

2014 Edition

Beauty and the E-Commerce Beast

Brands and retailers are adjusting as more consumers go online to buy beauty and personal care products.



The beauty and personal care industry, traditionally rooted in the ability to touch, smell, sample, and experiment with products in stores, is playing by a new set of rules as it becomes one of the fastest-growing segments of the U.S.’s nearly \$300 billion online retail sales market. Convenient delivery, a wider product selection, competitive pricing, and access to a wealth of information online have created an attractive alternative—or at least a strong complement—to the in-store experience.

In the summer of 2012, A.T. Kearney conducted a study to understand the underlying consumer behaviors, motivations, and attitudes that are driving this fast-growing segment of e-commerce. The study revealed clear segmentation within the consumer landscape for beauty and personal care sales online, and highlighted a series of implications for retailers and beauty brands that seek to engage these consumers both online and offline.

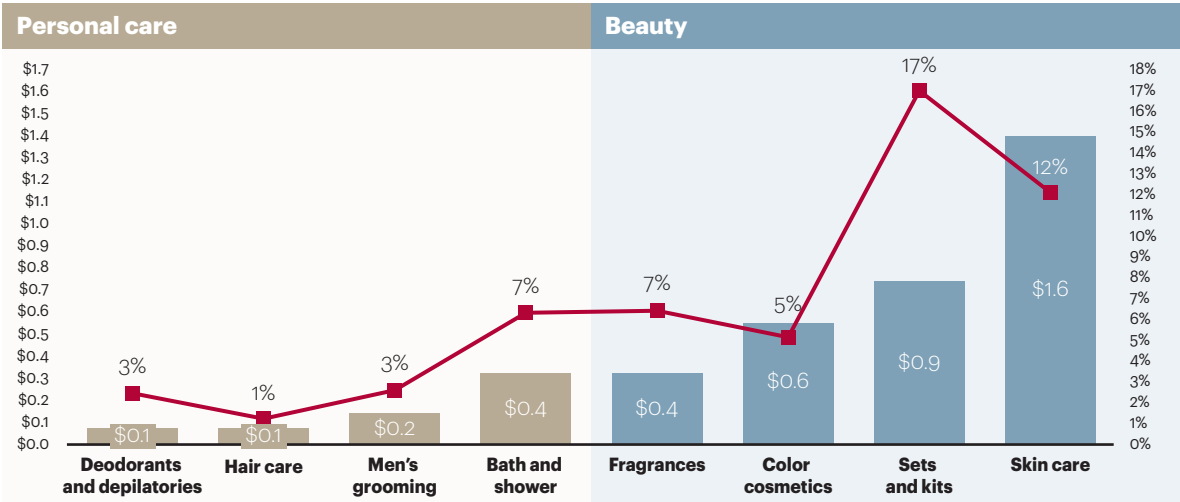
This year’s study looks at what has happened since 2012, how the market has evolved, and how consumer preferences have changed (see appendix: About the Study on page 9). The results may be encouraging to some but are threatening to others. One thing is certain: E-commerce is now an integral part of the business of beauty.

Beauty Online: More than a Transaction

With sales of \$4.3 billion in 2013 and more growth expected e-commerce in beauty and personal care represents an estimated 6.5 percent of the total category today. Overall, beauty categories are more penetrated online than personal care, with sets and kits a clear outlier at a penetration of 17 percent, followed by skin care at 12 percent (see figure 1). On the other hand, hair care’s online penetration is low, perhaps because of lower unit values that don’t justify shipping costs unless combined with other items.

Figure 1
U.S. online sales in beauty and personal care

E-commerce % of total category sales
(US\$ billion)



Sources: Euromonitor; A.T. Kearney analysis

Additionally, mass and prestige segments are seeing different penetration levels online, due to the variations in adoption levels and other shopping preferences. A.T. Kearney estimates e-commerce penetration levels are 6 percent for mass and 11 percent for prestige.

Beauty and personal care is **one of the most active sectors on the Internet.**

With intense competition, the market has seen many value propositions offered by key retail channels, from wide-ranging product assortments to innovative subscription services. In many cases, startup e-commerce brands have disrupted longstanding industry norms with innovative new models—models that are eventually being acquired or mimicked by the retail giants.

