UNIPRO
The Italian Association of cosmetic industries

Unipro is the organisation that represents the interests of the industrial system of Italian cosmetics. This system includes both cosmetics manufacturers and their distributors.
As a trade association belonging to the Federation of Italian Chemicals Industries – Federchimica – and the Confederation of Italian Industry – Confindustria, Unipro's membership accounts for more than 95% of the gross domestic turnover generated by firms operating in the specific area of consumer chemistry, which are particularly alert to what has come to be known as "wellness culture".
For forty years, Unipro has been flanking Italian firms, stimulating their growth and development by providing qualified technical, legal, fiscal, economic and promotional assistance.

Our members

With more than 500 member firms operating both in production and in distribution and marketing, Unipro constitutes a complete, representative picture of the Italian cosmetics industry.
In terms of turnover, Italy's industry now produces goods worth nearly 8,100 million Euros, with an upward trend that has continued unabated for more than ten years, achieving significant performances in new foreign markets.
The industry provides employment for some 35,000 people.
The Italian domestic market – the third largest in Europe – consumes cosmetic products to the tune of more than 8,700 million Euros per annum.
Heirs to an art of perfumery known the world over since the sixteenth century, Italy's firms not only cover 70% of all domestic demand, but also generate consistently more dynamic rates of exports, which have been growing at an average of 5% per annum over the last ten years.

Our mission

Ever alert to the dynamics that drive the cosmetics industry's development and modifications, Unipro offers its services and its exclusive representation activities to Italian enterprise working in this sector.
Unipro provides the cosmetics industry with the essential support it needs to solve problems arising in the areas of production, of technical and legal standards and specifications and of business development and marketing.
Alert to the growth and development of the wellness industry, Unipro also focuses on those of its facets that are more closely related to the market, to promotions and, increasingly, to the processes of internationalisation.

The cosmetics industry turnover

In 2006, the Italian cosmetics industry's turnover passed the eight billion Euro milestone and surged ahead to end the year at 8.092 billion, a growth of 2.9% over the previous year.

Although the contribution made by the component destined for export is still significant, recent quarters have also shown evidence of a revival in the domestic market, which has had a positive impact on the growth of sales volumes as a whole.
Exports were up in 2006 by 5.3%, reaching a total of 2.257 billion Euros and confirming the positive development trend that has won significant recognition for products Made in Italy on foreign markets. Meanwhile, the domestic market turnover reached 5.835 billion Euros, with a 2% growth rate that at last turned upwards again, after several years of sluggish performance.
One significant feature worth pointing out is that this revival in domestic market demand has taken place in all distribution channels, although at different rates. In fact, while some channels have experienced very dynamic growth rates – pharmacies and herbalist shops both achieved growth of six percentage points – others have developed more sedately, such as the mass market, up by 0.9%, and the professional channels, up by 1.8%, although these latter are now beginning to pick up again after several years of substantial deceleration. Another channel where sales have revived significantly is the perfume shop, which grew by 2.5% compared to 2005.

COSMETICS INDUSTRY TURNOVER BY DISTRIBUTION CHANNEL (**)

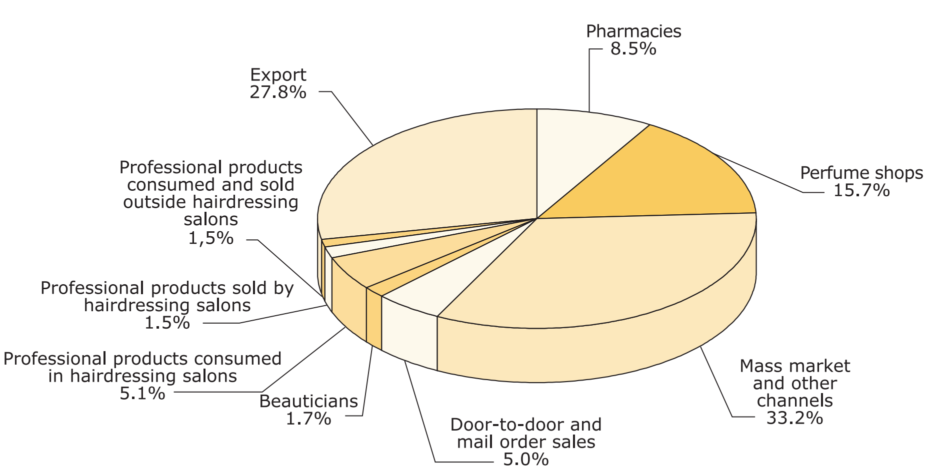
(Figures in millions of Euros)

