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GLOBAL
VOICES

AN INTERNATIONAL EXPANSION GUIDE

For Beauty Brands

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GLOBAL OPPORTUNITY

The global beauty industry has been on a wild ride for the last three years. First, Covid-related lockdowns sent many workers home and sales fell in 2020. Then, global conflict and inflation caused shoppers to re-evaluate their financial priorities. And now sales have largely rebounded and are on a strong growth trajectory. Through it all the beauty sector has proved resilient.

It is that resilience and agility that has opened new opportunities for beauty brands and retailers around the world. As ecommerce continues to grow, shoppers can buy the products they want regardless of where the brand headquarters is located. From niche startups to multi-national conglomerates, brands and retailers can win new customers and increase loyalty especially with young consumers who are still working to reach their full income and spending potential.

From emerging global markets to consumers who see the world as one unified storefront, brands and retailers that take advantage of the opportunities and can accelerate speed-to-market can increase revenue and build loyalty.

To provide you with data-driven direction, ESW conducted a global survey of more than 16,000 consumers in 16 countries. We asked them about everything from what they buy to their anticipated spending behaviour.

Global growth requires knowledge, resources and solid strategy. My team and I have helped the world's best-loved brands grow their presence in more than 200 markets around the world and we can do the same for you.

Regards,

Clarissa Schealer
VP, Beauty, Wellness, Lifestyle
ESW

CHANNEL OF CHOICE

ECOMMERCE IS THE GO-TO FOR GLOBAL BEAUTY CUSTOMERS

As customer preferences shift and evolve, beauty brands are working to optimise in-store and online channels. Even with the uptick in brick-and-mortar foot traffic, ecommerce channels reliably generate revenue and are an efficient path to growth.

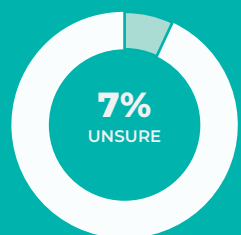
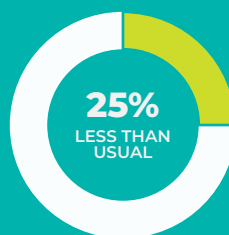
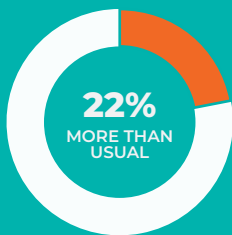
Even pre-covid, DTC and legacy brands alike had a presence on ecommerce channels. But Covid lockdowns accelerated the move to online where

many shoppers discovered and bought from new brands. Beauty shoppers are drawn to brands and products they want and love – even if those brands and products come from outside their own countries.

In fact, 7 in 10 customers who make international beauty purchases plan to spend as much or more in 2023.

BEAUTY SHOPPERS PLAN TO MAINTAIN OR INCREASE ONLINE SHOPPING

Consider the next 12 months and your online spending intent. Are you planning on more than usual, less than usual, about the same?

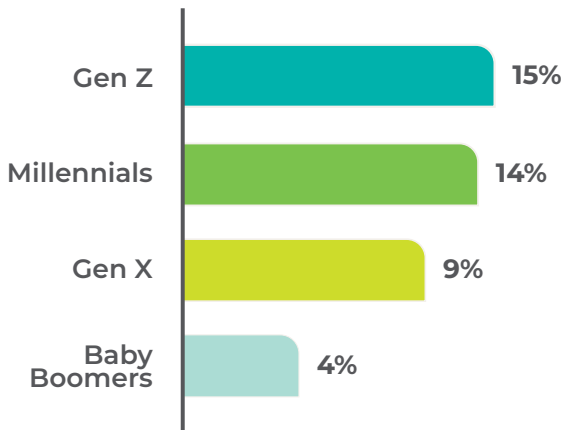


N=3,205

Source: Global Voices Survey conducted November 2022

YOUNGER SHOPPERS ARE MORE LIKELY TO BUY BEAUTY INTERNATIONALLY

% of respondents who shopped cross-border for beauty in the last 12 months



N = 16,557 Gen Z (N=2,340), Millennials (N=6,939), Gen X (N=4,312), Baby Boomers+(N=2,966)
Source: Global Voices Survey conducted November 2022

SPEED-TO-MARKET EQUALS SPEED-TO-REVENUE

With trend cycles accelerating and competition increasing, speed-to-market matters more than ever. DTC ecommerce channels help beauty brands enter new markets and territories faster and with less capital investment.

