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THG Ingenuity

Beauty Industry Outlook





By 2023, **ecommerce** is projected to account for **48% of beauty sales.**

In this report we highlight the key industry trends, top priorities and challenges faced by major brands. We also explore key insights surrounding consumer beauty preferences and new customer habits.

How COVID-19 has affected the beauty industry.



Online beauty brands sales grew 20%-30% yearly.

Beauty-product brands and retailers are showing ecommerce sales twice as high as their pre-COVID levels.

The pace of innovation accelerates. Beauty brands are partnering with other companies to diversify their product lines and achieve product innovation. There is also potential for closer collaboration—among brands and retailers – through data sharing and inventory pooling.

Retailers and brands are turning to promotions to attract new consumers. Many high-end brands are offering online discounts of up to 40%, competing with specialty beauty-product and department stores to capture promotion-oriented consumers. Promotions also help to clear out inventory.

The digital sphere grows. As consumers worldwide are increasing their online engagement and spending, DTC ecommerce is becoming more and more popular for brands.

Also, consumer concerns about in-person consultations and safety led companies to implement the use of AI for testing, discovery, and customization.

The return to in-store shopping in China is slow and differentiated. In store traffic remains down 43% compared with pre-COVID levels. Mall-based stores struggle to recover.

Mergers and acquisitions continue to rise. Many companies will need to find new sources of capital to recover from the COVID-19 economic crisis.

Many brands like L'Oréal are investing heavily in smart beauty devices.

They aim to provide more personalised and unique experiences to their customers through features like speakers, AI and augmented reality. The market for smart beauty devices is not yet fully developed, but there are already a wide range of technology applications used among the few providers such as L'Oréal and Shiseido. Typically, these devices are connected to smart speakers, such as Amazon Alexa, but AI and augmented reality are also becoming more frequently integrated.

J-beauty (Japanese beauty) will change the market and drive new technologies and cosmetic innovations.

J-beauty is extremely focused on the use of technology within the beauty market. There have already been cosmetics innovations such as oil cleansing, stem-cell-based beauty, cosmetics devices and more. For instance, Shiseido is one of the biggest beauty investors in cosmetics and beauty innovations using artificial intelligence. J-beauty brands have also established skin food products with natural ingredients such as seaweed, green tea and rice. Unlike western skincare, J-beauty is more about anticipating skin-care problems. On the other hand, in western countries, consumers mainly search for ingredients like niacinamide, witch hazel and benzoyl peroxide when purchasing skin care products. Enthusiasm toward beauty tech also exists in western countries and is highest in the US with 36% of consumers being interested in skin-scanning devices, 33% in smart mirrors and 28% in personalised skincare recommendations.





Major beauty ecommerce trends for 2021



Inclusivity is crucial. Consumers progressively seek for value-driven products and brands they can relate to. They mainly look for brands that share their values and ideas which help to create a deeper connection, build trust, and boost customer loyalty. This also enables brands to achieve customers loyalty, typically at a pace double the conventional methods.

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Influencers as an investment. Influencer marketing has once more given the ecommerce industry a notable economic boost. With influencers -- and now micro influencers --, beauty brands can get closer to their customers in a way that traditional advertising cannot. When consumers see and hear from real people testing the products in their homes, they tend to trust their results and feedback more.

VR, AR, and tech partnerships. Alibaba partnered with Perfect Corp, the world's leading AR company, and integrated their YouCam MakeUp AR virtual try-on technology into Alibaba online shopping experiences. Thanks to this, Alibaba revealed an increase in their conversion rate by 4x. Since then, new technology in the beauty industry has surged, immersing AI, AR, and VR into household brands like MAC, NARS, and L'Oréal. These disruptive technologies are changing the way consumers discover, experience, and connect with health and beauty brands.

Leveraging real-time data for new product development. Across the beauty industry, more brands are embracing the use of real-time data collection and analysis and watching it exceed their development processes. Brands should activate their customers, their followers and their fans, and really bring them into their brand, empowering consumers to build the brand via product development, packaging, materials used and marketing.

Having an agile, consistent, diverse, and outstanding presence online. As consumers research for products online across a variety of different channels, brands should invest in a broad online presence that extends beyond marketplaces, where price is the biggest driver of sales.

Owning the customer relationship. Once brands have successfully enabled DTC sales, they should give customers the opportunity to join loyalty programs and provide tangible benefits like periodic discounts or access to exclusive content or events, so they can

23% of consumers worldwide are willing to pay 20% more for customised beauty products.

learn more about their customers and move toward a personalisation strategy.

Product distribution is a big opportunity. Today, brands need to have a strategy to educate customers about how to buy authorised products and to protect them from counterfeit goods sold on third-party retail sites and marketplaces. Otherwise, brands risk damaging their brand equity and reputation when customers buy inferior or fake product.

Hyper-personalised skincare is growing in popularity. Consumers increasingly show a desire for personalization and connection with brands. As a result, brands are leveraging AI technology and data-driven conversations to create a new form of hyper-personalisation in the beauty ecommerce industry.

