

Sales by product are ranked in order of sales in Table 1-7. Facial treatments are the largest individual product at \$xxxx million in 2002, or xx% of industry sales. Hand and body soaps are second with xx%, followed by shampoos at xx%. The top five products hold xx% of industry sales and the top ten control xx%.

Table 1-7. US SALES OF COSMETICS AND TOILETRIES BY PRODUCT

CATEGORY/PRODUCT	<u>SALES, \$ MILLION</u>
Facial Treatments	\$xxxxx
Soaps, Hand and Body	xxxxx
Shampoos	xxxxx
Womens' Fragrances	xxxxx
Toothpastes	xxxxx
Hand And Body Creams, Lotions and Treatments	xxxxx
Deodorants And Antiperspirants	xxxxx
Hair Colorings	xxxxx
Eye Makeup	xxxxx
Lipstick and Lip Glosses	xxxxx
Foundations	xxxxx
Conditioners	xxxxx
Mens' Fragrances	xxxxx
Bath and Shower Additives	xxxxx
Mouthwashes, Gargles and Breath Fresheners	xxxxx
Gels, Mousses, etc.	xxxxx
Sun Care Products	xxxxx
Hair Sprays	xxxxx
Nail Products	xxxxx
Face Powders	xxxxx
Shaving Products	xxxxx
Other Hair Care Products	xxxxx
Blushers	xxxxx
Baby Care Oils, Powders, Lotions and Creams	xxxxx
Denture Products	xxxxx
Tooth Whitening Products	xxxxx
Miscellaneous Products	xxxxx

PACKAGING

Packaging is a key factor in the marketing of cosmetics and toiletries. Marketers devote a great deal of time to the development of product packaging. Many companies have package development departments comparable in importance to research and development or sales and marketing. Considerable effort is invested in the design, choice of materials, and the graphics used on containers and packaging of their products. As manufacturers in the industry continue to introduce new products of all types, they are looking for ways to visually separate their product from others and make them more attractive to consumers.

With the industry highly competitive, and at times with dozens of similar products available from a large number of manufacturers, the package is often the final determinant in a consumer's choice of a particular product. Cosmetic packaging is often used to enhance the image of the product. This can be accomplished by the choice of material for the container selected, the proprietary design of the package, the color of the container and/or any special effects such as the use of specialized pigments, or through the use of metallization for the package or of the closure. The display package or other secondary packaging is often also used to promote the image of the product.

Manufacturer's spent an estimated \$xxxx million for containers and associated items such as closures, spray pumps, products tampering seals, etc. for product packaging and for shipping containers in 2002, or about xx% of industry shipments.

Consumption of individual units, which includes containers, closures, and outer wraps, totaled some xxxxx million in 2003. The "other" category, which includes hand and bath soaps and body washes, is the principal reason for the high number of package units in the category. Hair care products rank next, as shown by category in Table 1-25.

Table 1-25. CONSUMPTION OF PACKAGING UNITS FOR COSMETICS AND TOILETRIES BY CATEGORY 2002

<u>CATEGORY</u>	<u>MILLION UNITS</u>
Hair Care Products	xxxxx
Oral Care Products	xxxxx
Color Cosmetics	xxxxx
Skin Care Products	xxxxx
Fragrances	xxxxx
Other	xxxxx
TOTAL	xxxxx

As noted above, hand and body soaps account for the largest number of primary packages, and account for 31% of the total. Toothpastes and shampoos are the only other products taking more than 1,000 million units, as shown in Table 1-26.

Table 1-26. CONSUMPTION OF PRIMARY PACKAGING OF COSMETICS AND TOILETRIES BY PRODUCT 2002

<u>PRODUCT</u>	<u>MILLION UNITS</u>
Soaps, hand and body	xxxx
Toothpastes	xxxx

Private labeling, which involves the labeling of a product under the name of a third party, is also prevalent in the industry. Drug stores, food stores and mass merchandisers are leaders selling cosmetics and toiletries under private label. Private label brands are usually produced by contract packagers using their own formulations under the direction of the marketer.

Wal-Mart is by far the leading private labeler. Its *Equate* brand is used on oral care, skin care, hair care and other toiletries.

LAWS AND REGULATIONS

OVERVIEW

The cosmetics and toiletry industry is subject to a number of federal laws and agency regulations and its products and ingredients are subject to the regulatory authority of these agencies, which are derived from a number of legislative initiatives, including the Food, Drug and Cosmetic Act and the Fair Packaging and Labeling (FP&L) Act, which are administered by the Food and Drug Administration (FDA) and the Federal Trade Commission. The FDA regulates the manufacturing, labeling and sale of cosmetic products and is by far the most important of the government agencies with responsibility over cosmetics and toiletries. The regulations published by the FDA are all codified in Title 21, Code of Federal Regulations (21CFR). The regulations applicable to cosmetics are stated at 21 CFR, parts 700 to 740 (21CFR 700 to 740).

