



RetailX

Beauty & Cosmetics

2023

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Introduction



This report examines the beauty & cosmetics sector, the extent to which consumers are shopping online around the world, developments over the last year and the trends that will continue to drive ecommerce forward.

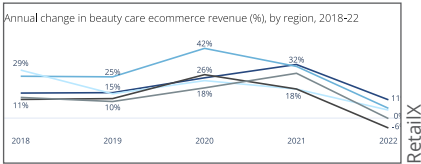
Some of the developments are echoed across the retail industry globally while others are specific to different regions or market segments. For instance, it is interesting to see the differences between how products are merchandised in China compared to Europe and the North American market. Also the extent to which mobile is being adopted increasingly as the channel of choice for consumers who shop for beauty & cosmetics online.

In this report, the RetailX researchers have combined charts and insight to bring the story of this sector to life. Data is backed up with retail examples to showcase those companies that are investing in digital channels and omnichannel services. Innovations are also highlighted to show potential new directions for the beauty & cosmetics sector. Company profiles also show ways in which retailers are engaging with consumers and how leading players are changing the industry. Amorepacific, Charlotte Tilbury, Douglas, L'Occitane, L'Oréal and Sephora all feature in these profiles.

Ian Jindal, CEO, RetailX

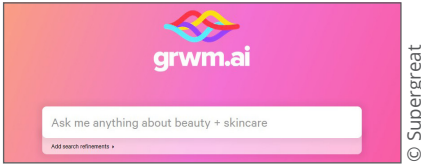
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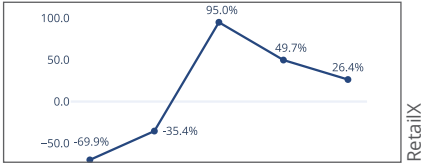
Ecommerce growth has declined but sales online are higher than pre-pandemic years

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Retailers are increasingly turning to ChatGPT and other tools powered by artificial intelligence

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Company profiles showcase Amorepacific, Charlotte Tilbury, Douglas, L'Occitane, L'Oréal and Sephora

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A changing market

The global beauty & cosmetics market continues to grow despite geopolitical and socio-economic challenges

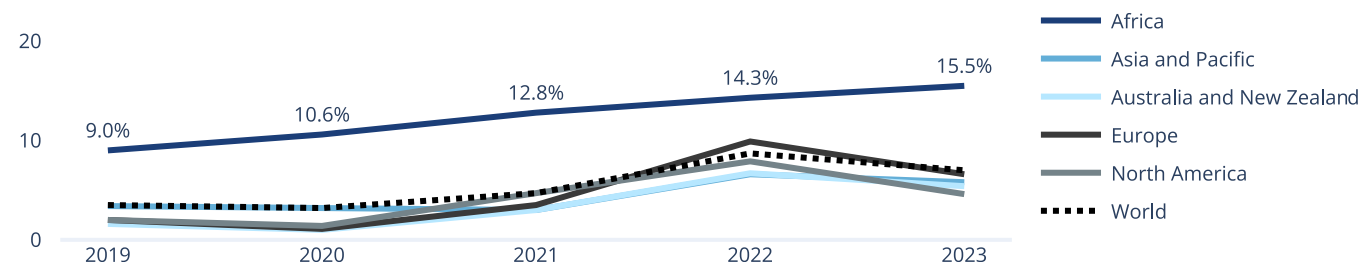
The beauty & cosmetics market is significant, encompassing skincare and all areas of colour cosmetics. While not as large as the personal care sector, which includes products such as toothpaste and deodorants, the two sectors are closely linked and often sit side-by-side as divisions within the larger corporations. For example, brands under the Unilever umbrella include Dove skincare and Sunsilk haircare. The same is true among retailers where beauty often sits alongside hair products and healthcare.

Ideas of beauty have changed over the years but colour cosmetics have continued to play an important part in showing people's identity throughout history. They provide a way to show membership or affiliation with a group, be that culturally or because of fashion, as well as giving a way to show individualism and creativity. These factors remain just as important today.

MARKET GROWTH

In recent times, the market has been averaging between 4% and 5% growth a year, except in 2020 when the pandemic reduced many of the 'going out' occasions, as well as restricting the travel sector which is an important part of the business for some brands. Today, the sector is as important

Inflation rate, by region, 2020-2023

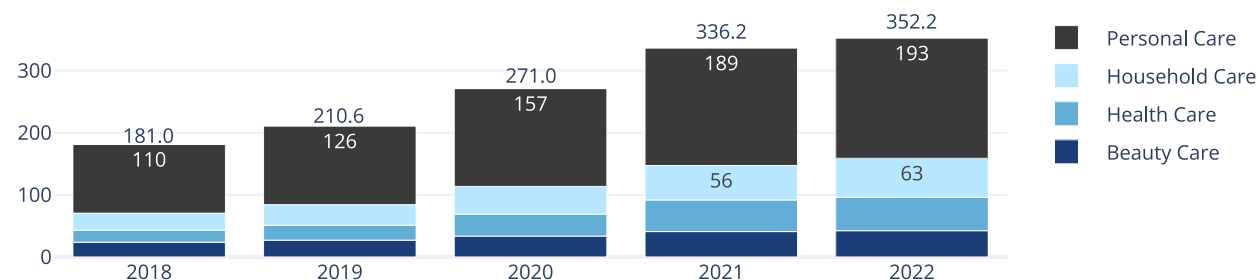


Inflation rate= Annual per cent change in average consumer prices

Source: International Monetary Fund (IMF)

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Beauty, health, personal and household care ecommerce revenue (bn USD), 2017-2022



Source: Statista Digital Market Insights

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as ever to consumers and the celebrities that play a part in the market endorsing products as brand ambassadors and models and in their reach on social media platforms.

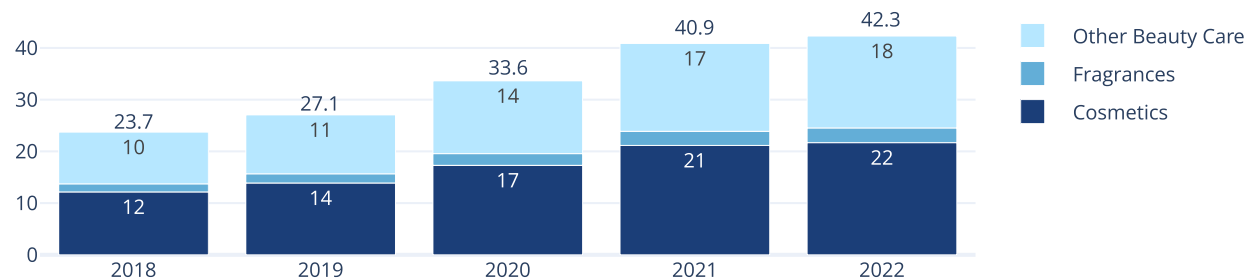
The sector also provides a place for brands not normally associated with the beauty industry to extend their profile through launching products such as fragrances. While consumer 'tastes' around the world alter in the level and type of scent used in fragrances, the names, brands and celebrities on the bottles and packaging are known globally.

With factors such as changing fashions, a thirst for something new or the next big launch, the rise and fall of celebrity and brands and different niches and personalised products the beauty & cosmetics market continues to alter and expand. An increasing number of people joining the middle classes has led to more consumers purchasing in this sector as well, as they are able to buy beyond the basics of food and housing. L'Oréal forecasts there will be 800 million more people in the middle classes by 2030. There are other factors impacting consumer behaviour in this sector and these will be covered in depth in a section later on in this report.

ONLINE

Online is a smaller part of the overall market, but a significant portion. Around 30% of all sales are made online. While this has declined in the last year as people have returned to shopping in bricks-and-mortar stores post-pandemic, the beauty sector hasn't been affected as much as some product categories which have seen online growth decline to a greater degree in the last year.

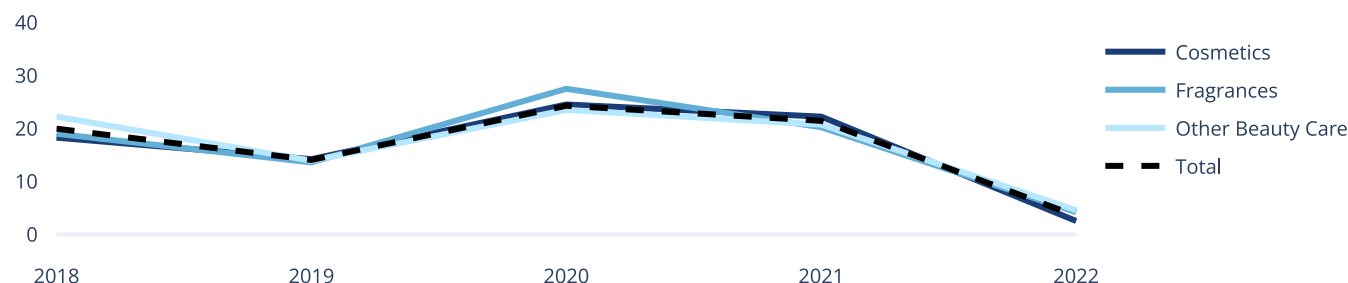
Beauty care ecommerce revenue (bn USD), 2018-2022



Source: Statista Digital Market Insights

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Annual change in beauty care ecommerce revenue (%), by category, 2018-2022



Source: Statista Digital Market Insights

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In fact, all areas of the beauty industry are seeing growth through online channels, with sales remaining significantly above 2019's level. In 2019, online sales accounted for 22% of the total market. In 2022, this figure was at 31% having dropped from 2021's peak of 33%. This indicates that the consumer switch to buying online seen during the pandemic is leading to more permanent changes in spending patterns.

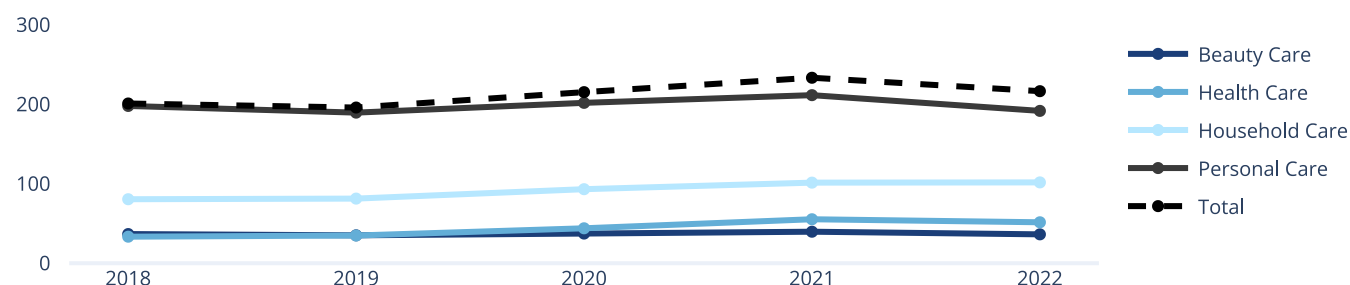
However, with China only reopening in late 2022 and some reticence from consumers in other countries remaining, it is an area to watch closely. Sales figures from brands and retailers over this coming financial year will give a better indication as to the longer term trends. What is apparent is that changes made by the beauty industry are sticking, with many of the techniques implemented to help consumers gain more of an instore experience online remaining key techniques in 2023.

