

RETAILX SECTOR ANALYST REPORT

BEAUTY & COSMETICS



INTRODUCTION

Beauty & Cosmetics brands have long relied on celebrity endorsements to promote products and department stores to sell products. This is changing. While the rise of online shopping has had less of a direct impact on the Beauty & Cosmetics sector than might be expected¹, department stores – a key physical channel to consumers for Beauty & Cosmetics brands – have borne the brunt of the shift to online retail. The indirect impact on the Beauty & Cosmetics sector has been a loss of consumer coverage.

Beauty & Cosmetics companies have responded by investing in direct-to-consumer (D2C) business models, as well as by setting up internal venture capital funds to capitalise on the potential from startup brands and technology vendors. Disruptive startups, such as Revolution Beauty, are challenging the status quo by adopting Fast Fashion techniques.

YouTube, Instagram and other social media platforms have impacted on how consumers perceive celebrity, leading to the rise of social influencers. Some of these have gone on to develop their own product ranges, notably Huda Kattan, who in 2018 was ranked 37th on the *Forbes* list of America's richest self-made women².

SHARELINES

- 🐦 The rise of ecommerce has only indirectly impacted Beauty & Cosmetics
- 🐦 Celebrity marketing has been disrupted and diluted by the rise of influencers
- 🐦 The companies covered in this report are, on average, 100+ years old
- 🐦 Leading Beauty & Cosmetics companies are now operating internal VC funds
- 🐦 Augmented reality (AR) applications are gaining traction in Beauty & Cosmetics
- 🐦 The Fast Fashion business model is being reinvented in the cosmetics space

1. <https://fashionista.com/2017/05/beauty-products-packaging-shopping-habits>
2. www.harpersbazaar.com/uk/beauty/a26320975/influencers-beauty-collaborators-brands/

TL;DR

The internet abbreviation 'TL;DR' means 'Too Long; Didn't Read'. In that spirit, here are some consideration points from this report:

- Beauty & Cosmetics companies have been indirectly impacted by the shift to multichannel retailing but the effect on department store chains, traditionally a key retail channel for the sector, has been far greater. This has affected the visibility of Beauty & Cosmetics brands
- Social media has had a fundamental impact on the sector. The rise of influencers has diluted the marketing power of celebrities while increasing the number of relationships that brands need to manage
- In the last five years, four of the Top 10 Beauty & Cosmetics companies have created internal venture funds to acquire new influencer-driven brands. This has recently extended into technology investments, such as L'Oréal's acquisition of Modiface, a technology it recently used to promote its brands on Amazon
- Acquiring D2C brands has become an important tool for the larger Beauty & Cosmetics companies as they evolve their business models
- RetailX forecasts a further move towards D2C, which will continue as the relative importance of ecommerce over the high street grows. This move will be further accelerated by entry into new geographical markets where there are no historical reseller relations

Welcome to the RetailX Sector Analyst Reports, where we combine RetailX's four years of in-depth company performance research with analysis of the sector dynamics.

Our reports outline the strategic and commercial context in which the best retailers and brands perform in their market sectors.

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DEFINITION

DIRECT-TO-CONSUMER OR D2C COMMERCE is when brands sell or promote their products directly to consumers rather than via wholesalers and retailers.

ONLINE SALES In 2018, these represented c12.5% of the Beauty & Cosmetics market worldwide. Sales patterns vary by territory. For example, in China, consumers made 23% of all beauty retail purchases online in 2017 (source: Credit Suisse). Sector leader L'Oréal disclosed that 11% of its sales were generated online in 2018.



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In this RetailX Sector Analyst Report on Beauty & Cosmetics, we analyse and compare 10 companies with brands that feature in the InternetRetailing Europe Top500.

These companies are (listed alphabetically): AmorePacific, Avon, Coty, Estée Lauder, Kao Corporation, L'Occitane, L'Oréal, LVMH (P&C), Natura Cosméticos and Shiseido.

Our analysis is based on RetailX research and interviews with experts, in addition to publicly available information. As with all our Sector Analyst Reports, the overall aim is, from a commercial and critical perspective, to provide an authoritative picture of leading companies. We also look in depth at the overall market from a global perspective – challenges, opportunities and how the market is likely to develop in the years ahead. ■

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