



**The beauty and personal  
care value chain in Turkey**

An industry analysis from  
a manufacturing perspective

May 2020



# Executive summary

The beauty and personal care market – a broad category of products including body care, make up and fragrances – remains one of the most valuable consumer business segments in Turkey. Based on Deloitte estimates, the end-market has registered a 10.9% of CAGR in the last five years reaching to TRY8.0 billion by 2018.\*

## Industry profile

Recent currency fluctuations and economic recession have affected the beauty and personal care industry severely, as consumer purchasing power decreases and the cost of raw materials increases. While unfavorable economic conditions lead to a high price-sensitivity among consumers, it also helps the proliferation of local alternatives. As a result, some of the categories present substantial growth opportunities both in domestic and export markets as the youth population continues to grow while urbanization increases and brand investment expands.

## Local manufacturing landscape

An estimated seven hundred manufacturers operate in selected product categories in Turkey. Small-sized manufacturers represent more than 85% of total producers, in parallel with the countrywide characteristic of industrial manufacturing. Export-focused private label production and domestic market focused low-value production dominate the local manufacturing landscape. Branding has emerged as a primary barrier, particularly for small to medium-sized firms.

## Spotlight on color cosmetics

Driven by global partnerships, contract manufacturing capabilities, wide-ranging store networks, and robust brand investments, the color cosmetics category offers exceptional opportunities for sustainable growth, both in the local and export markets.

Unlike other beauty and personal care categories, local color cosmetics firms lead the domestic production and consumer markets due to their competitive quality standards and affordable product offerings. Operating in their home market, local firms have the advantage of being closer to the consumer, which helps them to understand and reflect consumer behavior in terms of both branding and product development aspects.

## The beauty and personal care in Turkey (2018)



\* The beauty and personal care market covers; bath & shower, hair care, skin & sun care, color cosmetics, oral care, fragrances, men's grooming and deodorants categories.

Source: Turkish Statistical Institute (TUIK), The Union of Chambers and Commodity Exchanges of Turkey (TOBB), Deloitte Analysis

"With its 16 subcategories, chemicals are among the top three sectors in our country's export ranking. The "Cosmetic, Essential Oils and Soap" category, which ranks fifth among the export rankings of these subcategories, closed 2019 successfully with an export value of \$1.2 billion, which is an increase of 3.6% compared to the same period of the previous year. The increase in perfume, cologne, beauty, makeup, skincare, and haircare categories was particularly influential. The countries to which the sector is most exported to are Iraq, Russia, Iran, despite the decrease in exports of finished products due to the import bans it implements, followed by the United Kingdom, Germany, Saudi Arabia, the USA, the United Arab Emirates, the Netherlands, and France, respectively.

International recognition of traditional know-how in the soap industry gives Turkey an important competitive edge. As for the essential oils sector, which supplies manufacturers in the cosmetics industry with key raw materials, it has gained significant momentum due to a growing number of producers, increased production scales, and the Turkey's endemic plant diversity (led by roses). Additionally, aerosol, color cosmetics, and hair care products are among the top categories that support Turkey's strong export performance.

We export predominantly private label products to the European countries, while our branded exports focus on the Middle East and Africa markets. Nevertheless, we think that the branding remains as one of the important problems of our industry, and the studies on this issue are on our agenda as one of our primary objectives.

We believe that the industry offers significant manufacturing potential in Turkey. In particular, advances in the field of essential oils, which provide raw materials to manufacturing, continue to have a positive impact on the industry. We aim to achieve a steady increase of around 10-15 percent in exports, and we care about the diversification of the main markets consisting of neighboring countries."

**Dr. S. Armağan Vurdu**

Secretary General, Istanbul Mineral and Metals Exporters' Association (iMMiB)



# Industry profile



Beauty and personal care production in Turkey has grown with a CAGR of 12.4% from 2013 to 2018, reaching TRY5.0 billion in value of sales from production. These sales are mainly driven by growth in hair care, bath & shower, and color cosmetics categories.

## End-market

Although the Turkish economy has slowed down, current value sales of total beauty and personal care category has grown with a CAGR of 10.9% from 2013 to 2018 and reach TRY8.0 billion, based on Deloitte's estimation. While the end-market consumption is import-driven, recent currency fluctuations significantly raised unit prices of imported items, encouraging consumers to prefer local brands that target the mass market rather than the premium segment. As the purchasing power of consumers decreases, the expenditure per capita in USD remains much lower compared to other G20 countries. However, the expenditure per capita is expected to increase both in local currency and U.S. dollar terms as Turkey's youth population continues to grow, especially as the population becomes more urban and the economy recovers.

