Beauty and Personal Care Consumer Study

September 2021

Harris Williams

Beauty and Personal Care Devotees Driving Growth for Investors

The beauty and personal care sector is poised for strong and steady growth, supported by a base of devoted consumers who intend to spend more going forward. The key reason: lasting behavior changes adopted over the course of the pandemic.

- Self-identified beauty-conscious consumers are spending more in 2021 than in 2020, and plan to spend even more in 2022.
- The leading reason: new health and wellness routines representing long-term behavior changes versus short-term shifts in circumstances.

Environmental, social, and governance (ESG) concerns drive brand and product choice, but product efficacy matters more.

- Clean and ethical products are a priority—but only when they work as well as expected. Consumers are not willing to sacrifice performance for ESG concerns.

Financial and strategic buyers have a wide variety of potential avenues to drive value creation in beauty and personal care.

- Brand ownership is relatively unimportant to consumers, suggesting an equal playing field for independent and legacy brands.
- Companies with products easily discovered online and tried in-person stand to grow the most, as do companies targeting 18-34-year-olds and wealthier consumers.
- Defensible market positions are likeliest to be found in beauty and wellness supplements, daily skin care, and daily hair care.
- Opportunities to win share are most pronounced in home fragrance, nail products, and skin care treatments like masks and peels.

To better understand this opportunity, Harris Williams surveyed 1,001 U.S. consumers who self-identified as beauty enthusiasts.

Beauty and Personal Care: Consumer Spending and Priorities

Key Findings

CONSUMER SPENDING ON BEAUTY AND PERSONAL CARE PRODUCTS IS STRONG AND GROWING, DRIVEN BY LASTING BEHAVIOR CHANGES ADOPTED OVER THE COURSE OF THE PANDEMIC.

49% of consumers are spending more on beauty and personal care in 2021 than in 2020, and 58% plan to spend more in 2022 than in 2021.

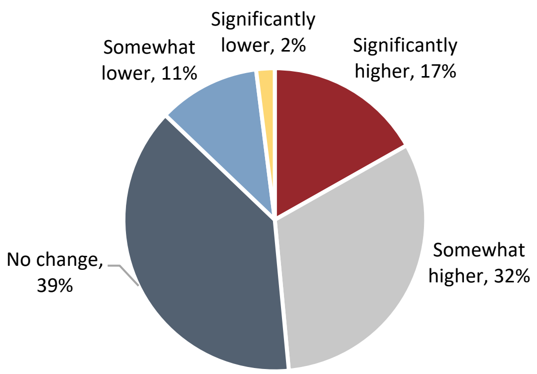
The leading reason for more spending is **adoption of new health and wellness routines during the pandemic**, representing long-term behavior changes versus short-term shifts in circumstances.

Five sub-categories poised for high growth include beauty and wellness supplements, hair treatments such as serums and hair masks, skin care, personal fragrance, and cosmetics (complexion products).

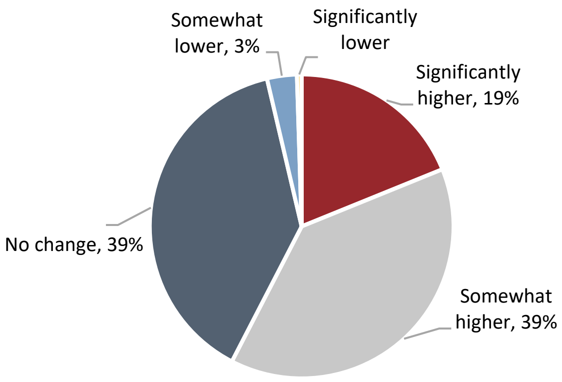
Brands targeting higher income levels and younger age cohorts should have the best growth prospects.

Consumers Spending More on Beauty and Personal Care

Expected spending in beauty and personal care will see a meaningful uptick in 2022.



Change in Spending, 2021 vs. 2020



Expected Spending, 2022 vs. 2021

49% of consumers are spending more on beauty and personal care in 2021 than in 2020, while spending will be steady for 39%.

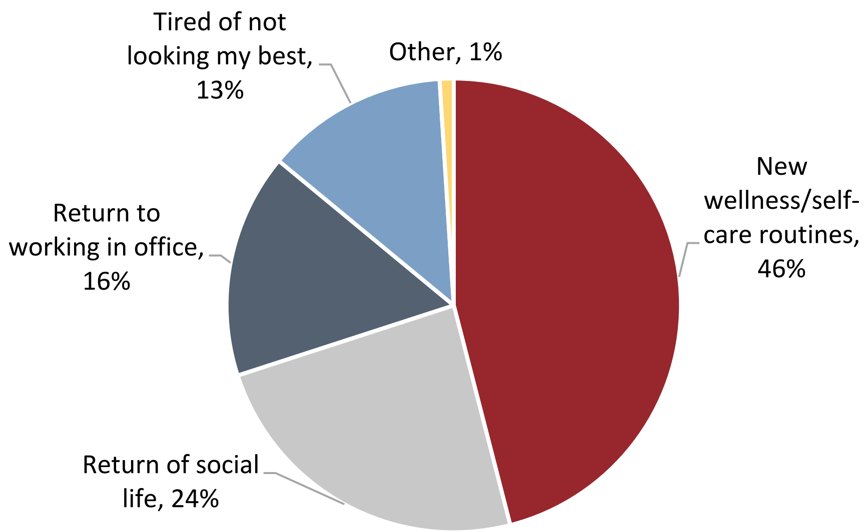
This is not a temporary bump: 58% of consumers plan to spend somewhat more or significantly more on beauty and personal care products over the next year.

Key Insight:

Growth expected to remain strong, with nearly 60% of beauty-focused consumers planning to spend more on products next year.

Higher Spending Expected to Last

Wellness and self-care routines developed during the pandemic are driving a sustained increase in spending.