The FD&C Act defines cosmetics as articles intended to be applied to the human body for cleansing, beautifying, promoting attractiveness, or altering the appearance without affecting the body's structure or functions. Included in the definition are such products as skin creams, lotions, perfumes, lipsticks, fingernail polishes, eye and facial make-up preparations, shampoos, permanent waves, hair colors, toothpastes, deodorants, and any material intended for use as a component of a cosmetic product. For example, soap products consisting primarily of an alkali salt of a fatty acid and making no label claim other than cleansing of the human body, are not considered cosmetics under the law. However, soap products claiming to be cleansing agents as well as deodorants are considered cosmetics under the regulations.

Products that are cosmetics, but also intended to treat or prevent disease, or affect the structure or functions of the human body, are considered primarily as drugs. Thus they must comply with both the drug and cosmetic provisions of the law. Examples of products that are drugs and also cosmetics are anticaries toothpastes, hormone creams, sun tanning preparations intended to protect against sunburn, antiperspirants that also claim to be deodorants, and antidandruff shampoos. Most cosmetics that are also considered to be drugs are included as over-the-counter (OTC) pharmaceuticals. Cosmetics that are also considered as OTC drugs by the FDA, must list the active ingredients on the label separately from all other ingredients.

New drugs have to prove their safety, efficacy and effectiveness to the FDA before they can be marketed. The regulatory requirements for drugs are more extensive and detailed than the requirements for cosmetics. For example, the FD&C Act requires that drug manufacturers register every year with the FDA and update their lists of all manufactured drugs twice annually. Additionally, drugs must be manufactured in accordance with current good manufacturing practice regulations as codified at 21 CFR 210 and 211.

The *Insecticide, Fungicide and Rodenticide Act* and the *Toxic Substances Control Act* are administered by the *Environmental Protection Agency (EPA)*. These laws are the basis for regulating substances and raw materials used in the manufacture of cosmetics and toiletries.

Table 2-1. US CONSUMPTION OF CHEMICALS AND INGREDIENTS IN COSMETICS AND TOILETRIES 2002 AND 2007

RAW MATERIALS	MILLION LB		\$ MILLION	
	2002	2007	2002	2007
Emollients and moisturizers	XXXX	XXXX	XXXX	XXXX
Surfactants	XXXX	XXXX	XXXX	XXXX
Fragrances	XXXX	XXXX	XXXX	XXXX
Preservatives	XXXX	XXXX	XXXX	XXXX
Colorants	XXXX	XXXX	XXXX	XXXX
Thickeners	XXXX	XXXX	XXXX	XXXX
Propellants	XXXX	XXXX	XXXX	XXXX
Organic solvents	XXXX	XXXX	XXXX	XXXX
Inorganic carriers	XXXX	XXXX	XXXX	XXXX
Special use chemicals				
Hair polymers	XXXX	XXXX	XXXX	XXXX
Hair resins	XXXX	XXXX	XXXX	XXXX
Sunscreens	XXXX	XXXX	XXXX	XXXX
Dental polishes	XXXX	XXXX	XXXX	XXXX
Antiperspirants and deodorants	XXXX	XXXX	XXXX	XXXX
Antidandruff agents	XXXX	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX	XXXX
	XXXX	XXXX	XXXX	XXXX
Total	XXXX	XXXX	XXXX	XXXX

Table 2-2 summarizes raw material use by individual cosmetics and toiletries product. As it shows, production totals XXX million lb in 2002. Hair care is the leading category, taking XX% of all raw materials, followed by the “other category”, with XX%.

COLOR COSMETICS

Sales of color cosmetics at the manufacturers' level in 2002 totals \$XXXX million. Eye makeup is the leading product with XX% of dollar sales, followed by lipstick and lip glosses at XX%, foundations at XX%, and other products at XX%, as shown in Table 3-1. Makeup combination packages, which include facial cosmetics, nail products, and such other products as body glitter, have grown to about \$65 million in sales, yet are still only a fraction of category volume.

Production of color cosmetics is estimated at XXX million lb and XXX million packages in 2002. In most cases volume is quite small, and prices per pound very high. Nail products have the highest physical output, mostly due to the inexpensive nail polish removers, which are part of the category. By contrast, unit sales are quite high, running XXXX million packages in 2002. Eye make-up and lipsticks and lip glosses have the highest sales of packages, as shown in Table 3-2.

