COSMETICS AND PERSONAL CARE MARKET IN UKRAINE

Contents

1. General Overview

The cosmetics and personal care market in Ukraine witnessed strong growth for a considerable amount of time. In accordance with Euromonitor International report on Beauty and Personal Care in Ukraine in 2018, beauty and personal care continued witnessing rising dynamism in the bulk of categories, further benefiting from economic recovery and restored consumer confidence. The local currency (hryvnia, UAH) no longer faces the significant devaluation of previous years with unit prices witnessing little change over the year.

Beauty and personal care sales continue to be largely generated by economy brands. Consumer spending power is not high enough for many consumers to afford such products without consideration of their prices.

In 2018, top positions in beauty and personal care in Ukraine continue being occupied by international giants such as L'Oréal Ukraine, Procter & Gamble Ukraine and Avon Cosmetics Ukraine. Multinational companies achieve this leading presence through a number of factors, including first-mover status, significant investment in new product development and regular advertising support of their brands as well as building efficient distribution.

Ukrainians are typically very open to innovations in beauty and personal care being tempted to try new products whether due to improved formulation or packaging design. In 2019, new product development continued, both from international players and local ones. The performance of beauty and personal care is expected to be much dependent on the speed of economic recovery in Ukraine. [1]

The professional beauty market in Ukraine has some main features:

- It is a B2B market but with the elements of B2C market (buying decision is often made by the specialist; the number of people involved in the decision making process, and the short decision making cycle puts it closer to B2C market). Therefore, it can be called a B2B market for micro business or a B2S (Business 2 Specialist).
- It is a market of absolute competition. None of the companies has a monopoly position.
- The goods for this industry do not have their own codifiers, in terms of statistical reporting these goods are placed among the consumer goods or medical devices.
- Taking into account the specificity of statistical reporting in Ukraine, which is not mandatory for micro enterprises, this factor can also hinder an accurate assessment of the market. [2]

There are about 450 companies in Ukraine, which are exclusive distributors of foreign brands for beauty salons in Ukraine. More than 2/3 of them specialize in one field or 2-3 similar ones (eg, cosmetology and waxing, nail service and lashmaking etc.).

There are over 100 Ukrainian manufacturers of products for beauty salons: hair - 23 companies; nail salon - 27; cosmetology - 35; other – 31. 46% of companies have their own online stores. 2/3 of the companies which do not have an online store are cosmetic companies and equipment. 64% of companies can be found on Facebook. Unlike other countries, Facebook is a very active channel of communication of the business environment in Ukraine.

The next link in the supply chain of products is regional distribution and retail. This category is represented by the professional buyers at beauty exhibitions. Regional dealers are not importers.

They work in the specific region of Ukraine and can represent products of different distribution companies. There are about 150 regional dealers in Ukraine; their number is reducing due to the rapid development of logistic services and the use of high-quality office2office service.

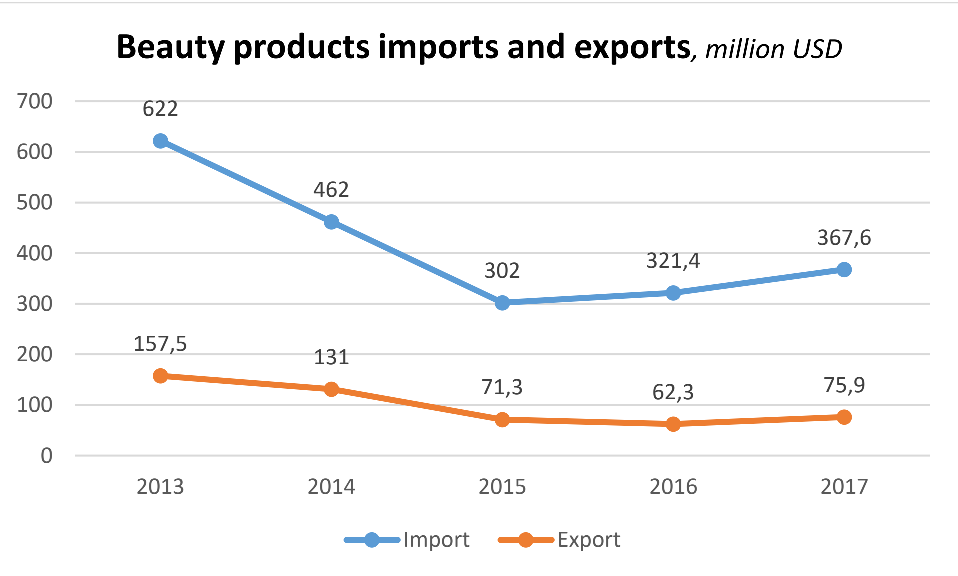
The structure of distribution has been changing massively within the 5 recent years:

