

Australian Health and Beauty Report

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Executive Summary

Globally, the health and beauty industry is highly complex and fast-paced. Dynamic new product development, brand positioning and building, merchandising, promotions and pricing are all vital weapons in the battle for market share. The health and beauty industry encompasses a broad range of products such as natural medicines, nutritional products, cosmetics, perfumes, toiletries, and prescription and over-the-counter (OTC) medicines. As one of the largest retail segments, health and beauty retailing in Australia amounted to \$8,821 million in 2004, up 13 percent on 2003 and representing 4.8 percent of total retail sales for the year. Technological innovations, new product developments, and healthy household consumption expenditure on cosmetics, perfumes, soap products, other toiletries, medicines, medical aids and therapeutic appliances underpinned this industry growth.

The Australian health and beauty industry is comprised of four retail sectors: pharmacies, specialist retailers, department stores, and supermarkets. The health and beauty offer varies from sector to sector and can encompass everything from basic product on shelf with little range, to a separate 'zoned' beauty area with specific fixturing, flooring and lighting.

Several key factors such as the ability to control stock on hand, membership of joint marketing and/or distribution operation, superior financial and debt management, having a clear market position, the production of goods favoured by the market, an experienced work force, an attractive product presentation, and proximity to key markets, are all necessary to operate successfully within the Australian health and beauty industry.

In recent times, a number of trends have emerged that have contributed to changes in consumer needs of, and behaviour towards, health and beauty products. These include lifestyle trends, changes in shopping habits, and broader retail industry trends, all of which have impacted on health and beauty retailing in some way. Future retail success will depend on reacting to these consumer trends and behaviour.

A key lifestyle trend has been the population shift to small coastal regions. As more Australians move to coastal havens, local business and investment opportunities arise for retailers. Australia's population has also been ageing steadily throughout this century and is projected to continue to do so well into the next. The baby boomer generation is now entering middle age and beyond. Baby boomers are particularly relevant for health and beauty retailing as they represent a sizeable and fast growing consumer segment, with high levels of disposable income and a high demand for cosmetics and anti-ageing products. An increased interest in

appearance, hygiene and grooming on the part of today's males has also contributed to growth in health and beauty products. This trend toward 'metro-sexual' males has seen explosive growth in male grooming products, particularly skin care, and the market is doubling each year..

Recent years have also witnessed a growing consumer trend towards natural, herbal and organic ingredients in health and beauty products. This trend has seen manufacturers respond by introducing new natural health and beauty product lines. Complementary to the trend towards healthier living, a strong consumer preference for premium products has also contributed to category growth in recent years. The main driver of this trend is the 'trading-up' effect, where consumers are buying premium, higher priced health and beauty products as they perceived them to offer real, tangible benefits over existing products.

The growing acceptance and use of the Internet for shopping purposes has, and will continue have, far-reaching implications for the health and beauty industry. The sale of health and beauty products via the Internet is increasing. Due to the growing number of online shopping websites offering products for sale, competition in this area has become fierce.

Category killers are growing in numbers around Australia and are having a major effect on the nature and structure of the retail industry. Recently, Priceline successfully positioned itself as a category killer, stocking a wide variety of middle range, mass market, and well-known health and beauty brands. These outlets are able to offer a much wider range of products within their sphere of expertise due to their more dedicated.

The highly competitive health and beauty industry has also led retailers to place a strong emphasis on engendering customer loyalty. Over recent years, loyalty card schemes have proven to be a popular method to achieve retail store loyalty.

A significant trend developing both globally and in the Australian health and beauty industry is the steady growth in market share enjoyed by supermarkets. Stimulating this trend is supermarkets' increasing range of, and shelf space made available to, health and beauty products. Growth in supermarket market share has been assisted in recent years by a reduction in the legislative controls governing the sale of health and beauty products. The major supermarket chains are further pushing the Federal Government to reduce these controls to make pharmacies an integral part of their retail format.

There are many challenges facing health and beauty retailers, including competition from substitutes, federal funding, new retail formats, and rising petrol prices. Recent years have seen an increase in the level of competition derived from department stores and supermarkets, which have expanded their product range to include various health and beauty items. As more retail outlets begin to stock these products, industry players will need to remain abreast of competitive offerings and tailor their own to meet the demands of the market and those of current and potential consumers.

In addition to Category killers, vending machines present a challenge to health and beauty retailers, specifically prescription pharmaceutical retailers. Pharmacists have expressed an interest in vending machines that would allow consumers to pick up prescription medicines outside normal operating hours.

However, many trends facing health and beauty retailers also highlight opportunities that will enable future survival and prosperity in the face of increasingly competitive circumstances. These include population shifts, increased life expectancy, the ageing population, one-stop shopping, and discount pricing.

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