EUROPEAN TISSUE SYMPOSIUM

The European Tissue Paper Industry Association

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Tapping into the growth potential of Facial Tissues

In Europe today, pocket packs and box tissues represent an annual total *market valued at more than* ***€1.400m (£925m)***.

For both manufacturers and retailers, growth potential in the market remains substantial, with significant opportunities for increased usage and greater penetration. As a non-staple category, driven as much by impulse as by planned purchase, ongoing investment in product innovation as well as in store visibility both remain key drivers for total category sales, especially in peak seasons.

Market development for the two product segments (**pocket packs** and **box tissues**) has been dramatically different in the various European countries and across the world, driven both by cultural differences and by the historic focus of manufacturers or retailers on one or other form. However, what is clear from the data below is that the category in total enjoys largest success in those markets where both pocket packs and box tissues have been equally supported and displayed in stores. In such high value markets, both increased penetration and usage are due to the different ways that customers use each form.

The facial tissue growth for Europe from 2005 to 2010 is estimated to be 10.6% in terms of volume. (Source: EU Consulting)

Here to stay and … grow

It was around AD200, that the Chinese started using paper handkerchiefs but it would take until the early 20th century for the west to follow suit and introduce cellucotton, a substance conceived to replace cotton, mainly for medicinal reasons, in the wake of World War 1.

In the mid-20s, almost simultaneously, both sides of the Atlantic saw important consumer product innovations as cellstof boxed facial tissues were introduced in the US and the UK, while cellstof tissue pocket-handkerchiefs were launched in continental Europe.

These early origins of both segments are still reflected in the market today where box tissues are the leading product segment in the US and pocket packs lead development the category in Europe.

Regardless of form, tissue products were a significant and fundamental innovation around 80 years ago. Thus important marketing efforts from the outset resulted in leading brand names such as Kleenex and Tempo joining the league of innovators with generic or product segment names in their industry along with Bic, Ford, Gillette, Lego and Coca Cola amongst others.

Box tissues and pocket packs

Over the last eight decades, both in our homes and out and about, we have found a multitude of uses for tissues in a variety of situations - including blowing our noses, wiping our eyes or cleaning spectacles. Often, we find them very handy for other essential cleaning tasks, even as emergency toilet paper, etc.

Consequently, we find them in a multitude of places: pocket packs mostly find their way into handbags, pockets of jackets and trousers or in the car. Box tissues are also everywhere: at home, in both parents' and children's bedrooms; in the living room; bathroom or toilet. Away from home, they too are kept in the car but also in the office. Box tissues are often displayed in rest rooms and other facilities for the public.

So, we are able grab a strong tissue when we have a cold or flu, an allergic reaction or tears of joy or sadness, and facial tissues are always handy for repairing a make-up smear or mopping up a small spill.

Whatever the place, whenever we need them, tissues are to hand but interestingly, if there is an indigenous predominance, for either pocket packs or boxed facials, it is linked to the country's culture and location.

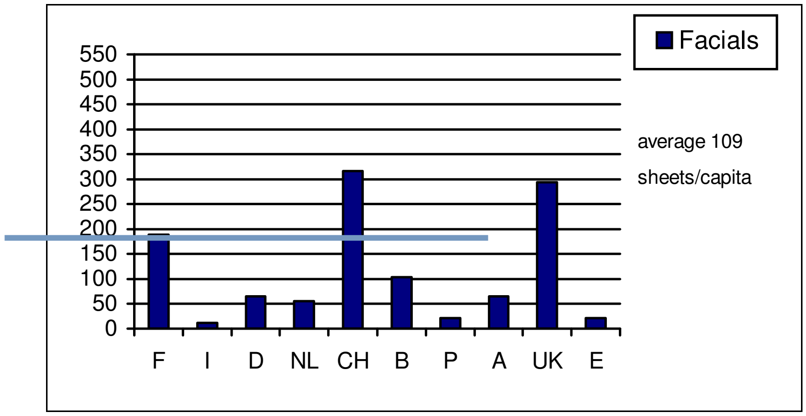
Swiss consumption per capita outstrips West-European average by 2 to 1…
the…impact of driving both box tissues and packet packs.

