

Direct to Consumer in Beauty

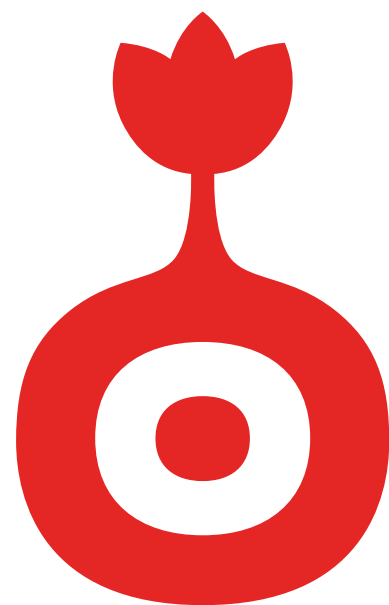
The evolving role of DTC in
the Beauty Industry

sevendots



Direct to Consumer in Beauty:

A mission for Big Brands to regain category captaincy



This latest edition of our Growth Series aims to provide relevant and actionable insights about the evolving role of DTC in the Beauty industry.

The subject has been chosen after numerous discussions with brand owners and as a result of the latest trends in the market showing the rising importance of new business models able to better capitalize on consumers' preferences.

In this context, DTC plays a key role as it provides brands with the opportunity to develop a direct connection with consumers, delivering optimal brand experiences that, in turn, will reinvigorate trust. Also, it gives consumers the opportunity to let their voice be heard by brands, turning them into 'PROsumers', fully involved in growing the category.

This document is a brief summary of the outcome of the study and outlines 5 key insights we'd like to add to the Direct to Consumer debate.

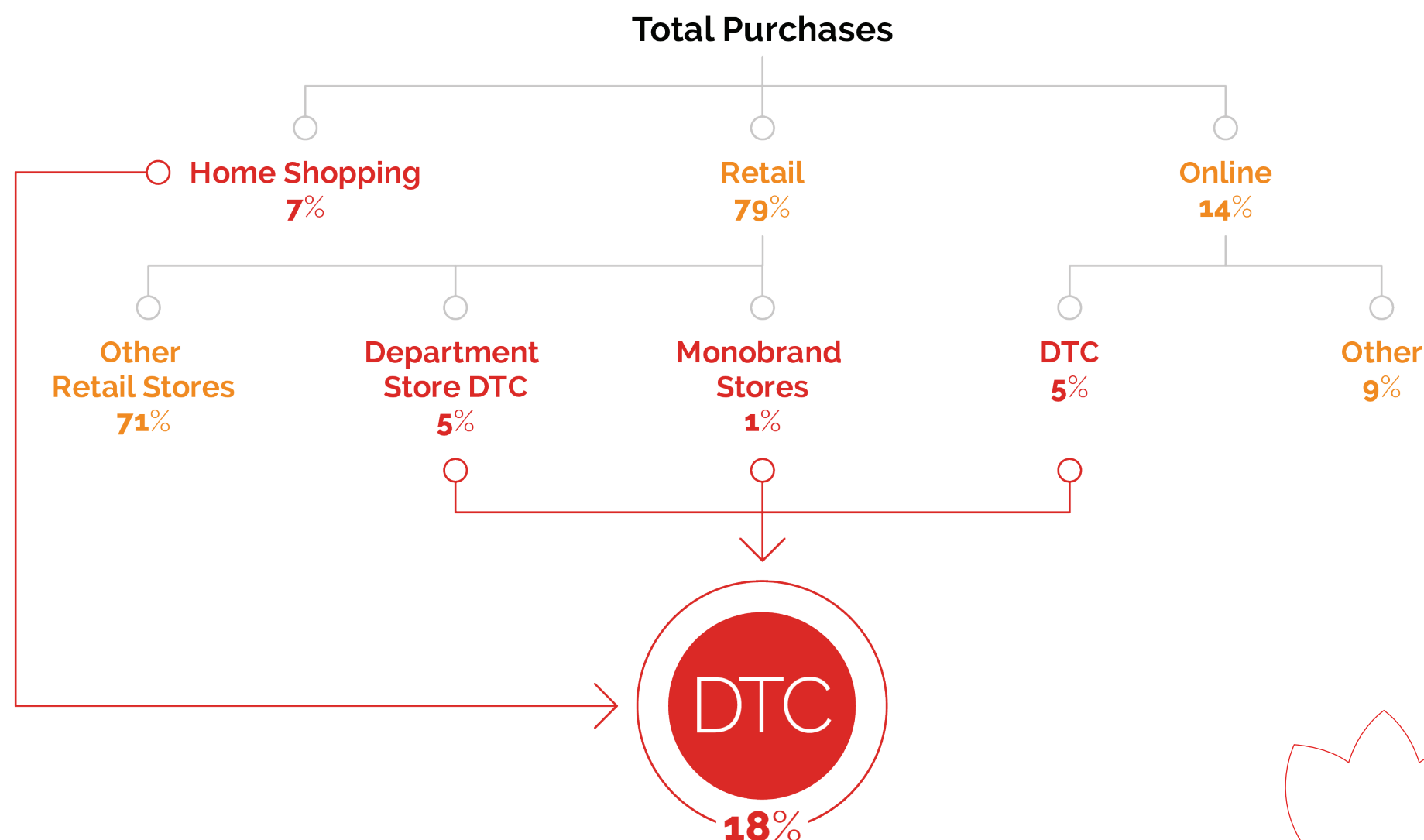
Please contact opportunities@sevendots.com to learn more about the whole outcome of the project.