Sales of mass marketed color cosmetics through retail outlets are about \$XXXX million. Facial makeup, which includes blushes, foundations, and powders, represents XX% of the segment total. Eye makeup accounts for XX%, lipsticks and lip glosses XX%, nail polishes XX% and miscellaneous products the balance, as shown in Figure 3-1.

L'Oreal, with *Maybelline* and *L'Oreal* brands, is the leader in sales of color cosmetics through mass outlets, with about XX% of the dollar value of the segment. Procter & Gamble, mostly from *Cover Girl* and *Max Factor*, holds about XX%. Revlon, with its *Revlon* and *Almay* brands controls XX%. Other marketers with X% of segment volume are Del Laboratories, mostly from *Sally Hansen*; Bonne Bell, Coty, and AM Cosmetics, mostly from *Wet 'n' Wild*.

Prestige brands represent sales of about \$XXXX million. Face makeup accounts for XX% of this total, eye makeup for XX%, lipsticks and lip glosses for XX%, nail care for XX%, and miscellaneous products for the balance.

Estee Lauder is by far the leading prestige supplier, controlling about half of the segment, with *Clinique*, *Estee Lauder*, *Prescriptives* and other brands. L'Oreal, mostly from *Lancôme*, ranks as the second-leading manufacturer. The Body Shop, Chanel, Clairns, Coty (Lancaster Group), Elizabeth Arden, Shiseido, Marilyn Miglin, Revlon (*Ultima 11*), and Y S L Beauté share most of the balance.

Direct sales account for sales of \$XX million. Avon is the leader, followed by Mary Kay, Amway BeautiControl, and Shaklee.

Such other distribution channels as cosmetic studios, mail order, convenience stores, health food stores, boutiques and internet sales account for the balance of volume, or \$XX million in 2002. Merle Norman is the leading supplier in this category.

Slow growth is forecast for this product group. Consumers have tended to prefer the natural look, and this trend should continue. Overall sales volume is estimated to increase at less than XX% annually to 2007.

7. SKIN CARE PRODUCTS

Skin care products are designed to moisturize, cleans, tone, and otherwise maintain the skin. Eight products are included in this category. Facial treatments are the leading type, and hold about XX% of category sales. Hand and body creams, lotions and treatments rank next with 25% of the total. No other product has more than XX% of the category sales, as shown in Table 7-1.

Hand and body creams, lotions and treatments rank first in production, with XX million lb in 2002. However, facial treatments are the leaders in sales of packages, as given in Table 7-2

