



5th Annual Wellness Conference: August 2013

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Imperatives for growth The wellness industry



Foreword

Dear reader,

In this third year of PwC's knowledge partnership with FICCI on the wellness sector and the fifth edition of the FICCI Wellness conference, it gives us great pleasure to bring to you *Imperatives for growth: The wellness industry*.

Even as consumer expenditure has grown at its slowest rate in the last 8 years, the wellness sector has bucked the trend and continues to grow from strength to strength. Resilience in consumer spending on wellness products and services is a reflection of increasing consumer awareness and acceptance of wellness as an integral part of their lifestyle. The large 700 billion INR opportunity offered by the Indian wellness industry has sparked the interest of global and domestic entrants into this space, even as incumbents are directing their efforts on scaling up operations. This has also sparked increased levels of interest from the investor community. Consequently, increased availability of funds is likely to propel deal activity in this space.

While industry prospects continue to remain bright, players are adopting various strategies to sustain topline and bottomline improvements. It is interesting to note how players are juggling multiple brands to create distinct value propositions for diverse customer segments. Cost rationalisation is high on the agenda for many companies in this sector — rising inputs costs due to global inflation, volatility in currency movements, high rentals and attrition are putting increasing pressure on margins of industry players.

With the industry slated to reach one trillion INR by 2015, it is important for industry stakeholders — private participants as well as the government—to take collective action around creating an adequate pool of trained, certified and reliable talent for the sector, and improving the effectiveness of mechanisms to monitor and regulate quality standards in the industry. A comprehensive approach towards quality and compliance will also be instrumental in instilling confidence regarding India's capabilities in the wellness arena among global consumers.

Sandeep Ahuja
Chairman, FICCI National Wellness Committee
MD, VLCC Healthcare Limited

Rachna Nath
Executive Director and National
Leader, Retail and Consumer
PwC

Executive summary



The wellness market in India continued to tread its projected growth trajectory, to reach a market size of 700 billion INR in 2012. This represents a growth of more than 18% over the previous year. Products continue to comprise a majority share of 55 to 60% of the total market share.

Despite the slowdown in economic growth in 2012, the wellness industry has shown little signs of downturn as consumer spend on wellness products and services continues to be resilient. While industry prospects still remain bright, companies are fine-tuning their business and operating model in order to drive sustained revenue growth and ensure profitability.

Levers for revenue growth

Adopting a balanced approach to scaling up: Franchising has been a common route to achieve rapid scale. However, companies are also exploring hybrid models and expanding the network of their own outlets in order to manage the challenges around loss of control and brand dilution.

Multi-brand strategy to address diverse customer segments: Companies are chalking out a multi-brand strategy in order to target distinct customer segments, penetrate deeper into existing markets, and simultaneously diversify into newer markets.

Investing in building consumer awareness and trust: Consumer awareness and trust plays a key role in the growth of the wellness products and services market as well as widening its consumer base. Players have taken up a number of initiatives to educate and improve consumer awareness regarding the benefits of wellness products and services, and are setting up mechanisms for pro-active consumer connect and feedback.

Levers for growth in profitability

Diversifying portfolio in order to drive profitability:

In the wellness industry, products traditionally have had higher margins than services. Many wellness service players are diversifying into products in order to improve business margins.

Chalking out a premiumisation strategy: Players are adding premium products and services to their portfolio mix in a bid to shore up gross margins. However, this necessitates creating a distinct value proposition and investing in additional capabilities.

Developing innovative strategies in order to manage cost pressure: Players across the industry are grappling with issues such as rising input, distribution, rental and manpower costs. In order to mitigate margin risks, they are being more pre-emptive and responsive to market dynamics. They are constantly in pursuit of new options in order to prune operating expenses. This in turn may call for companies to challenge existing practices and re-orient internal processes.

Industry concerns and challenges

There are a number of systemic challenges faced by the wellness industry which, if left unaddressed, can stymie the future growth potential of the industry. Prevailing challenges include the following:

- While players are developing strategies to control costs and arrive at optimal cost structures, managing input costs continue to be a challenge due to the limited capability of the players to pass on these costs to the customers.
- As highlighted in the previous editions of the PwC-FICCI wellness publications, the wellness industry continues to face a talent crunch. This paucity of skilled talent has resulted in high manpower costs and attrition levels. This may result in a 'war for talent', unless active measures are taken to create credible and accessible training infrastructure.

- On the whole, industry consensus emphasises on the importance of improving the overall quality standards within the sector, and project the image of India as a high-quality wellness destination. Accreditation and quality certifications are pre-requisites in order to achieve this goal. However, there are gaps that need to be bridged to minimise execution challenges and ensure conformity to quality standards across the industry.

A call for action

Corrective measures to tackle these challenges have been introduced in the past. However, factors such as low consumer awareness and execution challenges around certification have limited the industry from achieving its desired results. Collective action from multiple stakeholders such as industry leaders, investors, the government and infrastructure and service providers to the wellness industry, can be a panacea for such challenges, and thereby enable the sector to live up to its trillion rupee potential by 2015.

Sizing the wellness market opportunity

Despite macroeconomic headwinds, consumer spend in wellness remained largely buoyant. The wellness market in India registered a growth rate of 18-20% during 2012, to touch a market size of 700 billion INR. Products continue to constitute a majority share of the market.

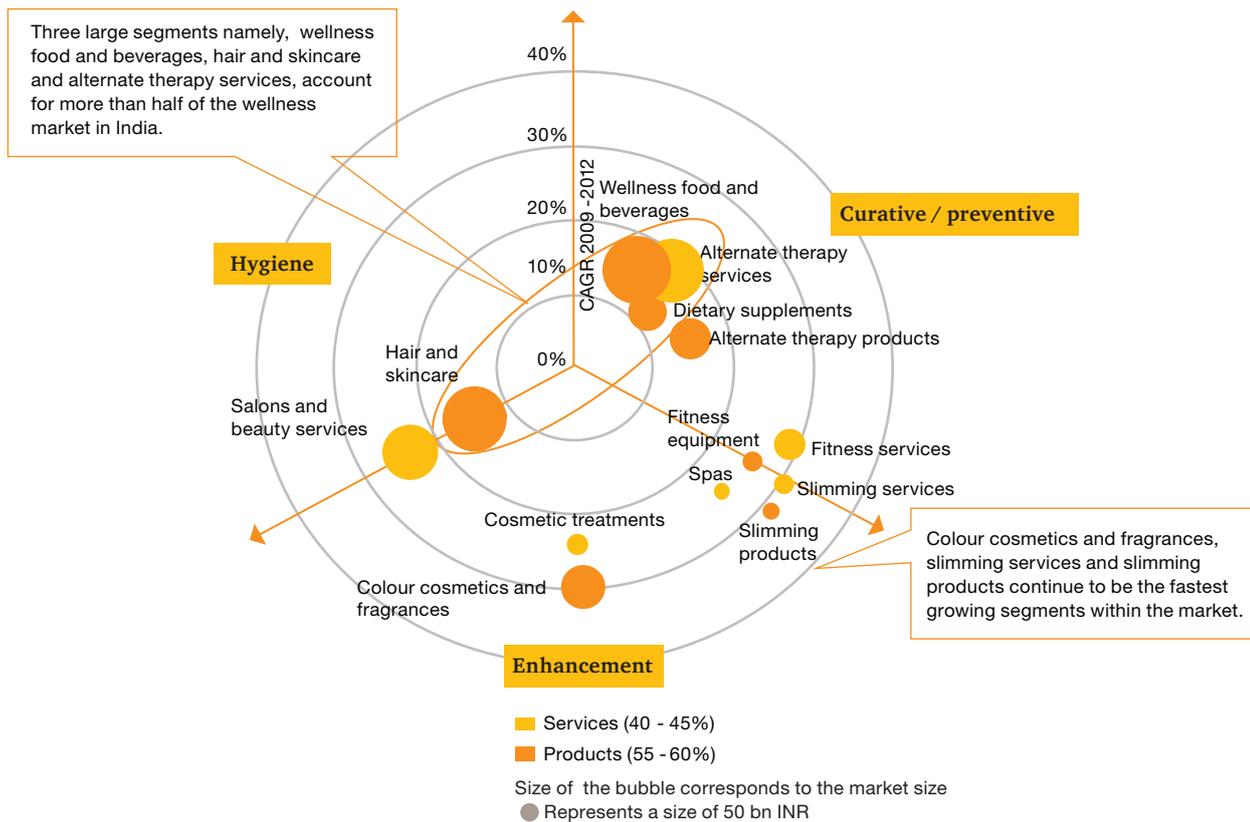


The market has grown largely in line with our expectations. We had projected a growth rate of 20% in our 2012 report titled, 'Winds of Change – The Wellness consumer'.

