GLOBAL BEAUTY AND PERSONAL CARE: THE YEAR IN REVIEW AND WINNING STRATEGIES FOR THE FUTURE

IRINA BARBALOVA
29-31 MARCH 2011, IN-COSMETICS, MILAN
Beauty beyond the crisis

Industry dynamics

New positioning and value perceptions

The beauty brand as an experience

The Outlook
MOVING OUT OF THE RECESSION

Real GDP: % growth over previous period, annualised

Retailing Growth

BEAUTY BEYOND THE CRISIS
The year in review and winning strategies for the future

WESTERN EUROPE CONSUMER EXPENDITURE SLOWEST TO RECOVER

Western Europe Consumer Expenditure Slowest to Recover

- Health Goods and Medical Services
- Alcoholic Beverages and Tobacco
- Personal Care
- Food and Non-Alcoholic Beverages
- Clothing and Footwear
MORE HURDLES TO BE OVERCOME

Unemployment rate in world’s worst-affected countries: 2010

- Unemployment rate 2010
- Change since 2007

Source: Euromonitor International from national statistics
Data refer to 80 major economies
THE CONSUMER IN 2011 AND BEYOND

The post-recession consumer

- Nuanced luxury
- Value-seeking
- Digital and connected
- Experience-focused
- Staying ahead and well
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GLOBAL INDUSTRY RECOVERS FROM THE SLUMP

INDUSTRY DYNAMICS
PREMIUM COSMETICS ON THE REBOUND

Regional Performance
2009-10 % Value growth

- 10-15%
- 5-10%
- 2-5%
- 0-2%

- 11% - South America
- 1% - Europe
- 12% - Africa
- 9% - Asia
- 2% - North America
- 1% - Oceania
The year in review and winning strategies for the future

PREMIUM MARKET SHARE STILL LOW IN LATIN AMERICA

INDUSTRY DYNAMICS

PREMIUM MARKET SHARE STILL LOW IN LATIN AMERICA

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Mass Cosmetics
Premium Cosmetics
INDUSTRY DYNAMICS

MASS COSMETICS TO DRIVE FUTURE GROWTH

% value (US$)

© Euromonitor International

Global Premium Cosmetics | Global Mass Cosmetics

2005: 24% | 76%
2006: 28% | 72%
2007: 24% | 76%
2008: 28% | 72%
2009: 24% | 76%
2010: 28% | 72%
2011: 24% | 76%
2012: 28% | 72%
2013: 24% | 76%
2014: 28% | 72%
2015: 24% | 76%
INDUSTRY DYNAMICS

TOP CATEGORY BY REGION

Fastest Growing Categories
2009-10 % value growth

- Deodorants
- Sun Care
- Depilatories
- Colour cosmetics
- Sets/Kits

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DISCRETIONARY CATEGORIES PICK UP

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NEW POSITIONING AND VALUE PERCEPTIONS

PRIVATE LABEL PICKS UP MARGINALLY

Global PL growth by category

- Colour Cosmetics (+10%)
- Men's grooming (+10%)
- Skin Care (+8.5%)
- Oral Care (+5.6%)
- Hair Care (+4.4%)
- Bath & Shower (+0.5%)
PRIVATE LABEL KEEPS UP THE PACE IN INNOVATION

- Tapping into budget and ‘high end’ lines
- Focus on product efficacy and ingredients
- Increasingly ‘green’ savvy
- Diversifying existing lines
INNOVATION IN BRANDS STILL A PRIME FOCUS

- Scientifically-advanced innovation
- New concepts and ‘professional’ status
- Time-saving vs long-lasting beauty
- Building on successful brands
NEW POSITIONING AND VALUE PERCEPTIONS

NEW POSITIONING IN SKIN CARE

Category cross-over

New consumer targets

Holistic skin care

Increased polarisation
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INTERNET CONTINUES TO RESHAPE THE WORLD

More than 40% of the world’s population will be on the Internet in 2020.

Half of all Internet users will be in Asia.

711 million
Chinese Internet users in 2020

281 million
US Internet users in 2020
THE BEAUTY BRAND AS AN EXPERIENCE

INCREASING IMPORTANCE IN BEAUTY RETAILING

Global Beauty Channel Breakdown

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Store Retailing</th>
<th>Drugstores</th>
<th>Beauty Specialists</th>
<th>Super/Hypermarkets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>14</td>
<td>12.4</td>
<td>10.6</td>
<td>26</td>
</tr>
<tr>
<td>2006</td>
<td>15.3</td>
<td>12.9</td>
<td>9.7</td>
<td>27</td>
</tr>
<tr>
<td>2007</td>
<td>16.1</td>
<td>12.8</td>
<td>9.5</td>
<td>26.9</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Non-Store Retailing
- Drugstores
- Beauty Specialists
- Super/Hypermarkets

