

E-book

COSMETICS & CONSUMER BEHAVIOR

Introduction

The cosmetics industry's pockets run deep—valued today at \$532 billion.¹ Before Covid-19 disrupted daily life, supply chains, and the global economy, projections for cosmetics' growth were on the up and up. By 2025, the value for this industry, worldwide, was estimated to reach \$758 billion (measured in USD).²

But what about now? That's the question on most businesses' minds as the world tentatively transitions out of social distancing and grapples with the looming threat of a recession.

Over the years, the cosmetics industry has gained a reputation for being resilient to economic shocks. It's a phenomenon that's coined the phrase, "The Lipstick Effect," which suggests that in times of economic downturns, consumers will continue to purchase small indulgences (like expensive lipstick) even when money is tight.

The Chairman of Estée Lauder noticed a jump in lipstick sales in 2001 (in the wake of September 11th)³ while L'Oréal saw sales increase by 5.3% in 2008 during the Great Recession.⁴

But this time is different. This doesn't mean that the past can't help us spot patterns in consumer behavior—just that it shouldn't be taken as an absolute indicator of what's to come. Social isolation, rising unemployment, and growing health consciousness are just a few factors at play.

For instance, Nielsen reported that lip cosmetic sales fell by 62.4% at the close of the week on April 4 compared to the year before.⁵

With people staying at home, or logging on virtually for social interactions, makeup seems to be waning from quarantine routines. On the flip side, nail care, hair color products, body oils, and home scents showed an increase in sales for the week of March 28, according to NPD Group's market research,⁶ suggesting a stronger gravitation toward self-care which has become a popular theme within the beauty industry. Cosmetic brands that offer a wide range of items (ranging from makeup to skincare) should consider which products would be the most strategic to promote during these times (e.g. on homepages, social media, etc.)

Figures like this have us thinking more critically about how the cosmetics industry is changing. What ripple effects will be felt from Covid-19 in the years to come? Which trends are emerging, being amplified, or losing traction? How is the cosmetics industry impacted by the saturation of digital in our daily lives that has made data many companies' biggest asset?

-
- 1 Edited
 - 2 Statista
 - 3 Investopedia

- 4 Business Insider
- 5 Beauty Independent
- 6 Beauty Independent

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01

THE ETHICS OF COSMETICS



02

INCLUSIVITY

In September of 2017, Rihanna launched her namesake makeup brand Fenty Beauty. In one month, views for Fenty Beauty related content on YouTube spiked to 132 million, becoming the largest beauty brand launch on the platform.⁷

With the slogan, “Beauty for All,” Fenty’s driving force was inclusivity, offering 40 (and now 50) shades of foundation after seeing “a void in the industry for products that performed across all skin types and tones.”⁸ While there have been brands that have offered more expansive shade ranges in the past (the brand Make Up For Ever is one example) Fenty Beauty helped to establish this as a must in the industry. It prompted the term “The Fenty Effect,” to describe the push from



other makeup and cosmetics brands to be more inclusive in their product offerings (instead of just centering and catering to lighter skin tones).

In 2018, CoverGirl launched its TruBlend Matte Made Liquid Foundation in 40 shades. The same year, Maybelline expanded the shades offered in two of its concealer lines (Fit Me! and Instant Age Rewind)—going from a range of 6 to 12—and Dior introduced a 40 shade foundation collection called Dior Backstage.