	2005		2006	
	Value	% Var.	Value	% Var.
ITALIAN MARKET TURNOVER	**5,721.5**	**-0.8%**	**5,835.4**	**2.0%**
Traditional channels:	4,944.1	4.8%	5,044.9	2.0%
– Pharmacy	646.4	8.6%	685.0	6.0%
– Perfume shop	1,237.2	3.7%	1,268.4	2.5%
– Mass market and other channels (*)	2,661.0	4.5%	2,684.2	0.9%
– Door-to-door and mail order	399.5	4.7%	407.3	1.9%
Professional channels:	777.4	-1.1%	790.5	1.7%
– Beauty salon	133.1	-1.0%	136.4	3.5%
– Professional products consumed in hairdressing salons	407.3	-1.1%	413.4	1.5%
– Professional products sold by hairdressing salons	116.4	-1-1%	118.2	1.5%
– Professional products consumed and sold outside hairdressing salons	120.6	-1-1%	122.5	1.5%
Exports	**2,143.7**	**7.0%**	**2,257.1**	**5.3%**
OVERALL COSMETICS INDUSTRY TURNOVER	**7,865.2**	**1.3%**	**8.092.5**	**2.9%**

*(*) Includes **Herbalist** Shops with a 2005 turnover of 138.6 million Euros and a 2006 turnover of 146.9 million Euros: an increase of 6.0%.*

As in recent years, when the annual turnover is shared on a percentage basis among the various channels of distribution, the first place is occupied by the mass market, which accounts for 33.2% of all sales turnover, followed by the perfume shop at 15.7% and the pharmacy at 8.5%. Door-to-door and mail order sales are found to be singularly significant here, accounting for 5% of the total turnover.
Exports account for 28% of this turnover, confirming that this is an industry that still has the potential to discover ample scope for development, if it is compared to the share of turnover generated by the exports of other leading areas of the Made in Italy phenomenon, such as footwear, fashion and eyewear.
The first indicators for 2007 point towards continued growth trends, although certain restraints on families' buying propensities make it advisable to adopt a prudent wait-and-see approach, especially with regard to the Italian domestic market.
Fundamental importance is likely to vest in the commitment that Italy's entrepreneurs are capable of channelling towards investments in research and development, which have constituted the most directly impacting success formula for the Italian cosmetics industry for many years.

PERCENTAGE SHARES OF GROSS DOMESTIC TURNOVER BY CHANNELS OF DISTRIBUTION



(**) As Unipro already announced in the 2005 Annual Report, the categories used for compiling the professional hairdressing channel data have been subjected to a review.
As of this year, we are in a position to launch a more analytical, logical distribution of the market values, with a high degree of reliability.
The three categories used to quantify consumption under this overall heading, which now totals 752.7 million Euros, are professional products:
a) consumed in hairdressing salons;
b) sold in hairdressing salons;
c) consumed and sold outside hairdressing salons.
With reference to this last category, it is necessary to bear in mind that consumption values were rectified to 114.8 million Euros during the process of definition, as some 20 million Euros had already been included in the retail category entitled "hair and scalp products".
As for the channel's sell-in values, the three categories accounted for a total of 654.1 million Euros in 2006.

