

THE CHANGING FACE OF BEAUTY RETAIL 2022:

Bricks & Mortar, E-commerce & Marketplaces, it's an omni-channel world for a beauty retailer

The beauty industry has always been at the forefront of innovation and reinvention; from hyper-personalised skincare to AI cosmetics solutions it's an industry that relies on responding to, and being ahead of, cultural and consumer habits. But, it's not just brands that need to adapt to consumer needs, beauty retailers too have to pivot and evolve in response to a constantly changing consumer climate. And, as the world returns to normal, shopping habits have not; what consumers need, and what they want, has changed - perhaps forever. As we head towards the end of the year beauty retailers need to be going above and beyond in terms of offering their consumer something exceptional, whether they are a traditional bricks & mortar store, e-commerce platform, a marketplace or a combination of them all. Today's beauty retail landscape is omni-channel which means the retailer must be omnipotent if they want to retain, and grow, their customer base.

Reimagining Bricks & Mortar:

Globally the beauty industry is getting stronger and stronger. According to Yieldify, a customer journey optimisation platform, its value is up from \$483B in 2020 to \$511B in 2021 – and with an annual compounded growth rate of 4.75% worldwide – it's predicted to exceed \$716B by 2025. And \$784.6B by 2027. Of course, a little something called Covid-19 posed unprecedented challenges to the retailer sector, most notably store closures meant that retailers had to adjust to a digital only strategy. However, now bricks & mortar stores are back open for business, retailers are having to come up with creative methods to lure covid-cautious shoppers back into real life retail spaces. Despite the momentum in online business booming, offline shopping still rules says a recent survey by common thread company which reported that in-store shopping still attracts 81% of buyers.



VALÉRIE KAMINOV – BIOGRAPHY

Valérie Kaminov is Founder and Managing Director of the highly successful International Luxury Brand Consultancy. For over 25 years Valérie has been at the forefront of the global cosmetics industry and has worked with a vast array of luxury, premium and niche beauty brands and fragrances. With her extensive expertise, commercial acumen and practical experience JLBBC has become one of the most sought after management and distribution agencies specialising in global beauty. Recognised for the breadth of business sectors and extensive distribution channels it works with, JLBBC's international client portfolio spans both well-established names and newly-emerging brands in hair care, make-up, skincare, fragrance, devices and top-to-toe brands. Valérie's wealth of knowledge in international growth strategies and business development is combined with an inspirational and forward-thinking approach. Through her exceptional insight and understanding of the industry Valérie has helped brands amplify their market reach, elevate their brand presence, improve their business performance and achieve commercial success globally. A further aspect of her business is her skill in brand evaluation, acquisition due diligence, risk assessment and commercial growth which has led Valérie to regularly advise Private Equity Funds, multi-national organizations and financial investors. This capability in combination with her advanced qualifications and proficiency in corporate governance have made her a much-desired Board Advisor and Non-Executive Director. From her CEO mentoring, organisation of the International Manufacturers & Distributors Forum (IMF) and guest lecture programmes, Valérie is a passionate and dynamic advocate of the global beauty industry. Valérie splits her time between her London HQ and her central Paris office as well as managing a satellite network in Russia & China.



In a digital-savvy world, how can retailers incentivise shoppers to return to bricks & mortar retail spaces? Isabell Hendrichs, EVP Assortment & Purchasing at German beauty retailer Douglas believes that the secret lies in providing additional incentives to visit stores. "The advice, expertise and products we are offering in the stores are again in great demand. With special offerings and services, we have further strengthened our position as a leading premium beauty platform in Europe." This is something which is echoed by Emma Spagnuolo, a management consultant at McKinsey: "For those that have a store footprint, they have to create a store experience that complements and matches that of the digital experience - because consumers who were forced to buy from them digitally now have the ability to go back into the store. You want to make sure that it remains a seamless experience, because we've known for years now that the omni-channel consumer who is shopping both digitally and in store has a much higher lifetime value than anybody who's shopping any single channel."



