SIS GLOBAL RESEARCH MEDIA™

THE FAST-MOVING CONSUMER GOODS INDUSTRY : NOVEMBER 2007

INSIDE THIS ISSUE

A WORD FROM THE FOUNDER AND CEO

From the day SIS International was established over 24 years ago, we have strived to provide insightful research to some of the world's leading and most influential companies. Conducting research worldwide and developing intelligence networks in the majority of the fastest growing economies, SIS has earned a reputation as a powerful and nimble Market Intelligence firm.

In the current market, your competitor is no longer across the street, but rather more likely at the other side of the world. With the Internet and mass communications, corporations and management find themselves inundated with information. Undoubtedly, the key to making sound decisions in this market is receiving the right information at the right time. SIS International's dynamic services and resources directly cater to these needs, transforming data into valuable intelligence. This is part of our mission to make SIS your company's navigator in today's global economy.

Today, SIS International achieves its vision by developing new ways to understand and succeed in the global economy. With our International Market Research Division, our Answering Service and our Global Research Media and Publishing Division, we provide timely, unparalleled access to vital information and intelligence worldwide.

On our website, colleagues now have access to numerous other innovative products such as the Global Market Intelligence Tracking Service (GMITS). This service, the only one of its kind, analyzes and tracks industry developments on an unprecedented monthly basis for many industries.

SIS WorldwideWebinars links customers to our analysts through online seminars on key market issues. Our clients can also subscribe to the SIS Answering Service, whereby they submit business intelligence queries to have them answered by our analysts.

SIS International promises to continue its mission to innovate and further develop the most effective products and services for our clients. On behalf of everyone from SIS, I encourage you to explore our many products and see how we can help you.

Ruth Stanat
CEO & Founder, SIS International

SIS International Research, Inc. 11 E 22 Street Floor 2, New York, NY 10010
T: +1.212.505.6805 Fax: +1.212.505.0284 research@sisinternational.com www.sisinternational.com

SIS INTERNATIONAL RESEARCH™

EXECUTIVE SUMMARY

Globally, the cosmetics sector is witnessing a flat growth scenario. This growth is coming from geographic expansion into emerging markets, and also through domain expansion, through introducing a new variety of products, as exemplified by a shift to organic products. While luxury brands have not witnessed a great drop in sales in the emerging markets during the ongoing credit crisis, nevertheless, in developed countries, consumers have put off large purchases in view of the tightened credit market. Also, higher mortgage payments are forcing consumers to purchase more at discount stores than luxury retailers. Meanwhile, in Asia, Eastern Europe, and Latin America, rising incomes have resulted in the increasing adoption of higher-end personal care products.

The consumer goods sector is being driven to cost efficiencies by Wal-Mart's recent greener moves. Wal-Mart will be soon forcing all its suppliers to monitor and manage carbon emissions. It is going to sell only concentrated laundry detergents in all its stores by May 2008, thus saving an enormous amount of resources. Wal-Mart had experimented with this on Unilever first. Unilever has been estimated to save about the same amount of resources through introducing Small & Mighty in the past two years.

Developing markets are showing a greater preference for anti-aging, moisturizing, and whitening creams. Male personal care products are the fastest growing segment in skin care.

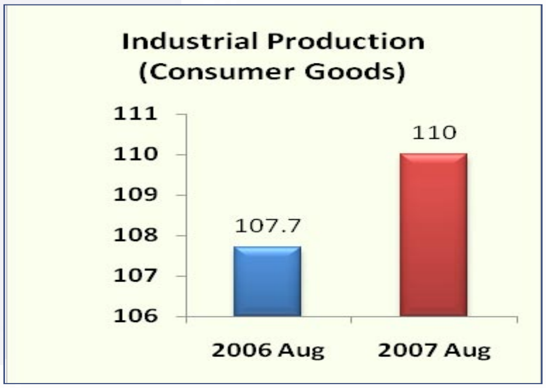
Facing a threat from retailers' private labels, FMCG (fast moving consumer goods) companies are looking into channel expansion and promoting more masstige products as well. In developing countries like India, FMCG companies are providing the same discounts to small retail stores as they offer to large retailers. In India, FMCG companies currently derive a maximum portion of their revenues through small retail stores in the unorganized market, in contrast to the organized market, which accounts for only 4% of the total retail market.

GLOBAL TRENDS

- More demand of anti-aging, moisturizing, and whitening creams in emerging markets.
- Convergence of the pharmaceutical and beauty markets
- Cost efficiencies through global sourcing
- Divestiture of non-core brands and a focus on core brands by major FMCG companies
- Emerging markets driving strong growth for personal care and household care products
- Extension of brand portfolios, with existing brands into new areas or new brands (introduced either organically or inorganically)
- Globally flat sales for cosmetics; growth being driven by organic products in emerging markets
- FMCG companies focusing on share repurchases
- Focus on channel management
- Geographic expansion of key brands
- Global supply chain management
- Growth in male personal care products, convenience products, and disinfectants
- Growth of masstige products in personal care
- Increase in cost of raw materials
- Luxury brands and mass brands both registering strong growth
- Outsourcing of IT, back office, and other shared services
- Price competition increasing commoditization
- Price-conscious customers growing faster than value-conscious customers
- Private label competition from other suppliers as well as the retailers' own brands
- Rising food and gasoline prices impacting spending
- Rising incomes in Asian economies boosting consumer spending
- Supplier-retailer partnership maturing and a focus on joint value creation
- Trend towards greener organic products pushed by Wal-Mart

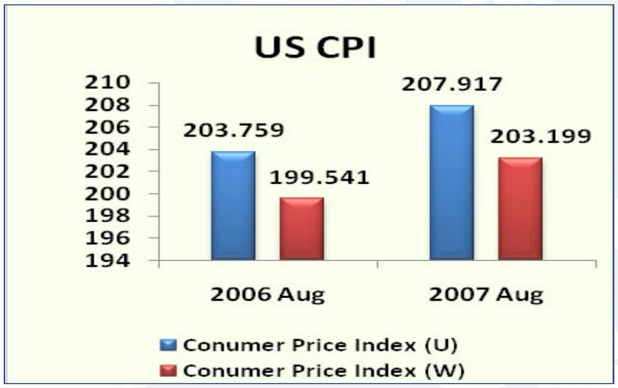
TRENDS BY REGION: NORTH AMERICA

US Industrial Production Index



Source: US Census.gov

US Consumer Price Index (Consumer Goods)



Source: US Federal Reserve

US CPI

According to the US Bureau of Labor Statistics, the Consumer Price Index witnessed a 0.2% fall due to gas and energy services falling 4.6%; a 1.3% rise in food at home (reflecting dairy products); additionally, a rise in apparel prices by 0.8%, due to fall winter wear introduced in the market (causing a decline in prices for spring/summer clothing).

According to the Federal Reserve Statistics, industrial production increased 0.2%. Production of durable consumer goods declined by 1.0% in August, due to a reduction of 2.1% in the automotive products output. The nondurable consumer index decreased 0.3 % due to a decline of 0.3 % in the operating rate for factory manufacturing.

