

The Growth of Premium Marketing

Euromonitor International : Strategy Briefing

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THE GROWTH OF PREMIUM MARKETING

1. EXECUTIVE SUMMARY

Key Drivers

- The trend towards premiumisation is a prominent feature of developed markets, as consumers are more affluent than they have ever been, and therefore more demanding in terms of quality and image.
- Premium products and services are also penetrating urban areas of emerging markets, such as China, India and Russia, where affluent, young middle class consumers are placing growing importance on what they perceive as prestigious Western brands.
- At the upper end of the scale, a small number of super-rich consumers are demanding what have been dubbed “uber-premium” products, ie highly exclusive and tailor-made products that are out of the reach of the ordinary consumer. These are in some ways influencing trends in premium products due to the trickle-down effect.
- In response to these development, companies have found many ways to add value to products, including the use of natural or rare ingredients, adding functional properties; using traditional manufacturing processes or sophisticated technology; and organic or Fairtrade certification.
- Premium brands may also be created purely as a result of clever marketing and packaging, thereby attracting image-conscious consumers. These consumers are prepared to pay a premium in order to reflect a certain lifestyle, with brands representing a status symbol in these cases.
- The lines between premium and standard products are forever being blurred, as overall standards continue to rise. Manufacturers must therefore be constantly alert to new ways to improve and add value to their brands in order to differentiate them from those that have become standard.
- At the other end of the scale, there is also a noticeable trend towards low-cost offerings that offer value for money over quality. This polarisation of the market has fuelled the growth of discounters as well as upmarket retailers.
- Consumer groups that are particularly relevant to companies offering premium products and services include the wealthy baby boomer generation, single person households and DINKs, working women, and affluent and style-conscious “yoga moms”.
- There is a danger that food producers are overusing the “premium” label, thereby flooding a market that relies on exclusivity, sometimes with substandard offerings.
- Brand erosion has also occurred as some prestigious brands have lost their “exclusive” status by becoming too widely available, especially through discount outlets or via the Internet.
- In the cosmetics and toiletries market, premium products are competing increasingly with the “masstige” products launched at the upper end of the mass market. These products use similar technology and ingredients as those positioned as premium, but are significantly cheaper, being widely available through supermarkets and drugstores.
- The problem of counterfeiting of luxury and premium brands is widespread, especially in emerging markets such as China and Russia. This has affected markets such as clothing, accessories and cosmetics and toiletries.
- Legitimate cut-price copycats are also a problem and are undermining the premium industry. Even discounters such as Aldi are emulating premium brands with private label products that are offered at much lower prices than the originals.
- Several of the large food and drink operators have sought to tap into the premium market by acquiring more upmarket brands, or creating premium brands as part of a repositioning strategy. This trend has been particularly prevalent in the wines and spirits industry.

Summary 1 Positive and Negative Influences on Premium Marketing 2006

| Positive factors | Negative factors |
|---|--|
| Rising disposable incomes around the world mean that consumers are willing to pay more for value-added products and luxury goods and services; furthermore, the rising number of millionaires and billionaires is creating demand for “uber-premium” products, which is having a trickle down effect on the premium industry. | There are still very high levels of poverty in developing markets such as China and India, where most people cannot afford to buy more than the most basic necessities. Luxury and premium products in these countries are therefore limited to the urban elite. |
| Demographic patterns are favourable to the growth of premium products, including a rise in the number of wealthy baby boomers, and growth in the number of single and two-person households as people delay childbirth or choose not to have children at all. | Many consumers still have a bargain mentality, and tend to favour discount outlets selling products at low prices. |
| Growth in the number of working women has given rise to higher demand for premium cosmetics, fragrances and skin care products, as women have higher disposable incomes and compete with peers for status. | The growing sophistication of “masstige” cosmetics and toiletries launched through mass retail outlets, by the likes of Procter & Gamble, L’Oréal and Unilever, has impeded sales of products traditionally positioned as premium |
| Premium products and/or designer brands go hand in hand with some of today’s lifestyle choices, including those of the so-called “yoga moms”, and people that wish to emulate the rich and famous. | Counterfeit and copy-cat versions of luxury brands are rife, especially in China. The “chav” culture in the UK in particular has fuelled demand for fake Burberry and Gucci labels, thus damaging the reputation of the original brands. |
| Increased concern over food safety, provenance and healthy eating has offered manufacturers the opportunity to create value-added premium products using natural, organic and fairly traded ingredients | The boundaries for what constitutes a premium products are forever shifting, as consumers become increasingly demanding, and premium attributes gradually become standard. |
| A desire for indulgence has created demand for premium products such as luxury chocolate and super-premium ice cream, which are high in cocoa and fat content. | A parallel trend towards healthy eating is at the same time impeding stronger growth in premium indulgence food sectors. |
| Retailers are increasingly segmenting their private label lines and some have built up powerful premium brands (eg Tesco Finest), which they are able to expand into new areas. | Some manufacturers and retailers are overusing the “premium” tag, so that it sometimes becomes difficult for consumers to distinguish between a truly superior product and one that is standard. |
| Some specialist retailers have been able to capitalise on trends towards premiumisation, such as delicatessens, boutiques aimed at baby boomers or yoga moms, and wines and spirits specialists. | Department stores, where premium products are traditionally sold, are seeing their share eroded in many markets, due to the rise of hypermarkets and mass merchandisers. |
| The Internet is opening up the market for luxury brands to a wider consumer base, as consumers are able to buy premium products at lower prices when the middleman is cut out. | The widespread availability of luxury brands is causing some brand erosion; while some companies are in danger of devaluing their premium brands by over-extending them. |

Source: *Euromonitor International*

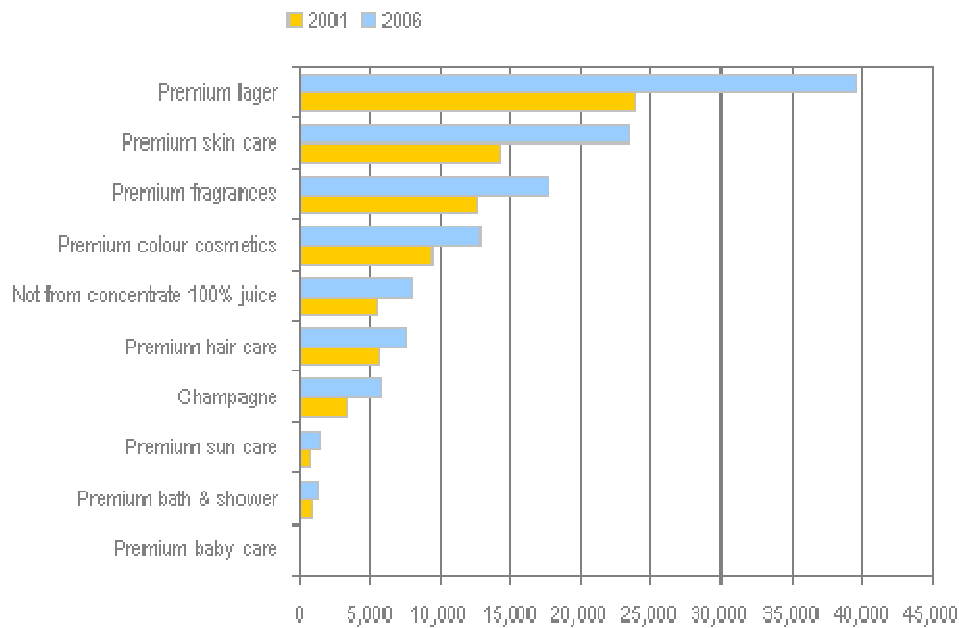
Consumer Market Trends

- The trend towards premium variants of standard products is apparent in all areas of the packaged food industry, from canned foods and sauces to frozen foods, snacks and confectionery, as manufacturers look to add value and create interest in areas that have otherwise reached saturation.
- Ready meals is an area which lends itself to premium development, given that these products are commonly purchased by more affluent singles or couples, who seek high quality and authenticity as well as convenience.
- In the UK, sandwiches and wraps offer another example of how premiumisation has added value to a sector, with the appearance of increasingly sophisticated and exotic fillings, combined with premium cardboard skillet packaging.

- Both luxury chocolate and super-premium ice cream have benefited from trends towards high quality and indulgence eating, despite the increasing focus on health food at the other end of the scale.
- In the UK, luxury chocolate has come to account for some 18% of the confectionery market, prompting leading player Cadbury's to purchase organic chocolate maker Green & Blacks in 2005.
- Meanwhile, in Japan, the review period saw the emergence of super-premium "chocolat" (luxury chocolate of European origin), which is especially popular among young women with high incomes.
- The premium trend has even hit highly commodified sectors such as milk, where in the UK Arla's Cravendale and Robert Wiseman's One milk brands have been successful.
- The trend towards premiumisation is evident throughout the soft drinks industry, where manufacturers have seen an opportunity to add value to a saturated market by introducing healthier premium products.
- Product functionality has become a key selling point in developed markets, with consumers prepared to pay a premium for functional bottled water and other soft drinks with health benefits.
- A premium shift is also evident in fruit/vegetable juice in developed markets, with not-from-concentrate 100% juice largely outperforming the average growth rate in fruit/vegetable juice in Western Europe.
- Premiumisation has been the key growth driver in the beer market in recent years, even in developing markets such as Russia. Demand has been driven by more foreign travel, a growing incidence of eating out and a higher level of brand-consciousness among young consumers.
- Belgian abbey beers, trappist beers and wheat beers represent a fashionable niche in many developed markets, for which consumers were willing to pay a premium. This trend is increasingly evident in countries outside the EU, such as the US.
- Premium wine has benefited in particular from factors such as the wealth of the baby boomer population, and the growth in single- and two-person households. These consumers have higher disposable incomes to spend on luxuries such as fine wines or champagne.
- Key factors in the strong growth of champagne in the latter part of the review period included price rises due to shortage of supply, and a move by a number of champagne producers to adopt a more premium brand positioning.
- Growing consumer sophistication and health consciousness have underpinned the prioritising of quality over quantity in spirits consumption throughout the developed markets.
- Several new super-premium spirits brands, such as Level or Grey Goose vodka, Beefeater Wet gin and 1800 Silver Tequila Reserva, are targeted directly at highly fashion-conscious younger consumers through the use of creative marketing and packaging developments.
- Premium cosmetics and toiletries came to represent an estimated 30% of total cosmetics and toiletries sales by 2006. However, their share rose only slightly over the review period, due to the growth of the masstige segment.
- The share accounted for by premium cosmetics and toiletries varies considerably from sector to sector, reaching 60% in fragrances, but still as low as 4% in baby care.
- In absolute terms, skin care is the largest of the premium cosmetics and toiletries sectors, and has seen the emergence of super-premium brands which cost hundreds of dollars and incorporate sophisticated anti-ageing technology.
- The rise of the "yoga mom" phenomenon, especially in the US, has led to higher demand for premium baby care products which contain natural and organic ingredients, such as Burt's Bees Buttermilk lotion and California Baby Calendula Cream.

Chart 1 Sales of Selected Premium/Luxury Products 2001/2006

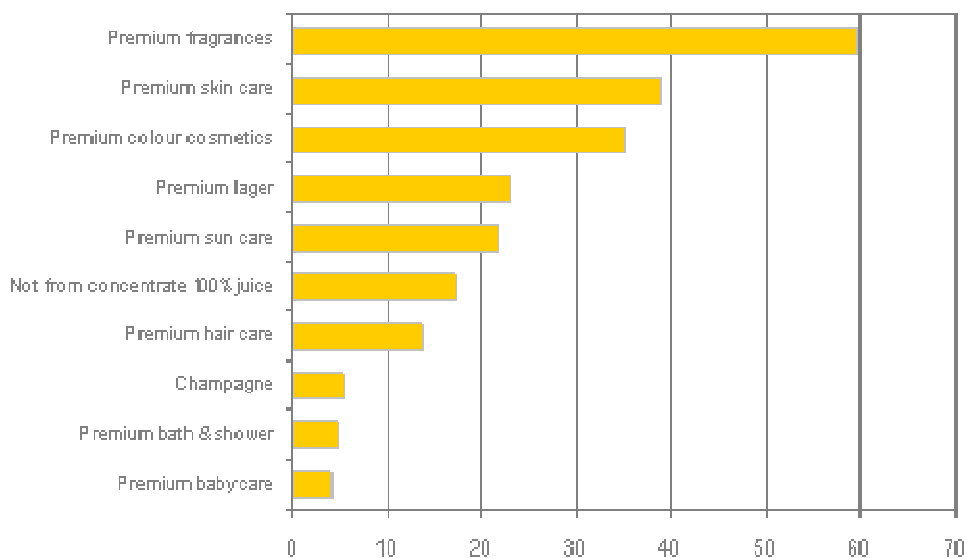
US\$ million



Source: Euromonitor International

Chart 2 Selected Premium/Luxury Products as % Total Sector Sales 2006

% value



Source: Euromonitor International

Retailing Trends

- Since mainstream supermarkets tend to cater largely to families, true premium brands tend to be stocked in limited quantities in these channels. Nevertheless, these are important outlets for some types of premium foods, such as luxury ice cream and chocolate, and premium alcoholic drinks.
- In sophisticated retail markets such as the UK, some supermarket chains specialise in the premium end of the food market, including Waitrose and Marks & Spencer. These tend to be located in urban areas for convenience.

- There has been a clear shift in the private label industry over the last decade towards developing premium products, with several retailers having introduced their own upmarket private label ranges (eg Sainsbury's Taste The Difference and Tesco Finest in the UK).
- Discounters have also introduced premium private labels, such as Aldi's Grandessa line, which now covers ice cream, kettle-style crisps (chips) and exotic pizzas.
- The decline of the department store has opened the way for other types of retailer to specialise in premium products, including delicatessens, off-licences, specialist clothing boutiques, perfumeries, pharmacies and duty-free outlets.
- In the premium cosmetics and toiletries sector, "open sell" techniques have become popular in several major markets. For example, Sephora (owned by LVMH) places products on open shelves to create a more customer friendly environment for younger consumers.
- In Japan, premium cosmetics manufacturers are becoming choosy about where their products are sold, in order to maintain a prestigious image in the face of growing discounting by supermarkets and drugstores.
- Premium cosmetics companies are increasing their number of stand-alone stores, with Biotherm, Shu Uemura, MAC, Lancôme and Origins all operating their own shops globally.
- Specialist boutique chains are flourishing in the US, reflecting trends towards premium clothing and accessories. New upmarket store concepts include Chico's, Janeville and Forth & Towne, targeting women of the baby boomer generation, and Carter's Inc, targeting yoga moms.
- Duty-free operators are traditionally important retailers of luxury and premium products, such as cosmetics and toiletries, chocolates and wines and spirits. Many consumers save such purchases until they travel, in order to benefit from lower prices.
- For cosmetics and toiletries manufacturers, duty-free is a showcase for brand innovation, as they are insulated to some degree from the discounting and promotions that mark cosmetic sales in the mature Western markets, and are therefore free to focus on their brands.
- Many home shopping retailers have introduced more designer brands in recent years, in order to shed their downmarket image and improve margins. For example, Littlewoods of the UK now offers brands such as Ted Baker, Diesel and Tommy Hilfiger in its general catalogue.
- Discount retailers such as TK Maxx in the UK, as well as eBay and other Internet sites, have made designer clothing and accessories more accessible to the masses.
- In response to these trends, several major companies have launched their own websites for premium brands, with the possibility to buy on-line. For example, at the end of 2005, L'Oréal launched its giorgioarmanibeauty.com site.

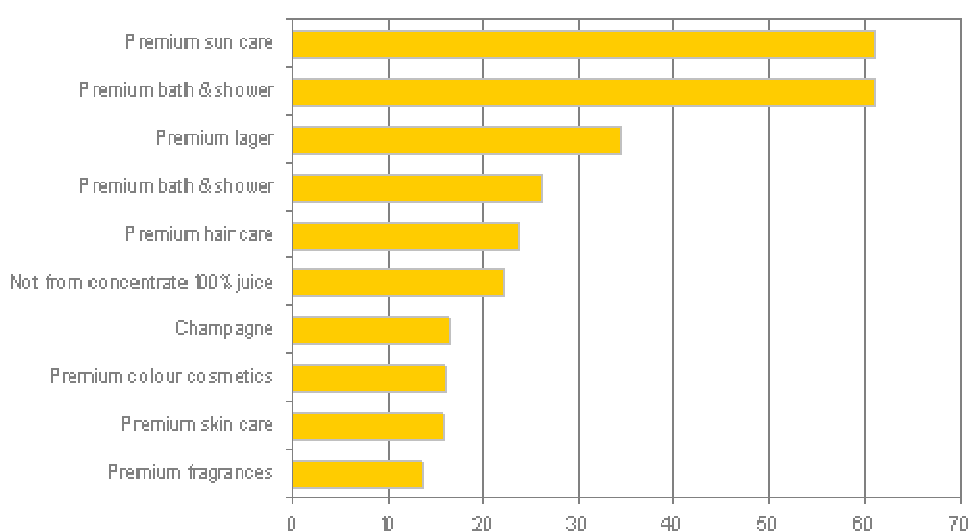
Outlook

- The parameters of the market for premium products and services will continue to shift, as overall quality improves with innovation and the need for differentiation and margin creation.
- Further rises in disposable incomes, both in developed and emerging markets, will lead to greater demand for high quality products using more natural, sustainable and organic ingredients, and offering attributes such as superior taste, authenticity, health benefits, luxury or indulgence.
- Within soft drinks, premium products may focus on the addition of functional ingredients, while in spirits the emphasis will be more on creating a fashionable and exclusive image that will appeal to the younger generation.
- Within the food and drinks market, the future is likely to see a continuing polarisation of demand, with middle-of-the-road products being the main losers. Therefore, supermarkets will continue to develop private labels at both ends of the spectrum.
- At the same time, however, a new generation of "no brow" consumers will emerge, who are flexible in their choices, choosing low-end or premium products and services when and where it suits them.
- Designer clothing will continue to benefit from increased image-consciousness, particularly in the light of trends towards the celebrity culture, the "chav" sub-culture in the UK, and the yoga mom phenomenon in the US.

- Within cosmetics and toiletries, the masstige movement will continue to pose a serious threat to premium products in the future. True premium brands will need to be highly innovative and cleverly marketed in order to counter this trend, with an emphasis on sophisticated technology and efficacy, and superior packaging.
- There will be strong demand for premium products in emerging markets such as China, India and Russia, in line with rising disposable incomes and a desire for status and luxury. However, in the short term, demand will be limited to the affluent urban areas.
- The future is likely to see a rise in the number of stand-alone stores for selling premium brands, which allow companies to establish a closer relationship with the consumer.
- The major FMCG companies are likely to make further acquisitions of luxury brands in an effort to benefit from the premiumisation trend; while they will continue to invest in clever marketing in order to create intrigue and forge an emotional link with consumers.
- Of the sectors under review, premium lager will remain the largest over the forecast period, thanks largely to its importance in the US and UK markets. Smaller, regional brands are expected to flourish in line with a desire for better taste and quality.
- The forecast period is also expected to see the ongoing expansion of the super-premium spirits segment, both in terms of new geographic markets and new subsectors. Western Europe may see an influx of super-premium brands from Poland following privatisation initiatives.
- Both not-from-concentrate 100% juice and champagne will see slower growth over the forecast period, as both sectors will compete with more dynamic premium products, such as functional juices and premium sparkling wines.
- Within premium cosmetics and toiletries, smaller sectors such as sun care and baby care are thought to offer the most scope for development, due to ongoing concerns over the harmful effects of the sun, and increased pampering of babies and children as a result of falling birth rates.
- Sales of premium fragrances will benefit from their wider availability through cheaper outlets, such as supermarkets and the Internet. However, at the same time, this will continue to have a negative impact on market value, as prices decline further.

Chart 3 Forecast Growth in Selected Premium/Luxury Products 2006-2011

% value growth, at constant 2006 prices



Source: Euromonitor International

2. INTRODUCTION

Rising standards of living

Consumers in developed markets are more affluent today than they have ever been, and more willing to treat themselves with expensive luxury items or superior versions of everyday products. FMCG companies have been quick to spot the opportunity to increase margins in sectors that are otherwise saturated, offering consumers value-added products at higher prices.

While this trend towards premiumisation is a prominent feature of developed markets, it is also increasingly evident in urban areas of emerging regions. Markets such as China and Russia have seen the emergence of an affluent, young middle class, which has broken with the traditions of previous generations and is attracted to Western lifestyles and brands, and is prepared to spend more on them.

As overall levels of prosperity have increased around the world, there has been a corresponding rise in the number of super-rich consumers, for whom premium products and luxury goods are a way of life. According to trendwatching.com, the total number of HNWI (high-net-worth individuals, who each hold at least US\$1 million in financial assets) increased by over 7% to 8.3 million in 2004, while the number of Ultra-HNWIs (those with more than US\$30 million in financial assets) rose by 9% in 2005, to 77,500. The number of billionaires reportedly rose from 587 in 2004 to a record 691 people from 45 countries in 2005. The trend is not limited to developed economies. An estimated 236,000 Chinese were millionaires by the end of 2004, while in India, 61,000 individuals now have assets exceeding US\$1 million. One Moscow store sells only items priced at US\$1 million or more, while construction has begun on the US\$3 billion Rublyovo-Arkhangelskoye development. The community will house up to 30,000 of Russia's new rich.

No clear definitions

In the grocery products industry, the term "premium" has no strict definition, and no particular boundaries. It is often difficult to distinguish between what is a premium version of a standard product, and luxury products that may be considered premium in the first place. Furthermore, the definition of premium or luxury can be arbitrary, since one person's luxury can be another's commodity.

The definition of premium is more clear-cut in the cosmetics and toiletries industry. The distinction between mass-market and premium cosmetics and toiletries is normally price and label/positioning and distribution. Mass or "masstige" products rarely carry a designer label and may be widely distributed through supermarkets, drugstores and other mass outlets; while premium products are sold through selective distribution channels and consist of a specific group of prestige brands, such as Christian Dior, Elizabeth Arden, Estée Lauder, Chanel and Clarins, as well as newer premium brands that have gained cult status, such as MAC and Bobbi Brown.

According to Michael Silverstein, senior vice president at Boston Consulting Group and co-author of the book *Trading Up*, the term "premium" represents goods priced at 20-200% higher than average goods, which are consumed by middle class consumers with incomes of US\$50,000 to US\$150,000. He contrasts "new luxury" with "old luxury", the former encompassing brands such as Starbucks and BMW, the latter more traditional brands such as Rolls-Royce and Chanel.

Within the area for everyday products, premiumisation implies that a product benefits from added value and is superior to basic versions of the same product. This may be due to factors such as:

- The inclusion of pure, natural or rare ingredients, such as cocoa solids or aromatherapy extracts.
- The inclusion of functional ingredients.
- Convenience (eg, grated cheese or cooked potatoes).
- Being hand-made, or manufactured using traditional processes (eg crisps/chips).
- Origin-specific products.
- The use of sophisticated technology (eg, anti-ageing products).
- Superior packaging and brand image (eg, premium fragrances).

- The use of licensed brand names, including celebrity branding.
- Quality stamps, or organic or Fairtrade certification.

All these factors can make products more expensive to produce and hence add value to them, setting them apart from the norm. Champagne has also been included within the scope of this report, as, while not strictly a premium product in itself (although premium champagnes are a growing segment within champagnes), it carries a price premium compared to most wines, and is considered a luxury product in a similar way to premium fragrances.

Sometimes a premium product is created purely as a result of clever marketing and branding, in which case the added value is largely only justified by higher costs associated with brand creation and promotion. Consumers who buy such products are attracted by the image of the brand, as well as its quality. Some consumers will buy brands that reflect a certain lifestyle or as a status symbol, simply because they are expensive or used by celebrities.

Consumers' interest in premium products is being fuelled by such factors as rising incomes and buoyant economic conditions, as well as the growth of more affluent demographic groups, such as baby boomers, singles and DINKS (dual income no kids). These factors have led people to desire indulgence, and aspire to higher quality items on an everyday basis. Easy access to credit, and low interest rates, have also encouraged consumers to trade up to more expensive items in both developed and emerging markets.

The blurring of lines

The lines between premium and standard products are thus forever being blurred, as overall standards continue to rise and product improvements continue to take place. Thus, a product that was considered premium a few years ago may now have become mainstream. For this reason, manufacturers must be constantly alert to new ways to improve and add value to products in order to differentiate their brands.

Parallel to a trend towards premium goods is a desire by consumers to seek value for money, which has led to a parallel trend towards budget brands. In sophisticated consumer markets such as the UK, there appears to be an increasing polarisation between premium and low-cost offerings. This has led to the growth of discounters alongside exclusive shopping outlets, and is also illustrated by supermarkets' attempts to segment their private label lines in terms of price positioning, for example through Tesco's Value and Finest ranges.

At the same time, however, consumers are becoming less easy to classify, and recent years have seen the emergence of a new "no brow" culture (ie, neither high brow or low brow), which has made it more difficult for marketers to identify particular consumer groups. Many consumers are now happy to mix and match value-for-money items with expensive, premium products, depending on where their priorities and preferences lie. This has become evident in the travel industry, for example, where people may choose to fly using a budget airline, then stay in a five star hotel at their destination. The no brow culture has been a key driver in the trend towards dynamic packaging, which offers a more flexible form of travel service.

The desire for value for money is also leading consumers to seek luxury goods at the lowest possible prices, which has fuelled the popularity of factory outlet centres in the US, designer discounters such as TK Maxx in the UK, and Internet sites such as eBay, where consumers can often buy exclusive brands at much lower prices than in stores.

Super-premium and "uber-premium"

This report focuses mainly on premium versions of everyday products, and also touches on products traditionally deemed luxury goods, such as champagne, designer brands and premium fragrances. However, there is also a small but growing market for super-premium and uber-premium products that has arisen as a result of the increasing number of very rich people that can afford to spend money on luxuries. Marketing agency trendwatching.com describes the uber-premium trend as being about consumers that crave status, and are forever hunting exclusive goods, services and experiences that are truly out of reach for the vast majority of the mass class. According to trendwatching.com, uber-premium (a term originally coined by Tyler Brûlé) is one step on from "massclusivity" (exclusivity for the masses), which has led to the commodification of all but the most luxurious products and services.

“Massclusivity” includes products that are highly luxurious but are within reach of the mass class, even if it means consumers having to make sacrifices to be able to afford them (trendwatching.com quotes Godiva’s US\$100 per pound G-collection chocolates, for example, or Gordon Ramsay’s new £100 woodfire-baked pizza topped with shavings from a US\$1,400 Umbrian white truffle). However, uber-premium refers to everything that is inaccessible to the vast majority of consumers, with in monetary terms (such as the new US\$88,300 Vertu mobile phone that features eight carats worth of diamonds), or because access is limited to invitation only. An example of the latter is Nike’s Nike ID Design Lab in New York, which allows a maximum of only three customers in at a time, with appointments by invitation only. The haute-design store has three booths, or “pods”, each with a computer that customers can use to assemble their own unique trainers. Nike ID has also set up shops in Paris, Berlin and London.

The uber-premium trend is also visible in the travel industry. This includes a recent explosion in private jet services (eg Lufthansa Private Jet and MetroJet), and the emergence of six star (Setai in Miami), or even seven star (Jeddah Palace, Emirates Palace) hotels.

Although the upper premium market is very limited in size due to the small number of very wealthy people, in time, upper premium trickles down to massclusivity, so providers must always be on the lookout for new ways to entice the very rich. A range of uber-premium publications advise the super-wealthy on what to buy and what to experience, from the Robb Report and Worth Magazine to American Express’ Departures Magazine, sent exclusively to Platinum and Centurion Card holders, and Absolute, aimed for distribution to New Yorkers with an estimated annual household income of at least US\$500,000.

3. SOCIOECONOMIC DRIVERS

3.1 Levels of Wealth

Average gross income

The affordability of premium products is closely linked with purchasing power, with consumers tending to trade up in times of prosperity. Average gross income is highest in the richer countries of Western Europe, including Switzerland, Norway, Denmark and Austria. In 2005, average gross income in these countries reached more than US\$40,000, having increased strongly over the review period.

Consumer confidence also plays a role

Total disposable income is highest in the US, which ranked fifth globally in terms of average gross income, slightly ahead of the UK. While the high level of disposable income, in theory, allows Americans to spend more on premium goods and services, it is not the only determinant of consumer spending. Consumer confidence and attitudes towards their financial situation also play key roles. Consumer confidence grew in early to mid 2005, as more consumers expressed optimism regarding economic recovery and job growth. However, rising fuel costs, hurricanes and employment slumps led to a downfall in the confidence index in the third quarter of the year.

