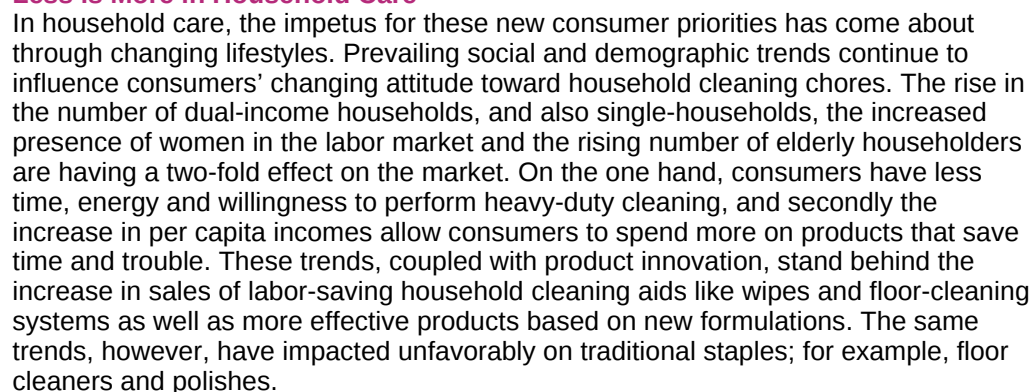
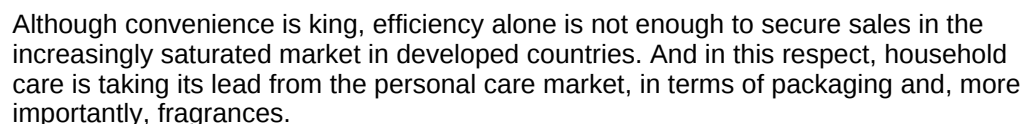



Consumers demand a range of natural fragrances, signalling a product that is gentler on their skin and on the environment.

The Global Household & Personal Care Products Industry

Personal Care Products

Market sizes • retail value rsp • US\$ million (fixed ex rate)

	2003	%02/03	%97/03
World			
Baby care	3,476.1	5.4	42.2
Bath and shower	20,701.2	3.3	24.8
Deodorants	9,242.8	6.6	38.3
Hair care	42,491.8	4.3	34.8
Color cosmetics	28,055.0	4.6	37.7
Men's grooming	16,221.2	7.3	47.8
Oral hygiene	20,335.9	3.5	27
Fragrances	22,408.9	3.5	27.3
Skin care	38,481.4	6.8	43.6
Depilatories	2,559.5	4.3	68
Sun care	4,302.5	7.8	55.1

Note: Sum of sectors is greater than the market size because men's toiletry products are included in men's grooming and in the relevant toiletry sector.

Household Products

Market sizes • retail value rsp • US\$ million (fixed ex rate)

	2003	%02/03	%97/03
World			
Household	83,273.0	4.1	32.1
Laundry care	42,543.2	3.2	28.2
Dishwashing products	8,829.0	4.1	28.7
Surface care	12,939.1	6.4	49.6
Chlorine bleach	3,013.9	4.1	23.7
Toilet care products	2,798.6	4.1	45.9
Polishes	2,946.2	2.5	12.9
Air fresheners	5,423.6	6.4	59.4
Insecticides	4,779.3	4.6	19.8

Oranges Are Not the Only Scent...

The introduction of technologically advanced cleaners and new formulations helped raise sales in the mature surface care market, together with air fresheners, the fastest growing area of the global market for household care. This, the second largest sector in the market, received a new lease on life due to the popularity of wipes. Procter & Gamble's electro-static brand Swiffer reawakened interest in this format in 1999, and

since then a series of other electro-static, moist, antibacterial and task-specific wipes including SC Johnson's Grab It Go Mop have hit shelves. Between 1997-2003 the global value of the wipes market increased almost nine-fold.

The changing nature of fragrances has also helped expand the surface care market. Sales have been aided by the introduction of a number of products with orange scent, which created a short-lived "orange" boom across the market through 2002 and 2003. The popularity of orange led to the introduction of a number of surface cleaners under leading brands such as Mr. Muscle All Purpose Orange Action (S.C. Johnson) and Orange Glo, Windex Sparkling Orange, Vim Oxy-Gel Orange, PineSol Orange Energy and a number of others. However, the trend seems to have exhausted its power to move sales significantly, and market for orange scent has reached its saturation point.

New scent formulations and fragrance-coordinated products also aided sales in the mature laundry care market. Additionally, new active elements such as oxygen and Teflon helped increase sales in some highly developed areas of household cleaners. But at the same time, product development in some areas has led to sales cannibalization in others.

