Holding steady

A stable economy and burgeoning organic and own brand sectors have helped Germany's C&T market remain in the black, while other European markets falter. **Annemarie Kruse** reports from Berlin

The German C&T market registered a solid if unexciting performance in 2012. According to industry association IKW, turnover for the entire market grew 1.4% to a total of €12.85bn. And although Germany was affected by economic difficulties last year, the consumer market is in pretty good shape. Propensity to buy is high, especially when compared to other European countries, and the average German consumer spent €131 on C&T in 2012, an increase of €2 on the previous year.

MARKET DYNAMICS

The biggest and most important retail channel for C&T is the drugstore market, and the two chains DM and Rossmann dominate. Both have strong own labels, which in many sectors are starting to attack the market share of the big retail brands.

Organic brands are also playing an increasingly important role in the German beauty market. The certified organic C&T sector registered double digit growth rates in 2012/2013 and there are plenty of certified organic labels across all product categories.

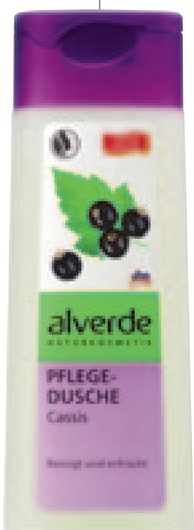
The luxury C&T market also has a strong influence in Germany. It had an excellent year in 2012/2013 with significant growth across most categories. Bundesverband Parfümerien, the umbrella organisation of the German perfumery industry, posted a turnover increase of 3.6% for 2012. The big winners were colour cosmetics with an increase of 7.4%, followed by women's fragrances (+3.7%), facial skin care (+3.3%) and men's care (+2.5%).

VKE Kosmetikverband, which comprises 60 mid-priced and premium C&T companies, announced very similar results, with a 3.9% increase to €1.951bn in 2012. Again colour cosmetics was the most successful category, up 5.3%, followed by women's fragrances (+4.5%), men's care (+4.1%) and facial skin care (+3.5%).

SMALL GAINS

Looking at the IKW figures more closely, hair care and styling, traditionally the biggest C&T segment, grew 0.7% to €3.018bn. IRI Germany's retail figures confirm a slender increase of 0.2% to €1.66bn in 2012. Styling products, on the other hand, slipped 5.2% in value and 5.1% in volume.

The market is split between the international brands like L'Oréal's Elvital and Garnier's Fructis, P&G's Herbal Essences and Aussie, Unilever's Dove and



DM's own label brands, like Alverde (left) are growing market share

TABLE 1: GERMANY: C&T MARKET, 2012

	Value €m	+/-%
Total	**12,851.0**	**1.4**
Hair care/styling	3,018.0	0.7
Skin/body care	2,796.0	0.6
Oral hygiene	1,390.0	1.5
Colour cosmetics	1,379.0	2.0
Women's fragrances	1,071.0	2.8
Bath/shower	850.0	4.5
Deodorants	735.0	2.0
Men's fragrances	523.0	3.3
Soaps/syndets	366.0	0.0
Aftershave	162.0	-2.8
Shaving preps	109.0	-1.0
Foot care	153.0	-4.0
Depilatory products	154.0	4.3
Baby care	142.0	3.1

Source: IKW

home grown labels such as Schwarzkopf & Henkel's Gliss Kur and Schauma, Beiersdorf's Nivea, Kao's Guhl and the drugstore proprietary ranges, especially DM's Balea. There was also an influx of organic hair care ranges from German labels including Weleda, Lavera and Sante, DM's Alverde and Rossmann's Alterra own label brands.

According to IKW one of the main drivers in hair care and styling was salon inspired product lines retailed at mass market prices, like Henkel's Syoss and P&G's Wella Pro Series ranges. Another major trend are hair oils and intensive treatments, and in the last few months virtually every hair care brand has launched at least one oil product.

Skin and body care grew 0.6% to €2.796bn according to IKW. IRI confirms that facial skin care registered good growth in 2012, up 1.9% to €600.26m, and a volume increase of 0.9% to 552.42 million units. Products for mature skin showed strong growth, reflecting the demands of the ageing German population.

BB creams were a major influence on this segment and German brands including Nivea, Schwarzkopf & Henkel's Aok, DM's Balea and Rossmann's Rival de Loop own label ranges introduced BB and CC creams last year. Certified organic C&T products are also playing a major role in facial skin care launch activity. DM and Rossmann both retail their own certified organic brands and mainstream beauty brands continue to launch near-natural or certified organic skin care ranges, like Kneipp with its new Kneipp Naturkosmetik or BCG's Dr. Scheller brand.

The colour cosmetics market was also in good shape in 2012, growing 2% to €1.379bn. IRI figures for first half 2013 confirm that face, lip and eye products grew 1.7% to €653.054m while volume registered an 0.7% increase to 102.05 million units.