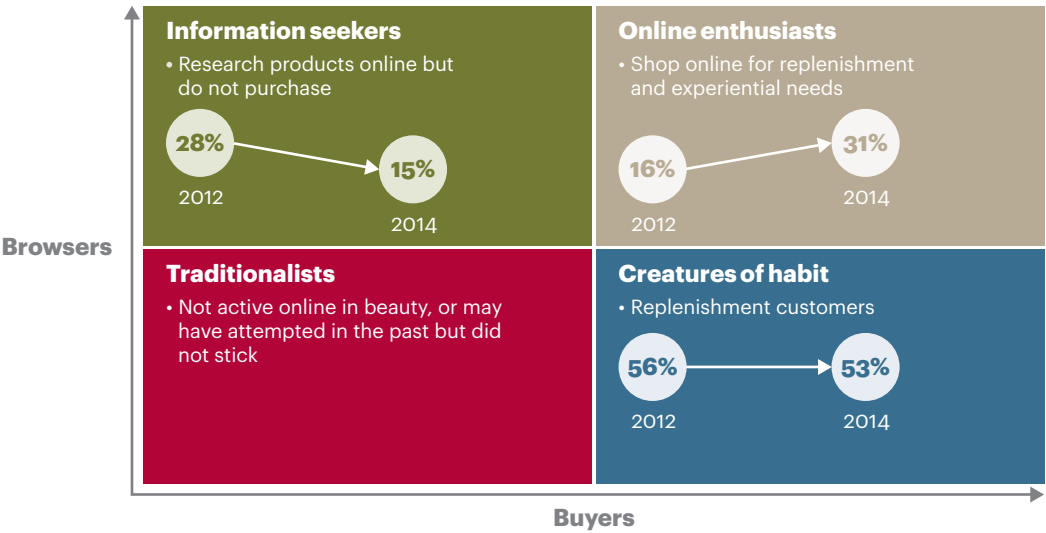
Beyond the actual purchases, beauty and personal care is one of the most active sectors on the Internet, with countless numbers of searches for beauty products daily, millions of “how-to” beauty videos on YouTube, and a growing number of peer reviews informing and influencing consumer purchase decisions every day.

The Online Beauty and Personal Care Consumer

As our 2012 study revealed, the consumer landscape for beauty and personal care is best divided into four segments, based on browsing and buying habits. This year, we looked at how these segments evolved over the past two years (see figure 2).

Figure 2
Segmenting online beauty and personal care shoppers

% of online beauty and personal care shoppers



Note: The percentages are a breakdown of 560 respondents who identified themselves as online beauty shoppers. The traditionalists include 325 respondents who identify as online shoppers but who do not buy beauty and personal care products online. These shoppers are not included in the percentages.
Source: A.T. Kearney survey of online shoppers, 2014

Online enthusiasts. These shoppers are motivated as much by the ability to gather and share information as they are by the opportunity to purchase new and favorite products conveniently and at better prices, and to interact, post reviews, view videos, and make online purchases. The group represents 31 percent of our sample, compared to 16 percent in 2012—a staggering increase in number of customers who spend time online to learn and explore products and feel comfortable with online transactions.

Information seekers. This group of shoppers actively researches information online, but prefers to transact in stores armed with the advanced product knowledge they gained online. Sometimes the level of information these shoppers acquire online makes them quite knowledgeable, thus creating a new challenge for traditional retailers, whose in-store support has customarily been a key differentiator. This group represents 15 percent of our sample—a decline from 28 percent in 2012. This decline is further evidence of the growing confidence and shift in consumer mindset in favor of online.

Brands and retailers cannot ignore traditionalists. They should continue to cater to their needs while actively monitoring them for any signs they are migrating beauty purchases online.

Creatures of habit. At 53 percent, this group of respondents is the largest and has not changed significantly since 2012. It comprises shoppers who know what they want and are comfortable with online replenishment. They are motivated by convenience and price and visit their “go-to” sites regularly, rather than exploring the Web for ideas. Since it represents loyal consumers who repeatedly shop for the same items, this segment is extremely important to brands.

