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Scenarios in the Cosmetics Industry

Gian Andrea Positano
Statistics Manager, Cosmetica Italia – Italian Association of Cosmetic Industries, Milano, Italy
gianandrea.positano@cosmeticaitalia.it

Cosmetic Industry Evolution

In 2016 the Italian cosmetic industry once again confirms the inelastic and anti-cyclical nature of the Italian cosmetics sector in the context of the country's manufacturing industry. Indeed, in what has been another tough year for consumer goods, the cosmetics industry turnover, the value of production in other words, has seen an increase of 5.3% in comparison to the previous year, for a value exceeding 10,502 million euro. This is despite persisting sluggish trends in the domestic market.

The cosmetics industry therefore demonstrates greater robustness compared to other sectors within the Made in Italy system, including in financial terms, as confirmed by the new project for the analysis of the sector's financial statements: the financial and operational values in particular have been highlighted, and in general terms, these enable the sector to face a political and economic scenario which remains very uncertain.

Sales channels are undergoing a slow yet inexorable transformation, already experienced abroad but which is now being felt in Italy too. For this reason, domestic demand has had a mildly positive impact on production volumes, with growth of 0.7%, equivalent to 6,209 million euro. The domestic market no longer appears to be conditioned by consumer purchasing behaviours.

Despite paying closer attention to the purchases they make than they once did, consumers nonetheless refuse to make sacrifices with regard to cosmetics and personal care, instead graduating towards new distribution methods and more advanced product types, whilst keeping a closer eye on prices.

A breakdown of sales on the domestic market shows positive trends in direct sales, above all thanks to e-commerce - indeed, this sector has grown by 7.8%, while others channels struggle to recover: sell-ins have witnessed a slow increase, equivalent to +0.9% in perfume shops, while pharmacies (-0.1%) and organised mass market retailers (-0.8%) seem to be struggling the most in light of changes in consumer trends.

A study of the domestic market as a lever on turnover, highlights the growth trend in professional channels, which have experienced an increase of 1.3%, with a sell-in value of 669 million euro. Indeed, in 2016 visits to beauty and hairdressing salons picked up again, having suffered the most as a result of the economic crisis which exploded in 2008.

Influenced by a general economic recovery that is still slow, the domestic consumption of cosmetics has breathed a faint breath of life into the turnover of domestic companies, which, along with the strong levels of performance achieved by exports, has generated a significant recovery in terms of profitability. Indeed, sales abroad increased by 12.7%, accounting for 4,293 million euro. Whilst rates were somewhat slower, the trend regarding imports was also positive, growing by 9.2%, confirming the slow recovery of domestic demand, which is still focused on products offering the best price-quality ratio.

As a result of these trends, the trade balance remains largely positive, with a record value of just over 2,300 million euro.
The analysis of turnover percentages for the leading end market highlights interesting developments: mass market retailers still recorded a slight decrease, from 28.7% to 27% of the market, no longer mitigated by the incorporation of herbalist shops, which has seen a significant growth slowdown. However, export figures continue to rise, accounting for 40.9% of turnover and direct sales (6.6%).
There has been a reduction in the importance of the pharmacy sector which previously accounted for 11.5% while now it has reached 8.2%. The same scenario applies to perfume shops: their share has dropped from 12.4% to 11% although they remain an industry mainstay. In the face of an economic landscape that remains uncertain, sales trends reflect the health and competitiveness of the industrial cosmetic system and the effectiveness of the strategy which sees ongoing efforts in the field of research and innovation on the part of companies within the industry, who have been making industrial investments that are well above average.
It is perhaps useful to recall that on the occasion of Cosmoprof Bologna 2017, the Statistics Department launched an analysis which has been extended to cover the cosmetics supply chain, with a view to proposing, with the necessary adjustments, an extended measurement framework which offers a dynamic and rational overview of the phenomena which affect the chain at various levels, upstream and downstream. From cosmetic ingredients to production machinery, packaging and the finished product, the intention is to provide an overview of the "long" supply chain of the Italian cosmetics industry.
The value of the total industry turnover exceeds 15,000 million euro, with a positive trend in 2016, showing a recovery of more than five percentage points, which has been further reinforced by forecasts for 2017. The year is expected to close positively, with a growth of more than 4%.
From raw materials, which recorded a turnover of approximately 950 million euro, to machinery, with over 300 million and packaging, which has reached the figure of 3,300 million euro, the cosmetics supply chain demonstrates various distinctive characteristics specific to the sector. The upstream supply chain, for example, clearly leans towards exports, and in the case of machinery, the export-production ratio even reaches 74%, while ample room for improvement is expected for the finished product segment. Constant investment in research and innovation is common to all "links" within the supply chain, as is the difficulty of predicting scheduled, ongoing orders, a sign of prudence and uncertainty which continues to affect markets.
Thus the Italian cosmetics industry's "long" supply chain demonstrates unique dynamics, thanks to manufacturers both upstream and downstream, and companies in direct contact with the customer - all of which serve to reiterate the competitiveness and excellence of "Made in Italy" cosmetics. These companies, more than those in other sectors, have responded quickly, implementing - among other things - adequate internationalisation activities and strategies, with significant positive trends in exports.
The Italian cosmetics industry is recognised worldwide for its innovative formulations and the dynamic service of its manufacturers; added to this is the continuous study of consumer trends, which is essential for establishing itself in the counselling field. These characteristic elements have enabled the Italian cosmetics industry to make a name for itself on both traditional and emerging markets.

