

Beauty in tough times

Mintel estimates that consumer spending on beauty and personal (BPC) care in the UK increased by 1,4% in 2017 to £10.1 billion.

Market growth remains relatively slow as consumers have maintained savvy purchasing behaviours when shopping for everyday toiletries, which is impacting the value growth of the personal care sector.

Instead, BPC market growth continues to be buoyed by the better-performing beauty segment, with particularly strong growth seen in colour cosmetics and facial skincare. As we expect similar trends to be sustained in the near future, the market is forecast to reach £10,2 billion in 2018, representing growth of approximately 1,4% year on year.

Health and beauty specialists outperforming the market

The specialist retailers continue to hold a dominant position in the UK beauty and personal-care market.

In 2017, it was estimated that retail sales through health and beauty specialists sector increased 4,8% to £11,2 billion. This level of growth means the specialists are outperforming growth in the overall beauty and personal-care market. While some of the leading specialists have seen growth slow, suffering from the downward pressure on pricing, many others have performed well – capturing engaged beauty consumers who are often willing to trade up purchases to get a better product.

Rising inflation puts pressure on UK consumers

The UK has benefited from low rates of inflation in recent years, which provided a boost to consumer confidence. However, following the devaluation of Sterling after the EU referendum vote in June 2016, consumer prices have been on a steady upward trajectory and in September 2017 reached a four-year high of 2,8%, which was sustained into October.

As a result, inflation has outstripped wage growth since early 2017 – putting UK consumers' incomes under increasing pressure. This is likely to impact across the retail sector as a decline in real incomes means consumers are expected to adopt more cautious spending habits. This is confirmed by Mintel's Finance Tracker, which has seen a substantial decline in consumer confidence in 2017, with people now more likely to feel worse off compared



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to a year ago than to say that their finances have improved.

An ageing population threatens growth in the market

Ongoing shifts in the age structure of the UK's population continue to threaten the BPC market. The ONS (Office for National Statistics) projects that the number of 15 to 24-year-olds will decline 3,7% in the five years between 2016 and 2021.

Meanwhile, the number of over-65-year-olds is forecast to grow by 8,3% in the same period, with this age group expected to account for almost a fifth (18,9%) of the population by 2021.

Mintel's consumer research reveals that young people are among the most active beauty purchasers. Therefore, the decline in the youth population may have a negative impact on sales of colour cosmetics and skincare. As such, retailers that can address the needs of older consumers will be best placed to capitalise on the shift in demographics.

Online sales forecast to reach £1,4 billion by 2022

Valued at an estimated £1,1 billion in 2017, the online beauty market has lagged behind other markets due to shoppers' desire to try cosmetics ahead of purchase.

Despite technological advancements that allow users to virtually try products, consumers are wary of accuracy and put more trust in stores with an offline presence. However, a dip in financial confidence has likely played a part in driving shoppers to online channels in search of deals but, still cautious of their budget, consumers' online expenditure is growing at a slower rate than we have seen in the past. Mintel forecasts that the value of the online beauty market will reach £1,4 billion by 2022, representing approximately 13% of the total market.

Beauty retailers investing in store experience

While much of the innovation in the market in 2016 was largely centred on

online, 2017 saw more investment into physical stores, particularly amongst the beauty specialists. The ongoing investment from some of the leading department stores has possibly led the specialists to consider their own proposition. As such, there has been a wave of new flagship and concept stores opening, particularly in London – many of which have a technology or lifestyle focus to capture a young beauty audience. This ongoing investment into stores confirms the importance of having a physical space for a BPC retailer, particularly as some of the pureplays have also been experimenting with pop-up retail spaces.



Supermarkets most used retailer, but specialists capture higher-spending customers

Despite the specialists continuing to hold the most BPC spending, more people shop with the supermarket retailers for beauty and personal care.

Three quarters of BPC consumers (75%) have bought items from a supermarket retailer, compared to just under half (49%) shopping at a specialist health and beauty retailer. Again this likely correlates with convenience, as people can pick up items whilst doing their grocery shop. However, this does indicate that, whilst the supermarkets attract the highest volume of consumers, people tend to spend more when they shop with a specialist. This correlates with the supermarkets' typically value pricing proposition as they seek to remain competitive against the discounters.



What is happening in SA?

More women are joining the labour force and in turn have disposable income to spend on discretionary items, such as colour cosmetics. The increased focus on personal appearance is driving growth in the category where consumers across all income and age groups are spending on colour cosmetics, although the brands on which they decide to spend depend on their income level.

Bath and shower was characterised by heavy price promotions over the review period by all retailers. Products, such as body wash, shower gel and liquid soap, have greater appeal among middle to higher income groups. With the current economic situation, price sensitive consumers are cutting down on non-essential items or waiting for price promotions to stock up.

Competitive landscape

Revlon led the colour-cosmetics category with a 15% value share in 2016 followed by Avon Justine with 14%. Despite being the leading player, Revlon marginally lost share over the review period.

New entrants to the market and consumer willingness to try out new brands are causing established players, such as Revlon, to lose category share.

Avon Justine marginally gained some share over the review period, driven by new product launches combined with price promotions.

Unilever dominated the bath and shower category with a 32% share of value sales in 2016, followed by Colgate-Palmolive with 24% and Reckitt Benckiser in third position with 15%. Unilever dominated the market with strong brands, such as Lux, Sunlight and Lifebuoy, which are go-to brands in South African households.

Prospects

Social media and the general trend towards an increased focus on appearance will continue to drive category growth. Women, as well as men, want to look and feel good, be it for casual outings or work and this trend spans across age and income profiles. Colour cosmetics is expected to register a CAGR of 7% in value sales at constant 2016 prices over the forecast period to reach ZAR7 billion in 2021. BB/CC creams will continue to drive category growth, although from a lower base. Brand extensions, in the form of products offering value-added benefits, will dominate product launches as manufacturers will seek to differentiate themselves from competitors.

Bath and shower is expected to grow at a CAGR of 2% in value sales at constant 2016 prices over the forecast period to reach ZAR5.4 billion in 2021. Growth will be driven by new product launches especially from private label products. Over the review period, players, such as Clicks, extended their private label ranges to introduce new pack formats to target value-driven consumers. Heavy price promotions are likely to dominate the category going forward as retailers will seek ways to drive volume growth amidst the tough economic environment characterised by declining disposable income. – *euromonitor*

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Health & beauty trends

The health and beauty consumer is unique. Unlike fashion or home goods, health and beauty items run out, expire and need to be replenished.

“Customers trust certain brands, but marketing and the way we approach make-up, health and beauty, we promote an industry of experimentation – making loyalty an interesting challenge,” says Laura Corbalis, an author at AgilOne. AgilOne, a data science company, did a study of 43,5 million transactions across 20 million unique health and beauty customers.

“Thanks to blogs, Instagram and YouTube, customers have more access than ever to user reviews and enjoy researching new products. There is also the need for consumers to test the products out on themselves to see how they look, feel, smell and compare to similar products – cost sensitivity can play a role here as well,” says Corbalis.

Health and beauty retailers need to provide their customers with:

- Seamless online and offline experiences for browsing, researching, testing, purchasing and returning;
- Loyalty programmes that are clearly communicated and keep the customer engaged; and
- Personalisation in marketing outreaches – i.e. calling out distance to store in a post card, inviting close-by VIPs to events, offering in-store promotions and reminding customers to reorder products (with new recommendations they might like).



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