

## **Skin Care Health Trend Increases Profit Expectations**

By Julie Sturgeon

A new word threatens to overtake nearly every square inch of a drug store's shelving space: cosmeceuticals. Retail executives couldn't be happier. The FDA, on the other hand, has yet to join the bandwagon.

"We don't officially recognize the term — it's been forced on us," says Roma Jeanne Elgi, who oversees the cosmeceutical division in the FDA's Compliance Office. "But we can't ignore it any more because it's everywhere." Indeed, Technology Catalysts International Corporation's latest *Cosmeceutical Trends and Technology* report estimates global demand for cosmeceuticals at \$22 billion, with the United States, Japan, Australia and Europe leading the parade.

Although pinning the term's exact definition equates to wiping cold cream from a mirror, most experts at least agree cosmeceuticals involve adding a medical benefit to a cosmetic product. The additives/ingredient trends encompass specialty chemicals such as biomimetic agents, sodium shale oil sulfonate, alpha- and beta-hydroxy acids, ceramides, emu oil and ginseng delivered through liposomes, cyclodextrins or polymer systems.

The FDA disregards ingredient lists in favor of product claims to determine who regulates this emerging niche. "If it is to change the body's structure or function, it's a drug," Elgi says. "So alpha hydroxy to make your skin look younger or fresher is a cosmetic. Alpha hydroxy to eliminate scars or treat skin cancer is a drug."

But the most promising market sector from both a technological and financial viewpoint is skin care, notes Leighton LeBoeuf, author of Technology Catalysts' report.

### **Strong Economic Player**

Anything that combines drug stores' two biggest money-makers commands respect. According to the U.S. Business Reporter web portal, chain drug stores nearly triple food and mass merchandisers' retail prescription drug sales — and cosmetics rank as their most popular non-pharmaceutical category with a 46 percent market share.

Mix industry data showing the 45 to 64 age group of females in the United States will rise from 30.8 million to 40.6 million in the next 10 years, and a Renova Wrinkle Report survey revealing that fewer women in 1999 agreed with the statement “people should allow nature to take its course and not try to change the way they look” than nodded yes in 1996 — and buyers’ cosmeceutical interest soars.

“This trend is in its infancy,” says Susan Savoie, vice president of marketing for Beiersdorf’s Cosmed division. “The United States has been later to develop in face care than the rest of the world. We laugh about a 16-step daily regimen — every woman is definitely not doing that — but as we take on more public positions, we do take better care of our appearances.”

Not everyone buys the hype hook, line and sinker. “Thanks to press coverage, you see companies dropping the word alpha-hydroxy for terminology like age-defying. But it’s a marketing ploy — the ingredients are still there,” confides one buyer at a major Midwest drug store chain. Still, he admits his signs the orders to fill substantial square feet with these products.

In time, cosmeceutical skin care products will replace traditional offerings, predicts Anastasia Chehak, RD, LD, CDE, president and CEO of Anastasia Marie Labs. Today, determining the market driving forces smacks of the dizzy chicken and egg puzzle: Consumers drive demand and manufacturers influence consumers. LeBoeuf sniffed out at least 125 companies ranging from BASF AG and Conrex Pharmaceutical Corp. to Procter & Gamble and Zena Cosmetics racing to display their wares to the buying public.

The tug-of-war between pharmaceutical companies and cosmetic giants over cosmeceutical bragging rights barely raises eyebrows with Lynn Drake, M.D., professor and chair of the University of Oklahoma Health Sciences Center’s dermatology department. “It’s healthy because traditionally things that altered your appearance were sold primarily on marketing and advertising,” she explains. “However, with players now spending \$100 million in research to prove these drugs actual work in control studies, the patient can rely on accuracy.” Again, when the product claims medical results, it must jump the FDA’s hoops. Galderma, a joint venture between L’Oréal and Nestlé, reportedly ploughs 14 percent of its turnover into research and development every year; 50 of its 320 research staffers are specifically devoted to designing new compounds. In return, 1999 sales

jumped almost 32 percent over the previous year to nearly \$354 million. Its Differin topic treatment for acne alone represents 25 percent of those sales.

“We don’t have an outcry of ‘I’m scarred, damaged, ill or ripped off,’” notes Egli. “We’re in terrific economic times, and I don’t what would be the force of reversal for cosmeceuticals’ rise. If in fact it ever does reverse. Many people are perfectly content to pay for cold creams and announce, ‘I’m beautiful now.’”

### **Inside the Market**

Unit sales within the category show wide swings: For instance, from March 1999 to March 2000, nationwide unit sales of Neutrogena Healthy Skin fade cream rose 36.9 percent while L’Oréal’s competitive Plenitude Revitalift fell 9.9 percent. Likewise, Neutrogena’s Healthy Skin moisturizers increased unit sales by 27.7 percent during that same time period while the Alpha Hydrox facial moisturizer fell 22.3 percent, according to Information Resources Inc.

“Consumers are discriminating, and products that don’t deliver don’t last,” Savoie responds. At the same time, Chehak assures, the health and beauty category is wide enough to eliminate clunkers without tripping the entire cosmeceutical market’s momentum.

Overall, facial cleansers and creams attract steadier profits than body care products, Savoie admits — ACNielsen’s data supports her claim, noting national face cleanser and cream sales have seen leaps of 17.2, 15.5 and 4.5 percent from 1998 to 2000. Hand and body lotions increased at more moderate 5.2, 6.0 and 9.8 percents.