% value share

2005 2006 2007 2008 2009 2010

% value share

0 10 20 30 40 50 60 70 80

2005 2006 2007 2008 2009 2010

THE BEAUTY BRAND AS AN EXPERIENCE

VARIED PENETRATION ACROSS KEY MARKETS

Beauty Internet Retailing – Top Five Markets

% share of total retail sales

- S.Korea
- France
- USA
- UK
- Japan

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NEW WAYS OF ENGAGING WITH BEAUTY CONSUMERS

THE BEAUTY BRAND AS AN EXPERIENCE

Social Media

Mobile Technology

New In-store Experience
500 million • Facebook users

30 billion • Pieces of content per month

700 billion • Minutes of log-in time per month

130 • Average friends per user

62% • Of users between the age of 18-34

50% • Users of Facebook are female

55 million • Registered tweets per day
THE BEAUTY BRAND AS AN EXPERIENCE

ONLINE PRESENCE AND SOCIAL MEDIA NOT TO BE IGNORED

- Key players increasing online presence
- Opportunities for smaller brands
- Social commerce still limited
- Blogging/’vlogging’ offer new experience

1,614,613 people like this
THE POWER OF THE SMARTPHONE APP

Key success factors:

- Personalised
- Added value
- Interactive experience
- Real-time updates
WHERE NEXT FOR VIRTUAL CONNECTIVITY?
THE BEAUTY BRAND AS AN EXPERIENCE

IN-STORE BEAUTY EXPERIENCE VITAL FOR THE INDUSTRY

- Beauty services challenged by at-home beauty
- Creating value is key
- Retailers enriching the in-store experience

Fastest Growing Beauty Sectors
2009-10 (value)

<table>
<thead>
<tr>
<th>Category</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nail Polish</td>
<td>+17%</td>
</tr>
<tr>
<td>Men’s skin care</td>
<td>+12%</td>
</tr>
<tr>
<td>Mass fragrances</td>
<td>+9%</td>
</tr>
<tr>
<td>Sun protection</td>
<td>8.5%</td>
</tr>
<tr>
<td>Anti-agers</td>
<td>7.6%</td>
</tr>
<tr>
<td>Colourants</td>
<td>+7%</td>
</tr>
<tr>
<td>Eye liner/pencil</td>
<td>+7%</td>
</tr>
<tr>
<td>Blusher/bronzer</td>
<td>+7%</td>
</tr>
</tbody>
</table>
RE-CREATING THE SPA EXPERIENCE

- Innovative retail concepts
- Mobile beauty becomes prominent
- Health and wellness factor to drive interest in spas
- New consumer targets

Key Spa Tourism Markets, absolute growth 2010-15 (million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth 2010-15 (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>US$ 1,660</td>
</tr>
<tr>
<td>Japan</td>
<td>US$ 1,350</td>
</tr>
<tr>
<td>China</td>
<td>US$ 1,030</td>
</tr>
<tr>
<td>France</td>
<td>US$ 856</td>
</tr>
<tr>
<td>Israel</td>
<td>US$ 362</td>
</tr>
<tr>
<td>India</td>
<td>US$ 363</td>
</tr>
<tr>
<td>Austria</td>
<td>US$ 266</td>
</tr>
<tr>
<td>Vietnam</td>
<td>US$ 221</td>
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</tbody>
</table>
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GROWTH TO CATCH UP WITH PRE-RECESSION LEVELS
CONSUMER NEEDS BECOMING MORE DIVERSE

- Value
- Efficacy
- Personal touch
- Experience

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The year in review and winning strategies for the future

Beauty Internet Sales to become more competitive

Beauty Internet Sales 2010-15

US$ million

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2015</th>
<th>2010-15 CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>W Europe</td>
<td>2,000</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>E Europe</td>
<td>4,000</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>N America</td>
<td>8,000</td>
<td>16,000</td>
<td></td>
</tr>
<tr>
<td>L America</td>
<td>16,000</td>
<td>32,000</td>
<td></td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>32,000</td>
<td>64,000</td>
<td></td>
</tr>
</tbody>
</table>

CAGR: Compound Annual Growth Rate
THE OUTLOOK

GLOBAL GROWTH TO BE DRIVEN BY MASS BEAUTY

- Mass Fragrances
- Mass Colour Cosmetics
- Mass Skin Care
- Premium Hair Care
- Mass Hair Care
- Premium Skin Care
- Premium Fragrances
- Premium Colour Cosmetics

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MORE OPPORTUNITIES TO BE HAD IN PREMIUM SKIN CARE
China’s premium cosmetics market will double by 2015, to reach $7 billion.

Of Latin America’s industry value, 80% will be accounted for by mass products in 2015.

Latin America industry value in 2015, third largest region globally.
THANK YOU FOR LISTENING

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Q&A?