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The changing face of beauty

By [Kristine Kirby](#)



Today there are many new definitions of beauty, categories of beauty and ways of promoting and buying beauty products, and manufacturers are dealing with the most knowledgeable customer ever. This has led to the giants of the cosmetic industry being shaken by a generation of clever start-ups.

How do customers navigate the lucrative yet confusing world of promises and products in today's beauty market?

We have spoken with key people in the sector: from social influencers to those creating or working for new brands to understand how they are responding to shifting consumer behaviour, as well as new segments and advances in technology. This paper examines the key trends in the industry: the ones we consider to be of most importance based on the beauty industry today.

The changing market

The global beauty market is divided into five main business segments: skincare, haircare, colour (make-up), fragrances and toiletries. These segments are complementary and through their diversity are able to satisfy all consumers' needs and expectations.

Beauty products can be also subdivided into premium and mass production segments, according to brand prestige, price and distribution channels used. For the purposes of this paper, unless otherwise noted, beauty is makeup and skincare.

Distribution channels are changing. Cosmetic brands are available not only in retail outlets like department stores, but also via e-commerce, or social media such as Instagram and Facebook, television channels such as QVC, home shopping parties via representatives, airport vending machines or duty free and in spas.

The cosmetics and personal care industry is predicted to record gains across the board, with particularly strong growth expected for sun protection and anti-aging products as consumers become increasingly aware of the dangers of sun exposure and more concerned with preserving a youthful appearance.

Today's market

In 2016 in the UK alone we spent over £9bn on beauty products, and over £2bn on skincare products as revealed in the BBC's programme 'The Truth About Looking Good' which aired in January 2018. What is driving this spending?

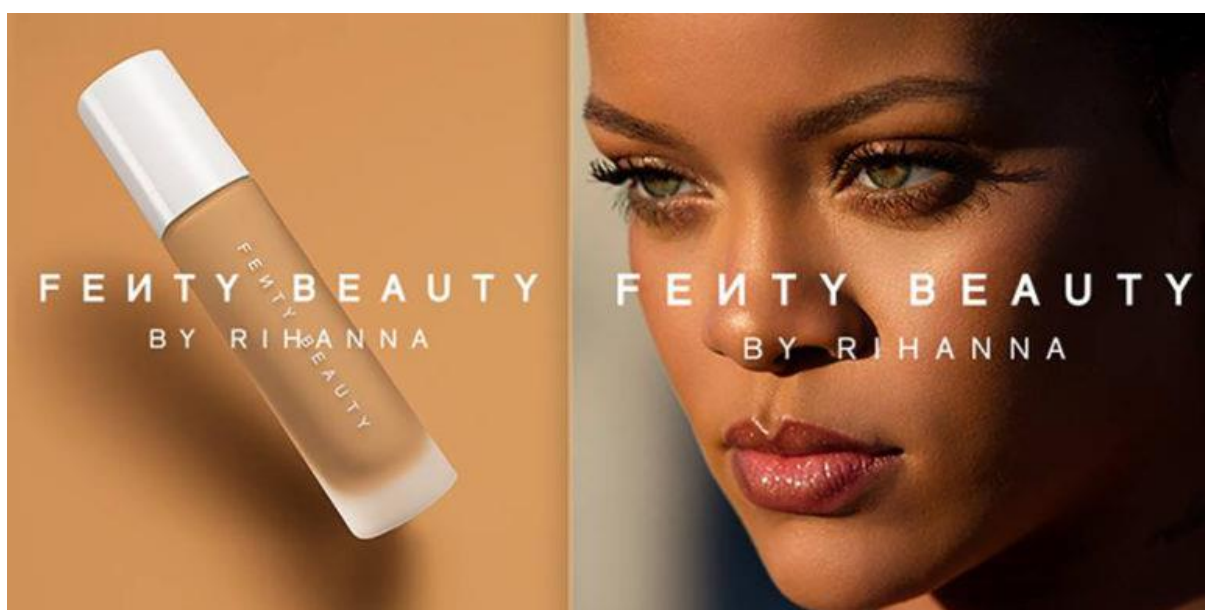
There are many reasons but these are the key trends:

- Celebrity beauty brands
- Mixed use products
- Men's beauty
- Personalised products
- Social influencers
- New contenders

- Existing models, new models
- Overseas threats
- Technology

Additionally, customers have started to further define what they want from their brands – some want all-natural products, some want ones that are focused on wellness, and others want brands that are socially conscious.