BRAND LOYALTY AND ACCULTURATION

A recent Nielsen report predicts that niche cultural products are going to lose their appeal once consumers integrate into the mainstream. Nielsen reported that as Hispanics get assimilated into the mainstream culture, they demonstrate less evidence of brand loyalty. Hispanics are projected to account for 25% of the US population by 2050 at 100 million Hispanics from the current 44 million.

MASSTIGE

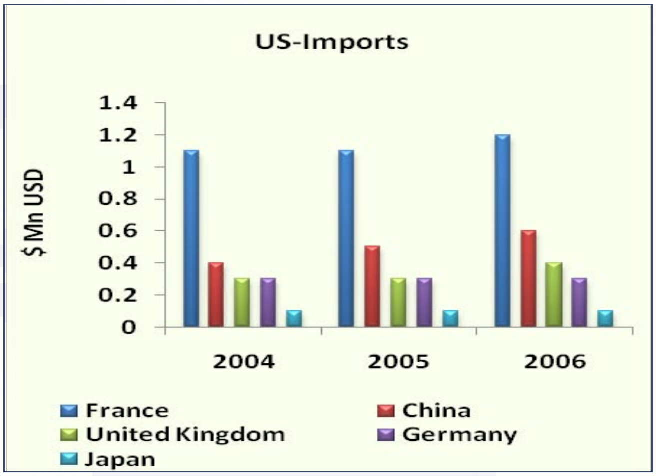
According to Coty Beauty, "Intimately Beckham" developed by Victoria and David Beckham has been registering strong sales in the US. "Intimately Beckham" is one of the masstige brands. Payless Shoes is introducing the "Lela Rose" footwear collection this fall, another masstige brand.

According to Wikipedia, the term "masstige" meaning "luxury for the masses" was promoted by Michael Silverstein and Neil Fiske in their book *Trading Up* and in the *Harvard Business Review* article "Luxury for the Masses." These are premium products available at reasonable prices from mass retailers. For consumer product companies who had to previously choose between low-volume, high-margin premium brands sales through niche boutiques or low margin, high volume mass brands sales through retailers, the masstige movement has motivated them to create variants of their premium products for mass retailers. This trend, which initially showed up in designer apparel labels appearing in Target and other stores, has found appeal in the cosmetics sector as well. From fragrances to soaps, consumer goods companies are producing masstige products at a give better value, while at the same time clearly differentiating them from private labels. Drugstores have restructured their store format to tend to the masstige movement, and are stocking up on European Beauty brands such as the Walgreen's "European Beauty collection."

MALE SKIN CARE

According to a recent Kline report, male skin care is the fastest growing product category, growing at 8.7% (in 2006), compared to a 5.6% industry growth. The desire to look good has increased according to several reports and the office-bound professional is driving the growth of this segment. Male skin care product grew the fastest in Canada at 41.5%, while Europe and Italy recorded 21.5% and 19.3% respectively. Allergan's recent report states that 31% of American men thought personal grooming to be important. Sales were also driven by wider availability.

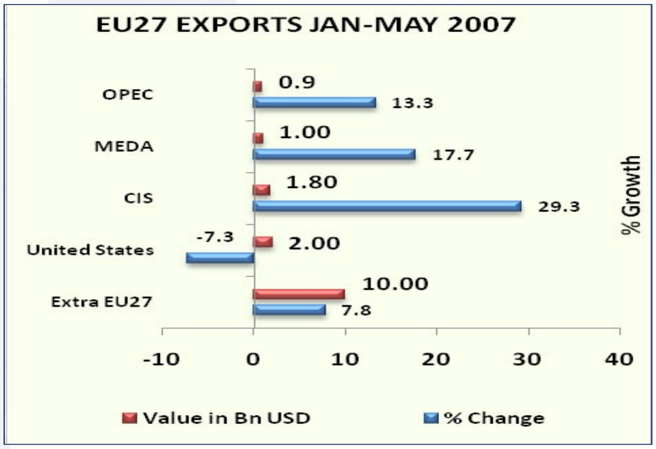
US Imports (Cosmetics & Toiletries)



Source: Census.gov

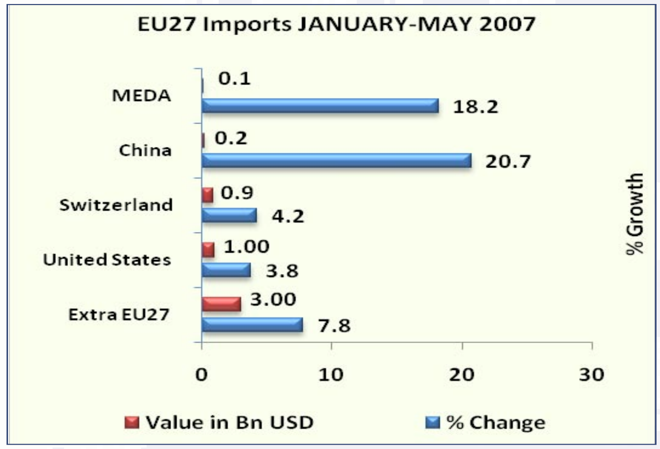
US imports from France, Japan, and German have remained constant over the years, while imports from China have increased from 2004 to 2006 as depicted in the figure above.

Exports – Cosmetics & Toiletries



Source: Eurostat

Imports – Cosmetics & Toiletries



Source: Eurostat

EU27 COUNTRIES

Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, and the United Kingdom.

CIS COUNTRIES

Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

MEDA COUNTRIES

Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian, Syria, and Tunisia.

OPEC COUNTRIES

Angola, Libya, Nigeria, Algeria, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

EU27 exports to CIS countries recorded the highest increase among EU27 exports in the period January 2007 to May 2007 at 29.3%. EU27 imports from China have registered the highest increase in the period January 2007 to May 2007 at 20.7%.

According to Kline's latest report, European authorities push to improve oral health care, and oral care companies' awareness campaigns resulted in a 6.5% increase in sale for the $8.7 billion USD European oral care industry. The campaigns had the highest response rate from the Eastern and Central European countries. Spain had an 11.6% market growth rate in 2006 in oral care. The oral care market in Europe has a growth rate second only to the skin care industry in Europe. Kline opines that, among global markets, oral care registered 3% in the US and Japan. While demand in mature economies have remained in the single digits, developing countries have been showing double-digit growth in demand. Kline opines that European oral care will grow at rate of 4.5% until 2011.

A recent Credit Suisse report indicates that working women contribute to 40% of the GDP in developed nations, and that a 1% rise in working women would result in 0.75% growth in the Eurozone GDP. Nearly 50-70% of university graduates are women in mature economies.

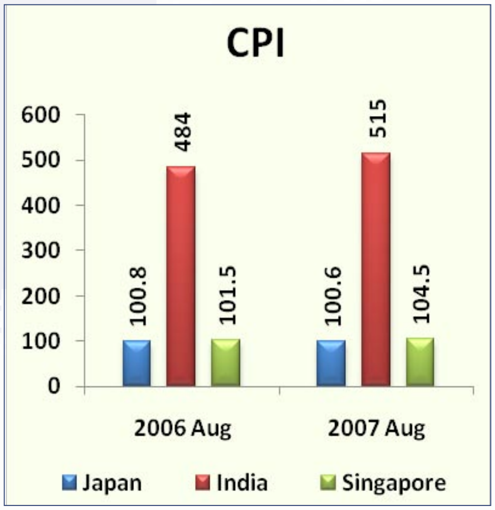
According to Organic Monitor, organic makeup (made from natural ingredients with no parabens or petrochemicals) sales are expected to increase to $21.9 million USD by 2012. This segment, though in its infancy, is seeing a good response from consumers preferring greener products.