Prioritising speed-to-market accelerates speed-to-revenue. Beauty shoppers are constantly exposed to marketing through social media and other online media channels. The global nature of marketing has effectively erased national borders for beauty shoppers and these shoppers will purchase the products they

want regardless of where the product is coming from. This is especially true of shoppers under the age of 40. And these shoppers live in diverse geographies and regions.

Brands that can enter these markets and build loyalty can grow alongside consumer spending power and see increased customer lifetime value.

TOP 5 COUNTRIES FOR GLOBAL BEAUTY ECOMMERCE

Countries with the highest percentage of respondents reporting they shop for beauty cross-border



N=1,000-1,100 per country

Source: Global Voices Survey conducted November 2022

MORE THAN ANY OTHER CATEGORY, EXPANSION OF A BEAUTY BUSINESS CANNOT HAVE A ONE-SIZE-FITS-ALL STRATEGY

KNOWING BEAUTY CUSTOMERS INSIDE AND OUT

Successful beauty brands understand the power of connecting with their customers. That connection builds loyalty and long-term customer lifetime value. To build that connection, brands need to understand more than customer demographics.

Location, age and income data paint an incomplete picture of the customer. Demographics only tell brands about a shopper's "what." Psychographics and intent data reveal the customer's "why." Brands that know their customers' "whys" are best equipped to build loyalty. Understanding what motivates a customer allows brands to target them with the right product assortment, messaging and promotions.

Brand Super Fans

Today's beauty industry is built for Super Fans. Products go viral in an instant. Celebrities and influencers capture brand fans and sales follow. Beauty Super Fans engage with brands online and regularly respond to marketing outreach. This segment of customers is motivated by scarcity and exclusivity – not price. Brands that identify their Super Fans can target them full-price, limited-time or limited-quantity product offers.

BEAUTY SUPER FANS RESPOND TO EVENTS THAT EMPHASISE SCARCITY AND EXCLUSIVITY

In general, which of the following factors would make you more willing to pay full price for an item you want?




BEING ONE OF THE FIRST PEOPLE TO HAVE IT



BEING ONE OF THE ONLY PEOPLE TO HAVE IT (e.g. limited edition)

N=13,715

Source: Global Voices Survey conducted November 2022



TODAY'S BEAUTY INDUSTRY IS BUILT FOR SUPER FANS... [WHO ARE] MOTIVATED BY SCARCITY AND EXCLUSIVITY - NOT PRICE.



Power Shoppers

Power Shoppers are beauty ecommerce enthusiasts. They take to online channels to make purchases from brands in their own countries and around the world. ESW defines these customers as those who spend more than \$2,500 (adjusted for local currencies) per year on online purchases. According to our survey, 30% of global shoppers are Power Shoppers.

Beauty Power Shoppers are motivated by the convenience of ecommerce and often go directly to a brand or retail site to buy. This direct interaction means brands and retailers can capture more than a sale; they can capture first-party data then utilise that data to create more personalised experiences that improve loyalty.

GLOBAL BEAUTY POWER SHOPPERS SHOP DIRECT

Consider when you have made online purchases from a website outside of your own country, what type of retailers have these been?



