



The Italian Cosmetic System

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Received: December, 2014

Key words: *Consumer habits; Exception in Italian manufacturing; Exports; Channels development;*

Summary

The Italian cosmetics industry ended 2014 with dynamics sustained by a robust revival in exports, by consumption trends through the pharmacy channel and by above-average growth in the direct sale channels.

The mass distribution channel had a hard time, though it was saved by large specialised retail outlets. Despite uncertainties due to price evolution and tension in the domestic market, the signs for 2015 point to further revival.

Figures show, indeed, that Italian cosmetics is naturally "attentive to the customer", more than many other industries. The alliance with the consumer is, in fact, a key element of the Italian cosmetics' strength and stability.

The evolution dynamics of "new markets", despite the current economic struggles, confirm the value of this alliance.

In the cosmetics industry endurance prevails over weakening both on the company sides and on the specular consumer one. With regards to the latter, it is recorded that prudent or even withdrawal approaches are broken favouring the will to reconquer their "right to wellbeing" translating the latter in consistent choices of product and channel.

Riassunto

L'industria cosmetica Italiana chiude il 2014 con significative dinamiche, sostenute dalla costante crescita delle esportazioni, da trend di consumo interno positivo per il canale farmacia e la crescita sopra la media delle vendite dirette.

La grande distribuzione organizzata soffre di una generale contrazione, bilanciata dalle vendite nei canali specializzati. Nonostante le incertezze legate all'evoluzione dei prezzi e alle tensioni congiunturali sul mercato interno, i segnali per il 2015 indicano una ulteriore crescita.

I dati peraltro confermano che il comparto cosmetico italiano ha un'attenzione al consumatore superiore a molti altri comparti manifatturieri. L'alleanza col consumatore, infatti, è l'elemento chiave della competitività e della forza dell'industria italiana.





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Le dinamiche evolutive dei nuovi canali, nonostante le tensioni macroeconomiche interne, confermano il valore di questa alleanza.

Nel settore cosmetico nazionale la resistenza prevale sull'indebolimento sia per le industrie che per i consumatori. Questi ultimi registrano un approccio reattivo nei confronti della indebolita propensione al consumo, riaffermando il diritto al proprio benessere che si trasforma nelle nuove scelte sia di prodotto che di canale.



INTRODUCTION

Italian cosmetics market over €9,500 million in 2014 Export is booming at +5,5% Consumer habits vary, but they do not give up cosmetics

Italians do not give up cosmetics, a product essential to everyday hygiene and personal wellness. The data demonstrating this showed consumption of over €9,500 million, with a marginal drop of 1.2% for 2014.

The rise in export of 11 percentage points equaling nearly €3,200, supports the production, 9,300 million euros, a 2.6% increase: the major growth of export both in terms of quantity (+17.5%) and value testifies to the broad competition Italian companies have gained.

New tendencies in consumption are appearing. As a confirmation of the significant transformation under way in consumer purchasing habits, direct door to door sales (over €450 million) and herbalist shops (a value equal to €409 million) show positive trends of 4.5% and 2.8% respectively. Even the pharmacy, after a drop in the previous financial years, is on the rise again, up by 0.3% exceeding €1,750 million.

Pressure on the willingness to consume of large brackets of users has conditioned the drop in sales at perfume shops, (-3.8%) equal to over €2,100 million, as well as in the professional channels: if consumer spending at beauty salons shows a negative trend of 5.5% (242 million euros), hairdressing salons are affected by a decrease of 8.4% (591 million euros).

The mass market, for around €4,300 million, shows substantial stability (+0.1%) characterized by a steady drop in sales over large surface areas (hyper and supermarkets), balanced by growth in the specialized and single-brand chains.

Some data may help to better understand the value of the sector: Italy is third for cosmetics markets after Germany and France with 35,000 people employed, which total 200,000 counting downstream activities.

54% of those employed in the sector are women (about 19,000), while the manufacturing industry average is stable at 28%. The total number of university graduates among the employed is 11% against a national average of 6%, and the women with a university degree number about 1,700, 45% of those with university degrees in the sector. In addition to workers specialized in pharmaceutical chemistry and cosmetology, many are specialized in economy and marketing for the channel.

Regarding innovation and technology, the research and development that the cosmetics companies in Italy invest is about 7% of the turnover against a national average estimated to be about 3%.

And let's not forget that cosmetics covers 44% of investments in communication of non-food assets and that 65% of the make-up distributed worldwide is made in Italy.

