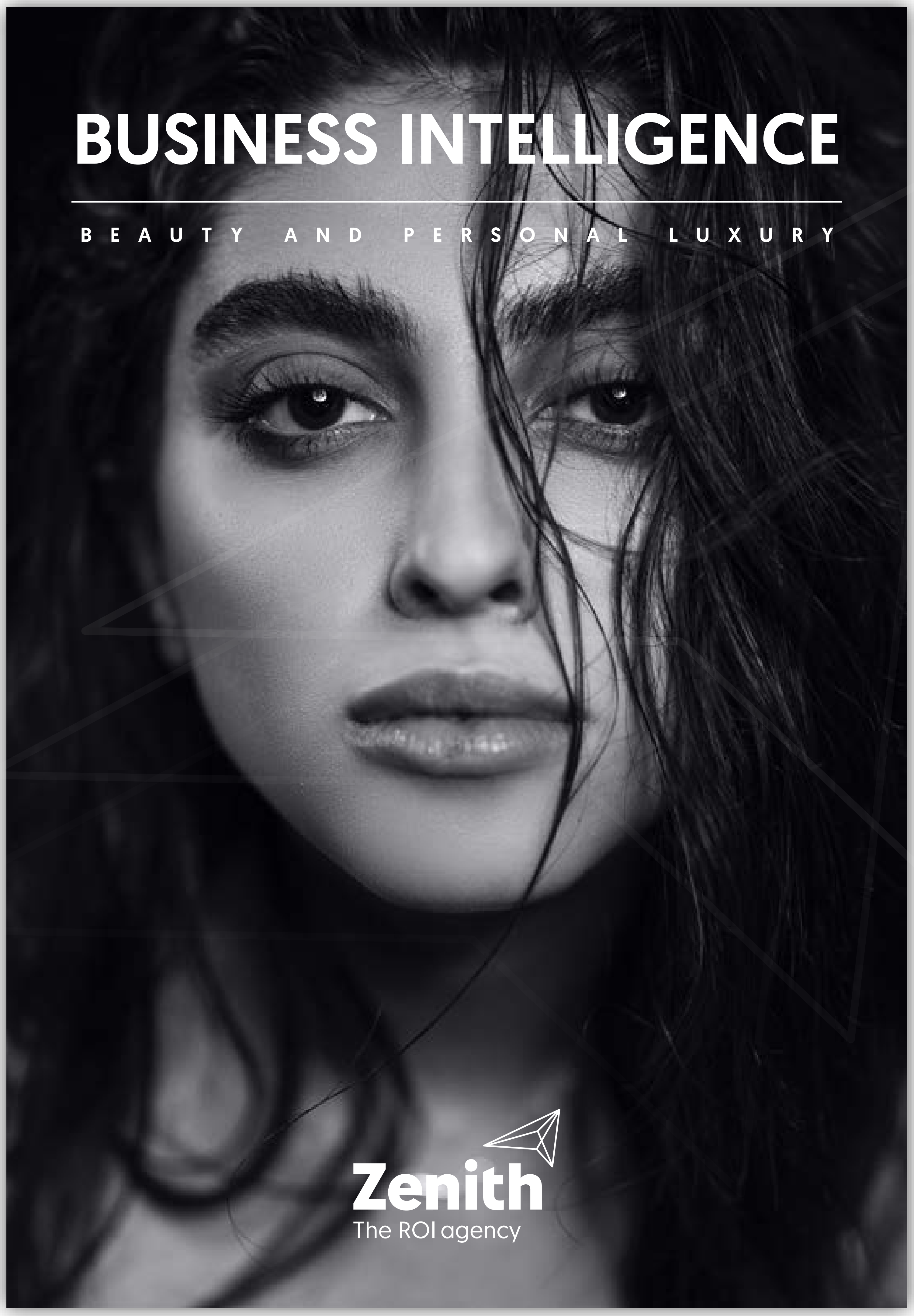
BUSINESS INTELLIGENCE

BEAUTY AND PERSONAL LUXURY



Zenith
The ROI agency

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Introduction

Welcome to Zenith's Business Intelligence report on beauty and personal luxury, the third in a series that analyses the advertising, business and consumer behaviour trends shaping different categories.

Like all categories, beauty and personal luxury were deeply disrupted by the pandemic, but the changes in consumer behaviour affected different types of product in different ways. Demand for cosmetics and perfumes fell swiftly as people stopped meeting in person, but sales of skin care and hair care products held up as people focused on giving themselves small treats at home. Skin care and hair care are also expected to lead growth during the recovery.

Faced with an entirely new and unexpected environment, some beauty brands led the way in using digital media for communication and commerce in 2020. They have been rapidly developing ecommerce technology that gives consumer the confidence to try on products and buy them remotely, while using digital media to substitute effectively for falling traditional magazine and television audiences. But the category as a whole is lagging behind and needs to follow their lead if they are to capitalise on the resurgence in demand expected in 2021 and 2022.

Consumers have changed a lot over the last year, becoming much more vocal about environmental damage and social injustice. Beauty and personal luxury brands will need to do even more to demonstrate to demanding customers how they benefit the world and society.

Scope of report

This report covers the beauty and personal luxury category, which is defined as the combination of four sub-categories of products: cosmetics, fragrances, skin care and hair care.

BEAUTY AND PERSONAL LUXURY ADVERTISING FORECASTS

1.7%

GROWTH IN 2021

Beauty adspend to grow just 1.7% in 2021, well below the 4.4% recovery in total adspend

The fastest growth will come from France as it partially recovers from the steepest decline in 2020, but India will benefit from strong growth in consumer demand

Beauty brands spend much more on magazines and TV than the average brand, but all new adspend will go to digital channels

Higher-quality digital environments will help drive traffic to improved ecommerce operations

WEAK DEMAND FOR COSMETICS AND TOILETRIES TO RESTRAIN RECOVERY IN BEAUTY AND PERSONAL LUXURY ADSPEND

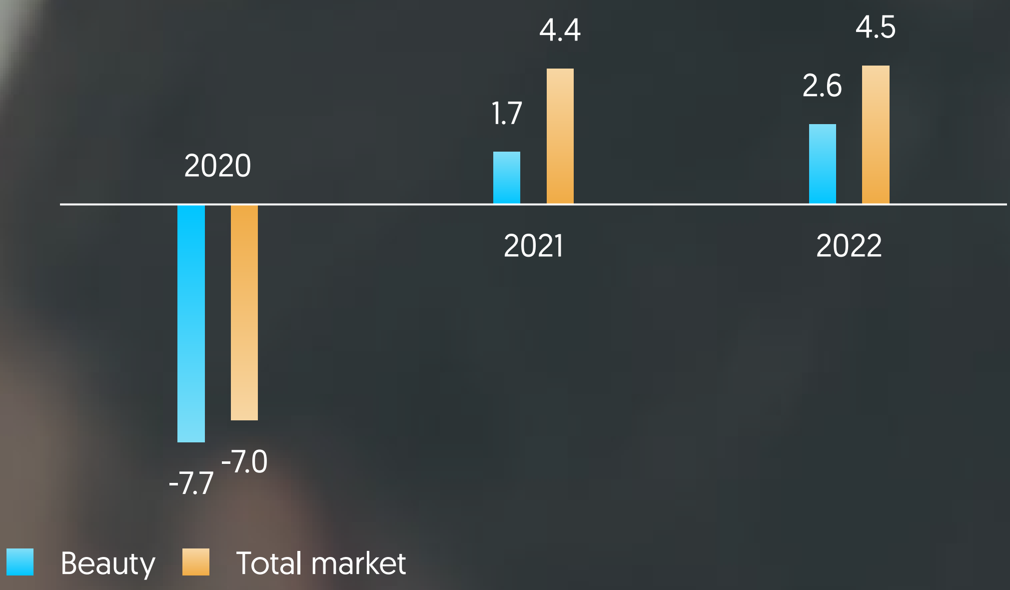
Zenith forecasts beauty and personal luxury advertising in eleven key markets to grow by just 1.7% in 2021, well below the 4.4% growth rate for total adspend. Beauty adspend will then grow by 2.6% in 2022, leaving it 3.6% below the level of beauty adspend in 2019.

The eleven markets included in this report are Australia, Canada, France, Germany, India, Italy, Russia, Spain, Switzerland, the UK and the US.

Beauty and personal luxury adspend fell roughly in line with the market in 2020, as consumers kept spending on hair care and skin care. With hairdressers and salons harder to reach, consumers took hair care into their own hands at home. Skin care, meanwhile, benefited from heightened desire for health-enhancing products.