- Specialized distribution companies start to work in other directions, becoming a multidisciplinary (i.e. Nail+Hairdressing).
- Less headquarters of exclusive distributors financially contain extensive regional network and move more to the dealership model.
- Educational centers became a must-have for the distribution companies, which are engaged in selling professional products.
- More distribution companies open their salons as a useful model of business
- Some companies develop KAM model – Key Account Management (pharmaceutical representatives analogue systems)
- Internet-shops (web-site) are more common. Internet-shops are becoming exclusive distributors of brands

2. Beauty Products Imports and Exports

The Ukrainian beauty market's biggest players include companies like Agor, Piel Cosmetics, Organic Life, and White Mandarin. One of the biggest Ukrainian online beauty stores, MakeUp.Ua, has at least 120 brands marketed as "made in Ukraine." Most of the companies produce skin care and hair products, while makeup accounts for no more than 20 percent of sales. [3]

Beauty imports and exports almost halved after the economic decline in 2014. The industry is recovering, showing steady growth since then.



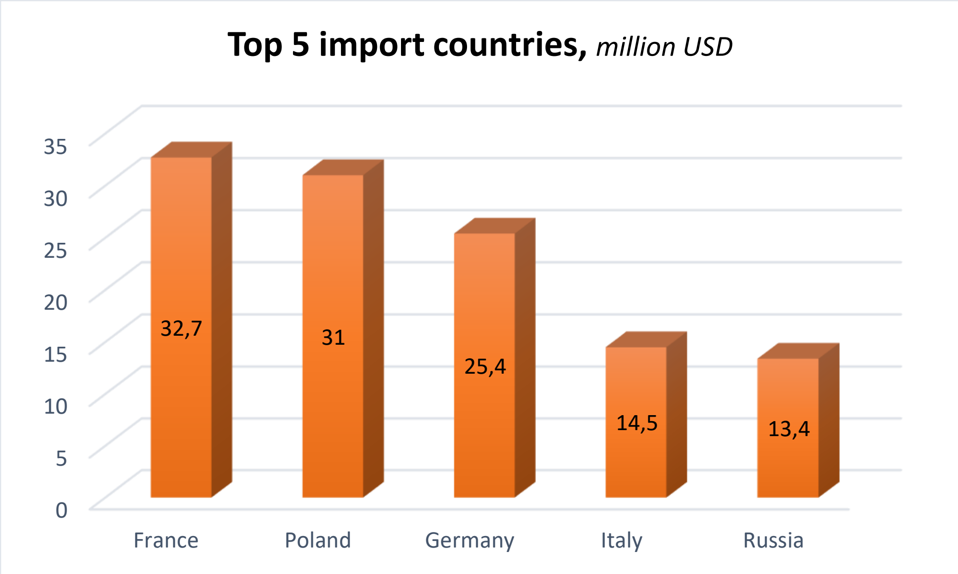
Source: [3; 5]

In 2017, Ukraine exported beauty products worth a total of USD 75.9 million, and imported products worth USD 367.6 million — almost five times more. Imports covers 76.5% of the domestic market. Key sources of imports are the EU countries and Asia. Ukraine imports from such international brands as Mary Kay, Oriflame and Avon, which have established a vast network of distributors. One of the largest exporting companies in the Ukrainian beauty industry is Elfa Group, which has 23 different brands and exports its products to the Baltic States, Russia, Moldova, Kazakhstan, Georgia, Belarus, and Azerbaijan. Ukraine’s major export markets include CIS countries, EU and Middle East. Ukrainian beauty products are especially appreciated in Poland and Russia what makes 18 percent of country's beauty export.

