As online sales of beauty and personal care products rise, loyalty becomes elusive, creating new challenges for beauty sellers.
A Trifecta of Trends Transforming the Industry

A perfect storm of demographics, social media, and radical change in consumer attitudes toward shopping is forcing the beauty and personal care industry to play by a new set of rules. In 2015, the industry that built its historic success on providing consumers with the in-store opportunity to touch, smell, and sample products saw $6.2 billion, or almost 8 percent, of its sales take place online. This is a full 1 percent higher than in 2013.

A.T. Kearney’s latest study of online beauty and personal care shoppers—our third since 2012—found that consumers are unwilling to accept the beauty business as usual and are increasingly attracted to digital alternatives (see sidebar: About the Study). This isn’t automatically good news. We found that while online sales are on the rise, they aren’t necessarily accompanied by commensurate levels of loyalty. In fact, in our 2016 survey, 67 percent of the respondents reported using four or more websites to fulfill their beauty and personal care browsing and shopping needs.

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The industry’s role as an unchallengeable authority as information source is also under attack from “Influencers”—the typically young, digitally plugged-in beauty connoisseurs who are attracting a significant number of social media followers (see sidebar on page 10: Girl Power: The Rise of Beauty Influencers). Thirty-seven percent of respondents say they learn about new products from social media or peer reviews.

With an expected increase in online channel penetration, category observers are asking tough questions. Will online’s convenient delivery, wider product selection, competitive pricing, and access to information complement the in-store experience or cripple traditional retailers’ sales and margins? How can online retailers build loyalty? And what should brands and retailers do today and tomorrow to protect their market share?

To answer these questions, let’s explore how the multichannel landscape for beauty and personal care has changed.

About the Study

Following its initial study in 2012, A.T. Kearney conducts a study every two years of the impact of e-commerce on the beauty and personal care categories. We probe the underlying consumer behaviors, motivations, and attitudes that drive the fast-growing online channel. These studies reveal a growing level of comfort with purchasing beauty and personal care products online and suggest a clear road map for thinking about the volatile and sometimes surprising online beauty and personal care shopper.

The results of our October 2016 study are based on an online survey of 800 women who indicated they had shopped for beauty products online at least once in the past 12 months. Respondents, who are representative of the US Census, were polled about their shopping behaviors, motivations, key attributes, and preferred online shopping destinations.
A Changing Reality: Supply Shaping Demand

An analysis of e-commerce growth in the beauty and personal care categories reveals that sales acceleration, while apparently driven by consumer demand, is a product of the increasingly sophisticated supply-side activity of retailers and brands that are able to evolve their digital capabilities to overcome barriers to adoption.

The analysis shows that a clear link exists between programs such as Amazon's Subscribe & Save (2006) and Walmart's Site to Store (2007) and the spike in sales of bath and shower products. Dollar Shave Club’s viral marketing campaign (2012) caused a similar spike in online sales of men’s grooming products. The recent launch of makeup apps such as L’Oréal’s Makeup Genius and Sephora Virtual Artist shows a strong link to the spike in online sales of color cosmetics. These and related efforts have pushed the online penetration in most beauty categories beyond the 3 to 5 percent mark that most industry players see as the tipping point beyond which online sales accelerate and penetration reaches high teen or low double-digit figures (see figure 1).

Figure 1
Retailers and brands play important role in shaping online demand

Beauty and personal care tipping points

Three categories in the sector have reached double-digit penetration: beauty sets and kits, skin care, and color cosmetics (see figure 2 on page 3). Driven by high seasonal demand for gifts, sales of sets and kits remain the clear outlier with online penetration of 17 percent, closely followed at 15 percent by skin care—where online sales are generally fueled by loyalty and the convenience of replenishing a known product.