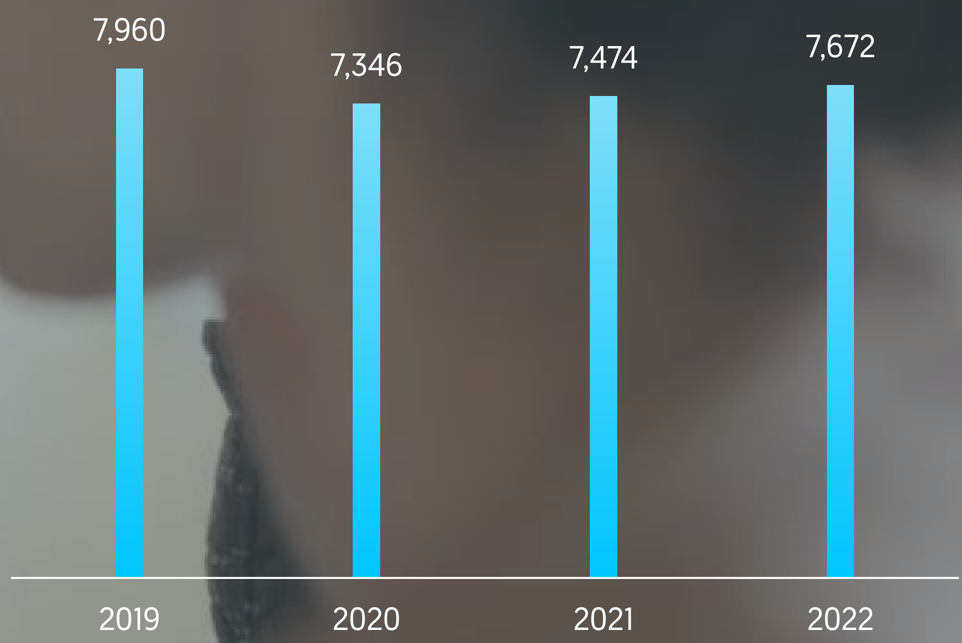
During the recovery, though, overall demand for beauty will be weak as consumers remain reluctant to return to their pre-pandemic meeting habits, reducing sales of cosmetics and toiletries in particular. Euromonitor International forecasts growth in beauty sales to fall well behind growth in consumer expenditure in 2021 and 2022 *(see the Category Growth section for more details).* Faced with this weak recovery, beauty and personal luxury brands will be reluctant to raise budgets and will be more likely to redeploy spending from underperforming channels instead.

Year-on-year growth in adspend (%) – eleven key markets



Source: Zenith

Total video entertainment adspend (US$ million)



Source: Zenith

FRANCE AND INDIA TO LEAD BEAUTY AND PERSONAL LUXURY ADSPEND GROWTH

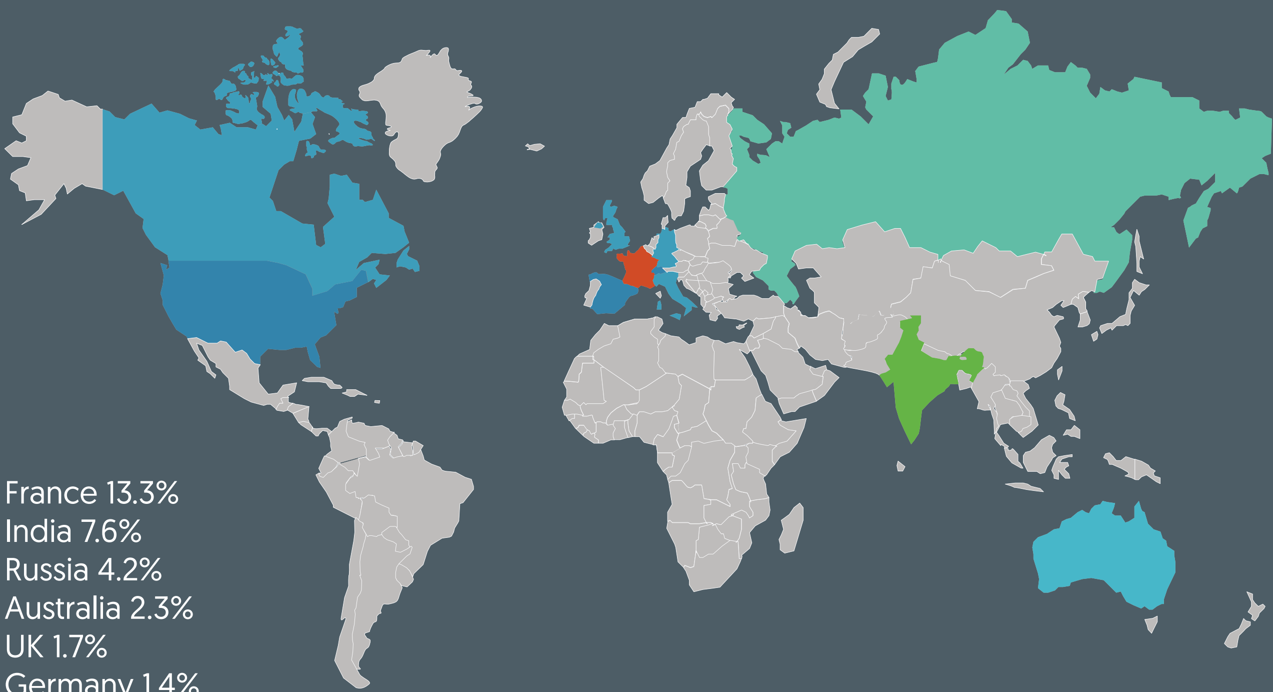
Zenith expects France to be the best-performing beauty ad market over the next two years, growing by 13.3% a year on average. That's a reaction to the depth of its decline in 2020, when beauty brands cut budgets dramatically at the beginning of the pandemic, leading to a 32.9% decline for the year as a whole. The market will start to recover quickly from this much-reduced base in 2021, but is still expected to be 13.8% lower in 2022 than it was in 2019, compared to the 3.6% average drop across all eleven markets over this period.

India, by contrast, is forecast to grow as a result of strong consumer demand. Beauty adspend was stable in India in 2020, and is forecast to grow at an average of 7.6% a year as more consumers take up the habit of regularly buying beauty products. We expect beauty and personal luxury adspend in India to be 15.2% higher in 2022 than it was in 2019.

Euromonitor forecasts weak demand for beauty and personal luxury products across North America and the rest of Western Europe, leading to consistently slow growth in beauty adspend of 1%-2% a year across the markets in these regions.

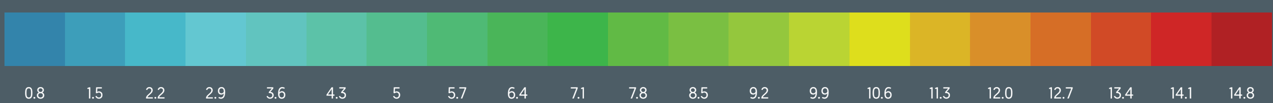
"Beauty adspend was stable in India in 2020, and is forecast to grow at an average of 7.6% a year as more consumers take up the habit of regularly buying beauty products."

Average annual growth in beauty and personal luxury adspend by market 2020-2022 (%)



France 13.3%
India 7.6%
Russia 4.2%
Australia 2.3%
UK 1.7%
Germany 1.4%
Canada 1.2%
Italy 1.2%
US 1.1%
Switzerland 1.0%
Spain 0.8%