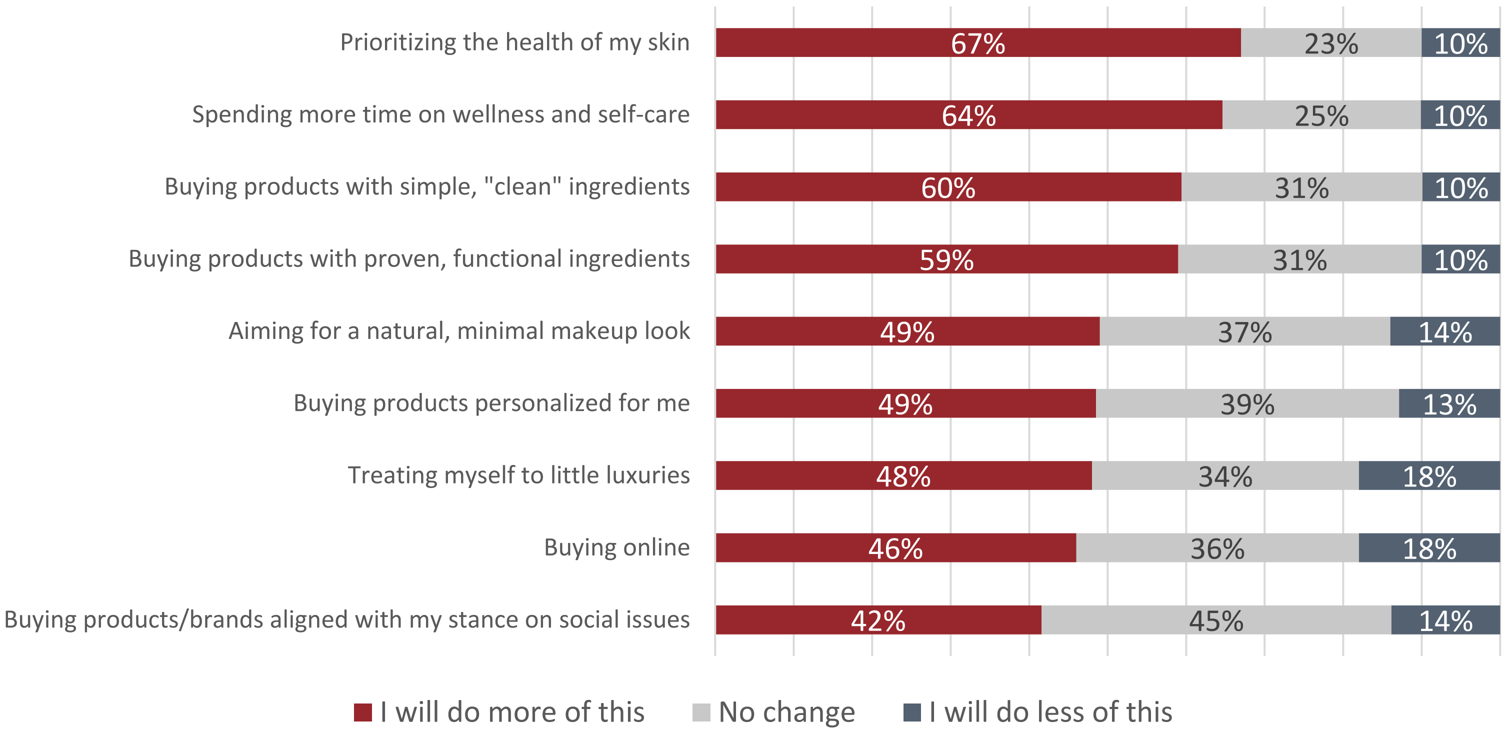
Reason for Spending More on Beauty & Personal Care

Key Insight:

Beauty-focused consumers developed new routines during the pandemic to support wellness and self-care. This heightened focus on health is a more important and sustainable demand driver than return-to-work or social life.

Post-Pandemic Consumers Prioritizing Health and Wellness

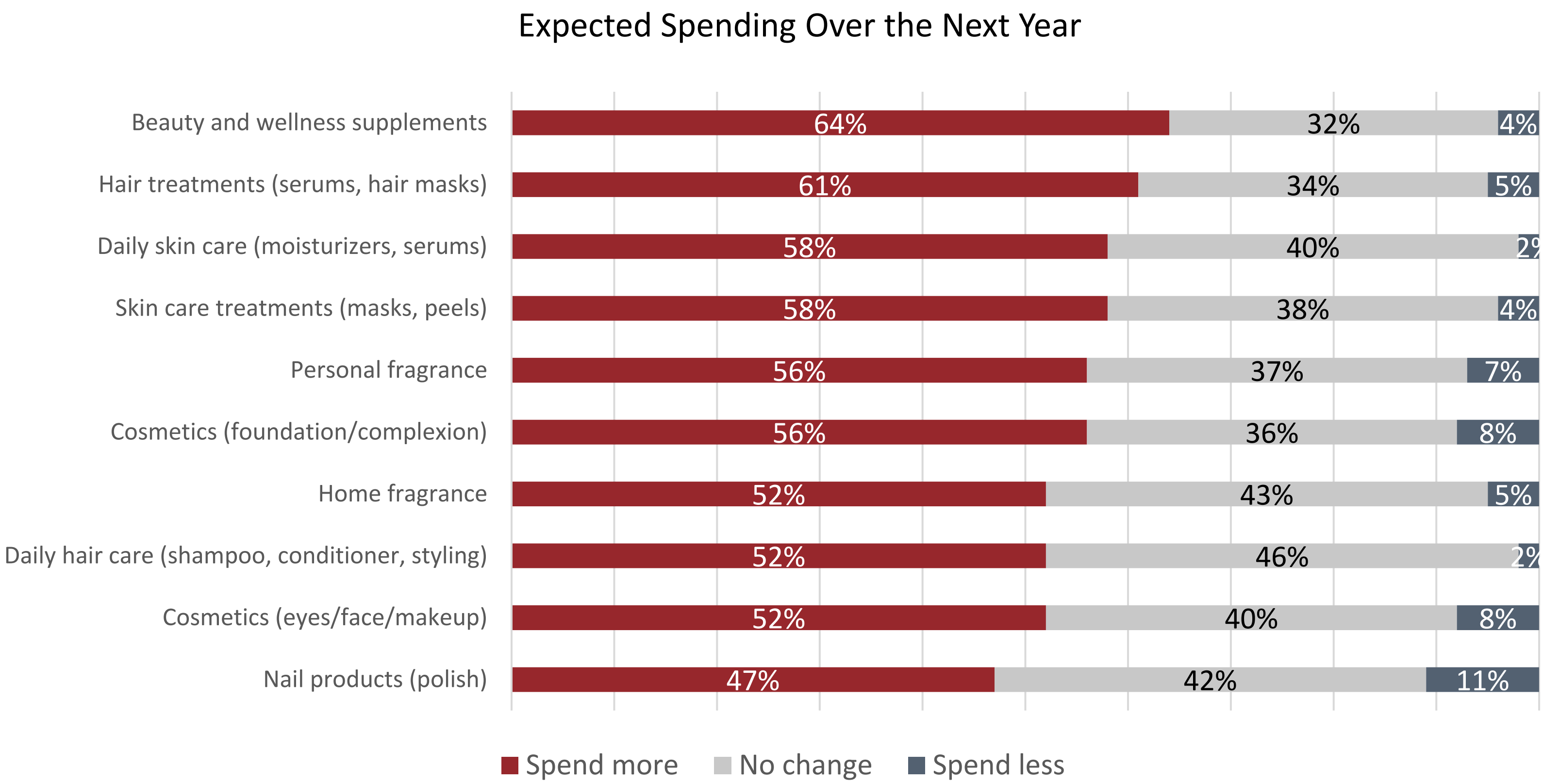
Beauty and Personal Care Intentions for Post-Pandemic Life



Key Insight:

Companies aligned with health, wellness and "clean" products—made with proven ingredients—have higher-than-average growth potential.

