

The Big Read **Beauty**

## Retail: Is the beauty industry 'Amazon-proof'?

Record numbers of bankruptcies and store closures have devastated the retail sector. So why is the beauty market thriving?

Anna Nicolaou and Aimee Keane in New York MAY 7, 2018

"You don't need lipstick, lipstick needs you," reads the bubblegum pink sign posted on one of many doors to Manhattan's Javits Center — the 1.8m-square-foot glass fortress that is the busiest convention centre in the US.

Inside, hairdressers offer complimentary styling, courtesy of [Target](#), the discount store, and teenage girls line up to make their own lipgloss for \$5. Drake's new single, "Nice for What", pounds out through the sound system as crowds pose for selfies in front of branded flower walls. Paris Hilton shills her new skincare range, Unicorn Mist. Fans swarm outside a fenced off "pink carpet", where Kim Kardashian's make-up artist competes for star billing with Hillary Clinton, the former presidential candidate, as both stop to pose for photographs.

This is [Beautycon](#), the festival arm of the namesake [retail](#) company, where tens of thousands of enthusiasts last month spent anywhere between \$60 and \$2,000 for a weekend of fun. Echoing the language of Instagram — #empowerment and #selfcare — attendees are encouraged to "work hard" and "be yourself".

While doing so, these teenage girls and parents will spend a staggering annualised sum of \$4,600 per square foot of the beauty sanctum, according to Beautycon. It is a figure traditional stores would kill for. The average US store brought in about \$325 in sales per square foot in 2017, while the Apple store made \$5,546, according to data from CoStar.

This is a trend that stretches far beyond the island of Manhattan — [beauty and personal care product sales](#) in Asia jumped 6.4 per cent to \$149bn last year, according to Euromonitor. The US market was valued at \$86bn and western Europe, where more health and beauty shops opened in 2016 than any other type of retailer according to CBRE, brought in \$94bn.



Influencer Paris Hilton at the Beautycon Festival

"Retail is going through this massive reinvention", says Moj Mahdara, chief executive of Beautycon, listing off statistics about the \$465bn global beauty market. "Eighty-six per cent of women buy make-up; 78 per cent buy skincare. Billions of people are online at all times, scouring

for something that's going to make them feel better.”

**It is no secret** that retail is being reshaped by the internet. In the past year the US has endured record high rates of bankruptcies and the closure of thousands of stores.

But beauty is booming, with the market set to grow to \$750bn by 2024, according to Inkwood Research. People want to touch and see lipstick and concealers before opening their wallets, sending them through the doors of Sephora, the French cosmetics chain owned by LVMH, or [Target](#).

Meanwhile an American obsession with “wellness” — valued at \$3.7tn by the Global Wellness Institute and including segments such as nutrition, fitness and personalised medicine — has made make-up and skincare even more en vogue.

## Beautycon vs conventional retail



A store showcasing the South Korean beauty brand La Neige. Sales of beauty and personal care products across Asia grew 6.4% last year © Bloomberg

**\$340**

Annualised spending per square foot in publicly traded US retailers in 2017

**\$4,600**

Annualised spending per square foot at Beautycon over the same period

**\$5,546**

Annualised spending per square foot at the Apple Store

*Source: CoStar, Beautycon*

Another factor, some argue, is that beauty is “Amazon-proof”. Jan Zijderveld, who left [Unilever](#) to become chief executive at [Avon](#) this year, says that “within [consumer goods], beauty is absolutely the best place to be . . . It is so tough out there [in retail] between discounting and Amazon”.

Yet even stalwarts such as Estée Lauder — which still relies heavily on troubled department stores like Macy’s — and L’Oréal are reaping the benefits. Estée Lauder has increased sales for 11 straight quarters.

Analysts say the sector is benefiting from a secular move towards “experiences”, making beauty less susceptible to the price cuts that have plagued commodities from toilet paper to T-shirts.

