

Global Beauty Retailing with a Focus on the BRIC Markets

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Agenda

Kline Methodology and Scope

Global Personal Care Market Overview

Channels of distribution

Brazil

Russia

India

China

Key Lessons and Outlook

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Global Personal Care Market Overview

Channels of distribution

Brazil

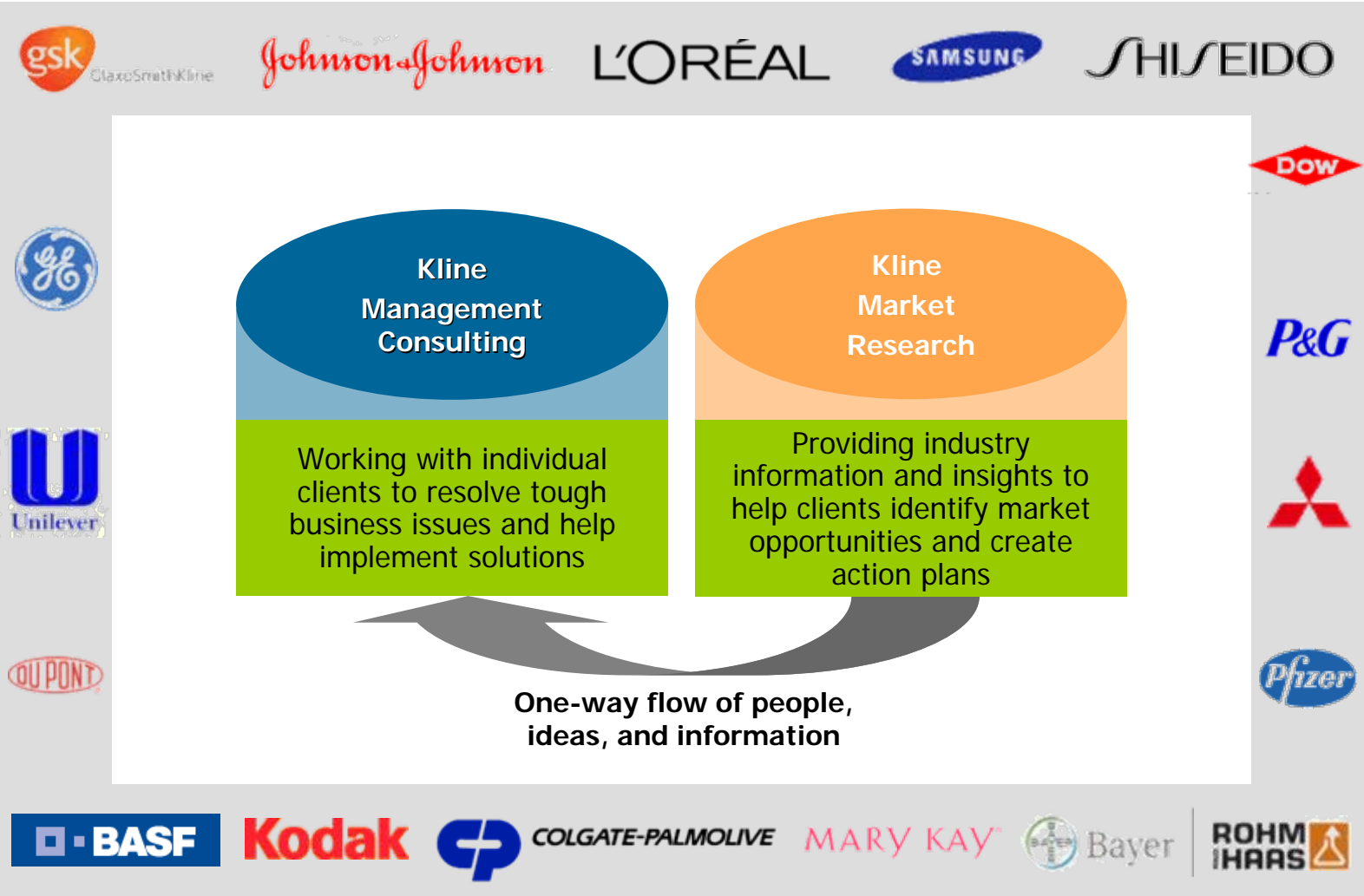
Russia

India

China

Key Lessons and Outlook

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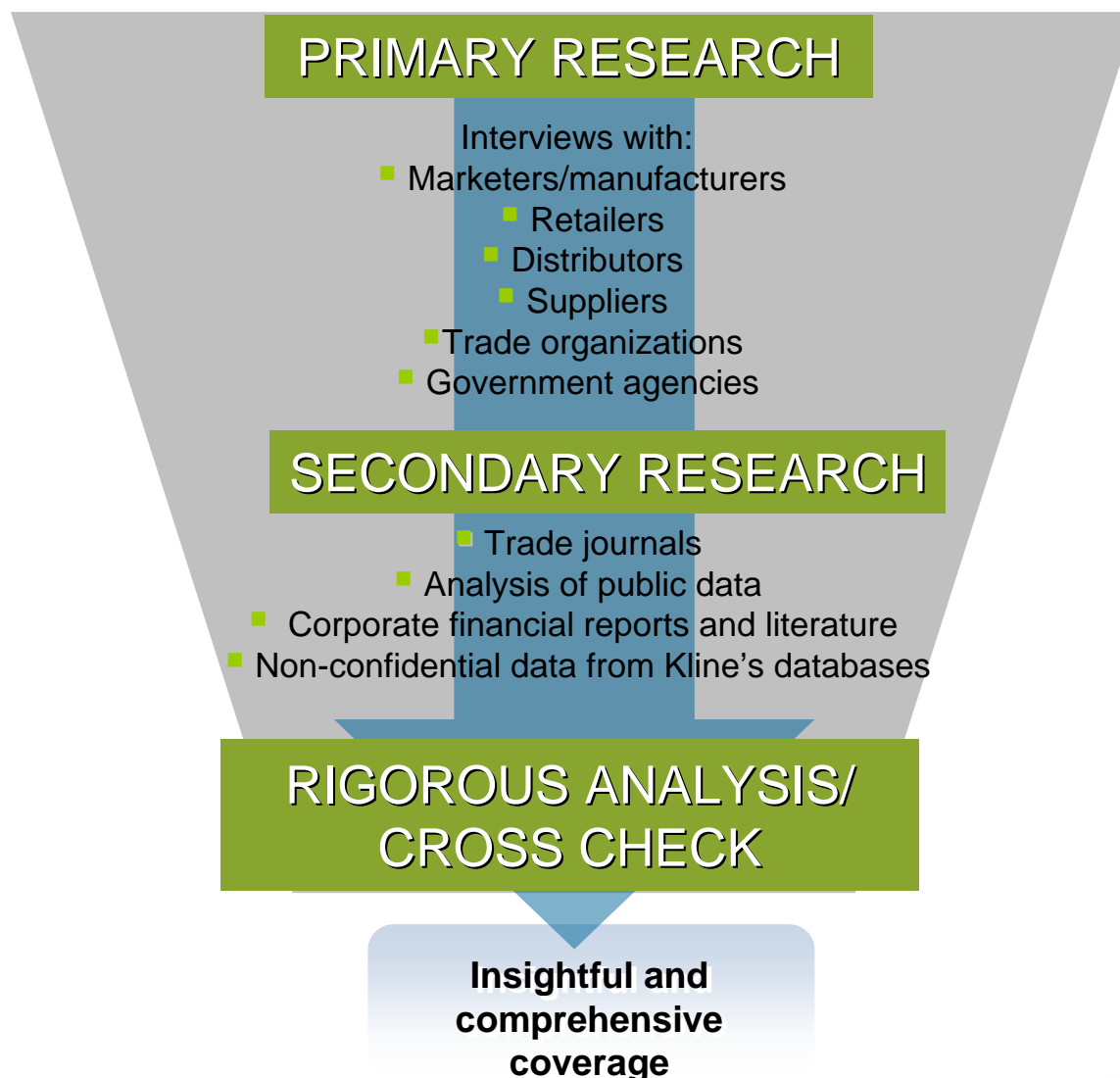
Kline has world-class expertise in cosmetics and toiletries

- Extensive series of syndicated research studies
- Global management team, who are known to the industry
 - Often sought after to present papers at leading industry conferences
- Global network of industry experts
- Commitment to the personal care industry

SYNDICATED STUDIES

- Beauty Retailing
- Cosmetics & Toiletries
- Male Grooming
- Natural Personal Care
- Professional Skin Care
- Salon Hair Care
- Personal Care Ingredients

