

# THE COSMETICS INDUSTRY IN ITALY



## **THE COSMETICS INDUSTRY IN ITALY SCENARIO AND OPPORTUNITIES**

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**Author: Mariano Spagnoli**

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# 1. INTRODUCTION

**Switzerland Global Enterprise (S-GE)** is the official Swiss organization for export and investment promotion with around 200 employees at offices throughout Switzerland and in 31 countries. We support Swiss SMEs in their international business and help innovative foreign companies to establish in Switzerland. Our branch office in Milan, the so-called Swiss Business Hub Italy is strategically located close to the Consulate General of Switzerland in Milan, which provides them with the best possible network of contacts abroad.

Italy is Switzerland's third-biggest trade partner, counting both imports and exports. Products marked "Made in Switzerland" traditionally have an excellent reputation and are known above all for their quality and high level of innovation. Especially in the cosmetics sector, "Swissness" stands for luxury and Italy's cosmetics market continues to grow, which offers interesting business opportunities for Swiss companies.



**Mariano Spagnoli**

Trade Officer

Swiss Business Hub Italy  
Consulate General of Switzerland  
20121 Milan, Italy

[mil.sbhitalia@eda.admin.ch](mailto:mil.sbhitalia@eda.admin.ch)

Tel. 058 480 07



**Beat Kuster**

Senior Consultant Southern Europe

Switzerland Global Enterprise  
Stampfenbachstrasse 85  
8006 Zurich, Switzerland

[bkuster@s-ge.com](mailto:bkuster@s-ge.com)

Tel. 044 365 54 45

## 2. GLOBAL SCENARIO

Everyone is very familiar with cosmetic products, and many business owners think they understand their features and peculiarities even without having really looked into them.

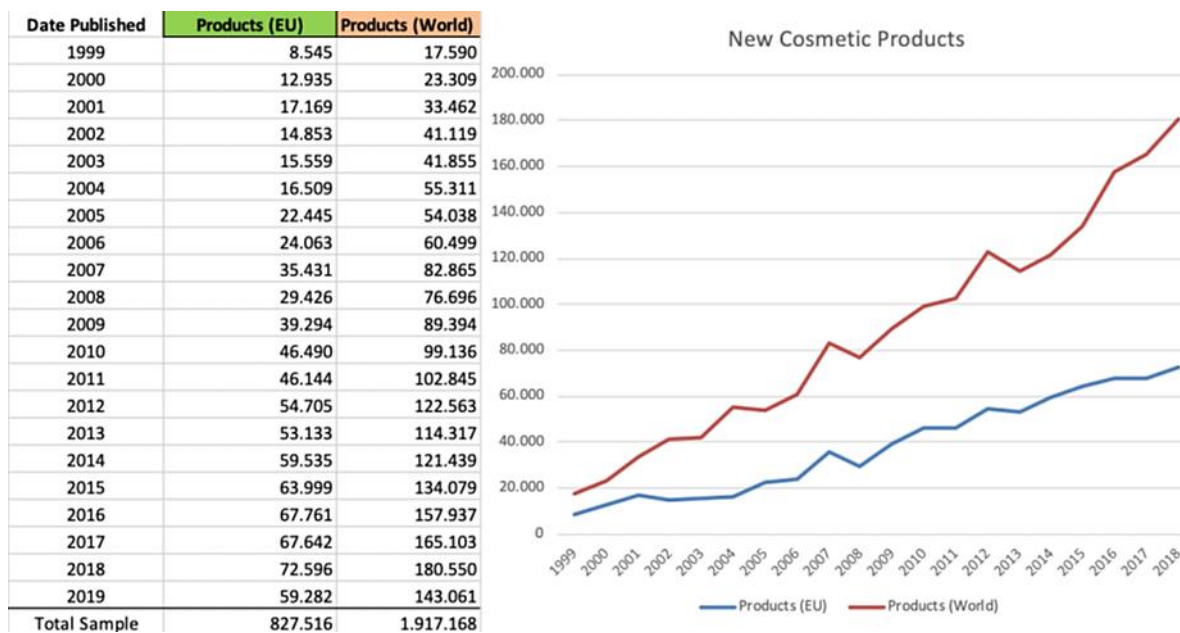
However, an analysis of the industry yields many surprises, because the dynamics and logic of the supply chain are not obvious from the outside. An in-depth study, starting with legal requirements and production processes and including an analysis of distribution chains and their development, allows investors in this sector to gain a full picture of its features and advantages.

Cosmetic products enjoy strong approval from a very large proportion of consumers, as shown by recent data published by the Cosmetics Europe association: 72% of consumers feel that cosmetic products **improve their quality of life** and 80% see cosmetics as **very important factors for self-esteem**.