GLOBAL ECONOMY

Inflation and the cost of living crisis have caused worries for consumers, reducing the level of disposable income as energy and food prices rose throughout 2022. Some regions, and individual countries, have been hit harder than others. As a continent, Africa has seen the highest rate of inflation and rather than dropping in 2023 as other regions have done, inflation continues to rise. In 2023, it has reached 15.5%. Inflation in Zimbabwe, as an example, is at almost 100%. Governments around the world are being urged to either raise taxes or cut public spending in a bid to curb consumer spending and reduce inflation. ^[1]

[1] www.theguardian.com/business/2023/jun/25/governments-advised-to-cut-public-spending-or-raise-taxes-to-curb-inflation

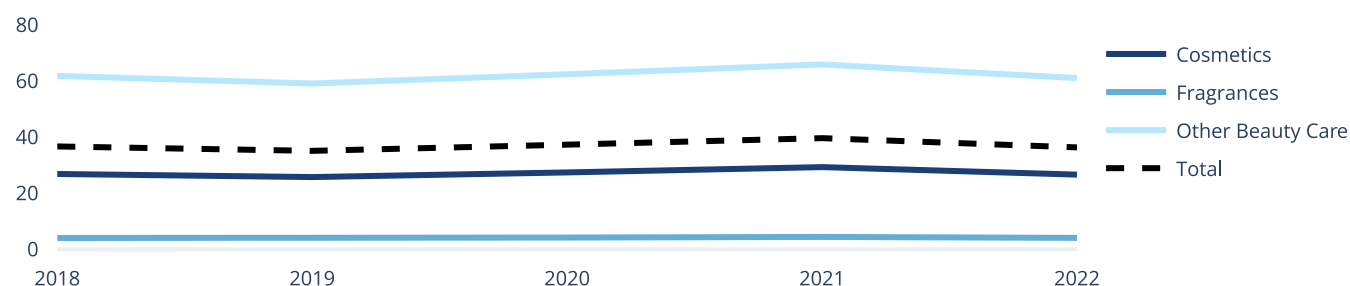
Average spend of the beauty, health, personal and household care e-shopper (USD), by category, 2018-2022



Source: Statista Digital Market Insights

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Average spend of the beauty care e-shopper (USD), by segment, 2018-2022



Source: Statista Digital Market Insights

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Regional variations

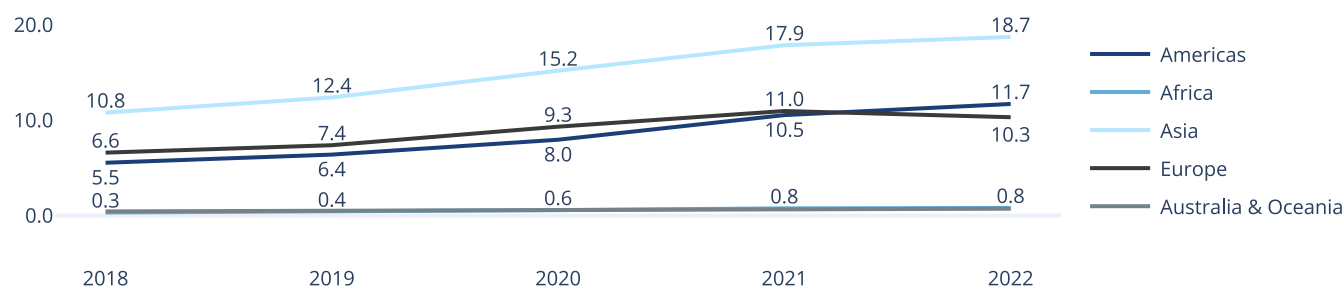
Retailers are capturing opportunities online and off as they look for growth across borders

Asia is the largest market for the beauty & cosmetics sector online but, while it remained dynamic in 2022, restrictions in China due to coronavirus resulted in more challenging trading conditions. Consumer spending bounced back in early 2023 following the lifting of China's zero Covid policy. However, consumer spending has since slowed again and initial GDP projections for the year have been reduced. S&P expects China to log 5.2% GDP growth in 2023. ^[1]

"From February 2023, Chinese consumer demand for beauty resumed, as did footfall in bricks-and-mortar stores," says L'Oréal in its financial results for the first quarter of the year. The gradual resumption of travel also resulted in more tourists buying duty free in Hainan, Macau and Hong Kong, the company said.

Hong Kong's AS Watson Group continued its expansion of bricks-and-mortar stores in the region throughout the years of the pandemic. Its Watsons health and beauty stores have opened in more than 1,400 locations since 2019. "The pandemic has been very challenging for us and retailers around the world," says Dominic Lai, Group Managing Director of AS Watson Group. "The passion and dedication in our 130,000 employees around the world to continue to care for our customers made

Beauty care ecommerce revenue (bn USD), by region, 2018-2022



Source: Statista Digital Market Insights

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a difference to enable us to weather the storm and transform the crisis into opportunities," he added.

On opening the retailer's 700th store in Malaysia, Lai said that the company's omnichannel strategy has made the brand more relevant to customer needs. It has also boosted membership of its loyalty scheme by 1.5 million people since before the pandemic. In 2019, membership stood at 5.7 million. Watsons Malaysia is also recording "high double-digit sales growth," with the country being one of its fastest growing markets in Asia.

THE INFLUENCE OF GENZ

Asia requires a unique market proposition, with shoppers expecting different experiences to consumers in other parts of the world.

This is mainly driven by the higher levels of mobile and social commerce. This is particularly true in China where GenZ account for the largest group of

consumers – although due to age and purchasing power are not yet the highest spenders.

This group of shoppers actively seeks out new experiences and is happy to try new products or be attracted by something novel. These consumers are also very conscious of their self identify as well as the environment. In fact, environmental sustainability is crucial when purchasing beauty products, according to 91% of GenZ respondents to a survey by Daxue Consulting. These two factors alone are important enough for marketers to be conscious of when trying to attract this increasingly important group of consumers. GenZ is also very health conscious. More than half of the health-related products sold by ecommerce giant JD.com are bought by China's GenZ, according to the company. Overall, the 233 million teens and young people in their early 20s that make up GenZ in China account for 11% of consumer spending while also influencing overall household spending.

All of these factors are leading to a market in which messaging is increasingly based around product health benefits and ingredients. Where Western brands would have been the go-to in recent years and seen as more trustworthy or premium, Chinese brands are now gaining traction.

The spending power of GenZ is only set to increase as more of this generation enters the workspace and their level of disposable income rises. Currently, many of their purchases are paid for using instalments rather than being paid for outright.

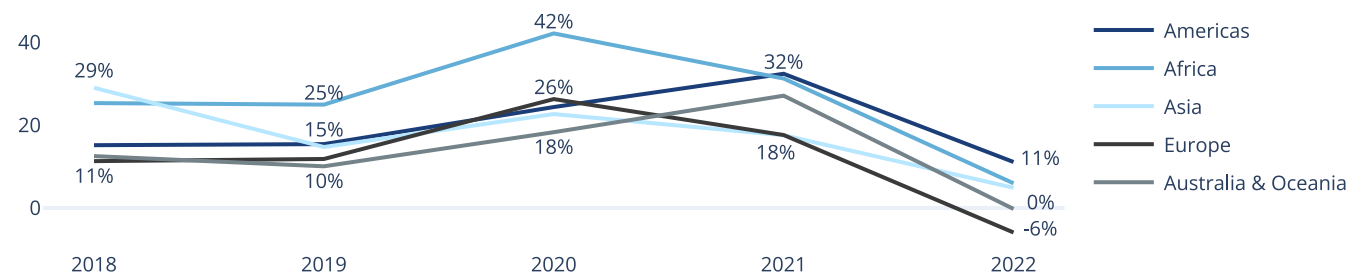
CHINA

Millennials are the biggest purchasers of beauty & cosmetics in China. This age group accounts for 31% of beauty sales in the country, according to Daxue Consulting.^[2]

As with other countries, Chinese consumers turned to the internet for shopping during the pandemic and the same was true during 2022's restrictions. However, trading conditions for some brands remained tough even into the first part of 2023. L'Oréal called China a "challenging market" for consumer products while its luxury division saw a "drastic slowdown" of the Chinese market in 2022, according to the group's full year financial results. Its Consumer Products division "accelerated its market share gains in the fourth quarter" while the group reported a double-digit increase in online sales.

As well as affecting how consumers shopped, the pandemic also influenced what consumers bought. Skincare and items that claimed restorative, health or wellbeing benefits saw sales increase. The top

Annual change in beauty care ecommerce revenue (%), by region, 2018-2022



Source: Statista Digital Market Insights

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five beauty categories on Douyin in August 2022 were facial masks, skincare sets, serums, lotions and electronic beauty devices. Lipstick declined in popularity, with 27.5% of consumers who normally buy beauty products saying they didn't wear lipstick at all during the second half of 2022 due to having to wear a mask. Consumers spent more time and money on eyeshadow instead.

It is understandable therefore that beauty brands increased their marketing spend during the 11.11 shopping festival in 2022. Overall, Chinese consumers spent \$80 billion on beauty & personal care in 2021 both online and off, with sales increasing by 10% over the previous year. The market is predicted to grow by above 5% each year until 2027.

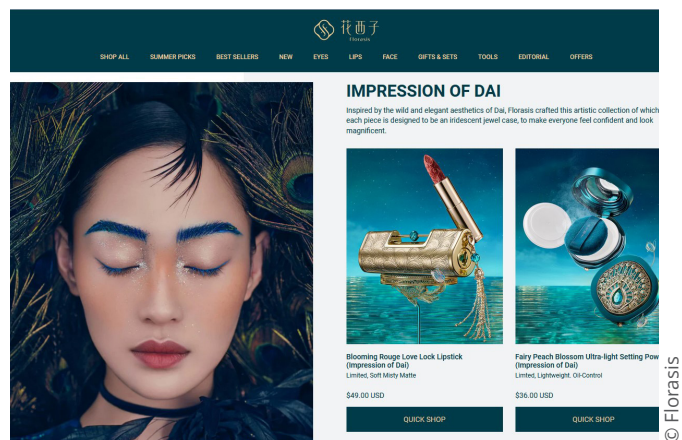
One area, in particular, that has been seeing sales increasing at a faster rate than the global average is male beauty. China's male beauty market reached \$1.44 billion in sales in 2021.

CHINA'S RISING LOCAL BRANDS

Local insight and high marketing spend are helping beauty & cosmetics brands founded in China gain trust with Chinese consumers and increase market share against global brands. They are making high quality products that cater specifically for consumers in China and selling them at prices that are affordable for mass market. Proya and Winona were among the ten top selling brands in the 11.11 shopping festival in 2022, while Florasis and Timage were among the leaders in colour cosmetics. In fact, Florasis ranks second highest for sales only behind MAC Cosmetics.

CHINA LUXURY MARKET

China is also a major market for the luxury sector and this part of the beauty & cosmetics market is dominated by international brands. L'Oréal is leading the market with a 30% market share in 2022, according to the company. Estée Lauder and LVMH also hold significant positions in the market.



© Florasis

High quality products from China's domestic brands are gaining market share

L'Oréal's acquisition of Australian luxury brand Aēsop is one of the ways that the company will be looking to strengthen its presence in the luxury market in China.

In 2022, disposable incomes in China grew by 2.9% year-on-year and, as such, more consumers moved up to buying what are seen as the better quality products of the luxury brands.

NORTH AMERICA

The US is the largest market for the beauty & personal care sector with sales in 2022 reaching above \$87 billion overall. In comparison, China's sales reached \$55.3 billion. Where the two differ is in the level of online sales; China outpaces the US in sales via digital channels and the extent to which sales are made on mobile devices. Mobile commerce in the Americas accounts for 49% of online sales compared to almost 80% in Asia.

The US is the second largest beauty & cosmetics market online. Sales reached \$11.7bn in 2022 having seen revenue jump from \$6.4bn in pre-pandemic 2019. Sales online in 2021 reached \$10.54bn highlighting how consumers are not buying beauty & cosmetics online to the same extent they did the previous year, although sales have not dropped off completely as shoppers return to buying in bricks-and-mortar stores. The online market is predicted to continue growing at one percentage point a year through to 2026. By then, Coresight Research predicts online will make up a third of the US beauty market.

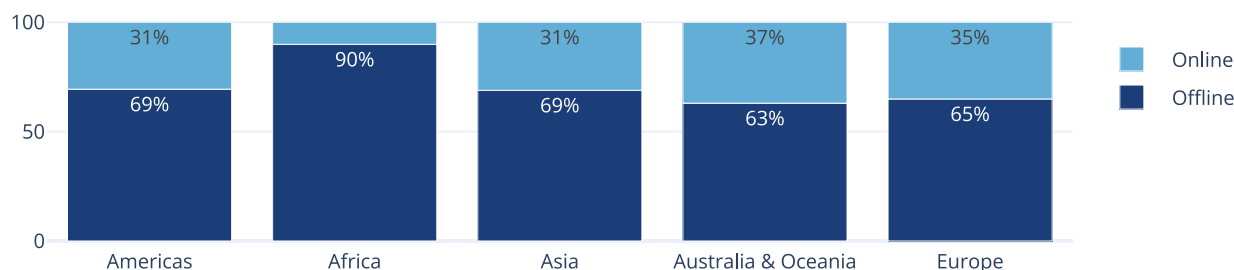
The largest share of the US market is held by Amazon and the brands that use it as a platform for selling. Christmas is a key part of the trading year with cross-brand beauty boxes and special packages tested and sold by brands on the platform. Amazon

says that beauty was one of its best performing categories over the 2022 holiday period. Amazon Prime Day is a major sales event for brands on Amazon as well.

For example, Laneige became one of the top selling beauty & personal care brands on Amazon Prime Day 2022 in the US, a move that the company called "a new milestone". Its Lip Sleeping Mask and Lip Glow Balm ranked as number one and three best selling products.

