

While Germany's beauty industry is not seeing stratospheric gains, growth remains solid and consistent across most categories, says **Annemarie Kruse**

The German C&T market is doing well at the moment. According to industry association IKW, turnover for the entire sector grew 0.6% to a total of €12.9bn in 2013. Although this is not a particularly impressive increase, the C&T industry has shown solid growth across most categories.

RETAIL BREAKDOWN

Germany's drugstores remain the most important retail channel for cosmetics and personal care. DM is still the market leader, followed by Rossmann, and both chains operate an extensive network across Germany. The Müller group, number three in the market, is particularly strong in its home region of southern Germany, while Budnikowsky is a smaller drugstore chain active in northern Germany.

All four chains have popular own label brands, and DM and Rossmann's proprietary ranges are especially strong and cut into the market share of retail brands. For the German luxury beauty market, perfumeries are the biggest distribution channel. Douglas continues to be the market leader; after the major restructuring of the group following the takeover by Advent International in 2012, the perfumery retailer is now more dominant than ever. Another important retail channel for premium C&T are Germany's two big department stores: Kaufhof and Karstadt.

TABLE 1: GERMAN C&T MARKET, 2013

	€/m	%+/-
Total	12,896	0.6
Hair styling	3,055	1.2
Skin/body care	2,810	0.8
Oral hygiene	1,385	0.4
Colour cosmetics	1,439	3.4
Women's fragrances	1,055	-0.5
Bath/shower	836	0.0
Deodorants	739	0.3
Men's fragrances	524	-0.2
Soaps/syndets	354	-3.3
Aftershave/pre-shave	159	-1.9
Shaving products men/women	106	-1.9
Foot care	146	-3.9
Depilatories	145	-4.6
Baby care	143	0.7

Source: IKW

In good shape

SECTORS OF SUCCESS

As always, hair care and styling was the biggest C&T segment in Germany. According to IKW, this category grew 1.2% to €3.1bn, while IRI Symphony Germany's figures for 2013 estimate that the market – including hair care, styling and colourants – grew 0.2% to €1.7bn in value and 1.9% to 725.611 million units in volume.

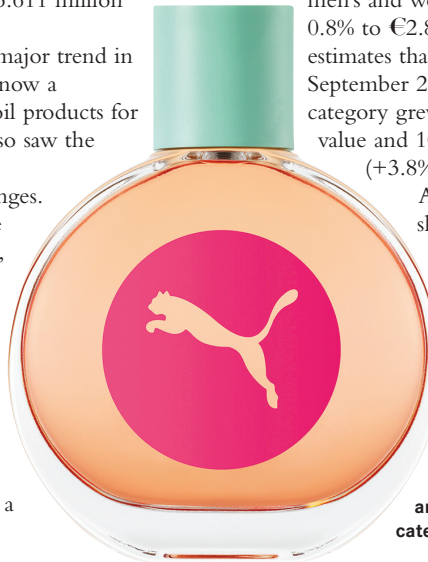
Hair oils are still a major trend in hair care and there is now a staggering choice of oil products for any hair type. 2014 also saw the launch of several new salon-type product ranges. Dove brought out the Advanced Hair Series, with three ranges for fine hair, mature hair and dry hair, and German hair care giant Schwarzkopf & Henkel launched Schwarzkopf Essence Ultime, a brand with five product lines and a colourants range.

In terms of styling, texturising and volumising, waxes, putties, powders and salt-effect sprays were trendy, while in the colourants category, launches focused on liquid formats, colour collections and extra nourishing ingredients.

Skin and body care is the second biggest IKW category. This sector, which includes men's and women's products, grew 0.8% to €2.8bn in 2013. And IRI estimates that from January to September 2013, the facial skin care category grew 0.3% to €604.8m in value and 10.818 million litres (+3.8%) in volume.

