



VALÉRIE KAMINOV – BIOGRAPHY

Having spent over twenty years working with a vast array of luxury, premium and niche beauty brands and fragrances, Valérie has extensive knowledge and practical experience of their supply, distribution and retail, pertinent commercial practices and consumer habits on a global and local basis. Her expertise has been highly valued by multi-national organizations, SMEs, start-ups, privately owned companies and financial investors.

Certified in Corporate Governance from INSEAD Business School, Valérie has the remarkable ability to successfully set the company's strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile.

As a qualified Non-Executive Director who was awarded the prestigious Financial Times Post-Graduate Diploma, Valérie Kaminov is highly trained in corporate governance and is an experienced NED and Director enabling her to have a holistic understanding of boards. She advises both as a consultant and an NED.

Valérie's experience earned her a reputation with major players in the industry who hired her to establish them globally.

Her expertise in brand evaluation, acquisition due diligence, risk assessment and commercial growth has been highly valued by Private Equity Funds, multi-national organizations and financial investors.

She is also dedicated to passing her knowledge along through a range of conferences and events.

Valérie has been a guest speaker for the not-profit organisation, CEW, at their Mentoring Services where leading executives offer insights into beauty industry issues and inspiration for professional growth.

At the International Manufacturers & Distributors Forum (IMF) Master of Ceremony, Valérie organises a very unique conference; A global European gathering for manufacturers, brand owners and distributors to come together and discuss challenges faced by their business and the industry by giving the attendees unlimited networking opportunities.

BRAZIL, THE LATEST DARLING OF THE BEAUTY INDUSTRY

The ability to continue to grow in new and developing markets will, in part, predict the future of your business. Brazil, one of the world's leading markets in the beauty industry, could be a huge blessing for your brand, if dealt with successfully. Despite the economic recession of the last few years, the beauty industry is increasingly consolidating itself as one of the country's most important and thriving sectors. Driven by rising per capita income, a growing economically active population, an increasing presence of women in the labour force and a strong evolution of the C consumer class, the sector has maintained double-digit growth for over a decade, highlighted by a very high performance vis-à-vis the country GDP growth. Known for its dazzling carnival culture and obsession for beauty, Brazil remains, nevertheless, a tough market to crack. A business will face obstacles whether it's financial, importation/exportation, partnership, local laws on business incorporation and/or cultural differences when looking to enter this market but Brazil offers such big opportunities, one simply cannot ignore it. Understanding the market will be key to your business' successful expansion so below we have put together a few tips that will help you navigate in clearer waters and avoid major pitfalls when expanding into this market.



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GENERAL OVERVIEW OF THE BRAZILIAN MARKET

Despite the economic downturn that has affected Brazil over the last few years, the country is fast becoming the darling of the beauty industry, capturing the attention of a growing number of international companies. The *lipstick effect* theory coined

by Leonard Lauder, chairman of Estée Lauder, has been proven true: consumers retain a desire for luxury goods even during tough economic times, it's just that the items in question change. So, while people might not be forking out for Birkin bags, they will still spend - just on lower price point items - A.K.A lipstick and beauty products.

According to the Brazilian Association of the Cosmetic, Toiletry and Fragrance Industry (ABIHPEC), the Brazilian beauty industry plays a key role in the local economy, representing more than 2% of the country's GDP. Between 1996 and 2012, the local beauty market has shown a spectacular growth of 10% per year compared to a 2.2% growth per year of other industries. Without a doubt, Brazil is a major power, in South America and the world. As mentioned above, the Brazilian beauty industry represents more than 2% of the country's GDP and 9.4% of the world's consumption. As far as Latin America is concerned, Brazil's market share exceeds 53%. Already the third largest in the world, it is predicted to overtake Japan to take the second place on the podium by 2020. Despite an incredibly strong growth over the last decades, Euromonitor predicts that not all international brands will be successful because of the distinctiveness of the Brazilian market. With rising purchasing power, Brazilian consumers are becoming increasingly sophisticated and can, in turn, afford more expensive cosmetics, fragrance and toiletries. The market is rapidly changing to adapt. There have never been more millionaires in Brazil. Today, over half the population - 113 million to be exact - has integrated the middle class. With 36 million more people expected to reach the middle class by 2020, Brazil will continue to represent a huge opportunity for a brand's growth, especially for more prestigious and niche ones, which were out of reach just a few years ago. Brazilians are also becoming increasingly aware about the risks linked to sun exposure. Hence, sales of sunscreen products have been stronger than ever before. Among the main categories consumed by locals, we find men's grooming products, children's and hair care products (driven by sales of shampoo and hair conditioners). However, Brazil ranks only eighth worldwide when it comes to skincare - and the reason behind it is cultural. Brazilians ascribe

