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New Product Driven!

After years of cost-cutting, marketers insist that they're launching the next wave of innovative chemical specialty products.

By Tom Branna
Editorial Director



The Bleach Pen helped Clorox write a winning chapter in its second fiscal quarter.

On the surface, the chemical specialties market seems dormant. Sales are flat at best, no major launches are planned until the second half of the year and companies are merely tinkering with cost-cutting programs that were put in place years ago. Sounds pretty quiet, doesn't it? But, in fact, rumors are swirling around the industry as the multinationals jockey for position in an increasingly cost-competitive environment. Of course, acquisitions have been reshaping the landscape in the household and personal care industry for decades, but recent moves by several companies have industry observers scratching their heads, wondering what's next. For now, all eyes are on Clorox, where management will have some major decisions to make once Henkel completes its acquisition of Dial.

Food and Drug Stores Are Losing Market Share

Sales of household cleaners continue to drop, but the decline may have more to do with the strength of Wal-Mart than weakness in the overall category. That's because the data shown here are from food, drug and mass merchandisers (excluding Wal-Mart) for the year ended Jan. 24, 2004. Note: remaining cleaners category includes septic tank cleaners, rust removers, metal cleaners, paste & jelly cleaners, humidifier/vaporizer cleaners, premoistened towels, upholstery, floor care and allergen control. Source: ACNielsen Strategic Planner.

Category	\$Sales	%Change	%Change	%Change
Abrasives	114,365,081	-3.0	87,560,085	-7.6
Ammonia	18,275,618	-9.2	14,950,845	-11.6
Bathroom cleaners	235,505,934	0.1	83,205,364	-2.2
Disinfectants	144,695,688	-1.4	40,655,293	-2.6
Liquid cleaners	685,359,662	-2.9	261,660,170	-2.6
Oven cleaners	40,447,822	-3.5	11,139,691	-4.5
Powdered cleaners	3,348,388	-31.4	1,057,153	-26.8
Remaining	170,326,882	1.9	43,677,046	1.7
Rug cleaners	153,285,999	-8.4	22,797,676	-9.6

Toilet bowl cleaners	257,543,224	-8.5	114,883,052	-7.4
Window cleaners	257,543,224	-4.5	41,600,812	-4.4
Total:	\$1,938,848,688	-3.5	723,187,187	-4.3

Back in December, Dial, which makes a range of household and personal care products, agreed to be acquired by Henkel for about \$2.9 billion. To help fund that acquisition, Henkel said it could sell a significant portion of its stake in Clorox or Ecolab. Such a move, said industry observers, could provide a real shakeup within the segment.

"The big question is, what will happen to Clorox?" asked Ken Wasik, director of the consumer product group at Houlihan, Lokey, Howard & Zuckin. "If another company can come in and control Clorox it would have a lot of scale."

Mr. Wasik wouldn't comment on specific suitors, but he did suggest Clorox would be attractive to a European player or perhaps an investment company. "I could see a big financial sponsor getting involved for four or five years," he speculated. "Clorox has enough scale to survive on its own, but it is not at the ideal size. It's in the empty middle right now."

Other companies too, are coming under pressure, according to Mr. Wasik. He noted that while Church & Dwight has successfully met its sales and profit estimates for several quarters in a row, the Princeton, NJ-based company is still a relatively small player in the household cleaning product market, with several brands in niche categories.

"They've stuck to their knitting with a number of good acquisitions, they have good price points and are doing well with tertiary brands in small categories," observed Mr. Wasik. "These categories are not something a major player needs, so Church & Dwight may keep going it alone."

Other smaller players may not be so fortunate. Mr. Wasik noted that these days, the household cleaning aisle resembles the produce section with a host of formulas that boast of the cleaning power of orange oil. As Procter & Gamble, S.C. Johnson and others have put the squeeze on the first movers in the segment, some of the smaller players in the fruit-based cleaning sector may begin to get squeezed out.