## Local production

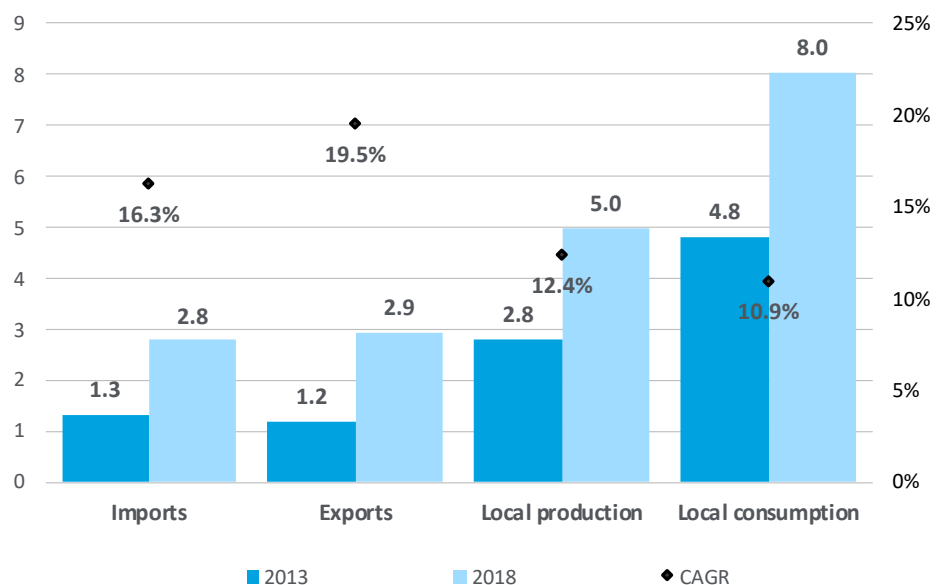
Global FMCG firms such as Unilever and Colgate-Palmolive drive local production with a strong foothold in hair care and bath & shower categories, while local firms also contribute to the growth in production value. As the leading local firms of the color cosmetics category, Flormar, Golden Rose, and Note Cosmetics have developed significant manufacturing capabilities in recent years.

## International trade

The export value of beauty and personal care products reached TRY2.9 billion in 2018, driven mainly by hair care, bath & shower, and color cosmetics categories. While exports to leading export partners Iraq and Iran decreased due to the political instability in the region and trade barriers aiming to empower local production, Turkey recovered these losses by focusing on alternative markets such as the United Kingdom and Saudi Arabia.

The majority of import value comes from Western European markets, led by France and Germany. Meanwhile, some Eastern European countries, such as Romania and Ukraine, are also significant import partners as FMCG firms like Procter & Gamble and Unilever have production hubs in the region.

Industry figures (TRY, Billion)



Source: Turkish Statistical Institute (TUIK), The Union of Chambers and Commodity Exchanges of Turkey (TOBB), and Deloitte analysis



"Color cosmetics, which is the most dynamic category with an average growth rate of 6.5% within the 350 million Euro global cosmetics market, is of great significance for the export ambitions of Turkey.

We believe that the developing markets, where Flormar has geographical and cultural advantages, will be the central area of growth in the next five years. Therefore, we need to start working today and build a resilient supply chain with improved raw material procurement capabilities to exploit this opportunity.

Vertically differentiated brands have proven to be successful in the dynamic and consistently innovative color cosmetics market. We think that brands that leverage local manufacturing capabilities, expand their sales networks with an entrepreneurial spirit, and embrace a global vision in terms of branding will prosper in the upcoming years."

**Can Dilek**

Marketing Director and Executive Board Member, Flormar

"In our 93-year-long history, we have developed from a business that started with soap manufacturing into a global Turkish company offering products in almost all personal care and cleaning categories. With seven production facilities in three different countries, we export to more than 100 countries, including the Middle Eastern, North African, Eastern European, and Asian markets.

The beauty and personal care products market is one of the most promising and dynamic markets in Turkey. With the right strategy and innovative product line, our industry can be vastly competitive, especially in the export markets. As Evyap, we believe that the industry will continue to grow at above-average rates due to the increase in urbanization, life expectancy, and hygiene measures in the coming period. We expect to see an enormous leap in environmentally friendly and innovative products while cost efficiencies increase with developments in competition and production technologies.