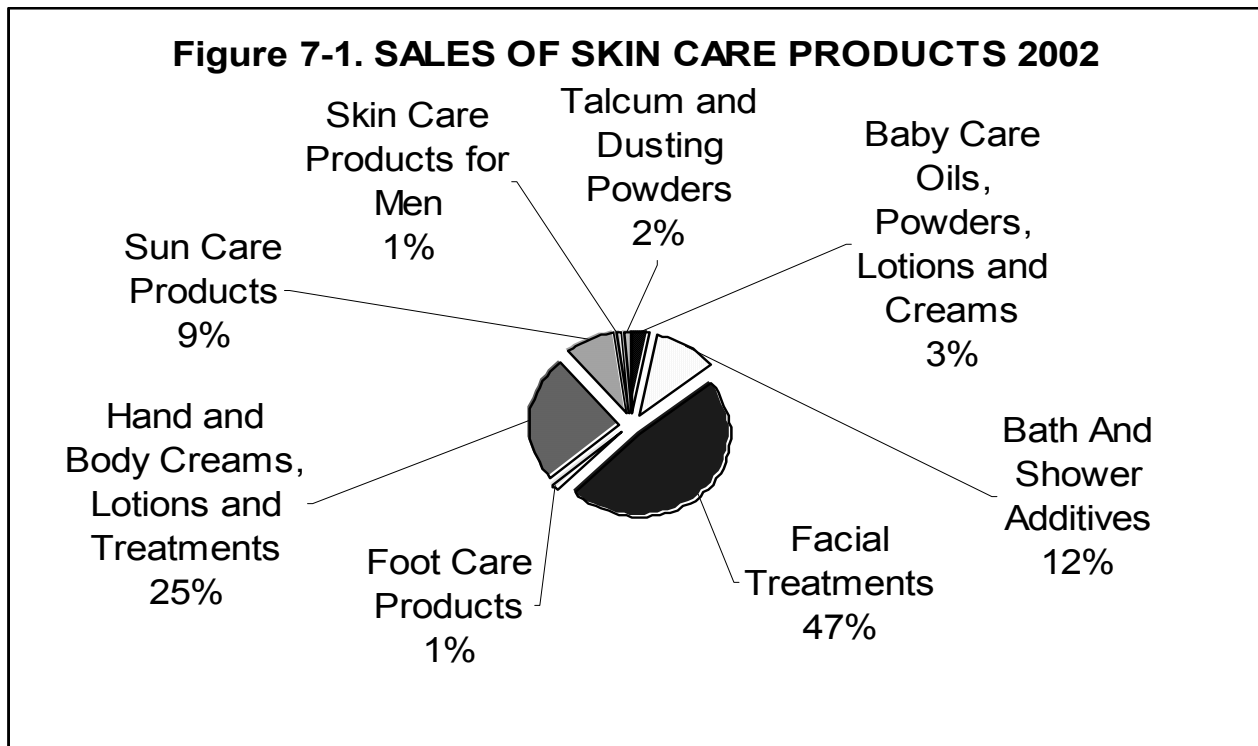


Table 7-x. US MARKET FOR SKIN CARE PRODUCTS 2002 AND 2007

Million dollars

PRODUCT	2002	2007	INC., %/YR.
Baby Care Oils, Powders, Lotions and Creams	\$XXX	\$XXX	XX%
Bath And Shower Additives	XXX	XXX	XXX
Facial Treatments	XXX	XXX	XXX
Foot Care Products	XXX	XXX	XXX
Hand And Body Creams, Lotions and Treatments	XXX	XXX	XXX

Private labeling of depilatories is insignificant.

Retail outlets

Mass merchandisers are the leading retail outlet for depilatories, followed closely by drug stores and food stores. Prestige outlets and direct sales are minimal for this category.

Compositions

Nad's Gel contains honey, molasses, fructose, vinegar, lemon juice, water, alcohol and food dye.

Church & Dwight's Nair Hair Remover for Men, Body Cream contains water, mineral oil, calcium thioglycolate, calcium hydroxide, cetareth-20, sodium hydroxide, camellia oleifera extract, sunflower seed oil, fragrance, and chromium hydroxide green.

Epil-Stop's Igia Epil-Stop & Spray 8 in 1 Spray and Roll-On Hair Remover contains a spray and roll-on. The spray contains deionized water, thioglycolic acid, sodium hydroxide, cetareth-20, cetaryl alcohol, mineral oil, glyceryl stearate se, aloe barbadensis extract, ascorbic acid, tocopheryl acetate, fragrance, cucumber extract, melon extract, and orange oil. The roll-on contains deionized water, calcium hydroxide, thioglycolic acid, cetareth-20, cetaryl alcohol, mineral oil, glyceryl stearate SE, ascorbic acid, aloe barbadensis extract, tocopheryl acetate, fragrance, cucumber extract, melon extract, chamomile extract, lavender extract, and orange oil.

Dels' Sally Hansen Natural Cold Wax Hair Remover Kit for Face/Leg/Body/Bikini contains hydrocarbon resin, polybutene, rosin ester, ethylene/VA copolymer, azulene finishing oil, octyl isononanoate, C13-14 isoparaffin, sesame oil, guaiazulene, tocopherol, ethylparaben, polypylparaben, and butylparaben.

Suppliers

Church & Dwight lead sales of depilatories with about XX% of category sales, followed closely by Nad's and Del Laboratories, each with XX%. Other important marketers are CCA Industries, Reckitt Benckiser, and Lee Pharmaceuticals.

Leading brands are *Nair* (Church & Dwight) with about XX% of sales, followed by *Nad's* with over XX% and *Sally Hansen* (Del) with X%.

Promotion

Promotion of depilatories is highest in the summer months when marketers offer coupons, cents-off and rebates. Price and quantity discounts are sometimes offered to retailers.

Packaging

Table 8-x. TYPICAL SIZES, TYPES AND PRICES FOR DEPILATORIES

<u>COMPANY</u>	<u>BRAND AND DESCRIPTION</u>	<u>SIZE, OZ</u>	<u>PACKAGE</u>	<u>PRICE</u>
Church & Dwight	Nair Hair Remover for Men, Body Cream	8.0	Plastic bottle, flip top	\$6.99
Del Laboratories	Sally Hansen Natural Cold Wax Hair Remover Kit for Face/Leg/Body/Bikini	-	Kit	10.19

The following abbreviations have been used: C (controlled by); D (division); J (joint venture), and S (subsidiary of). A "P" after a listed name indicates a publicly owned company; all others are privately owned.

A M Cosmetics, Inc.