"The impressive performance we made during this year's Amazon Prime Day is the direct result of our efforts in expanding our interactions with customers through a 360 degree omnichannel strategy and marketing communications, combined with the superior quality and innovation of our best-selling products in the North American market," said

Shopping channel share by revenue for beauty care multichannel shoppers (%), by region, 2022



Source: Statista Digital Market Insights

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Robin Na, President & General Manager in North America of the brand's parent company Amorepacific.

Amazon's share of the beauty and cosmetics market is almost three times higher than specialist retailer Ulta Beauty, although the Illinois-based omnichannel retailer is growing its share of the domestic market. Ulta Beauty's sales in the first three months of 2023 were \$2.6 billion, an increase of 12.3% compared to the same period of 2022. The company operates 1,359 bricks-and-mortar stores as well as online, offering consumers around 25,000 products from more than 600 brands.

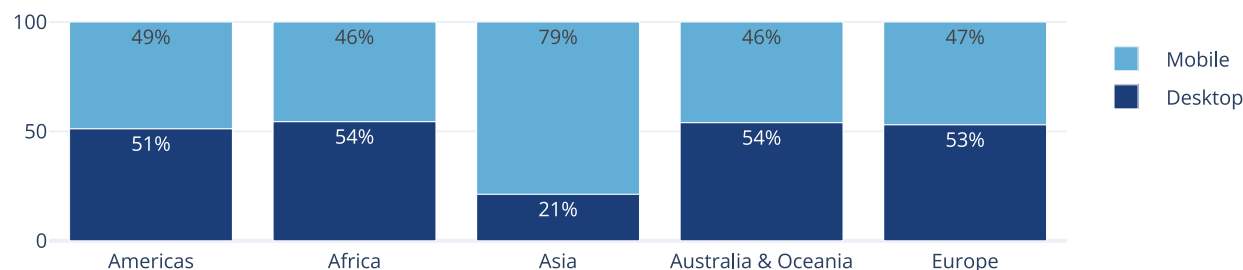
"The year is off to a positive start as the Ulta Beauty team delivered revenue, operating margin, and diluted EPS consistent with our internal expectations," said Dave Kimell, CEO, Ulta Beauty. "Store traffic remained healthy, member growth showed continued strength, we delivered growth across key categories, and we strengthened engagement with the Ulta Beauty brand," he added.

Sephora holds almost a similar share as Ulta Beauty, with company performance in the first quarter of 2023 called "exceptional," by parent company LVMH. "Momentum was particularly strong in North America," it says.

US LUXURY MARKET

Consumers in North America are predicted to increase their spending on luxury cosmetics over the ten years to 2033, making the region the largest for this sector globally, according to Future Market Insights. Skincare will retain the largest share of consumer spend on luxury beauty worldwide.

Device usage share by revenue for beauty care online shopping (%), by region, 2022



Source: Statista Digital Market Insights

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Innovative technologies and AI-powered mobile apps are expected to drive growth in the luxury sector in North America, combined with commitments being made by key companies to redefine luxury cosmetics through innovative formulae, cutting-edge performance and appealing packaging, the insights company says.

Among the luxury cosmetics companies, Charlotte Tilbury had a particularly strong year in the US. Parent company Puig reported growth of 56% in 2022 across its entire portfolio in North America, boosted mainly by Charlotte Tilbury and sales of prestige fragrances. 36% of the company's sales are made in the Americas, and the US is the company's largest market within that region.

Other brands under the Puig umbrella also saw positive results in 2022. Carolina Herrera achieved its best results since the launch of its makeup line in 2020 and Byredo, the luxury Swedish brand, had a "very positive year", reinforced by the launch of

a series of new iconic products. In 2022 Dries Van Noten made its first inroads into this category with a collection of 30 shades of lipstick in refillable containers, the company reports.

EUROPE

Germany, France and the UK are the three largest beauty & personal care markets in Europe. Consumers spend an average of \$60 each on beauty products each year, less than their counterparts in Australia & Oceania, who spend almost \$100 each, and consumers in the Americas who each spend almost \$1 more annually.

The UK sees a larger share of consumers who shop online buying beauty & cosmetics products online than in the other key European markets. 30% of people who shop online in the UK buy in this category. This compares to 26% in Germany, which is a larger market by revenue. Overall, in Europe, ecommerce accounts for 35% of consumer spend in this product category. 47% of that spend is made

using a mobile device, such as a smartphone, rather than the consumer shopping from a desktop device.

However, the amount that individual consumers are spending on beauty & cosmetics online in Europe did decline in 2022, as did the value of the overall ecommerce market. The average spend dropped from almost \$70, while the overall revenue figure for the market declined almost 6% year-on-year. In 2021, ecommerce revenue grew by 17.6%. This follows the 26% increase in online revenue reported by the beauty & cosmetics sector in 2020 as shoppers moved online during the first wave of coronavirus.

THE UK MARKET

In the UK, health & beauty companies, which saw almost 40% growth online in 2020, saw sales drop by 10.7%, according to the UK ecommerce association IMRG. Growth has been hampered, not just because people have returned to shopping in bricks-and-mortar stores post-pandemic, but also because supply chain and inflationary issues have raised other challenges for retailers.

In 2022, consumers were spending more at the checkout, according to IMRG, with average basket values higher than in 2021, but overall conversion rates have been lower.

Nervousness around intermittent postal strikes and retailers' ability to deliver online orders around the time of the 2022 Christmas shopping season was also a prohibiting factor for pureplay retailers in the UK. Sales dropped off for all beauty retailers in the UK at that crucial time but less so for multichannel



Fashion brand H&M opened its first bricks-and-mortar beauty store in Norway

retailers that could rely on their click and collect services to reassure customers about delivery in time for Christmas.

All of these factors could be why health & beauty brands and retailers in the UK on the whole launched Black Friday sales much earlier than retailers selling in other categories. For example, Boots commenced its Black Friday sale on 1 November. Over the eight days of the Black Friday shopping festival, sales in this sector increased by 3.8% year-on-year. This is

among the health & beauty companies that report sales figures to IMRG.

Overall, 2022 was not all doom and gloom in the UK market. Although the beauty sector saw revenues decline online, there was an increase during the Black Friday period, as well as a sharp increase in sales of colour cosmetics online over the holiday season itself. Sales also spiked in early November across budget, mass market and, in particular, premium beauty & cosmetics categories.

TMALL LAUNCHES IN EUROPE

The largest share of the European market is held by Amazon, with Sephora accounting for the largest portion among retailers specialising in beauty & cosmetics. Douglas and Boots also stand out as major retailers in this sector.

The European beauty sector has seen a number of significant moves recently among retailers, particularly in Spain, the UK and Norway. China's Alibaba has chosen Spain as the first location for the launch of its Tmall ecommerce platform in Europe, while Sephora has fully launched in the UK market following its acquisition of Feelunique. In June 2023, Tmall was running a pilot project in Spain, which "will expand across Europe," according to Michael Evans, President of Alibaba Group. ^[3]

Tmall's expansion to Europe is an interesting move, especially as the platform has proven to be such a success for European brands selling in the Chinese market. Tmall's luxury pavilion has been a key entry point to the market and for product launches.

According to a talk Evans gave at VivaTech Paris and reported by CNBC, Tmall's approach to Europe will be to "serve local brands and local consumers in the local markets". This means Tmall is entering a market that is already competitive, especially among beauty & cosmetics retailers and, of course, Amazon.

Its approach to the premium end of the market in Europe will be interesting to follow, as will the experience and techniques it brings to European consumers that are already successful in China, such as livestreaming.

H&M BEAUTY EXPANDS

Swedish fashion brand H&M has expansion plans as well. The company has chosen Norway as the location to launch its first bricks-and-mortar H&M Beauty store. The 300m² flagship store is located on Oslo's main street, Karl Johans gate, offering shoppers easy access to H&M own branded items as well as a curated selection of products from more than 80 brands including Huda Beauty, Wishful, Kayali, Smashbox, Anastasia Beverly Hills, KVD, Origins and Emma S.

This first store opened on 4 May 2023, followed by a second in the same city at the end of the month.

The company says that this is the start of H&M Beauty's journey, "with the goal of creating both a physical and digital beauty universe where the customer can be inspired and buy their entire look." H&M's own beauty products are sold online currently, with the extended offer available on its Norwegian site, as well as in Sweden and Germany.

"We are very happy that we can now offer our customers a well-curated beauty assortment that goes hand-in-hand with the fashion we offer. Our goal is to inspire every customer who enters an H&M store, or who shops online at hm.com, to leave with a complete look across fashion and beauty," says Cathrine Wigzell, General Manager, H&M Beauty.

SEPHORA IN THE UK

Sephora has fully entered the UK beauty & cosmetics market following its acquisition of Feelunique in 2021. The Feelunique site was replaced with Sephora branding, enabling consumers in the UK to browse

and buy from across the mix of prestige cosmetics, fragrance, skincare, haircare and wellness products that Sephora carries. The retailer, which is owned by LVMH, opened a flagship bricks-and-mortar store in Westfield London in March 2023.

"At Sephora, we innovate every day to build the most loved beauty community. We are delighted to bring Sephora to the UK, responding to Britain's strong demand for our unique prestige beauty experience. UK customers will be encouraged to explore and discover the best versions of themselves as we support them in their beauty journey with a fantastic curation of time-tested classics and new indie brands," said Sephora's Chairman and CEO Chris de Lapuente.

"We will offer British consumers a pioneering selection of beauty that is best in class for innovation, diversity and inclusion. The UK is home to a dynamic beauty and wellbeing market that Sephora will aim to surprise and delight through our trademark knowhow and creativity," he added.

Bath and Body Works has also opened a bricks-and-mortar store in the UK.

[1] www.reuters.com/markets/asia/sp-global-cuts-china-2023-growth-forecast-52-55-2023-06-26/

[2] daxueconsulting.com/china-beauty-industry/

[3] www.cnn.com/2023/06/15/alibaba-to-launch-local-version-of-china-e-commerce-site-tmall-in-europe.html

RetailX study shows how consumers behave

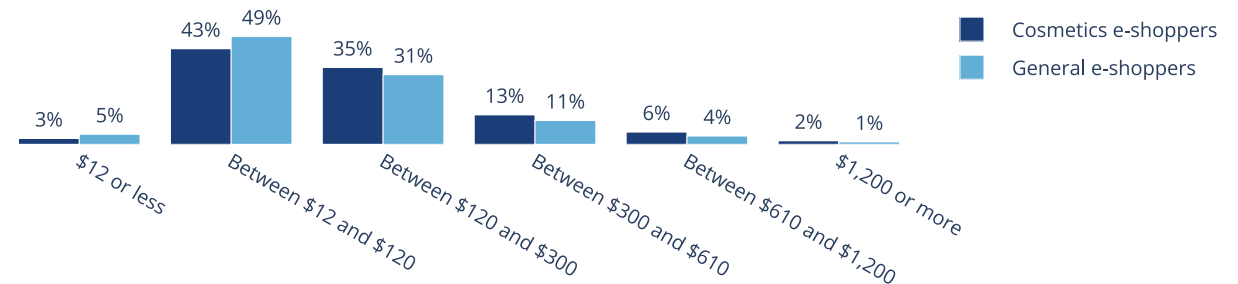
Beauty customers are avid online shoppers, spending more across the internet than other consumers

Shopping for beauty & cosmetics creates a variety of different customer journeys in terms of how and where consumers buy, the channels they use and the mix of touchpoints both online and off. Some products are bought in quick grab, pay and go transactions where the customer knows exactly what they want and goes directly to it in a store. Online, navigation, a search bar or personalisation techniques showing previously viewed or bought items all help with speeding up the process and reducing friction for the customer.

Retailers of mass market products then try to gain a greater share of these consumers' purchasing through implementing subscribe and save models, discounts for buying multiples of the same product and marketing for repeat purchases.

