# FRAGRANCES IN LATIN AMERICA

## FCE COSMETIQUE 2017

MARCH 2017

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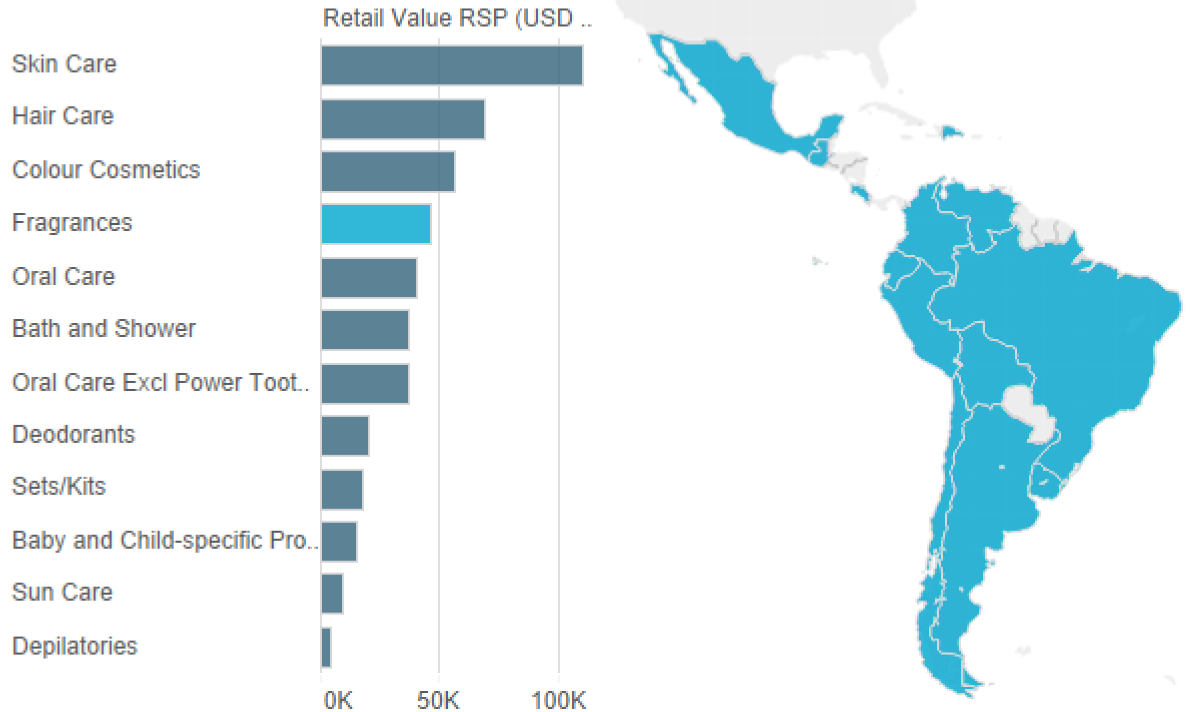
# Scope

Beauty and Personal Care: Global Fragrances in Context




All values expressed in this report are in US dollar terms, using a fixed 2015 exchange rate. 2015 figures are based on part-year estimates. All data are expressed in constant terms; inflationary effects are discounted.

The regional data represented in this report includes all markets that fall within Latin America. The countries in that region researched by Euromonitor International are highlighted in blue and country snapshots of each of these markets are available at the end of this report.

Disclaimer

Much of the information in this briefing is of a statistical nature and, while every attempt has been made to ensure accuracy and reliability, Euromonitor International cannot be held responsible for omissions or errors.

Figures in tables and analyses are calculated from unrounded data and may not sum. Analyses found in the briefings may not totally reflect the companies' opinions, reader discretion is advised.

***Latin America is a core region for fragrance despite its developing status, worth more than North America in 2015 at USD$10.7 billion. Demand clearly exists but economic turbulence has been to the detriment of the category's identity, as purchases were dictated by the times and circumstance and not by consumer choice. Improving retail infrastructure will lessen reliance on direct selling, which will lower barriers to entry and improve accessibility and variety, as well as premium's plight.***

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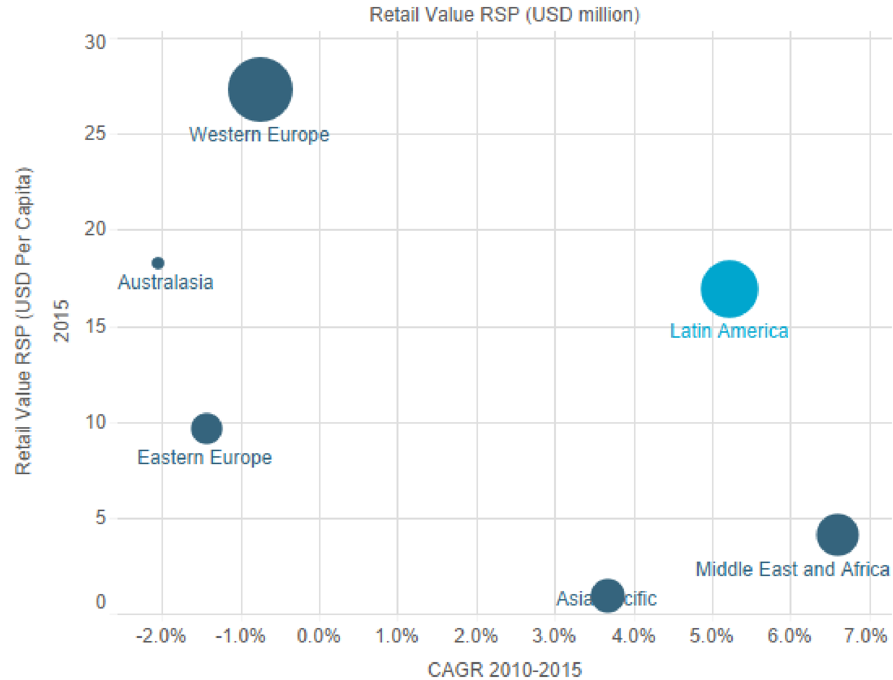
# Putting Latin America into context

