

Natural products market analysis: the cosmetics and toiletries segment

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Naturals Cosmetics

The definition of what is a natural cosmetic is still doubtful. Natural cosmetics are those that have high proportion of natural or organic ingredients in their formula. In addition, they can be classified from truly naturals to natural inspired, according to the proportion of synthetic ingredients on the formula. A high proportion of synthetic ingredients means that it is natural inspired, on the other hand, low proportion of synthetics and high proportion of organic and natural ingredients means that it is a truly natural cosmetic.

Some formulations rely on synthetic polymers and other ingredients to improve product performance; natural alternatives are not readily available to substitute these ingredients. Synthetic UV absorbers are difficult to match with natural pigments, especially as the desired SPF increases and the UVA protection becomes standard. Hair coloring, hair styling and color cosmetics are the most challenging categories of products to be formulated with natural ingredients only.

To be considered a truly natural cosmetic, it shall have a proof of “Natural certified cosmetic”, containing no synthetic raw materials, silicone, paraffin, or any mineral oil derivative. Therefore, the cosmetic formula must be entirely based on vegetal and mineral materials, and no animal test should be done.

Market analysis

The natural market in Brazil, as in the rest of the world, is very attractive, since many quotidian aspects relate to the “green theme”: consumer awareness, widespread

concern on toxic ingredients, the slowness of the general beauty market and the media hype.

A lot of factors are behind the growth of the naturals market. These factors leverage the booming of the natural cosmetics segment. First of all, consumers continue to seek out “chemically clean” cosmetics, with eco-friendly qualities, and they desire safer products to consume. Additionally, changes in the retail landscape made naturals become the final product. Also, people concern on the environment has increased, along with the interest in health and wellness.

Brazil has the biggest biodiversity of the world, the country is one of the fastest-growing markets in the Cosmetics & Toiletries sector, Brazilians have natural and healthy consuming habits and there is a large faith on the popular knowledge and the strength of the nature. Putting together the market conditions and the Brazilian characteristics, the conclusion is that the country has a big potential for the natural cosmetics market.

The Brazilian natural cosmetics market grew 22% from 2007 to 2008, above the average of the C&T market, which grew 11% in the same period. The natural cosmetic market presented a stable development, due to the demand expansion and to the expansion of the products distribution.

The reasons that made Brazil expand its natural cosmetics market were mainly the existence of many companies with a natural positioning (Natura alone is responsible for a large part of the sales), the intensive use of the Brazilian biodiversity on the formulation of the cosmetics and the high level of products natural inspired instead of truly naturals.

In comparison with other countries, Brazil has the biggest natural cosmetics market, since this segment represents approximately 20% of the total Brazilian C&T market. This number in the North American market is about 3%, while on Europe is 2%.

But, while in the United States and in Europe the natural cosmetics market is almost 50-50 truly natural and natural inspired, in Brazil the scenario is 30-70. In addition, the natural inspired has a growth tax of approximately 25%, against 20% of the truly naturals.

The main category of the Brazilian natural cosmetics products is skin care, with almost 50% of the share, followed by toiletries and hair care.

The most important channel of distribution is the direct sales, with more than 60% of the share. Companies like Avon and Natura are responsible for this high proportion of direct sales on this market. In Brazil, there are few retailers specialized in natural products and cosmetics, like Whole Foods, Wild Oats and Saffron Rouge. The Brazilian retailers are small and most of them don't have a nationwide coverage.

Competitive Landscape

The natural cosmetics market has a range in which are situated the companies with this natural positioning, from the natural inspired to the truly natural. In Brazil, one example of natural inspired is "O Boticário", a company that has this natural positioning but in their formulas there is few organic and natural products. On the other hand, "Reserva Fólho" is a company situated at the truly natural position, because they really use only organic and natural ingredients on their formula. Lush and Vitaderm are brands which take mid-range position, as the amount of synthetics and organic ingredients are well balanced.

In Brazil, the number of natural inspired products grows rapidly. Brands from big corporations are creating a natural segment to follow the market tendency. For instance, Avon has created the natural inspired brand called "Avon Naturals". It has

many of the categories of products now formulated as natural inspired: shampoos, conditioners, soaps, moisturizers and others.

Brazilian trends

Brazilian consumers do not really care if a natural product is truly natural. Most of them actually don't really understand what a truly natural product is and its benefits. Also, few retailers make advertising campaigns to generate more knowledge among the consumers. Therefore, consumers like natural products, not necessarily truly natural cosmetics.

Retailers are adapting themselves to this continuous demand on natural products. The global concern on the environment motivates the retailers to expand the area for natural products in their gondolas. Even in pharmacies and drugstores one can find natural products in the gondolas.

Big corporations, like "Natura" and "O Boticário", are investing to make their products more truly naturals, instead of just natural inspired. Also, non-natural positioning companies are making huge investments in Research and Development to have natural ingredients in their formulations.

Opportunities and outlook

There are some relevant opportunities in the Brazilian natural cosmetics and toiletries market. The natural market is still smaller than the general C&T market and there are still less natural brands and products than the general ones. However, Brazilians are favorable to natural C&T, and this will make traditional players leverage their natural positioning to help the expansion of their own brands.

Some categories of products have little natural market participation, such as mascara, hair styling, nail polish and sun care, due to the high proportion of synthetic ingredients in their formula. It will be a challenge for the existing brands to transform these into natural products, which might be an outstanding market opportunity.

The biggest corporations are adapting to this natural trend. To expand their participation, they should expand these products to new consumer classes, like teenager or fitness attracted people. They can count on the good perception of the natural products, which might help the reception of the new ones. Small brands probably won't be able to compete with the familiar brands, so they will be targeted for merge and acquisition.

The natural inspired brands will continuously appear in order to supply the consumers demand and keep the costs relatively low to the companies. Truly natural products are much more expensive to produce than natural inspired ones, and, given the superficial knowledge of the consumers, they will not pay extra for its benefits.

In the future, Brazilian C&T market must have a major part of natural products than traditional products. This means that the price of natural cosmetics will decline and the distribution coverage will increase. The companies will have two alternatives to survive in this market: take a truly natural positioning or assume a beyond natural positioning.