

# EUROPEAN TISSUE SYMPOSIUM

The European Tissue Paper Industry Association

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## **PRESS INFORMATION**

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### **Toilet Paper: A commodity to be flushed? Innovation as a path to category value**

In the last few years the toilet tissue category has experienced growth across many European markets. Driven by a dynamic of intense competition both in the branded market and across retail channels, the category has also experienced a step change in the innovation efforts of manufacturers both here and overseas, as they double their efforts to drive market share and category value.

#### **Driving hard business on soft products**

*Esko Uutela, CEO of EU Consulting and publisher of the 'World Tissue Business Monitor',* comments on the tissue situation. "There is no doubt that the markets outside the U.S. or Canada still have real scope for growth in per capita consumption of the total tissue market. The 25 kg per capita noted in the North America underlines the enormous potential that remains to be exploited in most of the other parts of the market, and more particularly the European markets". Indeed, whereas some of the Western European countries are more aligned to US consumption, the differences with other markets are still very important, with many of them barely reaching half of the North American levels. "Specifically regarding toilet paper, consumption measured through sales through retail outlets is 25% behind that of the US," continues Esko Uutela, "and this is despite penetration of almost 100%."

The obvious question is "why?" Is the market potential being maximised here and what makes the consumer in North America willing to pay for added value products?

There has already been a noticeable increase in the value of the toilet tissue category across Europe. Several markets are seeing the benefit from the support of added value innovations and effective category

segmentation that drives a range of differentiated products. Equally, in some countries category development has stalled with the proliferation of traditional low cost products, value has either declined or seen little growth, and commoditisation looms as a very real threat. Conversely, the value growth of the more progressive markets is almost entirely driven by the introduction and further differentiation of premium and super-premium toilet tissue.

### **Differentiation: Consumer Insight as the engine of innovation**

Some product innovations spontaneously become growth drivers and add value to a category because they respond in a natural way to the needs of the end-users: more quantity, more quality, more comfort. This often is the case with the introduction of new or upgraded products in an awakening, quickly developing new market.



**Russia** f.i., as all Eastern European markets, has a massive growth potential. Consumers are becoming more quality oriented due to rising disposable income of the middle class. This is especially the case in the two largest Russian cities Moscow and St. Petersburg.

The introduction of a 2-ply, and later a 3-ply toilet tissue as an alternative to the traditional 1-ply product, shifting the focus from quantity (54 m as the standard length of a roll) to quality (user comfort), made Zewa (SCA) a strong market leader and the brand continues to set the standards in this market. The figures speak for themselves: over just twelve months, between October 2004 and September 2005, the value developed by the 2- and 3-ply toilet tissue accounted for some 30%.



**Source: AC Nielsen**



**Breakaway launches** and creative and daring concepts have also been brought to market. In a statement of defiance of conventional thinking, *Renova Black* was launched only a few months ago. The introduction of this daring product, black toilet tissue, immediately generated lots of media attention and was the talk of the town. It quickly became publicized all over the globe, and the notion of “luxury” and “indisputably chic” was linked to a product category which many still frequently refer to as a basic grocery commodity.

## Success Stories



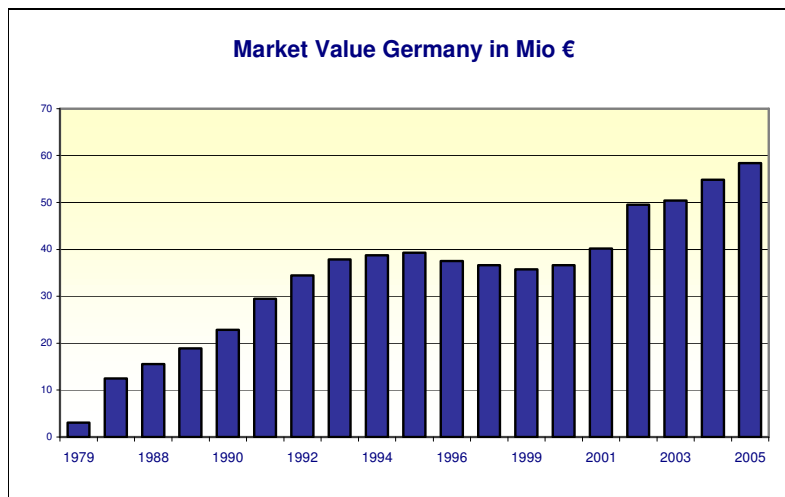
**Moist toilet tissue** is another important innovation and has achieved important value growth in almost every market where it has been introduced. Charmin, Colhogar, Edet, Hakle, Renova, Andrex ... are but a few brands. The success story started in Germany, soon after hit Switzerland and then continued to roll out across Europe.

