

# NATURALLY BEAUTIFUL: MILLENNIALS AND PREFERENCES IN BEAUTY AND PERSONAL CARE PRODUCTS



Millennials have radically reshaped the beauty and personal care industry. On the hunt for the perfect, Instagram-worthy glow, they demand authenticity and a means of self-expression, and with a reliance on social media, they have generally shunned traditional labels in favor of independent brands, driving their rapid growth.

However, to what extent are 'healthy,' 'natural,' or 'clean' attributes in beauty and personal care of importance to this generation? Beauty is closely tied to notions of wellness, we have found, particularly for millennials, defined as those 18 to 34 years old. According to an AlixPartners survey, these buyers want beauty and personal care products with natural or organic ingredients that are sourced and manufactured following ethical and environmental standards. Consumers, across generations and countries, are increasingly focused on these issues, but demand from millennials is keenest.

AlixPartners surveyed more than 4,500 individuals in China, France, Germany, the United Kingdom, and the United States to evaluate health-and-wellness preferences across most major consumer product segments, geographic regions, age groups, and value chain stages. In beauty and personal care, almost three quarters (72%) of all respondents, regardless of age, said it was important to purchase healthy or clean products.

These demands, though, are differentiated by market and demographics and very sensitive to pricing. Understanding the implications for the supply chain and how these products are brought to market is therefore essential to developing the right business strategy.

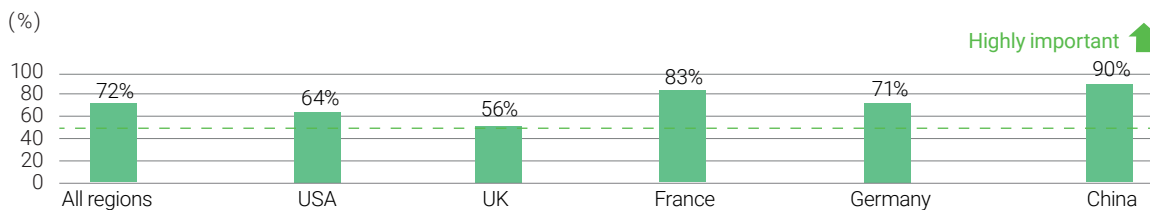
## GROWING POTENTIAL

Global sales of beauty and personal care products are valued at over \$500 billion today and expected to reach \$800 billion by 2023, a compound annual growth rate (CAGR) of just over 7%. The natural and organic beauty industry is only a small fraction of that, at about \$11 billion, but is expected to grow to approximately \$22 billion in annual sales by 2024, an implied CAGR of over 12%.<sup>1</sup> Many beauty companies are responding by incorporating stricter environmental standards, greater transparency, and more natural products across their spectrum of brands.

This attention to healthy and clean products is driven by a number of factors. There is a growing awareness, as well as some confusion, among the general public regarding many ingredients in beauty and personal care products. Consumers have been warned by the media of top ingredients to avoid, such as BHA (butylated hydroxyanisole), parabens, phthalates, and coal tar. Much has also been written to remind consumers that beauty and personal care products are absorbed in varying degrees through the skin, the body's largest organ, increasing consumer concerns.

### FIGURE 1: IMPORTANCE OF PURCHASING BEAUTY AND PERSONAL CARE PRODUCTS THAT ARE HEALTHY OR CLEAN

Respondents indicating that purchasing healthy or clean products was important to them

