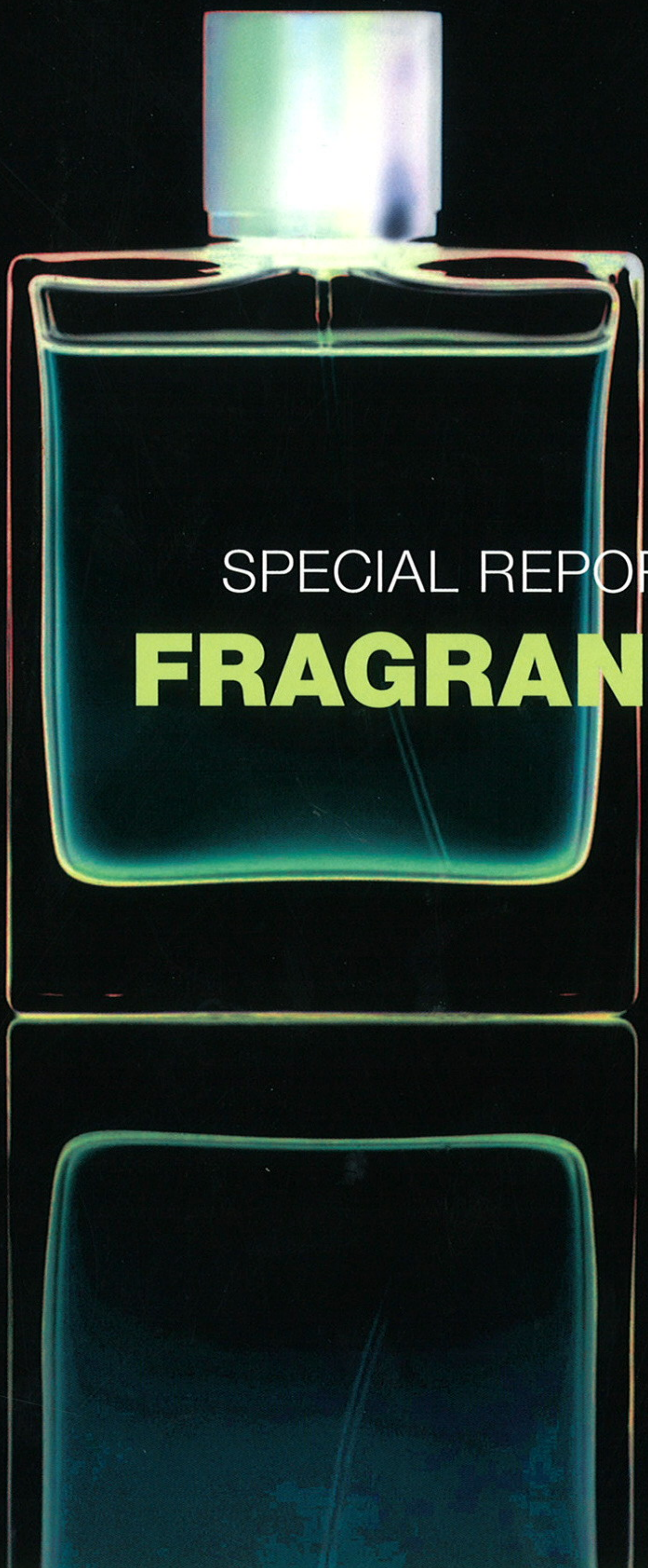
ICN

INTERNATIONAL COSMETIC NEWS

THE MAGAZINE FOR BEAUTY PROFESSIONALS | OCTOBER 2008



SPECIAL REPORT

FRAGRANCE

INTERVIEW

Shiseido's Carsten Fischer thinks global

TRAVEL RETAIL

The latest facts, figures and trends in the channel

PACKAGING SPECIAL

Luxury, technology and innovation

n°109

South Africa

Mixed bag

by **Bambina Wise**

© ISTOCK

Given the economic downturn, a volatile currency and rising crime, the South African beauty market is performing surprisingly well. Sales in 2007 increased by 11.8% to \$2.18bn, while the prestige category saw even more impressive growth of 14%. One of the reasons for this is strong consumer demand and the consequent entry of new players. "Over the past seven years the market has become more international. Local customers travel more often now and have become more aware of key international brands," says Rita Christophers, buying executive for cosmetics at department-store chain Edgars and Red Square. "[We have introduced] brands such as Bobbi Brown, MAC and Crème de la Mer into our stores as well as Chanel, Yves Saint Laurent, Givenchy and Christian Dior, on the back of greater consumer demand for these products. The same has happened on the fragrance side of the business with the introduction of niche brands such as Narciso Rodriguez and Prada," she continues.

"Retailers are trying to keep the more exclusive brands, as these are aspirational, and bring in the new [middle-class black] consumer"

Clarins South Africa md Debbie Wolfendale

Indeed, niche brands have seen particular success. "The hunger is understandable," says Wilfrid Moulin, founder and managing director of retailer Metropolitan Cosmetics. "South Africa's political history made it a virtual economic pariah for decades. With democracy, the South African market opened up to the world, and South Africans were—and continue to be—hungry for new brands and happy with the choices they now have." Metropolitan has done much to expand consumer choice for niche brands, having brought in lines such as Dr Brandt and Juliette Has a Gun to the market.

National retail chain Woolworths was also keen to give space to niche brands at a time when most retailers did not offer opportunity to smaller players. Andy Grobler, marketing director at distributor R&R Marketing, which brought REN, Bloom and Freeze 24.7 to the market, comments: "Approaching and securing brands for the South African market was initially quite challenging as perceptions of the market and the retail environment are not great." He continues: "[But in 2006] the time was right as there was a paucity of more niche and specialized brands in South Africa, compared to the rest of the world. The cosmeceutical and green categories were notably absent, hence my choice of brands."