Between the time of the first moist toilet tissue launch in 1979 and the mid 1990s, the German market noted an increase in market value from 3.1 to more than 35 mio euros.

Starting in 2001, with the introduction of new innovations by all the major producers, a recent drive of activity and support pushed market value further up to the 55 mio euros it is today.

This success story continues as, launched under various brand names in the other markets, these moist toilet tissue products show common market behavioural characteristics, such as typical mid double digit

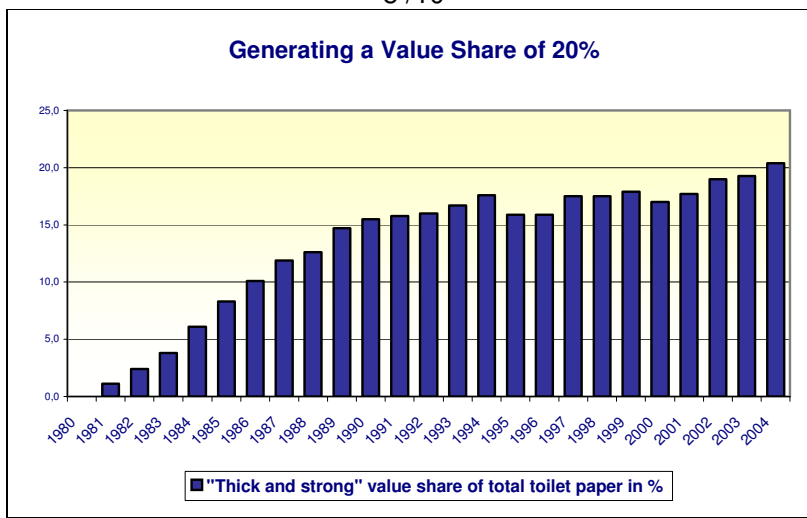
category growth and achieving high penetration in the new markets where these products are introduced with an ever increasing speed.



**Source: AC Nielsen**

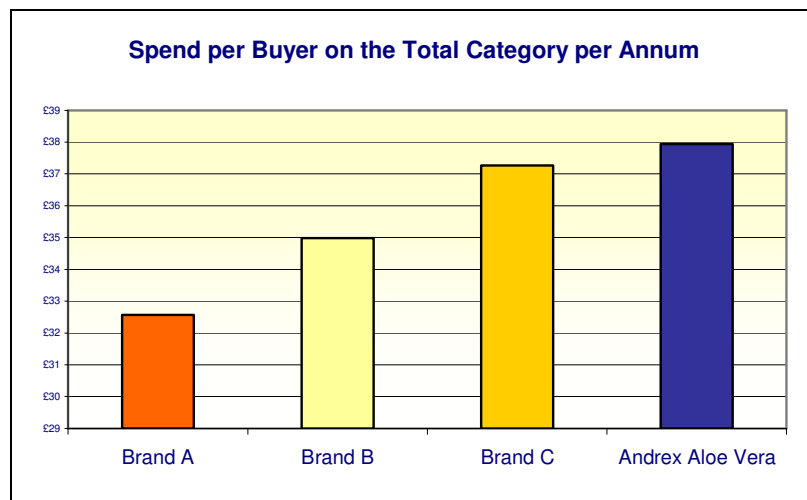


Around the same period, a new premium segment was created by Georgia Pacific with the introduction in 1981 of Moltonel "Thick, Strong and Soft" Toilet Paper in the **French market**. During the last two decades, this premium segment has come to account for a quarter of the total category growth, and the segment now represents 15% of all rolls consumed in France, generating a segment value share of 20%. "Retail Trade played a key role in supporting the development of Moltonel's "Thick, Strong and Soft" Toilet Paper," adds Serge Moissonnier, Marketing Director Lotus, Georgia Pacific France. "Retailers gave us rapid listing for our new varieties and high in-store visibility for our range. Moltonel's story since the eighties is a smart win-win situation which was strategically generated between our key retailers and ourselves," he concludes.



**Source: AC Nielsen**

In the **United Kingdom**, the *Andrex* story is one of the most remarkable. The Kimberly-Clark brand, after more than 35 years of consistent and persistent marketing support, holds a 35% market share, 55% penetration and 45% consumer loyalty in the UK. However Customer, User and Shopper research in 2000 highlighted category deflationary pressures and the need to offer differentiated new products that would provide increased consumer satisfaction. The research indicated there was a significant segment of users that was willing to pay more for such added value products.



