

**Prepared for the
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Istanbul, Turkey**



The new consumer mindset

Consumers in 2010 and beyond



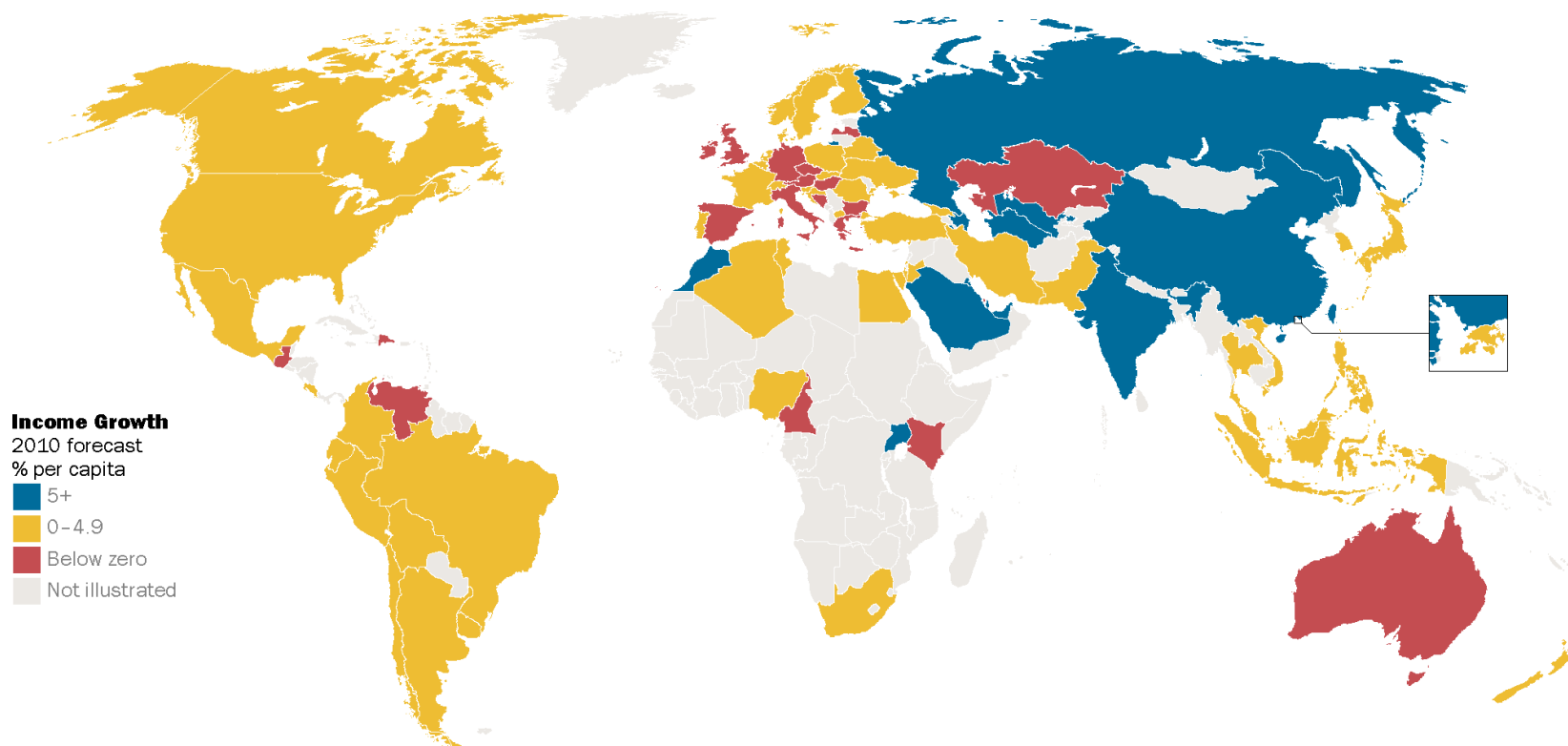
Significant slow down forecast in 2010

DATAGRAPHIC

Countries & Consumers

2010 WILL BE A YEAR OF LOW INCOME GROWTH

Forecast real per capita income growth in 2010



Real per capita income growth: 2010

Canada
+0.7%

Per capita income growth
In 2010

USA
+1.3%

Per capita income growth
in 2010

Mexico
+1.3%

Per capita income growth
in 2010

Emerging markets to drive the fragile recovery

Recovery factors

Global activity returns to growth

Emerging markets to lead world out of recession

A shift to consumption-led growth vital

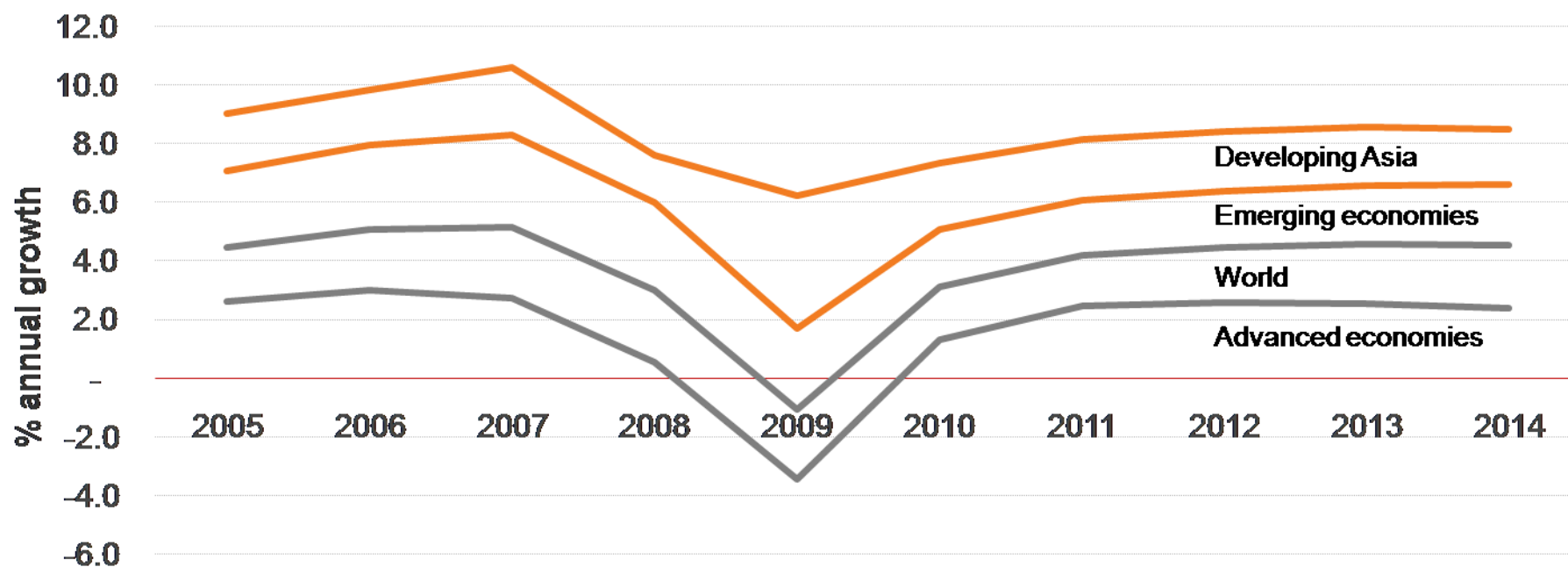
Hurdles to overcome

The spectre of unemployment remains

There is no replacing the US consumer

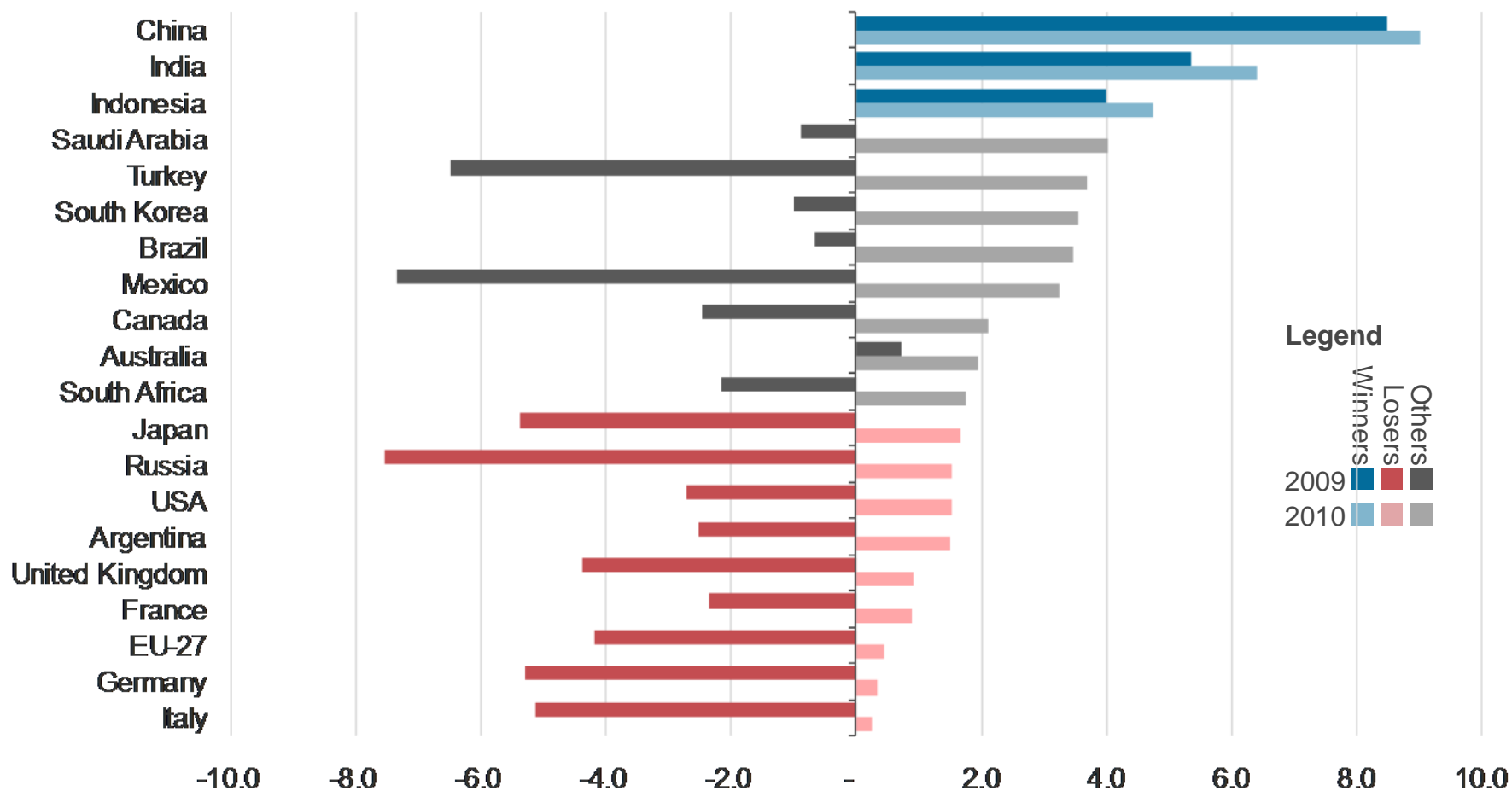
Indebted consumers unlikely to return to old consumption patterns in the short term