In the usage per capita of paper tissues, Switzerland stands out as by far the best performing market in Europe, followed by Germany, Austria and France.

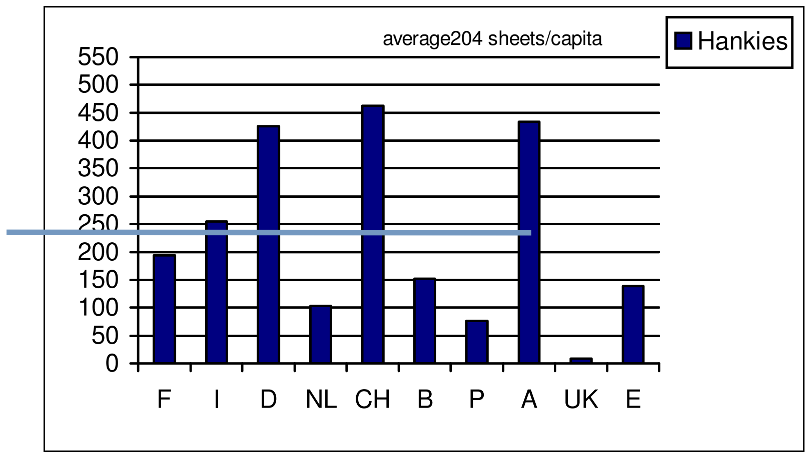
This is, in part, due to the high value attached by the Swiss to cleanliness and personal hygiene but it is also due to the focus on jointly developing the markets for both the pocket pack and boxed facial tissues. This is a unique situation in Europe and clearly shows the opportunities for growth of driving both forms given their suitability for different situations and locations. In most other European markets the focus, to date, has been constrained to either one or other of the product segments.

*The result is that Switzerland has a very high market value performance - twice **that of the average for the whole of Western European**.*

Driving Total Facial Tissue Consumption – The Swiss Case.



Source: ETS



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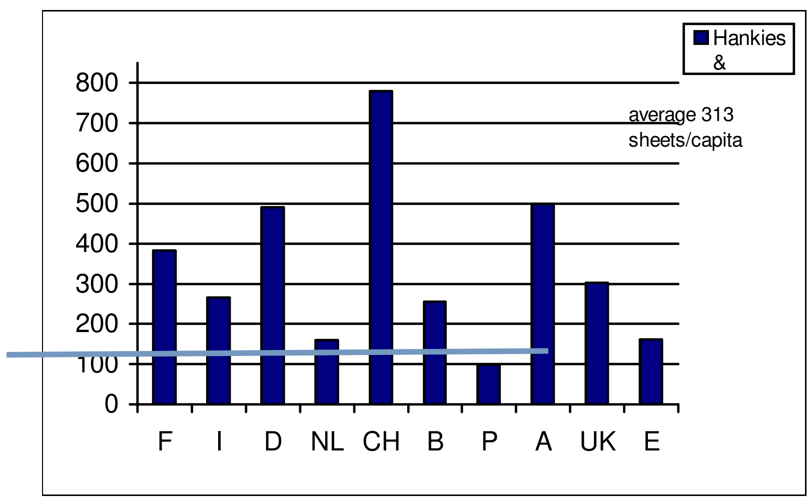


Source: ETS

The war against "commoditisation" is won or lost in 10 seconds

Pocket packs handkerchiefs may be perceived as a very personal product and might even be seen as an accessory, often used in public. Certainly, in former times, a lady's social or economic class was often underlined by the quality and the abundance of lace on her handkerchief, so, even today the pack of tissue hankies in one's pocket or bag can say something about its owner.

