

TABS Analytics Second Annual U.S. Cosmetics Study

Executive Overview

TABS Analytics conducted a comprehensive survey of the cosmetics industry in November 2015 to uncover consumer-buying trends and growth drivers. Overall, the category showed an estimated 5 percent growth to \$13 billion in 2015, driven in part by more consumers buying (penetration). The study found that cosmetics consumers purchased an average of five different product types and valued breadth of brand selection. Unlike other consumer packaged goods (CPG) categories where loyalty rates are often over 50 percent, average loyalty rates for cosmetics consumers in the survey were 42 percent.

Two important growth drivers for cosmetics are millennials and specialty beauty channels. Both correlate with higher category participation and sales. Buyers between ages 18-34 account for 47 percent of all heavy buyers and

are shaping both outlet trends and brand preferences. Specialty retail saw significant growth with chains such as Ulta and Sephora logging double-digit penetration and buying rates in 2015.

Additional category drivers include consumer deal participation, social media and the online sales channel. Deals are important to cosmetics consumers. Over 50 percent of those surveyed stated that they prefer to buy at stores with good deals. Heavy buyers rely on social media, particularly blogs and YouTube, to get their information about brands and trends. Online remains important, despite softer sales in 2015. It accounts for over 10 percent of total category sales.

Each of these findings, and more, is discussed in the following sections of this report.

TABS Analytics 2015 U.S. Cosmetics Study

TABS Analytics' second annual study of the U.S. cosmetics industry was conducted in November 2015 (fielded by Toluna) to determine what types of products consumers are buying, where cosmetics are purchased, how much consumers are buying and how frequently cosmetics are purchased. The study analyzed the importance of shopping channels, including department stores, specialty cosmetic and beauty stores, Internet and in-home sales, versus traditional mass-market retailers, drug and grocery stores. TABS also analyzed year-over-year trends in behavior and attitudes. One thousand geographically and demographically dispersed female consumers between the ages of 18 and 75 participated in the survey.

The survey set out to determine:

1. Who buys cosmetics?
2. What cosmetics do consumers buy?
3. Where do consumers buy cosmetics?
4. Why do consumers buy cosmetics?
5. What are the year-over-year trends in consumer behavior and attitudes in purchasing cosmetics?

Survey Definitions

The survey definitions for cosmetic deal tactics include the following:

- **EDLP:** Every Day Low Price.
- **Shop for Deals:** Consumers explicitly choose stores that offer the “best deals.”
- **Circular:** Paper advertisements of price discounts distributed by retailers at stores or by mail.
- **PVL Purchases:** “Private Label Purchases” are the house brands of retailers that are typically 20 to 30 percent less expensive to purchase.
- **FSIs:** Free Standing Inserts are the coupon inserts that come with the Sunday paper.
- **Loyalty:** Loyalty cards issued by a store that provide discounts to users of the card.
- **Large Sizes:** Large size packages that usually yield a better consumer “value”.
- **Digital Coupons:** Coupons distributed online.
- **Bonus pack:** Additional item(s) bundled with an existing item as a promotion incentive.
- **Rebate:** Require a consumer to mail in a coupon for redemption of the offer.

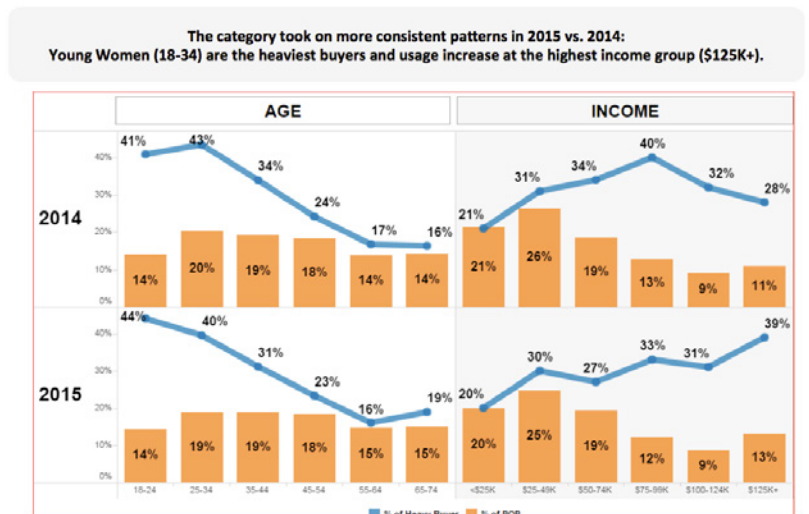
The survey looked at 19 cosmetics product types. Buyer classifications (light, medium, heavy) are based on how many types of cosmetics are purchased, not the frequency of purchase within each type. It is a measure of the breadth of purchase, not the depth of purchase.