The export/production ratio was equal to 33% at year-end 2014; contiguous sectors, like shoes, have a ratio of 80%: therefore there are still wide margins for the sector's internationalization processes. Since 1990 cosmetics products export has grown on average by over 10% a year.

In 2014, the industrial sector of the Italian cosmetics industry continued to mark an exception in Italian manufacturing: production went up, by 1%, with turnover at approximately 9,280 million euro. This performance confirms the unique nature of an industrial sector that is still sufficiently unaffected by Italy's economic difficulties. Consumer trends are still being impacted in Italy and in the last twenty-four months this has also influenced the domestic cosmetics market; at international level, the industry has, on average, picked up. However consumers,



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although now more selective in their purchases, do not want to go without cosmetics and personal care products. Consumption has decreased in terms of value, but the number of items purchased has gone up by a few percentage points.

The fall in domestic demand has led to a decrease in revenues with a loss of 1.2% and a value of just over 6,100 million euro. In particular, positive trends were recorded for door-to-door and mail order sales, which combined increased by +4.4%, and in herbalist store sales which, when included in mass market sales, went up by nearly 3%. Pharmacy channel sell-in was also buoyant (+0.3%), while the perfume shop channel continued to decline (-3.8%) confirming, for

several years now, the structural crisis affecting the segment, although some signs of innovation may be glimpsed. The mass market (+0.1%) remained steady at 2012 figures, with values just under 2,900 million euro.

Analysis of the domestic market as the target of revenues shows that professional channels continued their poor performance, down by 3,5% with a sell-in value of just over 700 million euro. The decline in the number of visits to beauty salons and hairdressers (which were most affected by the economic crisis that came to the fore in 2008) continued in 2014: the immediate effect was a decrease in the use of cosmetics for services and re-sale.

