Quest for growth spurs M&As in beauty care

By Hana Ben-Shabat

The U.S. beauty and personal care market has been barely inching upward, with only 3% growth over the past five years. As the next five years don’t hold out great hope of any faster gains, industry leaders have been seeking bigger returns through innovative growth—which has often meant acquiring both smaller, more innovative companies and larger ones that are ripe for consolidation.

A.T. Kearney’s Merger End Game Methodology, which posits that an industry is ripe for consolidation when the top three players account for 45% of the market or more, indicates that the beauty and personal care space has reached the tipping point where survival depends on acquiring or being acquired. This is true for the overall market as well as at the subcategory level.

Four motivators driving deals
What does this mean for the industry? We embarked on a study analyzing more than 200 M&A transactions that took place across all geographies in the beauty and personal care space from 2010 to 2016. The resultant report, “Shop or Drop: The Inevitable Path for Growth in Beauty,” identifies four motivators that have driven most of the recent deals: greater access to consumers, innovation, emerging distribution channels and access to new markets.

We found that greater access to consumers was the most widespread strategic M&A driver, accounting for about 60% of the deals we studied. The most attractive acquisition targets for top beauty and personal care companies looking to expand into new consumer segments are smaller companies that have harnessed the ability to read the attitudes and preferences of evolving or emerging demographic beauty segments. Some of these include Asian, African-American and Hispanic consumers. One deal exemplifying this trend is L’Oréal’s 2014 purchase of Carol’s Daughter, an ethnic hair care and skin care brand.

Acquisition is the quickest way to add cutting-edge innovation to a larger, less nimble company. We found that access to innovation accounted for 17% of the transactions in our sample of deals. Industry and consumer interest in biotech and science-based formulas, coupled with CVS’ plan to go-to-space for deal seekers. Two examples for this type of transaction are Valeant’s acquisition of Solta Medical, a manufacturer of energy-based medical device systems for aesthetic applications, and SkinMedica’s acquisition of science-based mineral makeup company Colorescience.

Twelve percent of the M&A transactions we studied were motivated by access to distribution channels, as acquirers felt the need to strengthen their distribution or to avoid building one from the ground up. Access to e-commerce distribution has also fueled a significant portion of this type of transaction, with Target’s acquisition of online beauty e-retailer DermStore serving as one example. Expansion into new geographies, giving access to new markets, has been a core driver in 8% of the M&A moves we reviewed. However, there are nuances—most of the M&A deals of this kind take place between an acquirer and a target that were both in mature markets. Generally these transactions are not between North American, European and Japanese companies; deals involving companies rooted in emerging geographies trying to access

CVS Pharmacy brings more brand aura to cosmetics aisles

Continued from page 25

As many brand, including on-trend items like lip oils and lip crayons. Skin care isn’t overlooked, though, especially since Perez-Tenessa sees a big link between health/wellness and beauty. New in that category are Skin-Fix, Ahava, Nip + Fab (a Kylie Jenner favorite) and CVS’ own collection of Beauty360 masks inspired by Korean beauty.

Also focusing on brands that offer dermatologically tested beauty, CVS is working with Healthy SkinCare Centers to add an additional 700 stores — almost doubling the distribution of brands including Ultraceuticals, Hauschka, Jouviance, Wilma Schumann and La Roche-Posay.” “Our increasingly savvy customer has realized that she can get at CVS the best and healthiest skin formulations available in the market at a fraction of the cost of products she might find in the prestige channels,” Perez-Tenessa said.

To complement these elevated offerings, CVS is also polishing the in-store ambiance. Today, over 3,000 CVS Pharmacy stores nationwide have an enhanced shopping experience designed to inspire exploration, with redesigns focused on improved navigation and increased fun within the drug store shopping experience. CVS started its journey to upgrading beauty with a limited number of stores and, after seeing the positive results, decided to boost the number of doors in which these renovations were made.

“We know our customer is busy, and often the only time she dedicates to herself is those few minutes in the beauty aisle while waiting for her prescription to be filled. Her time is at a premium, and it’s our mission to ensure it’s time well spent in our stores,” Perez-Tenessa said.

There are some special beauty destination areas now in many stores, including Beauty on the Go, a convenient display near checkout aisles that is stocked with last-minute, grab-and-go, trial-size beauty products in about 4,000 CVS Pharmacy stores nationwide.

Another traffic-stopping department is a Nail Bar that is now in about 1,500 doors. It hosts the new Gel Couture collection fromEssie, classic products fromEssie, as well as key Makeup Academy products.