In very recent times, the favor enjoyed by the cosmetics industry has also encompassed health-related issues. The same study found that the **use of hand-sanitizing products** reduces the risk of stomach upsets by 44-47% and acute respiratory illness by 23%.

Looking beyond existing well-established markets, consumption in so-called emerging markets is certainly offering new challenges and opportunities.

Without doubt, a significant indicator of the sector's growth is the number of new products coming onto the market, as shown in the graph below.



Two concurrent and equally important factors can be observed in this context. First of all, **Europe continues to dominate commercially**, both in terms of the number of new products on the market (including those launched by non-European partners) and in terms of sales volumes, which are still the highest in the world (about 78 billion euros in 2019, source: Cosmetics Europe).

However, the acceleration in emerging markets is another advantage, as European products are still seen as high quality and are sought after in the majority of non-European countries.

## Research and development

The European cosmetics industry sees a high level of investment in research and development. Industry participants invested **2.35 billion euros in the sector in 2017**, and there were 28,800 scientists working in cosmetics out of a total of 168,000 employees, with a very high level of employees having a science degree (around 17%).

This is a strong, growing industry with a heavy focus on exports (21.5 billion euros in 2018), which in the post-pandemic era has translated into a limited fall in sales. **SMEs play a major role in the sector, with 5,800 of them in Europe** (872 in France and 828 in Italy).

The profile of European cosmetics companies is therefore well defined and attractive. The sector is strongly focused on innovation with a very high product turnover, and small companies with a strong scientific basis and a high cultural profile can carve a niche for themselves.

## 3. IN ITALY

With GDP in the cosmetics supply chain totaling approximately 12 billion euros, Italy is ranked in fourth place in Europe. Compared to other countries, **Italy's third-party manufacturing sector is highly developed (4 billion euros in 2019)**.

The third-party manufacturing sector has evolved strongly over the last decade, as is also shown by the high percentage of science graduates working in its constituent companies. Today, third-party manufacturers are increasingly "**full service**," which also includes the development of new formulations that are then offered on an exclusive basis to brand owners.

Italy's **universities** also make a major contribution to the sector, with around 25 directly involved in cosmetics research and 12 specialist masters degrees in cosmetics, creating a large pool of highly qualified candidates for the industry.

Another useful indicator of the appeal of the Italian cosmetics market are its **unit margins** (EBITDA, 2018, source: Intesa SanPaolo for Cosmetica Italia), which are second behind pharmaceuticals both in manufacturing and distribution:

- **Manufacturing:** Pharmaceuticals 13%, **Cosmetics 10.8%**, Eyewear 10.4%, FMCG 8.7%, Wine 8.2%, Leather goods 7.2%, Food 6.6%, Clothing 6%
- **Distribution:** Pharmaceuticals 6.8%, **Cosmetics 5.5%**, Leather goods 5.2%, FMCG 5.2%, Clothing 4.3%, Food 2.9%

## 4. SETTING UP A BUSINESS IN ITALY

Setting up a business in Italy can be a strategic decision that gives great logistical access to the country while establishing closer geographical proximity to an attractive pool of customers.

There are essentially three things to take into consideration:

- A. cosmetics regulations
- B. the product
- C. production

### Cosmetics regulations

Cosmetic products are above all subject to **EU Regulation 1223/2009**, which added implementing methods and improvements to its predecessor while maintaining its underlying structure and approach (indeed it is a “recast” regulation). The safety and compliance of cosmetic products sold on the European market is based on the **self-certification principle**, while the competent local authorities are responsible for post-market surveillance in relation to product compliance and safety.

### The product

Specifically, cosmetic products must be checked and assessed directly by the company that intends to sell them on the European market, upon their own responsibility; hence they are known as the **“Responsible Person” (meaning a legal person, of course)**.

The Responsible Person must be resident in the EU and to deal with product control and safety must have a key employee with appropriate scientific training, who is known as the **Safety Assessor** and who approves the product from a toxicological standpoint, allowing the Responsible Person to proceed with production and sale of the product.

The self-certification process does, however, involve a significant set of documents that certifies and demonstrates that the required activities are being carried out and may assist with checks by the competent authorities.

### Production

One of the obligations that the Responsible Person must guarantee is that the products have been manufactured according to **Cosmetics Good Manufacturing Practices (GMP)** and therefore meet EN ISO 22716:2007.

The standard follows the same lines as the much better known ISO 9001, incorporating many aspects of it including its underlying structure.

Compliance may then be verified by health authorities during inspections carried out on a local sample.

If setting up a **direct production company for own-brand products**, all that is needed is to engage experts who can easily draw up an appropriate **Quality Management System**, as happens for ISO 9001 certification, albeit with the (significant) difference that for EN ISO 22716: 2007 the expert must have significant experience in the cosmetics sector.