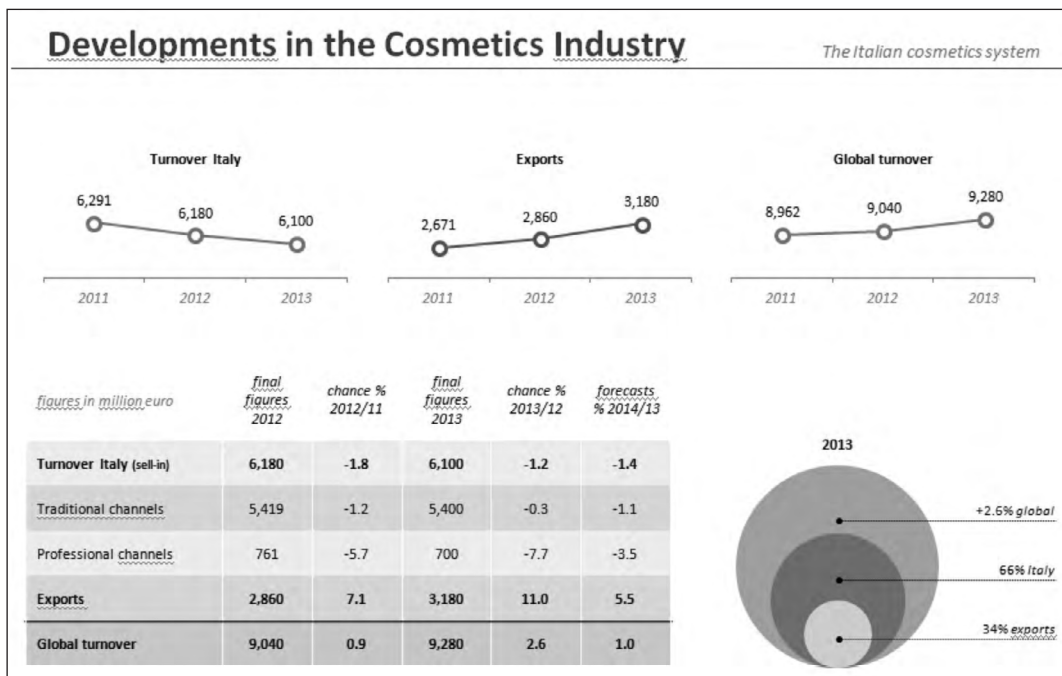


Fig. 1



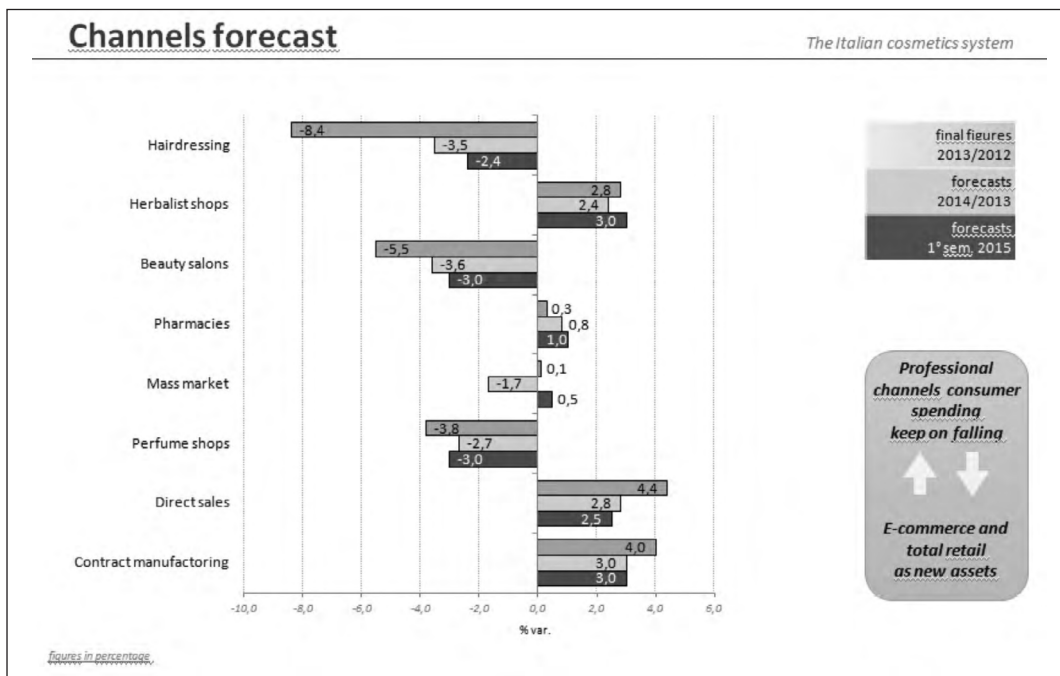


Fig. 2

Domestic sales of cosmetics, affected by a general economic situation that is still negative, could not support the turnover of Italian companies, while in 2014, as in previous years, the considerable performance of exports led to a major recovery in profitability. International sales increased by 5,5%, to account for 3,300 million euro. Imports, with a value of just over 1,600 million euro, recovered, albeit marginally (+1%), confirming the downsizing of domestic demand, geared towards products offering a better price/quality ratio. Due to these trends, the trade balance of the industry was widely positive, with a record figure of nearly 1,600 million euro.

The breakdown of turnover by distribution channel shows important developments: compared to the previous year, the mass market declined slightly, though this trend was less evident as herbalist store sales, increasing by more than 4%, with 31% of sell-in values, were included. Other

channels were basically stable, apart from the downturn in professional channels which account for 7.6%. Exports, which account for 34% of turnover, increased, as well as door-to-door and mail order sales (accounting for 5.6%), while sales in the pharmacy channel (accounting for 9%) were slightly down. Sales of perfume shops, which account for just under 13%, fell, but are still a driving force of the entire industry, and the second market channel on domestic market after the mass market.

At a time when the economy is still struggling to recover, the trend of turnover, i.e. of domestic revenues, reflects the robust and competitive nature of the cosmetics industry and effectiveness of a strategy focussed on continual research and innovation. Industry fundamentals and in particular the target of investments, which are still above average, confirm this pattern: at present, cosmetics companies invest more than 6%



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of turnover in innovation, against an average 3% invested by Italian manufacturing companies. Italian companies have been able to tackle the crisis with increasingly effective internationalisation policies. The Italian cosmetics industry is recognised worldwide for its innovative formulations and the dynamic service of its manufacturers, and these characteristics have enabled this supply chain to make a name for itself on both traditional and emerging markets.

Italian cosmetics companies are mainly concentrated in the north of the country, with a geographic segment weight of over 82%; just one year ago this figure stood at 80%.

Lombardy ranks first, with the highest density of cosmetics companies at over 52%, followed by Emilia Romagna with over 10%, Piedmont with 7.1% and Veneto with 8%.

For the second year running, the value of cosme-

tics sales fell slightly: 1.2%, with a value of 9,522 million euro. This trend is not generally attributable to the economic crisis, but instead to consumers rationalising their choices and shifting towards channels and price ranges that are cheaper, without foregoing premium products, thus weakening the intermediate price range: consequently, the "hourglass effect", which clearly reflects the polarisation of sales, is exacerbated. Considering volumes in terms of quantities, sales have remained the same, while fewer visits to professional salons have had an impact. All traditional channels recorded a slight and differentiated downturn in 2013, apart from herbalist stores and direct sales channels. Sales at herbalist shops went up by nearly 3%, followed by door-to-door sales (+4.3%) and mail order sales, with the highest increase of +4.6%.

