



CBI  
*Ministry of Foreign Affairs*

# **CBI Channels Segments:**

## **Natural ingredients for cosmetics in Europe**

## Introduction

The segment of the European market for natural ingredients for cosmetics that you should target depends upon your ingredients. What do they do? In which products can they be used? You can reach these market segments through European importers or processors. Opportunities for adding value locally and supplying processors directly are increasing. If you produce speciality botanicals, essential oils or vegetable oils, small importers or processors are good options for you.

### Which market segments should you target?

The market for cosmetic ingredients can be segmented into several levels by answering the following questions (which follow the order of a sales pitch):

- What do your ingredients do?
- For which industry segments are your ingredients useful?
- For which types of players are your ingredients interesting?
- What makes your ingredients more interesting than those of your competitors (what is your unique selling point)?

### What do your ingredients do?

Most ingredients either have:

- Functional properties (affecting the form, texture, consistency, fragrance and delivery system of the final cosmetic product) or
- Active properties (having a cosmetic effect on the skin/hair).

If you know what your ingredients do, this information can help you to identify segments and players you should target and how you can distinguish your products in the market. This is vital in the current market for cosmetic ingredients. Simply adding a natural ingredient for the sake of being natural is becoming very uncommon in Europe. Doing so does not add value to the product.

Functional and active properties of ingredients differ according to product group: botanicals, essential oils and vegetable oils.

## Botanicals

**Table 1: Functional and active botanicals**

Functional properties	Active properties
Antioxidant	Anti-microbial
Emollient	Skin regenerating
Emulsifying	Skin repairing
Preservative	Anti-ageing
Surfactant	Anti-wrinkle
Humectant	Skin brightening
Foaming	Skin lightening
Viscosity controlling	Anti-pollution
Masking/perfuming	

Botanicals are used primarily for their active properties in cosmetics. They also have the widest range of both functional and active properties (see Table 1).

In some cases, these two segments overlap (e.g. botanicals with high levels of antioxidant activities). These ingredients can be added for either their function (e.g. improving the stability and shelf life of a cosmetic product) or for their activity (e.g. as anti-ageing agents).

#### Tip:

- Additional information on extracts with specific properties is provided in our studies on [antioxidant](#), [anti-ageing](#), [skin conditioning](#) and [hair conditioning](#) extracts.

## Essential oils

**Table 2: Functional and active properties of essential oils**

Functional properties	Active properties
Masking/perfuming	Anti-microbial
	Skin conditioning
	Anti-ageing
	Aromatherapy (e.g. 'relaxation' or 'energising')

Essential oils are used primarily for their fragrance and aromatherapeutic properties. These two properties can overlap, as the benefits of aromatherapy emerge from the different scents of essential oils. When marketing ingredients as having anti-microbial properties, be careful to only use officially permitted preservatives.

### Tips:

- Learn whether your essential oils are also used for aromatherapy benefits. Our study on [essential oils for aromatherapy](#) contains examples and sources of information.
- Our study on [essential oils for fragrances](#) contains information on their functional properties.

## Vegetable oils

**Table 3: Functional and active properties of vegetable oils**

Functional properties	Active properties
Emollient	Anti-ageing
Skin conditioning	Anti-wrinkle
Hair conditioning	

Vegetable oils are generally used for their functional properties (see Table 3). These properties are similar for all vegetable oils.

The active properties of a vegetable oil are often the result of its functional properties. For example, oils can be used in anti-ageing cosmetics, because they have skin-conditioning properties.

Because functional properties are the same for most vegetable oils, it may be difficult to distinguish your products from other oils.

The most important differences between oils are associated with distinctive fatty acids compositions. The fatty-acid profiles of vegetable oils are also used as a basis for active properties, but mostly in marketing claims.