Products: Beauty and Wellness Supplements Top Shopping Lists

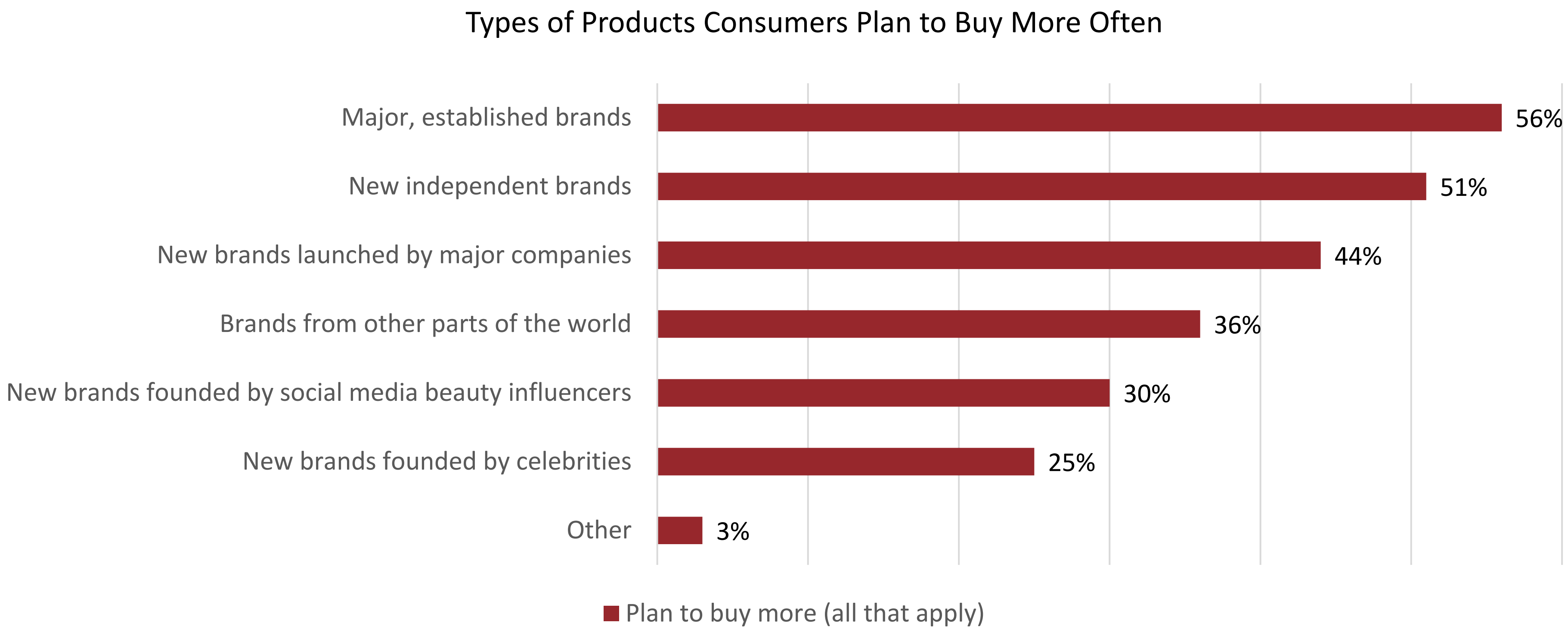


Key Insight:

Specific product subsegments poised for high growth include beauty and wellness supplements, hair treatments such as serums and hair masks, skin care products, personal fragrance, and cosmetics (foundation and complexion products).

Future Buying Intentions: Major Brands Share Stage with Independents…

…but not with celebrities.

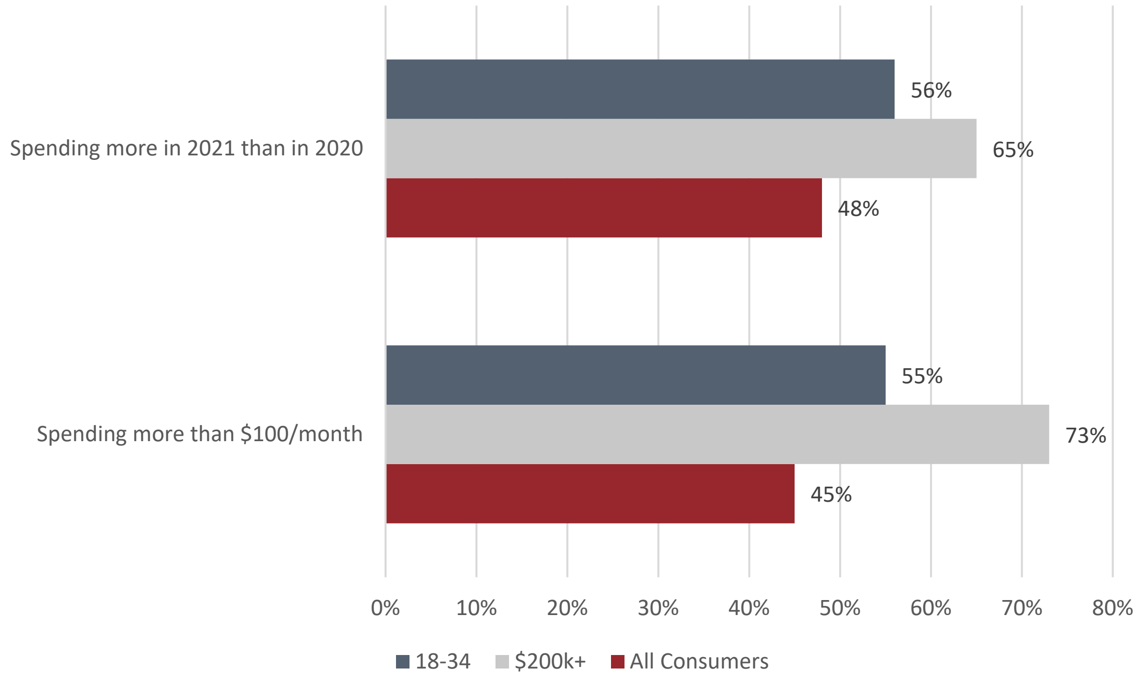


Key Insight:

Equal opportunities exist for start-up brands and established players. Alignment with celebrities and social media influencers has little relative value to consumers.