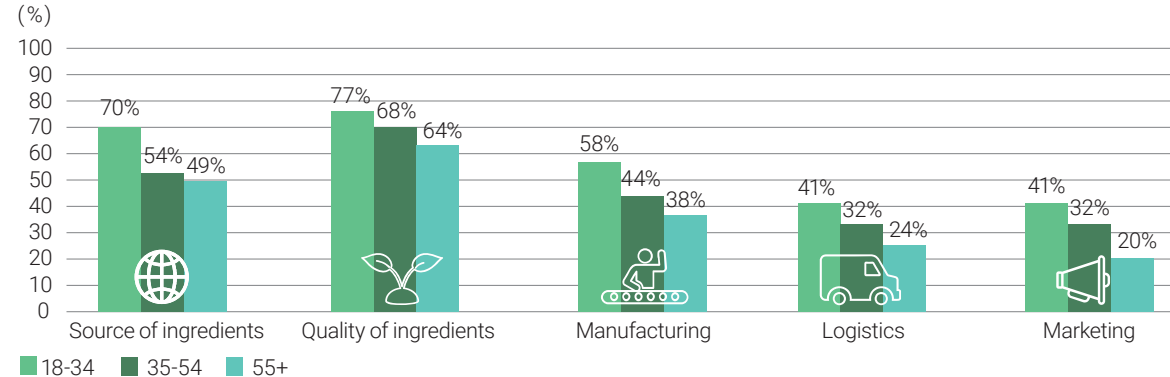


Source: AlixPartners Global Health and Wellness Study, 2018

1. Statista, Cosmetics Industry Worldwide, 2018, pp. 9-15

## FIGURE 2: HEALTH AND BEAUTY VALUE CHAIN STAGE CONSIDERATION

Percentage of respondents indicating that the value chain stage is important to them



Source: AlixPartners Global Health and Wellness Study, 2018

And politicians are echoing these concerns. California Senator Dianne Feinstein, who has introduced past legislation to strengthen the regulation of ingredients going into such products, has said, "There is increasing evidence that certain ingredients in personal care products are linked to a range of health concerns, ranging from reproductive issues, such as fertility problems and miscarriage, to cancer."<sup>2</sup>

### EVERYONE CARES ABOUT SOURCING, BUT MILLENNIALS CARE MORE THAN MOST

Millennials are leading this trend toward healthy and clean products, driven both by the sheer number of consumers in this age group as well as their buying behavior.

They are the largest potential buying group, accounting for about 32% of the world's population, compared to 17% for those over 55 years old (i.e., baby boomers and older).<sup>3</sup> In the United States, millennials became the largest demographic group in 2015, overtaking the baby boomer generation, which had been the largest for roughly 60 years.

Millennials tend to be frequent purchasers of beauty products, in particular. In one category, color cosmetics, research firm TABS Analytics has found that millennial women in the United States are by far the heaviest buyers, with 32% of women aged 18 to 24 and 26% of women aged 25 to 34 purchasing 10 or more types of color cosmetics per year, compared with 20% of women overall.<sup>4</sup>

Based on our survey, this younger age group is also more concerned about "clean" than their older cohorts. The source and quality of ingredients stand out among all age groups as the most important consideration, but millennials care substantially more about both of these by a margin of 15 and 10 percentage points, respectively.

Consumers are much less focused on manufacturing, logistics, or marketing when purchasing beauty and personal care products. Interestingly, despite millennials' stated preference for buying "locally," when it comes to actual purchasing behavior, the distance a product travels to get to the consumer seems less of a consideration in this category of products (compared, for example, to food and beverages).

While consumers of all ages tend to have similar preferences, it's the strength of those preferences that sets millennials apart. This not only applies to the process of production and retail distribution, but product attributes themselves. Compared to their elders, millennials place a higher importance on health and beauty products that are all-natural. They want them to be free from undesirable attributes and their ingredients to be sustainably sourced. Detailed and transparent labeling was also key to millennial consumers.

2. Diane Feinstein, "Feinstein Testifies in Support of Personal Care Products Safety Act," 2016. <https://www.feinstein.senate.gov/public/index.cfm/press-releases?ID=6237DD59-167A-4B5C-861C-4A95F117739F>

3. United Nations, World Population Prospects, 2017. <https://population.un.org/wpp/>

4. TABS Analytics, 2018 TABS Cosmetics Survey, November 2018

This focus on source and quality is tied to millennials' interest in the underlying story behind products. Not only do they look for transparency and traceability of product ingredients, but they are also curious about where ingredients originate and how products are made. Social media plays a key role here, as many want to learn about products through content, not traditional marketing.

For millennials, discovering new products and building authentic relationships with these brands is essential. They are searching for products that reflect their aspirations for a healthy lifestyle and their ethical and environmental standards. One of the most successful tools to respond to these generational preferences is increased transparency.<sup>5</sup>

### CONFUSION VS. TRANSPARENCY

Consumers want their beauty and personal care products to be clean, natural, and “free from” as many undesirable traits as possible, but significant confusion exists on the definition of what is desirable. What does clean mean in beauty and personal care? Reading labels on beauty and personal care products can be challenging.

What about natural products? Are all natural products safe? Lead is natural, but consumers and regulatory health agencies agree that lead is not a desirable ingredient. Plant-based ingredients are natural, but what if a consumer is allergic?

Consumers desire products that are free from as much as possible (allergen-free, preservative-free) yet how are allergens and preservatives identified?