DEFINITIONS	Buyer Group	Refers to...	Defined as...
	Light Buyer	Total Cosmetics	1-4 Types Purchased
	Medium Buyer	Total Cosmetics	5-9 Types Purchased
	Heavy Buyer	Total Cosmetics	10+ Types Purchased

Millennial Women Buyers Reign in \$13 Billion Cosmetics Market

The study found that millennial women (ages 18 to 34) are the heaviest buyers of beauty products in the \$13 billion cosmetics market (market size excludes skin care and hair care products). Millennials are twice as likely to be heavy buyers and account for 47 percent of all heavy buyers.

In the majority of consumer packaged goods categories, women 35 to 54 years old are the core target market. But in cosmetics, the habits of millennial women are transforming the industry in the areas of brand preferences, outlet preferences and methods for gathering information. Heavy buying declines among older age groups.



The study also found that higher income correlated to a likelihood of being a heavy cosmetics buyer. Of the 13 percent of the population with incomes of \$125,000 or more per year, 39 percent of that group are heavy buyers. This differs from the 2014 study, which showed a decline in heavy buying among those with higher incomes. The correlation between income and heavy buying will be a significant trend to monitor in future studies.

General Market Sees Modest Gains

Within the general market - Food, Drug, Mass, Club and Dollar stores (FDMCD) - there were modest gains in penetration (households buying at least one time per year) and regular purchases (households buying at least twice a year), with Target seeing the most. Target's penetration increased 11 percent over 2014, and regular purchaser frequency increased by 23 percent.

However, Walmart (down 11 percent), grocery (down 16 percent) and dollar stores (down 25 percent) had the steepest declines in penetration. Notably, dollar stores also decreased 27 percent in regular purchases compared with 2014. (Note: Other mass increased due to a survey coding change - reclassifying Meijer to mass.)

Outlet	Penetration	% Chg vs. YAG	Reg Purch	% Chg vs. YAG	Stated Loyalty	% Chg vs. YAG
EDMCD	78%	1%	61%	2%	78%	1%
Mass	59%	3%	43%	3%	74%	7%
Walmart	44%	-11%	32%	-5%	73%	-7%
Target	30%	11%	18%	23%	61%	10%
Other Mass	4%	45%	2%	33%	38%	8%
Grocery	13%	-16%	6%	-3%	45%	15%
Drug	48%	2%	28%	4%	57%	2%
Walgreens	29%	6%	14%	3%	49%	8%
CVS	25%	2%	13%	1%	53%	2%
Rite Aid	11%	0%	5%	4%	49%	4%
Other Drug	1%	140%	0%	200%	25%	25%
Club	4%	9%	2%	16%	54%	27%
Dollar Store	14%	-25%	8%	-27%	54%	-3%

Sales Shifting to Specialty Channel

Although mass retailers such as Walmart and Target remain the most popular outlets for cosmetic buyers overall (59 percent penetration), the survey found that the fastest-growing cosmetics retail channel is specialty beauty outlets, which showed an 8 percent increase in penetration to 41 percent and a 19 percent increase in regular buyer purchases to 25 percent compared with 2014. Specifically, Ulta had a 41 percent increase in buyer penetration and regular buyer purchases compared with 2014. Ulta excels in having both mainstream and specialty brands in its stores. Sephora also saw sharp gains, with a 25 percent increase in buyer penetration and a 32 percent increase in regular buyer purchases over 2014.