Channels of distribution

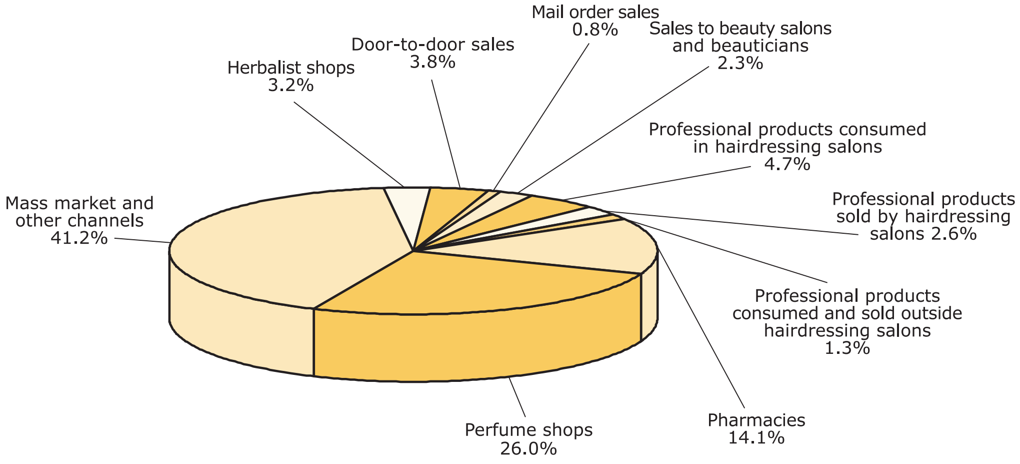
Italy's domestic consumption of cosmetic products increased by 2.2% in 2006, reaching a total value in excess of 8.770 billion Euros.
Unlike previous years, consumer's increasing buying propensity certainly had a positive effect on the domestic market, whose buying orientations and choices are also becoming increasingly specific, individualised and sometimes polarised. In fact, the only contraction recorded in 2006 can be found in mail order sales (down by 11.5%), while all the other channels confirmed positive trends, albeit at quite different rates.
In particular, the increasingly consistent growth being registered by the pharmacy channel (+6%) and by herbalist shops (+6%) is accompanied by a significant inversion in trend in the mass market (+0.5) and above all by perfume shops (+2.5) , which had both suffered severe contractions in 2005.

TOTAL ITALIAN COSMETIC MARKET IN 2006 (** SEE NOTE ON PAGE 9)

Consumption in millions of Euros – Retail prices, including VAT

		% Var. 06/05
Total sector	**8,772.9**	2.2%
Pharmacies	**1,233.1**	6.0%
Perfume shops	**2,283.1**	2.5%
Mass market and other channels	**3,612.9**	0.5%
Herbalist shops	**279.2**	6.0%
Door-to-door sales	**333.4**	5,5%
Mail order sales	**73.9**	-11.5%
Sales to beauty salons and beauticians	**204.6**	3.5%
Professional products consumed in hairdressing salons	**413.4**	1.5%
Professional products sold by hairdressing salons	**224.5**	1.5%
Professional products consumed and sold outside hairdressing salons	**114.8**	1.5%

PERCENTAGE SHARE OF CONSUMPTION BY DISTRIBUTION CHANNEL IN 2006



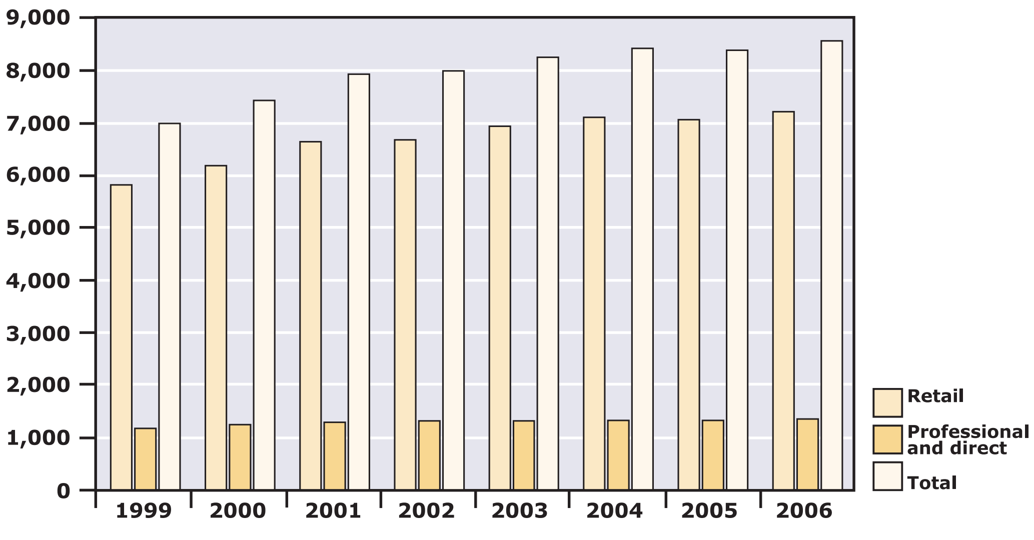
With regard to price trends, the general increase in 2006 was of the order of 2.1%, influenced by a greater price increase in the perfume shop channel (+2.4%) and by prices that held their ground in the traditional channels (+2.1%).

