

## Top Five Takeaways from Day One of Cosmoprof North America 2017



The Fung Global Retail & Technology team is attending Cosmoprof North America 2017 in Las Vegas held this week from July 9 to 11. Cosmoprof is the leading B2B beauty trade show in North America, which draws over 33,000 attendees and 1,015 exhibitors from 39 countries. In addition to the trade show, Cosmoprof North America also offers a three-day education program where industry experts share insights and key trends in the beauty industry.

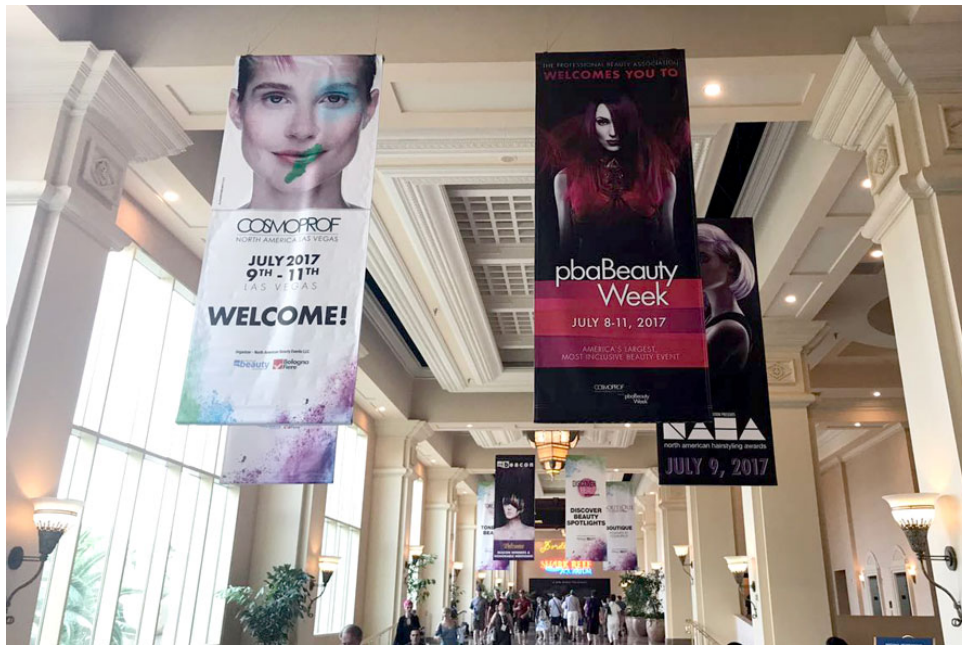
Below are our top five key takeaways from day one:

- 1) Earvin “Magic” Johnson keynote: know your customer and overdeliver
- 2) A shift in demand for natural cosmetics and skin care in the last two years
- 3) Social media influencers dominate consumer engagement in the beauty sector
- 4) Male grooming is booming
- 5) The future of brands

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Source: Fung Global Retail & Technology

Below are our top five takeaways from day one:

**1) Earvin “Magic” Johnson Keynote: Know Your Customer and Overdeliver**

Basketball legend and keynote speaker Earvin “Magic” Johnson shared his experience about how overdelivering to an underserved customer base was key to his success as a businessman. He noted that urban Americans and minorities were being underserved and had significant spending power: \$2 trillion, with \$1 trillion of that from Hispanic consumers and \$1 trillion from African American consumers. As a result, he came up with the idea to launch Magic Johnson Theatres, opening movie theatres in urban neighborhoods that had no facilities at the time. By knowing the demographic and their eating and drinking habits, instead of offering Coke and Sprite at the theatre concession stands, he sold grape soda and orange soda, which were more popular amongst African American consumers.



Source: Fung Global Retail & Technology

After the success of that venture, Johnson also saw that there was a lack of coffee shops in these same neighborhoods. He met with Howard Schultz of Starbucks and proposed a 50/50 ownership structure between himself and Starbucks for these stores. Similar to his strategy at Magic Johnson Theatres, Johnson replaced scones with sweet potato pies, knowing they were more popular among the demographic, and changed the music

played in stores to Prince and Michael Jackson to cater to his customers' tastes. After a successful three-store test, the concept was rolled out and they opened 125 stores. Lastly, Johnson saw a need for a full-service, sit-down restaurant concept in urban areas, which led him to buy the chain TGI Friday's as well.

Johnson highlighted his belief that listening to customers' needs and overdelivering was key to his success in business. Another example of the same concept is, as the owner of the Los Angeles Dodgers baseball team, Johnson listened to the fans' feedback about the need for cheaper parking and a better stadium experience. He ultimately lowered pricing for parking and offered fans a differentiated experience, which resulted in selling 3 million tickets before the season had even started.

Johnson also talked about the fact that he always knew he wanted to be a successful businessman, even while he was playing basketball professionally. He thought about the long term and laid the groundwork for his future career while he played with the Los Angeles Lakers. He sought mentors and learned from others that were more experienced. He also brought the same discipline he had in his professional basketball career to the business world.

## 2) A shift in Demand for Natural Cosmetics and Skincare in the Last Two Years

While there have been natural beauty brands for decades, the real demand for the category has only accelerated in the past two years. 2014 represented a turning point in the category. There had been a perception that natural beauty products did not "work" and were not effective, and that consumers had to choose either natural or results. That is no longer the case. Natural products, despite being offered, in many cases, at premium price points, garner very positive customer reviews (which is not always the case for high-end and premium products) and millennials and younger consumers tend to introduce and educate their older family members and friends about natural products.