CSPA Mid-Year Meeting Set for Chicago

The Consumer Specialty Product Association (CSPA) will hold its mid-year meeting at the Chicago Marriott Downtown, May 4-7. The general membership breakfast and program will be held May 5 from 7:30-10:30 a.m. CSPA chairman Joseph Healy, Outsourcing Services Group, Inc., will preside over the program. He and CSPA president Christopher Cathcart will present their reports, which will include a special presentation on Product Care. During the general membership meeting, CSPA will present the Murray Glauberman Scholarship Award to an outstanding student whose parent is employed by a CSPA member company. Following the award ceremony, keynote speaker David S. Broder will be introduced.

Mr. Broder is a national political correspondent for The Washington Post. The Pulitzer Prize winner will give the audience personal insights into the inside maneuverings in Washington D.C. and the grassroots opinions of American voters.

The mid-year meeting includes a full lineup of division meetings, including:

- Pesticide division: "Pesticide fee implementation update," May 5;
 - Aerosol division: "Managing the challenge," May 5;
 - Cleaning Products and Polishes and Floor Care divisions (joint program): "Raw material restrictions," May 6;
 - Air Care division: "The pluses and minuses of naturals," May 6;
 - Antimicrobial division: "The dirt on the hygiene hypothesis," May 6;
 - Industrial and Automotive division: topic TBA, May 6.
- In addition, the meeting features Tradeworx, a tradeshow of suppliers of products and services to the consumer specialty products industry. For more information: CSPA, (202) 872-8114; Website: www.cspa.org.

"The household cleaning sector is over-crowded and is facing severe pricing pressure these days," he observed. "There's a low barrier to entry and so much overcapacity."

Sales Slip in Traditional Channels

All of these factors are having an impact on category sales. According to ACNielsen, Chicago, sales of household cleaners in food, drug and mass merchandisers (excluding Wal-Mart) declined 3.5% to just less than \$1.94 billion for the 52 weeks ended Jan. 24, 2004 (see chart, p. 65). Nearly every product category in the household cleaning segment slipped during the past year, with bathroom cleaners rising a measly 0.1% and remaining household cleaners (a catch-all category that includes niche segments such as septic tank cleaners, rust removers and metal cleaners) gaining 1.9%.

In recent years, marketers have done an excellent job of squeezing costs out of the supply chain while at the same time, forcing their suppliers to keep a lid on raw material costs. The end result, of course, is that marketers of finished products have been reporting a surge in earnings for several quarters in a row. Now, however, it appears as if suppliers are beginning to report some success in passing along higher material costs to end product manufacturers. In fact, just last month we asked our readers at Happi.com if they were raising prices. At press time, more than 70% said that they had raised prices—anywhere from 1-4%.

Mold is Everywhere

Wall Street may have its eye on Clorox, but the company's focus remains on that old standby—bleach. At last month's American Academy of Allergy Asthma & Immunology's 60th annual meeting, University of Arizona researchers reported that a chlorine bleach solution not only effectively kills mold, but also neutralizes the indoor mold allergen. The study was funded by a grant from Clorox.

According to Kelly Reynolds, a research scientist at the University of Arizona, mold spores, a common trigger for allergies in the U.S., were present in 100% of the homes surveyed. When sensitive individuals are exposed to mold spores or other allergens, asthma symptoms may result. In fact, mold spores are suspected in the tripling of the asthma rate in the past 20 years and a 1999 Mayo Clinic study blamed mold spores for nearly all of the chronic sinus infections afflicting 37 million Americans, according to the University of Arizona.

"Remaining fragments of dead mold can linger indoors long after the mold spores have been inactivated and can be as harmful as live mold," said Dr. Reynolds. "The study results confirm that denaturing the mold spores with a dilute chlorine bleach solution appears to be the most effective and efficient way to reduce mold allergens on hard surfaces."

The study also looked at consumer perceptions of mold. Although most folks understand that mold is a health concern, just 17% believe mold is an issue inside their

own homes. Consumers may be ignorant about mold issues, but they certainly are willing to roll up their sleeves and tackle spring cleaning chores, according to the Soap and Detergent Association.

