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The Impact of the Beauty Industry on the Economic Growth at the European Union Level

Oana TURCU
Bucharest University of Economic Studies, Bucharest, Romania
turcuoana22@stud.ase.ro

Cristian BRANCU*
Bucharest University of Economic Studies, Bucharest, Romania
**Corresponding author, brancucristian22@stud.ase.ro*

Abstract. *The theme of the paper is the impact of the cosmetic industry on the economy. The reason for choosing this theme is the passion for cosmetics and personal care and belief in the importance of this aspect in people's lives. Although the subject is very broad, with many data and details that extend over the decades since the establishment of this industry, the paper tries to summarize this information. This topic is discussed from the perspective of several mini chapters such as the socio-economic contribution of the European cosmetics industry, the impact on people's lives, the past vs. the present cosmetics industry and the impact of COVID-19 on this industry. This article assesses the short- and medium-term impact of the beauty industry, based on multiple market reports, literature review and official statements by market leaders. When talking about the beauty industry, we consider the categories of makeup, perfume, personal hygiene and skin, hair, and body care.*

Keywords: beauty industry, cosmetics, economic growth, innovation

Introduction

Cosmetics and beauty industry has a significant economic contribution and socialization of the EU's national and regional economies. By purchasing goods and services, the cosmetic industry generates multiple economic expenditures that benefit Europe's economies. In addition to economic factors, one aspect to consider is the many ways in which cosmetics have tangibly improved people's lives.

The economic contribution of European cosmetics can be divided into three main categories, depending on the impact of this sector on the economy (Bom et al., 2019).

• **Direct impact,** corresponds to the economic contribution created by the manufacture of products cosmetics

• **Indirect impact** comes from the purchase of services and goods by different companies directly involved in the production of cosmetics. This impact is accumulated both in the supply chain (buying raw materials, packaging) and from the supply chain (distribution, wholesale products and offering them for sale).

• **Induced impact**, defined as the additional contribution to the economy, resulting from the increase in expenditure by the workforce employed both directly and indirectly by the cosmetics industry.

In addition to the aspects mentioned above, the cosmetics industry also has several "catalytic" impacts, such as improving lifestyles using care products, increasing competitiveness in the European economy, and contributing to the prosperity of Europeans. Europe is the world's

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leading and largest manufacturer of cosmetics in 2018. The European market is estimated at EUR 78.6 billion (Chen et al., 2020).

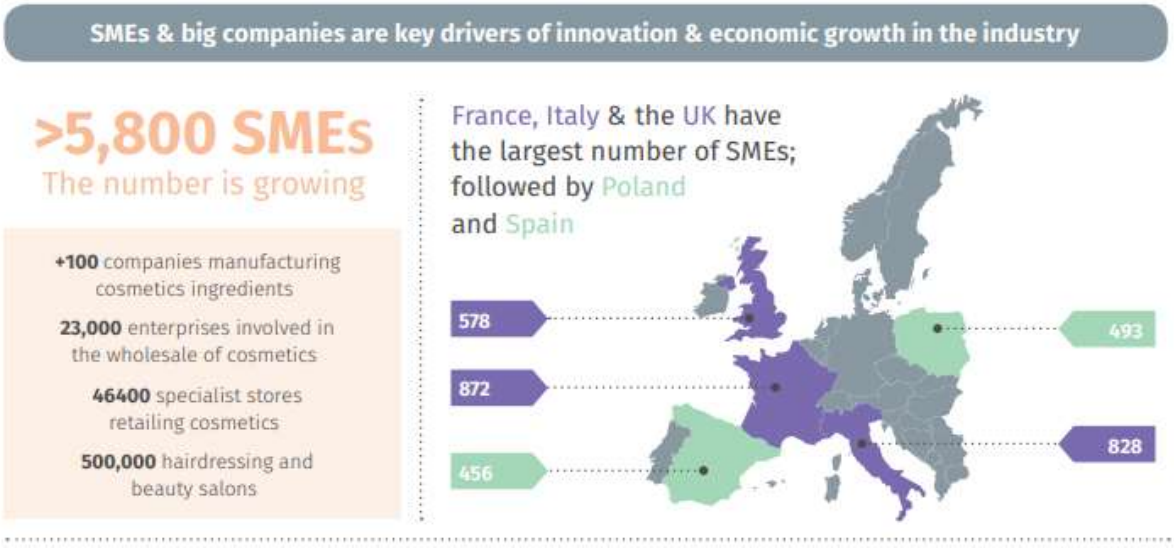


Figure 1. The Socio-Economic Contribution of the European Cosmetics Industry in 2018.
Source: (Cosmetics Europe, 2019).

