

THE WORLD OF TISSUE

Tissue products endure a turbulent time in North America

Tissue products – toilet paper, tissues, kitchen towels and paper tableware – account for 53% of the US\$27 billion North American disposable paper products market. Combined, the value sales of the four categories exceeded US\$15 billion in 2008, growing by 5% in value.

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Price rises protect US value growth but cannot be sustained. The US accounts for almost 90% of the North American tissue products market, with the total value of all categories standing at US\$14 billion. Canada, meanwhile, falls short of US\$2 billion. The value growth registered in 2008 was driven by the US, which grew by 6% despite increasingly difficult trading conditions towards the end of the year. Canada, meanwhile, registered 3% growth – the lowest level since the start of the decade – as the economic downturn took its toll towards the end of 2008, driving consumers to trade down in commodity products.

The strong value growth seen in the US was facilitated by price rises implemented by major manufacturers during 2008. However, as economic conditions deteriorated during 2009, major tissue manufacturers turned to price promotions to remain competitive in a market where consumer purchase decisions are based on cost. In light of this, there is no question that the pace of value growth seen in 2008 has not been sustained in 2009. The slower growth in the US will bring the two North American countries' growth rates into line in the short term, both stifled by the after-effects of the credit crunch. However, once the economic crisis has cleared, the US is likely to return to the fore in terms of driving growth in North America.

MAJOR MULTINATIONALS DOMINATE THE US. In North America, Procter & Gamble leads the tissue products market with a 28% share, followed by Kimberly-Clark only two percentage points behind with 26%. However, this gap has grown since 2007 when only a fraction of a percentage point separated the two. The third biggest player in the North American tissue products market is Georgia-Pacific, with a 17% share, while Canadian company Kruger holds 3%. Although the two markets that comprise North America do share many characteristics, the vast difference in population size between the two means that major consumer goods companies tend to focus their North American efforts on the US rather than Canada, resulting in marked differences in the countries' competitive environments. While company rankings in North America are indicative of those in the US, with US manufacturer Marcal replacing Kruger in fourth position, in Canada it is local manufacturers which dominate.

LOCAL PLAYERS ENGENDER LOYALTY IN CANADA. Canadian manufacturer Kruger leads the branded Canadian tissue products market with a 30% share, and is ahead in all categories with the exception of tissues. Procter & Gamble and domestic player Irving Group rank second and third, respectively, with 11%, while Kimberly-Clark trails on 4%. Irving, which manufactures premium tissue brand Royale and the more economy range Majesta, has been the success story of the decade, steadily gaining share year-on-year in every category at the expense of the three other top manufacturers as a result of its positioning across the price spectrum.

Private label strength also varies across the region. In Canada, private label holds a 32% share, while in the US it takes 18%, with the discrepancy largely due to Canadian consumers traditionally having fewer qualms about trading down.

US SUBSIDIES HARM CANADIAN MANUFACTURERS. While the potential rewards from a population as vast as the US, coupled with relatively low private label penetration, serve to entice investment from major players, current government subsidies also make the US a far more attractive option for tissue manufacturers.

The US government granted an estimated US\$6 billion in subsidies to its paper industry in the latter half of 2008 under a Fuel Tax Credit scheme that was intended to promote alternative fuels. The grants have left Canadian paper companies less able to compete in terms of price. As the two main local players, Kruger and Irving, also own and operate their own mills, these problems at the source mean it is difficult for local players to remain competitive with multinational manufacturers which may source from outside of the country. In December 2009, in the wake of international criticism, the Confederation of European Paper Industries (CEPI) called on the US to stop the benefits to its pulp and paper industries by 2010, saying the subsidies distorted international competition.

INNOVATIONS IN PREMIUM TOILET PAPER MAY MISS THE MARK. Toilet paper is the largest tissue products category in North America, standing at US\$8 billion. The category also registered the strongest growth by far in 2008, of more than 8%. However, the category's success was markedly different between the two North American countries – in the US value growth was 9%, buoyed by price rises implemented in 2008, while in Canada growth was 3% – the lowest since 2001 and in line with population growth. Both countries saw volume sales down on previous years as consumers traded down to economy brands and private label offerings.

Despite consumers trading down, recent innovation from major manufacturers has focused on the premium end of the price spectrum. In September 2008, Georgia-Pacific Corp launched the three-ply Quilted Northern Ultra Plush toilet paper in the US, which was followed by another premium paper, First Quality's Ultra Premium Bath Tissue, in March 2009. In August 2009, Kimberly-Clark launched a premium brand extension of its own in Cottonelle Aloe & E toilet paper. With both Canada and the US predicted to register average annual value growth of around 1% to 2013 as consumers continue to opt for standard and economy brands, such as Procter & Gamble's Charmin Basic, over luxury toilet paper for the short term at least, this focus on the premium end of the price spectrum seems out of kilter with current consumer demand and could possibly impact some manufacturers' market share.