### Tips:

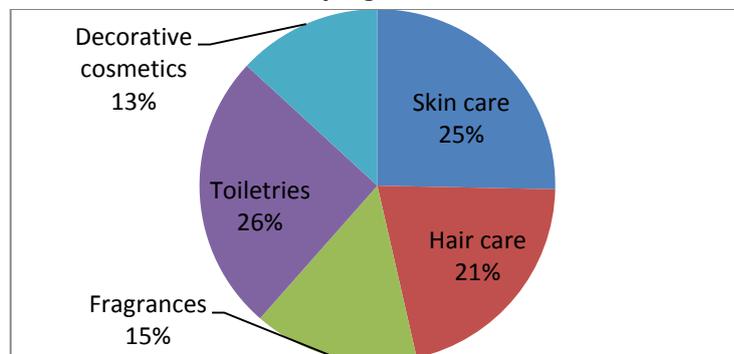
- Be very careful with any claims you make concerning active properties of vegetable oils. You should substantiate your claims, and this is very difficult to do for active properties of these products.
- Determine whether and how your vegetable oil performs a function better than competing oils.
- Provide your current and potential buyers with data on the chemical profile and performance tests of your oil and how they are different from those of competing oils.
- Additional information on vegetable oils with specific properties or content is provided in our studies on [vegetable oils for conditioning](#) and [high omega oils](#).

## For which industry segments are your ingredients useful?

The European cosmetic industry has five segments:

- Skin care
- Hair care
- Decorative cosmetics
- Perfumes and fragrances
- Toiletries

**Figure 1: Market shares of industry segments**



These industry segments need different types of functional and active ingredients in their formulations.

Cosmetic companies also use ingredients from specific origins in products across these segments. This allows them to build product messages around specific ingredients. For example, a product range may include baobab oil or rooibos extract in order to market it as African. Others may include [sandalwood oil](#) or bamboo extract to market it as an Asian product range. To market a product range as South American, companies may include [sacha inchi oil](#).

Some types of products within these segments (e.g. nail polish and hair colouring) use very small amounts of natural ingredients. In some cases, this is due to the difficulty of formulating such products with natural ingredients and, in other cases, it is due to the high cost of natural ingredients. The inclusion of natural ingredients could also be difficult from the perspective of the formulators (e.g. due to the chemical nature of the product). There may also be no particular advantage to using natural ingredients.

Skin-care formulators use a much greater quantity of natural ingredients, and their use in hair care and toiletries is also continuing to increase.

Not all of these industry segments are equally interesting to exporters of botanicals, essential oils or vegetable oils:

- **Botanicals** have most opportunities in skin care. The industry segment or product in which botanicals can be used depends upon their specific active and functional properties.
- **Essential oils** are used primarily as fragrances, in both skin/hair care products and perfumes. Essential oils have high potential in hair care, skin care and toiletries.
- Although **vegetable oils** have similar properties, their derivatives can have very different functions (e.g. thickeners, foaming agents or surfactants).
- Decorative cosmetic products use very small amounts of natural ingredients. Use Table 4 to identify the potential of your ingredients in the various industry segments.

Table 4 indicates the potential of natural ingredients in each of these five industry segments.

**Table 4: Use of natural ingredients for cosmetics in industry segments**

	Botanicals	Essential oils	Vegetable oils
Skin care	Many opportunities for beauty treatment products and serums, as well as in cooling, soothing, anti-blemish and anti-ageing products.	Primarily for fragrances (as fragrances, perfume blends or direct additions to products). Some are used for active properties (e.g. anti-ageing), and they are increasingly being marketed for aromatherapeutic benefits.	Many opportunities in body oils and butters; sunscreens and body and face creams; even wider applications when processed into derivatives.
Hair care	Total use of botanicals is limited, but there is a particular interest in botanicals that are (or support) hair-conditioning agents.	Fragrances offer the most interesting opportunities. Aromatherapy hair-care products is a growing category.	Considerable use, particularly as/for conditioners.
Fragrances	Limited use of botanicals; only as a basis for	Largest use of essential oils.	Limited use of vegetable oils, mostly in

	essential oils or other aromatic by-products.		scented/fragrance oils and creams and other emulsions using the fragrance.
<b>Toiletries</b>	Significant markets for botanicals in soap, deodorants and depilatories.	Essential oils are sometimes added directly to toiletries.	Significant markets for soap, deodorants and depilatories; most derivatives used in soaps are based on commodity oils.
<b>Decorative cosmetics</b>	Limited use of botanicals.	Limited use of essential oils.	Limited use of vegetable oils.

**Tips:**

- Once you know what your ingredients do, use this to identify the types of products in which they can be used. The product type in which your ingredients can be used to find interesting players and traders.
- For additional information on how natural ingredients are used in specific product types, consult our product fact sheets (e.g. for [waxes](#), [resin oils](#), [palm oil alternatives](#) and [antioxidant extracts](#)).