While consumers may stay loyal to their favourite brand or products in segments such as skincare, there are many other transient shoppers who are easily swayed into buying new products and trying other brands. In fact, consumers who buy beauty & cosmetics products online are influenced by adverts

Monthly online spend, cosmetics e-shoppers (%), 2022

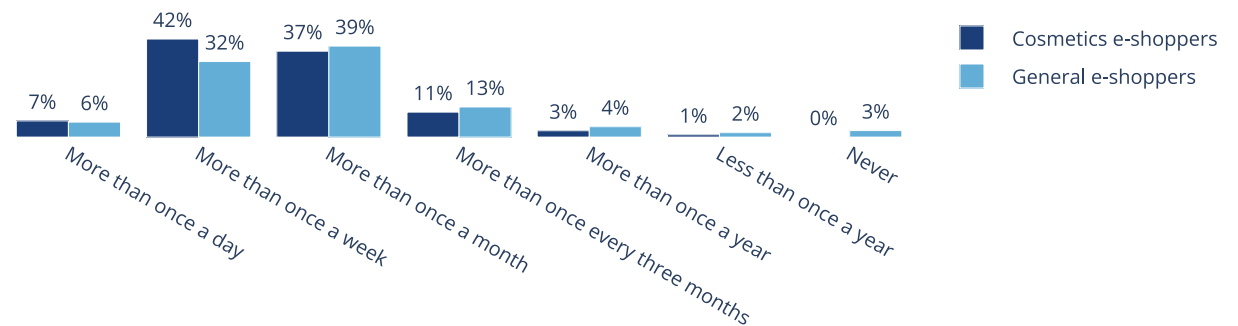


Based on 1,194 cosmetics e-shoppers and 2,863 general e-shoppers in Germany, France, Brazil, Australia, USA and UK, aged 16+, Aug 2022. Question: "How much do you spend on average per month online?"

Source: RetailX Consumer Observatory

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Frequency of online purchase, cosmetics e-shoppers (%), 2022



Based on 1,194 cosmetics e-shoppers and 2,863 general e-shoppers in Germany, France, Brazil, Australia, USA and UK, aged 16+, Aug 2022. Question: "How often do you shop online?"

Source: RetailX Consumer Observatory

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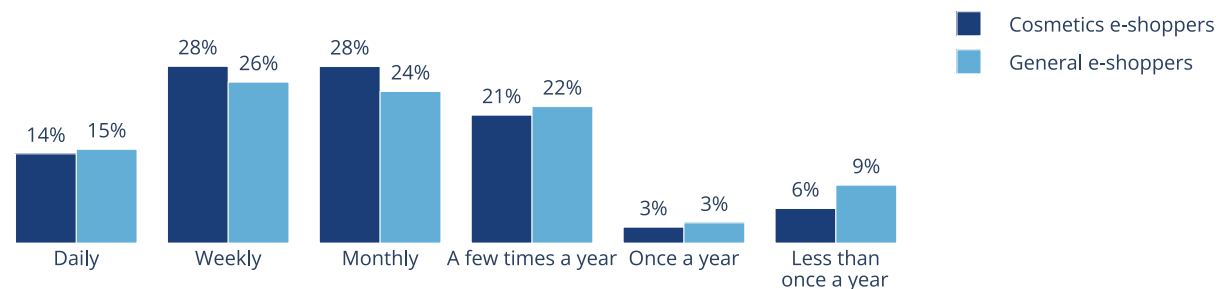
more frequently than other shoppers and are more likely to go on and make a purchase after seeing a product advertised.

Beauty & cosmetics shoppers buy online across all product categories more often as well. 42% of beauty & cosmetics e-shoppers buy something online more than once a week compared to 32% of online shoppers who only buy from other product categories. A larger number shop online multiple times a day – 7% of beauty & cosmetics shoppers, compared to 6% of other people. As the frequency of shopping times decreases so the percentage of consumers who shop only outside of this category increases. 13% of general e-shoppers buy online more often than once every three months, compared to 11% of beauty & cosmetics shoppers.

This may be because a large percentage of consumers buying beauty & cosmetics online are found in the younger age groups. The majority of online shoppers who buy beauty & cosmetics online are under 34, according to a survey conducted across multiple countries by RetailX. These Millennials and GenZ, who have grown up with the internet and ecommerce, are known for being less loyal to brands and actively seeking out digital experiences and inspirational content – all factors that will make them more likely to click through from targeted advertising.

They are also more knowledgeable about the products they are buying, wanting clarity on ingredients and product efficacy, as well as being price sensitive in the current economic climate.

Frequency of advertisements leading to purchase, cosmetics e-shoppers (%), 2022

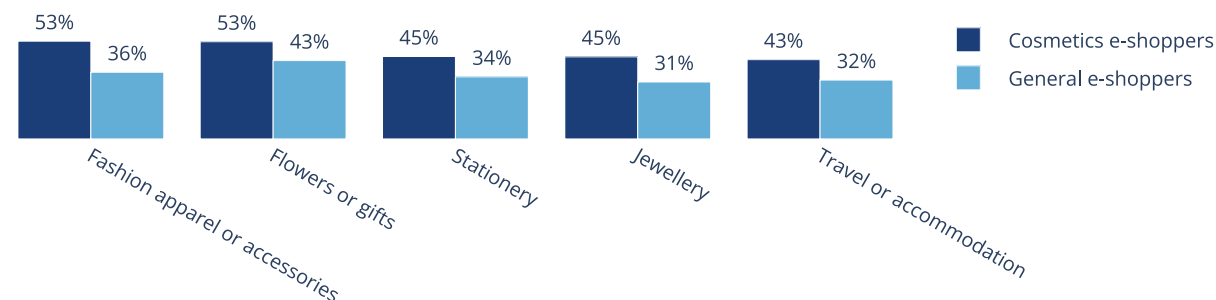


Based on 1,194 cosmetics e-shoppers and 2,863 general e-shoppers in Germany, France, Brazil, Australia, USA and UK, aged 16+, Aug 2022. Question: "How often is it that seeing a product ad on a channel or service leads you to make a buying decision?".

Source: RetailX Consumer Observatory

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Other goods purchased online by cosmetics e-shoppers (%), 2022



Based on 1,194 cosmetics e-shoppers and 2,863 general e-shoppers in Germany, France, Brazil, Australia, USA and UK, aged 16+, Aug 2022. Question: "What do you shop for online?".

Source: RetailX Consumer Observatory

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Developments in digital channels

Digital content is extending beyond dotcom sites as retailers innovate with the customer experience

The switch to shopping online continues, albeit at a slower rate than during the pandemic years when consumers swapped shopping in bricks-and-mortar stores for the perceived safer environment of the internet. This behaviour highlighted those retailers that had invested heavily in digital channels in previous years, as well as the agility of all to ramp up fulfilment operations, introduce click and collect or curbside collection.

Digital experiences were ramped up, such as the use of augmented reality enabling consumers to try on colour cosmetics or switch hair colour virtually. Since then, Nars Cosmetics has found that consumers try an average of 27 shades on its website, with the AR tool driving a 300% increase in conversion rate.

Implementations such as these didn't slow as consumers returned to shopping in bricks-and-mortar stores, and looking at the growth figures for the industry they are becoming more important, not less. In fact, when comparing figures to 2019, brands and retailers are selling more online than they were before the pandemic. This boost to online has resulted in 31% of beauty & cosmetics products being bought online in 2022 compared to 22% in



Metaverse Beauty Week played out across Decentraland, Spatial and Roblox

2019. In 2021, online accounted for a third (33%) of all sales.

What has continued to grow is mobile's share of the online market as the use of desktop devices for shopping declines. While overall sales online decreased in 2022, mobile accounted for a larger proportion of those sales than it had in 2021. Mobile accounted for 61% of sales in 2022, compared to 60% in 2021 and 55% in 2019.

Consumers say they like the convenience of shopping online, but beauty & cosmetics shoppers also like the actual experience of shopping and

product discovery is as important as repeat purchases of favoured products. As shown in the RetailX Beauty & Cosmetics 2022 report, it is not uncommon for consumers to own upwards of 50 different beauty & cosmetics products.

The importance of social media influencers and content creators to this sector attest to consumer desire for newness and experiences. The extension of digital experiences, from website to mobile app, social platforms and the metaverse, as well as into physical retailing, will further increase the attractiveness of brands, particularly to younger shoppers as their spending power increases.

THE RISE OF ARTIFICIAL INTELLIGENCE

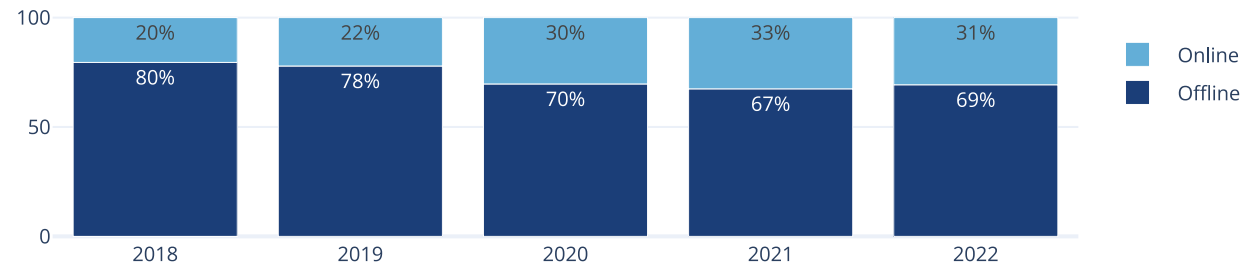
The use of artificial intelligence (AI) in ecommerce is common. It is used across different applications from supply chain to merchandising. Where it is in more noticeable view to customers is in the use of augmented reality virtual try-on and skin analysis tools. These have become entrenched in the industry and consumers are used to visiting a website, mobile app or bricks-and-mortar store to receive personalised recommendations for skincare products.

Skincare analysis tools use a mixture of user-answered questions, images – from the shopper's webcam or mobile phone camera – and artificial intelligence to analyse areas of skin, identify skin type and the skincare ingredients that are best suited to alleviating any concerns the customer has. Tools such as these help personalise the experience for customers, increasing surety over the items they are buying as well as increasing engagement and reducing products returns.

Marianna Naturals has seen dwell time on its site increase by 300% and sales growth of 30% since launching an AI skin analyser.

In a different move, The Estée Lauder Companies has developed an application that uses AI and augmented reality to give greater independence to visually impaired customers when applying colour cosmetics. Once makeup has been applied, the app analyses the user's face checking that everything has been applied correctly and evenly. Advice is given audibly, with the app describing areas where lipstick, eyeshadow or foundation needs touching up.

Shopping channel share by revenue for beauty care multichannel shoppers (%), 2018-2022



Source: Statista Digital Market Insights

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The company's Estée Lauder brand was the first to introduce the Voice-Enabled Makeup Assistant (VMA) in a mobile app and on its website in the UK. Other brands will roll out the technology in due course. "The launch of our Voice-Enabled Makeup Assistant is an important step in our journey towards makeup accessibility for all by removing barriers to engaging with beauty products and services," says Monica Rastogi, Executive Director, Corporate Cultural Relevancy and Inclusion and Diversity, The Estée Lauder Companies UK & Ireland.

While artificial intelligence helps retail sites make personalised recommendations from a range of mass produced products that are available for sale, other brands are taking the concept further with on-demand manufacturing. Perfect Corp, which is known for its AR and AI technology online, has partnered in an offline analysis tool to be used with a personalised, on-demand skincare service.

Precision Skin takes into account the user's preferred product texture, key skin concerns and lifestyle habits as well as the AI analysis before providing a detailed report on a customer's major skin concerns, including moisture, pores, acne, spots, firmness, radiance, dark circles, droopy lower eyelids, wrinkles, texture, oiliness, redness and eyebags. The AI analysis also provides the customer with an overall score for skin health. From these, the Precision Skin team can provide a bespoke skincare formula for the customer.

"Personalisation is the future of skincare," believes Alice Change, Founder and CEO of Perfect Corp.

"With the power of AI technology, skincare customers can have bespoke product formulations created for them, with active ingredients that better address their unique skin concerns."

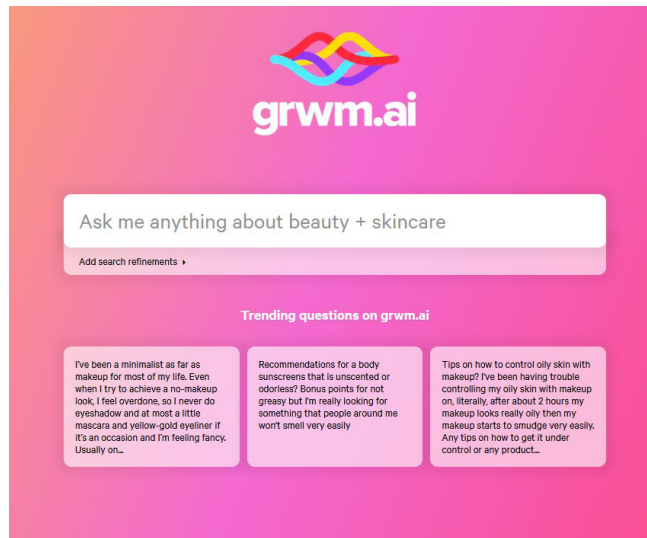
Amorepacific's Cosmechip combines software and hardware to give one-to-one skincare solutions that are personalised and manufactured as required at home. The home appliance – which won an innovation award at the 2023 Consumer Electronics Show – uses active ingredients and water to create the correct textured product with the best formula for the user's skin condition at the current time.