Laundry--All Washed Up?

Laundry care still represents more than half of all global household care spending, but penetration in major markets is at such a high level that there is little room for expansion. Coupled with the growth of private label and the trend toward discount outlets in such major markets as the U.S., Germany and Japan, this has resulted in slow sector growth in recent years. Therefore added-value features, such as color-protection, softeners, wrinkle reducer variants and formulas for sensitive skin (for example Persil Sensitive, Ariel Sensitive and Persil Aloe Vera) have been the core focus for the key players in the industry in more mature markets. The year 2003 also bore witness to continual innovation in fragrance for fabric softeners and other value-added variants, such as Unilever's Comfort Forme, which maintains the shape of clothes and Comfort Fast Dry, which increases the amount of water removed during the washing spin cycle for easy drying. Liquid detergents and fine fabric detergents are increasingly claiming to preserve the shape and elasticity of special fabrics, with new launches such as Dreft Form Fix (Procter & Gamble), Dixan Modern Textile (Henkel) and Lip Modern Fabrics (Reckitt Benckiser).

Active oxygen also put in an appearance in this sector: Orange Glo launched OxiClean Instant spot removal wipes, Clorox unveiled Oxi Magic while Reckitt introduced Vanish Oxi Action.

P&G Still Dominates Household Care

The household care market is dominated by a few large companies, which have the financial power to ensure wide distribution and support products with expensive marketing campaigns. Procter & Gamble maintained its leadership of the market in 2003 with an 18% share, a slight decline since 2002 due to heavy reliance on the mostly mature and saturated laundry care sector and downward price pressure in Western Europe and North America. A large portion of its share is due to Procter & Gamble's continuing domination of laundry care and dishwashing products, where it held 26.9% and 20.7% of value sales, respectively.

The company dominates in the U.S. and Western Europe, where it holds first place in the UK, Belgian and Italian markets. It is also market leader in Eastern Europe, where its Fairy and range of laundry brands are particularly successful. Unilever is second globally, with second place in Western Europe and leadership in both Latin America and the fragmented Asia-Pacific and African/Middle East markets. It is helped by the performance of Hindustan Lever in India and also has a creditable third place in the important Chinese market. It is also market leader in the fast-growing and valuable French market, but is only fifth in the U.S.

Reckitt Benckiser is the world's third leading household care manufacturer by value, growing its share by 0.3 percentage points. Its strength in automatic dishwashing (in particular the Finnish brand) has helped it achieve a strong position in developed markets in this important sector. It is also strong in the fast-growing air freshener sector, where the Air Wick brand has been successful, and has a presence in other dynamically growing sectors such as automatic dishwashing and surface care, as well as a commitment to constant innovation to assist share growth. Reckitt's acquisition of Clorox SBP insecticide business in Brazil boosted its share of insecticides to over 7% globally in 2003. Private label products continued to increase Reckitt's market share in 2003, showing an increased willingness to take on the brands in terms of value for money.

Defying Maturity in Personal Care

The global cosmetics and toiletries market had slightly better fortune than its household care counterpart, with value growth of 4.8% representing an improvement versus 2002. Faced with an increasingly saturated marketplace and a sluggish global economy, strategies in 2003 focused on broadening reach via new consumer groups as well as identifying acquisition targets and new product sectors.

The expansion of the upper end of the mass segment continues to be a major driver of growth in the global cosmetics and toiletries market in 2004. An ever wider range of lifestyle and beauty magazines, aimed at men as well as women, has contributed to the growing refinement of consumer demand across all categories from oral hygiene to skin care. Meanwhile, the desire to reinvigorate mature product categories and develop new ones has spurred manufacturers' innovation strategies, leading to greater consumer segmentation to avert maturity particularly in developed regions such as North America and Western Europe. From teenage boys to mature woman, manufacturers are pulling out all the stops in order to boost sales and steal share in a fiercely competitive market.

Taking the Expertise to the Consumer

Estée Lauder, Procter & Gamble and L'Oréal have been pioneers of the new "do-it-yourself" trend by launching high-tech non-surgical alternatives with increasingly bold claims particularly in skin care and sun care. Women in their 30s considering microdermabrasion were targeted with off-the-shelf products offering similar skin-refining properties, such as Estée Lauder's Idealist Micro-D Deep Thermal Refinisher and in the mass market Garnier Skin Naturals Pure A. In the U.S., the Food and Drug Administration's approval of Botox for use in the lines between the eyebrows made headlines in 2002. Botox is the latest "in" thing for consumers interested in looking younger, and Botox parties, a variation on Tupperware parties, became the rage in fashion-conscious cities such as New York and Los Angeles.