Spending Highest Among Younger and Wealthier Consumers

Younger and higher-income consumers are significantly more likely than others to be spending more this year and to have a budget above of $100/month for beauty and personal care.



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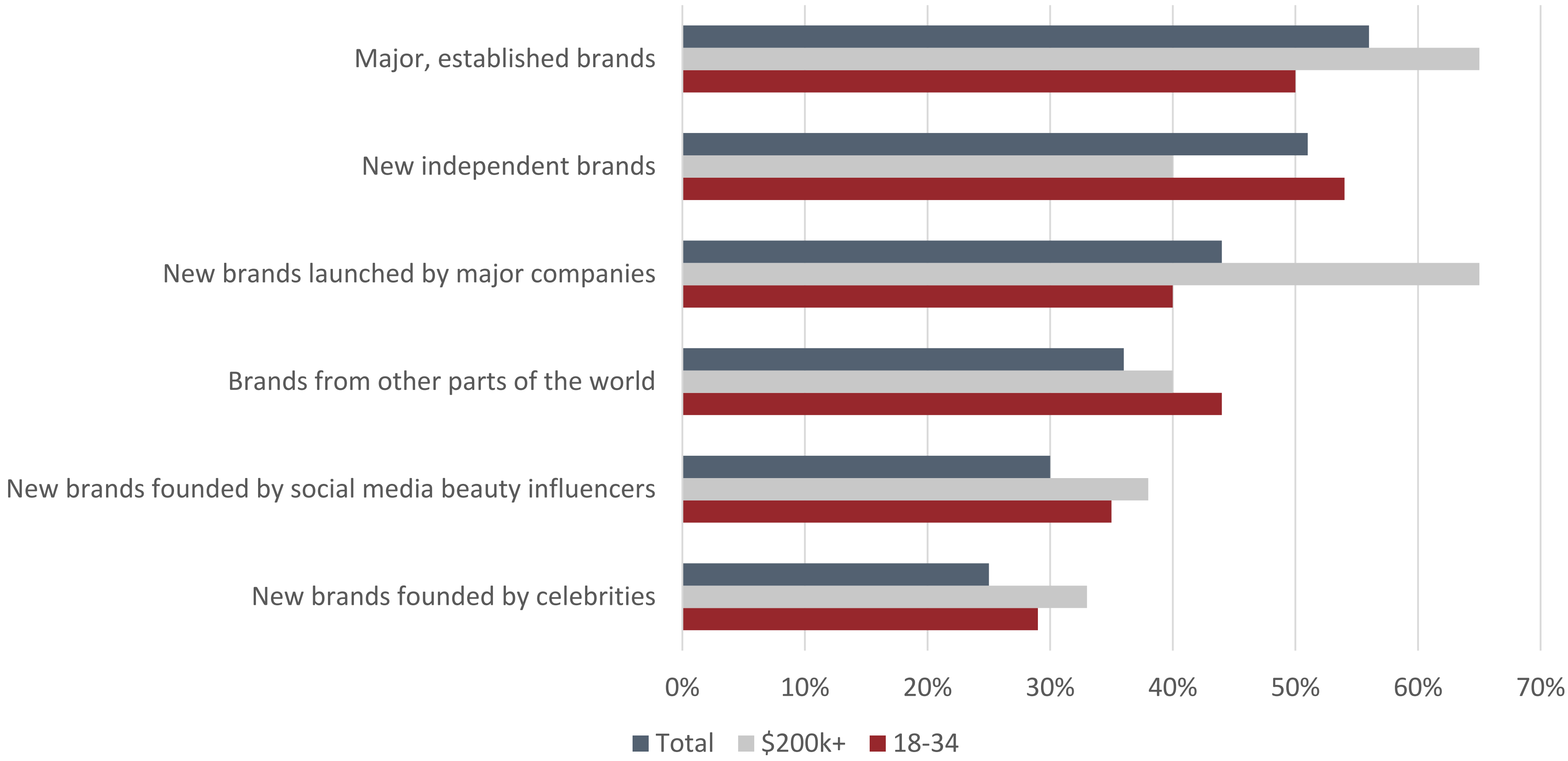
Future Buying Intentions: Younger and Wealthier Consumers



Key Insight:

High-income consumers favor products offered by well-known companies, while younger consumers are more interested in new, independent brands, and brands from other parts of the world.

Beauty and Personal Care: Brand and Product Differentiators

Key Findings

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CONCERNS DRIVE BRAND AND PRODUCT CHOICE, BUT AT A SLIGHTLY LOWER IMPORTANCE LEVEL THAN PRODUCT EFFICACY.

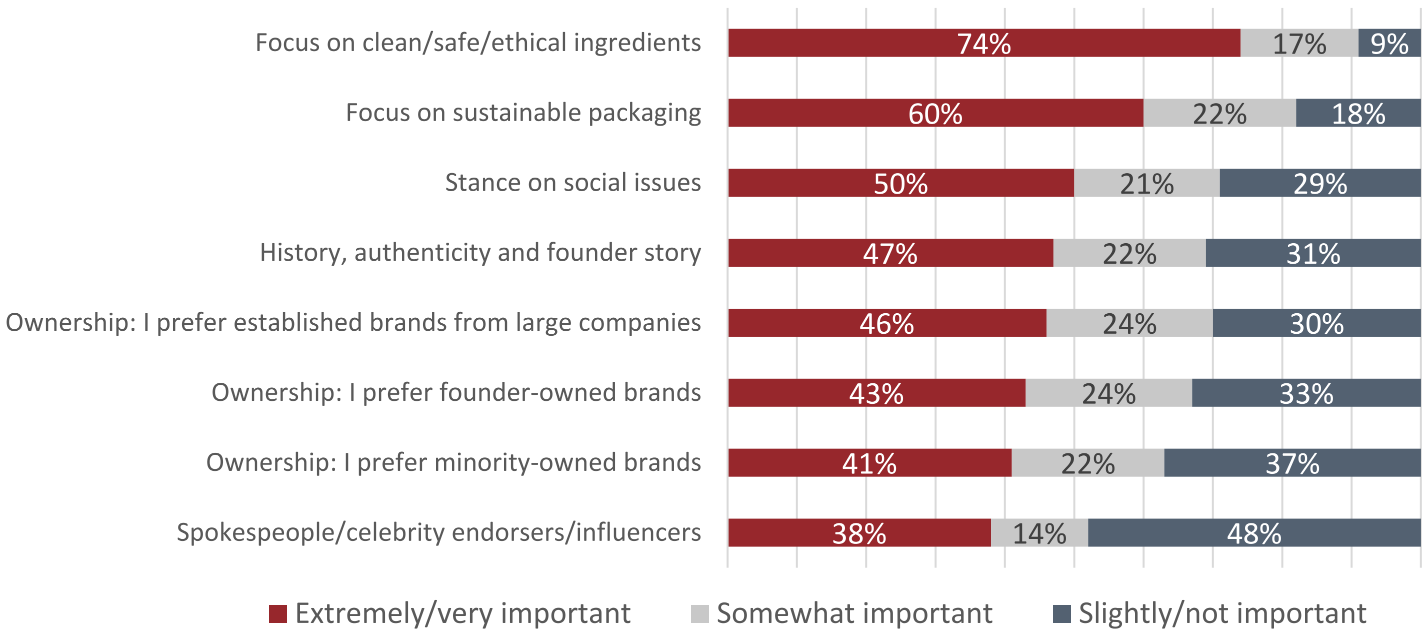
74% of consumers say a brand's focus on clean, safe and ethical ingredients is extremely or very important.