Source: [3; 5]

Import products dominate the market, especially in the segments of make-up, deodorants, hair-dyes, toothpastes and selective perfumery. The Ukrainian manufacturers produce limited assortment of haircare, skincare and body care products, and soaps. The local market offers many opportunities, in particular, for professional skin care products, cosmetics for children, nail care and hair care products. Multinational companies dominate the market due to their strong and well-established brands among Ukrainian consumers. During the economic slowdown, domestic brands gained popularity. In general, local brands carry lower prices compared to those offered by multinational players, a factor that is becoming increasingly important to price-sensitive consumers. Furthermore, consumers pay attention to the origins of products and are happy to support Ukrainian-based brands. [3]

European Union countries are the main importers that make almost 30 % of Ukraine's beauty imports.



Source: [3; 5]

3. Local Production and Sales

In accordance with the Cosmetics & Personal Care Products Ukraine report, up to 70% of all sales volume belongs to a cheaper segment of the mass market dominated by local and Eastern European producers; about 10% is selective perfumery and cosmetics; the remaining share (20%) are products of multinational brands (L'Oréal, Beiersdorf, Schwarzkopf, etc).

Economical consumption was an important trend on Ukrainian cosmetics and personal care market in 2014-2016. Price becomes the most influential factor in purchasing decisions for many consumers, as well as the main platform for competition in all market categories. Despite the overall trend in cost-conscious purchasing behavior, three segments of the Ukrainian market continue to present opportunities for exporters: professional cosmetics, in particular, injectable fillers; nail service products; and beauty salon equipment. In these segments imported products command the market with 94% market share, local production is limited. [4]

The increasing demand for “natural” products has been satisfied by a growing number of new local brands in this category. Overall, the majority of local manufacturers work in the “natural” segment. Also, local industry follows the trend of convergence of pharmacology and cosmetology. Every cosmetic brand has got a “pharmacy” line, and pharmaceutical producers, on the other hand, willingly work with cosmetologists. [4]

Major local producers are:

- Elfa Laboratory – group of companies with full cycle production and distribution; manufacturers and distributes about 1000 items of hair care, skin care, body care and household chemicals under 16 brands (“AG-Plus”, “Cool Men”, “Green Apteka”, “O’Herbal”, “Salon SPA collection”, “Fresh Juice”, “Dr.Sante”, “Sun Energy”, “Caramel”, “Pink Elephant”, "BIO formula", "Home Doctor","Elfa Pharm", “Dermaglin”, “Bio Naturell”, “Sun Energy”). Exports to CIS countries, EU and Middle East.
- Biokon – skin care and hair care products manufacturer (“Biokon” brand). Produces under its proprietary technology a special skin care line with biologically active extracts of the medicinal leech. Exports to CIS countries, EU and Middle East.

- Vigor Cosmetique Naturelle – face, body and hair care products producer (“Vigor Cosmetique Naturelle” brand). Products are based on essential oils and extracts of medicinal herbs.
- Choice – producer of face, body and hair care and children’s care products and under “White Mandarin” brand. The highlights of the brand are products based on sprouted grain cereals - wheat, rye, oats, corn, barley. Exports to EU.
- Irene Bukur – Ukrainian – Swiss joint venture manufactures face, body and hair care and decorative cosmetics (foundations, mascara, fluid lipstick) of “Irene Bukur” brand. Products contain at least 75-80% of fresh extracts and oils.
- Natural Cosmetics – manufacturer of “Kaetana” professional skin care.
- Farmak – the leader of the Ukrainian pharmacology in partnership with LG Life Sciences is launching a domestic bio-gel filler Avouge with hyaluronic acid.
- KARSE – the company presented an innovative – soluble hyaluronic microneedle MicroHyala. [4]