A successful example of this is Neutrogena which introduced MaskiD – a 3D-printed face mask tailored to the specific needs of a customer's skin, based on data collected from a selfie.



Key Facts and Figures for Beauty Brands in 2021

The major purchasing factors for global consumers in the beauty sector are: price (77%), quality (75%), and brand (59%).

Of all pre-existing ecommerce purchasers, 49% say they plan to shop online more frequently after the outbreak. A third of those who weren't purchasing online regularly prior to the outbreak plan to spend more time shopping online after the onset of the COVID-19 pandemic.

APAC is home to a large number of skincare buyers: research shows that more than half of all skincare buyers (57%) reside in the APAC region. In contrast, 17% are based in Europe, 13% in LATAM, 9% in North America and 5% in MENA.

Skincare buyers are highly engaged with brands -- over half have visited a brand's website and one in three have watched a video made by a brand in the past month.

The majority (80%) of skincare buyers approved of brands providing funny/light-hearted content during the pandemic.

Daily, 63% of skincare buyers visit YouTube, followed by Facebook (56%) and Instagram (49%). Their top reasons for using social media are to stay up to date with news or current events (43%), with 36% using it for brand research.

Globally, skincare buyers want brands to take actions to protect the world and the environment, with 51% saying they want brands to be eco-friendly, closely followed by 48% who want brands to operate in a socially responsible way.

Nearly two-thirds of consumers worldwide would pay more for sustainable and eco-friendly products.







Insights into Consumers Preferences

Natural beauty products are increasing in popularity. Growing concerns regarding the side effects of chemicals on the skin such as skin irritation, allergies, and skin dullness, have been one of the key factors fuelling the market growth. The global market value for natural cosmetics and personal care is expected to reach \$54.5 billion in 2027.

UK and US consumers report the highest consumption of beauty products compared to other countries.

In the US and Germany, 16% own up to 100 items. In the UK, the share rises to 21%.

Beauty products are now part of consumers' daily routines, and this represents a huge opportunity for brands. Researches show that the beauty consumers could not live without are moisturiser and mascara.

Preferences for premium cosmetics and body care is growing. Luxury and prestige cosmetics and personal care segments have the highest growth potential. Nowadays consumers are highly interested in quality, sustainability, and good ingredients. For instance, China, UK, Switzerland, US, Austria, and Italy have the highest share of people buying luxury products (above 22%).

DIY beauty and pampering has grown significantly. Do-it-yourself (DIY) products, including nail kits, body waxing, boxed hair dye, and facial kits became more popular with the COVID-19 pandemic. Shaving and hair removal products saw an annual order volume increase of 97% and nail supplies jumped by 175%. YouTube videos and tutorials related to at-home pampering saw a substantial increase in viewership.

83% of Generation Z worldwide purchases organic and natural skincare products.

What are the **key priorities** for beauty and cosmetics brands in 2021?

A focus on DTC. Brands can actively encourage consumers to shop directly from them through features like payment instalment plans, access to exclusive content and early shopping for new products, and even consultations for the brand's best customers – whilst also maintaining a consideration on price matching.

Product and brand innovation. Brands should use real time data from customer touchpoints to improve their products and experiences. As customers' needs and expectations constantly change, the lack of an innovation culture, access to data, or inventors are all significant short- and long-term growth impediments that may lead to customers unsatisfaction.

Offering replenishments and subscription options. Beauty brands can use replenishment to gain insights into their customers' buying behaviours. Additionally, they can learn even more about their customers through innovative website features like quizzes and beauty tools. They can then use that data to put together personally curated subscription boxes.

Rigorously protect intellectual property. Supply chains must now be both flexible and resilient, and brands must enforce their governance more tightly around which seller gets what product, and at what price, globally. They must ensure products are authentic, authorised for sale, and managed under every condition and stipulation that the brand demands.

Support e-control attempts. Brands should establish explicit reseller parameters and inform consumers about where authentic and authorised products are available. A fifth of US consumers worry about products on marketplaces, so e-control remains fundamental.

For instance, MAC has a counterfeit warning page, and OPI has explicit callouts about how it deals with unauthorised products.



Four key takeaways for continued success in 2021



1

Redefine what value means, beyond just cost, through customers experience and satisfaction as well as convenience with an emphasis on quality.

2

Develop strategies that drive commerce to own-brand sites that support authenticity, as well as challenge big marketplaces that have yet to provide clear-supply chain transparency assurances.

3

Invest in more diverse touchpoints that ensure optimal product discovery, especially as consumers move across brands to research for the best products.

4

Focus on marrying ethics with safety to cater to the conscious and careful beauty consumer. Use real data to improve product performance and features as well as to deliver a more personalised experience.





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THG Ingenuity has grown LookFantastic to the largest beauty e-retailer globally and now owns several other successful e-retail propositions and beauty brands including **Glossybox, Mankind, ESPA, Illamasqa** and many more. We also provide additional services and solutions like product registration assistance and product manufacturing capabilities.

With over 17 years' experience, we have the knowledge and expertise to build and grow successful online beauty brands.

Contact us for more information on how we can support your business: contact@thgingenuity.com