TRENDS IN THE COSMETICS INDUSTRY BY DISTRIBUTION CHANNELS

DISTRIBUTION CHANNELS	PERCENTAGE VARIATION		
	Consumption	Quantity	Prices
Pharmacies	6.0%	4.3%	1.6%
Perfume shops	2.5%	10.0%	2.4%
Other channels	0.9%	-1.1%	2.0%
Of which supermarkets and hypermarkets	2.4%	0.4%	2.0%
Total traditional channels	**2.2%**	**0.1%**	**2.1%**
Door-to-door and mail order sales	1.9%	-0.5%	2.5%
Sales to beauty salons and beauticians	3.5%	2.0%	1.5%
Professional products consumed in hairdressing salons	1.5%	-1.0%	2.5%
Professional products sold by hairdressing salons	1.5%	-1.0%	2.5%
Professional products consumed and sold outside hairdressing salons	1.5%	-1.0%	2.5%
Overall total	**2.2%**	**0.0%**	**2.1%**

THE EVOLUTION IN COSMETICS CONSUMPTION IN THE PERIOD 1999 - 2006

Real values, retail prices, including VAT



The long-established trend in cosmetics consumption explains the constant growth in this area, which only suffered a deceleration in 2005, in particular in the professional channels.
Meanwhile, all the other channels have kept on growing, at a rate that has seen them develop by more than 50% in the last ten years.
This overall picture for 2006 is completed by comparison with market trends in other European countries. While there is nothing surprising about Spain's 3% growth rate, it is interesting to see that there has been a revival in the markets in France (+3.5%), the United Kingdom (+6.5%) and above all Germany (+3.9%), which had suffered significant contractions in previous years. This positive development taking place all over Europe constitutes a significant opportunity for those Italian firms that export to them, as they are the destinations of more than 40% of all Italy's cosmetics exports.

PHARMACIES

In 2006, the sales of cosmetics through the pharmacy channel once again achieved a significant growth rate of 6.0%; total sales were worth more than 1.23 billion Euros, making this the third most important channel, after the mass market and perfume shops.
For several years now, this is the channel that has generated the industry's most dynamic growth rates: it is no coincidence that 2006 saw it account for no less than 14.1% of Italy's gross domestic consumption, up from 11.1% in only five years.
Quantity variation data also confirm the channel's significant performance: up by 4.3%, while prices increased by only 1.6%.
The pharmacy is the channel that has proved to be best attuned to the need to interpret the changing requirements expressed by Italian consumers, who now pay far more attention to quality of service and product specialisation. Against this background, those manufacturers who are oriented to dialogue with this channel have succeeded in applying winning strategies, such as expanding the sales assortment and using specific marketing policies. As usual, investments in product research and innovation have also been fundamental.

PERFUME SHOPS

In 2006, the perfume shop channel in general – and that part of it that is classified as selective perfumery in particular – experienced a significant revival, after several years of drastic deceleration.
With annual sales totalling more than 2.28 billion Euros and a growth rate of 2.5%, the channel accounts for 26% of the entire Italian domestic cosmetics market.
The revival featured a significant upswing in quantity volumes, which rose by 10%, as well as sustained price dynamics, up by 2.4%.
Despite an uneven situation in the channel, as development trends tend to favour chains and organised groups, firms have shown that they were ready to seize the opportunity of a revival in demand on the part of consumers who see this channel as a natural place to go for products and, above all, for service.
Selective perfumery is unquestionably the channel that is set to experience the most interesting evolution and modifications in the medium term, as it measures up to the alternative channels, such as pharmacies and herbalist shops.

MASS MARKET AND OTHER CHANNELS

The mass market is the leading channel for cosmetic product consumption, on its own accounting for a share of 41.2% of the entire market.
In 2006, the sales volume was up by 0.5%, ending the year in excess of 3.61 billion Euros, although total quantities sold were down by 1.1% and prices were up by 2%. Underneath the overall mass market umbrella, sales in supermarkets and hypermarkets increased more dynamically than average, at 2.4%, achieving a total volume of more than 2.1 billion Euros.
After seeing its market share being eroded by the pharmacies and other more specific channels in previous years, this channel's revival this year is the result of the important communications and streamlining strategies that many firms have now activated.
As consumers have gradually started showing more buying confidence again, they have found qualified responses in the mass market, featuring products that combine attractive quality-to-price ratios with an increasingly diverse assortment that also takes the new processes of consumer polarisation in the channel into account.