01

No doubt! DTC is a game-changer and it is here to stay

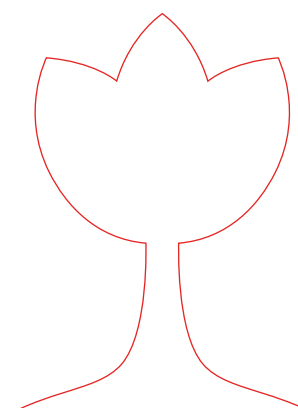
The clear majority of brand owners we interviewed see the role of DTC growing in the future. The feeling is that DTC is not going to be an option but an inevitability for the industry and a way for big brands to take back the leadership on category captaincy.

In the US, DTC is up to approx 18% of the Beauty Market



sevendots

Source: Sevendots elaboration and consolidation of diverse sources (in cosmetics: digitalcommerce360, Global Cosmetics Industry, tinuiti, Statista, WWD, Barrons, emarketer, Pambianco, Forbes, ...) 2019



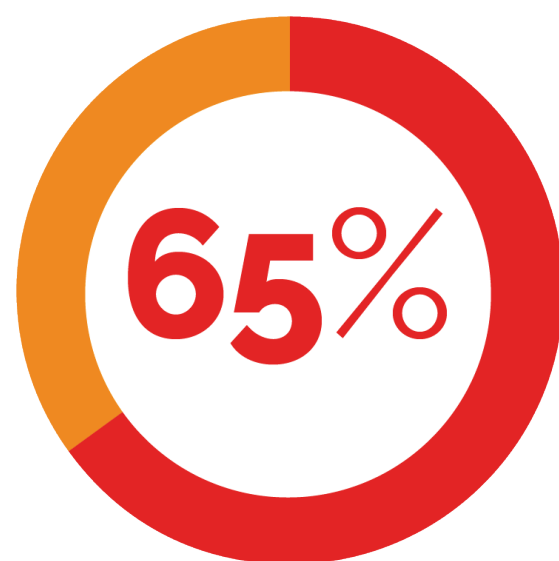
02

COVID-19 outbreak will certainly accelerate DTC adoption

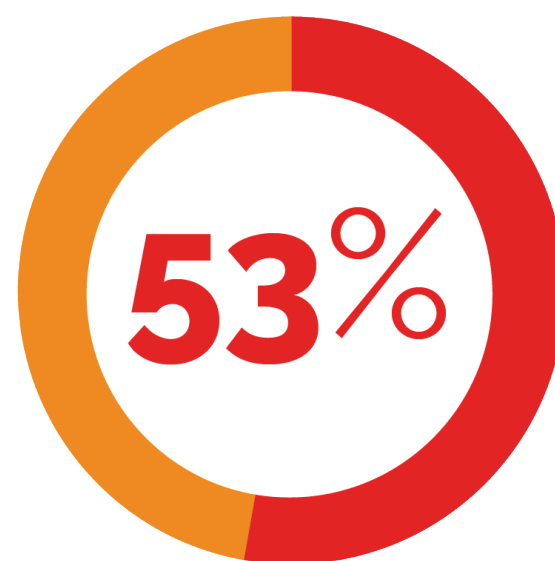
The recent outbreak of COVID-19 has shown that consumers have adopted new shopping behaviors and they are now expecting brands to adapt as fast. In this context, DTC brands proved more resilient, thanks to their ability to stay close to their consumers, intercepting their needs more effectively.