The 680-720 billion INR wellness market has grown at a rate of 18-20% over last year



The wellness market landscape



The wellness offerings market has been segmented along hygiene, curative and enhancement needs of the consumer. Key features are as follows:

- Hygiene needs stem from the basic necessity to maintain personal cleanliness.
- Curative needs are aligned to prevent diseases, cure ailments and maintain a healthy lifestyle.
- Enhancement needs focus on improving personal appearance and self-confidence.

Source: PwC research and analysis, company annual reports, trade databases and primary research



“There is strong demand in tier-2 and 3 cities with growing awareness for health and fitness among consumers. Our growth is being driven by expanding presence in these under-explored markets with strong demand”

Anant Gawande, CFO, Talwalkars

Rising consumer spend, increased availability of funding and expansion into tier-2 and 3 cities have been growth drivers for the wellness industry

1

Consumer spend in wellness continues to be buoyant

According to the Central Statistical Organisation, growth in consumption expenditure has slowed down to 4% in 2012-13 compared to 8% in 2011-12. However, consumer spend on wellness products and services continues to be resilient with a marginal slowdown in value growth.

2

Rising competitive intensity in the wellness industry

- High growth prospects and opportunities within the wellness industry have attracted a number of new entrants (global as well as domestic), and accelerated expansion plans of existing players.
- For instance, the salon and spa services segment has witnessed the entry of a number of global players such as French hair-salon chain, Dessange International, Jean-Claude Biguine Salon and Spa, Saks Hair and Beauty salons, Toni and Guy, etc. Similarly, the fitness services industry which, until a few years back, had only a small number of organised players, today comprises of 100-plus centre chains. This includes domestic players such as Talwalkars as well as international chains such as Gold’s gym, Fitness First, Anytime Fitness, etc.

3

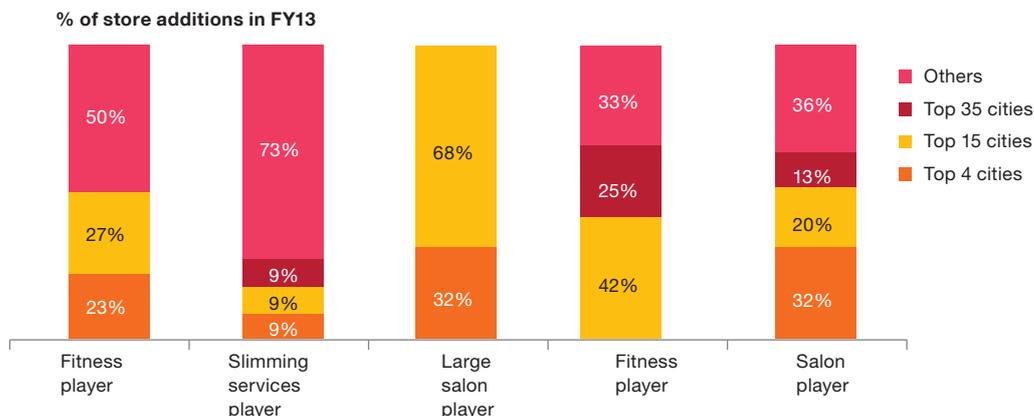
Increased availability of funding is spurring deal activity within the sector

Increasing attractiveness of the wellness industry has given a boost to deal activity within the sector, which over the recent years has been on an upswing. Over 40 deals were inked since FY 2009 as compared to the pre- FY 2009 period where less than 15 deals were inked. Deal activity continues to be driven by strategic deals, which have accounted for over 65% of the total deals since 2009.

4

Expansion to tier-2 and 3 cities

- Rising income, increasing awareness among consumers in tier-2 and 3 cities, and lower rental/manpower costs are some of the drivers for expansion into tier-2 and 3 cities.
- For a number of wellness players, over 50% of their new store additions, during FY 2013, have been beyond the top 15 cities.



Source: PwC research, trade press, CSO, company websites



“While growth in the fitness services sector continues to be in high double digits, there has been some contraction in spends by customers, with customers scaling down on extra services. This has pushed the impetus for increasing penetration and driving enrollments”

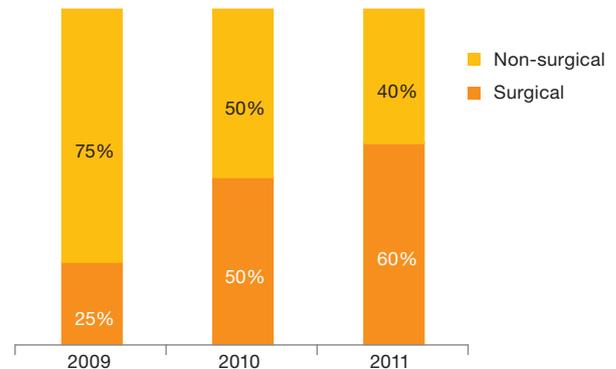
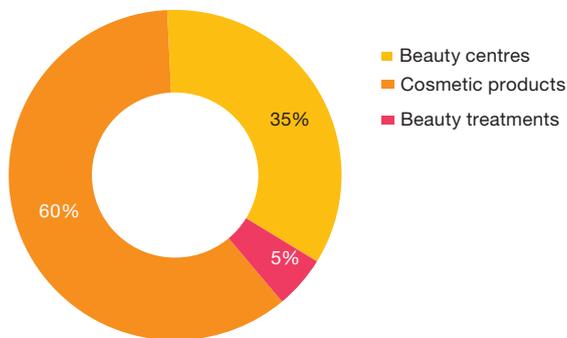
Istayak Ansari, COO, Gold’s Gym India

The 285 -290 billion INR beauty care market has grown at a rate 15 to 20% while the fitness and slimming market was estimated at 60 billion INR in 2012, growing at a rate of 18-22%

Beauty care

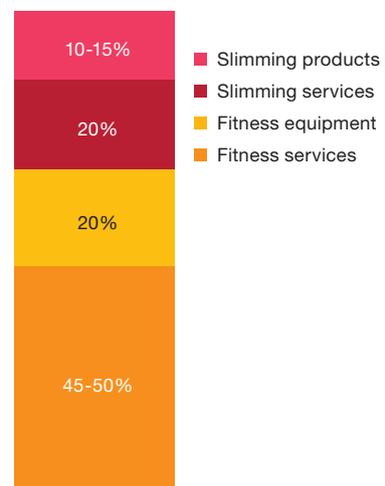
- Consumer spend on beauty care continues to be resilient, with a marginal slowdown in value growth.
- Within the cosmetic products segment, the hair and skin care sub-segment continues to dominate the market. However, the share of the colour cosmetics, fragrances and deodorants sub-segments have been steadily increasing over the years and are expected to account for over one-third of the total cosmetic products market by 2015.

- The organised market for salons has been growing at a much faster rate and currently accounts for nearly a fifth of the total market. Going forward, this is expected to grow as players increase the number of outlets.
- Non-surgical or minimally invasive procedures have overtaken surgical procedures due to lower cost, shorter duration and lesser recovery time associated with the former. Increased acceptance of such procedures has been driven by the consumer need to look good and the rising levels of awareness on its minimal side effects.



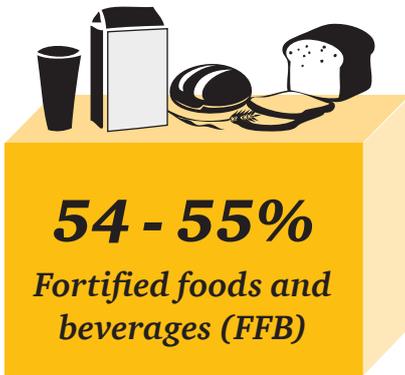
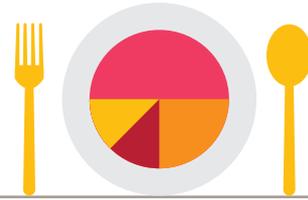
Fitness and slimming

- Fitness services continue to account for nearly half of this segment.
- Slimming products have grown at a rapid rate of 35-40% in the last one year, driven by urban consumers, who are placing a greater premium on looking slim and fit, and the wider availability of products through retail or direct selling channels.
- The slimming services segment has grown at a rate of 20-25% in 2012. The market remains fragmented, with most players having a limited number of centres and focussing only on one or two cities within India.
- The fitness equipment segment has seen a moderate slowdown in its volume growth over the last one year. The share of the home segment has not grown in line with industry expectations, since customers have either scaled down or postponed their purchase decisions. Moreover, reduced capex by gym chains into their new centres, located within tier- 2 and tier-3 towns, have also impacted demand.