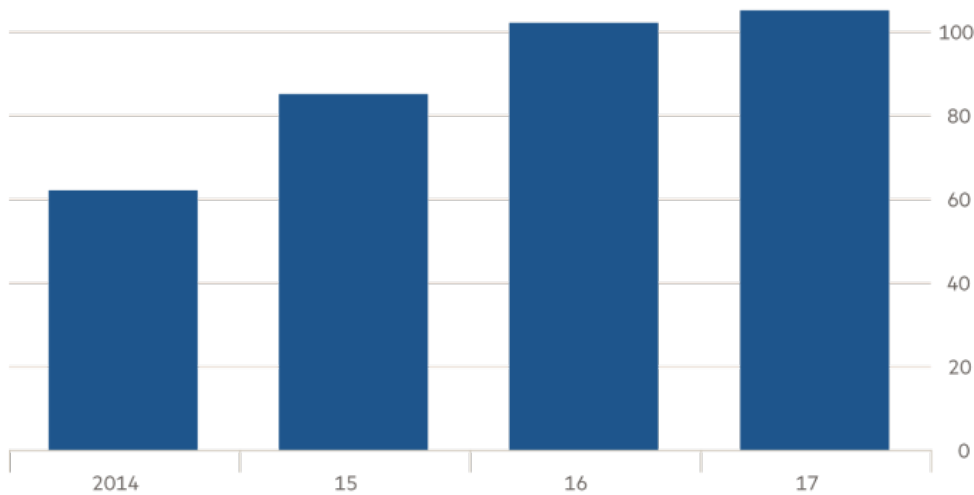
“There’s a whole event [Beautycon] about the excitement around people wanting to actually be present when they buy make-up. That protects prices from Amazon,” says Simeon Siegel, analyst at Nomura Instinet. “Apparel has been the most easily disrupt-able business. Beauty has not.”

Growth in the beauty market is being fuelled, at least partly, by an influx of savvy YouTube

personalities offering advice to millennial shoppers, who tend to trust the vloggers over big corporations. Beauty is second only to gaming as the most viewed topic on YouTube. Millennials, accused of weakening sectors ranging from diamonds to breakfast cereals and laundry products, spent 25 per cent more on cosmetics in 2016 than they had two years earlier, according to NPD, a trade group.

## M&A activity hots up

Number of global beauty care deals



Source: Intrepid Investment  
© FT

The rise of social media, along with the growing popularity of speciality stores like Sephora, has made it easier for new brands to swiftly become household names — at least in some houses. It starts with a prominent vlogger endorsing a product — either for payment, or organically. If this generates excitement around the brand then there is a good chance of attracting a distribution deal via Sephora or Ulta Beauty. The final step for the most successful is being acquired by a prestige company, such as Estée Lauder.

The casual entrance of these young brands belies their power. Kylie Cosmetics, the lipstick company founded by reality star Kylie Jenner in 2016, made \$420m in sales in 18 months without any traditional advertising. Fenty Beauty, the line of lipsticks and foundations launched by the singer Rihanna, made five times the sales of Kylie in its first month, according to analysts at Slice Intelligence.

Estée Lauder and L'Oréal have responded by racing to buy younger brands, mirroring what [Procter & Gamble](#) and Coca-Cola have done with their purchases of all-natural soapmakers or kombucha tea brands. Estée Lauder paid \$1.5bn for millennial favourite Too Faced Cosmetics, and an estimated \$200m for Becca Cosmetics — after an endorsement for the latter by YouTuber Jaclyn Hill helped sell 25,000 rose-gold highlighters in 20 minutes at Sephora.

