

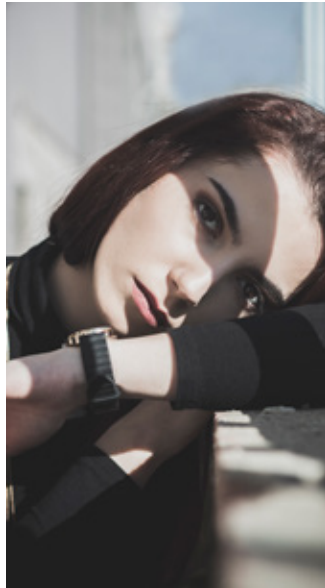


2023 State of the Beauty Industry

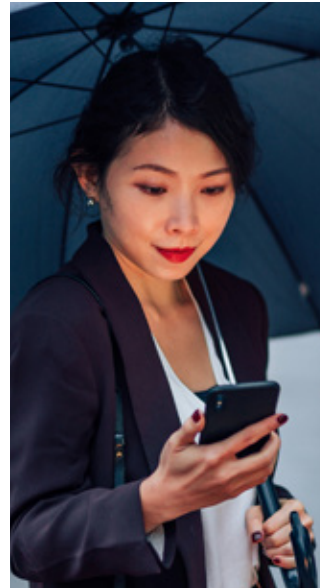
NielsenIQ

Overview

After a year of accelerating CPG inflation and fears of an impending recession, consumers are feeling unsettled. This state of continued economic uncertainty is setting the spending tone for the year. According to NIQ's 2023 Consumer Outlook, consumers have four top priorities in 2023:



46%
Mental wellness

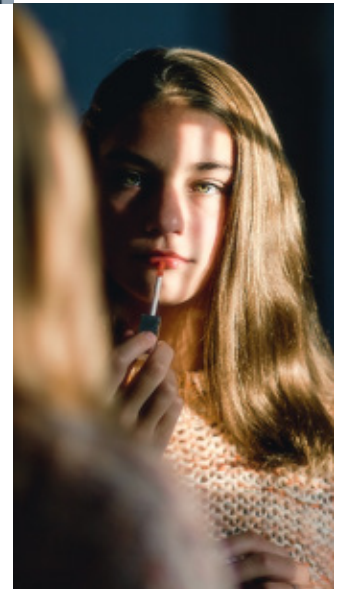


46%
Financial and job security

46%
Physical wellness



44%
Saving for unforeseen circumstances



For 46% of surveyed global consumers, financial health and job security are on par with mental and physical wellness as the leading areas of importance to our lives.

What follows is an analysis of how these shifting priorities impacted consumer spending on Beauty and Personal Care (BPC) in 2022, and what's next for the industry in 2023.

Performance varies by category

Like the year before, 2022 was a year of surprises in BPC. Consumer shopping habits and needs changed at lightning speed. Categories that were once seen as “safe” suddenly declined, popular products were dropped, and longstanding industry best practices were called into question.

Although 2022 was a challenging year for the Lipstick Index, with the entire Color Cosmetics category declining for several months, the “treat yourself mindset” was still alive and well. It simply manifested in different categories — most noticeably in Fragrances, which showed 19% dollar sales growth.

The industry rebounded from COVID-19 related disruptions with strong growth in almost all beauty categories. But now there is much more nuance. NIQ Omnishopper Panel shows that consumers are shopping differently, with clear winners and losers emerging among categories:

Total growth (\$ % chg) YA

	Total omni	Total instore	Total online
Fragrances	19%	3.7%	26.7%
Deodorant	14.8%	13.4%	21.8%
Sun care	11.4%	10.0%	14.2%
Cosmetics & nail	9.1%	6.6%	13.0%
Facial skin care	7.2%	7.7%	6.7%
HBL	6.0%	4.5%	8.8%
Hair care	5.7%	0.8%	16.5%
Hair removal	0.3%	-1.8%	4.8%
Bath & shower	-0.4%	-2.2%	6.2%

The fragrance category was the clear winner of 2022, with its explosive 19% growth driven roughly equally by price increases and rising consumer demand. It is worth noting the widening gap between channel growth: in-store growth stood at less than 4% while online dollar sales growth increased 27%. Although unit sales of deodorant were flat, the category’s nearly 15% growth was fueled by a consumer shift to natural deodorant. Similarly, brick-and-mortar paled in comparison to online sales: in-store sales grew 13% while online sales increased almost 22%.

