



Cosmetics market research summary

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I. Global Cosmetics Market

The global cosmetics and toiletry industries (C&T) had more than \$270 billion in sales in 2006. Of this figure more than \$140 billion is represented by the cosmetics and personal care sectors.¹ These industries are outpacing most others. The largest global segment is skin care and is estimated to have more than \$31 billion during this same time period.² Euromonitor International forecasts annual global growth of 3.7% to reach international sales of more than \$300 billion by 2010. The largest domestic market is in the United States, where sales in the cosmetics and personal care sectors are nearly \$5 billion.

Currently, the positive results for global markets in these sectors will certainly help manufacturers and distributors boost their sales. This is especially true as sales growth in the mature markets of the United States and Western Europe is slowing considerably. The value growth rate in these two markets has slowed to 15%.³ These markets will continue to be marginalized as their customer bases continue to trust big box retailers and other discounters to fill these needs.

This slowdown has made for growth in the emerging markets of Eastern Europe and Latin America a huge opportunity. In 2005/2006 the growth rates in these two markets have been 900% greater than in Western Europe and 300% greater than in North America.⁴

¹ "State of the Industry: Will Megabrands Rule?" Euromonitor International. August 15, 2006. Available online at:
<http://www.gcimagazine.com/industry/3574517.html>

² Ibid.

³ "Markets and Dichotomies," Euromonitor International. September 4, 2007. Available online at:
<http://www.gcimagazine.com/marketdata/9571027.html>

⁴ Ibid.

II. Latin American Overview

A. Latin American Distribution and Sales Channels

Latin American retail sales are expected to reach US\$1 trillion by 2010. Independent (non-chain) retailers account for 60% of all in-store retail but are gradually losing market share to modern retailers in the area of fast moving consumer goods.

Modern retail: comprises roughly 40% of in-store retail sales, mainly through hypermarkets and supermarkets. Middle-to-upper-income consumers generally prefer modern retailers. Mass consumer segments continue to prefer shopping through independent retailers and informal channels (street vendors, markets, etc.) but will gravitate to modern retail as wages, car ownership, and credit card penetration grows.

The direct (or multi-level) sales: has proven to be very effective in Latin America, accounting for roughly 75% of non-store retail sales. The channel is particularly effective for selling cosmetics and health products.

E-commerce: constitutes 15% of non-store sales but less than 1% of total retail. Online sales are growing faster than any other channel.

Home shopping (catalogue and infomercial sale): accounts for about 9% of non-store sales and will continue to lose market share as it is easily replaced by internet sales.

B. Latin American Cosmetics Market

Latin America is unanimously considered the fastest growing market for personal care products. Of the 21 countries that reported data, all of them reported sector growth in 2005. Between 2001 and 2006 Latin America displayed value growth of 73.4% and double digit compound annual growth across all C&T sectors during the same time period.⁵ Many multinational cosmetic companies are targeting Latin America, as their economies grow and disposable income rises. The region boasts an abundance of highly skilled workers and a well-established domestic and international business culture. These factors are making it a prime target for foreign investment, especially in the cosmetics industry. Cosmetics growth in Latin America increased 10.7% overall in 2006⁶, and continued growth is expected into the next decade.

5 "Markets and Dichotomies," Euromonitor International. September 4, 2007. Available online at: <http://www.gcimagazine.com/marketdata/9571027.html>

6 "More International Companies Target Latin American market," by Louise Parance. May 29, 2007. Available online at: <http://www.cosmeticsdesign.com/news/ng.asp?id=76879-fasa-lumene.html>

The shift from manufacturing to service based industries in Latin America is offering an attractive window of opportunity in the region for international manufacturers eyeing its newly stabilized economies. Of these, the Brazilian market seems to be the most promising.

III. Brazilian Market Opportunities

C. Brazilian Economic Overview

Characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all other South American countries and is expanding its presence in world markets. Brazil has a population of 190 million which makes it the 6th most populous country in the world and by far the most populous in Latin America.⁷ This is amazing because 39% of this population is under the age of 20.⁸ According to the World Bank, Brazil will be one of the five fastest developing countries in the world in the next 25 years. Amongst developing countries it has the largest number of companies adhering to the ISO 9000 standard, containing ten times the amount of such companies in Argentina and Mexico combined.⁹ This shows the willingness and dedication of Brazil towards quality driven market growth into the future.