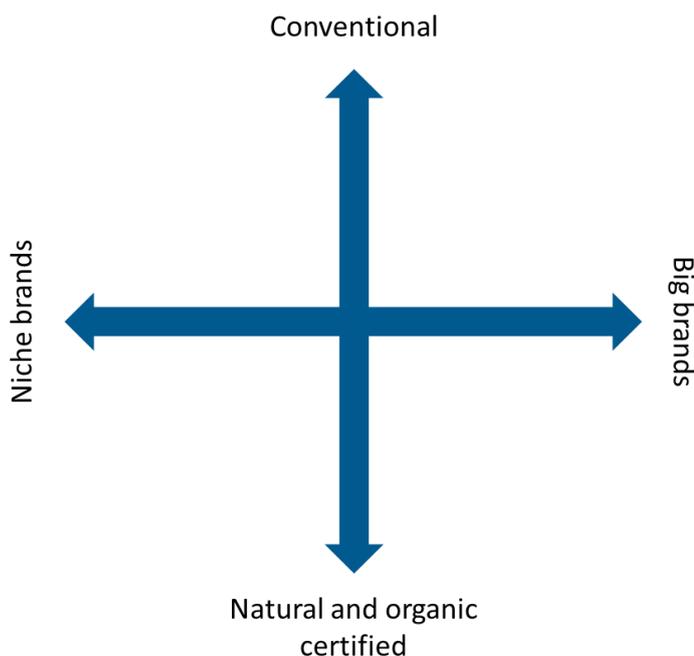
**For which types of players are your ingredients interesting?**

To determine where to find interesting players, cosmetic manufacturers can be categorised across two ranges (see Figure 2):

- Conventional cosmetics vs. Natural/organic cosmetics
- Niche brands vs. Major brands

Note that it may be difficult to reach manufacturers directly, as they do not generally buy directly from developing countries. More commonly, they buy their ingredients through distributors. See the section on market channels below for additional information.

**Figure 2: Cosmetic brands segmentation**



**Conventional cosmetics vs. Cosmetics with natural and/or organic certification**

Both types of cosmetic manufacturers use natural ingredients, but in different percentages. Growing numbers of conventional cosmetics manufacturers are using natural ingredients at low percentages for the purpose of making marketing claims. In some cases, they might use higher percentages to realise particular functional or

active properties. Even if the quantities per product are low, large manufacturers are likely to buy higher total volumes of natural ingredients for popular or widely marketed products, as compared to small companies that use a higher quantity per product.

Natural cosmetic products commonly contain much higher quantities of natural ingredients per product. The quantities that are used depend upon maximum usage levels (especially for essential oils), price and the amount needed to realise particular benefits.

### Niche brands vs. Major brands

Niche brands are more likely than major brands are to be trendsetters. For this reason, niche brands could be particularly interesting if you supply new, innovative ingredients. They also need lower volumes of ingredients for their cosmetic products. If you have to struggle to meet the volume requirements of major brands, niche brands could be an interesting option.

Major cosmetic brands (e.g. Bodyshop) offer better opportunities for established ingredients, as long as you can ensure stable quantities and quality levels. These brands often pick up interesting trends from niche brands.

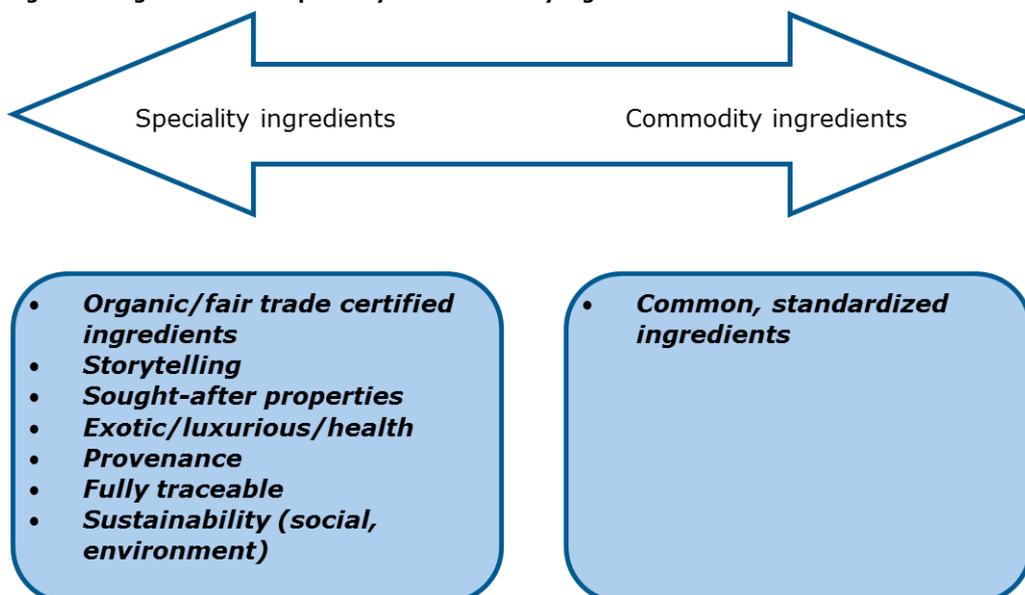
#### Tips:

