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Back to growth?



Confidence seems to be returning to the market. Analysts got excited about March retail sales in the US, which were peppered with double-digit growth rates by some of the major chains. Meanwhile, French groups L'Oréal and LVMH reported big first-quarter increases. L'Oréal said that the quarter showed that the group was 'back to growth' and pointed out that the contraction in the US department-store market has ceased, while the Middle East and Russia are recovering. The group's sales were up 7.4%, and even the luxury products division, which was hit hard last year, managed to see an 11.8% increase in sales.

However, the industry shouldn't get too excited just yet. These stellar increases are comparisons with what was essentially a dire period in 2009, meaning anything less than double-digit hikes would probably be worrying. They also hide a certain lopsided aspect of the market. Unsurprisingly, growth is being driven for many brands by emerging markets, such as China, which weren't hit as hard by the recession and have recovered more quickly. And although some say that the US and Western Europe are beginning to rebound, it is a recovery that is nonetheless patchy. Word on the ground says that traffic is still sparse in department stores, and in Europe some of the major perfumery chains are advertising reductions of up to 70% at their stores. The economy may be getting better, but the specter of high unemployment and its effect on spending still looms large. Getting back to the growth that the industry once knew may be some way off.

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The naturals market

Green promise

Lessons from the burgeoning natural beauty sector

The natural personal-care category is the shining star of the global beauty market. According to research firm Kline & Company, these products accounted for 15% of the global cosmetics and toiletries market in 2009, with manufacturers' sales of \$17.5bn. The recession has done little to dampen growth rates—the market in Europe was up by 13% to €1.7bn at retail in 2009, according to Organic Monitor and is forecast to reach sales of nearly €2bn in 2010. (Organic Monitor's classification of natural beauty differs from that of Kline & Co, thereby explaining the difference in sales.)

The challenge of labeling

The big talking point in the naturals market is certification, and the number of labels adorning beauty products' packaging continues to grow. Today there are seven recognized natural and/or organic labels specifically for the cosmetics industry (labels such as 'vegan' or 'food grade' not included). But is the proliferation of labels added confusion for the shopper? Some don't seem to think so. "Certification is better than no certification, and those that aren't certified have a vested interest in maintaining confusion in the market. Some brands are using this sandstorm to rip off the consumer," explains consultancy Wuttke Group principal Mark Wuttke. Organic Monitor director Amarjit Sahota adds: "Certification is the way forward. It gives consumers confidence in what is natural and organic. The problem is that there is a lack in conformity among labels, and most are on a national basis—for example, Ecocert in France, BDIH in Germany and the Soil Association in the UK."

There is some progress on this front. The US-based Natural Products Association (NPA) standard, (which has been backed by beauty companies including Clorox-owned Burt's Bees), and non-profit association NaTrue are working towards a "mutual recognition agreement" to harmonize their labels. This means that ■■■

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Wuttke Group principal
Mark Wuttke

The naturals market

■■■ products complying with one label would be automatically recognized with the other body's standard. In Europe, NaTrue has been a challenger to the Cosmos standard, which aimed to become the pan-European certification body. NaTrue is praised by industry analysts for its transparency and three-part product rating system—organic, made with organic ingredients and natural.

Natural standards are also emerging in Asia and Latin America, but adoption rates remain low, says Organic Monitor. As many natural brands in these regions export their product, they instead look to certification specific to those markets. The Ecocert standard, for example, has become popular in countries like Brazil. There is still work to be done. Organic Monitor estimates that certified products' market value was more than €1bn this year, but that in North America, for example, less than 5% of natural and organic items are certified.

Brand claims are also causing consumer confusion. French natural beauty retailer Biu Beauté Bio marketing director Anne-Claire Lambersy states that the real competitors to organic brands are those that are using natural codes in their marketing without much to back them up. "Some conventional brands are surfing on the natural trend without really having a firm commitment [to organic]. Our job is to point out that these brands have a natural image and promise, but it's not followed up in the product formulation," she notes. The naturals consumer is increasingly demanding transparency and authenticity from its beauty brands on issues ranging from ingredients to sustainability practices (see box, p.12). Consumer-driven websites include Skin Deep Cosmetic Safety Database (www.cosmeticsdatabase.com) and The Good Guide (www.goodguide.com), which has developed an iPhone application that allows consumers to scan a product's barcode and link to the website's 65,000-strong product database. The website rates a product's health and environmental impact as well as social performance. Some applications even find the lowest-priced product in a given location.

Retail: room for improvement

Some see the natural personal-care shopper as the ideal consumer. Burt's Bees ceo John Replogle says she is "the most educated, well-informed, engaged, less price sensitive and more loyal—and with a larger basket." But the retail landscape is still highly fragmented in most markets. Most sales are still done through specialty shops (natural grocers, for example), and there are few dedicated natural beauty chains. One such chain is Biu Beauté Bio (formerly Naturalia Beauté), which opened in 2007 and now has seven points-of-sale in Paris. The retailer claims to provide clarity for its consumers by stocking only products that are certified natural or organic. Store advisors are trained aestheticians (the level of service and knowledge of staff is a far cry from the average perfumery's beauty advisor) and each boutique houses one or two treatment cabins. Biu Beauté Bio cultivates a community feel with initiatives such as its "organic testers"—each store gives complimentary products to a limited number of consumers who then share their experiences on the retailer's website. This initiative encourages traffic and gives retailer and brands valuable consumer input (although it seems only the positive feedback makes it onto the site). "In organic beauty, clients are very committed; they ask themselves a lot of questions and are into comparison. Word-of-mouth transmission in this market is very powerful," notes Biu Beauté Bio's Lambersy.