CHATGPT

Where artificial intelligence has gained traction in 2023 is through applications using ChatGPT. The generative AI can be integrated into websites and mobile apps to understand and answer complex or nuanced consumer questions in real time using a mixture of knowledge about the brand and its product catalogue and information about beauty & cosmetics in general. What's more, ChatGPT does this using natural language so consumers can ask questions in a natural way and receive responses in the same manner. This is regardless of the language used since ChatGPT can also be used for language translation.

The advantage of these integrations by beauty & cosmetics companies is in ChatGPT's 24/7 availability, so an assistant or beauty advisor can be available at any time to help with customer service questions, such as delivery times, as well as guiding a customer through the shopping journey. Generative AI's capabilities make it seem as if the customer is communicating with a knowledgeable beauty expert in-store or via a live link.

Also, ChatGPT can take the personalised recommendations of existing AI-powered



ChatGPT is gaining traction as a beauty advisor

applications to a deeper level. Once items have been recommended, customers can ask questions about specific products, seek advice on skincare routines or get tips on techniques to apply the recommended colour cosmetics. These are all applications that create deeper engagement and increase the likelihood of the shopper making a purchase.

As an example, video-based beauty community and fan review site Supergreat has incorporated ChatGPT into its site, inviting consumers to “ask me anything about beauty + skincare.” Get Ready With Me, or grwm.ai as Supergreat calls the chatbot on its site, will recommend products and serve relevant videos based on what question it is asked.

One concern that has been mentioned about ChatGPT is around the security of its responses and,

like someone who always wants to help regardless of the depth of their knowledge, it has yet to learn to say “I don't know”. Because of this, any application incorporating the AI has to set its own guardrails and limitations to keep responses within the same boundaries and tone of voice that the brand would use.

MOBILE APPS

Charlotte Tilbury's mobile app is one of the latest brand launches and highlights how consumers are looking for more of an experience than a quick shop and the tools that companies are using to engage these consumers and lead them to a purchase.

Designed to educate, inspire and reward new and existing customers, the mobile app brings together the makeup artist's expertise through video tutorials with an AI-powered skin analyser to personalise the experience and AR virtual try-on to help the user find their perfect match.

It also includes exclusive content and gives shoppers first access to products that have been out-of-stock or are new releases. These are backed up by a loyalty programme, rewards and gifts for members.

“Our goal has always been for our community to feel like they are engaging 1-2-1 with Charlotte, because there is nothing quite like experiencing her energy and her expertise first-hand,” says Corinne Suchy, Chief Growth and Technology Officer at Charlotte Tilbury Beauty. “We created this app because we truly want everyone, everywhere to feel they are in her makeup chair experiencing the power of her artistry and confidence-boosting positivity.”

The app is available in 34 countries and five languages since the brand wants to follow Charlotte Tilbury's mission to "democratise and simplify beauty for all."

"We want to reach those customers around the world, of all ages, genders and backgrounds, who haven't felt that professional makeup artistry or expert skincare advice is accessible to them," says Suchy. "Charlotte's app is for both the beauty beginner who wants to unlock their beauty confidence and understand what their beauty wardrobe of skincare and makeup looks like... and for our engaged community which wants to discover even more of Charlotte's expert artistry."

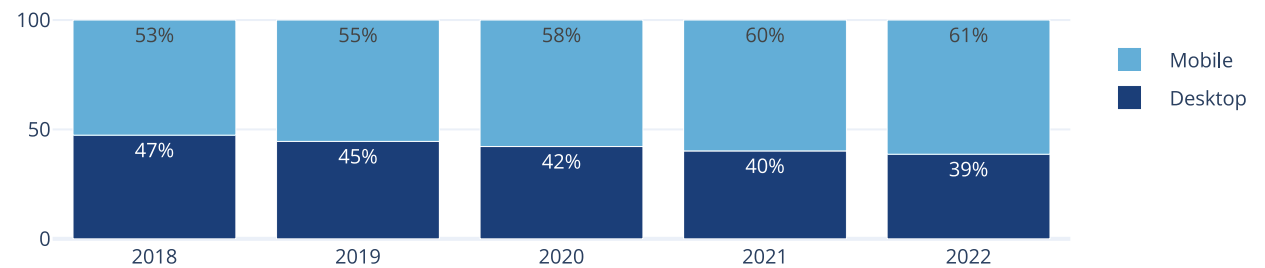
VIRTUAL STORES AND THE METAVERSE

Disney, Microsoft and Meta have been laying off staff in their metaverse divisions but there is no slowdown among beauty & cosmetics companies. L'Oréal, which is becoming a beauty tech company as well as a beauty & cosmetics company, has made its first venture capital investment in the metaverse space. The French company has invested in building platform and NFT marketplace Digital Village as part of a \$4 million funding round.

Other brands in the beauty & cosmetics sector are launching virtual experiences to raise awareness of their products among potential new customers. Many of these are temporary being pop-up stores, part of larger industry-wide events or games within multi-player platforms.

Consumers are embracing these new experiences and shopping within them as well. In 2022, an

Device usage share by revenue for beauty care online shopping (%), 2018-2022



Source: Statista Digital Market Insights

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estimated \$1 billion was spent in virtual stores and the metaverse across all product categories, according to Coresight Research. The company estimates that sales will more than double in size every year until 2027.

Korean skincare brand Laneige is among the latest to launch in the virtual beauty & cosmetics space. Its virtual store enables visitors to explore the brand through a mix of digital entertainment, videos, quizzes and explanations of key product ingredients. Visitors can add items to their basket in the store to buy direct from the brand.

Obsess, the technology company behind Laneige's virtual store, has discovered that visitors to one global consumer goods brand spent ten times the amount of time in a virtual store than on the brand's traditional ecommerce site, while visitors to a leading luxury brand's store were 112% more likely to make a purchase.

Cosmetics giant Shiseido is already a convert to virtual stores and the metaverse. The Japanese company has found that consumers are more willing to engage with brands in such settings than on traditional social platforms.

Shiseido's Nars Color Quest game on the Roblox gaming platform attracted 41.9 million visitors between July and October 2022. The game itself used different islands corresponding with makeup colours with non-player characters that gamers could interact with to unlock special abilities. Gamers could also earn badges and use virtual currency to buy merchandise and virtual looks.

Roblox is not the only platform attracting beauty & cosmetics brands. Metaverse Beauty Week 2023 played out across Roblox, Decentraland and Spatial. Brands also used it cross between virtual space and the real world, highlighting how the metaverse can work in parallel with existing channels.

For example, Glossybox dropped parcels from the sky in Decentraland and scattered Glossyboxes across the scenery, giving consumers the chance to win a free physical Glossybox. According to the company, 49% of Glossybox metaverse attendees clicked through to the Glossybox site. Ahead of the event, the company put 200,000 inserts into customer orders in the UK in order to promote the event.

Metaverse platforms and massively multiplayer online role-playing games (MMORPG) realise the market appeal of their brands, so while beauty brands are finding their space on the platforms, the platforms are merchandising outside of their virtual worlds. For example, Epic Games has partnered with Revolution Beauty to launch Revolution Beauty x Fortnite, marking the gaming platform's first-ever beauty collaboration.

The range consists of 27 products including colour cosmetics and skincare which have been inspired by the Fortnite game and characters within it. As such, the collection is appealing to players – Fortnite has 500 million+ registered accounts worldwide – as well as Revolution Beauty's customer base.

MARKETPLACES

Marketplaces, such as Amazon, attract a much higher level of traffic than brand and retailer's own ecommerce sites in the beauty & cosmetics sector. They understand the price and convenience factors driving consumer purchasing when the shopping journey is one of a quick grab and go rather than a more leisurely inspirational visit. Marketplaces give consumers a fast and easy way to shop.

Even multisector sites, which encompass marketplaces as well as retailers selling across a variety of categories, gather a larger share of web traffic than sites focused purely on selling cosmetics. This is a generalisation that alters depending on specific country or marketplace vs retailer assessed but globally and at regional levels it holds true.

How brands use marketplaces shows the power that these platforms now have in the wider retail environment, often forming part of brands' omnichannel strategies. They are the first choice for many customers shopping online and for brands that have to follow where the customer goes, they offer a risk-free way to sell online. Any misgiving they may have had in the past about ceding brand identity or customer data to marketplaces is long gone.

Europe's luxury brands have been embracing the marketplace model created by Tmall as a way to reach high spending Chinese consumers. This has opened the way for them to work with marketplaces in other regions and enabled them to learn lessons from Asia's mobile-first consumers.

As research by RetailX in the Health & Beauty Marketplaces report shows, the majority of the leading beauty brands within the RetailX Top500 ranking sell online on marketplaces. For example, Clinique and Estée Lauder are both sold on the key marketplaces for health and beauty in EMEA. Of the 21 brands making it into the Top500 ranking, it is only Clinique and Estée Lauder that appear on all of these leading health and beauty marketplaces.

Furthermore, retailers in the beauty & cosmetics sector are opening up to the opportunity of marketplaces as a business model enabling them to derisk expansion. Selected brands can sell products on niche retail sites and fulfil orders directly to the customer without the retailer having to hold stock in a warehouse or store.

For retailers already established as leaders in the beauty & cosmetics sector, extension through a marketplace offers relatively risk-free, low cost growth. If the retailer already stocks 70% of a brand's inventory, the remainder could be sold online through a marketplace addition to their ecommerce site. Margins are higher than more traditional retail models as well, since responsibility and the burden of pricing, fulfilment, content creation etc. are with the brand rather than the retailer.

For example, German beauty retailer Douglas operates what is called a closed and selective partner programme. It closely monitors market trends and customer needs, so is able to respond to changes fast, working with brands to add product to its ecommerce store and ultimately benefiting its customers. "Thanks to the fact that we carefully select our partners and present their products in a high-quality beauty environment, we can maintain our premium standards and thus a positive reputation for both sides," says Steffen Maschke, Head of Partner Programme at Douglas.

"If something is trending on TikTok, Douglas can quickly add it for sale via a partner without any of the risk or need to store the product itself in stores or warehouse," he adds.

The influence of content creators

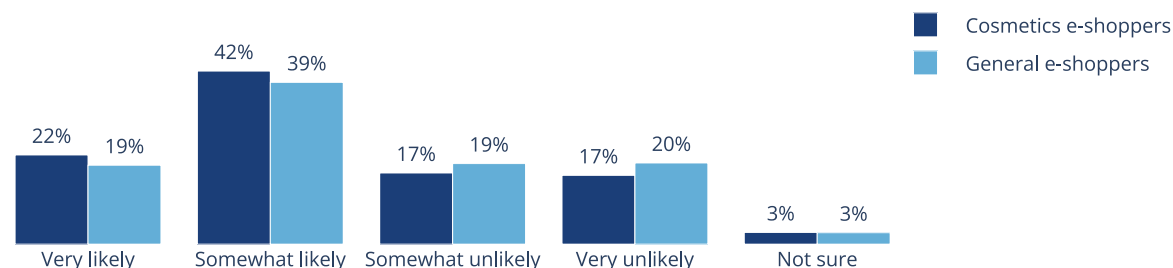
Social media has a greater influence on cosmetics purchasers than other groups of online shoppers

Social media is of significant importance for the beauty & cosmetics sector. The reach of platforms such as Instagram and TikTok enable brands and retailers to engage with consumers directly in a way that wasn't achievable before. Influencers and content creators alike play a major part in marketing campaigns, with consumers looking to them for expertise and recommendations.

Such is the impact of social on this sector that the majority of consumers who buy beauty & cosmetics online say that an influencer's recommendation is likely to lead them to buying a product. 22% of cosmetics e-shoppers are "very likely" to make a purchase after seeing an influencer's recommendation, with a further 42% "somewhat likely," according to a survey of consumers in multiple countries by RetailX.

In both cases, consumers who buy beauty & cosmetics online are more likely to be influenced in this way than consumers who don't shop this category online. A fifth of general e-shoppers say it is "very unlikely" that influencer recommendations will lead to them making a purchase.

