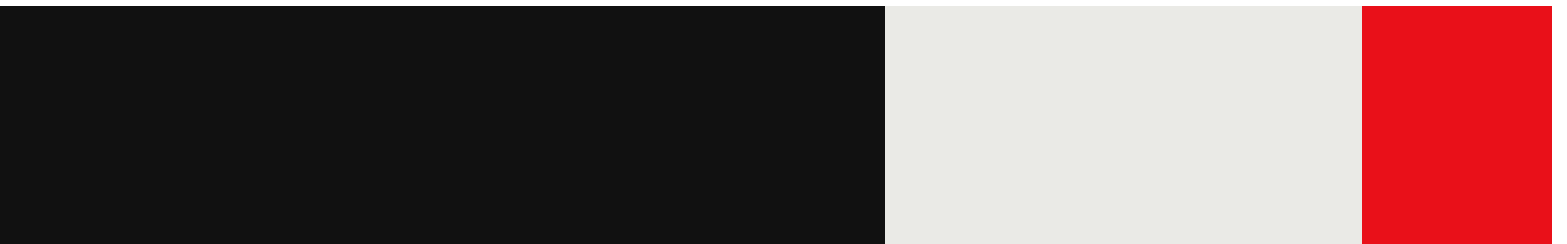


Reimagining Retail: Why beauty's doing so well and brand strategies to learn from

Audio



On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss why beauty is doing so much better than the rest of retail, how we've seen the "lipstick effect" play out, and

how beauty shopping habits are changing. Then, for "Pop-Up Rankings," we rank our top four beauty brand marketing strategies other retailers can learn from. Join our analyst Sara Lebow as she hosts analysts Sky Canaves and Carina Perkins.

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Episode Transcript:

Sara Lebow:

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Hello, listeners. Today is Wednesday, July 12th. Welcome to Behind the Numbers: Reimagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow.

Today's episode topic is beauty. First, let's meet today's guests. Joining me for today's episode, we have Senior Analyst, Carina Perkins. Hey Carina, welcome back.

Carina Perkins:

Hi, Sara. Thanks for having me back.

Sara Lebow:

Thanks for being here. Also here with Carina and I today is Senior Analyst, Sky Canaves. Hey, Sky.

Sky Canaves:

Hey, Sara. It's great to be back again.

Sara Lebow:

Great to have you. Let's get started with our first segment, news and reviews, where I give the news and our guests tell me their reviews. Today's story is a July 4th Forbes article titled Why Dollar Tree Breaking The \$1 Barrier Will Reshape Discount Retail. Dollar Tree doesn't cost \$1 anymore, it's raising its prices. "Strategy is never static," wrote Chris Walton in this story. He notes that Dollar Tree needs to stay competitive with Dollar General, which has already long since raised its prices to be over \$1, so a true Dollar store really doesn't seem to exist anymore. Sky, your review of this story in 60 seconds is?

Sky Canaves:

I think this is an obvious direction that Dollar stores are going in. They might need to change their name to Dollarish stores, or they might need to become \$2 stores because the reality is a dollar just doesn't go very far anymore. They can only shrink the product so much to me, that artificial constraint, that's been in place for decades of the dollar, and I think as the article notes, Dollar General, the main competitor, already sells a lot of products for more than a dollar, especially in grocery where there's been so much inflation over the past couple of years and where a lot of consumers turn to these stores either because they're looking for lower prices than supermarkets and major grocery retailers like Walmart, or just because they live in food deserts where they don't even have easy access or convenient access to a larger supermarket, so they have to turn to these stores, and it's really hard to find grocery items for less than a dollar that aren't going to be very tiny and not that useful. So I think the consumer demand, even for products in the 2, 3, \$4 range is going to be there, and will sustain them, and they need to do this just because of pressure on their margins is too great right now with that very low price barrier.

Sara Lebow:

Yeah. Carina, your review of this story in 60 seconds is?

Carina Perkins:

Sure, yeah. So I agree with Sky on this. Of course, it's quite unrealistic to think you can sell very much for a dollar, given inflation. In fact, I had a quick look, and according to one inflation calculator, \$1 in 1986, when it was founded is now worth \$2.77, so maybe they should become the \$2.77 Tree store. We've actually seen a similar thing happen in the UK, so Poundland, which I guess is our version of Dollar Tree.