- Latin America witnessed a healthy 5% CAGR in fragrances between 2010-2015, seemingly the most resilient of discretionary beauty categories, in the face of economic and political turmoil.
- In a global context, there is a clear split between the dynamism of the category and the level of development in the region. Latin America is anomalous for its developing status coupled with its sheer size of fragrances sales, amounting to USD10.7 million in 2015, sitting only behind Western Europe and ahead of North America.
- The habit of using fragrances regularly, even multiple times a day, is widespread in key nations such as Brazil, but the mass-centric environment pushes down spend per capita in the region. Cheaper alternatives to high-concentrate fragrances, such as eau de toilettes and splashes, also devalue the category.

Fragrances: Putting Latin America in Context, 2010-2015




*Note: Bubble size indicates market size in US$ million in 2015. Range displayed: US$520 to 13,523 million*



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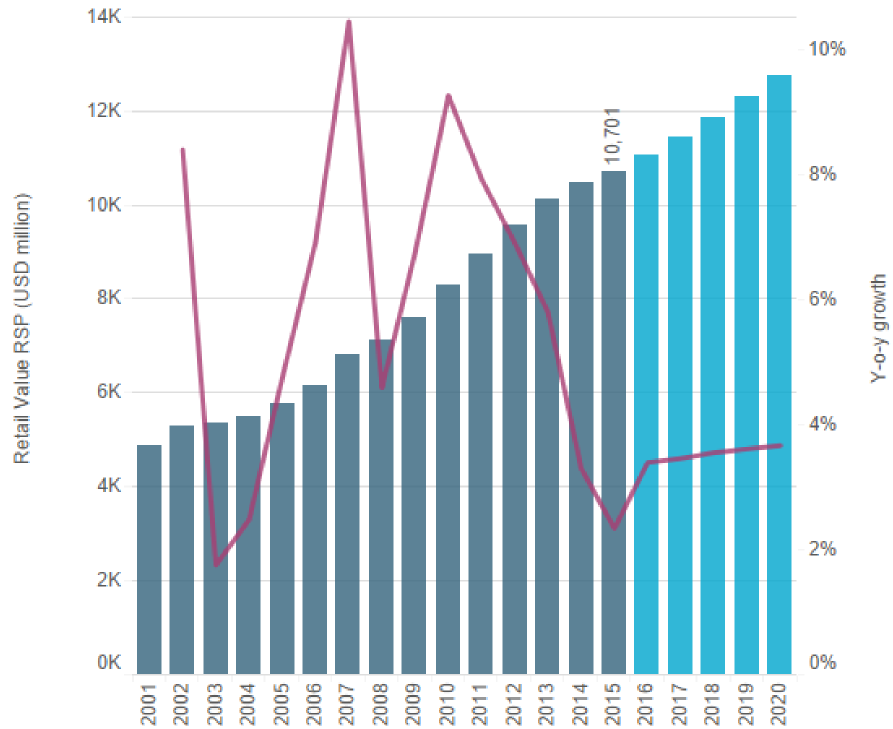
# Pace set to pick up but no signs of return to boom years

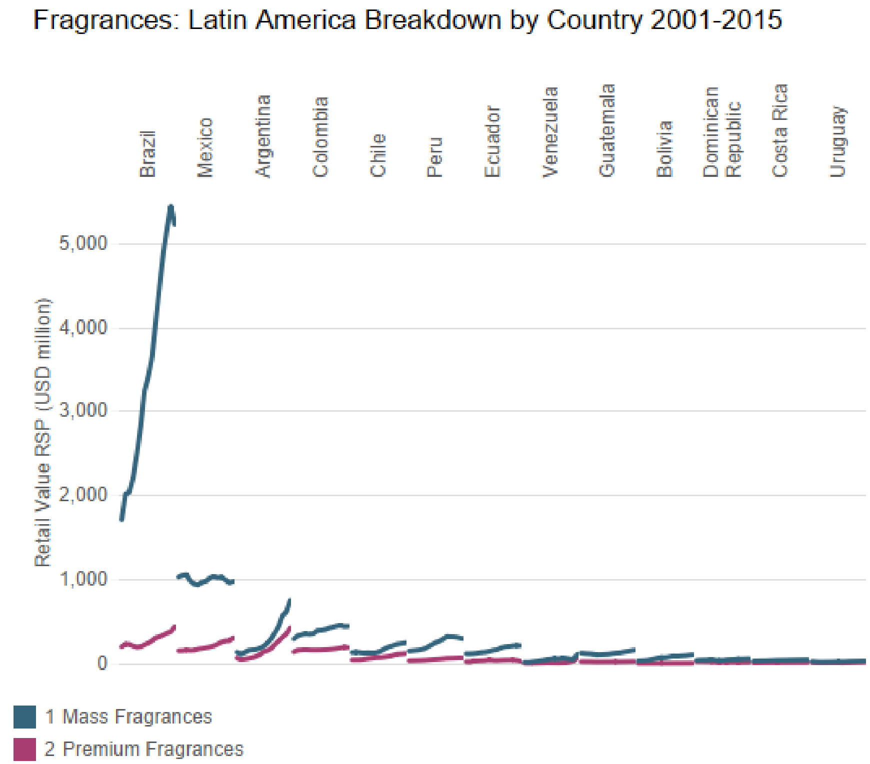
- Considering the size of the Brazilian market, much of the region's volatility can be traced back to Brazil's instability in recent years, not least the economic slowdown, currency devaluation and rising unemployment rates but also high inflation and increased IPI taxes, which had a damaging effect.
- Looking ahead, a slightly calmer picture is expected economically and politically, aided by increasing international appeal on the back of an on-the-whole successful Olympics in 2016 and the announcement of the end of the Zika epidemic at the end of that year.
- An increasingly westernised young consumer base in urban centres will contribute to brighter prospects by spurring multi-channel strategies, digitalisation and the need to offer products above and beyond the basics, tapping into new areas such as experience and personalisation.