Source: Zenith

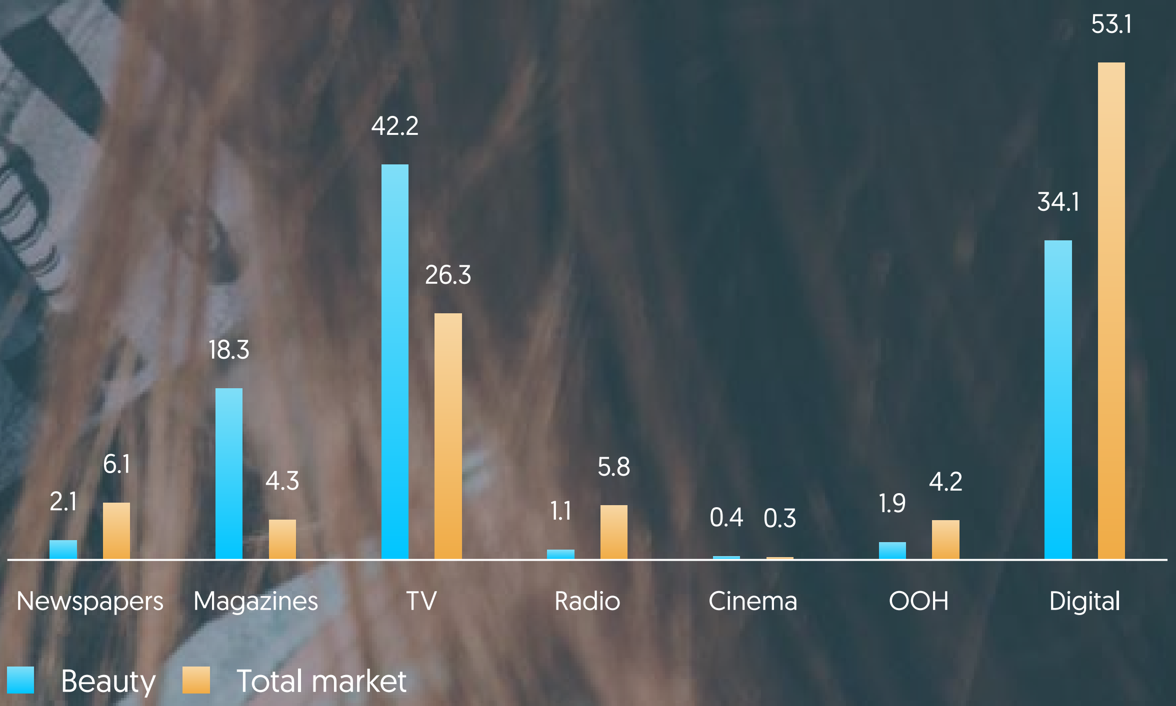


BETTER ENVIRONMENTS AND ECOMMERCE HELP DIGITAL COMPENSATE FOR DECLINING REACH OF MAGAZINES AND TV

Beauty and personal luxury brands spend much more of their budgets on magazines and TV than the average brand. Beauty, the quintessential category of appearance, thrives on its ability to create emotional connections through imagery in a high-quality environment. Zenith estimates that in 2020 beauty brands spent 4.3 times more in magazines than the average brand, and 1.6 times more on television. But these media are becoming less effective as their reach continues to decline, and the scarcity of their audiences pushes up prices.

Beauty and personal luxury brands have been relatively slow to adopt digital advertising, spending 34.1% of their budgets digitally in 2020, compared to 53.1% for the market as a whole. This is partly due to the historic lack of premium digital environments that support the high-quality brand imagery that beauty and personal luxury brands need to convey, and partly because of the difficulty the beauty industry has had adapting to ecommerce, the main driver of growth in retail sales – and in 2020 the only driver. As detailed in the Category Growth section of this report, beauty ecommerce sales have consistently lagged behind the market as a whole because consumers feel the need to sample and try on beauty products in person before they are convinced they have found the right items for their personal features.

Share of adspend by medium, 2020 (%)

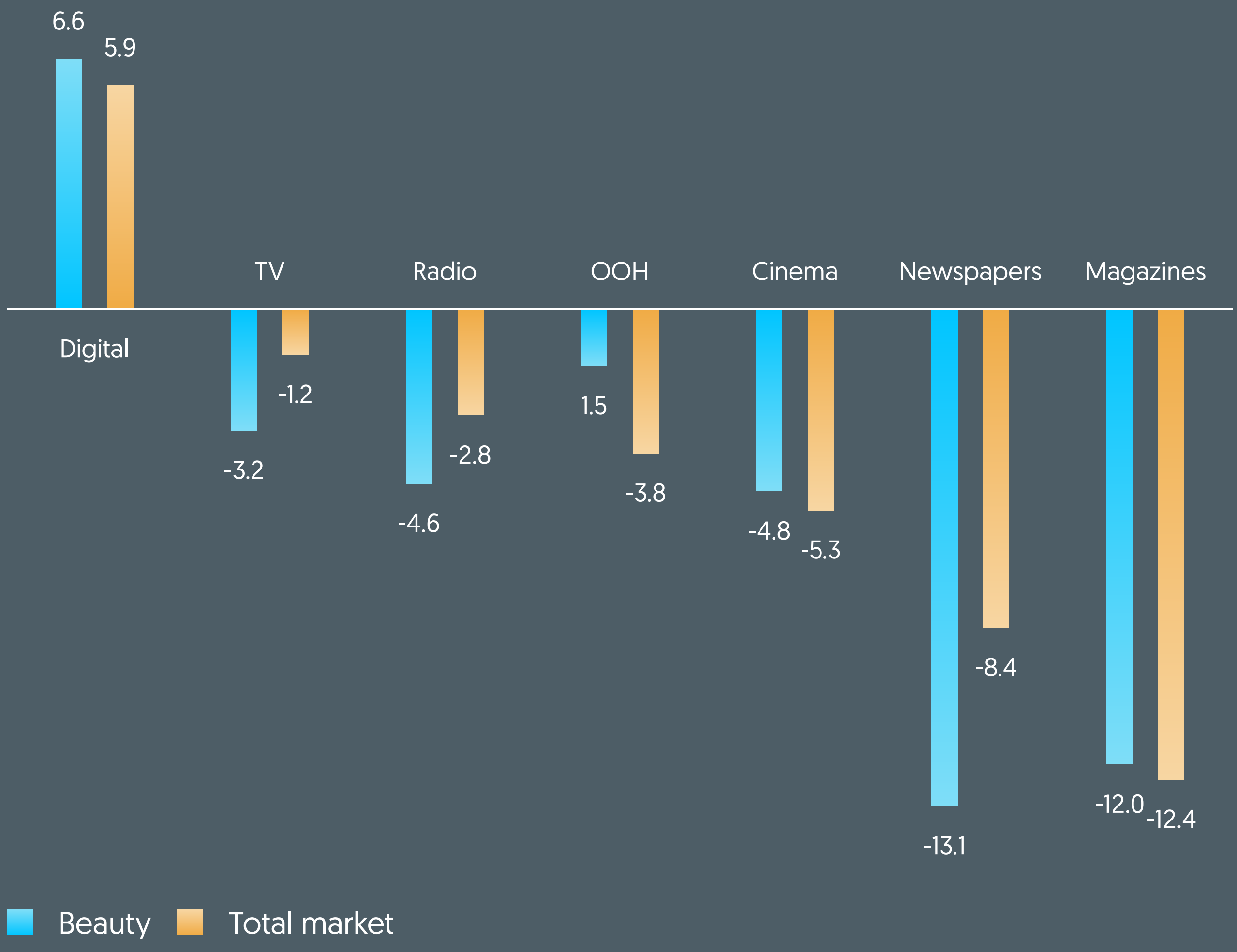


Source: Zenith

“Beauty, the quintessential category of appearance, thrives on its ability to create emotional connections through imagery in a high-quality environment.”

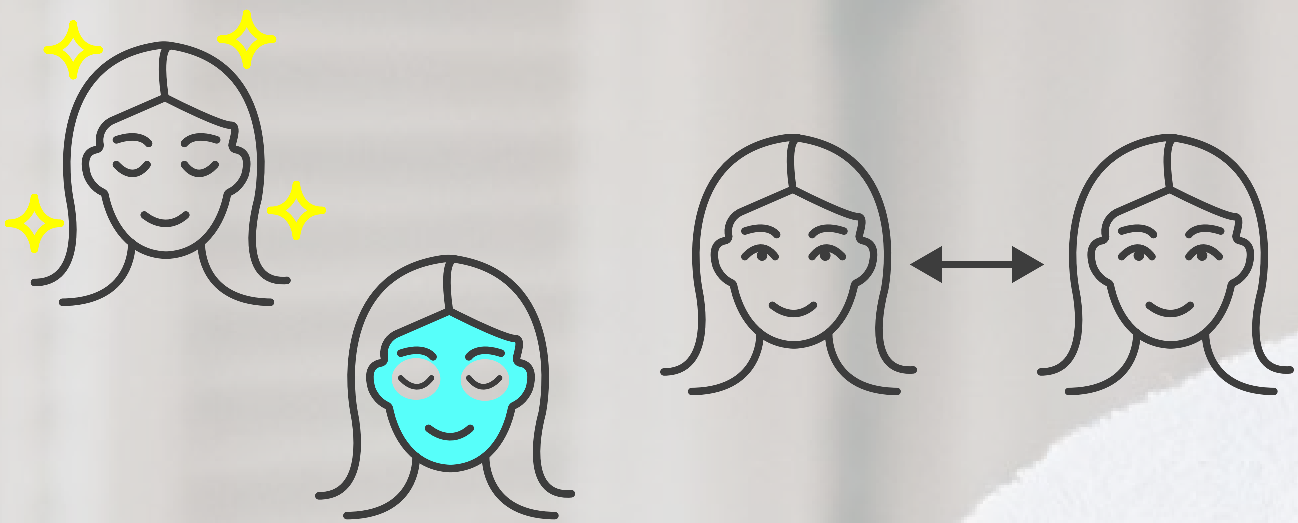
However, technologies like video-on-demand and connected TV, and social platforms like Instagram and TikTok, are creating new premium environments that showcase beauty and personal luxury brands effectively. The brands are also investing heavily in their ecommerce offerings, including virtual and augmented reality technology that allows consumers to experience and try on products online. Digital channels are therefore becoming more useful to beauty brands for both brand and performance advertising. Zenith estimates that the beauty category spent 2.8% more on digital advertising in 2020 than in 2019, despite the pandemic, and forecasts average growth of 5.9% a year between 2019 and 2022. Beauty and personal luxury adspend on all other media will decline over this period, by between 1.2% a year for TV and 12.4% a year for magazines.