Likelihood of influencer recommendations leading to purchase, cosmetics e-shoppers (%), 2022

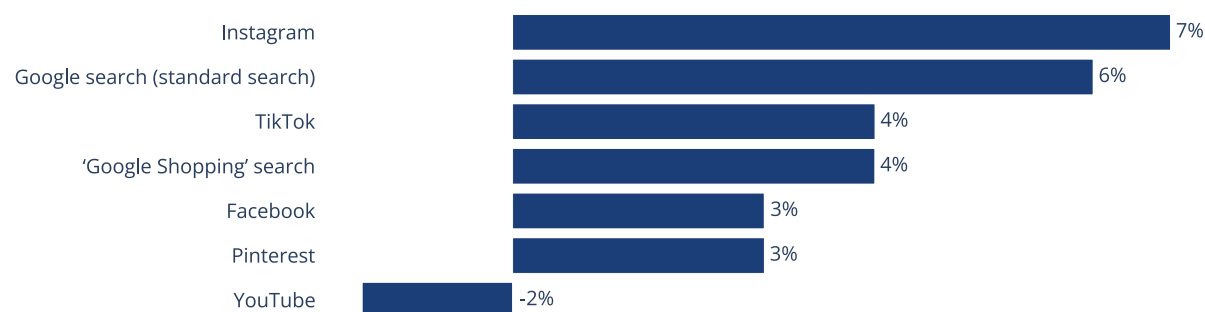


Based on 1,194 cosmetics e-shoppers and 2,863 general e-shoppers in Germany, France, Brazil, Australia, USA and UK, aged 16+, Aug 2022. Question: "In your experience, how likely are content creators such as social media influencers to point you to buy products?"

Source: RetailX Consumer Observatory

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Channels for product discovery, difference between cosmetics and general e-shoppers (%), 2022



Based on 1,194 cosmetics e-shoppers and 2,863 general e-shoppers in Germany, France, Brazil, Australia, USA and UK, aged 16+, Aug 2022. Question: "On which channels or services do you most often see product ads that you end up clicking on?". The data shows the difference between cosmetics and general e-shoppers

Source: RetailX Consumer Observatory

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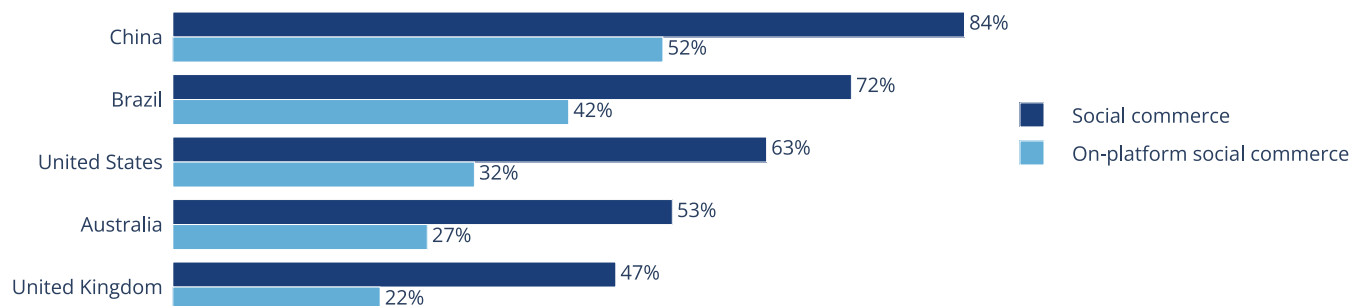
While the results are true across four of the six countries in which consumers were surveyed (Australia, Brazil, UK and the US), online beauty shoppers in France and Germany are less likely to be influenced by what they see on social media than consumers who purchase in other product categories online. Overall, it is cosmetics purchasers in France who are least likely to spend money based on influencers' content, although almost 50% of those asked could be influenced to a certain extent.

It is among consumers in the US and Australia where the biggest differences can be seen between consumers who shop for cosmetics online and those who don't. In the US there is a 15 percentage point difference between the two groups, while in Australia beauty consumers are 13 percentage points more likely to buy product seen on social media than online shoppers who only buy other categories.

Consumers in Brazil are the most likely to be influenced into purchasing by social media content creators. 38% of the people who buy beauty & cosmetics online in Brazil are very likely to act on an influencer's recommendation, with a further 43% somewhat likely. Trust in influencers is particular high in the South American country since the same is true of 80% of online shoppers overall.

Instagram is the main channel on which cosmetics shoppers see adverts most often that they then click on. Again, this varies by country, with consumers in Brazil most likely to interact with advertising on Instagram. The platform also shows up the greatest difference in behaviour between cosmetics shoppers and those who don't buy in this category.

Share of online consumers buying from social networks, selected countries, 2022

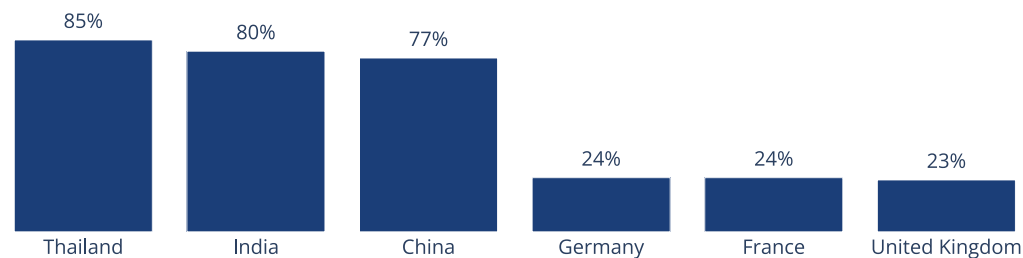


Based on 31,040 individuals worldwide, aged 16+, 25 Mar - 7 Apr 2022.

Source: Wunderman Thompson Commerce

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Countries with the highest and lowest percentage of consumers intending to shop more through social commerce, 2022



Based on 31,040 individuals worldwide, aged 16+, 25 Mar - 7 Apr 2022.

Source: Censuswide, Wunderman Thompson Commerce

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Expert insight

'Treat yourself' – finding beauty in little luxuries

Kamran Iqbal, Commerce Strategist at PFS



During the early 2000s recession, Leonard Lauder, heir to Estée Lauder, introduced the term "The Lipstick Index". Lauder hypothesised that cosmetic purchases tend to be inversely correlated to economic health. He observed that during periods of economic uncertainty, people shift from

buying expensive items to purchasing smaller but still luxurious products such as lipstick.

We can see evidence of the lipstick index playing out through several major financial events as consumers have repeatedly looked to these small luxuries to bring joy in trying times. Cosmetics sales surged during the Great Depression and again when the 2008 recession hit, and we continue to see increased demand for beauty and cosmetics products that began during 2020.

MORE THAN JUST LIPSTICK

Through the years, we have adapted the term to fit current trends. Around 2010, with nail art growing in popularity, this financial marker became the 'nail-polish index'. Then, during the Covid-19 pandemic, it evolved into the 'mascara index' – with everyone wearing masks, sales of lipstick took a back seat as our eyes became the focus and, with that, eye makeup sales increased.

As retailers such as L'Oréal continue reporting double-digit sales growth across the board, Lauder's original theory rings true – beauty purchases ride the wave of economic turbulence in a way that other 'luxury' items do not.

As the global economic crisis continues to play out in 2023, we're starting to see other luxury sectors experience a slowdown, begging the question, is the Lipstick Index still a relevant indicator today?

Despite record US inflation rates in 2022, online searches for cosmetics increased by around [300%](#) compared to the previous year. Fragrance sales saw increases as well, with Gen Z and high-income buyers driving the growth. This suggests that the Lipstick Index theory continues to hold true, though some categories appear to be stronger than others.

SPOTTING THAT 'TREAT YOURSELF' MENTALITY

Retailers that keep their customers happy, [keep them](#). Being able to spot consumer trends is critical to ensuring you are providing consumers what they want and, in turn, capturing their loyalty.

Retailers can add value to the customer experience through the [order fulfilment](#) process, especially when they are able to deliver that [luxury feel](#) via ecommerce fulfilment. Delivering products in high-end packaging and creating an enjoyable unboxing experience can keep your brand top-of-mind and encourage customers to return for more when they are ready for another pick-me-up.

Many consumers will often return to the same retailer time and time again for their staple lipstick or mascara. In fact, retailers have been known to damage loyalty when they ignore zero-party data and discontinue cult favourites. Changes to key product lines often leads to consumers seeking out dupes or supplementary products. Using big data to evaluate popular lines, colours and order volumes can save a loss of loyalty down the road.

By combining data gathered from purchases, on-site searches and returns information, retailers can create a clear picture of items in high demand.

The data gathered allows retailers the opportunity to maximise sales by focusing on the items that are seeing the most interest. From an inventory perspective, this data also assists brands in determining restocking priorities and making other decisions regarding items and stock-keeping units (SKUs). This could be down to colour, size or other variations.

Whilst it can be difficult to know where to start, the information gathered from zero-party data can help retailers look for trends and insights, whether that's a 'Lipstick Index' theme or something else, thus enabling brands to make informed decisions based on their own consumers and not just industry data.

A brand can bring all these insights together to support future product development, order management and customer experience initiatives. Thanks to big data, companies no longer need to worry about losing customer loyalty over a cult favourite lipstick shade being discontinued, or being left behind when it comes to new beauty trends.

Big data should now and forever be a retailer's best friend when it comes to all areas of the beauty business.

ARE WE TREATING OURSELVES, OR BEING INFLUENCED?

'Treat yourself' aside, the continued strength of cosmetics sales may be due to other factors in addition to the rocky economy. Technological advancements have made it easier than ever for consumers to purchase beauty and cosmetics products online. This includes features such as

colour matching options, the use of AI to achieve the perfect complementary shades, and digital try-on enablement.

Social media and the rise of the beauty influencer has also increased demand for makeup products, enabling consumers to discover new products and trends every time they scroll Instagram and TikTok.

Social proof has fast become an important factor for consumers ahead of purchasing a product. The validation consumers receive in seeing influencers use products is a critical component to building consumer trust online.

According to Global Web Index, 48% of beauty buyers follow influencers on social media, with just under half (49%) using social media as their main point of research when looking at new products. Not to mention how easy it is to be influenced when you aren't even seeking that information – a simple scroll down your feed can result in a purchase without too much thought.

The beauty and cosmetics industry remains an important part of consumer spending despite continued economic turmoil. By keeping a close watch on spending habits, influencer trends and economic projections – companies can tailor their marketing strategies and product offerings to meet the needs and preferences of their customers.

PFS is the ecommerce fulfilment provider of choice for the best in beauty. Learn more about our experience supporting beauty and cosmetics brands, and how we can do the same for you [here](#).

• *Kamran Iqbal is an expert in all things commerce, pre-and post-click. As Commerce Strategist at PFS, he shares his extensive industry knowledge with brands and retailers to help drive digital transformation and omnichannel excellence.*



PFS

PFS supports the world's leading beauty brands with post-click ecommerce operations inherently designed for beauty and cosmetics industry requirements. With rapid scalability that supports peak volumes and value-added services that enable deep personalisation (engraving, samples fulfilment, kit-to-order, etc.), beauty brands look to PFS to fulfil brand-centric experiences that inspire customer loyalty. With solutions supporting B2B and DTC operations and 20+ years of experience in the industry, PFS is the provider of choice for brand-centric ecommerce fulfilment.

PFS ecommerce fulfilment – Built for beauty.

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The largest 100

The following list shows the beauty and pharmacy ecommerce sites receiving the highest web traffic

Some beauty & cosmetics brands have a global presence, with ecommerce sites receiving visitors from multiple countries. Localised sites enable consumers to experience the brand in their own language. Other companies are leaders in specific regions, such as those that have expanded from their domestic market into neighbouring countries.

High visitor numbers online do not always translate to high turnover but web traffic can give an indication of a company's market share. For instance, Sephora receives the greatest amount of web traffic from consumers in Europe while in Oceania the title goes to Chemist Warehouse, according to statistics from RetailX, drawing on data from knowledge partner Similarweb.

Due to the nature of the sector and the inclusion of skincare products, companies better known for their pharmaceutical and personal care ranges, rather than being specialist beauty retailers, are included in the listing. The statistics show that Bath & Body Works is the most trafficked site in this category in North America, with Araujo seeing the most visitors in South America. Consumers in the other two regions, Middle East and Asia, are most likely to visit Super-Pharm and DHC respectively.

