

# **Beauty Report/2011**

## **Second Report on the value of the cosmetics industry in Italy**

### **Summary of the results**

On 18 May 2011, at 10.00 a.m., the second national report dedicated to the cosmetics industry, promoted by Unipro – the Italian cosmetics industry association – and drawn up by Ermeneia System Studies and Strategies, of Rome, was presented in the Hall of Columns in the Italian Chamber of Deputies' Palazzo Marini (Via Poli 19, Rome).

**1.** This is the second of these annual appointments, whose aim is to illustrate the dynamics evolving in the industry, with due consideration for three underlying requirements:

- The need to restore balance between the industry's image and its effective weight, which is far more substantial than what the general public is normally led to believe;
- The need to accompany cosmetics firms as they make their way through the current crisis and in the strategies they have adopted to overcome it;
- The need to involve not only the industry's own actors in a process of taking stock about their prospects, but also the institutions, the media and public opinion, so as to promote common understandings that can lead the entire industry more effectively towards a more consolidated, competitive future.

**2.** The 2011 Report nevertheless focuses attention not only on industrial concerns, but also on the first link in the cosmetics industry chain, which is constituted by hairdressers, who account for the most numerous category among the many actors who are involved in this chain in different ways (such as pharmacies, perfume shops, herbalist shops and beauty salons). The aim was to achieve a further step in the analysis conducted last year, which

focused attention on two further factors: on the one hand industrial enterprises and end consumers on the other.

As a whole, this year's Report has kept the same basic structure as last year's, paying special attention to the key phenomena of the year in the first part. This is then followed by an analysis of industrial concerns working in cosmetics, taking the form of the usual annual check-up conducted in the second part. The third part then comprises an exploration of the area covered by hairdressers, while a description of how the industry's leading indicators have been evolving in the course of time constitutes the fourth and final part. Rounding it all off is an Appendix that contains the results of a survey into the models of innovation adopted by cosmetic firms, which confirms, among other things, the commitment to this topic expressed by (and sometimes implicit in) the country's small and medium-sized enterprises.

**3. Zooming in now to look at the results that emerge from the 2011 Beauty Report, the following four fundamental conclusions can be drawn:**

- 1) A vigorous revival has been taking place during the last twelve months, continuing and building on the firm ability to hold its ground evidenced by the industry in the previous year. The following specific phenomena and evaluations were detected:
  - A reversal in trend of the “fundamentals” at industry level, which showed a distinct change in tone in 2010 compared to 2009: industrial product was up by 5.2% (compared to a contraction of 3.2% in the previous year), exports were up by 17.0% (compared to a drop of 11.8% in the previous year), the balance of trade improved by 28.3% (recuperating from its 13.8% fall in the previous year) and advertising investments increased by 6.8% (compared to the 9.0% reduction in budget in the previous year) (Table 1);
  - A trend in orders, among the firms examined in the survey, that was found to be positive or in any case constant but consistent in 70.1% of cases (compared to only 55.9% in the previous year), together with a forecast of further growth for the current year of 2011 (in 73.6% of cases); while the stability of employment levels was found to have increased further (passing from 47.1% in 2009 to 53.6% in 2010), coupling with a truly minimal rate of applications for recourse to

temporary lay-off and the income guarantee fund, as nine firms of out ten made no such applications at all in 2009 or in 2010, nor do they expect to do so in 2011 (Table 2);