Average annual growth in adspend by medium 2019-2022 (%)



Source: Zenith

BEAUTY AND PERSONAL LUXURY CATEGORY GROWTH



Demand for beauty products held up better than overall consumer expenditure in 2020, as hair care and skin care sales rose 0.7% and 0.2% respectively

Continued social distancing will depress demand for cosmetics and fragrances during the recovery

The beauty category lags behind the market as a whole in adopting ecommerce, with 88% of sales conducted in person in 2019

Coty and LVMH are the fastest-growing big beauty companies, with respective 18% and 10% average annual growth over the past five years

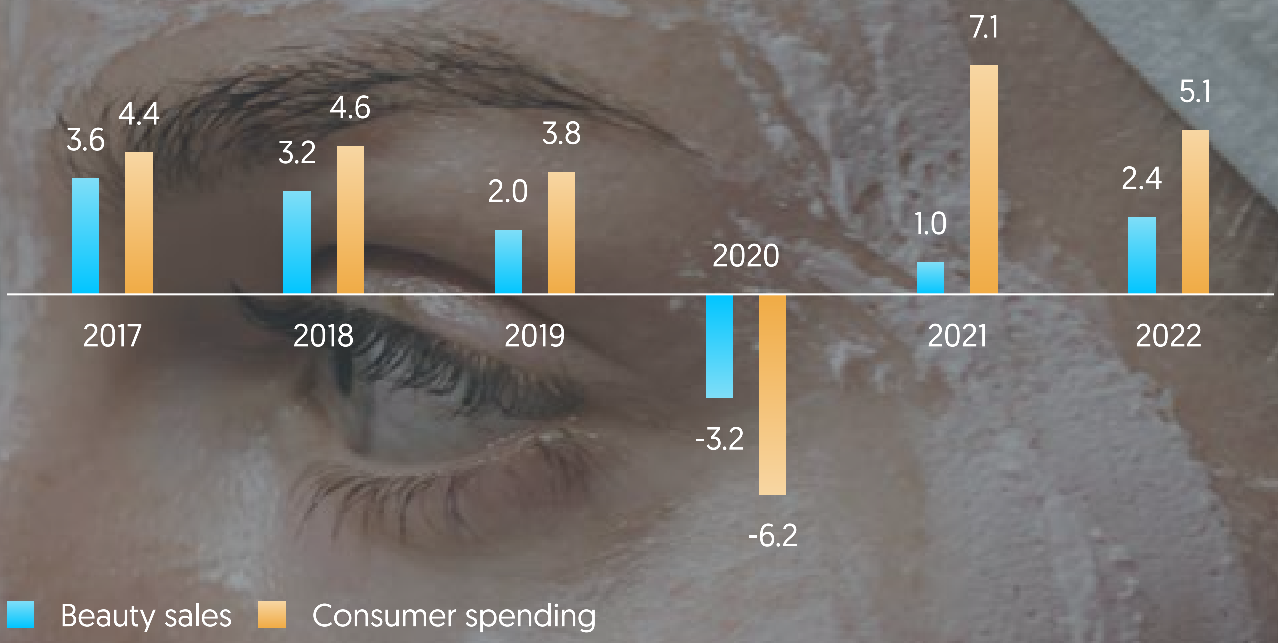
HAIR CARE AND SKIN CARE TO LEAD SLOW RECOVERY IN DEMAND FOR BEAUTY

Beauty and personal luxury sales held up fairly well in 2020. According to Euromonitor International, they fell by 3.2% over the course of the year, while overall consumer expenditure fell by 6.2%. This was a strong performance given that growth in beauty sales fell behind growth in consumer expenditure for the past three years. In times of uncertainty and fear, consumers find personal treats and luxuries particularly valuable, and save on basics so they can spend on indulgences – a reaction known as the 'lipstick effect'.

Despite the name, lipstick did not actually benefit from the lipstick effect in 2020. The pandemic had two quite different effects on different types of beauty products. Demand for products used for in-person meetings plunged as fewer people went to work, travelled in public and met for social occasions. Cosmetics sales fell 7.7%, and fragrance sales fell 8.7%. But demand held up for products used for self-care and as substitutes for professional services; with hairdressers and salons closed, consumers took care of themselves at home instead. Sales of hair-care and skin-care products rose by 0.7% and 0.2% respectively.

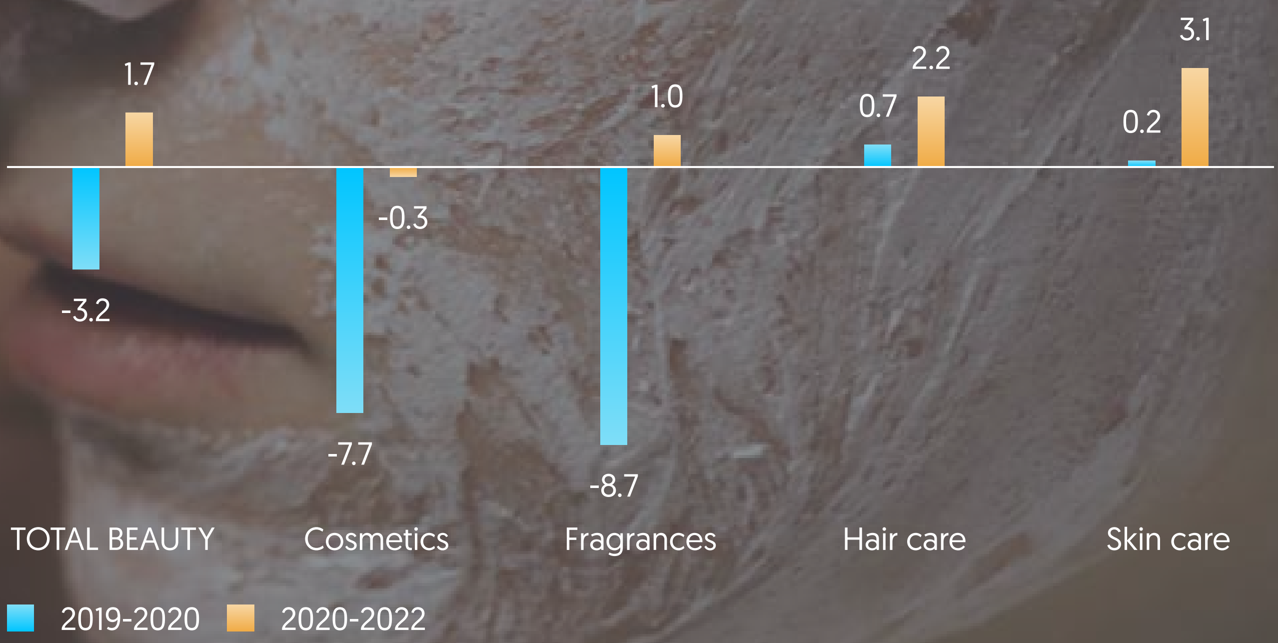
As the world starts to return to normality in 2021, self-care and in-person beauty products should continue to grow at quite different rates. Consumers will take time to shrug off behaviours learned during the pandemic. Euromonitor expects skin-care products to lead growth in the category, with an average growth rate of 3.1% a year in 2021 and 2022, while hair care grows by 2.2%. Fragrance sales will rise only 1.0% a year, and cosmetics sales will shrink by 0.3%. Overall demand for beauty and personal luxury will fall behind consumer expenditure for both 2021 and 2022.