Authenticity is key in the natural cosmetics and skincare category, as consumers need to be able to trust the brands and the products they make. They need to be able to trust that the brands are being honest and the products will be consistent time and again.



Source: Fung Global Retail & Technology





Consumers' motivation for using natural beauty products vary, and include health, an extension of their lifestyle and performance. Women are more engaged in reading labels and understanding ingredients and what they are putting into or on their skin and bodies. According to some female consumers, nothing is more luxurious than natural products, particularly given the recent increased focus on health and wellness.

For consumers that do use natural products, they may not be using natural products exclusively, which is similar to their organic food purchases. Consumers eat organic food some or most of the time, but not all of the time, and that is okay. Making people feel bad or shaming them into using natural products is not effective, as they now have the option to make a purchase online. The old cosmetics sales model of pushing product is no longer successful. Consumers are also more educated about products when they come into a store. For consumers with sensitive skin, they often come back around to natural products after they do not see the results they want from other products they try.

Natural cosmetics and skincare products are not a fad, and not something that will slow down or go away.

### 3) Social Media Influencers Dominate Consumer Engagement in the Beauty Sector

The rise of influencers has transformed how beauty brands market themselves. Beauty shoppers now prefer authentic content created by peers and influencers over direct commercial appeals from brands. YouTube has become the primary channel for beauty shoppers to obtain inspiration, mostly through beauty influencers. Instagram also has high engagement rates in the fashion and beauty categories. Consumers also now demand more practical content from beauty brands, such as makeup tutorials.

Micro-influencers that reach a specific target are favored by beauty companies. Research shows that the larger the number of followers an influencer has, the lower the engagement level. As such, beauty companies are working with influencers to target specific audiences, particularly with micro-influencers, or influencers who have only a few thousand followers on social media platforms, but whose content is perceived as being highly authentic rather than commercial. Micro-influencers' followers tend to have a very specific interest in common, so brands can effectively target niche audiences through them.

Professional stylists are increasingly becoming social media influencers in the beauty space. They hope to leverage their professional skills to educate consumers and other stylists via social media. Larisa Love, owner of Larisa Love Salon, started her career as a hair stylist. She began to build her client list by creating dramatic hair transformations on her Instagram account, @larisadoll. She has attracted over 500,000 Instagram followers and many have become her loyal clients for her hair services. Alfredo Lewis, Global Director of Education, Brazilian Professionals, noted that his firm uses social media to train professional stylists.

### 4) Male Grooming is Booming

When touring the trade show floor, we noted that male grooming products had strong representation. The global market for male grooming products is currently booming, and is forecast to reach US\$60.7 billion by 2020, according to Euromonitor. While some may attribute this to the growth in shaving products and fragrances, the strongest growth is actually in the largest category, male toiletries. Valued at US\$17.5 billion and comprising 37% of total sales in 2015, this category includes men's bath and shower, deodorant, skin and haircare products.

The largest male grooming market is Western Europe, valued at US\$12.4 billion in 2015. Asia Pacific is the highest-growth market, forecast to grow at a compound annual growth rate (CAGR) of 8.1% to \$11.5 billion by 2020, from US\$7.8 billion in 2015, according to Euromonitor.

Brick-and-mortar is the main distribution channel for male grooming products, accounting for 81% of total sales in 2015. Grocery retailers and nongrocery specialists—mostly health and beauty specialist retailers—are the two major distribution channels, accounting for 37% and 36%, respectively, of share globally in 2015, according to Euromonitor.

Some retailers have designed store layouts to match men's shopping needs in this category, including specialty beauty retailer Kiehl's, as well as department stores such as Macy's and Nordstrom. The Art of Shaving, a premium grooming omnichannel chain store, is offering barber shops in selected outlets, delivering grooming experiences to its customers. L'Oréal and Philips collaborated in December 2016, and launched a popup barber shop at Singapore Changi Airport, showcasing their products in a bid to widen their customer base.

While most of the major beauty and personal care product companies have already created dedicated brands or sub-brands for their male grooming products, a number of male grooming startups have emerged in recent years, successfully tapping into the unmet needs and growing trends in this field.



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### 5) The Future of Brands

There will be some brands that will not make it through the current flux in beauty and retail. The brands that will be successful and will have a future will be those that make an emotional connection with consumers. Brands can make an emotional impact with consumers in three ways:

1. **Transparency:** Millennials are more likely to buy from a brand if they know the people behind the brand and what they stand for. They are interested in what the company supports and how they go about their business. Consumers want brands to take ownership and to stand for something.
2. **Experience:** Experience is about customer service in the store as well as something unique in physical retail. Experience is about a dialogue between the brand and consumers. Consumers want their feedback to be taken into account.
3. **Community:** Loyalty is grounded in community. Some 44% of millennials show brand loyalty by making recommendations to family and friends, according to a FIT survey. Community is grounded in trust. Today's world is volatile and trust is in crisis. The more frequent the contact and communication between a brand and a consumer, the more likely it is that a relationship develops. The hyperconnectivity of the world we live in has resulted in more loneliness and less connection. This represents an opportunity for retailers and brands, as consumers increasingly look for a sense of belonging and those who are like-minded.

Millennials have zero expectations of brands. They think that retailers and brands value profitability over them and having an authentic relationship. Only 8% of millennials feel heard by brands—that is a missed opportunity. Millennials, when polled, would also be willing to give up shopping in stores if they had one less hour in the day.



# FLASH REPORT

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