INNOVATION IN PERSONAL CARE - CHALLENGES FACING RAW MATERIAL SUPPLIERS AND THEIR CUSTOMERS

A Presentation at

in-cosmetics
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intelligent insights™
Today, we are going to discuss:

- The global personal care industry
- The history of innovation in personal care
- Important enabling technologies
- Current and future innovation sources for personal care
- Holy grails
The Global C&T market reached nearly $148 billion in 2004.

Sales are reported on a manufacturers’ level.
Europe represents the largest market . . .

- Europe, 37%
- Asia, 29%
- North America, 22%
- Latin America, 9%
- All other, 4%

Developing markets like Argentina, Brazil, Russia, and China demonstrate the strongest growth . . .

Double-digit growth
- Argentina
- Brazil
- China
- Russia

Moderate growth
- India
- Spain
- Mexico
- South Korea
- Canada

Below average growth
- United Kingdom
- Poland
- France
- Italy
- United States
- Japan
- Germany
Skin care is the largest category on a global basis...


WORLD

- Skin care, 27%
- Hair care, 21%
- Makeup, 15%
- Fragrances, 11%
- Other toiletries, 16%
- Oral care, 9%
Skin care and hair care demonstrate the strongest growth worldwide . . .
Players are becoming more global . . .

<table>
<thead>
<tr>
<th>Company</th>
<th>Asia Pacific</th>
<th>Europe</th>
<th>Latin America</th>
<th>North America</th>
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Although some key regional players remain . . .

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<td>Henkel</td>
<td>Johnson &amp; Johnson</td>
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<td>Oriflame</td>
<td>Limited Brands</td>
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<td>Puig</td>
<td>Mary Kay</td>
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<td>Yves Rocher</td>
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Demographics and sector-specific trends are key sustainable growth drivers...

- **Demographics**
  - Western baby boomers with increasing anti-aging and wellness needs
  - Growing professional population in such emerging markets as China and India

- **Personal care sectors**
  - Continued demand by C&T formulators for innovative raw materials
  - Emergence of high-end mass markets for skin care and hair care
  - Importance of growing male grooming and professional sectors in Western markets
  - Consumer preference to purchase personal care products which claim to be manufactured from “naturally derived” raw materials
What makes this industry so attractive to marketers of finished products and raw material/technology suppliers?

- Large
- Growing – realizing at least 2-3 x GDP growth
- Non-cyclical
- Driven by sustainable demographic and sector-specific trends
- Relatively low barriers to entry
- It craves INNOVATION
# Evolution of Product Functionality and Demand for Innovation

<table>
<thead>
<tr>
<th>Hair Care</th>
<th>Multifunctionality</th>
<th>Targeted Products</th>
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<tbody>
<tr>
<td>Cleansing</td>
<td>Mildness</td>
<td>Color-specific</td>
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<tr>
<td>Conditioning</td>
<td>“Natural”</td>
<td>Texture-specific</td>
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<td>Styling</td>
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<td>“Natural”</td>
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<tr>
<td>Coloring</td>
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<td>Color-life extension</td>
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## Skin Care

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<tr>
<th>Skin Care</th>
<th>Targeted Products</th>
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<tbody>
<tr>
<td>Cleansing/soaps</td>
<td>Antiaging (AHAs, retinol)</td>
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<tr>
<td>Moisturizing</td>
<td>UV protection</td>
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<tr>
<td>Makeup</td>
<td>Mildness</td>
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<tr>
<td>Sun tan products</td>
<td>Antibacterial</td>
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<td>Pore strips</td>
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## Oral Care

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<td>Anti-cavity</td>
<td>Whitening</td>
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<tr>
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<td>“Oxi”</td>
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<td>Anti-gingivitis</td>
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<td>Tartar-control</td>
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<td>Breath strips</td>
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## Performance/Innovation Need

- **1980s**: Whitening, “Oxi”, Anti-gingivitis, Tartar-control, Breath strips
- **1990s**: Whitening, “Oxi”, Anti-gingivitis, Tartar-control, Breath strips
- **2000s**: Whitening, “Oxi”, Anti-gingivitis, Tartar-control, Breath strips
Silicones have been instrumental in enabling product innovation and delivering new personal care product classes . . .

- Multifunctional and valued by formulators in hair care and skin care applications
- Enabled new generation of antiperspirants/deodorants (stick form, transparent, no residue)
- Enabled new generation of 2-in-1 shampoos
- Compete with traditional emollients in facial treatments and hand and body lotions
Delivery systems have enabled significant product innovation in anti-aging skin care.

- Enabled new generation of anti-aging products
  - Stabilizing actives
  - Controlled release
  - Reduces irritancy
  - More effective active delivery
  - Improved/enhanced penetration
  - Longer shelf life

- Includes nanoparticles, microcapsules, patches, and films
As have specialty actives . . .