Unlike category leaders Ulta and Sephora, Sally Beauty had a 3 percent drop in penetration and remained flat in regular buyer purchases compared with 2014.

Type	Penetration	% Chg vs. YAG	Reg Purch	% Chg vs. YAG	Stated Loyalty	% Chg vs. YAG
Non-FDMCD	63%	12%	36%	3%	57%	-13%
Spec Brick & Mortar	53%	18%	26%	3%	50%	-18%
Dept Store	32%	56%	18%	54%	55%	11%
Macys	17%	---	8%	---	49%	---
JC Penney	8%	---	4%	---	44%	---
Kohls	7%	---	4%	---	51%	---
Nordstrom	7%	---	3%	---	43%	---
Dillard's	5%	---	2%	---	43%	---
Bloomingdale's	3%	---	1%	---	44%	---
Lord & Taylor	2%	---	1%	---	43%	---
Saks	1%	---	1%	---	50%	---
Nieman Marcus	2%	---	1%	---	45%	---
Belk	2%	---	1%	---	38%	---
Other Dept Store	3%	---	1%	---	36%	---
Specialty Beauty	41%	8%	25%	19%	60%	10%
Ulta	22%	41%	12%	41%	56%	1%
Sephora	23%	25%	13%	32%	57%	5%
Sally Beauty	14%	3%	6%	0%	46%	9%
Other Spec Bty	3%	10%	1%	41%	31%	47%
Spec Discount	6%	---	2%	---	33%	---
Online	26%	12%	13%	5%	49%	12%
Amazon	17%	5%	9%	6%	51%	1%
Cosm Web	6%	33%	3%	10%	47%	35%
Other Online	9%	93%	3%	8%	30%	44%
MLM	9%	21%	4%	14%	48%	10%
Other Outlet	1%	-36%	1%	0%	86%	57%

Directionally, the study found that there is also strong growth in the department store channel. TABS estimates department stores had a 32 percent penetration rate along with an 18 percent rate of regular purchases. However, since this was the first year that department store banners were broken out on the survey, the overall changes compared to 2014 are higher since more people are identifying with banners. We expect this statistic to normalize in the 2016 survey.

Online Losing Share

Online sales lost penetration share compared with 2014. Regular purchases for the entire online channel decreased by 5 percent to 13 percent, and penetration decreased by 2 percent to 26 percent. Amazon had a drop of 5 percent for buyer penetration and a 6 percent decrease in regular purchases. Cosmetics specialty websites had a sharp 33 percent drop in penetration and a 10 percent drop in regular purchases. Online sales are estimated at 8.3 percent of all transactions and approximately 10 percent of total dollars spent on cosmetics. This is the third consecutive TABS study in which online sales of consumer packaged goods have been flat or actually decreased from the previous year ([TABS 2015 Vitamin and Sports Nutrition Study](#), [TABS 2015 Consumer Value Study - Consumables](#)).

