

McKinsey
& Company

The State of Beauty

26th September 2023

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"The State of Fashion: Beauty"

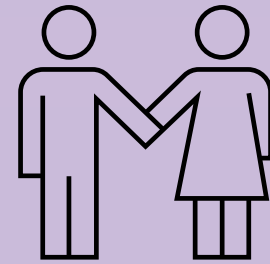
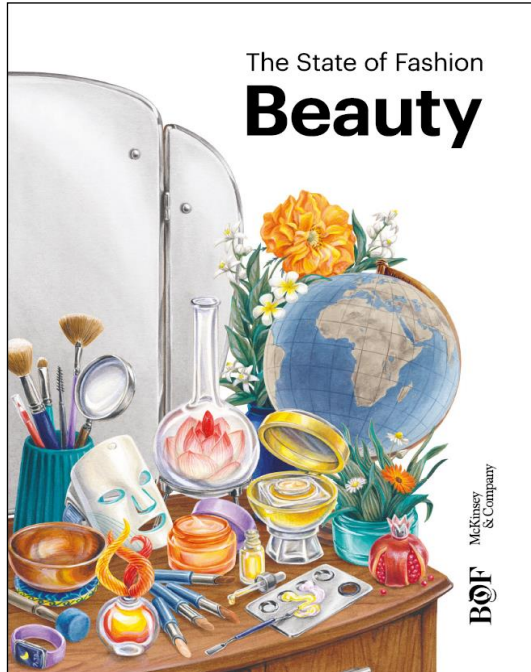


This comprehensive report analyses the global Beauty industry and includes:

McKinsey Global Market Forecasts for 2022-2027 by category and price segment for regions and major countries

The **McKinsey State of Beauty Consumer** survey, completed by over 12,000 respondents across 6 countries (US, China, UK, Germany, France, Italy)

Interviews with prominent industry leaders and experts across categories and different parts of the value chain



THE CONSUMER

State of Beauty – Survey

January 2023

Background of the survey

Who did we survey: Women/men 16 to 65 years old who are purchasing their own beauty products

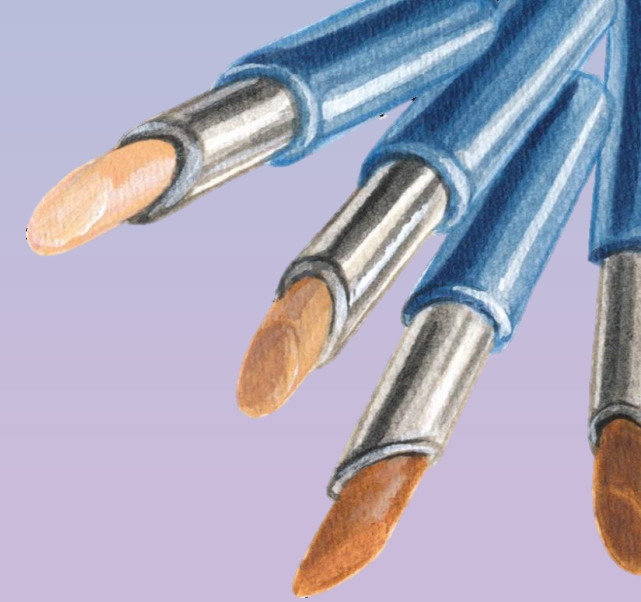
- Must have bought at least one of the 4 categories in the last 6 months
- Minimum spend of £25 per category in the last 6 months

Sub-categories: Skincare, Haircare, Colour Cosmetics, Fragrance

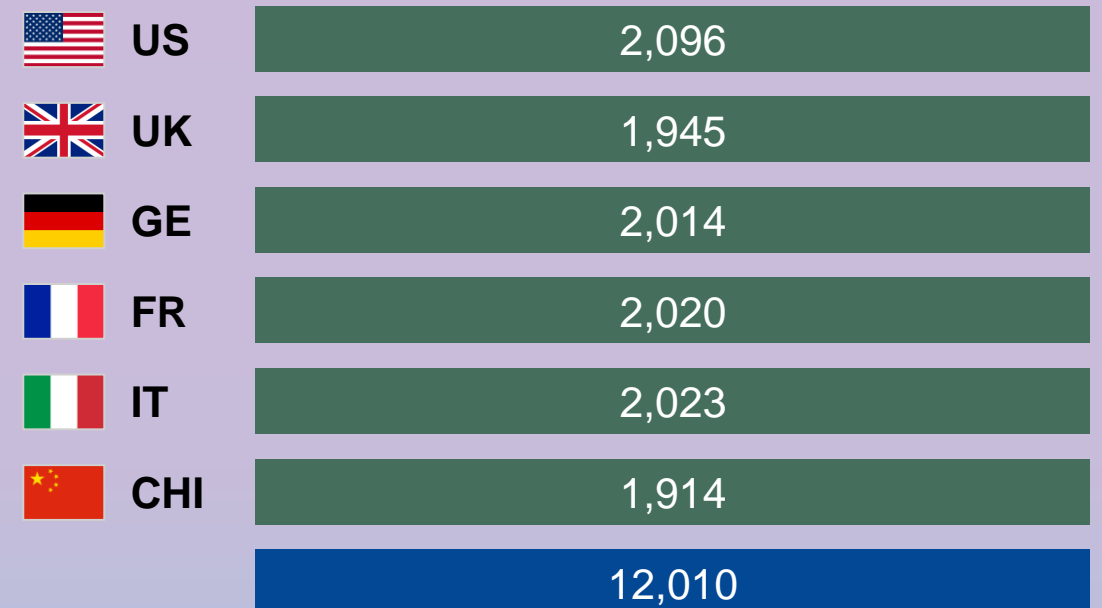
How many responses we collected (sample):

Nationally representative sample of nearly 2,000 per market balanced on age, gender, income, region

How did we survey: 15 min online survey questionnaire distributed through a trusted network of online panel providers. Questions standardized across all markets



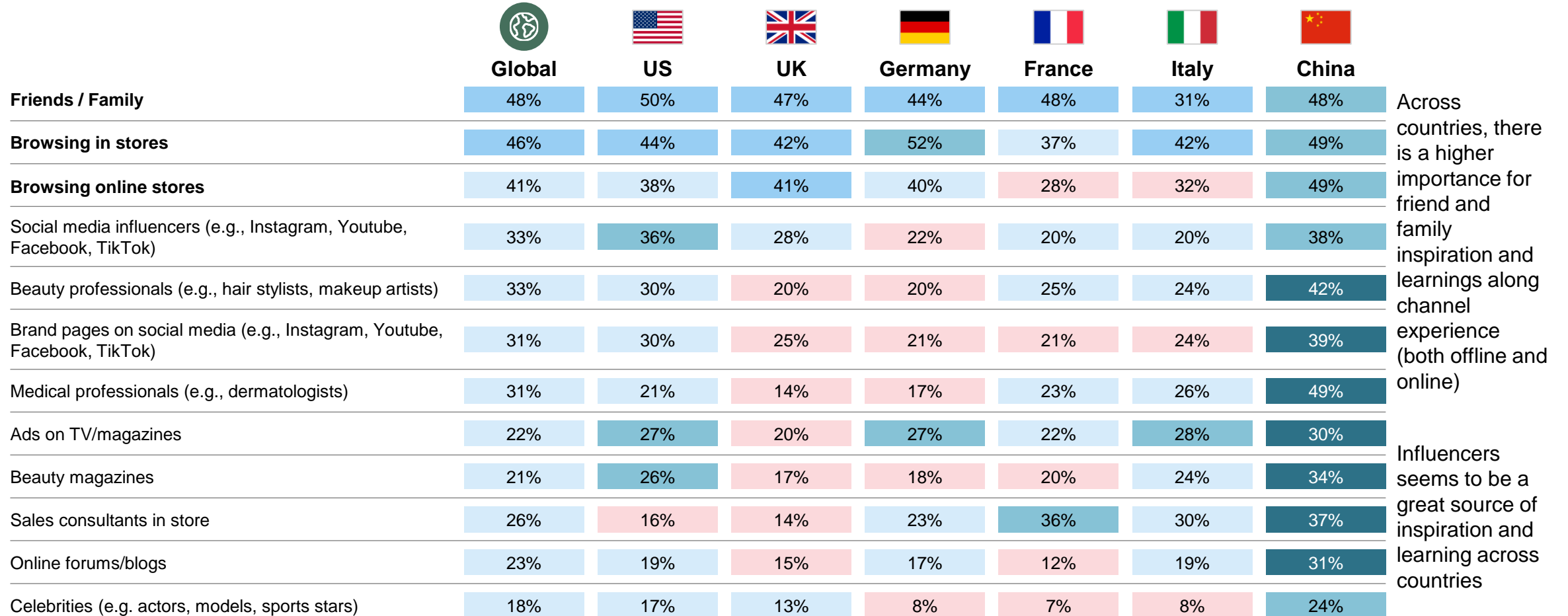
Number of respondents



Friends & family and browsing in stores are key inspiration for beauty across regions

