POST RECESSION CONSUMER DYNAMICS

PREPARED FOR THE 2011 GLOBAL SPA SUMMIT

MAY 18-19, 2011, BALI, INDONESIA
MACROVIEW
CONSUMERS IN 2011 AND BEYOND
STAYING WELL
BEAUTY AND YOUTH
BRANDS AND CONNECTIVITY
A FRAGILE RECOVERY IS UNDERWAY

Real GDP Growth by Region: 2009-2011

2009: 89
2010: 17

Number of countries which saw negative real GDP growth in 2009 & 2010
Unemployment Rate in World’s Worst Affected Countries

2010

Unemployment rate - % EAP

Number of countries with an unemployment rate above 10% in 2007: 14

Number of countries with an unemployment rate above 10% in 2010: 25

MACRO VIEW

UNEMPLOYMENT SEEN AS THIRD WAVE OF CRISIS

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HOW WILL THE ECONOMY PERFORM?

- Near term outlook remains uncertain
- Growth to be driven by emerging markets – especially in Asia
- Unemployment to remain high
- Consumer spending still under pressure
- Government debt to remain a key area of concern
- Shift in global power to emerging markets will continue
NEW CONSUMER EMERGING

- **Looking for value:** Manufacturers are grappling with a profound shift in consumer buying habits. Consumers are reacting to recession by searching for value for money and reassessing what is important to them. They trade down on brands and shop across channels in search of bargain prices. They look out for vouchers, coupons and promotions in order to save money.

- **Making things last/swapping/buying second-hand:** Consumers are saving by cutting down on superfluous purchases, making things last, reusing and re-purchasing second-hand products through specialised sites such as eBay. Thrift is becoming acceptable socially.

- **Focus on experience over purchase:** A greater focus is now put on the experience, not the purchase and the product itself. For example, there has been sustained interest in spas; a luxury treat as a substitute for a more expensive holiday.

- **Switching channels/buying online:** Discounters, supermarkets and the internet have benefited most, as consumers search for better prices while trying to maintain more balanced budgets but still hoping to enjoy the products they are accustomed to.
THE CONSUMER IN 2011 AND BEYOND

- Value-seeking
- Digital and connected
- Staying ahead and well
- Experience-focused
- Nuanced luxury

The post-recession consumer

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CHANGING DEMOGRAPHICS AND CULTURAL ATTITUDES

- Ageing consumers
- Younger consumers staying single/childless longer
- Rising disposable incomes in emerging markets
- Increasingly urban populations
- Busy lifestyle and longer working hours
RISE OF THE EMERGING MIDDLE CLASS

- Emerging middle class makes US$5,000 annually in disposable income
- Emerging countries expected to grow faster than developed countries

**Annual Disposable Income % Growth by Key Country 2004-2015**

- **2005-10 CAGR %**
- **2010-15 CAGR %**
GOOD HEALTH AND WELLNESS ARE CENTRE STAGE

Consumers are clearer on the empowering link between health and wellness and fuller, happier lifestyles:

- Beauty and youth
- Self-treating
- Staying well
EMERGING MARKETS TO LEAD GROWTH

HEALTH AND WELLNESS BY CATEGORY

Forecast Growth

China

QUICK STATS

PERCENTILE RANKING
selected country quickstats vs. other countries

CATEGORY YOY GROWTH COMPARISON

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STAYING WELL

NUTRACEUTICALS – LEADING HEALTH TRENDS AND INGREDIENTS 2010

Digestive Health
- Fibre
- Probiotics
- Prebiotics

Immune Support
- Antioxidant
- Colostrum
- Echinacea
- Elderberry extract
- Probiotics
- Selenium
- Vitamin C
- Vitamin D

Weight Control
- CLA
- Fibre for satiety
- Green tea extract
- Konjac Mannan
- L’Carnitine
- Pectins for satiety
- Probiotics
- Sweeteners
- Xylitol

Oral Health
- Calcium
- Cranberries
- Fluoride
- Herbal extracts
- Probiotics
- Vitamin D
- Xylitol