This year, it seems as if smart sampling, virtual testing, and free returns have helped change consumer behaviors in color cosmetics, which reached 10 percent penetration, up from 7 percent two years ago, while online penetration in the men’s grooming subcategory rose from 5 to 7 percent.
E-commerce is on the rise in most beauty categories

US beauty and personal care online sales and penetration
(e-commerce penetration by category, $ billion, 2015)

Hair care, and deodorants and depilatories, had the lowest penetration rate at about 2 percent, likely driven by unattractive SKU economics. Unless they are part of a larger purchase basket, the shipping costs are hardly justified.

In addition, mass versus prestige segments are seeing different online sales penetration levels. We estimate e-commerce penetration levels are 7 percent for mass and 14 percent for prestige, a significant jump for prestige from its 11 percent penetration in 2013.

The Online Beauty and Personal Care Consumer

Our survey of 800 American women who shop online for beauty products explored their purchasing behavior in the context of in-store versus online purchasing. We have identified three distinct segments (see figure 3 on page 4):

**Online Enthusiasts** (55 percent of respondents) are very comfortable shopping for most of their beauty needs online, although they do shop in stores. More importantly, they share their reviews and purchasing experiences on social networks. Motivated by the ability to compare prices, take advantage of special promotions, and discover new products, these shoppers report buying more online than a year before.

**Information Seekers** (36 percent of respondents) also research beauty and personal care products online, but they generally prefer shopping in a store. They go online to gather information about products, pricing, and special promotions and to read product reviews. When they arrive in stores they are well-prepared and usually know exactly what they want. They prefer the in-person experience of brick-and-mortar retail and value the ability to see and test products, buy them immediately, and get assistance.
Showroomers (9 percent of respondents) prefer to browse in a store but shop online. They use stores to learn about and explore products, often supplementing these efforts with online browsing and reading reviews before purchasing. They enjoy the convenience of shopping any time, eliminating store traffic and standing in line, and they feel that shopping online offers them more valuable purchase-decision time. Fifty-four percent believe their online experience is better than in a store. About a third indicate they are shopping more online than they did a year ago.

This new segmentation clearly indicates that consumers have mastered the art of omni-channel. As the entire path to purchase of beauty and personal care products has been digitized and more offerings are found at every step of the journey, consumers are alternating effortlessly between channels, forcing retailers and brands to enhance their omnichannel capabilities.

So What Do Consumers Really Want?

Skin-care products and color cosmetics are the most frequently purchased online beauty categories. Thirty-eight percent of respondents indicate they frequently purchase skin-care items online, and 34 percent indicate the same for color cosmetics.

This marks an attitudinal shift toward online purchasing of color cosmetics. Previous studies found color cosmetics were viewed as products that require in-store testing; in 2014, only 29 percent reported frequently purchasing the products online. This sales jump can be attributed to the increased use of the online channel for trial through smart sampling and the rise of virtual testing tools, as well as the willingness to accept returns.
When it comes to desirable attributes, finding the best prices, free shipping, and site security top consumers’ list of attributes they look for when shopping for beauty and personal care products online (see figure 4). But compared with 2014, finding the best prices has overtaken site security and free shipping to become the most important feature.

Consumers are also seeking more meaningful engagement. Sixty percent of respondents say they regularly receive email or text offers from beauty brands or retailers, but only 9 percent of them feel these messages accurately target them (see figure 5 on page 6). Forty-eight percent say the messages they receive are generic, suggesting a valuable opportunity for brands and retailers that can crack the personalization code.

In addition, we asked respondents if they were members of monthly subscription or replenishment programs. Surprisingly, despite substantial press coverage of these programs, only 16 percent indicated that they are currently subscribed (see figure 6 on page 6). The most popular programs include Play! by Sephora, Birchbox, and Amazon’s Subscribe & Save, indicating a mix of interest in replenishment of beauty and personal care staples and a desire to test and explore new products.
Beauty and personal care consumers are seeking more meaningful engagement.