GLOBAL BEAUTY & PHARMACY - THE LARGEST 100

Adore Beauty	DHC	Kiehl's	Priceline Pharmacy
Allbeauty	DocMorris	Kiko	Primor
Amway	DoTerra	L'Etoile	Randewoo
APO Discounter	Douglas	L'Occitane	Rituals
Apollo Pharmacy	Doz.pl	Life Extension	Rossmann
Apotal	Dr.Max	Lloyds Pharmacy	Sally Beauty
Apotea.se	Drogaria São Paulo	Lookfantastic	Santé Discount
Apotek	Drogarias Pacheco	Makeup	Sephora
Apoteket	Druni	Marionnaud	Shoppers Drug Mart
Apotheke	Eapteka	Matas	Space NK
Apteka Melissa	Época Cosméticos	Mecca	Stolichki
Apteka Ot Sklada	Estée Lauder	Medikamente	Suntory
Apteka24	Etos	Medpex	Super-Pharm
Araujo	Eudora	Monat	Superdrug
Aroma-Zone	Farma City	Natura	Swanson Vitamins
Avon	Farmacia Loreto	Newpharma	Tabletki
Bath & Body Works	Farmae	Nocibé	The Perfume Shop
Beauty Bay	Farmaline	Notino	Thrive Causemetics
Beleza na Web	Flaconi	O Boticario	Ultrafarma
Boots	FraganceNet	Oriflame	Wapteka
Chanel	Fragrancex	Pague Menos	Well.ca
Chemist Warehouse	Framar	Panvel Farmácias	Young Living
Clicks	Glossier	Parfumdreams	Yves Rocher
ColourPop	Harry's	Paula's Choice	Zhivika
Cult Beauty		Pilulka	

AMOREPACIFIC

Amorepacific at a glance

Company: Amorepacific

Headquarters: Seoul, South Korea

Founded: 1945

Revenue 2022: KRW4.5 trillion

Key brands: Amorepacific, Innisfree, Laneige, Etude, Amos Professional, Osulloc

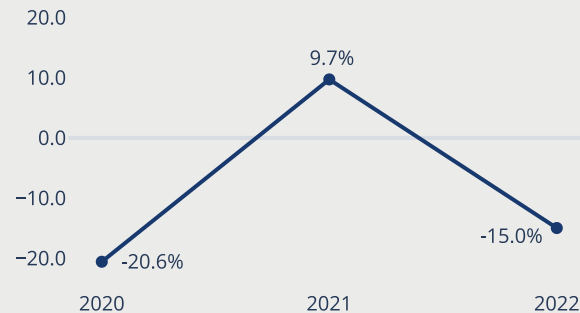
Online: www.apgroup.com

Amorepacific was established on 5 September 1945 with the founding philosophy of “contributing to humanity through beauty and health”.

Today, this is seen through the company's environmental work and 'A' rating on CDP's climate measures as well as its innovations in the beauty space. The company continues to strengthen its position as a K-beauty leader, particularly with its skincare brands including Amorepacific, Sulwhasoo, Laneige and Innisfree.

The company launched into the US market in 2002 and this continues to be a key focus for its global expansion which has also seen ecommerce growth and expansion through multi-brand stores, in response to changes in the market during the

Annual revenue growth of Amorepacific Corp (%), 2020-2022



Source: RetailX, drawing on data from Yahoo Finance

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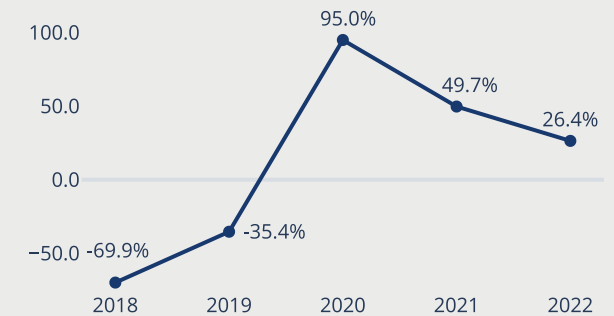
pandemic. In the first quarter of 2023, Amorepacific Group's sales in North America increased by 80%.

In September 2022, it acquired luxury clean beauty brand Tata Harper in a move that further signals the company's intent to grow its global business, particularly in the North American market.

Amorepacific's Tonework and Cosmechip technologies, which make personalised products for individual customers, were awarded innovation awards at the Consumer Electronics Show 2023.

Celebrating the company's 77th anniversary, chairman and CEO Suh Kyung-bae said, “now is the time to redefine and rebalance our business by placing the basis of all values in our customers.”

Annual growth of web traffic to Amorepacific (%), 2018-2022



Note: Web traffic growth calculated using Q1 data

Source: RetailX, drawing on data from SimilarWeb

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He continued: “let us continue to communicate with our customers at home and abroad to help them build the lives they want in an era of infinite potential that transcends the boundaries of nations and regions.”

He also highlighted the importance of digital technologies in reaching customers. “We must expand our perspective to across the entire life of our customers, effectively use digital and data technology to reach Amorepacific customers more closely, and continue our effort towards achieving our goal.

“We make A MORE beautiful world based on our spirit of ‘New Beauty’ that emphasises with the challenge our customers and world face,” he added.

Charlotte Tilbury

Charlotte Tilbury at a glance

Company: Charlotte Tilbury Beauty

Headquarters: London, UK

Founded: 2013

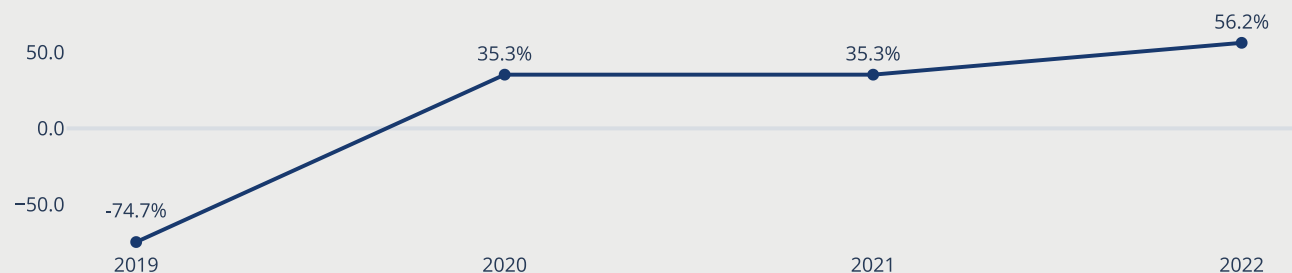
Revenue 2021: £225 million

Online: www.charlottetilbury.com

Makeup artist Charlotte Tilbury MBE launched her eponymous luxury beauty brand in 2013. In June 2020, Spanish fashion and beauty business Puig acquired a majority stake. Tilbury remained as Chairman, President and Chief Creative Officer of the company, with Demetra Pinsent continuing as CEO.

At the time, Tilbury commented: "I've always dared to dream and create magic through beauty. I'm proud to be joining forces with Puig in a strategic partnership that will help us achieve our limitless ambitions. We've reached a pivotal point in our growth since launching seven years ago, and we're looking forward to unlocking new opportunities with Puig, which is the perfect partner as we build an iconic brand to last."

Annual growth of web traffic to Charlotte Tilbury (%), 2019-2022



Note: Web traffic growth calculated using Q1 data

Source: RetailX, drawing on data from SimilarWeb

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The deal added an established makeup and skincare brand to Puig's portfolio of fashion, fragrance and luxury beauty brands while gaining Charlotte Tilbury access to Puig's global footprint and operations as it continues its expansion.

MOBILE APP

In June 2023, Charlotte Tilbury launched a mobile app making the artist's expertise available to a wider customer base. The app uses a mix of content for the founder to share her expertise as well as artificial intelligence-powered tools to personal the experience for shoppers. Consumers can watch tutorials on skincare routines, read news, view makeup application techniques and access tools for finding the right product or shade. The focus of

the app is to simplify beauty for everyone whatever their level of knowledge.

Augmented reality is used to help consumers purchase items they are seeing used in video tutorials within the app while artificial intelligence helps with analysis and personalised recommendations. A skin analysis tool enables a personalised skincare routine to be offered to a potential customer in less than 60 seconds. It also takes under a minute to help a customer find a product match.

Consumers are invited to login to the app so they can earn loyalty points on purchases, access free gifts and member-only products. They also have to login to use the skin analysis and shade match tools.

DOUGLAS

Douglas at a glance

Company: Douglas

Headquarters: Dusseldorf, Germany

Founded: 1918

Revenue 2022: €3.65 billion

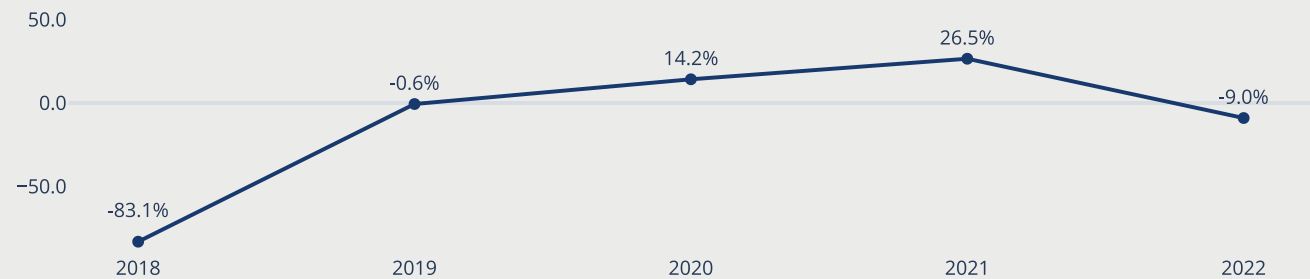
Online: www.douglas.de

Douglas is an international success story selling a wide mix of health and beauty items across cosmetics, skincare, haircare and perfume in multiple countries in Europe. It operates via a network of 1,840 bricks-and-mortar stores as well as online.

Douglas is a digital-first business and is at the forefront of merchandising beauty products in ways that resonate with consumers. Content such as videos and live streaming inspire and teach customers about different beauty brands, applications and techniques as well as giving the retailer an opportunity to interact with customers in real-time.

Shoppers can enter competitions and claim discounts against different products and brands

Annual growth of web traffic to Douglas (%), 2018-2022



Note: Web traffic growth calculated using Q1 data

Source: RetailX, drawing on data from SimilarWeb

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while taking part in the livestreams. They also provide a number of commercial opportunities for health and beauty brands, including Honest Beauty and Clarins which have participated to date, to give away product.

On its mobile app, customers can analyse their skin and try on makeup virtually. AI tools combine data from an uploaded image with information that the consumer enters manually to determine skin type, level of hydration, oiliness and wrinkles to give tailored product recommendations. Another tool on the app helps consumers find the perfect fragrance.

In 2019, Douglas became the first beauty retailer in Europe to incorporate a marketplace solution into its ecommerce platform, pioneering the move by this sector to enable third parties to sell on their

ecommerce sites. Today, the retailer works with more than 200 partners, 3,000 brands and offers more than 200,000 SKUs. It also offers marketing services to brands enabling them to maximise the opportunity of the Douglas partner programme, as it calls its marketplace.

“We see it as an added value for our customers, as they benefit from the partner programme by being able to choose from an even larger assortment and – along with it – a much higher availability of products,” says Steffen Maschke, Head of Partner Programme at Douglas.

Online sales are now more than double what they were before the pandemic, with Douglas reporting ecommerce sales of €1.2 billion in its latest full financial year.

Groupe L'OCCITANE

L'Occitane a glance

Company: L'Occitane Group

Headquarters: Geneva, Switzerland

Founded: 1976

Revenue 2022: €2.13 billion

Key brands: L'Occitane en Provence, Melvita, L'Occitane au Bresil, LimeLife, Elemis, Erborian, Sol de Janeiro

Online: group.loccitane.com

L'Occitane Group is comprised of nine beauty and wellness brands including L'Occitane en Provence, Elemis, Sol de Janeiro and Grown Alchemist. The brands sell across the skincare, body and bath, haircare, fragrance, men's, gifts and travel categories. Products are available across a network of more than 3,000 retail outlets in 90 countries as well as online. 1,490 bricks-and-mortar stores are operated by the Group, which employs more than 9,000 people.

The brand's ethos is to use the best natural and organic ingredients in its products combined with a respect for nature as well as an innovative and science-based approach to development. These sustainability values extend to the support given to local growers and produces. For example, a 30-year joint partnership in Burkina Faso enables the brand

Annual revenue growth of L'Occitane International SA (%), 2021-2022



Source: RetailX, drawing on data from Yahoo Finance

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to support more than 10,000 women working to produce shea butter.

In March 2023, L'Occitane Group brand Elemis became a B Corp, a form of business entity that puts sustainability on a legal footing within its corporate reporting. The transition took two years and saw Elemis changing a number of processes and practices across the business. Key changes included: DE&I training and mentoring programmes for all employees, ensuring fair wages and working conditions, changes to packaging and adoption of new carbon sink projects to help the company achieve its biodiversity and climate goals.

