Thick skin: Shifting consumer preferences and global opportunities will stabilize growth
About this Industry

Industry Definition

Operators in this industry prepare, blend, compound and package beauty products and cosmetics. Products included in this industry are perfumes, make-up items, hair preparations, face creams, lotions and other toiletries.

Main Activities

The primary activities of this industry are:
- Manufacturing natural and synthetic perfumes
- Manufacturing shaving cream, shaving preparations and aftershave products
- Manufacturing hair care products
- Manufacturing face and body creams, beauty creams or lotions and hand cream or lotions (except barrier creams)
- Manufacturing sunscreen products
- Manufacturing cosmetics, including face powders, eye shadows, lipsticks and mascaras
- Manufacturing bath salts and talcum powders
- Manufacturing deodorants and depilatory products
- Manufacturing nail care preparations and nail polishes
- Manufacturing toilet cream or lotions (except toilet lanolin)

The major products and services in this industry are:
- Cosmetics
- Deodorants and antiperspirants
- Hair care products
- Oral hygiene products
- Perfumes and colognes
- Skin care products
- Sun care, nail care and baby care products

Similar Industries

32561 Soap & Cleaning Compound Manufacturing in the US
Companies in this industry are primarily engaged in manufacturing and packaging soap.

Additional Resources

For additional information on this industry:
- www.cosmeticnews.com
- Cosmetic News
- www.cosmeticindustry.com
- CosmeticIndustry.com
- www.cosmeticsdesign.com
- Cosmetics Design North America
Industry at a Glance
Cosmetic & Beauty Products Manufacturing in 2011

Key Statistics
Snapshot

Revenue $53.7bn
Annual Growth 06-11 2.3%
Annual Growth 11-16 3.1%
Profit $5.7bn
Exports $6.3bn
Businesses 1,956

Revenue vs. employment growth

Consumer sentiment index

Products and services segmentation (2011)

Key External Drivers
Consumer sentiment index
Demand from beauty, cosmetics and fragrance stores
Demand from department stores
Number of adults aged 20 to 64
Trade-weighted index
Demand from supermarkets and grocery stores

Market Share
The Procter & Gamble Company 16.0%
Unilever 5.0%

Revenue
Employment

Year 03 05 07 09 11 13 15 17
% change
5 10
0
-5
-10
-15

Index
Year 03 05 07 09 11 13 15 17

24% Hair care products
23.7% Skin care products
18.6% Cosmetics
13% Deodorants and antiperspirants
9.5% Perfumes and colognes
5.6% Oral hygiene products
5.6% Sun care, nail care and baby care products

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 31

SOURCE: WWW.IBISWORLD.COM
Industry Performance

Executive Summary

The wide range of beauty products available through the Cosmetic and Beauty Products Manufacturing industry protects its participants from drastic changes in disposable income. While fluctuating incomes affect cosmetics, essential goods like shampoo and toothpaste experience steadier demand. Revenue for the industry dropped in 2009 (a mere 0.1%) for the first time in five years because of weakened economies worldwide. However, revenue turned around in 2010, growing 1.2%; IBISWorld expects 2011 to display more positive figures, with revenue estimated to grow 1.3% to $53.7 billion, bringing the average annual growth rate to 2.3% over the five years to 2011.

Since 2008, the number of industry employees has steadily declined. Driven by the need to sustain profit margins, operators cut employment at an average annual rate of 1.5% to 52,512 workers over the five-year period. The move helped players sustain average margins of 10.6% of revenue. The industry’s mature life cycle stage has also prompted many operators to seek market opportunities overseas. Exports are expected to increase from 10.9% of revenue in 2006 to 11.8% in 2011 and are forecast to climb to 14.4% by 2016.

The Cosmetic and Beauty Products Manufacturing industry’s diversity will keep its revenue growth steady over the five years to 2016, increasing at a projected average annual rate of 3.1% per year to $62.5 billion. While product developments and consumer preferences will likely drive some industry growth, changes are not expected to be drastic enough to alter its life cycle stage. Manufacturers will likely earn margins greater than 12.0% of revenue due to product development and associated price premiums. Globalization will increase as large players like Procter & Gamble expand their foreign operations to bypass the stagnant domestic market.

Key External Drivers

Consumer sentiment index
The consumer sentiment index reflects trends in unemployment and disposable incomes. When sentiment is high, consumers are more likely to purchase this industry’s goods. This driver is expected to increase during 2012, creating a potential opportunity for the industry.

Demand from beauty, cosmetics and fragrance stores
Beauty and cosmetics stores create strong demand for the industry’s products, especially as they rise to prevalence and favor among consumers. As Americans switch to this type of retail format, away from department stores, this driver will increase, causing industry revenue to grow. IBISWorld expects this driver to increase during 2012.

Demand from department stores
The level of demand derived from this key market segment has a strong influence on the performance of the industry. Many cosmetic products, including makeup and fragrances, are sold in department stores. However, some department stores are losing ground to competitively priced mass merchandisers. This driver is expected to increase slowly over 2012.

Number of adults aged 20 to 64
Women ages 35 to 54 are the primary buyers of products within this industry.
Industry Performance

Key External Drivers continued

As the number of people in this group contracts or expands, demand for cosmetics will likely fluctuate in line. This driver is expected to increase slowly during 2012.

Trade-weighted index
Because this industry is moderately involved in international trade, an appreciation of the US dollar makes cosmetic and beauty products less attractive internationally. This driver is expected to increase during 2012.

Demand from supermarkets and grocery stores
Mass merchandisers and supermarket chains are the largest market segment; therefore, the level of demand generated from this segment has a strong bearing on the performance of the industry. However, as consumers move to higher end cosmetics, drug stores will feel the competitive pinch from specialty stores. This driver is expected to decrease slowly during 2012, posing a potential threat to the industry.

Current Performance

The Cosmetic and Beauty Products Manufacturing industry is composed of various product segments that are affected by distinct drivers. While makeup is more susceptible to changes in disposable income, demand for essential items like toothpaste and shampoo is relatively stable. The industry’s independently moving segments protect it from experiencing drastic changes in revenue during any given year. As a result, IBISWorld expects revenue to grow at an average annual rate of 2.3% to $53.7 billion over the five years to 2011.

In 2006 and 2007, revenue grew at a healthy rate of more than 7.0% annually. Riding the wave of high incomes, a strong housing market and solid employment, consumers were confident enough to spend on discretionary items like high-quality makeup that demands a higher price. Downstream demand from department stores and specialty makeup stores soared. However, the recession hit in 2008, slowing growth and causing consumers to quickly tighten their purse strings. In 2009, revenue even declined as export markets suffered as well, reflecting the weak state of the global economy. However, the industry recorded a turnaround in 2010, and revenue is expected to grow an
Industry Performance

Current Performance continued

additional 1.3% through 2011. Slowly rebounding personal disposable income will lead to higher consumer sentiment, a return to purchasing higher-value branded items and stronger spending in general.