Year-on-year growth – 11 key markets (%)



Source: Euromonitor International

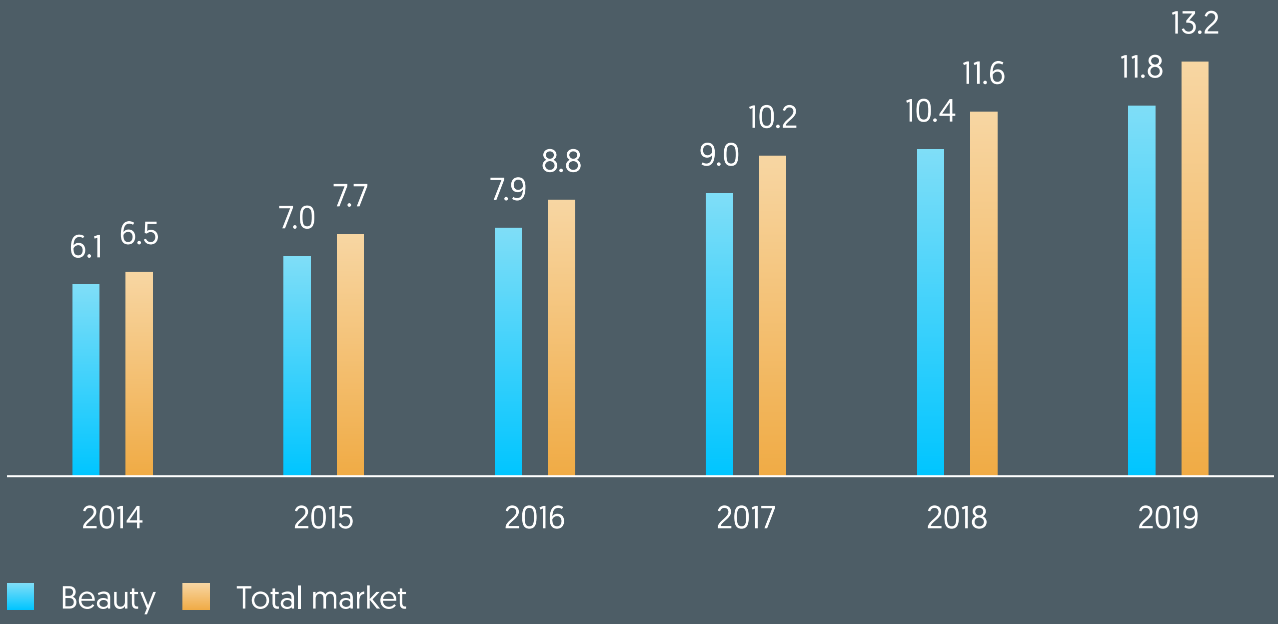
Year-on-year growth in beauty and personal luxury sales (%)



Source: Euromonitor International

BEAUTY LAGS BEHIND IN ECOMMERCE

Ecommerce share of global retail sales (%)



Source: Euromonitor International

One reason for the beauty industry's underperformance is the difficulty it has had embracing ecommerce. Over the past few years, the beauty and personal luxury industry's ecommerce sales have consistently lagged behind the retail market as a whole, even as ecommerce has been responsible for most – and in 2020 all – of the growth in overall retail sales.

Despite the rise of direct-to-consumer brands online, and heavy investment by established brands in their own online presence, 88% of beauty transactions were still made in person in 2019. Most consumers want to try on beauty products before they buy. To take greater advantage of the rapid growth of ecommerce, brands will need to give consumers a better online experience of their products, as well as providing more opportunities for sampling.

The pandemic has spurred brands to invest rapidly in technology that will give consumers these improved experiences. In particular they have turned to Augmented Reality (AR) technology to allow consumers to virtually try on cosmetics online, especially lipsticks. As has happened in many industries, the pandemic has accelerated trends that were already taking place. Brands that saw the demonstrable value of ecommerce in 2020 should continue to innovate in 2021 and beyond.

STRONGEST GROWTH TO COME FROM UNDER-SATURATED INDIA

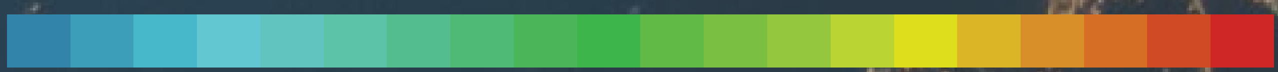
India is expected to be the fastest-growing market for beauty and personal luxury over the next two years, with an average growth rate of 8.3%. Indians devote much less of their disposable income to beauty than consumers in the other ten markets, so it has the potential to sustain this growth rate in the long term. Beauty products accounted for 1.1% of retail sales in India in 2019, half of the 2.2% average across the eleven key markets.

The more developed markets have much less potential for growth, with Euromonitor forecasting 1% growth or less for the USA, Switzerland, Italy and Spain, and 1% decline for the UK and France.

Average annual growth in beauty and personal luxury sales 2020-2022 (%)

India 8.3%
Russia 4.0%
Australia 4.0%
Germany 2.5%
Canada 1.6%
USA 1.3%
Switzerland 1.1%
Italy 0.9%
Spain 0.8%
United Kingdom -0.7%
France -0.9%

Source: Euromonitor International



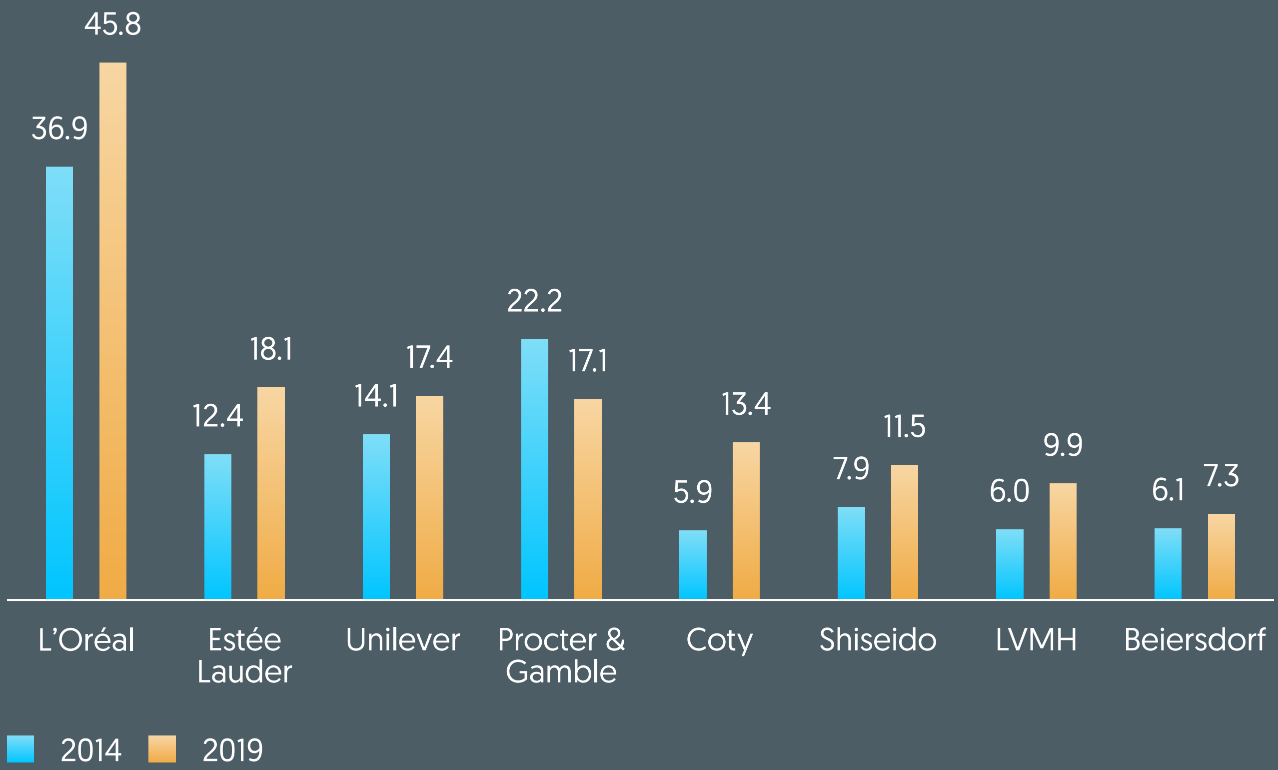
L'ORÉAL REMAINS THE DOMINANT BEAUTY PRODUCER, BUT COTY AND LVMH ARE THE FASTEST-GROWING BIG COMPANIES

L'Oréal is by far the largest beauty and personal luxury company, generating 16% of the entire sales of the category in 2019, and 2.5 times more than its closest competitor, Estée Lauder. It has also grown the most in dollar terms over the last five years, adding US$8.9bn to its sales between 2014 and 2019, mainly through R&D-fuelled organic growth.

