

**The last decade has been a rollercoaster for the** Baltic countries Lithuania, Latvia and Estonia. Whilst the 1990s were a time of severe economic and social changes and the three countries were struggling to make the transition from socialism to capitalism, the first years of the new millennium saw the Baltic states really start through.

After joining the EU in 2004 the economies of the “Baltic Tigers” continued to grow in leaps and bounds, with growth rates exceeding those of many western European markets. Then came the financial crisis of 2008/2009 and like most European countries, Latvia, Lithuania and Estonia were hit hard. For a few years things looked very bleak but now the countries are well on their way to recovery.

### Growth markets

With 3.5 million citizens, Lithuania is the biggest country in the Baltic trio. According to a recent report by the Austrian Chamber of Commerce, the country has almost reached its pre-crisis level of economic growth. In 2013 the Lithuanian economy grew 3.4% although the GDP is still some 2% lower than in 2007. However, the export industry – an important factor in Lithuania’s economy – grew 38% last year and in early 2015 Lithuania is planning to join the euro currency.

The second biggest country Latvia (2.16 million citizens) also suffered during the economic crisis, with salaries dropping by one third and unemployment figures tripling. After the Latvian state bank collapsed and the country received an IMF credit, the government implemented stringent economic reforms – with success: the country’s economy is now growing between 4-5% annually. In 2013 Latvian GDP grew 4.4% and export has also recovered. In January 2014 Latvia adopted the euro as its national currency.

Estonia, with 1.3 million citizens, is the smallest Baltic state and it has also shown a good recovery in recent years. In 2011 the country adopted the euro and although Estonian GDP grew only 0.7% in 2013, the Estonian Ministry of Finance is predicting growth of 2% for 2014 and 3.5% in 2015.

### C&T: a strong industry

From a European point of view the Baltic countries are often treated as one geographical entity. In reality, of course, Lithuania, Latvia and Estonia are three distinctive states that differ strongly in terms of language, culture and mentality. The economic sectors of the Baltic countries also have a different focus. As far as C&T is concerned, however, the three markets share many characteristics. Baltic women love their cosmetics and perfumes so beauty and personal care is traditionally a strong FMCG category in this region. And although consumers had to tighten their belts for a few years, disposable income is now rising, and so is the propensity to spend. In 2012 the beauty markets in all three countries once again showed solid growth rates.

In Lithuania, the C&T market grew 8.7% to €0.156bn in 2012 according to data by EU trade association Cosmetics Europe. Latvia’s market shot up 29.4% to €0.114bn while Estonia registered an increase of 6.6% to €0.091bn. And market researcher Euromonitor International has estimated



that in 2013, Lithuania’s beauty and personal care market grew 5.2% to \$275.8m (€0.2bn) Latvia’s market put on 5.8% to \$206.4m (€0.149bn) and Estonia’s climbed 6.4% to \$159.3m (€0.116bn).

### Retail structures

Looking at the mass market, the biggest retailer in the Baltics is drugstore chain Drogas. The Latvian Drogas chain was acquired by Hong Kong based retail group AS Watson in 2004. Since AS Watson also owns a host of other European beauty retailers, including the Netherlands’ Kruidvat and UK’s Superdrug as well as a 40% share of German drugstore chain Rossmann, Drogas’ outlets also sell the own label cosmetics of all three retailers.

And Drogas is doing well in the Baltics. It is the market leader in the personal care sector and the company is expanding steadily. In March 2014 the chain opened its 80th outlet in Latvia whilst the number of Lithuanian stores has reached 50. The only exception is Estonia. Although Drogas entered the Estonian market in 2005, the company decided to wrap up its operations in 2010.