While we look at the UK market, many of the examples we describe come from the US as it is brands in the States that are driving innovation.



Trends

Celebrity beauty brands

Rihanna took the industry by storm with her Fenty line, with Sephora executives calling it “*the most inclusive beauty brand in the world*”. They weren’t exaggerating: the brand was dubbed an “Invention of the Year” by Time for offering 40 different foundation shades, far more than any of its competitors.

As Rihanna told Jessica Schiffer at Glossy: ‘*Some [women] are finding their shade of foundation for the first time, getting emotional at the counter*’. As a result, the line’s darkest shades quickly sold out, which many attributed to the lack of other options on the market.

Other celebrity brands were launched such as Pat McGrath Labs and Madonna's MDNA range, and even the youngest member of the Kardashian Jenner family, Kylie, built a brand based on her 100m Instagram followers. In one year she built her Kylie Cosmetics brand off the back of a single feature: her lips.

According to an October 2016 Vanity Fair article, it has been almost one year since the first iterations of the line's flagship product, Kylie's Lip Kits - pairs of matte liquid lipstick and lip liner in nude, pink, and brown that retail for \$29 - sold out within minutes after going on sale at KylieCosmetics.com (on eBay, one Lip Kit listed for \$255 had 48 bids.) The range has expanded, and according to many sources, including WWD, the leading fashion journal, the brand that only launched late in 2015 is now worth \$420 million. Even Caitlyn Jenner is dipping her toe in the water, working on a line with MAC cosmetics.

An early mover in this space was Charlotte Tilbury, who has used both her fame as a makeup artist and unabashedly embraced technology to further give confidence and assist her customers to purchase, whether in store, on her site, or even in Instagram ads.



Mixed use products

The Thrive Causmetics Triple Threat Stick (seen above) comes in three colours, but with two of the three shades available, you can use them on

your cheeks, your lips, and your eyes. Less product, more polish, and add a slick of mascara and some lipstick and you are done.

Gender fluid and unisex make-up is rising in popularity and the first brand which markets itself this way is Jecca. Glossier was originally made as a men's brand, but with more neutral packing now has a unisex following. The same ingredients used to make traditional women's make up combined with lower price points for the male market has resulted in Glossier becoming a mixed-use brand.

Too Faced, started by Jerrod Blandino and Jeremy Johnson in the late 90s, built its following on YouTube and sold to Estee Lauder in 2016 for \$1.4 billion. The brand followers immediately questioned if they could keep their 100% cruelty-free promise and extensive vegan-free products. To date they have, and the two male founders unabashedly wear products from a brand that is very feminine, and the percentage of men using the brand is growing, beginning to turn what was once a female brand into a unisex one. The lines are blurring.

Men's beauty

The fastest growing global trend is men's beauty – from pedicures to David Beckham's recently announced House 99 brand (backed and in collaboration with L'Oréal, who also uses ambassadors such as Lewis Hamilton), to Ryan Seacrest (a big star in the US), who is launching his own brand this spring in conjunction with one of the celebrity dermatologists, Dr Lancer. It will be called Polished by Dr Lancer, and there is already a waiting list for their products.

In addition to all the unisex brands that are rapidly proliferating, men are quickly adding to their skincare regimen. They want to feel and look as good as women do.