Fragrances: Latin America % Y-o-Y Growth 2001-2020



# Argentina breaks through as the underdog

- Brazil is the largest market for fragrances in Latin America by a wide margin, although the country itself is a tale of two halves. Consumers in the northeast of the country are heavy users of fragrances, whilst interest wanes further south.
- Generally, brand name is less of a motivator in Brazilian fragrances. Instead consumers prioritise the price and the scent, leading to a dominant mass segment.
- Alongside Brazil, fragrances in Argentina saw a steep upward growth trajectory, particularly towards the end of the review period, where price distortion, due to the high inflation rate and an appreciated exchange rate, meant that fragrances were positioned as an economical product compared with other beauty and personal care products.



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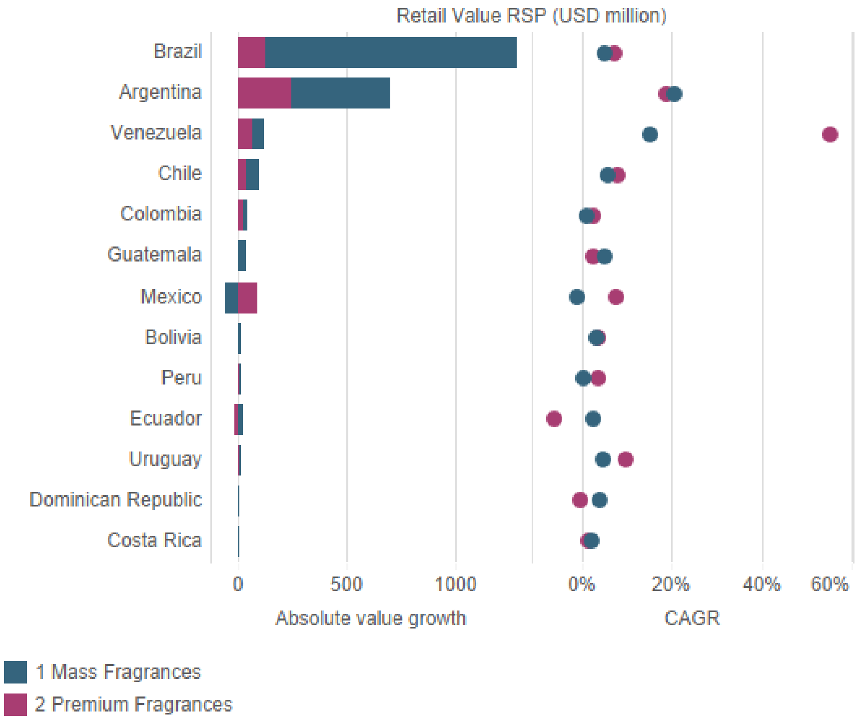
# Mass eclipses but premium is on the up

- Although mass continues to reign in value terms, premium experienced the strongest growth rates in some crucial markets between 2010-2015 including Brazil, Mexico and Colombia. In Brazil, this growth was largely attributable to the rapid rise of the brand Boticário.
- Traditionally, fragrance distribution in Latin America has been largely the domain of direct sellers, which generally play in the mass segment. As new channels emerge, such as internet retailing offering free delivery, and beauty specialist retailers, including Sephora and Beauty Box, the premium segment is gaining ground.
- In Mexico, premium grew faster by a large margin due to higher disposable incomes amongst middle and high income consumers.