L'Oréal was already ahead of most of its competitors in adopting ecommerce, which accounted for 15.8% of its sales in 2019 compared to 11.8% for the market as a whole, but it accelerated its pivot to ecommerce in 2020 as the pandemic began to spread around the world. In the first half of 2020 L'Oréal's ecommerce sales rose 65% and accounted for 20% of total revenues.

Procter & Gamble is the only company among the top eight to lose sales over this period, after it sold 41 beauty brands to Coty in 2016. That transaction more than doubled Coty's beauty revenues, and – together with licence agreements with Tiffany & Co and Burberry, and its acquisition of 51% of Kylie Jenner's Kylie Cosmetics at the end of 2019 – helped it rise from the ninth-largest beauty and personal luxury company in 2014 to fifth-largest in 2019.

Beauty and personal luxury sales by the top eight companies

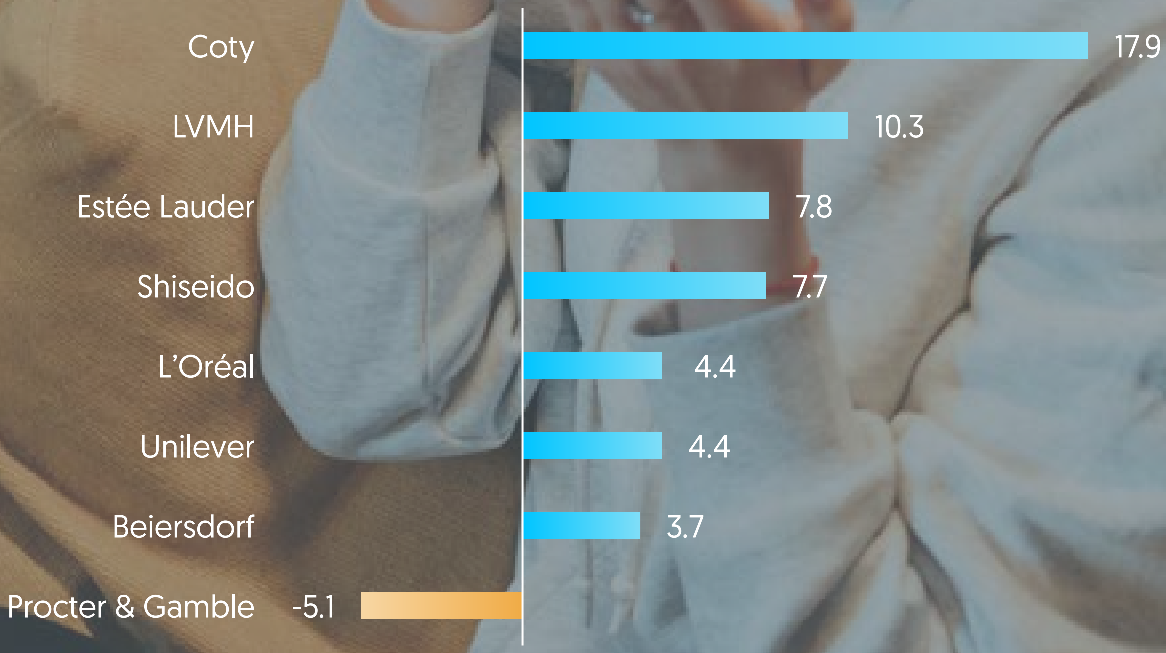


Source: Euromonitor International

Coty's acquisitions and licensing deals have made it the fastest-growing beauty and personal luxury company over the last five years in percentage terms, with an average growth of 18% a year. LVMH comes second, with 10% annual growth between 2014 and 2019. Most of LVMH's growth has been organic, but it did notably acquire Fenty Beauty by Rihanna in 2017.

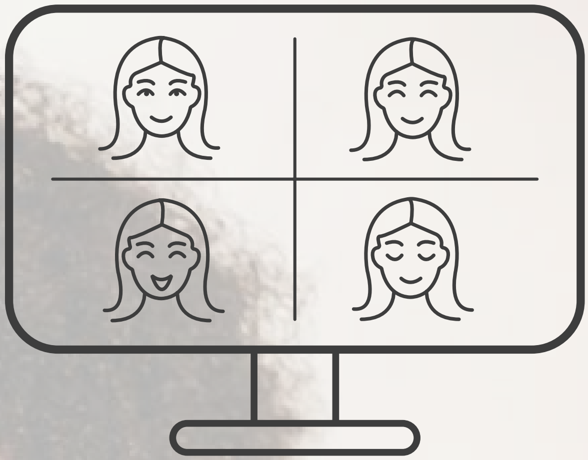
Coty and LVMH both have strong portfolios of luxury brands, which left them particularly vulnerable in the initial phase of the pandemic as uncertain consumers postponed high-end purchases. Meanwhile sales to tourists and business travellers dried up as international travel came to an almost complete halt. Skin-care brands did help mitigate this decline, however, with the launch of Coty's Kylie Skin in Europe, for example, and the success of LVMH's Guerlain skin-care products. Luxury beauty sales should start to bounce back 2021 – Euromonitor forecasts them to grow three times faster than mass beauty sales this year – boding well for Coty and LVMH's post-pandemic growth prospects.

Average annual growth in beauty and personal luxury revenues among the top eight companies 2014-2019 (%)



Source: Euromonitor International

BEAUTY AND PERSONAL LUXURY CONSUMER INSIGHTS



Some sub-categories are disproportionately affected as social interactions move online and consumers prioritise their wellness

Consumers search for digital tools and content to help them undertake salon/ spa treatments at home

2020 disrupted the status quo; consumers expect brands to take action on societal and environmental issues

SOME SUB-CATEGORIES ARE DISPROPORTIONATELY AFFECTED AS SOCIAL INTERACTIONS MOVE ONLINE AND CONSUMERS PRIORITISE THEIR WELLNESS

At its core, the beauty and personal luxury industry provides services and products to help people look their best. As a result of the COVID-19 pandemic, the category was fundamentally changed in 2020. Across the world, governments mandated lockdowns and imposed social distancing measures; non-essential workers were advised to work from home where possible, or furloughed in businesses where it was not. As a result, the majority of work and personal interactions moved online. This had big implications for the category.

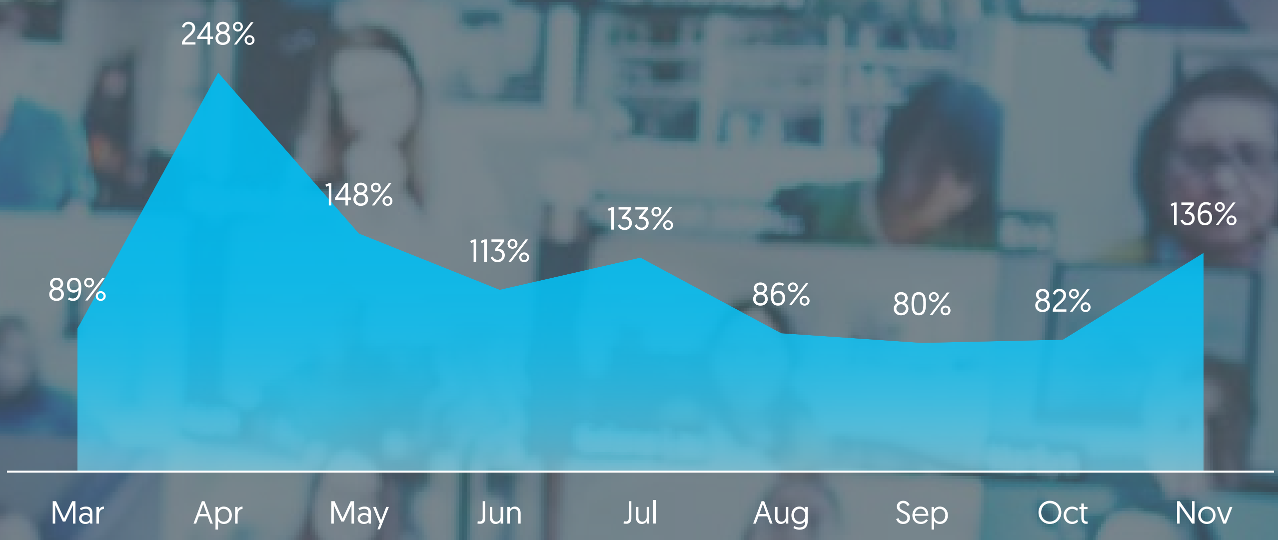
Firstly, it accelerated certain existing category trends. At the end of 2019 cosmetics sales were in decline. Consumers wanted a more 'natural' look, and invested in fewer, higher quality skin care products vs. cosmetics. In 2020, with both work and social occasions taking place largely on video conferencing apps, sales dropped further. Fragrances were similarly affected. In skincare, regimes were simplified. Even the ten-step routine first popularised by Korean beauty brands was reduced to contain fewer, cleaner products.