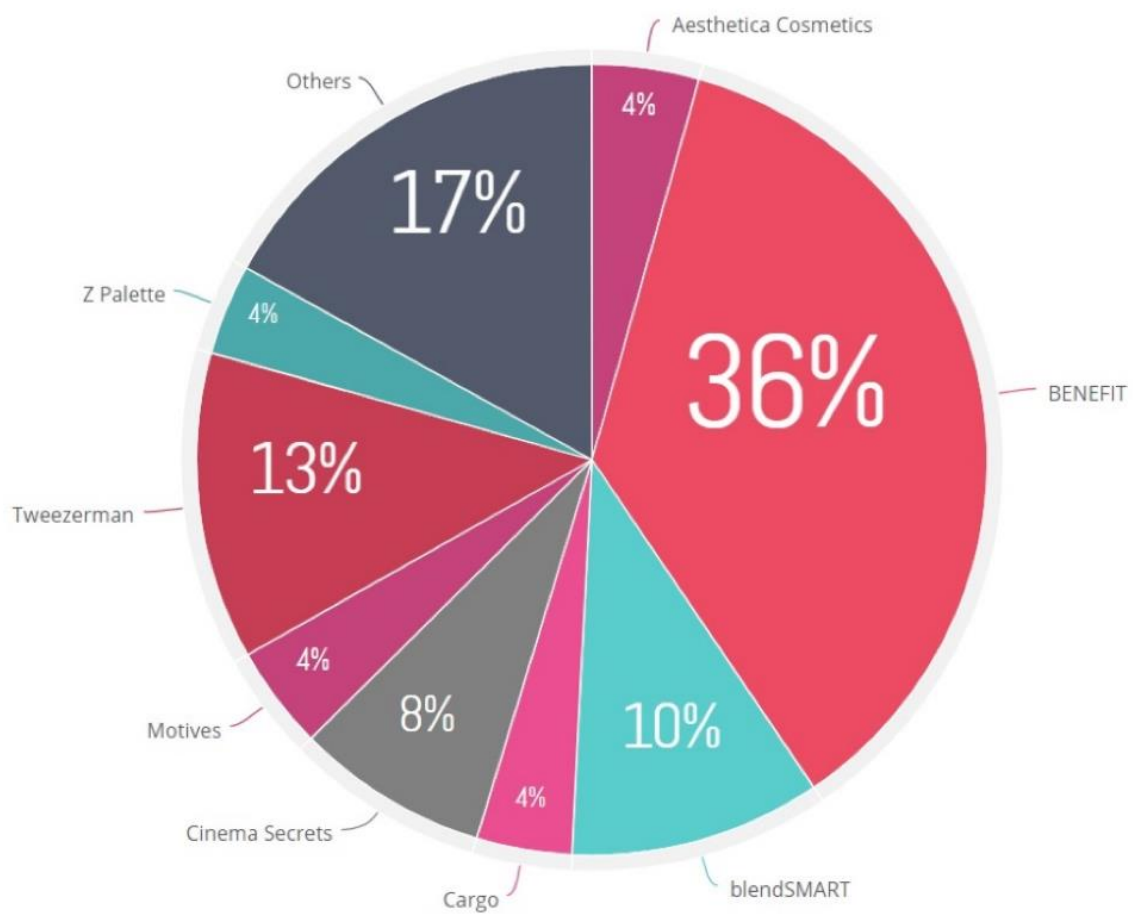
Personalised products

These would have seemed – just a few years ago – too expensive and too difficult to do. Not any longer. Many brands have jumped into this space, and there are too many to list here. Lancôme now assesses the tone of your skin at the counter (in select stores) and then in person blends the right product based on what your skin tone needs the most. As your skin changes

based on seasons and other factors, they will always re-assess your skin and adapt the product for what your skin needs.

Kiehl's has launched a new technology called Skin Atlas (via their Apothecary Preparations programme) which is multilingual and assists the store staff to assess and rank concerns a customer has, and then they create a bespoke oil and serum – and again, customers can walk out of the store with their own personalised product.

Top Brands Posting about Huda by Number of Posts



Source: Haggai Klorman-Eraqi of Preen.Me

Social influencers

Influencers wield a huge amount of power. This trend began when teens started posting videos of themselves using make-up to contour their face. Today, at least one person you know has watched an influencer post.

Slowly brands reached out to these people. They'd send them new products and ask them to try them and share them with their followers. However, shortly after, people realised there was real money to be made here, and agencies such as Tribe were set up to match influencers with brands. How lucrative is it?

