurement (LSM) classification system, a new measure for socio-economic classification, has levels from 1 to 8-plus to monitor growing affluence.

Here are some projections:

▶ The percentage of households in LSM 8-plus, which was earlier 1-2%, is projected to grow to around 5% by 2015

▶ Households in LSM 5-plus will grow from 10% to 25%

▶ These households account for about 60-70% of incremental growth of the beauty categories

▶ Between LSM 1-4 and LSM 8-plus, there is an 80-fold jump in growth in the consumption of beauty products and services



Lakme brand is core to beauty. We see the Lakme business building scale within beauty," said Gopal Vittal, executive director - home and personal care (HPC), HUL.

With close to 150 salons at present, HUL is scaling up rapidly, setting up one Lakme salon per week. The ambition is audacious. If one does the math, there would be about 200 Lakme salons a year down the line. But HUL would rather scale up this ambition to open 2 salons per week, if it has its way. Is there really room for so many? "We believe that there is room to keep adding salons for now. But what is crucial is to be

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true to the business model - the right return on capital, the right cost structure and the right people," said Vittal.

"Currently, Indian hair and beauty industry is seeing a per capita annual spend of only \$1.2, which is far lower than world standards. We are expecting this number to grow to \$5 by 2015. So, in terms of market potential, there is no problem, however, only those companies which can have strong manpower and can overcome the hurdles of the industry can

sustain this growth," said Rohit Arora, executive director, JHHB. The Rs 23-crore firm has proposed to tap the capital market with an initial public offering of Rs 60 crore.

The roughly Rs 7,000 crore organized and unorganized hair and beauty industry is growing at the CAGR of 35%. At this rate, it has the potential to become a Rs-30,000 crore business by 2015.

Professionalization of salons

About 18 months ago, when HUL took a closer look at its salons business under Lakme, it realized that the traditional methods of running an FMCG company would not apply here. The company set up a 100% subsidiary where Lakme was housed and looked after by a dedicated team having a separate CEO. The business got the attention it needed at a time when beauty was developing wings to take off in India. "The purpose of setting up a separate subsidiary that is still nested within the HPC business was to ensure focus and the right culture. And what is important is to build capabilities that are structural and sustainable," said Vittal.

In addition, HUL realized it required high-quality trained staff to have an edge. It has now launched a beauty

academy with the objective to provide in-house training to stylists. For this, HUL has forged an alliance with Pivot Point, a leading beauty training company in the US.

Providing financial metrics was another important task because a salon business operates on a return on capital employed kind of business and not the gross margin kind. "It took us six months to perfect the model. Now we have got a reasonably good grip on how we need to go about it. We've understood the levers and we are ready to scale up. So in the last few months we are adding a salon a week. But even as we do that, we have to keep our eye on same salon growth. And we are pleased with the 20% odd growths that we are seeing there," said Vittal.

As a next step, HUL wants to closely inter-link the product business and the salon business. It has created a Lakme brand council which will advise on product innovation. HUL has already launched Unilever's global professional product brand TIGI and hopes to build the salon brand in a major way. It has also tied up with global partners—Toly (based in Malta) for packaging structures and applicators, Fiabila in France for Nail Enamel, Schwann Stabilo in Germany for all pencils and pencil applicators and Intercos in Italy for lipsticks, eye shadow and face makeup.

With national players expanding their base, will the unorganized market eventually be devoured? "It will take time before anyone or few large branded players take a larger share of this market. However, we are expecting the consolidation to happen at the organized level in the coming years. Local players will continue to exist, considering that there are low barriers to entry in this sector," said Arora. While no organized player can hold a substantial share of this market, Arora said "the pipeline is big enough for many players".

Perhaps, till the government sets up a regulatory system, it's going to be a beauty rush for all.