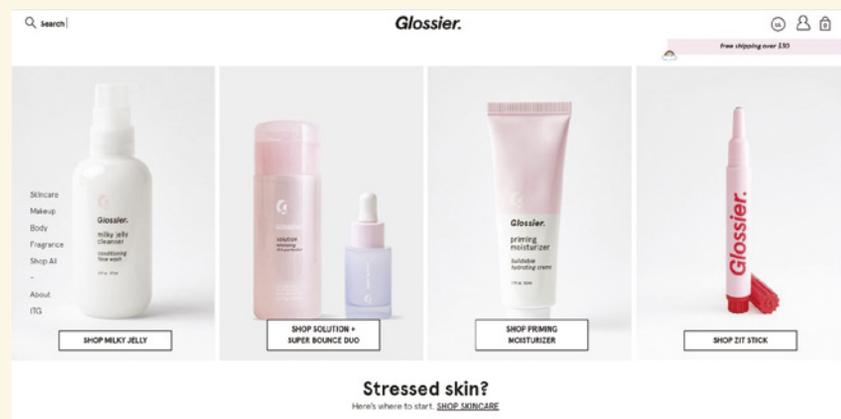
Chinese beauty retailer Bonnie & Clyde have managed to implement this online/offline strategy with great success; the innovated curated retail space provides a luxury in-store experience for consumers to discover luxury global beauty and lifestyle brands before giving consumers the option to purchase products online whilst still in-store - a working example of the seamless customer experience predicted by Spagnuolo. In a world first, Bonnie & Clyde is also the only beauty destination that guarantees delivery within a four-hour window, for Shanghai shoppers, and within 24 hours for the rest of China - impressive!

This try offline, buy online model has been dubbed 'clicks & mortar' and enables brands to tap into a wider demographic encompassing traditional store shops and digital natives as well as acknowledging the post-pandemic retail space. In the re-opened Douglas stores customers can be immersed in a "contemporary world of experience" says Hendrichs, which comprises various digital touch points.

Examples of these experiential experiences are; a Beauty Mirror (an augmented reality function where customers can select products on screen with a camera function and experience how these products look on their own face), a in-store skin analysing and product recommendation, and a mobile payment system which allows customers to pay for items without having to queue at the checkout - now that's convenient shopping! In the UK Flannels Beauty opened its doors in July with the promise to 'revolutionise beauty shopping' by re-invent the 'beauty hall' wheel with the launch of a disruptive new beauty concept in physical stores across the UK. The digitally-enabled store delivers "a fresh take on how consumers want to engage with beauty, that better reflects the modern desire to shop across multiple brands, products and price points all at once", the retailer said. This 'fresh take' includes "innovative features such as Flannels Beauty Bars where shoppers can discover and shop across a 'menu' of trends, products and collaborations - whilst sipping a coffee or cocktail, a new 'Beauty Starring You' personal shopping and concierge service will also help to deliver seamless and "ultra-personalised" customer service, while tills will be replaced by iPads." Indeed real life beauty shopping has had a very modern makeover. And it's worth the facelift because although it's undeniable that digital e-commerce is expanding, a sizable percentage of beauty customers (41%) said they would not buy any beauty product that they had only tried-on virtually (Forbes). After two years of living in a virtual only world, consumers want a hands-on experience with new products before they pull the trigger. This need gives brands in physical retail the edge in introducing new products.

Levelling up E-commerce

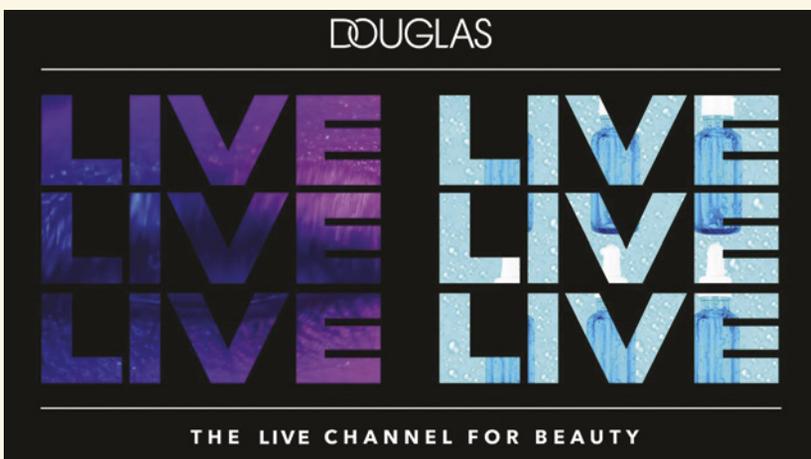
As we have seen beauty products are still sold primarily in stores. Of course, sites like Amazon Glossier and other direct-to-consumer brands are dominating the online beauty space but overall when it comes to buying beauty, the traditional mode of going to a store to try out a product before buying it still dominates. However, distribution methods are evolving and although e-commerce penetration has only increased slightly in recent years, the online share is predicted to surge in the United States by 2023.