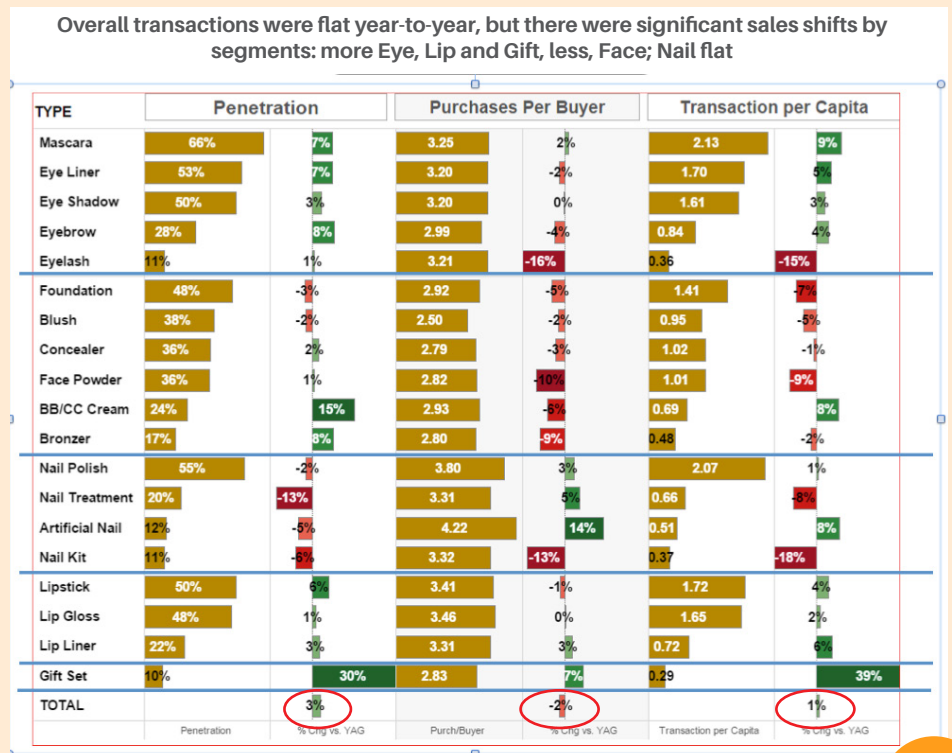
The 2015 study (slide 10) estimated the category sales at \$13 billion, up 5 percent from 2014. Although the specialty channel share (estimated based on outlet mentions) is about 46 percent, the channel accounts for 51 percent of category sales due to higher pricing and transaction sizes, in part driven by the success of specialty beauty outlet stores (Ulta, Sephora). Overall, the category remains fragmented, with significant retailer competition and consumers choosing between chains and outlets and buying many different brands. The shift among consumers from the general market toward specialty is notable and important, as it will likely continue.

What Are Consumers Buying?

Overall cosmetics transactions per capita (based on penetration and purchases per buyer) were flat compared to 2014. Category penetration (households buying at least one time per year) for the 19 cosmetic product types surveyed increased 3 percent to 89 percent. Seven types increased in penetration more than 3 percent, and of those, two types – color control creams and cosmetics gift sets – increased in penetration by double digits.

Eye and lip types posted higher transactions per capita due to higher penetration levels in 2015. Specifically, mascara and eyeliner both increased in penetration by 7 percent. Eyebrow increased its penetration by 8 percent, whereas eyeshadow and eyelash posted modest gains of 3 percent and 1 percent, respectively. Lipstick types also drove higher transactions per capita through penetration growth.

Foundation face products declined because of lower purchasing rates; penetration levels were flat. The exception to this decline was color control creams



and bronzers. The double-digit increase in color control creams drove higher transactions per capita, and increases in bronzer penetration partially offset declines in purchases per buyer.

Nail products all declined in penetration in 2015. However, purchases per buyer of artificial nails were up 14 percent even though the purchases per buyer of nail kits were down 13 percent. While 55 percent of those surveyed had professional manicures and pedicures in 2015, that was a significant drop of 13 percent from 2014 levels.

Mainstream Brands Remain Strong, but Super-Premium on the Rise

The top four mainstream (general market) brands – Maybelline, COVERGIRL, Revlon and L’Oréal – are still the predominant brands on key awareness, favorability, conversion to trial and stated loyalty metrics. These brands enjoy excellent distribution and are well known and trusted due to their high awareness and longstanding presence in-market.

