The Changing Face of Beauty Distribution

BY ADA POLLA

Insights from beauty retailers—department stores to flash sale sites—shows the various opportunities beauty brands have to reach out to and connect with consumers.

IMPACT POINTS

- Beauty products are less seldom defined by their retail channels nowadays, meaning there has been a proliferation of product lines to a variety of retail outlets.
- From traditional channels of department and mass stores to the development of online retail and beyond, each venue offers its own benefits and costs and allows brands to diversify for a greater reach while still catering to niche consumers.
- The future of beauty retail continues to advance, following trends of convenience, curated selections and recommendations, and even safety regulations, but most are looking to be where the consumers are—and where they are headed next.

Thirty years ago, if you wanted to launch a high-end beauty brand, you would create your product and call on the top department stores—likely Bloomingdale's, Saks, Nordstrom or Neiman Marcus—to exclusively launch the products. Today, the beauty distribution landscape is amazingly more complex and the launch strategies much more blended. Indeed, in a 2010 issue of *WWD Beauty Biz*, Carlotta Jacobson, president of CEW, was quoted as saying, "Distribution no longer defines a product's value or status."

HSN general manager, beauty and merchandising strategy, Betsy Olum admits today's retail world "is like the wild, wild West." The only constant in beauty distribution is change and cross-channel shopping. Indeed, Frédéric Fekkai himself was reported as saying, when discussing his brand's move to mass channels after its acquisition by Procter & Gamble, "I love to go to Target, and Whole Foods, and Hermès."

In both September 2010 and June 2011, I moderated panels on the shifting face of beauty distribution for the HBA Global Expo, discovering insights into the inner workings of these various beauty retailing avenues. I also have started working on putting that panel together for HBA 2012, informed by the content of the previous panels, as well as current beauty industry and consumer trends, uncovering pertinent trends and numbers.

Beauty in Numbers

Karen Doskow, industry manager, consumer products, Kline & Company, set the stage for the 2011 panel by sharing some industry statistics. Highlights included:

- The U.S. beauty market reached $36.5 billion in sales in 2010, surpassing pre-recession levels.
- Industry growth bounced back after a dip in 2009, up 2.4% in 2010.
- On a product level, skin care continues to be the largest product class, while makeup is the fastest-growing.
- On a channel level, all of the trade classes posted growth in 2010; mass market, the largest trade class, showed the lowest growth.
- The direct sales channel had a higher compounded annual growth rate (5.2%) than the industry average of 1.7%. (This channel includes home shopping and infomercials, as well as person-to-person sales and online shopping.)
- Within the direct sales channel, online shopping had the highest compound annual growth rate (26%).

Channel Tension, Niche Developments

At the panel discussion in 2010, beauty retailer representatives from various channels took the stage: Marla Malcolm Beck, founder and CEO, Bluemercury; Howard Kreitzman, vice president, cosmetics and fragrance, Bloomingdale's; and Donna Tarantino-Loyle, director, health and beauty, ShopNBC. The panel's insights highlighted some of the tensions between the industry's various existing distribution channels.

Bluemercury is a beauty boutique and spa. Beck noted that in 2009, the Bluemercury team performed 100,000 spa treatments in the company's 33 locations. Today, it has 38 locations, having taken over some former Douglas Cosmetics retail units, and it is further expanding. Beck spoke of the importance of training, as well as of the importance of sampling. She also spoke to accountability, saying ultimately she still picks every product that is on Bluemercury's shelves.

Kreitzman spoke about his department store's continued love of exclusivity, which he noted as a continued cornerstone of success. Pointing to Fekkai, he noted the fact that the brand's decision to expand into the mass channel led Sephora to drop the line, highlighting that there is indeed some channel conflict and tension between the high-end department and specialty stores and the mass channel.

The department store channel, which some in the beauty industry see as a stale dinosaur, has been working on various initiatives to reinvent itself. To fight the growing crop of open-sell beauty retailers—ranging from Sephora to Ulta to CVS's Beauty 360 and Duane Reade's Look Boutiques—several department stores have begun testing, and seemingly expanding, their own open-sell concepts. Kreitzman spoke about Bloomingdale's working with Space NK to create an area for the sales of niche beauty brands not typically found in department stores. Other iterations of this idea include Macy's

Impulse Beauty Supply Stores and Dillard's The Edge Shops.

Muriel Gonzalez, executive vice president and general manager for cosmetics, fragrances and shoes, Macy's, has commented, "Impulse Beauty is a beauty destination geared toward a trend-wise customer. The new collection of fresh, contemporary, niche brands, which are not traditionally associated with department stores, along with our established beauty counters, provide Macy's customers with a wide assortment of product to choose from for all of their beauty needs." Indeed, this concept is gaining ground: From test runs in three Macy's stores, the company now plans to include Impulse Beauty Supply Shops in 104 of its locations.

