

**THE WORLD OF TISSUE**

## **A bright outlook for tissue products in Brazil**

**Despite the global economic slowdown of 2009, the Brazilian tissue market grew by 4% during the year to reach US\$2.15 billion (\$R4.3 billion), with two main factors keeping the market buoyant.**

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Spending increases among lower-income consumers, in particular in the north and northeast of the country, resulted in higher product penetration and aided value growth, while, higher up the salary ladder, demand for more sophisticated products also contributed to value growth. This combination resulted in retail tissue products remaining largely unaffected by the global economic downturn and all but one category – facial tissues– registered healthy growth, despite the difficult trading conditions.

**KIMBERLY-CLARK LEADS BRAZILIAN TISSUE MARKET.** The Brazilian retail tissue market is headed up by Kimberly-Clark, which held a 23% value share in 2009 and is the only large multinational to have a significant presence. At category level, the manufacturer takes the top spot in toilet paper and paper tableware, but is pushed into second place in both kitchen towels by Santher and tissues by CMPC Tissue SA. Santher and CMPC take second and third places respectively in retail tissue sales overall.

Chilean company CMPC Tissue SA has gained a presence in Brazil by acquiring Melhoramentos Papéis Ltda during 2009. CMPC, which is present across Latin America, has yet to reveal how it will focus on the Brazilian market; however, its entry has allowed the company to achieve greater economies of scale, and gives it a better chance of competing with the likes of Kimberly-Clark regionally.

**FIERCE COMPETITION BENEFITS THE CONSUMER.** While it is by no means likely that Kimberly-Clark will lose its first-place ranking any time soon – the company gained around a two percentage point increase in share on 2008 – local players' historical presence and know-how, aggressive strategies and close relationships with regional retailers mean the multinational cannot rest on its laurels, especially as competition in the retail tissue market is so intense.

In particular, local manufacturers are targeting and vying for sales in the less developed north and northeast regions, where per capita consumption remains low and price positioning is all-important. Sepac, for example, who in 2009 held a 5% value share in toilet paper, has adopted an aggressive strategy by offering high-quality toilet paper at prices that are 20% cheaper than the leading brands. In a bid to counterbalance local manufacturers' tactics, Kimberly-Clark has introduced what it calls "Blue Ocean", a strategy which sees it look to create new markets rather than entering into price wars on products where competition is high.

With competition in the Brazilian market unlikely to slacken in intensity, consumers are expected to benefit, gaining from promotional activity, lower prices and quality improvements, as well as increased innovation as manufacturers fight for market share.

**TOILET PAPER DOMINATES THE TISSUE MARKET.** Valued at US\$1.85 billion (R\$3.8 billion), toilet paper is by far the largest tissue category in Brazil, accounting for 86% of total sales. The category grew by 3% during 2009, a slowdown on the high levels of growth registered in previous years, but still a strong performance given the prevailing economic climate.

As is the case for tissue products as a whole, growth was driven primarily by two factors: higher wages among lower-income consumers; and demand for luxury products from higher-income groups. Despite the difficult economic year, the stable economic condition experienced over the last decade in Brazil has been very positive in terms of increa-

sing the purchasing power of socioeconomic groups D and E, many of whom live in the northeast of the country. Northeastern consumers entering the category contributed to value growth by buying single-ply toilet paper. Slightly higher up the income ladder, consumers have been shifting from single-ply to luxury double-ply toilet paper, again driving value growth. Luxury toilet paper reached value sales of US\$1.13 billion in 2009, an increase of almost 7% over the previous year.

In terms of innovation, in the single-ply segment, manufacturers have launched longer rolls: Kimberly-Clark and CMPC Tissue SA launching 50-metre and 60-metre rolls respectively. In addition to adding length, Kimberly-Clark has been active in innovating, launching two new versions of toilet paper under the Neve and Scott brand names: Neve Naturali, with recycled fibres; and Scott Compacto. Both products can be compacted to reduce storage space. When taken out of the pack, the roll reverts back to its original volume.

Looking further ahead, prospects for growth in toilet paper in Brazil are extremely healthy. Brazil has per capita consumption of just 3-4 kg of toilet paper per year, compared to 7.5 kg in the US and Canada. In the northeast region, per capita consumption is only 1.2 kg per year. While consumers trading up to luxury toilet paper will continue to define trends and drive growth in more developed areas, more lower-income consumers from the northeast entering the category will play a large part in value and volume growth going forward.