⁷ Think With Google

⁸ Fenty Beauty



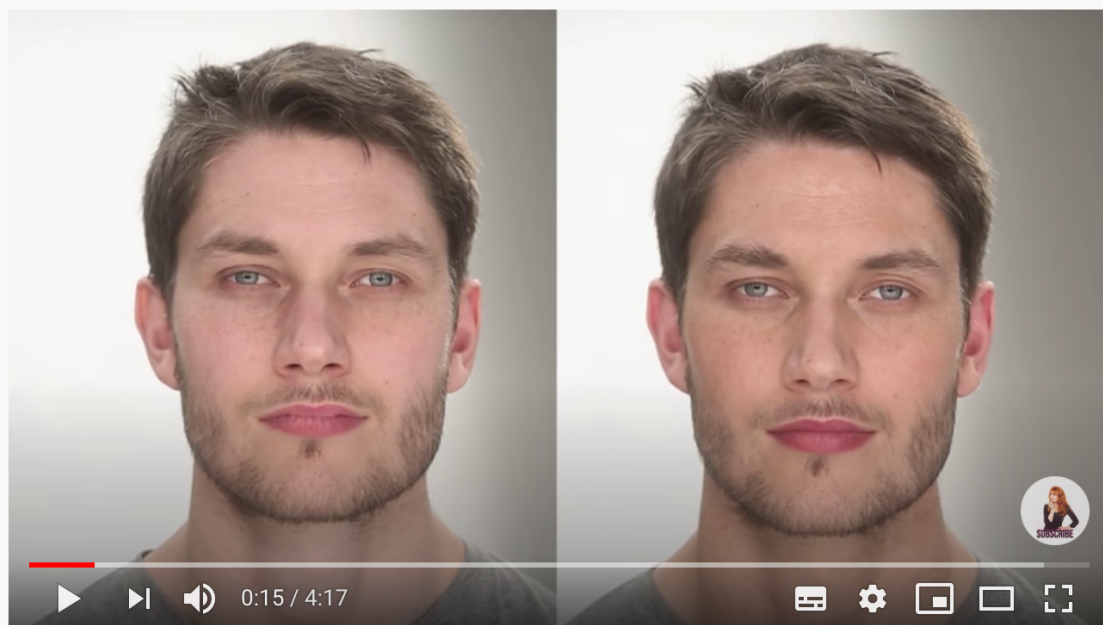
**TRUBLEND MATTE MADE LIQUID
FOUNDATION**

40 SHADES

Source: CoverGirl



Source: Dior



Subtle 'undercover' make-up for men: a groomed, healthy look | Charlotte Tilbury tutorial

Many brands have started offering quizzes on landing pages to help customers choose the matching foundation shade for them. Following Prose's model, these brands should then follow up with customers that use the quiz and then make a purchase to see if the recommendation was correct (using this feedback to test and improve their algorithm).

For instance, a U.S. survey from AARP found that 70% of women aged forty and over said they wanted to see more products for premenopausal and menopausal women. Survey participants said they felt a gap in the market when it came to age appropriate representation, and 7 out of 10 respondents said they were more likely to buy from brands that showed a variety of ages in their ads.⁹

In the U.S., even though Millennials passed Baby Boomers to become the incumbent largest generation, Boomers still have impressive spending power. US News & World Report noted that Boomers control 70% of disposable income in the US.¹⁰ This is true in other markets as well: a study on consumer behavior and cosmetics (specifically makeup) in South Korea found that those aged 55-75 were actually shelling out more on cosmetics products.

The point being, there are a variety of factors that influence consumer behavior. Personalization is understanding how these different factors should be used to create unique customer experiences. Cosmetics brands have to alternate between a hyper-specific and macro view of the industry (and its consumers) to keep up.

⁹ Cosmetics Design-Europe ¹⁰ MediaPost

Another important facet for companies to consider is the growing male cosmetics market, which is expected to reach \$166 billion in value by 2022 (as projected by Allied Market Research). There's a move away from traditional gender norms that have been associated with cosmetics in the past (that is brands marketing to a more, so-called, "feminine" audience).¹¹

CoverGirl announced its first male ambassador in 2016, Jame Charles, an internet personality, makeup artist and YouTuber. Also in 2016, beauty blogger Gary Thompson (a.k.a The Plastic Boy) was featured in a L'Oéal Paris UK campaign—the brand's first male model. (It's important to call out that social media is a huge platform for the

cosmetics industry, with many users flocking to YouTube for tutorial content.)

Brands like Charlotte Tilbury and Fenty have created content targeted at men for makeup application, and Tom Ford even launched a line specifically for men in 2013.

