

The Rapidly Growing Cosmetic Industry in India

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The cosmetic business in India is increasing drastically. The Indian cosmetics industry is majorly categorized into skincare, hair care, oral care, fragrances, and color cosmetics segments. The overall market share is expected to grow to US\$ 20 billion by 2025 with a Compound Annual Growth Rate (CAGR) of 25%. In contrast, the global cosmetics industry is growing at a CAGR of 4.3% and is projected to reach US\$ 450 billion by 2025.

By 2025, India is expected to constitute 5% of the total cosmetics market and emerge as one of the top five global markets in terms of revenue. Additionally, the market will continue to rise strongly due to consumers' specific choices in cosmetic products.

Many international brands such as Revlon, Avon, Burberry, Calvin Klein, Cartier, Christian Dior, Estee Lauder, Elizabeth Arden, Lancome, Chambor, Coty, L'Oreal, Oriflame, Yardley, Wella, Schwarzkopf, Escada, Nina Ricci, Rochas, Yves St. Laurent, Tommy Hilfiger, Max Factor, Max Mara, Shiseido, The Body Shop, Maybelline New York, and MAC have been expanding their market presence for a long time.

Several Indian brands, including Lakme, Sugar, MyGlamm, Colorbar, Lotus, Mamaearth, Elle18, Just Herbs, Plum, mCaffeine, Biotique, and others, are well known in India and globally.

These days, not only women but also men are increasingly investing in cosmetics, which is making India a leading country for the growth of the cosmetic business.

As per Drugs and Cosmetic Act, 1940- "cosmetic" means any article intended to be rubbed, poured, sprinkled or sprayed on, or introduced into, or otherwise applied to, the human body or any part thereof for cleansing, beautifying, promoting attractiveness, or altering the appearance, and includes any article intended for use as a component of cosmetic.

BUSINESS MODEL:

Understanding the business model is crucial if the cosmetic industry to continue dominating the Indian market. For instance, a good quality lipstick starts at Rs. 99, while compacts start from Rs. 100 and so on...

Import:-

If you are planning to start any cosmetic business in India, first and the oldest model is "Import", Many brands are being imported in India such as Aveeno, Cerave, Glow Recipe etc.

China imported cosmetics amounting to over 18 billion U.S. dollars, the highest import value accounted to 23.4% of the world's total cosmetics imports. Importing such goods is costly as it requires many licenses and taxes, which increases the cost of goods.

China, Brazil, Paris, USA, Germany, and Korea are major countries from which makeup is imported into India. Once you have decided on the country of import, it is important to choose the mode of business, such as a Company, LLP, Partnership, etc. Choosing the best structure for your business is crucial from the perspective of customers and stakeholders. Any legal entity impacts stakeholders more significantly than casual entities. There are many forms of legal entities in India.

While setting up Legal Entity in India with foreign investor, Press note No. 3 (2020 Series) should be considered which contains provisions as follows:

“3.1.1(a) A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, an entity of a country, which shares land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/activities other than defence, space, atomic energy and sectors/activities prohibited for foreign investment.

3.1.1(b) In the event of the transfer of ownership of any existing or future FDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction/purview of the para 3.1.1(a), such subsequent change in beneficial ownership will also require Government approval.”

Importing goods also attracts the Customs Act, which includes the following procedures:

1. Obtaining an Import Export Code
2. Obtaining an Authorized Dealer Code through a Bank by submitting an application
3. Goods and Services Tax registration
4. Seeking Icegate Registration, which serves as a centralized hub for all electronic interactions between Indian Customs and the trading community
5. Bill of Entry: The authorized person shall file the bill of entry before the end of the next day following the day (excluding holidays) on which the aircraft or vessel or vehicle carrying the goods arrives at a customs station where such goods are to be cleared for home consumption or warehousing.
6. Fulfilling Compulsory Compliance Requirements under the Drugs and Cosmetics Act, 1940, and Intellectual Property Rights Acts.

