



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. Emerging Market Opportunities in Russia

A. Russia's economy

Since 1999, Russia has experienced outstanding growth rates, constantly improving macroeconomic conditions, and a growing involvement in the global economy. These achievements, together with high world oil prices, political and economic stability, and skyrocketing foreign direct investment have all contributed to the growth of the country's economy.

Russia's growth: Russia is the fastest growing economy in the G8 group of industrialized nations. Over the last seven years, Russia's economy has grown by an average rate of 6.8% each year and is projected to grow at an average rate of 6 to 7% YOY through 2010. In 2006 and 2007 Russia's growth exceeded all expectations, accelerating in several key economic sectors such as real estate, tourism, and retail.

Russia's stability: Russia has a very stable macroeconomic situation. Inflation runs below 10 percent, foreign currency and gold reserves have increased to around \$400 billion and are now the world's third largest after China and Japan.⁵ The strength and stability of the economy was noted by the major credit rating agencies (S&P, Moody's and Fitch), all of which awarded Russia an upgraded investment rating in 2006.⁶

Investment: The excellent macroeconomic conditions make Russia a thriving capital market that foreign investors are increasingly finding more attractive. Foreign investment for the *first half* of 2007 totaled \$67 billion,⁷ compared, for instance, to \$14 billion in Poland in the *entire* 2006.⁸ Economists say that, "unlike in China, there are no signs of overheating of the economy detectible. Modern Russia has never before seen such a growth rate and economists expect the tendency to continue."⁹

B. Russia's retail industry

Rising consumer demand for new and better products and increasing incomes have significantly enhanced the growth of Russia's retail market. The flourishing economy has given rise to an expanding middle and upper class that "*has caused an explosion in all types of consumption.*"¹⁰

5 RIA Novosti, May 21, 2007. <http://www.cdi.org/russia/johnson/2007-115-4.cfm>

6 Russian IT quarterly. Available on-line at: http://www.reksoft.com/misc/reksoft_co/files/137/Russian_Economy_Outlook.pdf

7 Kommersant July 23, 2007. The Russian Investment Boom Continues

8 Polish information and Foreign investment Agency. Available on-line at:
http://www.paiz.gov.pl/nowosci/?id_news=1350&lang_id=1

9 Kommersant July 23, 2007. The Russian Investment Boom Continues

10 Business Week, "Russia: Shoppers Gone Wild," February 20, 2006.

http://www.businessweek.com/magazine/content/06_08/b3972071.htm

In the past years, Russia’s model of economic growth has notably changed, with retail and luxury goods, among others, becoming key drivers of the country’s booming economy.¹¹ Citizen’s real incomes have doubled over the past six years and consumer demand is thriving. Not only is Russia’s per-capita income, at purchasing power parity (PPP), well above that of Mexico, Romania and Bulgaria (EU members), Brazil, Turkey and China,¹² but also “70% of Russians’ income is disposable, vs. around 40% for a typical Western consumer,”¹³ making it a very attractive market for retail, including cosmetics.

According to the World Bank’s June 2007 report, the ongoing strengthening of the currency (Ruble) and stable growth in personal incomes are expected to help expand the retail market’s size to US\$744.92 Billion by the year 2011. Retail chains are moving steadily outside of Moscow and St. Petersburg into Russia’s other major cities, where demand for Western products is burgeoning.¹⁴

C. Russian cosmetic market

Cosmetics are the second fastest developing retail sector in Russia,¹⁵ with a reported 15-20 percent annual growth in the past five years.¹⁶ In 2006 sales value added 12 percent as compared to 2005 (in comparison to 2 percent in Western Europe),¹⁷ and amounted to \$7.9 bln.¹⁸ According to industry analysts, the market is full of potential and its value will triple to \$18 billion by 2010.¹⁹

Dynamics of the market for cosmetic and perfume products for the last 8 years²⁰

	1999	2000	2001	2002	2003	2004	2005	2006
Market size, In \$bln	3.4	3.6	3.9	4.3	5.2	6.2	7.0	7.9