Domestic activity

During the past five years, while the number of industry participants grew, employment and wages have come down. Aggregate wages declined at an average annual rate of 6.1% to $2.9 billion due to companies’ efforts to curb costs during the recession. The industry’s workforce has shrunk from 56,508 people in 2006 to an estimated 52,512 in 2011 (reflecting an average annualized decline of 1.5%), while average salaries have dropped from $70,700 to $55,700. The cost-cutting measures have helped operators retain margins at an average of 10.6% of revenue during the five-year period.

Profit has remained stable also due to the essential nature of many of the industry’s products. For example, major player Procter & Gamble offers many everyday essentials, which are in demand even as consumer incomes decrease or prices for personal care items increase.

Consumers continue to spend on less costly luxury items like lipstick to satisfy their need to shop

The company has experienced relatively steady growth throughout the past five years. Another positive trend on industry sales is the Lipstick Effect, which was first coined by industry participant Estee Lauder in 2001. It refers to consumers’ expenditure on less costly luxury items (like lipstick) during a recession to satisfy their need to shop and feel luxurious. The Lipstick Effect resonated within the industry, keeping revenue from declining too far, with sales dropping only 0.1% during the peak of the recession in 2009.

International activity

The Cosmetic and Beauty Products Manufacturing industry is moderately globalized. Imports account for an estimated 11.6% of domestic demand in 2011, and exports are slowly growing in value and as a part of revenue (currently 11.8%). Imports have long been a mainstay of this industry because consumers demand high-end, high-quality cosmetics and skin care products from suppliers in France and Italy. In fact, Estee Lauder and L’Oreal SA have established operations in the United States to meet some of that demand.

Exports have grown faster than industry revenue, averaging 3.9% per year to $6.3 billion during the five years to 2011. Prior to the recession, US-based companies expanded their operations overseas to capture a new market since the domestic one is becoming increasingly saturated. During the recession, the depreciating US dollar made American-made cosmetics more attractive to foreign consumers, which helped boost exports.

The largest industry companies boast domestic and international operations. Procter & Gamble, the largest participant, has a physical presence in 80 countries worldwide, and Unilever is an Anglo-Dutch firm with established brands in the United States. Industry
International activity continued

The Cosmetic and Beauty Products Manufacturing industry is not projected to experience much change over the five years to 2016. The industry is mature, with several distinct product segments that help moderate any isolated drastic fluctuations. Furthermore, consumers have widely accepted the products these manufacturers offer, partly because they are essential (e.g. shampoo and toothpaste) and partly because of their enticing promises (e.g. wrinkle-reducing creams and makeup). With these factors taken into account, IBISWorld anticipates that revenue will grow at a steady average of 3.1% per year to $62.5 billion in 2016. The industry will display other traits that are typical of a mature industry, including greater exports and higher profit margins for industry participants.

The rebounding economy will positively affect nondiscretionary purchases first, so demand for hair care and oral care is expected to increase over 2012 and buoy sales. Revenue is forecast to grow 2.2% in 2012 as incomes increase and consumers return to buying essential items in greater quantities. Meanwhile, the number of companies participating in the industry is expected to fluctuate slightly, ultimately displaying no change from 2011 to 2016. With a saturated playing field, new entrants will find it difficult to establish themselves among top producers like Procter & Gamble and Unilever. Concentration will inevitably increase as the largest players grow even larger, using resources to expand into new product categories and into untapped overseas markets. Meanwhile, companies that remain part of this industry are expected to grab a larger slice of the pie, with profit anticipated to increase from 10.6% of revenue in 2011 to 12.0% by 2016.

Employment and wages are also projected to increase. Industry players will likely hire workers at an average annual rate of 4.0%, with employment growing to 63,816 people by the end of 2016. Wages are anticipated to increase even faster at an annual rate of 4.5% to $3.6 billion for the industry. IBISWorld anticipates that new product research and development will encourage firms to invest more in human resources to remain competitive. This trend is reflected in the climbing average salaries for industry employees as well; IBISWorld anticipates that the average annual income will increase from $55,700 to $57,100 between 2011 and 2016.
Industry Performance

Crossing boundaries

Another emblematic trait of industry maturity is participants’ expansion into overseas markets, since the domestic space has limited opportunities left available. Over the five years to 2016, exports are forecast to increase by an average of 7.3% per year to $9.0 billion, to represent 14.4% of revenue. US-based companies like Procter & Gamble have already established operations overseas; however, smaller companies that may be limited in their geographic scope will likely enter into contracts with downstream retailers in foreign countries to grow their sales. Additionally, the US dollar is anticipated to lose its value at an average of 0.2% per year during the next five years, making US-made cosmetics and beauty products more affordable to international buyers.

Imports are also expected to increase their value and role within the domestic industry. IBISWorld anticipates that foreign-made goods will enter the country at a rate of 5.5% per year to $8.1 billion by 2016 and satisfy 13.2% of domestic demand. As consumers regain their purchasing power during this time, they will seek out high-quality, high-value cosmetic and grooming products from import sources like France and Italy. Foreign-owned companies, including industry participant Estee Lauder, will expand their presence in the domestic market by meeting this demand. Overall, the industry will become more globalized, with increased foreign infiltration into the domestic market.

Product enhancement opportunities

The product profile of the Cosmetic and Beauty Products Manufacturing industry will continue to change as participants seek new growth opportunities. Consumer preferences and tastes will shift to reflect a wider acceptance of currently underrepresented product lines. For example, the continuing focus on sun protection will lead to the development of new products that have better or longer-lasting benefits. Additionally, national trends in consumerism will set the stage for the expansion of eco-conscious and naturally derived cosmetic enhancements.

Increased concerns about carbon footprints will also encourage manufacturers to find new eco-friendly resources, develop new products and introduce new packaging. Likewise, consumers’ need for products made with few and natural ingredients will continue to shape demand for so-called organic goods (the Federal Drug Administration does not have a definition for organic cosmetics or beauty products, though brands market their products as such).

Another potential market focus for manufacturers is the male consumer, which is a downstream market that has grown over the past five years. While men already purchase necessities, a growing share is using female-centered products like face creams and antiaging serums. In fact, major beauty retailer Sephora has a section on its website specifically dedicated to the male consumer. Widespread acceptance of male beauty products will likely carve out a new path for the industry, though the effect is not expected to bring about a radical change for operators.

Demand for natural and eco-friendly beauty products will support industry growth
**Industry Performance**

**Life Cycle Stage**

Globalization is a key feature for industry operators, allowing them to expand markets internationally.

The industry is highly competitive, limiting the number of participants.

Product segments are well defined, but innovation drives demand for new products.

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**Key Features of a Mature Industry**

- Revenue grows at same pace as economy
- Company numbers stabilize; M&A stage
- Established technology & processes
- Total market acceptance of product & brand
- Rationalization of low margin products & brands

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**Cosmetic & Beauty Products Manufacturing**

- **Quality Growth**
  - High growth in economic importance; weaker companies close down; developed technology and markets

- **Maturity**
  - Company consolidation; level of economic importance stable

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**Potential Hidden Gems**

- Future Industries

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**Time Wasters**

- Hobby Industries
Industry Performance

Industry Life Cycle

The Cosmetic and Beauty Products Manufacturing industry is in the mature phase of its life cycle, most strongly indicated by its stagnant contribution to the US economy. Industry value added (IVA) is forecast to grow at an average annual rate of 2.3% over the 10 years to 2016. Gross domestic product (GDP) is expected to grow at 1.8% per year over the same time. The industry adds only marginal value to the economy.

