

The Impact of Covid-19 on the Cosmetics Industry

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Abstract: In recent years, many industries around the world have been affected and impacted by the epidemic. Cosmetics market growth has slowed significantly since 2022. Under the influence of epidemic, the cosmetics industry as a whole bids farewell to high growth under the impact of the epidemic and then enters the era of R&D (research& development) from the era of marketing. Therefore, this paper explores the changes and impacts of the cosmetics industry before and after the epidemic by collecting annual sales, number and distributions of companies and other data on the Chinese cosmetics market, and analyzing and comparing these data between different companies and brands. The outbreak of epidemic lead to the closure of offline brick and mortar shops, stagnant logistics and also the economic downturn. These has reduced traffic to the offline channel for cosmetics, while fueling rapid growth in online sales of cosmetics. The cosmetics industry should still be on the up and up in the future, but time will have to wait to prove this.

Keywords: epidemic, cosmetics industry, sales

1. Introduction

Some studies suggest that the world's earliest cosmetics would have been created by the Sumerians. In the tomb of Queen Shub-Yadh, archaeologists unearthed a small shell-shaped golden make-up case containing a set of beauty products such as eye shadow powder and rouge. From this it is conceivable that the ancient Sumerian woman's method of eye beauty was to apply eye shadow powder made of antimony ore around her eyes, in order to make them appear larger, as we often do today [1]. This means that a long time ago, before even technology was not developed, people were already using cosmetics to make themselves look better. This shows how important cosmetics were in people's lives even long period of time ago. Cosmetics are widely used by people because people are increasingly conscious of their appearance and image. The study shown that 71% of European people said that cosmetics and skin care products are important or very important in their daily lives [2]. For both men and women, regardless of age, make-up helps people to refine and improve their flaws and amplify their strengths. Skin care products can also address the root causes of people's problems, such as dullness, acne and blemishes. This allows people to become more confident in their social life, at work and at school. A good image can help people to feel better about themselves and to become more confident. 72% said that using cosmetics and skin care products improve their quality of life, which across different age groups. In the survey, when consumers were asked what quality of life standards were most important in their lives, they responded with good health and personal hygiene [3]. Then consumers mentioned that cosmetics and skin care products play important roles to maintain

this living standard. They even felt that these were more important than a steady income and a rewarding job. In addition to this, it is a sign of respect and importance to wear make-up and dress up for important occasions. That's why some companies require employees to wear make-up for their jobs.

The cosmetic companies are promoting their products on various social media platforms and softwires around the world, so more people will know about cosmetics and are aware of and interested in cosmetics. Cosmetics play a large and extensive role in people's lives. With the growing favor to cosmetics of people, the cosmetics industry has been emerging and growing successfully and rapidly in the recent years. The cosmetics industry, as one of the popular industries and products among different industries, has also been equally affected by the virus recently. Following the outbreak of Corona Virus in 2020, the productivity and growth rates of cosmetics have declined significantly. Due to the corona virus, many people were sequestered at home so that they could not go for work and producing the products. This resulting in a lack of manpower to produce cosmetics in many cosmetic factories. This lowered the productivity and number of products produced, or even completely stopped cosmetics factories from producing. Besides, the covid-19 has also led to the closure of offline cosmetic shops. As a result, sales of the offline side of the cosmetics factory have plummeted. Studies have shown that the closures have brought down sales in all cosmetic industries. In this article, I aim to focus on the impact and influence of the virus on the cosmetics industry based on developments in the cosmetics industry before and after the outbreak. The paper will search for information and data, then compare these data on overall sales and company distribution in the cosmetics market. This paper will do the investigation by specifically analysing two brands. "The Estée Lauder" Group. It was founded in 1946 by Estée Lauder and Joseph Lauder. Estée Lauder manufactures and markets skin care, colour cosmetics, fragrances and hair care products, which are sold in more than 130 countries and territories worldwide. The company owns several brands: Estée Lauder, LA MER, Bobbi Brown, M-A-C, Tom Ford, Jo Malone, Editions de Parfums Frédéric Malle, By Kilian, Becca and Too Faced, among others.