Fragrances in Latin America: Breakdown by Category 2010-2015



# Consumers eschew mass in Mexico

Fragrances in Latin America: Absolute Growth (USD million) Breakdown 2010/2015

| | Mass Fragrances | Premium Fragrances | Grand Total |
|---|---|---|---|
| Brazil | 1,153 | 128 | 1,280 |
| Mexico | -57 | 95 | 38 |
| Argentina | 458 | 245 | 703 |
| Colombia | 21 | 22 | 44 |
| Chile | 59 | 37 | 96 |
| Peru | 5 | 11 | 16 |
| Ecuador | 25 | -11 | 14 |
| Venezuela | 57 | 66 | 123 |
| Guatemala | 35 | 3 | 38 |
| Bolivia | 15 | 1 | 16 |
| Dominican Republic | 10 | 0 | 10 |
| Costa Rica | 5 | 1 | 6 |
| Uruguay | 6 | 7 | 13 |
| Grand Total | 1,792 | 603 | 2,395 |

-57 1,153



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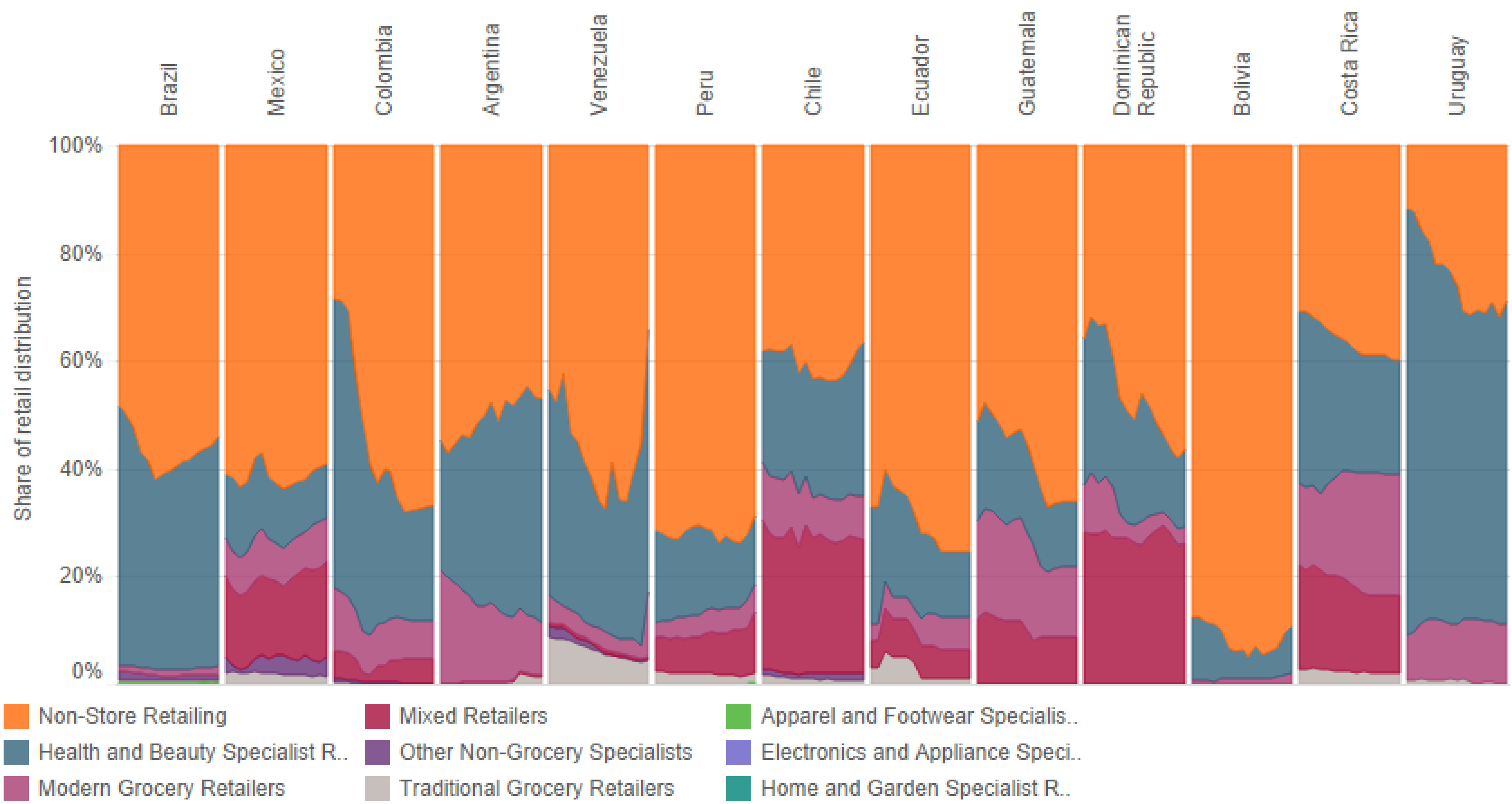
# Market is underpinned by three fundamental geographies

- Generally, between 2010 and 2015, fragrances in Latin America was a stagnant category, aside from in a few influential markets.
- The market polarity in Brazil is clear, whilst the category as a whole performed well, mass by far outgrew premium over 2010-2015, by over USD1 billion. Since price is such a key purchase motivator for Brazilian consumers, popular mass companies, such as Natura, have improved the quality of their scents at reasonable prices, meaning that mass is benefiting from a masstige revolution.
- Value growth of premium in Brazil was still notable; however, this was a consequence of the devaluation of the Brazilian real, which forced manufacturers to raise retail prices, rather than a leap in the appetite for premium scents.
- Fragrances in Mexico is dominated by international brand names, which are distributed through local affiliates or importers. In 2015, international brands accounted for a 90% share of value sales. Whilst premium brands are global brands, some mass players have a local advantage. Mass posted a USD57 million decline in Mexico over 2010-2015, thus brands have looked to new ways to pique interest in mass products. Whilst celebrity fragrances have long been popular in the country, direct seller Dirbel took a new route by launching a fragrance by a social media celebrity, True by Yuya, a revered Mexican YouTuber.
- Argentina's success story is one of volume, as low prices drove consumers to fragrance stands for personal use, but also as an ideal gift purchase, due to the low price but perceived value and status. This was more notable in the mass segment. Supporting this entry point access was the introduction of smaller bottle sizes, of around 15ml, from brands including Avon. This increased accessibility and gift giving potential.
- The performance in Chile was also healthy. Consumers in Chile are making the most of being able to tap into the previously inaccessible premium segment through promotions.