Additionally, the number of industry players is declining in the five years to 2011 and is expected to remain stagnant over the next five years. This indicates that opportunities are not readily available for new entrants, leaving the existing operators dominant. The domestic market fully accepts the industry’s products, so little room is left for new entrants or products. Manufacturers have increased their exports over the past five years, growing at an average annual rate of 3.9%. In 2011, international markets account for 11.8% of industry revenue, up from 10.9% in 2006. IBISWorld projects that the market will expand even further to account for 14.4% of revenue by 2016.

Product innovation is a key component of industry growth. Over the five years to 2011, introductions and developments of new varieties of makeup, shampoos and other toiletries have boosted consumer demand. Promises of younger-looking skin, healthier hair and a slew of other appearance enhancements have kept manufacturers viable and profitable.
Hair care is the largest product segment within this industry accounting for about 24.0% of total revenue; however, it has lost ground to the skin care and cosmetics segments. Hair care is a mature segment, saturated with product varieties targeted at niche markets. For example, there are products specifically aimed toward fine hair, color-treated hair and other specific hair types. Because...
penetration rates are high, little product innovation has taken place over the past five years. As such, the segment has shrunk slightly relative to other products.

Following closely behind hair care is the skin care product segment, which accounts for 23.7% of industry revenue. Included in this category are facial creams and cleansers, functional products (i.e. products that serve a specific purpose, such as reducing wrinkles) and men’s skin care products. The focus on antiaging treatments has boosted this segment’s visibility over the past five years. Companies create new products aimed at preserving a youthful appearance on a regular basis. Consumer concerns about appearance, coupled with advanced technologies, have paved the way for this segment’s ascent. Women aren’t the only ones worried about their appearance; men’s skin care products have become a significant product category within the industry. IBISWorld estimates that male-centered care items account for about one-third of this segment.

Cosmetics are also holding strong, bringing in 20.6% of industry revenue. Makeup has also felt the effects of the antiaging trend, with products such as Estee Lauder’s Futurist Age-Resisting foundation increasing their share of sales. Additionally, the recent push for organic and environmentally friendly cosmetics has shed new light on a previously stagnant product line. IBISWorld estimates that the cosmetics segment has increased its share of revenue from about 15.0% in 2006.

Perfumes and colognes represent another mature product segment within the Cosmetic and Beauty Products Manufacturing industry that has received a slight upward push in the current period. Celebrity-endorsed fragrances have gained popularity and momentum, which has worked to stimulate sales of these products, albeit slightly. Currently, this segment represents 9.5% of revenue.

Other products include deodorants and antiperspirants, sun care, nail care, baby care and oral hygiene. In recent years, sun care has received a particularly strong increase in demand and sales. Health concerns about skin cancer have opened consumers’ eyes to the risk of unprotected sun exposure. IBISWorld estimates that this segment’s share of revenue has increased from 3.0% in 2006 to 5.6% in 2011.

Demand Determinants

A wide array of discretionary variables sway demand for cosmetics, perfumes, toiletries and personal grooming products. For example, fashion trends, the influence of continued cosmetic and toiletry product developments and heavy industry marketing play a strong role in influencing demand. The strength of celebrity also affects demand, particularly within the fragrance segment, where products developed in conjunction with pop stars, models, actors and fashion labels is a continuing trend.

Industry players spend ever-increasing sums on developing and marketing new products to increase demand in an otherwise mature and saturated marketplace. Consumers are not increasing the volume of personal care purchases made. Thus, marketing is aimed at convincing consumers to “trade up” by promising better quality, multifunctionality and convenience.

Physiological and environmental attitudes also determine demand for industry products. Research has linked certain cosmetics ingredients to long-term effects like cancer, which has caused many consumers to shy away from traditional makeup. Instead, products
Products & Markets

Demand Determinants continued

featuring natural and organic components are increasingly gaining favor on the market. Similarly, consumers concerned with the environmental detriments of personal care item production and disposal opt for “green” items. These can range from location of production to company hiring practices to plant species used in the product.

Disposable income and consumer confidence also play a large role in determining demand for cosmetics and beauty products. While some products, like shampoo and toothpaste, are less responsive to income changes, a large portion of beauty products offer marginal benefits, so they are quickly cut when budgets are tight. Some consumers do not eliminate their use completely, but switch to a private label in place of the brand name item.

Major Markets

Markets for the Cosmetic and Beauty Products Manufacturing industry range from mass merchandisers to direct sellers. In 2011, IBISWorld estimates that mass merchandisers and supermarkets account for a quarter of all sales. This segment’s share of the pie has been growing over the past few years as these retailers have exerted increasing purchasing power. The recession also made these buyers more of an important resource for the industry because cash-strapped consumers flocked to the low-priced retailers.

Wholesalers, while losing market share, still represent about 17.0% of all sales. Over the five years to 2011, the trend of wholesale bypass has worked to edge out this part of the supply chain.

Large retailers, such as mass merchandiser Walmart, have looked past the middleman and sourced directly from manufacturers to cut purchasing costs. Manufacturers in turn have increasingly sold to retailers directly, offering them an agreed-upon price and retaining margins.

Drug stores carry a wide variety of low-priced consumer products, including lotions, cosmetics, skin and sun care items, baby products and a growing line of fragrances. This segment has remained relatively steady through the past five years; consumers view drug stores as their go-to retailer for everyday beauty and care products. Currently, this market accounts for about 13.0% of total revenue.
Department stores have been hurt slightly by the recession over the five years to 2011. Instead of buying high-priced, premium-quality products in department stores, consumers have opted to make similar purchases at drug stores and mass merchandisers to save money. As such, this market has shrunk from about 13.0% in 2006 to 11.0% in 2011. Hair and beauty salons have also lost some share during the five years to 2011 for the same reason. Consumers have forgone expensive aesthetic treatments and instead made necessary hair care and skin care product purchases at drug stores.

Direct sellers like Avon and Mary-Kay are characterized by their door-to-door cosmetic sales. These companies either purchase their products directly from producers or integrate manufacturing capabilities within their own supply chains. This type of business model focuses on cost savings by eliminating storefronts and other associated expenses. IBISWorld estimates that their share of the market has decreased, but not drastically, during the recession; direct sellers currently make up 9.0% of industry revenue. Cosmetic retailers, on the other hand, represent only 3.0% of revenue. These specialty boutiques have lost market share as many of their products are incorporated into one-stop-shop retailers like department stores, mass merchandisers or online-only shops.