Below average by 5-10p Equal to average Above average by 5-10p Above average

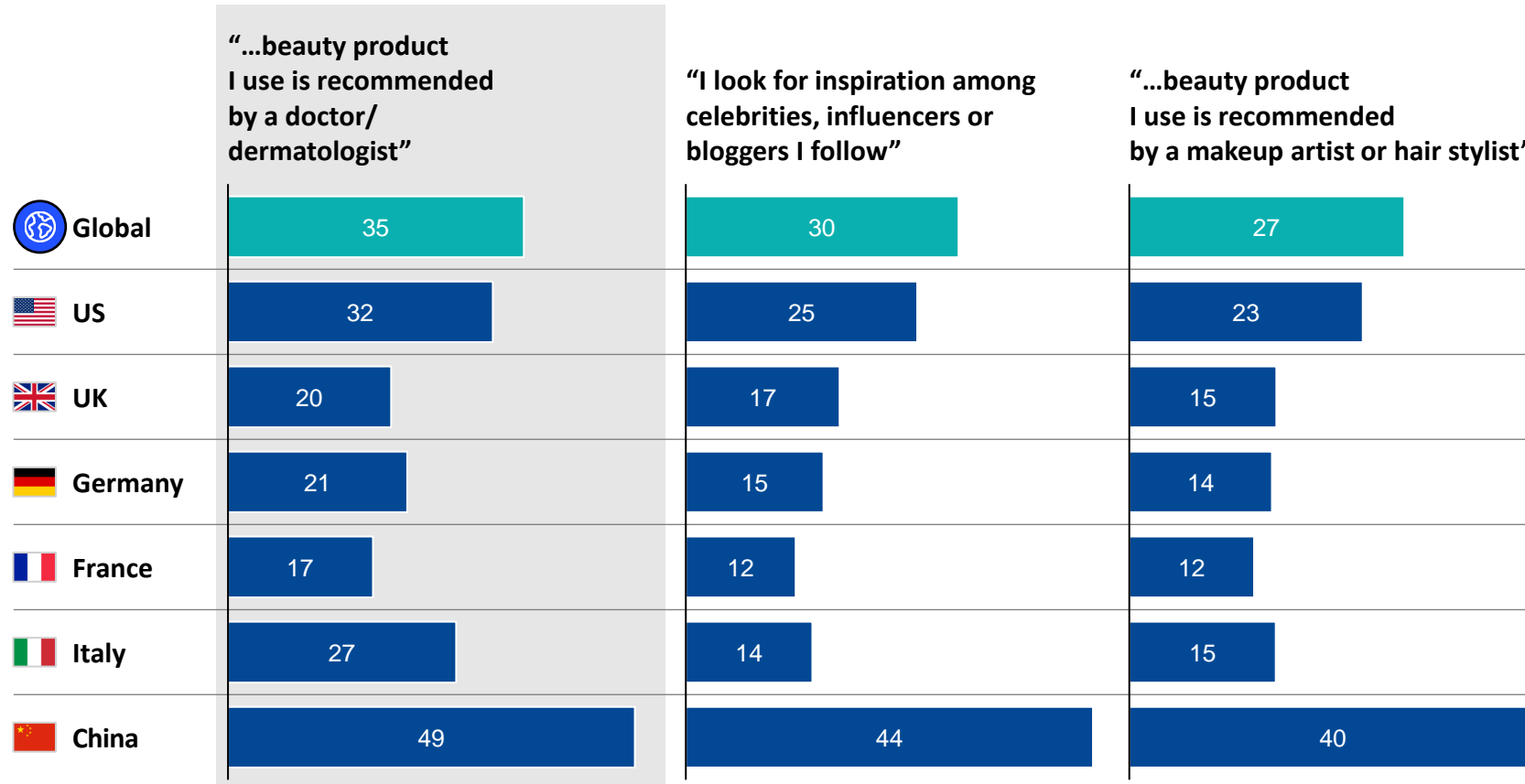
Influence on consumers purchase, % of respondents¹



1. Q: Where do you typically get inspiration and learn about beauty? Please, select all that apply. Removed "Subscription boxes with sample product" given low percentage of responses (< ~13% globally)

Dermatologists (more than celebrities) are prioritized for brand purchase reference

Consumers agreeing/strongly agreeing on beauty purchase influence, % of respondents¹



1. Please indicate how strongly you agree or disagree with each of the following statements. Please select only one response for each statement: (1). When it comes to beauty, I look for inspiration among celebrities, influencers or bloggers I follow (2). It is important for me that beauty product I use is recommended by a doctor/dermatologist (3). It is important for me that beauty product I use is recommended by a makeup artist or hair stylist