**Figure 5**

*Consumers want marketing to be more personalized*

Which of the following best describes the communications you receive from beauty brands or retailers?
(N = 443, % of total)

- Messages are generic and indicate that the brand or retailer does not fully understand who I am and what I want (9%)
- Messages are personalized but mostly based on my purchasing history (43%)
- Messages are personalized and indicate that the brand or retailer understands who I am and what I want (48%)

Note: Data reflects 60 percent of respondents who indicated they regularly receive emails and texts from beauty brands and retailers.

Source: A.T. Kearney survey of 800 online shoppers, October 2016

**Figure 6**

*Few consumers participate in replenishment programs*

Are you a subscriber of a monthly replenishment program? If so, what do you purchase? (% of online beauty and personal care shoppers)

- Color cosmetics: 63%
- Skin care: 61%
- Hair care: 50%
- Personal care: 46%
- Nail care: 28%

84% No
16% Yes

Source: A.T. Kearney survey of 800 online shoppers, October 2016
Where Shoppers Shop

We asked participants to indicate where online they search for and purchase beauty and personal care products. As in our 2014 study, Amazon leads the pack as the most commonly used website (69 percent of the sample), followed by Sephora, Ulta, and Walmart—a group of retailers we call Front of Mind (see figure 7). Among these sites, Ulta has seen a marked increase, vaulting six spots since 2014 to make it into the top three, while Walmart dips two places, ending up in fourth place.

**Figure 7**

**Most online shoppers turn to Amazon for beauty products**

Where do you search for and purchase beauty and personal care products online? (% of total)

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Front of Mind</th>
<th>Middle of the Pack</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>69%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sephora</td>
<td>41%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Ulta</td>
<td>37%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Walmart</td>
<td>36%</td>
<td>25%</td>
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<tr>
<td>Macy’s</td>
<td></td>
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<tr>
<td>Target</td>
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<td>25%</td>
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<tr>
<td>Walgreens</td>
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<tr>
<td>CVS</td>
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<td>17%</td>
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<td>JCPenney</td>
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<tr>
<td>Walgreens</td>
<td>-2</td>
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<td></td>
</tr>
<tr>
<td>CVS</td>
<td>-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JCPenney</td>
<td>-1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>eBay</td>
<td>+5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MAC Cosmetics</td>
<td>-2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kohl’s</td>
<td>+11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollar Tree</td>
<td>+14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nordstrom</td>
<td>+14</td>
<td></td>
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<tr>
<td>Drugstore.com</td>
<td>+14</td>
<td></td>
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</tbody>
</table>

In the group of retailers we call the Middle of the Pack, both Walgreens and CVS have dropped in popularity, down three and one spots respectively, while JCPenney jumps five spots, perhaps due to its collaboration with Sephora. The last group of sites, which we call the Emerging, has a mix of department stores, dollar stores, and MAC Cosmetics—all worth watching as the sector evolves.

When it comes to selecting their single preferred online destination for beauty and personal care, 29 percent of online shoppers choose Amazon, followed by Sephora at 15 percent and Ulta at 12 percent. Sephora and Ulta shoppers tend to have a higher income and focus on color cosmetics and skin care. Walmart has lower-income consumers who focus on personal care and fragrances. Macy’s and Amazon see strong interest in fragrances and skin care respectively.

Source: A.T. Kearney survey of 800 online shoppers, October 2016
Girl Power: The Rise of Beauty Influencers

Beauty influencers, lifestyle bloggers, YouTube vloggers, and Instagram stars—all seen by consumers as independent, authentic, and trusted—are holding more power over consumer decisions and brands, often commanding large audiences that they guide followers along the path to purchase. Our study identifies three types of emerging digital influencers, each offering a different type of content and targeting different audiences.

The Girl Next Door. What began as a hobby for some women in their teens or early 20s has turned into a global phenomenon. Call it the Revenge of the Girl Next Door: “regular girls” who love beauty and revel in sharing their beauty secrets are using social media to create audiences, keep them interested with fresh content, and build a personal brand that sometimes has global reach. Examples include Bethany Mota and Carli Bybel with their 10 million and five million YouTube followers respectively. On Instagram, Chrisspy has four million followers, and MakeupShayla has two million. Fashion and beauty vlogger Zoella has more than 30 million cross-platform followers.