Natural Cosmetics received their branding from Anita Roddick's stores and Body Shop's growth. Asda has introduced Bentley Organic, and Tesco is selling products under Organic Surge and its "bnatural" brand. Designer brands like Giorgia Armani and Stella McCartney are also launching organic skin care products. Mintel estimates that 200 natural products have already been launched in 2007. L'Oreal has also retained the style and content of its natural acquisitions: Body Shop and Laboratories Sanoflore. Natural cosmetics would account for 10% of European cosmetics sales by 2012, according to Organic Monitor estimates, from the current $1.5 billion USD. Independent cosmetic manufacturers, without any access to retail outlets, are using the Internet and Home Shopping Network to drive sales. Natural product manufacturers are also taking certifications, and labeling all ingredients, to ensure that their products are safe.

The Russian cosmetic industry is expected to reach $15 billion USD by 2015 from the current $7.8 billion USD. Domestic companies account for only 40% of cosmetic sales in Russia. Foreign manufacturers are increasing their penetration in Russia through localized production, better distribution channels, and strategic alliances. Unilever's Severnoye Siyaniye factory in Saint-Petersburg manufactures personal hygiene products and household detergents. Unilever is upgrading facilities to achieve a 40-million-unit output by 2008. According to ACNielsen, the retailers Boots, Beiersdorf, Garnier, J&J, Loreal, P&G, Lierac, and Schwarzkopf account for 66.3% of total cosmetic retail sales in Russia, specifically facial care products. Specialty cosmetic stores occupy the majority of cosmetics sales in Russia. ACNielsen also states that moisturizing products and conditioners have the fastest growth rate in Russia, although hair care carries the major share among facial care products.

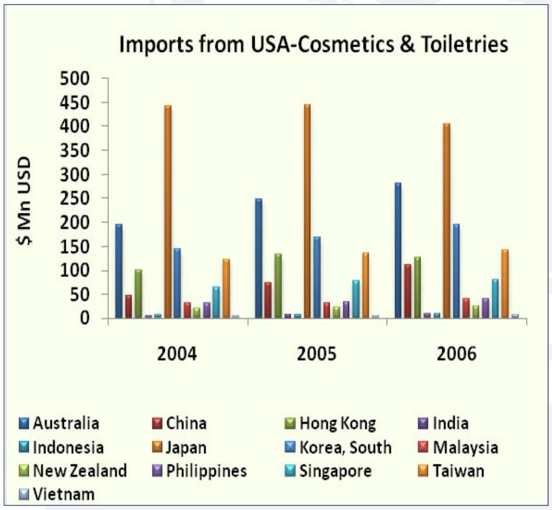
According to the latest survey of the service industry, released by the Confederation of British Industry (CBI), personal care firms have witnessed a decline in sales in the preceding three months. Higher interest rates, poor weather, and increased mortgage payments have dampened consumer spending. A recent survey by trade exhibition Brand Licensing Europe has revealed that 83% of adults purchase celebrity-endorsed products, but check for value as well, which is clearly reflected in the weak sales of Jade products, but strong demand for Beckham products. Celebrity fragrances account for 20% of the UK fragrance market, led by Sarah Jessica Parker, Kate Moss, Gwen Stefani, David Beckham, and Kylie.

Consumer Price Index



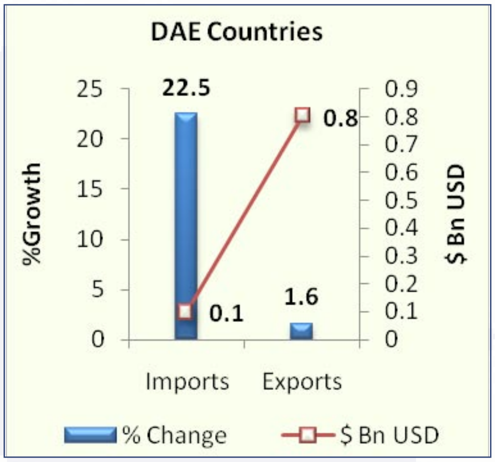
Source: Statistics Bureau Japan

US Exports (Cosmetics & Toiletries)



Source: US Census.gov

Europe Exports (Cosmetics & Toiletries)



Source: Eurostat Ministry of Statistics
India Singapore Department of Statistics

DAE COUNTRIES

Hong Kong, Korea, Malaysia, Singapore, Taiwan, and Thailand

Cosmetic and toiletry imports from the US have seen steady growth in major Asian coutries like China, Taiwan, Korea, India, and Indonesia. China recorded imports of $110.8 billion USD in 2006, over $73.3 billion USD from 2005, due to a huge demand of cosmetics goods.

CHINA

The Chinese cosmetics and personal care market has contributed to strong retail sales. Government statistics show strong growth in FMCG goods. TNS Media Intelligence suggests that the Chinese market might become the world's largest cosmetics sector by 2009.

INDIA

According to a recent Kline report, India's personal care market grew 12.6% in 2006 and consumers are showing a marked preference for upmarket cosmetics. Anti-aging and skin-whitening products sell the most and per capita spending on personal care is $3.40 USD.

A recent *Time Magazine* survey reveals that Indians prefer to spend on a homegrown brand than a foreign luxury brand. Russia and China show a stronger preference for foreign brands. Many of the top men's apparel brands are domestic brands. The study says that Rolex is the only foreign brand among the Top 5 brand preference of Indians. The luxury market in India is expected to grow 25% until 2010. Chanel, Lacoste, and Dior rank among the Top 5 known brands in China, while Versace and Dior are the foreign brands among the Top 5 known brands in Russia. According to the study, fragrance is the most popular purchase both in Russia and China. Indians prefer to own Calvin Klein, while Russians prefer Tiffany.