**Source: AC Nielsen**



The introduction in 2001 of *Andrex Aloe Vera*, with strong in store retail support and critical trial driving activities has created significant category value. Based on the AC Nielsen data, says Alex Pickering,

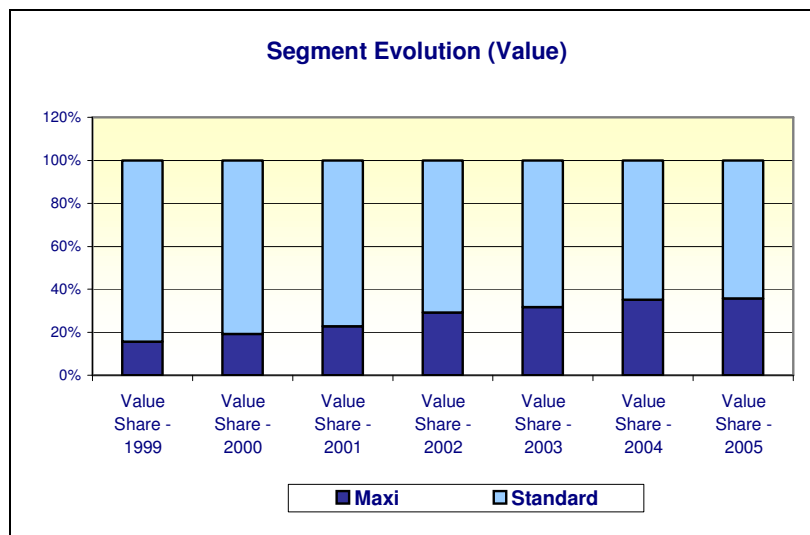
Marketing Manager for Kimberly-Clark: "Andrex Aloe Vera shoppers spend more on their toilet tissue. If all market volume were sold at the same price per roll as Andrex Aloe Vera, this would add £177 mio to the category in the UK. Aloe Vera buyers are also highly loyal. We invested hugely to make it work in store, but in the end we have seen the entire premium segment grow from £70 mio to £96 mio in the last two years."



Addressing users' convenience, Sofidel's *Regina Rotoloni* (literally "Big Roll"), has become a reference for the 'never ending roll' for **Italian** consumers through focussed innovation since its introduction in the nineties.

The much noted "10 rolls in 4" concept achieved a double win-win: same quantity of tissue in less space for the consumer, easy storage

and quick delivery for the retailer. Rotoloni laid the foundations and still is a strong leader in this specific segment of products. According to Nielsen' scan-track, the segment now represents 35 % of the Italian market's value and still continues to grow consistently year after year. One of the key benefits of this maxi innovation, aside from strong consumer relevance and loyalty, has been the increase of DPP (direct product profitability) for retailers due to stock and shelf rationalisation and basket efficiency.



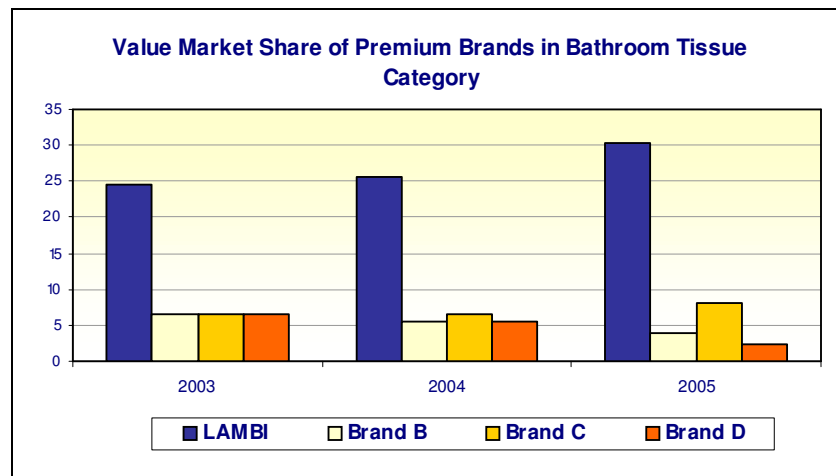
**Source: AC Nielsen**



**Norway** has also been historically very strongly basic, recycled paper products. No premium, no A new era started in the mid nineties with the

*Lambi*, which Metsä Tissue started to consistently build as their brand by introducing the 'lamb' as their brand icon and enhancing consumers' emotional involvement with the category.

As well as the launch and steady growth in neighbouring markets, Metsä Tissue's *Lambi* achieved market share growth in the **Nordics**, **Baltics** and **Poland** by embossing its own brand, the 'lamb', on the tissue in 2002. The brand is now perceived as a guarantee for premium quality, and user' loyalty value has increased by 50%. This development was supported by continuous TV-advertising and consumer promotions using soft toys featuring the brand image "Lambi". This type of innovation- driven marketing stimulated the entire premium segment which grew from 26 to 39%.



There are many more success stories to tell, demonstrating the broad variety of innovations which have stimulated value growth of the category.