- Use the segmentation in Figure 2 to determine the type of players that may be interested in your ingredient.
- Target small, niche brands instead of mass-market brands. Many niche brands exist in Europe, and they can often be found through national cosmetics manufacturers' associations, trade press or blogs. For example, Eluxe Magazine has identified [Supermood](#) from Finland as a key natural-focused cosmetics brand to watch. Such small brands (e.g. for natural or organic cosmetics) are often more innovative than larger brands are. Major brands often turn to these trendsetters for inspiration, picking up interesting and long-lasting trends.
- If you can produce larger volumes of established ingredients, target major brands that produce conventional cosmetics.
- If you are interested in finding buyers in these segments, consult our study on [finding buyers for natural ingredients for cosmetics](#).
- Our studies on [promising export products and markets](#) (e.g. [palm oil alternatives](#) or [marine extracts](#)) contain additional information for specific ingredients.

### What is your Unique Selling Point?

Finally, you should identify what makes your ingredient different from the competition. Is it a commodity ingredient or a speciality ingredient?

Figure 3: Segmentation in speciality and commodity ingredients



## Commodity ingredients

Commodity ingredients are commonly used ingredients, including standardised extracts or commodity oils (e.g. palm oil or coconut oil). They are often traded at high volumes, which leads to low margins along the value chain.

The cosmetics market is highly competitive. The price of an ingredient price is therefore of key importance when manufacturers choose which commodity ingredients to use and in what quantities per product.

The situation is less clear for essential oils and botanicals. Some of these ingredients have a maximum allowed use level in cosmetic products, due to specific compounds that they contain. Some also require a minimum level of use in order to achieve a desired effect.

## Speciality ingredients

Speciality ingredients most commonly offer the following:

- An interesting market benefit (e.g. story or efficacy)
- Traceability
- Assurance of sustainability
- Supply security

Cosmetic producers could increase the price of final products by including speciality ingredients, as these ingredients make their final products more interesting to consumers. Consequently, producers might also pay a higher price for their ingredients. They might also be willing to pay an even higher price if you can reduce risks.

Speciality ingredients are usually traded in small quantities, and prices can be high. For example, commodity vegetable oils (e.g. sunflower oil and flaxseed oil) are priced between €3 and €5 per kilogram. Speciality oils (e.g. sea buckthorn) can sell for around €100 per kilogram.

Some importers and distributors actually focus on speciality ingredients, especially for botanicals and vegetable oils.

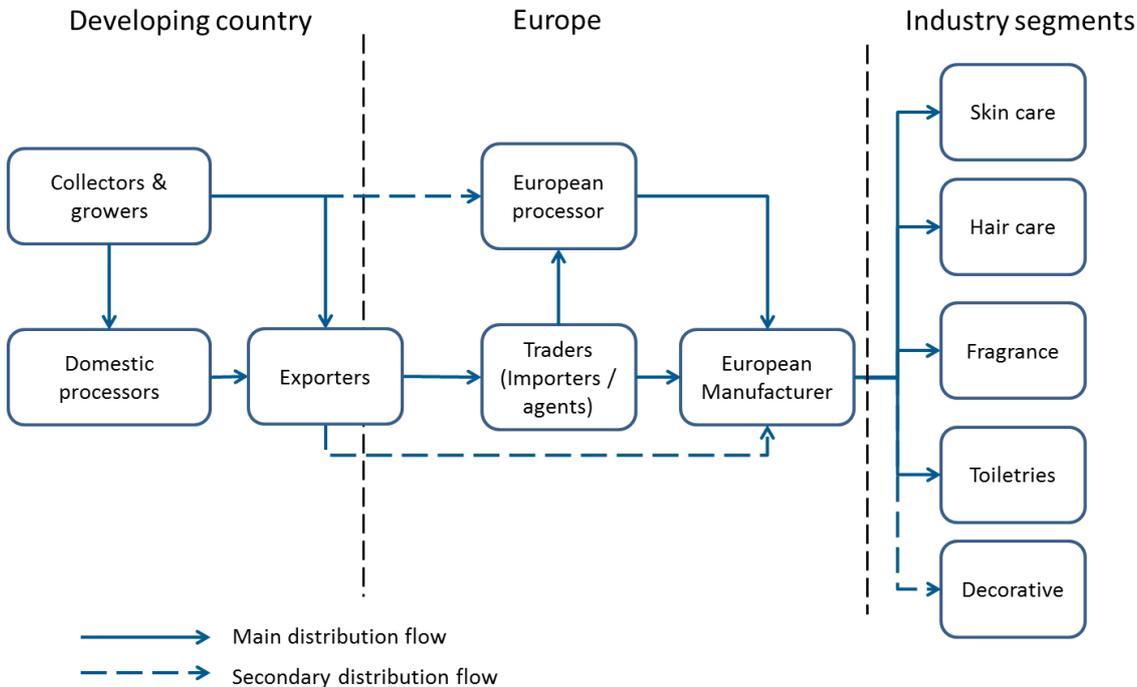
### Tips:

- Determine whether you are supplying commodity or speciality ingredients. Are they new or commonly used? Do your ingredients offer marketing benefits? Are they certified? Can you assure traceability?
- Our study on [competition for natural ingredients for cosmetics](#) contains additional information on how to distinguish your products from those of your competitors.

## Which channels can you use to bring natural ingredients for cosmetics to the market?

How you should bring your natural ingredients to the European market depends upon the type of ingredients that you export: botanicals, essential oils or vegetable oils. The various market channels nevertheless do share several similarities. See Figure 4 below.

**Figure 4: Market channels for natural ingredients for cosmetics**



## Targeting traders

European **importers** are the most important entry point into the market. Of these, **distributors** are importers that often make contracts with their suppliers. These importers can trade in up to 500 species, together with other (synthetic) ingredients.

Importers are involved in:

- Global sourcing
- Analysis and quality control
- Rectification (correcting quality or other issues)
- Blending
- Product documentation
- Sales to processors and cosmetics manufacturers

In many cases, established importers have already registered their imports under the REACH (Registration Evaluation and Authorisation of Chemicals) guidelines, as required for many cosmetic ingredients.

In addition to importers, agents are important for speciality niche products. They could be interesting if you:

- Have limited experience on how to export to Europe and need guidance on export processes
- Need an intermediary with knowledge on how to evaluate and select interesting buyers, especially if you are planning to introduce a new ingredient to the European market
- Need a partner who is trusted within the sector and can compensate for your lack of reputation in the sector

Small importers often specialise in either the cosmetics, pharmaceutical or food (and food-supplement) industry. Larger players supply all of these industries and work with both raw materials and processed ingredients.

Both smaller and larger players can be interesting to you, depending upon the size of your company, type of products, certification and documentation needed.

## Targeting the European processing industry

Europe also has a large **processing** industry. Processors buy most of their raw materials from importers, although some also import natural ingredients directly from developing countries. Areas of specialisation for processors include:

- Oil crushing
- Refining or derivative production

- Extraction
- Compounding ingredients for fragrances
- Further ingredient processing into ready-to-use cosmetic ingredients

Ingredient processors create ready-to-use cosmetic ingredients (e.g. by isolating active components or by combining components from different ingredients into proprietary cosmetic ingredients). They sell these ingredients to cosmetics manufacturers, although smaller processors might work through distributors.

Large processors often supply producers of cosmetics and health products, while smaller companies specialise in one of these sectors.

### Targeting cosmetics manufacturers

**Cosmetics manufacturers** often specialise in one or more industry segments (see Figure 4), although large cosmetics companies (e.g. L'Oréal) are active in all segments. They develop and make final cosmetic products.

Most finished products are sold through retail outlets, including both mass market and speciality stores. In the natural cosmetics sector, however, direct sales through web shops are becoming much more important. Companies are increasingly targeting consumers directly, instead of going through retailers.

Speciality and certified ingredients usually have short trade channels, meaning that there are fewer steps between suppliers and cosmetics manufacturers. Buyers would like to know the source of these ingredients as specifically as possible, so that they can use this information in their marketing campaigns.