11 Available on-line at: <http://www.tmcnet.com/usubmit/2007/05/21/2641275.htm>

12 International Monetary Fund, World Economic Outlook Database, April 2007, for the year 2006.

13 Business Week, “Russia: Shoppers Gone Wild,” February 20, 2006.

http://www.businessweek.com/magazine/content/06_08/b3972071.htm

14 The Russian market place, “A farewell to Russia,” US agricultural trade office-Moscow, 3.

15 “Russian cosmetic sales achieves high growth.” Available on-line at: <http://www.cosmeticsdesign-europe.com/news/ng.asp?n=74933-euromonitpr-l-oreal-russia-skin-care-colour-cosmetics>

16 “Consumer goods makers turn attention to booming Russia.” July 18, 2007. Available on-line at: <http://search.japantimes.co.jp/cgi-bin/nb20070718a4.html>

17 “Market Overview of the Russian Cosmetics Market.” Available on-line at:

[http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/\\$file/X_7999816.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/$file/X_7999816.DOC)

18 8thCosmetique News Forum. September 24-25, 2007. Available on-line at: <http://www.intercharm.net/eng/img/8518/2.doc>

19 “Crazy for cosmetics.” Available on-line at: <http://www.passportmagazine.ru/article/483/>

20 “Russian cosmetic market.” U.S. Commercial Service report, 2006.

According to Euromonitor data,

“Russia was in 2006 the fourth fastest growing cosmetic and toiletries market in the world.”²¹

“With booming value sales set to continue, Russia is the market to watch for international cosmetics and toiletries manufacturers.”²²

The consumer expenditure growth and the rapid development of the Russian economy, together with an increased presence of foreign firms, will positively impact industry growth. The Western concept of wellbeing and looking good will also continue to profoundly impact developments in cosmetics and toiletries, as consumers become more willing to purchase luxury goods.²³

Analyst for market research company Euromonitor International stated that,

“Not only are western companies exporting to Russia but the leading players have invested in local production, such as Avon and Procter and Gamble. This is testament to their belief in the market and the fact that Russia is indeed a major focus for the global players”.²⁴

D. Consumer Trends

The collapse of the Soviet Union brought with it choice and variety, and the cosmetics industry in Russia and the CIS markets exploded. *“Such was the novelty that at the opening of the first cosmetics shop in Moscow in 1989 there were queues for weeks.”²⁵* In the following years the cosmetics industry in Russia grew exponentially, and it is now an enormous sector as Russian women’s consumer spending is at its historical high. According to a survey conducted in 2005, 52 million Russian women between the age of 15 and 64 spend now three times as much money on perfumery and cosmetics as they used to spend in 1995.²⁶

In addition, consumer spending on cosmetics in Russia is growing more rapidly than in Western Europe. According to Ernst & Young, in Russia 1.3% of GDP is spent on

21 “Russian cosmetic sales achieves high growth.” Available on-line at: <http://www.cosmeticsdesign-europe.com/news/ng.asp?n=74933-euromonitpr-l-oreal-russia-skin-care-colour-cosmetics>

22 “Vast potential for cosmetics and toiletries in Russia.” Available on-line at: http://www.euromonitor.com/Vast_potential_for_cosmetics_and_toiletries_in_Russia

23 “Vast potential for cosmetics and toiletries in Russia.” Available on-line at: http://www.euromonitor.com/Vast_potential_for_cosmetics_and_toiletries_in_Russia

24 “Russian cosmetic sales achieves high growth.” Available on-line at: <http://www.cosmeticsdesign-europe.com/news/ng.asp?n=74933-euromonitpr-l-oreal-russia-skin-care-colour-cosmetics>

25 “Crazy for cosmetics.” Available on-line at: <http://www.passportmagazine.ru/article/483/>