Real GDP growth 2005-2014



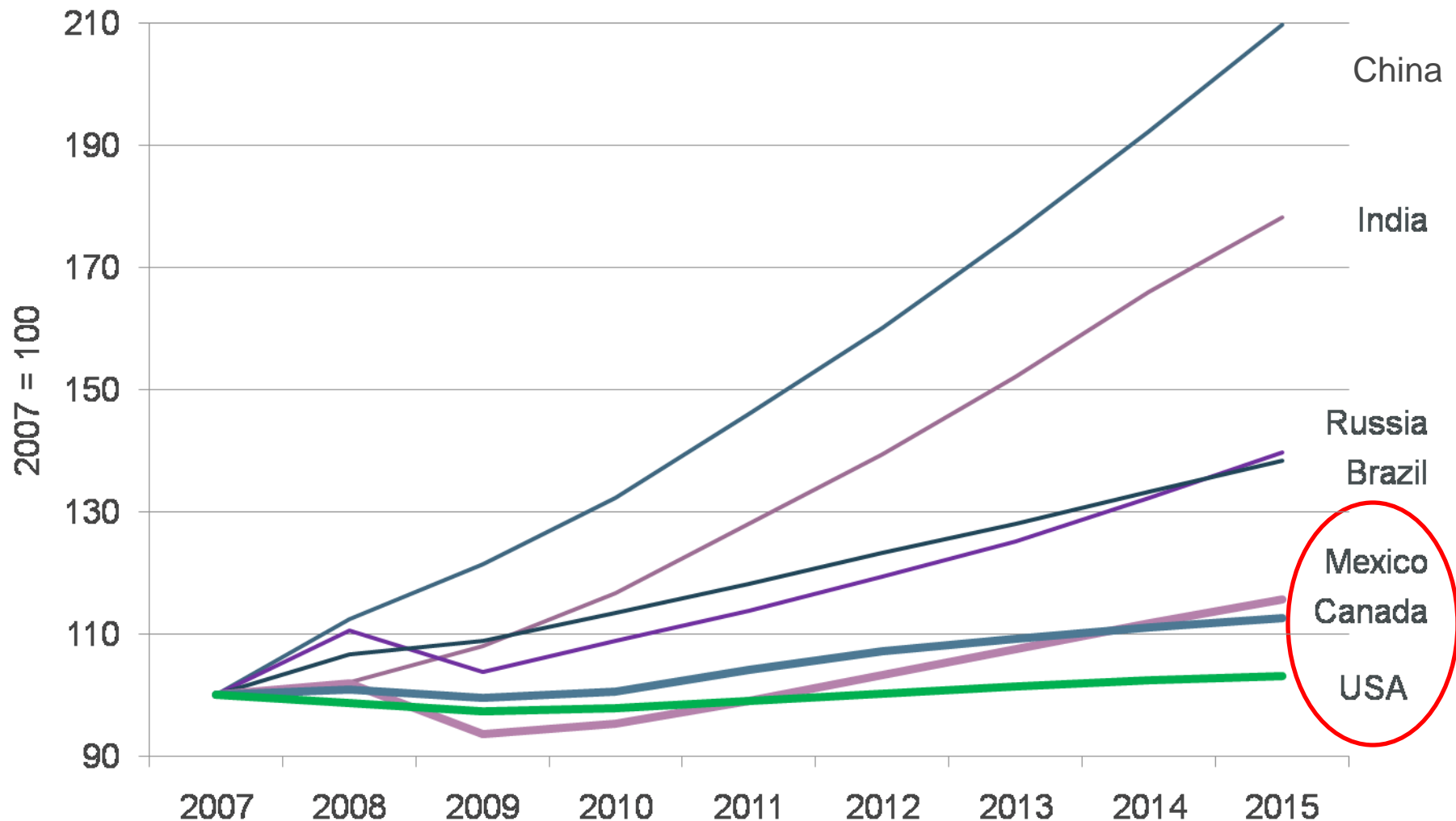
Winners and losers in the recession

Real GDP growth in G20 2009-2010

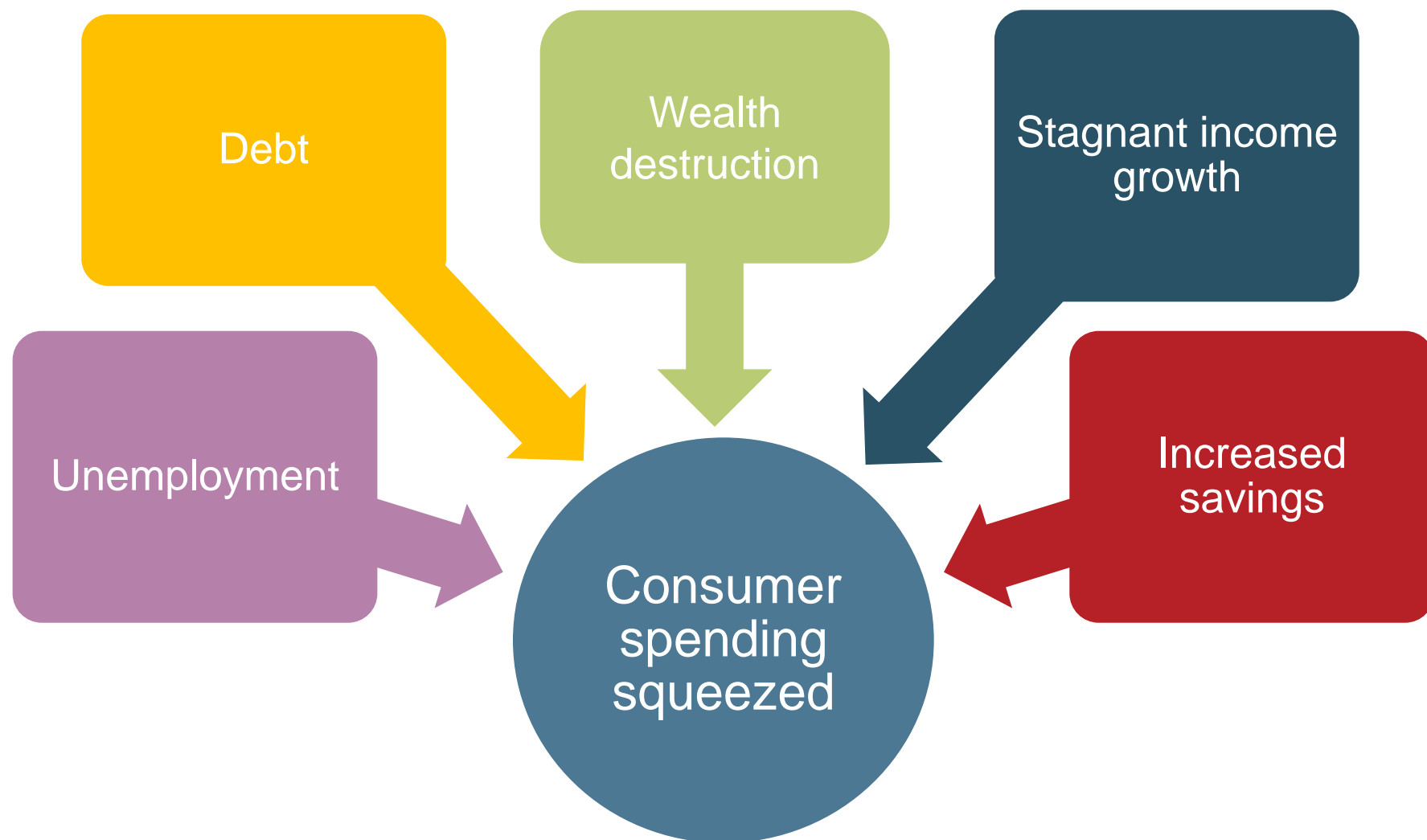


Key American markets will see only slow growth in spending

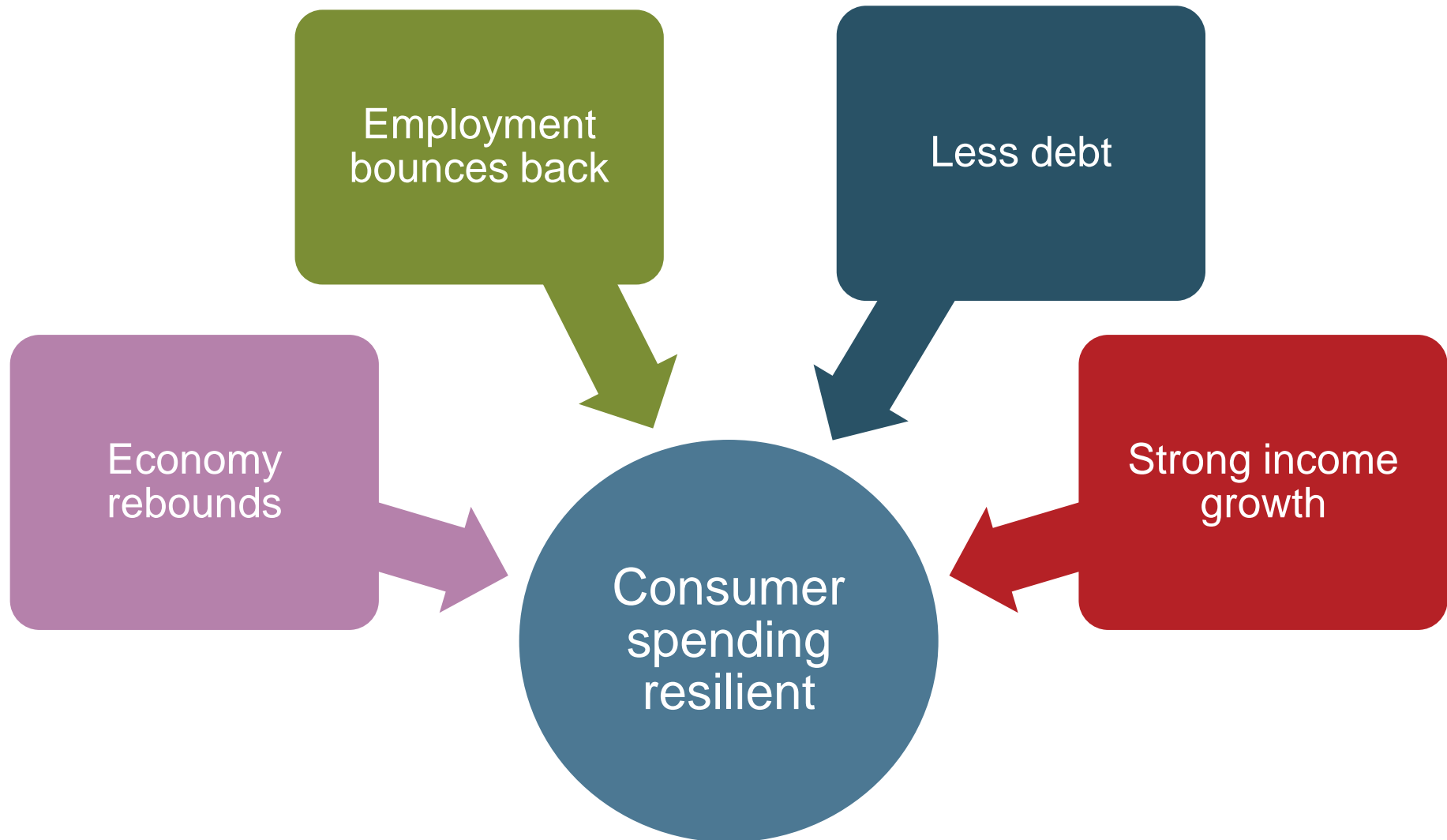
Consumer spending: 2007-2015



Advanced economies see big squeeze in spending



Emerging economies will show more resilience



The new consumer mindset

- Opting for cheaper brands
- Deferring major purchases, but buying small indulgences
- Making things last
- Swapping, buying second-hand
- Focus on experience over purchase
- Using vouchers/coupons/shopping around
- Switching channels/ buying on-line