In the upcoming period, we will compete with our innovative R&D structure, advanced technology manufacturing facility and strong sales network to gain more shares in the fast-growing global markets. Our purchasing department has kept its place at the forefront of this competition, and we will continue to work with sustainable competitive costs and the right business partners to build higher quality and safer supply chains."

**Okan Sertoğlu**

Purchasing Manager, Evyap





# Manufacturing landscape

The local beauty and personal care manufacturing industry is highly concentrated in Istanbul and consists of small firms. Fragrances and hair care are the most commonly produced categories within the industry.

## Demographics

Around half of the total number of manufacturers are located in the Marmara Region, which includes the cities of Istanbul, Kocaeli, Tekirdağ, Bursa, and Balıkesir. Similar to the overall industrial manufacturing landscape in Turkey, beauty and personal care manufacturers are highly concentrated in Istanbul, where more than 250 firms currently operate. While the majority of global FMCG players are located in the greater Istanbul area, some of them have additional facilities in other cities, such as Konya and Kocaeli.

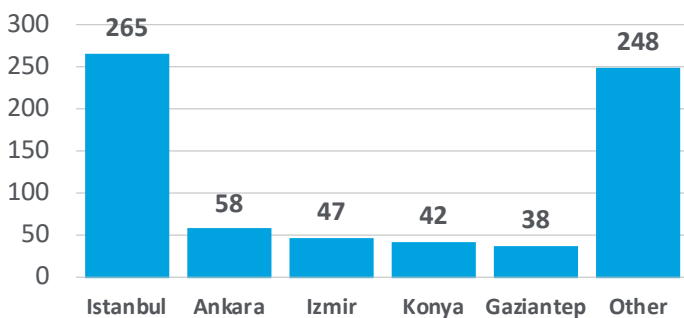
## Scale of production

The manufacturing sector comprises mainly small-sized firms, representing more than 85% of total manufacturers. Because the majority of mid- to small-sized firms focus on export markets with non-branded products and hold back on branding investment, the maturity levels remain relatively low in the industry. Additionally, while large-sized firms offer a broad range of product categories, mid- and small-sized firms principally focus on two or three product groups.

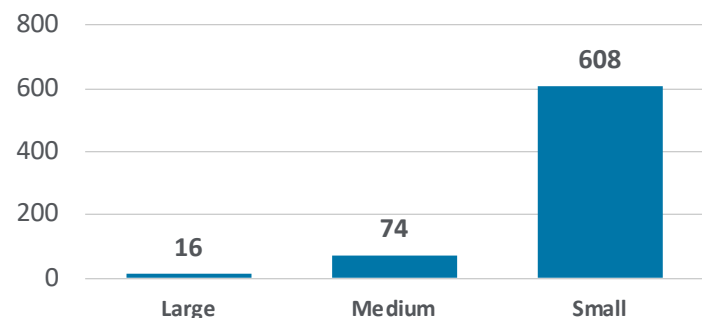
## Product portfolio

Local manufacturers focus on categories that offer high consumer demand in both domestic and export markets. The fragrance and hair care categories are the top-selling categories in the local market with ever-increasing export values. In contrast, only a handful of firms produce color cosmetics, as doing so requires significant know-how and branding investment. Meanwhile, the oral care category is dominated by global FMCG firms that do not allow local competition to grow.

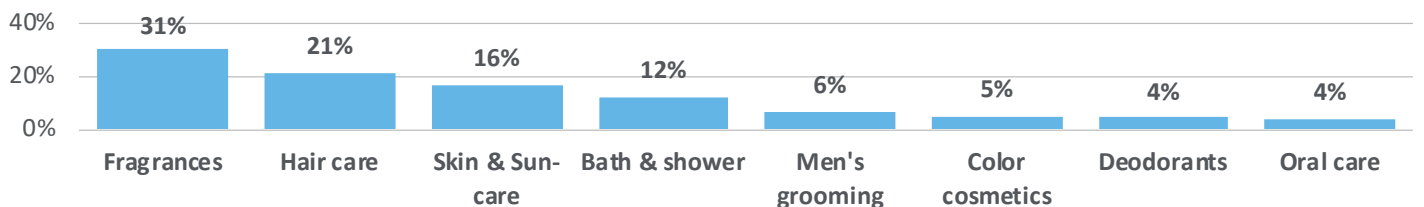
Location distribution (Number of manufacturers)



Size distribution (Number of manufacturers)



Category distribution (Percentage of manufacturers)







"As a category that registers double-digit growth rates even during recessions, beauty and personal care products remain one of the basic shopping items in the current pandemic-environment.