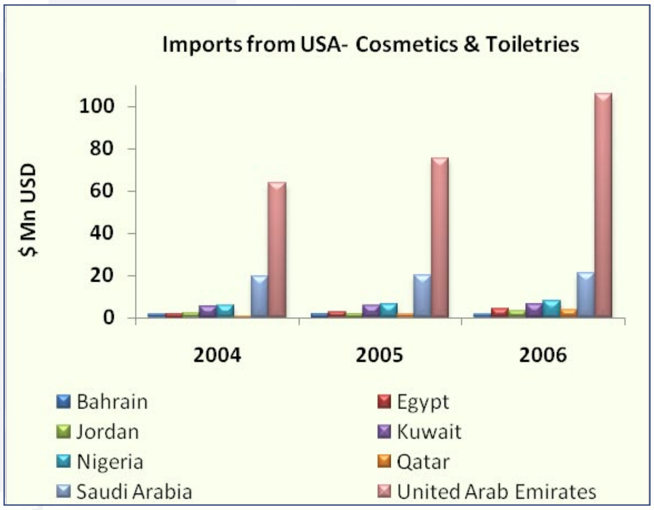
Indian retail majors are increasing the share of private labels in their retail sales. Driven by competitive pressures to keep prices low, all retail majors have preferred to produce their own brands in pulses, soaps, detergents, grains, spices, and juices. Reliance Retail is keen on extending its private label beyond foods. Pantaloon and Subhiksha have their brands across many FMCG categories and even appliances. Food Bazaar is planning its own juices and food products. Indian Retailers are counting on weak brand loyalty for essential goods to drive the growth of their private labels. In sharp contrast to the mass market brands, where emergence of private labels can threaten FMCG companies in the high-end premium segment of urban markets, FMCG companies are witnessing strong pickup of its retailers. Nearly 50% of the high-end product sales are coming from the retailers in metro cities. All FMCG companies are hence introducing higher priced variants of their brands.

FMCG companies though are not concerned at this time, since organized retail accounts for only a miniscule percentage of FMCG sales. Ninety-five percent of FMCG sales come from small retail outlets and for many FMCG companies, 50% from retail areas. Retailers are using in-store marketing and guaranteed low prices to push their products. FMCG companies are also taking steps to push more sales through their traditional channels—the small retail outlets—by giving them the same deal as large retail outlets. Some FMCG companies have witnessed a 20% increase in sales after this move. Unilever India, Dabur, and Marico all have opened their small retail format stores.

According to ACNielsen, the “feel-good” category is promoting strong growth for FMCG companies. Twenty-four products from the shampoo, aftershave, lipsticks and sanitary wear come under this category. Rising consumption levels and changing consumption patterns will drive growth in this category. Dabur is planning to invest $35 million USD in its health and beauty (H&B) stores and target $250 million USD revenue from that venture. These stores will be a high-end format of the traditional “fancy” stores in India, but will only target the beauty and health segment. The men’s skin care lotions are witnessing huge growth as well.

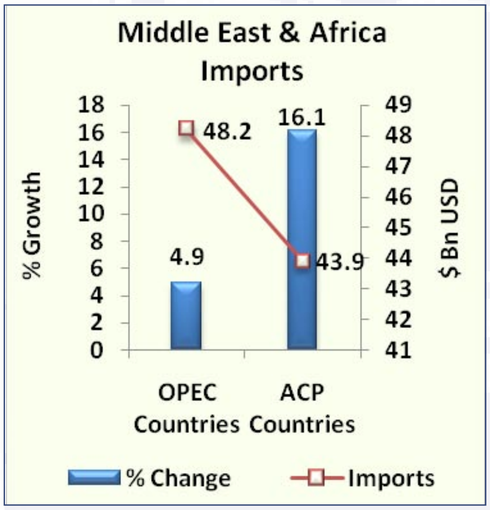
TRENDS BY REGION: MIDDLE EAST AND AFRICA

US Exports (Cosmetics & Toiletries)



Source: US Census.gov

Europe Exports (Cosmetics & Toiletries)



Source:Eurostat

ACP COUNTRIES

Africa, Caribbean, Pacific

Caribbean Countries: Antigua, Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Kitts, and Nevis, Saint Lucia, Saint Vincent , the Grenadines, Suriname, Trinidad, and Tobago.

PACIFIC COUNTRIES

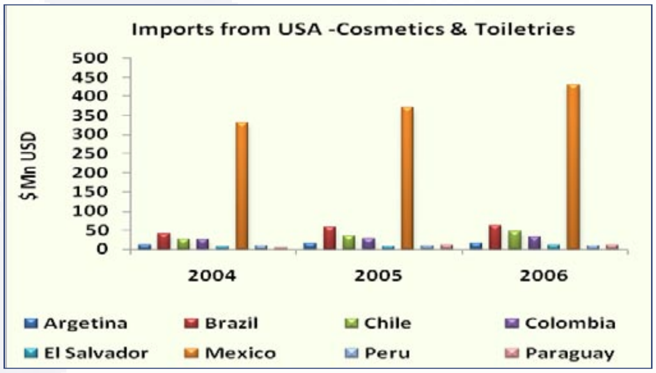
Cook Islands, Timor-Leste , Fiji , Kiribati, Marshall Islands, FS Micronesia, Nauru, Niue, Palau, Papua, New Guinea, Samoa, Solomon Islands, Tonga , Tuvalu , Vanuatu

OPEC COUNTRIES

Angola, Libya, Nigeria, Algeria, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and United Arab Emirates

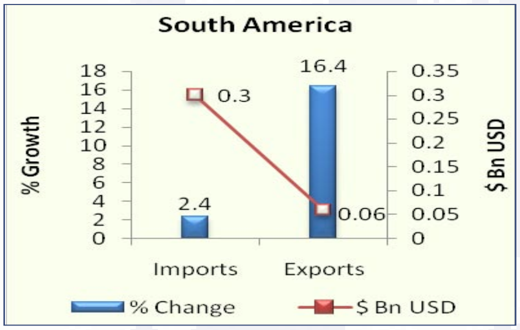
More designer brands are entering the Middle Eastern market. Guido Damiani opened its store in Dubai through a local partner, the Al Tayer Group, who is the franchisee of other international brands like Armani, Gucci, and Ferrari. The store is set in Dubai's prestigious shopping centre, BurJuman Centre. The Dubai store format like other Damiani stores has been designed by Antonio Citterio.

US (Cosmetics & Toiletries)



Source: US Census.gov

Europe (Cosmetics & Toiletries)



Source: Eurostat

Fitch Ratings has upgraded the foreign currency IDR of Kimberly-Clark de Mexico SAB de CV (KCM) to "A" from "A-." It also upgraded Kimberly's unsecured rating on KCM's 8.87% senior notes due 2009 citing Kimberly Mexico's strong business position, financial profile, and strong cash flows. Cosmetic imports from Latin American countries have remained flat from 2004-2006 according to US Export Statistics. The graph above shows a slight increase in Mexico and Brazil imports, while it is flat for other countries.

BRAZIL

The Brazilian Toiletry, Perfumery and Cosmetics Association (ABIHPEC) expect the cosmetics industry to grow 12% in 2006, compared to $18.2 billion USD retail sales in 2006. Brazil is now the world's third largest consumer of cosmetic products per 2006 sales. Only Japan and the US rank ahead of Brazil, followed by France, Germany, and Poland. Volume-wise, domestic sales grew 5.6% in 2006. Brazil has recorded a cumulative growth of 138% over the past five years in exports with 2006 exports being at $500 million USD, reflecting a 20% growth. ABIHPEC expects investment in Brazil to continue at the rate of $100 million USD every year until 2010, primarily due to expansion of existing factories. Imports are expected to grow 35% to reach $285 million USD. South America remains Brazil's primary export destination, accounting for 61% of its exports. According to ABIHPEC, Brazil's sizeable population makes production costs cheaper in Brazil.