At the point of sale however, shoppers take, on average, only 10 seconds to review the display and chose which to buy. With a wide assortment of differentiated propositions and ongoing supplier investments in innovative product developments, eye-catching, uncluttered product displays are crucial in facilitating the shopper's choice.

The market for box tissues in continental Europe is relatively underdeveloped compared with pocket packs. Huge efforts have been made by the industry to design relevant and appealing boxes to stimulate their broader presence in the home environment. However, the presence of facials in the homes varies from market to market and these products are still not automatically listed on housewives' weekly shopping lists - most products being bought on impulse and with in-store visibility remaining a key factor.

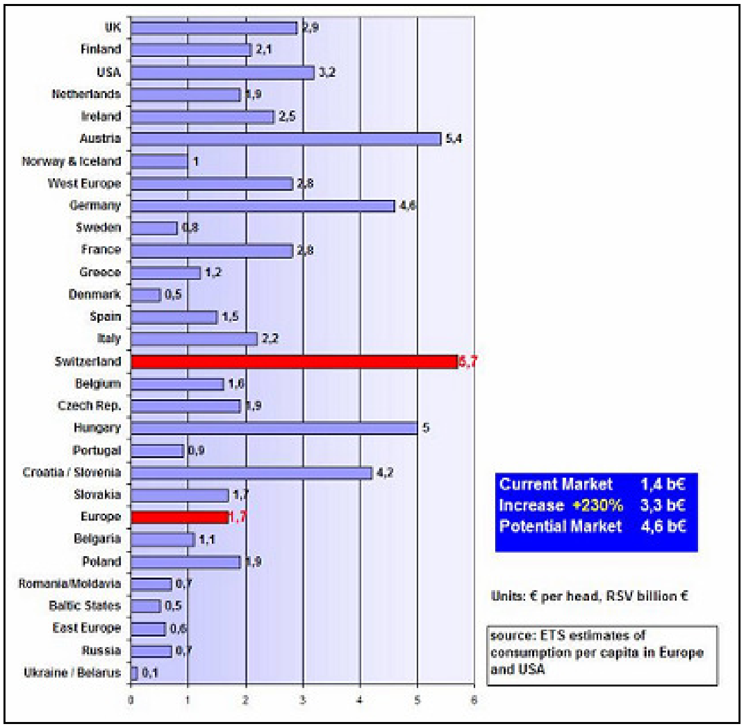
If, in general, the buying decision for 53% of 'Consumer Packaged Goods' is made in front of the shelf, purchase of facial tissues probably scores higher. It has also been shown that if boxed facials are displayed with other tissues, rather than in the cosmetics section, stores sales are boosted, because it is natural for consumers to find their preferred choice near similar products and buy more consciously.

Instore visibility and differentiation: engines of the European tissue market

Using the Swiss market as the datum point, it is possible to estimate the growth potential in the other European markets (shown in the bar chart below) by jointly driving availability and visibility of both pocket pack and boxed facial tissues.

When compared to the consumption level of Switzerland, total volume sales for Europe show a potential growth of 230 %.

ETS estimates of consumption per capita in Europe and US, 2005.



Source: ETS

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.

Information provided by the ETS / European Tissue Symposium
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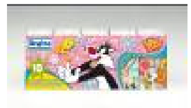
Appendices: Market Information on Box Tissues and Pocket Packs