Big brands stay on top

The big players, nevertheless, still enjoy a dominant share of the market. The Estée Lauder Companies' (ELC) brands are strong players, with Clinique claiming the number-one spot in the overall prestige beauty category in South Africa and the Estée Lauder brand ranking number three, according to Euromonitor. In the prestige color cosmetics category, Clinique and Estée Lauder hold the number-one and number-two spots respectively. Now the US-based group is looking to expand the rest of its portfolio in the market. ELC South Africa managing director Sue Fox comments: "Over the past six years we have introduced MAC, Crème de la Mer, Bobbi Brown, Tom Ford, and other fragrance brands to the market. Unlike our core brands, Estée Lauder, Clinique and Aramis, which have a fairly broad distribution through our five key retail partners, these newly introduced brands have a more limited distribution." Fragrance, she says, is a key category, and often the entry point into a brand. Aramis for instance, is the leading men's fragrance with a very loyal following.

Prestige Cosmetics Group (PCG), another leading player, has been in the beauty market since 1971 and has exclusive distribution rights for several prestige beauty lines, such as Chanel, Guerlain, Christian Dior and La Prairie. Fragrance is a particularly strong area for PCG; seven of their women's ▷▷▷

▷▷▷ fragrances are among the top-10 selling brands in the country. Four of these are Chanel fragrances (No 5—the bestseller, Allure, Chance and Coco Mademoiselle); the rest are Issey Miyake, Jean-Paul Gaultier and Dior's Dune. According to PCG managing director Stuart Ireland, "All the brands we represent are available only in selective doors, up to a maximum of 150. We are increasingly seeking brands that are both selective and exclusive."

Another key player in the market is Clarins, which has been in South Africa for 35 years. The country is the 18th largest market worldwide for the brand and Euromonitor ranks it as the number-two brand in the prestige beauty category, and number one in prestige skincare and suncare. Managing director Debbie Wolfendale claims that the company has always been successful in the English-speaking segment, and in the last eight years has seen significant growth within the Afrikaans and black populations.