From the September 2017 UK version of Business Insider, Tribe shared ballpark figures of what influencers can expect to charge per post in relation to their number of followers:

3-10K — £50-£100

10-25K — £100-£180

25K-50K — £180-£250

50K-100K — £250-£350

100K+ — £350+

Tribe works mostly with "micro influencers", people with an average follower base of between 3,000 and 100,000 on either Instagram, Facebook, or Twitter. By far the majority of these followers are on Instagram, where content is considered "more inspirational".

For more prominent influencers, such as Huda Hattan, there is even greater rewards. She has 21m followers and earns about £18,000 per post. Benefit Cosmetics (seen below) generates 95% of the social engagement received by brands who tag Huda Beauty. Since starting as an influencer, Huda has started her own beauty line.



New contenders

As we have touched upon, there are many new brands out there, and they aren't small. One of the larger 'new' players is the skincare brand Rodan & Fields. If you Google it, you will find a plethora of articles like 'The 15 Rodan & Fields Products You Need NOW' or just unabashed blog posts extoling the virtues of how the products have changed the lives of users.

The company, launched in 2002 by dermatologists Katie Rodan and Kathy Fields, follows a multi-level marketing model that turns its customers into brand consultants in order to promote products through social media, primarily through invitation-only Facebook groups.

Rodan & Fields handles all of the transactions, while consultants - who pay a starting fee, as well as an optional monthly fee if they want a personal website - get a cut of sales. It also sells product through an online store, but Diane Dietz, CEO and president of the brand, said those sales only make up 3% of overall revenue.

Social commerce and consumer success stories are what primarily drive the brand's growth, which has recently seen a big uptick. The company says it generated \$1.2 billion in sales last year, an increase of 80 percent year-over-year. In April, retail analytics and research firm Euromonitor named it

the No. 1 skin-care brand in the US, suggesting there is still a good amount of headroom for growth.

Existing models, new models

While Rodan & Fields have shown us a new business model, other models with a twist are being driven by those wanting to make it easier for their customers to access their products, and for the companies to ensure steady cash flow.

In the UK there are brands like `Harry's' for shaving, with standing replenishment orders for blades and shaving cream. Thrive Causemetics allows for a one-off purchase, or regular 'subscription' buying. They are known for their mascara, which they sell out of quickly, so many put it on subscription – their goal is simply to make time poor customers have one less task to worry about, which their founder, Karissa Bodnar, has said has definitively helped it grow so quickly, and keep customers loyal (along with their USP).

There are more private labels than ever before. Boots is constantly expanding the No 7 range, which you can buy easily on Boots.com, but it is very transactional, and low on aspiration. ASOS, however, is high on aspiration and scores well on price with their ASOS Face and Body range, launched in September 2017. It is already, according to varying sources, the top selling brand in the UK.



Overseas threats

Ulta Beauty is the largest beauty retailer in the United States and the premier beauty destination for cosmetics, fragrance, skincare products, hair care products and salon services. It operates out of large spaces in what are known as 'strip malls'. Since opening its first store in 1990, Ulta Beauty has grown to become the top national retailer providing All Things Beauty.

Ulta offers more than 20,000 products from approximately 500 well-established and emerging beauty brands across all categories and price points, including Ulta Beauty's own private label. Ulta Beauty also offers a full-service salon in every store featuring hair, skin and brow services. Ulta Beauty is recognised for its commitment to personalised service, fun and inviting stores and its industry-leading Ultimate Rewards loyalty programme. As of October 28, 2017, Ulta Beauty operates 1,058 retail stores across 48 states and the District of Columbia and also distributes its products through its website, which includes a collection of tips, tutorials and social content.

Yet none of that is the most amazing part of Ulta. 90% of their monthly sales comes from customers enrolled in their loyalty programme. Ulta incentivises customers to join the loyalty programme, which allows benefits to be tailored to the shopper. The theory: thoughtful freebies (some members recently received Urban Decay eye-shadow kits; others, a custom

colour-matched Clinique foundation) do more to deepen the customer's emotional connection to the store than a generic 15% off coupon. The strategy appears to be working. It is how the loyalty programme's 21.7 million active members now generate more than 90% of Ulta's overall sales.

