

# Achieving High Performance in the Asia Pacific (APAC) Home and Personal Care Industry

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The rapid growth of the global market for home and personal care products offers tremendous opportunities for future value gains – in the neighborhood of US\$230 billion over the next three or four years<sup>1</sup>. Few regions offer more such opportunities than APAC.

In 2006, Accenture conducted a global study to identify the building blocks of high performance in the home and personal care industry. This point of view highlights those aspects of most importance for the APAC market.



# Why APAC matters

Asia Pacific is already the third-largest market globally for home and personal care products. The segment, moreover, is growing a full percentage point faster than in the rest of the world (see charts below). And with the same demographic and lifestyle trends that are shaping the industry globally taking hold here as well, the region's importance can only increase.

More and more of Asia Pacific's consumers are middle-class, many of them working women. They are relatively cash-rich<sup>2</sup> but also time poor and with similar interests in appearance, hygiene and the environment as their counterparts in the developed markets of the United States and Western Europe. Many more are less affluent – especially in China and India. But these two

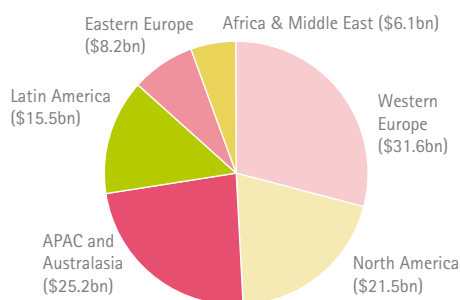
countries, which will be home to 35 percent of the world's population by 2020, are key users of basic products like laundry care and insecticides -- the region's biggest home-care sellers. Good news indeed at a time when slowing growth in Europe and the United States is forcing home and personal care companies based in those markets to extend their global footprint.

We live, however, in an increasingly multi-polar world – a world in which economic power is much more widely dispersed and where globalization is characterized by constantly shifting sources of competitive advantage.<sup>3</sup> While companies from outside the Asia Pacific region – multinationals like Procter & Gamble and Colgate Palmolive -- hold majority of the

market share in certain APAC markets, they face stiff competition from well-established local players in markets including Japan (the region's biggest market), China and India – players like Zhejiang Nice in China, Dabur in India and Kao in Japan.

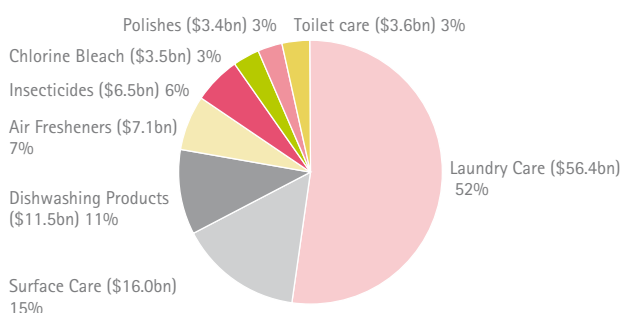
Competition is especially vigorous in the important skincare segment. Asians in general attach a premium to fair skin – hence their exceptionally high spending on skin-care products (see chart below). And local players like Shiseido in Japan, where the fair skin preference is particularly pronounced, tend to dominate the product segment. Some of these local players are also successfully expanding from their home bases into other parts of this extraordinarily diverse region.