**Developing an own-brand product line that is manufactured by a contractor** is a different matter. In all cases, the Responsible Person is in charge of ensuring that the products are correctly manufactured according to the GMP.

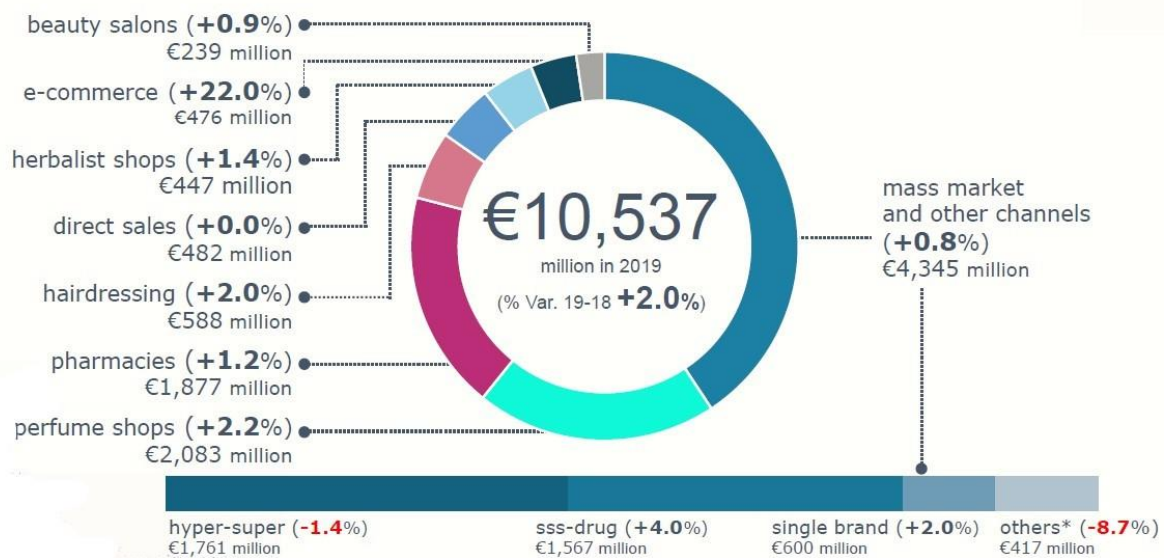
If you want to set up a **production facility that can produce for third parties**, then it is worth bearing in mind that the client must be given regulatory support.

## 5. BUYING HABITS

### Distribution channels

The consumption and production of all cosmetic products has seen almost uninterrupted growth over recent years. It stands to reason that 2020 should be seen as an exception. The available data offer hope for a quick recovery, especially for some lines and channels, such as *online*.

The graph below shows the situation up to 2019 by distribution channel and their year-on-year growth rates.

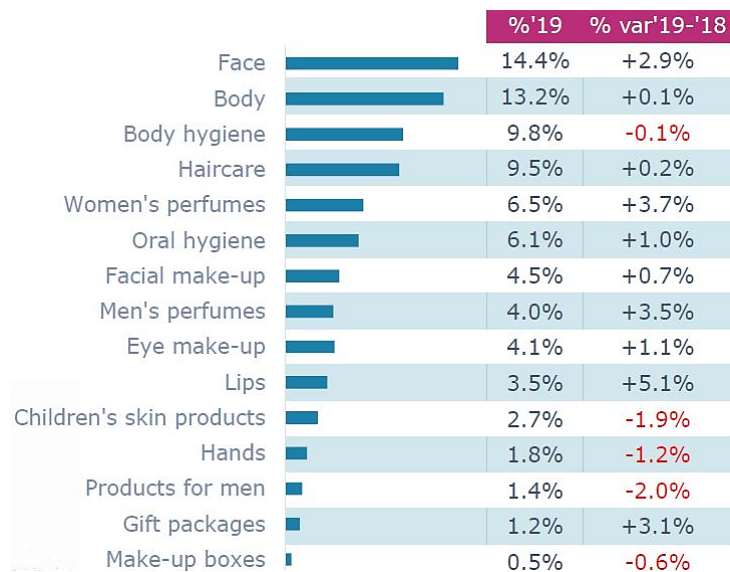


The graph clearly shows the benefits of having a range of distribution channels, which during previous severe market fluctuations has seen contractions in some channels offset by growth in others.

Usually, when markets are falling, the mass-market and e-commerce channels see a strong uplift, offsetting a fall in revenue from channels such as beauticians and nail treatments, which entail a higher spending profile (and are therefore supported by a moderately favorable economy).

### Buying preferences

The graph below shows the most-bought product lines and their year-on-year growth.



Interestingly, products for men saw a significant fall, offset by men's perfumes.