Sustainable and environmentally friendly packaging was described as extremely or very important by 60% of consumers, followed by the brand's stance on social issues (50%), and the history, authenticity, and "story" of the brand (47%).

Clean and ethical products are a priority—but only when they work as well as expected. Consumers are not willing to sacrifice performance for ESG concerns.

Most Important Brand Attributes: Clean and Ethical Matter

Most Important Brand Attributes

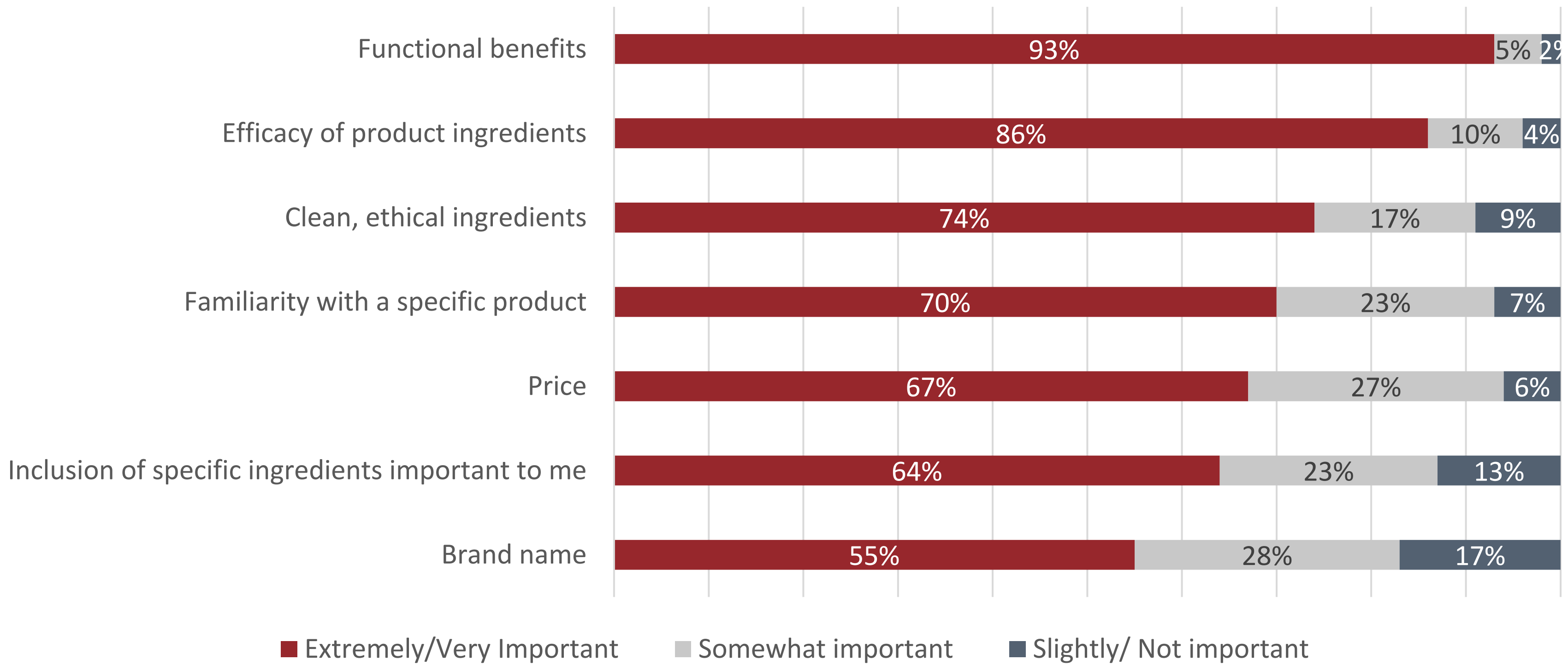


Key Insight:

ESG matters at the brand level. 74% of consumers say a focus on clean, safe, and ethical ingredients is extremely or very important. Sustainable and environmentally friendly packaging was described as extremely or very important by 60% of consumers; followed by the brand's stance on social issues (50%); and the history, authenticity and "story" of the brand (47%).

At the same time, actual brand ownership was relatively unimportant to consumers, leaving room for buyers to tap into the sector's growth via M&A.

Most Important Product Attributes: Works Well, Made Well



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Clean and ethical products are a priority—but only when they work as well as expected. Consumers are not willing to sacrifice performance for ESG concerns.

Beauty and Personal Care: Channel Strategy

Key Findings

FINANCIAL AND STRATEGIC BUYERS HAVE A WIDE VARIETY OF POTENTIAL AVENUES TO DRIVE VALUE CREATION IN BEAUTY AND PERSONAL CARE.

Brand ownership was relatively unimportant to consumers, leaving room for financial and strategic buyers to tap into the sector's growth via M&A, whether through acquiring independent brands or legacy brands via carve-outs.

Buyers should prioritize companies **with products easily discovered online and supported by a seamless transition from an online to an in-person experience**, from trial to conversion.

