

POINT OF VIEW

Where do the opportunities lie in tissue products?

Despite a tough climate for tissue products, major manufacturers have continued to innovate, paving the way for future growth once the economic crisis runs its course.

Magdalena Kondej, Industry Manager Household and Disposable Paper Products, Euromonitor International

Global growth masks a challenging time. The global tissue products market reached US\$54 billion in 2008, according to Euromonitor International figures, with total revenue up by 6%. However, this level of global growth, which was higher than any seen throughout the review period, masked a difficult year for tissue manufacturers.

Manufacturers faced a difficult economic climate, which resulted in an increasingly hostile retail environment in which private label products gained favour with major retailers and consumers, leading to growing private label penetration and slowing volume growth, particularly in the mature markets of the West. Furthermore, during the first half of the year, rising material and manufacturing costs forced manufacturers to implement price rises across their tissue ranges. It was these price hikes, plus increased product penetration in emerging markets, that were responsible for the upturn in global growth.

TOILET PAPER CONTINUES TO DOMINATE. At a sector level, toilet paper continued to outperform all other tissue products, with total revenue growing by 7% in 2008 to reach US\$34 billion, or 63% of the overall tissue products market. Toilet paper has been able to sustain growth due to its essential nature, which is driving penetration rates in emerging markets and therefore volume and value growth. On a global scale, tissues, kitchen towels and paper tableware lag behind in terms of both market size and value growth rates, although all continued to register positive growth in 2008. Of the three, kitchen towels was the best performer, posting 4% growth to reach a global value of US\$7.8 billion, making it the second largest sector.

WESTERN EUROPE STALLS AS THE MIDDLE EAST FLOURISHES. At a regional level, growth was driven by the emerging markets of Latin America, which registered a 13% increase, and Eastern Europe and the Middle East and Africa, which both registered 11%. The Middle East and Africa recorded the biggest increase in growth on the previous year, although this was from a small base, driven by booming oil economies and consumers adopting Western hygiene practices, taking the region's total market value to US\$1.7 billion.

The world's largest region in terms of value, Western Europe, which stands at US\$15 billion, continues to suffer from high levels of product penetration, slow population growth and a strong private label presence, which was compounded by the continued effects of the economic downturn, resulting in the lowest value growth of all the regions, at less than 3%, and just 1% volume growth.

US DOMINATES BUT CHINA MAKES HEADWAY. The US remains the largest tissue products market in the world by a significant margin, standing at US\$14 billion. The country registered 6% value growth in 2008, up 2% on the previous year; however, this was due to major manufacturers implementing price increases to cope with rising material costs, and came in spite of a decline in volume sales. In contrast, the second largest tissue products market, China, registered strong volume growth, continuing an upward trend seen throughout the review period, and driving 10% value growth to take total sales up to US\$6 billion. Through increased product penetration in rural areas and a greater uptake of mid to high-end products in urban areas, China is steadily closing the gap on the US. Furthermore, tissue product consumption and per capita spend remains low, with China averaging US\$5 per capita compared to the US at US\$45, indicating that the country offers plenty of potential for growth.

PREMIUM TOILET PAPER STILL HAS A PLACE. As previously stated, toilet paper registered good value growth in 2008, driven by increased penetration of basic products in emerging markets and manufacturer price rises in the developed markets of the West.

In light of the difficult economic climate, it would be reasonable to assume that lower-priced economy toilet paper would make strong gains over premium products and, while this is true in many countries, there are also exceptions. The toilet paper sector is becoming increasingly polarised, with a large proportion of consumers considering it to be a basic product and opting for cheap brands, while a smaller but significant group of consumers continue to place importance on quality and are prepared to pay a little more for premium brands despite the difficult economic environment. In Japan, Brazil, France and Italy, for example, luxury toilet paper showed stronger growth in 2008 than in 2007, while the growth of economy brands slowed. In the UK and the US, however, the countries that have been the hardest hit by the economic crisis, the opposite was true.

INNOVATION TARGETS BOTH ENDS OF THE MARKET. As a result of this polarisation, innovation in toilet paper has been targeted at both ends of the price spectrum. At one end, manufacturers have increased their range of luxury products to drive value growth and further differentiate their brands from private label products. Examples include Georgia-Pacific's Quilted Northern Ultra Plush product, the first 3-ply paper in the US, launched in late 2008, and Kimberly-Clark's June 2009 launch of Andrex Shea butter toilet paper in the UK, billed as the brand's "most luxurious toilet tissue ever". At the other end of the spectrum, manufacturers have also ensured they have basic products that can compete head-to-head with private label and attract those consumers for whom budget is a priority. Procter & Gamble, for example, launched a low-priced 1-ply toilet paper in 2008 in the US under its Charmin brand.

The success of luxury toilet paper in spite of the economic climate would suggest that although consumers are more cost-conscious, they are also willing to spend more on a product if they perceive it as having a real benefit that will enhance their daily lives. These changing sector dynamics have forced manufacturers to reconsider their product portfolios and have served to drive innovation, something that is likely to continue with manufacturers developing specific toilet papers adapted to specific needs. However, to prosper, manufacturers must also make sure their ranges include low-cost basic products.