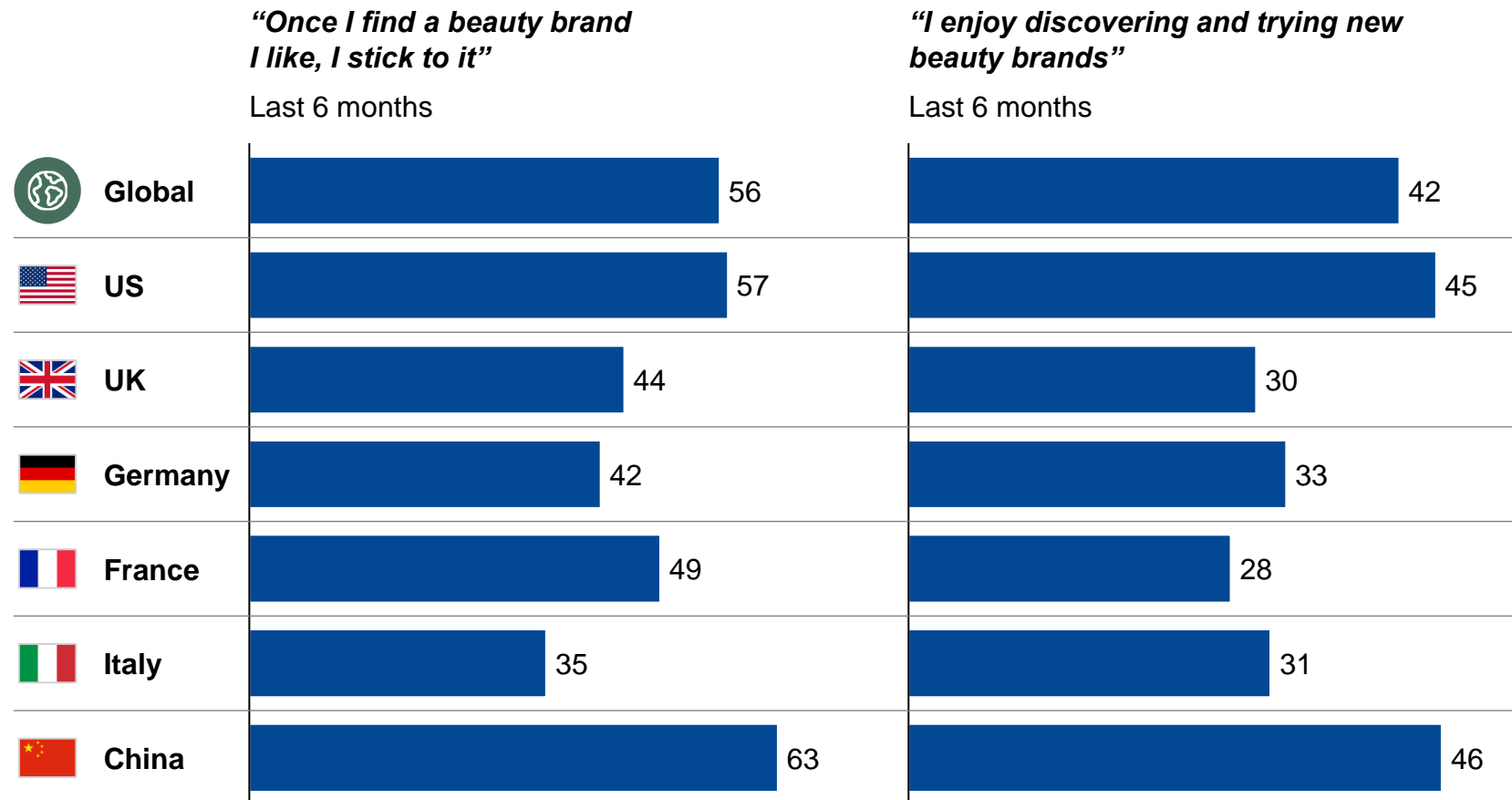


Key takeaways

- The importance of doctor/dermatologist in driving purchase decisions is key across markets, particularly in China and US
- Overall consumers are still likely to be influenced by celebrities and influencers

Consumers say they have high brand loyalty but also enjoy trying new products/brands

Consumers agreeing/strongly agreeing, % of respondents¹



1. Please indicate how strongly you agree or disagree with each of the following statements. Please select only one response for each statement: (1) "Once I find a beauty brand I like, I stick with it"; (2) "I enjoy discovering and trying new beauty brands"

Source: Beauty Consumer Survey 2023, N=12 010, sample to match general population 18+ years



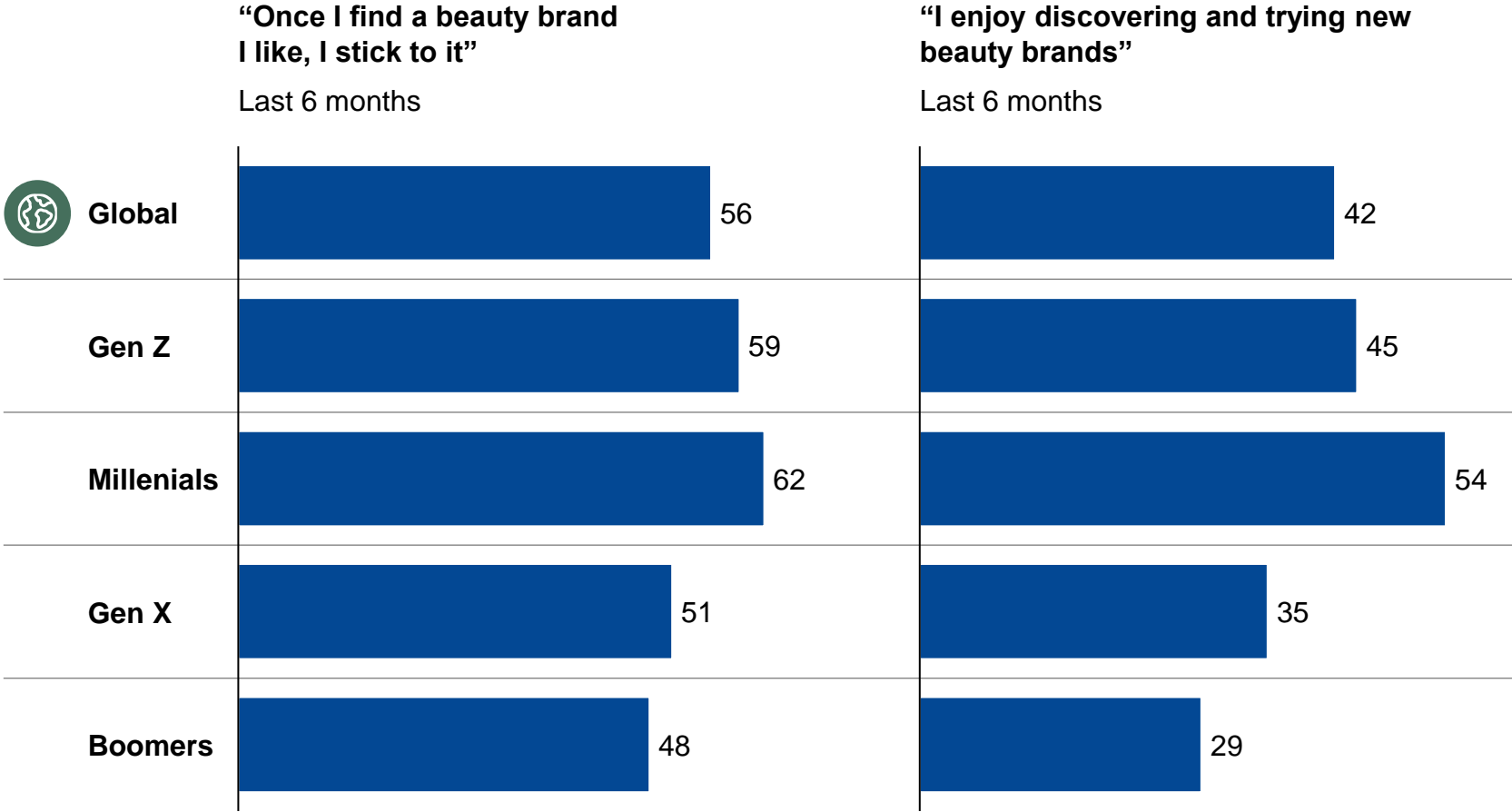
Key takeaways

- The **highest** percentage of **brand loyalty** appears in consumers in **China and US**, while those countries also enjoy discovering new beauty products and brands
- France shows the highest ratio for brand loyalist vs experimenters and Italy is where they are most aligned with each other

Younger generations are more open to trying out new brands

Consumers agreeing/strongly agreeing, % of respondents¹

 Global view



Key takeaways

- Beyond Gen Z and Millennials, older generations report trying out new brands less frequently
- Boomers have the highest ratio for loyalty, while Millennials seem to be the ones who try new brands the most

1. Please indicate how strongly you agree or disagree with each of the following statements. Please select only one response for each statement: (1) "Once I find a beauty brand I like, I stick with it"; (2) "I enjoy discovering and trying new beauty brands"

Millennials report more comparative shopping habits than other age groups, online and offline; Boomers are least likely to compare

■ Below average by >10p
 ■ Below average by 5-10p
 ■ Equal to average
 ■ Above average by 5-10p
 ■ Above average by 10p

Importance of online/offline factors in beauty shopping

% of respondents



	% of respondents	
Off-line	Visited other offline stores	33%
	Visited the retailer's online store	37%
	Visited other online stores	29%
	Read about product on social media	30%
	Other	0%
	None of these	26%
On-line	Visited other online stores	50%
	Visited retailer's physical store	36%
	Visited other physical stores	28%
	Read about product on social media	39%
	Other	1%
	None of these	13%

	Gen Z	Millennials	Gen X	Boomers
Visited other offline stores	34%	39%	30%	19%
Visited the retailer's online store	38%	43%	34%	24%
Visited other online stores	37%	35%	24%	17%
Read about product on social media	36%	39%	26%	12%
Other	1%	0%	0%	1%
None of these	16%	15%	32%	50%
Visited other online stores	53%	51%	50%	45%
Visited retailer's physical store	36%	41%	35%	21%
Visited other physical stores	30%	33%	25%	17%
Read about product on social media	47%	46%	35%	20%
Other	1%	0%	1%	2%
None of these	7%	8%	16%	31%

- **Millennials** report engaging in **comparative shopping habits significantly more often** than other generations
- **Boomers** are the **least likely age group** to engage in **comparative shopping**
- While **online shoppers** are more likely to visit other online stores and to read about beauty products on social media (likely due to low barriers to comparison shopping online) **other reported comparative shopping behaviors are broadly similar** between online and offline shoppers of the same generation

Q: Before buying offline/online you...