- An evaluation among decision-makers to the effect that the process of making their way through the crisis has now been completed, considering that 32.1% of the firms surveyed suffered no consequences or have in any case overcome them, that a further 30.4% have not changed their attitude of existing in a state of constant transformation, as means of maintaining a high level of corporate competitiveness, and that a further 33.9% detect evident signs of recover from the crisis (Table 3);
- 2) The entrepreneurial strategies and behaviours detected reveal that the revival has worked in favour of the “upward incorporation” of the crisis. More precisely, it was found that (Table 4):
- Entrepreneurs have used the crisis as a means of leverage to improve their positioning on the market, to restructure their firms and to introduce product and process innovation, as 75.5% of the corporate decision-makers interviewed confirmed and as is evidently underlined by the change in quality of the strategies being adopted and declared explicitly in this year’s Report, compared to the one published last year;
  - In addition to those firms that paid special attention to specific strategies aimed at reinforcing their market presence, more than three firms in every four (77.7%) forecast a decisive increase in their degree of internationalisation, compared to the projection of those that already have a presence on foreign markets today corresponding to 31.6%;
- 3) The Report confirms the industry’s tendency to behave in a fundamentally non-cyclical manner with respect to the crisis, which was found to have spurred the industry’s more highly evolved transformation. Suffice to mention that:
- Corporate decision-makers have shown evidence of effectively non-cyclical behaviour, in this case with regard to investments, considering that only 28.6% of them admit that the negative economic situation persuaded them to reduce their commitments in this direction; meanwhile, the remaining 71.4% of interviewees continued investing with conviction, in some cases actually increasing their spending (in which case they used the crisis as a means of leveraging the process of upgrading their operating methods);

- At the same time, consumers were found to have maintained a substantially inelastic attitude to their spending on cosmetic products, as was already mentioned in the 2010 Report: this spending is now the stable occupant of the third position, coming close on the heels of outlay on food and on health respectively, in a ranking of areas of consumption that people consider to be absolutely essential or in any case very important; in addition, 62.0% of the Italian consumers interviewed stated that they had made no substantial changes to their cosmetic product buying habits, “because I cannot and should not give up caring for myself, my wellness and my looks”.
- 4) A vigorous revival, the upward incorporation of the crisis and a stable tendency on the part of the industry to behave non-cyclically do not mean, however, that all cosmetics firms are equal to one another. A process of physiological differentiation is under way that creams firms off respectively from the top and the bottom. Also in this case, the figures leave no room for doubt, as (Table 5):
  - Some firms (40.3% of them) felt the impact of the crisis, while other firms felt no impact at all or only a slight impact (57.9%);
  - Some firms (70%) report decisive increases in their order books, turnovers, exports and investments, while others (about 30% of them) declare downward trends in these fields or a modest stability;
  - Some firms (45.7% of the cases interviewed) are targeting strategies of radical evolution of a discontinuous nature, while others (52.1% of them) prefer to stick to more continuous strategies, adopting methods based on versatility and/or continuous adaptation, or simply choosing to wait things out and see how the economic cycle evolves.

**4.** The 2011 Report concludes by reiterating that it is important to observe the cosmetics industry in the sense of an industry chain that has expanded to encompass not only the industrial manufacturers in the narrow sense of the term, but also the ones working in the area of their economic multipliers and above all those who work in direct contact with consumers (such as hairdressers, beauty salons and centres, perfume shops, herbalist shops and pharmacies). It is when this broader field is taken into consideration that the chain includes more than 130,000 firms and employs a total of more than 200,000 people, who together generated a gross turnover of 8.6 billion

Euros in 2010 (Table 6). As a result, the entrepreneurs interviewed made a point of repeating that:

- “the value of the cosmetics industry is related not only to its firms’ competitive capacity, but also to their alliances with the main actors in the industry chain” (73.7% agreed with this statement);
- “there is a need to invest more in those components of the distribution chain that are more prepared to grow, on the basis of updated market strategies and of a decisive improvement in management (66.6% agreed with this statement).

If all of this is taken into consideration, the efforts being made by cosmetics firms as they progress along the road that will enable them to recover from the crisis once and for all can be described in terms of a dual model.

The first of these models takes the form of an array of strategically designed initiatives promoted autonomously by the industry and aiming at involving young people, individual components of the industry chain and even banks and financial institutions, as demonstrated by the high degree of agreement among the survey’s interviewees with the proposals tabled for their consideration (and listed in Table 7 below).

The second of these models is one that involves the public sector more closely, in a campaign whose purpose is a possible reduction in fiscal pressure on profits, to support firm’s efforts to work in foreign markets and to improve the regulations and controls that put the principle of reciprocity of customs barriers into practice, but also acts to stem the inflow of counterfeit or illegally imported products (as described in Table 8 below).