Considering the extraordinary events of 2020, solid growth in the hands and body hygiene sector can be expected.



## 6. FUTURE TRENDS

Far from being saturated, the Italian market is always enthusiastic about new additions, especially in relation to changing needs and scientific discoveries that lead to new formulations.

A survey by the “Cosmetica Italia” industry association found that the following trends will have the biggest impact on cosmetic purchases in the coming years:



## 7. OPPORTUNITIES

### Under 30s

When we look at the Italian cosmetics market, we can observe two overarching trends tied to age group, which reflect specific attitudes but also overlap in some areas.

In the **under 30s**, we can see that consumer trends are increasingly driven by the web and especially by bloggers and influencers. In fact, some of the most-followed fashion and cosmetics influencers in the world are Italian (e.g. Chiara Ferragni). The advice they give in their posts has major marketing value and makes a big contribution to market positioning or repositioning. This is especially true for new brands.

That said, the younger demographic remains very sensitive to price and brand value. An adequate **marketing investment** is, without doubt, essential to reach this demographic.

### Over 30s

On the other hand, it is worth noting that average life expectancy in Italy is 11 years higher than the global average, with one of the highest percentages of over 65s in the world (almost 30%).

As such, it is easy to see how ranges aimed at this age group would be well received in Italy, including those with premium positioning due to this demographic's greater spending power.

Again, an adequate marketing investment can be important. But choosing the right distribution channel is even more important.

## 8. CONCLUSIONS

The Italian market is without doubt fertile ground for cosmetics, from every standpoint.

A strong knowledge base made up of businesses, trade associations and research centers clearly offers encouragement for investment, which could involve either seeking a partner or setting up a production or sales company.

Even so, high levels of consumer enthusiasm for all sorts of cosmetics are the biggest pull factor.

There can be no doubt that the space dedicated to cosmetics for aging skin is set to grow, as will anti-aging products in general.

Among the various sub-sectors, we would suggest keeping a close eye on men's cosmetics. According to data from the NPD group, which analyzes market trends, men last year accounted for a small fraction of the 7.6 billion US dollars spent on cosmetics. However, that percentage will shift by 2022, and more and more men – not just the younger ones – will be inclined to buy makeup products, especially in drugstores and online.

## 9. ASSOCIATIONS AND EVENTS

### Associations

|                                                                                               |                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>COSMETICA ITALIA</b><br><a href="http://www.Cosmeticaitalia.it">www.Cosmeticaitalia.it</a> | Trade association within Federchimica, focusing specifically on cosmetics. Swiss Business Hub Italy enjoys good relations with the association.       |
| <b>POLO COSMESI</b><br><a href="http://www.polocosmesi.com">www.polocosmesi.com</a>           | The “Polo Tecnologico della Cosmesi” (Cosmetics Technological Hub) is an association of companies in Lombardy from across the cosmetics supply chain. |
| <b>AIDECO</b><br><a href="http://www.aideco.org">www.aideco.org</a>                           | Association of dermatology and cosmetology professionals.                                                                                             |

### Events

|                                                                                                                                      |                                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| <b>COSMOPROF</b><br><a href="http://www.cosmoprof.com">www.cosmoprof.com</a><br>BOLOGNA                                              | One of the top global events, covering every aspect of cosmetics                                 |
| <b>ROMA INTERNATIONAL ESTETICA</b><br><a href="http://www.romainternationalestetica.it">www.romainternationalestetica.it</a><br>ROME | Trade fair for the professional wellness and beauty world                                        |
| <b>MAKING COSMETICS</b><br><a href="http://www.making-cosmetics.it">www.making-cosmetics.it</a><br>MILAN                             | Trade fair for professionals working in the area of raw materials for cosmetic applications      |
| <b>SANA</b><br><a href="http://www.sana.it">www.sana.it</a><br>BOLOGNA                                                               | The leading event for organic products in Italy, including a large section for personal products |

## Sources

- Cosmetica Italia [www.cosmeticaitalia.it](http://www.cosmeticaitalia.it)
- Il Sole 24 ore [www.ilssole24ore.com](http://www.ilssole24ore.com)
- NPD [www.npd.com](http://www.npd.com)

## **ExportHelp**

s-ge.com/exporthelp  
exporthelp@s-ge.com  
T 0844 811 812



Switzerland Global Enterprise  
Stampfenbachstrasse 85  
CH-8006 Zurich  
T +41 44 365 51 51

Switzerland Global Enterprise  
Corso Elvezia 16 – CP 5399  
CH-6901 Lugano  
T +41 91 601 86 86

Switzerland Global Enterprise  
Ch. Du Closel, 3  
CH-1020 Renens  
T +41 21 545 94 94

s-ge.com