CONSUMER AND RETAIL GROUP

Beauty in the "No Normal"

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The speed of change has accelerated, brought about by the increased digitization of life and commerce over the past two years. In an era of hybrid life and work, where information travels faster and people spend more time online than ever before, consumers’ behavior is continuously evolving. For brands and retailers navigating the shifts in this “No Normal” world, keeping a finger on the pulse of consumer evolution is the key to survival and success.

As we continue to navigate the ever-changing consumer environment in 2022, the A&M Consumer and Retail group has set out to understand how beauty behaviors and preferences continue to evolve. In this year’s **A&M Consumer and Retail Group Beauty Survey**, issued to ~600 female beauty shoppers in the U.S., we saw a continuation of some of last year’s trends, a reversal of others, and the emergence of new ones.

> As consumers change faster than ever, how can beauty retailers and brands navigate the ongoing shift?

Continuing Trends

- **Skincare momentum accelerates:** The skincare category proved more resilient than makeup in the pandemic environment. However, as the world opens back up, consumers are not abandoning their newly acquired skincare routines; they are doubling down on the category.

 # Of Respondents That Spent the Same or More in Skincare vs. Previous Year

2020	6 in 10
2021	7 in 10
2022E	9 in 10

- **Online beauty shopping is here to stay:** Ecommerce gains are (mostly) going to stay, with consumers expecting to make 41% of their beauty transactions online in 2022 – up from just 32% pre-pandemic.

- **Sustainability matters:** 7 in 10 respondents are willing to pay more for sustainable beauty. Their focus is on ingredients. 61% of respondents ranked clean / organic ingredients as their top priority when shopping sustainable beauty.

New Trends

- **Makeup's comeback:** After two years of decreasing their makeup purchases, most respondents increased their makeup spend this year for the first time since the pandemic started.

 # Of Respondents That Spent the Same or More in Makeup vs. Previous Year

2020	3 in 10
2021	5 in 10
2022E	7 in 10

- **The new omni-channel:** Beyond traditional ecommerce and brick-and-mortar, consumers expect beauty brands to meet them wherever and however they shop. Retailers like Target and Kohl's are seizing on this trend through beauty store-in-store concepts, which 21% of respondents shopped in 2021.

- **Value as a trial driver:** Consumers are once again on the lookout for product innovation, but in the current economic environment, value trumps all when it comes to trial drivers. 44% of respondents tried new product in 2021 because of discounts or promotions vs. 25% in 2020.

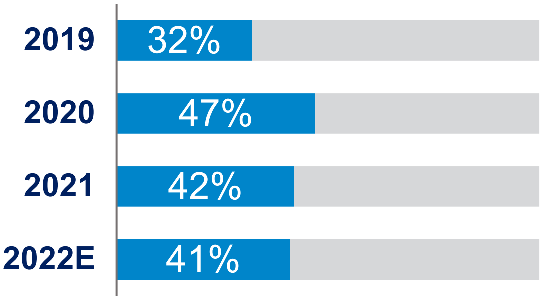
With all these shifting dynamics at play, consumer-centricity will be key to win. We have outlined four key consumer trends and a set of focus areas for brands and retailers to consider as they navigate the "No Normal".

Beauty Ecommerce Gains Are Here to Stay

But for Beauty Players, Online Alone Is Not Enough to Win

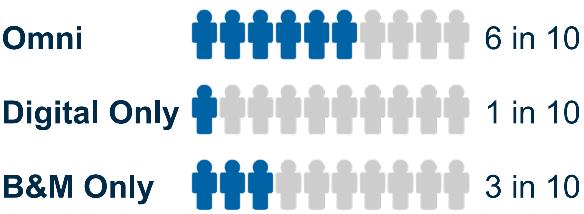
Despite 2021 retail foot traffic increasing to near pre-pandemic levels in most U.S. markets, online beauty is poised to retain most of the ground it gained during the pandemic.

% Of Beauty Purchases Made Online



However, beauty shoppers still demand a physical presence. 93% of survey respondents stated that a brand having a physical presence is important to them when shopping for makeup. And only one in ten consumers shopped beauty exclusively online in 2021.

 # Of Respondents Who Shopped Beauty Across Channels in 2021



The New Omnichannel

Beyond Digital vs. Brick-And-Mortar, Consumers Expect to Be Met Wherever They Shop

In addition to a merging of physical and digital channels, beauty brands have expanded their channel mix – blurring the lines between mass and prestige distribution. Store-in-store concepts, like Sephora at Kohl's and Ulta Beauty at Target, are gaining traction. The move has expanded distribution for prestige brands and driven new traffic for retailers. The play is centered around convenience and meeting consumers where they shop, but retailers are also seizing the opportunity to create loyalty through brand and product exclusives.

- **21%** of respondents shopped a beauty store-in-store concept in 2021

Of those who shopped in a store-in-store

- **35%** did due to convenience
- **21%** did due to product & brand exclusives

Retailers are signaling a continued focus on this channel-blurring strategy. Kohl's expects to increase the number of doors with a Sephora to 850 by Spring 2023. Similarly, Target has plans for 800 Ulta at Target locations. With six in ten consumers shopping beauty across multiple channels, it is vital for brands and retailers to provide a seamless, high-touch experience in-store, online, and wherever else consumers shop.

Value and Newness

Consumers Want More Product Newness, and Trial Drivers Shift From Ingredients to Value

The desire for newness came roaring back in 2021. Almost 90% of respondents tried a new makeup brand in 2021 vs. 43% in 2020. Respondents were 2.6x likelier to have tried a new brand because of product innovation in 2021, making ingredients a secondary driver for new brand trial. At the same time, the current economic environment has made price and value top-of-mind for consumers, making it the primary driver at 44% of respondents.