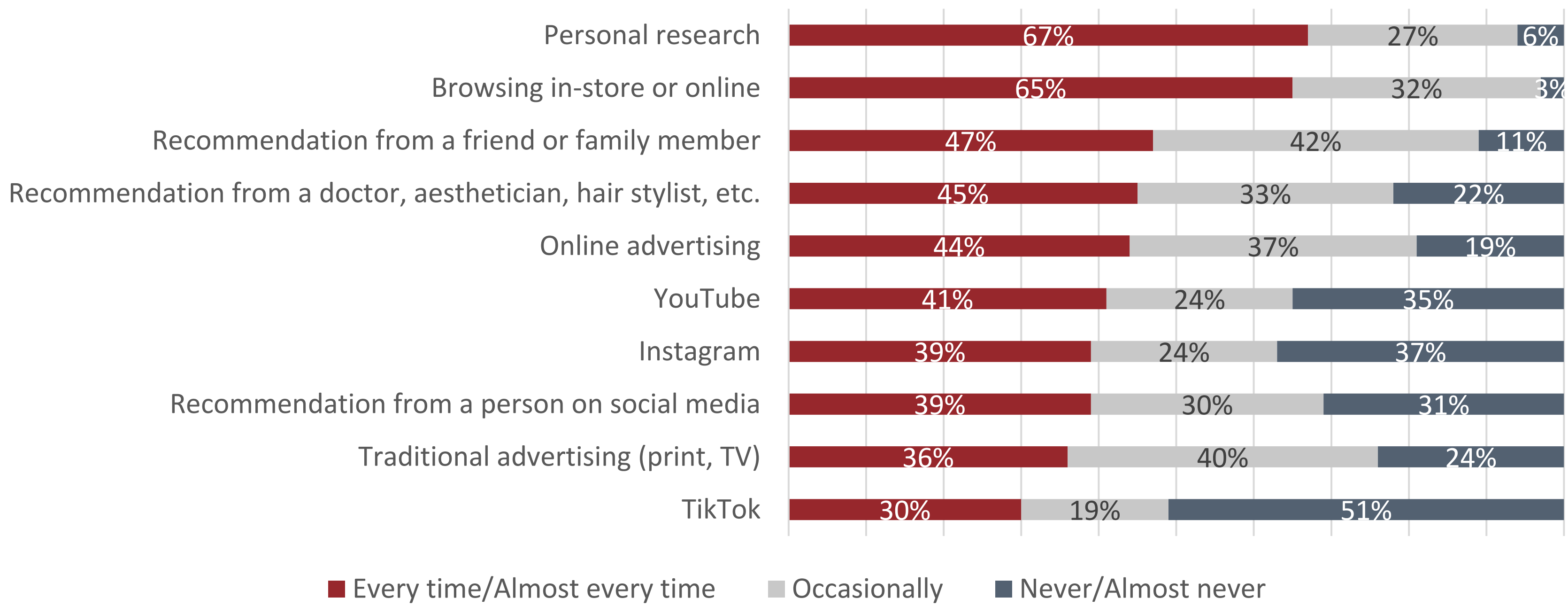
Consumers are the most loyal in beauty and wellness supplements (66% always or usually buy the same product or brands), **daily skin care** (66%), **and daily hair care** (63%), elevating the value of leading brands in their respective spaces.

Conversely, **opportunities to win share are most pronounced in home fragrance** (55% of consumers try new products regularly), **nail products** (54%), **and skin care treatments** like masks and peels (48%).

New Product Discovery: Seamless Shift from Online to In-Store

Personal research is the top way for consumers to learn about new beauty and personal care products, followed by online or in-store browsing.

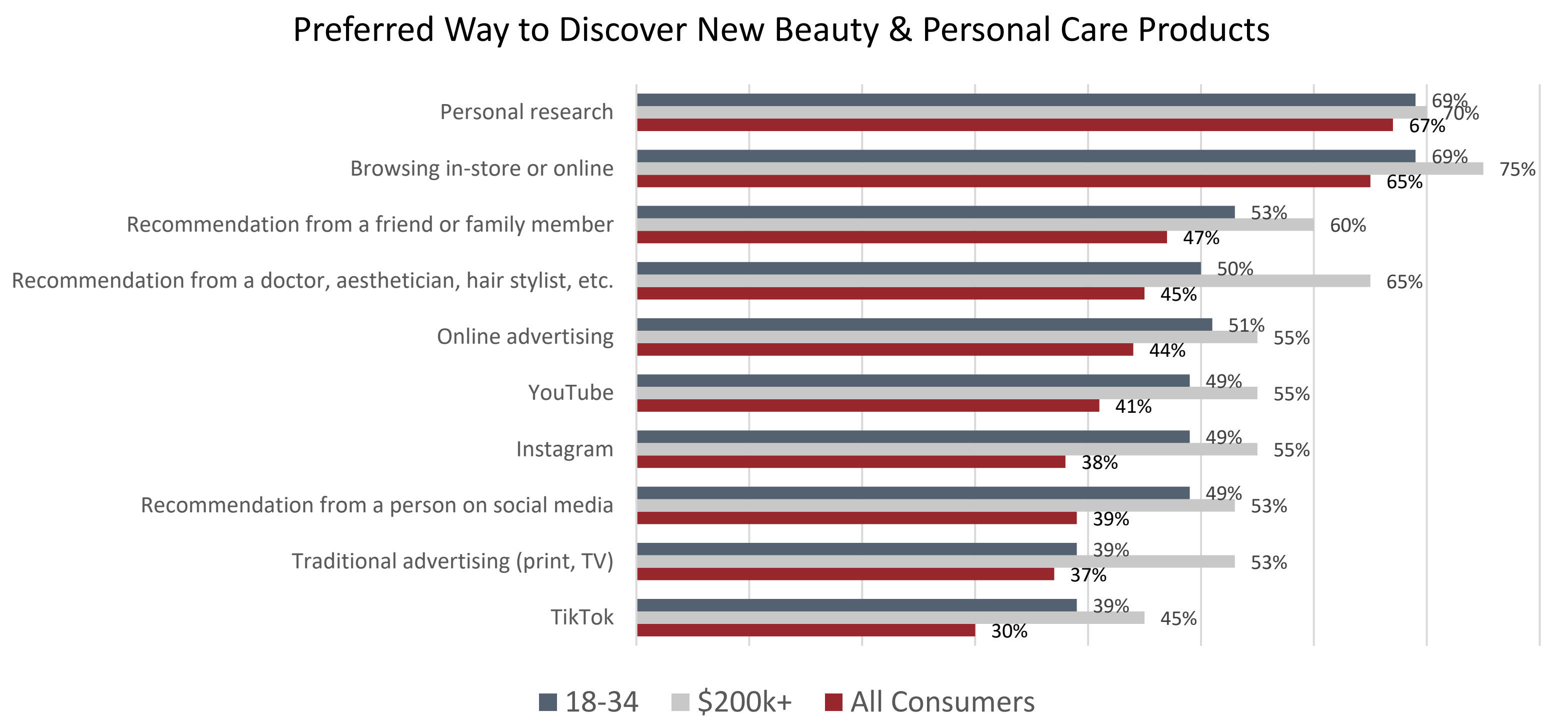
Preferred Way to Discover New Beauty & Personal Care Products



Key Insight:

Companies with superior growth prospects make their products easily discovered online and create a seamless transition from the online to the in-person experience, all the way from trial to conversion.