## Home Care Global Size (RSP) 2007 = \$108bn

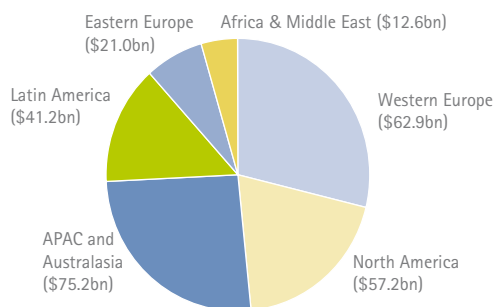


Source: Household Care: Euromonitor from trade sources/national statistics

## Home Care Market Growth: CAGR (2003-2007) = 6.0%

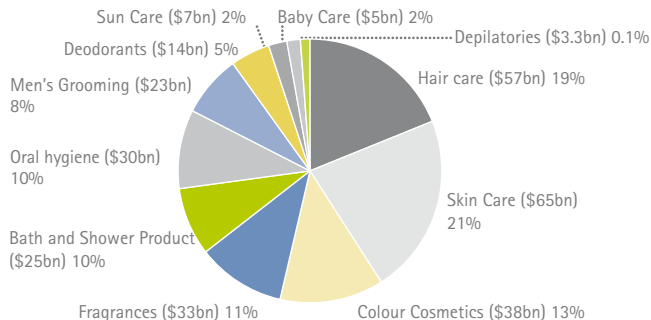



## Personal Care Global Size (RSP) 2007 = \$291bn



Source: Cosmetics and Toiletries: Euromonitor from trade sources/national statistics  
Note: Sum of sectors is greater than the market size because the four men's toiletries subsectors are included in men's grooming products as well as deodorants, skin care, bath and shower products and hair care.

## Personal Care Market Growth: CAGR (2003-2007) = 7.1%



A close-up, profile view of a woman with dark hair wearing a white towel hat. She is holding a white cloth to her face, appearing to wipe or clean it. Her hands are visible, with light pink nail polish. The background is plain white.

Accenture has identified three quite distinct market clusters in Asia Pacific:

1. **Developed**, which encompasses Australia, New Zealand and Singapore and closely resembles other developed markets in that it is predominantly urban and its consumers are affluent, aspiring – and ageing

2. **Developed with unique local characteristics**, which encompasses Japan and South Korea and where, despite high per capita income and high product penetration in most categories, exceptionally complex distribution networks hamper manufacturers' influence over large retail customers

3. **Developing**, which encompasses China, India and ASEAN (excluding Singapore) and is characterized by a predominantly youthful population with relatively basic needs, a sharp rural/urban divide, fragmented infrastructures, large unorganized markets and fiscal complexity



# The Building Blocks of High Performance

Only a handful of companies – all multi-nationals -- qualify in this industry as high-performance businesses, according to Accenture research. They have outstripped their peers in terms of growth (revenue expansion), profitability (spread between return on capital and cost of goods sold), positioning for the future (future value and portion of the industry total each company's future value represents), longevity (period of out performance in total return to shareholders) and consistency (measuring performance over seven years on key parameters).<sup>4</sup>

The leaders owe their success to mastery of the three building blocks that Accenture's extensive cross-industry research shows to underpin high performance in the home and personal care industry:

- **Market focus and position** – the strategic decision-making that ensures a company is in the right place at the right time, supported by the right operating model

- **Distinctive capabilities** – the hard-to-replicate set of processes and skills that create an unassailable formula for business success
- **Performance anatomy** – the organizational mindset and culture that enables leaders to out-perform their peers.

Mastery of these building blocks also distinguishes Asia Pacific's leading companies. However, Accenture believes that \* local conditions have shaped subtle variations – and the peculiarities of doing business in the Asia Pacific region, especially in the developing market cluster, have necessitated several regionally specific requirements as well\*

# The implications for regional players

The key to **market focus and position** in Asia Pacific is the same as everywhere else in this industry – strategic market domination. Leading companies identify and leverage value hot spots through a process of rigorous portfolio management. By choosing to focus on certain key, strategic categories, brands and geographies – in other words, by taking fewer but bigger bets – top players have shaped the global operating model that now dominates the industry.

Reckitt-Benckiser, for instance, derives the bulk of its revenues from 15 power brands, but customizes these brands in selected geographies, like South Korea and Indonesia where the company has recently made acquisitions. Successful local companies, meanwhile, have focused on products like hair oil – big sellers regionally but not typically prominent in the global brand portfolios of companies like Reckitt-Benckiser. Marico, a local player in India, has managed to leverage pan-Indian consumer behavior in the hair oil segment and built a market share of close to 50 percent – a share so dominant that HUL, which tried to enter the same segment with its Nihar brand, was forced to make an early exit.

