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ANNOUNCEMENT

In 2021, the Cosmetics & Beauty business blossomed to new heights in department stores, mainly thanks to luxury and premium brands, as well as the care segment.

The IADS and NellyRodi regularly take stock of the retail trends through a series of product category workshops. Their last one was dedicated to the Cosmetics & Beauty category. The business is vibrant, and retailers are focused on dynamizing their product offer, onboarding exclusive brands and products, and developing digital features.

In 2021 and in parallel to Covid-19 starting to withdraw, the Cosmetics & Beauty business increased its share out of the total sales level in department stores, from 11% before the pandemic in 2019, to 13%. Customers also increasingly bought their products online: 13% of the total category business was made online, more than doubling the sales of this channel when compared to 2019.

Product categories have shifted when compared to the pre-pandemic period: skincare was the most important one, showing the strength of the "care" trend and the persistence of the need for customers to take care of themselves. Fragrances slightly increased sales. Due to the continuation of Covid-19-related constraints in 2021 and the obligation to wear masks in several countries, make-up did not recover to pre-Covid levels.

In terms of pricing, luxury brands took the lion's share, with 43% of the total business, followed by the premium segment (30%). Prestige and Mass Market segments each accounted for 13%, and a new price segment appeared, even though it remained small: Ultra-accessible prices (1% of the business). It shows that the price stretches increased when compared to last year, from very high to ultra-low values. This unprecedented price bandwidth is expected to be an asset in the 2022 context of the expected inflation and the rising cost of living.

However, this price stretch, combined with an increased number of Direct to Consumer brands and the predominance of specialized groups (such as **Sephora**) implies that in order to retain their position in an increasingly competitive market, department stores have to work on their differentiation. This goes through a renewal of their product and brand assortments, the maximization of their digital capabilities, and finding an alternative to price promotions, in order to also protect their margin levels.

The assortment challenge, or the race to find the right balance between larger and emerging brands

This point is a key component of the Cosmetics & Beauty business. While partnering with bigger brands comes with its own challenges, onboarding new ones can be a struggle as it is more difficult to find new brands not partnering with specialized groups. Therefore, some IADS members such as **Magasin du Nord** overcame the problem by inking partnerships with **Sephora** and using it as a brand provider.

Another way to address the brand and assortment question is to dynamically develop new segments and categories, based on what is trending (care, fragrances):

- Dermo-cosmetics: when displayed in a 'medical' atmosphere, these products, perceived as safer, allow at the same time to increase the average basket size, and encourage customers to switch from mass-market brands. **Manor** rolled over 10 "Derma Centres" in partnership with **L'Oreal** across Switzerland.
- Men's cosmetics and hair care are attracting attention from younger generations and driving traffic, which is why **El Corte Inglés** is designing and crafting new spaces, products, appliances and services for these categories.
- Alternative fragrances are identified as an opportunity for growth, leading **El Palacio de Hierro** to focus on niche perfumes.

Across the board, sustainability remains a strategic priority with a focus on clean and vegan brands presented in dedicated multi-brand areas. Interestingly, the price point does not seem to be an issue for customers so far.

NellyRodi presented its exclusive selection of up-and-coming brands in the category:

- Skincare: Eadem, Peach & Lily, Inde Wild, Youth to the People, La Rosee, Ouate, TiL, L:A Bruket, Laboté, Pleasing, Cosmic Dealer, Horace, Temple.
- Makeup: Alleyoop, Martine Cosmetics, Pat McGrath, Claropsyche, Axiology, Dries Van Noten, Yolaine, Westman Atelier, Boy de Chanel, War Paint, Mattias.
- Haircare: Cut by Fred, Pattern, Baby Tress, Sachajuan, Gisou, Act + Acre.
- Perfume: Vilhem, Colekt, Carlotha Ray, D'Orsay, Matière Première.
- Other categories: Holidermie, Les Miraculeux, Evolution Botanicals, Hygee, D+ for Care, Lightinderm, Solaris Labs.

Beauty becomes digital: new features for an increasingly popular sales channel

Covid has accelerated the digitalisation of the business, which raised questions about how to enable customers to test and sample products. While brands' apps offer new AR/VR technologies to test products and make diagnoses, **El Palacio de Hierro** developed a "magic mirror" on its website providing customers with recommendations: this digital feature highly contributes to the growth of the conversion rate.

When it comes to digital communication & marketing, it is all about doubling down on solid and proven tools: product efficiency-focused newsletter at **Magasin du Nord,** live shopping sessions at **Galeries Lafayette** with influencers such as Kylie Jenner, and sales through WhatsApp at **El Palacio de Hierro.**

Fight more on the exclusivity or services, less on the price point and promotions

Most IADS members are trying to rely less on price promotions: not only are they a threat to the margin, but they ultimately bring customer fatigue. Offering exclusive products via as many pop-up stores as possible, like **Galeries Lafayette,** is one of the most profitable strategies to attract customers in stores. Gifts with purchases are also a good alternative to promotions. Some members also limit the impact of price promotions by implementing them only online during a very short period of time, in "flash sales" generating traffic and additional purchases.

Beauty services are also part of department stores' upcoming strategies. **Manor** is developing medical treatment services offering light procedures, **El Palacio de Hierro** performs well with services such as laser hair removal and nail salon, and **Galeries Lafayette** has announced the opening of a new wellness floor in July 2022 with exclusive services.

Beauty and Cosmetics remain central in department stores' business and require attention and investments to maintain sales and address competition

While stores' Beauty & Cosmetics business remains steady, the stakes are high when it comes to attracting customers and competing with specialized groups. A relevant product offer is obviously key to differentiation, but it also needs to evolve quickly by integrating new products and trends, with sustainability in mind. Strategies are also being reinvented by shifting focus from price to exclusivity, services and curation. On the digital side of the business, new features and sales channels represent additional growth engines but raise the question of the relationship with large international brands, whose presence on members' e-commerce platforms remains crucial to the business.

About NellyRodi

NellyRodi is a consulting agency in Business and Creative Intelligence. Based in Paris, Tokyo and New York, it is a global reference for foresight applied to industries and services. Our business, based on understanding new consumer standards and new uses, is to support brands, investment funds and institutions on their desirability and performance levers.

Backed by our international future-forward expertise, we not only provide strategic support at the highest levels, i.e. to senior management and investors, but also at the field and operational level.

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About IADS - International Association of Department Stores

The IADS is the most exclusive and oldest professional department store think tank in the world. Its uniqueness lies in the close relationship between its member CEOs, making it a very powerful asset for decision-making at the highest level.

Today, the Association gathers a group of 12 members across the world, all leaders or key players in their respective markets, and represents more than €31bn cumulated annual turnover, achieved through more than 490 stores with 233,000 associates in 19 countries. Members are: Centro Beco (Venezuela), Beijing Hualian Group (PRC), Breuninger (Germany), El Corte Inglés (Spain), El Palacio de Hierro (Mexico), Falabella (Chile), Galeries Lafayette (France), Lifestyle International Holding (Hong Kong), Magasin du Nord (Denmark), Manor (Switzerland), The Mall (Thailand), SM (Philippines).

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