N=1,686
Source: Global Voices Survey conducted November 2022

NEARLY 40% OF BEAUTY POWER SHOPPERS ARE BARGAIN SHOPPERS

POWER SHOPPERS



N=13,715
Source: Global Voices Survey conducted November 2022

Since convenience is one motivating factor for Power Shoppers, beauty brands may be able to withhold deep discounts from this segment. However, within the Power Shopper segment is a segment that is more price-sensitive. These customers may spend a relatively high dollar amount on a beauty brand's site, but if first party data shows that those shoppers primarily purchase items on sale, their experience and the services a brand offers should be different than those offered to full price Power Shoppers.

Bargain Shoppers

Many beauty shoppers around the world are experiencing the effects of their country's economic conditions – be it inflation, cost of living or slow post-covid recovery. But no matter the current economic conditions, there will always be a portion of the customer base that is price sensitive. Beauty Bargain Shoppers will eschew owning a newly released product to wait for a discount later.

These customers can still be brand loyalists, but their motivations differ from pure Power Shoppers or Super Fans. Brands that can appeal to a Bargain Shopper's sense of value and offer the right products at the right time can win the sale.



AVOIDING GLOBAL BEAUTY ECOMMERCE EXPANSION PITFALLS

PRIORITISE LOCALISATION AND LOGISTICS

Like shades of cosmetics or a signature scent, every global market is different. The customers are different and the requirements to operate are different and brands must account for it all when launching in a new country or region. From curating payment methods to optimising product mix, prices and logistics, no two markets are alike. In addition to complying with regulations and legal requirements, brands must also identify and provide personalised experiences that build trust with new customers.

Trying to expand internationally with anything less than proven experts can jeopardise success.

Create Domestic-Equivalent Experiences for Beauty Shoppers

Even though shoppers will browse nearly any global site, the bar for completing a purchase is high. Localising a beauty brand site and providing a multi-local experience builds the trust required for customers to buy and become loyal customers.

Language and currency translation and conversion are must-haves. But more than simple translation, beauty brands need to be aware of and localise cultural norms and preferences as well.



These norms and preferences must play a significant role in every step of the customer journey from initial outreach to product assortment and description to payments and logistics to retention marketing and ongoing communication.

What can brands do to create a domestic-equivalent experience that builds trust and generates sales?

Payment Methods

The beauty industry has been a leader in offering and accepting new and popular payment methods. Despite the variety of ways customers can pay, their preferences remain local. Much of the global market is comfortable with credit card transactions. However, shoppers in many markets are unbanked and pay in cash. In other markets, shoppers prefer buy-now-pay-later (BNPL).

Localising payment methods is more convenient for beauty shoppers and builds trust – which is essential for successful market entry and longevity. Making sure shoppers can pay with their preferred methods requires resources and expertise but it does pay off.

LOCALISED PAYMENTS SMOOTHS THE PATH TO PURCHASE FOR BEAUTY SHOPPERS

What would make you more likely to make this purchase from a website outside of your home country?



IF I COULD USE A PAYMENTS PROVIDER I AM FAMILIAR WITH

N=11,857

Source: Global Voices Survey conducted November 2022



Localise Pricing and Promotions

Just as with payment methods and customer experience, pricing and promotion strategies are not one-size-fits-all. Beauty shoppers' expectations vary according to their age and where they live. Brands and retailers with robust first-party data can design pricing and promotion strategies that align with their customers' expectations.

In general, younger beauty shoppers are still working to reach their full income potentials and have less discretionary income. As a result, 2/3 of Millennials and Gen Z say they are willing to wait for a price reduction

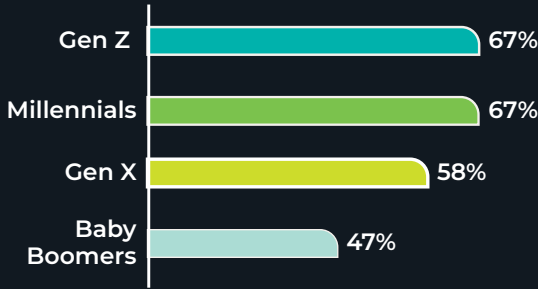
on an item they want to buy – even if waiting means that item will be out of stock. The older shoppers get, the more willing they are to buy an item at full price to ensure they get the item before it's gone.