The cosmetics industry is an ever-expanding industry, driven by science, innovation, creativity, which has made huge investments in R&D globally.

Speaking globally, the majority of cosmetics companies are owned by the 10 huge cosmetic companies in the world, which are: L'Oreal (owns Garnier, Maybelline NY, Lancôme, Giorgio Armani etc.), Unilever (owns Dove, Vaseline etc), Estee Lauder, Procter and Gamble (owns Gillette, Head & Shoulders, Crest etc.), Coty (owns Max Factor, Rimmel, Gucci, Hugo Boss etc.), Shiseido, Beiersdorf (owns Nivea, Eucerin, etc.), Johnson & Johnson (owns Neutrogena, Johnson's Baby etc.), Amore Pacific, Kao Corporation (Cervellon et al., 2011).

Literature review

In theory, most of the 500 million European consumers who use cosmetics or personal hygiene products create a healthy, caring, positive lifestyle and have higher self-esteem in their daily lives.

On average, European consumers spend around EUR 135 on products each year. This amount increases with age increase, with women aged 40-60 and 60+ spending almost three times more on facial care products than women in the age of 40 and 60+ between the ages of 19-24. In more economically developed countries, such as Switzerland or Norway, the annual amount can reach some EUR 225 per year (Villalba, 2019).

In addition to improving appearance, using everyday care products also has beneficial health functions: toothpaste keeps our teeth healthy, sunscreen prevents burns, skin cancer or sunspots, moisturizer prevents drying skin, etc. (Busu, 2012; Gill, 2007).

For most people, there are a variety of care products that have entered the category of necessity, such as toothpaste, deodorant, soap. However, this idea of "necessity" can vary from country to country, depending on geographical location, climate, etc. For example, 75 % of Europeans located in the South believe that the use of sunscreen is absolutely a necessity, while only 32 % of Europeans located in the north can be of the same opinion (Jeong et al., 2013).

Following a 2018 study based on self-confidence and development, it was found that people aged 14-21 years invest much more in the aspect of self-confidence and development to them. 85 % of young people say they feel "safe" after use care products (Cosmetics Europe, 2019).

In terms of makeup use, more than 50 % of women have confirmed that lack of makeup causes them "negative" feelings (16 % say they feel unattractive, 14 % feel insecure, 14 % feel "disclosed" and incomplete, as if something were missing from their appearance) (Cosmetics Europe, 2019).