26 Available on-line at: www.in-cosmetics.com/2007/files/pres_cosmetics_in_russia.pdf

cosmetics, compared to 0.5% in Western Europe,²⁷ while according to COMCON, an average Russian woman spends 12 percent of her income on cosmetic products, which is 1.5-2 times more than an American or European woman.²⁸

“Appearance is a high priority of the glamorous Russian women. This has created a booming cosmetics and beauty industry. Salons line every area of Moscow and ‘beauty super stores’ dominate many central streets. The development of this industry can even be seen as a microcosm of the progression of the Russian economy.”²⁹

According to in-depth market studies, young Russian girls start to use make-up products regularly when they are 16-17 years old, 14-15 in Southern Russia. Thirty years ago research showed Russian women bought their first make-up set at 18-20 years old.³⁰

Another new recent trend in the market development is a shift in the market shares from Moscow to the Russian regions. In 1999, 80% of the sales of cosmetic products were in Moscow, 10% - in St. Petersburg, and 10% - in the regions. Currently, the ratio between the large cities and the regional cities is 50/50.³¹ With 12 cities in Russia with more than 1 million people, the regions are becoming a crucial business opportunity for Western companies. Major international chains are in the process of either expanding or launching their Russian operations starting from marketing goods in regional capitals, where the level of competition is lower but middle class consumer spending is booming.³²

E. Cosmetic Products

Russia is in the top 20 drivers of global beauty industry. The global tendencies of anti-ageing, skin protection from negative environmental impact, convenience, and time-saving are some of the major drivers of the continuous growth of Russia’s cosmetics industry.³³

The two largest segments of the Russian market are hair care (19 percent), which showed a 14 percent growth in 2006, and make-up products (17 percent). According to a research conducted by AC Nielsen Company in 2007, 4 out of the 10 fastest growing categories of Russian market are attributed to skin care. Among these categories, facial care reported 25 percent growth and anti-ageing 39 percent.

27 Available on-line at: www.in-cosmetics.com/2007/files/pres_cosmetics_in_russia.pdf

28 “Market Overview of the Russian Cosmetics Market.” Available on-line at:

[http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IML_3373/\\$file/X_7999816.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IML_3373/$file/X_7999816.DOC)

29 “Crazy for cosmetics.” Available on-line at: <http://www.passportmagazine.ru/article/483/>

30 “Russian palette.” Available on-line at: <http://www.cosmeticsinrussia.com/showart.phtm?reg=full&type=m&num=1591>

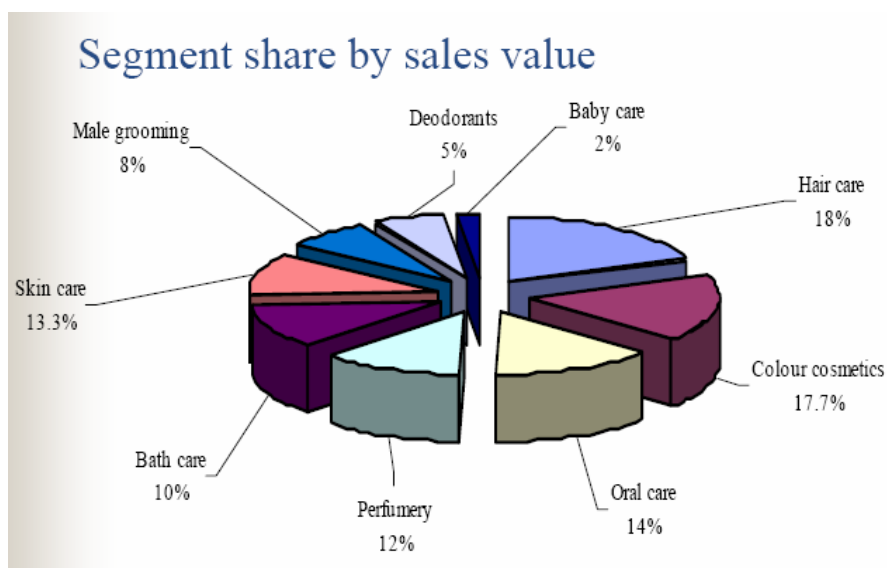
31 “Russian cosmetic market.” U.S. Commercial Service report, 2006.