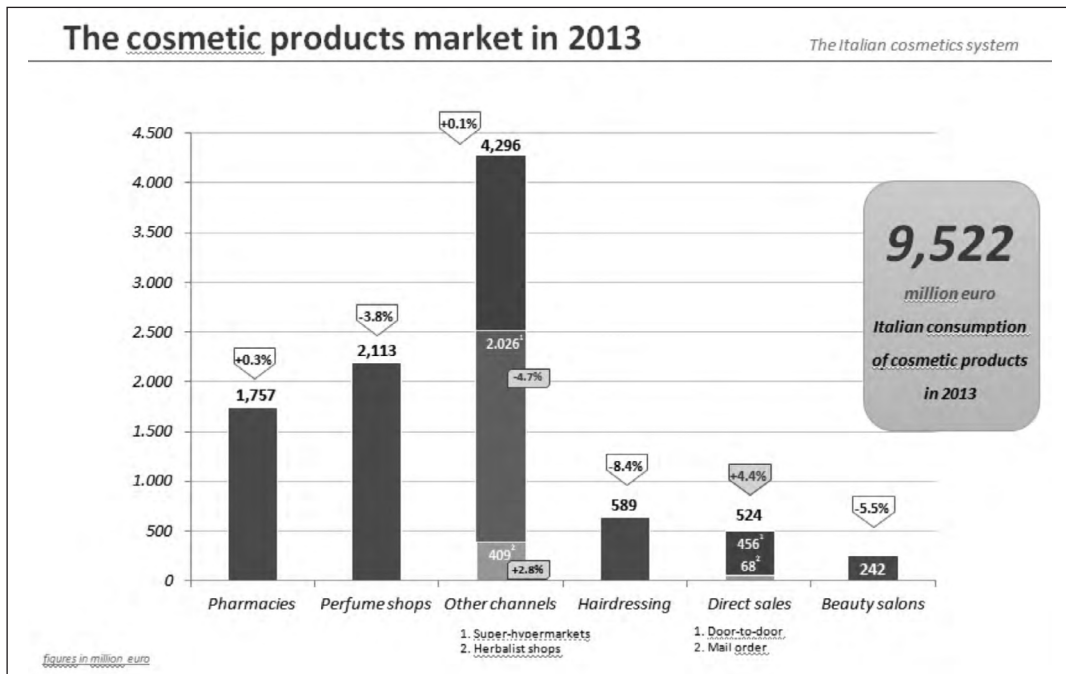


Fig. 3

Sales at pharmacies and in the mass market picked up slightly (+0.3% and +0.1% respectively). The decline of perfume shops (-3.8%) continued, with sales figures down, confirming the divergence of the channel. On the one hand, sales at traditional perfume shops were down, in terms of the number and weight, and on the other hand specialist chains, that are more attentive to customer service and new needs, were streamlined. In 2013 professional channels recorded a downturn: sales at hairdressing and beauty salons fell by 8.4% and 5.5% respectively. In 2014, price trends appeared to be on the up, with perfume shops recording the most considerable increase among traditional channels (+2.4%). In professional channels, the increase in margins did not produce considerable effects, due to the significant decrease in quantities. Figures from Cosmetics Europe, formerly COLIPA, the European Association representing

the Cosmetics Industry, once again confirm Germany as the leading nation for sales in 2013, with 12,896 million euro, followed by France with 10,542 million euro. The United Kingdom ranks third, with sales falling by 2.5% and accounting for just over 9,900 million euro. Italy ranks fourth for sales in Europe, followed by Spain with sales down by 4% and a value of 6,433 million euro. The concentration index shows that the first five countries cover just under 70% of the European market, which recorded a total value of 72,060 million in 2013, reporting a slight decrease of 0.8%. Toiletries and skin care products are the first segment in European sales, accounting for 25.3% of the total. Europe, with 72 billion euro, ranks first in world consumer trends, followed by the United States (47 billion), China (29 billion) and Japan (18 billion).