TOP domestic Trade Fairs are:

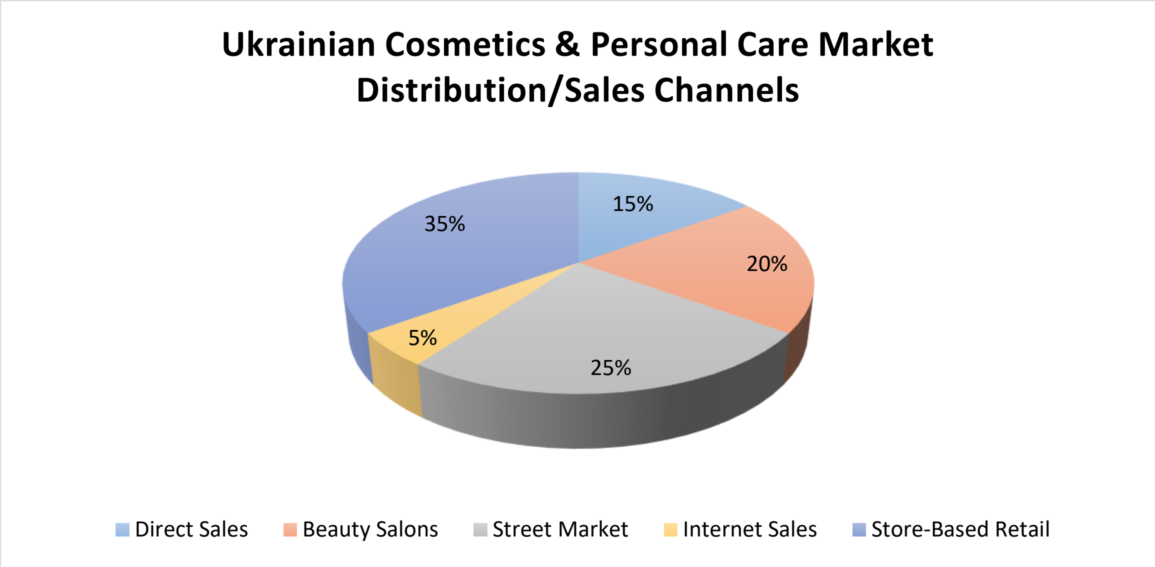
- ✓ Estet Beauty Expo http://beautyexpo.com.ua/ru-RU/
- ✓ InterCharm: https://www.intercharm.kiev.ua/en-GB/

Leading players in the sector:

- ✓ Alfa Spa Development – https://alfaspa.ua/
- ✓ IRIS - https://iris.ck.ua/about/
- ✓ InterCosmetic - https://interprof.com.ua/
- ✓ Beauty Prof - https://beauty-prof.com/company/
- ✓ DUSO - https://duso.ua

4. Distribution Channels and Marketing

Store-based retailing accounts for about 35% of beauty and personal care sales in Ukraine. Street market sales, that used to dominate the market, are decreasing and are estimated at 25%. Cosmetics sales through beauty salons (20%) remain traditionally high due to domination of foreign professional brands with emphasis on home care products complimenting received professional treatments. Direct sales are estimated at 15%. Internet sales reached 5% of sales in 2016 and are becoming more popular and have the potential for growth. [4]



Source: [4]

The trade supermarket and hypermarket channels, which accounted for a quarter of total retail sales, captured market share by offering a wide range of brands and prices that appeal to multiple consumer segments. Four mass market beauty store chains - Watsons, Eva, Kosmo, and ProStor – and two premium class beauty chains – Brocard and Bomond - are expanding their penetration and opening new stores nationwide. The need to improve cost efficiency drove this expansion and companies opened their own logistics and distribution centers in order to bypass distributors and work directly with suppliers. Pharmacies and drug stores are an emerging channel of cosmetics sales, accounting for approximately 10% of retail sales.