We believe that Turkey has the potential to grow as an exporting country with its traditional soap manufacturing capabilities. Supporting research and development activities is of great importance for the local industry where the majority of the firms are small and medium-sized enterprises.

Dalan Kimya, which operates in the beauty and personal care industry, is an 80-year-old family firm that serves customers both in local and international markets. Our firm stands as one of the largest manufacturers in the bar soap category. We claim responsibility for the journey of olive oil products with a sustainable manufacturing cycle while we offer natural products to the consumers. Our firm represents Turkish soap manufacturing in the international markets with innovative products while we invest in other beauty and personal care categories as well."

**Sibel Tüzün**

R&D Manager, Dalan Kimya

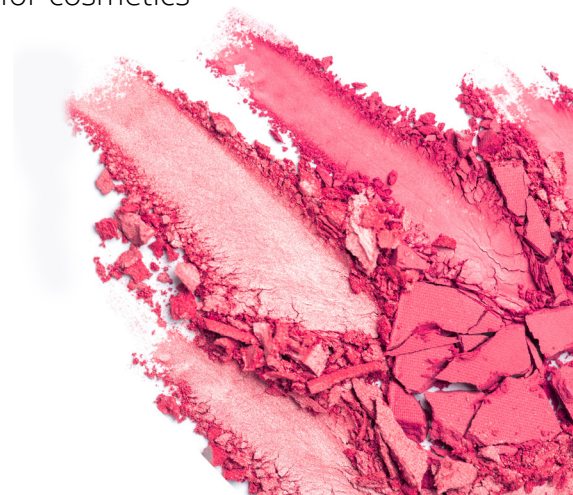
"Despite rapid growth in e-commerce channels, we think that brick and mortar retail remains at the forefront of the trade since it satisfies a consumer's need to see, to try, and to get a feel for products. However, store closures due to COVID-19 also affect our view of the cosmetics industry and our plans. We know that we will be doing business in a new world once the stores reopen. Practices like allowing a limited number of customers in the store and restricting the use of testers will lead us more and more towards virtual applications and e-commerce.

We think that the industry will also experience changes on the production side in the post-COVID-19 period. Because the entire world economy is projected to shrink, consumers will turn to lower-cost producers. Additionally, products with health benefits will come to the fore, especially in color cosmetics. We are working on solutions that will be compatible with the new state of affairs on the consumer side as well as products that will meet new consumer trends on the product side.

In the post-COVID-19 era, a rapid buying trend is expected at first in the color cosmetics and make-up category. We expect female consumers to go shopping for cosmetics products as a cost-effective way to feel better about themselves. While the number of units sold is not likely to decrease dramatically, the expected global economic recession will cause a decrease in the top-line revenue. Therefore, companies that show agile brand management capabilities supported with correct pricing policy and constant innovation will find their competitive edge in the coming years."

**Beril Koparal**

General Manager, Note Cosmetics



# Spotlight on color cosmetics



The color cosmetics category offers exceptional opportunities for sustainable growth both in the local and export markets driven by global partnerships, developed contract manufacturing capabilities, a wide range of store networks, and robust brand investments.

## Global partnerships

As many local color cosmetics brands have long-established operations in Turkey as well as in the Middle East and North Africa, they are considered as attractive acquisition or partnership targets for global firms looking to expand in the MENA region. Reaching color cosmetics consumers in the Middle East and North Africa will require significant localization efforts in product portfolios and an ability to adapt to markets with frequent political and economic instability. One of the examples of successful partnerships is the acquisition of Flormar by Groupe Rocher back in 2012. Since that date, Flormar has turned into a local market leader in color cosmetics and improved its presence in export markets.

## Contract manufacturing

As discounters and beauty specialists grow their presence in Turkey, many retailers started to expand their private label product lines in the beauty and personal care category. Currently, almost all the leading discounters and beauty specialist chains work with local manufacturers to acquire large volumes of product in response to customer demand. Retailers and contract manufacturers focus on value and innovation in their private label offering to compete with multinational brands.

## Investments in branding and store networks

While branding and sustainable growth are outlined as the primary challenges for the overall industry, local color cosmetics manufacturers consistently invest in branding, especially through social media channels. Leading players have adapted to the rise of social commerce and have solidified their social media presence through paid partnerships with social

media influencers. Additionally, leading firms move down the value chain by investing in their store networks to offer seamless customer experience and improve profitability. Such mono-brand stores mainly attract millennials and Generation Z consumers who follow bloggers and social media influencers that promote these stores.

## Opportunity for sustainable growth in color cosmetics





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