DIRECT SALES CHANNELS

Cosmetics sold through the direct channels account for 4.6% of the entire Italian market, with a value of just under 410 million Euros.
That being said, however, 2006 saw two radically different trends at work: while door-to-door sales flourished healthily, growing at a rate of 5.5% over the previous year, mail order sales fell drastically by 11.5%, ending the year at less than 80 million Euros.
Although the volumes at work here are relatively insignificant when seen in terms of the context as a whole, these phenomena must be monitored to achieve an understanding of what is really happening to the evolution of alternative forms of sales.
The same applies to sales via the web: this is an important new phenomenon whose very novelty makes it difficult to measure, although some important steps have been taken in this direction by firms operating in the mass market.
The only estimates now available indicate that web sales are growing at a rate of more than 20% per annum, although their volumes are still considered to be negligible.

BEAUTY SALONS

In 2006, cosmetics worth more than 204 million Euros were sold in beauty salons and spas, 3.5% up on the previous year.
Although this professional channel's consumption accounts for only 2.3% of Italy's entire domestic cosmetics market, its potential evolution should not be neglected.
In fact, the rise of wellness centres and the various permutations and combinations of spas obliges entrepreneurs to pay special attention to the products sold through this channel, which grew by 2% in quantity in 2006, with a price increase of 1.5%.
The market's revival last year should not be treated as a case of bouncing back after years on the way down, but as the confirmation of new strategy of distribution being adopted by more and more businesses all the time… and not only in Italy.

HERBALIST SHOPS

Accounting for 3.2% of all domestic consumption in Italy, the cosmetics sold through herbalist shops can now be said to have well and truly arrived: in 2006, this channel's sales were worth a total of nearly 280 million Euros, up by a thoroughly respectable 6% over the previous year.
For some time now, the channel's rates of development have been mirroring those the pharmacies, setting it apart from the rest for dynamic growth that is always a cut above the market average.
As in the pharmacy channel, sales in herbalist shops manage to cater for consumers' increasingly specific buying requirements, especially in the case of those users who want an increasingly personalised level of customer service and assistance, as well as natural products.
Ample proof of this can be found in the significant increase in specialised points of sale and corners opening up all the time.

HAIRDRESSING SALONS

Emerging from the doldrums that afflicted previous years, 2006 brought a revival for the cosmetic products used for professional services and sold in salons, which increased by 1.5% to a market value of 752.7 million Euros.
As already mentioned in the note on page 9, these market values are now divided between professional products consumed and sold in salons, which were worth a total of 637.9 million Euros, and the ones consumed and sold outside salons, which ended the year at 114.8 million Euros.
This generalised revival in sales values was supported in 2006 by a 2.5% increase in prices. Contributions to this revival certainly came from female clients' return to hairdressing salons and the re-evaluation of retail activities, which reached a value of 225 million Euros, partly as a result of the incentives included in the new hairdressing profession framework law.

