FICCI

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Sizing the wellness market opportunity p4 / Key levers for sustained and profitable growth p6 / Looking forward p26 / Glossary and citations p28

Imperatives for growth
The wellness industry



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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.

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Executive Director and National
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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 mimimise 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

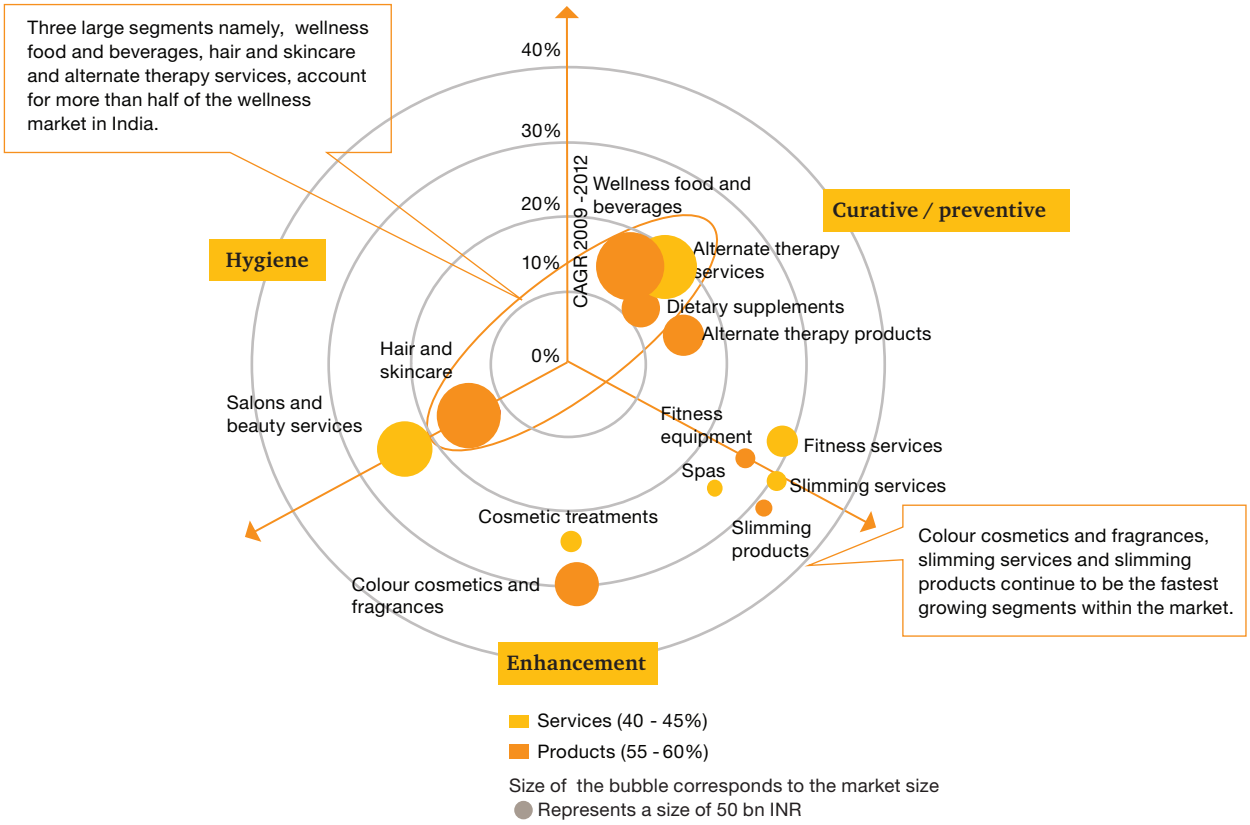
Despite macroeconomic headwinds, consumer spend in wellness remained largely buoyant. The wellness market in India registered a growth rate of 18-20% during 2012, to touch a market size of 700 billion INR. Products continue to constitute a majority share of the market.



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