Reaching out to the consumers



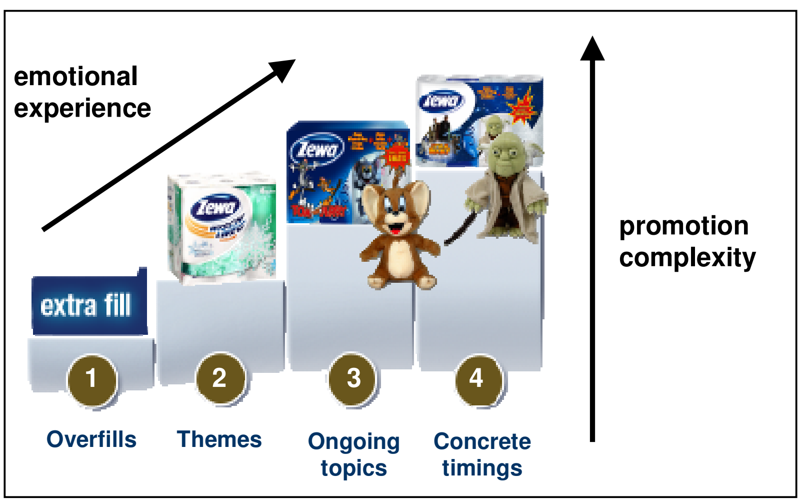



Knowing how to engage consumers on an emotive rather than pure functional level can create both relevant differentiation and increase value within a product category - reach out to the consumers and get them involved emotionally and they have been shown to follow. Such emotive factors score more acceptance than an over-fill or adding extra product to the offer and higher involvement from the shopper is reflected in increased bottom-line figures.

In all European markets, positive results have been noticed and higher impact achieved when producers add fun to their tissue products through **licensing** and associated promotions because not only does it attract a younger customer group, but it is also generates interest in the products and boosts turnover for retailers.

Recent licensing on the packs across all categories have been linked to 'Tom & Jerry', 'Star Wars' and the 'World Cup 2006' but the best results by themed packs have been achieved by the perfect synergy of joint promotional activities, POS and cross-license activities which have enhanced these products' positioning as 'must have' items and led to consumer involvement.

Promotion Stair for Zewa



In **Germany and Austria** *SCA* discovered further distinctive insights. Adding extra product to its *Zewa*-brand box tissues generates very little emotional experience for the shopper, whereas the same shopper is more easily attracted to products which are themed (e.g. 'Winter' or 'Christmas').

Within months these promotional activities have led to Zewa gaining an increase of 20% in market share in Germany, whereas the retailers strengthened their reach to the shoppers.

