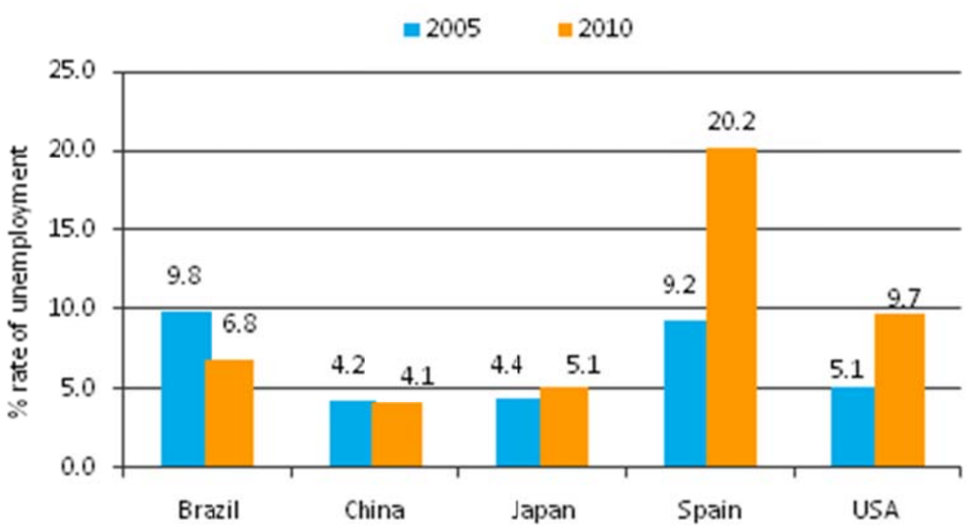
HOW HARD TIMES ARE ALTERING CONSUMER MINDSETS

Eight decades ago, the global economy was mired in the Great Depression. Consumers worldwide struggled to make ends meet as unemployment rates soared and incomes were decimated. For all but the oldest consumers, those times are now little more than a folk memory, but they made an indelible impact on those who lived through them, in many cases imbuing them with a sense of financial caution that lasted a lifetime.
By 2008, such notions appeared prehistoric, as a combination of easy credit, booming asset markets and cheap imports made affluent lifestyles appear accessible to all. However, as the credit crunch gave way to the so-called "Great Recession" of 2009, many consumers, particularly in the USA, began to re-evaluate their consumption habits.

Unemployment rates in Brazil, China, Japan, Spain and USA: 2005 and 2010



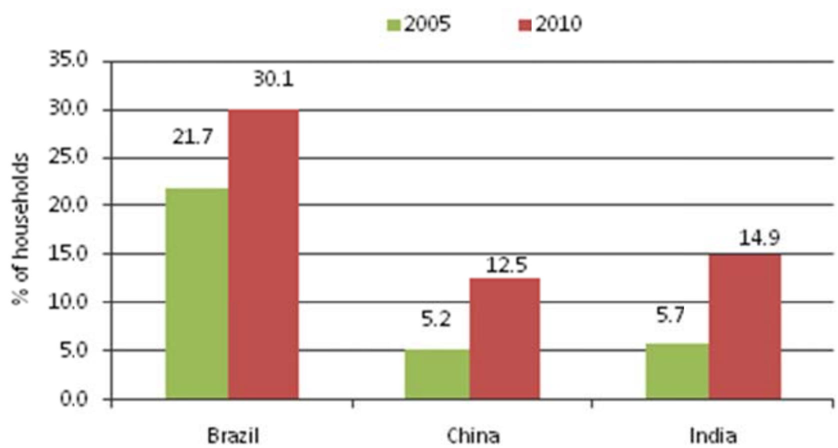
Source: Euromonitor International from International Labour Organisation

The shock of the downturn continues to reverberate with consumers, leading some to speculate that it will have a long-lasting, perhaps even permanent impact on consumers that will see them attempt to wring more value out of their purchases by making them last longer.

Consumer demand remains vigorous in emerging markets

There remain many markets where frugal habits have yet to take hold on a wide scale. This is particularly the case in such emerging markets as China, India and Russia, where conspicuous consumption remains the order of the day for the rapidly expanding middle class. The crucial difference between these markets and the likes of markets like the USA and Spain is that economic growth has remained vigorous, unemployment has remained relatively low, and asset prices (shares and property) have remained buoyant. As a result, consumers have retained the “feel-good” factor. Almost as importantly, consumer demand is still relatively underdeveloped in these markets, giving them significant long-term growth potential.

Households with an annual disposable income of more than US$25,000 (at purchasing power parity) in Brazil, China and India: 2005 and 2010



% of total households
Source: Euromonitor International from national statistics

EMERGING MARKET CONSUMPTION ON THE RISE

Many upwardly mobile emerging market consumers are expressing their new, middle class status through consumption, eager to buy things that their parents could only dream of. Just like consumers everywhere, they long for technology items but they are sharp thrift practitioners. They are increasingly savvier onliners, and willing to pay for convenience. Poorer households are increasingly part of this new consumption style too. The move of more rural consumers to urban hubs is swelling the sum of urban consumers with more disposable income and free time. This is reflected in the way urban centres are being enlarged with zones aimed at recreation, entertainment and consumption.