### **Benefiting from the potential**

The many recent innovations in toilet tissue have given consumers what they want and continue to result in an ever increasing market share for the premium and super-premium types of toilet papers in most countries. The pace of innovation and differentiation has accelerated and toilet tissue offerings are now thicker, stronger, moister, quilted, fragranced, skin friendlier, coloured, embossed, branded ... than the standard category products, and the consumers appreciate the wide range of comfort and style they find in the category. They use more of the products, are willing to spend more

money for a higher quality toilet tissue, and are more loyal to these differentiated products.

In a fully penetrated category, the demand for these luxury toilet papers continues to increase steadily. In order to maximise the opportunity it is critical to help consumers navigate the fixture and make these new products visible and easy to shop. Merchandising efforts between manufacturers and retailers bring added performance to the category. They achieve the necessary visibility and transparency of the different product offers for the shopper, thus enhancing confidence and choice.

With the majority of consumer purchase decisions being taken in a matter of seconds at the point of purchase, the clear visibility of any new products or different product segments is absolutely fundamental to the growth of these segments.

### **A real opportunity?**

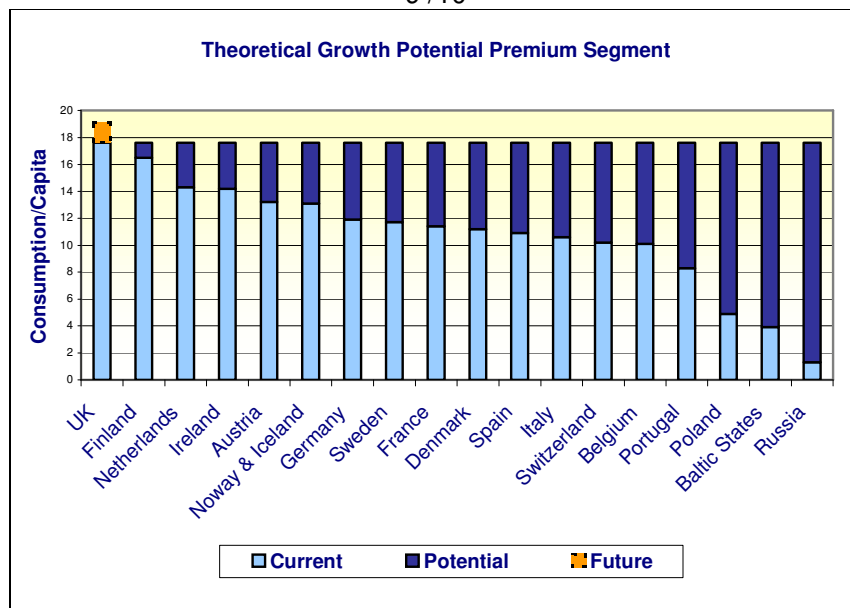
Taking a purely statistical approach, what if we would extrapolate the current real value consumption data per capita in the different European markets<sup>1</sup>, compare these to the already strong consumption level of the United Kingdom and generate from this a hypothetical potential?

This theoretical extrapolation leads to amazing results: there would be a potential increase in toilet tissue market exceeding 5 billion euro in the countries listed below, and this only on the account of the better quality / consumer added value products.

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<sup>1</sup> EU Consulting: TMD 2005





**Source: EU Consulting**

The theoretical extrapolation indeed shows potential figures going from approx. 20 % for The Netherlands and Ireland, up to 70 % for Switzerland and Belgium, whereas newer markets such as Poland, the Baltic States and Russia may many times multiply their current consumption level.

### **The Differentiation & Innovation - 40 % European category growth opportunity during the next decade**

Going forward, differentiation, customer confidence and loyalty will be the key market value drivers

As always, execution is everything and NPD will only succeed in markets where joint efforts by suppliers and retailers ensure that

shoppers can easily shop within the fixture and find these new products and segments in store.

There are several well documented examples of other categories where retailers and suppliers have successfully invigorated markets taking this approach, including oils, vinegars, and water and soft drinks, to name a few. These real examples demonstrate the very real potential for toilet tissue.

It is probable that the theoretical forecast is overtly optimistic. The market experts are convinced though that it is very realistic that an important value growth can be achieved. *Esko Uutela of EU Consulting* f.i. adds that "overall, the European market is quickly picking up. This evolution may well lead, in the next few years, to achieve the better part of the current potential estimated by our

statistics<sup>2</sup>. These figures indicate an expected average value increase of 3.5 % per year for toilet tissue in Europe, rising to more than 40 % over the next decade.”

*Information provided by the ETS / European Tissue Symposium*

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*About ETS*

*The European Tissue Symposium (ETS) is a trade organisation. Its members represent the majority of tissue paper producers throughout Europe and about 90% of the total European tissue production.*

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<sup>2</sup> Potential Value Growth according to EU Consulting / TMD 2005 – Toilet Paper