Retailers typically require a gross margin of between 40-50%. Importers/distributors seek a gross margin of 35-45%. For premium items a retailer's gross margin can vary from 60-120% while a distributor's margin can be in the range of 40-80%. [4]

5. Product Trends

As stated in the Cosmetics & Personal Care Products Ukraine report, best prospects segments include:
- Professional skin care
- Nail Service Products
- Beauty Salon Equipment
- Hair care products

Professional skin care – The professional cosmetics segment, including professional cosmetology services, is a substantial part of the Ukrainian beauty market. Currently about 150 companies distribute professional cosmetics products in Ukraine. Among imports, European suppliers dominate. Because filler injections are the fastest-growing cosmetology procedure, bio-revitalization products and fillers are the most popular imports and competition among suppliers is increasingly fierce.

Nail Service Products - Even though the demand for nail service products experience a natural slowdown after a period of rapid growth in 2012-2013, this segment of the market is the most dynamic in Ukraine. The introduction of novel/trendy products may easily cause a repeat surge in growth. Currently, over 100 companies offer nail service products in Ukraine.

Beauty Salon Equipment – Because of a trend in beauty salon renovation, demand for beauty salon equipment, especially medical devices for aesthetic services, is increasing. Approximately 150 companies supply equipment for beauty salons. Recently, many of these suppliers have added laser devices to their product mix.

Hair care products – In the mass segment, high levels of competition are driving down value for these products, with L'Oréal being the most popular brand. Local manufacturers are extending their market share offering full lines of hair care with natural ingredients. [4]

6. Registration of Cosmetic Products

Cosmetic products include the following products:

- Care products (creams, serums, masks, balms, lotions, tonics, etc.)
- Decorative cosmetics;
- Children's cosmetics, as well as cosmetics for childcare;
- Cosmeceuticals (depending on the content and availability of the relevant recommendations);
- Hair care products (shampoos, masks, oils, conditioners, etc.)
- Skin cleansing products (shower gels, soaps, foams, scrubs, etc.)

For importing and sale of cosmetic products, it is necessary to pass the registration procedure and obtain conclusion of sanitary-epidemiological examination (Health Inspection Services). Such conclusions are issued by State Consumer Service. The cosmetics is registered in two stages: documentary expertise and testing of samples. The function of carrying out an expertise is assigned to the accredited specialized organizations. Registration period from the moment of submission of documentation and samples is around 4 weeks. As a result of registration, a conclusion is issued with a validity period of 5 years. [5]

Regulations, Standards and Customs

In 2010, Ukraine adopted a new Draft Technical Regulation on the safety of cosmetic products harmonized with EU Regulation No. 1223/2009 on cosmetic products. The approval and implementation of the new Technical Regulation has been postponed, and current procedure of receiving hygiene approval from the Ministry of Health is still in place. The procedure takes up to 3 months and the approval is valid for one to five years. [4]

List of Documents for Receiving Hygiene Approval for Cosmetics:

- Power of Attorney authorizing Ukrainian partner company to apply for Hygiene Approval;
- Application to the Ministry of Health of Ukraine;
- Instructions for use and packaging;

- Certificates:
  - On registration of the manufacturer, the license to produce;
  - Certification for ISO, GMP;
  - Certificate of compliance with EU Directive 76/768 / EEC;
  - Certificate of registration of the product in the country of origin and / or a certificate of free sale;
  - Quality certificates and/or specifications of qualitative and quantitative composition;
- A letter from the manufacturer that the product does not contain medicinal ingredients and genetically modified organisms;
- Toxicology reports, preclinical and clinical reports, the results of dermatological expertise. [4]