> *"As of Q2 2020, there was a marked increase in the volume of mentions of the term "self-care" across Instagram, Facebook and YouTube brand pages in the beauty and personal care category."*

Secondly, at a time of increased anxiety, change and uncertainty, consumers chose to invest their time and money in their own wellness. Self-care isn't new; but there has been an increased focus on taking time to look after your physical and mental health in 2020. Consequently, we can also see a shift in beauty and personal luxury brands using self-care messaging in their communications on social media. As of Q2 2020, there was a marked increase in the volume of mentions of the term "self-care" across Instagram, Facebook and YouTube brand pages in the beauty and personal care category. The biggest volume coming from the skin care category.

Volume increase per month vs. average volume for Jan & Feb 2020

Content search for "selfcare" on beauty & personal care brand pages on Facebook, YouTube and Instagram in 2020 – volume increase per month vs. average volume in Jan & Feb



Source: Publicis Media Social Tools

% volume of content mentioning "self care" by sub-category

Content search for "selfcare" on beauty & personal care brand pages on Facebook, YouTube and Instagram in 2020 - % of volume by category

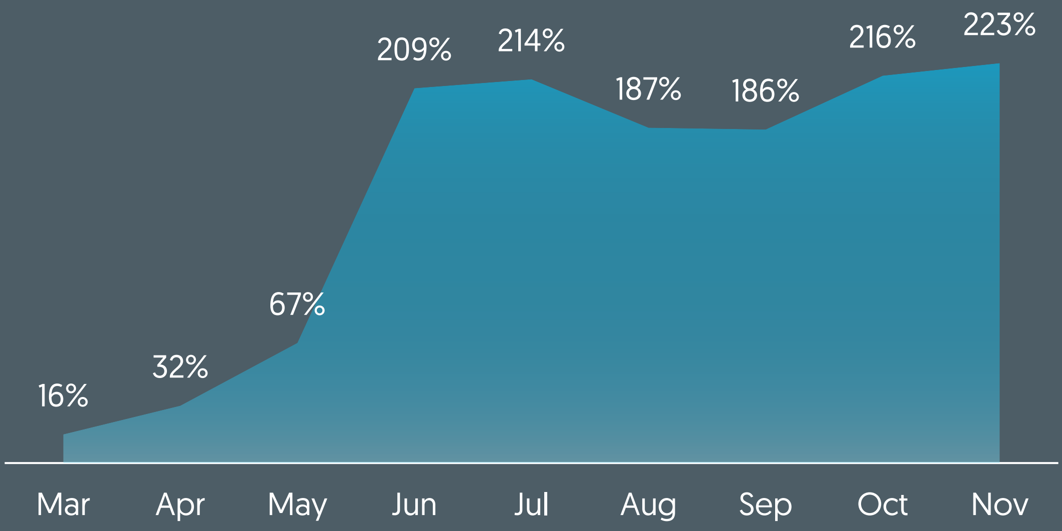
Source: Publicis Media Social Tools

CONSUMERS SEARCH FOR DIGITAL TOOLS AND CONTENT TO HELP THEM UNDERTAKE SALON/SPA TREATMENTS AT HOME

As a result of increased time spent there, the home has become the setting for many beauty practices that previously would have taken place in salons or spas, and consumers have had to learn or improve their skills to do the treatments themselves. Publicis Media's Social Tools shows the rise in the volume of content on beauty pages that was tagged as a "how to" or "tutorial" on Facebook, Instagram and YouTube in 2020.

Volume increase vs. average volume in Jan & Feb

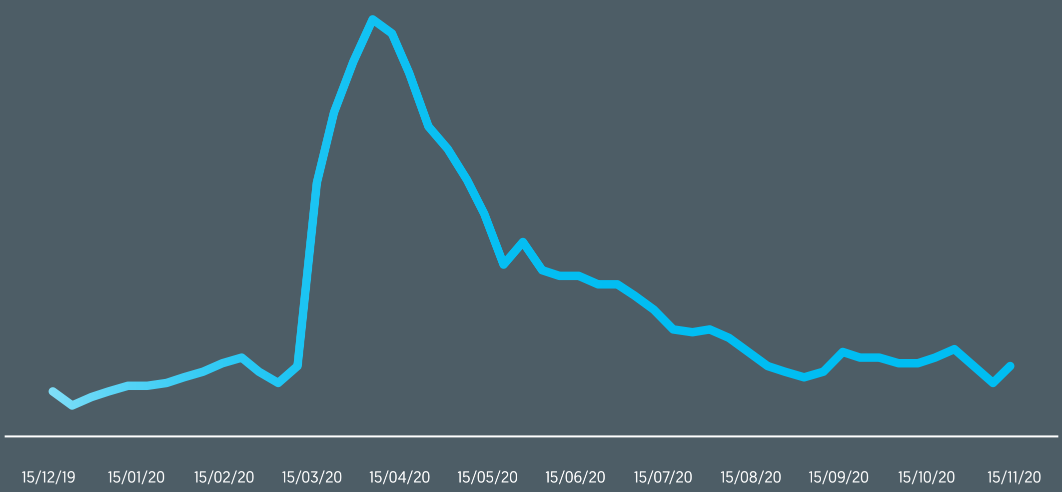
Content search for "how to" or "tutorial" on beauty & personal care brand pages on Facebook, Instagram, YouTube in 2020 by volume



Source: Publicis Media Social Tools

Search "hair dye": United Kingdom

At-home hair colourants in particular have benefitted from the closure of salons. Google trends data shows a spike in searches in the weeks following the first lockdown in the UK.



Source: Google Trends

The forced closure of stores also accelerated online purchase and the adoption of digital technologies. As mentioned in the category growth section, the beauty and personal luxury industry's e-commerce sales have consistently lagged behind. According to Euromonitor, store-based retailing accounted for 78% of distribution in the beauty and personal care category in 2019. Whilst online shopping has increased as a result of necessity in the past 12 months, it is likely to continue to a greater extent moving forward. Partly because consumers are unlikely to rush back to stores once the pandemic is over. Global Web Index shows that even among those that are optimistic their country will overcome the COVID-19 outbreak, only 19% expect to immediately return to shops. But also because brands have invested in content and technology to enhance the online experience.

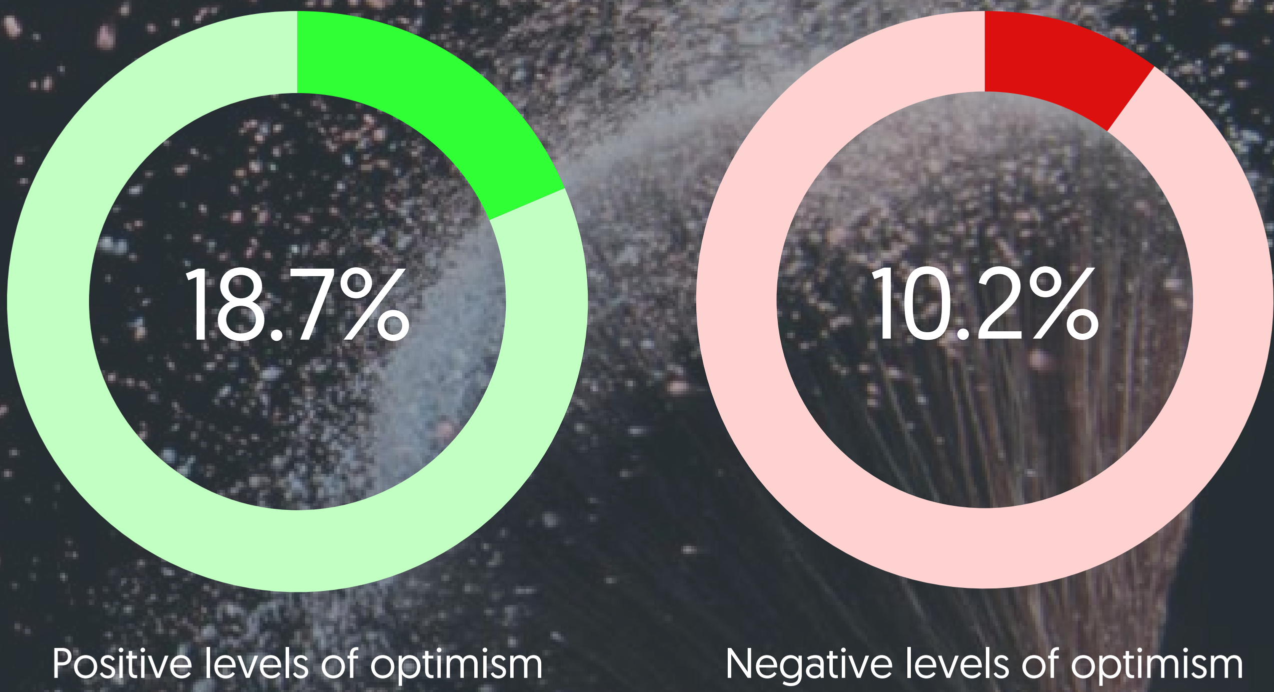
Publicis Media's proprietary contact measurement and planning tool, Touchpoints, helps evaluate and optimise all forms of contact that brands have at each point on the consumer journey. The pre-2020 data for the beauty and personal care category shows that in-store touchpoints, like promotions, product testers and samples/ demos, are highly influential on purchase, scoring on average 85+ out of 100.