A major trend in facial skin care are optical brighteners, illuminators and skin perfectors which have been appearing in the line-up of practically all mass market and luxury brands over the

Sports brands like Puma are popular in the fragrance category



**TABLE 2: GERMAN COLOUR COSMETICS MARKET, 2014***

	€/m	%+/-	Volume m/units	%+/-
Total	713.53	4.4	113.257	5.3
Eye products	306.25	3.0	56.388	2.6
Face products	268.80	4.4	33.441	6.0
Lip products	138.49	7.5	23.427	11.5

* January to July 2014. Source: IRI Symphony Germany

TABLE 3: GERMAN FACIAL SKIN CARE MARKET, 2013*

	€/m	%+/-	Volume m/litres	%+/-
Total	604.76	0.3	10.818	3.8
Men	48.04	0.4	0.527	4.2
Women	556.72	0.3	10.291	3.8

* January to September 2013. Source: IRI Symphony Germany

past year. These hybrid products combine skin care properties like hydration or anti-ageing with tinted or light-reflective pigments. Multi-purpose and 2-in-1 products continue to be popular and brands are increasing their offering of anti-ageing and hydrating serums and face oils. Oil products have also been flooding the body care market recently, as intensive hydration is popular with German consumers.

Colour cosmetics was one of the most successful categories of 2013 and a market driver for the entire C&T sector. According to IKW, the category grew 3.4% to €1.4bn. And IRI's figures for January to July 2014 estimate that the category (including eye, face and lip products) grew 4.4% to €713.5m while volume increased 5.3% to 113.257 million units. Hybrid products are also big trends in this market

and primers, colour correctors and illuminators have been appearing on the shelves of drugstores and perfumeries. CC creams saw a brisk launch pace in 2014, and there is now a general trend towards fluid foundations with lighter textures.

Another facet of the hybrid trend is the skin care ingredients that are increasingly turning up in colour cosmetics – not just in mattifying, moisturising or skin-refining foundations, primers and BB/CC creams, but also in nourishing lipsticks, lip butters and lip glosses, and even in eyes with the popularity of jumbo pencils, gels and cream shadows. Eyebrow products also grew last year, and the choice of colours and formats – powders, gels, waxes and crayons – has multiplied over the past 12 months.

Women's fragrances dipped 0.5% to €1.1bn in 2013 according to IKW, although IRI's figures show that female fragrances grew 2.2% to €939.8m in value, with volume climbing 4.3% to 36.481 million units. Massige fragrances dominate this sector, and well-known German fashion brands, such as s.Oliver, Mexx, Tom Tailor, Betty Barclay and Esprit, often bring out seasonal editions. Celebrity fragrances like Kate Moss, Heidi Klum, Daniela Katzenberger, Beyoncé and Celine Dion – in fact, most of Coty's brand stable of female celebrities – are also popular, as well as fragrances of sport brands like Adidas and Puma.

In stark contrast to drugstore perfumes and the mainstream luxury fare from LVMH, P&G Prestige, Estée Lauder etc, there is Germany's comparatively new and very innovative fine fragrance sector. Manufacturers like Biehl.Parfumkunstwerke from Hamburg or Frau Tonis Parfum and J.F. Schwarzlose from Berlin create gorgeous and unusual compositions that retail at premium and luxe prices, with very selective distribution.

Men's care has been one of the most successful C&T categories for years. According to IRI, the men's market, including shower products, deodorants and face care, dipped 1.2% to €534.4m in value but grew 1.8% to 282.004 million units in volume. Facial skin care was one of the main drivers, and the drugstores' own label brands are particularly active in the men's category. In 2013/2014 men's care saw further segmentation, with an influx of serum products, multi-purpose face creams and special moisturisers for beard wearers.

The bath and shower market remained stable at €836m in 2013, according to IKW. IRI's figures for first half 2014 show a slight increase of 0.3% to €474.2m in value while volume climbed 0.7% to 117.528 million litres.

The bathroom products market is strongly driven by limited editions, which come primarily from DM's and Rossmann's own label brands in the shower sector. In the additives market, however, German companies Kneipp and Tetesept rule supreme with a vast range of salts, crystals and liquid additives, and frequently bring out limited and seasonal variants.

PRESTIGE PROBLEMS

The luxury C&T market turned in a mediocre performance in 2013, according to Germany's perfumery trade association VKE Kosmetikverband. VKE's members include some 60 mid-priced and luxury C&T companies as well as the German subsidiaries of Estée Lauder, Chanel, Kanebo, LVMH, L'Oréal and Coty. The association reported that its member companies registered turnover of nearly €2bn last year. Although this is an increase of 2.5%, it is much less than the original predictions for 2013.