Segment	Awareness	Strong Fav	Fav	Purchase	Purch Reg	CCT	Stated Loyalty
Ethnic	35%	8%	27%	3%	1%	7%	38%
Value	57%	10%	37%	12%	5%	19%	38%
Mid-Range	92%	20%	58%	31%	16%	32%	48%
Premium	82%	17%	54%	20%	9%	22%	42%
Super-Premium-Old	94%	24%	57%	13%	6%	14%	41%
Super-Premium-New	65%	19%	47%	10%	5%	15%	42%

Super-premium brands are growing because of the strength of newer entrants, including MAC, Bobbi Brown and Urban Decay, all of which reported increased awareness, penetration and favorability levels. Further, these brands are closing in on the traditional super-premium brands, such as Estee Lauder and Clinique, as the newer super-premium brands are converting at a comparable rate. Bold old and new super-premium brands are found almost exclusively in specialty channels.

Interestingly, despite having lower conversion to trial rates than mainstream brands, premium and super-premium brands enjoyed comparable stated loyalty levels above 40 percent.

No Brand Loyalty in Cosmetics

For the second consecutive year, the cosmetics study found that there is no true loyalty in cosmetics. Loyalty levels are consistent for all of the premium and super-premium brands. Newer super-premium buyers and older super-premium buyers have almost identical stated brand loyalty: 42 percent and 41 percent, respectively.

All groups, particularly heavy buyers, purchase across multiple brands. The study found that, on average, heavy buyers are purchasing across 8.6 brands per buyer while medium buyers are purchasing across 4.7 brands per buyer. The average buyer purchases more than 5 brands per year (2015 Study, slide 6).

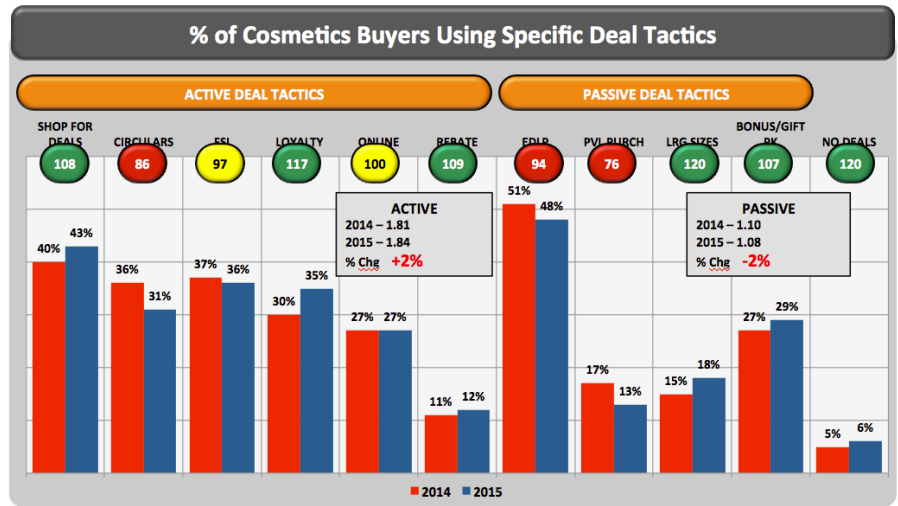
These lower levels of loyalty (both stated brand loyalty and average brands purchased) suggest to manufacturers that following a loyalty strategy for any given brand could prove very difficult. For retailers, carrying more brands could attract those consumers who are seeking a wider brand selection.

EDLP and Shopping for Deals Most Preferred Tactics

When looking at reasons why consumers buy cosmetics, deals are very important. The TABS study analyzed survey participants' use of the following deal tactics: shop for deals, circulars, FSI, loyalty cards, online, rebate, EDLP, private label purchase, large sizes, bonus and gift packages, and no deals. The deal tactics were divided into either active deal tactics, in which the consumer has to take some action such as clipping a coupon, or passive deal tactics, in which the consumer just shows up and gets the deal.