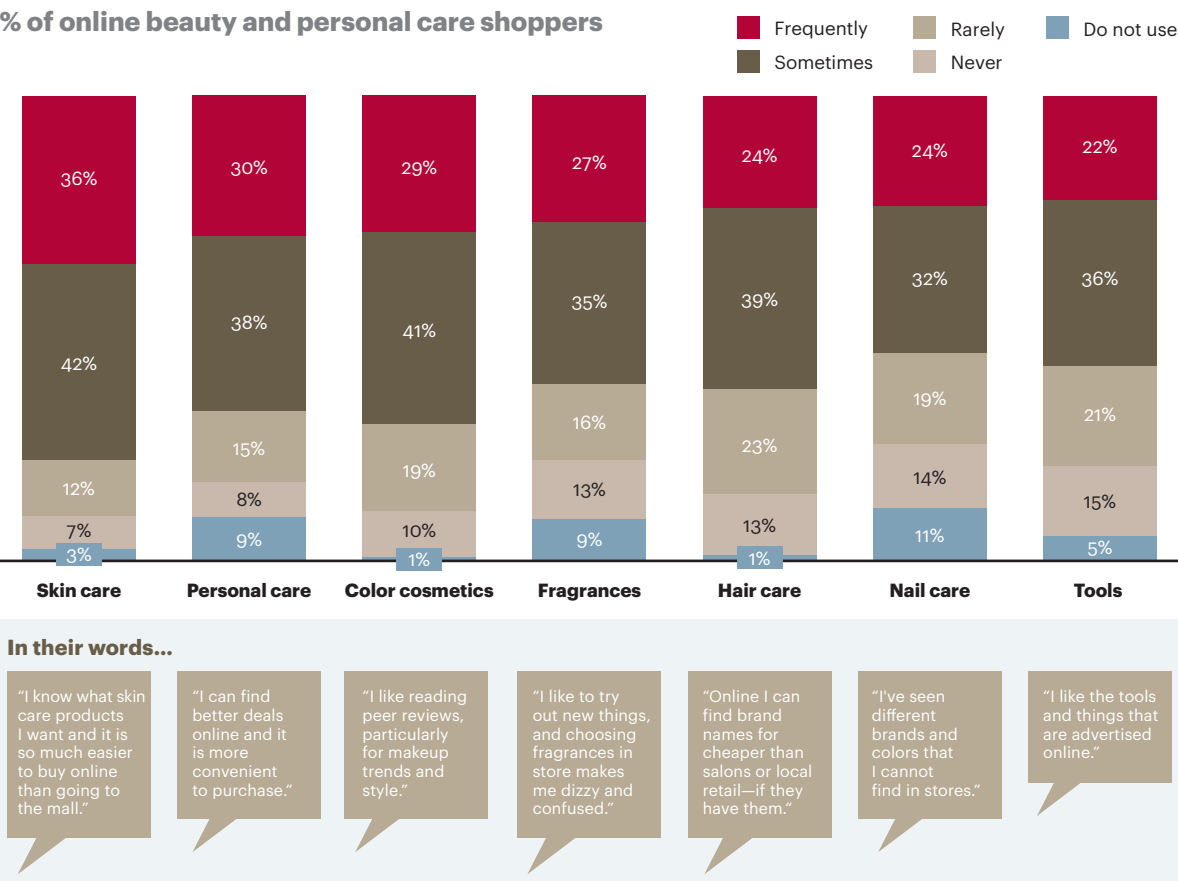
Traditionalists. In addition to the shoppers who purchase beauty and personal care products online, we surveyed 325 respondents who shop online for categories other than beauty. These are consumers who continue to value the ability to touch, explore, and shop for beauty and personal care products in the brick-and-mortar environment, though they are actively shopping online in other adjacent categories such as apparel and accessories. Brands and retailers cannot ignore this large segment of buyers, and should continue to cater to their traditional needs, while actively monitoring them for any signs they are migrating beauty purchases online.

Across all segments, survey participants spend on average \$26 per beauty transaction, but the range of basket sizes varies widely, sometimes reaching \$200 in a single transaction.

What Consumers Want

More than a quarter of consumers say they buy skin care products, personal care products, color cosmetics, and fragrances online (see figure 3). Each of these categories had a marked increase since 2012 in the number of shoppers who say they “frequently” purchase items from this category online: in skin care, 36 percent in 2014 (up from 24 percent); in personal care, 30 percent (up from 17 percent); in color cosmetics, 29 percent (up from 13 percent); and in fragrances, 27 percent (up from 11 percent).

Figure 3
Segmenting online beauty and personal care shoppers



Note: The percentages are a breakdown of 560 respondents who identified themselves as online beauty shoppers.
Source: A.T. Kearney survey of online shoppers, May 2014

While two years ago it seemed that consumers were more comfortable purchasing products online when loyalty is high, such as in skin care, now they are more comfortable buying any product online, including fragrances or color cosmetics, products that typically require more experimentation. This is a sign that more consumers are adopting and embracing e-commerce, and that new innovative sampling models are helping to satisfy the need for experimentation.