## The beauty business



**\$465bn**

The size of the global beauty market in 2017

**\$750bn**

The size some estimates suggest it could grow to by 2024

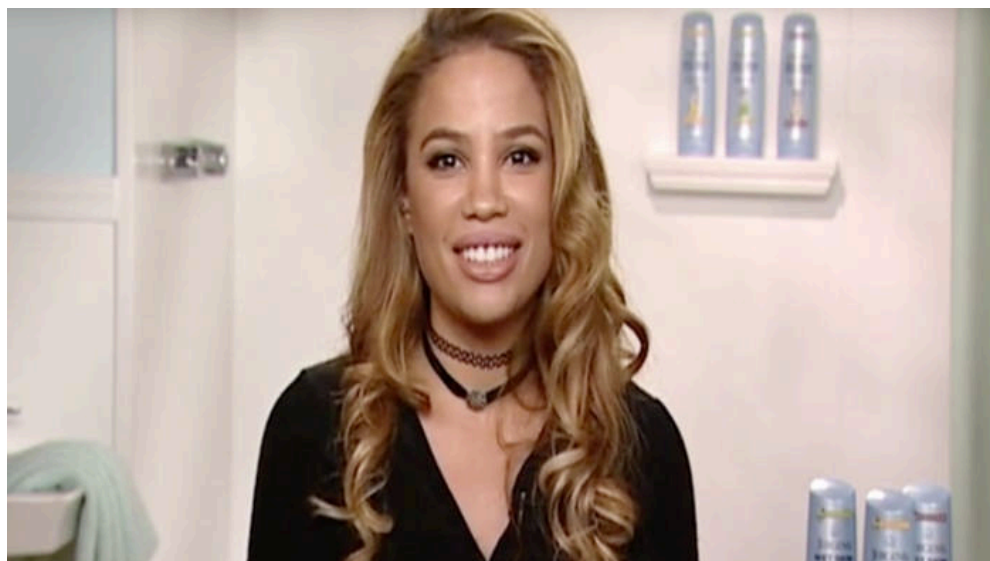
**\$1.6bn**

Invested by private equity groups in the sector between 2015 and 2017

Some 105 beauty care mergers and acquisition deals were completed globally last year, a 70 per cent jump from three years earlier, according to Intrepid, an investment bank. "Private equity remains in love with the beauty care sector," says Steve Davis, Intrepid's managing director.

Beautycon has become the place where the new reality plays out: the key matchmaking event for brands, YouTube's army of vocal backers and consumers. What began in 2011 as a meeting of a few dozen YouTubers has morphed into a key calendar date for the likes of Target and Revlon to reach Beautycon's savvy shoppers. The average Beautycon visitor has 3,500 social media followers, according to Ms Mahdara, spends a sizeable chunk of their monthly budget on make-up, and is sometimes a vlogger themselves.

Johanna Jimar, a 12-year-old actress and model, says she spends about \$500 a month on make-up, funded by her parents, explaining that "make-up is a great way to express yourself".



Andrea Brooks, who runs her own YouTube channel, is one of the new social media 'influencers'

As a **bored university** student who had “no idea” what to do for a career, Andrea Brooks, who is mixed race, searched the internet for advice from someone “who has curly hair like me”. When she could not find it she began posting videos on YouTube to document her own experience.

Eight years and 5m social media followers later, Walmart pays Ms Brooks to post pictures on Instagram wearing their floral embroidered jeans.

“Brands are paying the big dollars,” she says. “People aren’t going to trust a brand to tell them what’s good. Maybe I have the same skin colour as these girls, or we both have oily skin, and they trust me.”