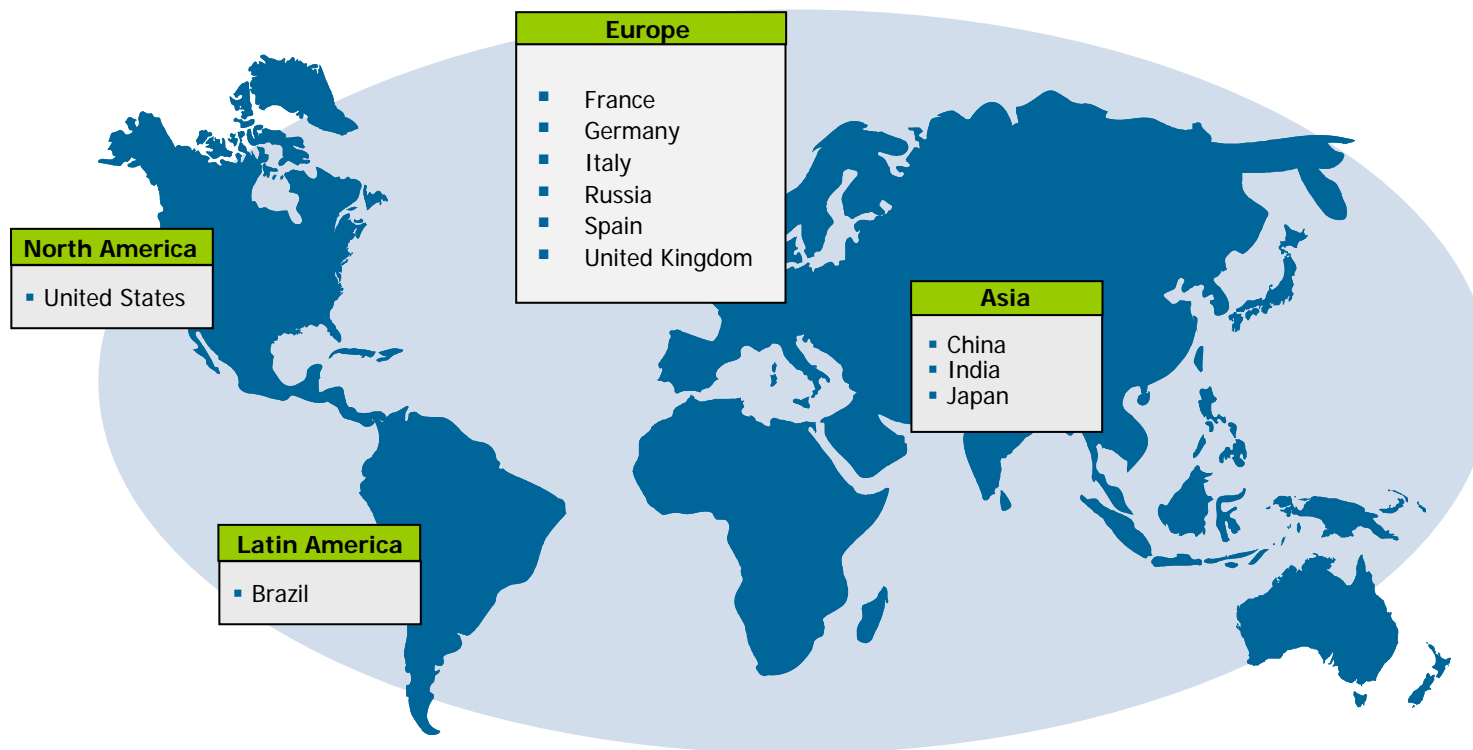
Kline's rigorous research methodology results in high quality and insightful reports



Content from today's presentation comes from Kline's newly-released Beauty Retailing Global Series



The geographic scope for the report includes 11 key markets around the world



The program examines the channels of distribution in each country



■ Department stores

- Traditional
- Specialty
- Lower-end



■ General stores

- Open markets (Russia)
- Kiranas (India)
- General stores



■ Direct marketing

- Person-to-person
- Home shopping networks
- Infomercials
- Internet
- Catalogs and direct response



■ Mass merchandisers

- Big box retailers
- Dollar stores
- Hypermarkets
- Warehouse clubs



■ Drug outlets/Pharmacies

- Chain drug stores
- Independent drug stores
- Pharmacies/para-pharmacies



■ Salons/Spas



■ Food Outlets

- Convenience stores
- Deep discounters
- Traditional supermarkets



■ Specialty stores

- Apparel
- Beauty supply
- Cosmetic specialty
- Perfumeries
- Vertically integrated