#### Tips:

- Target European importers with your ingredients. They constitute the main entry points to the European market.
- If you produce speciality niche products, you could use the expertise of agents to reach the European market.
- Consult our study about [finding buyers on the European natural ingredients for cosmetics market](#) for additional information.

## Market channels and trade hubs for botanicals, essential oils and vegetable oils

Depending upon the specific natural ingredients you produce, there are different channels through which to bring your products to the European market.

### Botanicals

Botanicals can be imported either as raw materials (to be processed in Europe) or as extracts. Traditionally, most extraction has taken place in Europe, although extraction is gradually shifting to developing countries (see the section on trends below).

Further processing into ingredients and developing proprietary ingredients (with intellectual property rights) based on extracts continues to take place predominantly in Europe.

European importers and processors continue to play a dominant role in the global trade in botanicals, especially in terms of innovative and proprietary extracts. They supply European and North American cosmetic producers.

Germany is the most important hub for botanicals trade. It is an important importer and exporter of both raw plant materials and extracts.

In 2015, Germany imported 63,000 tonnes of raw plant materials, 56% of which came from developing countries. Germany is also home to the largest extraction industry in Europe.

Other large trade hubs for botanicals include Spain, France and Italy. They are the largest traders and processors of botanicals in Europe. France plays a particularly important role in the botanicals trade that focuses on cosmetics applications.

**Tips:**

- If you are not able to produce an extract yourself, look for importers of raw plant materials in the countries listed above, or collaborate with extractors in your country.
- For additional information and suggestions, read about the trend on increased opportunities for adding value locally.

**Essential oils**

It is easier to sell essential oils directly to European processors and cosmetic producers than it is to sell botanicals and vegetable oils. This is because of the small volumes of essential oils traded, as well as because essential oils often need no further processing.

European companies can add value by transforming oils, isolating specific fragrance compounds and repackaging and labelling. The European fragrance industry then combines different essential oils and fragrance compounds into fragrances for cosmetic producers.

The leading trade hubs for essential oils are:

- Germany
- United Kingdom
- Netherlands
- France
- Spain

Together, these countries accounted for 71% of all European imports (by volume) in 2015. In the same year, they also accounted for 65% of the total export volume.

France is a large importer of high-value oils (e.g. rose geranium, jasmine absolute), which are most commonly used in cosmetics.

**Tips:**

- Target importers if you are able to supply large volumes of essential oils. They generally buy larger quantities than cosmetics manufacturers do.
- Target cosmetics manufacturers or fragrance houses directly if you supply low volumes of essential oils.

**Vegetable oils**

Some commodity raw materials (e.g. cocoa and shea nuts) are still processed into vegetable oils predominantly by the European crushing industry. However, this situation is changing. In particular, non-commodity oilseeds and nuts are increasingly being crushed in the countries of origin. Examples include argan and [sacha inchi](#) nuts (see the section on trends below).

Vegetable oils are often filtered in the country of origin. The feasibility of further processing in the country of origin depends upon the quality of your oils, the volumes available and the needs of your buyers.

Most vegetable oils arrive in Europe as crude oils. Once in Europe, they are processed further into refined oils or higher-value derivatives (e.g. emulsifiers or surfactants).

Organic oils are often used directly in cosmetics, as chemical processing is restricted for such certified ingredients. Even though further processing is restricted for organic oils, it is necessary to remove allergens from allergenic oils.

It is very rare for small exporters from developing countries to supply directly to refiners, because they are usually unable to provide sufficient volumes. Small exporters do not supply directly to derivative industries, due to the complexity of these industries.

Supplying directly to derivatives producers is more feasible for suppliers of speciality oils. You should be able to supply sufficient volumes of consistent quality and find a company that is interested in small volumes.

France and the Netherlands are the largest trade hubs for vegetable oils, in terms of both total imports and imports from developing countries. These countries are also two of the four largest exporters, together with Italy and Denmark.

Other large vegetable-oil importers in 2015 included Germany, Austria, Sweden and Belgium. The United Kingdom is a medium importer of vegetable oils, but it imports a high percentage from developing countries.

**Tips:**

- If you do not have the capacity to process your raw materials into oils, try to find a partner in your own country in order to reach a sufficient scale for processing. Another option would be to look for a company that could process the materials for you.
- If you produce speciality oils, investigate the possibility of finding a European refiner to whom you could supply directly.
- Our studies on specific vegetable oils (e.g. the fact sheet on [sacha inchi oil](#)) contain additional information on market channels.



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