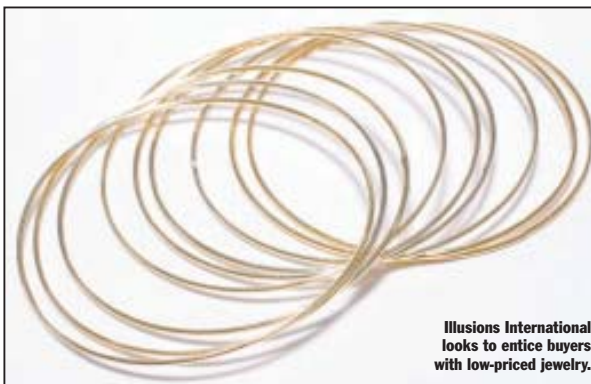


ECRM: Showcase for Fierce Competition



A revamped Sarah Michaels will hit drugstores this spring.



Illusions International looks to entice buyers with low-priced jewelry.



Spongeables' soap-infused sponges were at hit at ECRM.

By Molly Prior and Andrea Nagel

SAN FRANCISCO — Love was in the air at the ECRM Cosmetics, Fragrance and Bath Conference held here this week, as several companies hooked up and announced acquisition deals.

Two years after buying former AM Cosmetics brands — namely Wet 'n' Wild, Tropez and Black Radiance — Markwins International Corp. has scouted out a new cosmetics company, Soho Cosmetics, to add to its brand portfolio.

Soho Cosmetics, a Montreal-based company, surfaced in the Canadian market two years ago and specializes in color cosmetics and cosmetics bags. Eric Chen, president and chief executive officer of Markwins, explained that the French-Canadian company will give Markwins a foothold in the Canadian market by establishing a "well-seasoned operational base there." Markwins also has ambitions of introducing Soho — after a full-scale revamp, of course — to the U.S. market. Chen said Soho's high-fashion, avant-garde image offers a point of difference among similarly priced mainstays, such as L'Oréal and Revlon, that use spokesmodels and glitzy marketing campaigns to create almost duplicate brand positioning.

Soho's midpriced range will bring Markwins, which built its business by churning out value kits and budget brands, into a new tier. It also may soon give Markwins a strong footing in China, where domestic cosmetics consumption is growing at a rate of 22 percent annually. Soho, more so than the company's budget brands, would be best suited for the Asian markets, explained Chen. The executive said the company expects to close the deal in March.

The move is part of the company's larger strategy to build a robust portfolio of beauty brands, noted Chen. Prior to acquiring the AM Cosmetics brands in 2003, the Markwins business relied on gift sets, such as color cosmetics kits and train cases, sold under the names The Color Workshop, The Color Institute and ACT.

"In order to build the company, we need to pursue brands," said one member of the Markwins team. He acknowledged that Markwins is looking to acquire domestic beauty brands, as well. As part of its international expansion plans, Markwins recently introduced its Wet 'n' Wild brand to the European market.

Whispers also circulated that Pacific World Corp., owners of the Nailene brand, was close to acquiring fellow artificial-nail manufacturer Fing'rs. According to a buyer who met with the company, the Pacific World meeting room showcased a smattering of Fing'rs products.

Talk at the show, brimming with specialty bath players, also centered on the growing glut of no-name imports from China. Wal-Mart's holiday assortment relied heavily on such imports last year. For manufacturers that hope to do business with Wal-Mart, it is best to have the capability to ship their wares directly from China to the retailer's distribution centers, according to several vendors at the show. Last holiday, RLD International, the U.S. arm of a Chinese manufacturer, helped Wal-Mart trim the costs of its bath sets even further by excluding added extras, such as decorative ribbons.

Pat Gann, director of product development of RLD, admitted that the strategy of using a China-based manufacturer and shipping direct to Wal-Mart was "squeezing out" U.S.-based suppliers desperate to do

business with Wal-Mart. "They just can't compete," she said. For Holiday 2005, Gann's Landy International division is supplying Wal-Mart with more bath gift sets, which range from the traditional, featuring angels and gold accents, to more retro designs with black and pink color themes. Gann said the bulk of Wal-Mart's orders were in the \$2.88 retail price range, but there were also orders for \$6 to \$8 bath gift sets, as well.