TABLE I

Turnover of the cosmetics industry by distribution channel (Values in millions of euro)

	2015		2016		Forecast 2017
	Value	Var. %	Value	Var. %	Var. %
Turnover Italian market	**6,164**	**1.5**	**6,208**	**0.7**	**1.2**
Total - traditional channels:	**5,503**	**2.0**	**5,539**	**0.7**	**1.2**
Pharmacies	859	1.5	858	-0.1	0.5
Perfume shops	1,148	0.9	1,158	0.9	-
Mass market and other channels (*)	2,855	1.3	2,832	-0.8	0.7
Door-to-door and mail order sales	641	8.1	691	7.8	8.5
Total - professional channels:	**661**	**-2.4**	**669**	**1.3**	**1.9**
Beauticians	172	-3.2	176	2.1	2.3
Hairdressing	488	-2.2	493	1.0	1.8
Exports	**3,807**	**14.3**	**4,293**	**12.7**	**9.5**
Global turnover of the cosmetics industry	**9,971**	**6.0**	**10,502**	**5.3**	**4.6**

(*) includes Herbalist and Single-Brand stores

Source: Statistics Departments of Cosmetica Italia

Distribution Channels and Consumption

The value of cosmetics consumed in Italy in 2016 reached the 9,900 million euro mark, a 0.5% increase on the previous year. This is a very modest growth rate but nevertheless important for the stability of figures, considering the effects that the global crisis in the autumn of 2008 has continued to have on purchasing propensity, with a significant influence on Italian consumers in the subsequent period.

The consumption of cosmetics in Italy has long been considered essential, to the point that the negative economic situation of recent years has had a marginal effect on purchases in terms of volume, but it has certainly not affected quantities. The shift in consumption choices towards opposite ends of the price spectrum, the so-called "hourglass effect", leads to a weakening in the mid-price range, generating growth in the number of items sold while value trends have slowed significantly - they are definitely growing but still at a very slow rate. A reduction in the negative effects of the economic crisis on purchasing propensity has led to a review of choices within traditional channels, while a recovery is being witnessed in the use of professional channels.

A decline - albeit slight - is seen in all the traditional channels, especially in the pharmacy and mass market sectors, while herbalist stores and perfume shops remain strong and positive trends in direct sales continue. Within the last category, online sales are still very much the major phenomenon of recent years, with strong growth (+35%) to the tune of around 230 million euro at the end of 2016.

Given the difficulty in collecting data for online sales, the statistical basis is currently being reviewed and revised upwards. Despite the slowdown in door-to-door sales, direct sales as a whole have enjoyed above-average growth, thanks largely to the growth of the e-commerce dynamics, both as a new sales channel and as a means of strengthening distribution.

Although calculated as part of the mass market and single-brand aggregate, consumption in the herbalist channel has grown by more than one percentage point, preceded by direct sales at 21% - the best performance ever seen in this category.

The decline in figures for perfume shops seems to have halted, and this channel appears to be clawing back consumption values, curbing the involution and the downsizing of the channel, despite the transformations in selective distribution methods. These transformations are generating a growing divide: on the one hand this bears witness to the reduction in numbers and weight of consumption in traditional perfume shops, while on the other, the prominence of specialised chains is confirmed, as these are becoming more attentive to customer service and the new requirements of consumers.

Furthermore, in 2016, growth is seen in the absolute value of professional channels: consumption in hairdressing and beauty salons has increased by 1% and 2.1% respectively.

In 2016, prices remained substantially stable; this stability is linked to uneven recovery trends; of all the various channels, perfume shops have seen the most pronounced change (+7%), due to reshaping and new products, while the others are substantially holding firm, with the exception of the mass market where supermarkets and hypermarkets are which have recording significant price increases. Marginality manifests itself once again in the professional channels.

2016 saw the evolution of new channels and the radical domestic transformation of traditional sales channels, affected by the new consumer tendencies, with buyers seeking a balance between their financial resources and the need to take care of themselves. Having adopted new approaches to spending and new tendencies in terms of pre-purchase information seeking methods, consumers are remaining loyal to more economical price categories and channels, as well as continuing to purchase premium products, leading to the marginalisation of the mid-price range.

While it is true that the cosmetics industry has only marginally felt the crisis, having long established itself as a category which is characterised by "physiological" consumption of goods, and one which is largely indifferent to economic downturns, it is also true that buying habits have changed radically at all product and channel levels, highlighting the increasingly widespread phenomenon of cross-channel purchasing.