After eCom sales soaring during lockdown, consumers are now expecting brands to invest more in digital solutions for the new future

Survey among 14,103 consumers who shop online at least once a month in the U.S., U.K., Australia, Germany, Spain, France, and Netherlands.



of respondents expect to use digital shopping channels more in the future



wish brands would be more innovative in how they use digital technology to improve their experience



of respondents wish more brands and retailers offered the same level of services as Amazon

sevendots

Source: CSA survey on "Future Shopper Report 2020" from Wunderman Thompson Commerce, April 2020

03

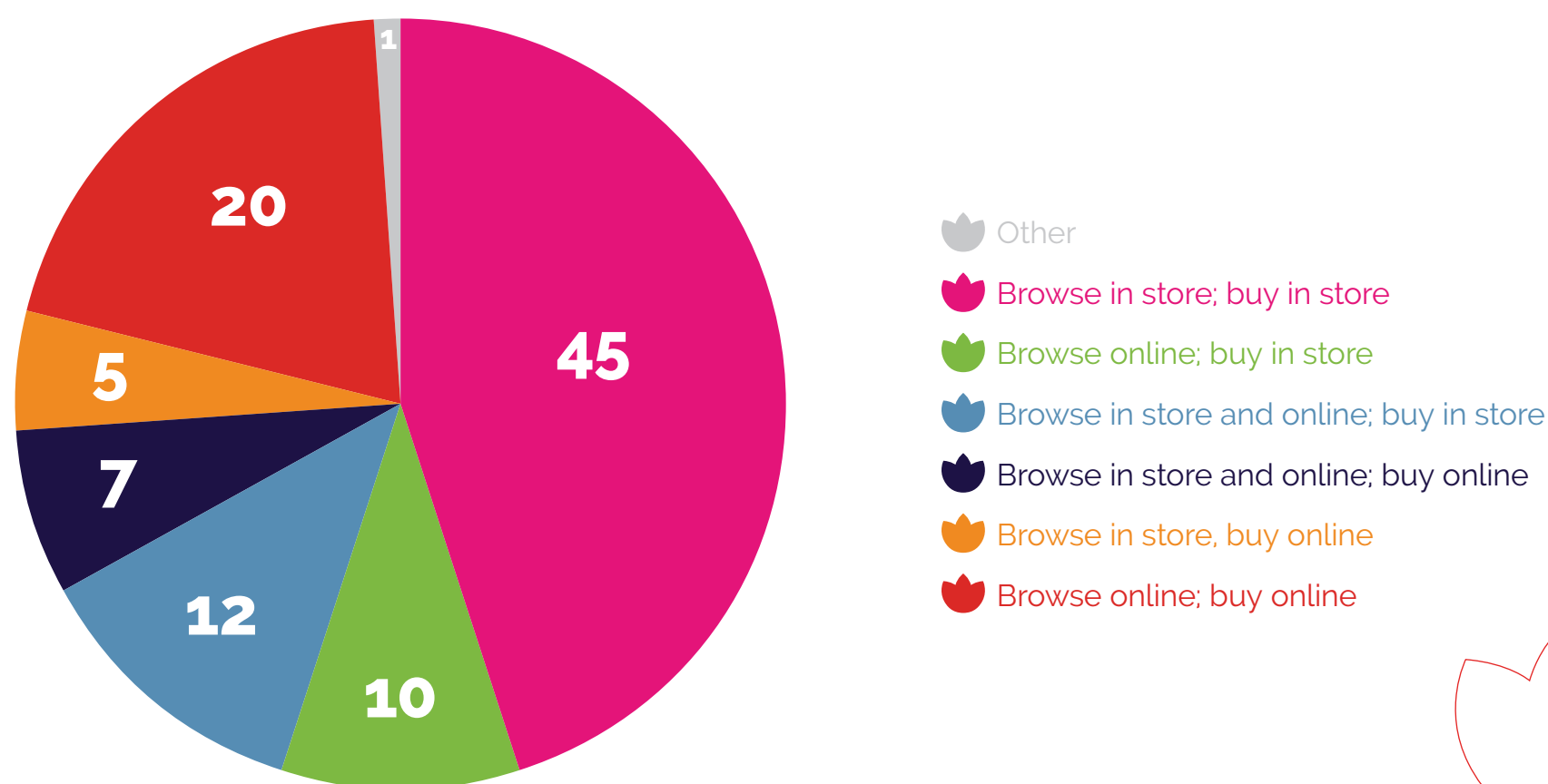
DTC is powered by traditional retailing

Despite the rise of eCommerce, physical retail remains key in Beauty. This not only linked to sales but is also related to bricks & mortar's primary role in influencing, educating and engaging consumers about the category.