Source: Beauty Consumer Survey 2023, N=9,290, sample to match general population 18+ years

Store ambiance & service levels are key factors; Millennials, Gen Z also value in-person recommendations & services

■ Below average by >10p
 ■ Below average by 5-10p
 ■ Equal to average
 ■ Above average by 5-10p
 ■ Above average by 10p

Offline purchasing consumer preferences

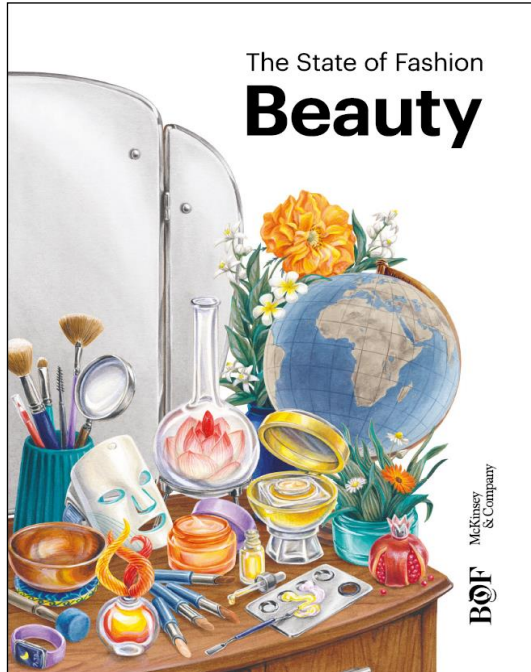
% of respondents listing each factor as “somewhat” or “very important”

		Gen Z	Millennials	Gen X	Boomers
Pleasant store environment/ambiance	84%	85%	88%	83%	76%
High level of service	89%	89%	93%	87%	80%
Recommendations from sales consultant	72%	74%	80%	68%	58%
Customized skin / hair diagnostic	74%	79%	82%	71%	54%
Beauty services (e.g., make-up, hair styling)	69%	74%	80%	63%	50%
Free sample	77%	79%	80%	76%	70%
Gift with purchase	64%	67%	71%	59%	53%
Events	54%	60%	64%	48%	34%
Gift packaging	57%	65%	69%	48%	35%

- All generations rate store ambiance and high levels of service as their top two most important factors
- Gen Z and especially Millennials value recommendations, customization, beauty services, events, and packaging more than average. Boomers are the least likely to place importance on these factors

Q: Thinking about shopping for beauty offline, how important or unimportant are the following factors to you?

Source: Beauty Consumer Survey 2023, N=9,290, sample to match general population 18+ years



THE MARKET



The beauty industry of the next 5 years: by the numbers

The beauty market is on a strong upward trajectory, thriving and even growing despite economic turbulence, while many other consumer sectors struggle

\$580bn

Projected size of the global beauty industry¹ by 2027

6%

Projected global CAGR, 2022-2027

45%

Skin care's share of the sector's total market value

26%

Projected global ecommerce penetration by 2027

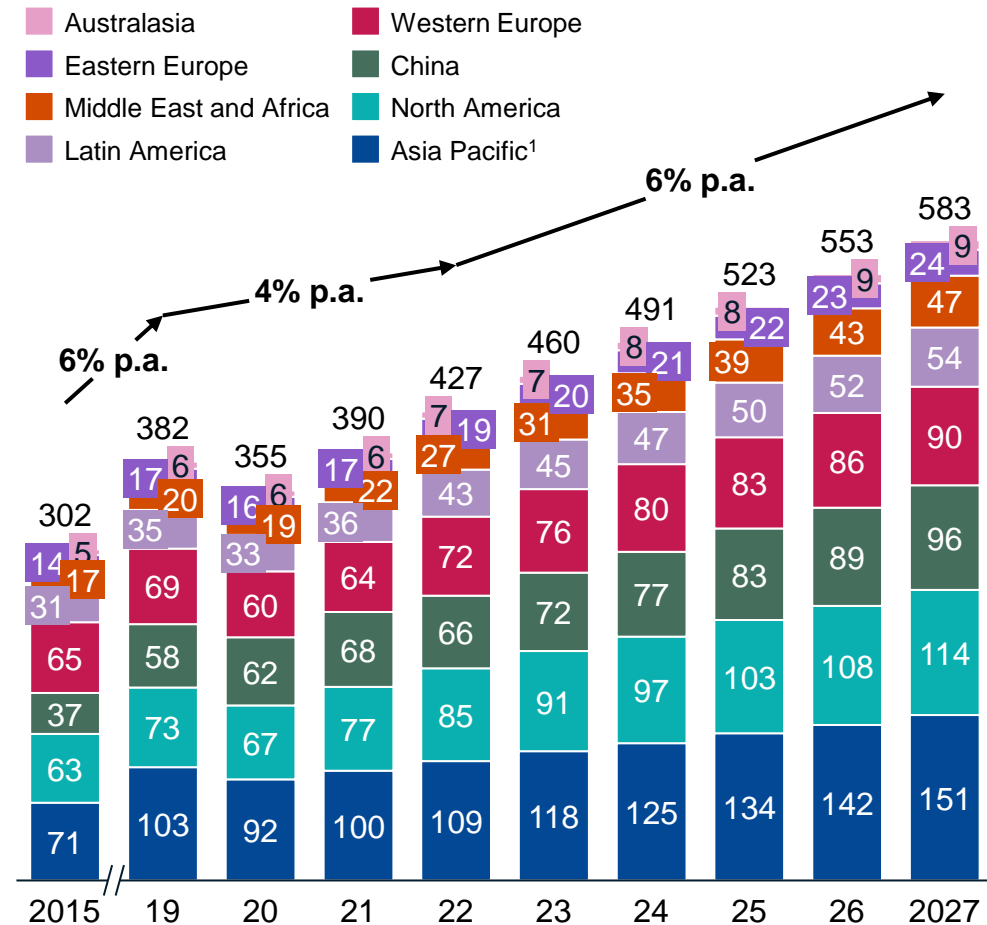
1. Includes fragrance, colour cosmetics, skincare and haircare across all price segments (e.g., mass, masstige, prestige, luxury)

Source: McKinsey 2023 The State of Beauty (SoB)

Beauty is on an upward trajectory and is expected to grow 6% p.a. over 2022-2027



Industry development in beauty by region, 2015-2027, \$ B



Projected YoY growth

	2015-'19	2019-'22	2022-'27
Total	6%	4%	6%
Australasia	6%	1%	6%
Eastern Europe	6%	3%	4%
Middle East and Africa	5%	11%	12%
Latin America	3%	7%	5%
Western Europe	2%	2%	4%
China	12%	5%	8%
North America	4%	5%	6%
Asia Pacific ¹	10%	2%	7%

Key insights

Beauty is on a strong upward trajectory across all regions, with global growth expected to be 6% CAGR 2022-2027

Asia Pacific is expected to remain the largest market at 26% market share by 2027, with growth expected to be at 7% 2022-2027

North America is a mature market expected to see growth levels at 6% over 2022-2027

China's growth is expected to slow compared to the 2015-2019 boom of 12%, but remain strong at 8% over 2022-2027