The Brazil-Saudi relationship extends in many industries, cleaning being one of them. The Brazilian Association of Industries of Cleaning Products and Similar Items (Abipla) and the Brazilian Export and Investment Promotion Agency (Apex) are targeting $2.9 million USD exports in cleaning products to Arab countries by 2009 via SME companies. Brazil exported $4.607 billion USD worth of goods to Arab countries this year up to August 2007, reflecting a 16.4% growth over 2006. Cleaning product imports stood at $272.4 million USD in 2006, compared to exports of $165 million USD. Hence the Brazilian government wants to increase exports. Brazil exports soaps ($41.5 million USD), cloth cleaning products ($32 million USD,) and environment products ($18 million USD). Euro Monitor has estimated the global cleaning product market to grow 9.2% annually until 2010 from the current $97 billion USD. Brazilian consumption of cleaning products is increasing gradually, driven by a buoyant economy that has raised standards of living. Abipla states that in Brazil, low-income consumers chose purpose specific products, instead of generic ones while higher income consumers chose value-added products. Thus both markets with increased awareness have increased sales.

Sau Paulo based Nunaat exports 15% of its total exports to the Gulf region, primarily hair products made from Amazon fruit and seeds. It has so far shipped 50 metric tonnes of products to the Arab countries, primarily Saudi Arabia and Egypt. Since October 1, Emirates Airlines offers direct flights from Sau Paulo to Dubai. Brazilian shampoos, conditioners, and hair masks manufactured from Brazilian raw materials such as cupuacu, buriti, assai, cashew nut, guaraná, and Surinam cherry are exported to the Gulf. Nunaat also uses Arabic labels and stresses on high quality at low cost. The US accounts for 40% of its exports. Nunaat is owned by the Brazilian group M. Cassab.

KEY COMPETITOR EVENTS: NORTH AMERICA

PROCTER AND GAMBLE (P&G)

According to a recent *Wall Street Journal* report, P&G (Procter & Gamble) wants to sell its weakest segments, specifically Duracell, Folgers and Millstone coffees, and Pringles chips. Duracell has been registering double-digit growth in developing markets, but is encountering strong competition in Europe and North America with only single-digit growth. The foreign exchange earnings in the Q207 were offset by unfavorable product mix for Duracell. Though they are earning good cash, P&G might want to let go of its remaining food units, and as such it wants to sell off Pringles, and Folgers and Millstone coffee.

The European Commission has approved Swedish Svenska Cellulosa's $723 million USD acquisition of P&G's European tissue business. P&G is expanding its fragrance portfolio. Its Prestige products division recently has signed an agreement with Italian fashion brand Replay to target its youth markets. P&G prestige products have brands, like Christina Aguilera, Valentino, and Gucci in its portfolio. Replay would be launching both men and women's fragrances.

North American laundry detergent Gain® has become P&G's twenty-third billion dollar brand, apart from being the second largest selling detergent in the US and eighth largest brand in dollar sales. P&G reports that Gain scored highly with ethnic customers, mainly African-Americans and Hispanics. Introduced in 1969 and revamped in 1981 as an aroma-filled brand, Gain has introduced other products in its line like the Original Fresh, Island Fresh®, Fresh AwakeningsTM, Gain Plus a Touch of Softness ®, Gain Joyful Expressions, Gain HE, Gain with Bleach Alternative—Outdoor Sunshine®, and the Gain Joyful Expressions ® line. (It has long-lasting aroma flavors of Apple Mango TangoTM, Gardenia DelightTM, and Mandarin Lime Fusion). Pricing is determined by the retailers, though the suggested pricing is $10.49 USD for 64 loads.

COLGATE:

Colgate-Palmolive has announced that it is on track to reach its targets for 2007 and to gain benefits from its restructuring initiatives. Colgate had undertaken a four-year restructuring drive in 2005 to increase focus on oral care, personal care, and pet food. In India, Colgate has been aided by competitor Unilever India's potential shift away from oral care. Though globally, Colgate has increased its ad spending, it is looking to reduce its ad spending in India. Colgate has a significant market share in the toothbrush market. Recently, Mozambique, which had banned Colgate toothpaste in July, lifted the ban after tests revealed it to be safe. Colgate counterfeits had appeared all over Mozambique making the government react by banning it.

KIMBERLY-CLARK

Kimberly-Clark is planning to build a manufacturing facility in North Korea. This may be planned in association with Clark's China plant. Kimberly is also planning its first manufacturing facility in Russia to support its Eastern European business. The 100-acre Stupino facility, located 60 miles southeast of Moscow, will be producing personal care and tissue products and selling them in the Huggies and Kleenex line. Russia is part of Kimberley's BRICIT focus, which includes Indonesia and Turkey with the normal BRIC countries: India, Russia, Brazil, and China. According to Kimberley, consumer spending and retail sales have been increasing tremendously, driven by growth of the middle class, increased wages, and a desire for quality products.

Dow Jones has named Kimberly-Clark Corporation the personal products industry sustainability leader for the third consecutive time as measured by its 2008 Dow Jones Sustainability World Index (DJSI World). With hard qualification parameters, only 10% of the top 2,500 global companies qualify for this list and KC ranked first among 14 personal product companies.

KEY COMPETITOR EVENTS: EUROPE

UNILEVER

Unilever and Pepsi are building further on their 1991 agreement. This agreement established the North American Pepsi Lipton Tea Partnership (PLTP) joint venture as a market leader in the off-the-shelf tea segment. The 2003 agreement helped them establish the Pepsi Lipton International (PLI) joint venture, currently spanning more than 40 countries and enjoying strong volume growth. The new agreement leveraging Pepsi's distribution strength and Unilever's tea brand aims to double the current joint-venture volume and will encompass 11 more countries, recording recorded $423.4 million USD sales in 2006—Austria, Belgium, Germany, Italy, France, Korea, Netherlands, Portugal, South Africa, Switzerland, and Taiwan. Both companies will own 50% of Pepsi Lipton International with Unilever being paid by PepsiCo for its share of the businesses. This transaction will be effective from January 2008 and subject to regulatory partner approvals.

As part of its global restructuring, Unilever is planning to sell its French cheese-maker Boursin, which has a $134 million USD turnover. This is in line with Unilever's strategy to divest nearly $2.8 billion USD worth of underperforming brands announced during its Q207 results.

Dow Jones has cited Unilever as the leader in the Dow Jones Sustainability World Indexes (DJSI World) in the food and beverage sector for the ninth year. The CDP report surveyed FT500 companies for this report.

HENKEL

Henkel's adhesive business, where it is the market leader, continues to grow strongly. Increases in dairy product prices globally have made beverage companies look for alternatives to traditional labeling adhesives, which are based of casein (obtained from cow's milk). Henkel has been marketing the Optal® LG, offering equivalent bonding and processing properties since 2001. Casein currently has reached $12.5/kg. The Optal adhesives can be processed on existing labeling machines, involving no transition cost from casein adhesives.

Henkel's Technomelt® Supra offers substantial savings and higher productivity in transitioning from traditional hotmelts. Henkel's Technomelt® Supra prevents gelling and charring. It is suitable for many industries, specifically the food packaging industry.