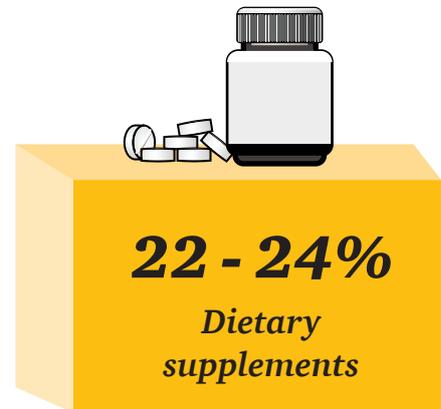
Source: PwC research and analysis and the International Society of Aesthetic Plastic Surgery

Nutrition foods, beverages and supplements comprise a 170-180 billion INR market in India



- FFB is the largest segment within the nutrition food and beverages market. Fortified beverage mixes, biscuits and oils comprise over 80% of the overall FFB market.
- Fortified oils is the fastest growing category with sharp increases in prices during the last one year due to high inflation in the country.
- Players are also adding new categories to the FFB product portfolio, such as noodles, cooking sauces, eggs, probiotic yoghurt, etc.

- Traditional herbal dietary supplements are becoming increasingly popular over other supplements, with companies investing into R&D and focussing on product innovation to address taste barriers.
- Multi-vitamins continue to be well-entrenched due to its established association with holistic health benefits in the minds of consumers.
- Companies are focusing on exploring new distribution partners such as online and specialty wellness retailers.



- Consumer affinity for packaged, naturally healthy products is increasing due to the deep association of concepts such as 'natural' with 'health'.
- As fortified products are becoming the 'new normal' in categories such as biscuits and bakery products, naturally healthy variants such as high-fibre biscuits and snacks are being launched at a moderate price premium.

- BFY food and beverages continues to be the fastest growing segment, though on a smaller base.
- BFY products are typically perceived by consumers as being 'less unhealthy' than their regular counterparts, and hence finds relevance in a number of indulgence food categories such as cola beverages, chips, chocolates, confectionery etc.



India ranks among the top 10 global growth markets for nutrition F&B

Globally, growth in nutrition F&B is being fuelled by emerging markets, with markets such as India, China, Brazil and Indonesia expected to add more than \$ 100 bn USD bn between 2012 and 2017.

Source: PwC research and analysis, Euromonitor



The rejuvenation segment has posted a healthy growth in view of the expansion drive by players while the alternate therapy segment has maintained its growth trajectory

Rejuvenation

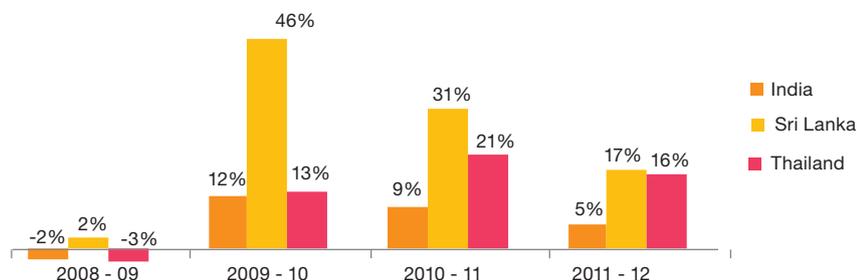
- The rejuvenation market in India is estimated at 7 billion to 8 billion INR.
- The rejuvenation sector witnessed a number of deals last year. For e.g., Six Senses Spa joined hands with Jaypee Group for establishing one of the largest spas in India, private equity-backed The Four Fountains Spa acquired Power Spa Pvt Ltd.
- Day spas continue to grow at a faster clip compared to destination and hotel spas. Players are introducing new and innovative offerings (e.g., fusion therapies that blend western and Indian therapies, service combinations, use of exotic ingredients, etc.) in order to attract footfalls and differentiate themselves from competition.

Alternate therapy

- The alternate therapy market in India is estimated at 160 billion to 180 billion INR. Lower costs of alternate therapy treatments has made it affordable to a larger cross-section of the population. However, the need for standardisation and lack of compliance around accreditation still remain unaddressed.
- Disbursement of government grants and schemes for the *Ayurveda, Unani, Siddha and Homeopathy* (AYUSH) sector has increased at a CAGR of 31% between 2008-2011, with a major thrust on the development of AYUSH hospitals and dispensaries, educational institutions and R&D support. The 12th Five-Year Plan (FYP) has recommended budgetary allocations of up to 10% (of the total budget of the health sector in India) for the AYUSH sector.
- The Insurance Regulatory and Development Authority (IRDA) has issued a notification for the inclusion of non-allopathic systems within mediclaim insurance policies. This is expected to provide a boost to the sector. However, getting a buy-in from insurance companies in order to ensure adoption is critical.
- Increasing concerns about the side-effects of chemical-based products and services is expected to give an impetus to wellness providers to diversify their product portfolio into segments such as ayurvedic and herbal product categories.

Wellness services can play an important role in boosting inflow of international tourists to India

Year-on-year growth of international tourist arrivals



- Post-2009, countries such as Sri Lanka and Thailand have grown their international tourist arrivals at a faster clip as compared to India. The wellness services sector (especially AYUSH) has the potential to be a key driver for promoting India as a wellness destination and boosting international tourist footfalls.

Source: PwC research and analysis, trade press, Health Division Planning Commission, government of India

Key levers for sustained and profitable growth

While the recent slowdown in the economy is yet to significantly dampen prospects in the wellness industry, a key concern and challenge, for many recent entrants (and even incumbents), has been ensuring sustained revenue growth with profitable operations.

Players have adopted multiple strategies in order to ensure consistent topline and bottomline growth, even as they deal with systemic challenges in the industry.



Levers for revenue growth

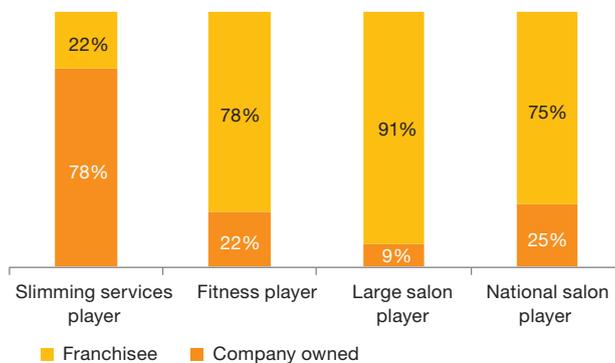
“We are seeking to establish our own stores first locally which can be used to understand regional markets and used as a benchmark by the franchise partner to align standard practices and train local talent”

Sandeep Ahuja, Managing Director, VLCC Healthcare Ltd.

1. Franchising has been a common route to achieve rapid scale. However, companies are also exploring hybrid models and expanding the network of their own outlets to manage challenges around loss of control and brand dilution

Franchising continues to be a popular route to achieve rapid scale

- Franchising allows companies to rapidly build up their network without straining their capital resources, and drive deeper market penetration using easily replicable models.



However, the risks around loss of control and erosion of brand equity need to be managed

- Risks associated with the lack of adherence to quality standards, inconsistent service experience, inadequate training and education to franchisees and malpractices reported by franchisees, can lead to an erosion of brand value.
- Managing best practices and processes around franchise identification, selection, training and governance in order to ensure consistency of customer experience have become critical.

Players are managing these challenges by striving to balance between owned vs franchise outlets as well as exploring hybrid partnership models

Players realise the need to establish standards and norms through their own stores before expanding through a franchise network

- Many players who scaled up rapidly through the franchisee route, have now set up plans to increase number of own outlets.
- Players who continue to expand through the franchisee route are becoming more cautious and selective in their approach towards selecting partners.
- Companies are strengthening their brands by establishing their own outlets in new markets, before seeking franchise partners. This has helped them develop best practices to support the local franchisee network better.
- Despite these changes, franchising will continue to play a critical role in the growth of the wellness industry.