Chanel followed suit five years later in 2018, revealing the imprint Boy de Chanel with an initial release in South Korea, a market where male makeup appears to be more widely accepted.¹² (According to GlobalData, 75% of South Korean men said they do a beauty or grooming treatment once a week, whereas in France only 38% of men said they did so, for comparison.)

11 CNBC

12 Forbes



Source: Chanel



**GENTLEMEN'S FENTY FACE
CUSTOM COMPLEXION 5-PC
SET**

Yours For \$109 (\$132 value)

STEP 1: FOUNDATION
Choose your perfect shade match for the ultimate photo filt'r in foundation form.

STEP 2: CONCEAL & CORRECT
Choose your exact skin tone match to conceal blemishes. For under-eye darkness and hyper-pigmentation, go for 1-2 shades lighter than your skin tone.



**PRO FILT'R SOFT MATTE
LONGWEAR FOUNDATION**

QTY:1 **\$35 retail**

03

INGREDIENT TRANSPARENCY

Understanding how DevOps works needs a deep dive into the different stages of the DevOps lifecycle and the principles that form the fundamentals of this methodology.

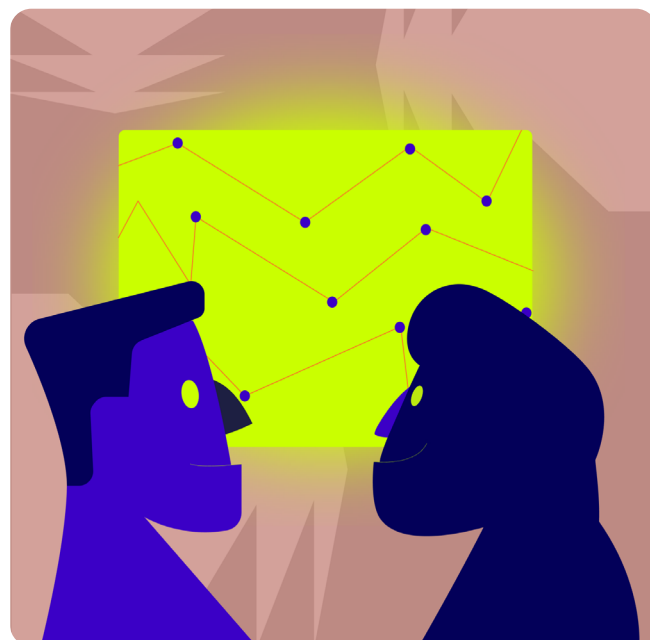
Ingredient transparency in cosmetics has become a focal point for consumers. Concern over which chemicals are included in formulas, how products are regulated, and overall safety of use have given rise to a clean beauty movement, which has grown into an (estimated) \$22 billion global industry according to CB Insights' Industry Analysis Consensus.¹³

But it's an industry niche that's hard to define universally.

Generally, clean beauty refers to products that were formulated with "non-toxic ingredients." For many companies, there's an emphasis on being all natural, vegan, and/or organic—which in their own right could be broken off into tangential or subset categories (like green beauty, which focuses on being non-harmful to both consumers and the environment).

Yet, what's still a difficult question to answer is exactly which chemicals are considered to be harmful.

Two common foes of clean beauty tend to be parabens and sodium lauryl sulphate (SLS).¹⁴ Parabens act as preservatives, staving off mold and bacteria in products to prolong shelf life, while sodium lauryl sulphate (SLS) is responsible for the



lather we see in a variety of cleaning and cosmetics products: it's a surfactant that traps and helps remove dirt and oil. Certain studies have suggested that parabens can act as hormone disruptors¹⁵, while SLS draws concern over skin irritation.

It's important to note here that the harmfulness of these chemicals (and all chemicals for that matter, even those naturally occurring) depends on the level of exposure. Still, consumers are wary, and the market is responding to the demand for more transparency around cosmetics ingredients and the elusiveness of the "clean" label.

Drunk Elephant, a "clean compatible" skin care (turning lifestyle) brand has been a key player in this natural/"non-harmful" niche of the industry. Launched in 2012, the brand has famously banned what they call The Suspicious Six from their formulas (essential oils, drying alcohols, silicones, chemical sunscreens, fragrances/dyes, SLS).