It started selling products actually cheaper and more expensive than a Pound a couple of years ago, also because it needed to compete with some of its rivals. The discount space is becoming increasingly crowded, and you kind of risk becoming a bit irrelevant if you've got not as many products as your rivals have that people need, so it's not a surprising move. It could get a bit of backlash. Poundland certainly did from the tabloid press, when it started selling things for more than a pound. Interestingly, now, Poundland has said that it's going to start selling more items for a pound and less again because it wants to help its customers with the cost of living crisis, so I'm not sure exactly how it's going to achieve that and maintain its product range, but I think that's really interesting that it's going back to its roots on that occasion.

Sara Lebow:

Poundland is such a great name. Question for you, Carina. Do you know if Pound stores, Dollar stores, if they've been around for as long in the UK as they've been around in the U.S.?

Carina Perkins:

Poundland was formed in 1990 in the UK, so it's been around almost as long.

Sara Lebow:

Yeah, the Dollar General's like ...

Sky Canaves:

1986.

Sara Lebow:

Cool.

Sky Canaves:

Yeah.

Sara Lebow:

So similar trends in the U.S., in the UK.

Sky Canaves:

The '80s.

Sara Lebow:

Similar evolution as well. Now, it's time for our next segment, Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is beauty. In the U.S., beauty is outpacing the rest of retail. We forecast U.S. cosmetic and beauty sales to grow 10% this year, more than three times the broader retail markets, 3% growth rate.

In the U.S. cosmetic and beauty e-commerce sales growth will outpace overall U.S. cosmetics and beauty sales at 13% for e-commerce versus 10% overall. So we have beauty growing faster than the rest of retail and beauty e-commerce growing faster than the rest of beauty.

Why is beauty, and specifically beauty e-commerce, doing so much better than the rest of retail, Sky?

Sky Canaves:

I think part of it is that beauty is still bouncing back from the pandemic in different ways. There was a lot of shift to beauty purchasing online during the past couple of years, and now I think the demand for shopping in stores is still rising. There are shifts in consumer tastes and needs. For now, more recently, items for going out, for makeup, color cosmetics have been rebounding, fragrance has been rebounding, so the category as a whole has been growing very quickly just because it's a category that sustained growth during the pandemic, and then has continued to grow because there's just a lot of consumer interest. I think we talk a lot about the lipstick effect, which is really where even as other categories decline, the affordable luxuries of beauty and cosmetics are still indulged in by consumers where it's an area where because it's healthcare related and when times are tough, shoppers are a little less willing to trade down or give up those indulgences, and they're not quite the same as indulgences in, say grocery, where you're buying things so regularly that you really feel the price impact.

With beauty, you're splurging maybe once a month, every other month for some people, so it's still pretty sustainable, and I think there's just a lot more interest from younger consumers as well. They're really driving a lot of growth in this market.

Sara Lebow:

Sure. A 50 or \$100 lipstick, or a thing of eye cream, that feels like more of an investment in the self, and also a smaller ticket indulgence than, say a new TV.

Sky Canaves:

And once, people already bought TVs during the pandemic, so they don't need to replace those items as frequently, but if you got into, say a high-end skincare or skin cream during the pandemic, you might still want to buy that and continue buying that, and that's something you're going to replace a lot more often.

Sara Lebow:

Sure. Yeah. You run out of retinol faster than you run out of television. Carina, what does this trend look like in the UK? Is it similar?

Carina Perkins:

Yes, we're seeing a similar trend in the UK. We don't have a cosmetic and beauty forecast for the UK, but we've got a health, personal care, and beauty forecast, which those, that category sales will grow by 6.7% in 2023, which is faster than any other category and ahead of overall UK retail sales growth of 4.8%, and as in the U.S., we're seeing e-commerce sales in the category are growing even faster, at 7.6%, and that's versus 0.6% dip in UK e-commerce sales this year. We're hearing a lot of reports from retailers, such as John Lewis and Boots, that they're seeing an uplift in sales of affordable luxuries like lipstick, mascara, eyeliner, really nice skincare ranges, and there's been a couple of surveys, which suggest that people are more likely to spend normally on health and beauty this year despite the cost of living crisis in the UK than they are in other categories.