Taking stock of the country's retail scene

In relation to retail, Clarins' Wolfendale estimates that there are around 250 prime beauty doors throughout the country. The main doors for prestige players are located in major shopping malls, with chains representing the majority of business (Edgars, Truworths, Foschini and Stuttafords). The best malls, according to PCG's Ireland, are located in Sandton City, Menlyn and Eastgate, all in the Gauteng region, which encompasses Johannesburg and Pretoria.

The retail landscape, however, has changed dramatically in the past five ears. Wolfendale comments: "Retailers are giving more prime real estate in their flagship doors to the big-brand players. There is less exclusivity of concepts, and it is difficult for any one retailer or brand to do something that has not been done before. Almost all of the retailers—even the more mass pharmacies—are trying to keep the more exclusive brands, as these are aspirational, and bring in the [emerging middle-class black] consumer."

> **"The greatest threat in the industry [besides the cost of importing] is the parallel market"**
>
> *Metropolitan Cosmetics founder and managing director Wilfrid Moulin*

However, in a market where prestige fragrances are more than 20% more expensive than in Europe, consumers are still basing their purchases very much on price. Old habits die hard, and South Africans are still attracted by the lure of mark downs, hence the continuing popularity of discount chains such as Dis-Chem. Tammy Saltzman, cosmetics area manager and buyer for Dis-Chem comments: "We have built up a loyal clientele over the years. Here in South Africa, we think very differently; we are not as sophisticated as our European counterparts. Our customers come to us, not necessarily for the environment, but for the service we offer and our prices. We are generally cheaper." Saltzman attributes this to the suppliers who "give us good prices. "Currently our bestselling fragrance is D&G Light Blue for women and Gucci for men," he adds.

However, for all Dis-Chem's insistence on the success of its no-frills formula, it acknowledges the importance of upping its game. Saltzman says that the Dis-Chem location in the chic new Blubird Centre in the Johannesburg suburb of Melrose is the chain's first attempt at "creating a boutique store environment." "It's definitely more upmarket," he asserts.

The benefits of bargaining

Despite good prices from suppliers, most brands say they are unhappy about the discounting trend. Edgars' Christophers comments: "Discount chains and gray-market goods have appeared in South Africa more prominently, and have played a part in devaluing certain brands." As Clarins' Wolfendale puts it: "The greatest threat in the industry [besides the cost of importing] is the parallel market." Moulin adds: "Unfortunately, the reality is that we're in a discounting world. That's why it is important for us to control our distribution to maintain the selectiveness of our brands."

Another problem for retailers is the unrelenting crime statistics: "Hijackings in malls and armed robberies of boutiques have risen by 42% in 2008 alone. Naturally, it makes some customers wary about coming to the malls," says Metropolitan's Moulin. He continues: "In response, we have to go to our customers if they cannot come to us. Not just through our online order service, which accounts for 15% of our turnover, but also through orders phoned in and personally delivered to their homes. Never mind if they live around the corner from our stores!"

In a complementary effort to bring the store to people's homes, Moulin says that they will be launching a new online portal before the end of the year, Metro-Cosmetics.tv, which will include live chats with consultants. "It will be like a YouTube of make-up stores," he explains. Last year, Metropolitan reported turnover of almost R45m ($5.8m) with just three doors, all within the Sandton-Hyde Park area. It is innovative measures like these that will drive growth, even if trading conditions are not at their best. ■

South Africa at a glance

Population: 43.8 million

C&T sales 2007*: $2.18bn, +11.8%

Sales by category 2007:** haircare $434m, +9.2%; skincare $412m, +21.7%; fragrance $289m, +10.9%; color $227m, +10.9%; other $945m

Selective beauty pos: 250

Average consumer purchasing power: $246 per month

Average beauty spend: $43 per annum

Consumer sentiment: The consumer appetite for new and exclusive brands is strong, particularly for those that deliver effective results. The biggest growth in all sectors, from masstige to prestige to niche, will come from the emerging black middle-class consumers who now enjoy significant purchasing power.

*Retail sales price ** Sum of sectors is greater than the market size because men's toiletries subsectors are included in men's grooming products as well as deodorants, skincare, bath and shower products and haircare.

Source: Euromonitor