Another level of uncertainty in some countries is the definition of organic, which is also a desirable trait to many but can be defined and regulated differently around the world. Opportunities abound to educate consumers in the health and beauty category.

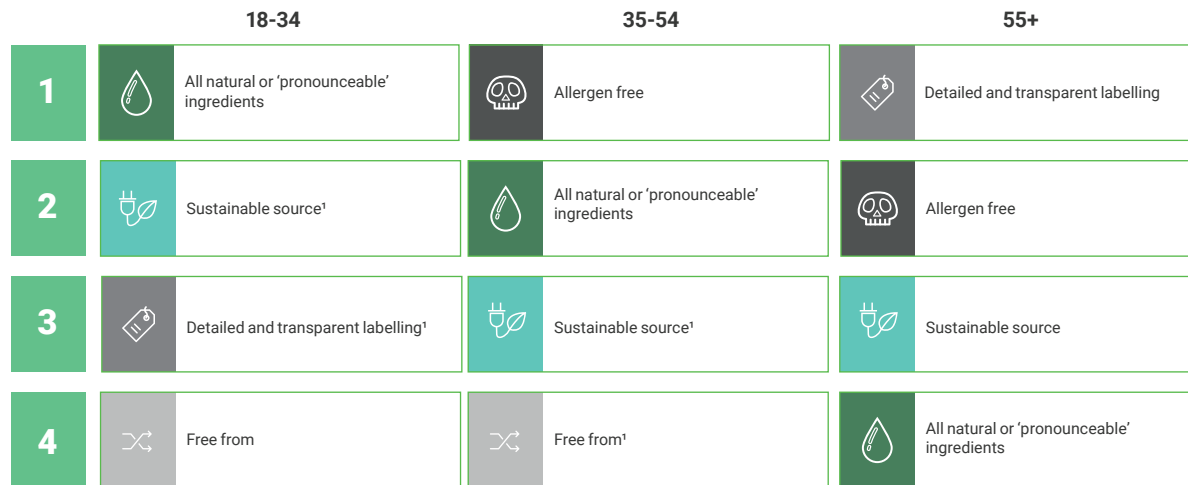
This confusion has led to the distrust of many traditional brands and is a factor in the growth of many smaller labels, such as Goop and Tata Harper.

Some companies have been quick to advertise natural ingredients, but this is often without removing others deemed unsafe. As a result, new mobile apps, such as Think Dirty and Yuka, have been developed to scan cosmetics labels and inform consumers about ingredients that could be harmful. SC Johnson has also developed an app to allow consumers to scan their personal care products to learn more about their ingredients.<sup>6</sup>

Retailers such as Sephora, Barneys, and Neiman Marcus have also launched recent initiatives to increase transparency and identify natural and healthy products for consumers.

### FIGURE 3: IMPORTANCE OF ATTRIBUTES IN BEAUTY AND PERSONAL CARE PRODUCTS

Attributes ranked by importance for each age group across all regions



1. Attributes were tied

Source: AxiPartners Global Health and Wellness Study, 2018

5. "Established Firms Try Dancing to a Millennial Tune," The Economist, October 4, 2018

6. Marie Mawad and Robert Daniels, "Apps Will Reveal What's Really in Your Makeup," Bloomberg, October 19, 2018

## CONSUMERS WILL PAY MORE...UP TO A POINT

Not only is going clean and natural confusing for consumers, but it is also costly for manufacturers. Sourcing fresh, organic ingredients does not come cheaply. Organic farms tend to produce smaller batches, so each ingredient is at a premium. Goods made without chemical preservatives also have a shorter shelf life. Conventional products have a window of two to three years, compared to six months for many natural brands.<sup>7</sup>

And manufacturers find it difficult to pass these costs on to consumers, as most say that they will pay more for natural products, but not a lot more. However, millennials are significantly more likely to pay more for beauty and personal care products containing desirable attributes than older generations. While there is some differentiation by country, overall, millennials in our survey indicated they will pay an average of 18% more for these products. This is significantly higher than what older consumers said they are willing to pay – an average of 13% for Gen X and 9% for Boomers. (See figure 5 for those attributes that respondents indicated they would pay more for.)

And as for their actual purchasing behavior, there was a 12 percentage-point discrepancy between consumer’s aspirations to purchase clean and healthy products and their reported behavior. This is a higher discrepancy than we found with other categories, such as food and beverage or household products.