Supermarkets and hypermarkets are another important distribution channel. Loyalty programmes and special offers continue to draw consumers to this retail channel and over the last few years the big supermarket chains have started to extend their C&T offering. The perfumery sector is also well developed in the Baltic region. German

**Top: Vilnius, Lithuania.**  
**Below: Baltic brand**  
**Joik’s most successful**  
**launch in 2013 was**  
**BB Kreem, the first**  
**Estonian-made**  
**BB cream**



### Baltic states: C&T retail markets by value, 2012

	€bn	+/- %
Latvia	0.114	29.4
Lithuania	0.156	8.7
Estonia	0.091	6.6

Source: Cosmetics Europe Statistics Working Group

perfumery chain Douglas is present in Latvia and Lithuania with around 27 outlets in each country. The Douglas group entered the Latvian market in 2007 when it purchased 51% of Baltic Cosmetic Holding (BCH), the operators of perfumery chains Kolonna, Esthétique and Sarma. The most important outlets of these chains were reopened under the Douglas banner, including stores in the capital cities of Riga and Vilnius. The Kolonna chain is also still active in Latvia.

There are several national perfumery chains, especially in Lithuania. Eurokos is one of the biggest retailers. The company operates some 110 stores across the country and sells a very wide range of mass market and premium brands. Kristiana is another Lithuanian chain which was first established in 1994. Today the company runs some 40 perfumeries which are mostly located in shopping centres and sell the usual international luxury beauty and perfumery brands. The Kristiana chain is also present in Latvia. Kosmada, another Lithuanian chain store, was founded more recently in 2003 and currently has some 20 outlets.

Estonia is in many respects a special case due to its small population and therefore limited market size. There are currently no Drogas or Douglas outlets. Instead, the biggest Estonian perfumery chain is Ideaal Kosmeetika with some 23 stores including six outlets in the capital city of Tallinn. Ideaal carries mass market and premium cosmetics. Another well-known beauty store chain is Rosalind, which was established in 1995 and currently runs seven stores across the country.

Although none of the countries have a national department store chain, Finnish retailer Stockmann plays an important role in the Baltic region. The department store group, which also operates several other retail chains, is active in some 16 countries, primarily in northern and Eastern Europe and in Russia. With its department stores, Stockmann is present in Finland, Russia, Estonia and Latvia. The Estonian store was opened in Tallinn in 1993, followed ten years later by an outlet in Riga. Although Stockmann is currently facing difficulties

in its home market of Finland and in its Russian business, the Baltic operations remained stable in 2013, with a turnover of €96.5m.

Besides drugstores, perfumeries and department stores, pharmacies are also a significant C&T distribution channel. Pharmacies in the Baltics sell prescription medicine and OTC as well as a selection of mostly French dermatological brands, including Avène, La Roche-Posay, Vichy, Bioderma and Klorane. Pharmacy chains in Lithuania include Gintarinė with some 230 stores, Euroaptieka in Latvia and Benu Aptieka which has outlets in both Latvia and Estonia. In addition to these retailers there are also the usual European direct selling beauty chains, like The Body Shop, Yves Rocher and Lush. Lush and The Body Shop are present in all three countries, while Yves Rocher only has a presence in Latvia and Lithuania.

### Brand leaders

The C&T markets of the three Baltic countries are characterized by a mixture of local and international brands. In skin care, hair care and colour cosmetics the big international manufacturers like L'Oréal, P&G, Unilever and Henkel play a leading role, especially in the mass market.

All three countries have significant Russian-speaking minorities, so Russian beauty brands are well represented, as are Scandinavian labels like colour cosmetics brand Isadora (Sweden) and skin care range Lumene from Finland. However, the Baltics also have some strong local contenders. The two biggest personal care manufacturers in the region are Dzintars and Stenders.

Dzintars was founded in 1849 as a soap and perfume factory. Today the company's portfolio comprises some 350 products across 34 ranges. Dzintars operates some 46 franchise stores in Latvia and 80 franchise stores internationally, including outlets in Estonia and Lithuania. Some of Dzintars' skin care ranges are also sold in Drogas, Douglas and Stockmann stores.