TISSUES FIND FAVOUR IN CANADA. At a regional level, tissues was stable in value in 2008 at US\$2 billion, but again performance varied at a country level. In the US tissues registered a slight decline as consumers turned towards cheaper, alternative products, such as toilet paper, while in Canada the category grew by 2% as consumers continued to opt for premium products. This growth reflects the category's ongoing strength in Canada. Here, tissues is the second largest tissue products category after toilet paper and worth US\$300 million. In the US the category is less well established and lags well behind kitchen towels in terms of size, although at US\$2 billion it still dwarfs the Canadian market.

In terms of innovation, Kimberly-Clark, market leader in both the US and Canada, launched "Kleenex with Lotion" in late 2008. More recent product development across the region has largely focused on packaging, such as Kleenex's special-edition boxes in honour of US Hispanic Heritage Month in September 2009 and Kruger's Scotties Designer Series, a three-box pack, each with a different design intended to complement home décor. As is the case with toilet paper, average annual growth rates for Canada and the US are predicted to come more into line at around 1% to 2013 as consumers in Canada in particular cut back on products not perceived as necessities and a lack of any major product innovation takes its toll. However, manufacturers looking to make gains in tissues over the long term could do well to target the Canadian market.

PRIVATE LABEL GAINS GROUND IN KITCHEN TOWELS. Kitchen towels, the second largest tissue products category in North America, reached US\$4 billion in 2008 and was the only category to perform similarly in both countries. In the US 3% growth took the category to almost US\$4 billion, while in Canada 2% growth took the category to US\$300 million.

There has been a lack of any recent product innovation in the category of late, with earlier innovations in thickness and absorbency reaching a plateau. Major players focused instead on advertising, with Procter & Gamble, Georgia-Pacific and Kimberly-Clark aggressively marketing their Bounty, Brawny and Viva brands respectively. Most recently, in October 2009, Kimberly-Clark launched the 'Get Closer to Your Food' campaign, which repositioned its Viva kitchen towels as a substitute for plates and cutlery in a bid to expand usage occasions. In addition to battling it out through marketing campaigns, Georgia-Pacific filed lawsuits against both Procter & Gamble and Kimberly-Clark over claims about kitchen towel thickness and paper patterns, respectively.

While the major manufacturers fought amongst themselves, private label manufacturers made improvements in patterns, designs and quality, and as a result gained a full percentage point in the US. North American consumers use far more kitchen towels than consumers in any other region globally and many believe the product to be a necessity, which should provide future growth potential for manufacturers prepared to innovate. However, with innovation expected to take a back seat to price promotions in the short term, again value growth is expected to be relatively slow, with average annual growth of 2% predicted for North America to 2013 – half that registered over the review period.

ALL IS NOT LOST IN PAPER TABLEWARE. Paper tableware, the smallest tissue products category in the region, standing at US\$717 million, registered 2% growth in Canada in 2008, compared to a 2% decline in the US. However, the value of the category in the US (US\$650 million) remains around 10 times the size of the Canadian market. Napkins fared better than tablecloths, which saw declining sales in both countries as consumers opted for plastic or cloth alternatives.

Despite the category's underwhelming performance, and predicted average regional annual growth of -2% over the forecast period, unlike other categories, the economic recession creates an opportunity for tableware to benefit as consumers are likely to eat more often at home in a bid to save money, which could offer manufacturers a chance to capitalise. In 2008 Georgia-Pacific expanded its Dixie brand, which is well known for its paper cups, plates, and bowls and plastic cutlery, into napkins to capitalise on the home entertaining trend.

GREEN SHOOTS OF RECOVERY. Although 2009 has been a difficult year for tissue manufacturers across North America and short-term predictions offer little respite from the gloom, many manufacturers have begun to experiment with environmentally-friendly tissue products. Most notably, Kimberly-Clark launched its Scott Naturals range of environmentally-friendly products in April 2009, including toilet paper, kitchen towels and napkins. The launch made Kimberly-Clark the first major multinational manufacturer to offer a full range of green paper products. Marcal had previously launched its Small Steps line of tissue, toilet paper, kitchen towels and napkins in December 2008. In Canada products in Kruger's Cashmere range were certified under the EcoLogo programme in 2008, attesting to it being made from 100% recycled fibre, and the manufacturer launched an environmentally-friendly kitchen towel as part of its SpongeTowels range. Following this, in early 2009, Kruger launched Scotties EnviroCare, marketed as Canada's first-ever 100% recycled premium facial tissue. It is in these environmentally-friendly products that potential for growth exists once the economic crisis fully subsides. The growing importance of environmental concerns as a purchase driver and the largely undeveloped nature of the sector in the region offer a real opportunity for manufacturers to drive value growth and differentiate themselves from private label products. As the North American economy recovers throughout 2010 consumers will be increasingly likely to pay a little extra in the knowledge that they have done something for the environment, and it is the manufacturers first to market with environmentally-friendly products that will be in a prime position to capitalise. •