

Store wars

Image: DM

While the German C&T market is going from strength to strength, the past year has proved less than stable for its key beauty retailers, as **Annemarie Kruse** discovers

All in all, the German C&T market had a successful year in 2014. According to figures by industry association IKW, the entire cosmetics and personal care market reached turnover of just over €13.01bn in 2014, an increase of 1.6%. With the exception of smaller categories like men's aftershaves, depilatories and so on, all of the important product sectors registered solid increases last year.

HAIR FALLS FLAT

Hair care (including styling and colourants) is always the biggest C&T sector in Germany. In 2014, this category registered a mediocre performance according to IRI Germany, with rather flat sales of €1.72bn and a turnover increase of 2.8% to 746.65 million units in volume.

The market is dominated by two

companies: German C&T manufacturer Schwarzkopf & Henkel and the world's biggest cosmetics group, L'Oréal. Both brands have an extensive hair care, styling and colourants portfolio and keep each busy with a high launch pace. Other important brands include Beiersdorf's Nivea, P&G with its Dove, Pantene, Herbal Essences and Vidal Sassoon Pro ranges and Kao Corporation with its Guhl and John Frieda brands.

Still among the major trends last year was hair oil – most brands these days already have their own range of hair

Oil is appearing as a key ingredient in many brands' new launches, such as Schwarzkopf's Gliss Kur Oil Nutritive



oil, so oil is now appearing as a key ingredient, like in L'Oréal Elvital's Öl Magique hair care range or in Schwarzkopf's recent Gliss Kur Oil Nutritive launch. Another skin care ingredient that is starting to appear in hair care is hyaluronic acid. Gliss Kur, for example, introduced the six-sku Hyaluron + Haar Auffüller (Hyaluron & Hair Filler) for mature hair last summer.

Brands are also increasingly launching salon and professional ranges. Years ago Schwarzkopf's Syoss was the very first brand to do so, but now drugstore shelves are full of premium ranges, like L'Oréal's EverRich and Hair Expertise ranges, for example, as well as Dove's new Advanced Hair Series.

ANTI-AGEING ACCELERATES

Facial skin care, on the other hand, had a very successful year. According to IRI figures for January to September 2014, sales of women's face care grew 4.1% to €590.19m with volume increasing 4.3% to 10.970 million litres. And although moisturisers for 'normal' skin accounted for the largest share of the market – worth €238.01m – anti-ageing is quickly turning into a major growth category, increasing 5.6% to reach value sales of €183.94m.

TABLE 1: GERMANY, TOTAL HAIR CARE MARKET, 2015*

Category	Value €/m	+/-%	Volume m/units	+/-%
Total	659.10	-1.5	280.97	2.9
Hair care	372.45	0.7	165.96	1.3
Hair styling	161.41	-6.4	81.38	-4.1
Colourants	125.25	-1.6	33.62	1.4

* January to May 2015. Source: IRI Germany

The big brands in this market include L'Oréal with Garnier and L'Oréal Paris, Schwarzkopf with Diadermine and Aok, Beiersdorf with Nivea, P&G's Oil of Olaz, J&J with Bebe and Bebe More and, of course, DM's Balea and Rossmann's Rival de Loop proprietary ranges.

Hybrid products like optical perfectors and illuminators continued to be a major trend last year. And considering that Germany has one of the fastest-ageing societies in the whole of Europe, it is not surprising that anti-ageing creams are becoming more important every year. Popular ingredients include hyaluronic acid and oils; brands are starting to launch face oils, oil creams and even oil-serums which promise to moisturise, repair and rejuvenate the skin.

In the cleansing sector, micellar waters are just starting to take off in Germany, propelled by Garnier's high-profile Micellar Water, launched in January. Cleansing wipes remain popular thanks to limited edition wipe launches – especially from the drugstores' own label brands – and cleansing oils are making a tentative appearance too; L'Oréal has recently launched its first cleansing oil.

COLOUR CLOSE TO HOME

According to IRI Germany, the colour cosmetics market grew 4.1% to €1.47bn in value and 3.8% to 269.81 billion units. Eye products, the largest sub-category, grew 3.3% to €543.89m, followed by face colour products which grew 4.5% to €466.20m. Lip colour products did even better with an increase of 6% in value to €241.42m.

The market is dominated by German brands, especially Cosnova's Catrice and Essence, Maesa's P2 and Coty's Manhattan. All four brands have a strong launch pace, and Catrice and Essence in particular keep things interesting with their monthly limited editions and very innovative NPD.