Emerging onliners

Emerging market consumers are keen onliners, and are thoroughly researching online before purchasing. Some interesting trends follow:

- On average, 25% of Chinese shoppers in the 2010 McKinsey Global Survey said they never buy a product without first checking the internet, compared with half that percentage in the USA. Over two thirds of Chinese shoppers said they found retailers' and manufacturers' websites credible. In the developed world, by contrast, consumers prefer to get product information from third-party sites;

- Online dating has become a popular pastime in emerging market countries and cultures where arranged marriages are common. Sites such as India's Shaadi are a big hit with young people who want to influence how their marriage partners are chosen. In China, some digital matchmakers, such as Jiayuan, have millions of clients;
- Text messaging is no longer the most popular means of sending holiday greetings in the Philippines, as it has been undermined by social networking websites, according to Globe Telecom;
- Vietnamese teenagers are increasingly shopping online. David Tran, chief operating officer of popular site nhommua.com observes that young people chose products and services with “quality and prestige” in mind while customers can also pay cash on delivery;
- Fashion e-tailing is beginning to gain a higher profile in India, offering convenient shopping and discounted luxury. A host of fashion portals attract clients ranging from new parents to busy female executives. Some of these sites operate like by-invitation clubs, drawing in customers through word of mouth or via social networking sites like Facebook;
- Online shopping is now a mainstream activity in Taiwan, according to a survey conducted in October by the 1111 Job Bank, with convenience a key draw. The survey found that almost 90% of white-collar workers shop online with clothes, household items and books were among the most popular online shopping items.

Poorer and rural households

Brands are paying more attention to rural and lower income consumers. Cosmetics and beauty products in particular are coming out in smaller, more affordable quantities. Says Cindy Graulty, principal R&D scientist for Procter & Gamble: "It's a myth to say low-income rural consumers only want function. They care about beauty. Just like us." In 2007, Kenyan mobile provider Safaricom launched M-PESA, a payment solution that enables customers to complete simple financial transactions by mobile phone. It was created by Vodafone for people who don't have bank accounts due to income and distance reasons. By mid-2009 M-PESA was facilitating two million daily transfers in Kenya, and in September 2010 the service was rolled out in South Africa with an estimated 13 million users expected to join.

Top 10 emerging countries in terms of real annual household disposable income: 2011 US$ per household	2011
United Arab Emirates	163, 051
Kuwait	143, 194
Qatar	126, 242
Bahrain	47,482
Saudi Arabia	36,177
Turkey	28,779
Uruguay	27,149
Chile	26,972
Mexico	25,324
Brazil	23,898
Source: Euromonitor International	

TARGETING ALL-ENCOMPASSING PRODUCT BENEFITS IN SKIN CARE

While consumers in developed markets are showing more cautious consumption, some product segments are benefiting from their perceived value and effectiveness. Skin care remains the most important category in value terms within beauty and personal care, comprising 23% of global sales in 2010. The rise in the number of over 50s globally is helping to push sales up, but younger women (and increasingly also men) are clearly prioritising prevention of the signs of ageing and not abandoning their beauty habits in the downturn.

While global skin care spend slowed, anti-agers remained the star performer, expanding by 7% or just under three percentage points less than in 2008. This adds substance to the belief that most consumers globally will sacrifice spending on many other areas of consumer goods before they will alter their attempts to maintain a youthful appearance. With sales still largely concentrated in mature Western regions, where growth is slowing slightly due to consumers in these markets streamlining their skin care regimes and cutting back on non-essential purchases, diversification has become a key trend among skin care players. Therapeutic skin care brands are increasingly moving beyond their traditional market of consumers who have problem skin and are positioning themselves to compete against mainstream skin care brands. The reverse is also taking place, as many 'standard' skin care manufacturers are also creating therapeutically-positioned ranges.

Well-known therapeutic skin care brands aim for everyday use

In 2010, Beiersdorf launched several new products, including Eucerin Daily Skin Balance Skin-Fortifying Body Lotion and Eucerin Hand Creme. The body lotion retails at US$9.99, whilst the hand cream retails at US$5.59 in the US. Eucerin is best known for treating very dry, problem skin; however the most recent innovations are aimed at all consumers, for everyday use. Eucerin has also recently been extended into the lucrative anti-agers market with the launch of the Eucerin Hyaluron-Filler range. The tactic of using the brand's good name in medically-positioned skin care to appeal to a far wider consumer base has enabled Eucerin's brand share to successfully grow in North America.

New therapeutic ranges from mainstream skin care players

In contrast, Unilever has tapped into the therapeutic skin care industry, with its most recent product launch under the Vaseline brand, a range of “highly therapeutic” body lotions, introduced in November 2010 and called Vaseline Intensive Rescue Repairing Moisture, Intensive Rescue Soothing Moisture and Intensive Rescue Clinical Therapy. Vaseline is strongest in general purpose body lotions, but, with these launches, it is deliberately directly competing against therapeutic skin care brands; it claims that its new lotions will deliver more moisture than Eucerin Plus Intensive Repair Lotion.