Stenders is another successful Baltic brand. The company was founded in 2001 and currently operates a franchise system in 23 countries worldwide. There are some 225 stores and a lot of the company's business is focused on Asia where Stenders is currently expanding. According to an article on *The Baltic Course*, a news website, Stenders' turnover in 2013 grew 17% to €27m. The company's product portfolio includes bath and body care, spa products, hair care and skin care.

Strong local brands also include Biok (Lithuania) and Orto (Estonia). Founded in 1991 Biok's portfolio includes four successful and widely distributed beauty ranges, including skin and body care range Margarita, the anti-ageing range Rasa, men's care range Aras and oral care range Ecodenta. In 2013, Biok's turnover grew 16% to €5.4m and for 2014 the company expects sales to reach €5.8m. Besides Lithuania, Latvia is Biok's biggest Baltic market. In Estonia, Orto is one of the best-known cosmetics manufacturers. The company was founded in 1932 and the personal care portfolio includes six beauty ranges, offering sun care, baby care, face and body care and hair care products.



**Stenders is one of the biggest personal care brands in the Baltics, with a reported turnover of €27m, up 17% in 2013**

### Direct sales flourish

Direct selling has become an increasingly successful C&T retail channel in all three countries in recent years. According to the Latvian Direct Selling Association, the total market size of direct sales in the Baltics reached €100m in 2013. In a closer breakdown, direct sales in Latvia grew 12% to €29.1m last year, followed by Lithuania, up 8% to €39.37m and Estonia with a rise of 5% to €31.18m.

That this distribution channel is growing faster than the retail markets isn't really surprising. Direct selling offers a comparatively easy way to start building a business, especially for women. Consumers usually prefer to buy products on recommendation from someone they trust and it offers a flexible and easy way to buy beauty products if you happen to live far away from the next drugstore or perfumery. The biggest direct sales brands in the Baltics include Avon, Amway, Mary Kay and Herbalife from the US, Oriflame from Sweden and Lux from Switzerland.



**“Organic cosmetics are becoming more and more popular among Latvian consumers and each year the demand for organic products is growing”**

AGATE KANCS, FOUNDER OF LATVIAN BRAND KIVVI COSMETICS

#### Latvia: C&T retail market value, by category, 2012

	€bn	+/-%
<b>Total</b>	<b>0.114</b>	<b>29.4</b>
Fragrance	0.013	4.9
Colour cosmetics	0.015	31.3
Skin care	0.030	49.0
Hair care	0.031	39.4
Toiletries	0.025	14.0

Source: Cosmetics Europe Statistics Working Group

#### Estonia: C&T retail market value, by category, 2012

	€bn	+/-%
<b>Total</b>	<b>0.091</b>	<b>6.6</b>
Fragrance	0.007	-28.7
Colour cosmetics	0.015	42.1
Skin care	0.030	6.0
Hair care	0.019	6.6
Toiletries	0.019	6.0

Source: Cosmetics Europe Statistics Working Group

#### Lithuania: C&T retail market value, by category, 2012

	€bn	+/-%
<b>Total</b>	<b>0.156</b>	<b>8.7</b>
Fragrance	0.018	5.8
Colour cosmetics	0.023	7.6
Skin care	0.033	9.6
Hair care	0.034	7.7
Toiletries	0.048	10.5

Source: Cosmetics Europe Statistics Working Group

#### Colour cosmetics

In all three markets the colour cosmetics sector performed very well in 2012, according to Cosmetics Europe Statistics Working Group. In Latvia the category grew 31.3% to €0.015bn, while Lithuania recorded a 7.6% rise to €0.023bn and in Estonia the sector shot up 42.1% to €0.015bn.

In the mass market, German make-up brands like Make Up Factory, Beyu and Artdeco and Cosnova's Essence play a big role, as does Bourjois (Chanel) and Coty's Rimmel London. Dzintars also offers a colour cosmetics range. However, the undisputed market leader in all three countries was L'Oréal Baltics with its Maybelline and L'Oréal Paris brands. According to Euromonitor International's 2013 *Passport Colour Cosmetics Country Report*, in 2012 the L'Oréal group's Baltics division accounted for a 43% share of the colour cosmetics market in Lithuania, a 41% share in Estonia and 22% in Latvia.

