

WWD CEO SUMMIT
BEAUTY

BAIRD'S TAKEAWAYS

May 2024

BAIRD'S TAKEAWAYS FROM WWD'S BEAUTY CEO SUMMIT

We attended the 26th WWD CEO Summit in Miami on May 13th – 15th. This year's conference focused on the bright spots within the beauty landscape (global sales reaching record highs, the rise in self care leading to new categories within beauty and a more expansive and inclusive view of the definition of beauty overall), while also being balanced with some of the challenges (e.g., inflation, geopolitical tensions) and how leaders, brands and retailers are pursuing strategies to stay at the front of the pack. Some of the most notable themes that we picked up on during the two days of the Summit are summarized in the following pages

- 1. Amazon is Now the #1 Beauty Destination in the U.S.**
- 2. Gen Z Continues to be a Dominant Force in the Evolution of the Beauty Landscape**
- 3. The Rising Power of the Gen X Consumer**
- 4. Major CPG on Organic Growth vs. Acquisitions and Identifying Opportunities at Scale**
- 5. The Role of AI and Personalization for Beauty is Becoming Further Defined**

AMAZON IS NOW THE #1 BEAUTY DESTINATION IN THE U.S.

1.5B BEAUTY PRODUCTS SOLD IN 2023 ON AMAZON, PROPELLED BY:

1.1B+
Searches in
2023

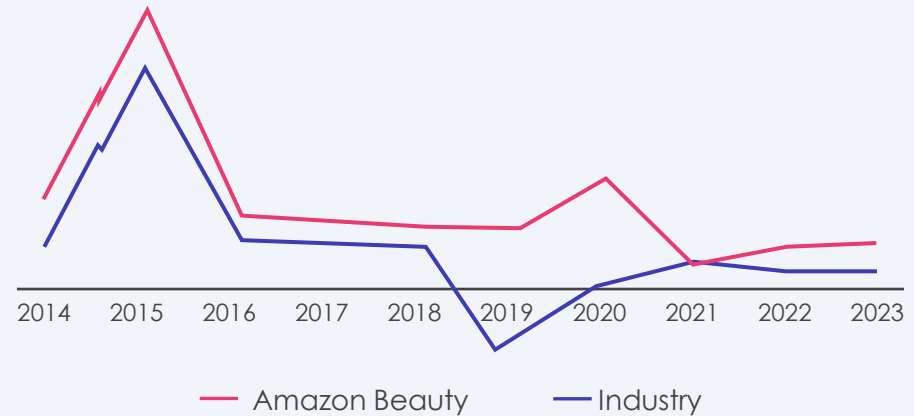
112K
Brands
Offered

100M+
Unique Beauty
Customers

85%
of Consumers
Prefer to Buy
on Amazon

80%
of Consumers Use
Amazon for
Product Research

AMAZON BEAUTY GROWTH



KEY TENETS DRIVING AMAZON'S DOMINANCE, ACCORDING TO RECOM



Amazingly, there are now:

- **167M prime members in the U.S.** (1.3 per household); this figure is expected to grow to 175M by 2025
- **71% of consumers who purchase on Amazon are Prime members**

RECOM SEGMENTS CONSUMERS INTO THREE KEY BUCKETS

Speaking to these different consumer profiles with personalized, tailored content is extremely important. Beyond the shopping experience, there is an ability to target them at different points in the sales funnel to drive increased conversion rates

Replenishers (convenience seekers who buy regularly from Amazon Beauty) value efficiency, speed and convenience

Loyalists (well informed about the brands and products they love) value highlighting product differences to inform a purchase decision

Explorers (interested in variety, excitement and discovery) value surprise and delight

GEN Z CONTINUES TO BE A DOMINANT FORCE IN THE EVOLUTION OF THE BEAUTY LANDSCAPE

GEN Z

35%

of the
Purchasing Power

71%

Use Skincare
Daily

41%

See Skincare as Their Top
Beauty Category

92%

Say that Skincare Makes
them Feel More Confident

\$339

Annual Spend
on Beauty

- Most people assume that Gen Z largely discovers brands through social media, but **37% of Gen Z discovers them through personal connections** (e.g., parents, siblings, friends). Interestingly, an **additional 31% discover brands through physical retail**, which would make them not too dissimilar from other demographic groups in terms of path to brand discovery.
- To speak to the Gen Z consumer, **marketing should focus on what a product solves for in order to convert the sale**. Skincare can become complicated very easily, and it can be confusing to figure out what combination of products you need when there are so many options out there. What the product is for (i.e., dry skin, oily skin, etc.) and what the product does (e.g., moisturizes, brightens, tightens pores, oil control, etc.) are both equally important to clearly communicate. **In addition to the problem / solution paradigm, affordability is one of the most significant attributes when it comes to the consumer purchasing criteria.**
- **Brand community overall is extremely important.** A **focus on smaller creators / micro-influencers** is where the world is going. Brand ambassadors have so much more impact than paid influencers because if an influencer doesn't have that problem that needs to be solved, they lose credibility instantly with the consumer.
- **Gen Z pays attention to how beauty brands engage online. Small interactions with a brand really matter** (even if it's not with them directly – for example, they can see comments, replies, engagement with other consumers on social) as it reminds them that there are people behind the brand. **Gen Z ultimately wants to see people who look like them and who have the same issues as them.**

WHAT DO GEN Z & ALPHA REALLY WANT FROM THEIR SKINCARE BRAND?