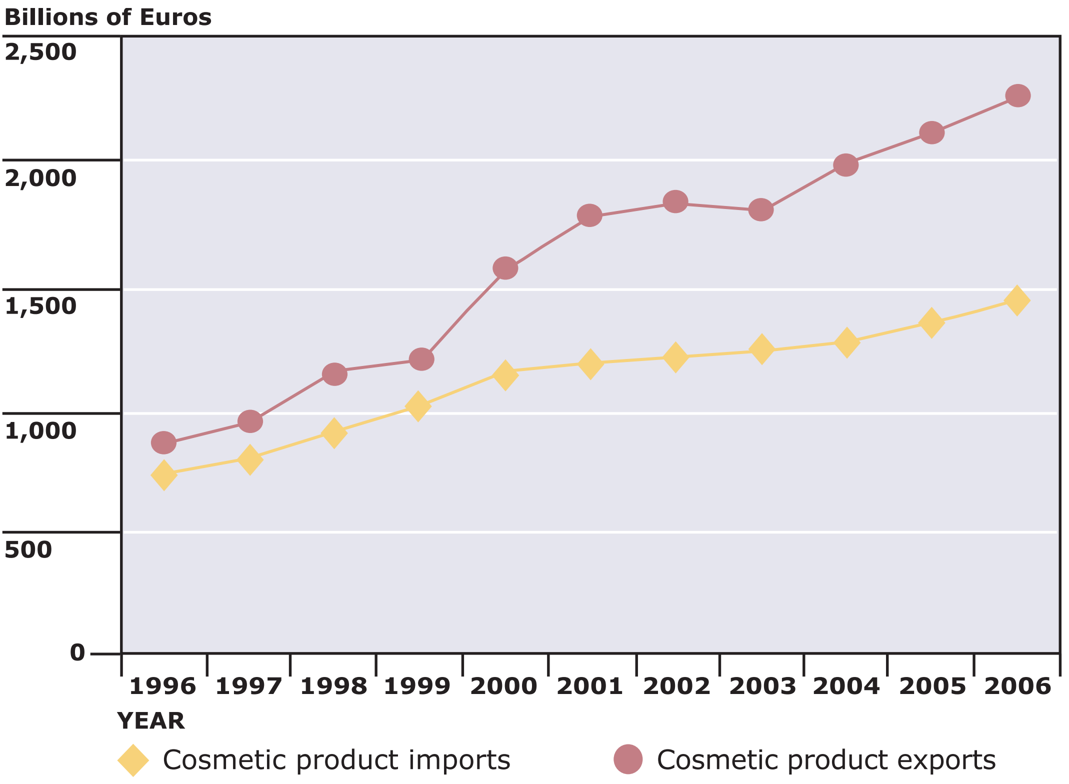
Imports and exports

Our analysis of the foreign trade data generated by the Italian cosmetics sector is based on the statistics drawn up every year by the Unipro Study Centre, starting from the official figures supplied by the Italian national statistics office ISTAT. For this reason, it is necessary to point out that every year the ISTAT revises the data relative to the previous year, applying corrective measures identified in the course of the period of detection: it therefore follows that the statistics drawn up by Unipro also modify the values attributed to the related years. With rare exceptions, however, these alterations are only marginal.

2006 saw no change in the scissor effect, whereby the value of Italy's cosmetics exports – up by 5.3% to a total of more than 2.25 billion Euros – tends to increase more rapidly than the value of its cosmetics imports, which were up by 4.5% to just over 1.43 billion Euros. As a result, the Italian balance of trade surplus has increased to more than 825 million Euros, confirming a positive trend that started as early as the first half of the nineties.

Although 2006 saw the Euro increase significantly in value against the US dollar, the currency that is still used to regulate a great many transactions, Italy's cosmetics exports reaffirmed the strong competitive edge that has been an acknowledged feature of products Made in Italy for some time. In particular, Italy's entrepreneurs have proved their ability to make significant efforts in the areas of marketing and services to enable them to compete on foreign markets, obviously without losing sight of their most important feature: continuous, methodical investment in product innovation and development. In 2006, the industry exported a total of 28% of its total turnover, a level that is still significantly lower than the ones achieved by other manufacturing sectors, such as eyewear and footwear, confirming that there is still plenty of space for further development and competitive growth.

TREND IN THE BALANCE OF TRADE



ISTAT data processed by the Unipro Study and Corporate Enterprise Centre

The analysis of the foreign trade figures by product categories reveals some interesting pointers for a better understanding of the characteristics of what Italy has to offer. For example, exporters have further developed their margins by focusing extensively on increasing volumes, which have now surpassed 380,000 tonnes, up nearly eight percentage points over the previous year, significantly more than the rate of value growth.

Creams have been the top cosmetics export commodity for some time: in 2006, they verged on a value of 540 million Euros, up 6.8% over 2005, followed by eaux de toilette and colognes, worth more than 435 million Euro, even though that figure was actually down by 3.2%.

Hair products put in yet another good performance: achieving a volume of nearly 330 million Euros, they were up by more than eleven percentage points over 2005.

The only significant decreases came from lip make-up products, down by 9.6%, and personal deodorants, down by 4.8%.

The same applies to imports: quantities increased on average at a faster rate than values. The amount of cosmetics imported in 2006 weighed just under 215,000 tonnes, an increase of 5.5% over 2005.

Nevertheless, it is significant that the mean value of imports is more than 6,670 Euros per tonne, while the mean value of exports (obviously this figure also includes semi-processed goods) is only 5,939 Euros per tonne.

As has already been pointed out before, one of the factors that influences this phenomenon is the volume of trade generated inside the multinationals.