The Brazilian Real, their currency, has been the best performing currency in the world over the past three years. It has rallied more than 60% during this time period and growth is expected to continue.¹⁰ This increase in valuation of the Real has given new life to the luxury goods sector that has reported record growth in the past two years. The number of billionaires in Brazil has jumped from four to twenty since 2003. During this same period sales in the luxury sector will surpass four billion dollars this year which represents nearly a 50% increase. All of these factors make Brazil a phenomenal target for premium Western cosmetics producers.

D. Brazilian Retail Industry

Changing preferences of consumers is raising the share of non-food items' market in Brazil's retail industry. In 2005, Brazil generated US\$108.36 billion from the non-food retail market.¹¹ This trend will prove promising for those companies in cosmetics looking to penetrate the Brazilian market. A recently published report by RNCOS, "Brazil Retail Industry Forecast (2006-2010)", has given some statistics of the retail industry in Brazil, which are as follows: retail sales of clothing-USD 22.4 billion, of footwear- USD 9.6 billion (8.8%), toiletries and cosmetics-USD 12.1 billion (11.1%), fragrances and perfumes-1.9 billion (1.7%), and furniture-USD 5.5 billion

7 CIA - The World Factbook - Brazil. Available online at: <https://www.cia.gov/library/publications/the-world-factbook/index.html>

8 Strategy Research Corporation, 2000.

9 "International Market Research - Cosmetics Industry," The Department of Commerce. February 20, 2004. Available online at: <http://strategis.ic.gc.ca/epic/site/imr-ri.nsf/en/gr123285e.html>

10 "Strong Currency Bolsters Luxury Sales in Brazil," International Herald. June 26, 2007. Available online at: <http://www.iht.com/articles/2007/06/25/bloomberg/bxatm.php>

11 <http://www.free-press-release.com/news/200609/1159270793.html>

out of the total non-food retail sales. Brazilian retailers in non-food sectors are expecting this growth to continue. This will be especially true in the luxury goods and quality products sectors.

E. Brazilian Cosmetics Market

Brazil is the third largest cosmetics consumer in the world. Brazil has recently overtaken countries such as France, Germany, and England, traditionally leaders in cosmetics consumption. This increase was spurred by consumer spending growth of 26%, while during the same period global growth was only 1.2%.¹² Brazil now only trails the United States and Japan, which hold the top two spots.

There are approximately 1.2 million families in Brazil with an average annual income of greater than \$72,000.¹³ Brazilian C&T sales have been growing throughout this decade and recorded impressive gains of 15% in 2005.¹⁴ The most important segment in this sector is personal care products. Nowadays, Brazilian consumers no longer see cosmetics and toiletries as superfluous or unnecessary products. The “new” consumer in the Brazilian market now demands better quality products prompting importers to improve their products to meet local demands.

Brazil has targeted American companies to fill this need in the coming years. The ABIHPEC, the Brazilian Association of the Cosmetic, Toiletry & Fragrance Industry, was recently formed, aiming to grow Brazilian companies’ link to North American importers. The diversity of products is growing rapidly as multinationals, such as Unilever and L’Oreal, expand their Brazilian portfolios. Furthermore, Brazilian consumers are demanding natural and premium products to fill their needs in alignment with the growth in the luxury segments of South America.

There are many factors that are contributing to the huge growth in the industry.

1. Growing Participation of Brazilian women in the job market;
2. Use of state-of-the-art technology, leading to overall increased productivity, favoring sector pricing that has increased less than price indices of the overall economy;
3. Constant releases of new products to meet growing market needs;
4. Greater life expectancy, prompting the wish to preserve a youthful appearance.

12 “Brazil is the Third Greatest Cosmetics Consumer in the World,” ARAB, Brazilian Chamber of Commerce. March 8, 2007. Available online at: <http://www.anba.com.br/ingles/noticia.php?id=14018>

13 “Brazil’s Booming Luxury Market,” United States Department of Agriculture. September 2005. Available online at: FAS Worldwide.