Despite consumers returning to brick-and-mortar stores in swaths, online shopping is not merely surviving but thriving. To remain in lockstep with the needs of shoppers, brands and retailers will need to continuously optimize their omnichannel strategy and digital shelf.

Source: NielsenIQ Omnishopper Panel, 52 weeks ending 12/31/22

Beauty Care (Cosmetics & Nail Grooming, Facial Skin Care, Fragrances, Hair Care, HBL, Hair Removal, Sun Care, Deodorant)

Source: NielsenIQ Trending Attributes, Fragrance, amazon.com, ulta.com, sephora.com, Oct-Dec 2023

Growing sales, slowing units

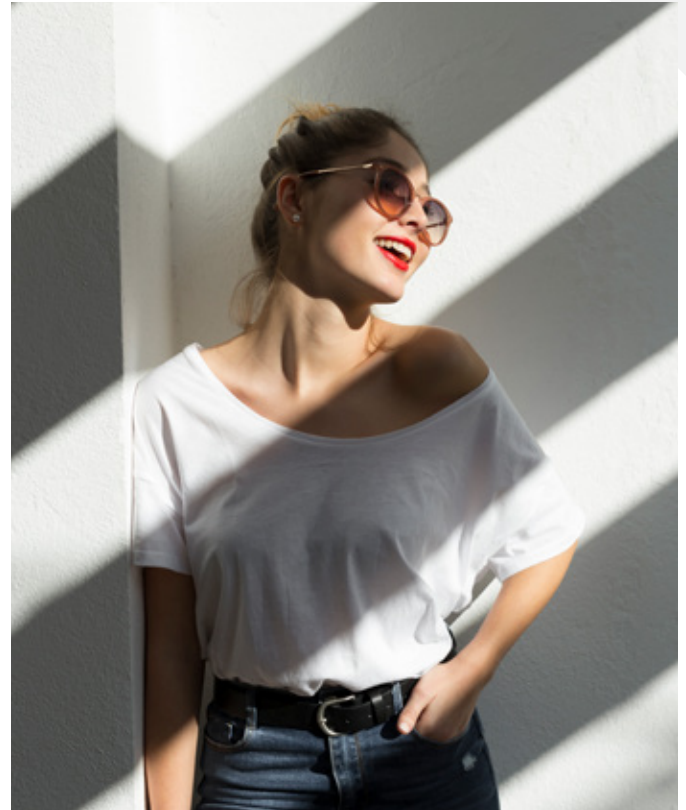
Beauty showed positive dollar growth in 2022, with both in-store and online sales on the rise. However, there is another underlying trend that Beauty brands and retailers should pay close attention to: slowing unit sales. Although total beauty sales increased 6.7%, reaching \$90 billion, total *unit* sales in beauty fell almost 4%. In-store units suffered the most, falling 6.6%.

Inflation is a driving force for this decline.

While the overall inflation rate in the US slowed in December 2022 to 6.5%, Beauty prices increased 11% in 2022, which is slightly behind the 14% increase for total CPG food. The outlook is unsure, as consumers are fearful that economic conditions will remain challenging: 67% of Americans think the US is already in a recession and are adjusting their spending accordingly.

E-commerce performance may serve as an indicator for turning tides. Online unit sales grew almost 11%, underscoring the importance of this already valuable channel. Online orders currently account for 38% of total beauty sales, up 2% from 2021.

Overall, Beauty is a resilient industry that is performing well, which is notable in the difficult economic circumstances facing CPG. However, retailers and manufacturers in this space should still be cautious of declining units and the shifting consumer consumption habits they signal.



2023 trend outlook: The 6 themes shaping beauty this year

We have our eyes on six themes that are poised to shape the Beauty industry in 2023

1 Taboo topics

Consumers are becoming more willing to talk about taboo topics. Nothing is off the table, and sales are reflecting this growing trend. Four trends we see that are particularly worth noting are acne acceptance, men's cosmetics, aging (particularly menopause), and sexual wellness.

Menopausal products in particular are showing extraordinary growth in beauty. Gen X is approaching menopause with more transparency and willingness to voice their needs. Skin and hair change with age, becoming thinner and drier, so it's only natural that we are starting to see launches specifically made for aging skin and hair.

2 Sustainable beauty

Beauty is moving from a focus on clean ingredients to a focus on sustainability throughout the product life cycle, from ingredient sourcing to disposal. Consumers are considering not only what the packaging is made of but also whether it can be refilled, recycled, or composted. In response, brands are placing sustainability at the forefront of new product offerings—for example, Izzy's refillable mascara, Garnier's washable makeup remover pads, and Pacifica's reusable undereye masks. We expect this trend to continue growing in 2023 and beyond.