32 “Consumer goods makers turn attention to booming Russia.” July 18, 2007. Available on-line at:

<http://search.japantimes.co.jp/cgi-bin/nb20070718a4.html>

33 “Russian cosmetic market.” U.S. Commercial Service report, 2006.

Conditioners and moisturizing body care products (with 29 percent growth) are the two fastest sectors of personal hygiene in Russia,³⁴ while skin care and fragrance sectors are predicted to continue to see the strongest growth between 2006 and 2011. In addition, color cosmetics consumption rates are the largest in Europe (80% of women apply make-up every day and 10% use color cosmetics 4-5 times a week).³⁵



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But it is the niche market segments that are predicted to see the most dynamic percentage value growth over the five-year period.³⁷ Baby care and male grooming are pitted as two of the main niche markets to focus on within the Russian market,³⁸ with soaps, bath gels and foams, and toothpastes being other important segments.³⁹

As for premium class products, they take up 69 percent of the total volume of sales of moistening products (in value terms). The share of premium class products in face care cleansing products made up 52 percent. Two thirds of the market for face care products is comprised of moisturizing products and the remaining one third is taken up by cleansing products.⁴⁰

34 "Russian personal care market grew by 15% according to AC Nielsen." Available on-line at:

<http://www.cosmeticsinrussia.com/view.phtml?reg=list&type=n&num=1786&PHPSESSID=61ccbb671cdf30ded3578c114dd7a3cc>

35 "Russian palette." Available on-line at: <http://www.cosmeticsinrussia.com/showart.phtml?reg=full&type=m&num=1591>

36 Available on-line at: www.in-cosmetics.com/2007/files/pres_cosmetics_in_russia.pdf

37 "Russian cosmetic sales achieves high growth." Available on-line at: [http://www.cosmeticsdesign-](http://www.cosmeticsdesign-europe.com/news/ng.asp?n=74933-euromonitpr-l-oreal-russia-skin-care-colour-cosmetics)

[europe.com/news/ng.asp?n=74933-euromonitpr-l-oreal-russia-skin-care-colour-cosmetics](http://www.cosmeticsdesign-europe.com/news/ng.asp?n=74933-euromonitpr-l-oreal-russia-skin-care-colour-cosmetics)

38 Ibid.

39 "Market Overview of the Russian Cosmetics Market." Available on-line at:

[http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/\\$file/X_7999816.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/$file/X_7999816.DOC)

40 "Facial care: over 15% growth in value." Available on-line at:

<http://www.cosmeticsinrussia.com/showart.phtml?reg=full&type=m&num=1626>

F. Distribution and Sales Channels

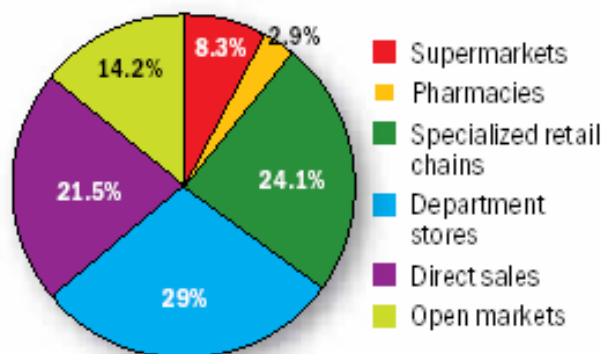
The last several years have been marked by profound changes in distribution and retailing of cosmetics in Russia. In the 1990s, cosmetics manufacturers overwhelmingly used “open markets” to sell their products (90 percent of total cosmetics sales). Changes in the market structure and constantly growing demand for quality beauty and health products have led Russian distributors to create a number of Western-type retail networks.⁴¹

Many foreign cosmetics companies have lately opened representative offices in Russia and therefore are able to conclude agreements directly with retailers without the help of distributors. Retailers have become the key players in the market, rather than distributors.