Capitalizing on consumer demand for brushes spurred by beauty tutorials on YouTube and other channels, CVS also installed a Brush Bar in 1,500 stores. There is even a “petting zoo” area for customers to touch and feel the difference in the brushes. Some of those brushes are from CVS’ exclusive brands, another area ripe for growth at the chain. CVS’ owned brands are said to be among the fastest-growing in the quadrant, and include beauty and personal care essentials from brands like Beauty360, Skin+Pharmacy and Makeup Academy, among others.

Recently under Beauty360 CVS launched a No-Light Gel Nail Polish in 36 on-trend colors. Skin+Pharmacy, meanwhile, is gaining traction for its treatment of specific skin concerns and has recently added a Retinol Serum for minimizing the appearance of fine lines and wrinkles, as well as a vitamin C Skin Brightening Serum that helps reduce skin discoloration — something that’s said to be one of the biggest trends for 2017.

What else is ahead for beauty? Perez-Tenessa votes for holistic health, which he said will hit right note among consumers striving for healthy lifestyles. He thinks that will trigger sales in skin care, especially preventive and proactive skin care with increased SPF and dermatological approval options. Natural and organic are also on the sales radar.

“Categories that continue to push the envelope in innovation and that inspire play, like color cosmetics and nail, will remain popular in beauty, and will continue to be an important part of our beauty business, with expansions here in 2017 as well,” he predicted.

He served up advice to those looking to expand with CVS, “The No. 1 thing that brands can do to better partner with CVS is to innovate — not only in terms of product and trend, but also in how they go to market. The brands that are growing the most with us are maximizing the benefits of our women’s class ExtraCare personalization program and are rethinking marketing mix, as well as channel boundaries,” he explained. “They are omnichannel minded, partnering with us on multiyear elevation plans that drive their presence in our stores as well as on our digital channels. And they are leveraging our world-class analytics tools to drive growth and partnering with our creative and marketing teams to delight the customer across her shopping journey.”

Continued on page 28
In digital age, power of influencers cannot be ignored

NEW YORK — The traditional beauty marketing rules have been tossed out the window. Influencers, who have emerged thanks to social media, are now as important (if not more crucial) than celebrities in getting the needle on beauty products.

What exactly makes someone an influencer? These are digital natives who have grown up following and reaching out to their followers, who are so enamored with their favorite’s tastes that they flock to stores or online to buy the items. They are also the experts posting tutorials on Facebook and other platforms who teach women how to do the new tricks—a function once the domain of beauty magazines.

Stars will always lend wattage to any campaign such as Revlon Inc.’s recent signing of Gwen Stefani and Ciara as ambassadors. But more than ever, says D, Johnson, CEO of NPD Group Inc.’s recent signing of Hailey Baldwin and Tinashe, the beauty brand Kosé’s move on the prowl for niche brands, and the Frizz Ease product  formulations.

Some recent developments include:

* L’Oréal Professional announced that Hailey Baldwin and Taylor Hill are the newest faces for its hair care line. Combined, they have nearly 16 million followers on Instagram. L’Oréal also recruited 15 influencers for its L’Oréal League, which creates content for L’Oréal’s wide array of products.
* Revlon added to its influencer program, hiring Gigi Gorgeous, Kandee Johnson, Sabrina Carpenter and Etienne Ortega. They join Revlon’s already impressive stable of celebrity ambassadors. Johnson also curated a nail collection for Revlon’s Sinful Colors.
* John Frieda gets both celebrity wattage and influencer power with Tinashe. The actress and singer kicked off the company’s latest campaign, “Hair Talks — Make a Statement,” with a concert. Tinashe has been a fan of John Frieda products for years, especially the Frizz Ease product that helped her gain confidence at a time she didn’t love her locks. That makes her perfect for Hair Talks — Make a Statement, according to Heather Warnke, director of marketing at John Frieda parent Kao USA. Tinashe will be featured along with other musicians over the next year, and they will be joined by every-day heroines, including bold women who are scientists, bartenders or the girl next door.
* EcoTools, a company that has been at the forefront of using tutorials to boost its consumer awareness, didn’t just get one influencer but the power of the Miss America organization. EcoTools will be the exclusive provider of cosmetics accessories to the Miss America Organization—which will undoubtedly lead to huge social exposure.
* Unilever’s Dove harnesses the power of influencers for most of its products. The company partnered with digital media personality Christina Brown of LoveBrownSugah to help honor two of the winners of the Dove Beauty Bar. Unilever’s TRESemmé also used influencers in a creative way—letting YouTube stars act as correspondents during New York Fashion Week. They created and broadcast content from shows for brand content.
* Neutrogena struck gold with singer-actress Olivia Holt sharing photos using Neutrogena products to her big social following, images of her wearing the mask that is affectionately known as the “mask with tears” leaving hands free for selfies, attracted eyeballs — more than 62,000 on Instagram alone.
* CoverGirl made headlines last year when it selected a non-celebrity and a male as its latest face. Seventeen-year-old James Charles, who had a sizable social following, got the nod and has appeared in ads for a new mascara called So Latex. Charles also got attention, however, for the downside of hiring young and unfiltered social media stars. A recent tweet of his was viewed as racist and started a flurry of negative feedback. Charles quickly apologized.