On the Forbes Growth Champion list in May 2017 they were Number 140 with a market cap of \$17.7 billion (USD). In mid 2017 they surpassed Sephora in the US and did this by what Mary Dillion described as 'basic things' like upping their online sales by more than 50%, broke ground on a Manhattan store, and finally got MAC to begin to move away from its own stores or concessions and into all Ulta stores.

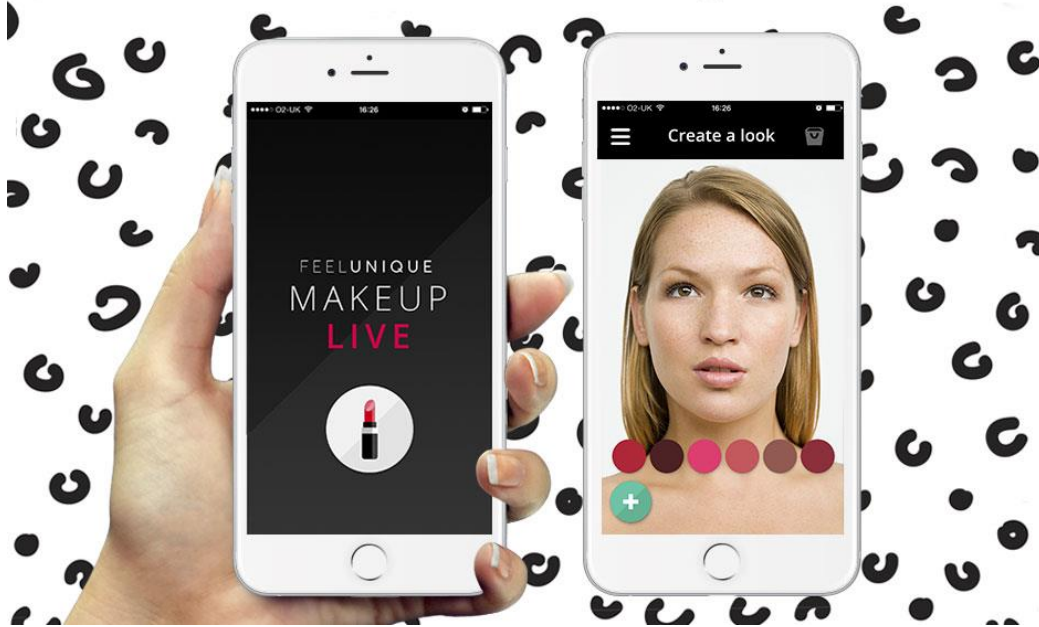
Technology

There is a lot of new tech that can be used for the beauty market. Many of the leaders, such as Sephora, have brilliant apps. Others, such as Charlotte Tilbury, had Magic Mirror touchscreens in Westfield London for 30 days so you could see how any of her looks would appear on you, which led to an increase in sales. The two technologies that are of the greatest interest currently are colour matching, and the other is using VR and AR to try on makeup.

Feelunique's 'Makeup Live' app uses new spectrophotometer tech that allows users to find the perfect colour match and purchase it via the app as well. Sephora + Pantone Colour IQ scans the users' skin and assigns a Colour IQ number, and then offers lip, foundation, and concealer matches.

There are many other examples, most based around skin tone, which is notoriously hard to buy online, but there are products coming out this spring which are already leapfrogging what is in the market.

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Summary

The beauty industry is evolving rapidly, and what is already a big business, is getting even bigger. Beauty products are estimated to generate \$445 billion in annual sales worldwide*. This growth will be driven by the brands which understand the trends I have outlined in this paper and adapt their products and marketing accordingly.

Pragma works with beauty brands in varying ways: our Investor Services team provide due diligence support for investors buying or selling assets; our Airport & Commercial Spaces team work with duty free and airports operators, while our Strategy team works with brand owners and retailers to achieve enduring profitable growth.

Our digital team works to help define what digital tools can best fit with the USP of a brand and their customer to deliver great results.

If you would like to discuss any of the points I have raised in this paper please don't hesitate to drop me a line @ k.kirby@pragmauk.com

*2018: Source-Raconteur/The Times/The Beauty Economy Special Report/ (2017).