The parallel worlds of hair care
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Global retail sales of hair care products increased by 5% in 2011 to reach US$73.7 billion, according to the latest data from Euromonitor International. Lacklustre growth rates in the US, Japan and most of Western Europe were offset by more enthused spending in the emerging markets, notably China, India, Brazil, Russia and Mexico.

This has been the pattern of the past five years, with the emerging markets in effect propping up the global hair care industry. North America, Japan and Western Europe (excluding Turkey) showed collectively flat growth (-0.1%) between 2007 and 2011, and an increase of only 0.3% last year (all growth rates are based on US dollars at fixed 2011 exchange rates).

The US economy is gradually picking up momentum, which is buoying consumer confidence. However, austerity measures are set to deepen in much of Western Europe, with contagion implications globally. The net result is that hair care is unlikely to see any significant return to growth in the developed markets over the next five years.

What seems increasingly clear is that manufacturers are faced with the strategic challenge of two parallel but fundamentally different global playing fields. On one, we are witnessing widespread trading down and discounting, which is squeezing industry margins. On the other, we are seeing increased trading up and aspiration-fuelled purchasing patterns.

The hair care brands of leading Western-based manufacturers, in particular Procter & Gamble, L'Oréal and Unilever, are becoming ever more dependent on emerging market consumers to beef up revenue and bottom line. The stakes have never been higher. And at the core of the market share battleground is the quest for broader and more sophisticated segmentation.

Tapping into status consumption in emerging markets

In 2011, for the third year in succession, Brazil was the strongest growth market in the world for hair care, based on incremental retail value. Between 2008 and 2011, Brazilian expenditure on hair care products rose by US$2.3 billion, according to Euromonitor International. That was equivalent to more than a quarter of the industry's global incremental growth.

That Brazil has become such a powerhouse for the hair care category is indicative of a strong away-from-home beauty culture. There are around 1.5 million beauty salons dotted around the country, for example. And Brazilian women typically get their hair done once a week.

What is most striking about Brazil is the democratisation of beauty culture. Women from all socioeconomic backgrounds tend to spend a big chunk of their discretionary income on looking good. And you are as likely to come across a beauty salon in a low-income neighbourhood as in a middle-class neighbourhood.

The popularity of beauty salons has given Brazil's hair care category a natural platform to build growth. We are seeing more and more retail penetration of so-called salon-in-the-supermarket brands. Unilever's TRESemmé was rolled out last year, for example (following integration of the Alberto-Culver brands), and will help Unilever position more effectively against Procter & Gamble's Pantene Pro V, which together with L'Oréal's Elsève has been performing well in Brazil.

These type of salon-in-the-supermarket brands, which present a premium image but at an affordable price point, tap into the aspiration-fuelled consumption of Brazil's new C class,

which has become more economically empowered over the past decade. We are seeing similar brand trends in Mexico, China, India and Russia.

In short, a key feature of the hair care category in emerging markets is that manufacturers are developing a more sophisticated middle ground. It is a segmentation model that aligns with aspiration-fuelled consumption patterns. Unilever now has an aspiration bridge between mass-market brand Seda and status brand TRESemmé, for example.

Is 'affordable luxury' an opportunity for hair care in developed markets?

The hair care category has been going in the opposite direction in most developed markets, where cash-strapped middle-class consumers typically seek out the most attractive value-for-money deals. This 'deal of the week' culture has sounded the death knell for brand loyalty.

True, there is a trend toward affordable premium branding in Western Europe and the US, as evidenced by the bullish results of fashion and accessories players such as Mulberry, Coach and Michael Kors, but it is not visible in personal care, at least not to date.
The affordable luxury trend might present an opportunity going forward, however, as consumers in developed markets are increasingly prepared to treat themselves to luxury items, provided they are positioned at accessible price points. It is very different from the aspiration-fuelled consumption of emerging markets. It is more a nostalgia-fuelled consumption that harks back to better times. The question is whether a category such as hair care can successfully tap into it.

The best opportunities would be for colourants, conditioners and styling agents, which – as non-staple personal care products – can more realistically leverage treat-yourself consumption patterns. There is already some evidence of this happening. Colourants was the best performing category in Western Europe in 2011, for example, based on incremental growth. And conditioners, colourants and styling agents each outperformed shampoo in the US last year.

Eco-friendly products are another potential way to beat the downward curve in Western markets. Despite weaker real spending power, the sustainability agenda is getting bigger, fuelled by a Facebook culture of online opinions and consumer reviews. There is little doubt that this sharing of views has brought the sustainability debate, and its relevance to consumer products, to a much wider and influential mainstream audience.

Brands such as Procter & Gamble's Pro-V Nature Fusion, a line of shampoos and conditioners packaged in a sugarcane-based bottle, illustrate how sustainability is increasing in importance in the hair care category. Brands that flex biodegradable credentials (free from silicones, parabens, sulphates and colourants, for example) are also coming increasingly into the market. Timotei Organic Delight and Garnier Fructis Pure Clean are recent cases.

Boutique M&A and niche categories

Manufacturers are looking more closely at niche categories too, where market maturity is not a barrier to growth. Hair loss treatments generated value growth of 5% in Western Europe last year, for example, and was one of only three categories to stave off a contraction in Japan. These types of niche products have a small revenue footprint, but they present attractive margins.

Boutique M&A represents a way to build profile in these lower-profile markets. Church & Dwight's acquisition last year of the Batiste Dry shampoo brand in the UK is a case in point. Retail sales of Batiste summed around US$43 million in 2011, according to Euromonitor International.

PZ Cussons' purchase of male grooming brand Fudge was another boutique deal in a category where there is plenty of room for growth. Approximately half of Fudge's sales were in the UK last year, and the other half in Australia and New Zealand.

Both Batiste and Fudge are low impact players in the bigger hair care picture, but they present attractive value-enhancing potential in markets where growth in mainstream products is stymied. Crucially, under the control of bigger distribution systems they can expand into new territory.

Over the next five years we could see more of this type of boutique M&A. Although a dominant share of new business will continue to be located in emerging markets, the battle for share is up for grabs in developed markets. Development of niche categories, eco-friendly brands and products that showcase affordable pampering could make all the difference.

Ultimately, consumers put plenty of stock in looking good, and to that end they have a propensity to spend money on their hair, even when times are tough. In developed markets, that is the silver lining of opportunity. In emerging markets, it is the springboard for new product development, with the challenge of satisfying the preferences of numerous consumer groups.

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