more aesthetic value to hair than to skin because in Brazil, hair is deemed as a greeting card. Obtaining immediate results is very important to Brazilian consumers. While skin treatments tend to take longer to show results, hair care products usually show instant improvements. Many consumers, hence, give up when they do not see changes to their skin right away, and become sceptical of the efficacy of products. But generational differences are starting to have an impact on the skincare industry. Younger consumers, including Millennials and Gen Z, tend to be more educated about skincare, and are more open to buying different products. Such generations better understand the benefits of having a daily skin care routine, and that is in part due to the power of social media. According to the Brazilian Association of the Cosmetic, Toiletry and Fragrance Industry, beauty products consumption in Brazil is driven by new beauty trends, particularly those related to social media, with YouTube tutorials and Instagram stars having boosted beauty sales in the past few years. The most common way to purchase beauty products in Brazil used to be through direct-selling retailers. Recently, store-based retailing has been gaining traction in Brazil, taking away

some of the business from direct selling. Traditional distribution channels - namely shopping centres - are extremely popular, capturing the biggest share-of-wallet of local customers. In São Paulo alone, there are more than 160 malls. Other traditional distribution includes supermarkets, pharmacies, specialty beauty stores and department stores, with drugstore pharmacies having taken share away from supermarkets in the last few years. According to MarketLine, 84% of Brazilian women still prefer to try makeup and skincare before buying, which is why the traditional sales channels are so popular in the country. Despite such a strong success of traditional bricks-and-mortar outlets, Brazilians are increasingly becoming tech-savvy. Today, there are more mobile phone subscribers than inhabitants with 125 subscriptions for every 100 inhabitants. More than half of the population uses the internet, making online sales and mobile e-commerce a strong strategic move for companies wishing to capture a greater share-of-wallet of the Brazilian consumer, especially Millennials and Gen Z. New players in virtual channels are popping up to cater to the traditional preferences of the Brazilian consumers by letting them try make-up virtually.