In a closer breakdown, face and sun care grew 3.6% while colour cosmetics climbed 3.0% and men's care grew 3.7%. Female fragrances only managed a slight increase of

1.3%, a result which can be traced back to the price battle that has been dogging the perfumery industry for years. And premium body care, which slipped 3.1%, was affected by the influence of the mass market labels. However, turnover in 2014 should be at least as good – if not better – than in 2013, VKE estimates. Some 57% of its members believe that the market will pick up in 2014.

Beauty Alliance, the biggest independent perfumery cooperative in Germany with some 950 member companies, reported a similar result. The Beauty Alliance stores posted a total turnover increase of 3% in 2013, and for 2014 the cooperative's members expect at least a slight market growth.

DOUGLAS DOMINATES

While Germany traditionally has a strong independent perfumery sector, the sheer power of the Douglas chain continues to



Oils remain a driving trend in German hair care, while the colourants market reached €128m in 2014

affect the dynamics of the luxury retail industry. With its 345 German stores, Douglas mercilessly dominates the perfumery market, and the group is also a major influence in online retail: douglas.de, which launched in 2000, is still

Germany's biggest perfumery webshop.

Following the Advent takeover, the Douglas group went through a major relaunch and emerged with a streamlined corporate structure and the avowed intention of becoming Europe's leading perfumery retailer. The acquisition of French perfumery chain Nocibé in summer 2014 was just the first step in this endeavour. Douglas is also currently disposing of its non-beauty German subsidiaries, and there are reliable rumours that Douglas will return to the stock exchange within the next couple of years. According to recent media reports, Douglas is also looking for further acquisitions within Germany, which will keep things interesting for everyone concerned.

LET THE PRICE BATTLE COMMENCE

The demise of Schlecker in 2012 had seriously shaken up the German drugstore channel. Two years later, things have settled down again. Market leader DM with its 1,480 stores in Germany and the Rossmann chain with 1,800 German outlets were the biggest winners of the Schlecker bankruptcy. After Schlecker disappeared from the market, several supermarkets and discounter chain began increasing their C&T portfolio in a bid to grab some of Schlecker's market share.

However, Germans still prefer to buy their cosmetics in drugstores which offer an immense product choice and very low prices. And the sector's traditional price battle, especially between DM and Rossmann, is progressing at a spanking pace. In early 2014 Rossmann, whose marketing strategy includes regular price promotions, began to slash its prices even more dramatically, and increased the frequency of its promotional activities.

The Müller chain, which is strongest in southern Germany, is now trying to catch up: a few months ago the group began lowering the prices of some 2,000 personal care and household products. And DM, which rarely offers price promotions and

TABLE 4: GERMAN COLOUR COSMETICS MARKET, 2014*

	€/m	%+/-	Volume m/units	%+/-
Total	713.53	4.41	13.257	5.3
Eye products	306.25	3.0	56.388	2.6
Face products	268.79	4.4	33.441	6.0
Lip products	138.49	7.5	23.427	11.5

* January to July 2014. Source: IRI Symphony Germany

TABLE 5: GERMANY: WOMEN'S FACIAL SKIN CARE, BY SKIN TYPE, 2013*

	€/m	%+/-	Volume m/litres	%+/-
Total	556.72	0.3	10.291	3.8
Anti-age	170.63	-0.7	1.255	-0.8
Mature	75.92	-2.2	0.854	-3.8
Basic	225.07	4.3	5.964	5.9
Young skin	85.09	-5.0	2.216	4.1

* January to September 2013. Source: IRI Symphony Germany

PRODUCT PIRACY

Product piracy remained one of the major concerns of the German luxury C&T industry. The percentage of pirated cosmetics intercepted by the German customs authority has been shooting up in recent years and 2013 was no exception. According to official German customs data, some 1.02 million pirated cosmetic products with a total value of €22.8m were intercepted by German border police in 2013.

The majority of fake cosmetics came from Turkey, while China and Hong Kong topped the rankings in terms of pirated clothes, shoes, accessories and electronics. C&T piracy is not just a German problem, of course: the EU's product piracy statistics are equally impressive. In 2013 some 3.1 million pirated cosmetics with a value of €60m were intercepted at the EU's borders. Bearing in mind that these are just the official cases, the shadow figures for pirated cosmetics are likely to be much higher.

instead opts to keep its shelf prices permanently lower than those of its competitors, will most likely cut its prices even further in order to retain its advantage.