In conclusion, it is fair to say that the cosmetics industry has given evidence of a significant ability to navigate its way positively through the crisis, demonstrating not only a capacity to hold its own well, but also and above all the ability to reinvest on its own behalf, factoring in the challenge that the crisis constituted for firms at the highest levels.

For this reason, the new phase that is starting now is one in which we need to imagine a co-ordinated season of growth, when all actors can and should play their parts to the best of their abilities: this applies primarily to enterprises, of course, but also to their professional and business associations, public-sector decision-makers and even the banks and finance companies that work in contact with the industry’s firms.

Table 1 – Interpreting the crisis “objectively” (\*)

Phenomena	Data			
	2007	2008	2009	2010
<i>Trend in industrial production compared to previous year (percentage increments)</i>				
- Total Italy (net of energy) <sup>1</sup>	1.7	-3.4	-18.9	6.4
- Total Italy (non-durable consumer goods) <sup>1</sup>	0.4	-0.9	-7.2	-2.2
- Total cosmetics industry (including exports) <sup>2</sup>	2.0	0.9	-3.2	5.2
<i>Trend in exports compared to previous year (percentage increments)</i>				
- Total Italy (net of energy) <sup>3</sup>	9.6	0.4	-20.5	17.0
- Total cosmetics industry <sup>4</sup>	1.0	1.4	-11.8	17.0
<i>Trend in cosmetics industry balance of trade<sup>4</sup></i>				
- In millions of Euros at current prices	782	747	644	826
- % increase year by year	-4.9	-4.5	-13.8	28.3
<i>Trend in cosmetics consumption in Italy<sup>5</sup></i>				
- In millions of Euros at current prices	9,073.9	9,145.7	9,171.4	9,261.8
- % increase year by year	2.7	0.8	0.3	1.0
<i>Cosmetics industry advertising expenditure<sup>6</sup></i>				
- In millions of Euros at current prices	566.3	571.8	520.3	555.6
- % increase year by year	1.5	1.0	-9.0	6.8

(\*) Cf. Table 1, page 24 of the Report.

(1) Source: ISTAT (February 2010-February 2011). (4) Cf. Table 9, Part four, page 143.

(2) Cf. Table 8, Part four, page 142. (5) Cf. Table 4, Part four, page 137.

(3) Source: ISTAT (February 2010-February 2011). (6) Cf. Table 10, Part four, page 144.

Source: *Ermeneia Survey – System Studies & Strategies for Unipro, 2011*

Table 2 – Entrepreneurs’ opinions about trends in orders and employment (\*)

Phenomena	Data		
	2009/2008	2010/2009	2011/2010 (forecasts)
<i>Evaluation of trends in orders<sup>1</sup></i>			
- Vigorous and/or discreet + constant but consistent growth	55.9	70.1	73.6
- Slight and/or marked + constant but modest decrease	44.1	29.9	26.4
<i>Evaluation of trends in employment<sup>2</sup></i>			
- Significant + slight increase	32.4	37.5	32.2
- Stable trend	47.1	53.6	58.9
- Slight + significant decrease	20.5	8.9	8.9
<i>Applications for temporary lay-off<sup>3</sup></i>			
- Significant + slight increase	4.6	5.6	3.7
- Substantially stable	-	3.7	5.6
- Slight + significant decrease	3.1	-	-
- No applications for temporary lay-off	92.3	90.7	90.7

(\*) Cf. Table 2, page 25 of the Report.

(1) Cf. Table 5, Part two, page 61.

(2) Cf. Table 8, Part two, page 66.

(3) Cf. Table 9, Part two, page 67.