Henkel is increasing its R&D budget spending by 15% to $487 million USD in 2007, compared to 2006. Henkel is targeting 30% of revenues from products launched in the past 2-3 years from the current 25%. The R&D focus will be primarily on adhesives for the automobile industry. Henkel is also expecting to create 300 new jobs in Germany in 2007. Henkel executives expect the 6% of the first half of 2007 to be carried over to the second half of 2007. Henkel in response to the Canadian health department warning on occurrence of DEG and harmful bacteria in its toothpaste has clarified that, in India, its toothpaste brand Neem Active does not contain diethylene glycol (DEG) or any bacteria.

BEIERSDORF NIVEA

After Spa's in Dubai, Beiersdorf Nivea is exploring an R&D base in India, Thailand, and China. Beiersdorf is purchasing an 85% stake in Hong Kong-based C-BONS Holdings hair care division for $380 million USD dollars. The remaining 15% will continue to be held by British Virgin Islands-registered Global Source Investments for at least two years after deal completion, upon which Beiersdorf will have the option to purchase the remaining stake for a minimum price of $67.2 million USD. Beiersdorf has enough capital resources for its proposed $2 billion USD war chest for acquisitions in emerging markets like China, Russia, Brazil, and India. Beiersdorf prefers to buy "strategic fit" small companies, rather than large companies. Bear Sterns has recently upgraded the company citing the group's cash conversion of 108%, ROIC of 28.6%, and organic growth rate of 8-9%. Bear Sterns also says that Beiersdorf's entry into the men's personal care has also witnessed strong growth.

Nivea has launched the Nivea Visage range of facial care products in India. Nivea also plans to bring in anti-aging and whitening creams products into India soon. Nivea derives 20% of its turnover from Nivea Visage which is marketed across 60 countries.

L'OREAL

In an interview given to newspaper La Repubblica, L'Oreal CEO has expressed confidence in meeting its projected 6-8% revenue growth in 2007 and continues its 20-year tradition of strong profit growth. The current growth has been boosted by growth in emerging markets. By revenue, L'Oreal is the world's largest cosmetics company.

ORIFLAME

Swedish Direct Marketing cosmetics company, Oriflame, is celebrating its 40th anniversary in 2007. Oriflame is one of the largest direct sellers with 2 million beauty consultants globally (50% of them being in Russia and vicinities). Oriflame reported an operating profit of $53.3 million USD on Q207 sales of $381 million USD. Russia, with a contribution of $540.6 million USD, and Eastern European countries accounted for 55% of Oriflame sales in 2006. In the Ukraine, Oriflame has 150,000 beauty consultants. Oriflame and Avon account for over 35% of on-line women ads, according to Mindshare Interaction.

KEY COMPETITOR EVENTS: ASIA

DABUR

Dabur has relaunched its clinically proven and popular mosquito repellant, Odomos, after making more fragrant and skin-friendly. Clinical studies have shown the effectiveness of applying Odomos to hold for 12 hours. In India, some mosquito diseases like dengue and Chikungunya have even caused deaths and have no visible cure. Hence companies are focusing on prevention products. Odomos protects by masking the human odor which attracts mosquitoes. Odomos offers protection even in outdoors compared to other repellants that offer only indoor protection. Uttar Pradesh accounts for 17% of all India sales. It is available in cream, gel, and lotion variants in denominations of 12, 25, 50, and 100g pack.

Dabur has launched an ayurvedic clinic for women specifically in Chandigarh. It launched the Panchakarma Centre for Women at its Dabur-Dhanwantry Ayurvedic Hospital. According to Dabur, the Panchakarma Therapy stands for five types of therapeutic measures, which removes vitiated doshas from the body and are natural body detoxifiers. Dabur is investing $25 million USD in its Nigerian, Egypt, and UAE Greenfield plants, which will focus on personal care products. Dabur is planning acquisitions in the personal care business.

Indian Oil Corp (IOC) will be stocking Dabur's ayurvedic products in its 1,000 retail outlets. It will also include OTC medications and cosmetics. IOC is looking to expand low-priced non-fuel items in its retail outlets (Kisan Seva Kendra) from its current financial services, agricultural implements, and so on. Currently, 50% of Dabur's sales come from rural areas. Hence the IOC distribution network will further add to its coverage. Dabur already has smaller packs of most of its products which are fit for the rural markets. IOC is planning to service 50% of rural fuel needs and is targeting 5,000 stores by 2012.

ITC

Indian FMCG Major ITC is increasing its penetration in the branded packaged food business by planning to set up a $175 million USD facility in Bangalore. ITC already has a unit in Haridwar and the Pune facility slated to be operational in January 2008. ITC currently has an 11% market share of the $1.25 billion USD biscuits industry in India. ITC is also exporting its food products to other countries.

ITC has launched the Sunfeast Sachin Fit Kit multigrain range of healthy products, which have been co-created with noted Indian cricket icon Sachin Tendulkar. Sunfeast has a 10% market share in urban areas according to a recent ACNielsen study. ITC's "Kitchens of India" has become the second largest selling RTE brand in the US. ITC also recently launched its premium range of shampoos under Fiama Di Wills, banking on the success of its premium range of personal care and fragrance products under Essenza Di Wills. The shampoo series comes in three variants, Everyday Mild, Aqua Balance, and Volume Boost, and comes in 100 and 200 ml sizes.

ITC has acquired agri-biotech company Technico Pty Limited, Australia, which has operations in India, Canada, and China. This acquisition will help streamline the supply chain in its Bingo potato snacks business, since Technico's TECHNITUBERR seed technology will help ITC increase its potato production. Technico which has seed manufacturing facilities in China, Canada, and India. The current acquisition will also add strength to ITC's e-Choupal supply chain and add more value to all intermediaries. ITC is planning to invest $20 million USD to increase penetration in its rural markets by introducing small hypermarkets. It is also planning to increase its e-Choupal Kiosks to 20,000 from the present 6,450 by 2012. It is planning to introduce 40 Choupal Sagar at an investment of $500,000 USD each. The Big Choupals occupy an area of 6-10 acres, while the smaller ones occupy about two acres.

ITC is increasing its paper manufacturing capacity to 42,000 metric tonnes from the present 18,000 metric tonnes at a cost of $8 million USD at its Bolarum facility, to meet the increasing foreign demand for environmental-friendly paper-based packaging material. ITC already has the BRC certification for its products. The Bolarum facility currently manufacturers paper cups and had a turnover of $25 million USD. ITC has got IFAT (International Fair Trade Organization) certification for one of its major vendors, Cottage Industries, which produce the Mangaldeep brand of incense sticks. The IFAT certification is recognized in the US and Europe and has a marked preference over mass-manufactured units. ITC sources 180-200 million incense sticks from 9 small-scale units to gain a better share of the $275 million USD organized incense industry. ITC exports to other countries as well.

KEY COMPETITOR EVENTS: MIDDLE EAST

RECKITT BENCKISER

Reckitt Benckiser closed its 40-year-old Nairobi factory, becoming the sixth MNC to close production in the past four years due to increasing production costs weak IPR laws that allow counterfeits to sell freely in the market. Reckitt marketed Dettol, Mortein Doom, Harpic, and Jik in East Africa. Reckitt will continue to market these products in Kenya by either importing them from its nearby factory locations or manufacturing them locally from Orbit Chemicals. P&G, Colgate, J&J, and Unilever had earlier withdrawn from Kenya. Orbit Chemicals will be manufacturing nearly 40% of Reckitt's products. Egypt has been the beneficiary of the downturn in Kenya's manufacturing, since it is getting most of the contract manufacturing jobs. P&G, Colgate, and other FMCG companies have manufacturing operations in Egypt.

