ATKearney

Digital Beauty in Europe: Attract Consumers and Win Online

Beauty and personal care could be the next big online category in Europe—but only if products and online shops meet the unque needs of consumers in different segments and countries.

Online sales of beauty and personal care products in Europe are drop-dead attractive. Poised to increase by more than 8 percent on a compound annual basis between 2009 and 2019, they present head-turning potential that is four times the growth of the overall category.[1]

These are the main findings in A.T. Kearney's 2016 study of beauty and personal care e-commerce sales in Europe (see sidebar: About the Study on page 2). Focused on consumers in the United Kingdom, Germany, and France—the leading countries for online beauty purchases in the region—this year's study offers new insights into several areas, including the effect of multi-channel integration, smartphone apps, new product offerings (such as organic products), and need-based consumer segments.

One would think that the desire to see, touch, and try beauty products means shoppers will continue to prefer in-store purchases, but recent advances in online fashion sales are setting a precedent that benefits online beauty sales. Our research reveals three main findings for 2016:

1. Beauty and personal care e-commerce has the potential to become the next big online category, and offers opportunity for innovation and differentiation
2. Online shoppers in this category are not only interested in price and promotions, they are also interested in:
    - Purchasing their regularly used products online
    - Convenience
    - Inspiration—for new makeover and beauty ideas
3. A mix of online shoppers make up the consumer segments and some mature markets, necessitating specific offerings targeted to specific customer segments

In this paper, we take a deeper look at the latest developments in beauty and personal care e-commerce, share findings from the study, and offer insights for ways in which brand owners and retailers can capture new online growth opportunities.

Who Shops Online and How They Feel About Price

Women still dominate online shopping for beauty and personal care products: 53 percent shop online for these products compared with 34 percent of men. Yet, surprisingly, men and women online shoppers spend equal amounts of money on beauty and personal care items.

Overall, study participants continue to cite price as a main reason they shop for beauty and personal care items online, with promotions and special deals also ranking high. In 2013, 52 percent of online shoppers listed deals and promotions as key motivators for purchasing beauty products online. In 2015, this number was up to 62 percent as online prices reached parity with in-store prices.

Insights on pricing

These findings suggest that instead of offering an everyday low price, there is potential to increase revenues through promotional pricing. Promotions also may be a way to lure shoppers

[1] Euromonitor

About the Study

Since 2012, A.T. Kearney has conducted a study on the current status, recent developments, and future trends in beauty and personal care e-commerce in the top three European markets: the United Kingdom, Germany, and France. We have analyzed responses from more than 5,000 consumers in total, and this latest survey is based on responses from 1,226 shoppers. Nearly equally distributed across the three countries, our survey participants are representative of consumers in terms of age, income, and gender for each country. More than 90 percent of participants are online shoppers, and more than 50 percent either browse or shop beauty and personal care products online.

from other online beauty retailers, using them as incentives to accept non-monetary switching costs. Importantly, remember that pricing and promotion trends are largely driven by country-specific shopping behaviors and are not the same across the United Kingdom, Germany, and France.

The Value of Digital "Touch and Feel"

Other reasons for shopping for beauty and personal care products online are encroaching on price. In 2014 and 2015, our research found that 65 percent of consumers have non-price-related reasons for browsing a category , but other non-price-related reasons have gained importance: 50 percent like to obtain information on new products, 28 percent like to read peer product reviews, 22 percent look for makeover ideas and say they like celebrity endorsements. Overall, these reasons for going online rose 4 to 7 percentage points in importance.

Digging a little deeper, we found that time has become more valuable to today's online beauty shoppers as they are less willing to invest a lot of time in online price hunting; since the frequency and basket sizes with which beauty and personal care items are purchased is generally well below other fast-moving consumer goods such as food products.

Insights on the digital experience

There is a clear opportunity for retailers and brand owners with their own online presence to differentiate their offerings, using:

- In-store digital tryouts, or pop-up stores, with the option to purchase products online
- Apps with facial recognition or skin-tone tests to recommend products
- Beauty communities—consumer discussion boards and offers of expert advice
- Consumer product reviews with photos that show product results
- Free samples included in delivery

Overall, providing a digital touch and feel is more than an opportunity for differentiation, it is also a way to increase online penetration of the category—essentially to capture the 20 percent of consumers who say they do not shop beauty and personal care online because they need to see, touch, and try these products.