DM and Rossmann are also stepping up their expansion pace in Germany and abroad. In 2013, DM's German turnover registered a spectacular 14.5% increase to €5.8bn, while group sales rocketed 11.4% to €7.7bn. Unlike Rossmann, which over the past decade judiciously acquired smaller German drugstore chains, DM is expanding organically and investing heavily into its business: in 2013-14 DM's company investments topped €230m, with €180m alone going into an overhaul of the existing store network. Many of DM's German outlets were remodeled over the past year.

Rossmann's financial performance in 2013 was also impressive, with an increase of 12% to almost €5bn and expected turnover of €7bn for 2014. Of course, it helps that Rossmann has a powerful shareholder: 40% of the group belong to AS Watson, the personal care subsidiary of Hong Kong based retail giant Hutchison Whampoa. For 2014, Rossmann announced an investment of €200m into



The German make-up market hit €1.44bn in 2013, according to IKW, while fragrance hit €1.06bn

its German and European store network, with an additional 300 outlets to be opened across Europe.

DEPARTMENT STORES IN DECLINE

Over the past decade the German department store sector has been losing market share to perfumeries, drugstores and online C&T retailers. And unfortunately, there is no indication that things are going to change anytime soon.

Karstadt, with its 83 department stores, is going through an especially bad patch at the moment: the chain has changed hands several times over the past two decades. After its parent company Arcandor went bankrupt in 2009, the group was acquired by US investor Nicolas Berggruen in 2010. The Karstadt group includes several

attractive premium properties, like KaDeWe department store in Berlin and

Alsterhaus in Hamburg, and for a time things seemed to look up. Berggruen initially proposed vigorous expansion plans, but then began to cut jobs across the Karstadt group.

In late 2013, Austrian investor René Benko and his Signa group bought a big slice of Karstadt's more lucrative sports stores and the luxury department store division. In summer 2014 Signa acquired the rest of the

Karstadt group and just a few weeks later announced drastic cut-backs in staff and the potential closure of at least a dozen Karstadt stores.

Negotiations with trade unions and company representatives as to which outlets will close and how many employees will lose their jobs are continuing, but at the time of writing things are looking bleak. The luxury stores will be safe and Signa has even announced a possible expansion of the premium retail division, but this is no consolation for the many smaller towns that fear the disappearance of their local Karstadt store.

Compared to Karstadt, the Kaufhof chain is doing well at the moment. Although Metro affirms that it means to sell off Kaufhof eventually, the chain is turning in fairly solid results across its 105 German stores. Metro is investing some €100m per year into its Kaufhof division, and in spring 2014 the group began to focus on its multichannel retail approach, including further investment into its online store. In 2013 kaufhof.de registered net turnover of €50m and, according to a recent announcement, Kaufhof is expecting online sales to reach €300m by 2016-17. However, although online retail has really taken off in Germany over the past few years, the retail stores will remain Kaufhof's core business for the foreseeable future.

OUTLOOK

The German C&T market will most likely continue to perform well over the next year. The basic market structures are sound: strong German retail brands in each sector, a high launch pace across all product categories, influential own label brands and low product prices. Although individual categories might show slight dips here and there, the market can easily handle this. Barring any major political or economical disasters, 2014 should prove a good year for the German personal care industry financially. **cb**

TABLE 6: GERMAN TOTAL HAIR PRODUCTS MARKET, 2014*

	€/m	%+/-	Volume m/units	%+/-
Total market	669.77	0.9	281.818	1.9
Hair care	369.65	1.5	163.745	2.9
Hair styling	172.32	2.3	84.808	0.3
Colourants	127.80	-2.4	33.264	1.5

* January to May 2014. Source: IRI Symphony Germany

ORGANIC COSMETICS

Organic cosmetics are a well-established part of the German C&T sector and the country is the biggest and most mature organic market in Europe. According to consultancy NaturkosmetikKonzepte, the certified organic market in Germany grew 7% to €920m in 2013, which accounts for more than 7% of the entire personal care market.

Certified organic cosmetics are available in every retail channel, from discounters over drugstores to perfumeries, Reformhäuser and department stores. Most of the better-known German manufacturers, like Weleda, Dr. Hauschka, Logocos (Logona, Sante, Tautropfen, Heliotrop), Primavera, Lavera, Santaverde and Annemarie Börlind are also active in international markets.

Add to this the extensive line-up of DM's and Rossmann's affordable organic own label brands and it is no surprise that industry experts estimate the turnover of certified organic cosmetics to break the €1bn turnover mark in 2014.