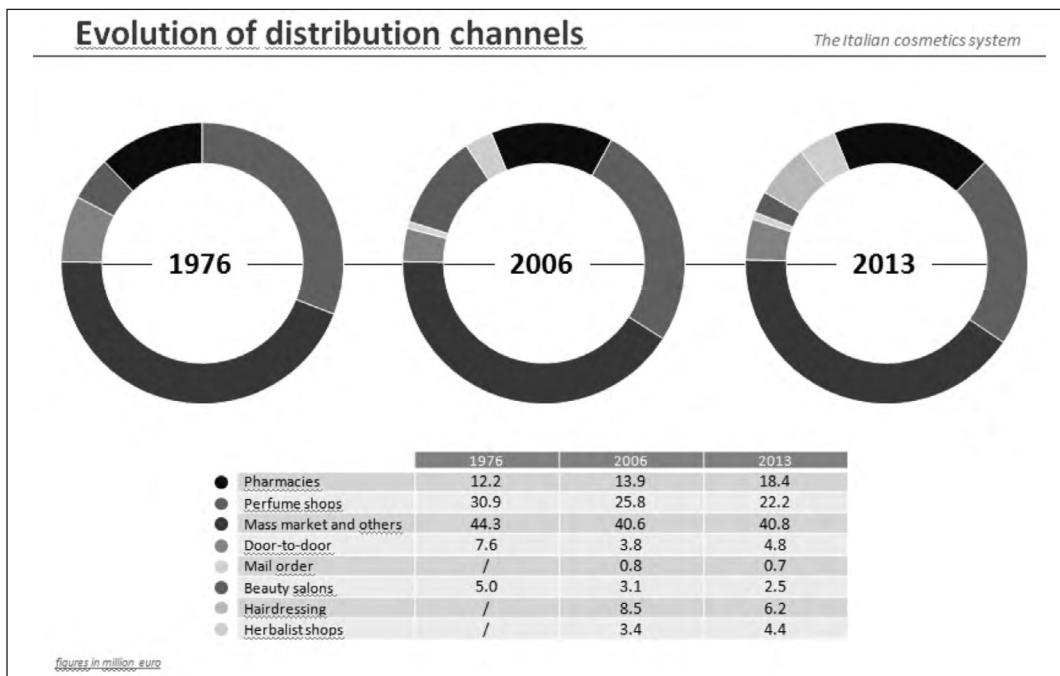


Fig. 4

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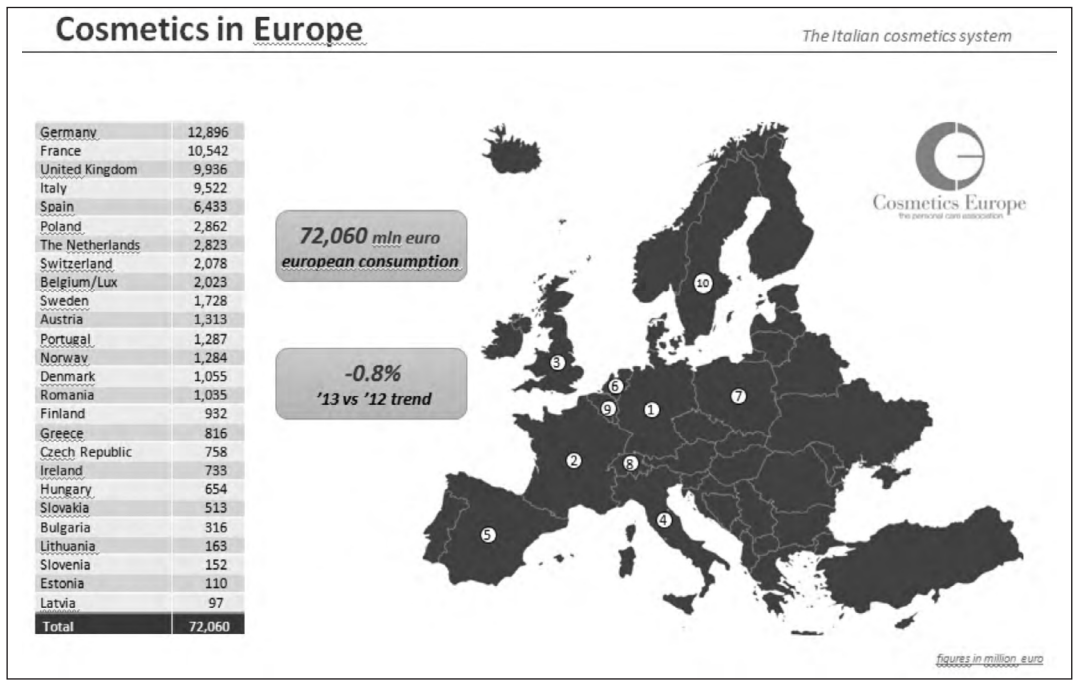


Fig. 5

After years of holding up against the current economic crisis, the cosmetics market came to a standstill in 2013. Sales of cosmetics in Italy fell by 1.2% to 9,522 million euro, a figure close to that recorded in 2009. The result was slightly better than the previous year (-1.8%), and reflects a renewed confidence in consumers and the consumer spending trends affecting the period after the world crisis in the third quarter of 2008.