While Drunk Elephant has often been seen as a poster child for clean beauty success, the brand has carefully pivoted away from this label (which can be vague and unregulated). Instead, the company classifies itself as "biocompatible," and is clear on their use of natural and synthetic ingredients that prioritize customer safety and efficacy.¹⁶

¹³ CB Insights
¹⁴ Guardian

¹⁵ Live Science
¹⁶ Drunk Elephant

In 2019, Drunk Elephant was acquired by the Japanese company Shiseido Group in what's valued to be an \$845 million dollar deal.¹⁷ In a statement on social media, Drunk Elephant's CEO Tiffany Masterson discussed the reasons for the partnership, citing a better ability to respond to consumer requests like "attain sustainability across the brand" and expand to more markets.

While the multimillion dollar purchase of a smaller company by a large parent corporation isn't a new phenomenon, this particular deal shows how the "niche" market of natural products is transitioning to a more prominent stage.

As the global consulting firm AlixPartners noted in a recent cosmetics report, "While larger manufacturers continue to dominate in sales, smaller brands are driving growth...One thing that these smaller brands lack is the research and development capabilities of the established players. In developing natural and organic products, having a depth of R&D provides a distinct advantage for larger manufacturers..."¹⁸

Partnerships offer a strategic compromise.

Another signal that clean beauty is going mainstream? Increased availability of products across chain retailers and drug stores.

In 2017, Target made an announcement about its move to chemical and ingredient transparency, along with a list of chemicals it would be banning from cosmetics, household, and personal care products by 2020. That same year, CVS announced that it would be removing "prevalent formaldehyde donors across nearly 600 beauty and personal care products" from its store brand by 2019.¹⁹

In a survey of more than 4,500 consumers across China, France, Germany, the UK and the US, AlixPartners asked participants about what issues were preventing them from purchasing clean beauty. Globally, products being too expensive took the lead, followed by a lack of clarity on what products are "good vs. bad," and limited availability where users shop. These moves toward ingredient transparency from CVS and Target seem to be combatting those deterrents.²⁰

¹⁷ Allure

¹⁸ AlixPartners

¹⁹ CVS Health

²⁰ Alix Partners

Source: Drunk Elephant via Sephora



TARGET'S CHEMICAL GOALS

TRANSPARENCY

Our Goal: Achieve transparency to all ingredients, including generics such as fragrance, in beauty, baby care, personal care and household cleaning formulated products by 2020.

CHEMICAL MANAGEMENT

Our Goals:
Improve beauty, baby care, personal care and household cleaning product categories by formulating without phthalates, propyl-paraben, butyl-paraben, formaldehyde, formaldehyde-donors, or NPE's by 2020.

Improve textile products by removing added Perfluorinated Chemicals (PFC's) from products by 2022.

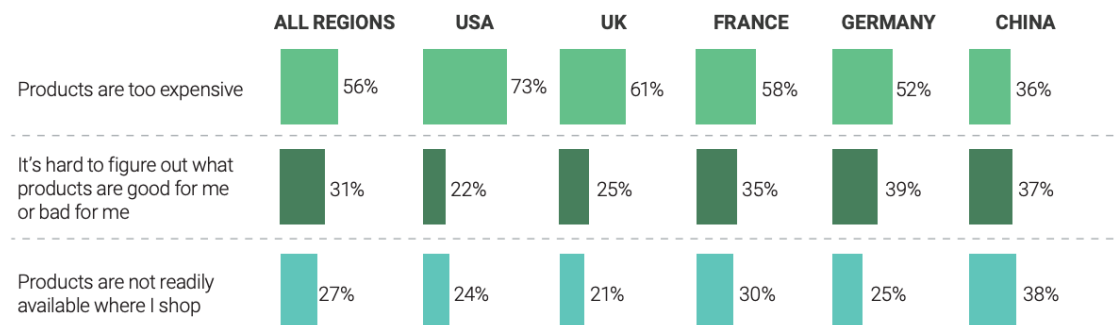
Improve textile products by removing added flame retardants that are potential carcinogens or pose harm to the guest, workers or communities by 2022.