Sara Lebow:

Yeah, I think that also that pivot to skincare is really keeping the category buoyant. Even if people are buying fewer makeup products, they're still buying skincare. I think that's been a huge pivot, at least in the U.S. with wellness.

Sky Canaves:

Right, and skincare tends to sell at a much higher price point than color cosmetics, and it's an area where consumers are willing to, I think indulge a bit more, and there's just so much more interest and kind of demand for these high-end products where you even see very young consumers, Gen Z buying skin creams that cost several hundred dollars, and then, of course, looking for somewhat lower priced alternatives that might still be very price pricey by standards from when I was a kid.

Carina Perkins:

What's been really interesting here is I saw one survey, which suggested that UK consumers are more likely to buy less beauty products than they are to choose to trade down in beauty products, so I think what we've seen is people still buying those really expensive premium products, but then simplifying their beauty regimes, so they might be skipping the lip primer, or they might be simplifying their skincare regime, but then, they're really splashing out on those kind of more expensive products to go with it.

Sara Lebow:

Sure. In talking more about Gen Z and those changes in trends, according to Tinniti, 45% of U.S. beauty shoppers recall first hearing about beauty items via social media. That makes it more useful for shopping than TV, which was 30%, or in-store displays, which was 25%. Gen Z is specifically most likely to discover new products on TikTok, while U.S. adults at large are more likely to find them on Facebook. So how is Gen Z and TikTok, in particular, changing beauty?

Sky Canaves:

I think here in the U.S., there's been a huge impact in the shift from the previous main channels for beauty content, which were YouTube and Instagram, which were really more the one-to-many channel, where you had influencers and creators who were very invested in putting out their content. TikTok, because of its algorithms, makes trends kind of take off, and these can be very specific trends around specific products or specific uses of products, and it's not just the big name influencers and creators that are participating. It kind of encourages a lot of participation from ordinary users to put in their reviews, to give their two cents. One of the trends I learned about while I was reading up for this recording was the TikTok skincare smoothie, which is apparently upsetting a lot of store associates in stores like Ulta, because people are going to mix up their own concoctions and they're leaving a mess in stores, but it's really around using multiple high-end products and creating a custom blend for one's face, and then showing the results of what it does for one skin. So there's a lot more experimentation and playfulness in the content, and anything can go viral.

Then, I think some of the best brands and retailers are the ones that are able to look to those trends, and then kind of get in on them and amplify them, or make sure that they have the products available when consumers are looking for them, make sure that their websites are optimized for the searches that are trending on TikTok, and that they're able to fulfill that very rapid surge and demand that can come when products go viral.

Sara Lebow:

Yeah, I think that's so important, is making sure you're optimized for and prepared for when your product goes viral, 'cause it can happen really quickly and it can happen with smaller businesses, less known products. That old guard of YouTube influencers, Instagram influencers definitely still exists on YouTube and on TikTok as well, but I think TikTok is a lot more crowded because the barrier to entry is a lot easier. You can film yourself getting ready so easily as compared to a YouTube video, which you may have to stitch together.

Carina Perkins:

I think what's interesting as well is, I don't know if it's the same case in the U.S., but I imagine it is. In the UK, people are a bit wary now of these kind of beauty collaborations with big name influencers and celebrities. They've got a bit kind of there's been too many of them, they're a bit cynical that perhaps something's being pushed on them, and I think what TikTok does really nicely is that kind of peer-to-peer marketing. It feels much more like a community recommendation, so people are much more open to then trying those products.

Sky Canaves:

Right. In the U.S., we've seen the trend of deinfluencing, which really took off with beauty, and influencers who want to be more honest, more authentic by telling you when a product isn't good, isn't worth the money, as well as telling you which ones are worth the money, and that really gets to the heart of social channels, like TikTok, in providing trusted recommendations and reviews, which is especially important in a space like beauty, where it's so crowded, there are so many products. It's hard to shop online if you're just looking at a website, if you're just browsing around on Amazon. You have to kind of know what you're looking for, and platforms like TikTok, with their feed, with their algorithms, you can search the hashtags, you can see what's trending, they make it a lot easier to discover and get valuable information and educational content around products.