8,164 million euro of total cosmetics sales are from retail channels, with an overall decrease of 0.9%, partly supported by the performance of single-brand stores in the mass market and sales of cosmetics at herbalist shops. The pharmacy channel held up, after negative trends affecting multiple product lines in 2012. On the contrary, the domestic market performed well in terms of exports, up 11%, confirming the ever increasing capacity of Italian cosmetics companies to adapt

to new characteristics of expanding markets and diversified purchase options of consumers.

In 2014, the most evident characteristics of the Italian market included the broad-ranging nature of sales and "non-channel" choices; mass market lines were driven by specialist (see page 15) and single-brand stores.

Analysis of foreign trade data is based on statistics processed each year by the Statistics Dept. based on figures from ISTAT. ISTAT periodically applies corrections made, also during the period when surveys are conducted, revising figures of previous years: thus the statistics produced by Cosmetics Italia adjust values of relative years. Apart from rare occasions, the weight of deviations is always marginal.

After three consecutive years marked by a strong recovery in exports, this segment further increased in 2013, exceeding the threshold value of 3 billion euro. In fact exports of Italian cosmetics

reached a figure of 3,176 million euro, with an 11% increase. The final figures for quantities are significant: an increase of 17.5% was reported confirming the focus on internationalisation, not only on a marginal level.

In line with figures for the previous year, imports totalled 1,639 million euro, up 0.8% compared to 2012, and bolstered by a more significant increase in quantities, near to 6%.

Due to fewer tensions on foreign markets, the trade balance for the cosmetics industry confirmed the trend that started in 1996, when the value of exports of cosmetics exceeded the value of imports. In 2013, this balance was close to 1,540 million euro, and is still well above many similar goods' categories.

The gradual recovery of some foreign markets,

despite an overall uncertainty, clearly contributed to Italy's trade performance, which improved considerably after the physiological decline of 2008-2009.

Safe formulations and continual product innovation have helped retain shares on individual markets and driven performance in new areas of excellence, confirming the quality of Italian products in the cosmetics industry.

The export/turnover ratio in 2014 was equal to 33%, no doubt boosted by the improved trend of major European markets and rapidly developing markets in Africa, the Middle East and Asia. The value is still low as regards the cosmetics industry's focus on internationalisation processes, yet is positive in terms of new opportunities for development on foreign markets.