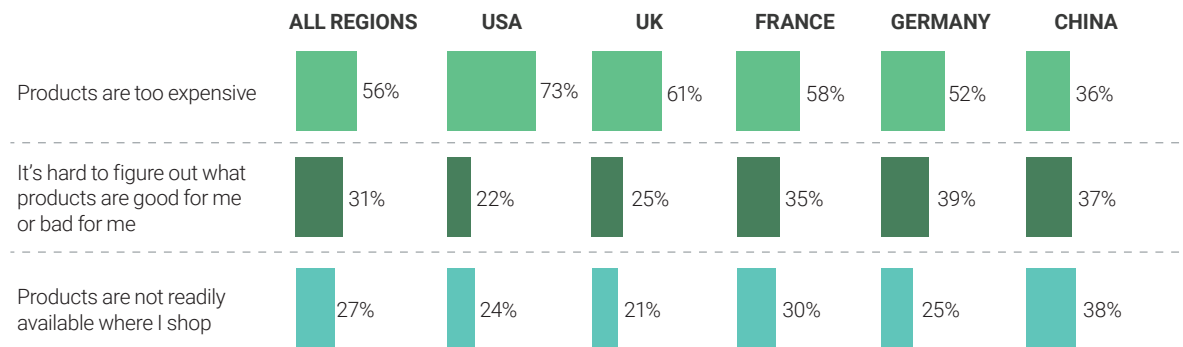
This gap is very consistent across all surveyed countries, ranging from 11 percentage points in China and Germany to 13% in the US to 15% in France. The gap is also consistent among age groups.

However, despite this gap in what consumers say they want and what they actually do, millennials continue to be more consistent in their purchasing behavior and willingness to pay more.

Price is the main barrier for purchasing healthy and clean products. It was cited as “important” by 56% of all consumers surveyed. However, confusion (cited by 31% overall) also plays a major role in preventing consumers from purchasing these products. When combined, these two factors—price and confusion—present a significant barrier to purchasing healthy and clean products (see figure 4).

**FIGURE 4: HEALTHY PRODUCT PURCHASE BARRIERS**

Respondents reporting an issue as a barrier to purchase

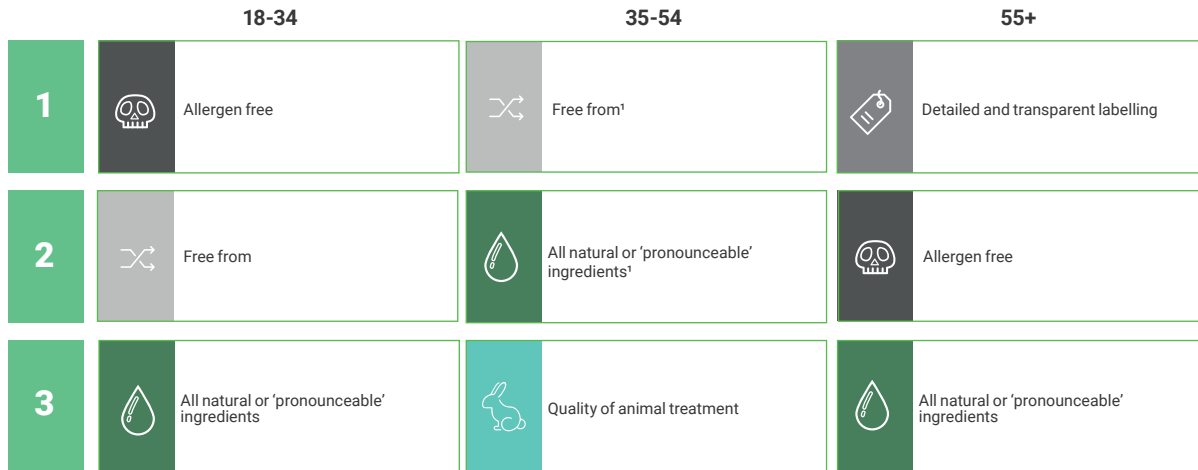


Source: AlixPartners Global Health and Wellness Study, 2018

7. Food and Drug Administration, <https://www.fda.gov/Cosmetics/ResourcesForYou/Consumers/ucm1240208.htm>

## FIGURE 5: HEALTH & BEAUTY PRODUCT ATTRIBUTES

Ranking of attributes that respondents were willing to pay more for, across all regions



1. Attributes were tied

Source: AlixPartners Global Health and Wellness Study, 2018

Why would consumers pay more for a product with attributes they don't really understand or trust?