A closer look at the consumer

Caring
Consumption

Health &
Wellness

Luxury

Thrift as Habit

Developed



Emerging

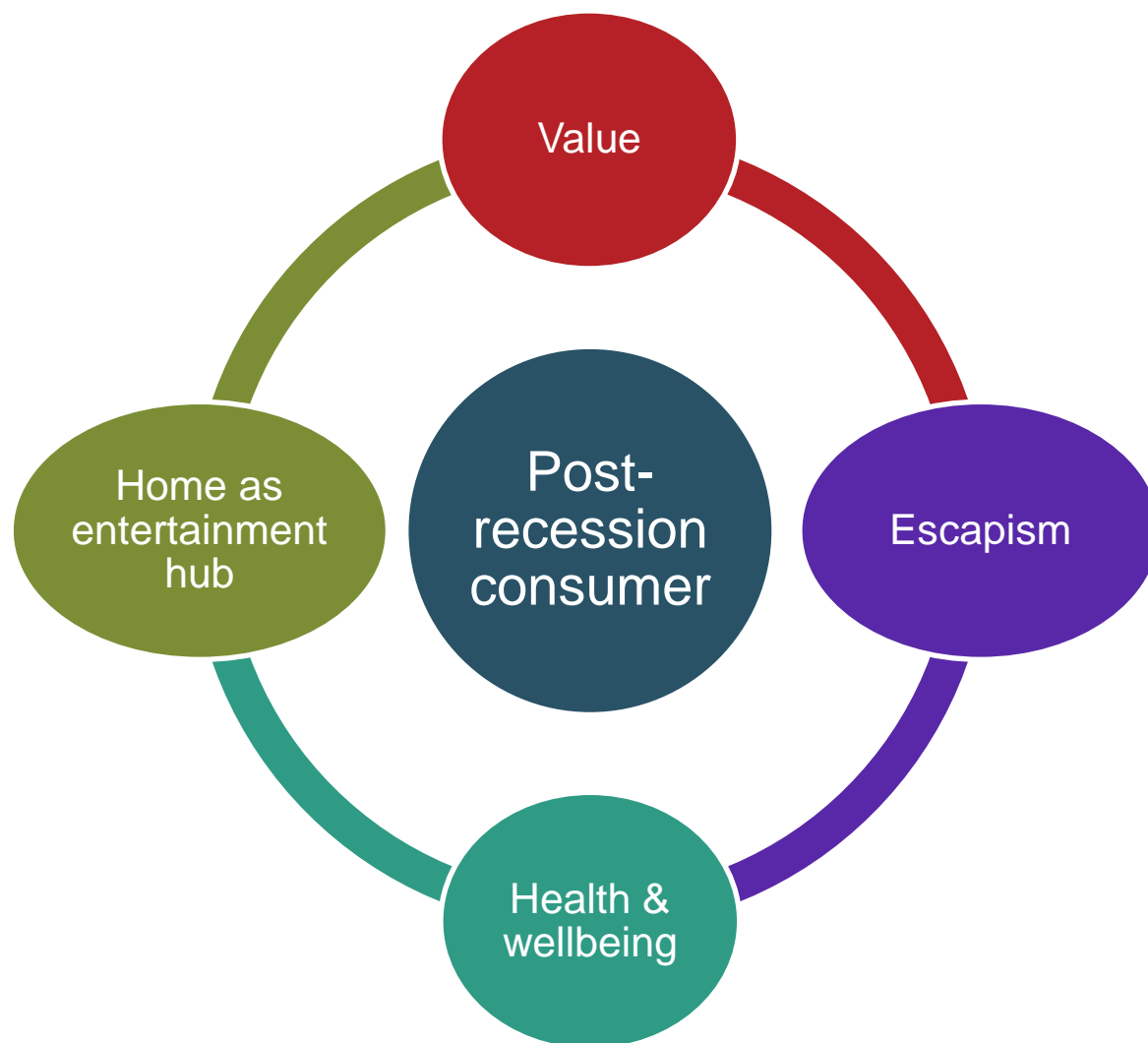


Changing Demographics and Cultural Attitudes

- Ageing consumers
- Younger consumers staying single/childless longer
- Rising disposable incomes in emerging markets
- Increasingly urban populations
- Busy lifestyle and longer working hours



The recession has brought about four key trends



Good health and wellness are centre stage

Consumers are clearer on the empowering link between health and wellness and fuller, happier lifestyles:

- Middle youth
- Self-treating
- Medical tourism

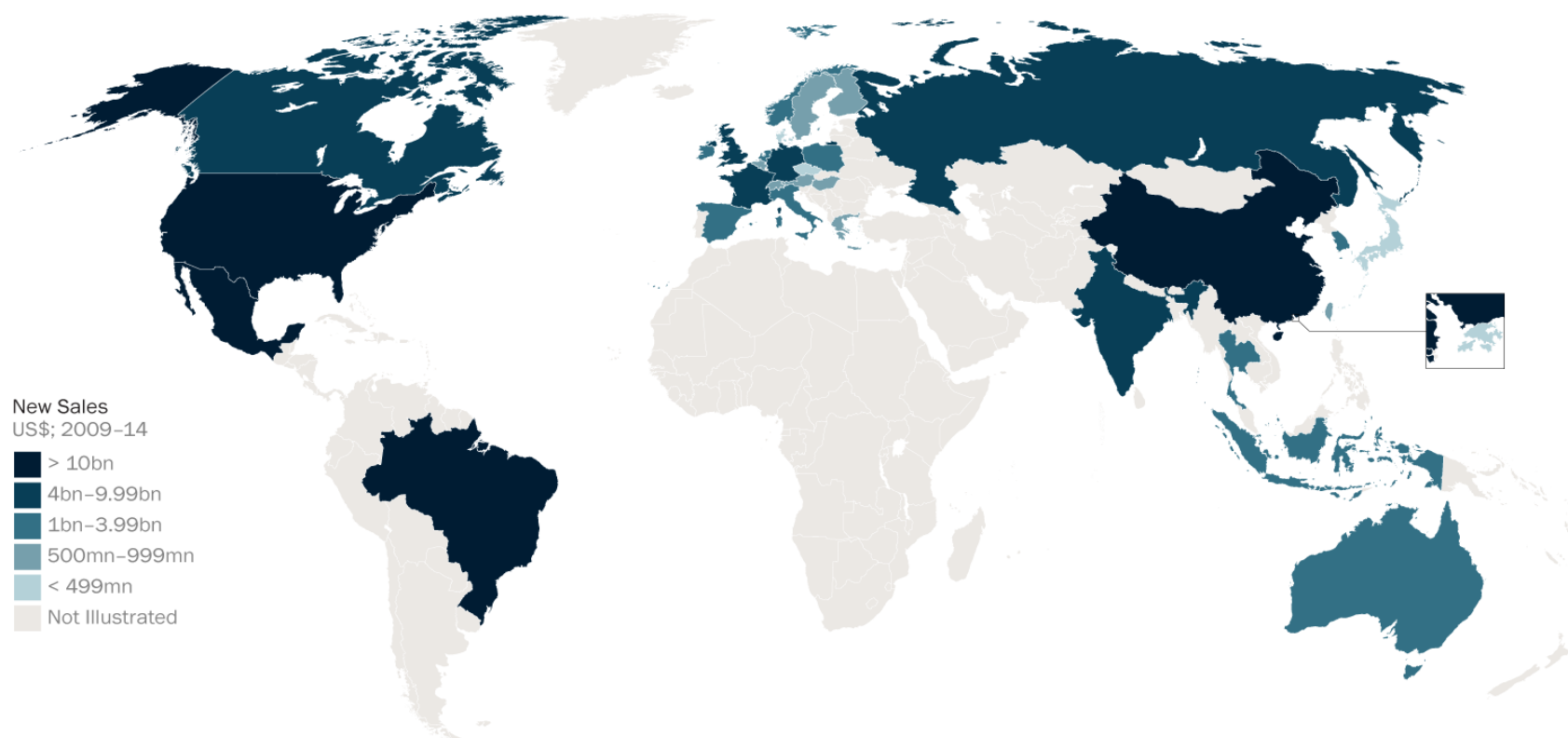


Health & Wellness

DATAGRAPHIC

Health and Wellness

NEW HEALTH AND WELLNESS SALES
US\$ 2009-14

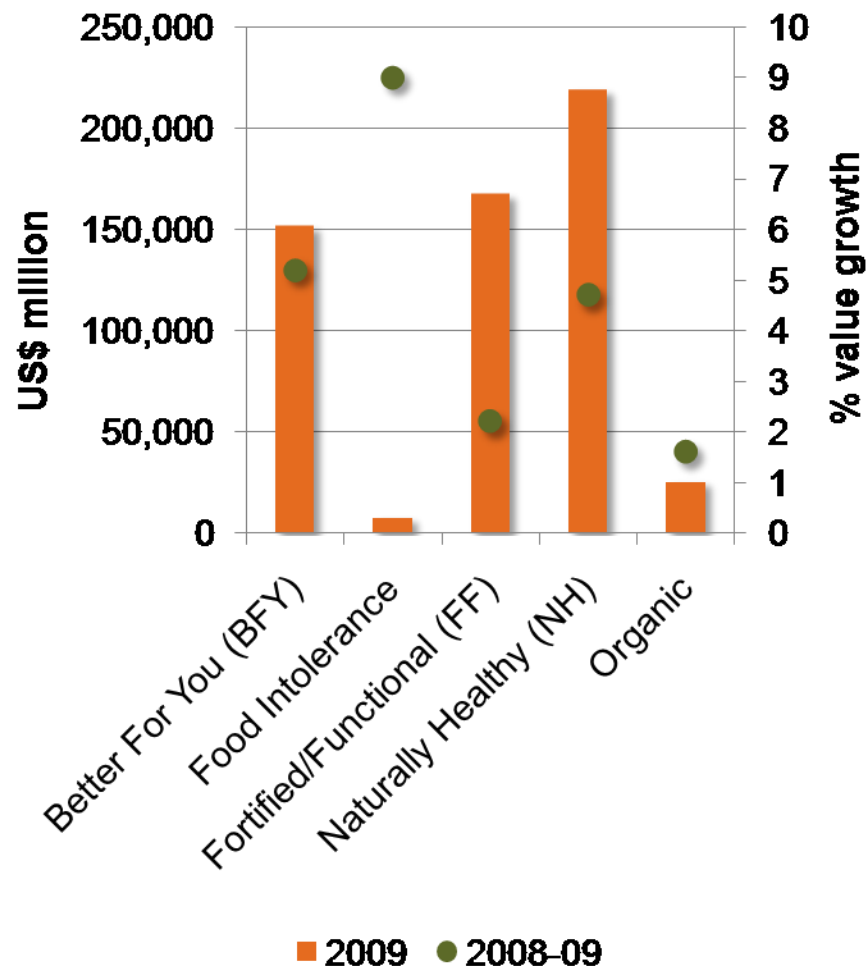


Euromonitor International latest estimates indicate that from 2009 to 2014, consumers around the world will spend an additional US\$130 billion on health and wellness food and beverages, roughly equivalent to global projections for total off-trade spending on wine for the year 2014.

Moreover, Health and Wellness is truly becoming a global consumer phenomenon. While the US will be the single largest contributor to global retail value between 2009 and 2014—adding more than US\$27 billion in sales—China, Mexico and Brazil will each add an additional US\$10 billion or more.

Just as the recent global economic downturn proved unable to derail the health and wellness trend, the current hangover will likely only minimally impact sales prospects. Indeed, the spectre of tighter regulations in Europe, the US and elsewhere will have more of an impact on sales performance.

Global Health & Wellness sales by category



- Contrary to expectations, organics weathered the recession quite well. Calculated using fixed US\$ 2009 exchange rates, the global market for organic foods and beverages grew by 2% in 2009 on the previous