# Fragrance dominated by direct sellers

Fragrances in Latin America: Distribution by Channel 2001-2015



# Speciality stores could benefit from knock-on footfall

- Direct selling remains the leading channel for fragrances, despite a turbulent time over the previous decade and a half, ultimately leading to a 2% annual average decline in share between 2010 and 2015.
- Many direct sellers benefit simply from the affordable nature of their products. For example, in Colombia in 2015, after mass experienced some years of only modest growth, due to consumers switching to premium fragrances, skyrocketing prices of premium products forced consumers to return to the mass segment. This benefited direct sellers, particularly masstige players, such as Oriflame.
- Celebrity fragrances and fast-fashion brands, such as Zara, are also popular within the mass segment. Fedco, in Colombia, is a good example of a physical retailer capitalising on this trend, when it took part in aggressive promotion for the Sofía by Sofía Vergara launch, with a high impact sampling initiative. Fedco is reported to be pursuing a mixed price strategy, similar to that of Ulta in the US, novel in Latin America.
- In nations with increasingly sophisticated retail networks, such as Mexico, Brazil and Argentina, direct sellers have been losing ground to health and beauty specialist retailers for some years. In Mexico in 2015, Sephora and The Body Shop posted the highest value growth of all health and beauty specialist retailers. Although fragrances is more of an ancillary category in such retailers, increasing numbers of consumers looking for specialist advice in a dedicated environment are being exposed to a wider choice of brands.
- In Brazil, as prices rose on the back of the country's IPI tax, price competition was rife. Health and beauty specialists offer consumers the choice to be able to shop competitively, such as Raia & Cia and Panvel, which have begun expanding their presence throughout the nation,.
- Ecommerce has also allowed Brazilian consumers to compare prices and brands. Internet retailing share grew at 11% CAGR overall in Latin America over 2010-2015, and Brazil saw an even higher CAGR, of 14%. In Brazil, household names O Boticário and Drogasil, offer easy-to-use mobile-optimised internet retailing sites.

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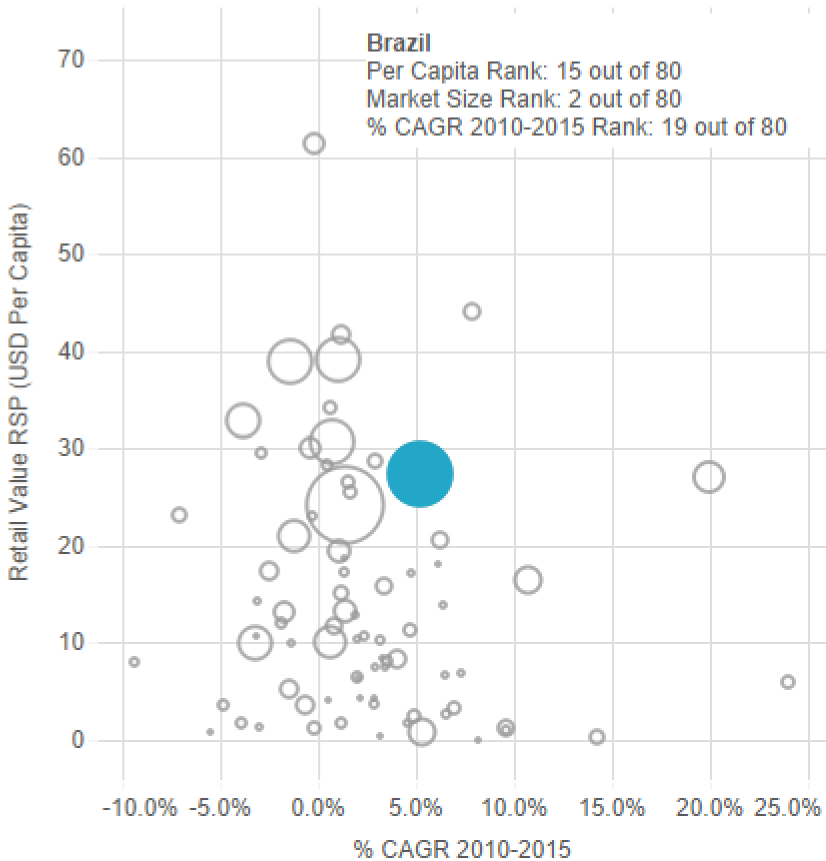
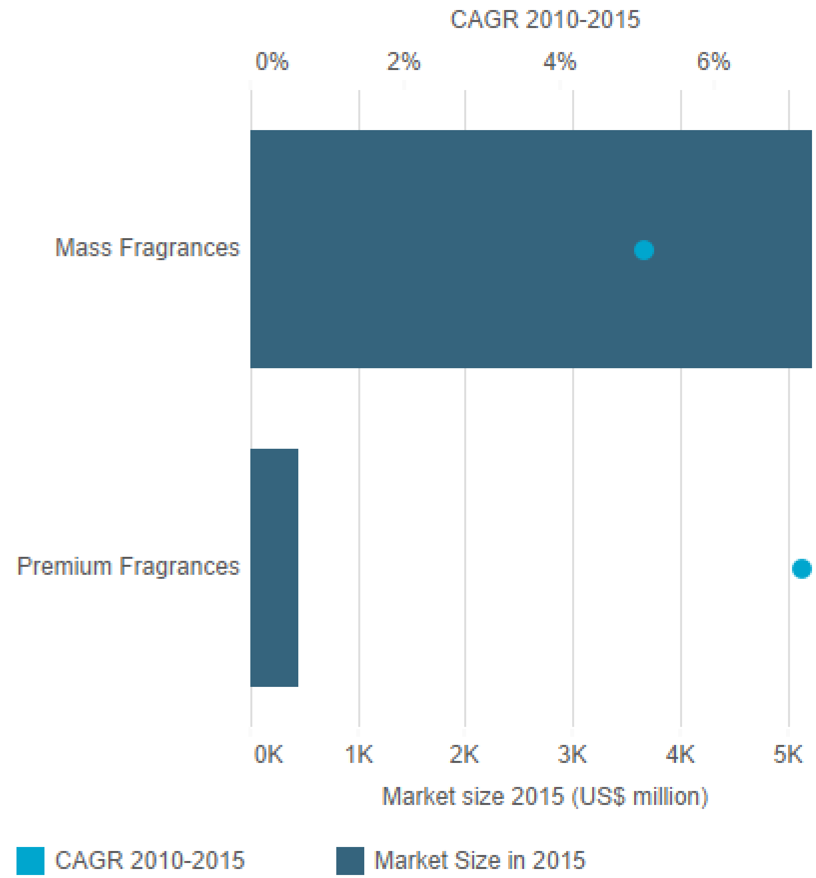
# Brazil: Market context

