The State of Fragrance, Personal Care and Cosmetics

Weaknesses in the US market, the rise of niche brands, natural/organic demands and the continued strength of celebrity scents

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The global cosmetics and toiletries industry saw another year of strong growth in 2007 to reach a value of $290.9 billion. According to Euromonitor International's research, the market grew by 6%, which represents only a slight slowdown on the 2006 figure ($274.7 billion). The worsening economic climate in many developed countries, particularly the US, and signs of a slowdown in penetration in emerging markets proved a drag on growth. These trends were partially offset by strong growth in emerging markets, continuing premiumization and product innovation across all sectors.

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No Changes in Global Top 10

The global rankings of major cosmetics and toiletries manufacturers have not changed since 2006. Procter & Gamble, L'Oréal and Unilever occupy the top three places globally, accounting for 30% of the market. Unilever demonstrated the strongest growth, 7.7% in 2007, while Procter & Gamble and L'Oréal increased sales by roughly 5.5% each. Of the top 10 global players Beiersdorf showed the healthiest growth, benefiting from its strong position in Eastern Europe and the acquisition of C-Bons in China.

Favorable economic conditions in emerging markets benefited smaller local players. Companies such as Natura and O'Boticario in Brazil, Kalina and Faberlic in Russia, Jiangsu Longliqi and La Fang International in China, and Godrej and Dabur in India, showed very strong growth in their domestic markets, often outpacing multinationals.

BRIC Leads Growth of Global Market

Emerging markets remain the power engine of the global beauty market. Accounting for only one-third of the global cosmetics and toiletries market, they added more than $10 billion or two-thirds of absolute growth in 2007—with BRIC countries responsible for more than 70% of this gain. Euromonitor does not expect the pace of growth to slow in the next few years, and, according to Euromonitor's forecast, Brazil and China will gain almost $10 billion each by 2012, topping the list of the markets with the highest absolute growth. While India and Russia are expected to show more modest results, they still remain among the top five on the list. The only developed market on the list is Japan, mostly due to its sheer size rather than high growth rate.

Strong growth in Brazil was driven by steady economic expansion in the country, and the cosmetics and toiletries market benefited from this, expanding 22% in 2007 and reaching $22.3 billion in retail prices. Substantial contributions to these results came from successful governmental efforts to combat poverty through social programs as well as the favorable effect of US dollar devaluation as local manufacturers took advantage of a cheaper greenback to invest in new technologies and modern machinery.

Russian market growth will remain robust in the forecast period. The market, driven by premiumization, expansion of retail channels, rising disposable income and strong consumer confidence will continue growing at 4% in real terms, reaching $12 billion by 2012, up from the current $9.9 billion. Contributing to this, Russian consumers are increasingly open to natural and organic cosmetics, with both domestic and international players getting involved in the trend.

Due to increased spending power, consumers in Russia are becoming more sophisticated and particularly focused on natural and ethically sourced ingredients. The trend for natural cosmetics in Russia is driven by consumer awareness of the potential hazards of the chemicals used in cosmetics and a conscious effort to avoid them. This is combined with a genuine awareness of the importance of protecting the environment from which the ingredient is sourced.

In 2007, the Chinese market for cosmetics and toiletries grew 9% in constant prices, on par with Brazil. The booming economy along with the upcoming Olympic

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Games and emerging middle class stimulated growth in the country, where per capita consumption still remains only 10% of that in Brazil. The Indian market, where per capita spending in constant terms on cosmetics and toiletries is only one-third of China's, showed more modest results at 5% growth. However, the trend is looking upward from the 2% growth rates of only three to four years ago.

US Market Slipping

As the US economy faces increasingly gloomy prospects, the cosmetics and toiletries market shows strong signs of contraction, with virtually no growth in real terms in 2007 and a disappointing outlook. According to Euromonitor's forecast, the US market will decline 2007–2012 by almost $1 billion—as calculated in 2007 prices—or 0.4% per year on average. Fragrances will be the sector hardest hit by the economic downturn, as cash-strapped consumers turn away from items they consider superfluous. With premium fragrances seemingly available everywhere, perfumes' mystique has disappeared for Americans. Premium cosmetics as a whole will shed $410 million in the next five years, as consumers switch from expensive prestige brands to less expensive analogues.

Celebrity Fragrances Big in Western Europe

The global fragrances market reached $33 billion in 2007, a 6% growth from 2006, driven by a plethora of celebrity scent launches. This was especially evident in Western Europe, where sales were up 3.6%, and booming demand from emerging markets in Latin America, Eastern Europe and Asia-Pacific (excluding Japan) contributed double-digit growth in 2007.

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Celebrity fragrances continued to create buzz in 2007, with more than 30 scents launched in the UK alone—including fragrances from Kate Moss, Katie Price, Christina Aguilera and Gwen Stefani. Men also joined in. After Sean John's *Unforgivable* achieved top 10 status in the men's premium segment and *Intimately Beckham for Him* demonstrated strong performance in both the UK and US, fragrance manufacturers rushed to create new celebrity fragrances for men.