The big product trends last year included eyebrow products but also mascaras and eyeliners. In the lip colour category, multi-purpose and crossover products are popular, such as long lasting lip colour with a gloss effect and the durability of a lip stain, for example, and while BB creams have lost their steam in the face category, CC creams and illuminating or perfecting face products still rule.

THE SCENT OF FASHION

Women's fragrances also registered satisfactory results, growing 2.8% to €966.45m in 2014, while volume climbed 1.9% to 37.15 million units. As far as fragrance formats were concerned, EdPs were the most popular category, followed

by EdTs, EdCs and perfumes.

Besides the usual international mainstream fragrances, masstige, fashion and celebrity perfumes remained among the bestsellers on the German market. German consumers love their drugstore fragrances – the classic sports brands like Puma and Adidas are perennial bestsellers, and so are the fragrance offerings of Germany's fashion brands like s.Oliver, Esprit, Mexx, Tom Tailor or Betty Barclay.

At the same time the German fine fragrance sector continues to grow, with new labels appearing every year. Admittedly most of these fragrance brands are small, but with their highly selective distribution and luxe pricing, they nevertheless add a bit of sophistication to the German fragrance market.

MULTI-TASKERS FOR MEN

Men's care, especially facial skin care, had a pretty good year. The category has been one of the growth drivers for the entire C&T market in recent years and 2014 proved no exception. According to IRI Germany's figures, men's grooming products grew 1.4% to €601.35m. Men's shower products grew 2.5% to €191.03m in value, while deodorants put on 2.5% to

€271.82m. Face care, meanwhile, grew 0.3% to €68.40m. Shaving preps and aftershaves, on the other hand, registered losses in both value and volume.

Men's face care is becoming a lot more segmented, with serums and especially multi-purpose products much in evidence. The big players include L'Oréal Men Expert, Florena Men and Nivea Men, and drugstore own label brands, especially DM's Balea Men.

Among the major Balea launches last year were a 6-in-1 anti-wrinkle fluid in the Lift Effect range and a Vulkanstein Peeling + Maske product formulated with volcanic rock particles. The multi-purpose product can be used as a scrub for problem skin or as a cleansing facial mask.

L'Oréal Men introduced All-in-1 Feuchtigkeitspflege (a combination of moisturiser and aftershave) in its Hydra Energy range, and Florena Men relaunched its Comfort and Sensitive ranges with new ingredients and new packaging.

LUXURY LOSSES

The premium market registered a rather more disappointing performance in 2014, says perfumery trade association VKE-Kosmetikverband. The VKE member

Fragrances from fashion brands such as s.Oliver continued to be popular with German consumers



TABLE 2: GERMANY, WOMEN'S FACIAL SKIN CARE, 2014*

Category	Value €/m	+/-%	Volume m/units	+/-%
Total market	590.190	4.1	10.97	4.3
Anti-ageing	183.942	5.6	1.36	3.8
Mature skin	81.392	5.0	0.87	-0.3
Basic	238.006	3.6	6.47	5.8
Young care	86.851	1.6	2.27	2.1

* January to September 2014. Source: IRI Symphony Group

TABLE 3: GERMANY, COLOUR COSMETICS, 2014

Category	Value €/m	+/-%	Volume m/units	+/-%
Total market	1,471.00	+4.1	269.81	+3.8
Eye products	543.90	+3.3	100.08	+3.4
Face products	466.20	+4.5	58.93	+6.6
Lip products	241.43	+6.0	41.72	+9.6
Nail products	207.97	+2.7	67.63	-1.1

Source: IRI Germany

TABLE 4: GERMANY, WOMEN'S FRAGRANCES, 2014

Category	Value €/m	+/-%	Volume m/units	+/-%
Total market	966.45	2.8	37.15	1.9
EdPs	530.25	5.8	16.32	6.2
EdTs	401.70	-1.0	19.02	-2.1
EdCs	18.82	10.8	1.42	7.9
Perfume	8.50	-3.7	0.18	6.4
Body fragrance	6.23	6.6	0.19	17.7

Source: IRI Germany

companies had expected at least a small rise in turnover. Instead, the sector barely managed to maintain its 2.4% increase from last year.

Women's fragrances are the main driver of the luxury sector and this category in particular performed badly last year, growing a meager 2.1%, which directly affected the performance of the sector as a whole.