During a 10-minute, non-surgical procedure, a doctor injects a drug (botulinum toxin type A) under the skin to relax and temporarily paralyze the facial muscles, thereby creating a smoother appearance between the brows. For a cost of \$300-1000, the results last up to four months. As a result "Botox like" cosmetic products at a fraction of the price, have become hot favorites. L'Oréal launched Wrinkle De-Crease as part of its Dermo-Expertise line—with Boswelox, while RoC unveiled its Retin-Ox anti-aging skin treatment in 2003. While both companies cleverly branded



Marketers are targeting women in their 30s with products that boost skin-refinishing properties.

their products to sound like “botox,” Avon took the stakes higher by claiming Anew Clinical to be better than collagen injections...and it paid off: sales rocketed (its fourth quarter skin care sales rose more than 30% versus the previous year).

There were no flies on Procter & Gamble either, which quickly launched its Olay Regenerist line, promising “dramatic skin improvement without the drastic measures.”

Thanks to such technological developments, including a wider use of innovative ingredients that support specific product claims, skin care has reached new ground, and now includes formulas which promise to diminish wrinkles, acne marks, blotches, scars, red blotches as well as skin aging. These clinically-inspired home treatments look set to continue their expansion, are fueled by increasing consumer interest in improving one's look and backed by further technological progress.

Age is not the only arena the world's leading companies are exploring to add value. In almost every sector of the market there is a “do-it-yourself” version. From the original hair color and manicure, to the more recent St. Tropez self-tan sprays and teeth-whitening kits, manufacturers are developing products that aim to replace a trip to the salon. In North America, Procter & Gamble led the teeth-whitening segment with its Crest Whitestrips. However, competition quickly became tough and its first mover advantage was soon challenged; the company was forced to dramatically lower prices for its premium product in 2003 with the entry of Colgate-Palmolive's Simply White.

Grooming's Booming

After several years of heightened but somewhat unmet expectations, the global men's grooming sector registered 7.8% growth last year; second fastest after sun care. Boosted by trend setters such as David Beckham, unashamed to admit to using skin care and hair care products to look good, male grooming is one of the industry's rising stars.

While per capita expenditure is still low across both developed and emerging markets, in more mature markets, such as North America, a more sophisticated approach is required to develop this sector. Manufacturers are going a step further by targeting specific age-groups, 12 to 24-year-olds in particular. In the U.S., for example, the OT (OverTime) line was launched earlier this year by OT OverTime (under license from Procter & Gamble), hoping to tap into the still undeveloped boys' grooming market. L'Oréal's Ambre Solaire sun care brand has also started targeting men in the fast growing sun care market, but all eyes are now on Shiseido's Jean Paul Gaultier color cosmetics range, an accompaniment to its successful Le Male fragrance line. Whether mascara and lipstick garner the same acceptance as moisturizer and hair wax remains to be seen.

Teens: An Economic Force

Nevertheless, male grooming has yet to undergo the degree of demographic segmentation recently witnessed by other sectors. In the established markets of Western Europe and North America (showing a mere 3.7% and 1% growth respectively in 2003) innovation by age is one key to driving sales. With growing purchasing power, teens have been a prime consumer target for clothing manufacturers and retailers and are seen by many personal care players as the perfect way to expand consumer base. By offering products designed specifically for teenagers, leading companies are creating brand equity that will—they hope—pay off in the future. Teenage-orientated brands drove color cosmetics in 2003, with L'Oréal's Maybelline reaching worldwide sales of \$2.3 billion, ranking No. 5. Meanwhile some 24% of Coty's sales in Western Europe were attributed to Rimmel.

Direct seller Avon's newest brand, mark, targeting women between the ages of 16 and 24, launched in August 2003. The challenge was a tough one for Avon since the company has historically had difficulty reaching younger consumers. To help it reach these consumers, Avon endeavored to lure younger independent representatives to

sell its products to their peers, and as a result, reported net sales of \$17 million in 2003, without cannibalizing Avon's core brand offer, proof that this demographic is a lucrative one to bring on side.

Ageless Beauty: Fab at 50

Although teen spirit is the current talking point, it is worth remembering that this demographic is shrinking, whereas the other end of the age spectrum is growing, and is luring companies with its high disposable income. With 25% of the population above the age of 65, Japan has one of the fastest-aging populations in the world and has a high per capita spending. The gray dollar is just as strong in Western Europe and North America where companies such as L'Oréal, Procter & Gamble are unveiling products which target this bracket specifically, across all products, from toothpaste to shampoo.

