Innovation and price increases drive the global tissue industry

Contributed by Euromonitor International
Monday, 18 July 2005
Last Updated Wednesday, 21 September 2011

Innovation and price increases drive the global tissue industry, by Euromonitor International In 2004 the global retail tissue industry bounced back with a sound 4% growth over the previous year, according to new research from Euromonitor International. This recovery comes on the back of stronger sales in the large North American market and sound demand in developing markets, in particular Eastern Europe.

North America back on trackIn recent years, the global retail tissue industry has been negatively impacted by a number of factors, including the slowdown in population growth rates in mature markets. High penetration levels in the main sectors of the tissue market have also added to the general gloom surrounding the industry. Hence it is no surprise that the recovery of the North American market in 2004 has been met with great enthusiasm.

This recovery stems from rising raw material prices and energy costs, which gave US tissue manufacturers, the impetus to raise prices in a coordinated manner throughout 2004. Euromonitorâ€™s research shows that North American consumers spent over US$ 12 billion on tissue products during 2004. Sales increased by over 5% in comparison to the prior year, reversing what had been a two year declining trend triggered mainly by a recessionary economic climate.

Toilet paper and kitchen towels stage a comeback Toilet paper, the most valuable sector of the industry, drove the positive performance of the North American tissue market. The sector grew by more than 6% over the previous year, with some manufacturers raising prices as much as 15% as compared to 2003. Procter & Gamble, widely held to have been the leader in this round of price increases, raised its prices by a lesser amount, claiming to have targeted an average increase of 6%.

In the US market, within the whole sector, luxury toilet paper delivered the strongest value growth rate of 10%, followed by the standard variety (7%). Toilet paper in the US is predominantly of high quality, with "standard" features including attributes that might in other countries be seen as "luxury", such as multiple ply papers, texture enhancements, and the inclusion of softer fibres. Within the luxury segment, additional features such as the inclusion of aloe vera or vitamin E (Charmin by Procter and Gamble) have been present in the market for a number of years. Looking for the next product trend, in 2004 manufacturers upgraded their products, making tissues softer, thicker, stronger, or more heavily textured such as Angel Soft by Georgia Pacific.

Kitchen towels also staged a comeback in the North American market in 2004, with a 6% growth rate in value terms over the previous year. Procter & Gambleâ€™s Bounty led price increases in 2004, but increases from other brands quickly followed. 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 are less concerned about 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 over 6%. In the 2002-2003 period, Euromonitor International found 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. American consumers are likely to increase volume purchases in the sector during the coming years, as the convenience appeal of disposable paper towels remains very strong, and economic performance is likely to improve, making consumers more willing to purchase kitchen towels.

Eastern Europe plays catch up with its Western neighboursTissue products in Eastern Europe have undergone a gradual evolution in the last decade. The increasing affluence of the urban population, corresponding with a rise in disposable incomes among the middle class, is steadily increasing purchasing power. The market shows comparatively low levels of per capita US dollar expenditure on tissue products relative to their Western neighbours, approximately US$9, compared with an average of over US$50 in Western Europe.

Among the countries that joined the European Union in May 2004, Czech Republic, Hungary, Poland and Slovakia have all shown strong growth rates in retail sales of tissue products. Local and international manufacturers alike started investing in modern technologies aiming at achieving higher quality product lines and expanding a range of premium products aimed both at the local as well as Western markets.

Euromonitor International has found that other markets, most notably Ukraine and Russia, have also delivered growth rates in retail sales of tissue products, well above the regional average in 2004. A shift towards more sophisticated products, a trend that started few years ago, continued well into 2004. The increase of purchasing power underpinned demand for higher quality, premium brands. In Russia, products previously regarded as non-essential items, such as kitchen towels, delivered a double-digit growth rate in 2004, for the third year in a row. While retail sales of napkins in Ukraine have grown on average by 19% in the last seven years.

The still relatively low penetration levels of tissue products in Eastern Europe and low consumption patterns combined with increased disposable income should give even greater impetus to dynamic growth of the tissue industry in the region in the short term. Euromonitor expects retail tissue products in Eastern Europe to grow by an average of 7% CAGR over the next five years.

Western Europe feels the pinch of private labelsThe recovery of the North American market and strong performance in Eastern Europe in 2004, have been slightly offset by a somewhat disappointing performance in retail tissue sales in Western Europe. Valued at US$12 billion, the market grew by a meagre 1% over the previous year. Stagnant value sales

of tissues and kitchen towels, as well as weak value sales of toilet paper, took their toll on Western Europeâ€™s performance in 2004.
Continuing weakness in the German and Italian markets, coupled with increased competition from retailersâ€™ own brands in the UK, hampered the industryâ€™s performance in Western Europe as these three markets together account for more than half of the regionâ€™s total retail tissue sales in value terms. Changing consumer lifestyles and greater demand for premium products have been accompanied by a parallel market trend of rising private label activity, which has partly offset gains generated by higher value products.
The share of supermarkets and hypermarkets in the distribution of tissue products increased, exceeding 68% in 2004. Private label products are increasing their market share year by year. The most prominent gains were made in toilet paper and kitchen towels, where retailersâ€™ own brands account now for almost half of the retail value sales. In 2004, penetration of private label brands of tissue products stood at almost 45% in Western Europe, representing an increase of more than three percentage points over the last three years.
Innovation to the rescueThe retail tissue products market in Western Europe is mature, with little room for increased market penetration. This situation places natural boundaries on the growth of the market, as a result Euromonitor International expects it to grow by by an average of 1% CAGR over the next five years.
With volume growth prospects minimised, and a mounting competition from private labels, tissue productsâ€™ manufacturers in mature markets will increasingly focus on creating value by widening their range of products and encouraging wealthier consumers to spend more by trading up to premium brands. Hence, increased product segmentation is expected, as manufacturers will try to meet the needs of the most discerning time-poor, cash rich consumers.
Scented core centres of toilet paper (Charmin Scent from Procter and Gamble), reusable kitchen towels (Kitten Soft Ultra-Wipe from Georgia-Pacific) and disposable tissues that kill cold and flu viruses (Kleenex Anti-Viral from Kimberly-Clark) are only some of the most recent innovative products launches reflecting the trend of ongoing sophistication in the premium end of tissue products.
Euromonitor International also forecasts that the decorative aspect of a product and its packaging will also become a significant feature in the marketing of distinctive branded tissue products in the face of growing competition from private label products. Kitten Soft Thirst Pocket brand from Georgia Pacific in Ireland is available in a number of limited designs created by a popular interior designer Neville Knott. This trend, Euromonitor believe, is likely to expand into other sectors, such as disposable napkins, in the short term.

About Euromonitor
Euromonitor International is the worldâ€™s leading provider of global consumer market intelligence and has been publishing research on international markets for over 32 years.
With more than 600 analysts and consultants world-wide, Euromonitor International has an unrivalled research network specialising in global consumer markets and service industries. The Company's in-house Consultancy division also undertakes bespoke research projects on all sectors, including industrial, business to business and high-tech industries. Euromonitor International produces hundreds of new reports each year, which are published in a variety of formats to suit all client needs, from award-winning online databases to market reports and statistical reference books. Euromonitor's clients range from leading manufacturer's, retailers and suppliers of consumer goods, to international investment banks, management consultancies, advertising agencies and students at top business schools world-wide.Â Please visit Euromonitor International for more information