



## **BRANDING THE BEAUTY SHOPPER:**

**CHANGING ATTITUDE & SHOPPING BEHAVIORS CREATE NEW OPPORTUNITIES  
AND CHALLENGES FOR BEAUTY CPG COMPANIES**

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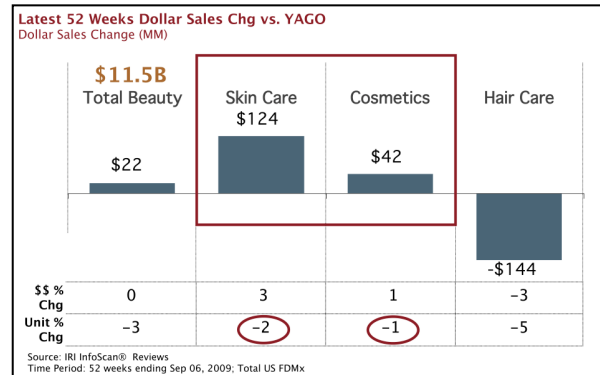
The worldwide recession has dramatically affected every aspect of consumer shopping habits, including how they budget, when and where they make purchasing decisions and how they make final decisions on items that are necessities or luxuries. The CPG retail and manufacturing market continues to transform under these pressures and only those savvy marketers that listen diligently to what customers need and want will successfully take advantage of opportunities created by the ever-changing shopper landscape.

Yet, not all CPG segments are alike. The beauty care industry, which includes hair care, skin care and cosmetics, is characterized by unique dynamics, loyalties and behaviors. The recent economic downturn has impacted this market in ways distinctly different than other CPG market segments. Within the beauty segment, a select group of heavy shoppers responsible for significantly higher dollar sales shapes the market.

IRI's most recent investigation into the minds and habits of American beauty care shoppers reveals a highly complex market impacted by multiple trends simultaneously. While there are select uplifts in the market, with small pockets of recovery, there are still large groups of individuals experiencing economic turmoil, unemployment and a severe decrease in savings. Because these are the most

personal of CPG products, there is an overlay of emotion that shapes the definition of value.

IRI's research reveals that from September 2008 through September 2009, sales in the beauty care industry have remained flat—a victory in this difficult economy.



*Dollar sales growth in the skin care and cosmetics market was offset by declines in the hair care segment.*

Activity in the hair care, skin care and cosmetic beauty markets was uneven. Pricing action, especially in the hair care and skin care segments, helped to deflect unit declines. Dollar share at drug stores dropped precipitously by 3.8 percent, while growing at grocery, superstore and



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mass merchandisers, by 2.1 percent, 1.0 percent and .4 percent, respectively. Drug stores have suffered the most dramatic swing, having enjoyed dollar share point growth of 4.0 percent as recently as Q4 2008. Grocery benefited from the largest swing to the positive, bouncing back from a decline of 1.9 percent in Q3 2008. Supercenters have experienced slow, but consistent growth throughout the recession. Mass merchandisers have rebounded from a 3.8 dollar share decline in Q3 2008.

### “WHAT IS ESSENTIAL?” AND “WHAT CAN I AFFORD?” REMAIN CENTRAL QUESTIONS

The two questions, “What beauty products are essential to my life?” and “What products can I afford?,” continue to be top-of-mind with consumers as they plan and budget for hair care, skin care and cosmetic product purchases. Shoppers have adjusted their responses to these questions as the economy first lost and now gains strength. “Trading off” remains a key strategy, implemented in two ways: some shoppers are staying loyal to their beauty brands, but purchasing them in smaller quantities and/or at making their purchases at value retailers. Other shoppers are shifting to value brands.



*Beauty shoppers have significantly adjusted their purchasing patterns in reaction to the economic downturn, but unlike other CPG shoppers, maintain a higher level of loyalty to brands important to them.*

The shopper’s basic goal of making “trade-offs” centers on saving “face” while saving money. Nearly half of consumers state they are doing their best to make their products last longer, attempting to retain their valued brands while concurrently saving money.