INNOVATION

Our Goal: Invest up to \$5 million in green chemistry innovation by 2022.

FIGURE 4: HEALTHY PRODUCT PURCHASE BARRIERS

Respondents reporting an issue as a barrier to purchase



Source: AlixPartners Global Health and Wellness Study, 2018

So what do these trends under the clean beauty umbrella tell us about the industry at large? For one, consumers are skeptical of companies and the safety of products they offer. But they're also unsure of what exactly is safe or "clean" when it comes to cosmetics.

For brands, this presents an opportunity to listen to consumers' concerns and be transparent on what's included in formulas. Clean Beauty is a popular

movement, but the lack of clarity around what makes a product "clean" needs to be dealt with. Brands need to do more than put a "clean" stamp on their products. Do consumers care more about a product is hypoallergenic or non-comedogenic? Running client-side tests to feature these different qualities on product pages can help pinpoint what customers gravitate most to when it comes to product quality.

04

CUSTOMIZING COSMETICS

In 2011 Forester announced that we were in a new era: The Age of the Customer. It marked a shift in power from companies to consumers—the boom of digital offered a near-instant access to information and increased competition across industries.

As a result, shoppers didn't want (or need) to settle. They wanted the right balance of value, immediacy, ease, and of course, relevance when it came time to make a purchase.

Because in the Age of the Customer, personalization is key.

In the cosmetics industry, customized products are gaining momentum among wider audiences



(but it certainly isn't a new movement). Cosmetics à la Carte, a British custom beauty brand founded in 1973, sells custom foundations and color palettes. Professional makeup artists offer in-store consultations and blend products specifically for their customers on the spot. Shoppers can choose from a variety of attributes (like SPF protection, shine control, and so on) when customizing their unique formulas. They even have the option to recreate makeup shades that've been discontinued.



Source: Prose

We're excited to get started on your consultation.

We'll ask a brief series of questions to understand your unique hair needs and goals, lifestyle, and environment so we can formulate your custom products and provide your recommended routine.

If you'd like to give the gift of Prose, please visit our [gift page](#).

BEGIN



The hair care brand Prose offers shoppers custom shampoos, conditioners, and hair products based on direct feedback from customers (via an online consultation form). These consultations factor in everything from scalp sensitivity to geographic location and changing seasons—to ensure the formula is not only customized but adapts to different variables throughout the year.

After three weeks, customers are sent a Review and Refine feedback survey to rate how products are working, creating a strong cycle of customer insights. Prose’s algorithm, which pinpoints how to improve customer’s formulas, is updated monthly.²¹

The approach seems to be working: an article from Glossy cited that in April of 2020, more than half of Prose’s current customers opted into a subscription to receive a discount on recurring orders.

Then there’s the intersection of cosmetics and telemedicine, which is also tapping into customization, as seen with the skin care company, Curology (launched in 2014). With Curology, customers take a skin care quiz

and upload pictures to the platform for medical professionals to review online—resulting in a prescription that’s been tailored to their needs and preferences.

While Curology was originally focused on acne solutions, these consultation quizzes showed that 10% of sales were from customers who had concerns about aging. So, the company used this information to adjust its marketing strategy (like better reflecting these concerns in its website and ad copy, for example).²²

What do these trends show us? For one, data is a must-have asset for companies if they want to understand the nuances of their customer base. While concerns over privacy and security remain front of mind for shoppers, 83% of consumers are willing to share their data to create a more personalized experience.²³

It boils down to the trade off—it needs to be clear how companies are using data to improve both the customer experience and the product they’re offering.

²¹ Glossy

²² Glossy

²³ Accenture

05

THE BEAUTY OF AI

Artificial Intelligence is a force of acceleration in our lives.

It's one of the harbingers of the Fourth Industrial Revolution, which is creating not only connected devices but interconnected industries (a merging of physical, digital and biological). And the cosmetics industry is no exception.

