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Comment

New year, new caution?

Overall, the holiday season may have turned out to be better than expected for beauty. Retailers reported improved levels of traffic and average tickets that were higher than last year. They also said that consumers shopped in a more sustained manner over November and December, rather than saving for last-minute buys in the few days before Christmas.

All of this is encouraging and will no doubt reassure brands and retailers. However, the industry shouldn't get too excited just yet, as 2011 could well shape up to be another difficult year. With VAT increases in countries such as the UK, tax hikes elsewhere, rising oil prices and unemployment still looming large, this year may still see consumers keeping a tight rein on their purse strings.

This probably also means the industry will need to continue to keep a close eye on pricing (even in spite of the rising cost of raw materials) and a close watch on the performance of cheaper alternatives, including private-label goods. It may also see companies innovate and experiment more in terms of formats and move into new categories, in addition to giving more thought to better developing true multi-channel distribution strategies.

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Inside

credit: stock.xchng

The natural beauty market

Shades of green

BW Confidential analyzes the major beauty players' strategies in the natural beauty market and what is holding them back

The natural and organic beauty market is still seeing double-digit growth, with global manufacturers' sales expected to reach $23bn in 2010 and the market having registered a CAGR of 15% over the past five years, according to Kline & Company. But how implicated are the major beauty groups in the market? There is an interest from the big players in naturals, but overall they have been slow to act and the buzz is still largely centered on small, niche firms. As one industry player puts it: "the majors are coming around to natural and organic, but each at its own speed".

L'Oréal said its buy of The Body Shop in 2006 was to learn more about naturals, while Shiseido made a major push in the sector with the acquisition of US mineral make-up brand Bare Escentuals in January 2010, a move that was heralded as paving the way for more natural buys in the market. However, apart from these two examples, major acquisitions in naturals have been few and far between. This is largely down to the small footprint of natural brands and market shares that would barely register on the radar of a major beauty player.

Company culture also plays a role, with major groups finding it difficult to integrate a small natural brand into a large multinational portfolio. "The main challenge the majors are facing is developing a brand with strong organic values. The organic brand has to both remain niche and integrate into the conventional cosmetics sector, which is difficult," comments French organic beauty retailer Mademoiselle Bio managing director Violette Wattine. On the flipside, however, a motivation for buying a natural brand is to provide a better insight into an alternative way of connecting to consumers. "Major beauty players aren't out to buy market share, but to acquire a culture that will then penetrate the larger group," explains French consulting firm Ethikentet founder Bernard Gindre.

Acquisitions may be more likely to come from middle-sized players, such as L'Occitane, which is looking to add more brands in the natural market. Or, as US-based consultancy Wutkke Group principal Mark Wuttke believes, ■■■

Naturals in figures

Global natural beauty sales 2010*: $23bn, +15% over 2009
Global CAGR 2005-2010: 15%

Source: Kline & Company
** Forecast*

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■■■ investment will come more from private equity than strategic buys. "Private equity is becoming more involved in these sustainable brands. In a similar vein to how angel investors operate, they keep a low profile, but allow the owners to retain control and develop the brand as they see fit." While much of this activity is not made public, in December 2010 private-equity firm Caltius Equity Partners announced it would invest in US natural beauty brand Kiss My Face to fund international expansion and develop the company's bodycare business.

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> Mademoiselle Bio managing director Violette Wattine

Staying in-house

Some of the majors have opted to create brands from scratch, or offer natural or organic alternatives to their existing line-up. "It's easier for the majors to launch something new and build it up. They'll spend less than they would buying a brand and then having to re-develop everything," remarks UK-based research company Organic Monitor director Amarjit Sahota. P&G's Cover Girl launched a natural make-up line last month, Johnson & Johnson is to roll out a new natural skincare range for the Neutrogena brand, while L'Oréal introduced a six-sku organic facial skincare range under the Garnier Naturals franchise called Bio Active, with the tagline, 'the future will be organic'. Some praised this move, as it finally gave credence to Garnier's natural marketing promises. The brand is looking to appeal to consumer interest in green issues with its Bio Active microsite, which lets visitors learn more about the products' natural positioning by listing all of its ingredients, and has a section explaining the line's "eco-conceived" packaging.