How Consumer Segments Differ

As part of our research, we performed a needs-based segmentation, which reveals important differences among online beauty and personal care shoppers. For example, "classic" shoppers (46 percent) comprise the largest group and are mostly concerned with price and convenience. The remaining 54 percent of shoppers consider other factors as very important (see figure 1):

- **Natural cosmetics lovers (18 percent)** are most interested in the natural origin of beauty and personal care products
- **Health-focused shoppers (17 percent)** rank product tolerance and efficacy as very important purchasing criteria
- **Beauty junkies (10 percent)** think of beauty as a hobby
- **Fashionistas (9 percent)** rank brands, trends, and product packaging as crucial factors when making a purchase decision

Insights on consumers

Brand owners and retailers that understand the differences among the five consumer segments can use this information to tailor offerings to their target consumers. For example, beauty

Figure 1
Online beauty and personal care shoppers differ by age and characteristics

Overview of select characteristics
(n=672)

	General		Willingness to experiment		Delivery expectations		
	Age	Monthly spend[1]	New brands	New products	Expected delivery time[2]	Willingness to pay for delivery	Willingness to pay for returns
Fashionistas	18–45	€53			1 to 4 days		
Beauty junkies	18–35	€68			1 to 2 days		
Natural cosmetics lovers	26–55	€32			1 to 4 days		
Health-focused shoppers	26–65	€40			1 to 4 days		
Classic beauty shoppers	26–65	€23			1 to 4 days		

Low High Very low Very high

[1] Total monthly spend on beauty and personal care products across channels
[2] What most respondents desire in delivery times
Note: For some survey questions, the sample size varies according to number of responses received; "others" are not included.
Sources: Online Shoppers of Beauty and Personal Care Products in the UK, Germany, and France; A.T. Kearney study, 2016

junkies and fashionistas appear most promising for cross-selling new products and brands. Although they make up the smallest share of shoppers in our analysis, both segments spend an average two to three times more money on beauty and personal care products per person per month than classic shoppers. They enjoy higher average income and have a larger share of disposable income to spend on beauty and personal care items. Plus they are more willing to pay for delivery and returns.

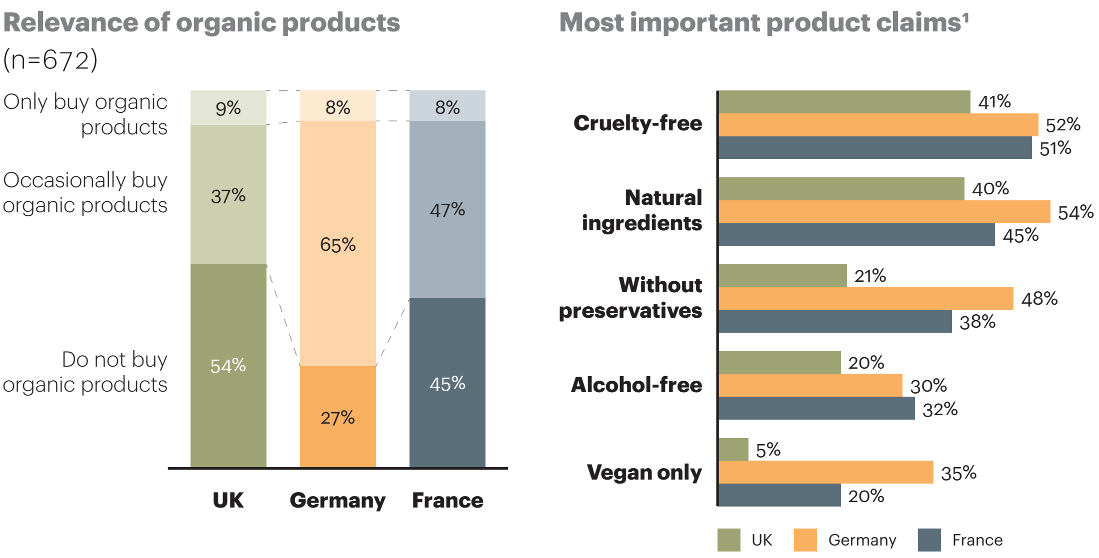
Interestingly, despite the different characteristics of these consumer segments, there are minimal differences in terms of social media usage. All online shoppers are members of at least one social media platform; the majority are members on two or more of those platforms.