#### Skin care

In the skin care market the Baltics also showed a significant rise in 2012. In Lithuania skin care grew 9.6% to €0.033bn, with premium products as one of the market drivers. L'Oréal with its Garnier and L'Oréal Paris brands was the major player in Lithuania, clocking up a market share of 25%.

In Estonia the skin care market also registered good growth in 2012 with a 6% increase to €0.030bn. Again L'Oréal was the category leader with a 24% share. In Latvia, however, where the category grew 49% to €0.03bn, Beiersdorf's Nivea brand topped the rankings with a share of 19% (Euromonitor). Other important skin care brands in the mass market include Lumene and Lirene from Poland as well as Russian brands Natura Siberica and Planeta Organica. There are also the face care ranges of Dzintars, Stenders and Biok.

#### Hair care

Hair care also did very well in 2012. According to Cosmetics Europe Statistics Working Group, in Latvia the category grew 39.4% to €0.031bn, Lithuania recorded a 7.7% increase to €0.034bn and Estonia's market put on 6.6% to €0.019bn. And according to Euromonitor's reports the clear market leader in Latvia was German manufacturer Henkel with a 26% market share. In Lithuania, on the other hand, L'Oréal Baltics and the Baltic subsidiary of P&G were tied with a 29% market share each.

While L'Oréal's products are aimed more at an upper-mass and premium market – the company's portfolio also includes a range of salon-only premium brands – P&G with its Herbal Essences, Pantene and Head & Shoulders brands is based firmly in the mass market. In Estonia, L'Oréal was the market leader with a share of 12%, closely followed by P&G with an 11% share of the market.

#### Going green

Organic and natural beauty products are also starting to play a role in the Baltic C&T markets. Like most northern European countries the Baltic region has a strong connection to nature. Local manufacturing and the use of native ingredients like herbs, flowers and berries inspire consumer confidence. For many customers, the regional heritage and sustainable character of a brand is becoming an important purchase criterion.

According to Agate Kancs, founder of Latvian brand Kivvi Cosmetics, the popularity of organic beauty products started just before the economic crisis hit in 2008/2009, and now that the lean years are almost over this development is picking up pace.

In Latvia and Estonia organic beauty is already an established fact. Over the past five years many organic brands have appeared on the market, a few of which have also achieved international success. Family owned business Kivvi Cosmetics, for example, was founded in 2011 and has managed to build up a solid reputation in Latvia and abroad, retailing in 14 countries. Kancs says “We are exporting approximately 60-70% of our products. However, considering that Latvia has only some 2 million citizens, the turnover share that we derive from our Latvian sales is significant. Organic cosmetics are becoming more and more popular among Latvian consumers and each year the demand for organic products is growing.”

In Riga, Kivvi products are retailed in several organic and specialist stores and perfumeries as well as in Stockmann, frequently together with other well-known Baltic brands like Madara and Joik from Estonia. Stockmann in Riga, for example, showcases

Dzintars is a household name in all three Baltic countries, offering some 350 personal care products including a 5-sku organic range



the product ranges of Kivvi, fellow Latvian brand Dabba and Joik in a special Baltic Beauty shelf area. Madara, as the best-known Latvian organic brand, is present with its own shop-in-shop in Stockmann.

Madara has over 40 POS in Latvia including three standalone stores in Riga. Its products are also retailed in some Douglas and Kolonna outlets and by many independent retailers. A month ago Madara launched a new organic skin care range, Mossa, which is sold at Drogas stores across the country. According to the German-Baltic Chamber of Commerce, Madara is now the third biggest beauty manufacturer in Latvia.

The better-known Latvian organic brands also include Dabba, which specialises in locally made herbal and flower waters, and skin care brand Anna Liepa, both of which have a small international distribution. Livonia Cosmetics, Bio2You and Gusto, however, are primarily available in Latvia. But natural beauty doesn't just come from niche labels. In 2011 Dzintars brought out a 5-sku organic product range and Russian naturals brands Natura Siberica and Planeta Organica are available in every Drogas outlet.