Some common HS Code for Beauty and Cosmetic is 3304 for Skincare and also covers Lip make-up preparation, eye make-up preparation, Manicure or pedicure preparation, powders (whether or not compressed), face powders, Talcum powder, Face cream etc. 3305 for Haircare which includes Shampoos, conditioners, hair dyes and coloring products etc, 3303 includes

Perfumes and fragrances and 3306 for Oral Care which includes toothpaste, toothbrushes and other oral care products.

One of the important step for importing Cosmetic goods in India is obtaining license under Drugs and Cosmetic Act, 1940 (the Act).

If the Government thinks that the cosmetics contain harmful substances then Government can prohibit the import of such goods.

As per Section 13 of the Act, *Whoever himself or by any other person on his behalf imports,—*

(a)or any spurious cosmetic referred to in section 9D or any cosmetic of the nature referred to in clause (ee) of section 10 shall be punishable with imprisonment for a term which may extend to three years and a fine which may extend to five thousand rupees;

(b) any drug or cosmetic other than a drug or cosmetic referred to in clause (a), the import of which is prohibited under section 10, or any rule made under this Chapter, shall be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to five hundred rupees, or with both;

(c) any drug or cosmetic in contravention of the provisions of any notification issued under section 10A, shall be punishable with imprisonment for a term which may extend to three years, or with fine which may extend to five thousand rupees, or with both.

Subsequent Offence: *Whoever having been convicted of an offence—*

(a) under clause (a) or clause (c) of sub-section (1), is again convicted of an offence under that clause, shall be punishable with imprisonment for a term which may extend to five years, or with fine which may extend to ten thousand rupees, or with both;

(b) under clause (b) of sub-section (1), is again convicted of an offence under that clause, shall be punishable with imprisonment for a term which may extend to one year, or with fine which may extend to one thousand rupees, or with both.

Manufacturing:

Importing goods from overseas inevitably burdens the consumer's pocket. Revlon, Avon, Burberry, Calvin Klein, Cartier, Christian Dior, Estee Lauder, etc., are examples of imported products in India. As per publicly available information, Lakme is India's first cosmetic brand, founded in 1952 by JRD Tata. The brand was named after the French opera Lakme, which is the French form of the Indian goddess *Lakshmi*. Since then, many companies like Lotus and Blue Heaven have entered the market and are competing with internationally imported products in India..

With globalization in 1991, many manufacturers entered the cosmetic market in India. Manufacturing in this industry is of two kinds: Mass Products (manufactured in bulk and easily available in the market) and Premium Products (limited edition products).

Before starting a business of manufacturing cosmetic goods in India, one must choose the form of entity as discussed earlier. Apart from choosing the type of entity, an exhaustive list is being drafted for Central Approval:

- Permanent Account Number, Tax Deduction and Collection Account Number
- Registration for LIN by the Ministry of Labour and Employment
- Permission from the Ministry of Home Affairs under the Act for permission to import or manufacture new cosmetics in India and a license to manufacture cosmetics for sale or distribution along with approved testing laboratory
- License for Model of Weight or Measure
- Approval from the Ministry of Corporate Affairs for legal entities like Company and LLP
- Intellectual Property Rights

As per the Section 27A of the Act- *Whoever himself or by any other person on his behalf manufactures for sale or for distribution, or sells, or stocks or exhibits or offers for sale—*

(i) any cosmetic deemed to be spurious under section 17D or adulterated under section 17E shall be punishable with imprisonment for a term which may extend to three years and with fine which shall not be less than fifty thousand rupees or three times to value of the cosmetics confiscated, whichever is more;

(ii) any cosmetic other than a cosmetic referred to in clause (i) in contravention of any provisions of this Chapter or any rule made thereunder shall be punishable with imprisonment for a term which may extend to one year or with fine which may extend to twenty thousand rupees, or with both.

If any product do not disclose the name of manufacturer, in such case imprisonment for a term which may extend to one year, or with fine which shall not be less than twenty thousand rupees or with both.

If any manufacturer or seller, proceed even if the Government have prohibited the manufacturing in public interest, in such a case imprisonment for a term which may extend to three years and shall also be liable to fine which may extend to five thousand rupees.