The fast-moving colour category is dominated by German brands and driven by a constant stream of limited editions. And although L'Oréal's Maybelline and L'Oréal Paris regularly top the market rankings, the most exciting NPD comes from the German brands, especially from teen labels Essence, Catrice, P2 and Manhattan.

The BB cream trend also affected this sector and colour cosmetics brands have launched numerous BB products in the last year. In the

Numerous brands, including DM owned Balea (right), have launched BB creams

TABLE 2: GERMANY: LUXURY C&T MARKET, VALUE, 2012

	+/-%
Total	**3.9**
Colour cosmetics	5.3
Women's fragrances	4.5
Skin/sun care	3.5
Men's C&T	4.1
Body care	-3.1

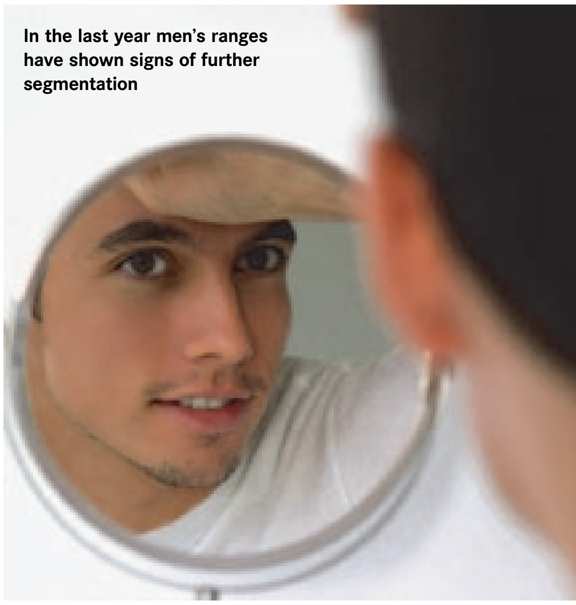
Source: Bundesverband Parfümerien

foundation category, hybrid products offering coverage and anti-ageing ingredients were popular and in eye make-up, cream shadows and eye pencils saw growth. The lip category, meanwhile, was dominated by lightweight textures, liquid lip tints and gloss balms. A major growth driver was nail polishes, especially effect polishes like crackling top coats, sand effects, gel effects and nail art products.

Women's fragrances grew 2.8% to €1.071bn, according to IKW. IRI estimates a similar increase, up 2.1% to €1.20bn. The masstige market with celebrity and fashion fragrances from brands like Adidas, Puma, Tom Tailor, Betty Barclay, S.Oliver or Mexx is traditionally very strong in Germany. One of the most interesting new fragrance introductions in 2012 came from beauty brand Essence. The "Like A…" fragrance range comprises 11 variants. With playful and pretty packaging aimed at Essence's target demographic of teens and tweens these fragrances have been doing well. However, IKW has also noted a continuing trend towards more expensive and niche brands, which has driven the segment as a whole.

Male grooming has long been one of the stalwarts of the German C&T market and 2012 was no exception. According to IRI this category, including face care, bath & shower and deodorants, grew 4.2% to €538.61m. Skin care was especially successful, growing 11% in value and 13.5% in volume.

In the last year men's ranges have shown further segmentation, with a strong focus on sensitive and oily skin types and multipurpose products. As part of its general relaunch last year Nivea also restructured its Nivea Men portfolio, adding the six-sku Skin Energy range. L'Oréal Men Expert launched Hydra Energy Xtreme, tagged as the first moisturiser especially formulated for men with stubble, while DM's Balea Men sub-brand introduced a 2-in-1 cream and aftershave in its Wakeup Call line-up. DM's Alverde contributed a cooling



In the last year men's ranges have shown signs of further segmentation

eye gel and a 4-in-1 moisturiser and in March, Lavera introduced the three-sku Men Sensitive, a range especially formulated for men with sensitive skin.

The rather utilitarian bath & shower sector registered the biggest increase last year, growing 4.5% to €850m. IRI confirms that the category has been doing well, with an increase of 2.6% to €757.02m in 2012. Shower products were especially popular, growing 4.3% in value and 3.3% in volume.

The market is dominated by German labels like Kneipp and Weleda, Merz's Tetesept, Dresdner Essenz, Beiersdorf's Nivea, Schwarzkopf & Henkel's Fa, Unilever's Dove and of course DM's Balea and Alverde ranges, and Rossmann's Synergen and Alterra brands.

The wellness and home spa trend continued to make waves in this segment, as did products based on exotic and international beauty rituals. Tetesept's bath additive ranges, for example, are divided into "health" products (herbal formulations for colds, aches and pains) and "wellness" additives, including the Bath of the Worlds line and the Sinnensalze range, which combine colour therapy with aromatherapy. In terms of shower products, limited editions were very visible. Spring editions were dominated by floral fragrances and spicy winter concoctions are much in evidence, both among the own label ranges and the retail brands.

RETAIL DIVERSIFIES

The perfumery channel faced much the same problems as in previous years. The independent stores continue to struggle against the market presence of the Douglas chain, which is the German market leader.