### IMPLICATIONS

So, if combining beauty with natural products has become an important priority for many consumers, what does this mean for your business?

#### MICROBRANDS ARE HERE TO STAY

Across industries, millennials are rejecting traditional brands for "authentic" niche products and experiences. While larger manufacturers continue to dominate in sales, smaller brands are driving growth.

Some barriers to entry may still remain, but many costs, including manufacturing, logistics, and marketing, have gone down exponentially for start-ups, in particular. And by selling direct-to-consumers, these smaller brands have an abundance of data that they can use to respond rapidly and precisely to consumer demands.

And for healthy and clean products, microbrands are addressing a real market demand, as we have seen from this study.

Finding the right response to the growth of these microbrands is a fundamental challenge facing established players.

### BUT SMALLER ISN'T (NECESSARILY) BETTER

One thing that these smaller brands lack is the research and development capabilities of the established players. In developing natural and organic products, having a depth of R&D provides a distinct advantage for larger manufacturers—one not historically touted in marketing efforts.

Not all "natural" products are healthy, and not all preservatives and other additives are necessarily harmful. Larger brands should back up their offerings with scientific evidence and a compelling understanding of why their products are better for the consumer. FDA (or similar) approvals, which smaller brands may not have the resources to secure, are another means to help reinforce this point with consumers.

Mobile technology, through apps and the like, could provide larger brands a means to educate consumers about these issues.

## **SIMPLIFY**

Along a similar vein, consumers want to cut through the confusion around the healthiness and sustainability of beauty and personal care products. Companies should simplify this for consumers, increasing transparency and educating consumers in the process. This could be done through mobile apps, similar to SC Johnson's approach, or through traditional or new media. Influencers on social media provide an avenue to educate millennial consumers, in a way that articles in beauty magazines did for previous generations.

One appeal of the smaller, all-natural brands is also that consumers do not need to parse a list of ingredients to attempt to determine whether a product is good for them. As a result, consumers seem willing, up to a point, to pay a premium for that ease of purchase. Sub-brands of the larger manufacturers could provide that same simplicity for consumers. L'Oreal's Garnier, for example, is on the road to becoming a "future natural beauty champion," increasing the amount of natural ingredients in its products – up to 96% in some cases.<sup>8</sup>

## **PRICE YOUR PRODUCTS INTELLIGENTLY (EVEN THE HEALTHY ONES)**

Marketing to millennials is difficult thanks to their many mediums of media consumption, but it's clear that they still don't always live their ideal lives when it comes to buying everything they think they need. The gap between willingness to spend on healthy beauty products and the consistency of actually doing so indicates the importance of pricing. In a market that is often confusing, price can be the simplest motivator of all.

But it's also necessary to identify not only those attributes consumers say they want, but what they'll spend money on. "Allergen free" was the attribute that consumers said they would pay more for, not because it is "healthy" but likely because they have specific allergies.

## **BRIDGE THE GAP**

If consumers are willing to pay less than 20% more for beauty and personal care products with the attributes they value, but the products cost significantly more than this to bring to market, are there strategies to bridge that gap?

Large manufacturers have economies of scale that should benefit them in competing on price.

## **GET THE SUPPLY CHAIN RIGHT**

Carefully planning and managing inventories at all points along the supply chain, from raw materials suppliers to manufacturing to the retailer, is essential because of the shorter shelf-life of many natural beauty and personal care products and the need to avoid waste because of product perishability.

New technologies also promise the potential to leverage full supply chain tracking and sourcing. Blockchain technology is one such option to keep track of supply batches through the value chain, although there are other technologies that could be used as well.

Given the price sensitivity of consumers in this category, managing costs and eliminating inefficiencies across the value chain is vital.

## **FINALLY, THERE IS NO ONE-SIZE-FITS-ALL STRATEGY**

As we have seen in other product categories, consumer preferences vary in specific ways across stages of the value chain, geographic regions, and age groups. Although commonalities exist between countries, there are significant differences across markets in perceptions about what constitutes organic or natural products.

It is only through coming to understand what consumers really want, which attributes they are willing to pay for, and how their preferences differ by age, country and other dimensions, that beauty and personal care companies will succeed in today's marketplace. Winning requires precision in investment and execution in the face of complexity.

8. L'Oreal 2017 Annual Report, p. 31.

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These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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