The Cosmetic and Beauty Products Manufacturing industry makes about 12.0% of its revenue internationally. This portion is steadily increasing over the five years to 2011, growing from about 11.0% in 2006. Because it is in the mature phase of its life cycle, the industry is seeking out new markets for its products. So far, this has been successful, as overseas retailers depend on the appeal of American-made goods for their perceived high quality. Additionally, the weakness of the US dollar has made domestic products cheaper on the international market, increasing their appeal.

The Cosmetic and Beauty Products Manufacturing industry is primarily a domestic one, with exports only accounting for 11.8% of revenue and imports for 11.6% of domestic demand. Nevertheless, it is important to note the role of international trade within the industry. Over the five years to 2011, exports have grown faster than the industry itself, at an average annual rate of 3.9% to an estimated $6.3 billion in 2011. This accelerated growth has increased exports’ share of domestic revenue from 10.9% in 2006. The perception of high quality makes American products appealing to international consumers. In addition to this, the weakened US dollar has made US products cheaper during 2007 and 2008, boosting exports 8.7% and 10.0%, respectively.

Imports have grown at a five-year annualized rate of 6.0% to $6.2 billion currently. The United States mainly sources high-value, high-quality
International Trade continued

cosmetics and beauty products from France, Canada and Italy. Together, these three countries account for nearly half of all import values. China supplies the lower-end products, which are mostly sold in drug stores and through mass merchandisers. Imports declined strongly in 2009 as a result of the weakened domestic economy and consumers’ unwillingness to buy discretionary beauty products.

Canada and Mexico are both large sources and destinations of trade within this industry. Their proximity to the United States and the advantage of duty-free trade enjoyed under the North American Free Trade Agreement (NAFTA) allow these two nations to engage in high levels of trade.

Canada accounts for 16.4% of imports and 22.2% of exports. While Mexico is not in the top four sources or destinations, it has increased its values quite drastically over the past 10 years. Since 2000, imports from America’s southern neighbor have increased at an annualized rate of 27.6% and exports have grown at a more modest 3.2%.

Imports From...

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<th>Country</th>
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<td>France</td>
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<tr>
<td>Canada</td>
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<td>China</td>
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<tr>
<td>Italy</td>
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<td>Other</td>
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Exports To...

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<th>Country</th>
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<tr>
<td>Australia</td>
<td>5%</td>
</tr>
<tr>
<td>Japan</td>
<td>5%</td>
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<td>Canada</td>
<td>22%</td>
</tr>
<tr>
<td>Other</td>
<td>59%</td>
</tr>
</tbody>
</table>

Year: 2010
Total $6.3bn
Total $6.2bn
SOURCE: USITC
The Cosmetic and Beauty Products Manufacturing industry is highly concentrated in the Mid-Atlantic region of the United States, accounting for 31.5% of industry revenue. New York (accounting for 16.5% of revenue) and New Jersey (13.8%) are the top revenue-producing states in the industry and are located within this area. The region accounts for only 22.9% of industry establishments, which indicates that production facilities in the Mid-Atlantic are more efficient than the average plant. This region is an attractive location for cosmetic and beauty product manufacturers because it is close to upstream suppliers like chemical producers and also close to key markets in metropolitan areas like New York City. Facilities in New York and New Jersey are also close to major shipping ports, which have become increasingly important over the past five years as an increasing number of operators has engaged in importing and exporting products to expand the industry’s market.

For similar reasons, the Southeast region is the second most concentrated area for this industry, accounting for 21.8% of revenue. In the Southeast, North Carolina brings in the most revenue with 11.9% of the industry total. Most upstream suppliers are located in the region, which cuts down transportation costs for cosmetics companies. Additionally, Florida — one of the most populous states — is a key market for cosmetic and beauty product brands, so manufacturers that set up shop in the area can get their product to downstream markets quickly.

The Great Lakes region accounts for 13.8% of industry revenue, with Illinois holding the largest portion for the region at 6.9% of the industry’s total. Upstream manufacturers, including the Soap and Cleaning Compound industry (IBISWorld report 32561) and the Inorganic and Organic Chemical Manufacturing industries (IBISWorld reports 32518 and 32519, respectively) are highly concentrated in this region. Being in proximity to suppliers cuts costs for these facilities and allows for larger profit margins. Chicago, IL is also a key market for many of the products.

Despite holding 27.9% of industry establishments, the West only brings in 11.9% of industry revenue. California echoes this disparity, with 23.2% of industry establishments and 8.8% of revenue. This indicates that the typical establishment in the West does not bring in a large amount of revenue. While a large market for toiletries exists in the state’s large cities, upstream suppliers are not plentiful in the region, making for high transportation costs.

The rest of the regions make up the balance of revenue for the industry, or 20.9% of the industry total. No other region accounts for more than 10.0% of revenue. New England accounts for 8.0% of revenue and 4.2% of establishments, making it the region with the highest sales total per location. The Rocky Mountains bring in only 1.3% of revenue while holding 3.9% of establishments; it is the region with the lowest revenue per facility.
Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

**Level**

Concentration in this industry is **Low**

Industry concentration measures the extent to which large companies dominate the industry. IBISWorld estimates that, in 2011, the top four industry participants will hold a combined share of about 28.0% of total industry revenue. This suggests a low level of concentration since the majority of market power is spread over a large number of operators. Additionally, US Census data indicates that 64.0% of all industry firms employ fewer than 20 workers, suggesting that the average size of a company operating within the Cosmetic and Beauty Products Manufacturing industry is relatively small.

The level of industry concentration in the industry is gradually increasing, however. While there are a number of small players in the industry specializing in a small number of product lines to serve niche markets, major players in the industry will continue to expand and gain greater market control. Major player Procter & Gamble, for example, has well-recognized brands in a variety of markets, ranging from high-end fragrances via Dolce & Gabbana to everyday products like shampoo and conditioner via Vidal Sassoon.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

- **Production of premium goods/services**
  Customers will often purchase premium goods in this industry if they are perceived to be quality goods.

- **Having contacts within key markets**
  High brand visibility is important in increasing sales of mass-market cosmetics and toiletries.

- **Having marketing expertise**
  In this highly competitive industry, marketing and brand awareness are very important in gaining market share. However, this factor is somewhat less important in the niche and ultra-niche markets.

- **Access to niche markets**
  If not a major player, niche and ultra-niche positioning is important for success in this industry.

- **Ability to control stock on hand**
  If not a niche player, significant market strength is required for success.

- **Production of goods currently favored by the market**
  Manufacturers must be aware and be able to adapt to fashion trends in order to remain competitive, although some of the larger manufacturers may set trends rather than follow them.

Enterprises by employment size (2011)*

<table>
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<th>No. of employees</th>
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<th>Share</th>
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</thead>
<tbody>
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<tr>
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<td>120</td>
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<tr>
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<tr>
<td>500+</td>
<td>48</td>
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</tbody>
</table>

*Estimate, employer firms only

SOURCE: US CENSUS BUREAU
Costs and returns vary by firm and depend on its size, location, supply contracts and mix of products manufactured. The following figures are industry averages. Profit for cosmetic and beauty products manufacturers is relatively high, accounting for about 10.6% of revenue. The essential nature of some products makes them less dependent on price changes, which allows producers to increase consumer prices slightly without sacrificing volume. Additionally, some operators, such as Estee Lauder, create high-quality, high-value products, which allows the company to earn higher returns under favorable economic conditions; however, the discretionary nature of such products also makes firms more susceptible to recessions as consumers cut out luxury spending. Margins are expected to recover through 2011 from some of the blows of the recession.

