

Mexico: Courage in Challenging Times

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Maia Coast, Mexico

Photo By Jose Fuste Raga/Corbis



Frida Kahlo

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Mexico is putting on a brave face as the United States' financial crisis and global economic difficulties challenge is beauty industry in both the mass and luxury markets.

“It used to be like El Dorado, but now we are living in difficult times,” says Jean-Marie Le Roy, sighing as he speaks. The director general for Clarins Mexico is not the only beauty industry executive who’s worried. The U.S. is Mexico’s most important trade and investment partner, and the business cycles of the two countries are intimately contagion from the U.S. downturn than most. Consumer confidence started to slip south of the

border last year, plummeting 15.9 percent to 88.6 points in September compared with the same period in 2007, according to Mexico's National Statistics Agency (INEGI).

For now, Mexico's cosmetics and toiletries market is still a significant global player. Euromonitor International ranks it 11th in the world, second only to Brazil in Latin America. Its retail value reached \$7.1 billion in 2007, recording 5.2 percent growth year-on-year. Euromonitor anticipates a similar performance in 2008, with growth attributed to price hikes "instead of a big jump in volume sales," says Euromonitor's Mexico analyst, Monica Feldman. On the distribution side, Feldman sees direct sellers and supermarkets as the "two channels that will prevail." Together they accounted for 58 percent of cosmetics distribution in 2007, while discounters such as Costco and Sam's Club accounted for 17 percent.

The outlook for mixed retailers, chiefly department stores, is unfavorable. Euromonitor forecasts a reduction in their 8 percent market share. The same goes for health and beauty specialists—pharmacies, drugstores and perfumeries—currently accounting for almost 6 percent of sales. Liverpool, El Palacio de Hierro and Sears department stores account for 80 to 90 percent of prestige sales, but are pricy options here because brands have to shoulder 100 percent of the costs, including the supply of beauty consultants.

The prestige market is estimated in size to be between \$330 million and \$400 million. The top three brands are Lancôme, Estée Lauder and Chanel. Guy Bodart, Chanel Mexico's director general, says that the French luxury brand "might not grow at all in 2009" after outperforming the market in recent years.

"We've never seen anything like this," says Clarins' Le Roy. "With all the economic indicators, it doesn't look good at all."

Some executives are hopeful that the country's highly skewed income distribution could protect luxury brands. "The [Mexican] luxury market is in the hands of customers that are not as affected [by the crisis]," says Crabtree & Evelyn's commercial director, Saskia Hoogesteyn.

However, "middle-income consumers who were hoping to purchase more premium products will have a difficult time," says Euromonitor's Feldman. Additionally, Mexico still has the highest poverty and inequality levels in the Organization for Economic Cooperation and Development. "There are a lot of low-income consumers—45 percent of Mexicans have a monthly income of less than \$500—so our focus is on meeting their needs," says Procter & Gamble's public relations and institutional marketing manager, Marisa Vano. "The consumer will be shopping more carefully and looking at the best value proposition."



Photo By: David de la Paz/epa/Corbis

Mexico City Runway Model

Diego Ferrández, marketing director for BDF Mexico, was similarly upbeat about his flagship Nivea range. “Experience from previous crises shows us that people cut nonessential big-ticket expenses like travel, cars and houses,” he says. “But the last thing you want to cut is that little moment of pampering.”

In terms of size, P&G represents 11 percent of Mexico’s beauty sector, a percentage point behind Colgate- Palmolive. L’Oréal controls 7 percent of the market and Avon, 6.8 percent.

Understanding sociocultural traits that drive beauty needs is vital as competition intensifies. In the upper echelons of Mexican society, “cosmetics trends come from Europe and the United States,” says Silvia Tapia, who heads the fragrance department at El Palacio’s swanky Santa Fé store.

In lower socioeconomic groups, the primary influencer is terrestrial television, particularly telenovelas, according to makeup artist and trainer to direct sales companies Alejandro Reynal of Reynal Imagen y Maquillaje.

Product preferences vary according to region. Guadalajara is a primary market for color cosmetics, while Mexicans living closer to the U.S. are more apt to use hair color, particularly blonde. Countrywise, hair care is the strongest segment, with sales of more than \$1.5 billion in 2007. That figure is forecast to reach \$1.8 billion by 2012. Research by Laboratorios Grisi Hermanos, a Mexican-based product manufacturer, found 98 percent of Mexicans wash their hair daily, and most women tend to grow their hair long, thus increasing consumption. Cleanliness is highly prized in the country, so people “try to be clean... even if they are poor,” Feldman says. While 60 percent of Mexican women color their hair regularly (with red tones being the most popular) the market penetration for conditioner is only 45 percent. P&G research attributes this to the “strong myth that, by using conditioner, hair will fall out or get weaker,” says Vano.

In terms of skin care, specialized products, from anticellulite items to moisturizers, now comprise 40 percent of the segment. This boom is supported by the changing role of women in society. Today, 33 percent of women in the Mexican labor market are executives, according to Marc Latiere, the country manager of Estée Lauder, who attributes increased antiaging product sales—now 35 percent of the prestige market, and

its largest specialist skin care segment overall—to this “new generation of consumer.”

The cultural drivers behind whitening products, from Nivea’s Aclarado Natural to Clinique’s Derma White, are more controversial. Mexican billboards are populated by Caucasian models, even though most of the population is mixed race, or mestizo. Feldman says that “Mexican women have always wanted fair skin, but they also tend to suffer from melasma—brown patches that generally appear during pregnancy”—generating a desire to even out skin tone. The sector is still too small to be monitored individually, but companies see potential. The parallel success of high-end bronzing products, such as Guerlain’s Terracotta range (its bestseller here), differentiates Mexico from the Asian market.

Natural products also are becoming more mainstream. The appetite for plant-derived ingredients is supporting the expansion of specialist pharmacies, chiefly Derma and San Pablo, selling masstige brands such as Vichy and Avène. Crabtree, Kiehl’s, L’Occitane and The Body Shop have expanded recently, while specialty stores like Faces are experimenting with mineral makeup. These areas of innovation bode well for future growth once global economic conditions improve, experts say. Euromonitor projects Mexican beauty sales of \$7.7 billion by 2012, when the market should be ready for recovery.

Capital	Mexico City
Largest city	Mexico City
Official languages	Spanish
Area	761,606 square miles (total)
Water (%)	2.5
Currency	Peso (MXN)
Population	109,955,400
Internet TLD	.mx
Calling code	+52

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