FINISHED AND SEMI-PROCESSED PRODUCT EXPORTS

(January - December 2005 - 2006)

EXPORTS	QUANTITIES (Tonnes)			VALUE (thousands of Euros)		
	2005	2006	% VAR.	2005	2006	% VAR.
Shampoos	34,442.6	41,706.0	21.1%	72,894.5	88,129.4	20.9%
Preparations for hair	1,637.7	1,874.8	14.5%	8,141.1	9,476.1	16.4%
Lacquers	3,455.9	3,476.1	0.6%	9,047.3	9,236.1	2.1%
Hair lotions	1,119.1	1,276.5	14.1%	7,793.4	9,559.3	22.7%
Other haircare products	39,667.8	40,650.1	2.5%	196,945.7	212,360.4	7.8%
Loose and compact powders	2,820.9	3,234.8	14.7%	75,883.3	85,354.4	12.5%
Creams and other products	77,452.9	70,700.3	-8.7%	505,010.9	539,250.2	6.8%
Lip make-up products	2,879.2	2,906.1	0.9%	93,734.2	84,724.2	-9.6%
Eye make-up products	4,190.7	4,891.3	16.7%	135,058.9	148,793.0	10.2%
Nailcare products	474.0	425.8	-10.2%	4,278.7	3,907.5	-8.7%
Toilet soaps	71,336.9	80,113.6	12.3%	101,496.3	115,652.7	13.9%
Bath preparations	24,417.8	40,919.3	67.6%	56,666.6	84.101,6	48.4%
Personal deodorants	13,854.2	10,960.4	-20.9%	50,200.3	47,784.6	-4.8%
Toothpastes	20,251.0	21.121.1	4.3%	58,049.2	59,031.0	1.7%
Other oral hygiene products	1,258.7	1,105.8	-12.1%	5,658.6	5,227.5	-7.6%
Beard, pre- and after-shave products	8,002.8	9,052.8	13.1%	36,125.7	37,102.0	2.7%
Perfumes and eaux de parfum	6,698.2	6,919.9	3.3%	184,931.5	186,832.0	1.0%
Eaux de toilettes and colognes	15,261.3	14,797.5	-3.0%	451,821.3	437,429.1	-3.2%
Other perfume and toiletry products	23,362.9	23,905.7	2.3%	89,980.5	93,140.8	3.5%
TOTAL EXPORTS	**352,584.6**	**380,037.9**	**7.8%**	**2,143,718.0**	**2,257,091.9**	**5.3%**

ISTAT data processed by the Unipro Study and Corporate Enterprise Centre

Analysing the destination markets for Italy's cosmetics exports, it is important to stress that the top five countries – in order of priority France, Germany, the United Kingdom, the United States and Spain – absorb more than 45% of Italy's entire export turnover: this means that there are still quite significant opportunities for further developing and optimising Italy's processes of internationalisation.

To encourage this, the Unipro Study Centre's activities have been geared for some time to include identifying and evaluating new areas for marketing cosmetic products and developing individual markets.

One significant figure is the fact that all Italy's exports to the Asian market total just over 270 million Euros, which translates into 11% of total exports: as Asia is theoretically Italy's second export market, there is obviously plenty of scope for growth.

There is unquestionably a need to establish substantial policies of investment in internationalisation, a phenomenon that is still underdeveloped by the more than 450 small and medium-sized enterprises that belong to the association. These organisations' dimensions can certainly erect barriers to growth, but all the evidence is that there is no shortage of opportunities and levels of competitiveness.

FINISHED AND SEMI-PROCESSED PRODUCT IMPORTS

(January - December 2005 - 2006)