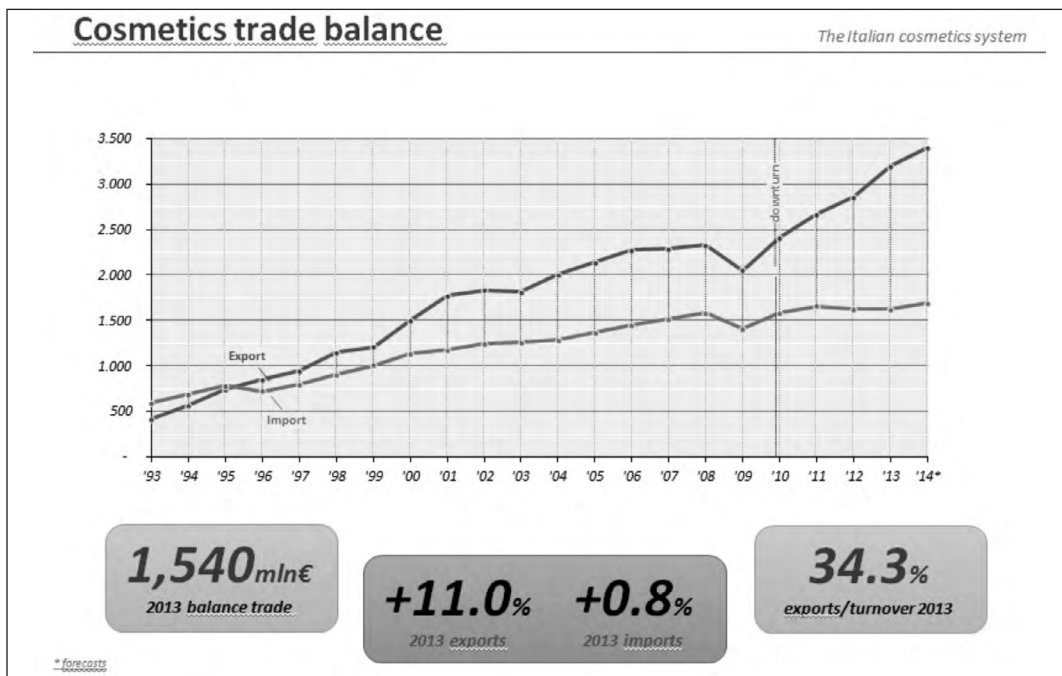


Fig. 6



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In 2013, the product types that most contributed to export performance were toilet waters and eau de colognes with a total volume of 558 million euro and an increase of more than 14%, creams and other products, with an increase of 4.7% and a value close to 565 million euro, and eye make-up products up 8.9%, with a value going up from 183 million euro in 2010 to the current figure of 286 million. A negative performance was instead registered for body deodorants, down by 13.4% with a value of 71 million euro and bath preparations, down by 14.9%.

Exports of hair products picked up: shampoos performed well, up 5.7% and accounting for more than 153 million euro, in addition to lacquers (with a value close to 30 million) and the combined category of hair lotions and other products for haircare, which came close to 440 million euro and reported an increase just under 6%.

Figures for hair preparations fell slightly, by 2.7%, with a value just under 8 million euro.

In 2013, foreign trade flows continued to confirm the sudden changes in economic tensions of individual countries which were all able to tackle the financial crisis of the last few years.

The most significant imports, as regards value, were creams, up by 2.0% and accounting for over 533 million euro, and toilet waters and eau de colognes, down by 8.1% and with a value close to 208 million euro.

Europe is the main market for exports of cosmetics, with 2,150 million euro, thanks to a considerable recovery in demand from historically important countries such as Germany, France and the United Kingdom. For the first year, all top 10 export countries recorded positive trends, often with double-digit figures.

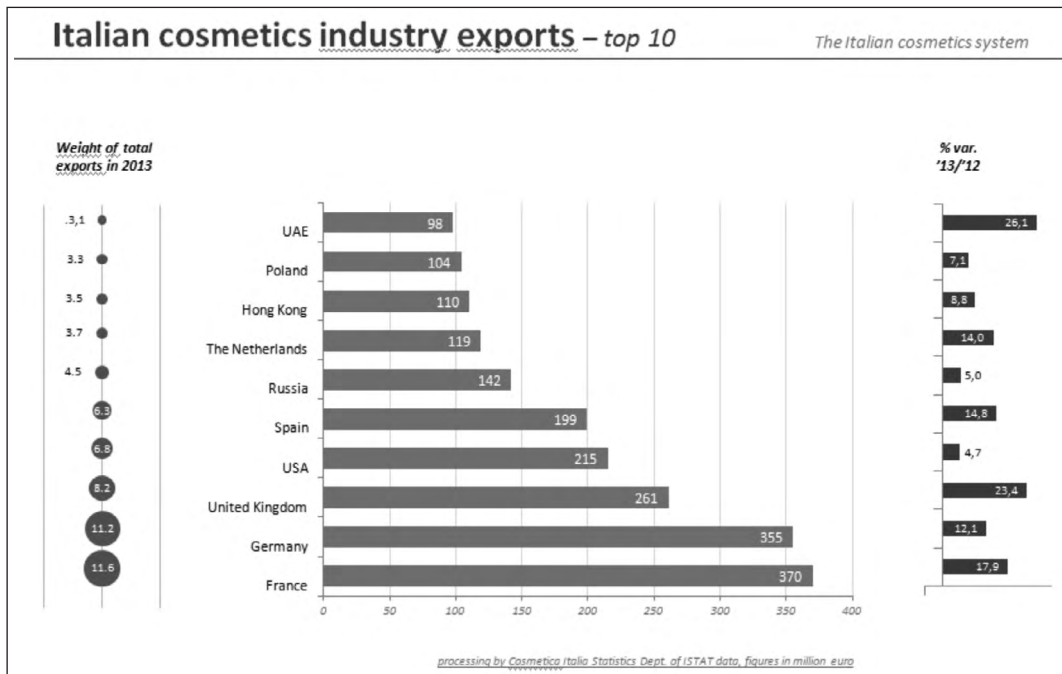


Fig. 7



The United Arab Emirates picked up considerably (+26.1%), with a value close to 100 million euro, as well as the Netherlands (+14.0%) and Spain (+14.8%): the volumes for these countries are improving, above all as regards the internationalisation policies of companies in the sector. On average, growth for these three major players in the international cosmetics industry, has exceeded 40% in the last three years.