<u>Labeling of cosmetic products</u> (except for the list of ingredients) should be in Ukrainian language.
Labeling requirements - the following information is obligatory:
1. Name or trade mark, address of the responsible party (importer or distributor), country of origin (for imported products).
2. Expiration date.
3. Special precautions (if available) when using the product.
4. Batch number.
5. Ingredients. All ingredients in the form of nano-materials should be clearly indicated in the list of ingredients with the word NANO. [4]

7. Trends and Forecasts

Economical consumption became an important trend in the Ukrainian cosmetics and personal care market. A large number of Ukrainians were forced to switch from buying premium to standard and from standard to economy products during last three years. Trading down was observed in a number of categories and private label offers were amongst those actively tempting consumers of branded products. The situation was beneficial for local manufacturers that offered consumers competitive pricing and multinationals restraining from adjusting their retail prices to those in U.S. dollar equivalents. [4]

Ukrainian consumers spend a larger portion of their income on fashion and beauty aids, due to the high value that society places on high standards of personal appearance and grooming. For example, women often begin utilizing injectable fillers in their early thirties, thereby expanding the size the market for these products beyond what they may typically be in other less style-conscious societies. [4]

As stated in the report "<u>Health & Beauty Retailing In Ukraine, Market Shares, Summary And Forecasts To 2022</u>", some of the major companies which are currently functioning in this domain for meeting the extensive demand of consumers and acquiring the effective share in this category of retail include: ATB-Market, Watsons, Kosmo, Prostor, Med-Service, Apteka Nyzkyh Tsin, EVA, Avon, Ukrainian Pharmacy Holding LLC, Farmacia and several others. Whereas, EVA emerged as the fastest growing player – 135 were opened stores in 2017.

The health and beauty sector is projected to produce the third fastest growth at a CAGR of 4.9% during the period 2017-2022. In the meantime, the Ukrainian retail market is forecasted to grow at a CAGR of 4.7% during 2017-2022. Due to increasing awareness in health issues, the consumers are demanding natural cosmetics, which is the key factor for the significant rise in sales for this sector. The medical stores and health & beauty stores accounted significant share during the period 2017-2022. With the growing demand for health and beauty products the major retailers are establishing the e-commerce platforms, where the consumers can compare different products. [1]

Disclaimer: This report is prepared using the data from the following reports and sources: "Cosmetics & Personal Care Products Ukraine"; "Beauty and Personal Care in Ukraine"; "Beauty product makers eye EU markets"; "Secrets of Ukrainian beauty market"; State Statistics Service of Ukraine; Association of Perfumery and Cosmetics of Ukraine etc.

8. Sources and Useful Links

1. Beauty and Personal Care in Ukraine https://www.euromonitor.com/beauty-and-personal-care-in-ukraine/report
2. Secrets of Ukrainian beauty market https://www.intercharm.kiev.ua/en-GB/press/news/504.aspx
3. Beauty product makers eye EU markets https://www.kyivpost.com/business/beauty-product-makers-eye-eu-markets.html
4. Cosmetics & Personal Care Products Ukraine report https://build.export.gov/build/idcplg?IdcService=DOWNLOAD_PUBLIC_FILE&RevisionSelectionMethod=Latest&dDocName=eg_us_ca_110357
5. State Statistics Service of Ukraine http://www.ukrstat.gov.ua/
6. Registration of cosmetic products https://archimed.in.ua/en/registratsiya-kosmeticheskih-produktov/
7. Association of Perfumery and Cosmetics of Ukraine https://apcu.ua/en/home/
8. Estet Beauty Expo http://beautyexpo.com.ua/ru-RU/
9. InterCharm: https://www.intercharm.kiev.ua/en-GB/
10. Spa Development – https://alfaspa.ua/
11. IRIS - https://iris.ck.ua/about/
12. InterCosmetic - https://interprof.com.ua/
13. Beauty Prof - https://beauty-prof.com/company/
14. DUSO - https://duso.ua