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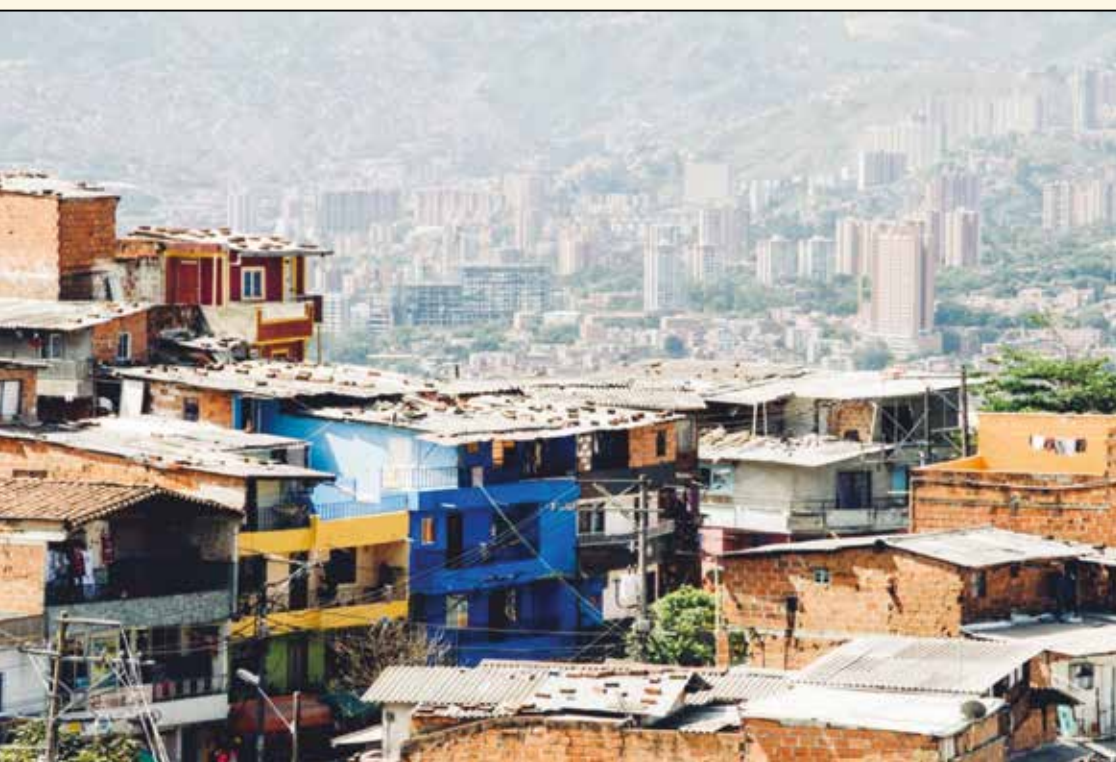
According to Euromonitor, this huge boom in demand for more sophisticated products is the result of several factors including the increasing income of lower classes, the consumption of products with 'added value', the participation of women in the labour market, and in turn, the accrued productivity. In addition, the different technologies available to launch new products, the increased life expectancy, the search for rejuvenation, the awareness of the need for sun protection and Brazilian exports have led to an increasing supply of products.

OVERCOMING THE CHALLENGES

At International Luxury Brand Consultancy, we know that expanding into a new market can be a tough decision, especially if you are navigating in unknown waters. We work with our clients so that we can provide them with clarity backed up with years of expertise and knowledge. With this extensive experience under our belt, we can help you avoid pitfalls that may be encountered along the way. Of course, the Brazilian beauty market offers a myriad of enticing opportunities to newcomers: consumers are extremely open

to trying new products, they are the ideal customer because they are willing to invest money. Beauty in Brazil is a priority, whether you have a lot of money or very little. Even in the poorest neighbourhoods - known as *favelas* - there seems to be a beauty parlour on every corner. With world-renowned models like Adriana Lima, Alessandra Ambrosio and Francisco Lachowski, Brazil has become renowned for its good looks. The strength of the beauty industry and its local bustling market is firmly rooted in the country's ongoing love affair with beauty. In Brazil, beauty is everywhere from the gorgeous coastline, beaches and warm weather, to its own people, comprised of an attractive plethora of ethnic backgrounds. But it is a highly complex market to penetrate due to various factors, both endogenous and exogenous. It is crucial for brands to be fully aware of the different entry barriers and to understand what is at stake before attempting to enter the market. If you wish to expand your business into the Brazilian market, a few major obstacles will be encountered along the way. It is a well-known fact that Brazil has long been obsessed with good looks. Just go to any beach in Brazil and look at the crowds.