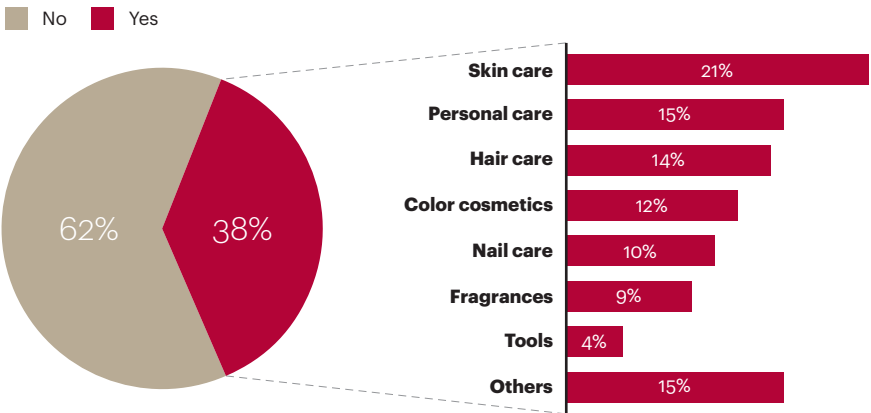
Consumers are more comfortable buying online, **including products that typically require more experimentation.**

In addition, with the huge boost in online subscription and replenishment services across categories, this year we specifically asked participants to tell us about their adoption of online replenishment programs. A resounding 38 percent of our sample reported that they have subscribed to at least one replenishment program. Convenience and the ability to incorporate product replenishment with larger orders of household goods on a periodic basis were cited as the main reasons for this steep adoption. However, some reported opting out of replenishment programs mostly due to a need to experiment more or the feeling that the programs overestimated their consumption (see figure 4).

Figure 4
Online replenishment subscriptions are increasing

Have you ever subscribed to a monthly replenishment program for your favorite beauty or personal care product?

(% of online beauty and personal care shoppers)



In the words of the consumers...

"Turning a basic thing like shopping and putting it on a schedule turns it into a chore for me. I'd prefer to work on my schedule."

"I try so many new things—I would hate to get enrolled in this and find a better product for me later."

"If what I read is true, it's almost impossible to cancel a subscription."

"What if I run out before the next shipment is due? What if I'm not using it up fast enough to keep up?"

"I love the convenience of signing up once and never having to worry about getting my products on time again."

"I find it very convenient."

"I do this not only for beauty products, but also for household supplies, diapers, and certain foods."

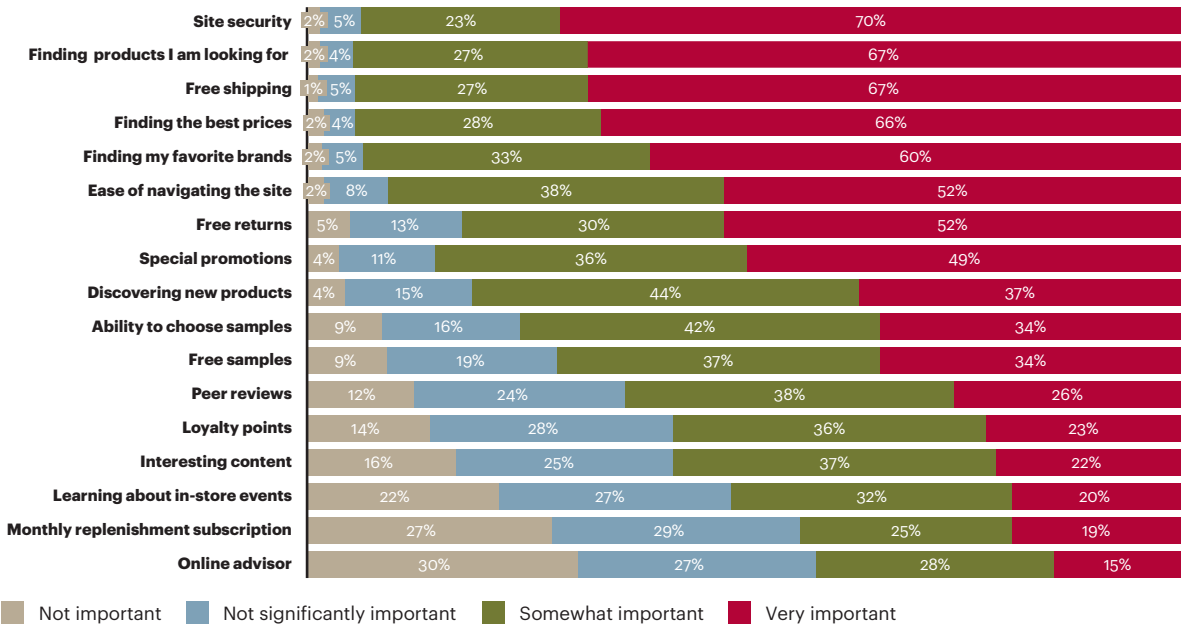
"I like that I never run out—the next shipment is always on schedule on time."