Western Europe is expected to see slower recovery from economic headwinds, with growth over 2022-2027 at 4%

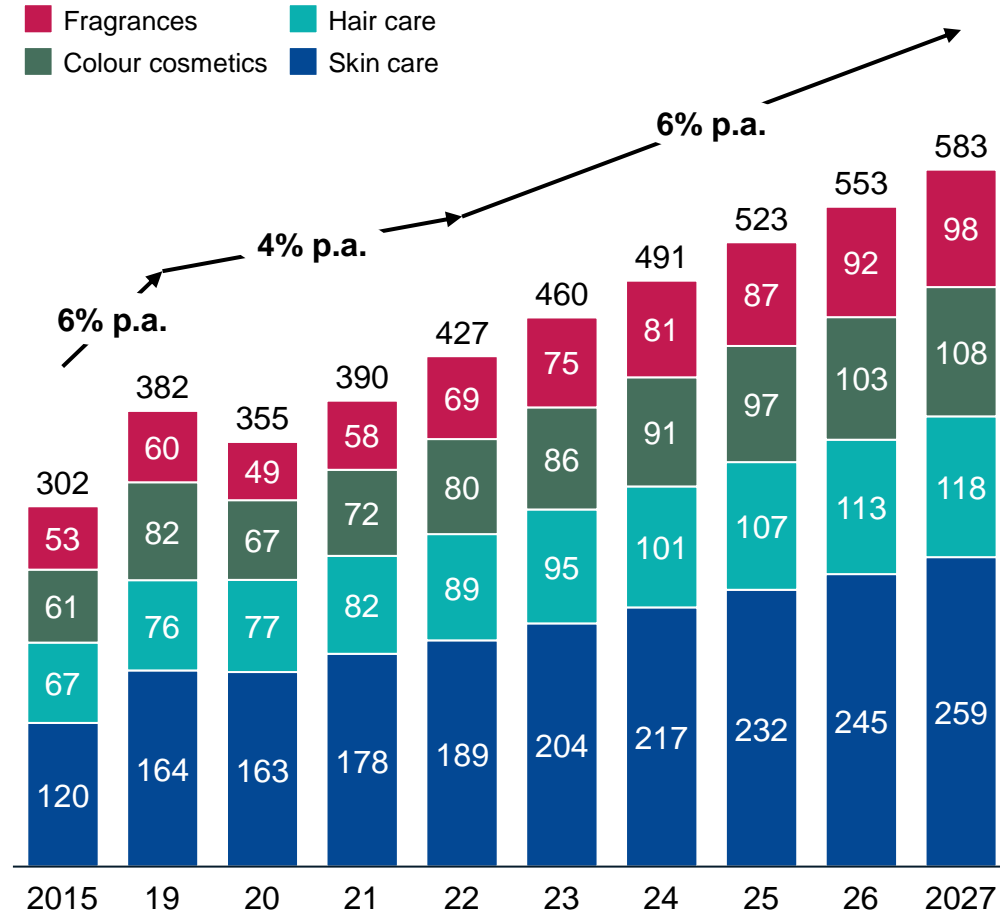
Middle East and Africa is expected to see some of the highest growth by region along with China at 12% over 2022-2027

1. Excluding China

Fragrance is expected to grow at 7% p.a. 2022-2027, with other categories slightly lower at 6%



Growth in beauty by category, 2015-2027 Retail sales, \$ B



Projected YoY growth

	2015-'19	2019-'22	2022-'27
Total	6%	4%	6%
Fragrances	3%	5%	7%
Colour cosmetics	8%	-1%	6%
Hair care	3%	6%	6%
Skin care	8%	5%	6%

Key insights

Skincare is expected to retain healthy growth levels at 6% globally until 2027, driven by ongoing innovation in the category

Haircare growth is expected to remain at 2019-2022 levels of 6% over 2022-2027, double that of 2015-2019, driven by volume from specialized haircare products (e.g., serums, scalp treatments)

After a slight decline over 2019-2022, colour cosmetics is expected to grow at 6% over 2022-2027





Fragrance growth rates are expected to more than double from 2015-2022 rates to 7% over 2022-2027, driven primarily by premiumization in the category

Skincare across Asia is expected to be the greatest growth opportunity at >\$40B 2022-27



■ Largest absolute growth
■ Smallest absolute growth

Expected sales growth by region, 2022-2027, \$B and CAGRs

	APAC ¹	China	N America	MEA	W Europe	LATAM	E Europe	Australasia
 Fragrance	4.6 12%	2.9 19%	4.5 6%	5.4 11%	6.1 6%	3.9 5%	1.1 5%	0.6 9%
 Colour cosmetics	7.2 6%	5.3 10%	6.7 6%	3.7 11%	3.0 4%	1.7 5%	0.7 4%	0.7 7%
 Haircare	4.2 4%	4.3 7%	7.2 7%	6.1 12%	3.1 4%	2.8 4%	1.1 4%	0.3 3%
 Skincare	26.2 7%	17.1 7%	10.9 6%	4.7 12%	5.5 4%	3.1 5%	1.5 5%	0.9 6%
Total	42.1 7%	29.4 8%	29.2 6%	19.8 12%	17.5 4%	11.3 5%	4.5 4%	2.3 6%

1. Excluding China

Source: Forecasts for global beauty recovery by region, category and channel reflect McKinsey perspective, based on Euromonitor historical (released in April 2023), MGI macro-economic scenarios, Generation Research, comprising fragrance, colour cosmetics, skincare, and haircare

Key insights

Skincare remains the largest category and in Asia Pacific and China represents the largest growth opportunity at \$26.2B and \$17.1B respectively over 2022-2027

North America remains the largest growth opportunity in haircare over 2022-2027 at \$7.2B, driven primarily by premiumization

Asia Pacific and China combined form the second largest opportunity for fragrance and haircare at \$7.5 B and \$8.5B, driven by premiumization, as well as increased penetration in both categories in the region

Haircare is also expected to see a significant growth opportunity in the Middle East and Africa at \$6.1B over 2022-2027

The beauty market can be categorized into five price segments covering mass to luxury