48%

Expert on Skincare



44%

Made for Me



46%

Honest and Trusted



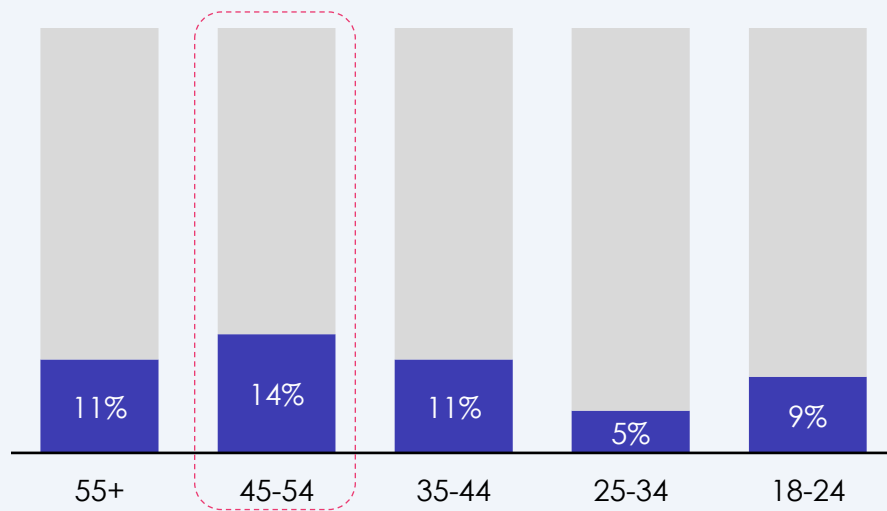
45%

Provide Value

THE RISING POWER OF THE GEN X CONSUMER

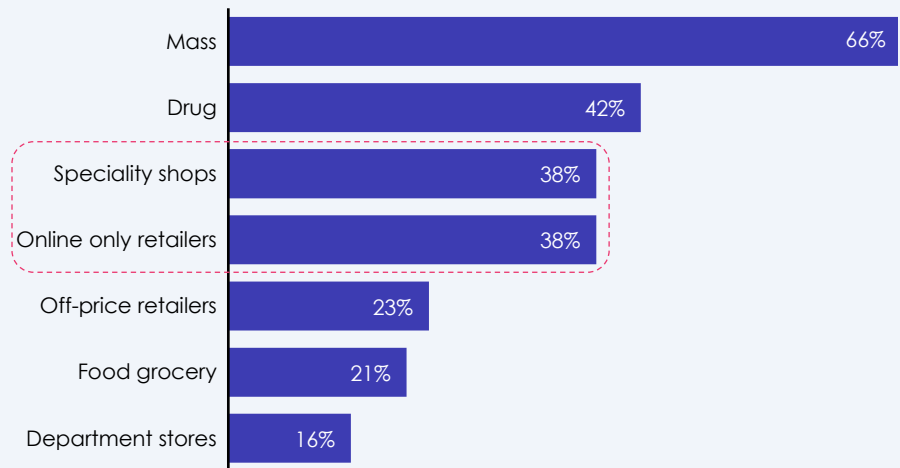
- **Gen X** has often been overlooked by traditional beauty marketing efforts, but their ascendancy into a place of prominence has come center stage. **As a generation, they will be bigger than baby boomers in four years' time.**
- **Gen X is highly invested in beauty and wants to see more representation in the brands they support.** As a cohort, Gen X behaves more like younger consumers than older ones. It's more about mindset than price and value – the **goal is first and foremost to feel good, followed by looking good.** Advertising gimmicks and tricks don't work. **Gen X wants products designed for them that work for their age-related concerns and needs.**
- Despite increasing focus on the opportunity for beauty in older age demographics, most would probably agree that little headway has been made in terms of how to optimize the approach to unlocking value. **There is a tremendous opportunity for brands and retailers that can effectively tap into the purchasing power of this very large demographic.**

PRESTIGE BEAUTY GROWTH BY AGE



Gen X Represents the Fastest Growing Segment of the Prestige Beauty Market

GEN X SHOPPERS BY CHANNEL



Gen X Is More Likely to Shop Online and in Specialty Channels Than Older Generations