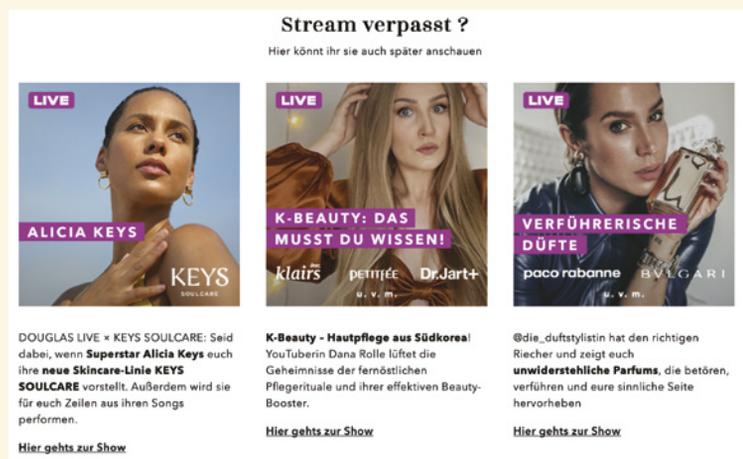
Of course, the pandemic provided an unprecedented reason for accelerated online beauty sales. Zalando, Europe's largest fashion and lifestyle e-commerce marketplace, reported a boom in pampering and self-care beauty categories, including candles, aromatherapy, and detox products; sales of skin, nail, and hair-care products were up 300 percent, year on year. Spagnuolo offers some advice for brands to continue to capitalise on the new clicks on their sites: "The biggest thing that I would advise all of my beauty retailers to focus on is capturing and leveraging data and customer relationship management. The pandemic forced people online, so retailers were getting additional digital traffic that in the past they wouldn't have. Now, it's up to them to leverage that".

However, a recent report from Internet Retailing revealed that "while nearly half (44%) of beauty shoppers in a new survey agree that they have bought more beauty and skincare products online with stores closed these past six months, research reveals that 56% tend to stick with brands or products they've purchased before, rather than trying anything new when shopping for beauty and skincare online - unless there is access to reviews, samples and new virtual 'try on' services." Although, most beauty consumers (41%) say that they would not buy any beauty product that they had only tried-

on virtually, e-commerce brands do have options to convert cautious online customers into regular digital shoppers. According to Forbes, 36% of consumers are interested in a free sample to test a product before buying, while 20% are looking for an easy return policy and a further 22% of shoppers said that if e-commerce beauty brands offer cheaper prices online, they stand a good chance to get hesitant customers to give the product a try. As technology continues to advance, digital platforms are becoming more and more innovative in order to attract, and retain, customers. This continuous expansion of services and innovative solutions is something that the team at Douglas are well aware of. "We enhance our online shopping experience with new offerings such as live shopping events which are very high in demand and show stay dynamics. Furthermore, we use artificial intelligence with replenishment modules for key product categories. Additionally, we are continuously integrating the shopping experience on our website and mobile app" says Hendrichs. In the highly competitive beauty eCommerce industry, hyper-personalisation is a way of ensuring brands can stand out by allowing consumers to make informed decisions based on their preferences, not flooding them with endless options. Using technology to help customers fulfil their needs allows for brand loyalty and repeated sales.



In October 2019, Perfect Corp, the world's leading AR company partnered with the Chinese eCommerce giant, Jack Ma's Alibaba group, and integrated its YouCam Makeup AR virtual try-on technology into Taobao and Tmall Alibaba online shopping experiences. This brought new virtual try-outs to consumers in China. Just six months into using Perfect Corp's AR technology, Alibaba revealed they had increased their conversion rate by 4x. Forecasts predict that more than half of cosmetic retail sales will be from e-commerce channels by 2024 (Statista), this demonstrates the importance of brands operating seamless omni-channel strategies, especially in an ever-changing market such as China says Lau; "today, the channels for content are much more segregated, and the way consumers buy is much more segregated" he said, "one of our key differentiations



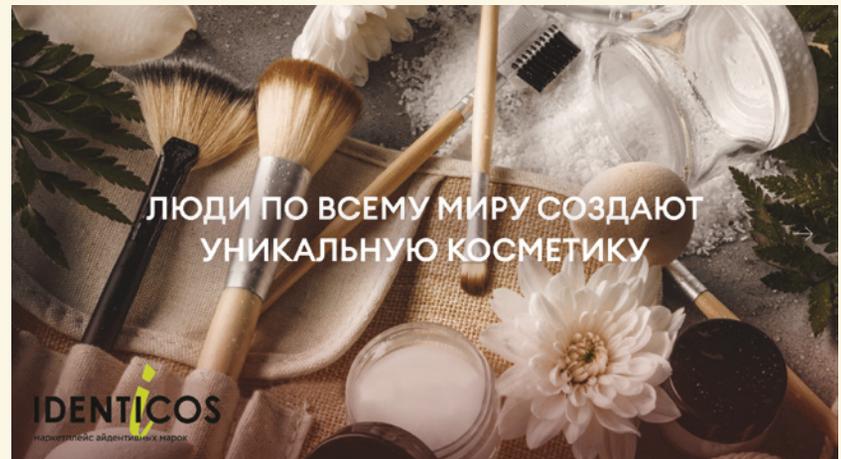
is that we're able to manage the entire ecosystem". Indeed, Hendrichs puts it well when she says, "the future of retail lies in a successful blend of e-commerce and physical presence. Digital solutions will drive the dynamics of change in the retail sector in the coming years - especially in e-commerce, but also in the stores".