Brazilians like to be beautiful and they are willing to invest in it. And the numbers back this up. Both Brazilian men and women spend 11 times more of their annual income as a percentage of their total income on beauty than their British counterparts. Such a strong dedication to looking and feeling good means that the country is at the forefront of research into beauty innovation. Many Brazilian trends have made their way into the international beauty scene. Take the Brazilian blowout, for instance, a keratin hair treatment helping to tame frizz and texture, making your hair smoother and easier to style. Just a few years ago, such a trend in Europe and America seemed almost extra-terrestrial and now, most women cannot live without it! Many Western brands have released product lines capitalizing on this incredibly influential trend. A *more dramatic* Brazilian trend that has made its way all around the world is cosmetic surgery. Brazil has become the second largest consumer of plastic surgery in the world, after South Korea, with over 1.2 million surgeries carried out every year. In Brazil, patients are thought of as having the *right to beauty*. Beauty is a necessity: it is perceived as being crucial for the job market. If women do not fit into society's beauty standards, they assume they won't be able to find a spouse. Many cannot say no to such invasive surgeries because they are perceived as essential for any chance at upward mobility. Such *right to beauty* gives any Brazilian access to plastic surgery for free or at very low-cost in public hospitals, with the government subsidizing nearly half a million surgeries every year. Waiting time for such surgeries can soar for up to a year, confirming Brazil's immense longing for beauty.



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However, most of Brazil's surgical innovations are first tested by plastic surgeons in public hospitals, exposing patients who don't have access to private clinics to more risks. Such working-class patients are often understood as *subjects for inquiry*. Hence, more and more Brazilians are re-thinking their surgeries and turning to less radical actions. In any case, keep in mind aesthetic surgery is used for specific purposes with liposuction and implants being amongst the favourite procedures in Brazil. Other than that, customers usually prefer less invasive treatments - less risky and cost saving - such as Botox, cosmetics and skincare products for a more natural look. To succeed in the Brazilian beauty market, it is critical for brands to understand Brazil's beauty culture, as well as the country's geography. With more than 209 million inhabitants, Brazil is the largest and most populous country in South America. Today, 8 out of 10 Brazilians currently live in metropolitan areas with major cities located along the coasts and near seaports, allowing for easier distribution of products.

However, keep in mind that logistics continue to be a major challenge throughout the country. Within its 8.5 million square kilometres, the country has significant climate differences and lifestyles which greatly vary from highly urbanized areas throughout the Southeast to the sparsely-populated North. The wealthier Southeast region accounts for 42% of the population and almost 57% of Brazilian GDP, which shows a strong concentration of income in the areas in which large consumer industries operate. Brazilians represent a complex mixture of African, European and Asian ancestry, with varying skin tones, hairstyles and preferences. Such differences provide challenges for producers who are often used to coming up with one specific product that can successfully satisfy the whole population of a given country. Here in Brazil, such a strategy will not be successful. Companies seeking to design cosmetic and personal care products for the Brazilian market must take into account not only the geographic diversity but also the ethnic diversity of each region. Hence, variations of specific types of products will be required, to take into consideration the plethora of different skin and hair needs. While Brazilians' strong affinity to beauty products is well-known, what foreign brands have difficulty in grasping is that Brazilians are extremely eco-conscious. According to Euromonitor, over half of Brazilian consumers consider the environmental impact of cosmetics and skincare when purchasing such products, the highest for any country. Unlike anywhere else, beauty has a strong association with sustainability. According to Euromonitor, 82% of Brazilian women say they prefer products containing natural ingredients and are willing to spend more for such products.

This can be explained in part by the strong green credentials of some of Brazil's most popular beauty firms. Natura, the largest cosmetics company in South America was ranked 2nd in the Corporate Knights survey of the world's 100 Top Sustainable Corporations. Natura specializes in natural-based beauty products, with most of the ingredients used ethically sourced from the Amazon. It has become the first and only beauty group in the world to be carbon neutral. The second leading cosmetics company in Brazil - Group Boticario - is also very active in CSR and sustainability. Since creating the Boticario Group Foundation for Nature Protection back in 1990, the company has donated over USD 10 million in nature reserves programmes, enabling the discovery and protection of more than 60 new species of plants and animals. Because Brazilian consumers have a tendency to scrutinize brands ethical credentials, not all foreign brands will find success. Weleda, the German organic cosmetics brand, is able to win over the hearts of local consumers because of its strong green ethos. MNCs including L'Oréal and Unilever have had to set up R&D centres in Brazil and localize their formulations with indigenous ingredients. Apart from the missing *green factor*, various foreign brands fail in Brazil due to the strong cultural nuances and vast geographies of the country which can lead them to struggle with building a strong network of distribution throughout the country, but creative approaches could be a solution. Other major obstacles include high import taxes on luxury goods, which can cost between 2 to 3 times more in Brazil than in any other country. Back in 2015, the Brazilian government implemented a tax on industrialized products, which affected cosmetics distributors. Euromonitor estimates that this tax has costed beauty industry businesses approximately R\$900 million (US\$277 million) in 2016 alone.