Unilever Arabia is relaunching its entire Dove skin cleansing range in the Gulf region. It has packaged all products under the Dove line in a new treasure chest carton to make them more secure for use. It has also recently rolled out Dove hand wash.

Continuing its focus on the soft drinks business, Unilever Indonesia is buying the Buavita brand of fruit-based Vitality drinks from Ultra. Ultra will continue to act as a long-term supplier for Unilever and will produce the juices. Indonesia-based Ultrajaya is the largest producer of aseptic drinks which use UHT in Indonesia.

GODREJ

Godrej is consolidating its Middle East operations and has acquired Godrej Global Mideast FZE in the process for $1.45 million USD. Godrej intends to introduce its Cuticura, Inecto, and Erasmic brands in these markets. Godrej is looking to acquire home care brands in China, South Africa, and so on, and has raised $100 million USD for that purpose. It is looking to acquire hair color brands in China in the range of $12.5 million to $15 million USD. It has also bid for South African Enaleni Pharmaceuticals. Marico has also bid for the consumer products business of Enaleni. Godrej wants to grow its hair color business in Far East, Middle East, Africa, and South America. Godrej is competing with Marico who had earlier acquired two hair color brands in Egypt. GCPL had a revenue of $248.25 million USD revenue and it is looking to generate nearly 50% of its revenue from inorganic growth. Indian companies are looking to acquire personal care brands in countries where there is a large Indian diaspora.

PROCTER AND GAMBLE

Procter and Gamble has released a new aroma-filled dish care product, Dawn Simple Pleasures. It is available in three scents: Water Lily & Jasmine, Apple & Pear, and Lemon & Tangerine. It is available nationwide at retailer stores. P&G is supporting this launch with a $15 million USD campaign. P&G is also looking at more sales from the billion dollar Dawn line of business and is planning a $65 million USD ad campaign.

P&G has introduced an intelligent microchip-embedded toothbrush in the Oral-B line to capture more market share in the $5 billion USD brushing market. The $150 USD priced toothbrush will alert users when they brush too softly or too hard. It also indicates when to move to other parts of the mouth and when to obtain a new brush. According to P&G, 75% of people exceeding age 35 have gum disease and nearly 53% have some form of gingivitis. With this new invention, P&G hopes to increase consumer brushing time from an average of 47 seconds to the dentist recommended two minutes.

DURACELL

Duracell has introduced more durable pre-charged nickel metal hydride (NiMH) rechargeable batteries that do not need charged when opened. They retain power for 365 days when not in use and are useful for high-draining digital gadgets. They can be recharged hundreds of times. These batteries are available nationwide at a price of $12.99 for a four-pack.

UNILEVER

Unilever has launched its Lipton Kericho Estate tea (certified by Rainforest Alliance). This tea will come from Unilever's Kericho tea estate in Kenya and has been blended as black tea that can be served with milk. Unilever has committed to sustaining its Eastern Africa tea estates and the latest certification is an attestation to Unilever's commitment. Unilever Tea Kenya preserves 13,500 hectares of forest land and continues to plant more trees.

Unilever has reduced the salt content of its noodle brands by 50%. It has developed more salt-reduced pot noodles, while maintaining taste. UK companies have reformulated $15.1 billion USD worth of products with lesser salt, according to the Food and Drink Federation. The Food Standards Agency has set the UK guideline at 6g of salt per day by 2010 to reduce potential risk exposure to cardiovascular disease and stroke which are being associated with high-salt consumption. Unilever has also reduced fat content in its snacks and is pushing its low-fat content snacks.

KAO

Kao has introduced a new flavor in the Healthya Green Tea series with approval from the Ministry of Health, Labour and Welfare of Japan to be labeled as a Food for Specified Health Use (FOSHU) due to its effect on body fat. The Healthya series aims to control obesity and body fat with Healthya Green Tea, Healthya Water, and Healthya Green Tea in its line. The new Healthy Green Tea Mellow flavor restricts the bitter taste of Healthya Green Tea. Regular intake will have its effect on reducing body fat due to the presence of tea catechin.

Kao is launching a steam-generating thermo pad, Megurism Steam Eye Mask, which will provide comfort to stressed eyes. The mask's launch comes as Internet usage increasingly penetrates into people's lives, putting the eyes under evermore strain. The masks are aimed at the 87.54 million Internet users in Japan.

Kao will be relaunching its global hair brand Asience® shampoo, conditioner, treatment, and rich and condensed hair mask, using advanced technology developed from Kao's ongoing research of hair structure. The new product will help support supple hair targeted specifically for Asians. This product will act on 18-MEA which provides the cuticle's protective coating and, when damaged by chemical treatment, causes hair problems. Kao's product will fix 18-MEA strongly to the hair.

ENVIRONMENTAL AND INGREDIENTS CONCERNS

Consumer concern over the ingredients in the products they use has increased, especially after the Mattel Toy recall and other Chinese production recalls recently. Also safe cosmetics lobbies like the Environmental Survey Group (ESG) have been making their voice heard over the Internet. Recently ESG said that there are over 383 cosmetic products in the US which are banned in other countries. The cosmetics industry is a self-regulated industry, which has given rise to more concerns. A recent survey by Woodrow Wilson International Center has revealed that nearly 70% of Americans have little or no awareness of nanotechnology, which is used in the personal care market in a number of formulations, particularly sun care and anti-aging treatments. The center stated that the number of personal care products using nanotechnology has risen to 85 from 58, cosmetic products (differentiated from personal care) using nanotechnology has risen to 89 from 75 and that of sunscreens to 27. The Environmental Survey Group, and Friends of the Earth are asking for compulsory labeling and strict testing prior to release. The industry needs to be proactive in educating consumers about the ingredients used in cosmetics. These safety concerns are one of the reasons for consumers shifting to natural and organic-based cosmetics and personal care items.

From January 1, Singapore will be implementing the ASEAN (Association of South East Asian Nations) Cosmetic Directive. The ACD makes it mandatory on the companies to notify the country's regulatory authority and provide a product safety declaration. The ACD has been designed to be aligned with the European Cosmetic Directive. It provides guidelines on "not permitted" ingredients, approved ingredients, preservatives, labeling requirements, guidelines on claims, and so on.

Starting with a pilot group of 30 personal care manufacturers, Wal-Mart will be forcing suppliers to report greenhouse gas emissions in their manufacturing facilities for the products supplied to Wal-Mart. Wal-Mart wants to extend this pilot group to about 68,000 suppliers. In August, Wal-Mart barred many suppliers based on their workforce practices. Wal-Mart is already asking its suppliers to prefer greener packaging. Wal-Mart hopes that these efforts will save suppliers approximately $3.4 billion USD a year in costs.