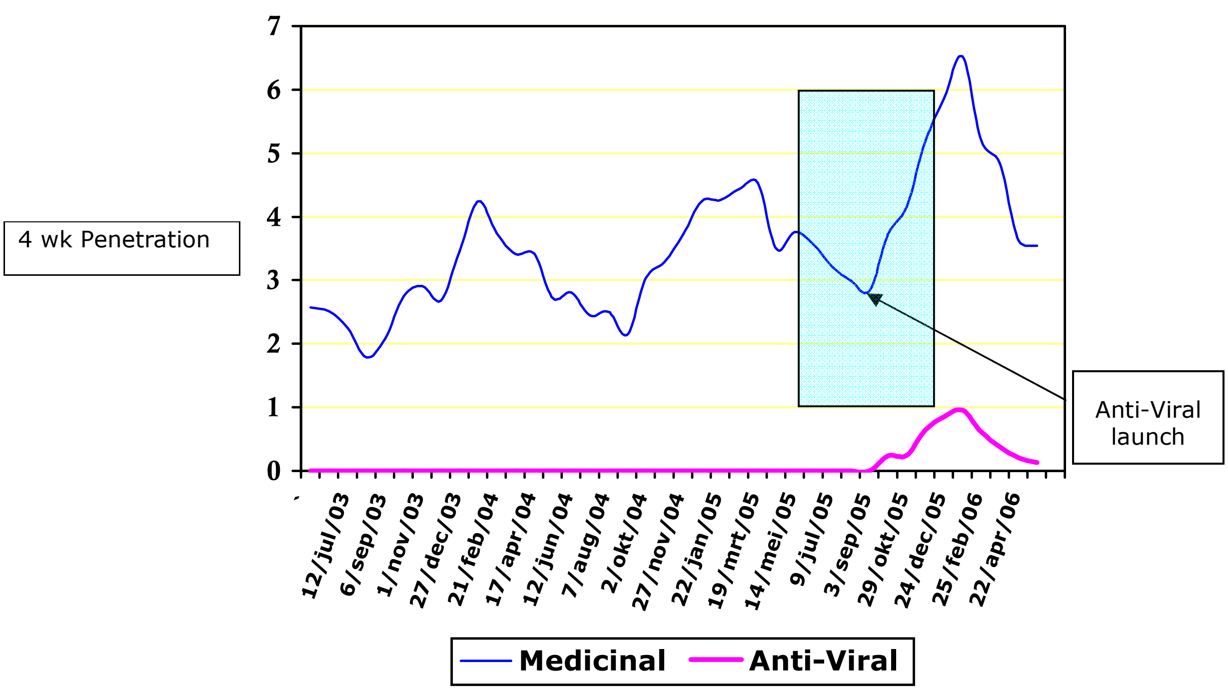
Adding comfort for the consumer

In much of the Europe, the market for box tissues has remained broadly static in recent years. However, the introduction, in 1996, by *Kimberly-Clark* of *Kleenex Balsam* in the **United Kingdom** and across the continent created a new 'medicinal segment' that has led to a significant increase in for box tissues as it met an existing and essential consumer need. The tissue with added balsam, helped to prevent the irritated skin from a sore nose during a heavy cold.

Shortly after the launch it became clear that this innovation was attracting additional customers to the category. Therefore, in 2005, the retail trade supported the next big innovation in the medicinal segment, the launch of an 'antiviral' version.

Just six months after the launch, research indicated that 41% of *Kleenex Anti-Viral* consumers are either new to the category or buy the new product in addition to their normal facial tissue category.

Kleenex Anti-Viral brings new customers to the categories

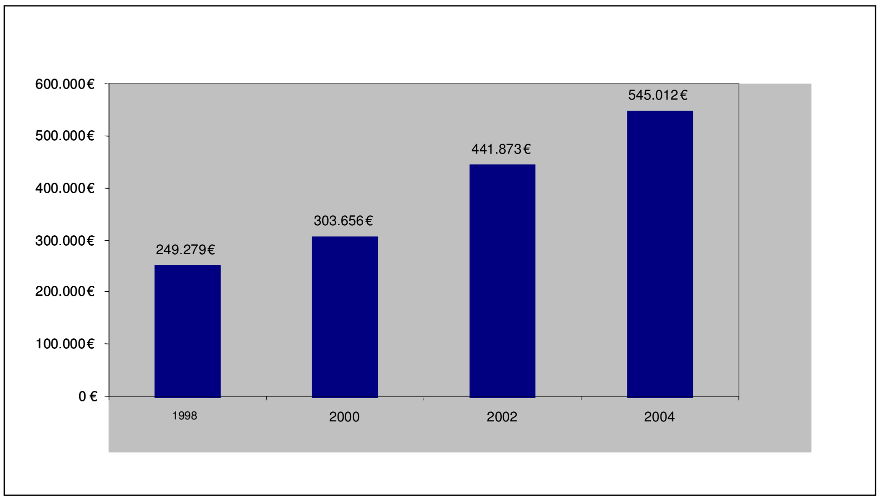


Source: Nielsen Household Panel UK, 2006.

Supporting the consumer's personality

In **Portugal**, there is a remarkable range and richness of different products on offer: with tissues in all kinds of colours, themes or designs to fit consumers' tastes and personalities. To improve differentiation for the customer, *Renova* launched a scented variation branded '*Garden Feeling*'.
The introduction of the first perfumed tissues in 1998 was quickly adopted by the market and, by 2004, it had doubled its value.