"We are proud of our B Corp certification, a holistic assessment of a company's social and environmental impact across all of its stakeholders.

Annual growth of web traffic to L'Occitane (%), 2018-2022



Note: Web traffic growth calculated using Q1 data

Source: RetailX, drawing on data from SimilarWeb

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In our view, companies have a responsibility to bring meaningful, positive benefits to society," says Séan Harrington, Co-Founder & CEO of Elemis. L'Occitane Group wants all of its independently operated brands to gain B Corp status as part of its long-term ambition to become the market leader for natural cosmetics.

Its nature-based ethos is highlighted online on the homepage of ecommerce sites and on individual product pages where emblems show product properties including vegan friendly and paraben free. Developments such as recyclable packaging, take-back schemes and product refills show customers how they can make a difference.

L'Occitane Group's online sales account for almost a third of group turnover.

L'ORÉAL

L'Oréal at a glance

Company: L'Oréal

Headquarters: Paris, France

Founded: 1909

Revenue 2022: €38.26 billion

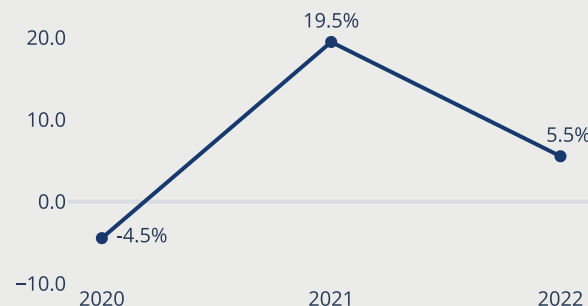
Key brands: L'Oréal Paris, Maybelline, CeraVe, NYX, Garnier, Kérastase, La Roche-Posay

Online: www.loreal.com

"L'Oréal is the archetype of the beauty pureplayer – nothing but beauty, for all types of beauty – and our unique expertise acquired over 110 years, allows us to understand, in extreme detail, the desires and aspirations of consumers all around the world," so says Jean-Paul Agon, Chairman of the Board of Directors, L'Oréal Groupe.

As a group, L'Oréal encompasses 36 international brands including Maybelline and CeraVe, more than 87,000 employees and a presence across online, department stores, pharmacies, hair salons and travel retail. It also operates 20 research centres in 11 countries. The group has ambitions around sustainability, where it remains the only company in the world to have been awarded the highest CDP rating of AAA for seven years consecutively. EcoVadis ranks L'Oréal in the global top one per

Annual revenue growth of L'Oréal SA (%), 2020-2022



Source: RetailX, drawing on data from Yahoo Finance

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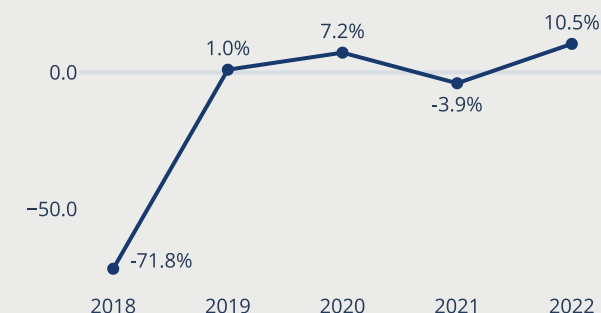
cent of companies in terms of environmental and social performance.

L'Oréal continues to strengthen its position as a beauty technology powerhouse. To this end, its Research and Innovation team currently comprises 5,500 tech and digital professionals.

Overall, sales increased in 2022, with the Consumer Products Division reporting its best growth in 20 years. Turnover increased 8.3% like-for-like and 14.6% reported growth, with makeup being the Division's fastest growing category.

Growth continues in 2023. Group sales increased by 14.6% to €10.38 billion in the first quarter with L'Oréal outperforming the market in all geographies. Sales were particularly strong in South Asia and the

Annual growth of web traffic to L'Oréal Paris (%), 2018-2022



Note: Web traffic growth calculated using Q1 data

Source: RetailX, drawing on data from SimilarWeb

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Middle East/North Africa as well as in Latin America. Overall, "this performance, which has yet to benefit from China's reopening, demonstrates the strength of L'Oréal's balanced multipolar model," says Nicolas Hieronimus, CEO, L'Oréal.

"Mindful of the current uncertainties, we remain optimistic about the outlook for the beauty market, ambitious for the future and confident in our ability to keep outperforming the market and achieve another year of growth in sales and profits in 2023," he added.

Future growth in the luxury division will be accelerated by L'Oréal's acquisition of Australian, clean beauty brand Aēsop. The brand, which was previously owned by Natura & Co, is known for its skin, hair and body products.

SEPHORA

Sephora at a glance

Company: Sephora

Headquarters: Paris, France

Founded: 1969

Online: www.sephora.com

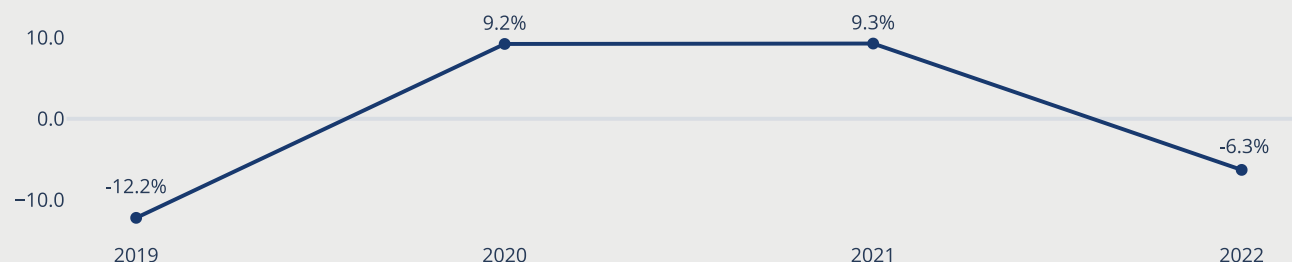
Sephora is part of LVMH, the French company that houses multiple brands across luxury including the beauty & cosmetics sector.

Sephora is part of the company's Selective Retailing division which includes Paris department store Le Bon Marché Rive Gauche and luxury fashion pureplay 24S.

According to the company, Sephora aims to be "always at the forefront of latest trends. Sephora's unique shopping experience offers beauty clients across the world an unparalleled choice among premium brand perfumes and cosmetics."

Sephora is present in 35 countries, with more than 2,600 bricks-and-mortar stores as well as online operations. The retailer carries around 78,000 products and employs 39,000 people worldwide.

Annual growth of web traffic to Sephora (%), 2019-2022



Note: Web traffic growth calculated using Q1 data

Source: RetailX, drawing on data from SimilarWeb

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In the US, where it is among the leaders in the overall beauty & cosmetics sector, Sephora operates more than 600 stores as well as being present in a growing number of Sephora at Kohl's stores.

The first of these spaces within Kohl's department stores opened in August 2021. The firms plan for stores to open at all of Kohl's 1,100+ locations across the US, with Kohl's projecting annual sales from the premium beauty & cosmetics spaces of \$2 billion by 2025.

Kohl reported in August 2022 that the 200 Sephora at Kohl's stores that opened in 2021 have "maintained a high single-digit per cent sales lift, relative to the balance of the chain." The 400 stores that opened in 2022 were seeing a mid single-digit per cent sales lift, "which is consistent with the initial performance in the first 200 stores."

The report also showed how the two brands are complementing each other since "roughly half of all customers" who have made a purchase at Sephora are buying something from another category at Kohl's as well.

Online, Sephora US has accelerated its digital architecture growth with a switch to microservices based, API-first, cloud-native, headless technology (MACH). The move is part of the premium retailer's plans to enable customers to "shop without constraints, anytime, anywhere" as well as boosting digital experiences, including increased personalisation, and omnichannel services for customers.

In the UK, the switch from Feelunique to Sephora branding is complete and the company's re-launch has been amplified with the opening of a flagship bricks-and-mortar store in London.

Headwinds and tailwinds

Sustainability measures and economic pressures feature in board-level discussions in 2023, while new players disrupt existing markets

Among the brands changing hands through acquisition in the past year have been Aēsop and Tata Harper. Both are clean beauty brands and have been acquired by large beauty corporations – Aēsop by L'Oréal and Tata Harper by Amorepacific.

Acquisitions such as these will continue as companies follow consumer sentiment around environmental protection and purchases that do as little harm as possible to the natural world while also boosting their own health and wellbeing. At the same time, clean beauty brands are doubling down to ensure that any claims are backed by science.

Companies are also reducing their impact on the environment as corporate and investor sentiment moves further towards sustainability. Legislation is moving this way in many countries as well, as governments look to enforce net zero promises made at country level.

L'Oréal, LVMH, Beiersdorf, Kao Corporation and Firmenich all rank among the global leaders in terms of scores for their environmental endeavours. CDP, the non-profit organisation responsible for recording

such measures, ranks all five companies as A (out of a possible A-D score) for their sustainability efforts across climate change, forests and water security.

CONSUMER SPENDING

Sustainability measures are all being introduced against a backdrop of turbulent economies and declining consumer confidence. High inflation is still a factor for many countries, with governments raising interest rates in a bid to curb inflation or avoid recession.

“No one is predicting 2023 will be a golden year for retailers, but there are a healthy number of growth areas to concentrate on, to maximise potential opportunities,” says David Jinks, Head of Consumer Research at ParcelHero. Brands and retailers are concentrating on areas that they can control.

Some of the areas to watch or test within the beauty & cosmetics sector have been highlighted in this report already but while technologies continue to develop, there are always new companies wanting to disrupt the industry, inviting consumers to try new shopping experiences and capturing the zeitgeist of current digital trends.

DISRUPTORS

Among them are mobile apps including Agora and Trendio which combine the best innovations around social media's engagement levels, content creation, livestreaming, marketplaces and frictionless purchasing. Agora's beauty, skincare and wellness video shopping platform is available only via a mobile app in the UK, while Trendio offers a similar experience for shoppers in the US.

Agora requires brands to sign up to the platform as they would for Amazon or eBay, providing product content and pricing information. They are also responsible for fulfilling orders placed by customers through the platform. Where Agora differs from a traditional marketplace model is that sales are driven by independent content creators uploading videos or streaming live product reviews or general beauty content.

The content creators add tags for any products used or mentioned in their video and this enables consumers to add the products to a shopping basket and checkout, all within the platform. Shoppers also receive loyalty points against purchases and when introducing friends to the app. The content creator receives commission for any sales they make for the brands.

“Some livestreams have a conversion rate as much as 10%,” according to Agora's founder Riccardo Basile. Trendio also reports higher conversion rates for livestreamed events rather than for recorded video but its founder believes that beauty fans in the US are not as keen to run livestreams as their counterparts in China. Trendio founder Alex Perez-Tenessa expects the platform to be made up of an equal amount of live and recorded video over the next 12 months but while they will account for a 50/50 share of the content, livestreaming's higher conversion rate will see it generating 80% of product revenue.

Perez-Tenessa believes live is “critical” for creating the right experience for beauty marketplaces in the US and Europe.



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Conclusion

The beauty & cosmetics sector is growing around the world. The Chinese beauty & personal care market is predicted to grow by above 5% each year until 2027 while in the US online is forecast to continue running above 30% of all beauty sales.

Economic uncertainty makes it even more important for companies to concentrate on what they can control and how they engage with existing customers and attract and convert potential new ones. All areas that are entirely within their skills and capabilities.

Digital opens lots of opportunities for brands and retailers to engage and interact with consumers and help them make a purchase. What companies choose to do with the different technologies and how they use them for the benefit of their customers and themselves is where the magic in this industry lies.

We hope that you have found this RetailX research and analysis to be of interest and commercial value and would be very pleased to hear from you with questions, suggestions or comments. In particular, we would like to hear about any areas you think should be included in the 2024 report.

Please get in touch with us via research@retailx.net

Emma Herrod, Editor

RESEARCH:

Research Analyst Anna Segarra Fas

For questions about our research and to send feedback, please email the team via research@retailx.net

Research Director Martin Shaw

CEO Ian Jindal

EDITORIAL:

Editor Emma Herrod

Production Editor Gary Tipp

Managing Editor Jonathan Wright

DESIGN:

Art Editor Mike Clark

Cover Design Freny Antony

MARKETING:

Marketing and Circulation

Addison Southam marketing@retailx.net


SALES:

Commercial Director

Andy James andy@retailx.net

Group Creative Solutions Director

Marvin Roberts marvin@retailx.net

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RetailX at InternetRetailing Media Services Ltd

27 Clements Lane

London, EC4N 7AE

Tel: +44 (0) 20 7062 2525

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www.retailx.net