Heart Health
- Beta glucans
- CoQ10
- Plant sterols/stanols
- Omega-3
- Pectins
- Peptides
- Probiotics?
- Soluble fibre
- Vitamin D

Beauty From Within
- Aloe vera
- Collagen
- CoQ10
- Grape seed
- L-cysteine
- Lutein
- Lycopene
- Probiotics
- Selenium
- Vitamin B2
- Vitamin B3
- Vitamin B7
- Vitamin B1
- Vitamin B7

Brain health
- Antioxidants
- CoQ10
- Ginkgo biloba
- Ginseng
- Guarana
- Lecithin
- Omega-3 (DHA)
- St John’s wort
- Vitamin B1

Prevention driven by “instant” gratification
A promise of a long-term health benefit
CONSUMER NEEDS BECOMING MORE DIVERSE
RE-CREATING THE SPA EXPERIENCE

- Health and wellness factor to drive interest in spas
- New consumer targets
- Innovative retail concepts
- Mobile beauty becomes prominent

Key Spa Tourism Markets, absolute growth 2010-15 (million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Absolute Growth (US$)</th>
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<tbody>
<tr>
<td>USA</td>
<td>1,660</td>
</tr>
<tr>
<td>Japan</td>
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<tr>
<td>China</td>
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<td>Austria</td>
<td>266</td>
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<td>Vietnam</td>
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PREMIUM COSMETICS ON THE REBOUND

Regional Performance
2009-10 % Value growth

- 10-15%
- 5-10%
- 2-5%
- 0-2%

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MASS COSMETICS TO DRIVE FUTURE GROWTH

% value (US$)

Global Premium Cosmetics
Global Mass Cosmetics

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BEAUTY AND YOUTH
China’s premium cosmetics market will double by 2015, to reach $7 billion.

80% of Latin America’s industry value will be accounted for by mass products in 2015.

Latin America industry value in 2015, third largest region globally.
INCREASING IMPORTANCE IN BEAUTY RETAILING

Global Beauty Channel Breakdown

<table>
<thead>
<tr>
<th>Year</th>
<th>Super/Hypermarkets</th>
<th>Beauty Specialists</th>
<th>Drugstores</th>
<th>Non-Store Retailing</th>
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<tr>
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<td>26</td>
<td>13.1</td>
<td>14</td>
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<td>27</td>
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<td>12.9</td>
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<td>2007</td>
<td>27</td>
<td>13.4</td>
<td>12.9</td>
<td>10.6</td>
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<td>2008</td>
<td>27</td>
<td>13.4</td>
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<td>2009</td>
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<td>10.6</td>
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<tr>
<td>2010</td>
<td>26.9</td>
<td>13.4</td>
<td>12.8</td>
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</tr>
</tbody>
</table>
VARIED PENETRATION ACROSS KEY MARKETS

Beauty Internet Retailing – Top Five Markets

% share of total retail sales

S.Korea
France
USA
UK
Japan

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INTERNET CONTINUES TO RESHAPE THE WORLD

More than 40% of the world’s population will be on the Internet in 2020.

Half of all Internet users will be in Asia.

711 million Chinese Internet users in 2020

281 million US Internet users in 2020
NEW WAYS OF ENGAGING WITH BEAUTY CONSUMERS

- Social Media
- Mobile Technology
- New In-store Experience

BRANDS AND CONNECTIVITY
THE POWER OF THE SMARTPHONE APP

Key success factors:
- Personalised
- Added value
- Interactive experience
- Real-time updates
- Facebook users: 500 million
- Pieces of content per month: 30 billion
- Minutes of log-in time per month: 700 billion
- Average friends per user: 130
- Of users between the age of 18-34: 62%
- Users of Facebook are female: 50%
- Registered tweets per day: 55 million
ONLINE PRESENCE AND SOCIAL MEDIA NOT TO BE IGNORED

- Key players increasing online presence
- Opportunities for smaller brands
- Social commerce still limited
- Blogging/’vlogging’ offer new experience
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