Traditional retailing keeps playing a critical role, as much as 80% of total sales is store-influenced

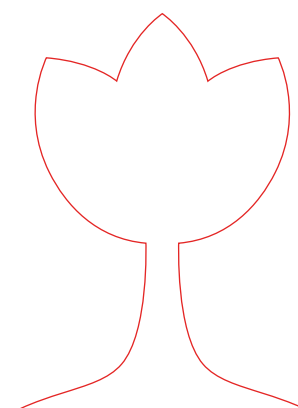
Purchase behaviors when buying cosmetics and skin care products

Survey on 10,000 consumers who were asked how they purchase cosmetics and skin-care products more often



sevendots

Source: McKinsey New Age of the Consumer Generational Survey 2019



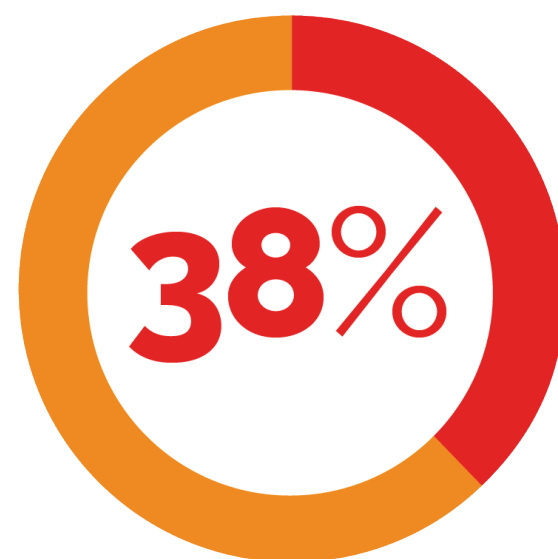
04

DTC is all about managing the data

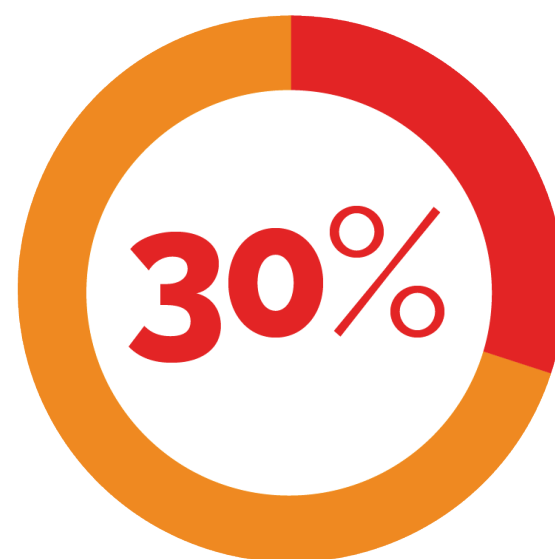
If we look at the core contribution of DTC, it boils down to just one single major component: data. In fact, the main advantage in dealing directly with consumers, both in digital and physical environments, is in collecting and leveraging information.

For all brands, irrespective of life stage or size, the main benefit of DTC is about data

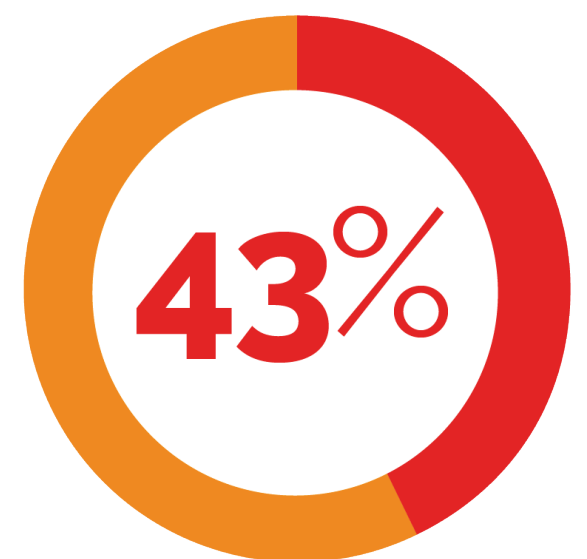
The most important aspect of DTC on brand
(% on a single choice)
Reinforce link with consumers (big data)