Carina Perkins:

And I think that we're also seeing in this kind of age of inflation, certainly in the UK, lots of TikTok is being used to kind of find those affordable products and those affordable alternatives, so they're hashtags like budget beauty and makeup dupes. We are seeing them trending on TikTok because they're really people sharing their own tips on how to kind of reduce prices for your beauty regime.

Sky Canaves:

Right, I think part of that is kind of the impact of the bigger TikTok trend or social trends around beauty, where there's huge interest in these very high-end beauty brands, but at the same time now, that budgets are being squeezed. People are looking for their more affordable alternatives and looking for dupes, and looking to save where they can, so maybe instead of a \$300 beauty cream, they can buy one that's \$100 or \$50.

Sara Lebow:

Dupes aren't necessarily new, right? When I was a kid, I would go to the drug store, and I would buy the Elf product. That's sort of like a mimic of the Sephora product, but now, there's a whole trend and a whole market for dupes and calling them dupes specifically, and it's becoming almost like a affordable luxury or lower-end beauty products in their own right.

Sky Canaves:

Right. They're easier to find because you can search for them on TikTok. You can search that beauty dupe or makeup dupe hashtag and see what people are recommending, or you can even search for a specific product dupes hashtags and find exactly what the dupe is, whereas, I think when we were younger, we had to rely a bit more on word of mouth, or maybe some magazine recommendations, and we didn't just have access to all of that content about dupes and reviews at the touch of a screen.

Sara Lebow:

And the volume of content has the trend cycles going so fast, so the way people did makeup even a year ago, two years ago, looks nothing like the way they might do makeup now, and for some people, that means buying a new set of products.

Sky Canaves:

Right, and it also poses challenges for brands when it comes to product development because the cycle is just getting sped up and they're getting constant feedback from consumers about what they want to see and how they want their products tweaked, and sometimes brands are trying to respond to that, but it can be a challenge because it's totally upended the normal cycles of their business.

Sara Lebow:

Before we move into the second half, a question for both of you. Are you guys both TikTok skincare users? Do you have the full Get Ready With Me style routine?

Carina Perkins:

No, I use just one very simple face cream. That's all I've ever used.

Sara Lebow:

Same here. I use an SPF, and that's it.

Carina Perkins:

Yeah.

Sky Canaves:

I'm also very simple. I love samples, so I have a stash of samples that I work through. Once in a while, I'll buy a product. One brand retailer that I like had a two-for-one sale this week, so I stocked up.

Carina Perkins:

My favorite is ... There's an elephant one. I can't remember what it's called now.

Sky Canaves:

Drunken Elephant?

Carina Perkins:

It's the best face mask. Yes.

Sara Lebow:

I love that brand.

Sky Canaves:

Yeah.

Sara Lebow:

That's a great brand.

Carina Perkins:

Oh my God. Their face cream, it's the best one I've ever tried.

Sara Lebow:

Yeah, samples, according to Bolt Data, are the second biggest influencer for U.S. beauty consumers, to actually purchasing after price for Gen Z. 46% of people consider samples to

be an influencer to buy for the overall public. That's 37% in the U.S., so samples are huge. That specific product you're talking about, I found out about through a Sephora sample specifically, and then I became a purchaser of it, so ...

Carina Perkins:

See, I found out because it was given to me. I was a bridesmaid for friend, and she had bought little gift bags with lots of different samples in them, and that was one of them, or little mini pots.

Sara Lebow:

Before we get too off-track with our own skincare routines and confirming that samples work, let's move into the second part of this episode. Now it's time for Pop-Up Rankings, where we take a look at specific examples and we rank them. Today, Carina and Sky will be ranking four beauty brand marketing strategies that other retailers can learn from. Sky, why don't you go first with a brand marketing strategy from beauty?