Eroding sales of specialty bath products, which include items by Coty's The Healing Garden, have prompted several retailers to shrink the space they devote to the category, in favor of allocating it to high-ticket skin care products. Woodridge Labs — a niche-focused company known for its nimbleness in bringing new products like its Vita-K Solution Microdermabrasion Kit to drugstores — got retailers' attention this week by introducing a \$40 wrinkle-fighting cream called DermaFreeze 365. The product seeks to mimic the formula of Freeze 24-7, a skin cream that sells at specialty retailers like Sephora for \$95. Woodridge president and ceo Joe Millin, who rubs the cream into his forehead in front of retail buyers so they can watch

the product take effect, said DermaFreeze is designed to reduce the appearance of wrinkles in 10 minutes.

The product, which breaks another price barrier in mass skin care, will roll out to seven retail accounts in April. Woodridge will back DermaFreeze with \$1 million in media support during the month of May alone.

Several specialty bath manufacturers are following The Healing Garden's newly minted approach to the category by infusing their product formulas with skin care benefits. Some of the new launches, from brands such as the made-over Sarah Michaels, teeter on the edge of serious skin care with introductions such as anti-cellulite treatments.

Sarah Michaels' new owner Commonwealth Soap & Toiletries Co. Inc., which bought the company from The Hathi Group last year, recruited former Duane Reade beauty buyer Karen Durham to create an entirely new look and brand positioning for the latchkey bath line. Durham, who now runs her own consulting firm Marketing Specialists, Inc., is credited with creating Duane Reade's proprietary beauty brand Apt. 5.

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Top 10 Newsmakers at ECRM

1. Markwins International Corp. acquires Soho Cosmetics, a Canadian-based maker of color cosmetics and cosmetics bags, for an undisclosed amount of cash and interest. The deal looks to immediately expand Markwins' distribution in Canada as well as introduce a new midpriced cosmetics brand to the U.S. market, which the company expects to relaunch in the next six months.
2. Pacific World Corp. is expected to acquire Fing'rs, giving it another brand in the artificial-nail category, in addition to Nailene and Revlon Artificial.
3. J.C. Penney has hired a new bath and body buyer, Marty Richner, after the post remained open for five months. Richner has served as the fragrance buyer for Federated Department Stores in Atlanta; the vice president, general merchandise manager for cosmetics at Mercantile Stores, and the senior vice president, marketing and merchandising at Ulta. The move signals that the retailer is indeed serious about reentering the beauty category.
4. Julie Adams is named to Duane Reade's beauty department. Her role at the regional retailer is still being ironed out, but two positions remain open within the division, hosiery buyer and skin care buyer.
5. Specialty bath is losing space to skin care items, and in turn, new bath items are infusing skin care benefits in their formulas. Manufacturing in China — and shipping directly — gives companies a distinct advantage in doing business with Wal-Mart. The China trend is "squeezing out" small U.S. bath suppliers who can't offer the behemoth its required margins and low price points.
6. Competition in the value sector of cosmetics has reached an all time high with the addition of Ten Beauty by Smart Brands and Jane Cosmetics.
7. Hot show items according to buyers: P&G's new Cover Girl line targeting older women and utilizing the Olay brand on packages; a woman's version of Spirit Antonio Banderas; Sarah Michaels' new skin care-focused bath line; Del Labs' Opal nail line; Spongeables' soap-infused body sponges; Illusions' rotating jewelry display, and Solar Cosmetics' Green Leaf Spa line.
8. Woodbridge Labs' DermaFreeze 365 will bring a \$40 price point to drugstores' skin care shelves this spring, breaking the \$35 ceiling currently held by Avène and Vichy in Brooks Pharmacy.
9. Hot 2005 trends: anticellulite products; 3-in-1 products, and nail implements.
10. ECRM news: Buyers complained that the four-day, 10-hour-per-day beauty show was extremely taxing with too many suppliers to see in such a short period of time; the Expo Hall, which was specially created to accommodate an overflow of vendors, was a bomb with few retailers taking the time to meet them, and ECRM is hosting its first Hispanic show this October in Miami, to include the beauty, food and general merchandise categories.