The Food and Drug Administration has issued a stern warning to P&G regarding its "unlawful" marketing claims about its Vicks hand sanitizer. According to the FDA, P&G's instructions to let the sanitizer dry off on hands is cause for concern since the ingredient within the sanitizer, triclosan, needs to be rinsed off. P&G also claims that there is no sufficient evidence that the product is effective in preventing colds.

P&G has filed a legal motion to prohibit Kraft from marketing its Maxwell coffee in plastic containers, since it infringes on P&G's patented Folgers plastic canister. The Folgers plastic canister has been the preferred choice by consumers and has helped P&G grow Folgers sales. Maxwell coffee has recently released a plastic container for Maxwell coffeehouse which has made P&G take steps to protect its innovation.

The Middle East, which is a shopper's paradise, is being hit by counterfeit cosmetic goods, which has grown into a $210 million USD business in the Gulf region. Fake care parts business is a $150 million USD business. According to the World Customs Organization, Dubai's Jebel Ali Free Zone is considered to be one of the easiest entry points for counterfeit goods. Almost all designer brand cosmetics have counterfeit counterparts with almost identical packaging. Dubai exports to all the other countries in the Gulf region. The Arab league had signed up Hemaya Universal, an anti-counterfeit specialist firm, based in Jeddah. Hemaya estimates that counterfeiting and piracy costs the Arab region $50 billion USD annually.

GROWTH OF ORGANIC AND NATURAL COSMETICS

According to the Organic Monitor, the $7 billion USD organic and natural cosmetics category is growing at a 20% annual growth rate and is expected to account for 15% of the personal care market in the next few years. Driven by knowledgeable customers, organic cosmetic products manufacturers have significantly increased their distribution channels. As a result, the market is expected to reach $10 billion USD by 2010. Large-mass merchandisers are stocking up on these products, in response to demand for greener products. Europe, North America, Australia, and Japan are currently driving the growth. In the UK and Germany, retailers are not only marketing natural and organic cosmetics, but are also launching their own private labels.

Due to lack of certification bodies in the US, fast-growing organic sector participants are looking to Europe for organic and natural certification for their products, according to Organic Monitor. The current necessity for certification has arisen due to the need for differentiation in an oversaturated market and also growing consumer awareness and need for safety assurance. Ecocert (French-based), The Soil Association (British-based) and BDIH (German-based) are the certifying bodies in Europe.

THAILAND

Thailand imports from the US were around $52 million in 2006, according to the US Census in Toiletries and Cosmetics segment, out of which skin care products and high-end facials accounted for $30 million USD. In the first half of 2006, market participants registered a growth rate of 12.5% and expect the overall growth rate in 2007 to be 10%. The Thai cosmetics market is expected to have a size of $425 million USD in 2008 with imports accounting for $137 million USD and local production accounting for $460 million USD (exports being $172 million USD).

The facial care market has a size of $205 million USD. Sixty percent of cosmetic imports are anti-wrinkle and anti-aging lotions and creams. Anti-aging products accounted for $90 million USD while facial whitening and lotions accounted for $102 million USD. Estee Lauder, Clinique, Lancome, Ponds, Nivea, and Oil of Olay are leading brands. Medicated facial creams accounted for $13 million USD. The body lotion market had a size of $100 million USD with Nivea, J&J, Vaseline, Clinique as leading brands. Sun Screen lotions had an estimated market of $31 million USD in 2006, out of which facial sunscreens had the largest share, followed by body lotion and suntan lotions.

Increasing health awareness has increased the use of cosmetic products in Thailand. Both low- and high-end anti-aging products have the largest appeal in Thailand in line with global trends. Skin whiteners are also popular with the dark-complexioned Thais. Male skin care products are also gaining acceptance.

The skin care market is expected to grow between 15-20% until 2009. Thailand imports skin care products primarily from the US, followed by France, Japan, UK, China, Germany, Italy, and Switzerland. Cosmetics are marketed primarily through direct sales, followed by counter sales and then hanging sales. Thailand has 32 million people in the range of 15-45 years old.

Texas-based Mary Kay with $2.25 billion USD 2006 revenue has entered the $625 million USD Indian cosmetics industry as Mary Kay Cosmetics Pvt Ltd. Mary Kay has more than 350,000 Mary Kay independent beauty consultants in the Asia-Pacific region. Mary Kay feels that the Indian skin care market offers good opportunities because it accounts for 50% of the Indian cosmetic market and has a growth rate of 40%. Hence the company has introduced products attuned to the Indian climate and is targeting upper middle class women. Mary Kay faces tough competition from Oriflame which sells similar products. Mary Kay is looking at its beauty centers as differentiators.

The following information was obtained via an interview with Unilever India.
SIS International Research partner IntelliIndia interviewed Hindustan Unilever Limited (HUL).
Hindustan Unilever has a workforce of 15,000 and 47 offices.

ATTRACTIVENESS OF INDIAN MARKETS

The Indian market is attractive to HUL because it has witnessed a return in growth and has been registering an increased growth momentum. The FMCG market in India at a basic level has a huge long-term growth opportunity of driving penetration, consumption, and upgradation across categories. Other positive macroeconomic factors include a strong GDP growth, positive demographics (younger population, increasing trend for self indulgence, increasing income levels and spending power of the consumers), modern trade growth, and promises of a good long-term opportunity for the sector.

STRATEGIES FOR GROWTH

HUL opines that their strategy would be to continue to maintain leadership in its key categories and to drive competitive growth across the categories. HUL's established leadership positions across over 20 categories, its strong equity, and consumer preference makes HUL well-positioned to leverage on the opportunity in India. HUL's portfolio provides the ability to leverage on the opportunity for increasing consumption and consumer up gradation through diverse and differentiated value offerings.

DISTRIBUTION STRENGTH

HUL's strong cost-competitive position and its distribution strengths provide long-term competitive advantages that complete their portfolio strengths. Through innovative programs such as Project Shakti and Lifebuoy Swasthya Chetna, they are building on their existing competitive strengths. For example, Project Shakti represents a unique opportunity to directly access rural consumers who are otherwise not reached by the traditional distribution model. HUL currently reaches consumers in over 10,000 villages across 15 states. In areas where Shakti has been operating for more than four years, HUL contributes to about 20% of the rural sales in those areas. This is a huge competitive advantage for the company.

PIONEERING PROGRAMS

Lifebuoy Swasthya Chetna represents a pioneering approach to help brands deliver on a larger social agenda while engaging with the consumers and community. It helps to build stronger consumer preference and intimacy. This, again, helps the company leverage on the overall market opportunity in a more significant way. HUL has pioneered channel-specific programs in India well ahead of the retail explosion being witnessed today. The programs are well-established and provide a strong competitive advantage for consumers. For example, the Super Value Stores program, which is focused on general trade, now has a presence across over 70 cities and towns in the country providing them a sustainable competitive advantage driven by the strength of their portfolio and equity of their brands. The growth of modern trade in India represents a significant opportunity for HUL. HUL is investing strongly in building the right capabilities and resources to leverage this opportunity. This is already showing good results for them. HUL has a dominant market in the modern trade channel across the categories in which it operates, including key categories such as skin care, hair care, and fabric wash.