Retail outlets outsource more than half of their products directly from manufacturers.⁴² The annual growth of retail chains in Russia is currently estimated at 40-50%, which provides a good opportunity for the promotion of new cosmetic brands.⁴³ Currently, such cosmetic chains represent Russia’s second most dynamic retail business after grocery retailing. The number of Russian outlets belonging to these chains is growing by half every year.⁴⁴

Sales breakdown by channels of distribution, 2006 (forecast), %

Source: ExpoMediaGroup Staraya Krepost



41 “Facial care: over 15% growth in value.” Available on-line at:

<http://www.cosmeticsinrussia.com/showart.phtm?reg=full&type=m&num=1626>

42 “Market Overview of the Russian Cosmetics Market.” Available on-line at:

[http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/\\$file/X_7999816.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/$file/X_7999816.DOC)

43 “Russian cosmetic market.” U.S. Commercial Service report, 2006.

44 “Market Overview of the Russian Cosmetics Market.” Available on-line at:

[http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/\\$file/X_7999816.DOC](http://commercecan.ic.gc.ca/scdt/bizmap/interface2.nsf/vDownload/IMI_3373/$file/X_7999816.DOC)

Alternative Sales Channels

Among alternative sales channels, the best opportunities for U.S. manufacturers are in direct marketing, drugstores, and beauty salons.

Direct marketing for cosmetic products currently represents 90 percent of total DM sales in Russia. The DM share, as a percentage of total sales of cosmetics, is expected to reach 20 percent in 3-4 years. Sales through drugstores represent a recent development of the Russian market. The most popular cosmetic product categories sold in drugstores include skin care and mouth care products, cosmetics for kids, nail treatment, and hair care products.⁴⁵ Currently, 15-20 new beauty salons open each month in Moscow alone. Due to stiff competition in Moscow though, specialized salons are opening more and more often in the regions, offering great opportunities to foreign manufacturers to penetrate the regional market.

G. Russian Market Opportunities

Experts see the future of Russian cosmetics in niche marketing and narrow customization. Good opportunities for Western manufacturers are in the field of natural cosmetics, curative and professional products, beauty and spa salons and direct marketing.

The large success and expansion of retail chains opens the door to contract manufacturing, which according to experts holds enormous potential for development.⁴⁶

In terms of geographic opportunities, the interest of large cosmetics companies is shifting towards the Russian regions. Beauty professionals are paying special attention to cities with a population of over one million - Novosibirsk, Nizhni Novgorod, Ekaterinburg, Samara, Omsk, Kazan, Cheliabinsk, Rostov-on-Don, Ufa, Volgograd, Perm. These large cities have a substantial number of people with high purchasing capacity, and local specialized retailers, both standalone and chained.⁴⁷

Russia is one of the most attractive markets in the world, and the continued growth and expansion of its retail sector represents an enormous opportunity for international companies. Low competition and the growing middle class' purchasing power make Russia an ideal target market for U.S. companies with a global vision.

“With this market potential, there is no question that Russia presents a golden opportunity for both local and foreign manufacturers.”⁴⁸

45 “Russian cosmetic market.” U.S. Commercial Service report, 2006.

46 8thCosmetique News Forum. September 24-25, 2007. Available on-line at: <http://www.intercharm.net/eng/img/8518/2.doc>

47 “Cosmetics marched to the Russian regions.” Available on-line at:

<http://www.cosmeticsinrussia.com/showart.phtml?reg=full&type=m&num=1598>

48 “Vast potential for cosmetics and toiletries in Russia.” Available on-line at:

http://www.euromonitor.com/Vast_potential_for_cosmetics_and_toiletries_in_Russia