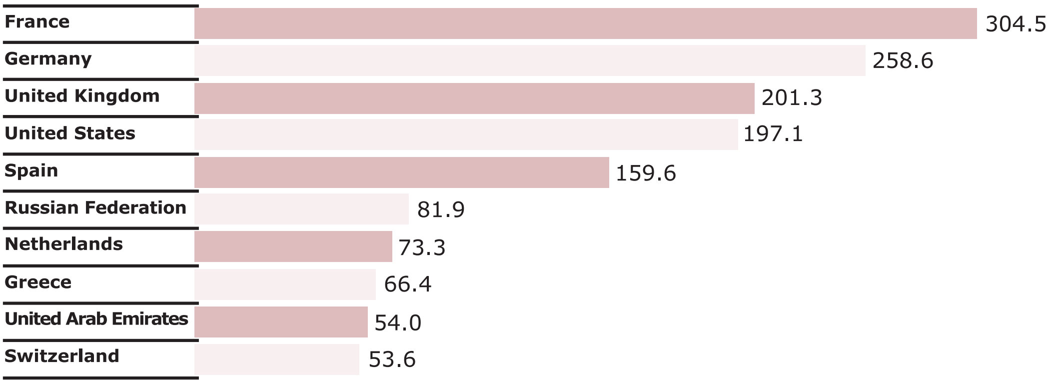
IMPORTS	QUANTITIES (Tonnes)			VALUE (thousands of Euros)		
	2005	2006	% VAR.	2005	2006	% VAR.
Shampoos	32,920.9	34,929.5	6.1%	69,354.0	75,374.1	8.7%
Preparations for hair	401.4	293.5	-26.9%	1,835.6	1,661.0	-9.5%
Lacquers	3,420.0	2,713.5	-20.7%	12,665.4	11,520.9	-9.0%
Hair lotions	3,052.7	3,498.2	14.6%	10,182.6	11,552.7	13.5%
Other haircare products	32,242.2	30,564.7	-5.2%	123,125.5	138,090.0	12.2%
Loose and compact powders	1,072.8	947.2	-11.7%	27,890.9	25,983.1	-6.8%
Creams and other products	35,351.5	35,091.5	-0.7%	430,228.1	456,272.8	6.1%
Lip make-up products	1,216.6	1,472.1	21.0%	45,451.0	48,801.2	7.4%
Eye make-up products	1,865.6	1,516.3	-18.7%	46,613.9	46,852.5	0.5%
Nailcare products	1,743.5	1,915.7	9.9%	24,642.8	24,710.1	0.3%
Toilet soaps	16,533.8	18,519.1	12.0%	33,709.6	37,879.8	12.4%
Bath preparations	17,609.9	21,790.9	23.7%	34,350.0	40,215,7	17.1%
Personal deodorants	5,238.3	6,579.3	25.6%	42,843.1	48,465.4	13.1%
Toothpastes	17,592.1	19.907.1	13.2%	61,240.0	64,175.2	4.8%
Other oral hygiene products	5,172.8	6,834.7	32.1%	27,144.7	29,046.0	7.0%
Beard, pre- and after-shave products	6,639.7	6,018.4	-9.4%	31,331.5	27,841.2	-11.1%
Perfumes and eaux de parfum	2,274.7	2,584.2	13.6%	58,802.6	68,536.1	16.6%
Eaux de toilettes and colognes	7,144.5	8,298.8	16.2%	232,431.1	225,266.0	-3.1%
Other perfume and toiletry products	11,765.3	10,872.8	-7.6%	55,294.3	48,909.8	-11.5%
TOTAL IMPORTS	**203,258.3**	**214,347.5**	**5.5%**	**1,369,136.7**	**1,431,153.6**	**4.5%**

ISTAT data processed by the Unipro Study and Corporate Enterprise Centre

Areas of internationalisation

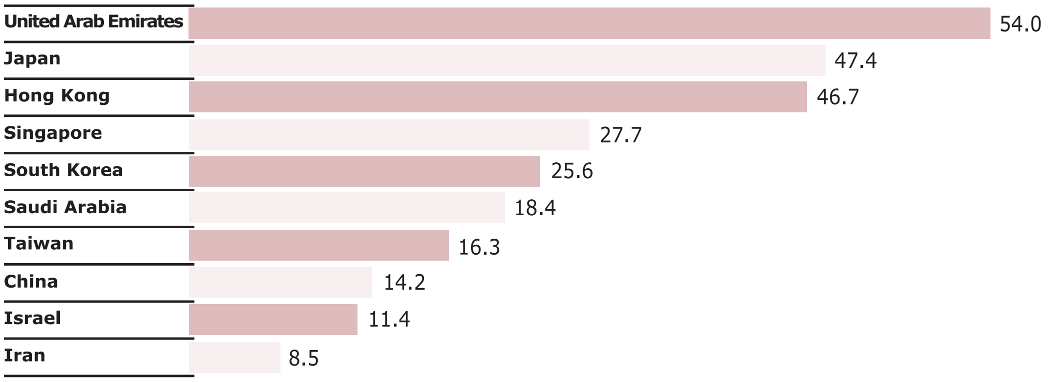
ITALIAN COSMETICS INDUSTRY EXPORTS – TOP TEN COUNTRIES

Values in millions of Euros



ASIA – THE TOP TEN COUNTRIES

Values in millions of Euros



OTHER DEVELOPING AREAS

Values in millions of Euros