Increasingly, cosmetics brands are leveraging artificial intelligence to provide highly-personalized experiences to customers.

Examples of this are widespread.



In 2019, the beauty company Avon launched its True 5-in-1 Lash Genius mascara. Collaborating with the production company Media Monks, Avon created the Genius Algorithm which was able to analyze thousands of user comments across the industry to understand what was most important to consumers when it came to mascara—and then used these insights to shape the formula for their new product.

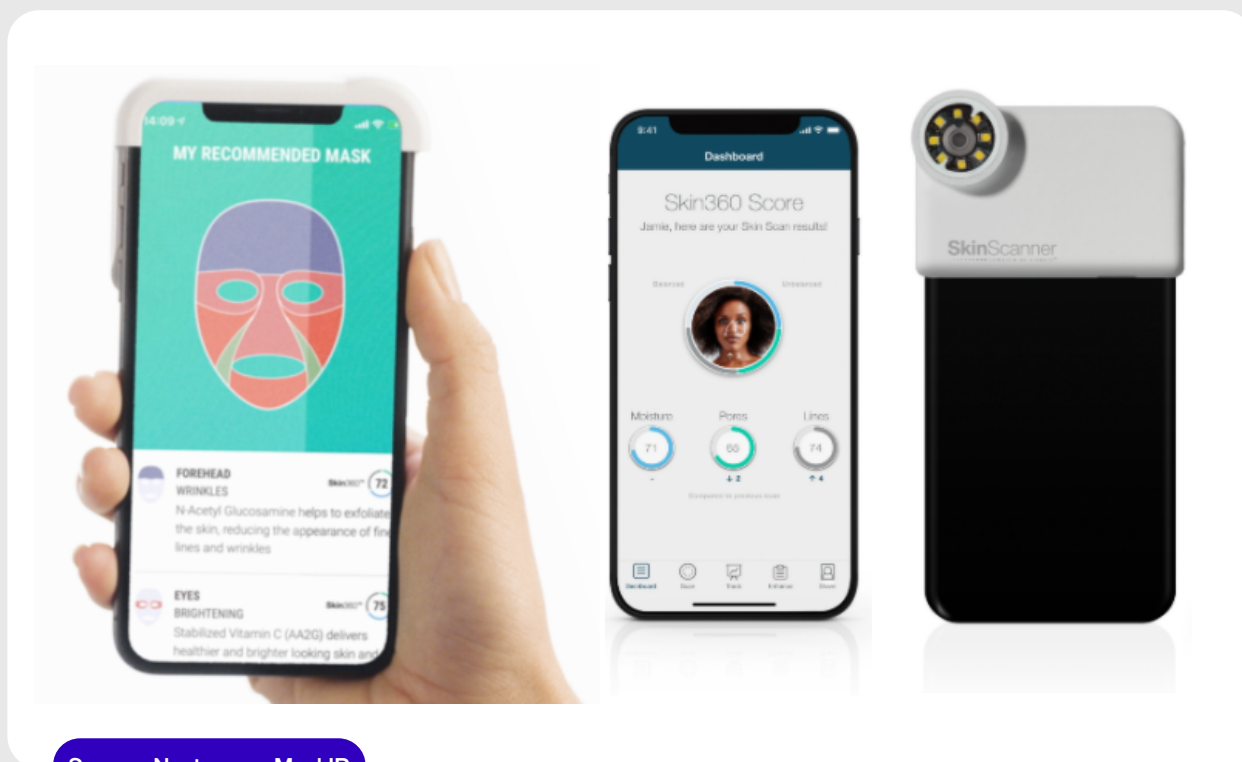
The Genius Algorithm

We cutting-edge machine learning and artificial intelligence to read thousands of consumer comments shared across the internet and uncover what make-up addicts around the world wish for in a mascara

The Genius Algorithm, created in partnership with data science and creative production company Media Monks, allowed us to slice through and analyse the largest beauty database in the world – the internet; filtering, processing and ranking thousands of online consumer comments to determine the top features they crave in a mascara.