## Fragrances: Putting Brazil in a Global Context



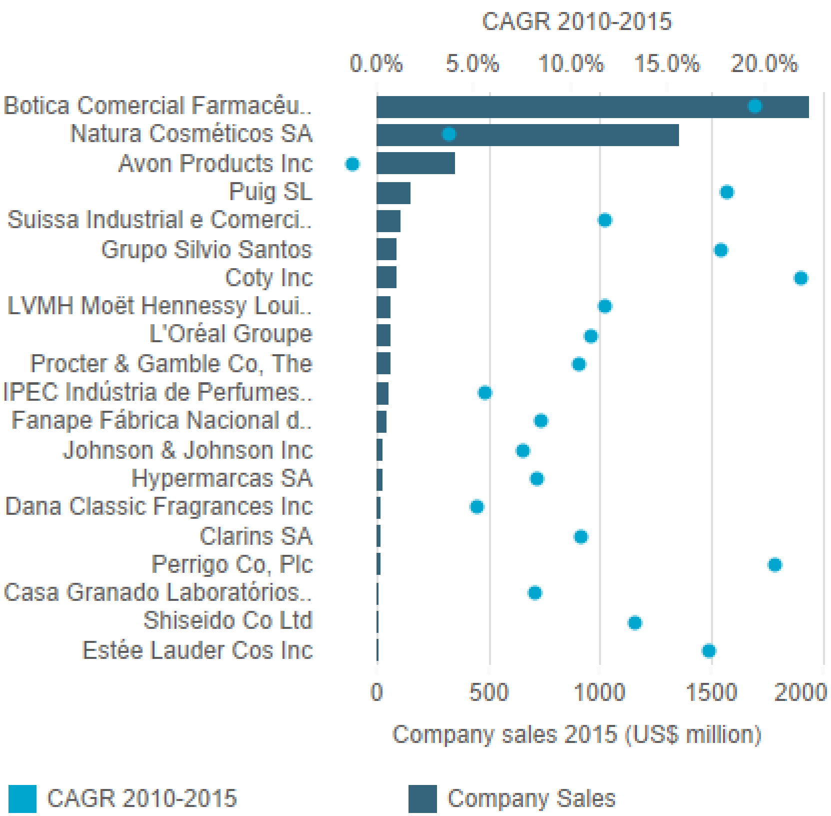

Country: Brazil

## Brazil: Fragrances Breakdown 2015 and % CAGR 2010-2015 by Type



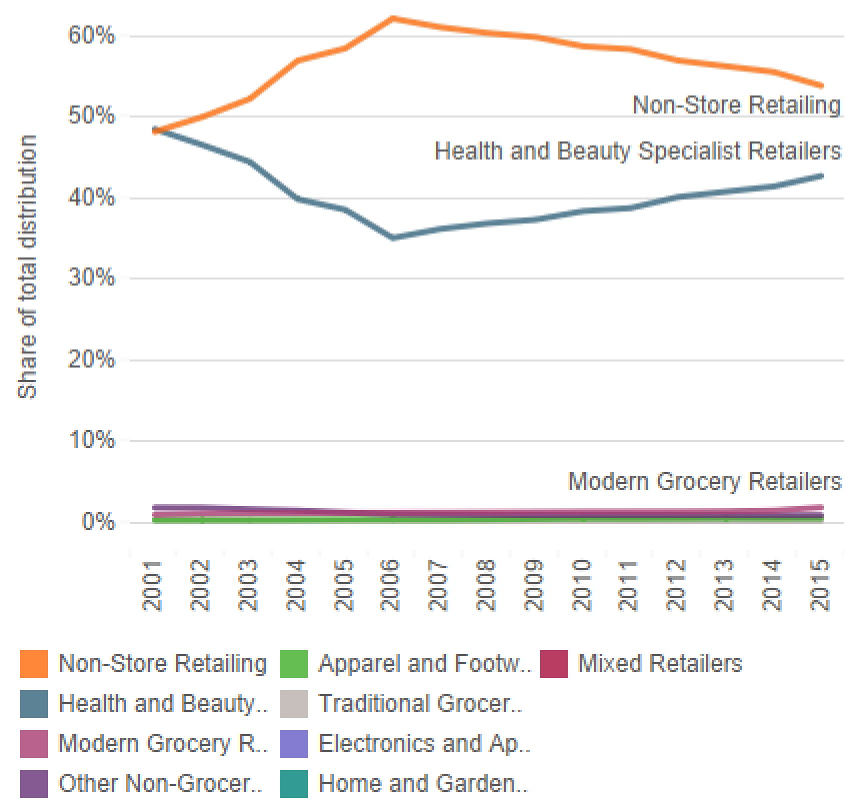
# Brazil: Competitive and retail landscape

## Fragrances in Brazil: Top Companies 2015 and % CAGR 2010-2015




Country: Brazil

## Fragrances in Brazil: Distribution by Channel 2001-2015



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# About Euromonitor International's Industry Forecast Model

- The Industry Forecast Model is a new tool from Euromonitor International that integrates intuitive, judgment-based forecasting with the quantitative techniques of an econometric Industry Demand Model.
- The Industry Demand Model assesses the relationship between several historic quantifiable independent variables (demand drivers) and historic retail volume sales for different markets that Euromonitor tracks.
- In identifying these relationships, the model estimates elasticities for each statistically significant demand driver, including income growth, changing retail prices, demographic trends and retail channel trends.
- Multiplying these elasticities by corresponding year-on-year growth forecasts for each demand driver allows the Forecast Model to build annualised retail volume and value forecasts for a market in a given year.
- While estimated demand driver elasticities are constant, forecast demand driver growth can change over time. For example, forecast GDP growth for a given year is regularly upgraded or downgraded in Euromonitor International's Macro Model to reflect changing economic and sociopolitical conditions.