Shiseido launches new brand of therapeutic skin care

The Japanese skin care player has branched out into therapeutic skin care in its home market with a new brand called Ihada. The range is aimed at treating dry skin caused by inflammation, and the prime target consumer group is stated by Shiseido to be women in their 20s, 30s and 40s. The line is on sale at Japanese drugstores as of March 2011.

This latest launch is part of Shiseido's strategy in Asia of branching out from 'standard' premium-priced skin care, which has been the area of skin care it has traditionally occupied. In 2010, Shiseido also launched Senka, a range of masstige-priced skin care products, and readjusted the pricing of its formerly premium-priced Clé de Peau Beauté to be more in line with those brands typically seen in the super-premium space.

These new launches are indicative of a trend for skin care companies to shift towards more general, all-encompassing products that will appeal to the widest possible number of consumers, as opposed to the considerably narrower market of those with sensitive or problem skin types. A diverse product portfolio is key for growth in a still uncertain and erratic market.

Premium skin care dominates premium beauty market

Premium skin care accounts for the lion’s share of premium beauty sales globally. It is set to see strong absolute growth of US2.7 billion globally over 2009-2014

This is driven by strong demand for premium skin care in Asia Pacific, especially China where premium skin care saw value growth of 14% in 2009. Growth in premium skin care was highest in many emerging countries such as Egypt (18% value growth in 2009) and Vietnam (17%) as a select few newly middle-class consumers in these countries can afford premium skin care for the first time. In constant value terms however, the growth in these markets is from such a low base that the markets are rendered insignificant in terms of global premium skin care.

Even in many key Western markets such as the US, growth of premium anti-agers remained positive (2% in 2009) as consumers evidently prized combating the ageing process above other areas of beauty and personal care. Despite accounting for most of the total premium beauty and personal care sales in 2009, growth in premium skin care was dragged down by Japan, which was by far the key market for premium skin care, with sales of over US$9.4 billion in 2009. Decline in this key market meant that premium skin care overall saw moderate growth in the context of other premium beauty and personal care categories.

STAYING WELL

Consumer concerns for sustained health and wellness aren't new but are put into sharper focus post-recession with jobs for life and pensions in mature economies not guaranteed. According to the Wells Fargo Retirement Survey, conducted in the third quarter of 2010, 72% of middle class Americans between the ages of 25 and 69 expect to work through their retirement years. Consumers increasingly expect to control their bodies, their health and their personal environments, just as they control their material environments. Obesity figures are alarming, but consumers are trying to fight back through bids for healthier lifestyles. With aging being one of the defining macro trends of our times, brands have a lot to gain by catering to aging consumers around the world.

Health and wellness regional overview: Asia Pacific

Among the seven regions covered by Euromonitor International's research, Asia Pacific is not only the largest in terms of number of consumers, but also the most varied. It features some of the most advanced health and wellness markets in the world, i.e. Japan and South Korea at one end of the spectrum, and some of the most underdeveloped in terms of packaged food and beverage penetration at the other, as well as rampantly emerging economies like China and India.

Clocking in at US$132 billion, Asia Pacific accounted for 23% of global health and wellness sales in 2009. In terms of annual per capita spend, however, which amounted to US$34.60 in 2009, the region still lags far behind North America's US$497.90, and teeters way below the world average of US$84.70.

Over the 2004-2009 review period, health and wellness value growth in Asia Pacific was in close alignment with the global CAGR of 6%, calculated on the basis of 2009 fixed US$ exchange rates. In 2009, however, the region performed better than the global average, registering 5% compared to 3% global growth. Asia Pacific also far surpassed growth of the health and wellness strongholds of North America and Western Europe, which managed to record barely 1% value growth during that difficult year.

At this point in time, Japan still claims the lion's share of health and wellness sales in Asia Pacific, accounting for 52% of regional sales in 2009. However, considering that at the beginning of the review period Japan's share stood at 64%, its dominance is slipping fast. Not that this is a surprise – Japan's economy has been less than buoyant for a number of years, with no concrete signs of recovery. Health and wellness sales in Japan only managed to muster a 2% CAGR over the review period compared to Indonesia's 22%, India's 16% and China's 14%. China has rapidly risen to become the region's second largest health and wellness market with 2009 value sales of nearly US$33 billion.

Future scenarios

As technology continues to take over every aspect of our daily routines, the boundaries between local and global; between young and old or between physical and virtual are blurring even more. New products will keep making the life of consumers easier with a more integrated approach. Thus searches will tend to inform the customer on what they need whenever they do something new or go somewhere they have never been to. E-commerce and global payment will continue growing. Product development, starting new ventures and reaching out to new clients will be easier and will require less capital. In this scenario, sharing is profitable as well as being part of the new social contract that allows people to adjust to unpredictable change and upgrades such as the incipient Web 3.0 and the upcoming Web 4.0.