The study covers sales for 21 products categories in six product classes

Fragrances

- Fragrances for men
- Fragrances for women



Makeup

- Eye makeup
- Face makeup
- Lipsticks and lip glosses
- Nail polishes



Skin Care

- Baby care products
- Facial treatments
- Hand and body lotions
- Skin care products for men
- Sun care products



Hair Care

- Conditioners
- Hair coloring products
- Hair styling products and sprays
- Shampoos



Oral Care

- Mouthwashes
- Toothbrushes
- Toothpastes



Other Toiletries

- Deodorants and antiperspirants
- Personal cleansing products
- Shaving products



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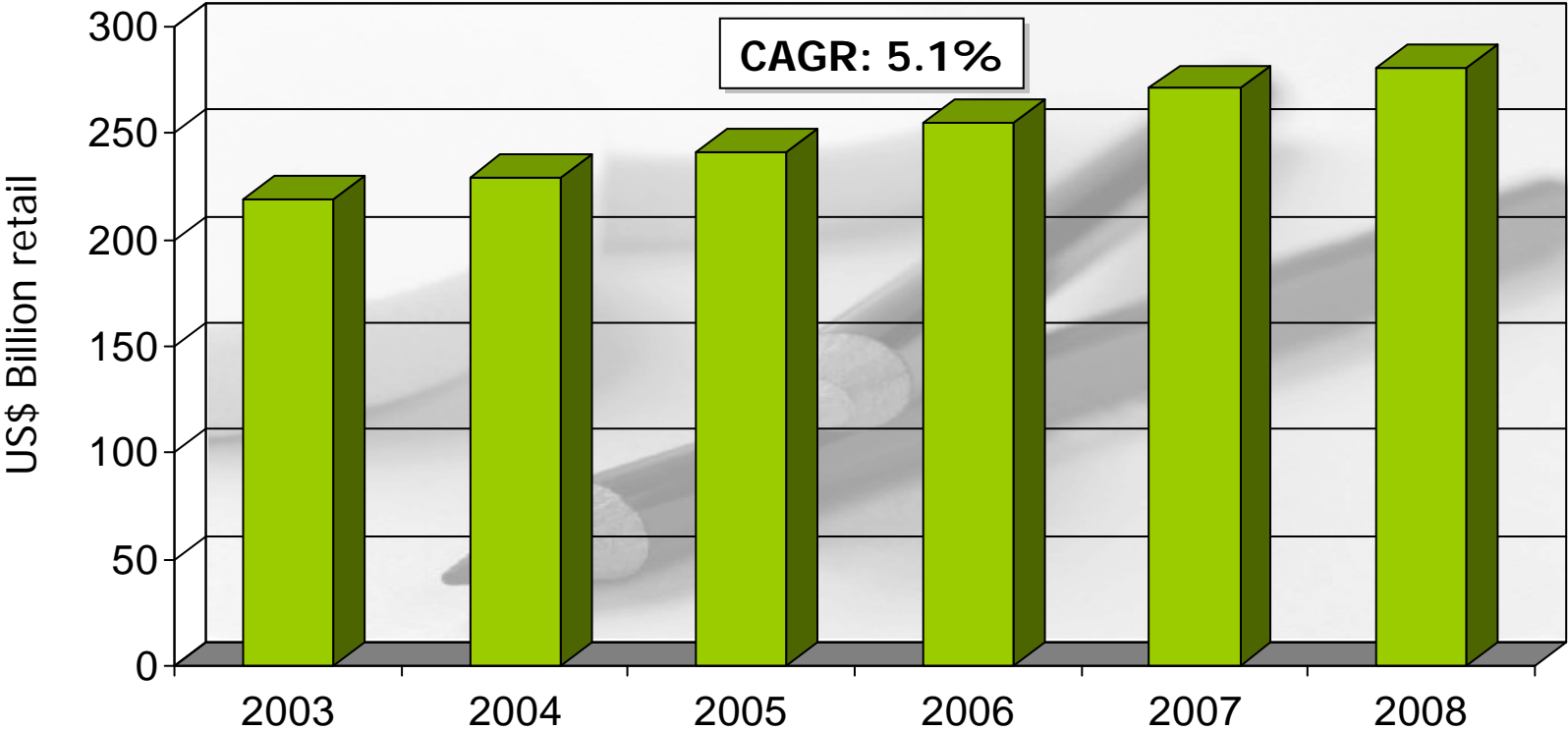
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Key Lessons and Outlook