Sky Canaves:

Sure. Since we've been talking about TikTok quite a bit, I was going to start with Sephora and their partnership with TikTok, which is a creator/mentor incubator program that they have. So Sephora, like a lot of the other big beauty retailers, both specialty retailers like this competitor, Ulta, Walmart, and Target, they all have beauty incubator programs to nurture up and coming small brands, often with founders from very diverse backgrounds, and they can bring into their stores. Sephora's partnered with some top TikTok creators to serve as mentors to these beauty brands and help them develop their TikTok content strategies, really help them learn how to do TikTok well, how to succeed on the platform. For creators who already have the audiences on TikTok, I mean, that's kind of the best thing that they can do with helping brands, because the brand presence on TikTok is a lot less important than the user-generated content and the creator relationship with a brand on TikTok that can ...

That's really how brands go viral. It's not necessarily their own content, but how users and creators pick up the brand and kind of amplify it across channels. That also, I was thinking about TikTok and Sephora, because they also have, in their stores, they have these end cap displays that show products that are popular on TikTok. So that's another way of kind of leveraging TikTok and showing your awareness of what's relevant to consumers right now to shoppers to your audience, especially the younger audience. So for retailers at large, I think

really looking to how to work with TikTok and reach younger consumers, and also how to help the brands that you work with to succeed on that platform and in your retail channels as well.

Sara Lebow:

Yeah, I really want to emphasize what you just said about how user-generated content, as opposed to brand owned accounts are really the power behind going viral. I think that especially Gen Z is way more receptive to organic content or organic feeling content. It can be paid content as long as it's not like a paid ad, but rather like a sponsored post. Investing in user-generated content or incentivizing user-generated content through having your stores look a certain way has really helped Sephora stay relevant when, I think that if you'd asked me 10 years ago if Sephora would be able to stay relevant, I wouldn't be so sure, so I think that there's a lot that other specialty retailers can learn from that. Carina, what is a beauty brand marketing strategy that other retailers can learn from in the UK?

Carina Perkins:

So this is an interesting one to follow on from Sephora actually, so I'm going to talk about Boots, which is a high street health and beauty retailer in the UK, and it's been around for a very long time. It's the leading UK beauty retailer, and it found that it was under-indexing with Gen Z shoppers. So it launched a platform called Boots X with the aim of increasing engagement with that demographic, and it involved lots of different influences and it created lots of sort of creative content, and it's really raised its profile with that demographic, which I thought was really interesting. Boots is probably a retailer that if you said to me, "Are they going to be really relevant with Gen Z?," you probably wouldn't have thought so, but I think they've done something really good to improve their impact with that demographic. I think Boots just generally stands out because of its approach.

It's really interesting. It's taking all elements of beauty, and it's acting on them, so it's still investing in its stores. Brick and mortar sales are still really strong here in the UK and they're bouncing back quite strongly, so it's really invested in its beauty halls and it's hired hundreds of beauty specialist, whose key role is to provide personalized brand-neutral beauty and skincare advice to customers in its stores. It's added QR codes that link to digital content, so as they're walking around the stores, shoppers can scan the QR code and get a load of extra digital information and inspiration. It's partnered with Delivering With Uber Eats to offer fast delivery of health and beauty products in minutes.

It's launched an online marketplace so it can offer hundreds of more brands to UK consumers. It's using AI tools on its websites, like Skin Analysis Tool, and it's launched a TikTok shop for its number seven brand. So it's just a really impressive omnichannel approach from Boots that's worth, I think everyone could learn from.

Sara Lebow:

Yeah, personalization and beauty is also so important. That's where Fenty led the way with having so many shades available that were not previously available, and retailers following that with doubling down on personalization, I think is a strong approach for beauty. Sky, why don't you give us another beauty brand marketing strategy other retailers can learn from?

Sky Canaves:

Well, speaking of Fenty, I was going to bring up Fenty beauty's latest campaign with Roblox. They've partnered with Roblox this month to launch a Fenty Beauty and Fenty Skin Experience on the platform. It has a lot of the usual features that we see when brands do activations on Roblox, so there's virtual gaming environment where players can do scavenger hunts, explore mazes, and learn more about the brand's products, but I think one of the really interesting features of this is that the real focus of the experience is on product creation and kind of personalizing a product within Roblox. So users are allowed to make this lip product and personalize and customize it so they can go to the Fenty Beauty lab in Roblox and work with the ingredients and create a new shade name among other things. Then, at the end of this process, users are going to vote on their favorite creations, and Fenty is actually going to produce this product physically, and it would be available next year through Fenty's website, and also on Sephora.