Accenture's High Performance Business research has identified three **distinctive capabilities** that distinguish the high-performance businesses in this industry:

- **Consumer-centricity**, or an exceptionally deep understanding of the consumer and market dynamics steering the business
- **Innovation marketing**, or an integrated innovation and marketing approach that optimizes the value of the product life cycle
- **Optimal product availability** through a networked organization

High performers from outside the region do well in Asia Pacific's developed market cluster with much the same set of distinctive capabilities that underpin their success globally.

They can rely, for example, on consumers in Australia, New Zealand and Singapore to pay for product innovations that they perceive to add value – either as variations on an existing line, like Gillette's Fusion razor (successor to the highly successful Mach3), or as something totally new, like Clorox's portfolio of "game changers".

Indeed, ruthless portfolio management early in the innovation process is key to achieving high performance in this industry. Gillette, for example, invests heavily on the promotion of its razors, but thanks to the strength of its portfolio management process, the company can afford to narrow its product portfolio, reducing the number of bets it has to make and ensuring that the products that actually get through the gate have adequate funding.

This focus on a few high-margin brands wins favor with retailers, who are just as fond of manufacturers of high-margin products. As a result, it strengthens optimal product availability – the third distinctive capability, which in developed markets takes the form of key account management. High performers build separate verticals in the organization for key retail accounts, customizing consumer activations and providing separate logistical support.

In Japan and South Korea, modifications to the distinctive capabilities are necessary. Innovation marketing, for example, also involves value-added products – but tailored to specific local conditions. Moreover, instead of simply selling products, companies must offer solutions designed to resolve specific consumer

issues. Procter & Gamble, for example, has developed Womama, an integrated offering accessible via the Internet that is targeted at young Japanese mothers and includes information on childcare, fashion and cosmetics.

Consumer centricity and optimal product availability, both of which may impact marketing and distribution strategies, must also take account of local peculiarities. Successful local companies like Kose in Japan and Amore Pacific in South Korea offer product differentiation in the same product category, marketing the same products under different names (and different prices), depending on whether the outlet is a luxury specialty store or a low-end drug store.<sup>5</sup> Wholesalers' powerful positions in the distribution network also necessitates special measures. Procter & Gamble, for example, owes its success in Japan to having forged strong local partnerships.

In the developing cluster, the distinctive capabilities are only a starting point. Here, the bewildering diversity of local conditions, lengthy distribution networks and presence of huge number of traditional outlets greatly complicates the task of gaining customer insight, let alone achieving optimal product availability.

Consumer-centricity thus becomes "product customization" – the ability to understand and profitably serve distinct local needs. In rural India, for example, where people traditionally have used charcoal, brick dust and similar abrasive substances to brush their teeth, toothpaste penetration is low – so Colgate Palmolive created Toothpowder. Today Colgate is the number one tooth powder brand in India with a market share of close to 48 percent.

Innovation marketing, meanwhile, becomes price customization in response to the local demand for

low priced, low-unit products. In the highly competitive Indian laundry-care market, for example, Procter & Gamble has successfully introduced Ariel Gainsoaker, a less sophisticated but more affordable product for Indian consumers. When Procter & Gamble slashed the price of its Rejoice shampoo, the company became a leading hair-care brand in rural China.

Ensuring optimal product availability in such markets with fragmented and unorganized retail channels is complex. It requires focus on front-end supply chain alignment – or ensuring widespread product availability at low cost. The Indian subsidiary of Unilever, for instance, has leveraged the power of rural entrepreneurship with its Project Shakti, which engages 15,000 rural women to sell its products in 50,000 Indian villages. While Nirma, a local Indian company, ships directly to wholesale outlets to lower costs and thus product price.