Facial skin care and sun care also struggled last year; this category only managed a scant 1% increase. The reasons for this, VKE says, are the ongoing pricing wars which have been dogging the perfumery sector for years, but also the increasing competition from hypermarkets and discounters who are starting to offer higher-priced beauty products.

The dynamics in the sector were also shifting in 2015. With market leader Douglas dominating the perfumery market, especially in terms of pricing and promotions, the majority of Germany's independent perfumeries are organised into cooperatives.

Beauty Alliance is the leading perfumery cooperation in Germany, with more than 950 privately owned perfumeries. In May, the association announced that it would join forces with perfumery cooperation TopCos, which currently comprises 300 independent perfumery stores. Beauty Alliance and TopCos say that the new merger will further strengthen and consolidate the independent perfumery retail sector. For 2015, Beauty Alliance is expecting at least moderate growth.

RETAIL RUMBLE

In terms of retail, 2014-15 was tempestuous. Three of Germany's biggest beauty retailers changed hands during the last twelve months. Perfumery chain Douglas was sold to a Luxembourg-based private equity group, department store retailer Karstadt went to an Austrian investor and department store chain Kaufhof was recently sold to a Canadian retail group.

DRUGSTORES IN FRONT

Despite these dramatic changes, the basic retail structures remained in place. Germany's competitive drugstore market is still the biggest distribution channel for personal care and this sector continues to be successful. The market is led by Götz Werner's DM chain, followed by Dirk Rossmann's eponymous Rossmann chain. Both chains have extensive store networks across Germany and are bitter competitors, so this rivalry is keeping the drugstore sector fast moving and lively. The third-biggest



Department store Kaufhof (top) was sold to Canada's HBC this year, while south Germany's Müller is the country's third-largest drugstore after DM and Rossmann; drugstores are Germany's largest C&T distribution channel

chain is the southern German Müller group, which has its biggest presence in the south of the country, while number four in the market, Budnikowsky, is a small regional retailer from the northern German city of Hamburg.

Each year, the market share of Germany's drugstore retailers is growing – usually at the expense of department stores and perfumeries – and 2014-15 was no exception. Market leader DM has had a particularly busy year so far. The retailer is already in a pretty solid position; in 2014, DM's 1,686 German stores grew 9.6% to €6.40bn, while total group turnover (which includes an additional 1,453 outlets in 11 European countries) reached €8.32bn, up 8.2%. And in the first half of 2015, DM's German business has already grown 10.5% to €3.48bn, while the total group reached €4.48bn, up 9.4%. But DM isn't resting on its laurels. Instead, the retailer has been stepping up the pace.

In spring, it launched an online store and in June, a new own label colour cosmetics brand followed.

However, competitor Rossmann isn't sitting still either. Although DM is still in the lead, Rossmann is starting to catch up. In 2014, the retailer announced turnover of €5.38bn for its 1,919 German stores, an increase of 7.9%. Total group turnover (including 1,334 stores in five other European countries) grew 8.7% to €7.2bn. Rossmann has also announced investments of €170m to open 340 new stores.

The retailer is also investing in the interior design of its stores and is currently trying out an entirely new look – more stylish and spacious, with an increased focus on the presentation of colour cosmetics.

ATTACK OF THE DISCOUNTERS

Despite the fact that drugstore retail still rules supreme in the personal care market, the German discounter sector is starting to slowly move into DM's, Müller's and Rossmann's territory.

Traditionally Germany's aggressive discounter segment, led by Albrecht-owned Aldi group but with the Schwarz group's Lidl chain a close second, have focused on own label food brands which are sold at rock-bottom prices and with minimal overheads.

However, over the last few years – and especially since the demise of drugstore chain Schlecker in 2012 – Aldi and Lidl have started to expand their personal care portfolio with more retail brands. Last year, for example, Aldi started to sell skin care brand Nivea (Beiersdorf) and oral hygiene label Blend-a-Med (P&G).

And a few months ago Aldi made headlines with the announcement that it

would start stocking a further 50 food and personal care brands. This has stirred Aldi's main competitor Lidl and the Schwarz group's second big discounter chain Kaufland into action. All three retail chains are currently engaging in an aggressive price battle. At the moment these pricing wars take place primarily in the food sector, but it is only a matter of time until they also reach the discounters' personal care brands – and then there is a real chance that this price development will also affect Germany's big drugstore retailers.