Emerging hybrid models are being used to bridge the gap between control vs scalability

- Shared capex models help companies maintain a greater degree of control and visibility over their respective operations. For example, Talwalkars operates its outlets through a 51% subsidiary model, where the capex is shared with a local master franchisee, while the company reserves the right to buy back its share.



“Along with growth capital for the business, a private equity investor also brings in fresh perspectives backed by experience and introduces best practices and professional standards for business operations”

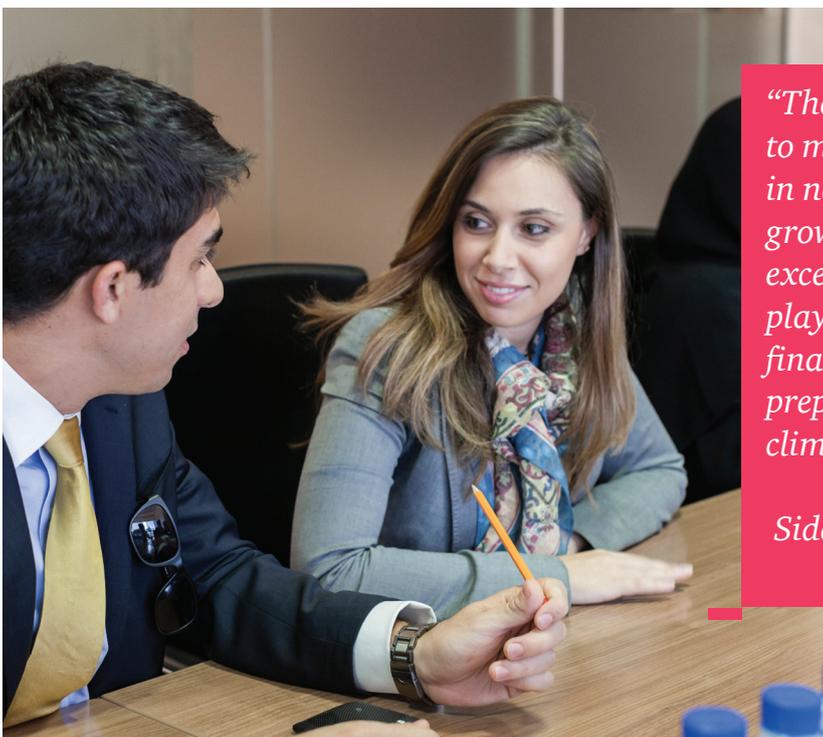
*Vikram Bhatt, Director,
Enrich Salons*

2. Venture capital and private equity funding into the wellness sector has increased over the recent years...

- There have **more than a dozen venture capital and private equity deals inked** between March 2009 and June 2013. Interest in this sector has grown with the emergence of organised players, increasingly seeking to pursue equity funding in order to drive growth plans.
- While a majority of investments are largely early-stage or first-round funding, players such as VLCC, YLG, Healthkart.com and Guardian Lifecare have raised more than one round of capital, indicating an increasing buy-in for the value-creation potential of the wellness sector.
- PE- backed companies have been able to expand into newer regions, widen their portfolio and drive inorganic growth through acquisitions.

Company	Investor (year of investment)	How have these investments helped ?
Enrich Hair and Skin Solutions	<ul style="list-style-type: none"> • JM Financial Limited (2010) 	<ul style="list-style-type: none"> • Grew from 15 salons in 2010 to 50 in 2013 • Revenues grew by a CAGR of over 40% between 2010-12
YLG	<ul style="list-style-type: none"> • Helion Venture Partners (2009) • Everstone Capital (2012) 	<ul style="list-style-type: none"> • Helped fuel organic growth from one salon in 2009 to nearly 30 in 2013 • Revenues grew by a CAGR of nearly 50% from 2010-12
VLCC	<ul style="list-style-type: none"> • Everstone Capital (2007) • CLSA (invested in 2004, exited in 2011) 	<ul style="list-style-type: none"> • Deployed funds in order to increase locations in India, expand overseas, plan global acquisitions, develop an education infrastructure and strengthen products business
The Four Fountains Spa	<ul style="list-style-type: none"> • Fulcrum Ventures (2007) 	<ul style="list-style-type: none"> • Started in one city and thereby expanded into 10 cities within India in a span of five years • Acquisition of Power Spa in 2013
Healthkart.com	<ul style="list-style-type: none"> • Intel Capital (2013) • Sequoia Capital, Omidiyar Network, Kae Capital (2011) 	<ul style="list-style-type: none"> • Deployed seed funding and later stage funding in order to expand its product portfolio, launch a marketplace for pre-scribed drugs and for the acquisition of madeinhealth.com
Guardian Lifecare	<ul style="list-style-type: none"> • Mitsui Ventures Global Fund (2012) • Samara Capital (2008) 	<ul style="list-style-type: none"> • Funds deployed for organic growth and retail expansion into new markets

Source: ISI, Mergermarkets, PwC research



“The current economic sentiment is likely to make investors cautious about investing in new sectors – wellness, though a growing and attractive market, is no exception. This is an opportune time for players to look inward, improve their financial and operational hygiene and prepare for growth once the investment climate becomes positive”

Siddharth Kothari, Director, JM Financial Investment Managers Limited

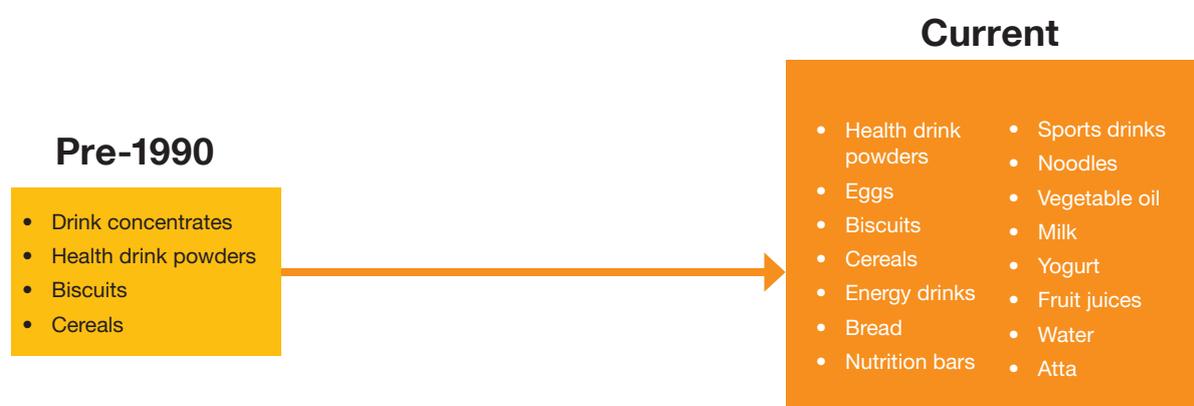
...however, there is opportunity to accelerate pace of investments going forward

- **While there are only a handful of players today with revenues of 0.5-1 billion INR, new investment opportunities are expected to emerge as smaller players seek to grow in size and scale**
 - The wellness sector has a limited number of players having a sizeable magnitude of operations (i.e. revenues of over 0.5-1 billion INR). This can be attributed to the relative recent entry of organised players ‘into a sector, which was largely characterised by small-scale operations and single-store outlets. However, entry of many corporate players in this segment is expected to generate more investment opportunities as they scale up their operations and look for funds to drive their expansion plans
- **Exits have been relatively few in the wellness sector, due to the recent vintage of most investments in this space.**
 - The sector has witnessed some exits by private equity investors due to growth in operations of their respective investees. For example:
 - ChrysCapital exited from Zydus Wellness in 2010 at an estimated return of 4.7 times its initial investment.
 - After seven years of investment, CLSA exited from VLCC through the promoter buy-back route in 2011. Revenues of the latter tripled during the same period.
 - However, given that many investments have taken place recently, and since most companies are still in their early stages of growth, successful exits are yet to be consistently demonstrated. IPO is yet to emerge as a proven exit strategy, with only two IPOs in this sector. IPO plans for some of the larger players have been put on hold or postponed due to poor market sentiments and the volatility of the bourses.
- **Due to the current weak economic sentiment, investors are adopting a calibrated strategy for investments. Players need to take cognizance of this and plan for the future.**

