Kitchen towels: cleaning up in DPP

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From the early 1930's when, by a stroke of genius an entrepreneur in Pennsylvania, USA gave life to this new category, to the present day, the sector has experienced a gradual expansion benefiting from advances in technology and consumers' changing lifestyles.

The introduction of more absorbent and tear-proof products helped expand usage for kitchen towels, by offering new products with multiple functionality: from napkins, to handling spills or wiping windows. This ongoing development in the sector, has caused the demise of the traditional cloth towel, and in 2003 Euromonitor International found that kitchen towels realised US$ 6.3 billion retail value sales, delivering an average annual growth rate of almost 6% over the last six years.

Basic needs versus added value
In the mature markets of Western Europe and North America, consumers of kitchen towels fall into two main groups:

- Those using the product primarily for "cleaning up", stretching from drying up an accidental spill of milk to cleaning after a mealtime of an energetic toddler. These consumers are less concerned about the decorative aspect of the products and tend to purchase regular white private label products.

- Those looking for a product offering superior performance combined with a distinctive pattern or decoration. They are less responsive to price and are prepared to pay a premium for a value-added feature, finding products such as Bounty from Procter and Gamble and Lotus Thirst Pocket from Georgia-Pacific extremely attractive.

Decorative features become increasingly sophisticated
The aesthetic aspect of the product, its decorations and packaging, have become a significant feature in the marketing of kitchen towels as manufacturers focus on developing distinctive identities in the face of growing competition from private label products.

Research by Euromonitor International has found that products embossing children's TV or movie characters are proving increasingly popular. This is exemplified by Georgia-Pacificâ€™s Lotus brand featuring Disneyâ€™s Winnie the Pooh characters and the limited Shrek packs of Bounty brand from Procter and Gamble, featuring sales promotions in conjunction with the film screening in the UK in 2004.

Seasonal motifs including designs for summer barbecues, Halloween and Christmas are also popular. Bounty brand in the US is available in more than 40 different designs ranging from Fall-themed prints to contemporary decorations grouped under the Designerâ€™s Touch name. The Kittensoft Thirst Pocket brand from Georgia-Pacific in Ireland is available in a number of limited designs created by a popular local interior designer, Neville Knott. These examples are only a couple of many, and clearly reflect the trend of increasing sophistication in the premium end of the kitchen towels market.

TAD gives a boost to sales
Through-air drying (TAD) technology has proved to be a groundbreaking introduction, boosting sales of kitchen towels in the most recent period. By offering twice the absorbency capacity and higher bulk compared with a regular product, TAD produced thicker and stronger tear-proof paper, resulting in fewer sheets per roll of kitchen towels.

Euromonitor found that both volume and value sales soared, as the number of rolls sold per household increased, accompanied by a higher price tag for the improved product. By 2003, this effect had worn off, however, and volume growth begun to slow down. This coincided with increasing pressures from private label products and the growing importance of discounters in particular in the US market. Consumers started opting for larger size packages and begun to buy in bulk, thus reducing overall unit prices.

Kitchen towels feel the pinch of weaker US economy
Unlike demand for toilet paper, demand for kitchen towels is responsive to economic conditions. When consumers feel prosperous, they tend to use towels generously, and have less remorse in throwing the used product away. In times of adverse economic conditions however, consumers are more inclined to use kitchen towels in moderation, to dry and re-use them, or in some cases, to turn to the traditional substitutes such as cloth rags.

The dynamics of the economic boom of the late 1990s in the US worked in favour of kitchen towel manufacturers,

supporting rates of value growth varying between 4% and 6.2%. Growth also remained strong in 2001, despite the troubles encountered later in the year, as consumer spending remained at high levels for the first three-quarters. In the 2002-2003 period, Euromonitor International found however, that this dynamic was reversed as the realities of the US recession were reflected in consumer spending, with consumers using towels more conservatively, or switching to lower priced products.

The continuing growth in sales through discounters, which accounted for 30% share of value sales of kitchen towels in the US in 2003, has additionally suppressed value growth of the sector. Consequently, in 2002, growth in the US market slowed down to 1.0%, and in 2003 the sector declined by 2.2% to US$3.16 billion.

Private labels lead in Western Europe

Gone are the days when private labels were associated with coarse kitchen towels competing with branded products purely on price. From a position of low-cost, no-frill products, private labels have evolved to include a wider range of goods matching the quality of a branded product at competitive prices. As many of the manufacturers of branded products also make private label ranges, private label was able to successfully adopt the latest trends in product development amongst leading brands such as improved absorbency and thicker ply tissues, new prints and "greener" products.

The ongoing process of retail consolidation in Western Europe increasingly benefits private label share, as empowered supermarkets dedicate a greater amount of shelf space to their retail brands. The use of private labels allows retailers to improve profit margins through retaining control over production costs, while being able to offer products at competitive prices. Given the price and margin pressures in the industry, this is therefore a powerful tool and plays an important part of retail strategy. Accordingly, Euromonitorâ€™s research shows the share of private label in the value sales of kitchen towels in Western Europe rose from 46% in 2001 to 49% in 2003.

Among European countries, Germany, Belgium and the UK are the most established markets for private labels in kitchen towels. Within these three markets, all minor brands of kitchen towels have essentially been squeezed out of the segment, leaving the market to one or two major brands at the most, in addition to private labels. Even in markets such as Italy, where the tissue market has traditionally seen low levels of private label penetration, the share of private labels in kitchen towels reached 30% in 2003, representing a three-percentage point increase over 2001.

Low consumption levels leave room for future growth

The introduction of the TAD technology into the production of kitchen towels a few years ago has given the category an unprecedented boost, producing overoptimistic forecasts about its progress in the long term. The slower growth rate experienced by the sector in the later part of 2002 and the actual decline in markets such as the US in 2003 has given way to a more cautious approach.

Euromonitor International expects kitchen towels to grow in the next four years at a slightly lower pace, compared to the recent past, at approximately 2% per annum. The growing hegemony of private labels and the expected increase of the discountersâ€™ share in the distribution of kitchen towels is likely to undermine value growth in the short term.

On the other hand, the sector benefits from a still low penetration rate across many markets. Even in the mature market of Western Europe, per capita consumption of kitchen towels is close to approximately US$5, which is half the figure in the US. In other markets, such as Eastern Europe and Latin America, per capita consumption of kitchen towels is even lower, most notably allowing room for significant volume growth to occur in the long term.

Looking ahead: Younger consumers â€“ the next target

Compared to toilet paper, advertising of kitchen towels remains low, but it is expected to increase in the short term. Promotional activities of major multinational companies and the recent improvement of quality, for instance in the form of products resistant nearly as cloth, notably Kittensoft Ultra-Wipe from Georgia Pacific, should enable kitchen towels to capture some share from alternatives such as sponges.

In an effort to boost the usage of kitchen towels, Euromonitor International believes that manufacturers will increasingly target younger consumers, who already perceive the product as a more hygienic and convenient alternative to sponges and rags. With lifestyles coming under greater time pressures, consumers demand products that offer timesaving features and convenience. Greater product segmentation, offering premium special purpose towels for cooking, select-a-size rolls and reusable towels will target diverse consumersâ€™ needs and add value to the industry in the long term.

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