Why Organic and Custom Products Matter

While organic products are well established in food products (about 5 percent of the German food market, for example), organic has not yet reached the same relevance in beauty and personal care products sold in brick-and-mortar stores. Yet, surprisingly, almost half of all online shoppers in major European markets buy organic beauty and personal care products, either exclusively or occasionally. Again, countries differ: In Germany, 65 percent of online beauty and personal care shoppers buy organic products occasionally, and 8 percent buy them exclusively. Cruelty-free products and products with natural ingredients are considered most important by these shoppers across the three countries (see figure 2).

Custom beauty and personal care products is an area that is ripe for product innovation. According to our findings, more than half of all online shoppers prefer custom products. In France, 71 percent of online shoppers consider customized beauty and personal care products

Figure 2
Half of online shoppers buy organic beauty and personal care products, either exclusively or occasionally



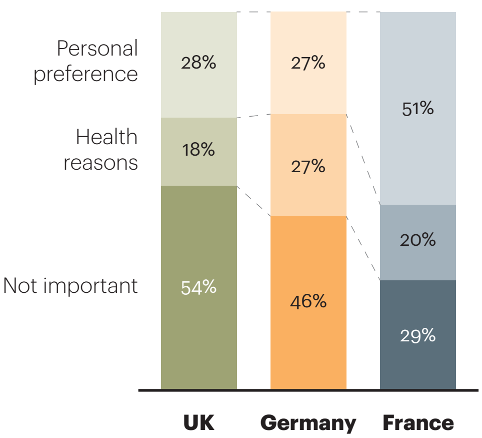
[1] Respondents could provide more than one answer.

Note: Sample size varies by number of responses to specific questions.

Sources: Online Shoppers of Beauty and Personal Care Products in the UK, Germany, and France; A.T. Kearney study, 2016 important compared with about 50 percent in the United Kingdom and Germany. Overall, with 51 percent of French shoppers indicating that customized products are a personal preference rather than something needed for health reasons (see figure 3). Across the three countries, online shoppers in Germany and France view customization of ingredients and preservatives as most important, while UK shoppers consider fragrances.

Figure 3
Product customization is most important to the French, while the top three needs are the same for all countries

Importance of product customization
(n=672)



Top five customization needs
(independent of actual shopping behavior[1])

	UK	Germany	France
1	Fragrance	Ingredients	Ingredients
2	Ingredients	Preservatives	Preservatives
3	Preservatives	Fragrance	Fragrance
4	Color	Color	Color
5	Packaging	Packaging	Packaging

Note: Sample size varies by number of responses to specific questions.
Sources: Online Shoppers of Beauty and Personal Care Products in the UK, Germany, and France; A.T. Kearney study, 2016

Insights on organic and custom products

As online retail continues to gain strength as a channel for organic beauty and personal care products, there will be even more opportunities to steal market share from traditional retail. Also, custom beauty and personal care products is an area that is ripe for product innovation. Clearly, price is not the only thing that counts for online shoppers of beauty and personal care products.

Ranking the Leading Online Sites

Our research includes ranking the leading online sites for beauty and personal care purchases in the three European countries. Amazon ranks as the favorite online shop for beauty and personal care by 22 percent of shoppers in the United Kingdom and 25 percent of shoppers in Germany. For comparison, it is the favorite online shop for 73 percent of consumers in the United States. Amazon ranks second in France (17 percent) just behind Yvesrocher.fr. However, the gap is closing as Amazon continues to adapt quickly to changing customer needs, such as adding automatic replenishment of products and allowing the customer to choose the frequency.