year, reaching value sales of almost US\$26 billion. North America was the only region to register a small decline of 1%, but this was compensated for by positive growth in the other organic stronghold of Western Europe, which managed an admirable 4% increase to US\$11 billion. The most dynamic growth rates – albeit from very small base sales – came from Latin America and the Middle East and Africa at 17% and 21%, respectively.
- Although it is true that organics registered the lowest global value growth of all health and wellness categories (fortified/functional, food intolerance, better for you, naturally healthy) in 2009, it remains a key category in many markets. Euromonitor International data shows that organic products account for more than 10% of total health and wellness food and beverage value sales in Switzerland, Austria, Norway, the Netherlands and Denmark. Organics also accounted for a substantial proportion of health and wellness sales (between 5-9.9%) in the US, Canada, Germany, the UK, Italy, Belgium and France.

How are consumers finding wellness?

Nature

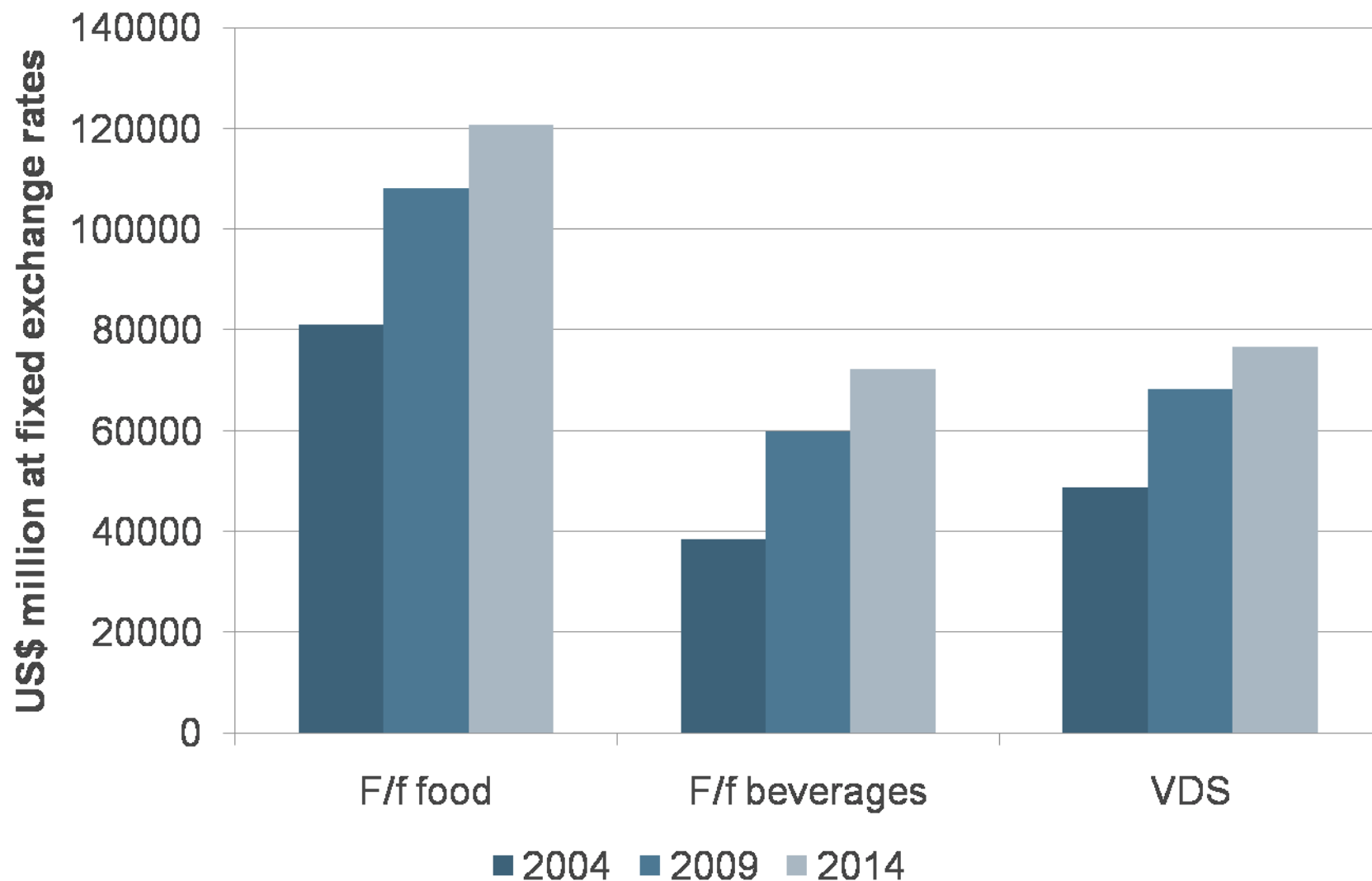
Well-balanced diet
Sugar, fat, salt reduction
Organics
Naturally healthy

Nutraceuticals

Gut health
Immune system support
Heart health
Weight Management
Beauty from within
Urinary tract health

TREATMENT OUT – PREVENTION IN!!!