#### Recommended

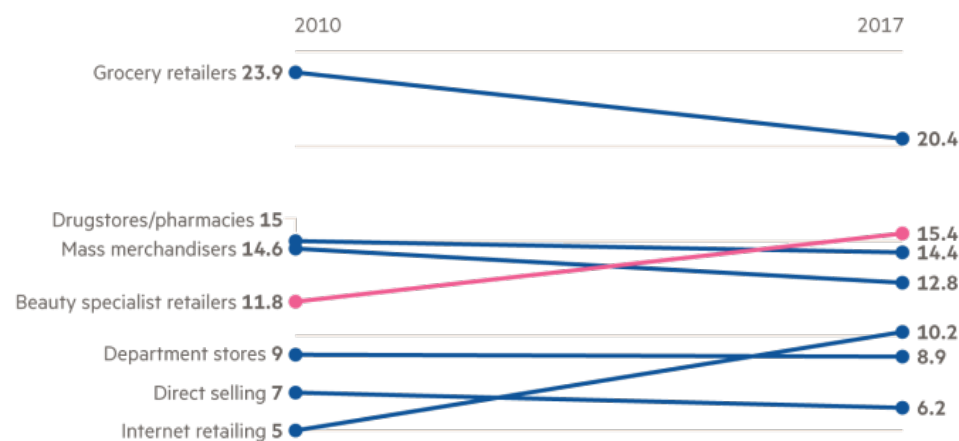
“Influencers” like Ms Brooks have toppled magazines as the voice of authority — almost half of US shoppers admit social media has played a part in a beauty purchase, according to Fung Global Retail. Fees for brand sponsorships routinely run to six figures, according to executives and influencers.

Realising the opportunity offered by influencer-driven products, two companies have emerged as the primary vehicle for these brands: Sephora and Ulta. Analysts say they have created unique store experiences, where shoppers test out products, have makeovers and hunt for the latest new brands.

Whether intentionally or not they have become a laboratory for millennial-friendly independent brands. Upstarts like Milk Make-up, the offshoot of the New York photography studio, have agreed to launch exclusively with Sephora, which in turn promotes them in its stores. Ulta tends to partner with brands that are already better known, and then launch a collection on Ulta via a big influencer.

## Sephora and Ulta are capturing a bigger share of beauty sales

Share of US retail sales of beauty and personal care products (%)



Source: Euromonitor  
© FT

The benefits are twofold. Sephora maintains its status as the place to discover what is cool, and also gets exclusive rights to these products — Milk, for example, is not sold on Amazon. Sephora is “the natural choice” for new brands, says Nicole Frusci, chief marketing officer of Milk Make-up. “It’s the chief awareness vehicle for beauty. You get access to a built-in client base.”

Sephora and Ulta increased their market share from 11.8 per cent to 15.4 per cent between 2010 and 2017, according to Euromonitor, which predicts that they are “on the cusp of overtaking

drugstores to become the second biggest channel” behind supermarkets.

Ulta, which increased sales by 21 per cent to \$5.9bn for the fiscal year 2017, added 102 stores in the US last year at a time when most retailers were escaping bricks and mortar stores. The LVMH business unit that includes Sephora grew organic sales by 13 per cent last year.

“In any market, whether it’s beauty or ice cream,” says Nomura’s Mr Siegel, “the smaller companies have picked up on consumer trends faster than anyone else.”



Rihanna, the singer, who launched Fenty Beauty last year, sells through Sephora © AFP

**Despite the optimism and** consumers’ desire for an “experience”, Joel Bines, head of retail at AlixPartners, rejects the notion that beauty is “Amazon-proof”. “I’ve been in retail for almost 30 years. It will be difficult, and I’m not saying that beauty will be the same as toilet paper. But nobody would have thought Nike would be selling on Amazon,” he says. “And [as of 2017] they are.”

Ecommerce in beauty is indeed growing: in the US, 10.2 per cent of beauty and personal care purchases were made online in 2017, up from 5.6 per cent in 2011. Ominously, Amazon is the fifth most popular destination for cosmetics purchases, according to Prosper, an analytics group.