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This levy particularly affected products taxed at a rate above 15%, with these including fragrances, makeup, shaving cream, nail polish, hair products, lotions and skin creams. For this reason, many wealthy Brazilians while travelling abroad to Paris, London, New York or Miami used to take advantage of cheaper prices to do their shopping, that is, until the expansion of duty free-stores ahead of the 2016 Olympic Games. To be able to survive in the burgeoning Brazilian beauty market, foreign brands will need a deep understanding of local knowledge as well as an effective strategic execution plan. By 1/ offering a wide range of products at attractive prices, 2/ having effective strategies to build a strong brand awareness and generate traffic, 3/ having a reliable supply chain for quick turnarounds and 4/ investing heavily in state-of-the-art technologies to provide constant innovation and new product offerings.

CLASSY BRANDS, THE RIGHT PARTNER TO SUCCEED ON THE BRAZILIAN MARKET

If you wish to expand your business in Brazil, one of the key criteria in whether you will be successful or not is in the selection of a local partner. Since its inception, Classy Brands

has been highly active in imports, distribution and marketing in the cosmetics sector in Brazil. With a team of dedicated professionals reaching retailers and distributors in more than 65,000 POS in the alimentary channels, pharmacies and perfumeries, Classy Brands develops effective distribution solutions, through the production of the products until the complete development of the brand. Headquartered in the city of São Paulo, it has local knowledge about the main characteristics of Brazilian retail, making it possible to establish strategic partnerships with important groups in the sector. With more than fifteen years of experience under her belt, Monica Velloso, COO of Classy Brands, is an expert in making brands succeed, even in the most aggressively competitive and saturated markets, by ensuring a smooth integration between brands and the local consumer market. Below, Monica gives our readers her unique and local perspective on the Brazilian beauty market to help you and your business have a clearer idea of what is truly going on in this exciting and bustling country.

1/ The Brazilian market is so vast and there are countless cosmetics brands sold on the market making it an absolute necessity to set your brand

apart from the crowd. Could you tell us more on how a brand can successfully stand out in Brazil?

The Brazilian market is huge BUT the real volume is found in the mass market. If you check for yourself, the market for imported products accounts for less than 4% of the total beauty market. When it comes to being successful, it all depends on what is success for you. If you consider success in terms of units sold, then your brand will have to capture market share in the mass market. If profit is what you're after, then look no further than the masstige sector. If you measure your success against brand recognition and brand awareness, then you could potentially target any market.

2/ Organic Monitor's research warned against assuming that all brands will thrive in Brazil, highlighting the eco-conscious concerns of the local shoppers. It estimates that over half of the Brazilian consumers consider the environmental impact of cosmetics when purchasing such products, the highest for any country.

Do you think organic, green, cruelty-free brands have a higher chance of succeeding in the local market?

Brazilian consumers take environmental issues at heart BUT until now, the largest part of the population couldn't afford organic and natural products. We all know that it takes a lot more money to produce natural cosmetics, making the final product more expensive. In Brazil, the sales of natural products have been booming, this increase has been pushed by more affordable and national brands.

3/ Are there any trends currently declining in popularity?

If your brand tests its products on animals, you cannot claim anything related to sustainability, and it will very likely not be chosen over other products.

4/ Why would Brazilians, who live in the country which is the second world leader in cosmetic surgery, turn to topical cosmetics and skincare brands

instead of a more definitive solution?

What is the USP of beauty brands compared to cosmetic surgery?