**KITCHEN TOWELS BENEFIT FROM MUST-BUY STATUS.** Unusually for a developing market, kitchen towels are the second largest tissue category in Brazil, with sales standing at US\$232 million. The category registered an almost 21% value growth during 2009, by far the highest of any tissue category. Kitchen towels have established almost a mandatory presence on shopping lists in Brazil.

In addition to traditional household uses, kitchen towels are also used to cover trays, wrap sandwiches and as an alternative to place mats or napkins. These additional uses have encouraged manufacturers to segment the category with the launch of multipurpose kitchen towels, such as Scott Multiuso from Kimberly-Clark, which can be cut into different sheet sizes according to the consumer's needs, and it is innovations such as this that have driven the category's strong value growth.

The good times look set to continue in kitchen towels and a constant value increase (CAGR) of 9% is predicted in 2010 and 2014, the highest of all tissue products. The product offers good profit margins for both retailers and manufacturers and this, coupled with its popularity with consumers, will ensure it continues to see investment. In particular, manufacturers will aim to drive value growth through value-added multipurpose products, while single-ply basic products will bring new consumers to the category.

**EXPANDING OCCASIONS FOR PAPER TABLEWARE.** Paper tableware registered a 2% value growth during 2009 to reach US\$47 million. The category is entirely driven by paper napkins and, like toilet paper, consumers with higher disposable income levels are opting for more luxurious products, in this case coloured and patterned.

Although paper napkins remain occasional and seasonal products, manufacturers have been successful in expanding the range of occasions catered for. Kimberly-Clark, for example, has developed the Scott Estilo line, with Cheese & Wine and Tea & Coffee napkins, as well as Disney character napkins, aimed at children and birthday parties in particular. Despite the success of these lines, white, single-ply napkins should not be overlooked as their economy nature appeals to consumers lower down the income ladder.

As is the case in other tissue categories, growing sales of premium products are predicted to have a positive impact on value sales of napkins throughout the forecast period as a result of higher-income consumers using the products more frequently. As a result, a healthy CAGR of 3% is predicted in the medium term.

**WARM WINTER STIFLES TISSUE SALES.** The smallest retail tissue category in Brazil, tissues (including facial tissues and handkerchiefs), was also the only category to see declines in volume sales during 2009. Continuing a downward trend that began in 2008, value sales falling by 12%, to take the category to US\$17.5 million. In addition, volume sales fell by almost 16% over the same period. This fall in value and volume sales came despite manufacturers – in particular Kimberly-Clark, the only multinational present in the category – investing in value-added products such as decorative boxes, triple-ply and scented tissues. Unlike in Europe or the US, tissues are not an everyday item. Brazilian consumers still opt for toilet paper or cotton handkerchiefs, which are cheaper. However, it is external factors that largely account for the category's falling sales, with recent mild winters having a huge impact on seasonal sales.

While the category remains for the time being a minor concern in Brazil, this should not deter manufacturers from investment. Facial tissues are expected to see constant value sales (CAGR) increase by 5% over the forecast period. As is evident in other tissue categories, Brazilian consumers are not averse to trading up to premium products, if they feel the product meets a need. Manufacturers looking to make gains would do well to invest in research and development in a bid to stimulate purchases of premium products among high-income consumers. In

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addition, manufacturers active in toilet paper could take advantage of the fact that many consumers tend to use toilet paper instead of tissues and launch extensions of their already well-known toilet paper brands.

**EVEN BETTER TIMES TO COME FOR BRAZIL.** At the 2009 Global Economic Forum, Brazil was described as one of a number of countries that would best exit the economic crisis in terms of competitiveness, and thus far this is proving accurate. Brazil's economy grew by an impressive 8.8% during the second quarter of 2010 in real terms, and household consumption increased by 6.7%. As the economy continues to rebound strongly, Brazil's consumers are continuing to increase their spending levels, creating strong prospects for retail tissue products and a predicted average annual value growth (CAGR) of 5%. Tissue products in Brazil have successfully weathered the economic storm and now further growth should be plain sailing. •

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