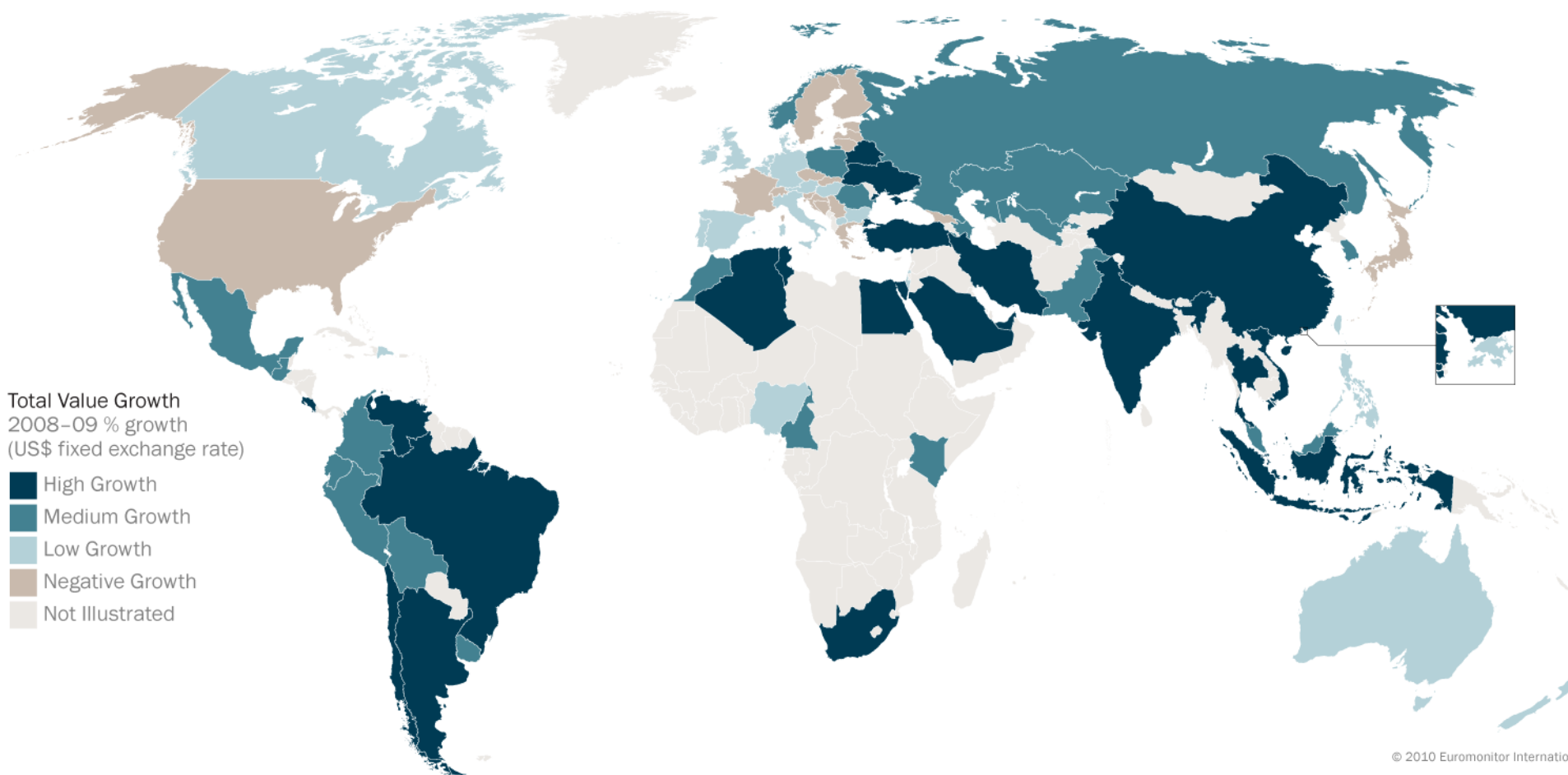
Global Nutraceuticals at US\$236 billion in 2009



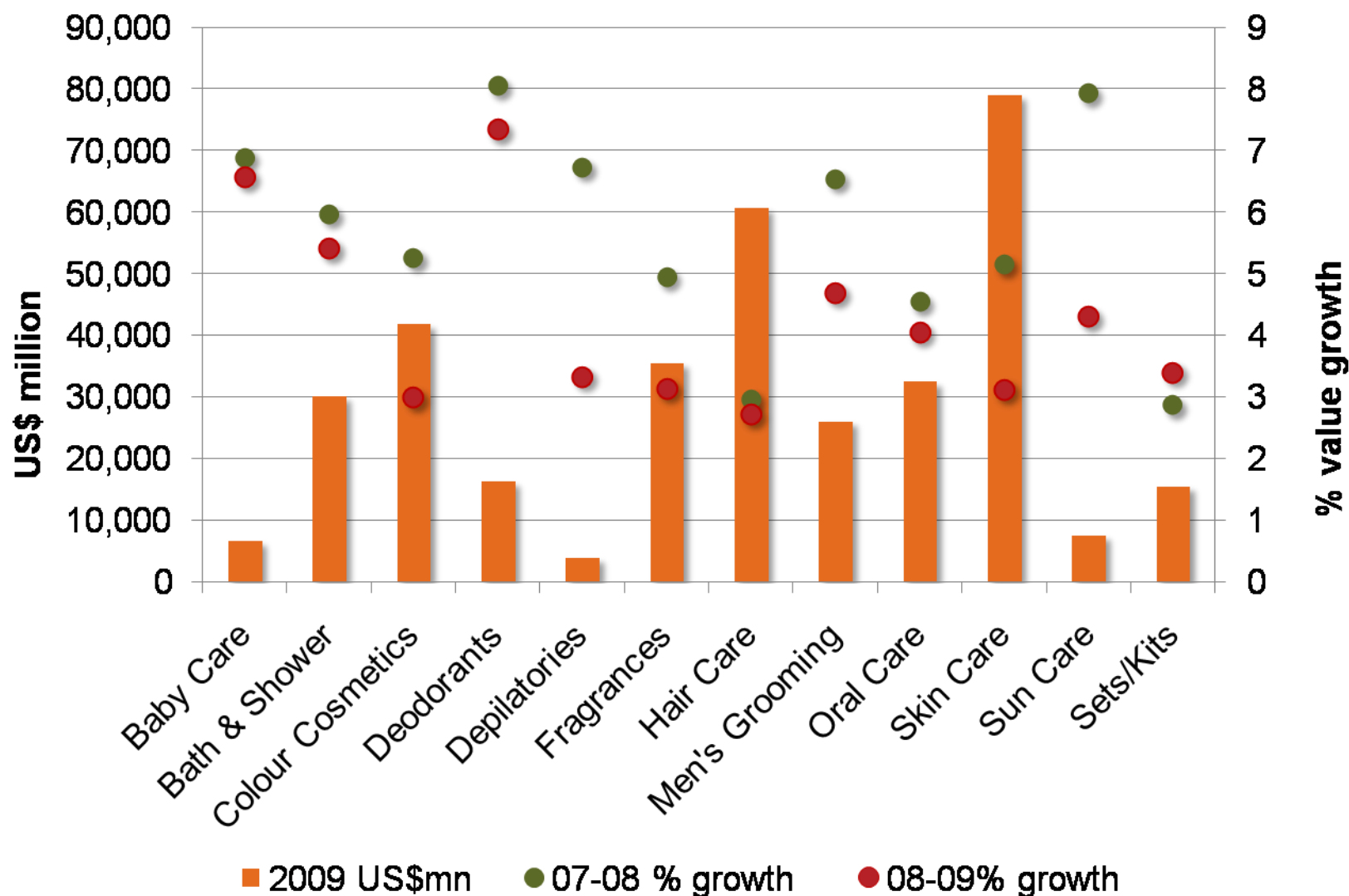
Value-minded consumers in Non-Food Markets