Purchases are the largest cost component for the average operator within this industry, accounting for 58.1% of revenue. Manufacturers must buy inputs such as chemicals, dyes, essential oils and alcohols. Any changes in raw material prices affect the overall costs and the bottom line. Also, the purchase of packaging materials represents a substantial cost within this category; a significant amount of product sales depend on product presentation and appearance. Operators that manufacture luxury goods for the high-end market spend more on attractive packaging than their mass-market counterparts. Over the past five years, this cost category has increased slightly as the cost of petroleum, a key input into some products, has jumped.

Wages account for 5.3% of total revenue. Human capital is important within this industry, especially for high-end items. Employees must perform inspection and quality control to ensure the highest-quality product is delivered to downstream buyers. Over the past five years, wages have declined as a portion of revenue as the combined effects of cost-cutting during the economic recession and the general trend toward automation have taken hold.

Depreciation, on the other hand, accounts for an estimated 4.1% of revenue. This is slightly lower than the sector average of about 5.0%. This expense has grown over the five-year period due to the movement toward production automation.

Research and development (R&D) is a significant cost for operators because of the mature and saturated nature of the industry. R&D costs have increased over the past few years as companies have vied to set themselves apart by offering new and differentiated products to stay relevant. In addition, the growing demand for anti-aging products and the development of environmentally sound products have also contributed to the need for increased research.
Competitive Landscape

Basis of Competition

Companies within the Cosmetic and Beauty Products Manufacturing industry are highly competitive among each other. In a mature industry with relatively low barriers to entry, operators aim to stand out from the crowd in several ways. Price is particularly important in everyday use items like shampoo and toothpaste and in low-priced cosmetics. Because products within these sub-segments are highly undifferentiated, their price can lead downstream buyers to choose one brand over another. In high-quality niche products, price is less of a competitive factor as consumers purchase the product based on its promised performance.

Quality is another important basis of competition for industry participants. High-quality items (or those perceived as such) carry a price premium, which boosts company revenue and profit. Premium packaging is an indicator of product quality, so over the past five years, middle-tier product manufacturers have invested money in appearance to attract consumers on the basis of perceived high quality.

Research and development of new products is growing in importance as a basis of competition. In a saturated industry, companies look for new opportunities in untapped markets or through satisfying unmet needs for existing consumers. Major player Procter & Gamble, for example, is investing a large amount of money in research of the “$2-a-day” consumer segment, aiming to provide low-cost yet effective products to the very low income bracket.

Along these lines, the ingredients in products increasingly sway consumers. Over the past five years, the focus on naturally made or organic personal care items has intensified. Most notably in cosmetics, products containing parabens (which have been tied to cancer) are being eschewed in favor of natural products. A company’s ability to respond to ingredient changes is important to its survival.

External competition, while not prominent, does exist. Cosmetic and personal care product manufacturers compete against wholesalers and retailers that integrate production activities within their operations. IBISWorld does not expect this to become a strong threat over the next five years.

<table>
<thead>
<tr>
<th>Barriers to Entry checklist</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>High</td>
</tr>
<tr>
<td>Concentration</td>
<td>Low</td>
</tr>
<tr>
<td>Life Cycle Stage</td>
<td>Mature</td>
</tr>
<tr>
<td>Capital Intensity</td>
<td>High</td>
</tr>
<tr>
<td>Technology Change</td>
<td>Medium</td>
</tr>
<tr>
<td>Regulation &amp; Policy</td>
<td>Medium</td>
</tr>
<tr>
<td>Industry Assistance</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Barriers to Entry

Barriers to entry into the Cosmetic and Beauty Products Manufacturing industry are not high, but they are increasing. Established manufacturers, which benefit from economies of scale and scope, can pose a barrier for potential entrants. These operators have cost-minimizing measures and promotional resources in place. These factors ensure an advantage in competing for the shelf space necessary to market products in the downstream market. Their established and sometimes well-known brand names are also a deterrent for new entrants.

The mature and somewhat saturated nature of the market tends to act as a further barrier, limiting the scope for new entrants with new products. However, niche and developing markets (e.g. organics) can offer an opportunity for aspiring toiletries manufacturers. Capital investments can also act as a barrier for
Competitive Landscape

Barriers to Entry continued

new entrants. Cosmetic and beauty products manufacturing requires a factory and production equipment, which can add up to a substantial cost. Securing financial means is a hurdle new operators must overcome to enter the industry.

Industry Globalization

The Cosmetic and Beauty Products Manufacturing industry displays a medium level of globalization. Although foreign ownership accounts for less than 25.0% of the entire industry, operators are subject to an increasing level of exposure to the international market. Each of the largest companies operates on a global scale, reflecting the industry’s worldwide reach. In addition, two of the top four companies (Unilever and L’Oréal) are foreign-owned and account for nearly 10.0% of industry revenue. According to Euromonitor, the United States market is the largest market on an individual country basis, accounting for just under 20.0% of the global market.

The industry is also subject to moderate levels of imports and exports, which have strengthened their grasp on the domestic industry over the past five years. Imports have increased their share of domestic demand from 9.8% in 2006 to an estimated 10.7% in 2011. Exports are expected to grow to represent 12.7% of revenue (up from 10.9% in 2006). This level of globalization exposes the industry to global conditions, including fluctuations in exchange rates, supply levels and socio-political factors.

International trade is a major determinant of an industry’s level of globalization. Exports offer growth opportunities for firms. However there are legal, economic and political risks associated with dealing in foreign countries. Import competition can bring a greater risk for companies as foreign producers satisfy domestic demand that local firms would otherwise supply.

Trade Globalization

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports/Revenue (2006-2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>9.8%</td>
</tr>
<tr>
<td>2007</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Going Global: Cosmetic & Beauty Products Manufacturing 1999-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports/Revenue (2006-2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>9.8%</td>
</tr>
<tr>
<td>2001</td>
<td>10.9%</td>
</tr>
<tr>
<td>2011</td>
<td>12.7%</td>
</tr>
</tbody>
</table>
Procter & Gamble (P&G), the consumer goods company bringing in nearly $20.0 billion in sales annually, was first incorporated in 1905. The company operates globally, with a physical presence in about 80 countries. Its sales primarily come from mass merchandisers, drug stores and grocery stores, of which Walmart and its affiliates bring in 16.0%. P&G divides its operations into three reportable segments: beauty and grooming, health and well-being and household care. It operates within the Cosmetic and Beauty Products Manufacturing industry through its beauty and grooming division.

Within its beauty and grooming operations, P&G owns several brands, including Olay (facial skin care), Dolce & Gabbana, Gucci and Hugo Boss (all fragrances). The company also owns a multitude of deodorant, shaving and personal cleansing products. This reporting segment accounts for about a quarter of total net sales for the company, and P&G makes up about 16.0% of industry market share.