Price sensitivity also varies by geography. Across regions, a little more than 6 in 10 shoppers will wait for a discount and risk that the item they want will be out of stock. But not every market is highly price sensitive.

Shoppers in Japan and South Korea, for example, are more than 10 percentage points less willing than average to risk stock outages while waiting for discounts.

YOUNGER BEAUTY SHOPPERS WILL WAIT FOR DISCOUNTS

I am willing to risk that an item I want will be out of stock if I wait to get a lower price (% agree)

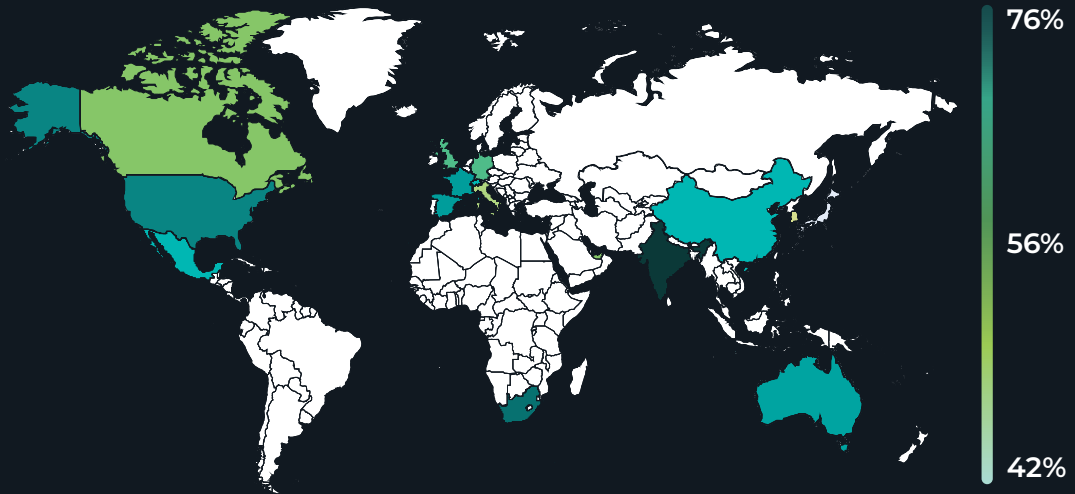


Gen Z (N=2,085), Millennials (N=6,230), Gen X (N=3,484), Baby Boomers+(N=1,916)
Source: Global Voices Survey conducted November 2022

DTC ALLOWS BRANDS TO CAPITALIZE ON FIRST PARTY DATA THAT HELPS ALIGN PRICING AND SERVICE WITH LOCAL CUSTOMER EXPECTATIONS.

BEAUTY DISCOUNT DEMAND VARIES WIDELY BY MARKET

Shoppers in Japan and South Korea are the least price sensitive



For all countries, the sample size is between 667 and 1,000
Source: Global Voices Survey conducted November 2022



LOGISTICS: THE MAKE OR BREAK FOR BEAUTY CUSTOMER EXPERIENCE

Beauty brands and retailers know the importance of reliable, sophisticated logistics. Brands that do not get it right from the beginning risk alienating hard-won first-time customers. From determining warehouse locations to last-mile delivery to efficient returns processing, failing to vet a third-party logistics provider leads to a poor customer experience which leads to loss of revenue and brand reputation.

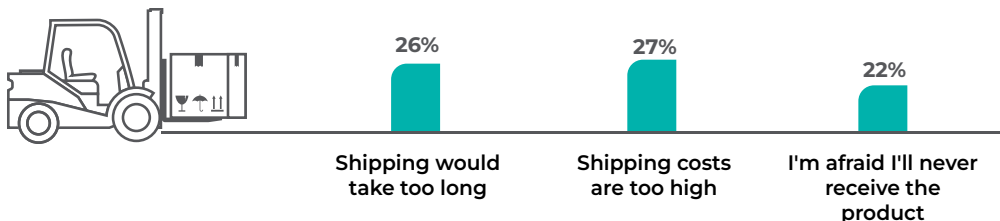
In addition to finding a reliable provider, beauty brands often need logistics partners with specialisations. Fragrance, for example, is classified as a dangerous good and requires special packaging, handling and declarations. Without a logistics provider that can handle dangerous goods, brands are forced to limit product offerings and again miss out on revenue.