Sunny Days Here to Stay?

Last year was a good one for sun care, when global sales rose by 7.8% to reach \$4.3 billion, making it the fastest growing personal care category. Although sales remain largely seasonal, most regions showed strong value increases thanks to soaring temperatures and a raft of product innovation. This sector's strong growth, while helped by last year's heatwave in Western Europe, has been secured by increasingly segmented and scientifically advanced product offerings. Protection accounts for by far the largest share of sales; formulas these days come with skin-firming and even anti-aging claims.

For this year, Coty's Lancaster even unveiled Sun Body Sculpt, which protects, tans and claims to help shape the body. Sales continue to be boosted too by new formats, sprays in particular are of note. As ever 2003 saw a plethora of new product development. This included two of the biggest players relaunching their ranges. Both Laboratories Garnier and Johnson & Johnson (J&J) relaunched their Ambre Solaire and Piz Buin ranges respectively, with new formulations offering extra protection and care for sensitive skin. While protection put in the best performance last year, self-tanners have grown quickest since 1997, with line extensions encouraging additional spending, for example, leg gels, facial products and mousses and other new textures. Penetration of this product, even in developed markets remains low, so education is crucial, as is focusing on new consumer groups such as the gray market, men and specific skin groups. While good weather is seasonal, much can be done to make products not seasonal, and a must-have for new consumer groups, and such development is critical for repeat growth this year.

C&T: The Movers and Shakers

Merger and acquisition activity was slow through 2002 and the first half of 2003, although all eyes were on Beiersdorf for a good 12 months. Procter and Gamble surprised all observers when it swooped down on Wella and grabbed the No. 2 spot in beauty behind L'Oréal. The Cincinnati giant's quest for hair care domination was achieved when it scooped Clairol in 2001, but its latest acquisition has further exacerbated competition between it and L'Oréal in hair care especially. L'Oréal continues to maintain its lead thanks to its ability to rapidly introduce numerous products with technological advantages at all price points—crucial to gaining market share in this trend-driven industry. The French company performed well across all regions, especially in its home territory of Western Europe, but also North America. In the meantime, it has been fixing an acquisitive eye on Asia-Pacific—snapping up Mininurse and Yue Sai and gaining majority control of Japanese brand Shu Uemura, demonstrating the company's interest in expanding into new markets as well as in strengthening its presence in existing ones.

Unilever Thanks the Dove Effect

Third-placed Unilever seems to be favoring global development strategies for its core brands Dove, Sunsilk and Axe/Lynx/Ego, with intense advertising and marketing campaigns rolled out throughout 2003. Indeed, the resulting success of its Dove brand

was sufficient to compensate for its losses in skin care and fragrance, especially in North America, due to the relatively poor performance of the Calvin Klein brand and the divestment of Brut. Although its share slipped a place because of Procter & Gamble, Unilever maintains its strength especially in the bath and shower and deodorants sectors but also in hair care, oral hygiene and skin care sectors. The company's wide range of products appeals to a broad consumer base, with Calvin Klein at the premium end and Axe/Lynx/Ego at the mass.

Looking Ahead

Last year was a tough year for both the household and personal care industries, so what can we expect during the next few years? Globally, we expect cosmetics and toiletries sales to grow by an average of 3% annually to 2008, and household care by 2.3%. Rising disposable income driven by increased numbers of women in the workplace, coupled with the growing influence of Western societal values, will fuel demand for high margin goods in emerging markets in Eastern Europe, Asia-Pacific and Africa and the Middle East, with Eastern Europe expected to be the best performer across both industries. While stellar growth rates in emerging markets seem easily attainable, the industry needs to work at boosting growth in Western Europe and North America. Even assuming relatively stable economic conditions and increasing consumer confidence, maturity and competitive pricing in these developed markets will constrain global growth.

Increasingly polarized demographics will result in further segmentation of products. In personal care, flat birth rates and an increasingly aged population, particularly in key developed markets, will drive demand for anti-aging products. The new generation of young consumers should also be targeted in order to shape brand preferences early on in life. High penetration levels in Western Europe and North America will encourage manufacturers to segment product categories and establish niches to stimulate growth in both the household care and personal care markets.

Nevertheless, penetration for many categories remains low, even in developed markets, and the onus lies with manufacturers to up the pace of innovation in order to widen the consumer base, while retailers need to encourage greater footfall with new concepts in-store—added focus on service and wider ranges. The challenge for both lies in meeting high quality demand yet fighting increasing price pressures in a tough market environment.

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