14 “Latin America - Latin Spirit,” Euromonitor International, SPC. August 2006. Available online at: <http://www.cosmeticsbusiness.com/story.asp?storycode=475>

Cosmetic Product Profiles

The cosmetic sector in Brazil is comprised of three major sub-sectors, with corresponding levels of imports:

1. Personal Hygiene Products (soaps, oral hygiene products, deodorants, powders, hair care products, shaving products, diapers and sanitary napkins); this sub-sector represents 66% of the market.¹⁵
2. Cosmetics (hair dyes, products for hair treatment, hair sprays, make-up, sun blocks, depilatories, skin creams and lotions); this sub-sector represents 23% of the market.¹⁶
3. Perfumes (aftershave lotions, perfumes and eau de cologne); this sub-sector represents 11% of the market.¹⁷

F. The State of São Paulo

In Brazil, over 90% of the population and most of the manufacturing is concentrated along the southern coasts. This region hosts the two most populous cities of Rio de Janeiro and São Paulo. The state of São Paulo has a population of about 40 million which makes it the most populous country subdivision in the Western Hemisphere.¹⁸ It is the richest state in Brazil, has the highest per-capita income, and has the highest standard of living as well. The state of São Paulo is responsible for nearly one third of Brazilian GDP. The state's GDP is 550 billion dollars, making it the second largest economy in Latin America to the country of Mexico.¹⁹ All of these factors make this a primary target for those eyeing market entries into Latin America.

Though wealth is unequally distributed in the state, it has the highest number of affluent individuals and millionaires alike. The richest municipalities located around greater São Paulo are Campinas, Jundiaí, Paulínia, Americana, Indaiatuba, Santos, and more. The state has the most advanced infrastructure in Latin America, consisting of roads, railways, fluvial lanes, airports, rivers, and seaports. This system makes product distribution much easier in this region.

The City of Sao Paulo - The Capital of the State

The city of São Paulo has a population of more than 11 million making it the most populous city in the southern hemisphere.²⁰ It is listed as the 19th richest city in the world in 2005,²¹ and projected to be the 13th richest by 2020.²² This concentration

15 "International Market Research - Cosmetics Industry," The Department of Commerce. February 20, 2004. Available online at: <http://strategis.ic.gc.ca/epic/site/imr-ri.nsf/en/gr123285e.html>

16 Ibid.

17 Ibid.

18 Instituto Brasileiro de Geografia e Estatística. available online at: <http://www.ibge.gov.br/home/>

19 Ibid.

20 Instituto Brasileiro de Geografia e Estatística. available online at: <http://www.ibge.gov.br/home/>

21 "City Mayors: Richest Cities in the World 2005," GDP. Accessed: October 9, 2007. Available online at: <http://www.citymayors.com/statistics/richest-cities-2005.html>

of wealth and population make the city a prime target for Western producers. More than 500,000 affluent families reside in the city of São Paulo (38% of the Brazilian total).²³ São Paulo is currently going through significant economic changes as it moves from a traditionally manufacturing based city into one that is service and business oriented.

G. Other Brazilian Market Opportunities

Rio de Janeiro: The state of Rio de Janeiro is also located in southeastern Brazil. It is a coastal state highlighted by its coastal beauty. The capital city, Rio de Janeiro, is situated on the Atlantic coastline and is famous for its beautiful beaches, people, and the Carnival festival. The importance of cosmetics and personal care products in this region is apparent by the appearance of its beauty conscious population. Rio de Janeiro is the 30th wealthiest city in the world,²⁴ is a global resort destination, and has a population greater than 6 million.

Brasilia: Brasilia is the capital of Brazil and is located in its self dedicated federal district. It has the second highest GDP per-capita²⁵ and a population of nearly 3 million. Though not as likely a candidate as São Paulo or Rio, Brasilia has already undergone the economic change from industry to services. More than 90% of GDP is represented by the services industry²⁶ and the population has been very receptive to this change.

IV. Conclusion and Opportunities

The emerging markets of Latin America and specifically Brazil are enormous opportunities for premium Western cosmetics manufacturers. Their markets have enormous potential for extraordinary growth not achievable in the already established markets of Western Europe and North America.

The research performed by ACG on Brazil is provided merely as a guideline or starting point for considerations of market entry into these regions. Once established in the Brazilian market entry into other similar regional markets will be much easier and these opportunities can be explored as soon as regional entry has taken place and regional sales are established.

22 "City Mayors: Richest Cities in the World by 2020," GDP. Accessed: October 9, 2007. Available online at:

<http://www.citymayors.com/statistics/richest-cities-2020.html>

23 "Brazil's Booming Luxury Market," United States Department of Agriculture. September 2005. Available online at: FAS Worldwide.

24 "City Mayors: Richest Cities in the World 2005," GDP. Accessed: October 9, 2007. Available online at:

<http://www.citymayors.com/statistics/richest-cities-2005.html>

25 Instituto Brasileiro de Geografia e Estatística. available online at: <http://www.ibge.gov.br/home/>

26 Ibid.