- Brands, as ever, must innovate to secure the all-important unique benefit which supports their price point
- There are cut-price experiments in the USA, but China charges forward as a luxury brands market. So too Brazil, based on already huge growth among its aspirational, brand-loving middle-income classes
- In personal care sales, Latin America is poised to generate one-third of the global beauty and personal care market's absolute growth in the next five years, overtaking North America by 2011
- Germany from the 1990s shows how recession recruits shoppers to discount stores. As a result, private label penetration in Germany is among the highest in the world across most of consumer markets. Only those brands with true consumer belief in their superior quality win back customers who try out the cheaper alternative
- We see pressure everywhere, across every price segment. And further shifts to the vast scale and low unit value markets of the emerging economies
- In mature markets, consumers still treat themselves in one area and economise in others, but with increasing rationality based on thrifty impulses, better information and ever-increasing options

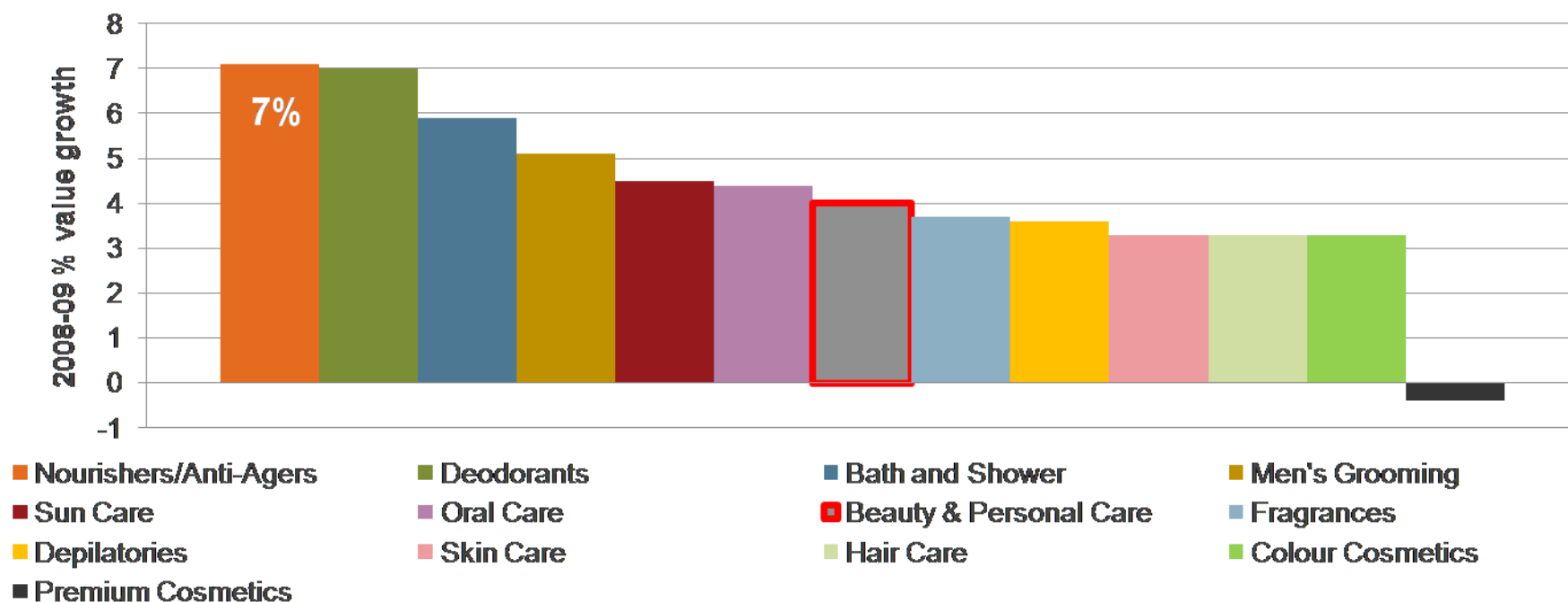
Beauty and Personal Care industry performance by country



Basic categories more resilient



Anti-agers defy recession



■ Premium cosmetics bore the brunt of the impact of decreasing consumer confidence, falling disposable incomes and rising unemployment rates

■ From steady growth rates of around 3% for the period reviewed, the category fell back into negative territory in 2008 as consumers sacrificed luxury brands for mass or masstige alternatives (the mid range between mass and prestige)

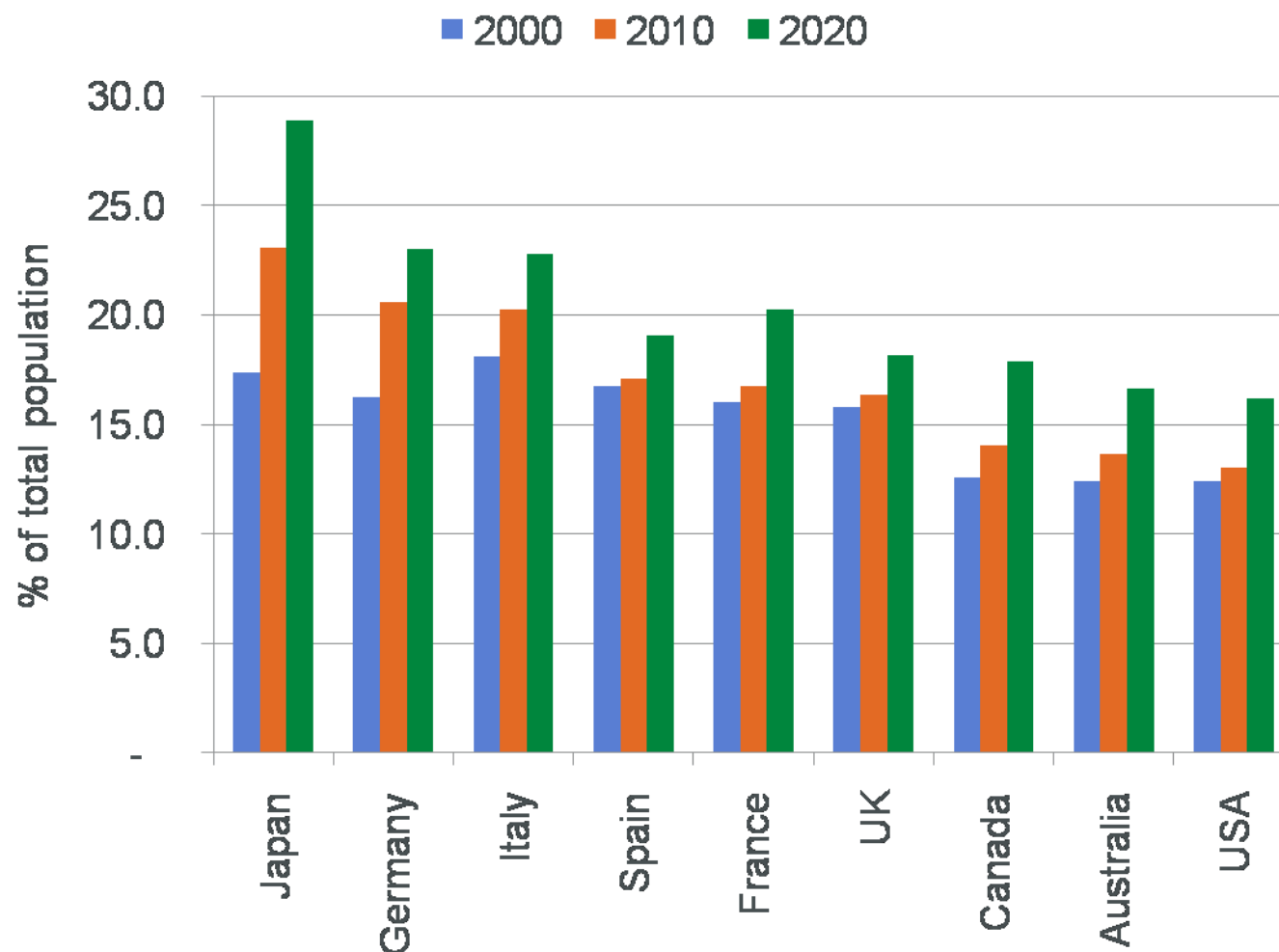
■ However, a key point to note here is that despite the fall off in prestige demand, this is not just a simple move to discounters, with consumers purchasing the cheapest products in the cheapest retailers

■ There is a more nuanced story to tell here with regards category and brand performance, and where and how consumers are quicker to switch to value, or to trade down within a brand range; women are not abandoning their beauty habits, but making choices about which brands they buy and which channels they shop in