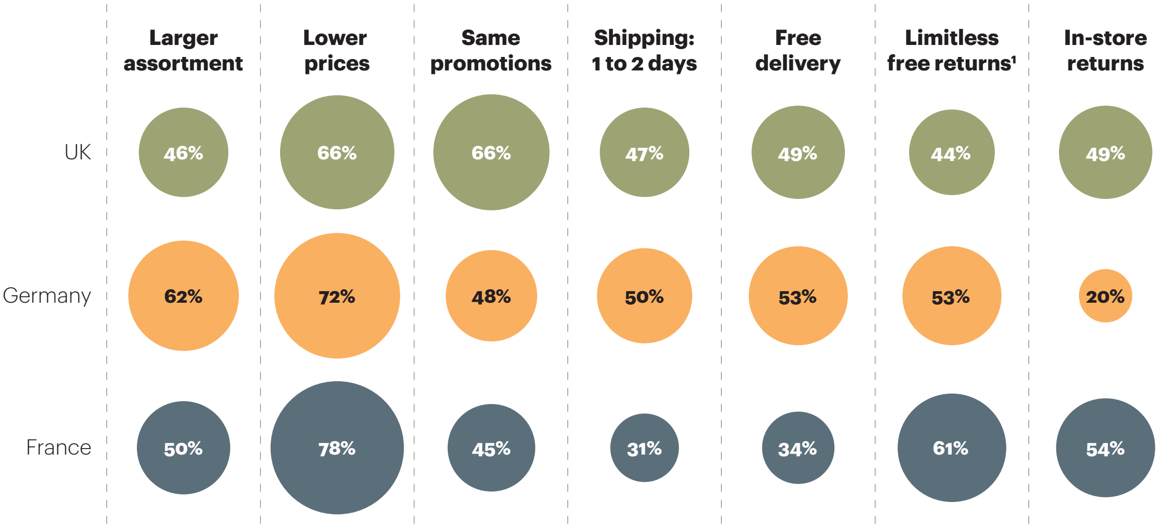
Beyond Amazon, online shops in Germany are becoming more competitive, including perfume and cosmetics retailer Douglas, drugstore chains Rossmann and dm, and branded shops such as NIVEA. In the United Kingdom, Amazon is followed by drugstore chain Boots—the country's third-most important brand and the only top-ranked private label in our research on brand importance.

Findings by Country

Online shoppers have strong country-to-country preferences—whether they touch pricing, promotions, or shipping and returns (see figure 4).

Figure 4
After lower prices, online beauty and personal care shoppers have more diverse expectations

Online expectations of shoppers
(% of respondents by country, n=672)



[1] Refers to postal returns
Sources: Online Shoppers of Beauty and Personal Care Products in the UK, Germany, and France; A.T. Kearney study, 2016

What's Important in the United Kingdom

The United Kingdom is well advanced in online share of the beauty and personal care product market. UK shoppers browse online for promotions and special deals more so than for lower prices, and the majority of shoppers expect to find the same promotions online as in stores. In contrast, most online beauty shoppers in Germany and France expect to find lower prices online compared to brick-and-mortar stores.

More UK retailers are offering online deals and developing integrated promotional strategies to attract customers. In cases where the online and offline business is organized in separate business units or departments, retailers are pursuing high-level alignment of annual promotion strategies and plans between units and departments.

Shipping and returns

- Nine out of 10 UK consumers expect delivery of their online orders in four days or less
- About half expect free shipping
- Ninety-three percent have little tolerance for shipping costs above £5

Fifty percent of shoppers want to return online purchases in stores, and 25 percent want to return online purchases at the time of delivery. Given the touch and feel nature of the category, addressing a customer’s desire for convenient and low-cost returns is key to taking beauty and personal care e-commerce to the next level in the United Kingdom.

How Germans Shop Beauty and Personal Care Online

German shoppers are well known for being price conscious. But when it comes to beauty and personal care products, Germans (more so than the French or Brits) like to go online to get information about new products, to research what others think (peer reviews), and to obtain makeover ideas. Indeed, 68 percent of Germans go online to compare prices, while almost as many (62 percent) say finding information on new products is the main reason for browsing. And while Germans appear less interested in online promotions than the French or the British, 62 percent of Germans expect online assortments to be larger than those in brick-and-mortar stores.

Shipping and returns

Just like the Brits, Germans are particularly demanding when it comes to shipping.

- More than 90 percent expect shipping times of four days or less
- More than half (53 percent) of German shoppers expect free shipping
- 98 percent say they will not pay more than €5 per shipment

Postal returns are by far the most popular return mode. Shoppers expect maximum convenience, including parcels that can be re-sealed and sent back using charge-free pre-printed return stickers with extended return deadlines. Online fashion retailers have set the ground rules for returns by offering free returns up to 100 days from the date of purchase.