Shoppers are also continuing to focus on their appearance while cutting back on salon and spa visits, via the “at-home” strategy. More than 38 percent of consumers have cut down on their visits to salons in order to save money while at the same time home beauty treatments have become much more prevalent.

Other consumers have exhibited less brand loyalty. Nearly a quarter of consumers surveyed reported they are consistently trading to lower-priced brands and shopping at different stores to secure the hair care, skin care and cosmetic products they need. This strategy has led to a significant increase in consumers shopping at supercenters and mass outlets for their day-to-day beauty products and eliminating or postponing their purchases at large department stores. Department stores, long viewed as offering higher-end beauty care options and advice for consumers, suffered a 4.5 percent dollar sales decline in the 52-week period ending September 2009 (source for department stores information is NPD and the Beauty Cross Channel Monitor).

Other trade-off strategies include shoppers turning to bulk purchases of their beauty care products to save money. Supercenters and mass retailers have recognized and taken advantage of this strategy by offering lotions, shampoos and other beauty care items in family-size quantities and at attractive price points. This behavior has fed another consumer strategy: sharing hair care, skin care and cosmetic products with other individuals in the home. More



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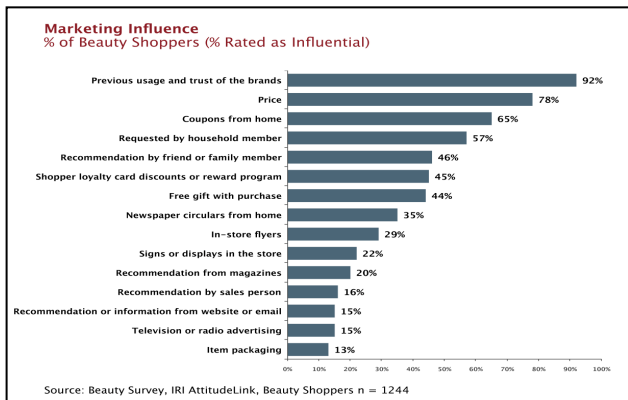
than a quarter of consumers report sharing beauty products as well as purchasing beauty products that serve multiple functions.

## Conservative Shoppers Here to Stay

The new frugal shopper is here to stay, at least for the foreseeable future. Economists predict the unemployment rate is not expected to peak until Q2 2010 and the economic turnaround won't be in full swing for a year after that. As IRI has reported in previous research studies, these shoppers are expected to continue their Spartan spending habits long after the downturn ends.

## THE PURCHASE DECISION

Critical to success in today's complex economic environment is understanding how consumers learn about and make decisions about their purchases.



*To a greater extent than in other CPG categories, previous usage plays a critical role in a shoppers' decision making about beauty products.*

Brand identity is the most important factor the beauty care consumer considers when making purchase decisions. A total of 92 percent of consumers reported their focus on brand, nearly 20 percent higher than the total CPG benchmark of 73 percent.

Somewhat counter intuitively, pricing is the second most important factor affecting consumer buying decisions, reflecting the complexity of the hair care, skin care and cosmetic shoppers' decision process.

A majority of beauty shoppers are willing to consider private label, but more so for basic grooming products, such as bath products and shampoo. Where the shopper buys the product also affects perceptions. Just over 60 percent of shoppers view products sold at salons and spas as the highest quality as opposed to just 27 percent who view store or private brands as the highest quality. Private label products are viewed today as the lowest quality, unlike in other CPG categories. However, similar to other CPG categories, beauty shoppers' perception of private label is changing, albeit more slowly than in other CPG segments.

The importance of a product to the consumer determines in large part that shopper's attitudes and behaviors. For example, 51 percent of shoppers consider nail polish a "must have" product (the lowest figure among products mentioned), 75 percent make buying decisions about these products in the store versus at home (the highest among the products mentioned), and 65 percent are willing to buy private brand nail polish (the highest among the products mentioned).

Conversely, for skin care products, which 87 percent of surveyed shoppers state are a "must have," 63 percent of people make decisions about these products at home and just 44 percent are willing to buy private brands.