Note: The percentages are a breakdown of 560 respondents who identified themselves as online beauty shoppers.
Source: A.T. Kearney survey of online shoppers, May 2014

Finally, participants were asked to rate the online shopping attributes that are most important to them, and the results were consistent with 2012. Of the 17 attributes listed, the most utilitarian ones, such as site security, product availability, and free shipping, continue to top the list while experiential features that aim to replicate some of the key aspects of the brick-and-mortar experience, such as beauty advisors, interesting content, and even free samples, did not feature high on the list (see figure 5). This is perhaps because most shoppers in this category are buying to replenish, so convenience, security, and price are more important than experiential attributes.

Figure 5
The most important attributes for buying beauty and personal care products online

% of online beauty and personal care shoppers

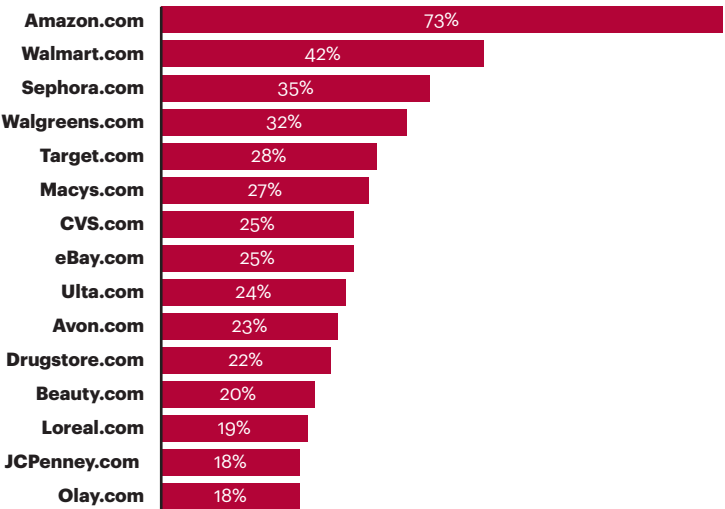


Note: The percentages are a breakdown of 560 respondents who identified themselves as online beauty shoppers.
Source: A.T. Kearney survey of online shoppers, May 2014

Where Shoppers Shop

We asked our respondents where they most frequently shop online, and Amazon remains the leader at 73 percent of the total response pool. Walmart (42 percent) and Sephora (35 percent) are next (see figure 6 on page 7). This is consistent with longitudinal data that reveals which online destinations have seen a growth in consumer activity compared to the prior year. Forty-one percent say they shop with online aggregators like Amazon much more than they did a year ago, 32 percent say the same for specialty retailer sites like Sephora, and 29 percent say the same for general merchandise sites like Walmart. While brand-direct sites (such as Avon.com, Loreal.com, and Olay.com) are also experiencing growth (22 percent of respondents say they shop on brand-direct websites much more than they did a year ago), they are still only a small share of the e-commerce destination landscape.

Figure 6
The top 15 websites for buying beauty and personal care products online



Note: The percentages are a breakdown of 560 respondents who identified themselves as online beauty shoppers.
Source: A.T. Kearney survey of online shoppers, May 2014

How to Tame the Beast

As the market continues to expand and consumers become more savvy, brands and retailers will continue to face the evolving space of beauty e-commerce. Three business imperatives emerge:

1. Manufacturer and retailer collaboration must change. Collaboration between manufacturers and retailers in the quest for engaging today’s online consumer is more important than ever before. The collaboration must seek to master several key tenets for e-commerce success:

- **Consumer targeting.** Truly understanding the consumer landscape requires solid segmentation, based on behavioral, attitudinal, and motivational attributes. This will reveal which consumers are the most promising for each brand.
- **Online category management.** This is a fundamental skill to build within a brand’s sales organization. While most brands understand this, few have figured out what it looks like and what it means operationally.
- **Vertical synergy.** Brands and retailers can work together to test new concepts such as sampling, online “stores within a store,” and replenishment programs.