Even direct sellers saw opportunity with celebrity fragrances. Avon teamed up with designer Christian Lacroix to create *Christian Lacroix Rouge*, and Avon also announced that actor Patrick Dempsey will collaborate with the company on a signature men's fragrance—to be launched in November in the US and globally in 2009.

However, the fragrances market growth was hampered by worsening economic conditions in developed countries. The recent credit crunch pushed consumer credit rates and mortgage payments higher, squeezing consumers and forcing them to cut down their expenses on nonessential items such as fragrances, leading to market contraction in North America.

Strong Growth in Direct Sales Channel

Non-store retailing remained the fastest-growing channel, driven by strong expansion in Internet and door-to-door sales. In 2007, the channel grossed $39 billion, 9% growth over 2006. Direct sales, a huge contributor to the channel, amounted to $30 billion in 2007. This sector is followed by home shopping, which includes TV shopping, direct mail, catalogs and Internet—contributing approximately $4 billion each.

The Internet channel demonstrated the fastest growth among non-store retail channels, expanding by 13% in 2007. Direct sales, at 9%, also grew strongly in 2007. While growth in Internet retailing is coming mostly from developed countries, direct sales are growing strongly in emerging markets, and companies such as Avon, Oriflame and Natura strongly benefited from the channel's growth—especially in Latin America, Asia-Pacific and Eastern Europe.

Supermarket Expansions Benefits Emerging Markets

Supermarkets/hypermarkets continued to be the fastest-growing store-based channel for cosmetics and toiletries worldwide, accounting for 28% of global beauty sales. The sales of cosmetics and toiletries products through the channel grew 7% from 2007. The key drivers include fast expansion of supermarket/hypermarket chains in Latin America, Eastern Europe and Asia-Pacific, strong growth in private labels in Western Europe and strong growth in hypermarket sales in North America. Perfumeries and pharmacies/drugstores also performed well in 2007, with both posting C&T sales of more than $30 billion—an approximate growth of 7% over 2006.

Perfumeries, represented by specialist outlets such as Sephora and Marionnaud, grew across all regions due to increasing consumer interest in specialist and niche brands. Sales through pharmacies and drugstores were particularly strong in Eastern Europe and Latin America, where retail format is relatively new and expanding rapidly.

Premiumization Remains Important Trend

Premium brand sales amounted to $67 billion, or 23% of the global market in 2007. The bulk of premium brands were concentrated in the skin care, hair care, color cosmetics and fragrances sectors, and the strong demand for premium cosmetics was driven by improved worldwide wealth. In strongly developed markets, consumers have access to the most necessary commodities, and they are happy to splurge on cosmetic products. The rise of niche brands, especially in Western Europe and North America, also contributed to the strong performance of premium brands.

The creeping recession in the US and uncertainty about economic growth in Western Europe forced many consumers to start looking to trade down rather than up.

However, this trend will be offset by consumers in booming emerging markets, where economies have become less dependent of the US in recent years. Double-digit growth is happening across all premium cosmetic sectors in Eastern Europe and a majority of sectors in Latin America and Asia-Pacific, excluding Japan.

Demand for Natural/Organic Continues to Rise

According to Euromonitor's estimations, products with natural claims account for 10–12% of the global cosmetics and toiletries market. Demand continues to boom as consumers become more concerned about their health and increasing exposure to chemicals during their daily beauty routines. The spread of retail concepts such as Whole Foods Market, The Organic Pharmacy in the UK and Wal-Mart's Natural and Organic Bodycare Oasis have also helped lift the profile of natural and organic products.

However, the lack of global and regional standards for natural cosmetics and toiletries products still confuses customers. There were a number of industry attempts to create standards for natural products, such as CosmeBio in France, but these labels, so far, have a limited use in terms of geography and manufacturers. However, Euromonitor International expects internationally harmonized standards for naturals some time in the future, with strong growth expected as a result.

Looking Forward

Euromonitor International forecasts average annual growth of 3%, to reach global sales of more than $337 billion (in 2007 prices) by 2012. Skin care and sun care will remain the most dynamic sectors, expanding at 5% per year on average. While Latin America will achieve the highest growth in 2007–2012, Asia-Pacific will provide the biggest contribution in absolute terms. Eastern Europe's market will land third by growth rate and fourth by absolute growth.

Strong growth in emerging markets will further benefit local companies, as well as create opportunities for multinationals, which will be seeking ways to offset sluggish growth in Western Europe and North America. The industry may see more acquisitions in Eastern Europe and Asia-Pacific, despite a possible drop in cash flow for Western manufacturers.

Non-store retail will continue to expand in all areas—direct sales, home shopping and Internet—across all regions. The recession in the US may create additional supply of sales representatives for direct selling companies, as people will be looking for additional ways to earn money. Because many consumers will be looking for cheaper alternatives to cut their beauty expenses, direct sellers will prove to be a good solution and have the most to gain from the recession.

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