P&G has a threefold growth strategy. The first tier is product innovation, which focuses on introducing new, better and more consumer-responsive beauty items. The second part is centered on building business with underserved customers whose needs are not met through the company’s current products. The final, and perhaps most important, component is the company’s global development and expansion. Because P&G is operating in a mature industry, with little opportunity for product innovation and a saturated domestic market, the company is looking outside the United States to find a new customer base.

### The Procter & Gamble Company (US industry-specific segment) – financial performance**

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>6,816</td>
<td>N/C</td>
<td>1,446</td>
<td>N/C</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,763</td>
<td>13.9</td>
<td>1,491</td>
<td>3.1</td>
</tr>
<tr>
<td>2007-08</td>
<td>8,072</td>
<td>4.0</td>
<td>1,627</td>
<td>9.1</td>
</tr>
<tr>
<td>2008-09</td>
<td>7,954</td>
<td>-1.5</td>
<td>1,594</td>
<td>-2.0</td>
</tr>
<tr>
<td>2009-10</td>
<td>8,266</td>
<td>3.9</td>
<td>1,678</td>
<td>5.3</td>
</tr>
<tr>
<td>2010-11</td>
<td>8,587</td>
<td>3.9</td>
<td>1,645</td>
<td>-2.0</td>
</tr>
</tbody>
</table>

*Year-end June; **IBISWorld estimate

**The Procter & Gamble Company**

*Market share: 16.0%*

### Major Companies

**The Procter & Gamble Company**

**Unilever**

**Other Companies**

**Major players**

(Market share)

Unilever 5.0%

79.0%

Other

The Procter & Gamble Company 16.0%

**SOURCE: WWW.IBISWORLD.COM**
Major Companies

**Financial performance**

Over the five years to 2011, P&G’s beauty segment has expanded at an average annual rate of 3.9% to reach $20.2 billion in global sales. IBISWorld estimates that the company’s US industry-specific operations have grown at an average annual rate of 4.7% to $8.6 billion during the same period. With consumer confidence returning, the beauty segment has benefited from higher volumes through 2011. However, the price of inputs is volatile and unpredictable. With higher-than-average commodity prices over much of 2010, profit suffered through fiscal 2011.

P&G’s expansion strategy has helped the company tap new international markets and introduce new products to new consumers. In the wake of the US recession, the company was able to sustain much of its revenue because its position in various global markets mitigated any isolated effects. The company is now focused on creating products for the “$2-a-day” consumer, or the very low-income bracket, globally.

In 2010, the company turned its focus to sustainable products, which are in line with the industry trend of “going green.” This new long-term plan will change the way P&G conducts business, from the power in its plants to limiting consumer manufacturing waste. The sustainability commitment includes 10-year goals; by 2020, P&G aims to reduce consumer packaging 20.0% and increase its plant power to renewable energy to 30.0% of the total.

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**The Procter & Gamble Company (beauty segment) – financial performance**

<table>
<thead>
<tr>
<th>Year*</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>16,687</td>
<td>N/C</td>
<td>2,412</td>
<td>N/C</td>
</tr>
<tr>
<td>2006-07</td>
<td>17,889</td>
<td>7.2</td>
<td>2,611</td>
<td>8.3</td>
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<td>2007-08</td>
<td>19,515</td>
<td>9.1</td>
<td>2,730</td>
<td>4.6</td>
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<td>2008-09</td>
<td>18,924</td>
<td>-3.0</td>
<td>2,664</td>
<td>-2.4</td>
</tr>
<tr>
<td>2009-10</td>
<td>19,491</td>
<td>3.0</td>
<td>2,712</td>
<td>1.8</td>
</tr>
<tr>
<td>2010-11</td>
<td>20,157</td>
<td>3.4</td>
<td>2,686</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

*Year-end June SOURCE: ANNUAL REPORT
Unilever operates in the US Cosmetic and Beauty Products Manufacturing industry through its subsidiary, Unilever USA, which is home to consumer personal care brands like Caress, Dove, Pond’s, Lever 2000 and Degree. The company also operates in the packaged foods industry through brands such as Ben & Jerry’s, Lipton and Slim-Fast. Its wide-spanning archive of products brings it into consumers’ homes on various levels. With this in mind, one of Unilever’s strategies is continuous development of products.

In 1997, the Anglo-Dutch company established operations within the United States through its North American home and personal care division. Manufacturing facilities are located across the United States and Canada. Unilever delivers its products through mass markets and premium goods channels.

The company’s personal care segment, which includes personal care sales in all countries, has retained slow, but steady growth. Over the five years to 2011, IBISWorld expects global personal care sales to increase at an average annual rate of 8.0% to $20.1 billion, reflecting the necessary nature of these products. Meanwhile, US industry-specific revenue is expected to grow on average 4.7% per year to an estimated $2.7 billion. Domestic sales suffered through the recession, stifling US growth in 2008 and 2009.

Revenue growth in the company’s global personal care segment has boosted consolidated sales during the five-year period. In 2010 alone, the personal care segment grew 10.7% to about $18.3 billion in global sales. IBISWorld estimates that the company’s total net sales have grown at an average annual rate of 5.5% to $70.4 billion over the five years to 2011. The weakness of the domestic economy has restrained US operations. While many of Unilever’s products are not discretionary, Americans’ plummeting sentiment and tight budgets proved to be detrimental even to this company. In 2009, sales from Unilever’s Americas geographical segment dipped 7.8% to $17.9 billion. However, the Americas operations and the personal care segment recorded growth through 2010 as many consumers returned to purchasing beauty items. IBISWorld anticipates these trends to continue through 2011, with the Americas geographical segment growing 5.0% to $19.3 billion and the personal care product segment increasing 10.0%.

In March 2011, Unilever sold its Sanex brand to industry player Colgate-Palmolive for $940.0 million, following a

---

**Unilever (personal care segment) – financial performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>13,964.5</td>
<td>N/C</td>
<td>2,401.9</td>
<td>N/C</td>
</tr>
<tr>
<td>2007</td>
<td>15,483.2</td>
<td>10.9</td>
<td>2,446.7</td>
<td>1.9</td>
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<tr>
<td>2008</td>
<td>16,747.2</td>
<td>8.2</td>
<td>2,683.6</td>
<td>9.7</td>
</tr>
<tr>
<td>2009</td>
<td>16,509.8</td>
<td>-1.4</td>
<td>2,556.0</td>
<td>-4.8</td>
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<tr>
<td>2010</td>
<td>18,278.1</td>
<td>10.7</td>
<td>3,048.3</td>
<td>19.3</td>
</tr>
<tr>
<td>2011*</td>
<td>20,500.0</td>
<td>12.2</td>
<td>3,200.0</td>
<td>5.0</td>
</tr>
</tbody>
</table>

*IBISWorld estimate

SOURCE: ANNUAL REPORT
Player Performance continued

European Commission requirement that Unilever sell the Sanex brand. In return, Unilever purchased Colgate’s laundry detergent brands in Colombia. In May 2011, Unilever acquired Alberto Culver, a personal products company that boasts brands like Alberto Vo5 and Noxzema. The transaction cost Unilever $3.7 billion, and Alberto Culver’s net sales in 2010 totaled about $1.6 billion. Unilever aims to extend its reach into consumer goods through this acquisition, especially with its extensive hair care product portfolio. IBISWorld anticipates that the acquisition will help Unilever increase its market share within the Cosmetic and Beauty Products Manufacturing industry through the remainder of 2011.