The global personal care market surpassed US \$280 billion at the retail level in 2008

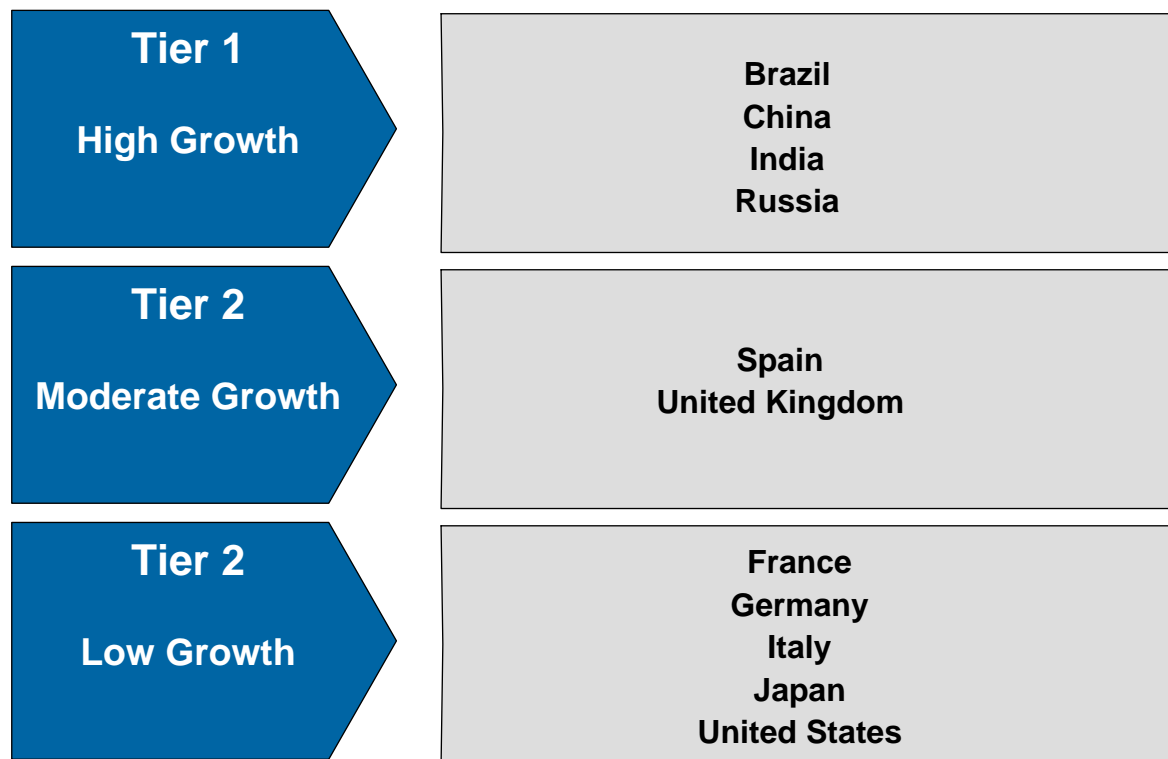


Growth has slowed considerably due to the economic crisis



a- projected.

The 11 markets analyzed in this report can be grouped into three tiers according to their growth. The emerging markets are advancing at the fastest pace.



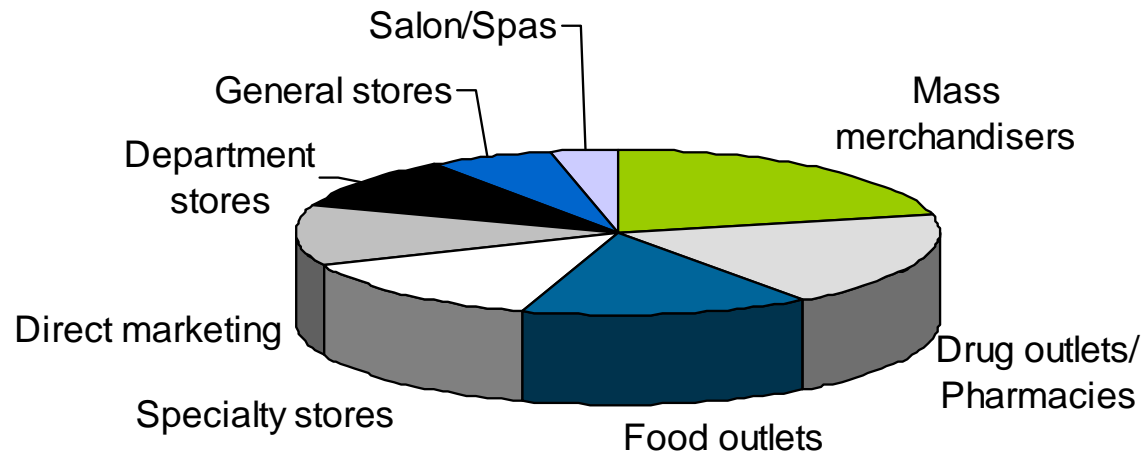
The BRIC countries have been moving up the ranks