Eastern Europe see highest incomes growth

The strongest income growth is occurring in emerging markets, albeit from a small base in many cases. Between 2000 and 2005, the most dynamic markets in terms of average gross income growth were those of Eastern Europe. In Russia, Slovakia, Bulgaria and Hungary, average gross income more than doubled over the review period, with growth reaching 155% in Russia. This was largely due to improvements in Russia’s macroeconomic situation, which led to a rise in wages. Indeed, according to estimates from the economic development ministry, wages in certain industries have been rising almost 18% faster than productivity. In 2005, the average salary exceeded US\$300 for the first time. Strong growth in average incomes of Russian consumers resulted in significant growth in consumption, which had a positive impact on the market for premium and luxury goods and services. Within travel and tourism, for example, recent years have seen greater demand for more expensive and VIP tours, extreme and exotic tourism, and personal packages.

Among the more developed markets, growth in average gross incomes was particularly strong in the smaller countries of New Zealand, Ireland and Denmark.

Incomes remain low in emerging markets

Average gross incomes are still extremely low in the fast-growing economies of China and India, at just US\$1,041 and US\$684, respectively. Although incomes grew strongly in China over the review period, the gap in incomes remains large. The government uses personal income tax as a tool to reduce the gap, though this has not shown an evident effect. In the well-developed cities, such as Beijing, Shanghai, and Guangzhou, high-income groups can earn as much as RMB20,000 per month, whilst incomes in rural areas are much lower than those of urban areas. In general, the minimum wage level in China is increasing year-on-year, and government subsidies are provided to people who earn only the minimum wage, due to the high cost of living in cities. The consumption habits of this group are totally different to those of high-income earners. Expenditure on food occupies the major part of their income. They usually cannot afford extras, such as entertainment, personal care and financial insurance. Similarly, India, despite witnessing falling poverty rates over the past decade, is still home to around one quarter of the world's poor, since large parts of the country, particularly in the north, have barely been touched by economic growth. This is currently a major constraint to growth in demand for consumer goods and services.

Table 1 Average Gross Income by Country 2000-2005

| US\$ | 2000 | 2005 | % growth 2000/2005 |
|----------------------|--------|--------|-----------------------|
| Switzerland | 34,484 | 49,558 | 43.7 |
| Norway | 29,882 | 47,300 | 58.3 |
| Denmark | 27,556 | 45,874 | 66.5 |
| Austria | 26,675 | 41,955 | 57.3 |
| US | 35,258 | 40,144 | 13.9 |
| UK | 28,536 | 39,911 | 39.9 |
| Netherlands | 24,554 | 38,903 | 58.4 |
| France | 25,098 | 38,574 | 53.7 |
| Belgium | 24,976 | 38,542 | 54.3 |
| Germany | 25,493 | 38,217 | 49.9 |
| Sweden | 25,486 | 37,828 | 48.4 |
| Japan | 37,281 | 36,345 | -2.5 |
| Ireland | 18,737 | 32,448 | 73.2 |
| Italy | 20,222 | 31,512 | 55.8 |
| Finland | 20,912 | 30,704 | 46.8 |
| Canada | 21,104 | 29,956 | 41.9 |
| Australia | 17,919 | 28,141 | 57.1 |
| Singapore | 19,592 | 24,245 | 23.7 |
| Hong Kong | 25,038 | 23,929 | -4.4 |
| New Zealand | 13,043 | 23,797 | 82.5 |
| Spain | 14,624 | 23,614 | 61.5 |
| Greece | 11,666 | 18,715 | 60.4 |
| Israel | 17,800 | 18,522 | 4.1 |
| Portugal | 10,784 | 16,930 | 57.0 |
| Taiwan | 13,687 | 15,579 | 13.8 |
| South Korea | 9,829 | 14,989 | 52.5 |
| Slovenia | 8,717 | 14,332 | 64.4 |
| United Arab Emirates | 14,238 | 14,048 | -1.3 |
| Czech Republic | 4,743 | 9,348 | 97.1 |
| Hungary | 4,334 | 9,198 | 112.2 |
| Poland | 4,002 | 6,859 | 71.4 |
| Mexico | 6,730 | 6,675 | -0.8 |
| Croatia | 3,520 | 6,612 | 87.8 |
| Slovakia | 2,833 | 6,539 | 130.8 |
| Chile | 5,340 | 5,992 | 12.2 |
| Turkey | 3,711 | 5,365 | 44.6 |
| Venezuela | 6,295 | 4,862 | -22.8 |
| Malaysia | 4,078 | 4,671 | 14.5 |
| South Africa | 2,880 | 3,945 | 37.0 |
| Bulgaria | 1,646 | 3,754 | 128.1 |
| Argentina | 8,105 | 3,565 | -56.0 |

| | | | |
|-------------|-------|-------|-------|
| Brazil | 3,234 | 3,426 | 5.9 |
| Russia | 1,245 | 3,178 | 155.1 |
| Romania | 1,573 | 3,078 | 95.7 |
| Thailand | 1,659 | 2,091 | 26.1 |
| Morocco | 1,411 | 1,838 | 30.3 |
| Egypt | 1,750 | 1,168 | -33.3 |
| Philippines | 1,030 | 1,078 | 4.7 |
| China | 671 | 1,041 | 55.1 |
| Indonesia | 796 | 1,024 | 28.7 |
| India | 527 | 684 | 29.9 |
| Vietnam | 467 | 534 | 14.4 |

Source: Euromonitor International from national statistics

Income by age

Baby boomers have most spending power

In most of the leading countries in terms of average gross incomes, the highest incomes are to be found among the baby boomer age group. Boomers were aged between about 41 and 59 in 2005, having been born in the boom period following the end of World War II. In terms of wealth, since baby boomers came of age during decades of prosperity they represent the generation with the greatest buying power in history.

It is estimated that Americans aged 50-60 years have a spending power of more than US\$1 trillion, which is double the spending power of today's 60-70 year-olds. Unlike their own mothers, women of the baby-boom generation often chose career before family, having fewer children and having them later in life. Therefore, boomer couples have often had dual incomes all their working lives. Furthermore, many baby boomers are now inheriting large sums of money from their savings-minded parents, and are keen to spend it rather than saving it to pass on to future generations.

Today, over-50s' spending power is often determined more by return on assets rather than earned income. In the UK, the average annual family income for British people over the age of 50 increased by almost £4,000 between 1999 and 2004. With recent record low mortgage interest rates and surging home values, boomers in the US and UK have been refinancing their mortgages in droves.

Table 2 Average Gross Income by Age Group in Major Markets 2005

| US\$ | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | 45-49 |
|------------------|--------|--------|--------|--------|--------|--------|
| Switzerland | 42,808 | 47,395 | 51,631 | 54,758 | 56,812 | 58,106 |
| Norway | 45,315 | 48,921 | 49,419 | 49,503 | 49,947 | 50,377 |
| Denmark | 37,731 | 50,369 | 56,808 | 60,058 | 61,569 | 62,076 |
| Austria | 38,241 | 41,459 | 43,434 | 45,174 | 46,884 | 48,216 |
| US | 33,119 | 40,897 | 45,139 | 47,591 | 50,026 | 52,850 |
| UK | 32,768 | 40,918 | 45,939 | 48,577 | 49,642 | 49,430 |
| Netherlands | 35,394 | 38,458 | 41,351 | 43,553 | 45,068 | 45,742 |
| France | 35,047 | 38,135 | 40,083 | 41,795 | 43,457 | 44,775 |
| Belgium | 33,900 | 37,163 | 39,370 | 41,254 | 42,999 | 44,372 |
| Germany | 35,544 | 39,202 | 41,668 | 42,722 | 42,983 | 42,994 |
| Sweden | 31,550 | 39,570 | 42,070 | 43,385 | 44,915 | 46,572 |
| Japan | 33,412 | 36,389 | 39,268 | 41,719 | 43,493 | 44,174 |
| Ireland | 27,489 | 34,081 | 38,102 | 40,229 | 40,952 | 40,614 |
| Italy | 28,998 | 32,751 | 35,218 | 37,389 | 39,038 | 39,611 |
| Finland | 21,555 | 29,684 | 34,814 | 37,639 | 38,868 | 39,169 |
| Canada | 21,353 | 25,916 | 29,835 | 32,675 | 34,389 | 34,976 |
| Australia | 21,815 | 25,538 | 28,770 | 31,045 | 32,332 | 32,624 |
| Singapore | 19,862 | 23,124 | 25,848 | 27,217 | 27,519 | 27,401 |
| Hong Kong, China | 17,115 | 24,546 | 30,625 | 33,702 | 33,607 | 31,091 |
| New Zealand | 20,601 | 24,248 | 26,137 | 27,729 | 29,152 | 29,603 |
| Spain | 24,611 | 25,837 | 26,400 | 26,641 | 26,892 | 27,312 |
| Greece | 16,334 | 19,285 | 21,584 | 22,728 | 22,983 | 22,885 |
| Israel | 18,031 | 23,475 | 27,547 | 29,390 | 28,657 | 25,679 |

| | | | | | | |
|------------------|--------|--------|--------|--------|--------|--------|
| Portugal | 14,374 | 17,088 | 19,217 | 20,389 | 20,708 | 20,628 |
| | 50-54 | 55-59 | 60-64 | 65-69 | 70-74 | 75-79 |
| Switzerland | 58,603 | 57,622 | 54,358 | 50,806 | 47,766 | 45,104 |
| Norway | 49,967 | 48,178 | 45,617 | 43,105 | 40,887 | 38,984 |
| Denmark | 60,888 | 56,025 | 46,916 | 38,236 | 31,708 | 26,644 |
| Austria | 48,625 | 47,808 | 46,036 | 44,517 | 42,934 | 41,617 |
| US | 54,938 | 52,847 | 43,162 | 34,149 | 27,420 | 22,378 |
| UK | 48,049 | 45,586 | 42,453 | 39,441 | 36,882 | 34,664 |
| Netherlands | 45,429 | 43,869 | 40,963 | 38,090 | 35,595 | 33,459 |
| France | 45,254 | 44,622 | 43,089 | 41,538 | 40,178 | 38,962 |
| Belgium | 44,935 | 44,385 | 42,936 | 41,429 | 40,086 | 38,905 |
| Germany | 43,013 | 42,643 | 40,844 | 39,058 | 37,380 | 35,897 |
| Sweden | 47,328 | 46,605 | 45,086 | 43,548 | 42,168 | 40,950 |
| Japan | 43,536 | 41,755 | 38,913 | 36,418 | 34,242 | 32,318 |
| Ireland | 39,394 | 37,343 | 34,730 | 32,265 | 30,148 | 28,320 |
| Italy | 38,477 | 35,730 | 32,224 | 29,331 | 26,787 | 24,663 |
| Finland | 38,758 | 37,290 | 34,191 | 31,143 | 28,497 | 26,319 |
| Canada | 34,333 | 32,024 | 27,874 | 24,017 | 20,902 | 18,430 |
| Australia | 32,143 | 31,156 | 29,973 | 28,857 | 27,855 | 26,970 |
| Singapore | 27,291 | 26,854 | 24,918 | 23,046 | 21,292 | 19,809 |
| Hong Kong, China | 27,090 | 22,511 | 17,343 | 13,357 | 10,568 | 8,509 |
| New Zealand | 28,286 | 25,029 | 20,982 | 17,735 | 15,092 | 13,041 |
| Spain | 27,676 | 27,152 | 24,916 | 22,483 | 20,528 | 18,847 |
| Greece | 22,777 | 22,332 | 20,742 | 19,022 | 17,583 | 16,339 |
| Israel | 21,150 | 16,091 | 11,458 | 8,156 | 5,999 | 4,500 |
| Portugal | 20,444 | 19,933 | 18,467 | 16,906 | 15,595 | 14,479 |

Source: Euromonitor International from national statistics

Annual household income

The US had by far the world's highest number of high-income households (defined for the purposes of this report as households with an average disposable income of more than US\$55,000), at almost 46 million in 2005. However, these represented just 41% of total US households, compared to over 50% in both Switzerland and Japan, and 46% in UAE.

In line with strong economic growth, the number of high-income households rose rapidly in Ireland over the review period. As a result, their share increased from less than 19% in 2000 to over 43% in 2005, the fourth highest level in the world.

Japan counted some 26.1 million high-income households in 2005, ranking second behind the US. However, this number fell by 6% over the review period, reflecting economic stagnation and rising unemployment. By contrast, although Germany also experienced continued economic recession, the number of high-income households soared by 167% to reach 10.3 million by 2005. Nevertheless, percentage-wise, Germany still ranked well behind other major markets, with only 26% of households earning more than US\$55,000.

Many other major markets of Western Europe also achieved dramatic growth in the number of households with incomes over US\$55,000. These grew by 229% in France, 153% in Italy and 343% in the Netherlands.

Despite the strong economic growth witnessed in the emerging markets of China and India, average household disposable incomes remains very low in these markets. The percentage of households earning more than US\$55,000 was negligible in both countries over the review period, which puts the high level of poverty into perspective.

Table 3 Number of High-Income Households 2000-2005

| '000 households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|--------|--------|--------|--------|--------|--------|
| US | 39,065 | 40,503 | 43,143 | 44,304 | 44,473 | 45,990 |
| Japan | 27,778 | 19,833 | 17,145 | 20,861 | 25,502 | 26,079 |
| Germany | 3,866 | 3,897 | 4,771 | 8,097 | 10,121 | 10,306 |

| | | | | | | |
|----------------------|-------|-------|-------|-------|-------|-------|
| UK | 5,197 | 4,986 | 5,749 | 7,142 | 8,858 | 8,947 |
| France | 2,296 | 2,423 | 3,147 | 5,927 | 7,471 | 7,544 |
| Italy | 2,580 | 2,586 | 3,193 | 5,292 | 6,409 | 6,528 |
| Canada | 1,843 | 1,806 | 1,913 | 2,716 | 3,420 | 3,633 |
| Netherlands | 539 | 639 | 898 | 1,795 | 2,298 | 2,390 |
| Australia | 786 | 690 | 843 | 1,416 | 1,852 | 1,902 |
| Switzerland | 993 | 1,069 | 1,283 | 1,616 | 1,835 | 1,871 |
| Spain | 682 | 696 | 836 | 1,404 | 1,782 | 1,850 |
| Belgium | 446 | 475 | 602 | 983 | 1,222 | 1,282 |
| Austria | 356 | 331 | 440 | 919 | 1,217 | 1,239 |
| Mexico | 983 | 1,051 | 1,103 | 985 | 869 | 882 |
| Denmark | 205 | 224 | 318 | 631 | 813 | 852 |
| Hong Kong, China | 823 | 796 | 797 | 768 | 808 | 833 |
| South Korea | 326 | 241 | 319 | 490 | 633 | 726 |
| Norway | 221 | 232 | 358 | 562 | 635 | 667 |
| Sweden | 151 | 123 | 192 | 409 | 574 | 610 |
| Taiwan | 382 | 451 | 440 | 440 | 530 | 593 |
| Ireland | 228 | 252 | 308 | 487 | 571 | 591 |
| Greece | 187 | 187 | 232 | 369 | 449 | 451 |
| Singapore | 297 | 309 | 326 | 373 | 405 | 420 |
| Finland | 113 | 120 | 180 | 304 | 395 | 398 |
| Brazil | 420 | 300 | 245 | 297 | 342 | 355 |
| Israel | 247 | 260 | 246 | 298 | 321 | 331 |
| United Arab Emirates | 239 | 254 | 267 | 289 | 300 | 313 |
| New Zealand | 56 | 53 | 81 | 160 | 227 | 236 |
| Portugal | 32 | 34 | 48 | 129 | 180 | 179 |
| South Africa | 96 | 68 | 51 | 123 | 175 | 173 |
| China | 43 | 47 | 63 | 88 | 123 | 170 |
| Saudi Arabia | 146 | 134 | 138 | 139 | 146 | 149 |
| Malaysia | 74 | 80 | 93 | 103 | 114 | 127 |
| Turkey | 91 | 45 | 62 | 109 | 120 | 126 |
| Venezuela | 195 | 203 | 112 | 104 | 89 | 93 |
| Poland | 25 | 39 | 45 | 58 | 75 | 87 |
| Thailand | 27 | 22 | 26 | 31 | 38 | 43 |
| Argentina | 353 | 294 | 19 | 28 | 30 | 33 |
| Indonesia | 11 | 9 | 15 | 21 | 20 | 22 |
| Hungary | 1 | 2 | 4 | 8 | 14 | 16 |
| Czech Republic | 0 | 1 | 2 | 6 | 10 | 14 |
| Philippines | 10 | 8 | 9 | 10 | 9 | 10 |
| Russia | 0 | 1 | 1 | 2 | 2 | 2 |
| Egypt | 5 | 4 | 3 | 1 | 1 | 1 |
| India | 1 | 1 | 1 | 1 | 1 | 1 |

'000 households
%
growth
2000/2005

| | |
|------------------|-------|
| US | 17.7 |
| Japan | -6.1 |
| Germany | 166.6 |
| UK | 72.1 |
| France | 228.6 |
| Italy | 153.0 |
| Canada | 97.1 |
| Netherlands | 343.4 |
| Australia | 141.9 |
| Switzerland | 88.4 |
| Spain | 171.4 |
| Belgium | 187.4 |
| Austria | 248.2 |
| Mexico | -10.3 |
| Denmark | 314.7 |
| Hong Kong, China | 1.3 |
| South Korea | 123.0 |
| Norway | 201.3 |
| Sweden | 303.8 |

| | |
|----------------------|---------|
| Taiwan | 55.0 |
| Ireland | 159.4 |
| Greece | 141.3 |
| Singapore | 41.6 |
| Finland | 252.7 |
| Brazil | -15.5 |
| Israel | 33.9 |
| United Arab Emirates | 31.2 |
| New Zealand | 323.6 |
| Portugal | 466.1 |
| South Africa | 81.2 |
| China | 291.9 |
| Saudi Arabia | 2.5 |
| Malaysia | 72.2 |
| Turkey | 38.1 |
| Venezuela | -52.3 |
| Poland | 250.2 |
| Thailand | 61.1 |
| Argentina | -90.7 |
| Indonesia | 104.9 |
| Hungary | 1,727.3 |
| Czech Republic | n/a |
| Philippines | -7.9 |
| Russia | n/a |
| Egypt | -73.3 |
| India | -11.8 |

Source: Euromonitor International from national statistics

Note: Households with an annual disposable income over US\$55,000

Table 4 High-Income Households as % Total 2000-2005

| % total households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------|------|------|------|------|------|------|
| Switzerland | 31.2 | 33.3 | 39.5 | 49.4 | 55.8 | 56.6 |
| Japan | 59.4 | 42.0 | 36.0 | 43.4 | 52.6 | 53.4 |
| United Arab Emirates | 44.5 | 45.4 | 45.7 | 46.8 | 45.9 | 46.1 |
| Ireland | 18.6 | 20.1 | 23.9 | 37.0 | 42.5 | 43.1 |
| US | 36.9 | 37.8 | 39.8 | 40.5 | 40.3 | 41.4 |
| Singapore | 32.1 | 32.6 | 33.7 | 37.7 | 40.2 | 41.1 |
| Hong Kong, China | 40.9 | 38.8 | 38.2 | 36.3 | 37.5 | 38.0 |
| Austria | 10.8 | 9.9 | 13.0 | 27.0 | 35.4 | 35.7 |
| UK | 21.2 | 20.1 | 23.1 | 28.5 | 35.1 | 35.2 |
| Denmark | 8.4 | 9.2 | 12.9 | 25.6 | 32.9 | 34.3 |
| Netherlands | 7.9 | 9.3 | 12.9 | 25.6 | 32.6 | 33.6 |
| Norway | 11.4 | 11.8 | 18.1 | 28.1 | 31.5 | 32.8 |
| Canada | 16.2 | 15.6 | 16.4 | 23.0 | 28.7 | 30.2 |
| France | 9.6 | 10.0 | 12.9 | 24.0 | 30.0 | 30.1 |
| Belgium | 10.5 | 11.1 | 13.9 | 22.5 | 27.8 | 28.9 |
| Italy | 11.6 | 11.5 | 14.1 | 23.2 | 27.8 | 28.2 |
| Germany | 10.1 | 10.1 | 12.3 | 20.8 | 25.8 | 26.2 |
| Australia | 11.3 | 9.8 | 11.7 | 19.4 | 25.0 | 25.3 |
| Finland | 4.7 | 5.1 | 7.5 | 12.6 | 16.4 | 16.5 |
| Israel | 14.1 | 14.3 | 13.3 | 15.7 | 16.4 | 16.5 |
| New Zealand | 3.9 | 3.7 | 5.5 | 10.8 | 15.1 | 15.5 |
| Sweden | 3.7 | 3.0 | 4.6 | 9.8 | 13.7 | 14.5 |
| Spain | 4.9 | 4.9 | 5.7 | 9.5 | 11.9 | 12.1 |
| Greece | 5.2 | 5.1 | 6.3 | 9.8 | 11.9 | 11.8 |
| Taiwan | 5.9 | 6.8 | 6.5 | 6.4 | 7.5 | 8.3 |
| Portugal | 0.9 | 0.9 | 1.3 | 3.4 | 4.7 | 4.6 |
| South Korea | 2.1 | 1.5 | 1.9 | 2.9 | 3.7 | 4.2 |
| Saudi Arabia | 4.3 | 3.8 | 3.7 | 3.6 | 3.7 | 3.6 |
| Mexico | 4.4 | 4.6 | 4.8 | 4.2 | 3.6 | 3.6 |
| Malaysia | 1.5 | 1.6 | 1.8 | 1.9 | 2.1 | 2.3 |

| | | | | | | |
|----------------|-----|-----|-----|-----|-----|-----|
| Venezuela | 3.8 | 3.9 | 2.1 | 1.9 | 1.6 | 1.6 |
| South Africa | 0.9 | 0.6 | 0.4 | 1.0 | 1.4 | 1.4 |
| Turkey | 0.7 | 0.3 | 0.4 | 0.7 | 0.8 | 0.8 |
| Brazil | 0.9 | 0.6 | 0.5 | 0.6 | 0.7 | 0.7 |
| Poland | 0.2 | 0.3 | 0.3 | 0.4 | 0.6 | 0.6 |
| Hungary | 0.0 | 0.0 | 0.1 | 0.2 | 0.4 | 0.4 |
| Czech Republic | 0.0 | 0.0 | 0.1 | 0.2 | 0.3 | 0.4 |
| Argentina | 3.6 | 2.9 | 0.2 | 0.3 | 0.3 | 0.3 |
| Thailand | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.3 |
| Philippines | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| China | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Indonesia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Vietnam | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Egypt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Russia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| India | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Euromonitor International from national statistics

Note: Households with an annual disposable income over US\$55,000

3.2 Changing Household Structures

Single households

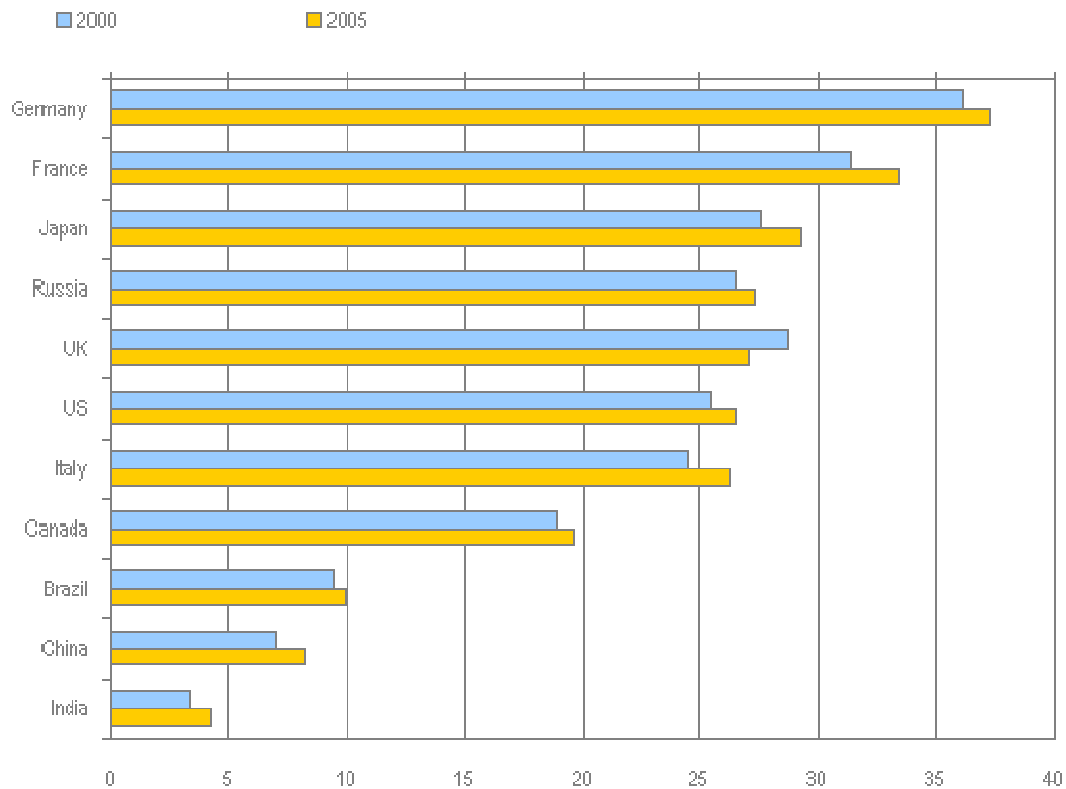
The number of single-person households is growing the world over, which is positive for suppliers of premium products and services, since singles tend to have higher disposable incomes than families. In 1950, only around 3% of the population of Europe and the US lived alone. The number of single households in the UK has trebled compared to 40 years ago, reaching seven million in 2005. In France, the number of people living on their own has more than doubled since 1968, and about 40% of Swedes now live alone. In the US, the number of single-person households is now reported to have exceeded the number of households comprised of the classic nuclear family.

An urban phenomenon

The shift towards living alone is most pronounced in the big urban centres of the West, where a singles lifestyle has evolved and is attracting more and more young people. Over 50% of households in Munich, Frankfurt and Paris reportedly contain just one person, while in London nearly four in 10 people live on their own. In the US, a recent study of the 2000 Census revealed that Manhattan, New York, had the highest percentage of single-person households of any county in the nation. They accounted for 48% of all households on the island, putting Manhattan ahead of other popular destinations for singles like Washington DC, St Louis, Denver and San Francisco.

The growth in single-person households is thought to be mainly a result of an increasing number of 25 to 45 year-olds opting to live alone. Since 1960, the number of Germans aged 25-45 living on their own has risen by 500%. In developing markets and more traditional societies, it is less common for young people to live alone. However, in China, living alone is a new and growing trend among young people moving to a new city. These people usually rent old government-built houses, or share a better apartment with others.

Chart 4 % Single-person Households in Major Markets 2000/2005



Source: *Euromonitor International*

Two-person households

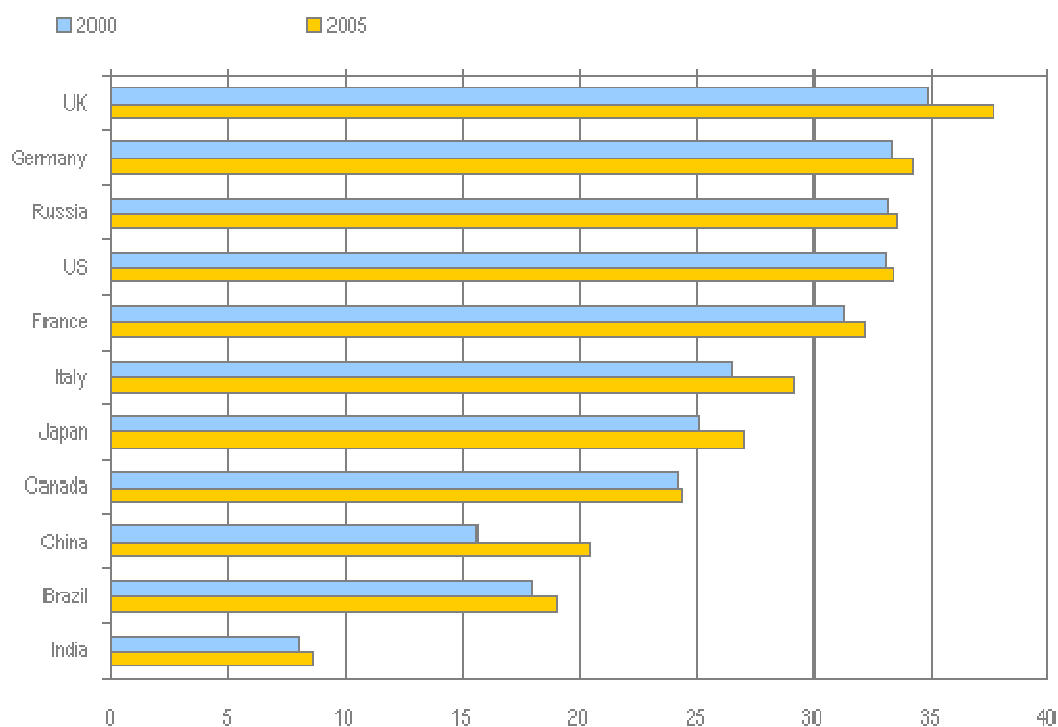
The percentage of two-person households has also risen in all major markets in recent years. This is partly due to the fact that the children of baby boomers – the largest segment of the population in most countries – are reaching an age when they are leaving home. This, combined with the fact that a higher number of couples are choosing to pursue a career instead of having children, or delaying childbirth, has led to an increase in the number of two-person households.