### Unilever (US industry-specific segment) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2,136.4</td>
<td>N/C</td>
<td>367.5</td>
<td>N/C</td>
</tr>
<tr>
<td>2007</td>
<td>2,387.0</td>
<td>11.7</td>
<td>377.2</td>
<td>2.6</td>
</tr>
<tr>
<td>2008</td>
<td>2,115.9</td>
<td>-11.4</td>
<td>339.1</td>
<td>-10.1</td>
</tr>
<tr>
<td>2009</td>
<td>2,246.5</td>
<td>6.2</td>
<td>347.8</td>
<td>2.6</td>
</tr>
<tr>
<td>2010</td>
<td>2,418.1</td>
<td>7.6</td>
<td>403.3</td>
<td>16.0</td>
</tr>
<tr>
<td>2011</td>
<td>2,683.5</td>
<td>11.0</td>
<td>427.2</td>
<td>5.9</td>
</tr>
</tbody>
</table>

*IBISWorld estimate

### Colgate-Palmolive Company

**Colgate-Palmolive Company**

Estimated market share: 4.0%

Founded in 1806 and incorporated in 1923, the Colgate-Palmolive Company is a consumer goods manufacturer and marketer. It divides its operations into these segments: oral, personal and home care and pet nutrition. It operates within this industry through its oral segment, and the company is best known for its oral care products. The company’s worldwide reach has helped protect it from drastic fluctuations within any one geographic area. In 2009, the company, recorded revenue figures practically identical to the previous year. Because

### Colgate-Palmolive Company – financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>12,238</td>
<td>7.4</td>
<td>1,353</td>
<td>0.1</td>
</tr>
<tr>
<td>2007</td>
<td>13,790</td>
<td>12.7</td>
<td>1,737</td>
<td>28.4</td>
</tr>
<tr>
<td>2008</td>
<td>15,330</td>
<td>11.2</td>
<td>1,957</td>
<td>12.7</td>
</tr>
<tr>
<td>2009</td>
<td>15,327</td>
<td>N/C</td>
<td>2,291</td>
<td>17.1</td>
</tr>
<tr>
<td>2010</td>
<td>15,564</td>
<td>1.5</td>
<td>2,203</td>
<td>-3.8</td>
</tr>
<tr>
<td>2011*</td>
<td>16,235</td>
<td>4.3</td>
<td>3,000</td>
<td>36.2</td>
</tr>
</tbody>
</table>

*IBISWorld estimate
many of Colgate’s products are necessities, the company’s sales do not exhibit great variation year to year. Nevertheless, IBISWorld expects 2011 to bring stronger results as consumers return to purchasing premium-priced branded personal care items.

In March 2011, the company announced its acquisition of Sanex Personal Care in Europe, which will fill its high-end oral care product niche. Colgate agreed to purchase Sanex from Unilever for about $940.0 million. In connection to the acquisition, Colgate is selling its Colombia laundry detergent brand to Unilever for about $215.0 million. The company expects the acquisition to boost its 2011 sales 4.0%.

L’Oreal USA Inc.
Estimated market share: 3.4%
L’Oreal USA is a wholly owned subsidiary of L’Oreal SA of France, known for its mass-market cosmetics and hair color products. In the United States, L’Oreal’s products are most often sold in drug stores and mass merchandisers like Walmart. In its latest financial report, the company states that its cosmetics division brings in 93.0% of global sales, and the United States accounts for about 15.0% of that total.

Manufacturing occurs mainly outside of the United States. Sales for L’Oreal dipped in 2009, along with the rest of the discretionary consumer products market. IBISWorld expects 2011 figures to echo the upward trend of the recovering economy.

Revlon Inc.
Estimated market share: 2.5%
Revlon entered the industry about 75 years ago. Today, it is a principal force, with brands that include Revlon, Almay and Ultima II. The company is also involved in the manufacture and marketing of various personal care products (including Mitchum deodorant and Revlon Colorsilk hair products), skin care (Ultima II and Gatineau) and fragrances (Charlie and Jean Nate brands). Its color cosmetics account for about 60.0% of total company sales; its beauty care and fragrance products account for the remainder. Its most recent financial statement stated that about 60.0% of world sales come from its operations in the United States. Revlon’s manufacturing operations are located in four countries, and its products are sold via mass merchandisers, supermarkets and drug stores. In 2009, sales fell for the second consecutive year, reflecting the products’ discretionary nature. World revenue figures totaled $1.3 billion over the year.
Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

The Cosmetic and Beauty Products Manufacturing industry has a high level of capital intensity. For every dollar spent on machinery, only $1.31 is spent on labor, which indicates that many of the processes are automated. Many of the products, including hair care and skin care, are mass-produced; a small portion of very specialized skin care products and cosmetics may require higher levels of human input. Due to the high level of technology use, the majority of firms operating within this industry employs fewer than 20 workers. During the recession, the industry came to rely even more heavily on capital since employment was one of the easiest places to cut costs. Over the next five years, IBISWorld forecasts that depreciation costs will continue to increase, as the US manufacturing sector cohesively moves toward greater automation.

Tools of the Trade: Growth Strategies for Success

New Age Economy
Recreation, Personal Services, Health and Education. Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

Investment Economy
Information, Communications, Mining, Finance and Real Estate. To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

Traditional Service Economy
Wholesale and Retail. Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

Capital Intensive

Change in Share of the Economy

SOURCE: WWW.IBISWORLD.COM
Operating Conditions

Technology & Systems

Level
The level of Technology Change is Medium

In general, industry production involves mixing and blending readily available ingredients in batch operations. A wide array of chemicals is used in the manufacture of cosmetics and personal care products, including emollients, surfactants, fats and oils, fragrances, cleansing agents and mineral oils and waxes. Recent advances in production techniques include increased automation and mechanization. Liquid products are mixed using batch or continuous blending processes. In batch blending, small amounts of ingredients are added to the subsequent mixture at timed intervals. In continuous blending, the ingredients are continuously mixed together to form a final product.

Product innovations and reformulations define this mature industry. Research and development is an increasingly important investment for operators. However, while product innovation is expected to continue over the five years to 2016, no fundamental changes are expected in the actual technology used.

Growing environmental concerns have caused changes in the production process and in the packaging of industry products over the past few years. Products and their packaging are increasingly designed to minimize waste and environmental alterations. Recycled paper is now used to box many cosmetics while shampoos and lotions come in post-consumer plastic containers. Major player Procter & Gamble, for example, introduced an eco-friendly initiative in 2010. It spans major aspects of production, including packaging and plant emissions. IBISWorld expects this trend to become even more pronounced over the five years to 2016.