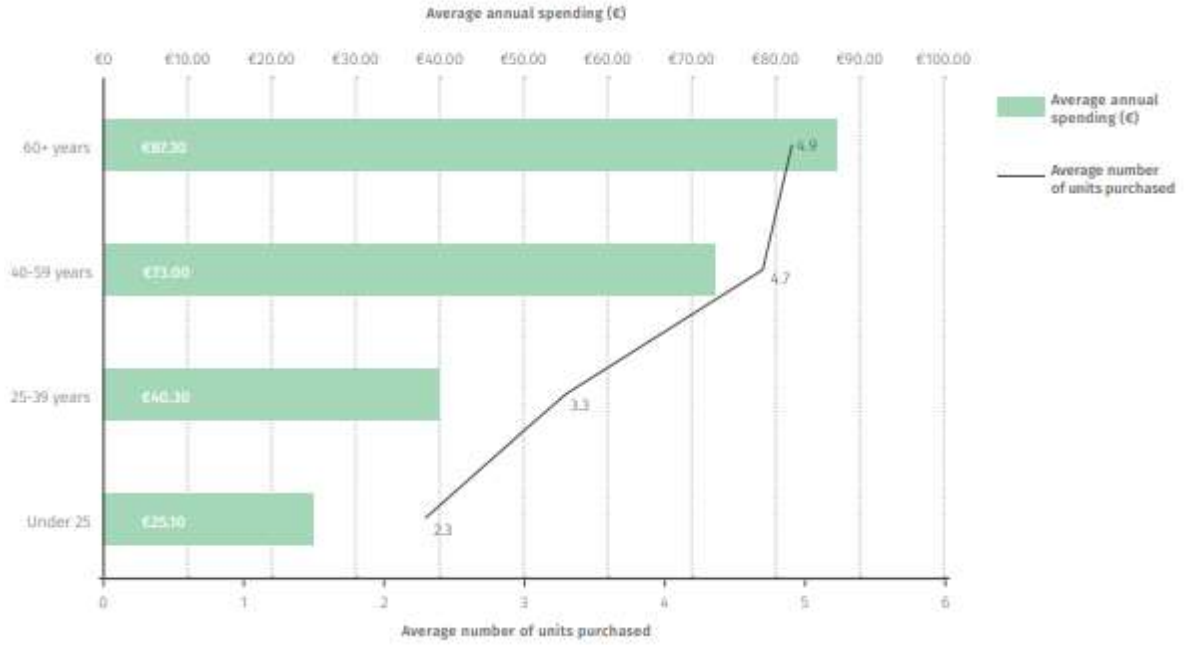


Figure 2. Annual expenditure on cosmetics

Source: Cosmetics Europe (2019).

Cosmetics Industry: past and present

Over the past 20 years, the beauty products market has grown by 4.5 % on average per year, with an annual growth ranging from 3-5.5 %. This cosmetics market has proven its ability to achieve stable and continuous growth, as well as the ability to resist unfavorable economic conditions. Beauty products can be subdivided into two segments: premium ones and those intended for mass production, according to the price brand and distribution channels. Following the global analysis, the mass segment accounted for 72 % of total sales in 2010, while the premium segment accounted for the remaining 28 % (Lixandru, 2017; Nistoreanu et al., 2017).

In the late 1990s, the global cosmetics market experienced a slight slowdown. In 1988, retail sales of cosmetics dropped to $166.2 billion, down from 171.5 billion in 1977, mainly due to declining sales in Asia-Pacific. However, other regions reported further growth, e.g., the US market that grew by 3 % to 5 %, mainly due to population growth and increased demand for premium products (Busu and Gyorgy, 2016; Messner, 2004).

During the first decade of the 21st century, sales of cosmetics increased steadily, reaching 4.5 % in the first half and 4.4 % in the second half. The make-up and cosmetics industry was hit by the 2009 recession, but it recovered in 2010 as the global economy improved. However, the recession did not have an equal impact on all markets, developed countries did not suffer much,

and during their recovery, some of them (China, India, Indonesia) managed to achieve a more than 25 % increase in sales in 2010 (McAndrew, 2010).

The recession brought about a rapid change in consumer behavior as they began to observe premium products and most luxury brands, with the global beauty market generating total revenue of USD 382.3 billion in 2010 (Cervellon and Carey, 2011). The cosmetics industry is constantly developing to meet the consumer's requirements. The latest trends in recent years are based on saving time (e.g., shower gel 3in1, fast-drying nail polish and use of long-term resistant makeup products. (e.g., long-lasting lipsticks, semi-permanent nail polish). Between 2016 and 2018, total sales of cosmetics (personal care and beauty products) increased more than double: from $689.1 billion to $382.3 billion. In 2016, the largest segment was hair care, accounting for more than 20 % of global sales, which dropped to 19.5% in 2018. Throughout 2016 skin care was the most significant segment, with a market share of 23 % (Abrudan and Tatu (2019).

Table 1. Trends in product categories and their evolution in recent years (market shares)

Product category	2016	2018
Skin Care Products	18.20%	19.04%
Hair Products	20.40%	19.50%
Color	16.20%	15.40%
Perfumes	15.30%	18.20%
Personal hygiene	25.40%	24.50%
Other	4.50%	3.36%
Total value of sales (billion USD)	689.1	725.2

Source: Abrudan and Tatu (2019).