Retailers are also setting themselves up as certification bodies and selectors.■■■

“Larger brands are investing in organic, but they are hedging their bets. While a few companies are dabbling in this sector, there is no major commitment”

Organic Monitor director
Amarjit Sahota

Naturals in numbers

- Global natural personal-care sales (wholesale) 2009: **\$17.5bn**. The market is expected to reach **\$20bn** in 2013
- Natural and organic products comprise **3%** of total cosmetic sales in Europe
- Brazil is the fastest-growing market at **+19%** over 2008
- Certified personal-care products' market value exceeded **€1bn** in 2009
- Fewer than **5%** of natural & organic cosmetics are certified in North America

Source: Kline & Co, Organic Monitor

The naturals market

■■■ US natural foods grocer Whole Foods, for example, launched its Premium Body Care standard to help customers "cut through the confusion when looking for natural personal-care products," according to the retailer. It claims that the standard has encouraged beauty companies to reformulate their products to meet these criteria. Whole Foods offers its beauty customers in-store lectures and audio podcasts on subjects ranging from how to read labels to what the retailer's natural standard means in terms of personal care.

Mainstream retail—perfumeries, department stores, drugstores and even discounters are giving more shelf space to green cosmetics. But store staff in generalist retail can be hard pressed to answer questions relating to certification and ingredients; specialist shops still have the edge.

With more consumers asking for natural products, where does this leave prestige brands, many of whom have not made the leap to natural and organic? For the moment the sector seems content to acquire existing brands—Clarins' with Kibio and L'Oréal with Sanoflore, for example. "Larger brands are investing in organic, but they are hedging their bets. While a few companies are dabbling in this sector, there is no major commitment," notes Sahota. Organic Monitor's 2010 *Strategic Insights* report notes that further acquisitions should take place, especially in Europe, where a rich crop of smaller brands could be snapped up. But it warns ■■■

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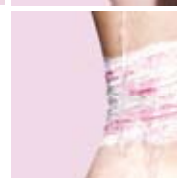
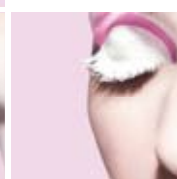
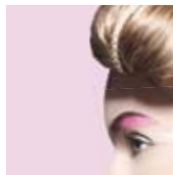
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The naturals market

■■■ that acquisitions that have proven most profitable are those where the brand has continued to operate independently (it cites Burt's Bees and The Clorox Company and Estée Lauder Companies and Aveda, for example) rather than those that are fully integrated into a larger group.

The biggest opportunities for continued growth in the market is in increased segmentation. While brands such as pioneers Dr Hauschka and Weleda offer a range of products ranging from toothpaste to foot care, many players still limit their offer to facial and bodycare. Forward-thinking companies will also segment their offer for targeted groups, such as men, teens, babies and expectant mothers. However, some categories, such as nail care and sun protection, are a challenge for naturals given the technical barriers.

Opinions differ as to whether 'truly natural' is the only way forward for the personal-care industry. "The market is growing in magnitude, and resembles the traditional beauty industry more and more, but I don't see it evolving into a purely organic/natural market—it's more of a shift," notes Sahota. Brazilian company Natura Cosmetics director of sustainable development Marcos Vaz disagrees: "There is no room for 100% synthetic products anymore—the whole market will eventually migrate [towards naturals]. How quickly this happens will depend on the consumer".

Whatever the scenario, the sector is headed for continued growth—the global market is projected to increase by 13-15% this year, while in the US natural products should make up nearly 25% of all personal-care sales in the long-term.

The winners in the naturals category will be those brands that have gained consumer trust over the years through their authenticity and transparency. However, Wuttke warns that while small pioneers have laid the groundwork, growth lies elsewhere: "Larger companies with the funds to make it work will make the market grow". It's time those companies stepped up to the plate. ■

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Natura Cosmetics
sustainable development
director Marcos Vaz

Biodiversity: the next step

Consumer concerns are now going beyond the ingredients in their products, with more beauty shoppers buying on the basis of ethical sourcing of ingredients and fair-trade practices. "There is a shift happening from a product focus to a company focus," notes Union for Ethical BioTrade (UEBT) executive director Rik Kutsch-Lojenga. The UEBT is on a mission to promote biodiversity sourcing in the cosmetics industry. UEBT member Natura Cosmetics director of sustainable development Marcos Vaz views biodiversity as a source of innovation (its Ekos bodycare line is the biodiversity pioneer in the Natura's portfolio) and a driver of positive social and environmental impact. He notes that the company's revenue and share value has increased in tandem with its (publicized) biodiversity practices.

Natura has replaced certain ingredients with their organic counterparts, thereby reducing the company's carbon footprint by 50%, despite the fact that these ingredients are often 30% more expensive.

Another company which is working on biodiversity is LVMH-owned Kenzo Parfums. The beauty brand launched its global biodiversity strategy earlier this year with the aim of verifying environmental, social and economic impact of its entire supply chain. However, the company has no plans to publicize its efforts to the end consumer: "We can't communicate because we aren't perfect," notes Kenzo Parfums director of sustainable development of raw materials Fleur Rodriguez-Gallois. LVMH Research innovation manager Patrice André says that Kenzo is the first brand in the cosmetics and perfumery division to work on biodiversity, but warns that publicizing it is risky: "A brand's marketing should rest on solid initiatives, and mustn't claim something for the entire group that one subsidiary is doing."