Two-person households consist mainly of either “empty nesters” and DINKs (double income no kids). Empty nesters are couples whose children have left home. They are often still working, but may be close to retirement. They tend suddenly to find themselves with more time and more disposable income, and are therefore prime targets for marketers of premium products. They may downgrade to a smaller house, but spend more on luxuries. DINKS tend to be educated couples with high incomes, who enjoy a comfortable lifestyle. They often live in apartments in inner cities.

In general, couples tend to watch their money more carefully than singles, and therefore search for value more often. They have a lot of expenses many singles do not, such as mortgages, children, cars (often more than one), and schooling. Although singles tend to have fewer expenses, they typically have lower incomes.

This phenomenon is most pronounced in the UK, where dual person households came to represent almost 38% of all households in 2005, a rise from less than 35% in 2000. By contrast, in India, where extended families are still common, less than 9% of all households consisted of two people in 2005, and these were mainly in urban areas.

Chart 5 % Two-person Households in Major Markets 2000/2005



Source: Euromonitor International

3.3 Working Women

The increasing number of working women is also leading to higher demand for premium products. For example, working women, especially those without children, are often the highest spenders on premium cosmetics and toiletries. Women of the boomer generation are willing to spend significant sums of money to keep their skin and hair healthy, and manufacturers have increasingly targeted this generation in their attempts to segment their markets and create added value. Therefore, skin care products with anti-ageing properties continued to be a prominent feature of new product development in 2004 and 2005, as well as products with treatment benefits which further blur the distinction between the cosmetics and skin care sectors.

Many working women are professionals who need to look good most of the time, and have the means to do so. This includes spending more on cosmetics and toiletries, as well as expensive beauty treatments such as facials and contour wraps.

In 2005, the proportion of working women was highest in the Asian markets of Singapore, China, Thailand and Vietnam, at more than 50%. In the latter three countries, work is deemed a necessity for women due to the high poverty rates, with children often looked after by older members of the family. In Europe, the highest share of working women is seen in Switzerland and Northern Europe, including Norway, Denmark and Sweden. The US and Canada also rank fairly highly, with rates of 47% and 45%, respectively.

Table 5 Working Women as % Female Population by Country 2000-2005

| % population | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|------|------|------|------|------|------|
| Singapore | 50.5 | 54.0 | 51.9 | 52.9 | 53.1 | 53.6 |
| China | 52.2 | 52.2 | 52.4 | 52.4 | 52.6 | 52.7 |
| Thailand | 50.3 | 50.5 | 51.2 | 51.3 | 51.9 | 52.2 |
| Vietnam | 49.6 | 49.5 | 50.3 | 50.5 | 50.8 | 50.9 |
| Switzerland | 46.6 | 47.4 | 48.2 | 47.9 | 47.8 | 48.1 |
| Canada | 43.8 | 44.1 | 45.0 | 45.8 | 46.3 | 47.0 |
| Norway | 46.8 | 46.8 | 47.1 | 46.6 | 46.5 | 46.8 |
| Denmark | 46.9 | 46.9 | 46.6 | 45.7 | 46.4 | 46.5 |

| | | | | | | |
|------------------|------|------|------|------|------|------|
| New Zealand | 41.0 | 42.0 | 42.5 | 43.4 | 45.4 | 46.3 |
| Sweden | 44.4 | 45.3 | 45.4 | 45.3 | 44.7 | 44.8 |
| US | 44.7 | 44.4 | 44.5 | 44.7 | 44.6 | 44.5 |
| Netherlands | 41.3 | 42.2 | 42.5 | 43.2 | 43.9 | 44.5 |
| Portugal | 41.9 | 42.4 | 43.3 | 43.4 | 43.9 | 44.4 |
| Australia | 41.2 | 41.2 | 41.5 | 42.5 | 42.8 | 43.2 |
| UK | 41.3 | 41.9 | 42.3 | 42.3 | 42.5 | 42.8 |
| Finland | 41.8 | 42.5 | 43.0 | 42.8 | 42.7 | 42.5 |
| South Korea | 37.8 | 38.4 | 38.6 | 39.0 | 39.9 | 40.8 |
| Hong Kong, China | 40.3 | 40.9 | 41.1 | 40.6 | 40.9 | 40.6 |
| Austria | 39.4 | 40.0 | 40.9 | 40.8 | 40.3 | 40.5 |
| Czech Republic | 39.1 | 39.4 | 39.4 | 39.1 | 39.5 | 39.9 |
| Japan | 40.6 | 40.4 | 39.8 | 39.8 | 40.0 | 39.9 |
| Ireland | 35.5 | 36.5 | 37.4 | 38.0 | 38.6 | 38.7 |
| Taiwan | 35.4 | 35.2 | 35.6 | 36.2 | 37.1 | 37.6 |
| Germany | 37.8 | 38.4 | 38.4 | 38.3 | 37.8 | 37.6 |
| Brazil | 34.7 | 35.4 | 36.8 | 37.0 | 37.3 | 37.6 |
| Russia | 37.1 | 37.0 | 37.4 | 37.5 | 37.2 | 37.4 |
| France | 34.8 | 35.4 | 35.8 | 36.2 | 36.6 | 36.7 |
| Spain | 28.0 | 29.3 | 30.4 | 32.1 | 33.8 | 35.2 |
| Argentina | 30.8 | 30.3 | 29.4 | 31.0 | 34.0 | 34.8 |
| Indonesia | 33.6 | 33.6 | 33.8 | 33.8 | 33.9 | 33.9 |
| Belgium | 33.0 | 33.4 | 32.9 | 33.1 | 33.6 | 33.8 |
| Hungary | 32.2 | 32.3 | 32.9 | 33.5 | 33.4 | 33.7 |
| Venezuela | 29.1 | 30.5 | 30.6 | 30.3 | 31.3 | 32.6 |
| Poland | 32.8 | 32.3 | 31.5 | 31.4 | 30.1 | 30.7 |
| Israel | 31.7 | 31.7 | 31.4 | 31.5 | 31.0 | 30.4 |
| Greece | 28.1 | 27.8 | 28.3 | 29.2 | 29.6 | 29.9 |
| Malaysia | 28.1 | 28.1 | 28.4 | 28.9 | 29.3 | 29.5 |
| Philippines | 27.7 | 30.3 | 29.9 | 29.9 | 29.0 | 29.2 |
| Mexico | 26.7 | 26.1 | 27.0 | 26.6 | 28.2 | 28.5 |
| Italy | 26.2 | 27.1 | 27.6 | 28.0 | 28.1 | 28.3 |
| India | 25.9 | 25.1 | 24.6 | 24.1 | 24.2 | 24.1 |
| South Africa | 21.6 | 20.8 | 20.3 | 21.4 | 21.1 | 21.0 |
| Turkey | 17.6 | 17.6 | 17.2 | 16.8 | 16.2 | 15.9 |
| Egypt | 10.1 | 10.4 | 10.4 | 10.7 | 10.7 | 10.9 |
| Saudi Arabia | 8.1 | 7.9 | 7.8 | 7.6 | 7.4 | 7.2 |

Source: Euromonitor International

3.4 Lifestyle Factors

Status-driven consumers

The purchase of premium products is often linked to the image that consumers wish to portray. The products people buy and the services they use may be influenced by their desire for status, and their wish to be seen in a particular way. This is especially the case of products such as clothes, cars and accessories like handbags and jewellery, where the brands people buy act as a statement of their wealth, status or lifestyle choice.

Notable examples of this include the group dubbed “yoga moms” in the US; and wannabes that are highly influenced by the celebrity culture.

The rise of the yoga mom

Yoga moms (similar to “yummy mummies” in the UK) tend to be affluent parents that like to spend large amounts of money on exclusive brands for their babies and children, thus using them to reflect their own lifestyles and project an upmarket image. Yoga moms are fashionably selective, buying upscale clothes such as designer jeans, and contemporary-looking, ergonomically designed baby accessories. Popular products among yoga moms in the US include Burt’s Bees Buttermilk lotion, California Baby Calendula Cream, and Italian leather toddler shoes at Nordstrom. These consumers are prepared to pay more than US\$150 on nappy (diaper) bags made by manufacturers such as Petunia Pickle Bottom and Fleurville. Also associated with yoga moms are designer strollers such as Bugaboo, whose rugged and lightweight design helps parents burn calories via power walking (now dubbed “strollercizing”).

Yoga moms tend to be older, and are also associated with middle- and upper-class lifestyles. They do not “live for their kids” in the manner of the classic soccer mom. Indeed, they do not want their lives to change, still going to book clubs, yoga sessions and perhaps working part-time. Yoga moms want only the best for themselves and their children, but also seek uniqueness and style.

Yoga moms may still form a small market, but their influence is thought to be significant as they are changing both the way products are marketed and the way they look. Their focus on design is having a trickle-down effect on all products, since less affluent parents desire similar products at lower prices. This is forcing manufacturers to redesign products.

Celebrity worshipping

In the UK, the growing “celebrity culture” means that role models such as David and Victoria Beckham are an inspiration for lifestyle-obsessed consumers. This is having a positive impact on the market for super-premium products, both for adults and children. Research by the financial services company Mint in 2006 showed that mothers are spending more on designer clothes for their young children than for themselves. This is result of “parental paranoia”, where new mothers feel under pressure to keep pace with the lifestyles of celebrity parents. This is similar to a trend that has emerged in the US. For example, after the three week-old daughter of actors Angelina Jolie and Brad Pitt appeared in a trendy T-shirt on the cover of People magazine, in June 2006, sales of the particular T-shirt, which cost US\$42, soared. After the magazine hit news-stands, baby boutiques and high-end retailers including Barney’s New York, Fred Segal and Bloomingdale’s, were reportedly inundated with telephone calls and Internet orders.

The celebrity culture that is prevalent in the US and UK has also provided a wealth of opportunities for the development of new premium products. The endorsement or licensing of products by popular celebrities immediately allows marketers to add a price premium, since consumers perceive celebrity-endorsed products to be of higher quality, or may believe products will make them look or act like a certain celebrity. This is a popular tactic in the market for cookware and small kitchen appliances, where products have been launched under the names of celebrity chefs including Wolfgang Puck, Emeril Lagasse, Marco Pierre White and Nigella Lawson. The UK’s ubiquitous celebrity chef Jamie Oliver has put his name to all kinds of premium kitchenware, including Royal Worcester plates, cups and serving dishes, and three pan ranges: Jamie Oliver Stainless Steel, Jamie Oliver Hard Anodised and Jamie Oliver Italian Series.

There are countless other examples of celebrities extending their brands into consumer markets. Particular favourites among today’s celebrities are cosmetics and clothing (clothing lines have been launched by Jennifer Lopez, Catherine Zeta Jones and Michael Jordan, for example). David Beckham is a very successful brand in this respect, having developed his image not just on the back of playing football, but by aligning his name with high fashion products and associating himself with the “bling” lifestyle of royalty, pop stars and designers. Beckham recently launched the DB clothing range, which he allegedly co-designed, in UK retailer Marks & Spencer.

“Chavs” dent image of premium brands

Another movement that has affected growth of premium products in the UK is the “chav” sub-culture. Chav is a slang term in wide use throughout the UK since 2004, and refers to a stereotype of people, largely associated with an uneducated and uncultured background, who have a preference for fashions such as flashy “bling” jewellery, and upmarket clothing and footwear brands such as Burberry, Adidas, Nike, Timberland, and Lacoste.

Some brands and products have suffered a decline in sales due to their association with the stereotype. For example, the upmarket Burberry clothing company, which quickly became synonymous with chav subculture, recently ceased production of its branded baseball cap in an attempt to distance itself from the association. The company also scaled back use of its patented chequered/tartan design to such an extent that it now only appears on the inner linings and other very low key positions of its clothing. Burberry-clad youths have recently been prevented from entering certain football games and shopping centres, due to the association between the brand and hooliganism. One major problem for Burberry and other luxury brands is that counterfeit versions of their clothing is sold to chavs, thus affecting their overall reputation. Prada, which has been associated with intelligent Italian chic since it was founded in 1913, now appears to have usurped Burberry as the brand of choice for chavs and is suffering a similar fate.

A similar situation occurred in the US, where rappers began to favour Cristal, the golden-wrapped premium champagne that can cost up to US\$500 per bottle, at a time when hip-hop was becoming synonymous with conspicuous consumption. After Cristal manufacturer Louis Roederer insinuated in an interview that the publicity caused by hip-hop's obsession with Cristal was detrimental to the brand, rappers (led by Jay-Z) began to boycott the brand in 2006. Jay-Z announced a ban of Cristal throughout his club, moving his support to Dom Pérignon and Krug.

4. KEY TRENDS AND DEVELOPMENTS

4.1 Packaging

Packaging plays a very important role in the market for premium products. Sophisticated packaging is usually part of what sets apart a premium product from a standard one. This can be for aesthetic reasons, for example in the case of a premium fragrance, or in order to distinguish a premium product in terms of freshness or convenience.

Embossing gives image of premium quality

Packaging is a key tool used to denote quality in the drinks industry, which is particularly competitive. Packaging is often used to attract new consumers, especially younger adults and women. In order to make premium-looking bottles, packaging companies focus on introducing highly sophisticated shapes, as well as shapes referring to a specific tradition. This includes a focus on specific colours and on embossing, which is particularly fashionable in Europe, and especially in France. For example, the Conseil Interprofessionnel des Vins du Languedoc (CIVL) adopted the Languedoc Cathar cross quality emblem as a heraldic symbol to provide clear visibility for premium and super-premium wines in the region.

Beer has for a long time been used by a large number of brewers to convey premium status. Even in the North American beer market, where cans are more prominent than glass bottles, glass packaging is important, especially given the increased interest in premium beers and imports. Market research showing that glass is associated with higher quality and better taste has led to almost all brand launches appearing in non-returnable glass. Improvements in the shapes and colours of refillable glass have, however, been outweighed by the other poor attributes of bottles such as scuffing and weight, thus restricting their impact.

Some smaller brands that do not benefit from having a global name behind them may use innovative packaging to project premium attributes and maintain interest. For example, Rockware Glass in the UK redesigned Halewood International's Red Square brand's packaging with the focus on developing an iconic bottle to compete against premium FAB brands. The design features a more angular-waisted bottle than previous ready-to-drink brands. This aimed to appeal to both male and female drinkers. The Halewood eagle was reproduced as intricate embossing four times on the shoulder of the bottle to give brand recognition and an image of high quality to the pack.

Spirit brands gain distinctive identity through bottle design

In the premium/super-premium vodka segment, the significant expansion in the number of products available has magnified the importance of packaging in creating a distinctive brand identity. The US saw V&S Vin & Sprit introduce Danzka Danish Vodka to the segment in a signature metal bottle, and Jstar Brands LLC launch Effen, a premium Dutch vodka that features a polymer rubber stopper instead of the traditional cork, in 2003.

Since premium quality coffee became popular among consumers, glass bottles are even used for RTD coffee, to convey a high quality concept to consumers. The desire for a premium quality image is also leading to growth in glass container usage for fruit/vegetable juice and FABs.

Glass packaging has also enjoyed some success in the market for packaged food in product categories such as canned food and sauces, dressings and condiments. In more stagnant products, such as canned food, glass jars have been introduced in order to invigorate sales and change perceptions of products that have suffered from the use of metal food cans. Glass jars also benefit from their premium image in a number of cosmetics and toiletries applications, most notably facial care.

Sophisticated materials add value through better protection

The introduction of PEN (polyethylene naphthalate), a stronger polymer than PET (polyethylene terephthalate), has made possible the production of bottles with greater resistance to the temperatures required for sterilisation, and better barrier properties to preserve flavour. Originally more expensive than PET, the price differential of PEN has decreased. In presentation terms, the new plastic bottles are hardly distinguishable from their glass counterparts, and plastic is said to offer considerable potential advantages in terms of moulding and shaping. While its key attribute is its unbreakability, making it suitable for occasions when glass is not acceptable, this very advantage runs the risk of limiting the role of plastic to circumstances when glass cannot be used. In 2004, German juice company Beckers Bester – in cooperation with Rexam Petainer – launched a premium juice range in PEN bottles.

Card is also being used increasingly to denote premium products and also give a more environmentally-friendly image. For example, board tubs are commonly used for premium and luxury take-home types of ice cream, such as Ben & Jerry's and Häagen-Dazs. Sandwiches packed in cardboard skillets also convey a premium image, and also have environmental benefits.

4.2 Quality Stamps and Certification

Hallmarking systems in the EU

Food manufacturers are now realising the necessity for exclusivity of their products, as the international grocery market becomes increasingly homogenised. In the European premium foods market, many suppliers are striving for EU-approved hallmarks to boost the prestige of their products and attract retailers. A recent study by the European Commission revealed that some 40% of EU citizens are willing to pay a 10% premium for specially designated products.

With both consumers and retailers recognising hallmarks as a sign of quality, it is beneficial for producers to gain accreditation. Since their 1992 inception, hundreds of growers have sought EU Protected Geographical Indication (PGI) and Traditional Speciality Guaranteed (TSG) status for indigenous products, and many more continue to apply.

The hallmarking system, derived from the EU's geographical indication (GI) regime, was set up to protect local food producers across the bloc from having their traditional brand names used by processors elsewhere. Since its introduction, about 700 foods and drinks have been approved for GI protection, with another 300 applications under consideration. So far Italy, Spain, France and Portugal have registered 478 products between them, and the UK has registered 29. Producers often see overseas demand for their hallmarked produce rise, as suppliers around Europe acknowledge the PGI market.

Organic certification

In line with the growing popularity of organic foods, which also have a premium image and are purchased mainly by affluent consumers, growers and processors are scrambling to get their products certified as organic.

In the US, national standards for certifying organic foods became effective on 21 October 2002. The standards also set out clear labelling criteria, prohibiting the use of the term "organic" for food produced through the use of genetic engineering methods, antibiotics, irradiation and sewage sludge for fertilisation. Items that meet the new requirements will be eligible for the green and brown "USDA organic" seal that certifies that the food was organically grown. To be labelled "100% organic", food must contain only organic ingredients, and to be labelled "organic", items must have at least 95% organic ingredients by weight. In keeping with the EU standard, products labelled "made with organic ingredients" must have at least 70% organic ingredients.

Within the EU, an organic logo, which includes the stars from the EU flag and the words "Organic Farming", was introduced in March 2000. The logo can only be used on organic products where 95% of the ingredients are organic products that originate from the EU and that are processed, packaged and labelled in the EU, or on imports from countries with an equivalent inspection system. EU organic food standards were updated in July 2004. A farmer or company that wants to have its products certified as organic can go to one of 11 different certification bodies, such as the Soil Association and the Organic Food Federation.

In Japan, the Japan Organic & Natural Foods Association (JONA) is responsible for certifying food products under the organic regulations of Japanese Agricultural Standards (JAS). From 1 April 2001, all products that claimed to be organic have had to be approved by JONA and carry the JAS organic mark. For agricultural products to be approved as organic, chemicals must not have been added in the growing process for more than three years. For processed food products to be labelled as organic, more than 95% of ingredients used have to be certified as organic.

Fairtrade

As consumers have become more concerned with the origins of their foods and the ethical practises of companies, the Fairtrade logo is becoming a symbol of quality and fairness. The global Fairtrade movement works to guarantee that producers in poor countries receive a fair price for their produce. Fairtrade Labelling Organizations International (FLO) is the global Fairtrade standard setting and certification organisation. It consists of a consortium of Fairtrade groups in Japan, Canada, the US, and 17 European countries, and allows more than 800,000 producers and their dependants in more than 40 countries to benefit from Fairtrade labelling. FLO guarantees that products sold anywhere in the world with a Fairtrade label marketed by a National Initiative conform to Fairtrade Standards and contribute to the development of disadvantaged producers. Items carrying the Fairtrade label range from foods such as coffee and bananas to clothing and footwear.

Eco-label

In 1992, the EU introduced the Eco-label scheme in order to promote products and services with a reduced environmental impact. Each EU Member State has a competent authority which helps companies that want to obtain the Flower logo with information on how to apply, and checks compliance. A dedicated website was set up, Green Store, which is a searchable database allowing consumers to obtain information about products bearing the Flower. By 2005, more than 235 licences had been awarded, covering several hundred different products. It is estimated that sales of EU Eco-labelled items rose by more than 200% between 2003 and 2005, with the largest increases occurring in Italy, Denmark, France and Spain.

4.3 Indulgence Foods

Achieving a balance

Sophistication of the food offer can come in the form of the creation of more healthy foods that are made using premium, natural ingredients, or luxury foods that satisfy consumers' demand for indulgence. Many consumers try to achieve a balance between healthy and indulgence foods, with premium being the overriding factor. What is therefore suffering the most is over-processed, cheap staples.

Growing sophistication in tastes

The food market is fragmenting as consumers search for ever more distinct and sophisticated flavours. Creamy yoghurts and tangy cheeses offer a range of unique flavours – as opposed to the largely processed flavours that were previously available – to a market that is demanding more sophistication. Ice cream is the indulgence product par excellence, and manufacturers have capitalised on this by launching a wide variety of tasty and exotic flavours, and increasingly creamy versions.

Consumption of premium indulgent packaged food therefore experienced a significant rise over the review period, in spite of the prevailing trend towards healthier products. Underpinning the trend towards luxury packaged food was the rising disposable income of many consumers in developed markets, with consumer tastes growing in sophistication due to more international travel, dining out, and “lifestyle” media programming. The trend was also driven by product innovation on the part of manufacturers keen to generate value sales in markets approaching saturation levels.

Indulgence benefits from more natural image

The rise of consumer health consciousness was also, paradoxically, a significant factor in the increasing popularity of indulgence products. This was because consumers were less willing to snack on high-fat, high-calorie processed products, and turned to high quality premium products as a treat. Suspicion of the artificiality

of flavours in less expensive products, and the perception of the higher quality of ingredients in premium versions meant that, in some ways, heightened health awareness directly inclined consumers towards indulgence purchases.

Indulgence yoghurts and chilled and shelf stable desserts are also benefiting from consumer desire to enjoy some of life's small pleasures. The goal of many manufacturers of indulgent chilled and shelf stable desserts is marrying the distinct flavours of high calorie food with low-fat, low-sugar and low-calorie offerings. New product development from leaders in these areas sought to meet this demand by providing low-fat indulgence products, such as Weight Watchers and Danone's Shape Solo and Shape 0.1% in the UK, and Yoplait Delicieux Mousse and Danone's La Crème Mousse in Canada. Successful brands from other areas of packaged food have also jumped into chilled and shelf stable desserts to take advantage of their established brand names. Many such crossover launches were spearheaded by the Mars brand, as it enjoys an enviable and extremely high-profile image, particularly in the UK, and is instantly familiar to consumers.

4.4 Brand Erosion

In recent years, the trend for "accessible premium" brands has emerged, reducing the high entry barrier that the industry once maintained for premium products. However, consumer expectations and how they perceive premium offerings are also shifting. Consumers are becoming increasingly hard to please, as products that were previously considered as premium become the norm.

Getting the balance right

There is a danger that food producers are overusing the "premium" label, thereby flooding a market that relies on exclusivity, and sometimes with substandard offerings. Critics argue that if there are too many high-quality premium brands competing for market share, manufacturers will eventually use price to compete, thus leading to devaluation of the segment. It was reported in October 2005 that of the 25,640 or so new food products that were launched in Europe in 2004, a substantial 4,365 claimed to be premium, representing almost one fifth of the total. In the UK, the trend was particularly pronounced, with around half (1,519) of new food products launched in 2004 being "premium". Consumers are therefore finding it increasingly difficult to distinguish between truly superior products and standard products with clever marketing, and can only learn by trial and error, or by word of mouth.

Chocolate is a prime example of a sector in which premium is almost becoming the norm. The savoury snacks brand Walkers Sensations is an example of a highly successful product in the UK that has been marketed to the masses as a premium brand, using traditional marketing channels.

Also eroding the luxury image associated with premium brands is the entrance of private label offerings. In the chocolate tablets subsector, for example, supermarket chains such as Carrefour (France), El Corte Inglés (Spain) and Tesco (UK) sell products with a cocoa content of around 50%. The minimum standard is 35%. Some retailers are even developing chocolate bars approaching the 70% level offered by such premium brands as the UK's Green & Black's. Aldi is also a typical example of a budget retailer selling products that have the look and names of premium products, but which are generally cheap copies of branded products.

The rise of masstige

In the cosmetics and toiletries market, while there has been a strong trend towards premiumisation, there is evidence that consumers are buying premium products less often. Therefore, some traditionally upmarket brands, as well as mass brands, have been experimenting with the "masstige" (upper mass) positioning in recent years. This is proving an effective way to attract new markets, and, in the case of mass brands, to improve image, by adding value.

Companies that have found success in the masstige market include Kanebo, with Suisai and T'Estimo; Shiseido, with Elixir and Beauty Voltage; Kao and Pierre Fabre. The Body Shop attributes the 9% sales rise in its UK High Street stores in 2005 to its launch of upper-mass offerings, including passion fruit body butter and the Skin Focus range.

In autumn 2005, one of the most exclusive brands, Christian Dior, surprised the industry by entering the masstige segment. In doing so, the brand risked tarnishing its elite image, but found the need to address a

younger, more fashionable demographic through the launch of a less expensive line. For example, Dior Addict 2 eau de toilette became available in 750 stores throughout the US, retailing at US\$48 for 50ml.

Brand erosion has become apparent in many other sectors of the luxury and premium market, due to the wider availability of brands that were previously rare or confined to the middle classes through discount channels. For example, whereas it may previously been assumed that a person wearing Ralph Lauren paid a considerable sum for the item in a fashion boutique, there would now be a distinct possibility that the owner purchased it for a low price from a factory outlet.

4.5 Counterfeits and Copycats

The problem of counterfeiting is widespread, and affects many areas of the premium and luxury goods market, from clothing to accessories to cosmetics and toiletries. Manufacturers are aware of this problem and are keen to lobby for tighter regulations to inhibit grey market sales. However, fakes are not the only problem: premium brands are also being threatened by a growing number of imitation products from increasingly sophisticated but legitimate cut-price copycats.

Despite the popularity of premium cosmetics, not everyone can afford the genuine article. This has created a large market for high status personal care products at cost price, sustaining the growing consumer demand for counterfeit cosmetics and toiletries. According to European Commission statistics, the number of cosmetics and fragrances seized at the EU's external borders during 2003 increased by 800% compared with 2002.

China leads the way

Counterfeiting is particularly rife in China. This is one of the world's largest markets for premium personal care, but is also a trouble hotspot for counterfeit cosmetics. Leading personal care giant Procter & Gamble estimates that counterfeit goods in China cost it more than 10% in lost revenue. The China Consumers' Association (CCA) claims that smuggled and fake cosmetics dominate complaints by consumers, highlighting the fact that counterfeits are also unsafe; having side-stepped the rigorous testing procedures required of legitimate personal care items.

As well as being potentially harmful to the people that use counterfeit cosmetics, such products also damage brand reputation. The story of the Burberry fashion brand provides a case in point of the damage that can be wreaked on brand value, and profits, by fake goods. Burberry's dip in UK sales has been largely attributed to the use of the signature Burberry plaid on knock-off merchandise now synonymous with the under class "chav" culture. With its brand identity having taken a distinctly down-market turn in its native UK, the label has now been forced to turn its attentions to less-tarnished overseas markets.

Megabrands more vulnerable to counterfeiting

Building brands that consumers can trust and identify with is big business. Recent big-budget international campaigns, such as Unilever's Dove Campaign for Real Beauty, have promoted an umbrella brand, as opposed to a specific product. This reflects the ongoing trend for manufacturers to slim down their brand portfolios to focus on a handful of "megabrands" rather than a wide range of individual products. The resulting megabrands rely heavily on maintaining a positive brand image, making them more vulnerable to wide-scale damage from counterfeiters.

For some time, manufacturers have legitimately cashed in on the strength of other brands by partnering up with them. Examples of successful brand partnerships include Braun with Oral-B, and Sally Hansen with Teflon. However, a less mutually beneficial method is gaining momentum. Instead of partnering with a brand, a new wave of legitimate copycat products is cashing in on established brand identities, offering nothing new except a reduced price.