Illustrative

Non-exhaustive

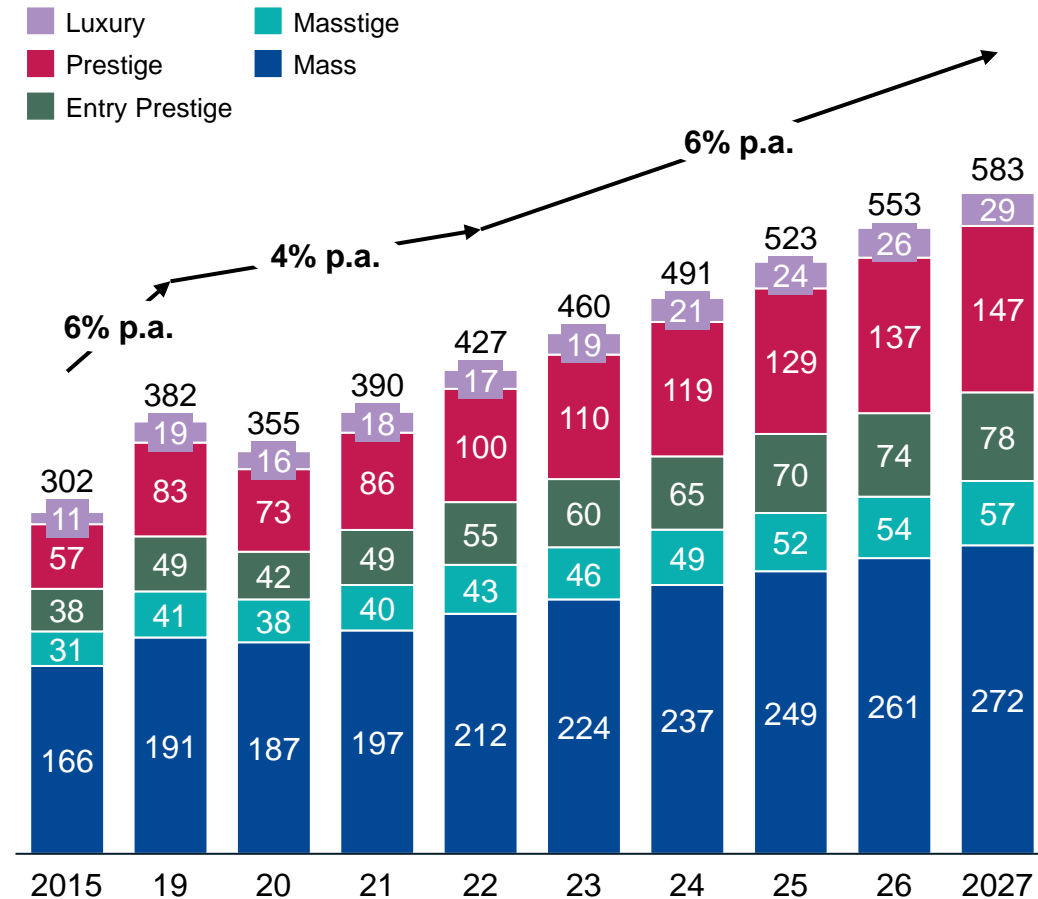
	Colour Cosmetics		Skin Care		Fragrance	
	Price point ¹	Example brands	Price point ²	Example brands	Price point ³	Example brands
Ultra-Luxury	\$1,000+		\$3,000+	la prairie <small>SWITZERLAND</small> <i>Select offering</i>	\$5,000+	GUERLAIN <i>Select offering</i>
True Luxury	\$100-1,000	clé de peau BEAUTÉ, LA MER	\$200-3,000	LA MER, la prairie <small>SWITZERLAND</small>	\$250-5,000	BYREDO, CREED 1760
Prestige	\$60-100	YVES SAINT LAURENT, GIORGIO ARMANI beauty	\$80-200	SK-II, Dior	\$100-250	HERMÈS PARIS, Dior
Entry prestige	\$45-60	LANCÔME PARIS, BOBBI BROWN	\$40-80	CAUDALÍE PARIS, SHISEIDO	\$70-100	HUGO BOSS, Juicy Couture
Masstige	\$25-45	CLINIQUE, bareMinerals	\$20-40	L'OCCITANE EN PROVENCE, ORIGINS	\$45-70	L'BEL, KIENZO
Mass	<\$25	MAYBELLINE NEW YORK, elf eyes lip face	<\$20	OLAY, NIVEA	<\$45	REVLON™, THE BODY SHOP

1. Indicative pricing for foundations (30ml)
2. Indicative pricing for moisturizers (50ml)
3. Indicative pricing for perfumes (50ml)

Luxury is projected to see highest growth until 2027 at 12% p.a., mass remains largest segment but is expected to see lowest growth



Category development in beauty by price segment, Revenues, 2015-2027, \$ B



Projected YoY growth

	2015-'19	2019-'22	2022-'27
Total	6%	4%	6%
Luxury	15%	-3%	12%
Prestige	10%	7%	8%
Entry Prestige	7%	4%	7%
Masstige	7%	2%	6%
Mass	4%	4%	5%

Key insights

Luxury is expected to see higher growth than other segments, at 12% over 2022-2027, driven by premiumisation trends in skincare, fragrance, and haircare

Prestige is expected to see higher growth levels than lower tier segments, at 8% over 2022-2027, driven by similar premiumisation trends as luxury causing consumers to trade up

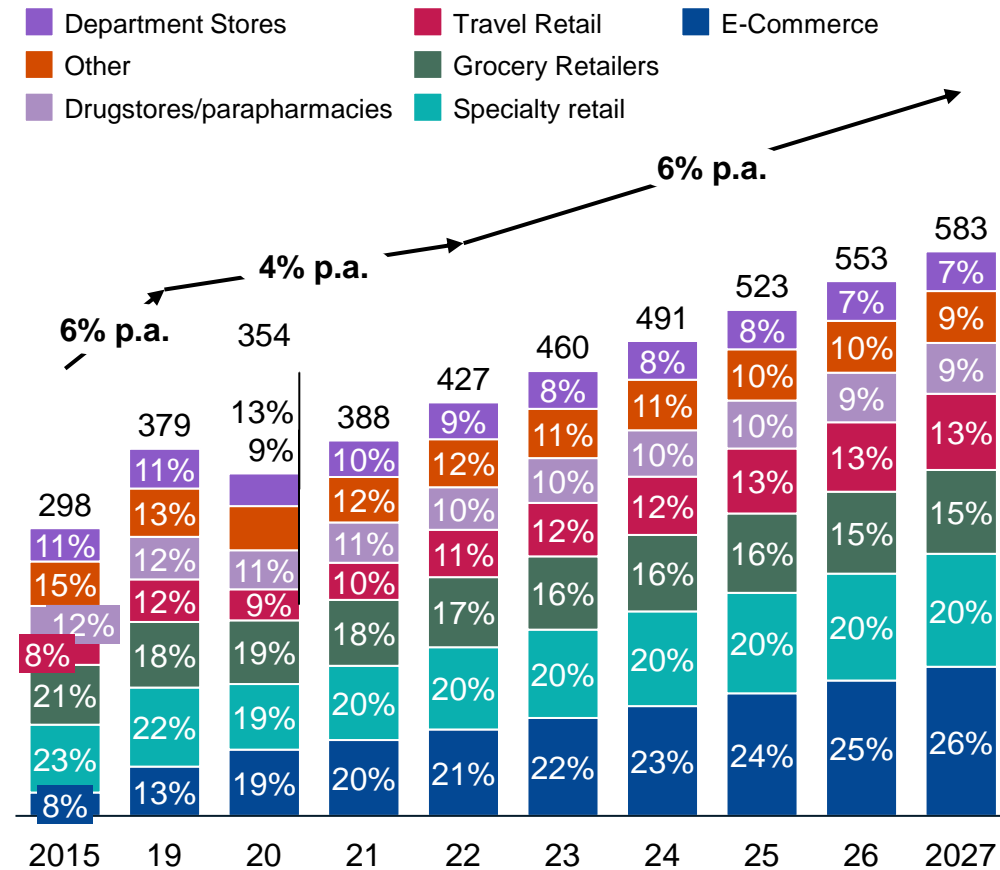
Entry prestige and masstige segments are projected to see overall growth levels below higher price segments, at 7% and 6%, respectively, over 2022-2027

The mass segment is currently the largest and expected to grow the slowest at 5% over 2022-2027

Ecommerce is expected to grow at 12% 2022-2027 to overtake specialty retail and is already the largest channel



Channel mix shift pre- and post-COVID, 2015-2027 Retail sales, \$ B



	Projected YoY growth		
	2015-'19	2019-'22	2022-'27
Total	6%	4%	6%
Department Stores	4%	-2%	2%
Other	2%	0%	2%
Drugstores/parapharmacies	4%	0%	4%
Travel Retail	17%	4%	10%
Grocery Retailers	2%	2%	4%
Specialty retail	4%	1%	7%
E-Commerce	20%	21%	12%

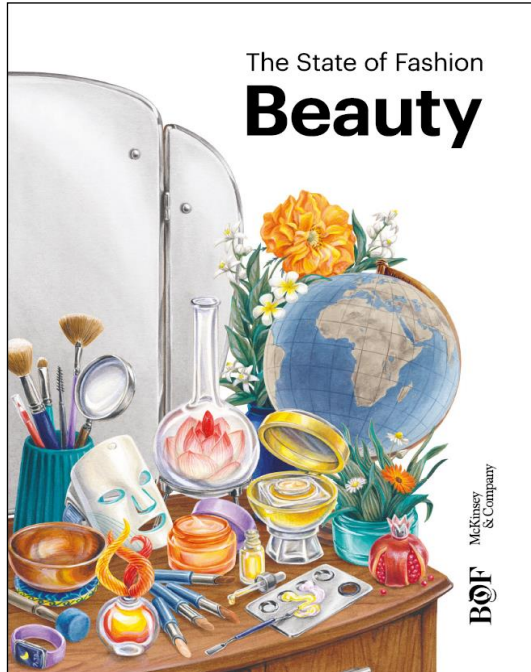
Key insights

Despite a forecast of growth rates slower than recent years, ecommerce is expected to remain the fastest-growing channel at 12% 2022-2027