3 Self-care or sacrifice?

Inflation has impacted consumers in every aisle. 82% of US beauty shoppers have noticed an increase in prices over the past year. How are they responding to the shift?

According to an NIQ survey, almost one in four (24%) BPC shoppers plan to spend less, 47% plan to spend the same, and 29% plan to spend more. Of the shoppers who plan to spend more:

42%

will buy more often

34%

will try new products

30%

will upgrade to more sustainable products

29%

will purchase more expensive products

Of the shoppers who plan to spend less:



In a time of economic uncertainty, where **many Americans are shopping like the recession is already here**, it is important for CPG firms to be aware of how beauty purchases fit into the overall consumer wallet and which categories might be most at risk.

4 Innovation

2022 was a slower year for innovation, with the number of new items launched in BPC down 13% year over year. Companies were focused on managing challenges around supply chain issues and inflation, so innovation took a backseat. This has created a unique moment for innovation: with less competition than usual for shelf space, it is an ideal time for manufacturers to release new products.

The themes that we saw rise in importance for innovation were sustainable production, trusted advisors (often celebrities), personalization and inclusivity, and a focus on clean ingredients.

5 Celebrity brands

Celebrity brands like Kylie Cosmetics, Goop, and Fenty are making an impact on the beauty market, representing close to 1% of sales. We are measuring \$786M in sales across all celebrity beauty brands, which is a growth rate of 32% over the prior year.

However, there are signs of fatigue in the marketplace. We saw 7 celebrity brands launch in 2020, 11 in 2021, and 12 in 2022, so the rate of new launches is certainly accelerating. Consumers are starting to question the intention behind the launches of these brands: Is it because of the celebrity's love for beauty and skin care, or a less-than authentic commercial opportunity? The onus is on celebrities to work harder to prove why their brand is meaningful.

Want to know more about success in the world of celebrity brands?

NielsenIQ will be releasing "The Ultimate Guide to Celebrity Beauty Brands" in early 2023.

With inflation persisting and fears of a recession affecting consumer spending choices, consumers have become increasingly brand-agnostic, basing purchase decisions on the value and function they provide. The lines are blurring: a given shopper may purchase a \$55 serum but also buy a \$7 concealer from a mass retailer.

To succeed in the year ahead and beyond, BPC brands and retailers must cultivate a clear understanding of their customers' underlying needs and motivations when browsing the Beauty aisle.

We are seeing a similar fragmentation across retailers and channels, both offline and online. In a notable deviation from past years, 38% of direct-to-consumer (DTC) shoppers are shifting to brick-and-mortar stores, replacing online purchases with in-store trips. Specialty, mass, and department stores are capturing a disproportionately large share of those purchases.

This shift indicates an important aspect of e-commerce: just because a consumer purchases online, doesn't mean they will continue buying online forever. Consequently, another key to BPC success will be keeping a close watch on channel shifting trends so brands and retailers can meet shoppers where they are.

From channel displacement to economic displacement

After pandemic restrictions eased and North Americans returned to brick-and-mortar stores, the question remained: "Will online shopping still stick?" Consumers have responded with a resounding "yes," with online dollar sales growth outpacing in-store growth in almost every category. Amazon took the undisputed BPC crown in 2022, seeing a 17% increase in unit sales—no small accomplishment in an industry experiencing a decline in volume.

In the face of economic uncertainty, consumer priorities have shifted to a focus on financial security and wellness. It is vital to understand that many consumers will be forced to make tradeoffs on their spending if food inflation stays high. Providing—and effectively communicating—value and authenticity will be even more important for BPC success in 2023.

To remain relevant and keep consumers engaged, NIQ recommends tapping into opportunities in innovation, sustainability, and clean ingredients while optimizing both in-store and online storefronts.



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Who is NielsenIQ?

NielsenIQ is the leader in providing the most complete, unbiased view of consumer behavior, globally. Powered by a groundbreaking consumer data platform and fueled by rich analytic capabilities, NielsenIQ enables bold, confident decision-making for the world's leading consumer goods companies and retailers.

Using comprehensive data sets and measuring all transactions equally, NielsenIQ gives clients a forward-looking view into consumer behavior in order to optimize performance across all retail platforms. Our open philosophy on data integration enables the most influential consumer data sets on the planet. NielsenIQ delivers the complete truth.

NielsenIQ, an Advent International portfolio company, has operations in nearly 100 markets, covering more than 90% of the world's population. For more information, visit nielseniq.com.