As a result smaller perfumeries frequently engage in an all-out pricing war, trying to gain market share by slashing prices and offering discounts. Industry insiders are worried that this trend will continue to trivialise the luxury industry.

Another challenge facing the industry is online retail. According to e-commerce industry association BVH, beauty was the second most successful German e-commerce category in 2012, growing 58% to €950m while volume turnover increased 67% to 500 million units.

Adding e-commerce as a distribution channel is especially important for independent retailers. However, many perfumeries find it difficult to come up with an attractive online presence to act as a virtual shop window. As a result the online beauty market in Germany is still comparatively unexplored. And Douglas' own web store, which was launched in 2001, is still the biggest C&T retailer. However, in 2012 several new online perfumeries appeared on the market with new retail concepts and the avowed intention of grabbing some serious market share.

Whether this strategy will work remains to be seen since Douglas itself announced a major relaunch of its online store in the near future. The relaunch is part of a new marketing strategy for the Douglas group, which has had a rather exciting year.

In December 2012, US investment group Advent International acquired the majority of Douglas' shares. And in June 2013, the company announced a new corporate strategy: invest some €500m into positioning Douglas as European market leader, extend the brand portfolio by sourcing new trend and luxury labels, focus even more on the online business and tie all of this together with a new brand identity in time for the Christmas financial quarter.

The retailer is also currently eyeing French perfumery chain Nocibé as a potential acquisition. The deal would create the largest perfumery chain in France if it were to go through.

DRUGSTORE DIFFICULTIES

2012/2013 was also a tempestuous year for the German drugstore market. After years of falling turnover, German market leader Schlecker finally declared bankruptcy in early 2012.

As part of Schlecker's retail empire, drugstore chain Ihr Platz drugstore also went bankrupt. And while Schlecker's European subsidiaries were sold off to different international retailers, the home business failed to find any investors. By summer 2012, all of the 6,000 German Schlecker outlets and 490 Ihr Platz stores were closed down or sold off and a total of 25,000 employees had lost their jobs.

This large scale bankruptcy has shaken up the entire C&T market. In late 2012 several German discounter and supermarket retailers began to increase their C&T line-up in a bid to grab some of Schlecker's market share. However, the big winners have turned out to be DM, the current market leader, and Rossmann.

The German department store sector, meanwhile, continued

PRODUCT PIRACY

Product piracy continued to be a major problem for the German perfumery and luxury industry. In 2012, German customs police intercepted pirated cosmetics worth €22.7m at the country's borders. In comparison, the figure for 2011 was €1.3m, which equates to an increase of 16,000%.

Considering that the authorities can only open so many shipments and that online platforms, which are popular marketplaces for pirated goods, are even more difficult to monitor, it is possible that the actual figures for pirated cosmetics are even higher.

with its gentle decline in 2012/2013. Although the perfumery sections of the department stores are important retail channels for premium beauty, the distribution channel as a whole has been struggling for years, losing market share to perfumeries and drugstores.

There are only two department store chains on the German market, Karstadt and Kaufhof. The Karstadt group currently comprises 86 department stores and luxury stores including KaDeWe in Berlin. In 2010, US investor Nicolas Berggruen acquired Karstadt. After first announcing ambitious expansion plans, the new owner then began to cut costs – and jobs – across the chain. Industry insiders feared yet another sale since the retailer's premium properties make the group attractive to investors.

However, in September 2013, Austrian investor René Benko joined Berggruen (buying the majority of shares in the sports and premium stores) and now Karstadt is in a more stable position. Over the last 12 months several of the bigger stores were modernised. Karstadt is also starting to invest into multi-channel retail and finally launched a web shop this year. However, industry observers say that there is still no cohesive retail concept for the store chain so Karstadt's future remains uncertain.

Kaufhof, with some 105 stores across Germany, belongs to German retail giant Metro group. Like its competitor, Kaufhof has been struggling over the last ten years although its stores tend to offer a more premium shopping experience than the average Karstadt store.

Even so, Metro (which itself is not in the best financial shape) had announced in 2008 and again in 2011 that it was putting Kaufhof on the block. The situation has become a little more relaxed in the last two years; Kaufhof launched an online store, which is doing well and its CEO recently announced that he was satisfied with the chain's performance in 2012. However, at the annual shareholder's meeting in May 2013, Metro group reaffirmed its intention to sell off Kaufhof eventually.

POSITIVE PREDICTIONS

All things considered the outlook for the German C&T market is quite promising. IKW believes that the market will remain stable in 2013 and might even show a slight increase. Bundesverband Parfümerien is also cautiously optimistic and Kosmetikverband even expects a turnover increase of 2.5%-3% for 2013.

Compared to other European markets, the German economy is in good shape. Germany is a country with low FMCG prices, especially for food and cosmetics, which means a strong and stable propensity to buy. And according to a recent consumer climate study by market research company GfK, Germans are generally optimistic about the future and happy to spend money – at least for now. cb