Source: *Ermeneia Survey – System Studies & Strategies for Unipro, 2011*

*Table 3 – Corporate and personal evaluations (\*)*

<i>Phenomena</i>	<i>Data</i>	
	<i>Spring 2010</i>	<i>Spring 2011</i>
<i>The passage through the crisis has now been completed<sup>1</sup></i>		
- To tell the truth, my firm was influenced only slightly/not at all by the current crisis	19.6%	32.1%
- The crisis is now a thing of the past for my firm	12.5%	
- Quite apart from the current crisis, my firm exists in a state of constant transformation necessary to remain stably competitive	30.4%	33.9%
- My firm is still working its way through the crisis, but there are consistent and/or very consistent positive signs of revival	14.3%	
- My firm is still working its way through the crisis, but there are some positive signs of revival	10.7%	
- My firms will only be out of the crisis with effect from the 2011 financial year	8.9%	
- My firm is still suffering from all the effects of the crisis	3.6%	
<b>Total</b>	<b>100.0%</b>	
<i>Entrepreneurs are prepared to run risks personally<sup>2</sup></i>		
- I feel committed to developing the firm, because I still see some good prospects, despite any difficulties brought about by the crisis, and because I am still prepared to stake my fortune on the future	92.4%	96.3%
- I would still be prepared to stake things on the future as far as my firm is concerned, but for all sorts of reasons I prefer to make way for others	7.6%	3.7%
- For a variety of corporate and personal reasons, I prefer to close my business	-	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(\*) Cf. Table 3, page 28 of the Report.

(1) Cf. Table 4, Part two, page 59.

(2) Cf. Table 16, Part two, page 80.

Source: *Ermeneia Survey – System Studies & Strategies for Unipro, 2011*

Tab. 4 – The crisis as an opportunity for developing strategies (\*)

Phenomena	Data	
<i>Spring 2011</i>		
<i>The crisis as a lever for growth</i> (opinions “agree very much + agree quite a lot”) <sup>1</sup>		
– “In actual fact, the revival that picked up vigorously in the last months of 2010 and continued into the first months of 2011 means that cosmetic firms have now pulled out of the crisis”		54.4%
– “Firms are using the crisis to reposition themselves on markets, to restructure and to innovate products and processes”		75.5%
<i>The upward thrust of general strategies</i> <sup>2</sup>		
	<i>Adopted in 2010</i>	<i>Adopted for 2011 and beyond</i>
– Wait patiently while the crisis runs its course	3.8%	4.3%
– Adapt to the situation progressively with the necessary flexibility	62.2%	47.8%
	66.0%	52.1%
– Reposition, restructure and reorganise the business	15.1%	37.0%
– Promote a real metamorphosis in the firm’s strategy and management	1.9%	8.7%
– No strategy, as the crisis impacted only slightly or not at all on the firm	17.0%	2.2%
	17.0%	45.7%
<i>Structural problems to solve and specific strategies to adopt</i>		
– The top six structural problems (judged to be “very important + quite important”) <sup>3</sup>		
• The firm does not yet have a suitable presence in new markets		79.6%
• The firm needs more and more detailed knowledge about consumers’ new attitudes, so also about marketing		58.7%
• The firm’s level of internationalisation is too low		55.1%
• The firm does not perform well enough in terms of commercialisation		43.8%
• The firm has no brand policy or its brand policy is too weak		32.7%
• The firm is lacking in innovation in terms of customer services		23.4%
– Evolution of specific strategies in response to structural problems <sup>4</sup>	<i>Adopted to end of 2010</i>	<i>Adopted from 2011 onwards</i>
• Promoting vigorous product innovation	1° (54.9%)	5° (47.3%)
• Giving a new boost to internationalisation activities	2° (43.1%)	2° (56.4%)
• Developing marketing actions coherent with consumers’ new attitudes	3° (41.2%)	1° (58.2%)
• Promoting new markets	4° (39.2%)	3° (52.7%)
• Promoting vigorous innovation in terms of customer service	5° (39.2%)	4° (49.1%)
• Promoting a distribution and commercialisation strategy	6° (35.3%)	6° (43.6%)
<i>Enhancing firms’ internationalisation</i>		
– Current level of internationalisation among firms interviewed: <sup>5</sup>		
• Firms with a high degree of internationalisation compared to similar Italian firms	22.8%	31.6%
• Firms with some greater degree of internationalisation compared to similar Italian firms	8.8%	
– Orientation towards further increasing the firm’s level of internationalisation <sup>6</sup>		
• Very decisive growth	14.8%	77.7%
• Gradual but significant growth	62.9%	

(\*) Cf. Table 4, page 32 of the Report.