Another trend Kreitzman pointed to is the fact that retailers overall seem to be removing the risk of stocking independent brands by creating exclusive lines of their own: Sephora, Target and Walmart all have exclusive private label lines. So far, however, no department store has gone down that road.

Also adding to the panel discussion, ShopNBC's Tarantino-Loyle pointed to the expansion of the direct selling channel and viability for global high-end brands. In fact, traditional department store brands such as Lancôme and Shiseido are available on ShopNBC, while Clarins and Murad are on QVC. Some beauty brands are even choosing to launch their products exclusively through the direct channel. For example, HSN had an exclusive on Lancôme's Regenerie Eye Multiple Action product before it launched in other channels, and Carol's Daughter and Mary J. Blige successfully launched the singer's *My Life* fragrance exclusively on HSN.

Nontraditional Avenues, Online Sourcing

For the 2011 panel on beauty retail distribution, there was a more distinct focus on the nontraditional, non-bricks-and-mortar channels. In addition to Karen Doskow of Kline, the panel included Allen Burke, senior advisor for beauty, QVC; Paula Scandone, vice president, beauty, HauteLook; and David Olsen, vice president, business development, Dermstore.com.

Burke spoke of the importance of a demonstrable product and visible results as key success factors for the direct channel. He also insisted on the importance of brand founders and creators being the ones showcasing their products on TV, rather than paid celebrities or endorsers, and highlighted the synergy between the direct channel and traditional retail. Burke explained that a feature on QVC (and other TV shopping channels) typically has a halo effect on the brand's bricks-and-mortar retail distribution locations, leading to a quantifiable increase in store sales for the few days following a product's appearance.

For his part, Olsen discussed the importance of sampling for online channels. He noted how the sensorial aspect of beauty—in skin care in particular—is so important yet is still challenging to convey online. Olsen also highlighted the increasing importance of consumer recommendations, seen in the rise of *Facebook* communities and *YouTube* videos as sources of product information. Ten years ago, if a product was showcased in *Vogue*, it would sell. Today, while the power of the media continues to grow, recommendations from other consumers, which can be instantly disseminated online, are increasingly and exponentially powerful.

Finally, Scandone represented a new channel: the flash sale sites. Vente Privee in France is credited as launching this concept of online sales that last 24–48 hours, offering merchandise at deep discounts that range from 15–80% off. Just a few years ago, flash sale was not a word, but today, companies such as Gilt, HauteLook, Rue La La and Ideeli are changing the distribution landscape, not only in fashion (where designs change every season) but in beauty (where consumers can go to find products that are discontinued or that physical stores no longer carry) and beyond.

A Look Ahead?

In planning for June's HBA 2012, I am intrigued by a number of new beauty retailing developments.

For one, what is the future of travel retail, including developments such as Utique? "Autoshops," as founder and CEO Mara Segal calls them (while many others think of them as beauty vending machines) are located in key metropolitan airports, premium malls and stylish hotels. Meanwhile, 3FlOz.com is a beauty retailer dedicated to promoting products that follow the 3-1-1 TSA/FAA liquid regulations.

Also, what happens when a magazine and a boutique have a baby? Possibly *NewBeauty* at Fred Segal. In this 4,300-square foot beauty boutique, which officially opened on Oct. 1, 2011, the magazine comes to life. The space, gutted and redesigned, is a reflection of *NewBeauty* publisher Sandow Media's offices, and its selection of products (11,000 SKUs from 200+ brands) are showcased with editorial content to help the consumer decide what she needs.

And is sampling becoming its own distribution channel? With the success of BirchBox, and its multitude of copycats (both in the U.S. and Europe), curated sampling is quickly becoming big business.

So, what new partnerships will 2012 and beyond see come to fruition? What new channel will emerge? Will consumers soon be able to touch and smell a product online? Time will tell. But in the meantime, the only constant in beauty distribution is still change and evolution. ■ **GCI**

FIT Master's Degree Program white paper "The Future Of Beauty: The Future of Retail;" "CEW Newsmakers Discuss Retail; Today's Consumers," which includes insights from Macy's Muriel Gonzalez and Carmen Bauza, vice president beauty and personal care, Walmart Stores; "Making the Brand/Consumer Connection (and sale) Online;" and Herman Chein's "Building a Beauty Brand Online" (January/February 2012) are among the additional explorations of beauty retail available on *www.GCImagazine.com*.

ADA POLLA is the co-creator of the Swiss antioxidant skin care line Alchimie Forever, which launched in the U.S. in 2004. Her strategic focus and implementation have yielded double-digit annual revenue growth for the company. She holds an MBA from Georgetown University, majored in art history and political science at Harvard University and graduated magna cum laude with a Bachelor of Arts degree in 1999. She is also a *GCI* magazine editorial advisor.