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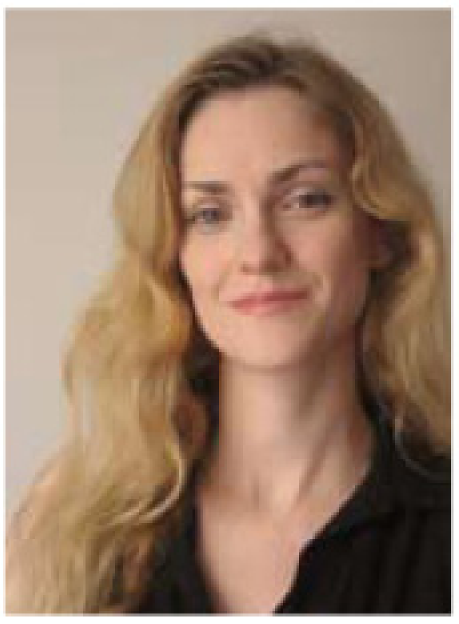
Comment

It was the year that...



It was another challenging, yet interesting year for beauty. The year 2013 saw a rash of acquisitions, with L'Oréal standing out as a major player in the M&A scene. The French group announced six buys this year, including a fair share of emerging-market deals, from Kenyan company Interconsumer Products and Chinese mask specialist Magic Holdings to India's Cheryl's Cosmeceuticals and Brazil-based Emporio Body Store.

The retail front also saw a string of deals. In Europe, retailer Douglas announced it was taking over French perfumery chain Nocibé, a move that significantly strengthens its presence in that market and bolsters its overall international strategy. In North America, meanwhile, Neiman Marcus was sold to private-equity groups and Canada-based Hudson's Bay Co announced a deal to take over Saks. Also in Canada, Loblaws said it would buy the Shoppers Drug Mart chain.

Analysts predict more M&A for 2014, but point out that deals to come will likely be on a small scale, given the lack of major targets in the market.

It was another tough year for markets in Europe, with even more solid countries like France looking sluggish. There was still much talk over emerging markets, but it centered more on slower growth, especially when it comes to Brazil, and the impact of falling currencies in places like India. While these markets continue to command much of the industry's attention, other emerging countries and regions, apart from the BRICs—for example, Africa—are featuring larger on brands' radars.

BW Confidential will be on hand to keep you informed about what the industry has in store for next year and beyond. We looking forward to bringing you more news, commentary and analysis in 2014 and wish you a peaceful and prosperous New Year.

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Inside

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South Africa retail

Changes to come

South Africa's retail scene may be in for a shake-up

Competition is fierce among beauty retailers in South Africa, given the tough economic situation, growing unemployment and increasing constraints on purchasing power. While South Africa is often given emerging-market status and all the growth prospects that go with it, including a rising middle class, it also bears many of the signs of a more mature country going through an economic crisis; indeed, business confidence is said to be at its lowest level in 10 years.

South Africa is considered by some as a two-speed market. "It's a market that is both in full expansion due to consumers' high purchasing power, but it is also somewhat mature," explains Lionel Durand, managing director of French ethnic make-up brand Black Up.

The beauty business has also been hit by the volatility of the South African rand. "The South African rand is constantly fluctuating, so brands and retailers need a lot of financial muscle to deal with the constant changes," comments François Nicollier, manager at distribution company Ciscoprod. Wilfrid Moulin, founder of niche retailer Metropolitain Cosmetics, agrees, citing the rand as the "biggest challenge" the market faces today, and says that in the past 12 months, the rand has seen a 32% devaluation against the euro.

In addition, the retail scene is dominated by one strong player—Edcon, with its department store Edgar's and Red Square beauty standalone concept, which commands a 50% share of the prestige cosmetics market, according to industry sources. Some see this dominance of one player as having created a certain sameness of offer. Add to that the strong position of major brands in the market, from Estée Lauder to L'Oréal-owned brands and Clarins, and competing retailers end up sharing a very similar assortment.

However, the retail market may be in for an injection of innovation. Edcon's Edgar's and Red Square are in the midst of implementing "strategic changes", according to Edcon executives (although the retail group refused to provide specifics on these changes). Edgar's revamped some 40 to 50 stores this year. "Edgar's is extremely driven when it comes to developing its beauty business," explains Black Up's Durand.

Industry players believe that it will only be a matter of time before its rivals Stuttafords and Woolworths embark on renovations of their own.

In addition, there are some niche retail outlets that continue to offer an alternative beauty format, such as Metropolitain Cosmetics, which specializes in exclusive niche brands. ■■■

> "The South African rand is constantly fluctuating, so brands and retailers need a lot of financial muscle to deal with the changes"

Ciscoprod manager
François Nicollier

South Africa retail

■■■ **Stuttafords**

N° stores: 12

Stuttafords was South Africa's first department-store operator. The store stocks a wide range of prestige brands, and newcomers this year include Hermès, Juice Beauty and Kardashian Beauty. Industry sources report that Stuttafords has been putting less of a focus on beauty than some of its competitors.

Metropolitain Cosmetics

N° stores: 4

A specialist in exclusive niche beauty brands, Metropolitain Cosmetics saw its sales increase by 18% in 2012. In July, the retailer (which also has a distribution business) opened its fourth store in Johannesburg—all four stores are in the Johannesburg area—and its first outside of a shopping mall. Two new stores are slated to open in Pretoria and Cape Town in 2014. Metropolitain will launch a new version of its website next February. "To extend our reach, this year, we've focused on developing our website and from now on, we will first launch new brands online," explains Metropolitain founder Wilfrid Moulin. The retail chain is also continuing to invest in training programs for its BAs.

The retailer has a project for a shop-in-shop niche brand concept called Metropolitain Essentials and is in negotiations with several department-store retailers for the concept. ■