(1) Cf. Table 12, Part two, page 72. (4) Cf. Table 15, Part two, page 79.

(2) Cf. Table 13, Part two, page 74. (5) Cf. Table 19, Part two, page 84.

(3) Cf. Table 14, Part two, page 76. (6) Cf. Table 20, Part two, page 86.

Source: *Ermenia Survey – System Studies & Strategies for Unipro, 2011*

## Federchimica - Confindustria

20131 **Milano**, Via Accademia 33  
tel. +39 02 281773.1 - fax +39 02 281773.90  
www.unipro.org - unipro@unipro.org  
Codice Fiscale 80052390152

Tab. 5 – Areas of diversification (\*)

Phenomena	Data	
	In 2009	In 2010
<i>First group</i>		
- Firms that felt a strong + reasonable impact from the crisis <sup>1</sup>	42.7%	40.3%
- Firms that felt little or no impact from the crisis <sup>1</sup>	55.8%	57.9%
<i>Second group</i>		
- Orders increasing + constant but consistent <sup>2</sup>	55.9%	70.1%
- Orders decreasing + constant but modest <sup>2</sup>	44.1%	29.9%
- Turnover increasing + constant but consistent <sup>3</sup>	55.9%	68.4%
- Turnover decreasing + constant but modest <sup>3</sup>	44.1%	31.6%
- Exports increasing + constant but consistent <sup>4</sup>	51.9%	60.5%
- Exports decreasing + constant but modest <sup>4</sup>	48.1%	39.5%
- Investments increasing + constant but consistent <sup>5</sup>	60.7%	69.1%
- Investments decreasing + constant but modest <sup>5</sup>	39.3%	30.9%
<i>Third group</i>		
- More than 30% of turnover generated from internationalisation <sup>6</sup>		41.0%
- Less than 30% of turnover generated from internationalisation <sup>6</sup>		59.0%
- Repositioning and/or metamorphosis strategies (for 2011 and after) <sup>7</sup>	17.0%	45.7%
- Strategies of continuity (declared to 2010) <sup>7</sup>	66.0%	52.1%
- Orientation favourable towards collaborating with other firms <sup>8</sup>		44.2%
- Orientation unfavourable and/or prudent towards collaborating with other firms <sup>8</sup>		55.8%

(\*) Cf. Table 7, page 39 of the Report.

(1) Cf. Table 1, Part two, page 56. (5) Cf. Table 10, Part two, page 69.

(2) Cf. Table 5, Part two, page 61. (6) Cf. Table 18, Part two, page 84.

(3) Cf. Table 6, Part two, page 62. (7) Cf. Table 13, Part two, page 74.

(4) Cf. Table 7, Part two, page 63. (8) Cf. Table 21, Part two, page 87.

Source: Ermeneia Survey – System Studies & Strategies for Unipro, 2011

Tab. 6 – Real dimensions (\*)

<i>Phenomena</i>	<i>Data</i>
<i>The narrow confines of the cosmetics industry</i>	
– Number of active firms (2010) <sup>1</sup>	1,240
– Number of active firms with the legal form of a joint stock company (2010) <sup>1</sup>	766
– Greatest concentrations of cosmetics firms in the region <sup>2</sup>	
• Lombardy	34.7%
• Emilia Romagna	10.2%
– Number of direct employees (2010 estimate)	15,000
– Number of direct employees + economic multipliers (2010 estimate)	32,000
<i>The bigger picture of the cosmetics industry chain</i>	
– Estimated total number of firms in the chain, including: <sup>3</sup>	131,200
• Cosmetics firms	1,200
• Hairdressing businesses	80,000
• Beauty salons, beauty centres, spas and spa centres	18,000
• Perfume shops	6,000
• Herbalist shops	5,000
• Pharmacies and parapharmacies	21,000
– Estimated total number of industry chain employees, including: <sup>3</sup>	186,000-217,000
• Hairdressing businesses	96,000-112,000
• Beauty salons, beauty centres, spas and spa centres	21,600-25,200
• Perfume shops	9,000-12,000
• Herbalist shops	5,000-6,000
• Cosmetics industry (including the sales staff of manufacturers and demonstrators and promoters)	60,000-66,000
• Pharmacies and parapharmacies	25,200-29,400
<i>The industry's overall economic value</i>	
– Total turnover of the cosmetics industry (in millions of Euros at current prices at production, 2010) <sup>4</sup>	8,600.9
– Total turnover of the cosmetics industry (in millions of Euros at current prices to the public, 2010) <sup>5</sup>	9,261.8
– Cosmetic product exports (in millions of Euros at current prices, 2010) <sup>6</sup>	2,403.0
– Balance of trade (in millions of Euros at current prices, 2010) <sup>6</sup>	826.0
– Turnover per direct employee in thousands of Euros	573.4
– Exports per direct employee in thousands of Euros	160.2
– Balance of trade per direct employee in thousands of Euros	55.1
– Total advertising investments for cosmetics (in millions of Euros at current prices, 2010) <sup>7</sup>	555.6
– % of total Italian expenditure on advertising	7.0%
– % of total Italian expenditure on advertising for mass consumption	27.0%