Blatant copycats

Like grey market counterfeits, these legitimate brand parasites tap into consumers' desire to buy into an established brand identity at a reduced cost. The early success of this cut-price marketing strategy was evident in the 1980s. Primo, from Parfums de Coeur, grew to be one of the best-selling mass-market fragrances of the era

by “piggybacking” on the success of the premium Giorgio scent, which was only available in department and speciality stores. Primo’s packaging touted the slogan, “If you like Giorgio, you’ll love Primo.”

Current trend analysis suggests that today’s consumer is even keener to pick up a bargain. Recent mainstream media reports have identified the emergence of PRAVs (Proud Realisers of Added Value); a burgeoning group who no longer believes that expensive is better. Snubbing designer labels in favour of cheaper items, they not only seek value-for-money items but enjoy gloating about their savings, which can only be good news for the cut-price copycats.

In addition, EC legislation from May 1996 states that it is now mandatory for manufacturers to list ingredients on the exterior packaging of all cosmetic products, giving savvy consumers a means of comparing content. Copycat products are exploiting these regulations by ensuring their active ingredients are comparable with those listed by their premium label counterparts.

Identity theft

In the US, brand parasites are becoming increasingly sophisticated, not just cloning formulations, but entire brand identities. Generix Laboratories specialises in “providing affordable generic versions of the world’s most popular formulations” and its Nulexin brand claims to have the same under-eye dark circle prevention ingredients as the original Klein-Becker Hylexin brand. The ingredients, product names, packaging and even websites are strikingly similar; the key difference being that Nulexin has a drugstore RRP of US\$39.99 versus the US\$95 price tag for original Hylexin product.

While tightened regulations will continue to challenge grey market counterfeits, the producers of cut-price copycats are cleverly using these very safeguards as a marketing tool to legitimise their own offerings and place them ever closer to their high-end counterparts. Overtly piggybacking on the success of expensive megabrand marketing campaigns looks set to pay dividends for these increasingly sophisticated brand parasites.

5. IMPACT ON CONSUMER MARKETS

5.1 Food

The trend towards premium variants of standard products is apparent in all areas of the packaged food industry, from canned foods and sauces to frozen food, snacks and confectionery, as manufacturers look to add value and create interest.

Ready meals fuelled by smaller households

Ready meals have become one of the most dynamic areas in the packaged food market in recent years, fuelled by the growth in one- and two-person households, as well as increased atomisation within families. Growth in developed markets has been underpinned by trends towards higher priced, premium products, particularly in the form of “healthier” and ethnic varieties.

Progress is still being made in the area of private label ready meals, which now have one of the highest rates of private label penetration of all supermarket products. Sainsbury’s Taste the Difference and Tesco’s Finest ranges have been extended to include lines of Chinese, Indian, Tex Mex and British specialities. In the US, A&P redesigned the logos for both its America’s Choice and Master Choice frozen ranges in 2004, and extended the latter into the luxury family meals and Chinese food categories. Safeway introduced an Eating Right sub-sub-brand under the Safeway Select Gourmet Club sub-brand, which includes meals such as Creamy Broccoli Beef with pasta and mushrooms, which has just 7g of fat and 200 calories per 20oz (567g) box.

In France, Auchan has launched premium regional meals to meet consumer demand for authenticity. In partnership with local producers, the retailer has developed ranges of local products. In Italy, the “tastes of the regions” range consists of 80 products that are typical of specific regions of the country. In France, 80 items produced according to original recipes make up the new “local products” range of fresh, processed and grocery goods.

Luxury sandwiches

In the UK, the sandwiches and wraps sector is another example of how premiumisation has affected the market. Sandwiches are moving increasingly upscale. Following the lead of Marks & Spencer, supermarkets, such as Sainsbury's (with its Taste the Difference line) and Somerfield (So Good), are offering more sophisticated and exotic fillings, and are using cardboard skilleters for packaging, which convey a more premium image. This follows research showing that consumers are willing to pay more for premium products, especially if they are seen as environmentally friendly. Furthermore, sandwiches are important to supermarkets as they bring people into stores for impulse purchases. Innovations include walnut or tomato bread, with fillings accompanied by sauces, chutneys and relishes rather than just mayonnaise.

Premium chocolate becoming the norm

Chocolate is perhaps cited most often in relation to the trend towards premiumisation. With chocolate sales largely hampered by efforts to combat obesity and diet-related health problems, and a market squeezed by higher costs and raw material prices, chocolate manufacturers are increasingly turning to premium products in an effort to boost sales. Furthermore, the consumer, progressively turning connoisseur, also appears to be looking towards high-end products. In the UK, luxury chocolate is reported to have grown so rapidly in recent years that it was estimated to account for some 18% of the UK confectionery market in 2005, representing growth of around 23% since 1999.

According to Mintel's Global New Products Database (GNPD), Europe saw the launch of 834 new premium chocolate products from the beginning of 2002 to mid-2005. Germany led with 223 new premium products, followed by the UK with 179, Austria with 101 and Spain with 50.

In February 2005, UK luxury chocolate manufacturer and retailer Thorntons reported a sales rise of almost double that of the domestic chocolate subsector as a whole. Similarly, Swiss premium chocolate manufacturer Lindt & Sprüngli reported a profit for the first time in its first half, which normally lags behind the second half due to the seasonal nature of premium chocolate sales. The company reported a first half net income of SF4.7 million in 2005, compared to a loss of SF1.7 million in 2004. Lindt, which claims to be the only premium chocolate brand represented worldwide, identified an increased turn towards dark chocolate in Switzerland in recent years. The company claims consumers in the traditionally milk chocolate eating country are turning to high-end rich dark chocolate products, made with premium cocoa, as they are increasingly becoming "chocolate connoisseurs."

Organic chocolate manufacturer Green and Black's saw its sales more than quadruple between 2001 and 2004. Green & Black's is a company that has built up a reputation for high quality and taste. It has taken its premium image from strength to strength largely through word of mouth, without the use of a large advertising budget, fancy packaging or clever marketing. With most products containing a minimum of 35% of cocoa solids and some lines with up to 70%, the premium aspect in Green and Black's is its ingredients.

Playing the health card

Premium chocolate has also benefited from recent publicity surrounding the alleged health benefits of chocolate, especially that with high cocoa content. In August 2005, Mars, the world's largest chocolate manufacturer, hit the headlines with claims that compounds found in cocoa, the raw material of chocolate, can help treat diabetes, heart disease and some forms of dementia. The company even claimed that it had entered negotiations with major pharmaceutical multinationals for the development of prescription drugs based on cocoa flavonols. This was the culmination of years of research by the company to prove the health benefits of chocolate, a quest that also led to the launch of cocoa flavonol-rich snack bar CocoaVia and the establishment of Mars Nutrition for Health and Wellbeing in July 2005.

Mars has not been alone in its mission to make chocolate palatable to today's health-conscious consumer. US confectioner Barry Callebaut has been developing a new processing technique to preserve the nutritive value of cocoa, for example, whilst House of Brussels Chocolates has recently launched a range of six functional chocolate bars under the ChocoMed label. Fortifying chocolate with additional nutritive ingredients has become a multimillion-dollar global business.

However, a large part of the attraction of chocolate, especially premium chocolate, is its association with indulgence, an image that could now be under threat. To counter this possibility, a new breed of unashamedly decadent brands could hit the market. Orgasmic Chocolate is one example. Launched in 2006, the eponymous

brand is fortified with Chinese herbs and aimed squarely at the luxury seeker, claiming to give the chocoholic a relaxed, euphoric feeling.

In the US, big name chocolate manufacturers are losing ground to specialists. Premium and functional brands have driven the US chocolate market in recent years. Competition from speciality firms is expected to get tougher as more launches hit the market. For example, at the end of 2005, House of Brussels Chocolates announced its new line of six functional chocolate tablet varieties under the ChocoMed brand, while premium chocolatier Totally Chocolate pledged to double its existing manufacturing capabilities to better meet demand.

Japanese women fall for European-style luxury chocolate

A notable development in Japan over the review period was the emergence of super-premium “chocolat”. Although premium chocolate players, such as Godiva, Morozoff and Mary Chocolate, existed in Japan through dedicated shops in the basements of department stores, the segment was flat. However, from late-2004, demand emerged for more unusual brands of premium chocolate, especially among young women with high incomes. The rarity factor made chocolat, originating from Europe, all the more popular, with one bite-sized piece of chocolat costing ¥250-850. Saite Dominique Chocolat is one of the most popular brands in Japan and opened its counter in the Mitsukoshi Nihonbashi department store in October 2004. This was followed by similar counters in other stores from companies such as Chocolat Bar Bascal Caffet, Del Rey and Oriol Balgauer. While the popularity of chocolat might be short-lived among capricious Japanese consumers, it is thought to have changed Japanese consumers’ attitudes towards chocolate. Domestic major players had the opportunity to learn how to cultivate latent demand among diet-conscious young Japanese women, which may affect future new product development.

Premium reaches the milk sectors

Milk is another sector in which manufacturers are trying to introduce premium products in order to add value to a highly commodified market. However, as the number of branded milk products on the market has grown, processors have had to fight harder to get their products noticed.

Arla UK claimed in 2005 that its Cravendale milk brand was so popular that demand exceeded supply in some places. However, the brand was hit strongly by competition from supermarkets’ private label milk in 2006. One reason for this is that supermarkets significantly lowered their prices of basic milk, but they have also begun to develop new, premium private label categories. Tesco, for example, recently launched a cholesterol-lowering milk called Reducol to target growing consumer demand for heart health foods.

In response to this competition, Arla extended the range to include flavoured products, under the sub-brand Cravendale Hint Of, as well as one-shot versions for consumers on-the-go. Similarly, Robert Wiseman launched a £2 million advertising campaign in the summer of 2006 to promote its The One fresh milk brand.

Super-premium ice cream satisfies demand for indulgence

The premium ice cream segment was pioneered by Häagen-Dazs (see box) and Ben & Jerry’s, and has since been seized upon by retailers as an opportunity to gain high margins through the launch of their own premium private label products.

Premium ice cream manufacturers have continued to satisfy the increasingly prevalent desire among developed market consumers for indulgence, despite parallel trends towards more healthy eating. Premium products, such as Magnum and Carte d’Or (Unilever) and Häagen-Dazs (General Mills), with cream and chocolate, for example, became more widely available in Western Europe over the review period, as consumers sought to escape the stress of hectic lifestyles. US brand Ben & Jerry’s is targeted at the ethically-orientated consumer. It was founded in the 1970s as an environmentally conscious and politically progressive company. It gained a hippie image with 1960s themed flavours such as Wavy Gravy and Cherry Garcia, donated substantial money to progressive and environmental causes, and used environmentally friendly packaging. The brand was acquired by Unilever in 2002, which gave it a unique positioning as a “premium ice cream with a conscience”. In 2005, Ben and Jerry’s launched three Fairtrade Certified coffee varieties, thus extending Unilever’s socially conscious marketing into the area of ethical trade.

In the US, both Ben & Jerry’s and Häagen-Dazs have faced increased competition from more indulgent variants of standard premium ice creams, such as Breyers Ice Cream Parlor, as well as from private label brands. For

example, Florida-based supermarket chain Publix has become renowned for its premium private label ice cream, which has become a major draw to the store. The Publix Premium Ice Cream brand accounted for more than 33% of the chain's total ice cream sales in 2004, compared to a private label share of only 22% on average for most grocery retailers. Between 2000 and 2004 alone, Publix introduced nearly 40 new ice cream products that rival major brands such as Ben & Jerry's. These included innovative flavours such as Blackjack Cherry, Banana Split, Bear Foot Brownie and Oh Fudge, Oh Nuts. In addition, seasonal items, such as Key Lime Pie and Santa's White Christmas Red Velvet, are added each quarter. Critical to the success of Publix's ice cream is its high quality, value pricing, unusual flavours and strong packaging of a type not seen in most retailers.

Case study: Häagen-Dazs

Häagen-Dazs was a pioneer in luxury ice cream, and has become synonymous with the super-premium segment, along with rival Ben & Jerry's. Both brands began as artisanal products that grew to become global leaders sold through specialist and mass-market retailers alike.

Häagen-Dazs started as a family business in New York in the 1930s. The name Häagen-Dazs was chosen to convey an aura of the old-world traditions and craftsmanship to which the company was, and still is, dedicated. The company was acquired by The Pillsbury Company (General Mills) in 1983, and has since become a global phenomenon, with its products available in 54 countries. In the US and Canada, the Häagen-Dazs brand is owned by Nestlé.

Häagen-Dazs gains its "super-premium" status from the fact that it is quite dense (very little air is mixed in during manufacture), and has a high butterfat content. The company claims natural ingredients form the basis of each product formulation. Vanilla, for example, contains skimmed milk, sugar, cream, corn syrup, eggs yolks, a natural flavour and vanilla bean flakes.

Häagen-Dazs is available in such exotic flavours as Vanilla Swiss Almond, Butter Pecan, Strawberry Cheesecake and Dulce de Leche. The company was also the first to introduce the world to ice cream bars for an adult palate, in 1986. It has also become a speciality ice cream chain store which sells its own brand of ice cream at locations around the world.

In May 2005, Häagen-Dazs launched its first "light" ice cream version of its classic brand, which claims to deliver 50% less fat, but keeps the same organoleptic properties of the full fat version. The new "light" selection is available in seven flavours, including vanilla, coffee, mint chip and cherry fudge truffle.

5.2 Soft Drinks

Healthier drinks for kids

The trend towards premiumisation has been evident throughout the soft drinks industry, which was for a long time associated with cheap, low quality drinks and more recently has been criticised for contributing to the childhood obesity pandemic. Manufacturers saw an opportunity to add value to a saturated market by introducing healthier premium products.

According to a report published by drinks research specialist Canadean, in early 2006, the global still drinks market has lost its cheap image and is booming because beverage companies are concentrating on the premium end. The sector's image as being made up of cheap, low quality drinks targeting children is rapidly being shed. High quality premium brands from small companies and from the major players have been firmly established in the marketplace. According to Canadean, global sales of still drinks grew by almost 6% in 2005, to reach 32 billion litres. Growth has averaged 5% over the past six years and the market is expected to expand by more than 4 billion litres by the end of 2008. By contrast, the carbonates category averaged growth of just 2% between 1999 and 2005, although it is much larger, amounting to 194 billion litres in 2005.

Bottled water driven by functionality

Product functionality has become a key selling point, and this has appeal for health-conscious consumers. Moreover, affluent consumers in developed markets are prepared to pay a premium for multifunctional beverages. In bottled water, for example, PepsiCo's Gatorade Propel Fitness Water has proved popular in the US, and prompted a raft of similar launches including PepsiCo's Aquafina Essentials and The Coca-Cola

Company's Dasani NutriWater. These brand extensions served to differentiate themselves from their competitors in the purified water category and in doing so commanded higher unit prices.

In the face of stagnating sales of carbonates, The Coca-Cola Company has focused on bottled water as a potential growth engine in the long term. The company established alliances with Danone in 2002 to market, sell and distribute Danone's wide array of water products, including premium water brand Evian, in North America. In 2005, The Coca-Cola Company took full control of its US water joint venture, CCDA Waters, buying out partner Danone's 49% stake. The company consequently increased marketing expenditure on the premium Evian brand.

Pure juice benefits from premium trend

A premium shift is also evident in fruit/vegetable juice in developed markets. In Western Europe, not-from-concentrate 100% juice largely outperformed the average growth rate in fruit/vegetable juice in 2004, with off-trade volume sales increasing by 9% at a regional level. Chilled juice products, such as freshly squeezed and not-from-concentrate 100% juice, require high levels of technology to manufacture and sophisticated cold chain distribution to handle the product. These manufacturing requirements and logistics essentials attach an extra premium to the end product. Manufacturers, such as PepsiCo, with its Tropicana brand, successfully persuaded Western European consumers to experiment with premium juices over the review period, and by 2004 not-from-concentrate 100% juice products had amassed some 22% of 100% juice off-trade volume sales, almost double the share in 1999.

Functional juices with less calories

Consumers are well aware of the drive to live healthier lifestyles and are now better informed about the correlation between diet and health. In the US, in late 2003, The Coca-Cola Company introduced Minute Maid Premium Heart Wise orange juice. The product was claimed to be the first orange juice proven to help lower cholesterol, and was fortified with plant sterols, plant extracts that have been proven to lower both total and LDL cholesterol levels.

In early 2004, PepsiCo's Tropicana introduced a new Tropicana Pure Premium Essentials line of orange juices, one of which, Light'n Healthy, contained one third less sugar, calories and carbohydrates than original Tropicana Pure Premium. In mid-2004, rival Minute Maid launched a similar low-calorie, low-carbohydrate orange juice, Minute Maid Premium Light Orange Juice Beverage, which contains the sweetener Splenda.

Increased segmentation

In the latter part of the review period, there was a general focus on products with an adult positioning. In both concentrates and carbonates, manufacturers increasingly targeted adults with new products. In the UK, for example, adult carbonates and cordials, such as Amé and Bottlegreen, are sold at a premium, come in a variety of exotic flavours that use upscale ingredients, and are presented in glass bottles that would be perfectly acceptable on the dinner table. The 40-50 year-old age group has among the highest levels of disposable income and is thus a prime target for soft drinks manufacturers bent on adding value to a developed market.

Manufacturers also focused on improving the quality of children's drinks, in response to parents' growing concerns about children's health. Juice drink manufacturers have been particularly proactive. In the US, for example, Tropicana (PepsiCo) and The Coca-Cola Company have launched children's versions of their juice drinks: Tropicana Pure Premium Healthy Kids, currently running an on-pack collective to win free Lego kits, and The Coca-Cola Company's Minute Maid Kids+, both featuring added vitamins and calcium.

In the UK, Juice Patrol, a new premium drink from Metro Drinks, claims to be the country's first 100% E-free juice drink for children. Free from all preservatives, artificial flavours, sweeteners, stabilisers, acids and colours, the range has 40% less added sugar than other juice drinks. It is available in Orange & Mango and Strawberry & Banana flavours. In addition, Juice Patrol's development has the support of the Hyper Active Children's Support Group.

Similarly, Macaw Soft Drinks claims its new H2 4 Kids range to be one of the healthiest on the UK market. Developed at the company's aseptic plant in Lancashire, the water/juice drinks have a 6-month shelf life, despite being preservative-free and not refrigerated. No artificial colourings, flavours or sweeteners are used, and the three flavours, Strawberry, Blackcurrant and Orange, boast a 10% juice content.

RTD coffees based on coffee bar favourites

In developed RTD tea and coffee markets, such as the US and Japan, premium products are emerging to meet ever-changing consumer tastes. Consumer demand for high quality RTD coffee products grows in tandem with increased demand for premium coffee variants as a hot drink. Consequently, added-value features to emphasise the premium aspect of these products are a focus in new product development in the two countries.

Many RTD coffees use premium beans to emulate coffee house favourites such as cappuccino and mochas. A number of the new launches of premium RTD coffee are also made from organic coffee beans, while RTD coffee with enriched calcium has also appeared on the market. Indeed, in both the US and Japan, RTD coffee is becoming increasingly functional in order to compete with the premium energy drinks, epitomised by Starbucks DoubleShot in the US and Georgia's Daily Café and Asahi's Wonda Morning Café Breakfast in Japan. The former contains three types of oligosaccharide which are beneficial for intestinal health, and the latter contains mineral-rich malt extract, vitamin B and oligosaccharides. Coffee makers in Japan have also sought to develop products to be consumed for specific purposes or at specific times of the day.

Table 6 The Market for Premium Versus Total Juices 2001-2006

| US\$ million | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------------------------------|--------|--------|--------|--------|--------|--------|
| Not-from-concentrate 100% juice | 5,490 | 5,513 | 6,145 | 6,844 | 7,332 | 7,918 |
| Total juice | 34,074 | 35,322 | 38,155 | 41,626 | 43,782 | 45,971 |
| % total | 16.1 | 15.6 | 16.1 | 16.4 | 16.7 | 17.2 |

Source: Euromonitor International

5.3 Alcoholic Drinks

Beer

Quality over quantity

Premiumisation was one of the key trends in the beer market over the review period, and has been the main growth driver. This tendency, most clearly evident in the developed markets of Australasia, North America and Western Europe, was fuelled by growing consumer demand for more sophisticated products, arising from higher levels of disposable income and an increasing focus on food and drink in the media. More foreign travel and a growing incidence of eating out were other key drivers of a greater consumer willingness to experiment with a wide range of premium, imported beers.

Brand-conscious attitudes amongst consumers, due in part to manufacturer marketing activity and the emergence of younger consumers as a distinct consumer group, as traditional consumption patterns were eroded by changing lifestyles, also had a marked impact on developments in consumer taste. Furthermore, growing health-orientated attitudes also meant that consumers became more willing to prioritise quality over quantity in purchasing decisions.

Brewers go upmarket

The premium sector was also driven by brewers, which, faced with saturation in volume consumption and price competition on standard beers, looked for ways to increase value sales. Strong promotional activity helped to drive up sales over the review period, with many leading brewers placing the focus of their marketing strategies on higher margin, premium products.

In the UK, for example, Scottish & Newcastle launched a new premium variant of Kronenbourg, Kronenbourg Blanc, in February 2004. The brand was designed to compete head-to-head with InBev's successful wheat beer, Hoegaarden, and was only made available in on-trade establishments. Scottish & Newcastle's premium Grimbergen beer recorded double-digit growth in France in 2005 – one of the most difficult Western European markets.

In Australia, family-owned brewery Cooper's gained market share and volume with its high quality ales, while in Italy, imported premium beers, such as Beck's (InBev) and Budweiser (Anheuser-Busch), increased their share of sales, underpinned by increasing product knowledge, most notably amongst younger consumers. Premium lager is traditionally popular in Germany, where brewers adhere to the Reinheitsgebot (purity law), which guarantees the ingredients and quality of beer. In the US, premium imported lagers, such as Corona Extra and Heineken, continued to perform strongly, despite signs of economic downturn.

Premium beers gaining ground in developing markets

Premium beer is also making headway in Russia, underpinned by the ongoing success of major domestic brands such as Sibirskaya Korona (InBev), Baltika 7 (BBH) and Bocharov (Heineken). However, such products still account for a relatively low proportion of overall sales, as they remain too expensive for the majority of the population. SABMiller's focus on the high end of Russia's beer market was reported to have paid off in 2005, as the company recorded a 14% rise in beer volume sales in the year to March 2006, which was twice as fast as the domestic beer market. The brewer was helped significantly by a 55% volume rise for its imported Czech beer, Kozel, which made it the largest licensed brand in Russia.

Premium beers are still relatively undeveloped in the Asia-Pacific region, where beer is cheap and the focus is on economy lagers rather than premium and standard products. However, the region, as well as other developing regions, such as Latin America and Eastern Europe, are thought to offer significant growth potential for the future, as consumers are starting to trade up from lower quality, cheap beer to modernised mainstream products, and on to premium brands. Consumers are also moving into beer as an aspirational mainstream alternative to cheap spirits, or other types of local indigenous alcohol. In China, SABMiller has achieved considerable success with its national brand Snow.

Imported brands gain popularity in the West

Demand for imported lagers is led by increased interest in speciality beers and premium bottled lagers, which offer some degree of status to the consumer. In the US, for example, consumer demand for imported brands such as Pilsner Urquell, Heineken and Corona Extra has risen steadily in recent years, to the detriment of domestic speciality and craft brews. While many US craft brews are of a quality equal to, or even better than their imported counterparts, US consumers continue to perceive imported beers to be of higher quality.

In the UK, the review period saw a marked increase in the number of so-called "imported" beers actually being produced locally, due to economies of scale. For example, Scottish & Newcastle produces a number of licensed brands, including Beck's, Miller Beer, Miller Genuine Draft and Foster's.

Belgian abbey beers, trappist beers and wheat beers represent a fashionable niche in many developed markets, for which consumers are willing to pay a premium. This trend is increasingly evident in countries outside the EU, with US consumers, in particular, demonstrating a greater interest in Belgian beers in 2004.

Flavoured and organic beers make an appearance

Other key trends include the production and marketing of flavoured beers. In France, for example, premium lager sales have received a boost from the continuing success of the Desperados tequila-flavoured beer brand (Heineken), which is particularly popular among younger consumers. Demand for organic beer is also booming in several markets, notably the UK.

Table 7 The Market for Premium Versus Total Lager 2001-2006

| US\$ million | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------|---------|---------|---------|---------|---------|---------|
| Premium lager | 23,836 | 26,314 | 30,522 | 34,310 | 37,007 | 39,600 |
| Total lager | 128,419 | 129,594 | 141,819 | 154,781 | 163,571 | 171,700 |
| Premium as % total | 18.6 | 20.3 | 21.5 | 22.2 | 22.6 | 23.1 |

Source: Euromonitor International

Wine

Boomers demand quality wine

Premium wine has benefited in particular from factors such as the wealth of the baby boomer population, and the growth in single- and two-person households. These consumers have higher disposable incomes to spend on luxuries such as good wines or champagne.

Wine manufacturers communicate the premium values of their offerings in different ways. Obviously, the year and origin is important in terms of wine quality, but other factors are also taken into consideration. For example, the French brand of still grape wine Château Tenac justifies its premium price positioning in export markets such as Russia partly on the strength of the fact that its bottles are transported in a horizontal position, as in a cellar. According to wine commentators, this method of transportation allows the wine to maintain its original taste.

Backlash against wine discounting

In more affluent markets, such as the UK and France, 2004 saw consumers being increasingly willing to trade-up to more premium varieties of red wine. This was in part a reaction by seasoned wine drinkers against the heavy discounting of wine prevalent in off-trade outlets in these markets. In the UK, for example, higher priced red wines experienced stronger volume growth than budget-priced red wines, as consumers associated price with quality and bought accordingly. Consumers also increasingly opted for branded wines in preference to cheaper private label offerings.

Champagne value pushed up by price rises

Key factors in the strong growth of champagne in the latter part of the review period included price rises due to shortage of supply, a move by a number of champagne producers to adopt a more premium brand positioning and increased demand for premium champagnes among affluent consumers in key markets such as the US and France. Other factors, such as EU trade agreements with non-members such as Chile, also increased the availability of champagne in developing markets.

Premium flavoured sparkling wines are also becoming popular in the US. For example, new champagnes included Piper Heidsieck's Cuvée Sublime, featuring vanilla, liquorice, caramel and spices, and Lanson La Noble Cuvee 1995 Blanc de Blancs from Caravelle Wine Selections, with candied citrus flavours. Furthermore, Spanish cava producer Freixenet launched its Brut Nature Wine in 2004, a cava with the flavours of fresh baked bread, hazelnut, cloves and cinnamon, whilst Bayfield Importing launched its French sparkling wine Jailliance Cuvee Imperiale, with peach and apricot flavours.

Table 8 The Market for Champagne Versus Total Wine 2001-2006

| US\$ million | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------|----------|----------|----------|----------|----------|---------|
| Champagne | 3,276.4 | 3,609 | 4,347.2 | 5,002.5 | 5,427.8 | 5,862 |
| Total wine | 71,960.8 | 73,834.8 | 85,220.5 | 93,728.6 | 99,827.4 | 105,817 |
| % Total | 4.6 | 4.9 | 5.1 | 5.3 | 5.4 | 5.5 |

Source: Euromonitor International

Spirits

The emergence of super-premium

Growing consumer sophistication and health consciousness have underpinned the prioritising of quality over quantity in spirits consumption. The premium and super-premium concept is already well-established in sectors such as whisk(e)y, and brandy and cognac, where prestige has always played an important part in stimulating sales. Indeed, this image has begun to be successfully exported to emerging markets, where affluent urban consumers are increasingly drawn to the status of imported Western whiskies, brandies and cognacs. Blended

Scotch whisky and cognac showed significant growth in a number of important emerging markets, including China, towards the end of the review period.

Single malts benefit from premium trend in whisk(e)y

In developed markets, the most notable beneficiary of the trend towards premium and super-premium products was single malt Scotch whisky. Glenlivet, Glenfiddich and The Macallan were amongst the brands that performed well in the important US market, for example, albeit from a low base. The leading Irish whiskey, Jameson, has witnessed notable growth in recent years as it has developed a more consistent, premium-orientated image. Pernod Ricard rebranded Jameson 1780 as Jameson 12 Years Old, as it aimed to exploit the recognition of ageing as an important component of premium status in whisk(e)y, and to create a more coherent identity for the Jameson range, which now also includes an 18 Years Old variety.