Perfumed handkerchiefs added value in Portugal (1998-2004)

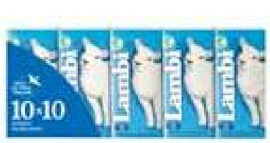


Source: Nielsen

Finns want them square, French prefer them compact, Poles go for quality

Culture and diversity may contribute to the richness of our world and markets but individual curiosities can sometimes become the rule…

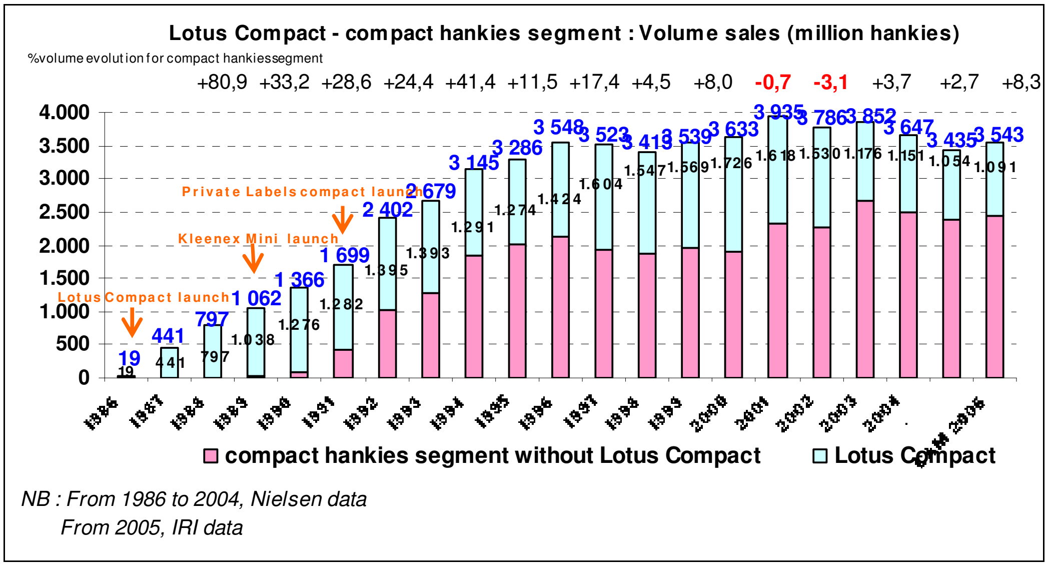
<u>French citizens prefer them compact</u>



Twenty years ago, compact tissues were exclusively marketed for the first time in France in response to what was believed to be an indigenous trend. It proved to be the beginning of a long and successful story as the market was very receptive to this 'compact' size and soon several brands were copying the fashion.

Though remaining a format exclusive to the French market, the compact pocket packs has been a stabilising factor of the market's value. In terms of volume, the compact tissues hold a smaller proportion of products sold (32.5%) but account for a valuable 41% of the total value of the overall tissues market.