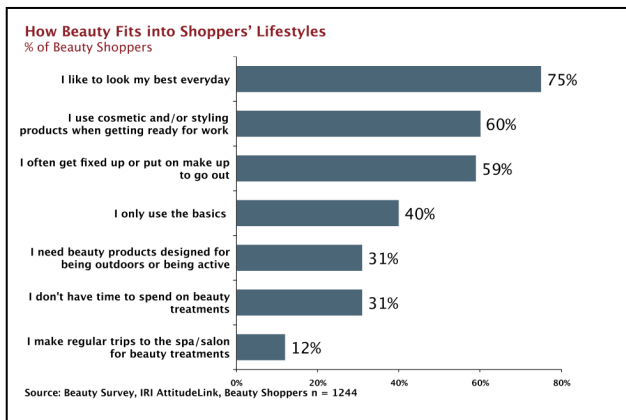
Shoppers visit a wide range of retailers today to meet their hair care, skin care and cosmetic needs, led by drug stores (63 percent) and super stores (61 percent) and ranging to Web sites (16 percent) and infomercials (2 percent).



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## LOOKING THEIR BEST MOTIVATES BEAUTY SHOPPERS

It's important to understand shopper opinions about specific beauty products as well. Just over half (51 percent) have purchased products that are part of a hair care or skin care system. Half of respondents value claims that are based by scientific studies.



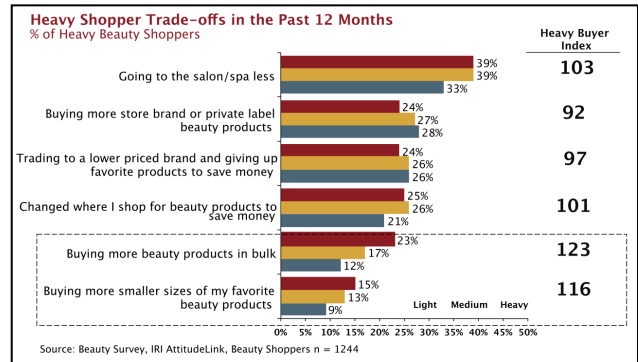
*Beauty shoppers place a special emphasis about their appearance and it is an integral part of their lifestyles.*

Just under half like to try new beauty (hair care, skin care and cosmetic) products and, in contrast to earlier findings, state less expensive beauty products work as well as high-end products, 47 percent and 46 percent, respectively. Slightly fewer note natural ingredients make products better for them (40 percent) and state that if they like a brand, they will purchase all products they need from that brand (36 percent).

In addition, primary drivers of hair care products include improving the condition of the hair (56 percent), while key motivators for skin product purchases include anti-aging and sun protection, 56 percent and 55 percent, respectively.

## UNDERSTANDING THE HEAVY BEAUTY SHOPPER

While marketers always want to win new customers, it is critical to keep core shoppers happy. This is true in the beauty segment as it is in other CPG markets.



*Heavy beauty shoppers serve as a bellwether for beauty shoppers at large. They are at the leading edge of trends, including buying more products in bulk, purchasing smaller quantities of favorite products and visiting the salon/spa less.*

These heavy shoppers spend on average \$185 per year on beauty products, as compared to medium shoppers who lay out \$70-\$185, and light shoppers who buy less than \$70 per year. Heavy shoppers account for just 11 percent of the beauty shopper base, yet are responsible for 40 percent of dollar sales.

Heavy shoppers are most likely to be living in households that earn more than \$65,000 per year and have children in the home. The heavy shopper is likely a female mother, who is a homemaker or works part time.

When indexed against other shopper groups, heavy shoppers continue to make regular trips to the beauty salon (119) and need beauty products designed for an active lifestyle or time spent



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outdoors (118). This group buys more products (124), purchases more at specialty stores and on Web sites (126 and 120, respectively). They have changed their rituals in the last year by buying more in bulk (123) and buying smaller quantities of favorite products (116).

Heavy beauty shoppers are also more likely to take their beauty into their own hands. Just under three-quarters (73 percent) give themselves manicures/pedicures, versus 63 percent of medium shoppers and 61 percent of light shoppers, for example. When indexed against other shoppers, heavy shoppers are most likely to perform microdermabrasion (127), light/LED therapy (123) and hair removal waxing (116).