- In turn, changing only forecast growth for GDP in this example allows the Packaged Food Forecast Model to create multiple retail forecasts that capture the impact of these changing macroeconomic conditions.

Impact of Russia GDP Shock on Chocolate Confectionery Retail Volume Forecast in Russia

| | 2015 real GDP % growth forecast | Chocolate income elasticity | Income effect on chocolate growth | 2015 chocolate % volume growth |
|---|---:|---:|---:|---:|
| Baseline Forecast (June 2014) | +1.43 | 0.37 | +0.53pp | +1.41 |
| Updated Forecast (December 2014) | -3.82 | 0.37 | -1.41pp | -0.55 |

# Soft drivers and the Industry Forecast Model

- The power of Euromonitor International's forecasting methodology is that it blends statistical modelling with local market observations reflecting local industry consensus. As such, retail market forecasts also rely on the insights and expertise of Euromonitor's global analyst network. Euromonitor analysts work closely with the Industry Demand Model to ensure that it remains consistent with their empirical observations, guaranteeing that quantitative and intuitive expectations fully complement each other.
- Euromonitor analysts also capture all the demand drivers beyond the scope of the Industry Demand Model. These "soft drivers" remain critical to future retail sales, but are either fundamentally unquantifiable or have no globally comparable data with which to measure them.
- Soft drivers are captured and measured exclusively by empirical research from Euromonitor analysts, and their overall positive or negative impact is estimated on top of the results of the Industry Demand Model.

Demand Driver Elasticities:
From Industry Demand Model

+

Forecast Demand Driver Growth:
From Passport

+

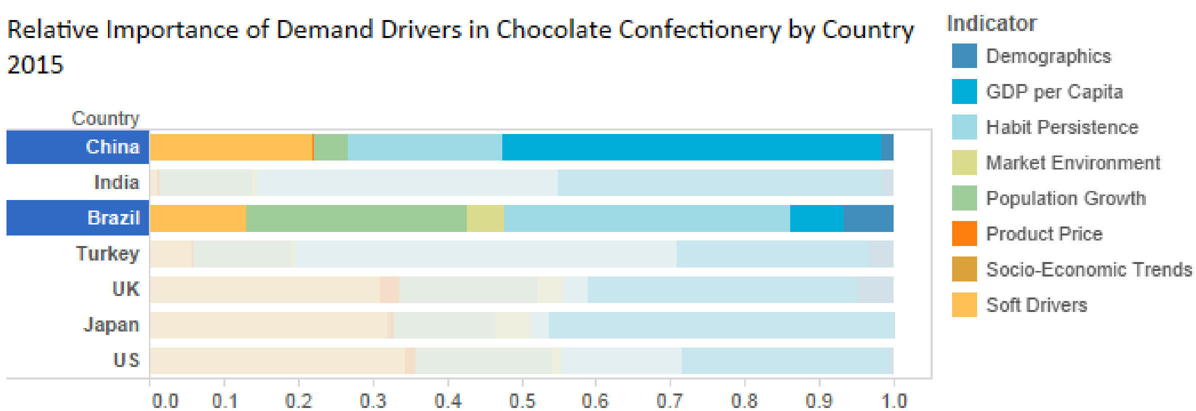
Soft Demand Drivers:
From Country and Industry Research