Cognac also increasingly saw growth driven by high end brands, such as Rémy Martin XO, Rémy Martin VSOP and LVMH's new super-premium Ellipse sub-brand, launched in 2004. The success of the Courvoisier brand is built on a broad range of products with different positionings, including the super-premium Initiale Extra, and the most expensive cognac in the world, L'Esprit de Courvoisier. In the US, cognac enjoys a premium image among young, mainly urban audiences, influenced by references to the product in hip-hop music and videos which portray opulent, party-filled lifestyles. Hennessy's premium image also helped drive growth for LVMH in Asia-Pacific, particularly in China, the world's fourth largest consumer of cognac, which grew by over 10% in 2004.

Image is key

The review period also saw the emergence of a super-premium segment within white spirits. The introduction of brands such as Level vodka and 1800 Silver Tequila Reserva appealed to consumers' growing demand for high quality products with a prestigious image. However, whereas in whisk(e)y, brandy and cognac, prestige is based largely on a notion of heritage, the premiumisation trend within white spirits is being driven by creative marketing and new product and packaging developments.

The quickening race to attract younger consumers has not only led to the revitalisation of existing brands through product and packaging innovation and creative marketing, it has also led to the emergence of a new kind of spirits brand developed and targeted directly at highly fashion-conscious younger consumers. This trend was pioneered in the US, where the liqueurs sector saw the emergence of brands such as Hpnotiq, Alizé Blue, Drambuie Sylk Cream, and Envy NV Liqueur. These gained strong credibility amongst ultra-fashion-conscious younger consumers by restraining from mainstream advertising and developing a presence on the club scene in major metropolitan areas, such as New York. Often the strategy would involve the sponsoring of events and parties to generate excitement around the brands amongst a very precisely targeted consumer group.

Vodka leads super-premium trend

The trend towards premium and super-premium spirits originated in the US vodka subsector, as brands such as Skyy and Grey Goose became popular amongst affluent consumers in exclusive bars. Towards the end of the review period, the dynamic emergence of the super-premium segment attracted interest from a growing number of major players. V&S Vin & Sprit has been amongst the most successful producers in terms of the geographic expansion of a premium brand, with Absolut vodka now available in over 120 countries. In 2004, the company sought to exploit the emergence of the super-premium segment through the launch of Level, a new high quality, refined vodka produced using two distilling methods. In the same year, Grey Goose was acquired by Bacardi.

Russian company Soyuzplodimport (SPI) also saw the premium trend boost its share of global vodka volume sales, as its Stolichnaya brand became increasingly fashionable in several markets. Stolichnaya's success abroad highlights the possibilities for Eastern European brands in an environment that is increasingly concerned with the heritage and authenticity of brands. It is notable that Stolichnaya's success in the US has been mainly down to Allied Domecq's acquisition of marketing rights in that market. In contrast to Stolichnaya's standard/economy positioning in its domestic market, Allied Domecq has successfully positioned the brand in the premium segment in the US.

Gin, tequila and rum follow suit

In gin, the success of premium brands, such as Bombay Sapphire and Plymouth Gin, spurred the development of new high-value brand extensions, such as Gordon's Distiller's Cut and Beefeater Wet. Another area to see the development of higher value brand extensions at the end of the review period was tequila, where several lines included silver tequila offerings that are positioned as even more premium than the original brands. August 2004 witnessed the launch 1800 Silver Tequila Reserva – 100% de Agave, which was promoted as the first super-premium tequila brand.

Rum is also showing signs of following vodka down the road towards premiumisation. As in vodka, the trend initially emerged in the US, where speciality aged rums, such as Appleton 21 Year, are priced at well over US\$50 per 750ml bottle, and Cruzan Rum, imported and marketed by Todhunter International, has captured a growing niche.

The trend towards premium rum also emerged in Western Europe towards the end of the review period, with the launch of products such as Ron Añejo Dos Maderas, a premium rum made and aged in oak barrels in the Caribbean, and aged again in Spain, using the same barrels in which sherry has already been aged. Ron Añejo Dos Maderas was launched in Spain by Bodegas Williams & Humbert SA in December 2003. Similarly, the UK saw a number of golden or aged products, such as Bacardi Oro and 8 Year, as well as Captain Morgan, as part of a discernible effort by manufacturers to develop premium products that appeal to more affluent younger consumers.

FABs lose out

The most marked casualty of the drive for premiumisation had been FABs (flavoured alcoholic beverages), as former devotees turn to vodka and white rum cocktails, and new drinkers reject them as passé. Sales peaked in 2002, and have since declined sharply.

5.4 Cosmetics and Toiletries

Premium cosmetics and toiletries accounted for an estimated 30% of total sales of cosmetics and toiletries by value in 2006, up slightly from 29% in 2001. This relatively small increase in the share accounted for by premium cosmetics and toiletries is largely attributable to the emergence of the "masstige" segment.

Consumers' growing knowledge about personal grooming issues has been fuelled by an ever wider range of lifestyle and beauty magazines and TV programmes which target men as well as women. At the same time, manufacturers have breathed new life into mature sectors and developed new product categories through the introduction of increasingly sophisticated products that blur the boundaries between the mass and premium segments.

The masstige movement

While the origins of the masstige trend lay in the economically buoyant late 1990s, when mass-market manufacturers sought to exploit the increasing popularity of premium products amongst consumers in developed markets, the expansion of the "upper mass" segment proved resilient to the decline in the fortunes of the global economy. Indeed, mass-market manufacturers have benefited from deteriorating economic conditions, as price-sensitive consumers have gained enough faith in the quality of the mass-market offer to downtrade from premium products.

Thus, while the growth of "upper mass" products was initially largely fuelled by consumer up-trading and an expansion of the consumer base, underpinned by manufacturers' aggressive marketing and a media focus on health and beauty issues, the end of the review period witnessed an increasing trend towards mass-market products, discouraging growth in premium items to some extent. Furthermore, the availability of premium brands at discount prices, for example, over the Internet, has also put pressure on market value in this segment, as has the proliferation of counterfeit or copycat products.

The share accounted for by premium products varies considerably from sector to sector within the cosmetics and toiletries market. Within fragrances, a massive 60% of sales were of premium products in 2006, reflecting the overall high standards that have been reached in this sector. Premium products are still in their infancy in the baby care sector, however, where their share rose to an estimated 4% in 2006.

Skin care benefits from anti-ageing techniques

In absolute terms, skin care is the largest of the premium cosmetics and toiletries sectors, with value sales reaching US\$23.3 billion in 2006. Premium products accounted for 39% of total skin care sales in 2006, and recorded healthy growth of 64% over the period 2001-2006.

Through adding value to products, skin care manufacturers have been able to command higher prices for their anti-ageing and firming creams. This has led to the development of different strata in the sector, with an increasing number of upper mass brands as the sophistication of the product offering in the mass sector grows. This has created a situation whereby, in order to retain their superior offerings, premium brands have to be better and offer more to the consumer, thus the emergence of super-premium brands has occurred, with products carrying prices of hundreds of dollars. For example, the Dr Perricone company introduced one of the world's most expensive skin care products in 2004, Neuropeptide Facial Conformer (an anti-ager), priced at US\$570 for 2oz (57g).

Premium products now compete with upper mass brands such as Olay, Dove, Avon, L'Oréal and Nivea, which are marketed as having similar properties to premium brands. For example, these mass brands have similar technology to reduce wrinkles to the premium brands, and so are also able to charge more for the products, whilst being sold through mass distribution channels like supermarkets and hypermarkets. One way in which premium brands have distinguished themselves from mass brands is through the evolution to super-premium status. Whilst mass brands are already costing in the region of US\$20, some super-premium brands cost hundreds of dollars, and claim rapid and effective results for consumers.

Fragrances fuelled by interest from men

Fragrances form the second largest premium cosmetics and toiletries sector, with sales worth an estimated US\$17.8 billion in 2006, having recorded growth of 39% since 2001. The percentage share accounted for by premium fragrances nevertheless declined over the review period, to just under 60%. Although growth continued in emerging markets such as Brazil, Russia and South Africa, underpinned by rising disposable incomes, wider product availability and high profile advertising by major players, sales in some of the most developed markets, such as France and the US, suffered from a combination of increased consumer price consciousness, saturation of usage and intensified competition between retailers.

Premium men's fragrances have been one of the main drivers of growth in the segment. This is because, unlike previous generations, which considered such products "unmanly", an increasing number of men are paying greater attention to their grooming regimes, driven by both the influence of men's lifestyle magazines and manufacturers' promotional activities. According to industry sources, an increasing number of men are also making their own purchases, in contrast to the traditional approach of expecting their partners to buy them a fragrance as a gift. In response, manufacturers have started to differentiate more clearly their male and female lines, leaving behind the unisex fragrances that proved so popular at the beginning of the review period.

Women, however, remain the key decision makers in the purchasing process, and, consequently, many manufacturers use partner scents to market their brands. Davidoff (Echo Women/Echo Man) and Inter Parfums (Burberry Brit/Burberry Brit for Men) were typical examples of manufacturers which launched partner fragrances in 2003 and 2004.

In line with the celebrity culture, a trend for celebrity endorsed scents has been apparent in recent years. However, such fragrances tend to have a fairly short shelf life, as the success of the perfume is parallel with the popularity of the celebrity. Jennifer Lopez and Britney Spears both launched fragrances in 2004. In 2005, it was reported that David and Victoria Beckham would launch their own signature perfume range, having signed a multi-million pound advertising deal with Coty for a "his and hers" perfume range. The perfumes were expected to be targeted at the lucrative Asian market initially. Victoria Beckham already promotes an expensive skin care range in the Far East. David Beckham launched the men's fragrance Instinct in November 2005.

Professional women drive demand for premium cosmetics

The global market for premium colour cosmetics was worth US\$12.9 billion in 2006, and recorded growth of 37% over the review period. Premium products represented some 35% of the total market for colour cosmetics. Again, their share has been kept down due to the increasingly high quality of upper mass-market brands, many

of which use the same refined ingredients as their premium priced competitors. Brands which have adopted such a positioning include Bourjois, L'Oréal Paris and Max Factor.

Penetration of premium products varies considerably from market to market. In the UK, premium brands accounted for 59% of total value sales in 2004, with growth driven by the success of niche brands, such as Benefit and Pout, which appeal to the younger generation. In Germany, on the other hand, the share accounted for by premium brands, despite being on the increase, amounted to a mere 15% in 2004, owing to the inherent price consciousness of consumers.

Premium products came to account for 40% of the total colour cosmetics market in the US by 2004. As in the UK, newer, smaller brands, such as MAC and Bobbi Brown, provided much of the impetus for growth, owing to their cult status. In addition, premium brands tend to be the driving force behind revolutionary product introductions in terms of colour, long-lasting wear, treatment claims and packaging.

Higher levels of purchasing power have enabled consumers in emerging markets to trade up to more expensive products. In Asia-Pacific and Eastern Europe, demand during the review period was generated predominantly by working women in urban areas, who favour premium products as a means of highlighting their affluence and social status. For instance, in Taiwan, premium products represented 60% of total colour cosmetics sales in 2004, having seen a massive increase of 18 percentage points since 1999. This is due to the fact that working women have an affinity with premium brands, in particular niche brands such as Stila, which appeal to the fashion conscious. In India, mass buyers are trading up to premium items, whilst people previously buying in the unorganised sector are trading up to mass brands.

Estée Lauder is the world leader in premium colour cosmetics, underpinned by a diverse portfolio of brands which are positioned distinctively to avoid cannibalisation of market share. While MAC, Bobbi Brown and Stila appeal to younger, more fashion-conscious women, Estée Lauder retains an older client base.

Celebrity endorsed products aid premium hair care growth

Only 14% of total hair care sales consisted of premium products in 2006, a share which remained relatively stable over the review period. As with colour cosmetics, the relatively low penetration of premium products is due to the growing sophistication of upper mass-market brands, many of which utilise the same technologies and offer similar value-added benefits to their premium counterparts.

Markets which saw particularly strong growth in premium products over the review period include South Korea and India, as rising purchasing power has enabled consumers in these markets to view hair care products as an integral aspect of their beauty care regime rather than just basic products, with greater emphasis on value-added benefits and premium brands.

In the UK, the value share accounted for by premium hair care products rose to 20% in 2004, due in part to the impressive performance of salon products. Brands bearing the names of celebrity hairdressers available through retail outlets, such as Nicky Clark, John Frieda and Charles Worthington, have also played an important role in pushing up premium sales.

Premium sun care benefits from cancer worries

Sun care experienced the strongest growth in premium products over the review period, of 91% in value terms. Nevertheless, sun care continued to be predominantly mass-market, with premium products accounting for only 22% of sales in 2006. Much of the growth in premium sun care products during the review period was due to the expansion of the self-tanning subsector. Consumers showed increasing interest in premium sun protection for the face, in particular, and in premium self-tanners. Products specifically for the face are sold in small sizes, and therefore command higher margins. Winter sales also helped to drive the premium segment forward, as a large number of perfumeries and pharmacies continue to sell sun care products during the winter months, whereas grocery outlets tend to withdraw sun care products from their shelves once the summer season is over.

Premium brands have also enjoyed success through adopting skin care properties, although mass brands are increasingly quick to copy such products, so constant innovation is needed to keep one step ahead. For example, Biotherm, a L'Oréal affiliate, launched Anti-Fatigue Radiance Care in 2004, which includes thermal spring water with magnesium and calcium, and added glycerol for moisturising. The Leg Shaping Gel claims to provide an additional firming effect. Clarins also launched a self-tanning gel aimed specifically for men.

Bath and shower and baby share less developed

The premium segments of the bath and shower and baby care sectors are relatively undeveloped, due to the more commodified nature of these segments. Nevertheless, both saw their shares increase over the review period following strong growth, particularly in baby care, where sales increased by some 78% between 2001 and 2006.

Mass-market baby care brands are increasingly adopting the pampering qualities of designer brands, with the inclusion of vitamins, minerals, herbs and aromatherapy ingredients in their formulas. However, the rise of “yoga moms” and “yummy mummies”, who have money to spend on the best products for themselves and their offspring, is leading to higher demand for premium baby care products, such as Burt’s Bees Buttermilk lotion and California Baby Calendula Cream. There has been a notable trend towards organic baby care products which carry a higher price premium. For example, in line with the trend for natural baby care, in 2005, Hain Celestial partnered its Earth’s Best baby food brand with its Jason personal care brand to launch an organic baby care range, which initially targeted the US and the UK markets. Hain Celestial claims that the organic baby care range is free of synthetic and chemical ingredients including mineral oil, petroleum and lanolin.

Table 9 Sales of Premium Cosmetics and Toiletries by Sector 2001-2006

| US\$ million | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------------|--------|--------------------------|--------|--------|--------|--------|
| Skin care | 14,270 | 15,239 | 18,016 | 20,128 | 21,836 | 23,364 |
| Fragrances | 12,799 | 13,168 | 14,560 | 15,792 | 16,790 | 17,798 |
| Colour cosmetics | 9,435 | 9,561 | 10,554 | 11,322 | 12,089 | 12,875 |
| Hair care | 5,612 | 5,726 | 6,280 | 6,761 | 7,126 | 7,482 |
| Sun care | 728 | 793 | 978 | 1,110 | 1,244 | 1,387 |
| Bath and shower | 842 | 874 | 993 | 1,082 | 1,145 | 1,207 |
| Baby care | 116 | 124 | 141 | 162 | 183 | 206 |
| TOTAL | 43,801 | 45,485 | 51,522 | 56,358 | 60,413 | 64,320 |
| US\$ million | | % growth 2001/2006 | | | | |
| Skin care | | 63.7 | | | | |
| Fragrances | | 39.1 | | | | |
| Colour cosmetics | | 36.5 | | | | |
| Hair care | | 33.3 | | | | |
| Sun care | | 90.6 | | | | |
| Bath and shower | | 43.5 | | | | |
| Baby care | | 77.8 | | | | |
| TOTAL | | 46.8 | | | | |

Source: Euromonitor International

Table 10 Premium Cosmetics and Toiletries as a % Total Sales by Sector 2001-2006

| % total sales | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------------|------|------|------|------|------|------|
| Fragrances | 62.7 | 62.9 | 62.8 | 62.3 | 60.8 | 59.7 |
| Skin care | 38.8 | 39.0 | 39.8 | 39.7 | 39.3 | 39.0 |
| Colour cosmetics | 34.9 | 34.7 | 35.0 | 34.9 | 34.9 | 35.1 |
| Sun care | 20.0 | 20.3 | 21.7 | 22.3 | 22.2 | 21.8 |
| Hair care | 14.4 | 14.4 | 14.3 | 14.2 | 14.0 | 13.8 |
| Bath and shower | 4.4 | 4.6 | 4.7 | 4.9 | 4.9 | 4.9 |
| Baby care | 3.7 | 3.8 | 3.9 | 4.1 | 4.2 | 4.2 |
| TOTAL | 29.4 | 29.6 | 30.1 | 30.1 | 29.8 | 29.6 |

Source: Euromonitor International

6. RETAILING TRENDS

6.1 Supermarkets

Going upmarket

Supermarkets, hypermarkets and mass merchandisers tend to cater largely to families, and aim to provide a limited choice of a wide range of products at low prices. Therefore, although there may be an underlying trend towards higher quality products in general, especially as a result of masstige products and greater product segmentation, true premium brands tend to be stocked in limited quantities through these channels.

Exceptions to the rule are some premium foods, such as luxury ice cream and chocolate, and premium alcoholic drinks, such as lager, wines and spirits. Penetration of premium products has reached such a high level in these sectors that supermarkets normally stock several branded and private label premium lines in these sectors.

Furthermore, in sophisticated retail markets, such as the UK, some large supermarket chains specialise in the premium end of the food market, including Waitrose (see box) and Marks & Spencer. Indeed, Marks & Spencer posted a sales rise of over 3% for the year to April 2006, largely due to the success of its premium grocery division, which achieved sales growth of 7% over the same period. This was helped by store refits throughout 2005, and the introduction of the Simply Food concept to BP petrol forecourts, which tapped the lucrative convenience trend. Food sales were also boosted by a successful TV advertising campaign which highlighted the quality and innovation of its product range. The advertisement for its melting chocolate dessert, in particular, resulted in a massive jump in sales of the product. Also, as consumers seek high quality ingredients, convenience and provenance, products such as Oakham farm chickens, which are exclusive to Marks & Spencer, are proving very popular, according to the company. Due to the success of its urban Simply Food format, Marks & Spencer agreed in early 2006 to purchase 28 stores from discount frozen food retailer Iceland, providing another illustration of UK consumers' desire to trade up to more exclusive retail formats.

Case study: Waitrose

UK supermarket chain Waitrose is positioned as a high quality retailer, and has an annual turnover of almost US\$3 billion. Waitrose forms part of the John Lewis Partnership and had 173 stores at the beginning of 2006. Waitrose's mission is to "combine the convenience of a supermarket with the expertise and services of a specialist shop". Waitrose aims to offer a premium quality food range. The company also offers innovative products that suit the lifestyles of its customers. Importantly, Waitrose aims to provide "Everyday Food Expertise", as opposed to food which is largely purchased for special occasions.

Waitrose's buying strategy revolves around the pursuit of "food excellence". Its ethical buying policies are designed to offer consumers trust in the providence and integrity of the production of its food, and allow them to choose products that correspond with values such as a belief in animal welfare or organic food. The retailer was one of the first to sell organic products, in 1983, and now has over 1,300 organic product lines. The organic grocery range has doubled sales over recent years, with over 500 items now stocked.

Waitrose claims to be committed to supporting British farmers wherever possible, buying produce in season and actively helping farmers convert to organic production. Products are only sourced from abroad if they cannot be sourced within the UK.

Waitrose is very strong among the more affluent AB and C1 groups of consumers, which account for 60% of spend in Waitrose, compared with 47% of the market overall. The supermarket's popularity with ABs and C1s is attributable partly to its quality driven offer and range of speciality products, as well as its strong customer service principles and the location of many Waitrose stores in prime high street sites. The age profile of Waitrose consumers is skewed towards the 45-64, and 64+ age groups, who may not have children living at home and, therefore, have a higher disposable income. For example, 80% of Waitrose spend is accounted for by households with no children.

Waitrose is recognised for the high quality of its private label offer. However, it also has a high branded presence, particularly amongst specialist brands, which supports its premium positioning. Unlike other UK supermarket retailers, Waitrose is not price-led and does not often carry out price promotions.

Premium private labels

Private label development is a strategy increasingly used by major supermarket and mass merchandiser chains as a way of increasing their margins and attracting customers to stores. There has been a clear shift in the private label industry over the last decade towards developing premium products, especially in the most developed markets. This has served to raise margins for retailers, and elevate the image of private label products, and indeed the store itself, in the eyes of the consumer.

The trend towards premiumisation has been especially noticeable in the UK market, where most leading retailers have their own premium ranges, including Sainsbury's (Taste The Difference), Tesco (Finest) and Asda (Extra Special). This trend represents a conscious attempt by retailers to exploit a new generation of UK consumers with high levels of disposable income, who make more sophisticated and politically aware shopping decisions. New product lines are designed to appeal to working consumers with busy lifestyles, in both the food and non-food sectors. Packaging of premium private label products is usually superior, while the products themselves contain more natural or luxury ingredients. Sainsbury's premium priced Taste the Difference products are provided in boxes and bottles that give details about their place of origin and the reasons behind their superior quality. Olive oil, for example, comes equipped with information about the oil's authentication by Italian taste panels.

Discounters, too, have ventured into premium private label territory. German discounter Aldi expanded its Grandessa line to a range of high-end foods in 2004. The Grandessa name was previously used for ice cream, but was expanded to 48 SKUs of premium foods from various categories, including kettle-style crisps (chips), fire roasted vegetable pizzas with artichokes, and mango chai granola cereal. Another Aldi line, Fit & Active, is also being expanded into new categories, such as low-fat salad dressing, frozen fruit and canned peaches.

A similar trend towards premium products can be observed in North America. Loblaw's and Wal-Mart set the precedent with the launch of the upmarket President's Choice and Sam's American Choice brands, respectively. This was followed by a host of premium private labels, including Safeway's Safeway Select and Kroger's Private Selection. The latter includes products from chicken noodle soup mix and salsa grande to Britannia crisps, chocolate and mint cocoa supreme, and chocolate squares. More recently, Shaw's Signature was launched by Shaw's, and Topco ventured into premium brands with World Classics Trading Company, a range of imported and speciality items.

Trends in non-food products

In the non-food arena, the development of premium private label lines is increasingly common in the area of cosmetics and toiletries. In the UK, Tesco has extended its Finest range into the cosmetics and toiletries sector, developing premium products with evidently natural ingredients, designed particularly to appeal to younger generations, and with a development potential which will grow in line with the lifestyle aspirations of this consumer group. Natural, organic derivation for products is a trend which seems set to continue in the UK, and as older groups give way to maturing consumers, healthy, chemical-free consumption will be seen as a fact of life, not as an alternative lifestyle choice.

In the US, the aim of private label cosmetics brands such as Sonia Kashuk (Target), Apt 5 (Duane Reade) and Lumene (CVS) is to bring a national brand, department store image to discount and drugstores. Lumene is imported by CVS from Finland, but is exclusive to the chain in the US.

Summary 2 Use of Premium Ranges by Selected Food Retailers 2005

| | |
|------------------|---|
| Tesco (UK) | Tesco Finest range, comprising over 1,000 products made with premium ingredients; Tesco Organic; and the World on a Plate range of international foods. |
| J Sainsbury (UK) | Taste The Difference range. Also, as identified through its Nectar loyalty card database, customers in Sainsbury's "Foodie" category (affluent consumers who enjoy serving and eating unusual premium foods) receive recipes, serving suggestions and mailings with images of gourmet-style products. |

| | |
|----------------------|--|
| E Leclerc (France) | The Nos Régions ont du Talent range, which promotes French cuisine, now comprises over 180 lines. The label promotes regional specialities within France. Supporting small- and medium-sized businesses is also behind this initiative, which was introduced in 1999. The concept has since been extended to 20 wines under the Nos Vignerons ont du Talent label. |
| Carrefour (France) | Carrefour is also increasing its offer of speciality and premium-style food products. In 2002, new high quality lines were introduced in stores in the majority of European outlets. The Reflets de France line was launched in France in 2001 alongside value-added lines such as Escapades Gourmandes, Destinations Saveurs and Carrefour Bio. |
| Spar (international) | Having originally focused on providing a cheap alternative to branded products, Spar has developed its private label towards premium products, which equal or exceed the quality of the main brands, but at a discounted price. |
| Kroger (US) | The Naturally Preferred range has become a centrepiece in the Nature's Market natural foods sections that Kroger is highlighting in some stores, primarily where Kroger competes with other natural foods grocers, such as the Whole Foods Market and Wild Oats chains. |

Source: *Euromonitor International*

6.2 Department Stores

A focus on service

Unable to compete with the aggressive discounting policies of mass merchandisers and large-scale multiple grocers expanding into non-food categories, traditional mixed retailers in the department store and variety store categories have had to seek to differentiate themselves through the provision of unique products and service. Staffing levels in department stores are traditionally higher than in other retail formats, offering the opportunity to provide greater personal attention to shoppers and to advise on products with which customers may be unfamiliar.

This could offer potential in some product categories, such as cosmetics and toiletries, in which premium manufacturers are increasingly looking to develop more technologically advanced items in order to differentiate themselves from the growing upper mass market. However, this example illustrates the fact that, if such potential exists, it is likely to be found at the premium end of the market, thus providing even more encouragement to department stores to move upmarket to attain a distinctive identity and unique market position.

Move towards “open sell” model

However, the nature of service offered by department stores has contributed to their old-fashioned image amongst consumers who have grown familiar with self-service formats, and find more direct staff-consumer relations intrusive. For this reason, “open sell” techniques have become popular in several major markets, including Spain and the US, benefiting sales of products such as premium fragrances. Unlike department stores, where premium fragrances are traditionally sold behind full-service counters, retailers such as Sephora (owned by LVMH), feature their products on open shelves, a concept which has found favour with younger consumers, in particular. In response to this trend, many department stores have switched to a more “customer friendly” merchandising environment, displaying mass and premium fragrances in alphabetical order on open shelves.

Expansion into Asia-Pacific

In response to growth in Asia-Pacific's consumer markets, as increasing affluence drives demand for luxury goods, some upmarket department store retailers are looking to expand in the region in order to compensate for stagnation in developed markets. For example, French luxury goods retailer PPR (formerly known as Pinault-Printemps-Redoute Group) recently reported that its Gucci brand has benefited from a boom in sales in Asia-Pacific. As it sells its Printemps clothing chain to re-focus investment on its more high-profile luxury fascias, including Gucci and Yves Saint Laurent, PPR is expected to up its presence in the region. Furthermore, the jeweller Cartier plans soon to have 30 stores across China, second only to the number in the US, while LVMH opened its first Sephora stores in China during fiscal 2005. However, one issue luxury retailers need to keep in mind when operating in China is the threat from counterfeiters. The Chinese government is working to crackdown on rip-off labels, as are overseas regulators, including the EU, but until the problem is firmly under control competition from cheaper copycat products will continue to undermine brand equity in the country.

In Japan, aggressive discounting by drugstores means that manufacturers are having to try hard to uphold the image of prestigious brands. Department stores in Japan usually sell premium products, whilst manufacturers are streamlining certain mass and premium brands to be available only at drugstores, supermarkets and convenience stores. In order to maintain the prestigious brand image of its RMK brand, Kanebo Cosmetics Inc restricted sales to only 66 department stores (as of the end of 2004). The company is reluctant to launch the product in any store which is deemed inappropriate for its prestigious image, and even ceased selling RMK in an upmarket department store in Tokyo because the company was not happy with the location of the RMK counter within the store.

Use of concessions

Concessions are a prominent feature of the premium fashion and apparel retail sector in many Western European markets, including Germany and the UK. Many clothing retailers and department stores employ concessions as a means to diversify into new areas of clothing, adding premium or youth-orientated ranges with minimised risk and reduced investment costs. Luxury clothing brands also use concessions in large department stores in order to broaden their consumer base without committing to the high start-up costs of opening their own outlets in premium locations.

In Germany, Beiersdorf AG launched a new "shop in a shop" concept in cooperation with Karstadt department stores in 2005 for its leading cosmetics and toiletries brand Nivea. In these concessions, the whole range of Nivea products is available at one central point in the store, with trained sales staff helping customers to find what they need. Thus an ambience of luxury brands is created. The concept seems to be very successful, with Nivea reported to have quintupled its sales in these new shops. By 2006, 20 such concessions had been implemented, with more expected to follow. Beiersdorf is also trying to implement the concept in smaller shops, and was in negotiations with Edeka.