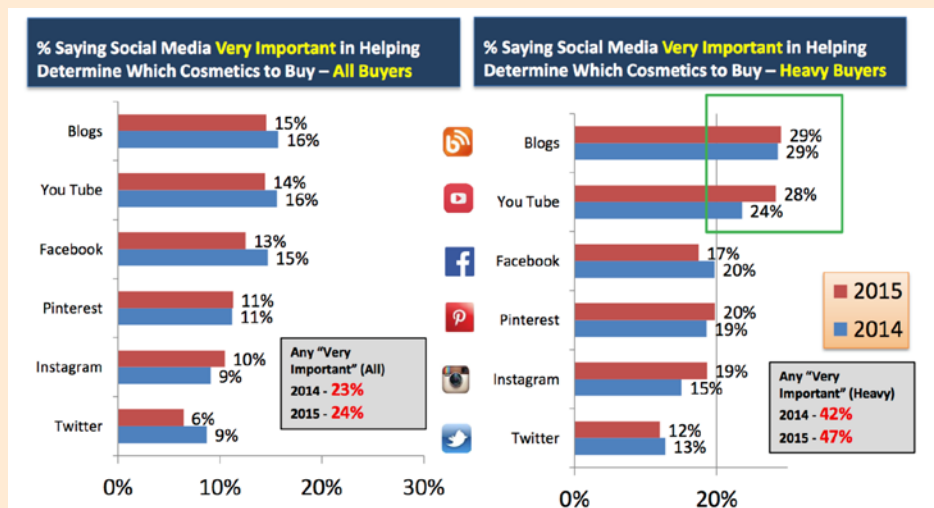
Everyday low price (EDLP) and shopping for deals are the most preferred tactics among cosmetics buyers. Forty-eight percent of consumers utilize EDLP, and 43 percent of consumers utilize shopping for deals. Thirty-five percent of consumers used loyalty cards in 2015, up 17 percent over 2014, and preferred over store circulars by 4 percentage points. Cosmetics is the only major CPG category in which TABS has found that loyalty card offers are preferred to circulars. Deals are a high motivator for shoppers to buy in general market retail rather than specialty. In addition, 54 percent of consumers prefer to buy at stores with good deals. Thirty-six percent of consumers spend a lot of time in the cosmetics section, with 31 percent responding that they like to indulge with expensive makeup. Interestingly, only 20 percent of consumers prefer to buy at stores with a beauty adviser.

Deal preference still receives the highest agreement among attitudes toward cosmetics. Preference for stores with a beauty adviser is low, but it grew meaningfully compared to 2014 (2015 Study, slide 13).



Beauty Blogs and YouTube Engaging Buyers

Trends in social media usage help explain why consumers are buying cosmetics, particularly among heavy users. Beauty blogs and YouTube are proving to be significant consumer communication vehicles for heavy cosmetic buyers. Twenty-nine percent of heavy buyers report that blogs are very important in helping to determine which cosmetics to buy. YouTube is very important to 28 percent of heavy buyers in determining which cosmetics to buy. However, when looking at all buyers, the importance of blogs and YouTube when determining which cosmetics to buy drops to 16 percent.



Conclusion

The study underscores the importance of focusing on heavy buyers, namely millennial women. Buyers between ages 18-34 account for 47 percent of all heavy buyers and are shaping outlet trends and brand preferences. Unlike in other consumer packaged goods categories where households with children are the dominant heavy buyer group, millennials rule cosmetics.

Specialty retail is a key channel for driving growth, particularly as seen by the Ulta and Sephora penetration increases in 2015. Further, sales continue to shift to this channel, particularly to specialty beauty. Online remains important, despite some softness compared with 2014. General market chains such as Target and Walgreens are seeing more growth as they expand their premium offerings and brand choice.

Deals are important to cosmetics consumers. Forty-three percent of consumers prefer to shop for deals in general, and 54 percent stated that they prefer to buy at stores with good deals. Interestingly, unlike in other CPG categories, loyalty cards are important to cosmetics consumers, with 35 percent stating that they participate in loyalty programs. Further, cosmetics consumers are less interested in traditional store circulars. Social media, particularly blogs and YouTube, are important vehicles for driving awareness and for reaching heavy buyers, who rely on these outlets to get up-to-date information about trends and brands.

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