3. A multi-brand strategy to target disparate customer segments along with a presence across a wide range of categories have helped companies increase penetration into existing markets as well as drive entry into new markets

In the health and wellness food and beverages category, players have launched several new categories in order to increase penetration

Categories under functional or fortified food and beverages



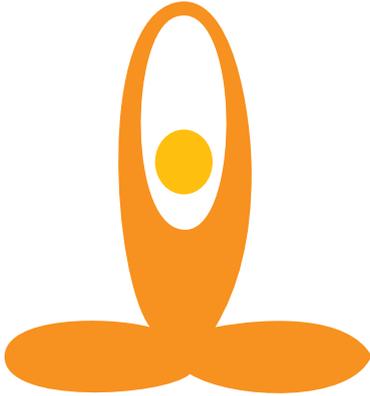
Multiple brands to target distinct customer segments

- Players adopt a multi-brand strategy to target disparate customer segments with varying value drivers:
 - L’oreal India has multiple brands targeting different consumer segments- Garnier, L’Oreal Paris and Maybelline targeting the mass and ‘masstige’ segments, Lancome for the premium segment and L’Oreal Professional for the salon segment.
 - CavinKare has a mix of unisex high-end spa-and-salons (Limelite) and mid-range family salons (Green Trends).

Providing consumers with options to induce trial

- In an effort to target a wider base of customer and induce trial among current non-users, companies are launching smaller SKUs (sachets and tubes) even for their mass premium and premium products.
- Companies are also using coupon websites such as Snapdeal, Groupon, etc. in order to induce trial among consumers by offering discounts of upto 50 to 80% on services at salons, spas, fitness centres, etc.

Source: PwC research and analysis, trade press



“We are investing in building consumer awareness for our products through efforts such as making product information available on our website, having brand representatives or advisors at the point of sale to explain product features etc.”

*Philippe Haydon, CEO, Pharmaceuticals,
The Himalaya Drug Company*

4. *Players are increasingly investing in consumer education and increasing the visibility of their wellness offerings*

Conducting health camps and offering free health check-ups

- Leading H&W food and beverage players in India such as Marico and Quaker Oats conducts health campaigns by observing events such as the ‘World Heart Day’, encouraging consumers to maintain a healthy lifestyle and offering free cholesterol checks-ups for consumers.
- Slimming centres and bariatric surgery players in India are generating awareness regarding issues such as fighting obesity by observing anti-obesity days, conducting free health camps, publishing guides to educate consumers, organising campaigns involving marathon runs etc.

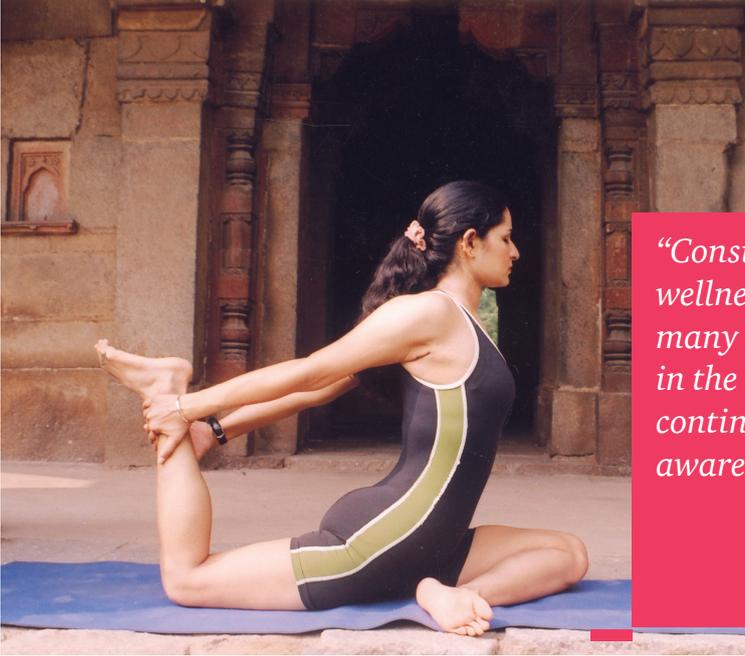
Educating customers regarding the benefits of specific ingredients

- Wellness product players have been investing in educating consumers about the benefits of specific wellness ingredients in order to mould customer preference towards their products.
- For instance, H&W food and beverage players have extensively focussed on promoting the benefits of ingredients such as Omega-3 fatty acids, Oryzanol, etc. so that consumers can become familiar with these ingredients and also make conscious choices to buy products containing these ingredients.
- Similarly, within the beauty segment, players have focused on educating their customers regarding the benefits of ingredients such as activated carbon, AHA (in skincare) and keratin (in hair care).

Social media and online presence to generate consumer awareness

- A number of product and service players have launched informative and interactive websites in order to promote wellness among their consumers. Some aspects of these interactive elements include columns such as ‘Ask the expert’ which gives the consumer access to expert advice, health tips, tools such as BMI calculator, heart health test, recipes for healthy foods etc.
- Some players have also adopted an active social media presence providing consumers a platform to interact with the brand and create a ‘community’ of users.

Source: PwC research and analysis, trade press, company websites



“Consumer scepticism remains high in the wellness products space because of the influx of many spurious products in the market, specially in the dietary supplement segment. The industry continues to invest in building consumer awareness through various activities.”

*Rahul Malhotra, Assistant Vice President,
Guardian Life Care Pvt. Ltd.*

5. **Players are undertaking a number of measures to win customer trust and improve overall quality standards in the industry...**

Certifications and accreditations are some of the tools available to players in order to build credibility

- Recognising the need for accreditation within the wellness industry, the National Accreditation Board for Hospitals and Healthcare (NABH) had put in place a national set of guidelines, back in 2008-09, for the accreditation of wellness centres. Accredited centres are recognised by a ‘mark of excellence’, publicised by the Ministry of Tourism at various forums and are provided financial support.
- Fitness training players such as BFY Sports and Fitness offer international certifications such as the American Council on Exercise (ACE) for fitness trainers, while domestic players like VLCC have launched certification courses in association with IGNOU.

Players are providing an increasing amount of information to customers in an attempt to earn their trust

- Leading wellness product companies have focused on backing their claims with verifiable and quantified data from publicised clinical trials.
- Product players are also making detailed nutritional information available on product packaging including details of ingredients, calories, carbohydrates, fat content (MUFA, PUFA and transfat), protein, etc. per serving.

Players are improving their customer complaint redressal systems to ensure a better customer experience

- Players are setting up effective consumer complaint redressal systems in order to address consumer concerns and assure them of quality products and services.
- Some wellness operators have constituted refund policies in case customers are not fully satisfied with their services.
- Product companies include information on customer feedback and complaint channels as a part of their packaging. Redressal mechanisms include refund or replacement of defective products at no cost to the consumer.

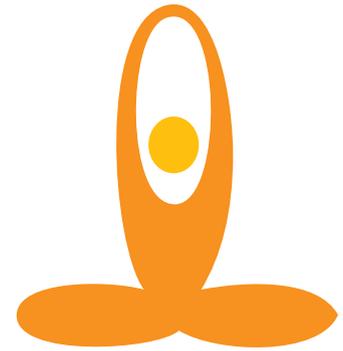
The ASCI has been active in addressing issues around unsubstantiated claims in media

- The ASCI has set up a National Advertising Monitoring Service (NAMS) for print and TV ads.
- The ASCI is actively focusing on ensuring that misleading, false or unsubstantiated claims are not made in advertising campaigns by players.
- On an average, the NAMS monitors 1,500 TV and 45,000 newspaper ads. The body received and processed over 780 complaints against misleading ads in 2012-13.
- ASCI received the Best Practices Silver Award for NAMS in 2013 from the European Advertising Standards Alliance.

Source: PwC research and analysis, NABH and the ASCI

“Both NABH and the wellness players need to work together to increase the awareness of standards among customers and overcome current challenges around flexibility of curriculum, cost of implementation and ease of execution of the standards.”

Anurag Kedia, Director, The Four Fountains Spa



...however, there are gaps that need to be bridged to minimise execution challenges and ensure conformity to quality standards across the industry

Regulatory measures to govern quality standards in the wellness industry and address issues around credibility have room for improvement

Current status of NABH accreditation for wellness centres	Only five wellness operators have been accredited by the NABH till date, while 12 additional applications are currently being processed.
Current status of FSSAI regulation on functional and novel foods	While FSSAI regulations have been notified in 2011, amendments covering functional and novel foods are still in the draft stage, and are yet to be implemented.