6.3 Specialist Retailers

Stand-alone stores offer more flexibility for cosmetics brands

In the cosmetics and toiletries sector, specialist retailers have been highly active in trying to lure consumers away from making their premium purchases in supermarkets. One way in which they have approached this is by offering a more tailored service for customers, with better product lines and an environment of luxury. With department stores losing share of sales, several multinationals have turned to the stand-alone model. Traditionally positioned in airports, the single branded boutique has increased its presence all over the world. Already an important channel in Japan, they are opening in the US and Western Europe. Biotherm, Shu Uemura, MAC, Lancôme and Origins all have their own shops, with the aim being to bring the brand closer to the consumer. There are no competitor brands for consumers to be drawn to, they can have higher stock levels than department stores, they allow flexibility in store layout, and branding is under the control of the brand owner. Location is central to the success of standalones, but the growth seen so far suggests that this is the type of innovation needed to raise sales through specialist outlets.

Another method of combating supermarket competition has been for retailers to go more upmarket, or launch their own private label premium products. The UK's Body Shop achieved success in 2005 by repositioning its brand in the masstige segment; while in February 2006, discount fragrance retailer Perfumania introduced two private label collections, Vyvedas and Sedona Valley Spa, in its bid to enter the skin care's premium pricing segment.

LVMH operates a strategy of selective retailing throughout Europe, the US and Asia, and focuses on two segments. In travel retail, Miami Cruiseline and DFS sell luxury goods to international travellers, while Sephora and the company's Paris department store Le Bon Marché operate in "specialised retailing concepts". In October 2005, LVMH opened the new flagship Louis Vuitton store, Maison, in Paris's Champs Elysees.

Premium food and drinks retailers find niches

Within the food and drinks industry, similar trends are emerging towards the growth of small, premium specialists, which are attracting more affluent high street shoppers with products that are not found in supermarkets. An example of this is German off-licence chain Vom FASS, a company which is benefiting from current trends towards premium wines and spirits. The company currently operates in five European countries and has over 170 stores worldwide. In November 2005, it was announced that Vom FASS would expand its franchise operation into the UK market in response to growth in the country's premium alcohol market. Vom FASS's new generation off-licences sell wine, spirits, oil and vinegar from wooden and glass casks. The company already has concessions in the upmarket department stores Harrods and Selfridges, as well as 12 stand-alone shops in the UK. The company plans to expand the number of owner-operated stores. Vom FASS is also expanding in other countries, opening a second store in Paris and stores in Hong Kong and New Zealand at the end of 2005.

The emergence of upmarket boutique chains in the US

Specialist boutique chains are flourishing in markets such as the US, due to trends towards premium clothing and accessories. For example, several upmarket store concepts have recently been introduced to address the needs of the nation's growing female baby boomer population. These include Chico's, Janeville and Yzza, as well as chains from catalogue retailers such as J Jill and Coldwater Creek. In 2005, Gap introduced a new boutique concept, Forth & Towne, targeting women over 35. In order to offer a superior shopping experience, Forth & Towne employs "style consultants" rather than sales people, and features art-deco style furniture that recalls the golden age of department stores. Its fitting rooms are furnished in the style of a hotel lobby, with comfortable chairs and a "style table" laid out with fashion magazines, fresh flowers and water bottles.

Similarly, in response to the growing trend towards "yoga moms", US retailers are beginning to launch special boutiques within shopping malls aimed at this target market. For example, Carter's Inc, which has long been the leader in baby clothes sold at department stores, has been rolling out stores in shopping malls, next to retailers like Barnes & Noble and Bed Bath & Beyond, where yoga moms tend to spend time. In 2006, Carter's was planning to roll out 250 such stores, up from 30 at the time. Other types of stores are also attempting to attract yoga moms by stocking more specialist products, such as organic baby foods, or children's clothing made from pesticide-free hemp.

6.4 Duty-free

Duty-free operators (which mainly consist of airport concessions) are traditionally very important retailers of luxury and premium products, specialising in high-value products such as premium cosmetics and toiletries, chocolates and wines and spirits. Many consumers save such purchases until they travel, in order to benefit from lower prices.

Market closely tied with tourism trends

Duty-free shopping is in most countries the exclusive right of foreigners leaving the country, and as a result shows a close correlation with tourism activity. Declining sales over the 2001-2003 period reflect market altering events, ranging from 9/11 to the SARS outbreak and the Gulf War. Airport sales suffered badly because of the decline in passenger journeys over these years, but other shops and sales, particularly at border crossings, benefited in areas where nationals were able to drive across borders, particularly in North America. In Latin America, the borders of Brazil and Argentina, for example, play host to one of the largest border posts in the world. Land borders in much of continental Europe are no longer opportunities for duty-free retail, given the abolition of intra-EU duty-free in 1999.

North America, Western Europe and Japan dominate the global market for duty-free cosmetics, with a combined share of about 80%, but these markets are all mature. Cosmetics sales in these countries, even at the premium level, are increasingly driven by discounting and promotions.

A showcase for new products

For cosmetics and toiletries manufacturers, duty-free is a showcase for brand innovation in a marketing-driven industry. Insulated to some degree from the discounting and promotions that mark cosmetic sales in the mature Western markets, duty-free retailers are free to focus on brand. Manufacturers are aware of this, as evidenced by exclusive duty-free product launches such as a new fragrance from Elizabeth Arden showcased by BAA's World Duty-Free. Other innovations include limited editions and seasonal fragrances.

Travellers less price-sensitive

One feature which makes beauty products so buoyant in the duty-free environment is that passengers are less price-driven than other consumers. A large proportion of duty-free customers know what product they are seeking rather than shopping vaguely for a bargain. Also supporting prices is the fact that most shoppers are seeking to treat themselves or are buying products as gifts. Thus, while duty-free retailers cannot compete with the discounting of beauty products in the European and US markets, many of their customers are not shopping on price terms.

Perfume is a duty-free staple because it traditionally contained alcohol and was subject to excise duty. Skin care has also been a particularly dynamic area of duty-free sales in recent years, with new offerings including men's products. In the UK, beauty products exceed 50% of sales at BAA's World Duty-Free.

Chocolate confectionery plays a particularly strong role in the US, as duty-free products offer an introduction to the very different European styles of chocolate. Gourmet boxed products are priced at a significant premium to mass-market brands, reflecting their superior quality.

Going it alone

During the review period, luxury brand owners began to take more control over distribution, which provides them with greater margins than the control of sourcing and manufacturing. Hence, companies such as LVMH and Omega set up their own outlets within airports. In other cases, duty-free operators ventured into their own brands. For example, Dufry created its own range of products under a variety of brand names, as well as operating branded stores for Hermes in Nice and the jeweller Damas in Sharjah under partnership agreements. Furthermore, Falic group, which operates Duty-free Americas and is particularly strong in clothing, purchased the Christian Lacroix brand in January 2005 from LVMH.

Leading duty-free operators have also been more innovative in recent years, placing a stronger focus on premium goods and retail branding. Host/NCM planned to debut a number of new retail ventures in Atlanta, featuring merchandise from Tommy Hilfiger, Kenneth Cole and Tumi (luggage), as well as a store operating under the Brookstone brand (best known as a retailer of innovative products and specialised tools). BAA USA's Airmall is one of the best-known airport shopping venues in the country, with familiar names including Gap, Timberland, Nine West and Clinique.

Table 11 Global Duty-Free Market Value by Sector 2001-2006

| US\$ million, rsp at current prices | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|
| Cosmetics and toiletries | 4,145 | 4,081 | 4,330 | 4,489 | 4,665 | 4,852 |
| Tobacco | 2,270 | 2,229 | 2,300 | 2,373 | 2,425 | 2,474 |
| Alcoholic drinks | 1,672 | 1,708 | 1,745 | 1,757 | 1,814 | 1,868 |
| Food | 550 | 564 | 568 | 573 | 579 | 585 |
| Luxury | 5,072 | 5,040 | 5,252 | 5,398 | 5,569 | 5,736 |
| TOTAL | 13,709 | 13,622 | 14,195 | 14,590 | 15,052 | 15,514 |
| | % | | | | | |
| | growth | | | | | |

| | 2001/2006 |
|--------------------------|-------------|
| Cosmetics and toiletries | 17.0 |
| Tobacco | 9.0 |
| Alcoholic drinks | 11.7 |
| Food | 6.3 |
| Luxury | 13.1 |
| TOTAL | 13.2 |

Source: *Euromonitor International*

Note: *Includes both premium and non-premium*

6.5 Home Shopping and the Internet

Several home shopping retailers have become more specialised and have moved upmarket in recent years, in a bid to increase sales and differentiate their offerings. Thus, general catalogue retailers such as Littlewoods or La Redoute Quicksilver now offer a range of designer branded adult and children's clothing ranges, including Ted Baker, Bench, Diesel, Quicksilver and Tommy Hilfiger, which offer superior margins.

In line with increased Internet usage and e-commerce worldwide, many consumers are turning to the Internet for purchases of premium products, as this offers them the opportunity to buy hard-to-find products, often at discounted prices. Internet shopping, which has benefited from the rapid rise in broadband connections, offers consumers convenience, as people are increasingly short of time and moving away from cities in order to work from home. While country or suburban dwellers may be near large retail parks, such outlets may not offer the type of specialised merchandise or favourable prices that can be found on the Internet. Online auction house eBay has become an increasingly popular method of purchasing premium products, as merchants can offer hefty discounts on retail prices. For example, many eBay merchants offer end of stock or promotional premium beauty items at deep discounts, thus competing with retailers.

In response to these trends, several major companies have launched their own websites for premium brands. For example, at the end of 2005, L'Oréal launched the *giorgioarmanibeauty.com* site, while in January 2006, Estée Lauder added an e-commerce facility to the relaunched *esteelauder.co.uk* and *clinique.co.uk* websites to offer consumers products that are only available on-line. Limited edition products have become staple items in most brand line-ups to encourage spontaneous purchases from consumers. As part of this strategy, the on-line Estée Lauder stores are expected to offer web-exclusive products not only to attract consumers to their sites, but also to keep them coming back for special deals. Competitive pricing is also expected to bring premium branded goods within the reach of more consumers. Lower overheads means manufacturers are in a stronger position to compete on price by selling on-line.

7. PREMIUM OPERATOR STRATEGIES

7.1 Acquisitions

Several of the large food and drink operators have been seeking to tap into the premium market by acquiring more upmarket brands. In the food sector, Heinz is a notable example of this. In 2005, the company purchased Nancy's Speciality Foods, a manufacturer of gourmet frozen ready meals and desserts. Heinz hoped the acquisition would enable it to boost its frozen food portfolio in the face of the price pressure being exerted by private label competitors. At the same time, Heinz would be able to appeal to the growing core of consumers who are demanding more upmarket convenience foods.

Nestlé entered the super-premium ice cream sector in 2002, with the acquisition of the Häagen-Dazs brand in North America, following the buyout of Pillsbury's 50% stake in Ice Cream Partners USA. This was followed by the purchase of a majority share in Dreyer's Grand Ice Cream, and the acquisition of Südzucker's ice cream subsidiary, Schöller. Rival Unilever also owns a number of premium ice cream brands, including Breyers, Algida, Magnum, Ben & Jerry's, Viennetta, Cornetto and Carte d'Or. The company acquired the super-premium Ben & Jerry's brand in 2000.

Chocolate manufacturers go upmarket

In 2005, Cadbury Schweppes bought premium chocolate manufacturer Green & Black's in a bid to tap into the organic and premium chocolate segment. The acquisition not only enabled Cadbury to enter both the organic and premium chocolate segments, which are growing faster than chocolate confectionery overall, but was also expected to improve Cadbury's own image with regard to fair trade practice.

Similarly, US chocolate giant Hershey, in 2005, invested in the premium chocolate segment with its purchase of dark chocolate specialist Scharffen Berger and Californian-based Joseph Schmidt Confections. With its move into the US\$1.7 billion premium chocolate segment, Hershey also looks to benefit from an anticipated boost in demand for dark chocolate, which is said to carry antioxidant properties.

Wines and spirits companies capitalise on super-premium trend

Wines and spirits companies have also been falling over themselves to invest in the super-premium segment, in response to trends towards trading up by affluent consumers. In 2002, Campari made a decision to revamp its outdated image by acquiring a majority stake in US company Skyy Spirits, which gave it the premium brand Skyy Vodka. In 2004, Bacardi acquired Grey Goose, which was at the forefront of the emergence of the super-premium vodka segment in the US. The brand filled a major gap in Bacardi's portfolio and fulfilled the company's long-stated goal of becoming a serious player in the vodka category, following the launch of the super-premium Turi vodka in 2002.

In recent years, US wine company E&J Gallo has embarked on an acquisition spree in an attempt to raise the overall quality of its offerings. This included the Louis M Martini Winery in California, one of the oldest premium wineries in the Napa Valley, in 2002.

Constellation Brands is another company that has been expanding its upmarket wine portfolio in order to keep pace with the increasing consumer preference for premium brands. Constellation Brands' move into premium started with the purchase of Robert Mondavi in October 2004, and continued with a distribution deal with premium Italian wine company Ruffino earlier in 2005. In September 2005, it was announced that Constellation Brands had acquired Rex Goliath, a small premium US label. In June 2006, Constellation completed the takeover of Canada's Vincor International, whose range of premium and super-premium brands includes Kim Crawford and Jackson Trigg in Australasia and North America, and Kumala in South Africa. The latter was launched in the US in 2005 as a premium brand costing US\$8.99.

Brewers follow suit

In 2005, Australian beer company Foster's acquired a majority holding in Southcorp, creating what it claims is the world's leading premium wine company. Southcorp's strong wine brands include Lindemans, Rosemount and Penfolds, which were added to Foster's existing premium wine business, Beringer Blass Wine. Also in 2005, Pernod Ricard acquired Allied Domecq and became the world's largest wine and spirits group, with premium wines including Montana and Campo Viejo, while Diageo acquired the US wine company Chalone Wine Group, adding to its other smaller premium vineyards, Beaulieu Vineyard and Sterling Vineyard.

Major cosmetics and toiletries companies have focused on raising the profile of their mass-market brands, as well as buying into the premium segment. For example, in 2005, L'Oréal acquired SkinCeuticals, an exclusive brand chiefly sold through premium outlets such as spas and health clubs. This enabled L'Oréal to strengthen its positioning as a sophisticated and high quality brand that can command higher price premiums.

| Summary 3 Key Premium/Super Premium Acquisitions 2002-2006 | | |
|--|------|--|
| Company | Year | Acquisition |
| Nestlé | 2002 | Häagen-Dazs super-premium ice cream brand in North America |
| Campari | 2002 | Skyy Spirits, including premium vodka brand Skyy Vodka |
| E&J Gallo | 2002 | Louis M Martini Winery, California |
| Constellation Brands | 2004 | Robert Mondavi wine company |
| Bacardi | 2004 | Grey Goose, super-premium vodka |

| | | |
|---------------------------|------|---|
| L'Oréal | 2005 | SkinCeuticals, premium skin care manufacturer |
| Heinz | 2005 | Nancy's Speciality Foods, a manufacturer of gourmet frozen ready meals and desserts |
| Cadbury's | 2005 | Green & Black's, organic chocolate company |
| Diageo | 2005 | Chalone Wine Group, and Bushmill's Irish whisky |
| Hershey | 2005 | Scharffen Berger and Joseph Schmidt Confections |
| Constellation Brands | 2005 | Rex Goliath wine company |
| Foster's | 2005 | Southcorp (premium wine) |
| LVMH | 2005 | Glenmorangie premium malt whisky |
| Constellation Brands | 2006 | Vincor International, a Canadian wine company |
| Boizel Chanoine Champagne | 2006 | Lanson International (champagne) |

Source: *Euromonitor International research*

7.2 Repositioning

In addition to acquiring premium brands, large food and drink manufacturers have also been focusing on creating more upmarket brands, or repositioning existing brands to take advantage of the latest market trends. For example, ConAgra introduced Wolfgang Puck's pizzas, while Nestlé has repositioned its Lean Cuisine line in the indulgence segment.

Coca-Cola attempts to shed unhealthy image

In 2005, The Coca-Cola Company increased marketing expenditure on its premium mineral water brand, Evian. The company also focused on developing premium juices and functional products in an attempt to add value to its portfolio and reduce its reliance on the flagging carbonates sector. In late 2003, The Coca-Cola Company introduced Minute Maid Premium Heart Wise orange juice in the US, which is designed to lower cholesterol, and is fortified with plant sterols.

In beer, wines and spirits, the streamlining of portfolios to concentrate on premium-positioned products was a prominent strategy amongst leading producers, including Diageo (see box), Pernod Ricard and Allied Domecq.

Spirits companies revamp old brands

Pernod Ricard's move towards a greater mix of premium brands began with its acquisition of part of the Seagram portfolio back in 2000, which brought it the Chivas Regal Scotch and Martell Cognac brands. Both brands had always benefited from a premium image, particularly among Asian consumers, but both were in need of livening up. Pernod Ricard immediately began investing in new marketing and promotional campaigns to support their development. The company is now keen to move further down the premium route in sectors which have traditionally been perceived as more downmarket, in particular pastis. The anis brands after which the company is named have reported disappointing sales in recent years, as French consumers have switched to more upmarket products. Pernod Ricard began by revamping the bottle design and marketing for its Pastis 51 and Ricard brands, as well as rolling out spin-offs such as premix Ricard Bouteille, the lemon-flavoured 51 Citron and Djangoa, a liqueur mixing chocolate and anis. The company also extended its Suze liqueur brand with a premium version, Gloss de Suze, and this strategy is likely to form the thrust of Pernod Ricard's business for the next few years.

Brewers and wine producers ditch economy brands in favour of premium variants

Brewers have also been making attempts at premiumisation, in line with the trend towards premium lagers. UK brewer Scottish & Newcastle launched new, premium variants of its beer brand in 2004, as well as announcing its intention to cease production of several of its economy lager brands, including Hofmeister and Kestral Pilsner, as well as its McEwan's standard lager and Courage Light standard ale brands. Heineken also launched its own genuine premium 5% ABV product in the UK, imported from the Netherlands, as a replacement for its standard Cold Filter lager. In June 2004, the company launched a new advertising campaign for the brand with Hollywood actor Ray Liotta, emphasising the brand's quality.

Many wine producers have also focused on developing the upper end of the market. Champagne sales over the review period were positively impacted by the move by producers to adopt a more premium brand positioning and increased demand for premium champagnes among affluent consumers in key markets such as the US and France. For example, LVMH divested its lower priced brands, Pommery and Canard-Duchêne, in 2002 and 2003, respectively, in order to concentrate on its core products, which are at the premium end of the market. Recent introductions include the launch of the Dom Pérignon 1998 vintage and Château d'Yquem 2001 during 2005. LVMH also launched a new super-premium rum in the US in 2005, called 10 Cane.

A similar trend has occurred in the fortified wines sector. In France, for example, La Martiniquaise sought to increase value per unit by launching its Vintage Cruz 1989 brand of fortified wine, positioned at the super-premium end of the market, in 2004. Rival French producer Sivr also sought to enhance its range of Croix-Milhas fortified wines by introducing three new premium-priced variants: Banyuls, Muscat de Rivesaltes and Rivesaltes ambré. In Italy, the Campari Group relaunched its Cinzano brand in new packaging that seeks to convey a premium image through having the Cinzano brand signature embossed along both sides of the bottle. The smaller bottle sizes of 50, 75, 100 and 150cl also aim to offer the functional benefits of being easier to hold in the hand and fit more conveniently in the refrigerator.

Case study: Diageo

UK-based wines and spirits group Diageo is a notable example of a company that has attempted in recent years to reposition itself at the premium end of the market, through a mixture of acquisitions, new product development and clever marketing. In order to focus on its premium drinks business, Diageo spun off its Pillsbury food operation in 2001 and its fast food business, Burger King, in 2002. The company joined with Pernod Ricard at the end of 2001 to purchase parts of Seagram's premium spirits and wine businesses from Vivendi Universal.

Diageo reinforced its strategy to become a premium wines and spirits company in 2003, when it created a luxury drinks marketing and sales division called Reserve Brands Group. The group manages Diageo's super-premium spirits portfolio, which includes Cîroc vodka and Tanqueray No 10 gin, as well as more established brands such as Cuervo Gran Centenario tequila and Johnnie Walker Blue Label.

Diageo's current strategy is for organic growth in premium spirits. Its main focus is on its eight global priority brands, namely the spirits Smirnoff (vodka and ready-to-drink products), J&B Scotch whisky, Johnnie Walker Scotch whiskies, Tanqueray gin, Jose Cuevo tequila, Baileys Irish Cream liqueur and Captain Morgan rum, and its Guinness stout brand. In fiscal 2005, global priority brands contributed 59% of Diageo's premium drinks total volume.

Diageo continues to expand its premium spirits portfolio by acquiring new brands and creating new products. In 2005, the company acquired Pernod Ricard's Bushmill's Irish whisky brand. In the same year, Diageo launched J&B -6°c in the UK, debuting in premium bars and stores. The new brand is aimed at attracting younger consumers to whisky. The company also launched a new FAB in 2006, called Quinn. The fruit drink, where everything, even the alcohol, is made from 100% fruit, is the first of its type. The launch in both the on- and off-trade was backed by a budget of £8.5 million.

The company has also focused recently on expanding some of its premium brands into new markets. For example, in 2005, Ciroc was launched in India to capitalise on the small premium market there. In 2006, Diageo launched a new 12 year-old single malt whisky into Asian markets. The Singleton of Glen Ord was rolled out to South Korea, the Philippines, Thailand and Taiwan.

In the wine sector, Diageo's portfolio includes the Blossom Hill range of 20 Californian wines, which has been particularly successful in the UK. The company achieved this success through a combination of strong distribution, continued brand extensions, heavy marketing and price promotional activity. In 2004, Diageo

extended Blossom Hill to include a premium range – Blossom Hill Reserve, which includes Reserve Chardonnay and Reserve Cabernet Sauvignon.

In 2005, Diageo developed its premium strategy further by acquiring the US wine company Chalone Wine Group, which is a minor player in the US wine market, although its brands are all premium priced. The new company joined Diageo's other smaller premium vineyards, Beaulieu Vineyard and Sterling Vineyard. Through extending its wine offering in this way, Diageo will intensify the competition between itself and companies such as Pernod Ricard, as well as more wine-centred companies, including Kendall-Jackson Wine Estates and Constellation Brands. All three of these companies have portfolios that are similarly prioritised around Californian premium wines.

Diageo's premium strategy appears to be paying off, as, for the first time since 2001, the company saw its net sales rise in fiscal 2005, by nearly 2%, to just over £9 billion.

7.3 Creative Marketing

Appealing to the young

Success in the premium segment is all about forging an emotional link with consumers. In the case of premium wines and super-premium spirits, this generally means the affluent, fashionable consumer group. For the major players with the financial muscle, this goal can be achieved through mass media campaigns and sponsorship. Pernod Ricard and Diageo employ such strategies for their still wine campaigns. In the UK, Pernod Ricard created a strong consumer bond with its Jacob's Creek brand through sponsorship of the massively popular Friends television programme, which was aimed predominantly at the 18-35 age group. The company has looked to build on this success with its sparkling wine products. As well as promoting its products in magazines and on the billboards of London, it invested heavily in advertising at the Wimbledon tennis championships, targeting the key young AB crowd that comprise a significant proportion of visitors to the annual tournament. With its Blossom Hill brand, Diageo echoed Pernod Ricard's strategy by sponsoring the popular comedy series Will & Grace.

Those companies without this level of financial backing have also found ways of connecting with the target audience. Spanish player Freixenet made its sparkling wine Rosado the sponsor of the high profile launch party for "In the Pink"; the breast cancer charity's new magazine. Photographs of this party featured in the likes of Hello and OK!

Creating intrigue

Many premium brands use the powers of suggestion to entice consumers into believing in their quality. In some cases, a fake authenticity is invented to portray an image of a product steeped in tradition. For example, the name of super-premium ice cream brand Häagen-Dazs implies a sophisticated Scandinavian heritage, although the name has no meaning whatsoever and originated in the US. Similarly, in his book Wally Olins on Brand, brand consultant Wally Olins suggests Baileys Original Irish Cream is an "impostor", whose identity and heritage was invented by a multinational drinks group as late as 1974. The trademark "RA Bailey" signature on the bottle is phoney, and is used as a way to denote the product's Irish heritage. Although produced in Ireland, the Celtic motifs on the label hint at a more ancient past than Baileys can legitimately lay claim to.

In another example, premium gin Bombay Sapphire, launched only in 1987, is allegedly made from a long-lost recipe dating back to 1761. However, the brand has no links with the famous Bombay Sapphire, nor with Queen Victoria, who is depicted on the product's design-led square blue bottle. Nevertheless, these attributes have made the brand successful in creating intrigue among consumers and therefore gaining their trust and interest.

Case study: LVMH

French-based LVMH (Moët Hennessy Louis Vuitton SA) is an example of a company that has built up and maintained a premium image on a global scale, through careful brand selection, elaborate packaging and a strong investment in creative marketing.

LVMH's core division is Fashion & Leather goods, which accounted for 34.5% of its turnover in 2005, and includes the brands Louis Vuitton, Donna Karan, Fendi, Loewe, Celine, Kenzo, Marc Jacobs, the Givenchy

Couture House, Thomas Pink, Pucci, Berluti, Rossimoda and Stefanobi. The company's Wines & Spirits division includes the champagne brands Moët & Chandon, Dom Pérignon and Veuve Clicquot; while Perfumes & Cosmetics includes the major French houses of Christian Dior, Guerlain, Givenchy and Kenzo. LVMH's Watches & Jewellery division was established in late 1999, with the acquisitions of the premium brands Bredon, Chaumet, Ebel, TAG Heuer and Zenith.

In 2005, LVMH spent €4,892 million on marketing and selling, an increase of 8% over the previous year. A wide range of media is utilised to reflect brand quality, from traditional broadcast and print media to sponsorships and partnerships. At a corporate level, LVMH also works to promote itself as a supporter of creativity and design, for example, sponsoring the LVMH Prize for young designers since 1994. It also sponsors a raft of exhibitions, such as the Pierre Bonnard exhibition in Paris in 2006. In order to celebrate the 150th anniversary of the Official Classification of Bordeaux wines, LVMH hosted a celebration which included tasting of the Grands Crus Classés, including Château d'Yquem 1967. The event received international press attention, and in particular strengthened the marketing of Château d'Yquem as a significant international premium brand.

LVMH also makes frequent use of worldwide celebrities to promote its brand images. For example, international fashion designer Karl Lagerfeld helped launch the Dom Pérignon 1998 vintage in New York in June 2005. In October 2005, the actress Sharon Stone became the new face of the Dior premium cosmetics brand, and the company anticipated that her image would help to boost the brand's performance among older women.

Packaging plays an important part in maintaining LVMH's premium positioning. For example, the Veuve Clicquot brand, designed as an "affordable luxury", is supported through a range of initiatives which focus on its colourful label. A range of packages, including the "Clicquot Box" cardboard icebox for a regular bottle, the "Paint Box" for four small bottles and the "Clicquot Ice Jacket" for regular bottles, reflect the fun, creative image the brand engenders.

Other marketing initiatives in recent years have included the use of limited edition packaging. The Moët & Chandon brand has had three seasonal partnerships with Swarovski, including the Crystalline Moët bottle for Christmas 2005, which was decorated with Swarovski crystals. The effectiveness of this tie-up is that it specifically targets women, who are a widening target market for alcoholic drinks purchases, and in particular champagne.

LVMH has recently worked to promote its Moët & Chandon champagne brand as a youthful, creative and stylish brand, to appeal to the widest possible target market. The repositioning of the brand with the strapline "Be Fabulous" was introduced in Europe in late 2005, with roll-out to the US and Japan in early 2006. The brand also sponsors a number of creative events, such as the 2005 International Festival of Fashion and Photography in Hyères, in the South of France.

7.4 Brand Extension

Once marketers have established a successful premium brand, they are in some cases able to leverage it by extending it across other sectors. This is particularly effective in the case of private label brands such as Tesco's Finest label. This began in 1999 as a range of premium ready meals and chilled foods, packaged in superior-looking silver boxes. The line was extended to include selected categories in which Tesco considered it could add value, such as high end biscuits in tins, various cosmetics and toiletries, and housewares. Tesco reported that in 2005 it introduced over 200 Finest products, including its first two Finest potato lines.

Brand extension has been a common strategy in the couture sector, where designer brands such as Dior, Giorgio Armani and Ralph Lauren have been brought across to other sectors, such as premium cosmetics and fragrances, and accessories. For example, LVMH extended its Dior couture brand across the accessories, cosmetics and toiletries, and watches sectors. Dior's Christal watch, created in collaboration with the couture designer John Galiano, was launched in 2005.