These shoppers are more likely to visit specialty stores (126), make purchases online (120) and buy from TV infomercials (118). Cornerstone strategies heavy shoppers have pursued in the last year include making products last longer, purchasing more multi-function products and sharing products within the household. Beauty shoppers tend to be more likely to visit salons and spas (119), want products suitable for outdoor activity (118) and tend to use beauty products to get ready for work or to go out (115). They are less likely to use only basics (74) or not make the time for beauty treatments (82). Heavy shoppers are especially likely to try new beauty products (124).

### **STRATEGIES FOR SUCCESS IN BEAUTY CPG AND RETAILING**

The dynamic nature of the skin care, hair care and cosmetic markets create enormous opportunities for CPG and retail companies willing to carefully analyze market trends and selectively take risks to gain income and market share. IRI recommends several strategies

for creating successful product, pricing, promotion and merchandising strategies for this important market segment.

### **Microsegmentation**

As with all CPG marketing, a highly-detailed understanding of the many shopper segments within the category is critical. But, the company that focuses on heavy shoppers alone at the expense of other segments will fail. Any beauty industry strategy must dissect shopper attitudes and behaviors based on age, income, family status, trip missions and other demographic and sociographic criteria.

### **Pricing**

Dropping prices in a recession to maintain market share made sense. But, utilizing price cuts as an ongoing strategy will result in a diluted brand with lackluster profits. Price cuts are easy to implement and very difficult to repeal. Shoppers frequently state pricing is more important than in fact it is to their decision-making process. Choice modeling techniques will shed new light on shoppers' actual perceptions of value and what they are willing to pay for them. In addition, it may be highly appropriate to adjust prices by market segment to ensure the CPG company and retailer maximize their margins. Once again, it is the CPG and retail companies that understand their customers best who will get pricing strategy right.

### **Brand**

Brand is more important in the beauty category than in other CPG segments. Given the value beauty consumers place on both product brands and retail brands, building master brands can be an especially successful strategy.

This approach should successfully fend off attempted incursions by



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private brands, which are in less developed stages among beauty products. Building strong brands should be based on relevant assortments, line pricing and promotion strategies. Brand strategy should include an “at home” component to capture the significant number of shoppers who have taken a do-it-yourself attitude to beauty care. Some of these shoppers will return to the salon as the economy improves, others will retain their frugal habits well into the future.

## Retail Location Drives Brand Perception

To a degree not visible in other CPG markets, retail location drives brand perception. Shoppers value brands available at specialty and department stores more highly than those at supercenters or mass merchandisers. This creates a quandary for the CPG manufacturer.

Consumers are concurrently shopping at a wider range of channels. Make products available at mass merchandisers and the CPG company risk diluting the brand value. Making products unavailable at mass merchandisers risks missing a market opportunity.

A careful analysis to identify who is the CPG company's most valuable shopper should result in an optimal channel mix.

## Beauty and the Healthy Lifestyle

Most beauty shoppers believe leading a healthy lifestyle makes a person more beautiful. This creates co-branding and co-marketing opportunities for innovative CPG and retail companies with other companies, products and retailers involved in health and wellness. Hair care, skin care and cosmetic shoppers place a high value in scientific and clinic studies that demonstrate the value these products provide. CPG leaders should secure and promote these types of results wherever possible.

## Heavy Shopper Success Is Critical

In addition to their market influence and prowess, heavy shoppers are especially eager to try new products. This creates the opportunity for beauty manufacturers and retailers to uncover early trends and test innovations that may lead to new market opportunities. Co-promotion opportunities with other health and wellness companies can be particularly valuable with this shopper segment, given their interest and emphasis on outdoor activities.

As unemployment and underemployment level off in 2010 and consumers regain confidence in the economy, the beauty market will rebound like all CPG markets.

However, how quickly growth will occur, in which product segments and among what consumer segments remain open questions.

IRI will continue to provide information, insights and analysis on the beauty market to ensure CPG companies and retailers alike are able to identify and leverage market opportunities early.

## About IRI

IRI is the world's leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit <http://us.infores.com>.

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