2003	Rank	2008
United States	1	United States
Japan	2	Japan
France	3	China
Germany	4	Brazil
United Kingdom	5	France
China	6	Germany
Italy	7	Russia
Brazil	8	United Kingdom
South Korea	9	South Korea
Russia	10	Italy

The emerging markets have significant upside potential when it comes to per capita spending

Country	Per capita spending (US\$)
France	245.31
Japan	232.67
Spain	215.79
United Kingdom	215.44
Germany	189.63
Italy	184.98
Canada	167.61
United States	163.39
South Korea	155.46
Brazil	98.05
Poland	92.58
Russia	88.83
Mexico	79.84
Argentina	41.25
WORLD	40.51
China	11.94
India	5.40

Mass merchandisers is the leading channel of distribution for personal care on a global basis, followed by drug outlets/pharmacies



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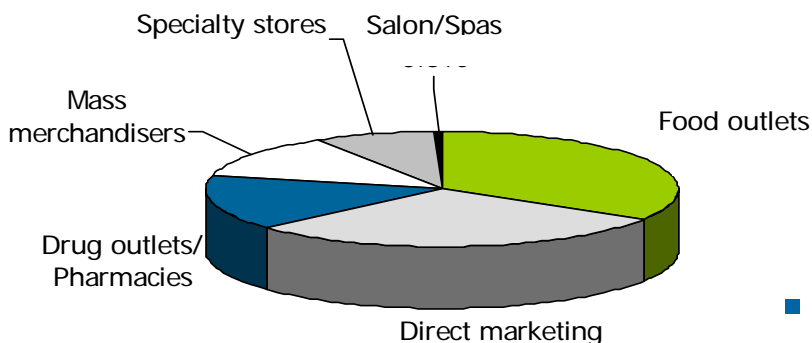
Conclusions and Outlook



BRAZIL



Food outlets is the leading channel in Brazil with direct sales closing in



- Growing economic prosperity results in retail trade in rural areas of Brazil
 - Small cities in far parts of Brazil are among the main beneficiaries of Government social program “Bolsa Família”, which transfers income to poor families
 - Retail trade in these areas has experienced a strong growth in the past five years

- The increasingly chaotic traffic of some cities in Brazil and the higher necessity for convenient shopping result in strong growth for neighborhood supermarkets
 - Leading mass merchandisers in Brazil, Carrefour, CBD and Walmart capitalize on the situation by expanding aggressively into the supermarket subclass

Food outlets experience growth from remote towns in the rural areas of Brazil, where mass merchandisers are not yet present



Direct sales benefits from its extensive sales representative network and strong brand awareness

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13

Lançamento em Natura Elix

Seus olhos já podem contar com a proteção e a hidratação do maquiagem de cálcio. Nova linha Hidratante Para os Olhos Natura Elix.

SCS Mata Atlântica

A Natura é uma das 3 patrocinadoras oficiais do projeto "A Mata Atlântica é Aqui", uma exposição itinerante que pretende mostrar como se preserva e restaura o ecossistema da Mata Atlântica.

Nova linha Natura Aquarela

Os produtos de linha Natura Aquarela estão de cara nova. Confira as novas cores, texturas e embalagens exclusivas.

Maquiagem com Natura Diversa

Aprenda a fazer eye-liner colorido utilizando as cores preferidas do maquiador oficial de Natura, Marlene Costa.