Compact pocket pack segment in France



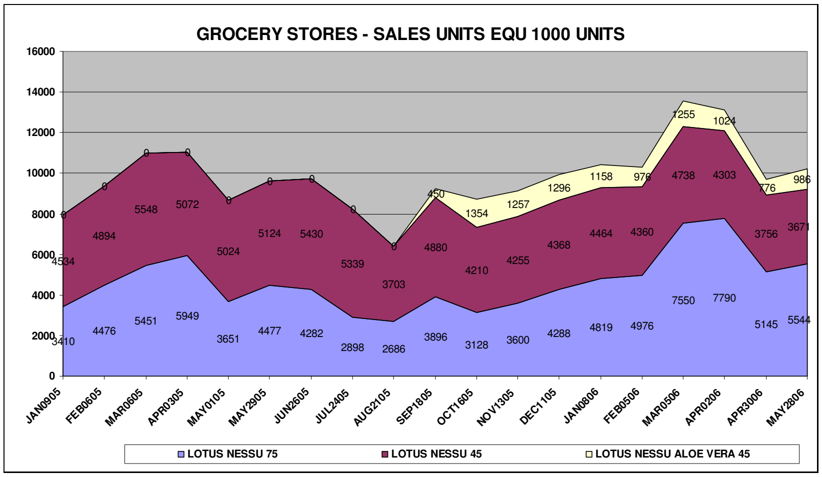
Source: Nielsen

<u>Finns prefer them large and square, but with Aloe Vera or Balsam</u>

Ninety percent of Finnish hankies are traditionally large and come folded only twice, for ease of use, instead of the usual four times for pocket packs. The square format and resultant package originated in the '70's when tissues came on the market with an all purpose label. Subsequently, this disappeared but as the larger, square format was the basis of market growth, the format remained and still dominates in value and volume despite its own in tough competition.

However, adding a premium to an established preference helps in any market and this was proven once more in Finland when *Georgia Pacific* introduced its *Lotus Nessu Aloe Vera* variation, making them softer and more tender on the skin. The variation enabled the company to set a premium price 33% above the average price in the market without affecting detrimentally any of the Lotus Nessu products already well established in the trade. The new product has already led to an increase in market share from 21% to 23% in the first nine months following its launch in September 2005.

Lotus Nessu Aloe Vera didn't cannibalise regular Nessu's sales



Source: Nielsen

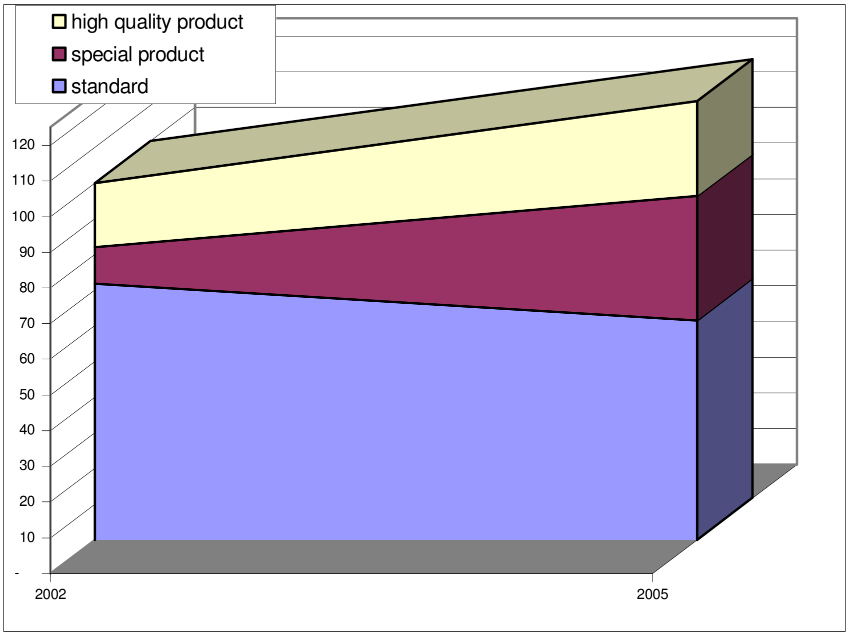
Another big boost for added value in the Finnish market has been the introduction of *Metsä*'s *Lambi* pocket packs and its Balsam variants which both grew rapidly to 4% market share thanks also to an emotive advertising campaign and a strong co-operation from retailers.

These important brands in the Finnish market have helped shift the category towards better value, away from standard, price-sensitive segments.

Poles evolve towards… quality

In Poland, the driving force in the market has been improved quality in a category previously dominated by two- or three-ply products. *Sofidel* has consistently introduced special or high quality four-ply products under the brand name *Regina*. The Polish market has, therefore, changed dramatically over the last few years. Approximately 50 % of total sales are result from special and quality products, almost doubling the 2002 figure (28%). In three years, the total value has increased by 23% through the introduction of superior products including four-ply hankies and Balsam impregnated variants.

Market development:
special and high quality products drive the growth



Source: MEMRB

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