C- Morningside Capital
100 Porete Ave.
North Arlington, NJ 07031

Sales: \$XXX Million
Employees: XXX
Phone: (201) 998-8890
Fax: (201) 998-8921
Web: www.amcosmetics.com

Markets cosmetics designed primarily for black and Hispanic women. *Wet 'n' Wild*, the best-known brand, includes mascara, lipstick, nail polish, and other items for the mass market. Specifically, markets *Black Radiance* line to black customers, *Sweet Georgia Brown* to teenagers, and the *Tropez* line to Hispanic women. Other brands include *Artmatic*, *Artmatic*, *Lord & Berry* and *Jonel*.

Advanced Research Laboratories, Inc.

151 Kalmus Drive, Suite H-3
Costa Mesa, CA 92626

Sales: XXX
Employees: XXX
Phone: (714) 556-1028
Web: www.advancedresearch.com

Produces hair care products under *Citré Shine* and *Smooth 'N Shine* and skin care products under *Herbal Logix*.

Alberto-Culver Co.-P

2525 Armitage Ave.
Melrose Park, IL 60160

Sales: \$XXX Million (9/02)
Employees: XXX
Phone: (708) 450-3039
Web: www.alberto-culver.com

Has three business segments: Alberto-Culver North America and Alberto-Culver International, which manufacture and market branded consumer products (XX% from health and beauty aids and X% from foods), and Specialty distribution-Sally (XX% of sales), a distributor of professional beauty supplies through XXX Sally Beauty Supply stores, including XX franchise stores, with XXX professional sales consultants and full-service operations. North American sales of health and beauty aids, and food products are XXX% of the corporate total.

The toiletry products marketed in the United States include the *Alberto VO5*, *TRESemme* and *Consort* lines of hair care products, the *St. Ives Swiss Formula* line of hair and skin care products, *FDS* feminine deodorant sprays and the *TCB*, *Soft and Beautiful*, *Just For Me*, *Comb-Thru* and *Motions* hair care products for the ethnic market. Domestic production occurs at Melrose Park (2), Chatsworth, CA and Dallas, TX.

Purchased Pro-Line Corp., a producer of ethnic hair care products, in 2000.

Estimated U.S. sales of C&T are \$XXXmillion.

Aloette Cosmetics, Inc.

4900 Highlands Pkwy.
Smyrna, GA 30082

Sales: \$XX Million
Employees: XX
Phone: 678-444-2563
Fax: (678) 444-2564
Web: www.aloettecosmetics.com

Produces depilatories based on natural products which do not require heat.

Neoteric Cosmetics, Inc.

S- Scott's Liquid Gold
4880 Havana St.
Denver, CO 80239-2416

Sales: \$XX million
Employees: XX
Phone: (303) 373-4860
Fax: (303) 576-6050
Web: www.neotericcosmetics.com

Manufactures skin care products under the *Alpha Hydrox* trade name. Other products are *Neoteric Diabetic Skin Care* for slow-healing skin of diabetics; *Neoteric Rubout* to help the fading of bruises and to relieve pain; and *Montagne Jeunesse* tonics and sachets.

New Dana Perfumes Corp.

C- Dimeling, Schreiber and Park
6601 Lyons Road
Coconut Creek, FL 33073

Sales: \$XX million
Employees: XX
Phone: (561) 999-9918

Was formed in 1999 after the purchase of the fragrance brands Renaissance Cosmetics Co. out of bankruptcy.

Markets about 50 brands of classic fragrances, primarily through mass marketers. Brands include *Heaven Sent*, *Tabu*, *Canoe*, *Navy*, *Chantilly*, *Love's Baby Soft*, and *English Leather*.

Also produces artificial nails under the *Cosmair* and *Press & Go* names, cosmetics under *Fetish*, and other personal care products.

Nexus Products

PO Box 1274
Santa Barbara, CA 97654

Sales: XX
Employees: XX
Phone: XX
Web: www.nexusproducts.com

Markets hair care and other products for the professional market. Some products are also sold to consumers through salons.

Nioxin Research Laboratories, Inc.

1781 Westfork Dr.
Lithia Springs, GA 30122

Sales: XX
Employees: XX
Phone: (770) 944-1308
Fax: (770) 732-7554

Produces professional hair care products, specifically marketed for thinning and fine hair.

Merle Norman Cosmetics, Inc.

9130 Bellanca Ave.
Los Angeles, CA 90045

Sales: XX
Employees: XX
Phone: (310) 641-3000
Fax: (310) 641-7144
Web: www.merlenorman.com

Manufactures skin care and color cosmetics, which are sold through 2,000 franchised studios in the United States and Canada.