However, there is a danger that extending a brand too far may lead to its devaluation. This was the case of luxury brand Pierre Cardin, for example, which lost credibility due to the fact that there ended up being more extensions and diffusion lines than core products. A similar situation arose for Gucci, which was forced to reign in its licensing agreements as the brand began to be devalued. Many observers also criticise the Virgin brand for

over extension. The lesson to be learned from these examples is that brands must retain their core values and remain selective in their licensing, without falling behind customer requirements or market demands.

8. SHIFTS IN MAJOR MARKETS

8.1 China

Income trends

Average household incomes are still extremely low in China compared to most Western markets, with less than 1% of households receiving more than US\$15,000 in 2005. Nevertheless, the percentage of households earning over US\$2,500 more than doubled over the review period, from 10% in 2000 to over 21% in 2005. Those with more than US\$5,000 also more than doubled, but reached only 5% in 2005.

The rise in disposable incomes directly reflects the country's recent economic boom: between 1980 and 2004, China's GDP growth averaged an impressive 9.5% each year. Backed up by increases in incomes, the standard of living has changed significantly for many households in China, with a number of middle-class households emerging in recent years. This kind of household not only has a high level of income, but also has a good educational background for every member in the family. Apart from food, clothing and daily products, expenditure on travel, sports, and financial services occupy a big part of the total disposable income of the household.

Income gap remains large

Income distribution is uneven in China, with poverty still widespread in rural areas. The government has put great emphasis on reducing the large gap between disposable incomes for urban households and rural households, and has accelerated the urbanisation scheme in China. In the well-developed cities, such as Beijing, Shanghai and Guangzhou, high-income groups can earn as much as RMB20,000 per month, whilst incomes in rural areas can be extremely low, especially in rural western and grain-producing provinces, where primary sector workers are concentrated. In general, however, the minimum wage level in China is increasing year-on-year, and government subsidies are provided to people who earn only the minimum wage, due to the high cost of living in cities. The consumption habits of this group are totally different to those of high income earners. Expenditure on food accounts for the major part of their income. They usually cannot afford extras, such as entertainment, personal care and financial insurance, let alone premium goods.

Nevertheless, the number of China's very rich is also growing. There are estimated to be some 300,000 millionaires in China, who are providing an eager market for luxury goods. For example, it is reported that BMW sold more Bentley Mulliner 728 limousines, which at US\$1.2 million are the world's most expensive car, in Beijing than in any other city in the world. Jeweller Cartier plans to soon have 30 stores across China; second only to the number in the US.

Table 12 China: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|------|------|------|------|------|------|
| Over US\$2,500 | 10.2 | 11.1 | 12.2 | 14.5 | 17.5 | 21.2 |
| Over US\$5,000 | 2.3 | 2.5 | 2.8 | 3.4 | 4.3 | 5.3 |
| Over US\$15,000 | 0.2 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 |
| Over US\$35,000 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Over US\$55,000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Over US\$75,000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Euromonitor International

Market trends

Premium cosmetics experience dramatic growth

The importance of wealth is imbedded in the Chinese culture, and there is a drive to escape from the recent past, when even simple items such as soap and televisions were hard to come by. Although premium products still account for a very small proportion of their respective sectors, in most cases sales grew very strongly over the review period. This was especially notable in the cosmetics and toiletries sectors. Indeed, China is considered a hotspot for premium cosmetics, as the nation's growing elite seeks out status brands to boost its prestige image.

Euromonitor International estimates that sales of premium skin care products increased in value by 335% between 2001 and 2006, to reach almost US\$1.2 billion, while sales in all other premium cosmetics and toiletries sectors rose by more than 150% over the same period. In response to these trends, premium cosmetics companies have increased their presence in the country. For example, in 2005, Estée Lauder opened 27 new counters in department stores in China.

Quality less important in drinks sectors

Growth was much slower in the alcoholic drinks sectors, with sales of premium lager growing by 42% in value terms over the 2001-2006 period, and champagne by just 12%. Economy lager continues to be the mainstay in China's beer market, accounting for over 90% of total volume sales, while most premium lager is sold in on-trade outlets.

Premium wine, priced from RMB90/litre, still has only a minimal consumer base in China, as has champagne, with foreign expatriates and more sophisticated local wine lovers being the main consumers. Premium wine is more often found in high-class, on-trade establishments. Nevertheless, wine makers are beginning to cater to high-end consumers by offering premium chateau wine. Yantai Changyu Wine Group, for example, launched Château Changyu-Castel, sold in barrels in late 2003, which has a unit price of close to RMB400/litre.

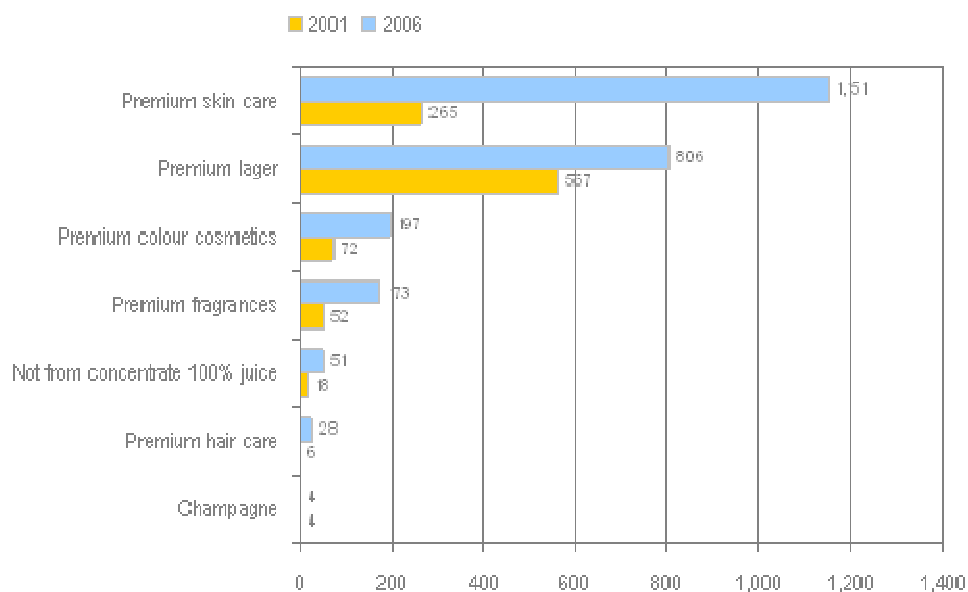
Following the implementation of double taxation on domestic spirits in 2001, spirits players have been introducing more premium local spirits as the new policy made low-end products unprofitable. For instance, Wuliangye Yibin extended its premium portfolio and introduced Wuliangye Jun Ling Tian Xia, with a limited volume supply of 100 tonnes, in January 2004, which was quickly snapped up at its presentation conference by wholesalers and retailers, despite its premium retail price tags of RMB680 and RMB1,180.

Due to its strong premium brand image, cognac is extremely popular as a gift, in particular during festive seasons such as Chinese Spring Festival and Mid-Autumn Festival. Cognac is also often consumed in on-trade channels, such as restaurants, during business entertainment or during social gatherings, as the host takes pride in offering the best and most expensive items to the guests.

Growing appreciation of spirits is also expected to boost unit prices of imported spirits and drive their value performance. Trade sources indicate that more premium spirits, such as more mature whiskies are increasingly prized in China, where brand image and product quality are closely related to consumers' self-worth and where growing affluence is making these premium prices affordable.

Chart 6 **China: Sales of Relevant Premium Products 2001/2006**

US\$ million



Source: *Euromonitor International*

8.2 France

Income trends

According to official statistics, average purchasing power in France increased between 2000 and 2005, but there has been a strong debate since the introduction of the euro in 2002 regarding the pertinence of these figures and the impact of the introduction of the euro on French living standards. Most French consumers have the impression that the growth in retail prices since the introduction of the euro has been much higher than the INSEE figures indicate. Therefore, French consumers are increasingly attracted by discounters that offer cheap products. In France, household income includes not only salaries but a large amount of social benefits provided by the government, of which the most important are the allocations familiales that are granted to families with children, which increase with the number of children under 18.

Average disposable income has increased steadily since 1990, which means that more households now enjoy higher disposable incomes. In 2005, as much as 97% of French households had disposable incomes of more than US\$15,000, and two thirds had incomes of more than US\$35,000. The number of very wealthy has also grown dramatically since 2000: in the five years to 2005, the share of households with incomes of more than US\$75,000 almost quadrupled to 12%, providing a significant market for luxury and premium products.

Table 13 France: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|-------|-------|-------|-------|-------|-------|
| Over US\$2,500 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Over US\$5,000 | 99.7 | 99.7 | 99.7 | 99.9 | 99.9 | 99.9 |
| Over US\$15,000 | 90.2 | 90.4 | 92.2 | 95.7 | 96.6 | 96.6 |
| Over US\$35,000 | 35.5 | 36.5 | 42.7 | 59.9 | 66.4 | 66.3 |
| Over US\$55,000 | 9.6 | 10.0 | 12.9 | 24.0 | 30.0 | 30.1 |
| Over US\$75,000 | 3.1 | 3.2 | 4.3 | 9.1 | 12.2 | 12.2 |

Source: *Euromonitor International*

Market trends

Champagne nation

Champagne represents the largest of the premium product sectors under review in France. With a total value estimated at US\$3.1 billion in 2006, France was by far the world's largest consumer of champagne, and value sales doubled between 2001 and 2006. This was largely due to price increases, as a result of anticipated shortages after 2003. The leading champagne house, LVMH, owns premium brands including Moët & Chandon and Mercier, while Marne & Champagne owns Lanson and Alfred Rothschild.

In other areas of the alcoholic drinks market, French consumers are trading up to higher quality products. Aspects such as quality, brand image and style have become increasingly favoured over regularity of consumption across the market. Indeed, French consumers are increasingly choosing to drink at weekends and on special occasions only (mainly due to tighter drink-driving laws), and are therefore selecting higher quality products. Cider is a particularly good example of a sector that has turned around its fortunes by successfully rebranding itself as a premium all-year beverage. In the beer sector, brewers have pushed their standard beers towards the upper end of the market, and focused on speciality beers, such as exotic and flavoured beers, which tend to be consumed at parties.

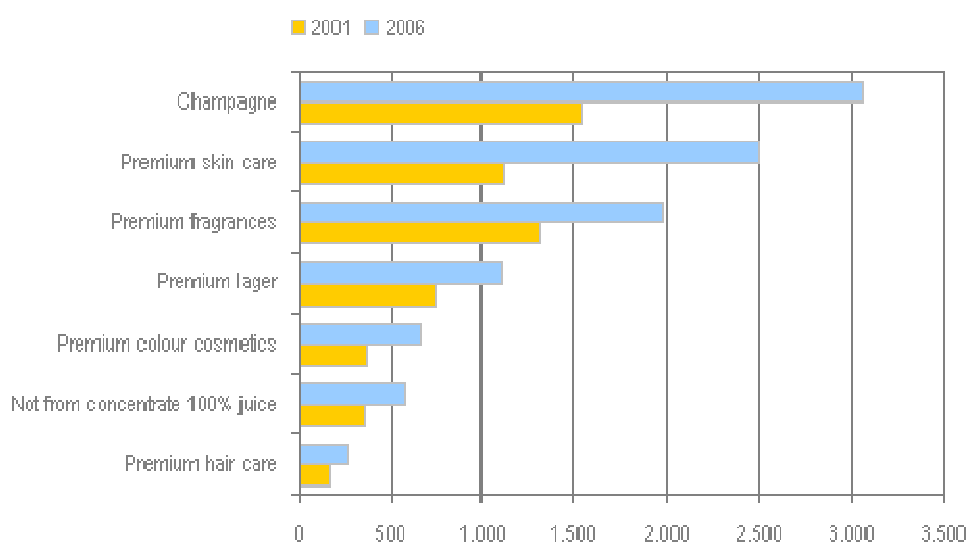
Anti-ageing concerns fuel premium skin care

Within the premium cosmetics and toiletries sectors, skin care made particularly dynamic progress over the review period, with sales up by 124% to reach US\$2.5 billion. Pharmacies and parapharmacies saw increased sales of such products, benefiting from a general trend towards medicated products and offerings with a healthy positioning. This trend was supported by the fact that consumers tend to trust pharmacists more than sales staff in perfumeries when seeking personal advice. Nevertheless, the movement of mass-market brands towards sophisticated, premium style products continued throughout the period, posing a threat to premium manufacturers. In 2004, new launches of both premium and upper-mass anti-agers offered a new range of "peeling" products. This trend was initiated by Roc, which took inspiration from anti-wrinkle products based on chemical peeling carried out in surgeries by dermatologists.

Premium colour cosmetics also performed very well, with value growth of 82% over the 2001-2006 period. In 2004, *Cosmétique Magazine* ranked France's leading five premium cosmetics brands as follows: Lancôme, Dior, Yves Saint Laurent, Chanel and Guerlain.

Chart 7 France: Sales of Relevant Premium Products 2001/2006

US\$ million



Source: *Euromonitor International*

8.3 Germany

Income trends

For several years, Germany's economy has been in the doldrums, although there have been recent signs of improvement, with GDP in 2005 recording growth of 2%. According to the Federal Statistical Office, the share of total GDP accounted for by wages and salaries fell from 70.1% in 2004 to 67% in 2005, the lowest rate in the history of the Federal Republic. Furthermore, the new coalition government has decided to increase VAT from its current rate of 16% on most products, which will be felt most severely by lower income groups, reducing their disposable income and hence consumer spending in Germany even further. Nevertheless, in 2006, consumer spending increased gradually, which was widely attributed to consumers bringing forward purchases of goods that are liable for VAT.

Unemployment dampens demand

Facing an increased cost of living, a high unemployment rate and reductions in unemployment and social benefits, most consumers are spending less and becoming more price conscious, which is having a negative impact on certain sectors of the premium goods markets. The gainers in the German retail sector are the discounters, in both food and consumer electronics, who are profiting from this trend and raising both their turnover and their profile. Mail order companies and Internet portals such as eBay have also noted growth in recent years because of an increased "bargain mentality" on the part of consumers.

However, despite economic uncertainty, the percentage of high-income households rose strongly over the review period. Between 2000 and 2005, the share of households with incomes of over US\$75,000 more than trebled to reach 12%. It is predicted that this strong growth in the higher income brackets will continue to 2015, while the increases for those with lower incomes will be less dynamic.

Furthermore, according to the World Wealth Report, published jointly by management consultancy companies Merrill Lynch and Capgemini in 2005, there were 760,000 millionaires in Germany, of whom 250,000 had at least €1 million as disposable liquid assets. These very rich people tend to be centred around Hamburg and Munich. At the other end of the spectrum, poverty is spreading in Germany, and the gap between rich and poor has been growing. As a result, an increasing polarisation of the market for consumer goods is evident, illustrated by the growth of a new luxury goods sector alongside the growing role of discounters.

Table 14 Germany: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|------|------|------|------|------|------|
| Over US\$2,500 | 99.6 | 99.6 | 99.6 | 99.8 | 99.8 | 99.8 |
| Over US\$5,000 | 98.0 | 98.0 | 98.3 | 98.9 | 99.1 | 99.1 |
| Over US\$15,000 | 79.9 | 79.9 | 82.2 | 87.9 | 90.1 | 90.2 |
| Over US\$35,000 | 31.4 | 31.4 | 35.5 | 48.4 | 54.5 | 54.8 |
| Over US\$55,000 | 10.1 | 10.1 | 12.3 | 20.8 | 25.8 | 26.2 |
| Over US\$75,000 | 3.6 | 3.6 | 4.6 | 8.8 | 11.7 | 12.0 |

Source: Euromonitor International

Market trends

Quality important in beer sector

In Germany, premium lager is by far the largest of the premium sectors under review, with sales reaching an estimated US\$3.8 billion in 2006. However, after growing strongly between 2001 and 2004, the sector is believed to have stagnated in recent years, as consumers turned back to economy and standard lagers. Since all German brewers adhere to the Reinheitsgebot (purity law), which guarantees the ingredients and quality of beer, German consumers know that even economy beer is of relatively good quality and taste. Therefore, they tend to take price into account when making a purchasing decision. However, brand-conscious consumers are more brand-loyal, choosing products with a certain image or which are associated with a certain region and tradition. The brand-conscious consumer is therefore more likely to choose a premium product over a standard beer. Imported lager also saw a setback in 2003, due to the introduction of the compulsory deposit. Companies with a high share of non-returnable bottles and cans lost significantly due to the new deposit scheme on this type of packaging.

Small breweries are trying to improve the perception of their products by emphasising their individuality and exclusivity in on-trade settings. These premium brands are marketed as lifestyle products to be indulged in. The general trend in premium lager is away from mass products, with an emphasis on quality, style and choice, while increasing average prices. According to some industry sources, this is the best solution to keep economy lager and private label products at bay.

Polarisation of spirits sector

However, in the spirits sector, German consumers seem prepared to part with their cash for a high quality product that is perceived to offer something special. This is evident among spirits with the success of higher priced premium brands such as Smirnoff vodka, Absolut vodka, Bombay Sapphire gin and Bacardi white rum. Premium, pricey single malt whisk(e)y has also enjoyed healthy growth in line with this trend. In general, growth at the upper and lower ends has come at the expense of middle-range products, as some of these brands have lost their perceived brand value and are regarded as offering less value for money.

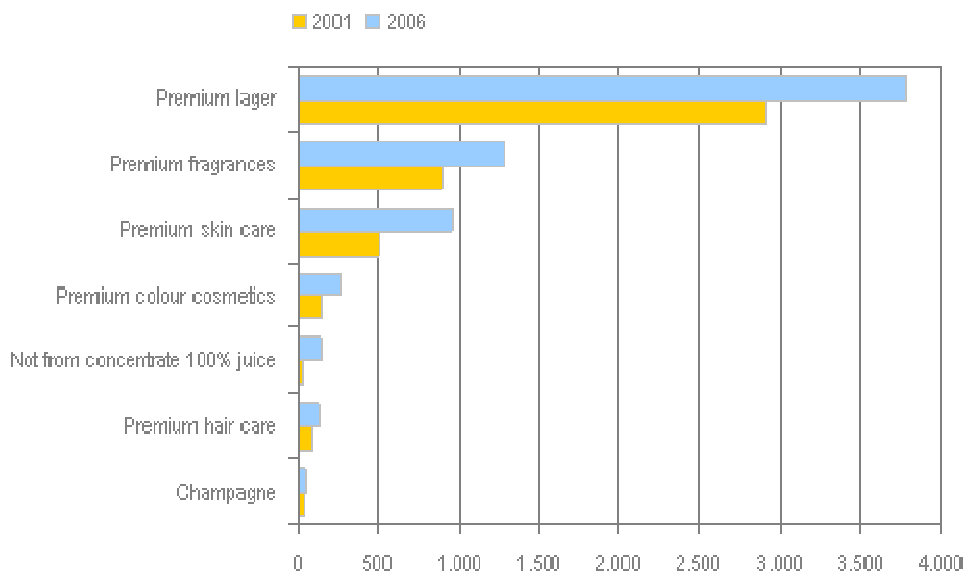
Pure juice benefits from health trend

The most dynamic of the sectors under review was that of not-from-concentrate 100% juice, which experienced phenomenal growth in Germany over the review period, albeit from a small base. This is largely attributable to the success of this product in the booming discounters channel, in the context of the growing health trend. Following the entrance of Aldi into this category at the beginning of 2002, other discounters like Lidl and Penny extended their pure juice ranges.

Within the premium cosmetics and toiletries sectors, fragrances formed the largest sector in Germany in 2006, with sales of US\$1.3 billion, although premium skin care achieved higher growth of 90% over the review period. The latter was fuelled by growth in premium nourishers/anti-agers, with innovations such as L'Oréal's glycol peeling kit, ReNoviste, Avon's Anew Clinical Laser and Estée Lauder's Perfectioniste, a correcting concentrate for lip lines. Beiersdorf AG introduced a totally new product category, SBT Skin Biology Therapy, a highly technical skin care line that uses cell culture phase, in early 2005.

Chart 8 Germany: Sales of Relevant Premium Products 2001/2006

US\$ million



Source: Euromonitor International

8.4 India

Income trends

Despite India's impressive economic growth in recent years, average household income is still extremely low by Western standards. Indeed, while the dramatic growth of the software and BPO industries has created employment and wealth among a small section of the population, the majority of the country remains very poor. Although the percentage of households earning over US\$2,500 increased strongly from 10% in 2000 to 19% in 2005, less than 2% of households received more than US\$5,000.

Poverty remains widespread

With more than two thirds of India's labour force still working in agriculture, forestry and fishing, the country is home to around one quarter of the world's poor. Large parts of the country, particularly in the north, have barely been touched by economic growth, and this is currently a major constraint to growth in demand for consumer goods.

Despite this, poverty rates have fallen over the past decade, and the country has witnessed the growth of an aspiring, youthful middle class. Furthermore, Indian consumers have benefited recently from an upsurge in bank lending. Consumer credit expanded in 2003, when the Reserve Bank of India ensured supply of funds to this sector. This led to a boom in consumer finance, car finance, home loans, credit cards and debit cards. An average urban Indian possessed 2.5 credit cards in 2004, while the average credit card spend stood at US\$350-400 per annum.

Table 15 India: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|------|------|------|------|------|------|
| Over US\$2,500 | 10.1 | 9.3 | 10.9 | 15.1 | 17.4 | 19.3 |
| Over US\$5,000 | 1.0 | 0.9 | 1.0 | 1.4 | 1.5 | 1.6 |
| Over US\$15,000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Over US\$35,000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Over US\$55,000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Over US\$75,000 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Euromonitor International

Market trends

Along with India's increasingly wealthy urban population is coming a burgeoning demand for the luxuries and comforts of the West. The premium sectors under review are still highly undeveloped in India, but grew strongly from a low base over the review period. A notable exception was not-from-concentrate 100% juice, which in the organised sector still did not exist by 2006.

Premium lagers popular among urban consumers

The largest of the sectors under review was premium lager, with estimated sales of US\$960 million in 2006. As in other sectors of the alcoholic drinks market, premium lagers are mainly purchased by urban consumers, who have greater access to premium brands and a higher level of disposable income. Popular premium brands include Kingfisher Premium Lager, Royal Challenge Premium Lager and Haywards 5000.

In the spirits sector, trading up to premium brands was mostly seen in vodka, with such a trend also noticeable, to a lesser extent, among the small number of Scotch whisky consumers. In 1997, ADSWI developed Teacher's 50, a 12 year-old premium Scotch, specially for the Indian market, and this has proved highly successful. The number of premium vodka brands available has increased steadily, with products such as Belvedere, Smirnoff Flavours and Fling. The demand for premium vodka is stronger in the on-trade channel, where consumers have greater choice and are willing to experiment. Even domestic company Triumph Distillers & Vintners Ltd launched its own premium vodka brand – Alcázar A2O – in a sleek blue bottle in June 2005. The premium brands are targeted at the younger consumers frequenting on-trade channels and who are willing to try new brands. Premium wine and spirits brands have proved most popular in more prosperous/westernised areas, such as Delhi and Mumbai, where they are served in fashionable lounge bars.

Whisky appreciation sessions are used as a tool to popularise premium brands among more affluent consumers, and are normally held in high-end on-trade establishments, with invitations sent out to a select few. Typically held under a master blender from the originating country of the brand, these sessions receive good coverage in urban newspapers. The latest of such tasting sessions was one conducted by Johnnie Walker Blue Label. With a super-premium price of over Rs19,000 per litre, the Johnnie Walker Blue Label brand is still in its nascent stages in India, with most sales coming from duty-free outlets.

Champagne remains negligible

Champagne sales continue to be restricted to only the wealthiest of consumers in India, and even among this segment consumption is infrequent. With sales of 0.08 million litres in 2005, champagne accounted for less than 2% of total wine sales. Although champagne is occasionally stocked by off-trade outlets in some of the major cities, such as Mumbai and Delhi, almost all sales occur through on-trade channels and some duty-free shops.

All premium cosmetics and toiletries sectors experienced spectacular growth in India over the review period, again from a small base. The most notable growth came from the colour cosmetics sector, where sales rose from less than US\$5 million in 2001 to an estimated US\$34 million in 2006. India has emerged as a magnet for international cosmetics and toiletries manufacturers, as the country's continued strong economic growth, combined with the rise in the number of working women, fuelled demand for high-end, technologically-advanced premium cosmetic offerings.

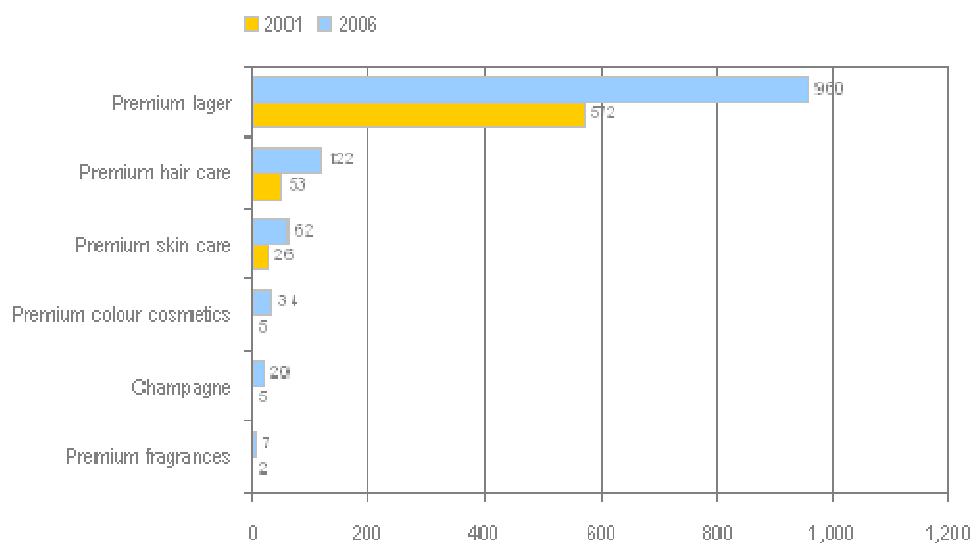
Indian women crave status

Premium international labels such as Yves St Laurent, Vichy, Estée Lauder, Nina Ricci, Shiseido, Christian Dior, Clarins and Elizabeth Arden headed for leading department stores in India, pitching at the growing spending power of urban women in the 20-40 age range in particular, who sought the prestige and status brought by such brands. The premium segment proved too enticing for leading player Hindustan Lever to ignore, which also lent a premium touch to its mass offerings such as Fair & Lovely and Lakmé through the launch of premium variants in skin care and colour cosmetics. Similarly, the heightened demand from this segment also drew the attention of direct sellers like Amway India Enterprises and Oriflame India, which carved strong niches with their fast expanding product portfolios of highly specialised and innovative offerings.

Sales of premium cosmetics continue to be inhibited, however, by an extremely robust grey market with a rampant presence of counterfeits, fakes and smuggled goods, as well as an unfriendly bureaucratic environment, which poses a significant bottleneck to expansion efforts. Thus, even as improved trading, retailing infrastructure enhancements and rising consumer demand have facilitated the entry of international cosmetics brands, their penetration levels have remained low in India.

Chart 9 **India: Sales of Relevant Premium Products 2001/2006**

US\$ million



Source: Euromonitor International

8.5 Japan

Income trends

The Japanese enjoy among the highest levels of household income in the world, although this is balanced by a high cost of living. In 2005, as many as 90% of households received more than US\$35,000, while more than half had incomes of more than US\$55,000.

However, contrary to trends in other developed markets, the proportion of high income households actually declined over the review period, with the number of very wealthy households, with incomes of more than US\$75,000, falling from 23% in 2000 to below 19% in 2005. This is attributable to rising unemployment and persisting economic recession throughout much of the period.

In 2005, there were signs that the Japanese economy was entering a period of nascent recovery, which may lead to a rise in purchasing power and therefore consumer spending. Real GDP grew by 2.7% in 2005, up from just 0.4% in 2001, while the unemployment rate fell to a seven-year low of 4.2% in June 2005. However, Japan's fast ageing population will remain a problem in the future.

Table 16 Japan: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|-------|-------|-------|-------|-------|-------|
| Over US\$2,500 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Over US\$5,000 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Over US\$15,000 | 99.8 | 99.7 | 99.5 | 99.7 | 99.8 | 99.8 |
| Over US\$35,000 | 92.0 | 86.4 | 83.1 | 86.7 | 90.1 | 90.4 |
| Over US\$55,000 | 59.4 | 42.0 | 36.0 | 43.4 | 52.6 | 53.4 |
| Over US\$75,000 | 23.0 | 12.3 | 9.2 | 12.7 | 18.2 | 18.9 |

Source: Euromonitor International

Market trends

Skin care a priority for Japanese women

In Japan, it is premium skin care that dominates the premium market, with sales valued at almost US\$9.0 billion in 2006. Indeed, Japan is the largest market in the world for premium skin care, exceeding the US by a wide margin. The market for premium skin care has been helped by demographic trends, as the ageing population

means that there is a growing market of wealthy women over the age of 40, who are prepared to spend what it takes to have younger looking skin. For example, when Kanebo Cosmetics launched the super-premium moisturising cream Kanebo Twany Century Cell Rhythm SP, priced at ¥126,000 for 40g, it was very popular among women in their 50s and 60s. The premium skin care sector was fuelled by further such product launches over the review period, including Max Factor's new LXP line, with products priced between ¥10,500 and ¥31,000. This new super-premium range is even more expensive than Max Factor's SK-II brand, and is targeted at women from their late 30s onwards.