Concurso Cultural

Novidades em Natura

Drug store chains work to become a destination for beauty products



O Boticário is the leading retailer in the fast-growing specialty store channel



Department stores noticeably absent in Brazil

- Leaders Mappin and Mesbla went bankrupt in the 1990s
- Lack of focus resulted in consumer confusion and their eventual downfall
- Prestige brands are available in high-end drug stores and specialty stores

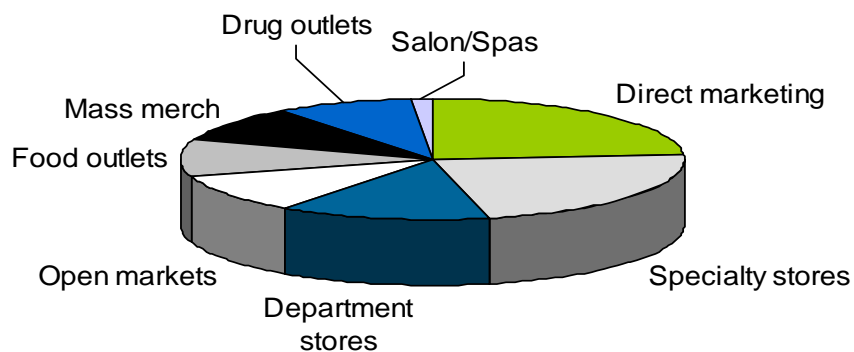




RUSSIA



Direct and specialty lead the way; open markets lose share



- The Russian beauty retail market has been restructuring since the 1990s
- Retailers focus shifted to the suburban and rural regions as a new market to conquer, leading to fast expansion and many door openings

Direct marketing: the biggest winner

- The bulk of sales is generated by person-to-person sales
- The economic crisis has had a positive effect on the direct sales channel as many manufacturers experience a significant increase in the number of consultants
- Internet sales booming



Specialty stores: fast expansion through the regions

- Rural expansion and an increase in consumer income drive the channel
- Channel reshuffles as giant Arbat Prestige left the market in 2008
- Offer a special shopping experience as well as in-store beauty treatment corners and beauty institutes
- Professional aestheticians, consultants, and makeup artists provide clients expert advice on various products
- Big focus on online sales and loyalty programs
- Main channel for sale of prestige brands
- Share of mass brands is growing



Letoile



Ile de Beaute

Department stores: interesting format but losing popularity

- Specialty department stores repositioned themselves as luxury destinations
- Traditional department stores are facing many difficulties in Russia mainly the lack of interest among the Russian consumers to such store formats as it reminds them of the “Univermags” of the Soviet era and the poor quality of products that these were offering
- Lower end department stores, “Univermags”, are facing increasing competition from shopping centers and mass merchandisers
- Other toiletries and hair care products are the dominating product categories in this channel and they are sold mainly in low end department stores



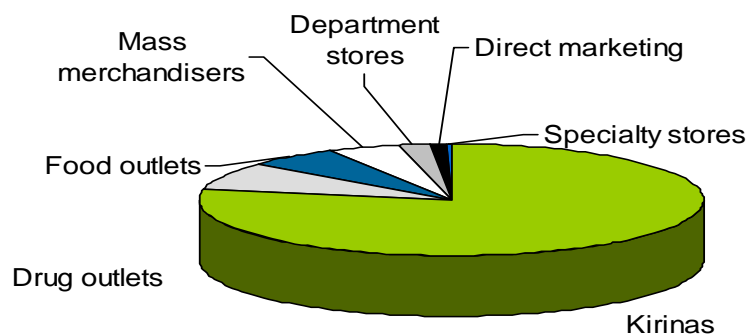
Pharmacies and drogueries gaining in importance

- Drogueries have appeared and are gaining popularity
- Pharmacies are increasing their focus on parapharmaceuticals, in particular skin care products, with non medical products reaching as much as 40% of sales in some chains





Kiranas dominate India



- Indians actively adopt western retail concepts
- Still largely dominated by independent stores
- Government Investment regulations hamper the entry of international retail chains
- Mergers and acquisitions enable the retailers to grow inorganically or to focus on specific regions.