A recent SDA survey found that just 8% of respondents describe house cleaning as a chore they dislike, while a whopping 88% consider cleaning as important to keeping their families happy, healthy and safe; keeping their houses looking presentable or providing a sense of satisfaction when finished.

Still, like the University of Arizona mold study, consumers may be over-optimistic when it comes to judging their own homes. Surprisingly, 25% of women and men surveyed rated their residences as being “very clean” (a rating of nine or 10 out of a possible 10 points). Eighty-five percent of respondents gave the cleanliness of their homes an “above average” rating. According to the SDA, people are most likely optimistic about the level of cleanliness in their homes.

Whether dusting, deodorizing or disinfecting, the most important factor men and women name in selecting a cleaning product is that it is a “trusted brand” (24%). “Product safety” and “being a good value” closely followed (20% each). Younger respondents (18-44) were more likely to choose good value, while a trusted brand is more sought-after by people ages 45 and older.



Scrubbing Bubbles Soap Scum Remover is the latest line extension from S.C. Johnson.

“The research results make sense because brands become more trusted as they are proven to be safe to use and a good value for consumers,” said Brian Sansoni, vice president, communication and membership, The Soap and Detergent Association. “And, the longer you know a brand, the more its benefits are proven and loyalty is enhanced.”

A Devil of an Idea?

New product lifecycles may be shorter and competition more intense, but that hasn’t stopped upstarts from entering the category. One of the newest to the market is Royal Appliance Mfg. Co., the maker of Dirt Devil vacuum cleaners. Royal Appliance is trying to break into the highly competitive household cleaning category on the strength of the Dirt Devil name. To achieve its goal, the company recently hired Jupiter Licensing, Beachwood, OH, to expand the Dirt Devil brand. Jupiter is negotiating with companies interested in licensing the Dirt Devil brand for use in all types of home and commercial cleaning products including soaps, detergents and non-powered applicators.

But Mr. Wasik of Houlihan, Lokey, Howard & Zukin, insists that licensing programs may be simply a way of playing it too safe.

“I always associate licensing with dipping your toe in the water. If you believe in your brand, jump into it,” he said, adding that company executives that decide to go the licensing route don’t truly believe in the category, “but think they can make a few bucks on it.”

New Products Boost Sales

For a few players, there is plenty of money to be made in the chemical specialties market. SDA data suggests that consumer faith in national brands remains strong and recent financial results from major players such as Clorox, Procter & Gamble and Reckitt Benckiser reaffirm SDA’s findings. All of them reported excellent results and

executives at all three maintain that successful new product launches played a key role.

"We are committed to sustaining a relentless innovation program," said Jorge Mesquita, president of P&G's global home care division at the recent Reuters Consumer Products and Retail Summit. In the past, P&G was guilty of launching a new product only to abandon the brand a year or two later. These brands, which P&G calls "foundation brands," include Mr. Clean products, Cascade dishwashing liquid and Dawn dish soap.

To revive Mr. Clean, P&G recently introduced a surface-cleaning product called Mr. Clean Eraser and the Mr. Clean AutoDry car cleaning system. Similarly, P&G added an extension pole to the Swiffer hand-held wand duster. According to Mr. Mesquita, these types of product additions add value for consumers faced with copycat competitors and cheaper private-label challengers such as store brands from Wal-Mart and other big retailers.

Innovation is a cornerstone of the Clorox growth strategy, according to Jerry Johnston, president and chief executive officer. At a recent investor conference, he pointed out that the Clorox Bleach Pen was one of 2003's most memorable new products, with 42% of Americans able to recall it.

Now Clorox is expanding the pen concept with three new variants and is rolling out Tilex Mildew Root penetrator and remover.