Impact of COVID-19 on the cosmetics industry

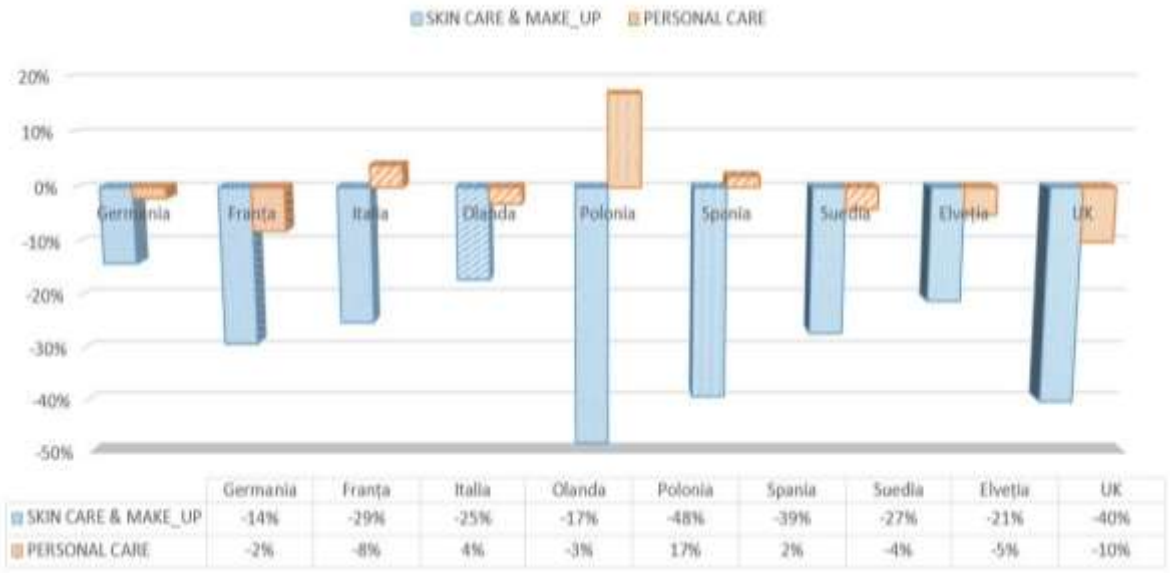
The impact of this pandemic will lead to a health and social-economic crisis that cannot be underestimated. The months in which consumers were in isolation and/or quarantine, with closed travel and business bans, buying and how to use make-up and personal care products changed dramatically so that sales declined, affecting many segments of the cosmetics market.

The economic impact of the Covid-19 crisis will hit the entire cosmetics industry, affecting small and independent businesses, which currently play an important role in the market segment. Working from home, wearing masks, social distancing, reducing income – all this makes makeup and perfumes lose importance, with studies showing decreases of 55-75 % (Abrudan and Tatu, 2019). The wearing of the mask is mandatory in closed spaces, and the skin products, such as the foundation, can no longer find their meaning. The most popular products will be those with high transfer resistance. An exception in this case is eye makeup. Amazon has reported a 150 % increase for this category (Abrudan and Tatu, 2019).

Most Europeans see the situation in the coming months as uncertain, their expectations being that the economy will recover in 6-12 months. Residents of countries heavily affected by COVID-19, such as Spain, France and the UK are even more skeptical, a percentage between 40 % and 55 % expect a lasting impact of the recession and a difficult recovery (Abrudan and Tatu, 2019).

In this context, most say they will reduce their spending on multiple non-essential segments. The expected decreases are higher on skin care and makeup and lower in the personal care segment.

Figure 3 shows some country-specific data on purchasing intentions in the coming period (indicators are for purchasing intention — the difference between the percentage of consumers intending to decrease consumption and those who intend to increase it).



	Germania	Franța	Italia	Olanda	Polonia	Spania	Suedia	Elveția	UK
SKIN CARE & MAKE_UP	-14%	-29%	-25%	-17%	-48%	-39%	-27%	-21%	-40%
PERSONAL CARE	-2%	-8%	4%	-3%	17%	2%	-4%	-5%	-10%

Figure 3. Intention to purchase cosmetic products

Source: (Abrudan and Tatu, 2019).