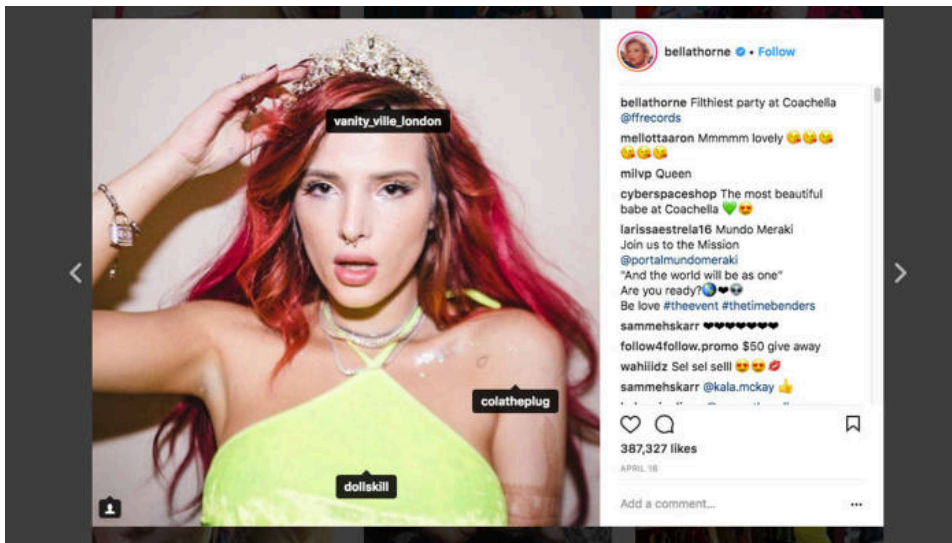
But for now, investors are embracing this bright spot of retail. Private equity groups poured \$1.6bn into the beauty sector between 2015 and 2017, according to McKinsey. “Born-digital” beauty brands such as Glossier, which has drawn \$86m in funding from companies like WME and Thrive Capital, “have become the big growth story”, say analysts at McKinsey.

Within consumer goods, they add that beauty is “way out in front, serving as a bellwether of changes to come elsewhere”.

Ms Mahdara envisions a future in which independent brands will consolidate into new conglomerates. “It probably makes sense that someone rolls them up into one holding company,” she says. “You have all these brands out there, from [health food restaurant chain] Sweetgreen to Ritual vitamins, and what else is out there for women, when you think about it? Picture the next Unilever.”

## Influence peddling

### Online celebrities offer brands star backing



Bella Thorne, an actor and social media influencer, here references the photographer and two makeup brands on her Instagram image

The world of social media influencers has “turned very Hollywood”, according to Scott Fisher, who started one of the first talent management companies aimed at internet stars in 2011. He has since brokered sponsorship deals, for the likes of YouTuber Gigi Gorgeous with [Revlon](#). These days, big brands offer seven-figure contracts to top influencers, who have taken on the promotional clout of actors and pop stars: “everyone has their publicist, lawyer, agent and manager,” says Mr Fisher.

The big cheques have even lured traditional celebrities. Bella Thorne, who began as an actress on the Disney Channel, now makes a living by posting on social media. She makes \$65,000 for each branded Instagram post and between \$10,000 and \$20,000 for an Instagram “story” — which disappears after 24 hours. “Instagram is 100 per cent a job to me,” she said in a YouTube documentary last month. “I started out at 18 with literally \$200 in my bank account, and I bought this house a year later, and that’s all from social media.”

Proponents point to the internet’s ability to give a voice, and financial backing, to minorities who have been historically under-represented on screen, in advertising for consumer products.

Nyakio Grieco, a first-generation American from Kenya, is one such example. Having grown up in Oklahoma she learnt her beauty secrets while visiting her grandmother, who crushed coffee beans on her farm in Kenya, then mixed them with oil and sugar cane to make a skin exfoliant.

Years later, Ms Grieco decided to use the family recipes to create her own cosmetics and skincare range, called Nyakio. Last year, she signed an exclusive distribution deal with Ulta, and partnered with Sundial, a group of brands aimed at women of colour and millennials. Eight months later, the group was bought by Unilever in what it called a bid to address the “under-served needs of multicultural and millennial consumers”.

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#### Latest on Beauty