(\*) Cf. Table 10, page 46 of the Report.

(1) Cf. Table 2, Part four, page 133.

(5) Cf. Table 4, Part four, page 137.

(2) Cf. Table 3, Part four, page 135.

(6) Cf. Table 9, Part four, page 143.

(3) Cf. Beauty Report/2010, Part one, tab. 2, page 27.

(7) Cf. Table 10, Part four, page 144.

(4) Cf. Table 8, Part four, page 142.

Source: *Ermeneia Survey – System Studies & Strategies for Unipro, 2011*

*Tab. 7 – Proposals for how the cosmetics industry itself can make firms more competitive – Opinions “agree very much + agree quite a lot” (% values) (\*)*

<i>Proposals</i>	<i>%</i>
– To launch a “Youth Project”, whose aim would be to develop the culture of cosmetics among young and very young people, as an integral (and necessary) part of good social relations; but also to present the cosmetics industry as an interesting job opportunity, as it opens the door to plenty of qualified professions	73.7
– To launch an “Industry Chain Project”, whose aim would be to improve the competitive edge of the weaker channels of distribution (by strengthening their entrepreneurialism, culture and knowledge about customers)	66.7
– To launch a “Training Project”, whose aim would be to promote training activities linked closely to cosmetics firms’ specific and short-term requirements (with customised “Service Contracts” between the Regions and the system of associations)	59.6
– To launch a “Bank Project”, whose aim would be to improve the explanation of how the cosmetics industry chain and its various components function, what they need and the vocabulary they use	47.3

(\*) Cf. Table 27, page 97 of the Report.

Source: *Ermeneia Survey – System Studies & Strategies for Unipro, 2011*

*Tab. 8 – Proposals for how public-sector projects can make firms more competitive – Opinions “agree very much + agree quite a lot” (% values) (\*)*

<i>Proposals</i>	<i>%</i>
<i>Incentive and promotion projects</i>	
– Offering tax incentives for profits that are ploughed back into investments in Research and Development	93.0
– Offering tax incentives for profits that are ploughed back into investments in Research and Development, also bearing in mind the activity of “implicit” research (the research conducted in firms without being classified formally as such)	87.7
– Offering firms the chance to receive injections of capital, using both their own resources and various forms of tax incentives (tax credits, tax incentives on profits etc.)	87.7
– Offering significant forms of incentives to encourage aggregation between firms	61.4
– Reinforcing foreign promotion activities, including by improving relations between existing promotion authorities	82.4
– As soon as possible, rationalising the various different public structures whose purpose is to promote firms’ internationalisation, while also achieving improved co-ordination of planning between different initiatives	78.9
<i>Regulation and control projects</i>	
– Promoting the principle of reciprocity, so as to reduce customs barriers between countries (especially with the Far East and the Middle East)	87.7
– Promoting more homogeneous regulation for the cosmetics industry at European level	80.7
– Developing controls and countering the spread of counterfeit and/or illegally imported products	80.7

(\*) Cf. Table 28, page 99 of the Report.

Source: *Ermeneia Survey – System Studies & Strategies for Unipro, 2011*