At the trend level, consumers say they plan to cut their purchases for skin and makeup products on average by 29 % - Germans estimate the lowest percentage, just 14 %, and Poles and Britons estimate even half of the volume before the pandemic (Abrudan and Tatu, 2019). For personal care products, we see an intention to maintain current spending (-1 % on average), with Poles even estimating an over-consumption of + 17 %, but most Europeans only target a moderate decrease of 2-5 % (Abrudan and Tatu, 2019).

In the 2008 recession, the market declined relatively little and returned to 2010. And now things seem to have a similar trajectory. In China, in February, the industry collapsed by 80 % (year on year), but in March, the decline was 20 %. This depreciation does not apply homogeneously to all categories, nor to all brands, as we shall see further.

The beauty industry seems to be very resilient. This can be explained by its rapid dynamics, the high level of innovation, digitalization, and the efficient use of social media. But in addition, we see specific consumer behavior, for which we use the term Lipstick Index, used in 2001 by CEO Estee Lauder.

The Lipstick Index describes people's motivation to buy small things in difficult times that bring them joy and perceive them as affordable luxury — such as lipstick. It is one of the plausible explanations for which, in the recession, the beauty industry can recover quickly, without suffering as much loss as related industries as fashion.

Revenue from the beauty industry will fall by 20-30 % this year, expecting a further recovery in Q1 2021, according to McKinsey data.

In the beauty industry, physical space affects 85 % of sales, with variations in different categories and categories of consumers. Even Gen Z buys about 60 % of beauty products directly from stores. They also suffered during the quarantine period. Here is the evolution of the main channels:

Online sales

In this context, McKinsey estimates an increase in online sales of 20-30 %, a good development but cannot compensate for the lost volume in physical stores. The situation in Romania has a similar situation, with an increase in online sales in the cosmetic category of 14.6 %. Further, 34 % of study participants declare their intention to continue online purchases in this segment.

Hypermarkets

It does not mean that all categories have fallen on the contrary. Retail Zoom data shows large increases in sales in hypermarkets, for personal care products, in categories such as shampoo, soap, deodorants, facial cleaning products, cotton floppy, increases fluctuating according to the period, but consistent with two digits.

Specialized stores

Sales in specialized stores, most of them in malls, have suffered a dramatic drop and we expect them to be the last to recover. The major impact is also seen in Sephora's decision, which in the US decided to dismiss 3,754 employees (most of them part-time or seasonal).

If we look in China, the malls reopened on March 13 and followed a short period of "revenge shopping", a shopping fever driven by the joy of being able to get out of the house. But in stores, traffic remains low, and consumers are cautious. 60 % of malls reported a drop in traffic between 20 and 70 %.

Conclusions

Demand for cosmetics will continue to grow, fueled mainly by developing markets in Asia and Latin America, which will contribute to the creation of new products. Global cosmetics manufacturers will have to differentiate their products to adapt them to the expectations of their new customers. Skin care is the segment with the highest growth potential. It will remain the flagship segment of the cosmetics market in the coming years.

Working from home, wearing a mask, social distancing, reducing income – all this makes makeup and perfumes lose relevance, and here studies show decreases of 55-75 %. Since the wearing of the mask will be mandatory in closed spaces, skin products such as foundation, blush, highlighter will no longer make sense, and the winning products will be those with high resistance to transfer. The exception may come from the "over the mask" makeup – eye makeup. Amazon has reported a 150 % increase for this category.

Another category that proves to be resistant is self-care and pampering – both for skin, hair, body, and bath products. For example, in France, sales of luxury soaps increased by 800 %. Zalando, the largest European beauty marketplace, saw up to 300 % increase in candles, aromatherapy, detox, nail, hair, and bath care products. The same categories are also winning on Amazon, where bath products have increased by 65 %, hair dye products by 172 % and nail products by 218 %.

Another trend is do-it-yourself, caused by the impossibility of visiting beauty salons. With their reopening, it is expected that some consumers will not resume their habits or reduce their frequency or consumption. That's why this category (hair dye, specialized skin products such as masks, nail products) recorded increases between 23 and 166 % on online sales. In brick-and-mortar retail, the spectacular increases are rather in the care and sanitation categories, such as increases in soap, disinfectant gel, wet wipes, which increased in Romania by 3 to 7 times, compared to the same period last year.

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