There are a number of steps to be undertaken in order to ensure that the regulations are relevant to the industry, improve compliance and ensure effective enforcement.

- **Tailored guidelines for various segments of the wellness industry:** Industry participants have voiced the need to tailor the NABH guidelines to suit segment-specific dynamics.
- **Reduce execution challenges and costs:** High cost of accreditation is a deterrent among industry participants, and the process is viewed as long and cumbersome. Simplification of the process will result in higher acceptance within the industry.
- **Improve consumer awareness regarding accreditation:** Consumer awareness regarding accreditation continues to remain low, leaving players with little incentive to invest in this process. The industry and QCI need to work jointly in order to promote and improve consumer awareness regarding accreditation.
- **Ensure implementation of regulatory norms:** For wellness products, enforcement of quality guidelines and regulations continues to be a lacunae. Monitoring and punitive action against defaulters need to be stepped up.

There is also need for the industry to introspect and develop a common agenda to address these concerns

- What steps are required to ensure regulatory norms are effective and relevant to the industry?
- Is there a need for an industry body as a watchdog to keep malpractices in check and ensure adherence to standards?
- What measures can be taken to instil consumer credibility and ensure the wellness industry captures a bigger share of the domestic consumer and tourist wallet?

Many countries globally are strengthening regulations in order to improve the credibility of the wellness sector

For e.g., Europe has defined new norms which prescribe a new format for mandatory nutrition labeling. It has also mandated a list of approved generic health claims that companies have to adhere to while advertising to counter unsubstantiated health claims for nutritional products.

In the wellness spa segment, the Spa Industry Association of Canada has developed a national quality assurance program to monitor quality and integrity of the services offered by its members.

Source: PwC research and analysis, NABH

Levers for profitability growth



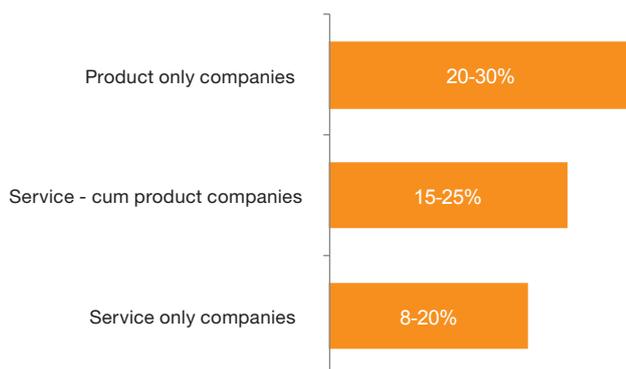
“In recent years, we have focussed on growing our skin, hair and bodycare products manufacturing and retailing business, along with our services business. With our unique proposition and deep connect with customers, expanding into retailing of these products was a natural extension of our operations, since we had already developed them in-house for use as consumables in our centres”

Sandeep Ahuja, MD, VLCC Healthcare Ltd.

1. Many wellness service players are targeting an increase in share of product-led revenues to drive profitability

Since products have traditionally enjoyed higher margins, pure-play service players are diversifying their portfolio to include products to drive growth in bottomline

Typical EBITDA margins for leading wellness players in India



- While profitability is largely a function of the segment a company belongs to, pure-play wellness service companies are facing challenges in improving margins, due to high rental, utility and manpower costs.
- Many leading wellness service companies have successfully added products to their portfolio. As the share of contribution of product revenues to the topline has increased, profit margins have grown in tandem.
- Alternately, large product companies such as HUL, Marico and CavinKare, that have diversified into services, in order to establish a personalised brand connect with their customers, are building capabilities from the ground-up level, and have adopted a long-term perspective towards profitable growth from services.

Products have traditionally had higher margins than services, with EBITDA for beauty and wellness products ranging from 20-30% vs service operating margins of 8-20%+

Source: PwC research, company annual reports and trade press

2. While a premiumisation strategy has been often used to improve margins, it necessitates a distinct value proposition and investment in building additional capabilities

Examples of premiumisation strategy

1

Introducing high-end variants of popular brands

- Several companies are leveraging on the brand recall and strength of their popular brands, by launching high end variants to tap the ‘wellness believer*’ segment
- However, it is important to clearly distinguish between the offerings and justify price premium of these high-end variants. Differentiation can be based on various parameters such as the following:
 - Technology (e.g. Parachute Advanced)
 - Format (e.g. Lakme Absolute salons, Bevels salon from Jawed Habib)
 - Functional benefits (e.g. Saffola Gold, Horlicks Gold)

2

Launching products for the professional services segment

- Products tailored for professional services enjoy higher margins over their retail counterparts. Hence, players are launching high-end professional grooming products such as shampoos, conditioners, hair serums, facial kits etc. targeted specifically at spas and salons
 - For example, Dabur launched a range of products under the ‘Fem’ brand for spas, salons and beauty centres, Henkel launched a mass-focussed professional hair care brand and CavinKare launched a range of mid-segment professional products in skin and hair care
 - However, professional grooming products require different sales and marketing capabilities compared to the retail segment as well as a separate channel strategy. This segment also needs to be backed by strong technical support team for resolving client issues and queries.

3

Bringing in brands from global portfolio to India

- Many players are bringing in their global brands into India, typically positioned a few notches higher in India as compared to their global positioning.
- However, in order to gain acceptance in the Indian market, companies have to invest significantly into branding, marketing and distribution capabilities.

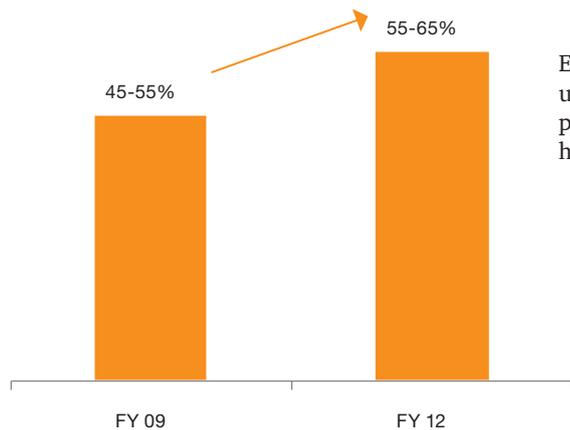
Source: PwC research and analysis, trade press

* In our 2012 report titled *Winds of Change – The Wellness Consumer*, we defined a wellness believer as a consumer who seeks solutions beyond general wellbeing, and is receptive to products and services with distinct functional benefits

3. Even as players adopt measures to mitigate and minimise rising raw material costs, challenges around high inflation and volatility in global markets are likely to continue in the short term

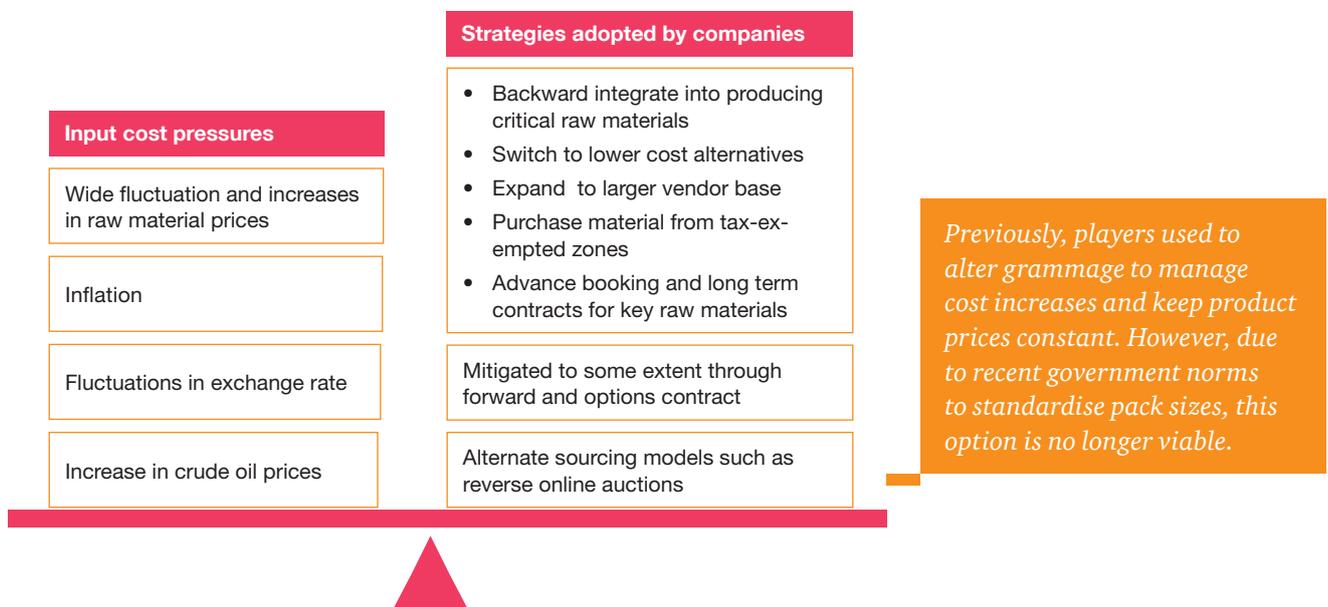
Rising inflation and fluctuating raw material prices have led to a substantial rise in input cost impacting the bottomline of wellness product companies