Specialty retail is expected to see renewed relevance as consumers return to physical retail post-COVID and retailers invest in specialty as an experiential channel, with growth of ~7% 2022-2027





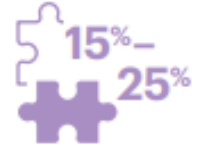
Pharmacies are expected to continue to expand their offerings and strengthen their position as a beauty destination in markets such as North America, resulting in strong expected growth of 4% over 2022-2027

After a slight decline during COVID, department stores are expected to bounce back at 2% growth over 2022-2027



THE TRENDS



<p>01.</p> <h3>The New Growth Map</h3> <p>Beauty's international growth blueprint of the past decade needs a refresh. China, though still a powerhouse, can no longer be the sole growth engine for brands. The US, which will continue to be the biggest market in the world, will increase in importance for the industry even as competition for market share intensifies. Other markets, notably the Middle East and India, may offer a range of ways to offset those challenges.</p>	<p>02.</p> <h3>Wellness Awakens</h3> <p>A new definition of beauty is reshaping the market as consumers shift their objectives from aesthetic perfection to holistic wellbeing. Brands can tap into emerging wellness sub-categories – from sleep to sexual intimacy to ingestible beauty – to upgrade their existing products and expand their portfolio, provided they do so with credibility and authenticity.</p>	<p>03.</p> <h3>Decoding Gen-Z</h3> <p>As Gen-Z grows up, brands must adapt, finding new ways to speak their language. This may require retiring traditional ways of doing business — from marketing to product development — and rethinking assumptions about this diverse, digitally savvy and demanding generation that prioritises value and efficacy when choosing their beauty brands and products.</p>	<p>04.</p> <h3>The Scale Imperative</h3> <p>For many emerging beauty brands, the early days of getting up and running has been the relatively easy part. Now, they need to confront the greater challenges that continuing their growth trajectories entail. In an industry that has become overcrowded, geographic and channel expansion will likely be critical for gaining further market share.</p>	<p>05.</p> <h3>M&A Recalibrated</h3> <p>In the short term, beauty mergers-and-acquisitions activity may not deliver as many megadeals as seen across the industry in the past, but the deal-making will continue to be buoyant. The potential benefits for buyers and sellers remain as strong as ever, playing a pivotal role in strategies focused on international growth, innovation and competitive product portfolios.</p>
 <p>\$21^{bn} \$47^{bn}</p> <p>India and the Middle East are becoming increasingly attractive, with retail sales growing to \$21bn in India and \$47bn in MEA by 2027</p>	 <p>\$1.5^{tn}</p> <p>Today's \$1.5tn global wellness industry is projected to grow at a compound annual rate of as much as 10% between now and 2027</p>	 <p>50%</p> <p>Nearly 50% of Gen-Z consumers say they research beauty products extensively before purchase</p>	 <p>4 46</p> <p>Of a group of 46 brands with global retail sales between \$50mn and \$200mn in 2017, only 4 surpassed \$400mn 5 years later</p>	 <p>15%–25%</p> <p>Beauty brands' average EBITDA margins are around 15-25%, making them attractive to deal-makers</p>



2. Wellness Awakens: Looking and Feeling Good



Beauty increasingly means feeling good, transforming the industry and shifting focus to wellbeing



\$1.5tn

Global market for wellness is \$1.5 trillion, and is expected to grow at 5-10% annually

Lines between beauty and wellness are blurring, and retailers are entering the space and targeting the demand for wellness-related beauty in dedicated spaces

~70%

~70% of beauty consumers agree that 'beauty goes beyond products – it's about your diet, exercise and wellness'

Health-promoting
(e.g., probiotic)



Traditional principles
(TCM, Ayurveda)



Beauty supplements
(e.g., vitamins)



Device-based beauty
(e.g., LED mask)



Home-centered wellness
(e.g., pillow mist)



Service-based wellness
(e.g., spa)



>40%

>40% of US consumers consider wellness a top priority, as they increasingly expect beauty products to double as wellness

3. Decoding Gen-Z: Focus on Value and Authenticity

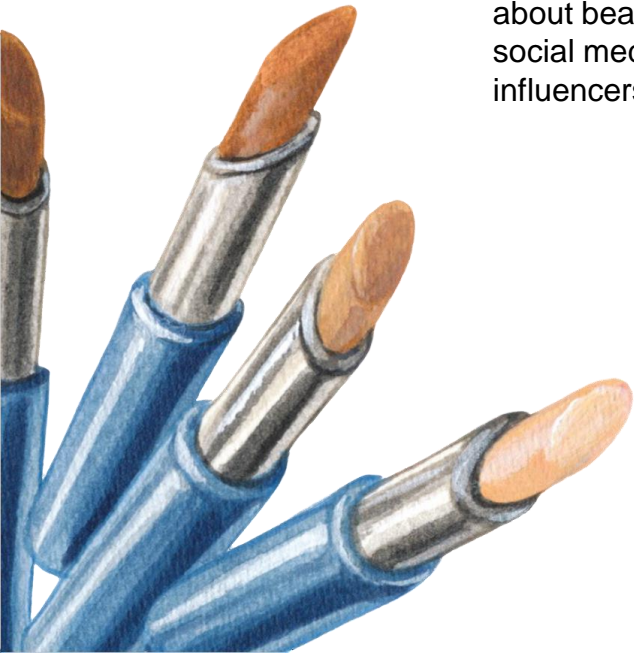
Winning over the ‘everything generation’

Gen-Z are demanding and “more Millennial” than Millennials



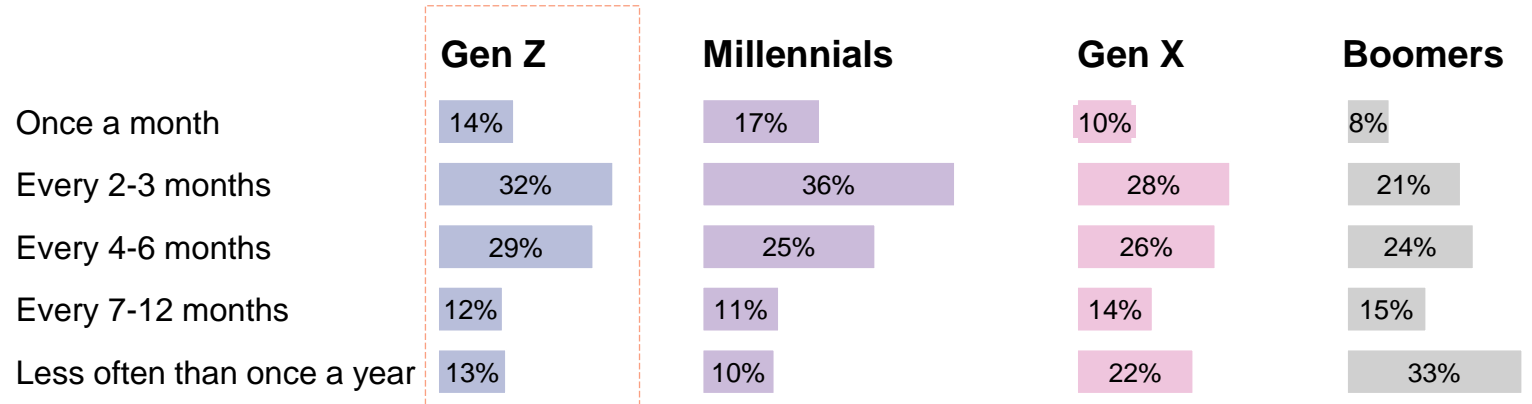
~50%

~50% of Gen-Z typically gets inspiration and learns about beauty from social media influencers