Revenue Volatility

Level
The level of Volatility is Low

The Cosmetic and Beauty Products Manufacturing industry is comprised of various different segments, all of which are driven by different demands. This helps to protect the overall industry from product-specific spikes and keeps revenue relatively smooth. Over the five years to 2011, manufacturers have enjoyed growth of 7.7% in 2007 and suffered a slight decline of 0.6% in 2009. In addition, the industry supplies a wide range of everyday necessities, such as shampoo and lotion, which provides inelastic
Operating Conditions

Regulation & Policy

The major regulating body affecting the Cosmetic and Beauty Products Manufacturing industry is the US Food and Drug Administration (FDA). Cosmetics marketed in the United States include products such as skin cream, lotion, perfume, lipstick, nail polish, eye and facial makeup, shampoo, hair color, toothpaste, deodorant and any material intended for use as a component of a cosmetic product.

The FDA governs the laws and regulations relating to the manufacturing, labeling and marketing of cosmetics. The basic regulatory requirements that manufacturers of cosmetics and personal care products distributed in the United States must comply with are the Federal Food, Drug and Cosmetic (FD&C) Act and the Fair Packaging and Labeling (FP&L) Act.

Adulterated or misbranded cosmetics
The FD&C prohibits the distribution of cosmetics that are adulterated or misbranded. A cosmetic product is considered adulterated if it contains a substance that may make the product harmful to consumers under customary conditions of use. The FD&C Act also protects consumers against products containing filthy, putrid or decomposed substances. A product is misbranded if its labeling is false or misleading, if it does not bear the required labeling information, or if the container is made or filled in a deceptive manner.

Cosmetic labeling
Cosmetics distributed in the United States must comply with the labeling regulations published by the FDA under the authority of the FD&C and the FP&L. Labeling refers to all labels and other written, printed or graphic matter on or accompanying a product. The label statements required under the authority of the FD&C must appear on the inside and on any outside container or wrapper. FP&L requirements, such as ingredient labeling and statement of the net quantity of contents on the main display panel, only apply to the label of the outer container.

Declaration of ingredients
Cosmetics for retail sale to consumers are required to bear an ingredient declaration. Cosmetics not customarily distributed for retail sale (e.g. hair preparations or makeup products used by professionals on customers) are exempt from this requirement provided these products are not also sold to consumers at professional establishments or workplaces for their consumption at home.

The California Safe Cosmetics Act of 2005 requires cosmetic companies selling products within the state of California to disclose details to the Department of Health Services of any ingredients that contain chemicals identified as causing cancer or reproductive toxicity (particularly those chemicals in the phthalate family). The initial bill was opposed by the industry.

Label warnings
Cosmetics that may be hazardous to consumers when misused must bear appropriate label warnings and adequate directions for safe use. The statements must be prominent and
Operating Conditions

Regulation & Policy

Conspicuous. Some cosmetics must bear label warnings or cautions. Cosmetics in self-pressurized containers (aerosol products), feminine deodorant sprays and children’s bubble bath products are examples of products requiring such statements.

The FD&C does not require that cosmetic manufacturers or marketers test their products for safety. However, the FDA strongly urges cosmetic manufacturers to conduct appropriate tests to substantiate the safety of their cosmetics. If the safety of a product is not adequately substantiated, it may be considered misbranded and may be subject to regulatory action.

Other regulations

Other regulatory bodies include the Occupational Safety and Health Administration (OSHA), which is responsible for the OSHA Hazard Communication Standard, Laboratory Safety Regulations, and General Employee Rights. The OSHA Hazard Communication Standard attempts to ensure that the hazards of all chemicals produced or imported are evaluated, and that information concerning their hazards is transmitted to employers and employees. Information is transmitted via comprehensive hazard communication programs, which must include container labeling and other forms of warning, material safety data sheets and employee training.

Also of relevance is the Environmental Protection Agency (EPA), which is responsible for infectious waste laws and hazardous waste laws, and the US Department of Agriculture (USDA), which is responsible for animal welfare compliance laws.

Industry Assistance

Tariffs in this industry vary depending on the product and the material used to make the product. For example, perfumes and toilet waters, hair preparations (including shampoos, hair lacquers, preparations for permanent waving or straightening) beauty and makeup preparations (including lip makeup preparations, eye makeup preparations, manicure preparations, pressed or loose powders, and rouges) are subject to a 1.0% tariff.

In comparison, pre-shave or after-shave preparations, personal deodorants and antiperspirants are subject to a 4.9% tariff while perfumed bath sales are subject to a 5.8% tariff. Petroleum jelly preparations are not subject to any tariffs.
### Key Statistics

#### Industry Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports ($m)</th>
<th>Imports ($m)</th>
<th>Wages ($m)</th>
<th>Domestic Demand ($m)</th>
<th>Avg. Expenditure on Personal Care Items ($)</th>
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#### Annual Change

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<th>Year</th>
<th>Revenue ($m)</th>
<th>Industry Value Added ($m)</th>
<th>Establishments</th>
<th>Enterprises</th>
<th>Employment</th>
<th>Exports ($m)</th>
<th>Imports ($m)</th>
<th>Wages ($m)</th>
<th>Domestic Demand ($m)</th>
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#### Key Ratios

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<tr>
<th>Year</th>
<th>IVA/Revenue (%)</th>
<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($000)</th>
<th>Wages/Revenue (%)</th>
<th>Employees per Est.</th>
<th>Average Wage (£)</th>
<th>Share of the Economy (%)</th>
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**Figures are inflation-adjusted 2011 dollars. Rank refers to 2011 data.**

Source: www.ibisworld.com
Jargon & Glossary

Industry Jargon

FOOD AND DRUG ADMINISTRATION (FDA) Federal agency that regulates the release, labeling and ingredients of food and health products.

PARABEN Chemical used widely in cosmetics as a product preservative. Recent research has linked parabens to cancer.

WHOLESALE BYPASS Popular trend within retail and manufacturing industries where producers supply goods directly to stores, eliminating the middleman.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOR INTENSITY An indicator of how much capital is used in production as opposed to labor. Level is stated as High, Medium or Low. High is a ratio of less than $3 of wage costs for every $1 of depreciation; Medium is $3 – $8 of wage costs to $1 of depreciation; Low is greater than $8 of wage costs for every $1 of depreciation.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using 2011 as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the ‘real’ growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

DOMESTIC DEMAND The use of goods and services within the US; the sum of imports and domestic production minus exports.

EARNINGS BEFORE INTEREST AND TAX (EBIT) IBISWorld uses EBIT as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding tax and interest.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70% of revenue; Medium is 40–70% of revenue; Low is less than 40%.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by:

Exports/Revenue: Low is 0–5%; Medium is 5–20%; High is over 20%.

Imports/Domestic Demand: Low is 0–5%; Medium is 5–35%; and High is over 35%.

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than ±20%; High Volatility is between ±10% and ±20%; Moderate Volatility is between ±3% and ±10%; and Low Volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees of the establishment.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

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