Independent, owner-operated kiranas remain the mainstay of cosmetics and toiletries market in India

- Mom and pop stores carrying groceries, general merchandise, tobacco, stationery, toiletries, and gifts
- Convenient locations, low prices, and one-stop shopping
- Important in all categories, but less so in makeup and fragrances
- Small store size limits product assortment
- Losing share to other retail formats
- Scrambling to emulate modern retail concepts as they brace themselves for the entry of retail giants from the United States and Europe



Department stores on a growth path in urban India

- Fast growing middle and upper-middle income groups boost the department store business
- Growing disposable incomes of urban youth drives channel
- Main channel for prestige brands
- Mainly located in urban areas due to wider reach
- Offer pleasant shopping ambiance with a wide range of foreign brands
- Contribute mainly towards the growth of fragrances, makeup, and skin care
- Mass products are also available



Supermarkets and mass merchandisers are likely to drive future growth

- Attracting consumers in urban and suburban areas
- Gaining over kiranas
- Carrefour and Walmart are set to begin operations by the end of 2010



Factors affecting the growth of modern retail in India

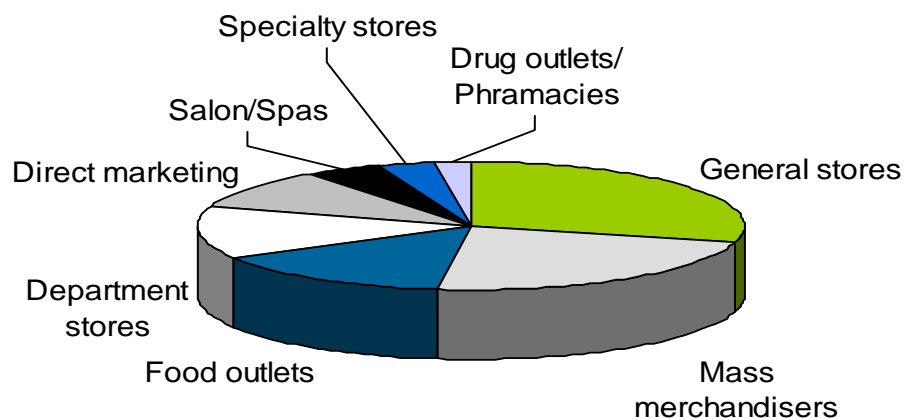
- High and rising cost of real estate
- Government regulations (restrictions on foreign direct investment etc.)
- Lack of skilled staff
- Shortage of funds
- Poor infrastructure
- High wastage of goods in transit and warehouses
- Differential and high taxes



CHINA



General stores and mass merchandisers are the largest channels in China



- Leading chains across all channels extend to Tier II and Tier III cities
- Government regulations and initiatives have a strong impact on the retail environment in China
- Supermarkets and specialty stores continue to extend their business aggressively into rural areas
- The ever-widening reach of the Internet prompts retailers to establish an online presence
- Mergers, acquisitions, and consolidations in the mass merchandiser, department store, and food store channels help the leading retailers to grow larger in terms of outlets and sales

Carrefour is the leading mass merchandiser



- Since entering China in 1995, its focus has been on rapid expansion and careful localization
- Door count has tripled in three years to reach 134 stores in 2008
- Rice is sold in bulk, and a special infrastructure has been set up to sell live fish and sea food
- Frequent price promotion, especially during the recession



Walmart gained strength in 2007 after acquiring a 35% stake in Trust-Mart, a large Chinese retailer



Lotus – another key hypermarket



Male grooming is quite developed, perhaps more so than in the U.S.



Supermarkets are losing share but fight back with expanded personal care departments



Specialty stores are sophisticated and are growing in number and importance



Sephora has huge growth plans in China



- Entered China in 2005; had 48 doors at the end of 2008
- Plans to open 52 additional stores in China by 2010, more than doubling its door count

Parkson was one of the first foreign department stores to enter China and is more upscale than local department stores



Direct sales booming after implementation of the government's Direct Sales Law



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Key Lessons and Outlook

- The economic crisis is global – BRIC countries are more protected but are not immune
- Suburban and rural areas offer immense potential in all four BRIC countries
- All four markets embrace Western concepts and products
- Direct sales plays a key role – do not underestimate these relationships
- Direct sales, specialty stores, and mass merchandisers are projected to be the fastest growing channels in the BRIC markets
- Many consumers, particularly those in China and Brazil, are extremely sophisticated and savvy when it comes to beauty products
- As retailers pave the way into these markets, it will be easier for marketers to follow
- Retailers that adapt to local needs and preferences will be most successful, Think Global, Act Local.

A large, stylized logo consisting of the letters 'Q' and 'A' in a light gray, 3D-effect font. The 'Q' is on the left and the 'A' is on the right, both with a slight shadow effect.

Questions & Answers

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