2. The store is not dead—but its role is changing. As e-commerce penetration is just 6.5 percent of the category, stores remain the main channel for beauty. But their role is shifting from transactional platforms to experiential ones, and, to a degree not seen before, every consumer that walks through a door is armed with product information and opinions. This requires brands to rethink elements such as shelf planograms, retail staffing, and integration between online and in-store experiences.

Additionally, as e-commerce offers a direct-to-consumer access point to brands everywhere, managing channel conflict between brand and retailer websites while simultaneously looking to collaborate more on consumer activation will continue to be a delicate balance to master.

3. E-commerce is more than transactions: Content strategy is key. Long-term success in e-commerce depends on the ability of brands and retailers to build true consumer engagement—beyond just the initial acquisition and activation. Indeed, nearly all consumer-centric companies with an online presence have to behave like media companies, developing content relevant to and differentiated for the information-age consumer.

Successful beauty brands will develop content strategies first around the product (how-to, the brand story) and then beyond, into lifestyle content relevant for retailers and target buyers. Capabilities can only be developed in-house to an extent. Partnerships—among retailers, brands, and other content providers, including users—will be increasingly important.

So there we have it: the state of e-commerce in the beauty industry. Retailers and brands that can work together to seamlessly deliver a vibrant online experience for their target consumers will tame the beast, separating tomorrow’s winners from yesterday’s has-beens.

Authors



Hana Ben-Shabat, partner, New York
hana.ben-shabat@atkearney.com



Kosha Gada, principal, New York
kosha.gada@atkearney.com

Appendix

About the Study

The 2014 A.T. Kearney study of e-commerce in beauty and personal care is based on an online survey of 1,022 consumers' answers to questions about their shopping behaviors, motivations, favorite attributes, and preferred online shopping destinations. Eighty-seven percent of respondents (885 in total) identified themselves as online shoppers. Of those 885 shoppers, 63 percent (560) made at least one purchase of a beauty and personal care product online in the past 12 months. The sample is representative of the U.S. population for both income and age distribution. To focus on likely beauty and personal care consumers, the sample set comprised 75 percent female consumers and 25 percent male.

We believe that the results and insights of this study are indicative of trends and behaviors in the U.S. market, but we are cautious with extrapolations because of the relatively small sample of shoppers surveyed.

A.T. Kearney is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. A.T. Kearney is a partner-owned firm, committed to helping clients achieve immediate impact and growing advantage on their most mission-critical issues. For more information, visit www.atkearney.com.

Americas	Atlanta	Detroit	San Francisco
	Bogotá	Houston	São Paulo
	Calgary	Mexico City	Toronto
	Chicago	New York	Washington, D.C.
	Dallas	Palo Alto	
Asia Pacific	Bangkok	Melbourne	Singapore
	Beijing	Mumbai	Sydney
	Hong Kong	New Delhi	Taipei
	Jakarta	Seoul	Tokyo
	Kuala Lumpur	Shanghai	
Europe	Amsterdam	Istanbul	Oslo
	Berlin	Kiev	Paris
	Brussels	Lisbon	Prague
	Bucharest	Ljubljana	Rome
	Budapest	London	Stockholm
	Copenhagen	Madrid	Stuttgart
	Düsseldorf	Milan	Vienna
	Frankfurt	Moscow	Warsaw
	Helsinki	Munich	Zurich
Middle East and Africa	Abu Dhabi	Dubai	Manama
	Doha	Johannesburg	Riyadh

For more information, permission to reprint or translate this work, and all other correspondence, please email: insight@atkearney.com.

The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.

A.T. Kearney Korea LLC is a separate and independent legal entity operating under the A.T. Kearney name in Korea.

A.T. Kearney operates in India as A.T. Kearney Limited (Branch Office), a branch office of A.T. Kearney Limited, a company organized under the laws of England and Wales.

© 2015, A.T. Kearney, Inc. All rights reserved.