New Product Discovery: Younger and Wealthier Consumers

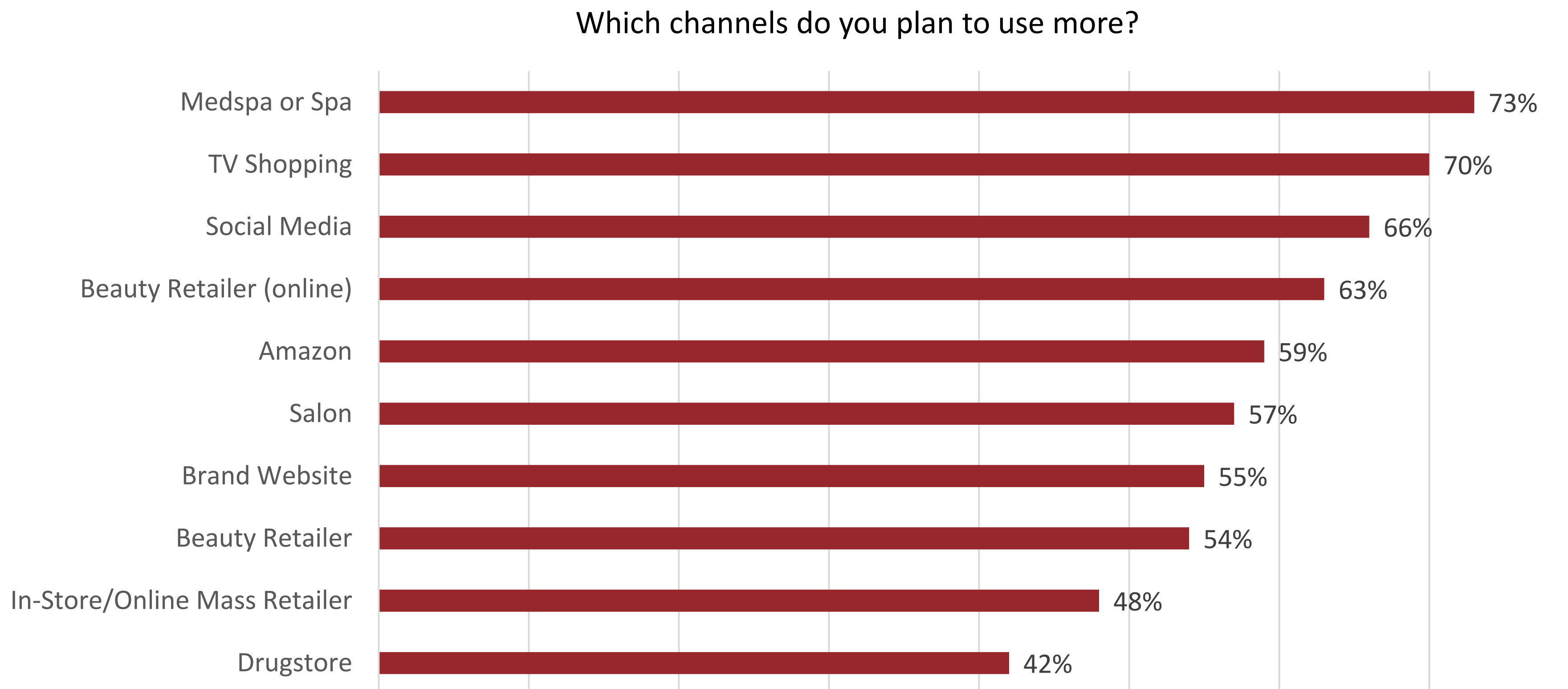


Key Insight:

Companies trying to reach higher-income consumers should make recommendations from doctors, stylists, and other professionals part of their strategy. Social media also appears to be a more important product discovery channel to both higher-income and younger consumers.

Expected Spending by Channel

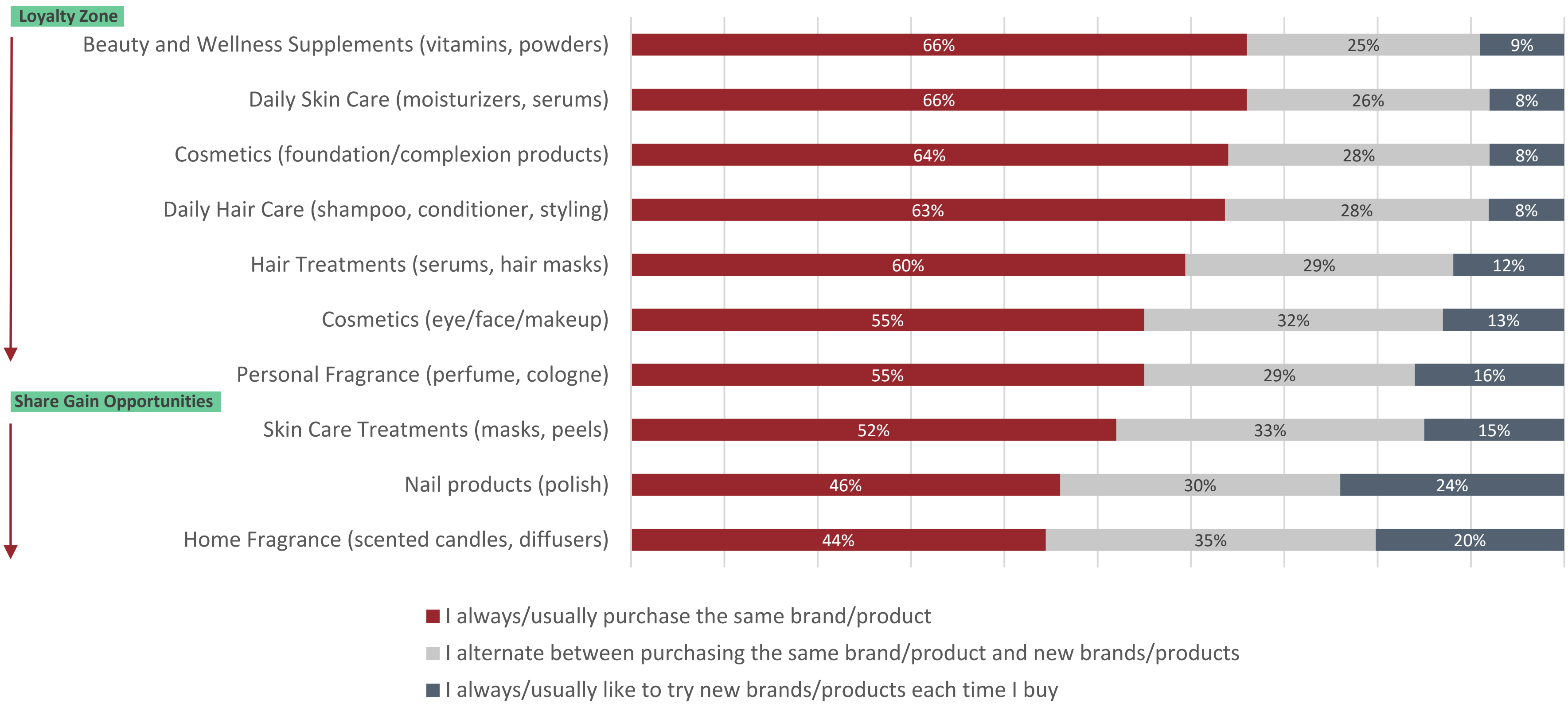
Consumers plan to spend more on beauty and personal care in almost all channels.