French beauty group Bourjois, meanwhile, took the daring step of launching a new organic make-up brand, called Une in 2009 in France. The brand is now sold in Europe and Japan. "Of all the majors, Bourjois has been the most successful in the organic market. They created a brand from scratch by looking at what the natural consumer was looking for—organic make-up. Their approach was coherent from the start and the line continues to perform well in our stores," says Mademoiselle Bio's Wattine. ■■■

Major players' natural initiatives

- **Shiseido** bought mineral make-up brand Bare Escentuals in January 2010 for $1.7bn with the aim of developing the brand's presence in international markets.
- **Clarins** acquired a 10% stake in the Kibio brand in 2006 and purchased the remaining shares in 2010. Kibio is consolidating its presence in its home market of France and is developing in Europe.
- **L'Oréal** acquired UK brand and retailer The Body Shop and French organic skincare brand Sanoflore in 2006. The Body Shop introduced organic skincare line Nutriganics last year.
- **Bourjois** launched organic make-up brand Une in 2010. The line comprises 128 skus ranging from lipstick, blush, mascara, powder and eyeshadow priced between €11 and €23. The group also introduced Ecocert-certifed foundation Bio-Détox containing up to 22% organic ingredients and 99% natural formulas.
- **L'Occitane** purchased French brand Melvita in 2008 and is expanding the brand internationally. Melvita is now sold in 11 countries worldwide and is opening standalone stores in selected markets (see Interview, page 7).
- **Johnson & Johnson** launched Johnson's Natural, a green alternative to its classic Johnson's Baby line, containing 98% natural ingredients. According to press reports, the group's Neutrogena brand is to roll out a new facial skincare line in January formulated with mainly natural ingredients.
- P&G's **Cover Girl** launched make-up line Nature Luxe last month. Described as a line "inspired by nature", the brand's selling points are that it is paraben-free and contains natural extracts. It will have a higher price point than other Cover Girl lines.
- Mass brand **Ushaïa** (L'Oréal) launched Ushuaïa Bio, a range of four certified organic deodorants with a 100% natural formula.
- **Garnier** (L'Oréal) has rolled out organic facial skincare line Bio-Active, a six-sku range including two anti-aging products.

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▪▪▪ This year, Bourjois also launched Bio-Détox, an organic make-up line under the Bourjois brand; the foundation claims to contain 99% natural ingredients, of which nearly 22% are organic.

Natural products' traditional distribution—health-food stores and independent retailers—are another challenge for the majors. "When a big group comes into the market they don't look at specialist retail. Instead, they use their existing distribution network for their natural and organic lines. They leave the smaller traditional brands with the specialist retailers," explains Organic Monitor's Sahota. This was L'Oréal's strategy when it acquired French organic brand Sanoflore in 2006. While most of Sanoflore's sales were through health-food stores, L'Oréal integrated the brand into its Active Cosmetics division and repositioned it as a pharmacy brand. "Most growth in the naturals sector is coming from pharmacies and parapharmacies, so L'Oréal saw the channel as providing more opportunities. They reduced the number of skus, reformulated the products and changed the values of the brand," explains Sahota. Industry sources say that L'Oréal also sold off the brand's organic farms (which it had widely used for marketing purposes following the acquisition), reduced the product sizes and increased prices across the portfolio. In the wake of this, a number of Sano-flore's traditional retail partners dropped the brand. "Taking the brand out of health food stores was always going to be a huge risk, and some now question whether the gamble has really paid off for L'Oréal," states one industry analyst.

Opportunity in pharmacies

However, while health-food stores are still not on most big players' radar, more groups are looking to the pharmacy channel to develop their natural brands. A recent study in France by research firm Cosmetics Monitor says that the average pharmacy stocks fewer than three certified organic brands and nearly 40% of pharmacies do not carry any organic brands at all. In the US, apothecary-type drugstore chains, such as Colorado-based Pharmaca, are becoming a growing force in the naturals market with their edited brand offer and expert advice. Mademoiselle Bio also represents a new generation of natural beauty stores. The retailer offers more than 2,000 skus and brands ranging from the very niche, to those owned by major groups, including Sanoflore and Kibio. "We don't look at who the shareholders are when we decide to stock a brand, but what the brand's ethical commitments are and their added value," explains Wattine.

The right formula

The major groups may be monitoring the naturals market, while analyzing the best way to approach it. However, their size could be an obstacle when it comes to product formulas and ingredients. Analysts say working with organic ingredients on an industrial scale remains impossible as there are simply not enough raw materials to meet the demand. Some sources say it can take from three to five years to source organic ingredients, not to mention finding the volume necessary for a major brand. "The majors believe in the upheaval that is taking place in the market, but the raw materials challenge is forcing to come at it slowly," explains Mademoiselle Bio's Wattine. This slow and steady approach to naturals among the majors looks set to continue. ■

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