Later this month, Clorox ToiletWand debuts. This disposable toilet cleaning system has a sturdy, ergonomic wand that clicks onto a disposable, scrubby sponge head. Executives said each head has been pre-loaded with foaming Clorox cleaner and is designed to scrub better than a standard toilet brush, even in hard-to-reach places like under the rim. The head is removed for disposal with a push of a button. The Clorox ToiletWand starter kit includes a ToiletWand and six single-use sponges and retails for \$9.99 starting in April. Single-use sponge refills are sold in packages of six for \$2.99.

Reckitt Benckiser posted good results in 2003 by focusing on new products, building its power brands and expanding margin, said Bart Becht, president and chief executive officer.

In addition, Reckitt Benckiser's "innovation rate," i.e., the percentage of net revenues in a year coming from products launched in the prior three years, topped 40% in the second half of 2003, said Mr. Becht.

"We're at the rate we wanted to be," he recently told analysts. "The innovation rate is very encouraging and one of the key reasons why we're successful."

Now the company is rolling out the next wave of innovative products such as Lysol ReadyBrush, Vanish Oxy Gel and Vanish Oxy Carpet (under the Resolve brand in the U.S.).

In the autodish category, Reckitt Benckiser rolled out Electrosol with Jet Dry Action and is expanding the brand with a new green apple fragrance.

S.C. Johnson, however, continues to expand the Orange cleaner segment with the recent launch of Scrubbing Bubbles Soap Scum Remover with Orange Action. Also new from S.C.J. is Grab-it Vinegar Wet Floor Wipes to quickly clean floors.

Sara Lee too, is focused on new products. In fact, chairman Steve McMillan recently told analysts that the company is focusing R&D efforts on its Ambi Pur air care brand in an effort to build a \$500 million franchise during the next few years.

Product Care

As the marketplace heats up with more products and more competitors, the Consumer Specialty Product Association (CSPA), through its Product Care program, has helped the chemical specialties industry polish its image with regulators and consumers. Product Care provides a framework for companies to identify and commit to stewardship principles, share ideas and information and benchmark better performance. Participating companies pledge to voluntarily develop management principles for areas in a product's lifecycle from development through product use and disposal.

Product Care recently welcomed its 64th member (Scott's Liquid Gold) and CSPA executives said companies that join Product Care now can put the Product Care logo on their labels with the blessing of the Consumer Product Safety Commission. Logo or not, Product Care can help a good company get even better, according to CSPA.

"Whether companies are large or small, the Product Care program puts them all on the same playing field regarding what they can do to ensure product stewardship," noted Chris Cathcart, president of CSPA. "It (Product Care) provides a good set of metrics for self-assessment and enables a company to create a pathway for continuous improvement."

For more information about the program, visit the Product Care website, www.productcare.com.

Product Care is just one of many programs and services available to CSPA member companies. According to Mr. Cathcart, CSPA fosters information exchange between companies and champions the industry's position to regulators, reporters and consumers. The association's activities have struck the right chord with consumer product companies—CSPA membership rose in 2003 and now boasts 240 member companies, its highest level since 2000.

"CSPA is growing at a time when membership in similar organizations is flat or declining," asserted Mr. Cathcart. "We have a reputation of making things happen and getting things done."

As evidence of this, he pointed to CSPA's work in getting the Pesticide Registration Improvement Act of 2003 passed. Thanks to the association's efforts, the Act transforms how EPA regulates antimicrobials and other non-agricultural pesticides.

"It was an extraordinary feat and CSPA played an important role in bringing the coalition together," said Mr. Cathcart.

Going forward, coalition-building will be a key component of a successful trade association, according to Mr. Cathcart. He pointed out that the CSPA, with its seven different divisions (aerosol, pesticide, cleaning products, polishes and floor care, air care, antimicrobial, and industrial and automotive), is well-positioned to form effective coalitions with a range of associations. Companies eager to learn more about CSPA and its Product Care program, should attend the association's mid-year meeting later this month in Chicago (see box, p. 66).

With a stronger CSPA behind it, a full pipeline of products to work with and costs under control, chemical specialty manufacturers insist that they have positioned themselves for excellent long-term growth.

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