Source: Avon





Source: Neutrogena MaskiD

Avon's Chief Beauty and Brand Officer, Jane Thompson, had this to say of True 5-in-1 Lash Genius, "The Genius Algorithm allowed us to sort through huge amounts of user generated content on social media and to understand the correlations and interconnections in what people really wanted in a mascara. The big finding was realising that they actually don't want to choose between one feature or the other..."²⁴

2019, Neutrogena and its parent company Johnson & Johnson unveiled Neutrogena MaskiD at the Consumer Electronics Show (CES). The product leverages 3D printing to create custom face masks for consumers. Using the MaskiD iOS app and a smartphone that can take 3D pictures (like an iPhone X, XS, and XR),²⁵ users can scan

their face for a personalized analysis of their skin (e.g. fine lines, moisture levels, and so on). Using this data, users can continue to customize sheet masks based on their concerns and preferences, and even tailor ingredients to target different areas of the face.

And this isn't Neutrogena's first foray into personalized skin care. Before MaskiD there was Skin360, an app that evaluates "skin health" via an uploaded selfie. While Skin360 and MaskiD can be used as standalone services, using them in tandem can help track skin care progress and keep modifying routines for better and better results—and in turn create an ecosystem of smart Neutrogena technology that scales personalization and strengthens brand loyalty.

²⁴ Avon

²⁵ The Verge

A similar offering to MaskID and Skin360 is Olay's Skin Advisor: another AI-driven app that relies on a user uploaded photo and quick quiz on skin regimen before recommending a customized routine (while also guessing the user's age).²⁶

Oral-B is also making a play at personalization with the Genius X toothbrush, which uses AI to understand how customers brush their teeth. It then provides recommendations to users on how to "cover all areas [of the mouth] evenly, with the right amount of pressure every time."

26 Forbes

Oral-B
GENIUS™ X
10000
RECHARGEABLE TOOTHBRUSH

2:00
MIN SEC

ARTIFICIAL INTELLIGENCE
RECOGNIZES YOUR BRUSHING, FOR
YOUR BEST RESULTS EVERY DAY

AI BRUSHING RECOGNITION

HANDLE, CHARGER, 3 BRUSH HEADS,
POWER CORD, TRAVEL CASE

Travel Case

Bluetooth

Source: Oral-B

1 MILLION

women have discovered the
power of Skin Advisor and put
our AI to the test

Source: Olay Skin Advisor

Conclusion

As seen with the multi-million dollar acquisitions, digitally savvy brands create a strong connection with their customers (quickly rising in popularity). Consumers are gravitating to seamless digital experiences, particularly with brands that they feel are “authentic” which further shows a move away from large mass-marketed products. People understand the power they have as shoppers and are increasingly funneling those purchase decisions into “conscious consumerism” (which takes into account things like the safety and sustainability of ingredients, packaging, etc.).

But corporations are still heavyweights in this arena. With the resources to create connected beauty products and improve AI algorithms, they’re able to offer the gold standard in customer experiences: one-to-one personalization. The fact that larger corporations have consistently been setting their sights on acquiring smaller DTC brands shows a strategy of collaboration.

But if there’s one underlying theme this industry report should spotlight it’s the necessity of relevance. Consumers want tailored experiences and custom products. They want products and regimens that adapt with them, and artificial intelligence can be the conduit to smarter cosmetics.

The cosmetics industry has always shown a high level of tenacity, and it’ll be interesting to see how digital accelerates its ability to adapt.

About AB Tasty

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At AB Tasty, we’re your partner for pushing great ideas even further through optimization.

We achieve this by empowering brands to build better experiences using personalization, experimentation, recommendations, search and the market’s only emotions-based segmentation solution. Our all-in-one platform offers web and API solutions for a unified approach to creating seamless experiences.

We are a trusted partner in optimization and innovation to over 1,000 brands including Kering, McDonald’s, Ulta Beauty, L’Oreal, Disneyland Paris, LVMH, and many others.

Our global team of experts is what sets us apart with an unmatched customer-first mindset embedded into company culture.