■ The stand-out performance to comment on here is the trajectory followed by nourishers/anti agers. This category is aided by favourable demographics; an ageing population contributed to the category's dynamic performance

The world is growing older

Population aged 65+: 2000-2020



29%

of the population of Japan
will be aged 65+ in 2020

8mn

fall in the number of
people of working age in
Japan by 2020



Beauty and Personal Care

\$2.5 BILLION

China's contribution to premium skin care in the next five years

93%

of Brazil's fragrance market is accounted for by mass products

45%

of skin care's absolute growth by 2014 will come from anti-agers

The Desire to Self-Treat: Key Trends in Spa

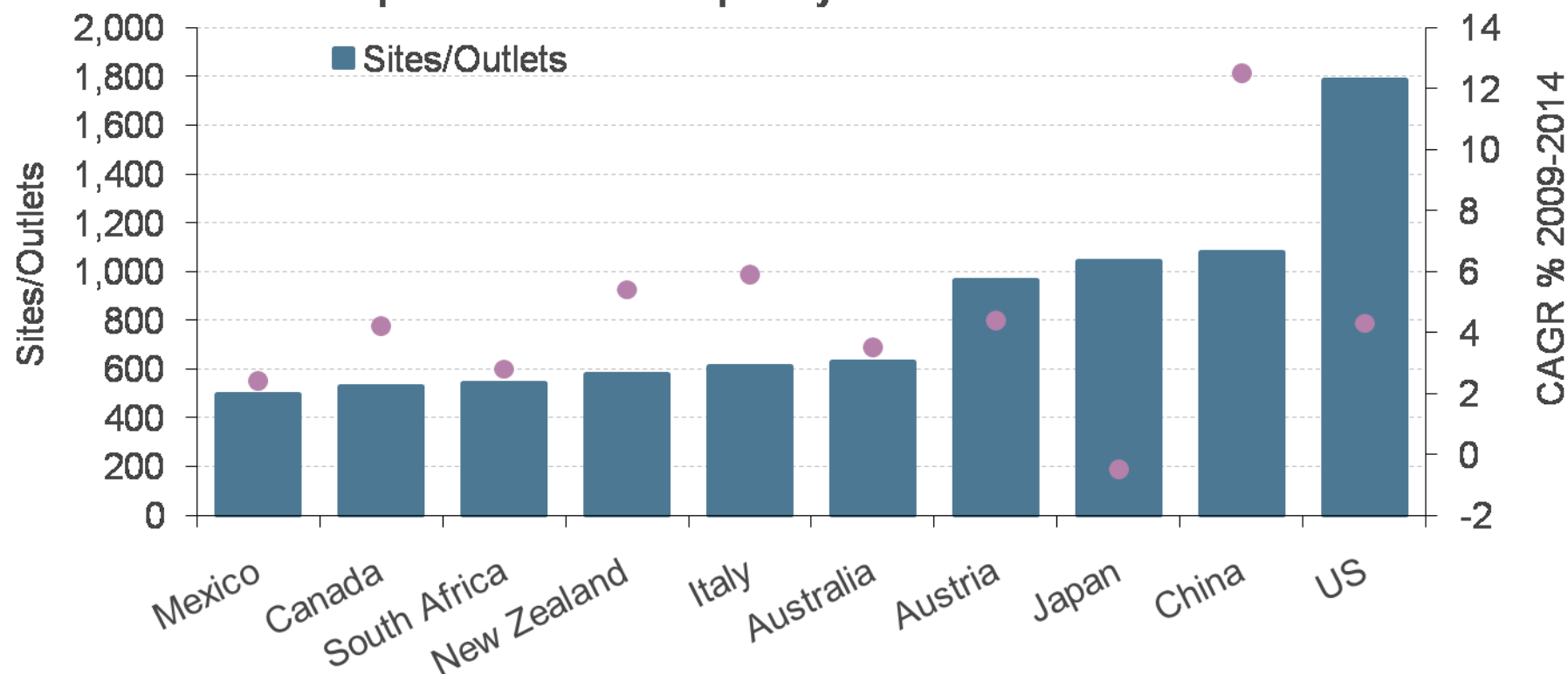


- Spa market grew rapidly before recession (reaching 150 million active-spa goers worldwide in 2007*)
- Men accounting for increasing share of spa-goers, but seek instant results rather than pampering and beautifying treatments
- Luxury resort spas mushroomed while economy was strong, but day spas currently performing better as customers seek shorter/cheaper treatments
- Spas appealing to demand for "experience" by offering holistic treatments & hobby classes
- Medical & dental spas offering cosmetic treatments are seeing rapid growth
- Spa tourism has grown strongly as stressed consumers seek health & relaxation

* International Spa Association (ISPA) data

Health and Wellness a Key Strategy...

Top 10 Hotel/Resort Spas by Sites/Outlets



As in other service industries, such as hairdressing and beauty salons, there has been a strong trend towards the use of natural products, such as organic ingredients, products which are more environmentally-friendly, or those that use indigenous plants from local environments. Indeed, the best-performing spas in 2009 were found to be those with a commitment to organic products and green initiatives, and those specialising in healing and wellness.

Spa outperforms travel retail

Real growth in global travel retail and spa packages: 2004-2014



Data refers to 55 major markets and to growth in US\$ constant 2009 prices

Source: Euromonitor International

8.7%

fall in travel retail
in 2009

6.7%

fall in spa retail in
2009

Outlook for the Beauty Industry

Opportunities

- Downturn will continue to fuel desire for escapism via affordable indulgence
- Ageing population will drive demand for anti-ageing products & treatments
- KGOY phenomenon prompting tweens & teens to undertake ever more sophisticated treatments
- Franchise chains will expand
- Demand for convenience will lead to more cross-over of services and more one-stop beauty shops
- Growing take-up of beauty services by men will lead to more male-only concepts & products
- Still plenty of growth potential in the spa industry, especially spas incorporating a medical element
- Growth of all kinds of beauty service will increase potential for salons to sell high-margin retail products and earn commission from suppliers.
- Potential for expansion of chains and export of beauty products to emerging markets like China & India, where income is still growing strongly

Challenges

- Reduced disposable income will make consumers more value-conscious.
- Industry saturation and the growth of chains will lead to the demise of many small operators
- Growth of one-stop shops may affect specialist businesses, such as nail bars and tanning salons
- Loyalty programmes will need to be stepped up as consumers become increasingly fickle in their choice of salon
- The trend towards cocooning, plus ever more sophisticated beauty products & appliances, will take business from salons into the home
- Salon-only products will continue to face strong competition from the retail sector as more brands are diverted to the mass market
- The majority of the populations in emerging markets are still on very low incomes, and barriers to entry for foreign chains and imports are still high

The Post-Recession Consumer

The recovery of the market will find a consumer that is used to getting by with less and increasingly interested in a more sustainable lifestyle and renewable, more responsible, consumption. Brands will need to embed sustainability and a more ethical status to their offerings to give consumers a greater sense of purpose.

H&W trend will see a resurgence post recession. In the developed markets, consumers are aligning themselves more closely with healthy products and will be increasingly interested in exploring alternative treatments for lengthening life and deepening meaning. This will translate into an increase in spa visits, spiritual fulfilment, medical tourism, anti-stress, anti-obesity therapies etc.

Luxury is still applicable in the developed world, but the way consumers define it has changed. Consumers will shift from expressing status through material goods and instead, express status much more through lifestyle choices and products with meaning. While consumers in the developed world will take small steps back from traditional luxury, the middle classes of Asian consumers and BRIC economies are embracing luxury in a way that was previously only found in the Middle East. This bodes well for premium brands that target those markets.

And finally thrift. Many consumers will return to pre-recession spending patterns but for some, their views on consumption and their behaviour may never be the same again. Frugal purchasing habits may be here to stay, as consumers will be slow to make the switch back from less expensive products and low-end outlets. More importantly they have tested PL and have seen quality present in many of these products. Brands and services will have to be thrift savvy to appeal to new consumer associations of quality with value rather than price.

Learn More

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