MAJOR CPG ON ORGANIC GROWTH VS. ACQUISITIONS AND IDENTIFYING OPPORTUNITIES AT SCALE



We heard from Marc Pritchard who is the Chief Brand Officer at P&G. Marc attended the inaugural WWD CEO Summit that took place 26 years ago. In his first visit back since, he delivered the keynote address night one of the conference. In terms of his approach to growing the brands within P&G's portfolio, **the best way for a brand to grow is by growing markets, versus growing market share**. When you take away someone's market share, they fight hard to get it back, potentially at the expense of the overall category. **How do you grow the industry? With innovation, and that's where P&G has focused its efforts.**

- Head & Shoulders is the biggest shampoo brand in the world. **50% of the population has dandruff, but the #1 reason people don't use dandruff shampoo is because they think the ingredients are too harsh** to use on a daily basis. That's why **P&G developed the BARE line of products, which are formulated with clean, sulfate-free ingredients** (and only 9 of them to boot).
- Another identified area of innovation has been **developing products to serve the needs of underpenetrated consumer bases** (e.g., African Americans, Asian Americans). The biggest complaint from these consumers is that products aren't moisturizing enough. As a result, **P&G has developed new form factors** (like a tablet that transforms into soap once wet) with extra moisturizing properties. Marc shared that this is a great example of going after additional consumer demographics with the power of innovation, something they plan to continue doing as it relates to Febreze fragrances and a focus on serving the African American and Hispanic consumers.



Unilever

We also heard from Vasiliki Petrou, CEO of Unilever Prestige, as it relates to where they are most focused from an inorganic growth perspective. **Unilever is very focused on the conversion of technology, wellness, healthcare and beauty**. Some key considerations that Vasiliki shared include:

- **Size:** a minimum of **\$50 million in revenue** is a must.
- **Incrementality:** they are looking for ways to activate **new networks of communities and influencers**, outside of the historical realms in which the company has played.
- **Founder:** with an acquisition of any brand, the **founder is incredibly important**. Vasiliki likened the relationship to that of marriage. Similar to a marriage, you need **to share the same values before embarking on a partnership**. Relative to that, it's important to have the tough conversations upfront so it's a happy marriage.
- **Growth:** Also critical is to decide on the right **growth strategies** for the brand ahead of time to ensure that there is alignment. **Unilever's goal is to buy brands that will be relevant for the next 10-20 years** (or more). **Sustainable long-term growth is the critical factor** in deciding which brands make the most sense in Unilever's portfolio.

THE ROLE OF AI AND PERSONALIZATION FOR BEAUTY IS BECOMING FURTHER DEFINED

CONSUMERS ARE LOOKING FOR:

1.

**AN INSPIRING
BEAUTY
SHOPPING
EXPERIENCE**

2.

**A PERSONALIZED
SHOPPING
EXPERIENCE**

*(From the First Contact with
a Brand or Product, all
the Way Down to the
Check Out Point)*

3.

**AN IMMERSIVE
BEAUTY
SHOPPING
EXPERIENCE**

- **Increased adoption of virtual try-ons** by consumers, particularly amongst younger consumers, **has become an important driver of purchases.**
- **39% of the population**, as surveyed through Amazon, **believes that AI has had a positive impact.** That percentage grows to 50% when surveying consumers aged 13-26.
- Online retailers and brands are **leveraging AI chat bots to help with customer inquiries** and guide them towards appropriate products.
- On the one hand, **personalization** is lauded as a universally **desirable objective**, but **what that means from a data privacy perspective remains to be seen.**
- Often times, the **role AI plays is behind the scenes** (in a simple example, what you see on your homepage vs. someone else), but **consumers are becoming more cognizant** of its role (and potential benefits), while also **weighing the risks/rewards of sharing personal data.**

BAIRD'S DIFFERENTIATED APPROACH TO BEAUTY & WELLNESS

BAIRD

We wanted give you a glimpse of what we learned and we're happy to continue the conversation. Feel free to contact a member of our team to discuss further



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- ✓ **Dedicated senior team covering multiple sectors**, from branded products to services and contract manufacturing
- ✓ Unmatched reputation for **thought leadership in the category**
- ✓ Track record of positioning **businesses focused on the female consumer**, with a deep understanding of business models
- ✓ **Active dialogue across the spectrum of beauty, & wellness brands** – from early-stage brands to the large beauty consolidators
- ✓ **Longstanding relationships with the strategic and financial buyer universe** with unmatched access and active dialogue
- ✓ **High-touch, world-class process execution**

Companies We've Worked With:

capri BLUE



COTY
SINCE 1904



elf

ESTÉE LAUDER



Goody

HONEST

interparfums

KAO

Kimberly-Clark

knix

newell
BRANDS

NU SKIN

prAna



Johnson

THYMES

WARBY
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