=

**Industry Forecast Model**

# Growth decomposition explained

- To help understand and illustrate the impact of each demand driver to a market's retail growth performance and prospects, Euromonitor International employs a graphical tool called "growth decomposition".
- The fundamental idea behind growth decomposition is that a product category's retail sales performance and future prospects can be explained through changes in underlying demand factors.
- As explained above, the impact of demand driver change to retail market sales can be calculated by multiplying a demand driver's observed elasticity by that demand driver rate of change over a period of time. Multiplying demand driver elasticity by forecast demand driver growth yields the percentage points of overall retail growth that that specific demand driver is contributing to the market forecast under review.
- In addition, Euromonitor analysts estimate the impact of "soft drivers" to overall retail growth via their empirical research. The relative impact and importance of "soft drivers" can be shown alongside that of the measurable demand drivers identified by the Industry Demand Model.
- In the growth decomposition visual below, the percentage points of growth that each demand driver is contributing to overall market growth are illustrated in the coloured segments of the stacked bar charts.



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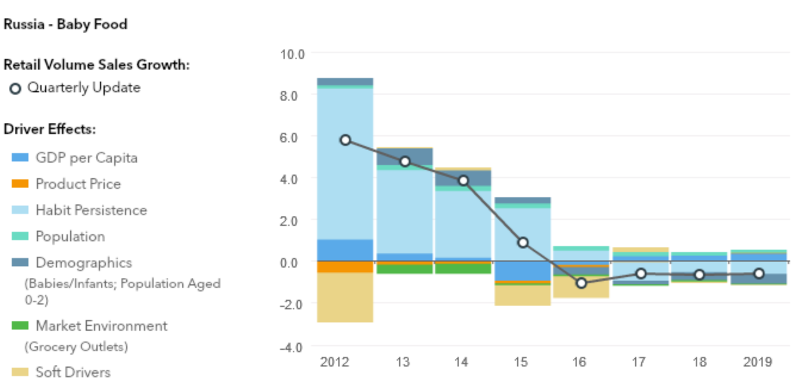
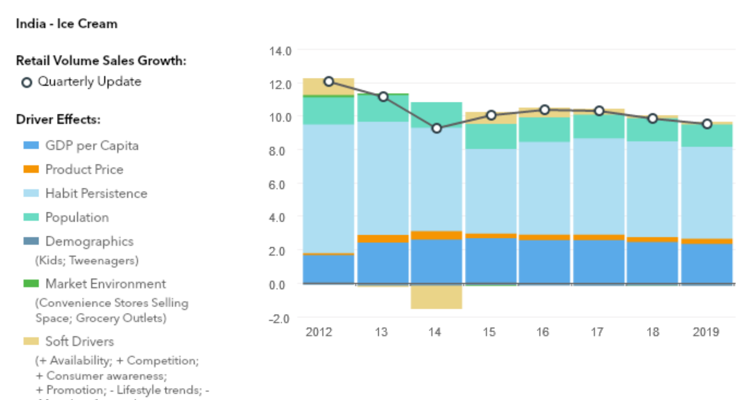
# Significance and applications for growth decomposition

- By attributing a fraction of overall retail growth to each contributing demand driver, overall category growth can be "decomposed". In doing so, an extensive picture of underlying market fundamentals and processes on a category-by-category and country-by-country basis can be provided.
- Ultimately, growth decomposition allows Industry Forecast Model users to:
  - Identify different demand drivers that affect historic sales, and will likely impact future market prospects;
  - Evaluate the relative importance of different demand factors over time and then identify which factors generate the highest deviations in historic - and ultimately future - consumption;
  - Illuminate the underlying market dynamics for each product category;
  - Measure and predict the effects of demand driver shocks, either expected or hypothetical;
  - Facilitate scenario analysis by generating understanding of which demand factors can be influenced by a manufacturer or retailer and which are beyond their control.

**Retail Volume Sales, '000 tonnes, 2011 - 2019 CAGR %**




**Retail Volume Sales, '000 tonnes, 2011 - 2019 CAGR %**



# Key applications for Industry Forecast Models

1

- Quarterly Forecast Restatements
  - Regularly updated retail market forecasts to reflect latest macro expectations (ie, quarter-on-quarter real GDP growth revisions) for all markets.

2

- “What If?” Scenario Analysis
  - See and compare how a hypothetical event (ie Eurozone recession, China Hard Landing, Grexit) stands to impact different market forecasts.

3

- Growth Decomposition and Demand Driver Elasticities
  - Understand, compare and respond to the forces driving expected market growth across different product categories and countries.

4

- Assess Market Potential
  - See the ceiling on retail volume or value sales and growth, regardless of a specific forecast scenario. How much more can that market really grow?

## THIS IS A SHORT VERSION. FOR MORE INFORMATION, PLEASE CONTACT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