- Enabled new generation of antiaging products
  - Plethora of actives currently available
  - Peptides are currently “hot”
  - Substantiated, branded botanical actives are also “hot”
  - Stabilized forms of vitamin C are also “hot”
Examples of “innovation”
Prestige channel - delivery systems/ actives

- Lancôme Platinéum Hydroxy\(^{(a)}\)-Calcium\(^{\text{TM}}\) Complex Re-Densifying and Strengthening Cream
- Hydroxy\(^{(a)}\)-Calcium\(^{\text{TM}}\) Complex
  - Delivery system (including cyclodextrins) containing (bio-assimilable form of calcium, ginseng, and yeast extract)
- Vitamin E
- UV filters
  - Ensulizole, Octinoxate, Titanium Dioxide

- $108 for 1.7oz (50g)
Examples of “innovation”
Prestige channel - delivery systems/actives

- Estée Lauder Perfectionist Power Correcting Patch for Deeper Eye Lines/Wrinkles
- Controlled release delivery of patented bio-peptide (acetyl hexapeptide-3) in a polyacrylate-4 reservoir
- $100 for 8 pairs of patches (each patch weighs 4g)
Examples of “innovation”
Mass-market channel - specialty actives

- Procter & Gamble’s Olay Regenerist Continuous Night Recovery Moisturizing Treatment
- Palmitoyl Pentapeptide-3
- Vitamin E
- Niacinamide (Vitamin B3)
- Panthenol (Vitamin B5)
- Specialty silicones
- Selected botanical extracts
- Regenerist brand has grown very well and is estimated at around $80 million in the U.S. (or around 18% of Olay’s total facial treatment sales)
- $18.99 for 1.7oz (48g)
Examples of “innovation”

Professional - specialty actives

- Kline Becker’s StriVectin-SD Wrinkle and Stretch Mark Cream
- Oligo peptide (Pal-KTTKS)
- Vitamin A (retinyl palmitate)
- Vitamin E (tocopheryl acetate)
- U.S. Sales grew rapidly from around $8 million in 2003 to $42 million in 2004
- $135 for 6oz
Examples of “innovation”
Mass market: Oral Care

- Listerine PocketPaks Oral Care Strips, Cool Mint
- Novel delivery system in highly mature sector
- Water-soluble film (pullulan substrate)
- Blockbuster brand
- $3.39 72 strips
Examples of “innovation”
Beauty from outside and within

- Borba Clinicals – range of targeted supplements for specific skin types complemented with a range of topically applied skin care products
- Borba Skin Balance Water $2.50
- Borba Skin Balance Aqualess Crystalline Packets $100
- Borba Fiber Knit Orbital Eye Rejuvenator uses hydrolyzed silk fibers ($65 for 0.5oz)
- Borba Fiber Knit Night Repair Emulsion – Age Defying Acai uses hydrolyzed elastin fibers ($75 for 3.5oz)
SO WHERE IS THE INNOVATION COMING FROM?

CONSUMER MARKETS
There continues to be increasing convergence with pharma and nutrition sectors that has lead to new personal care categories and raw materials and technologies . . .
A plethora of raw material categories are used across the market spaces . . .

- Delivery systems
- Surfactants
- Preservatives
- Fragrances
- Cosmeceuticals
- Nutricosmetics
- Nutraceuticals
- Pharmaceuticals
- Food
- Personal Care
- Rheology control agents
- Texturizers
- Emulsifiers
- Colourants
- Solubilizers
- Actives
- Synthetic peptides
- Film formers
- Skin sensorial agents
- Flavors
- Delivery systems
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SO WHERE IS THE INNOVATION COMING FROM?

INDUSTRIAL MARKETS
Industrial market spaces provide a fertile breeding ground for innovation. . .

Technologies
- Polymers
- Fibers
- Nano
- Fermentation
- Molecular coupling

Performance properties
- Film forming
- Adhesion
- Delivery

Personal care

Adhesives and sealants, paints and coatings, plastics, construction, aerospace, textiles and nonwovens, among others
In the skin-care segment, the prestige and professional brands act as a magnet for innovation...

- New technologies are typically first implemented in prestige brands
  - Usually higher raw material spend compared with mass-market and “masstige” brands

- Prestige sales involve a high level of customer interaction and education compared with mass-market brands that are usually “self serve”

- Technologies can then be leveraged from prestige to high-end mass market and other channel brands
  - As volumes increase and price points decline somewhat
For hair care, salon brands are the early adopters of new technologies and innovation..

- Higher raw material spend compared with mass-market brands
- Higher level of customer interaction and education compared with mass-market brands that are usually “self serve”
- Good trial market for new technologies and product concepts
- Considered less risky to launch a new product in this channel
- Successful technologies and/or product concepts can then be leveraged to the mass market
- Mass market hair care products is currently expanding rapidly and there is an increasing level of segmentation among brands
HOLY GRAILS
Holy grails….

- Facial skin care
  - Antiaging

- Body care
  - Targeted benefits – anti-cellulite, slimming, etc.
Holy grails...

- Hair care
  - Hair coloring
    - How can we improve the method of hair coloring?
    - Easier, quicker, less aggressive, greater life span
    - Continued demand to extend life and condition of colored hair, avoid fading, and retain the brilliance and shine