So I think there are two keys to this campaign that other retailers and brands can learn from. One is reaching Gen Z and Gen Alpha, the younger consumers on the platforms where they are, and where they're active, and in ways that are relevant and engaging to them, and second, and this is very relevant in the beauty space, but I think it will affect more retail categories, especially lifestyle categories going forward, is younger consumers want to have a voice with the brands that they deal with and buy from. They want to have a say, and that's going to extend more to product creation and the kinds of products that we see. We already see that in beauty where consumers are on TikTok and they're talking about how they think a product can be improved, and brands are starting to respond to that. I think we're going to see more of that more formalized opportunities for consumers, and we see it now with creators and

influencers when they partner with brands, when they collaborate with brands to create products, and that's going to extend to more consumers more broadly.

Sara Lebow:

This is such a creative use of the Metaverse, so to speak, or Roblox by Fenty. I think that Fenty continues to lead the way in creative and customer-forward campaigns, and also in being a celebrity beauty brand, that's Rihanna's brand, that people find trustworthy, which makes it stand out from a lot of other celebrity beauty brands. Carina, can you give us the last beauty brand marketing strategy that other retailers can learn from?

Carina Perkins:

Yeah, so I'm going to talk about a luxury retailer called Space NK, and I'm going to talk about its NDULGE Loyalty Programme. It's an interesting one. It's pitched as a community, rather than just a loyalty program, so members can collect points for every Pound spent, and they get a five Pounds reward for every 100 points earned, but they also get things like a surprise birthday gift, events, invites to brand events, and double points days, and sort of earlier access privileges. So we've seen a couple of brands taking this approach to loyalty, and I think it works really, really well in the beauty space. Another interesting thing is that they've introduced a premium tier, so if someone spends 1,000 Pounds with them within a 12-month period, they automatically get upgraded to NDULGE Deluxe, which offers 10 Pounds for every 100 points spent, and a full-size luxury birthday gifts. So they're really incentivizing people to spend more with them, and I think it's just a really clever use of a loyalty program.

Sara Lebow:

Yeah, loyalty, as a beauty retailer, is also so important because beauty D2C is still pretty strong, especially for digitally natives, and you don't want, as a retailer, your consumers abandoning you to buy directly from the source.

Carina Perkins:

Exactly that, and it's such a competitive space now. There's so many beauty specialists, online specialists offering the same thing, so you really need to sort of work on that loyalty with your customers.

Sky Canaves:

I was just wondering if that program would come to the U.S. via Space NK partnership with Walmart, 'cause they launched a partnership last year to bring Space NK to Walmart, both online and in stores. I mean, that's another part of the big surge in beauty sales that we're seeing in the U.S.. It's not just the consumer demand, but also the retailers, really upping their category expansion in beauty, especially in prestige beauty. So you have Walmart selling Space NK brands and Ulta at Target, and Amazon is selling high-end beauty brands. They have luxury beauty brands, so just the prevalence of high-end prestige beauty across retail channels, even in going into drug stores and supermarkets is something we see more and more.

Sara Lebow:

Yeah, Amazon and Walmart are definitely increasingly high-end beauty providers in a way that, I think when we were younger, maybe they were like ... Especially Walmart was like the drugstore was the cheaper products. Now, they have those products that a Sephora might have, which will definitely, poses a threat to Sephora. That is all that we have time for today, so thank you so much for joining me, Carina.

Carina Perkins:

Thanks for having me back, Sara,

Sara Lebow:

And thank you, Sky.

Sky Canaves:

Always a pleasure, Sara.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts, and follow us on Instagram at [behindthenumbers_podcast](#). Thank you to our listeners and to Victoria, who edits the podcast and keeps things beautiful. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast, and tomorrow, join Marcus for another episode of The Behind the Numbers Daily.