Brand preferences

Despite the rise of private labels at large drugstore chains, most Germans still prefer the major brands. In 2015, Rossmann and dm, two leading drugstore chains, were among the top five favorite online shops for beauty and personal care. And while Amazon is still the number-one preferred online shop for German beauty shoppers, Douglas.de has caught up and now ranks second, and Nivea.de is catching up as well.

Why France Is Different

Similar to the United Kingdom, 70 percent of online beauty and personal care shoppers in France are motivated by promotions and special deals, compared with 66 percent motivated by price comparisons.

Shipping and returns

In some ways, the French are less demanding when it comes to expedited shipping times.

- Just 31 percent expect shipping times of one to two days (85 percent are not willing to accept deliveries of five or more days)
- Only 34 percent expect free shipping
- Eighty-seven percent are not willing to pay more than €5 per shipment. Therefore, the free order threshold in France might be set slightly higher than in the United Kingdom (93 percent) and Germany (98 percent)

When it comes to returns, 61 percent of French shoppers expect unlimited free returns, a rate that exceeds demand for this service in the other countries studied. Plus, more than half of French consumers want the option to return online purchases in stores.

Brand preferences

France is dominated by local brands and online shops. Of the three markets in our study, France is the only one that does not rank Amazon the most favorite online shop. Here, Yvesrocher.fr is first and Amazon is second. However, compared with our 2013 study findings, Amazon has doubled its popularity in France and is catching up. To maintain the lead in online shops, Yvesrocher.fr and other local French sites must offer more of what customers want, such as virtual try-outs, inspiration for new beauty ideas, and online beauty communities. Furthermore, suppliers with physical stores are already in the game and providing multichannel offerings.

Retail remains a local business with consumers who have country-specific needs—even in times of rising e-commerce.

What Brand Owners and Retailers Can Do

We have distilled three key implications for retailers to consider:

1. Understand and rethink your target customers based on their needs and willingness to pay

Whether a company is already active in multiple markets, is considering entering new ones, or is maintaining a single-market focus, it is essential to understand consumer differences and buying behaviors in each market. It is no longer feasible to segment consumers by demographic data. Rather segmenting them based on their beauty and personal care needs provides insights into regional differences and is a prerequisite for customizing offerings to appeal to your target customers. Segmentation is the basis for defining aspects of your offerings that consumers value, are willing to pay for, and that set you apart from the competition. It is also a way to reduce costs by not adding features that your customers do not value.

2. Define integrated offerings, but be selective

A successful omnichannel strategy requires adapting traditional category management practices—assortment, pricing, promotional planning, and placement—to the online business. For example, unless you know the net impact on sales and margins, slashing prices across the board or offering large-scale discounts will quickly destroy value. The best pricing (including dynamic pricing) and promotion decisions are managed within an integrated approach that offers transparency into promotional effectiveness. Sephora is one of several leading players that use this approach. Sephora's marketing strategy unites online and in-store experiences and promotes the brand using social media, mobile, and the Internet. Using analytics, it identifies and segments purchases and determines the impact of its marketing campaigns and merchandising to better meet customers' needs. And instead of hand-wringing over shelf space and appearance, the top online retailers have positioning strategies for their products and brands and knowledge of key-word searches.

Pellentesque habitant morbi tristique senectus et netus et malesuada fames ac turpis egestas. Nulla dignissim ipsum nec leo maximus.

3. Differentiate and tailor your offerings

The most successful beauty and personal care brand owners and retailers think beyond pricing. They take an all-encompassing online category approach, selectively integrating offerings and providing touch and feel, inspiration, and advice. While convenient shipping and return models are generally considered "nice to have," in the retail world, these models are mandatory in the online world to further drive penetration. Consider typical Amazon customers. They have the choice between two products at the same price; the one that offers free shipping will get the order. Further, there is no end in sight to the high penetration of social media across all consumer segments and countries, which means any company without a digital marketing strategy will not be around for long.

Looking for an Inventive Spirit

As we said in the opening, beauty and personal care e-commerce has the potential to become the next big online category. Our latest study confirms this. Online beauty shoppers are increasingly moving beyond price and promotion to also value the convenience of online shopping, reading product reviews, sharing online makeup tips, and receiving automatic refills of regularly used products. There is an opportunity for brand owners and retailers to capture this opportunity. To get in the game requires the ability to target specific products to specific customers. To stay in the game requires the ability to identify new trends and creative concepts. And to win the game? That requires an inventive spirit and the will to win.

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