

In recent weeks, much has been made of the rumours concerning a possible merger of Colgate-Palmolive and Unilever. Together, these two corporations would represent by far the largest global player in the cosmetics and toiletries industry, stretching its tentacles to almost every product category and market in the world. Although Unilever's market value is about three times Colgate-Palmolive's, and thus more likely to be the acquirer, other rumours have suggested that Unilever could be the target.

Despite this, a win-win situation for both companies in the C&T business could be expected if the consolidation truly happens, especially in strategic regions such as Latin America, where the industry has shown outstanding growth in the last few years, as well as an extremely positive outlook.

In fact, the benefits of this strategic decision would go beyond industry consolidation, meeting better competition capabilities, product portfolio complementation and economies of scope and scale.

#### LATIN AMERICA C&T MARKET

The ascendancy of the C&T industry in Latin America, along with other emerging markets, provided the bedrock for the global growth observed in the last few years. Increasing purchasing power is driving C&T sales beyond essential products, which traditionally represents the bulk of Latin America C&T sales.

Prospects for the future of the C&T business in Latin America are very positive. Technological advances are boosting industry sales as companies start to offer more value added products in every C&T category, such as anti-ageing lotions, moisturising soaps, whitening toothpastes etc. Moreover, increasingly developed distribution networks and retail capabilities are set to enhance sales even further.

#### UNILEVER

Unilever is among the world's largest manufacturers of consumer packaged goods, including such products as soaps and detergents and personal care products. Unilever brands are widely known and

# Coming together?

With Colgate-Palmolive and Unilever rumoured to merge, what impact will it have on the Latin American C&T market? Sérgio Rebêlo and Danilo de Paula look at the opportunities



hold several leadership positions worldwide, such as Dove (personal cleansing products) and Omo (soap). In Latin America, Unilever posts strong market share in its various business divisions, including cosmetics and toiletries, of which sales are led by brands like Dove, Rexona, Close-up, Axe, Vaseline and Lux, with high market recognition.

The company's C&T market share in the region is about 15%, boosted by strong participation in the Brazilian market in which the company holds about 17% of total manufacturers' sales. The company is also leader in the skin and hair care segments, with an overall market share estimated at 25% and 18% respectively.

#### COLGATE-PALMOLIVE

On the other side of the Atlantic, Colgate-Palmolive is a global manufacturer and marketer of personal care and household care products, and uncontested leader in the oral care segment worldwide. Latin America represents about 25% of corporate total sales and reserves to Colgate-Palmolive a significant participation of 12% in the C&T industry, boosted especially by the oral care segment, in which the company holds a distant first place with approximately 60% share.

Amongst Latin American countries, Colgate-Palmolive's holds strong position in Mexico, where the company has about 15%

of the overall C&T market. In Brazil, the company holds a 9.5% share of the total C&T market, supported especially by oral where Colgate-Palmolive is the overwhelming category leader.

#### SYNERGIES & OPPORTUNITIES

A merger between these two giants would certainly generate corporate empowerment as they would join efforts to explore markets in which they already play. Together, the two corporations would have generated US\$62bn in sales and net profit of US\$8bn in 2006.

When it comes to cosmetics and toiletries, the company would have been able to achieve almost 30% of the Latin America overall market. Colgate Palmolive and Unilever would hold the leading brands in almost every segment and category (Table 1).

Figures such as sales and market share, however, do not fully illustrate corporate advantages that can be held by Colgate-Palmolive and Unilever together. Willingness to merge can be also explained by other factors, of which some specific divisions' and regional goals can be highlighted.

It is known that Latin America plays an important role as one of the possible merger's motivations, since its C&T market has been growing much faster than any other region in the world.

Similarities between countries in terms of income pattern, cultural and ethnic background, climate and short geographic

**TABLE 1 - PERCENTAGE BREAKDOWN OF LEADING C&T PRODUCTS**

Category	Aggregate market share in Latin America
Hair care	30%
Oral care	75%
Skin care	35%

Source: *Fator de Solução*, based on Kline's Global C&T study 2006 - Latin American Edition

distance enable companies to carry out regional strategies that contemplate R&D projects, distribution systems, production costs, marketing activities and product portfolio.

In this portion of the American continent, capabilities and resources can be transferred, allowing competition sources to be leveraged. Both companies could enhance their performances in local markets and carry out strategies to expand their actuation in strategic areas, besides broadening the products/brands portfolio. This horizontal merger would be likely to generate many synergies, especially in the R&D, production and distribution activities and product and country portfolios complementation.

**RESEARCH & DEVELOPMENT**

Personal care sales are deeply driven by technological innovation, yet companies usually face difficulties in filling R&D pipelines. As R&D expenditures increase companies need to achieve larger sales to offset sunk costs and guarantee profitability. A valuable synergy can be performed by an aggregate R&D center, which would decrease costs inherent to product innovation

Some products carry little differentiation among countries and can be developed globally, while others vary widely according to climate, ethnic background, fashion trends and income level. Colgate-Palmolive and Unilever personal care products could be developed regionally to meet specific consumer needs, giving an advantage as innovation happens more constantly and narrowly to changes in consumer tastes.

An integrated R&D centre, with joined expertise of both companies, would provide

**TABLE 2 - MARKET POSITION IN LATIN AMERICA**

Segment	Unilever	Colgate-Palmolive	Expected growth of the segment in Latin America
Hair care	Strong	Medium	Average (about 10% per year)
Oral care	Medium	Strong	Below average
Skin care	Strong	Medium	Above average
Other toiletries	Strong	Medium	Average

*Source: Factor de Solução, based on Kline's Global C&T study 2006 - Latin American Edition*

Colgate Palmolive and Unilever with unmatched capability to innovate faster and better (as well as with lower costs ) than its competitors, generating a substantial comparative advantage.

**PRODUCT & COUNTRY PORTFOLIOS**

Merging with a company that has a complementary product portfolio can be a solution to achieve higher growth rates. Skin care products, for example, are the C&T's fastest growing category in Latin America. However, Colgate-Palmolive has very little participation in this market, while Unilever's situation is completely the opposite. To follow this segment expansion, Colgate-Palmolive would need to try hard to enhance the performance of its products related to skin care.

At the same time, Colgate is way ahead in the oral care segment, which although presenting the lower growth prospects, still represents a large portion of the C&T overall market. Unilever could benefit from this portfolio complementarity and the companies together would be able to seize better opportunities in every segment.

**DISTRIBUTION SYSTEMS**

Another synergy that can be explored in Latin America is related to distribution. Competition in consumer goods markets is fierce at retail level. The presence of a product in store and distributors is an important issue for sales, especially for mass

consumption products. Marketers compete for space in retail outlets that in the end determines manufacturer sales.

Merging the two would allow them to offset competitors at the retail level using the advantages of having an enormous distribution system that allows the brands to be widely represented, as well as generating a unique bargain empowerment for the company against the increasingly concentrated and powerful mass retailers of Latin America.

In Latin America this 'new company' would be able not only to consolidate industry in the region but also to benefit from strategic advantages, such as stronger product portfolio, significant market shares in all countries, unified distribution system, R&D integration and uncountable economies of scale and scope in every company activity. On the other hand, the challenges for both companies to execute it and to fully benefit from the synergies are as challenging as the opportunities, local regulations on business concentration being just the most obvious. **cb**

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