Apart from the global distinctive capabilities, high performers in the developing market cluster require:

- **Exceptional back-end efficiency** -- to lower overall operating cost and price, which is the key success factor in these markets
- **Straddling the rural/urban divide** – to develop understanding of the often huge differences between these market segments and build the capabilities required for each
- **Category building** – to develop category and brand preferences through increased brand penetration and consumer awareness

Back-end efficiency describes both operational efficiency and spend effectiveness, as well as low cost location, sourcing and procurement and the efficient leveraging of information technologies like ERP, supply chain planning and a distributor point-of-sale solution.

In China, Zhejiang Nice, a local company, has established national production bases to exploit economies

of scale and lower production cost. In India, most major companies have created production capacity in the Himachal Pradesh special economic zone where they can take advantage of a full tax holiday for the first five years of operations. Progressive companies are also taking the lead in outsourcing non-core functions like IT and transactional finance and accounting activities to specialist service providers.

Low-cost manufacturing and a lean supply chain help explain the extraordinary success of Nirma, a local Indian company that has specialized in serving the mass market with low-cost products. Procter & Gamble, meanwhile, has made efficient use of low-cost country sourcing, manufacturing the Vicks product that it sells in India in Thailand, where production costs are even cheaper.

Being able to straddle the social, economic and psychological divide between urban and rural segments in developing countries and serve them differentially is a critically important additional capability. Unilever (India) concentrates on indirect channel of sub-stockists and Project Shakti (involvement of rural womenfolk) for improved availability and reach in rural areas. In urban areas, it lays emphasis on modern trade through exclusive distributors and network marketing.

Marketing, too, must take very different forms, depending on whether rural or urban consumers are targeted.

In urban areas, where consumers are more educated and affluent and product penetration is somewhat easier, the focus is on brand building by advertising on cable and satellite TV channels. Rural consumers – a majority in both India and China – are both more price sensitive and less sophisticated. Their needs are relatively basic and functional. So here the focus is on enhancing product acceptability. Unilever, for example, has responded to rural realities in India by launching Surf Excel Quick Wash, a detergent which not only halves water requirements but which also can be safely used for rural bathing.

Category building is a matter of enhancing brand penetration, often through awareness campaigns like Colgate Palmolive's Oral Health Care Month in India, during which the company distributes more than one million oral care kits to 2,000 schools, or Unilever's Project Bharat, which gives 22 million Indian households a low-priced box of basic products.

According to Accenture's High Performance Business research, **performance anatomy** -- the third building block of high performance -- is a set of organizational "mindsets" that are both measurable and susceptible to immediate leadership action. In this industry, performance anatomy describes the ability to embrace fast-paced change within a culture of continuous renewal. And in Asia Pacific's complex markets that ability has to be especially robust.

There is, for example, an increasing shortage of skilled resources and talent. Home and personal care companies are competing for talent with other industries as well as with each other – and some of those competitors will be able to offer more attractive job packages.

The rapid growth of key sectors like IT in India is creating shortages of skilled local talent for the industry. Vietnam also lacks sufficient local managerial expertise, although the government is now investing in education and training. And in Japan, where the population is fast ageing, there's an urgent need for better talent management and skills development. Companies must rise to these challenges with appropriate recruitment, retention and career progression policies. They must also ensure that their own cultures are distinctive and attractive enough to attract the best talent – globally. A tall order for the many regional companies still owned and managed by the founding family.



# The Future

The Asia Pacific region is growing in importance as a source of profitable growth for the home and personal care industry – especially in key sectors like skin care, surface care and air fresheners. While strong local players will sustain their domestic effectiveness and some will expand beyond their home markets, multinationals will seek to seize all available opportunities both organically and through acquisition.

For all companies, sustaining high performance will be a matter of achieving strategic market domination through rigorous portfolio management, mastering all the distinctive capabilities required to compete in their chosen market and supporting a culture of continuous renewal.

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