The Lifestyle Guru. These digital influencers operate at the intersection of fashion, beauty, wellness, home décor, and travel. Having worked in the fashion or beauty industries, their insider credibility makes them relevant across a variety of topics. For instance, model and blogger Chriselle Lim has three million YouTube followers and almost a million followers on Instagram, where she shares her days on the catwalk while offering beauty, food, fitness, and fashion tips. Her followers can “buy the look” by clicking on an item to be transferred to the brand’s website. Others in this category include Aimee Song, who covers topics from interior design to beauty tips for her 4.3 million Instagram followers, and Kristina Bazan, who has five million followers across Facebook and Instagram.

The Expert. Being a professional makeup artist or skin-care expert is a proven path to achieving global influencer status. They bring to the social media space the experience and expertise that consumers value and trust, enabling them to build an impressive base of followers. Professional makeup artists such as Jaclyn Hill (four million Instagram followers and four million YouTube subscribers) fall into this category. Other examples include sisters Sam and Nic Chapman, makeup artists who started producing beauty tutorials under the name Pixiwoo (two million followers on YouTube), and Patrick Starr, a MAC makeup artist who has two million YouTube followers.
Taming the Beast

In any retail channel, success is defined by the ability to build sustainable relationships with consumers and increase the value of those relationships over time. This year’s study found e-tailers doing a better job of increasing transactions than building relationships. As indicated earlier, 67 percent of the survey respondents use four or more sites to fulfill their browsing and shopping needs online. Some use as many as 20 sites. In a changing world, all beauty and personal care retailers will need to rethink their strategies, figure out how to maximize all channels, and above all, learn to listen to the voice of a new, empowered consumer. Based on this year’s research, we see three merging priorities:

**Enhance omnichannel capabilities.** The path to purchase is more digital and cross-channel. Consumers’ journeys can start online and end with in-store pickup or start in a store and end online. Brands and retailers must optimize their omnichannel capabilities, defining the role of each channel. Stores can be delivery points or experience centers. In the latter case, stores educate consumers and enable them to interact with the products and experience the brand with all their senses. Using a store as an experience hub requires having highly trained sales associates who add value to a highly educated consumer as well as having “experience elements” such as events or technological tools that support the sales process and brand interaction. Think Sephora Color IQ.

**Beauty e-tailers are doing a better job of increasing transactions than building relationships.**

Stores can also be used for fulfillment. By carrying inventory to meet local demand, stores can support click-and-collect, providing consumers with greater speed while also generating more foot traffic. This requires integrated systems, an assortment skewed toward fast-moving items to support in-store pickups, and resources to support the additional workload.

**Improve personalization.** Over the past 20 years, personalization at scale has been the holy grail of marketing. Today, with the evolution of marketing technology, automation, and advanced analytics, marketing to segments of one is finally possible. New developments in artificial intelligence allow brands and retailers to understand not only who the consumers are, but also what they want, how and when they want it, and even what colors and shapes they react to more positively. The ability to direct the right product or message to the right person at the right time would significantly impact top lines and improve consumer relationships.

**Communicate with authenticity.** Consumers show an increased preference for “authentic communication,” the sort delivered by peer reviews and recommendations from Influencers—in other words by “real people” or “people like us” instead of idealized models. Brands and retailers will need to reconsider their communication strategies, establish new ways of engaging consumers and making them part of the brand, and leverage the power of Influencers to increase reach. As we move to an era where consumer power reigns, companies must strike a balance between engagement and control if they hope to build authentic consumer relationships.
The New Face of Beauty

So there you have it. The growing challenge of loyalty, the daily demand on retailers and brands to deliver a seamless experience between online and offline, and the need to “give up some power” to new sources of influence are indicators of the current state of the beauty industry. Succeeding in this new environment will require an artful integration of the various tools and industry participants that came to inhabit the digital path to purchase and by doing so changed forever the way consumers shop and relate to beauty.

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