New generations are increasingly getting worried about their health, while before, people might have only cared about the way they look. Cosmetic surgery is usually targeted at an older audience (but not every time!) and is used as a final touch that you will also have to maintain with skincare products. It's not like you can undergo plastic surgery every single year.

5/ How should a brand wishing to enter the market approach a local beauty buyer?

They shouldn't. Usually, when a foreign brand approaches a local beauty buyer - alone - the latter will always say that it wants to have the brand in its portfolio and will request a lot of investment, OR will not even mention the investment until the brand is in the market. Be careful, in Brazil, a foreigner alone often looks like someone who can afford to spend a lot, even if it's not necessarily the case.

6/ If a brand wants to get sold at a specific retailer - let's say Sephora, what should it do? What should be avoided?

If the brand wants to get sold at a specific retailer it should make sure to have a good deal with the retailer. Retailers have a strong power over brands. Usually they ask a lot and do not give back in return. But as you might know, this is common everywhere! It's not specific to Brazilian retailers.

7/ What do you think is the biggest mistake brands make when trying to enter the local market?

Do not tropicalize actions and products. You, as a brand owner or brand manager, need to have a clear idea of what sells in the market, what are the different skin types and what consumers are looking for. Something that's trendy in Paris might not resonate with Brazilian consumers, at all.

8/ What is, according to you, the biggest challenge brands will have to overcome to be successful in Brazil?

The biggest threat to success in Brazil is having the right pricing point for Brazilian consumers.

9/ Could you tell us what are the pitfalls to be avoided in order to navigate in clearer waters?

Since the very start, brands should try to find someone who is able to help them understand the market better - or at least someone able to put you in touch with reliable people to help. What I've seen a lot is foreign companies asking for help from contacts working for foreign companies. A lot of brands wishing to enter the Brazilian market make the mistake of paying a LOT of money to know something that anyone who is in the cosmetic market could tell them for free. As regulations and trends change quite often in Brazil, you only get fresh information from those who deal with it daily.

10/ What is Classy Brands looking for in a foreign brand wishing to enter the market?

We're looking for brands who try to understand that Brazil is a very unique market. Brands need to understand that even if consumers are willing to buy higher-end cosmetics, they cannot afford expensive products, at least not as expensive as in Europe or the United States.

11/ How can Classy Brands take a beauty brand to the next level in Brazil?

We now have more than 65,000 P.O.S. and enough knowledge to develop a brand successfully in the country. But to do so, we will need effort from the brand and the right price positioning. Robust growth in the Brazilian market has been primarily driven by the rise of a middle class that still has significant room to grow. With an average annual spend on beauty products approximately 5% of their personal

income, local consumers spend the highest of any other nation in the world and about three times more than the global average, despite an average income that is one third of American consumers. Expanding into new markets is a major opportunity that businesses simply cannot ignore. However, one must keep in mind that it can be a major battleground and Brazil, is no exception, far from it. One of the very first mistakes that most foreign companies make is thinking about Brazil as one entity with one type of consumer. It is true that Brazil is a single country. However, it is divided geographically into five regions well-defined by unique ethnic complexities as well as different cultural and climatic conditions. Brands that are used to launching new products based on consumers' age, gender and body type will need to strive to bring different concepts of beauty into the equation through product customization. In a country with huge ethnic diversity like Brazil, customization will be more important than anywhere else in the world - and your brand must learn to adapt through intensive innovation. Moreover, entering the Brazilian market can be extremely tough for other reasons - the size of the country, the complexity of logistics, the costs and bureaucratic activities. Many brands get easily scared when seeing the pitfalls and avoid entering the market altogether. However, the Brazilian beauty market is one to watch because it is rich and diversified and keeps growing at a remarkably fast pace. Foreign brands should as much as possible benefit from help and support of local organizations', in order to avoid common mistakes, cultural missteps and experimental market entries. With the proper support from a strong local partner like *Classy Brands* and deep, insightful market knowledge, your brand, if able to combine adaptability, identity, quality and innovation could be successful in this highly challenging market.