The demographic market for cosmeceuticals runs the gamut from acne-prone teens to Baby Boomers, encompassing specialty groups like diabetics, new mothers and surgery patients in-between. So although medical claims for a diabetic hand cream certainly benefit the general population, smart chain stores typically slice their shelves into lifestyle categories to better steer sales. The stake: premium prices for the discount world, says one inside buyer. “The vendors are bringing it on, and we’re not doing anything different other than tying in with the manufacturers,” he says. No one faults this strategy when the producers ante up for full-page ads in *Bride’s*, *Parents*, *Glamour*, *Cosmopolitan*, *Seventeen* and *Teen People*.

In fact, Susan Knight, assistant category buyer in cosmetics at Long's in Walnut Creek, California, heavily weighs advertising dollars in her shelf decision. "There's at least 100 niche companies for every major line in skin care. And their technology is great," she says. "But if you can't get that information to the consumer because you lack funding, then we have to decide if the consumer will have enough information on the product to be able to make a purchasing decision at the shelf."

Manufacturers' selling suggestions slot products in two rough categories scattered throughout the store: therapeutic and beauty. Merz Pharmaceutical's scar-erasing Mederma enters as one of the newer therapeutic products, with a retail price of \$29 for a 50-gram tube and a new 20-gram purse-size debuting this month for \$15. (Some independents reportedly get by charging as much as \$80 per tube.) According to Mary Ann Hauser, product manager at Merz, Eckerd ranks Mederma number 15 in sales of 450 products on its first-aid shelves; nationally sales jumped 45 percent after an advertising wave in popular magazines. "We hit budget before the 15th in our month when previously we weren't hitting budget at all," she admits.

Anastasia Diabetic Pure Skin Therapy products retail between \$16.99 and \$19.99, with store profits slightly in excess of \$5 per sale. (This 33- to 40-percent mark-up represents a higher tolerance than mass merchandisers can get away with, the company claims.) National sales manager Bob Francis readily acknowledges the price hike compared to other overnight creams, UVA-protective moisturizers and cleansing lotions. "But, our category is growing because Type 2 diabetes is an epidemic. It's not fair to compare us or lump our product with Jergen's because it doesn't give a true reading of our potential market," he counters.

"A diabetic customer is willing to pay more for the product," Chehak says of her consumer research. "That's why it's critical to move it out of the general skin care section and into a specific diabetic shelving." So the Diabetic Pure Skin line performs best when shelved close to the pharmacy counter, where diabetics typically head. Because consumers generally resupply their stock on a monthly basis, Chehak recommends placing the skin care products at eye level to assist with diabetics' poorer vision complications. (Walgreens reportedly shuffles its shelves to arrange big-packaged meters on the top shelf and give the more reachable strips and skin care this profit-hugging placement.)

Eucerin, Beiersdorf's heavy-hitting CoQ10 cell replacement cosmeceutical for patients with dermatology challenges, also thrives near the pharmacy. Here pharmacists can stimulate sales by recommending the product to patients filling prescriptions that dry out or photosensitize the skin. However, the Nivea line — boasting the same anti-wrinkle promises yet costing only \$5.49 to \$11.99 retail price — belongs firmly in the beauty section, Savoie insists. The difference lies in product application and texture: Nivea, she claims, is more “elegant.” “The perfect scenario butts up body products against the face care products in a beauty segment of skin care,” she says.

Grouping the class of the mass — as cosmeceutical beauty skin care products ultimately align themselves — at the least defrays sticker shock. “Next to a tube of Vaseline, this is substantially more money,” Hauser comments. Savoie agrees. “The trade does not look at us as loss leaders,” she adds. Again, expect to enjoy 30 to 40 percent mark-ups in this section, too, manufacturers say.

While she declines to give specifics, Knight does confirm that cosmeceuticals push the envelope on her chain's dollar ring. Count Johnson and Johnson's RoC line among the title contenders at Long's. “Tapping into the right audience, doing the right advertising and following through with education is the name of the game,” Knight says. “The consumer is going crazy for that product — and we're talking about a \$15 to \$18 ring up.” At press time, five of Roc's items appear on Knight's top 15 list.

“I don't think in the skin category — and it's my largest one — anything has slowed down,” agrees one chain store buyer. “These premium price products do exceptionally well — they just fight among themselves for a lot of shelf space and price points.”

New entries like Chattem's pHisoderm Blemish Patch, which hit drug store shelves approximately three months before the advertising campaign rolls out in June, hope to epitomize the success of this market. Creator Lavipharm Laboratories parlayed its transdermal system to deliver salicylic acid, triclosan and chamomile directly to zits into a \$60 million bottom line in the smaller European market under L'Oréal's trade name. Lavipharm holds a cosmetic patch for anti-wrinkle, reducing eye puffiness and dark circles, and lightening age spot applications in the wings.

Chattem spokesperson Gail Lee estimates the \$5.99 box of 24 acne patches could emulate yesterday's facial strips' skyrocket to the \$180 million mark in this country. "We're talking 30 to 40 percent margins, so it's a high-ticket item for drug stores," Lee assures.

"We're going to carry anything that's highly advertised," responds the Midwest chain store buyer.