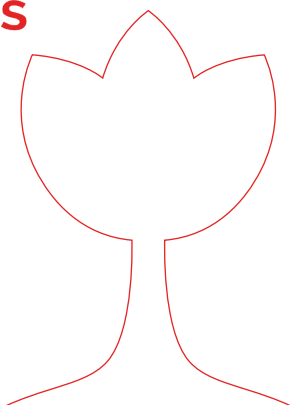
Growing Brands



Stable/Declining Brands



Category Leaders



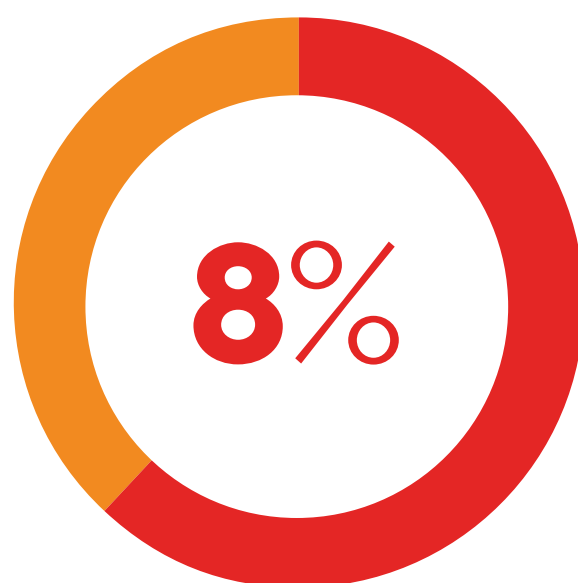
05

Most big brands are not up to the DTC challenge

While most senior industry leaders agree to the benefits of DTC, the reality of the market shows that most mainstream brands haven't endorsed the DTC challenge in their organizations yet. Relying on M&A to do so is not proving to be sufficient in the long-term. This is where major cultural transformation is needed.

Big Brands are lagging behind, their cumulative DTC business is estimated to be less than half vs the market

| | |
|-----------------|--------------|
| * Korea & China | > 18% |
| US & UK | ~ 18% |
| DE & FR & IT | < 18% |

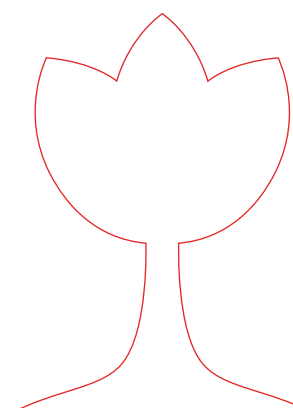


Share of DTC on total sales in top 4 beauty companies

VS



Share of DTC on total sales in top countries

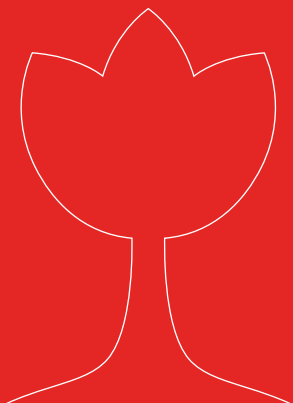


So

What did we base these insights on?

Sevendots insights are always based on a robust platform of knowledge and, dissatisfied with just one source, we always want to cross-check our conclusions with other sources of information. This exercise was no exception. **4 key stages of learning fueled our final conclusions.**

- 1** A detailed search and review of all relevant information sources and cases about DTC from academics, consulting firms and practitioners.
- 2** An internal survey among 20 Sevendots partners from 10 countries – with strong experience in Beauty, brand and general management or in consulting and consumer research – collecting, structuring and distilling all their experience on DTC.
- 3** Qualitative interviews with 40 senior industry leaders with diverse backgrounds, ranging from big multinationals like L'Oréal, COTY and Estée Lauder, to mid-sized companies and start ups like Kiko Milano, Yves Rocher, Lime Crime and Juice Beauty and including key retailers in Beauty and Fashion like Douglas, Zalando and Farfetch.
- 4** And finally, an extensive search and review of case studies providing vivid support to our findings.





Sevendots Growth Series / **Volume 7** / **Key Highlights**

For a presentation of the
whole outcome of the project
please contact

opportunities@sevendots.com

sevendots