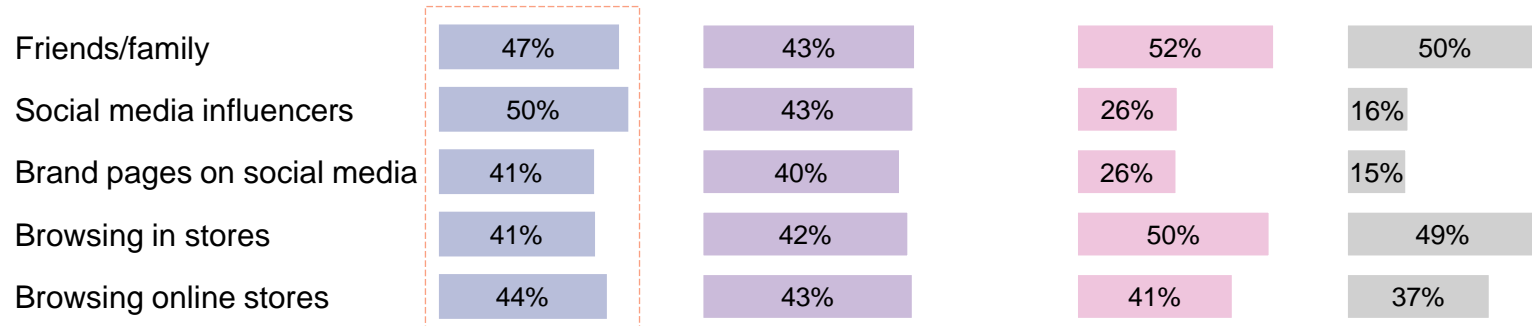
Younger generations are more open to trying out new brands...

Q: How frequently do you try new brands?



... and are more swayed by influencers than other generations

Q: Where do you typically get inspiration and learn about beauty?



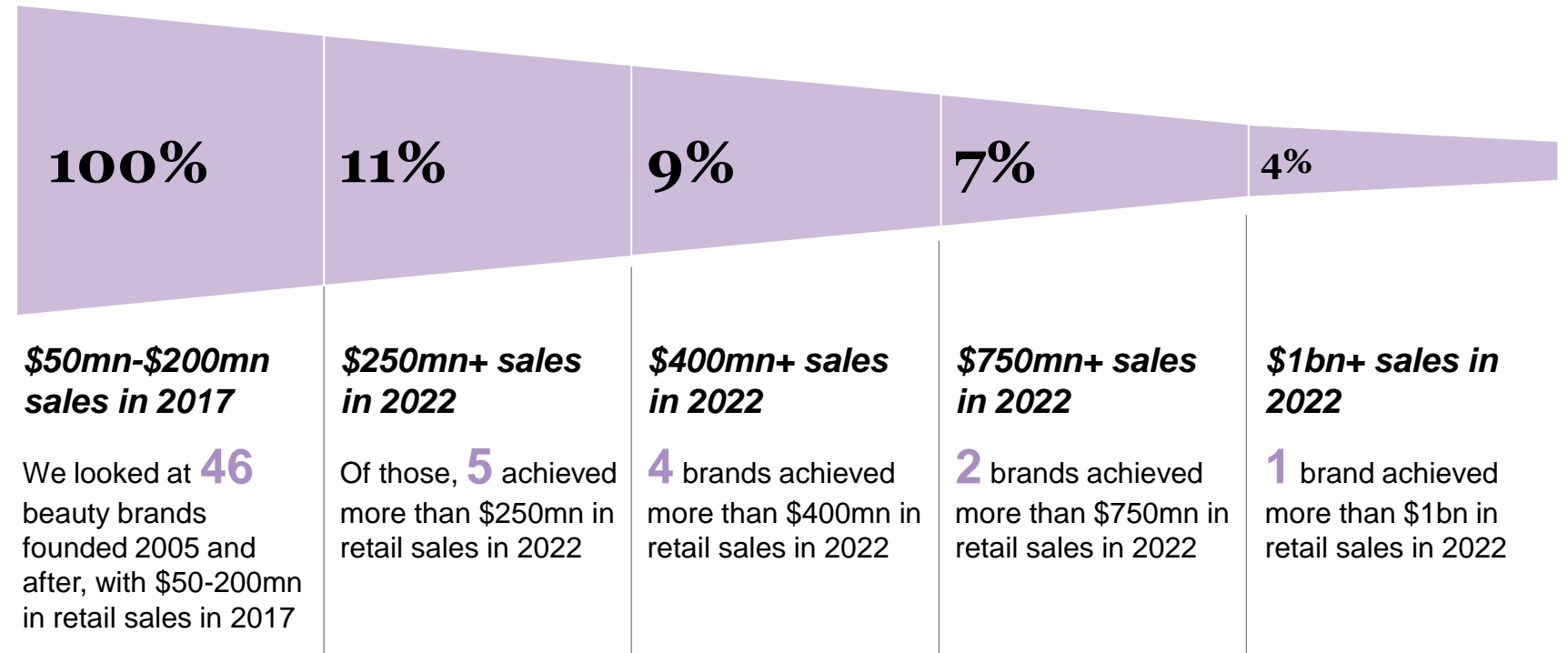
Sample sizes: Gen Z: 901; Millennials: 2,421; Gen X: 2,606; Boomers: 1,294

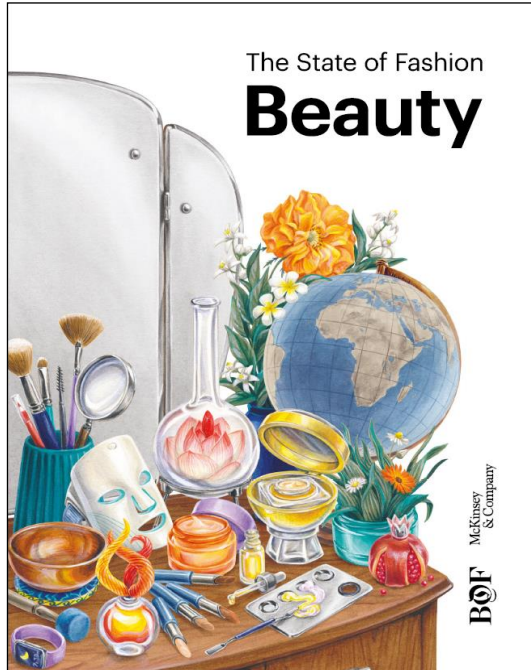
Source: McKinsey 2023 The State of Beauty (SoB)

4. The Scale Imperative



To scale successfully, brands must engage in channel and geographic expansion
Of 46 brands founded 2005 and after with \$50mn-\$200mn in global retail sales in 2017, only 9% exceeded \$400mn in global retail sales five years later by 2022





THE ORGANIZATION

10 shifts transforming organizations



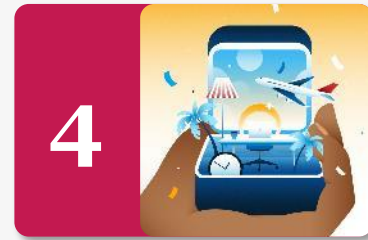
1 Strengthening resilience



2 “True hybrid”



3 Applied AI



4 New rules of attraction and retention



5 Closing the capability chasm



6 Walking the talent tight rope



7 Leadership that is self-aware and inspiring



8 Making meaningful progress on DEI



9 Invest in mental health



10 Efficiency reloaded



Felix Rölkens

Partner, Berlin

Don't hesitate to get in contact

 +49 175 318 2948

 felix_roelkens@mckinsey.com

Thank you

