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Sky Canaves

Big-box retailers and legacy department stores rethink the beauty customer experience

Article

Big-box retailers are aggressively upgrading their beauty offerings to attract returning in-store shoppers and younger, digital-first consumers. The “shop-in-shop” partnerships that are bringing **Ulta** into **Target** and **Sephora** into **Kohl's** locations can also have a positive impact on ecommerce sales, as consumers may go online to replenish items they bought in-store.

- Target's website and app have dedicated sections for Ulta brands, as well as features like virtual makeup try-ons and live chat with beauty consultants. The partnership also comes with the promise of "double points" available through both Ulta's Ultamate Rewards and the Target Circle loyalty program.
- **Walmart**'s US partnership with UK prestige beauty retailer **Space NK** launched with online-only sales in March but will be followed by store collaborations in **250** US Walmart locations over the summer.

> "In retail environments that sell groceries, there's such a big opportunity right now to cross over into beauty. The consumer is looking to make fewer trips, and you see that in the data. We started to see this shift in the beginning of the pandemic, but now it's held."
>
> RACHEL TIPOGRAPH
> FOUNDER AND CEO, MIKMAK

Department stores, once a principal sales channel for high-end beauty products, have had their market share eroded by new players. It's a trend that began well before the pandemic, and it's shifted into higher gear since.

These retailers are repositioning themselves accordingly. Kohl's has made the most radical change by replacing store beauty departments with Sephora shop-in-shops, and it's on track to have at least **850** in place by 2023, covering roughly **three-quarters** of its store count.

Others are exploring new paths for growth on the ecommerce front. In 2021, both **Macy's** and **Saks** (the newly spun-off ecommerce unit of **Saks Fifth Avenue**) announced plans to launch online marketplaces to generate revenues while expanding the depth of their product offerings.

Beauty Retail Sales Worldwide, by Channel, 2019-2024

billions and % of total

	2019	2020	2021	2022	2023	2024
Grocery retailers	28%	31%	28%	26%	25%	23%
Drugstores/pharmacies	17%	18%	17%	16%	15%	14%
Ecommerce*	11%	19%	21%	23%	25%	28%
Specialty	16%	12%	13%	12%	12%	12%
Department stores	8%	5%	5%	5%	5%	4%
Travel retail	7%	2%	3%	5%	7%	8%
Mass and club	4%	4%	4%	4%	4%	4%
Other	10%	9%	9%	8%	8%	7%
Total (billions)	**$538**	**$458**	**$518**	**$560**	**$595**	**$622**

*Note: numbers may not add up to 100% due to rounding; *includes all ecommerce sales (brand.com, retailer.com, marketplace, and click-and-collect sales)*
Source: McKinsey & Company, "The State of Fashion 2022," Dec 1, 2021

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Retail media networks are another route for department store operators to increase revenues via beauty brands. Though this is an increasingly crowded and competitive field, department stores can boast an audience of potential customers that is more appealing to beauty brands.

- **Macy's Media Network**, launched in August 2020, is already generating more than **$35 million** annually with what CEO Jeff Gennette billed as "a new fashion and beauty publishing model" in a recent earnings call.
- **Nordstrom** began testing retail media in 2019 with off-site campaigns for brand advertisers. After launching on-site sponsored ads in Q4 2021 and reporting **$40 million** in ad revenues from hundreds of brand partners that year, Nordstrom now plans to further expand its retail media network.

Read the full report.