"forced closure of stores also accelerated online purchase and the adoption of digital technologies"

In-store sampling and testing in particular is a difficult touchpoint to imitate online. Throughout 2020, brands have tested the use of partners to help drive product trial online. In the UK, Nars partnered with Spotify to launch a voice-activated sampling campaign and Lush partnered with Deliveroo in UAE to distribute their 30 seconds soaps designed to encourage handwashing. Another creative example of driving trial is by Swedish pharmacy Apotek Hjärta. Their "Skin for Skin" campaign created a function within a gaming platform, where players could send one of their virtual "skins" and receive a real-life skin care product in return.

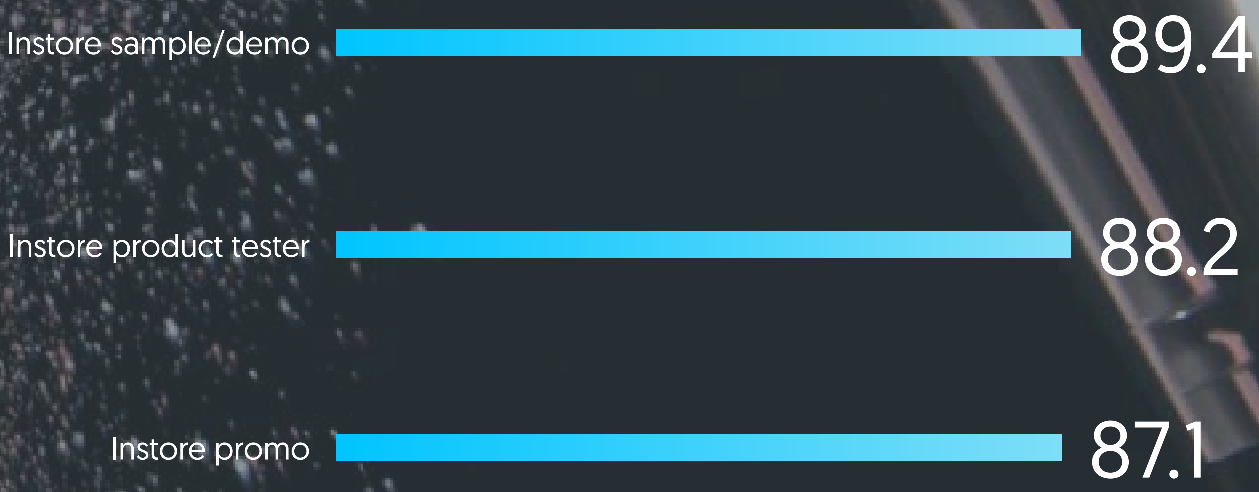
"pre-2020 data for the beauty and personal care category shows that in-store touchpoints, like promotions, product testers and samples/ demos, are highly influential on purchase"

Expected post outbreak behaviours - immediately returning to shops by levels of optimism in own country



Source: Global Web Index

Average influence score out of 100



Source: Touchpoints ROI Tracker – Beauty & Personal Care Norms, 2018-2019

Specialist one-to-one recommendation is also an influential touchpoint (87.7/100), and in 2020 engagement from consumers in virtual consultations increased as consumers sought experts opinion online. Beyond AI-powered quizzes, consultations have evolved to devices and apps that analyse skin, combine real-time data and provide personalised recommendations matched to consumer-specific needs. Greater engagement from consumers as a result of the pandemic will only further improve these technologies.

But beyond selling, shopping is also a social, communal and fun experience, an element often missing in e-commerce. In China, retailers and brands are already successfully using live streaming and social to engage consumers and make the online shopping experience more entertaining and interactive. Contagious reports that in March, the number of live stream site users in China reached 560 million, and in the previous month, live streams on Taobao (a Chinese online shopping website) saw a 110% increase in user numbers.

Social e-commerce in the market is largely driven by the popularity of WeChat, a multi-purpose messaging, social media and mobile payment app. According to Frost & Sullivan, more than $413 billion USD of goods will be sold through social e-commerce in China by 2022. Whilst other regions are unlikely to reach these levels, the interactivity and connectivity between brands and consumers will enhance the online experience. Global Web Index data shows that consumers in China are far more engaged and active with brands online than consumers in Europe; Chinese consumers are 2.3x more likely to have provided ideas for a new product/design in the last month, 2.2x more likely to have shared a brand's post on social network, and 2x more likely to have interacted with a brand on a messaging app. Whilst the overall percentages are still low (around 15%), and are unlikely to replace the influence of in-store touchpoints, these digital contacts will grow in importance in the post-pandemic, low-touch world.

“engagement from consumers in virtual consultations increased as consumers sought experts opinion online.”

2020 DISRUPTED THE STATUS QUO; CONSUMERS EXPECT BRANDS TO TAKE ACTION ON SOCIETAL AND ENVIRONMENTAL ISSUES

2020 was not only the year of a major, global health crisis, but a year when social inequality and injustice were highlighted and environmental issues were increasingly exposed. One that the climate activist Greta Thunberg described as a "social tipping" point.

Firstly, with lockdowns, reduced transport, and a change in consumption habits, the impact humans have on the environment was made acutely apparent. This has accelerated and broadened existing conscious consumerism and environmentalism among consumers, and as a consequence, there is a greater expectation on brands. Global Web Index data shows that across ages there is strong interest, particularly amongst younger consumers, in companies behaving sustainably and reducing their own carbon footprint post pandemic.

Consumers want to see brands taking steps to help the environment, whether by offering refill services for cosmetics or shampoo, or changing the product or packaging format. For example, Lush now offers shampoo in bar form negating the need for much packaging at all.

Post outbreak sustainability attitudes – a lot more important

Reducing my carbon footprint

47%

36%

Companies behaving sustainably

43%

36%

16-30 33-64

Source: Global Web Index

The pandemic also highlighted inequality and injustice around the world and Global Web Index shows that consumers want brands to support and be vocal about these causes (41%). The ‘Fenty Effect’— seen in 2018 when Rhianna launched her cosmetics range with over 40 shades of foundation — opened up the conversation of inclusivity and representation in beauty, and many brands have since followed by developing more inclusive product ranges. But as equality issues gained more attention and momentum in 2020, brands need to look beyond their product ranges and to representation within their own work force and organisations. Brands cannot simply attach themselves to causes. For example, in response to the pandemic, Dove ran the campaign “Courage is Beautiful,” celebrating health care workers. However, it only appeared in countries where it had actively helped healthcare workers.

This authenticity should extend to influencers and brand ambassadors too. In lockdown, Garnier had UK brand ambassadors Holly Willoughby and Davina McCall livestream their use of their hair colorants on Instagram. Engagement with the post showed that fans enjoyed and appreciated the validation that those people paid to promote the brand were genuine users of the product also.

Increased time and spend online also increases the competition in the category. New start-ups, smaller niche brands and digital native brands are all present on the same “digital shelf” alongside the more established big players. In 2021, as consumers re-imagine what beauty is, beauty and personal luxury brands need to consider repositioning their content and products to cater for an increased consumer interest in wellness and self-care. They need to develop their digital capabilities to provide a seamless, easy online experience that emulates those elements that work so well in-store — advice, trial, tutorials, and social and communal occasions. Beyond that, they need to take action on the societal and environmental issues that are important to increasingly discerning and vocal customer base.