The new "metrosexual male" target group is also pushing skin care sales in Japan. Metrosexual men tend to marry late, so they are often have a high level of disposable income to spend on different grooming products. In September 2005, Nivea-Kao launched Nivea Men Revitalizing cream, which includes the popular co-enzyme Q10, to give men's skin a younger look.

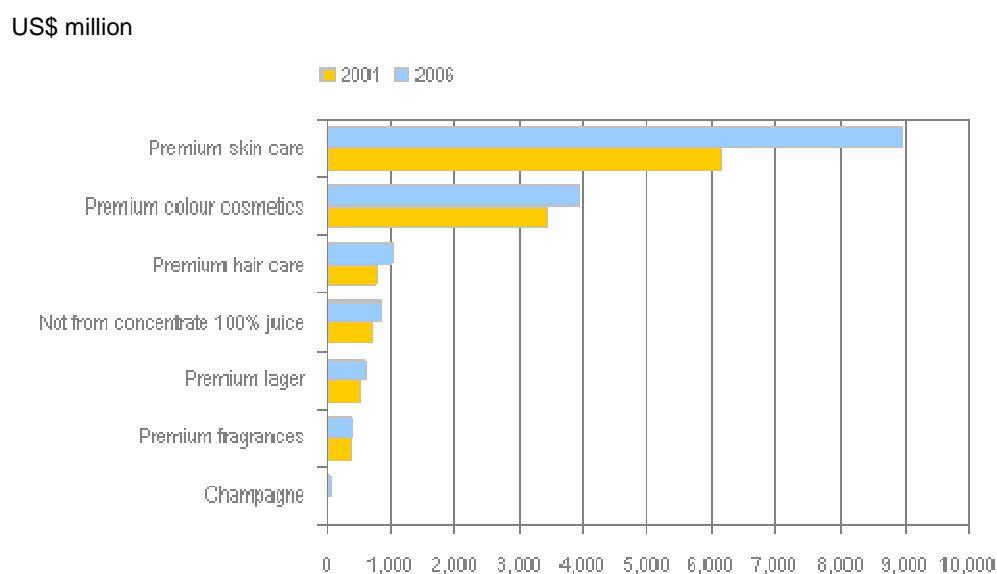
Premium colour cosmetics is another very significant market in Japan, with sales estimated at US\$4.0 billion in 2006. However, its growth has been slower, due to competition from an emerging masstige segment. Again, sales of premium cosmetics are mainly supported by sales to middle-aged women who enjoy purchasing high-end products. Consumers are more willing to spend money on premium brands for products that have more contact with skin, such as foundation and powder, whose premium penetration rate reached 65% in 2005. This is due to their perception that premium foundations and powders reduce the risk of skin conditions, and have added protective qualities.

Champagne grows from small base

Champagne showed the strongest growth of the sectors under review. Sales remained relatively low at US\$52 million in 2006, although this was more than double the level recorded in 2001. Premium beers, wines and spirits are generally available only in on-trade outlets in Japan, as consumers prefer to buy cheap, domestic brands for use at home. Nevertheless, a small group of consumers are willing to spend a great deal of money on super-premium brands. When selecting expensive products, consumers prefer single malt Scotch, which is more suitable as a gift due to its high prices, or for consumption during business entertainment functions in on-trade establishments.

Whiskies, brandy and cognac are subject to higher tax rates than other spirits. Although import taxes were reduced substantially after the amendment of the Liquor Tax Law in 1997, the three product types are subject to import tax at ¥409 per litre. Super-premium vodka brands, such as Stolovaya, Skyy and Danzka, have never really taken off in Japan, and consumers prefer the cheaper Suntory and Gilbey's alternatives. Super-premium gins are more popular, however, especially Tanqueray Ten and Beefeater Wet.

Chart 10 Japan: Sales of Relevant Premium Products 2001/2006



Source: Euromonitor International

8.6 UK

Income trends

The personal income levels of UK consumers have been boosted by a number of factors, including booming property values, low interest rates, low mortgages and low unemployment. The economy has remained resilient, and this has boosted consumer confidence.

As a result of these trends, the number of high income households expanded rapidly over the review period, such that, by 2005, more than half of households received more than US\$35,000, and the percentage of households with an income of more than US\$75,000 effectively doubled from 10% to almost 21%.

The average UK household had a disposable income of £29,938 in 2005, reflecting a 76% increase on the 1990 level in current values (or 15% at constant values). This has led to ever greater demand for premium products and luxury goods and services on the part of UK consumers. Consumer spending has also been helped by the easy availability of credit to British consumers. Reports of unprecedented levels of household debt have not deterred many people from overspending on credit cards, store cards and loans, although this may change in the future if economic conditions deteriorate or interest rates rise.

Table 17 UK: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|------|------|------|------|------|------|
| Over US\$2,500 | 99.2 | 99.1 | 99.2 | 99.4 | 99.5 | 99.5 |
| Over US\$5,000 | 97.1 | 96.8 | 97.2 | 97.7 | 98.2 | 98.3 |
| Over US\$15,000 | 81.9 | 80.3 | 82.2 | 85.3 | 88.1 | 88.3 |
| Over US\$35,000 | 44.6 | 42.4 | 46.0 | 52.2 | 58.9 | 59.1 |
| Over US\$55,000 | 21.2 | 20.1 | 23.1 | 28.5 | 35.1 | 35.2 |
| Over US\$75,000 | 10.1 | 9.8 | 11.8 | 15.5 | 20.4 | 20.5 |

Source: *Euromonitor International*

Market trends

Premium lager suffers from supermarket discounting

In the UK, all the premium sectors under review enjoyed strong growth over the review period. Premium lager represented the largest of these in 2005, with estimated sales of US\$3.8 billion. However, value growth in this sector has slowed since 2004, due to the discount pricing policies of the supermarket chains. The leading premium brand, Interbrew's Stella Artois, suffered volume share erosion as heavy discounting had a negative impact on the brand's image, causing consumers to turn their attention elsewhere. Some of its share was captured by other premium brands, such as Scottish Courage's Kronenbourg 1664, Anheuser-Busch's Budweiser and Coors' Grolsch. Furthermore, standard lager brands, such as Foster's and Heineken, started to adopt premium attributes. Foster's launched its Extra Cold and Super Chilled variants, while Heineken was relaunched with 5% alcohol content.

Within the dark beer segment, premium bottled ale is fuelling growth in an otherwise stagnant market. This is partly due to the fact that predominantly older beer drinkers are developing growing interest in original beers with heritage and taste, which has led regional brewers to launch new recipes. Of the established premium ale brands, the key ones in off-trade sales are Greene King's Old Speckled Hen, Fuller's London Pride and Shepherd Neame's Spitfire Ale, which are all growing strongly.

Premium sparkling wines take off

Within the wines sector, premium sparkling wines are a particular area of growth, as some New World producers are positioning their wines as an alternative to champagne. Branded cava is also commanding a higher price, as consumers are increasingly prepared to pay for the quality reassurance that brands provide.

Nevertheless, champagne sales continued to grow strongly also, with value growth of 73% recorded over the 2001-2006 period.

The spirits sector saw the emergence of super-premium vodkas and gins towards the end of the review period. With supermarkets/hypermarkets fighting a price war over spirits, most innovation occurred in the on-trade, in high end bars where better margins can be achieved. Nearly all premium vodka brands introduced super-premium variants. Meanwhile, with renewed interest in gin as a cocktail base, many premium gin variants were launched, reviving interest in a spirit that was previously quite neglected. These gins, such as Hendrick’s gin and Blackwood’s Vintage Gin, feature unusual botanical mixes and are less dominated by juniper.

Pure juices fuelled by private label developments

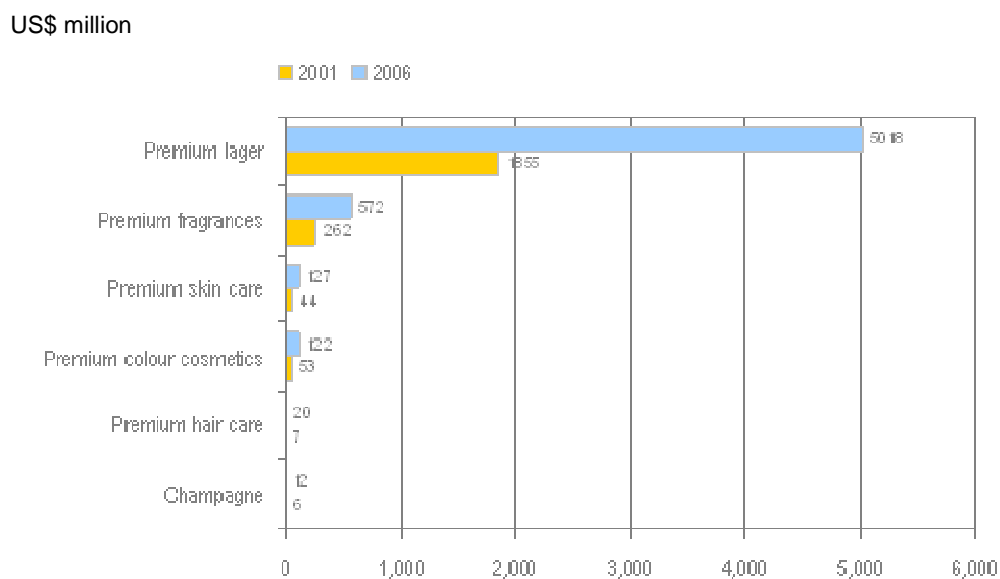
Within the soft drinks market, sales of not-from-concentrate 100% juice doubled over the review period, to reach US\$2.3 billion, making this the second largest of the premium sectors under review. Both Tropicana brands, Tropicana and Copella, achieved strong sales, although the segment continues to be led by private label products, in particular those from Tesco and Asda, mainly due to their heavy price promotional activity. The segment is believed to have performed particularly well in 2006, due to the hot summer weather.

Among the premium cosmetics and toiletries sectors, fragrances is the largest in the UK, with sales worth US\$1.1 billion in 2006. However, there is a debate in the UK as to whether prestige fragrances can justify their premium positioning. Keen pricing, especially within specialists, continues to put the majority of leading fragrances within reach of almost everyone, regardless of age or social class, and premium fragrances now account for more than 80% of value sales of fragrances. While wider distribution boosts value sales, it also begins to erode their premium positioning. At the same time, masstige fragrances are growing in popularity.

Designer clothing benefits from celebrity cult

Designer clothing is another area of growth in the UK, fuelled largely by the celebrity culture that has gripped the nation. Research by the financial services company Mint, in 2006, showed that mothers are spending more on designer clothes for their young children than for themselves. The research found that the average spending on toddlers’ outfits was £406 per year, with one third of parents buying designer clothes for toddlers. There are now a number of adult brands in the UK that have junior ranges, such as Armani jeans (£80), Ralph Lauren junior T-shirts (£42), Burberry infant shorts (£56) and D&G dungarees for a six month-old (£57).

Chart 11 UK: Sales of Relevant Premium Products 2001/2006



Source: Euromonitor International

8.7 US

Income trends

US citizens enjoy among the highest average household incomes in the world, with as many as 28% of households recording incomes of more than US\$75,000 in 2005, and 61% of households having incomes of more than US\$35,000. Average disposable household income increased in real terms by 0.6% per annum between 1990 and 2005, to reach US\$66,374.

Income gap widening

However, there are signs that the US is increasingly becoming a very unequal society. The “haves” have a great deal while some of the “have nots” survive on income levels more appropriate for a developing economy. Real incomes of the poorest have declined since 1990, as a result in large part to changes in the labour force. These same changes have contributed to the strong increase in incomes at the other end of the scale.

Income growth has been fuelled by economic growth, which averaged 2.8% between 2000 and 2005, largely owing to strong domestic demand, which so far has not been dampened by energy price or interest rate increases. Total consumer spending increased by an annual average of 2.8% in real terms between 1990 and 2005.

Although incomes (particularly income from work) often relate to an individual, it is within households that income and wealth are pooled, and many consumption and savings decisions are made. In this context, household formation is an important background to an analysis of income levels. In the US, household size has decreased strongly in recent years, reflecting growth in the number of single- and two-person households.

There is also a strong correlation between ethnicity and income. Black and Hispanic households are heavily represented at the bottom end of the income scale. What is more, rich black households are not as rich as rich Hispanics households, which in turn are not as rich as rich white households.

Table 18 US: % Households by Income Band 2000-2005

| % households | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------|------|------|------|------|------|------|
| Over US\$2,500 | 99.1 | 99.1 | 99.1 | 99.1 | 99.0 | 99.0 |
| Over US\$5,000 | 97.3 | 97.2 | 97.3 | 97.3 | 97.2 | 97.2 |
| Over US\$15,000 | 85.6 | 85.7 | 86.3 | 86.3 | 86.0 | 86.2 |
| Over US\$35,000 | 57.9 | 58.6 | 60.2 | 60.7 | 60.3 | 61.1 |
| Over US\$55,000 | 36.9 | 37.8 | 39.8 | 40.5 | 40.3 | 41.4 |
| Over US\$75,000 | 23.6 | 24.5 | 26.4 | 27.1 | 27.1 | 28.1 |

Source: *Euromonitor International*

Market trends

Premium lager fuelled by European imports

Premium lager is the largest of the premium sectors reviewed in the US, with sales estimated at US\$11.2 billion in 2006. This sector also recorded the strongest growth over the 2001-2006 period, of 48%. While volume sales of beer have declined in recent years, those who do remain loyal to the sector are increasingly turning to imported beers and domestic premium brands. Growing ranks of US consumers prefer the more complex tastes offered by these products compared with economy and standard beer brands, and view their consumption as a mark of the sophisticated, the cosmopolitan, and the “hip”. Domestic premium brands include those of smaller brewers, like Sierra Nevada, while imported premium lagers include Corona Extra, Heineken and Carlsberg, which are perceived by US consumers as being of higher quality than domestic mass brands, simply because they are foreign. Furthermore, because dark beers and stouts in the US are positioned similarly to premium lagers in terms of advertising and availability, US consumers perceive these to be of higher quality than standard and economy lagers, and they are priced similarly to premium lagers. Bass Ale and Newcastle Brown Ale, two of the most expensive imported dark beers readily available nationwide, have a retail price of around US\$11.99

per six 12 fl oz bottles. These beers have built up a premium reputation that consumers are willing to pay more for.

Baby boomers drive market for premium wines

Growth in the wealthy baby boomer population is one of the reasons behind consumers' upgrading to higher quality wines. The fastest growing price band during the review period was that of wine priced at US\$14 and over. Growth has been driven by continued economic prosperity during the past decade and simultaneous oversupply of grapes. Very good quality wine has been available to consumers at lower prices than previously, as wine companies have attempted to sell surplus stock. Consumers, having experienced higher priced, better quality wines, are reluctant to trade back down to lower priced, lower quality products.

Strong growth in spirits continues to come from premium and super-premium brands, which often acquire a heightened status in popular culture. 2004-2005 saw several new "status" brands, from Stolichnaya Elit and Skyy 90 vodkas to Martell XO and Navan cognacs. These launches have built upon earlier successes, such as Belvedere and Level vodkas, Patron tequila, and Hpnotiq, among many others. The higher prices of these brands serve to increase their appeal as luxury items, and they are often associated with celebrities and trendy clubs in major cities. As these brands cross over into the mainstream and gain wider distribution, there is a constant push to be the first to discover and be seen with the latest premium spirit or wine brand. This trend has served to further distance the image of spirits and wine in general from beer, giving these drinks more style and greater appeal.

Food companies improve quality of offer

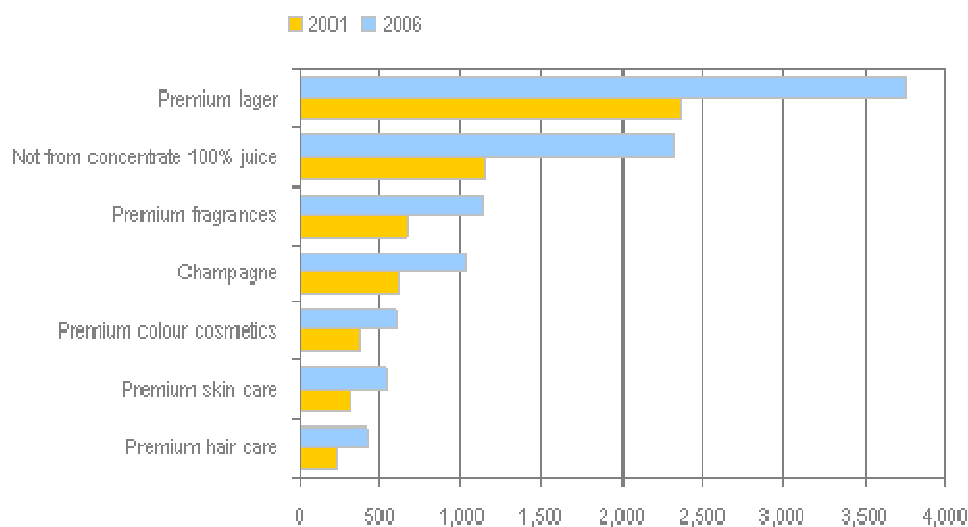
Trends towards premiumisation are evident in the food sector, where US consumers are becoming more sophisticated in their tastes and more concerned to buy high quality products as their consumption rises. Manufacturers have also played a part, pushing their upscale offerings as a way to compete against low-end private label products. Heinz's chief competitors, ConAgra and Nestlé, are both going premium, the former with labels such as Wolfgang Puck's pizzas, the latter with the indulgence positioning of its Lean Cuisine line. However, despite trends towards healthy food and drinks, sales of not-from-concentrate 100% juice fell by 2% over the review period. This was due to growing competition from other beverages offering "healthy" drinks, such as functional drinks and RTD teas. The popularity of low-carbohydrate diets, such as The Atkins Diet, which urge adherents to forgo fruit juices also led to volume declines.

Premium cosmetics hit by masstige competition

Premium cosmetics and toiletries in the US did not achieve very dynamic growth over the review period, which was largely due to developments in the masstige sector, which is considered by many to offer better value for money. Nevertheless, both premium colour cosmetics and premium skin care saw growth of more than 20% between 2001 and 2006.

Chart 12 US: Sales of Relevant Premium Products 2001/2006

US\$ million



Source: Euromonitor International

9. OUTLOOK

9.1 Trends To Watch

Overall quality will improve

The parameters of the market for premium products and services will continue to shift continuously, as overall quality improves with innovation and the need for differentiation and margin creation. Therefore, while an increasing number of new products will be touted as “premium”, those products and services previously considered as premium may become standard. Moreover, further brand erosion may take place with regard to luxury labels, as their distribution becomes more widespread and prone to discounting.

Further rises in disposable income, both in developed and emerging markets, will lead to greater demand for high quality, premium products using more natural, sustainable and organic ingredients, and offering attributes such as superior taste, better efficacy, health benefits, luxury or indulgence. In the case of products such as ready meals, pizzas, sandwiches or sauces, this will involve the use of authentic, regional recipes. Within soft drinks, premium products may focus on the addition of functional ingredients. In spirits, the emphasis is likely to be more on creating a fashionable and exclusive image that will appeal to the younger generation.

As consumers become more concerned with the origin and safety of ingredients, many premium food and drink products will emphasise an absence or the minimisation of artificial chemical content, including colours, flavours and preservatives. Natural products are generally more costly to produce and have a shorter shelf life, and can therefore command a price premium.

Middle-of-the road will suffer due to polarisation

The development of premium products will vary from sector to sector. Within the food and drinks market, the future is likely to see a continuing polarisation of demand between economy and premium products. The main losers will be products positioned between these extremes, which are considered to offer neither excellent value nor premium attributes. Hence, discounters and supermarkets’ economy private label ranges will continue to attract those consumers seeking value for money, while upmarket supermarkets and specialist stores, as well as the premium private label ranges of ordinary supermarket retailers, will appeal to the growing number of high-income and discerning consumers.

The clothing market may also see growth at both ends of the spectrum, as supermarkets and discount stores continue to increase their offer of fashionable, good value clothing, while designer clothing brands will benefit

from factors such as the celebrity cult, the “chav” sub-culture in the UK, and the yoga mom and yummy mummy phenomena.

Nevertheless, while many people will gravitate towards either the high brow or low brow lifestyle, a new generation of “no brow” consumers will emerge who are more flexible in their choices, choosing low-end, discount products when it suits them, or premium luxury products in accordance with their priorities or desires. This means that manufacturers must be careful to avoid targeting premium products only at high-income consumers.

A different pattern will arise in the area of cosmetics and toiletries, where masstige items will pose a serious threat to premium products in the future. True premium brands will need to be highly innovative and cleverly marketed in order to counter this trend, with an emphasis on sophisticated technology, efficacy and creative packaging. Product developments will continue to trickle down into the upper mass sector, where companies such as Procter & Gamble and L’Oréal will continue to innovate and improve brand image.

Status to remain key in emerging markets

There will also be regional differences in the development of premium products. In developed markets, where luxury items are within the reach of many consumers, the challenge is to provide exclusivity through high quality, cutting-edge technology, customisation or by addressing niche consumer concerns, such as using organic or sustainably-sourced ingredients. However, in emerging markets such as China and India, the emphasis is more on status and the “bling” factor. In these countries, where luxury brand names hold much kudos, marketing images will be key. Furthermore, marketing in the premium and luxury products sector requires a different approach in emerging markets. While in affluent regions, such as North America and Western Europe, the consumer core is broad and cuts across almost all demographics, in China and India luxury goods are only within the reach of an elite but growing consumer niche.

Specialists will emphasise service and ambience

With mass brands encroaching on premium attributes, and with sales declining through department stores, the traditional channel for premium brands to be sold, companies will continue to review the marketing channels for their products. The future is likely to see a rise in the number of stand-alone stores for selling premium brands, whether this be in the food and drink, cosmetics and toiletries or clothing sectors. More specialised boutiques allow companies to establish a closer relationship with the consumer, whose attention is not distracted by other brands, as in the department store environment. It will also allow retailers to introduce a greater level of service and improve the overall “shopping experience”, in order to justify higher prices.

9.2 Market Forecasts

Regional beers will benefit from desire for taste and quality

Premium lager will remain the largest of the premium sectors under review over the forecast period, thanks largely to its importance in the US and UK markets. Sales are predicted to continue to grow strongly in constant value terms between 2006 and 2011, by almost 35%, to reach US\$53.2 billion at constant 2006 prices.

In economically developed regional markets such as Australasia, North America and Western Europe, innovation in the beer market will continue to focus mainly on premium varieties, which fulfil the need for higher profit margins. Smaller, regional brands are expected to flourish in line with rising disposable incomes, such as Sierra Nevada in the US, or Greene King’s Old Speckled Hen and Fuller’s London Pride in the UK. Smaller batches tend to result in tastier, more interesting beers, with more attention paid to detail and to the quality of the ingredients.

In developing countries, such as China and Russia, the beer market is likely to become increasingly polarised between premium and economy brands. On the one hand, breweries’ expansion into the regions means that companies will have to offer low-priced beer for consumers with comparatively low disposable incomes. Conversely, manufacturers will need to promote premium beer in order to stimulate value sales in more saturated urban centres. In China, although premium brands will continue to be successful in first tier cities such as Guangzhou and Shanghai, due to the growing number of pubs and bars in these affluent areas, there are still many obstacles to be overcome, not least the need for a more efficient distribution system beyond key cities.

Quality over quantity will continue to favour super-premium spirits

The forecast period is also expected to see the ongoing expansion of the premium spirits segment, as consumers increasingly prioritise quality over quantity in purchasing decisions. Furthermore, it will undoubtedly witness the development of a super-premium category beyond its origins in the US vodka subsector. Indeed, the end of the review period saw super-premium products emerging in Western Europe and in categories such as rum and gin. Increasing consumer brand sensitivity is likely to spur the expansion of the trend in both geographic and sectoral terms between 2006 and 2011, driving value growth in developed markets. In Western Europe, the premium and super-premium segments may well be boosted by a growing range of Polish brands following the privatisation of major Polish distillers during 2005.

Emerging markets are also expected to see growing demand for more prestigious, higher value spirits drive demand for imported products. Moreover, major manufacturers are expected to deepen their penetration of emerging markets, as they seek to exploit the expansion of the urban middle class to generate growth beyond mature core markets. The abolition of import duties related to EU accession in 2004, and reductions in excise duties by other markets in preparation for EU and WTO membership, are also set to boost the trend towards imported spirits, by making them more affordable to the large number of low income consumers in emerging markets.

The future is functional for soft drinks

Both not-from-concentrate 100% juice and champagne are predicted to see slower growth over the forecast period, of 22% and 17%, respectively. Although both sectors will benefit from their premium image, they will compete with more dynamic premium products, such as functional juices and premium sparkling wines. Functionality and fortification are becoming key elements of product innovation and extension, especially in the soft drinks market. The infusion of health properties in premium products such as enhanced/functional flavoured bottled waters, green/white RTD teas and fortified fruit juices will continue to be a key feature, especially in developed markets. It is possible that these premium products will become the cash generators for multinationals in the long term.

Premium cosmetics and toiletries will be hit by further competition, as the cosmetics giants such as Procter & Gamble, L'Oréal, Unilever and Beiersdorf will increasingly position their products as offering premium quality at upper mass prices. Therefore, premium brands must continue to be inventive and to offer the consumer more value than the upper mass brands.

Sun care and baby care positioned for premium growth

Within premium cosmetics and toiletries, smaller sectors such as sun care and baby care are thought to offer the most scope for development. This is due to growing fears over global warming and the harmful effects of the sun, which will lead consumers to seek higher quality products to protect them from the sun, as well as increased expenditure on babies and children as a result of falling birth rates and higher disposable incomes. Indeed, the new generation of yoga moms/yummy mummies is expected to demand only the best organic baby products for their offspring.

Sales of premium fragrances will benefit from their wider availability through cheaper outlets, such as supermarkets and the Internet. However, at the same time, this will continue to have a negative impact on market value, as prices decline further.

Table 19 Forecast Sales in Relevant Sectors 2006-2011

| US\$ million, at constant 2006 prices | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------------------|--------|--------|--------|--------|--------|--------|
| Premium drinks | | | | | | |
| Premium lager | 39,600 | 41,897 | 44,285 | 46,986 | 49,993 | 53,243 |
| Not-from-concentrate | | | | | | |
| 100% juice | 7,918 | 8,330 | 8,738 | 9,087 | 9,405 | 9,688 |
| Champagne | 5,862 | 6,061 | 6,225 | 6,437 | 6,636 | 6,835 |
| Premium cosmetics and | | | | | | |

| | | | | | | |
|-------------------------------------|--------|-----------|--------|--------|--------|--------|
| toiletries | | | | | | |
| Skin care | 23,364 | 24,299 | 25,149 | 25,903 | 26,551 | 27,082 |
| Fragrances | 17,798 | 18,332 | 18,845 | 19,335 | 19,799 | 20,235 |
| Colour cosmetics | 12,875 | 13,326 | 13,752 | 14,165 | 14,561 | 14,940 |
| Hair care | 7,482 | 7,841 | 8,202 | 8,563 | 8,922 | 9,279 |
| Sun care | 1,387 | 1,540 | 1,701 | 1,871 | 2,049 | 2,234 |
| Bath and shower | 1,207 | 1,270 | 1,333 | 1,397 | 1,462 | 1,526 |
| Baby care | 206 | 231 | 256 | 282 | 307 | 332 |
| | | | | | | |
| | | % | | | | |
| | | growth | | | | |
| | | 2006/2011 | | | | |
| Premium drinks | | | | | | |
| Premium lager | 34.5 | | | | | |
| Not-from-concentrate | | | | | | |
| 100% juice | 22.4 | | | | | |
| Champagne | 16.6 | | | | | |
| Premium cosmetics and toiletries | | | | | | |
| Skin care | 15.9 | | | | | |
| Fragrances | 13.7 | | | | | |
| Colour cosmetics | 16.0 | | | | | |
| Hair care | 24.0 | | | | | |
| Sun care | 61.0 | | | | | |
| Bath and shower | 26.4 | | | | | |
| Baby care | 61.0 | | | | | |

Source: *Euromonitor International*