Although Aldi, Lidl and Kaufland are still far from being a threat to DM and Rossmann, Germany's drugstore giants have already started to slash some of their prices. And while German consumers might rejoice in this development, Germany's personal care manufacturers and distributors are the ones who are really starting to suffer. Industry observers are already worried about where the downwards price spiral will lead, and how far DM and Rossmann are willing to go.

DOUGLAS DOMINATES

Germany traditionally has a very strong independent perfumery sector. Most stores are family-owned and although there are a few independent smaller chains, not many of these have more than six or seven outlets. Market leader Douglas – with its 440 perfumeries in Germany – continued to dominate the market, especially in terms of pricing and distribution.

In June, investment group Advent International announced that it had sold the Douglas chain to Luxembourg-based private equity fund CVC Capital Partners. Advent International acquired Douglas in 2012 and immediately announced ambitious expansion plans for its new beauty retailer. In 2013, Douglas took over French perfumery chain Nocibé from European investor Charterhouse and, in January, Douglas acquired Munich-based perfumery chain Himmer, announcing that it would look for further purchases within Germany.

With the Douglas acquisition, CVC now has a significant foot-hold in the European perfumery retail market. CVC has already announced that it is anticipating major growth potential for Douglas in Europe, both organically and through acquisitions – according to industry rumours, Douglas has already expressed an interest in Italian perfumery chain Limoni Profumerie – and that the group would also consider further expansion outside of Europe.

Within Germany, Douglas has also started to focus more on its online retail

Leading German drugstore DM (pictured) has kept competitive with the launch of an online store and an own label colour cosmetics brand this year



activities. The retailer's online store www.douglas.de was introduced in 2000 and is still the biggest online perfumery in Germany. Earlier this year, in a bid to profit from the constantly growing natural beauty market, Douglas launched a smaller online shop for organic cosmetics; www.natureme.de currently sells ten organic and natural beauty brands and, interestingly enough, has no obvious ties to the Douglas perfumeries or the www.douglas.de online store.

DEPARTMENT STORE SHAKE-UP

There were major changes in the department store sector, too. The two remaining department store retailers in Germany, Kaufhof and Karstadt, were both sold to international investors. Karstadt went to Austrian Signa Group in mid-2014, while Metro Group announced the sale of its Kaufhof chain to Canadian retail group Hudson's Bay Company (HBC) in June 2015.

Despite – or perhaps because of – the Signa acquisition, things are simply not improving for ailing department store group Karstadt. In 2010, US investor Nicolas Berggruen acquired the bankrupt retail group, which at the time included 83 stores across Germany, a chain of sports stores and the luxury KaDeWe Group division with three of Germany's most famous department stores: Berlin's KaDeWe, Hamburg's Alsterhaus and Munich's Oberpollinger.

Initially Berggruen had announced big expansion plans for Karstadt. Very quickly, however, things turned sour and, in summer 2014, Berggruen sold Karstadt to Austrian investor René Benko's Signa group. This June, just one year later, Signa sold 50.1% of the KaDeWe Group to Italian department store group la Rinascente. What la Rinascente's plans are

for KaDeWe, Alsterhaus and Oberpollinger is not yet certain, but the three stores have such a high profile that major changes to the retail concept or store closures are very unlikely.

For the rest of the Karstadt group, however, things are still very much up in the air. Four stores in smaller German cities will close down by early 2016, Signa has said, and there will be, yet again, a new retail concept for the remaining Karstadt stores. Instead of (unsuccessfully) drawing in younger customers with international trend fashion brands, Karstadt will return to its core target group: the older demographic.

At around the same time, Karstadt's main competitor Kaufhof was sold to Canadian retail group HBC for €2.8bn. The purchase price includes the German Kaufhof chain, the Sportarena chain of sports stores, Kaufhof's Belgian retail chain Galeria Inno plus the respective real estate. According to media reports, the Signa group had also made an offer for Kaufhof. In the end, however, HBC won the bid.

The new owner has promised to keep Kaufhof's current group constellation without closures or job cuts; investing into the current set-up with a focus on further developing cross-channel retail structures.

As far as beauty is concerned, the German C&T market should continue with at least moderately successful results over the next few years. If the discounter price battles will actually affect the drugstore market, turnover might go down a bit. But, in general, the German C&T market is in excellent shape. On the retail side, however, it is still uncertain how all of the big M&A changes are going to play out. The Karstadt situation, in particular, remains precarious, and Douglas is setting out to conquer the European beauty retail market. **CD**