% Respondents Who Tried a New Brand Because Of…

	2020	2021
Promotions / Discounts	25%	↑ 44%
Product Innovation	10%	↑ 26%
Ingredients	43%	↓ 24%

Despite renewed interest in innovation, challenges remain around traditional trial vehicles like shared testers. In our 2020 survey, 42% of respondents did not foresee ever feeling comfortable with using a shared tester again, and the trend has largely held.

- This year, 53% of respondents never used shared testers when shopping for makeup
- 46% indicated they will never use them when shopping for makeup in 2022

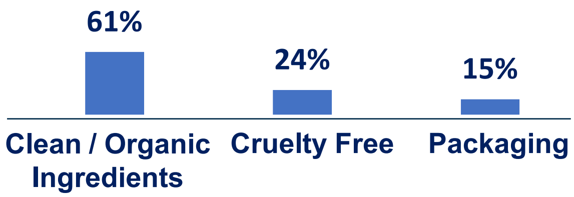
Brands and retailers will need to continue experimenting with different ways to allow consumers to try new products, as well as delivering a sense of value without eroding brand equity.

Sustainability Priorities

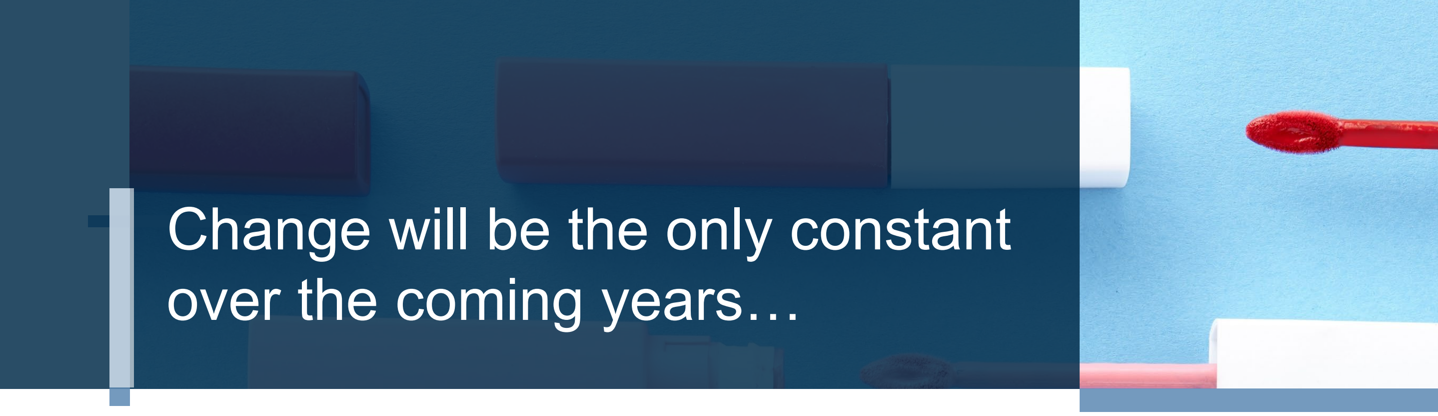
Ingredients Lead the Charge for Sustainability

Customers are increasingly expecting brands to be sustainable. From social responsibility to ingredients and supply chain transparency, the term "sustainable" can take on a myriad of meanings, and it is increasingly a deciding factor for consumers – especially in beauty. 7 in 10 respondents are willing to pay more for sustainable beauty products. But what does sustainable mean for consumers in the beauty space?

Respondent Top Priorities When Shopping for Sustainable Beauty



While ingredients are less of a driver for new product trial this year, they are the top priority for consumers shopping sustainable beauty. For brands targeting sustainability-minded consumers, ingredient transparency should be top-of-mind across packaging and communications.



Change will be the only constant over the coming years…

As some trends become engrained behaviors and others are discarded, brands and retailers need to focus on flexibility and respond to consumer needs and wants faster than ever before. For brands and retailers navigating the “No Normal”, some key focus areas have emerged.

- **Embrace (and monitor) change**: Establish processes to monitor consumer behavior shifts in real-time and create a flexible supply chain that can respond to emerging consumer insights – from product development to brand messaging and communications, the winners will be those who are best at establishing a meaningful dialogue with consumers and respond to their ever-changing needs and desires.
- **Refocus on best-in-class physical retail:** As consumers continue to return to stores, retailers should focus on providing operational excellence and ensuring an immersive and convenient experience that keeps customers coming back.
- **Double down on omni-channel investment:** Online beauty has become table-stakes and will continue to represent a significant portion of business. However, online alone is not enough; it is critical to meet consumers where they are – brick and mortar, online, mass, value or prestige. Crafting a brand experience that is both consistent and designed deliberately for each channel’s needs will be key for success.
- **Create alternative mediums for product discovery:** Many customers remain hesitant to utilize testers due to hygiene concerns. Retailers must provide creative ways for customers to try and buy new products like virtual try-on, individual testers, enhanced expert recommendations, questionnaires, promotions, and flexible return policies.
- **Focused sustainability agenda:** Brands should focus their sustainability agenda communications on consumer priorities. As consumers focus on wellbeing, ingredients have become their top sustainability priority – brands should lean into messaging that highlights their wins in the ingredient front.

At A&M, we have the experience and resources to support you during these turbulent times. We are passionate about helping companies achieve their maximum potential and be on the right side of disruption. We look forward to connecting.

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