Key Insight:

Medspas and spas are a promising new distribution channel, as is social media and nearly all other digital channels.

Brand Loyalty: Generally strong, although trialing does happen



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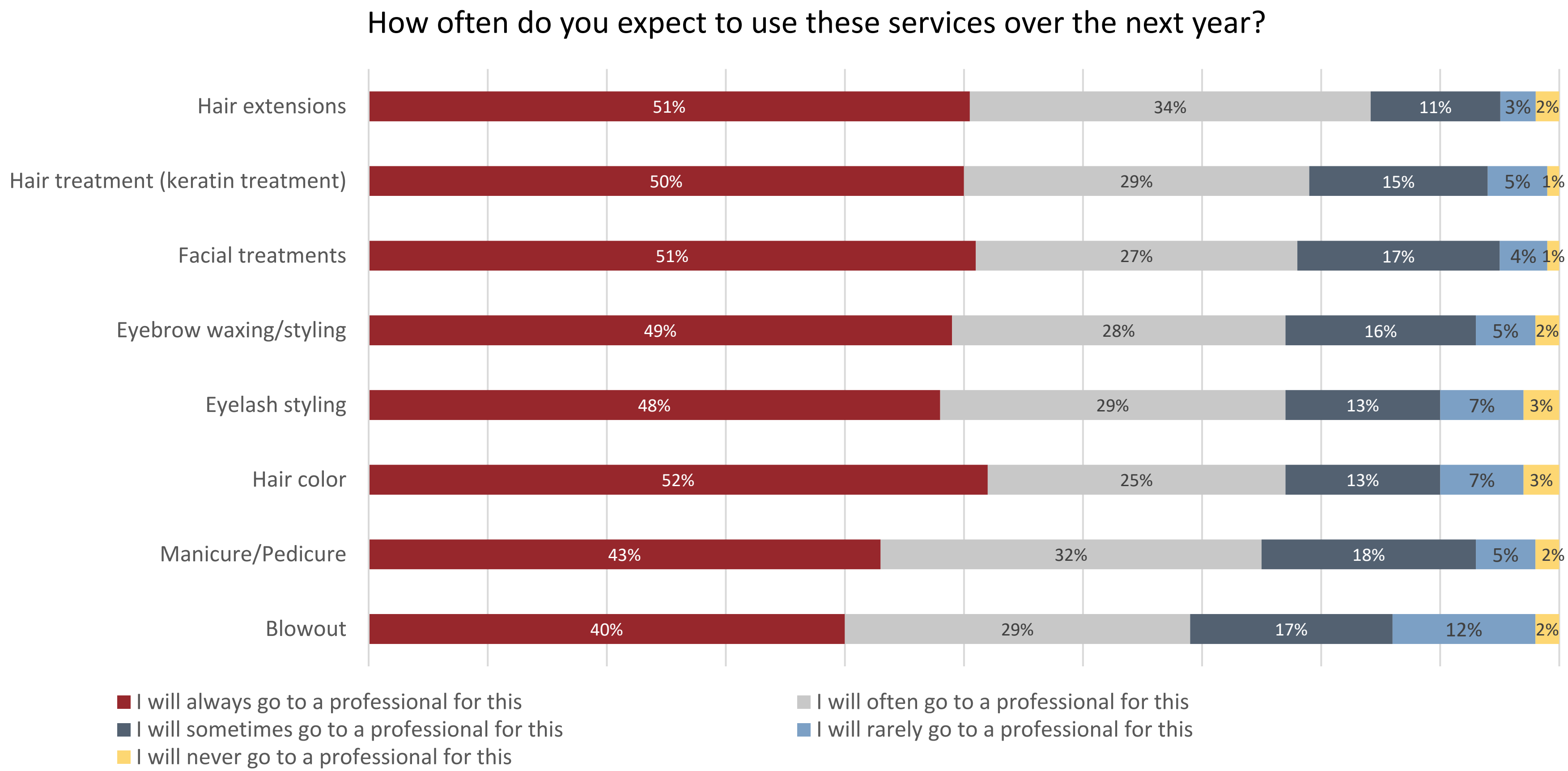
Service Providers Essential to Vast Majority of Consumers



Key Insight

Companies involved with out-of-home beauty and personal care services have strong prospects. The vast majority of consumers say they will always or often go to a professional for hair extensions (85%), hair treatments (79%), facial treatments (78%), hair color (77%), eyelash styling (77%), eyebrow waxing/styling (77%), manicures and pedicures (75%), and blowouts (69%).

Our M&A Professionals

GET IN TOUCH

Kelly McPhilliamy
Managing Director
Health & Beauty Lead
kmcphilliamy@harriswilliams.com
Office: (804) 915-0114

William McBride
Director
wmcbride@harriswilliams.com
Office: (804) 915-0115

APAC COVERAGE

Daniel Wang
Managing Director
Head of Asia Pacific
dwang@harriswilliams.com
Office: (415) 217-3416

EUROPEAN HEALTH & BEAUTY COVERAGE

Ed Arkus
Managing Director
Head of European Consumer
earkus@harriswilliams.com
Office: +44 20 7518 8905

Andreas Poth
Director
European CPG Lead
apoth@harriswilliams.com
Office: +49 69 3650638 20

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Our Health & Beauty professionals have substantial experience representing the best-of-the-best branded consumer companies.

LIVINGBRIDGE

has made a growth investment in

absolute collagen

BOARDROOM
SALON FOR MEN

has been acquired by

LIGHTBAY CAPITAL

graze

a portfolio company of

THE CARLYLE GROUP

has been acquired by

Unilever

SlimFast

a portfolio company of

KAINOS
KAINOS CAPITAL, LLC

has been acquired by

glanbia

waterpik

a portfolio company of

MIDOCEAN
PARTNERS

has been acquired by

CHURCH & DWIGHT CO., INC.

TWO SIGMA
AVANCE

have invested in

Wholesale Supplies Plus

WSI
Innovation at work

a portfolio company of

GRYPHON
INVESTORS

has been acquired by

Kao

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