TISSUES WITH HEALTHCARE PROPERTIES SHOW POTENTIAL. Tissues registered 3% global growth in 2008 to reach a total market value of US\$7.8 billion. Again, this performance was largely down to manufacturer price hikes. Volume growth, despite remaining positive, was down a percentage point on last year.

In terms of innovation, manufacturers have focused on both the products and packaging. Product innovations have focused on driving value growth by adding healthcare properties, such as decongestants or soothing ingredients, to tissues. In Germany, for example, SCA launched Tempo Sanft und Frei, which translates as "soft and free", and includes a soothing balm and decongestant oils. In Japan major manufacturers Oji Nepia and Daio Paper have taken this innovation one step further and launched moist tissues with healthcare properties. Furthermore, they have increased usage occasions by targeting summer allergy sufferers as well as winter cold sufferers. Kleenex released its first moist tissue variant in the US early in 2009, the Kleenex Lotion Tissue with aloe vera and vitamin E, and more launches in this direction are likely to follow with the aim of driving growth in developed markets. In terms of boxed facial tissues, manufacturers have largely focused on packaging innovations to position the product as a decorative item for the home. In Brazil, for example, Kimberly-Clark's Kleenex brand released boxes featuring horoscope designs, flowers and Disney princesses and increased its market share by almost 2% as a result, while in the UK moving Mansize tissues into smaller boxes in June 2008, backed by a £3 million campaign, helped the Kleenex brand grow in value, proving that packaging innovation can still drive growth even in a difficult economic climate. As a result, innovations in packaging are likely to continue, and celebrity-endorsed boxes or packaging designed by the consumers themselves, such as the Kleenex promotion in the US which asked Hispanic consumers to design a box, may offer an opportunity for growth.

KITCHEN TOWELS BECOME MORE TASK SPECIFIC. Value growth of kitchen towels in 2008 was driven largely by Latin America and Eastern Europe, where the concept of kitchen towels is relatively new and penetration is growing in higher-income urban households. In the developed markets, major manufacturers' innovations have focused on segmenting their portfolios, with the aim of increasing usage occasions to drive volume sales, and improving quality, appearance and effectiveness to drive value sales.

In the UK, SCA's Bounty brand (recently renamed to Plenty) is a prime example, with a variety of formats including Bounty Basic, Select-A-Size, Super Duty, Cooking and Cleaning, and Bounty Extra Soft, promoted as the nearest alternative to cloth. This segmentation fostered price increases for Bounty, and other branded manufacturers have

followed suit. These task-specific improvements in format are evident across branded products in developed markets and result in greater trust in the product from consumers, as well as continued consumer interest, and provide opportunity for branded products to make gains on private label. To drive further growth, the segmentation could be expanded by adding antibacterial properties to kitchen towels, for example, adding value to the product and stepping up to the challenge posed by surface care wipes.

SPECIAL OCCASIONS GIVE PAPER TABLEWARE CAUSE FOR CELEBRATION. Paper tableware is the smallest of the four tissue sectors, due to its non-essential nature and the presence of many viable and effective alternatives. Despite this, the sector grew by almost 4% in 2008 to reach US\$3.5 billion. This value growth was achieved in spite of negative volume growth, as major manufacturers drove sales through decorative napkins targeting special occasions, birthdays and Christmas for example, at a higher price point. However, increasing value sales through premium products in the long term will be a challenge, as by nature purchase opportunities are limited to special occasions. However, one tactic could be to increase the number of occasions catered for, targeting a range of cultural celebrations depending on the market.

GREEN LIGHT FOR ENVIRONMENTALLY-FRIENDLY PRODUCTS. Although the green trend has been slow to take off in tissue products, largely because the sector is throwaway in nature and therefore does not tie in well with the green ethos, major manufacturers are taking steps towards going green. Most notably, Kimberly-Clark rolled out its range of Scott Naturals tissue products across the US in early 2009, a country where green concerns have previously been low on the agenda. With concerns for the environment likely to grow in importance once the economic crisis has subsided, major manufacturers would do well to boost their green credentials ready for when the trend picks up pace again.

OPPORTUNITIES EXIST FOR INNOVATION. At a sector level, toilet paper is predicted to post a global CAGR of 3% to 2013, the highest of all tissue products, taking the sector to US\$41 billion. Paper tableware will see only marginal growth as manufacturers struggle to increase usage occasions. Tissues and kitchen towels, meanwhile, are predicted to register CAGRs of 2% as uptake increases in emerging markets. Although growth in the major markets of Western Europe and North America will be marginal, in light of the continued difficult economic conditions and high levels of product penetration, any positive growth is an achievement. To thrive in these markets tissue manufacturers must ensure their ranges incorporate both ends of the spectrum, including both lower-cost basic products and premium products with real added value, in particular further developing the innovations in healthcare seen in tissues and toilet paper. Outside of the West, the BRIC countries and the Middle East will continue to show steady growth as penetration increases for toilet paper, tissues and kitchen towels. .