Brands must find 3PLs that can handle both outgoing shipping as well as incoming returns. Shoppers – especially those shopping with a brand for the first time – must be assured that their purchases will arrive in a timely manner and at a fair price. In addition, new customers must have faith in a brand's return policy and in the brand's ability to abide by the policy.

In fact, nearly 1 in 3 shoppers who did not complete a cross-border purchase cite high shipping costs and long shipping times as reasons they abandoned their carts. And almost 1 in 4 shoppers say they did not complete a purchase due to concerns about receiving their product in the first place.

BEAUTY SHOPPERS REQUIRE RELIABLE LOGISTICS

Consider when you have made a Beauty purchase from a website based in your own country, why do you not buy these products from websites in another country?



N=11,857

Source: Global Voices Survey conducted November 2022

KEY TAKEAWAYS FOR BEAUTY BRANDS

CREATE A DOMESTIC-EQUIVALENT EXPERIENCE

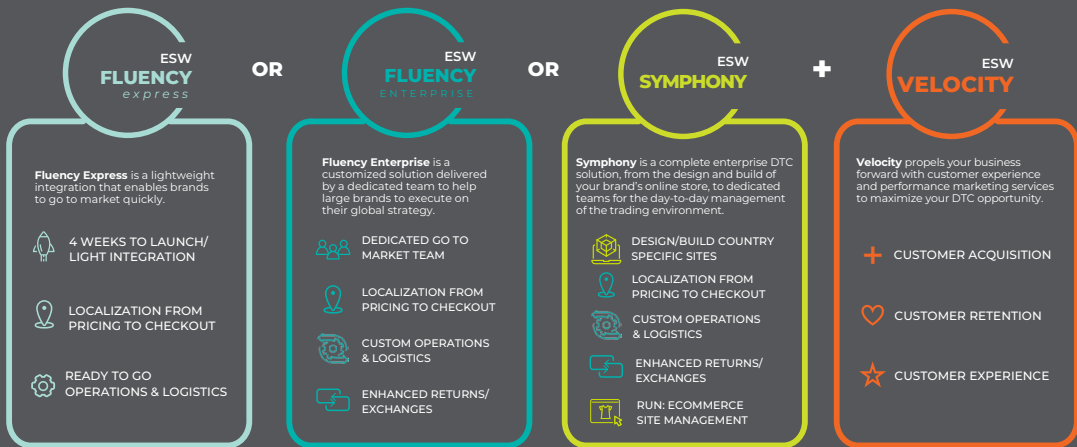
Global uncertainty does not need to stand in the way of brands looking to open DTC ecommerce channels in new markets. In fact, this may be the perfect time to test markets and reach new customers.

Knowing where to start or what to do next is complicated. But with the right partner, beauty brands can reach new customers fast and win fans for life.



ESW ENABLES GLOBAL GROWTH

ESW helps the world's best-loved brands accelerate DTC growth with a suite of solutions designed to deliver a localised end-to-end customer experience.



Contact us at growmybrand@esw.com or visit esw.com

Methodology: Methodology: ESW's latest Global Voices consumer survey was conducted in November 2022 in 16 countries (Canada, the United States, Mexico, the United Kingdom, Switzerland, Spain, France, Italy, Germany, South Africa, the United Arab Emirates, India, China, South Korea, Japan and Australia) with 16,557 people responding. In this report Gen Z is defined as those between 18 and 24; Millennials as those ages 25-40; Gen X as those ages 41-56; and Baby Boomers defined as those ages 57-75.