Generally speaking, the increase in values of exports from Italy was uniform: Asia, with a value of 560 million euro, reported an increase of 9.5%; America, with a value close to 340 million euro, reported an increase of 3.7%, while Africa recorded a strong increase in Italian exports, with a figure up by 19% over the previous year. Oceania was the only nation to record a decrease, of 11.6%, with a total value of 43 million euro.

A ten-year comparison of main export markets

in Asia, in the context of the Association's internationalisation plan, is striking: the total value of China, Singapore and Hong-Kong went up from 53 million euro in 2003 to 195 million euro in 2013; this increase will no doubt go on while the economies of these nations continue their significant growth trend.

The growth in exports of Italian cosmetic products is due, besides the global recovery in consumption, to qualified products, safe formulations, continual investment into research and innovation and the ability to meet the most wide-ranging needs of markets, in terms of service, and as regards production lots and the specific requirements of local consumers. In 2013, besides the increase in the value of exports, for the first time ever, quantities went up considerably: by 17.5%, to account for a volume just under 540 thousand tons.

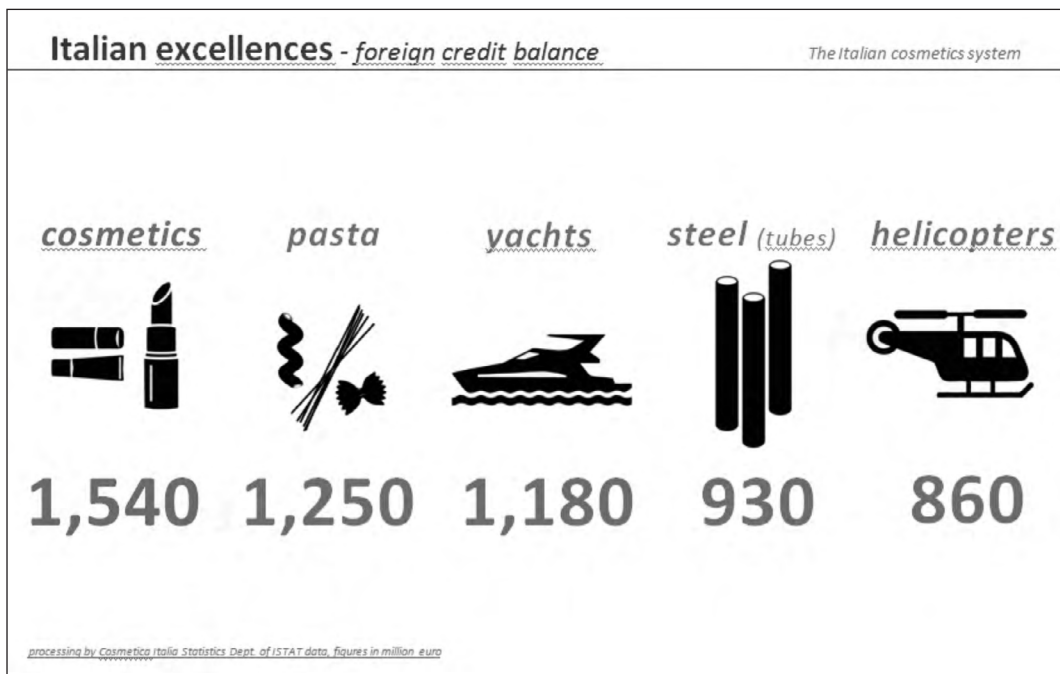


Fig. 8



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The continual increase in exports of cosmetics, up by 11% and accounting for a value of 3,176 million euro, had a positive effect on the balance of payments (difference between exports and imports): in 2013, the trade balance generated by cosmetics companies exceeded 1,500 million euro, which is a remarkable result and far higher than important sectors such as pasta (1,250), steel tubes (930), helicopters (860) and yachts (1,180).

A comparison between export values in 2003 and 2013 show developments in Italian exports of cosmetics. Besides a general development, values went up from 1,830 million euro to 3,176 million euro, and specialisation levels per product improved, with perfumes ranging first with 26% of exports, followed by hair products which went up from 15% to 20%; products for body care reported a slight downturn, accounting for 18%, while make-up products increased from 14% to 17%.





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