In the more price-sensitive Lithuanian market the demand for organic cosmetics is still less developed than in Latvia and Estonia, but even here some natural brands have appeared on the scene. Uoga Uoga (Lithuanian for "berry") offers skin, hair and body care, a mineral makeup range and even a four-sku men's line. Žiede is a pharmacy skin care range available in Lithuanian chains Gintarinė and Norfos and there is also artisan skin care range Ambroozija.

In Estonia, the best-known organic brand is Joik which was founded in 2005, starting out with a range of soy candles before launching skin care and home spa products, and today it is present in 13

countries. The most recent market entry was Japan in 2013, which is also Joik's biggest export market. However, only 35% of turnover comes from export and the majority of sales are generated in Estonia where the company has over 85 POS.

This is not surprising as there is a strong interest in product safety amongst Estonian consumers, according to Euromonitor's study. Following a series of media reports about harmful C&T ingredients the demand for beauty products without synthetic ingredients is growing. Estonian consumers tend to pay attention to quality, so organic products are becoming very popular in this country. Over the past 2-3 years a host of small niche labels has appeared on the Estonian market, the best-known of which is probably Ingli Pai, one of the first Estonian natural brands. However, Estonia is a small country so the size of the organic market will remain limited. It seems reasonable to assume that some of these smaller brands are hoping to eventually expand into the international market place. After all, cosmetics from Northern Europe are currently making a splash on the international beauty scene, as illustrated by the example of successful Baltic brands like Joik and Madara.

Considering how hard the economic crisis has hit the Baltics, Latvia, Lithuania and Estonia have recovered very fast. This was partly because the countries have a strong export sector, with important trading partners in western Europe (especially Germany), Scandinavia and Russia. Unless the current political tension between Russia and Europe over the Ukraine negatively affects the trading relations between the Baltic countries and Russia, the economic predictions for the three Baltic countries are looking very promising. For the C&T sector, the future is looking bright indeed.

## Brand spotlight: Madara

Latvian organic beauty brand Madara was established in 2006. Since then, the brand has become a success story: its products are retailed in 25 countries, the company has 40 employees and in 2013 group turnover reached €2.5m. Madara's founder Lotte Tisenkopfa-Iltner talks to ECM about Madara and the organic market in the Baltics

### What are Madara's most important distribution channels in Latvia?

In Latvia there are not that many stores, so our products are mainly retailed through perfumeries, Stockmann department stores, Madara boutiques and our web-shop.

### How important are the other Baltic markets for your company?

The Scandinavian countries like Finland and Denmark are very important markets for us. The Estonian market is even smaller than the Latvian one, but it is developing very nicely. Outside of northern Europe Madara is sold in Japan and Hong Kong, Switzerland, and other European countries.

### How did organic cosmetics become so popular in Latvia?

Latvia has always been a green country.

Home-grown food, wild-harvested ingredients, herbal medicine and natural pesticide-free farming are deeply rooted habits. Organic cosmetics started to gain popularity in 2007/2008. Madara was launched in 2006. We were the pioneers of green skin care here and we think we played a definite role in developing this niche by educating the market. Seven years later green thinking has entered many areas of life. Of course the global sustainability trend also plays an important role. Latvia loves to watch trends.

### What are the main trends at the moment?

An important trend is multifunctionality. Hectic lifestyles demand multi-tasking products that help cut grooming routines. Consumers are also looking for science based functional products for the age group 35+, so we have launched northern plant stem cell research to satisfy this growing consumer need. Another trend is home spa/wellness.

### How will the organic C&T market develop over the next few years?

The skin care market in general is continuing to grow. But globally the increase will most likely come from Asia, especially where skin care is concerned. Sustainability is also becoming more important.



Lotte Tisenkopfa-Iltner