Challenges:

As per the Unicommerce portal, the cosmetic industry is facing several challenges such as:

1. **Seasonal Demand Fluctuation:** Sunscreen is an essential skincare routine in summers, whereas moisturizer is crucial for winters.
2. **Inventory Expiry Management:** Cosmetic products are manufactured in bulk, and maintaining inventory management is a challenge for cosmetic business owners.
3. **Order Fulfillment:** Any business needs to fulfill the orders required by the consumer. Managing returns as well as ensuring the quality of the product is a significant challenge for makeup owners in India.
4. **Color Combination:** India is a diverse country with various skin shades. A brand that produces enough goods to meet the shade criteria can survive in the Indian market.
5. **False Claims:** Many products claim to provide fair skin to dark-shaded people, which is misleading to consumers.
6. **Duplicacy:** Many duplicate copies of renowned brands are sold at cheap rates by shop owners or at carts which are of deteriorated quality, which affects the skin of consumers as well as the brand image of the cosmetic product.

How these challenges can be overcome by the owners:

1. **Seasonal Demand Fluctuation:** Owners should anticipate seasonal demand and better manage inventory to fulfill customer demand. Proper anticipation helps in avoiding the threat of product expiry, making inventory management easier.
2. **Inventory Management:** By anticipating demand, businesses can manage their stock effectively, ensuring products do not expire and maintaining the freshness and quality of their inventory.
3. **Order Fulfillment:** Brands like Mamaearth and Sugar operate via different retail channels such as websites, e-commerce platforms, and physical stores. They ensure they have sufficient inventory to fulfill orders.
4. **Consumer Awareness:** Cosmetic owners should spread awareness among people regarding makeup tips, the right shade of foundation and lipstick for different skin tones, and steps to take care of their skin. They should establish workshops to help people understand their products and benefits.
5. **Genuine Products:** Unfortunately, many business owners focus only on increasing sales by engaging social media influencers and celebrities to promote their goods. Brands should connect with their consumers to spread awareness about genuine products.
6. **Licensing and Regulation:** Brands should ensure they supply their goods only to wholesalers or retailers who hold valid licenses under the Drugs & Cosmetics Act, 1940. It is the responsibility of both brands and consumers to check the license before purchasing any product.

Conclusion:

The cosmetic business in India is growing rapidly and steadily. Many new players are entering the market with innovative products, competing with existing brands. Social media plays a significant role in promoting the cosmetic market in India and globally.

Unfortunately, not many people are aware of the Drugs & Cosmetics Act, 1940 when dealing with cosmetics. However, the government has streamlined the approval process for the same.

The preamble of the act states that it is an Act to regulate the import, manufacture, distribution, and sale of drugs and cosmetics. However, in the Indian market, as a customary statute, no seller of cosmetics has obtained a license from the government under the Drugs & Cosmetics Act, 1940. People are generally not aware of this fact.

The Drugs and Cosmetics Act, 1940 regulates the import, manufacture, distribution, and sale of cosmetics in India.

Domestic manufacturing is gaining prominence, supported by initiatives like 'Make in India'. Companies like Organic India and Mama Earth are working on organic cosmetic products and also safeguard the environment which is a step towards ESG (Economic, Social and Governance). The sector's evolution is characterized by innovation in formulation, packaging, and marketing, aligning with global trends while catering to local preferences.

Despite the promising growth, challenges such as stringent regulatory compliance, evolving consumer expectations and competitive market dynamics require continuous adaptation. Leveraging digital platforms and social media for brand visibility and consumer engagement presents significant opportunities for market expansion and customer acquisition.

The cosmetic industry in India is a dynamic sector poised for exponential growth, driven by innovation, regulatory reforms, and evolving consumer behavior. As global and local players navigate the complex landscape, strategic partnerships, and investments in technology and sustainability will shape the industry's future trajectory. With a focus on quality, compliance, and consumer-centric strategies, stakeholders can capitalize on India's burgeoning market potential while contributing to the sector's sustainable development.

Source:

1. <https://www.ibef.org/research/case-study/growth-of-the-cosmetic-industry-in-india>
2. The Drugs & Cosmetics Act, 1940

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