Cost of goods sold as % of total operating expense has jumped over the last three years for major players¹



Even though input costs have been on an upswing, industry players have not been able to pass on the entire increase in input costs, and have maintained thrust on volume growth.

While measures have been undertaken by industry players to hedge imminent risks, input costs can be controlled only to a certain extent



Source: PwC research and analysis, trade press, company annual reports

4. *Distribution is challenging in a fragmented market; newer models such as distribution alliances and online channels are being used to rationalise costs*

In a fragmented and diverse market like India, distribution can be challenging

Organised retail penetration is low in India, estimated at around 8%. India is among the most fragmented retail markets globally, with over 12 million to 13 million retail outlets. The largest FMCG player today has a reach of less than 50% of the Indian retail market.

Wide variations in the distribution reach of various FMCG companies has resulted in this being a key competitive advantage, and companies are investing heavily to expand their network.

There are various options available for players to reduce investments in developing distribution capabilities. However, these are largely relevant for urban markets

Distribution alliances with large FMCG companies

- Merisant India had entered into a distribution arrangement with Nivea for the distribution of Equal tabletop sweeteners in India. Similarly, Coty, a global fragrances major, entered into a strategic alliance with domestic FMCG player CavinKare for the marketing and distribution of its fragrances. Distribution alliances enable players to gain scale and familiarity with the Indian markets and help them build a distribution scale rapidly.

Focussing on modern trade formats such as wellness retail and supermarkets

- Wellness retail chains such as Health & Glow, Guardian Lifecare and NewU are expanding their presence in tier-1 markets in India, and planning to enter select tier-2 cities as well.
- With modern trade gaining importance in the overall channel mix, manufacturers have appointed exclusive modern trade stockists in large towns to service supermarkets, hypermarkets and wellness retailers.

Online retail emerging as a popular route to address hitherto unaddressed customers

- Online retail is gaining prominence in India across consumer categories, including wellness. Brick-and-mortar retailers such as Guardian India, NewU and My Nutrition India also have online portals for the retailing of health and wellness products.
- There has been an increase in the number of dedicated online retail sites for wellness, such as HealthKart.com, MyNutraMart.com and MedPlusBeauty.com.
- Wellness players like Dabur have also launched online shopping portals for their beauty and wellness products.
- However, online retailing requires certain distinct capabilities (e.g. Cash on Delivery) and wellness companies have to build these capabilities to be able to launch a successful online distribution model.

Source: PwC research and analysis, trade press



Rental cost is among the largest operating expense incurred by wellness service players and has a substantial impact on bottomline. Rental cost in India can be as high as 20 – 25% of revenues.

“One of the factors that amplifies the challenge is that unlike global markets where the rentals are typically on a carpet area basis, in India it is charged on the entire built-up area. This consequently results in a higher rent-to-revenue ratio compared to global markets ”

Istayak Ansari, COO, Gold’s Gym

Managing rental costs is a key concern among wellness players and they are adopting a number of strategies to control rentals

Players are adopting a number of strategies to minimise impact of rental costs on bottom line:

1

Efforts to shift from fixed to variable rental models

- Some large players are opting for newer models such as revenue-sharing models (e.g. Naturals’ salon has tied up with Bharti Retail to set up salons within the latter’s Easy Day outlets on a revenue-sharing basis.)
- However, most players find low acceptance for the revenue-sharing model with landlords, since revenues per square foot for wellness formats are currently low and yet to reach their potential.

2

Optimise retail formats for high rental locations

- Players are aiming for high revenue per square foot by changing their product and service portfolio mix, especially for locations with high rentals such as malls.
- Utilising non-service floor space for driving product sales (own brand or multi-brand)
- Realigning retail formats in malls by setting up smaller stores with service offerings which have high demand, high throughput and are low complexity.

3

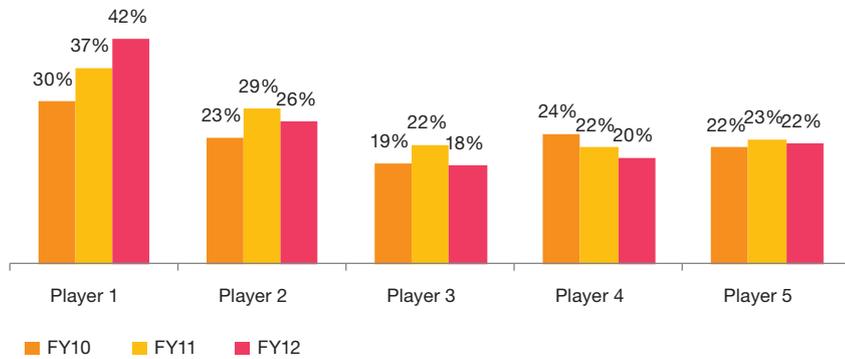
Store rationalisation

- Larger wellness chains have rationalised their retail footprint and closed stores where revenue potential is not in line with store rentals.
- Most players have pre-set limits for rentals in order to keep costs under control.
- Players need to constantly revise and optimise their store portfolio even while balancing their growth plans, in order to ensure that revenues, rentals and profitability for each store are aligned with their overall business plan.

Source: PwC research and analysis, company annual reports and trade press

High manpower costs and attrition levels continue to pose a challenge; paucity of skilled talent is likely to exacerbate this issue

Employee expenses as % of revenue for leading wellness operators



With high wage inflation, manpower costs continue to be significant for wellness operators....

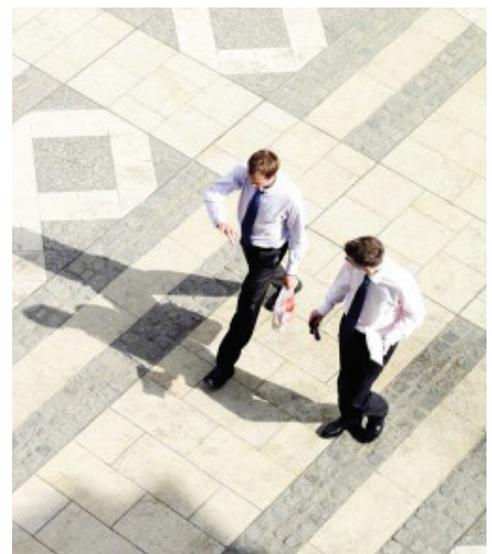
- The industry has been grappling with high attrition levels – as high as 30 to 50%. This further increases the strain on company resources in terms of training and employee retention costs.
- Players are using incentives such as domestic and international training opportunities, support in obtaining sector-specific education or certification and incentivised remuneration to manage attrition.
 - Other service industries in India, which share similar sector dynamics, are using employee welfare initiatives (health benefits, education support, entrepreneurial opportunities) to increase employee retention.

...however, this is symptomatic of the larger challenge around the paucity of talent in the industry

- We have previously highlighted the talent crunch that the wellness industry is likely to face in the coming years. In 2011, we had estimated that the industry will require over 6 lakh skilled personnel till 2016.
- This continues to be one of the key challenges faced by the wellness sector. Training academies by individual industry players and specific courses for AYUSH by the Department of AYUSH and IGNOU are insufficient in meeting industry requirements. Moreover, the lack of a universally accepted accreditation for wellness courses hinders prospective candidates from considering this sector as an ‘industry of choice’ for a viable career.
- It is imperative to encourage private players to develop relevant education and training infrastructure, under the aegis and support of government institutions such as National Skills Development Agency (NSDA). At the same time, accreditation of wellness education and training courses (either through alliances with similar global skills development agencies or domestic training councils) will provide reassurance to candidates regarding employability and relevance in the job market.