Is it too late to introduce the marketplace model?

Marketplaces account for more than 50% of global online sales, and that number is going rapidly, says Tom McFayden of global strategic commerce agency McFadyen Digital. What's interesting for beauty though is that is the emergence of hybrid marketplaces is growing, notes McFayden: "While pure marketplaces like Etsy, Airbnb, and eBay solely connect platform sellers to consumers, hybrid marketplaces

sell their own branded products to customers as well. Amazon itself is a hybrid marketplace, offering its own products and affiliated brands while also providing a platform for thousands of buyers and sellers to connect through the Amazon site. Walmart is the second-largest hybrid example, following a similar model. Now, more vertical specific companies have developed marketplaces in addition to their own product lines, including Kroger for grocery and Wayfair for furniture. These marketplaces are becoming beneficial for many brands, especially since inventory becomes dependent on the individual sellers, not the brand. With that in mind, we can expect a lot more of these product-specific marketplaces to pop up in 2021, which could slowly chip away at Amazon's numbers if they are successful." Nadine Knorpp, previously Head of Business Development at online retailer Feelunique acknowledges that the marketplace model appeals to the modern consumer because of the scale of choice. Indeed, Helen Riley, Head of Luxury & Lifestyle at Ebay agrees, comparing buying on eBay to shopping in a traditional department store. Consumers like having options and a market place enables customers to shop for all the brands they like, and maybe discover new ones, in an easy and efficient one-stop shop. Ebay, the second biggest e-commerce site in the UK attracts 11million health&beauty buyers and the market place model has meant a shift in who consumers are buying from. Now 80-90% of eBay shoppers are buying directly from the brands (via eBay) rather than second hand sellers. Customers can buy a refurbished Dyson hairdryer direct from Dyson or a Jimmy Fragrance that is new but comes without a box. While at Amazon, health and beauty is the their-most purchased category, accounting for 44.3% of total online sales in the US (Edison Trends). New kid on the marketplace block is Identicos, an exciting online platform that is transforming Russian beauty market. Traditionally selling international beauty brands in Russia has been tricky due to strict certification and registration, not to mention the language barrier. "Russian shoppers prefer to buy foreign cosmetics brands outside of Russia" says Identicos founder, Eduard Tsynker, while this suggests that there is future for international brands in Russia the current landscape isn't the most advantageous for the Russian economy or for shopper unable to shop outside of Russia. So, Identicos was born as an online platform which makes it possible to shop international brands from Russia easily. "We have created a modernised drop ship, where a brand can efficiently onboard with us and send products locally with no customs or clearance, thus this is a simplified supply chain for partners, us and customers. Identicos is indeed leading the charge for introducing cool International beauty brands to the Russian market thanks to the importance they place on brand

discovery via a smart use of blogger and beauty experts. For international beauty brands wanting to infiltrate the Russian market Identicos is a smart place to start.



"The tough thing for brands selling on marketplaces is building up a sense of who you are as a brand" notes Knorpp, it can be hard to build brand awareness or attract premium brands for fear of losing the brand identity but that's changing and now brands can pay for brand pages and adverts that directly mirror their own branding so that the customer gets the same experience as if they were buying from them. Both the retailer and the customer truly benefit out of investing in the market place model. The retailer gets to increase their brand offering without any of the supply chain issues that come with traditional on boarding of a brand while the consumer gets to shop multi-brands (and categories) from one site. The role of the market place should not be dismissed. Today's consumer wants to discover niche brands. Traditionally small indented brands struggled to break into the beauty market and the dominant entry point was department stores. These were cost-prohibitive for most new brands. But the rise of e-commerce means independent beauty merchants can enter the industry at a fraction of the cost. Now, many mainstream retailers incorporate the marketplace thus allowing multiple merchants to be featured on their site. It's clear that when it comes to buying beauty, the future is omni-channel. The role of the store and e-commerce is changing; both need to up their game and provide a seamless shopping experience that is based around curation, personalisation and experience rather than just transaction. As consumers return to store, it's important that retailers remember to keep developing their online presence. direct-to-consumer e-commerce, such as brands' websites, shoppable social-media platforms, and marketplaces is becoming ever more important for the survival of retailers. And, if retailers want to capitalise on this trend then they will need to prioritise digital channels and convert the attention of existing and new customers.