The most popular beauty influencer in the space is K-Beauty style, which has been embraced by international companies such as Beautycounter, Hain Celestial Group and other companies.

A.T. Kearney, a global strategy and management consulting firm, has been at the forefront of using video daily. Women now seek out YouTube tutorials to learn the latest beauty tips and tricks. Instagram, Snapchat and Facebook Live have also been sought-out tools. Makeup tutorial videos comprise almost 70% of the views recorded when looking at the top 200 videos, according to Pixability. Some brands are being built and targeted as influencers. Makeup Geek, Frank Body and Anas tasia Beverly Hills.

And no story about influencers is complete without mentioning Kylie Jenner. Any beauty product she puts on Snapchat or Instagram sees a sales spike. And her own brand, Kylie Cosmetics, sells out immediately.

Chains answer the call for more natural products

NEW YORK — Consumers are becoming increasingly aware of harmful synthetic ingredients used in product formulations, according to a report from Kline & Co. That’s the reason why the U.S. market for natural personal care has expanded 7%, the research giant said.

As they explore their options, mass merchants are widening their share of the business. Kline’s soon-to-be-released “Natural Personal Care Global Series” said the channel accounts for 25% of total distribution of naturally positioned personal care brands. And mass merchandisers posted solid growth of 10% in distribution in the past year.

NPD Group Inc. attributes some of the natural boom to Millennials who seek items with natural or organic ingredients. But retailers add, while the term “natural” is tossed around, their read is that Americans desire products devoid of harmful chemicals, which they believe are not necessary, consumers don’t want to see parabens, sulfates, phthalates, formaldehyde, artificial colors and flavors, or petrol ylene glycol. There is also a swelling demand for items that are free of gluten, wheat, peanuts and tree nuts.

Naturally positioned beauty items were once the domain of niche brands. But now even the biggest players are experimenting with “good for you” positioning.

While the major brands’ entries will get foot traffic, chains such as Target Corp., Walgreens and CVS Pharmacy are on the prowl for niche brands to appeal to the new and well-informed shopper.

Target just instilled several natural lines on its beauty shelves. The roster includes Alaffia, Little Seed Farm, Nubian Heritage, Thayers Natural, The Seaweed Bath Co., Nature’s Gate and W3ll People. More footage is now allocated to brands Target already had, including S.W. Basics, Fig + Yarrow, Nourish Organic, Plant, Savannah Bee and Zum. In 2016, the retailer registered a double-digit percentage lift in sales of natural skin care products. Among the brands making cash registers ring are Yes To, Shea Moisture, Burt’s Bees and Pacifica.

Target also just initiated a new line in beauty, Target Beauty. The full ingredient transparency is the objective for beauty, personal care, baby care, household items and even fragrance. Also, by 2020, Target is banning phthalates, propylparaben, butylparaben, formaldehyde, formaldehyde donors and nonylphenol ethoxylates from beauty, personal care, baby care and household product formulations.

Rite Aid Corp. is also dipping its toe more into natural. At a new store in lower Manhattan, the chain has a table set up to display Éclair Naturals. High-lighted is Éclair’s Bath Bomb as well as a gift-with-purchase deal for a free Éclair gift with any purchase of an Éclair product.

CVS is capitalizing on the natural area with brands such as Yes To, Burt’s Bees, Shea Moisture, Thayers, Jason and Avalon. Among the new lines at CVS is Mineral Fusion, a natural beauty and personal care line. CVS will be the only drug store to stock new product extensions from the brand, which is verified to be safe for all skin types and eco-friendly, as well as free of gluten, parabens, SLS, phthalates, artificial colors and synthetic fragrances.

Brands are working feverishly to deliver products positioned for new consumer demands. Yes To went beyond fruits and vegetables to Yes to Coconuts, Yes to Charcoal and Yes to Mira- cail. The brand Yes to is unleashing Yes to Cotton for hypersensitive skin. Tom’s of Maine is adding three body washes and four beauty bars, and the company recently made the packaging on its beauty bars more eco-friendly. Hain Celestial Group has big plans for Live Clean, which it calls a brand for “crossover” natural consumers.