Developed markets, like USA, have a centralised agency overseeing accreditation of training centers to ensure consistent qualification standards for industry professionals

- The accreditation body in the US, National Commission for Certifying Agencies (NCCA), has certified more than 15 organisations which offer various accredited programs for personal trainers, massage therapists, dieticians etc.
- For example, the National Certification Board for Therapeutic Massage and Bodywork has 80,000 board certified practitioners in the US who have undergone minimum hours of instruction and examinations.



Looking forward

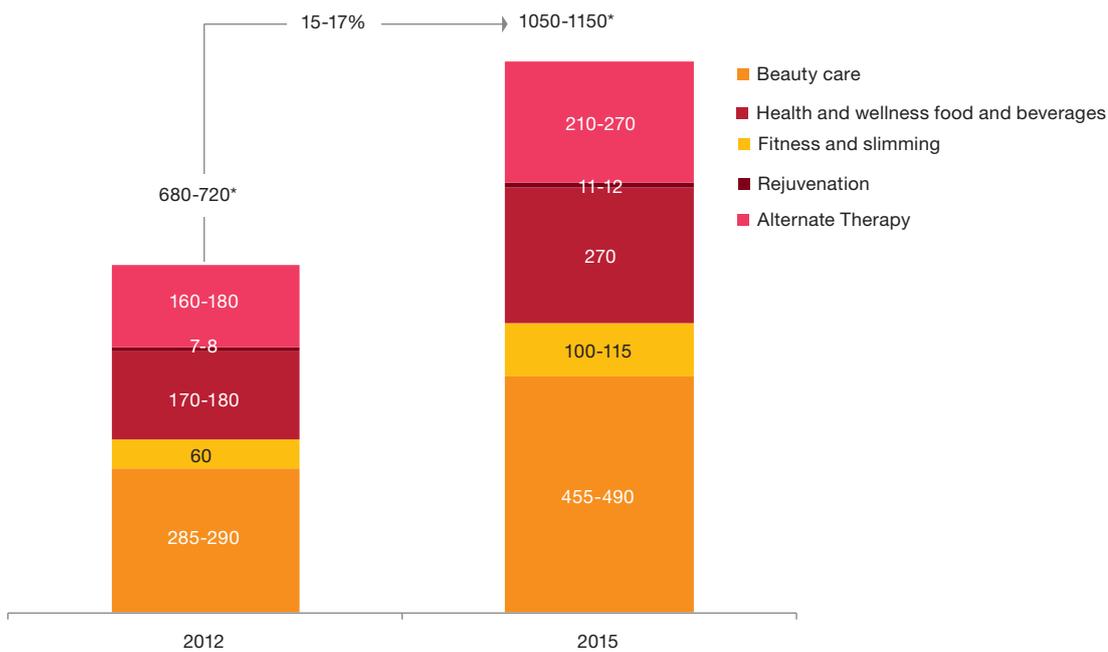
The Indian wellness industry is estimated to grow at a CAGR of 15-17% to touch one trillion INR in the next 3 years.

Collective action from multiple stakeholders to address challenges can enable the wellness industry to live up to its trillion rupee potential.



The wellness industry is expected to touch 1 trillion INR by 2015, growing at CAGR of 15-17%

Growth in the wellness industry (INR billion)



* Sum of individual segments may vary from total due to rounding

- The wellness industry is expected to cross 1 trillion INR by 2015, marking a significant milestone for this sector in India.
- However, the challenges that players face to achieve sustained revenue and profit growth (as discussed in this report) can stymie the future growth potential of the industry, if unaddressed.
- There have been some corrective measures undertaken by the government, regulatory bodies and industry players. However, factors such as low consumer awareness and execution challenges around certification have limited the industry from achieving its desired results.
- Collective action from multiple stakeholders such as industry leaders, investors, the government and infrastructure and service providers to the wellness industry, can be a panacea for the challenges in the sector and enable it to live up to its trillion rupee potential.

Source: PwC analysis

Glossary and Citations

Term	Definition
AHA	Alpha hydroxy acid
ASCI	Advertising Standards Council of India
c.	Close to
CAGR	Compound annual growth rate
EBITDA	Earnings before interest, tax, depreciation and amortisation
FMCG	Fast moving consumer goods
FSSAI	Food Safety and Standards Authority of India
FY	Financial year
H&W F&B	Health and Wellness Food and Beverages
IGNOU	Indira Gandhi National Open University
INR	Indian national rupee
MUFA, PUFA	Mono unsaturated fatty acid, poly unsaturated fatty acid
MoT	Ministry of Tourism
NABH	National Accreditation Board for Hospitals and Healthcare
NAMS	National Advertising Monitoring Service
NCCA	National Commission for Certifying Agencies
NSDA	National Skills Development Agency
NSS	National Sample Survey Organisation
R&D	Research and development
SKU	Stock-keeping unit
Tier -1, 2 and 3 cities	Cities with a population of 4 million and above, 1 -4 million, and 0.5-1 million, respectively
Alternate therapy products	Medicines and products formulated according to ayurveda, unani, siddha, homeopathy or other alternative systems
Alternate therapy services	Services rendered in ayurveda, unani, siddha and homeopathy (AYUSH) treatment centres
Better for you (BFY)	Includes packaged food and beverages where the amount of a substance considered to be less healthy (fat, sugar, salt, carbohydrates) has been actively reduced during production

Term	Definition
Colour cosmetics and fragrances	Make-up, deodorants and perfumes
Day spas	Offer a variety of spa by trained professionals on a day-use basis
Destination Spas	Offer all inclusive spa packages that all guests participate in
Dietary supplements	Products intended to supplement the diet by providing additional nutritional substances (e.g. calcium supplements, mineral supplements, protein powder). Also includes vitamins, tonics and nutritive drinks
Fitness equipment	Includes cardiovascular equipment (e.g. treadmill, stationary bicycles) and weight training equipment (e.g. weight lifting machines, barbells)
Fitness services	Includes gymnasiums, dance studios, martial arts, etc.
Fortified foods and beverages (FFB)	Includes packaged food and beverages to which healthy ingredients (e.g. calcium, omega3) have been actively added. Health benefit needs to form part of positioning or marketing of the product.
Hair and skincare products	Personal care products for skin and hair
Hotel and resort spas	Similar to a day spa, but the spa facility is located within a resort or hotel property
Surgical cosmetic treatments	Surgical cosmetic procedures (e.g. liposuction, abdominoplasty)
Meal-replacement slimming products	Nutritionally fortified, calorie-restricted products consumed as a replacement for a meal (e.g. snack bar)
Naturally healthy (NH)	Includes packaged food and beverages which are considered healthy in their natural form (e.g. 100% fruit juice, herbal tea, high-fibre food)
Non-surgical cosmetic treatments	Minimally and non-invasive cosmetic procedures (e.g. botox, dermal fillers)
Rejuvenation	Services rendered in day spas, destination spas and resort spas
Salons	Services rendered in beauty centres including hair cuts, facials, pedicures, manicures and hair styling among others
Slimming products	OTC (over-the-counter) drugs and supplements specially formulated and marketed as being suitable for individuals who want to lose or control their weight
Slimming services	Includes slimming centres which focus on weight loss through combination of machine -based and floor exercises, along with diet counselling
Weight-loss supplements	Includes supplements positioned as actively aiding weight loss (e.g. appetite suppressants, craving suppressants)

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Notes

Notes

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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence and its subsequent emergence as one of the most rapidly growing economies globally.

With a membership of over 500 chambers of commerce, trade associations, industry bodies, FICCI speaks directly and indirectly for over 2, 50,000 small, medium and large business units employing around 20 million people.

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FICCI plays a leading role in policy debates that are at the forefront of social, economic and political change. FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector-specific consensus building and networking.

FICCI's stand on policy issues is sought out by think tanks, governments and academia. Its publications are widely read for their in-depth research and policy prescriptions.

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The FICCI head office is located in Delhi. It has eight state offices and six international offices.

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