2. Group Profit "Roller Coaster" in Recent Five Years

The Estée Lauder Group has several brands. Take some of the brands of the Estée Lauder Group for example, Bobbi brown is one of the companies of Estee Lauder and it is the world's leading professional make-up brand. It is known as the queen of Hollywood nude make-up, Bobbi Brown is known for her clean, fresh and stylish philosophy, revolutionizing the concept of natural make-up, which has made her famous in Hollywood, in the fashion industry and in fashion shows. Jo Malone London is a London-based company that markets premium skincare and fragrance products, purchased by the Estée Lauder Group in 1999. Jo Malone London has a reputation in the West as the queen of the perfume world, a brand with a high price tag, whose fragrances are loved by many celebrities and the upper class for their simplicity and purity. The rustic packaging reveals a strong sense of Britishness and the perfume's usual style is noble, light and distinctive. LA MER is the face cream brand of the Estée Lauder Group. LA MER wants to bring to the "chosen few" an air of distinction - elegance, calmness, confidence, the pursuit of perfection and the ability to enjoy life.

Table 1: The financial reports of the Estée Lauder Group in the recent five years. (2018-2022) [4].

	2018	2019	2020	2021	2022
Net sales (USD/billion RMB)	136.83/928.95	148.63/1009.06	142.94/970.43	162.15/1100.85	177.4/1204.37
Year-on-year growth	15.72%	8.62%	-3.83%	13.44%	9%
Net income (USD/billion RMB)	11.17/75.83	17.94/121.80	6.96/47.25	28.75/195.19	24.08/162.26
Year-on-year growth	-11.07%	60.61%	-61.20%	313.07%	-16%
Gross margin	79.20%	77.20%	75.20%	76.40%	75.70%
Net margin	8.16%	12.07%	4.87%	17.73%	13.57%

Table.1 shows the financial reports of the Estée Lauder Group in the recent five years which is from 2018 to 2022.

Its net sales and net income both fell in 2020 due to the impact of the outbreak of the epidemic (covid-19). The net income of the Estée Lauder Group decreased by US\$ 10.98 billion compared to the net income in 2019 and the profits plummeting by just US\$696 million in 2020. The possible reason for the declining of the net sale and net income in 2020 may be that the government set the policy to stop the running of the off-line shops of several brands in the Estée Lauder Group which sells cosmetics after the outbreak of corona virus. This policy was to prevent the propagation of the corona virus by reducing the contact between people and the air movement. Due to the closure of shopping malls and the shops, the off-line sales fell dramatically because there was a large amount of consumers who could not buy products off-line and in the shopping malls. For example, one of the city Wuhan in China was locked down since January 23th in 2020 and they were locked in home for 76 days. During these 76 days, all the shopping malls, transportations, restaurants and hotels etc. in Wuhan stopped running and opening. This means that most of the shops have no revenue and people don't spend anything and they don't contribute much to the economy of Wuhan compare to the normal days in Wuhan without the corona virus. With production and logistics halted at the same time, Wuhan saw a big drop in total sales. This is the same as in the Estée Lauder Group, the net sales and income declined a lot.

Besides, there was an increase in revenue without an increase in profit in 2022. The net sales was larger than that in 2021, which was US\$177.4 billion greater than US\$162.15 billion. However, the net income(profits) did not increase and even lower than in the 2021. The net income in 2022 was US\$28.75billion which was a bit larger than the profit in 2021, US\$24.08 billion. This may be the increase in the cost of the Estée Lauder Group. This can be the increase in the advertisement and publicity of their products so that the costs were larger than it used to be.

However, in 2021, thanks to strong consumer and travel retail growth in mainland China, Estée Lauder Group achieved a strong rebound in results, with profit growth exceeding 300% year-on-year, which reached US\$28.75 billion in 2021 [5].

3. Ace Category Skin Care Getting Weak and Perfume 30% Growth Led the Way

The Estée Lauder Group owns several brands and they are separately different kinds of products. It can be classified into 5 categories----perfumes, make-ups, skin-care products, hair-care products and others.

Table 2: The increase in sales of these five categories of products in the Estée Lauder Group in the recent five years.(2018-2022) [4].

	skin-care	make-up	perfume	hair-care	others
2022	4%	11%	30%	11%	9%
2021	28%	-12%	23%	11%	12.5%
2020	13%	-18%	-13%	-12%	-42%
2019	17%	4%	-1%	2%	3%
2018	24%	11%	12%	6%	-3%

Table.2 shows the increase in sales of these five categories of products (skin-care,make-up, perfume, hair-care and others) in the Estée Lauder Group in the recent five years which is from 2018 to 2022.

All four Estée Lauder business units grew, with the perfume business being the strongest performer. Net sales in the perfume business grew by up to 30% during the period in 2022, higher than last year's increase, which is 23%. And net sales grew in every region and for every perfume brand, led by Jo Malone, Tom Ford Beauty and Le Labo, which led the top nine brands and contributed double-digit organic sales. Other categories in the Estée Lauder Group have not seen such a dramatic increase compared to perfume business. For perfume bussiness, it showed a decrease in net sales in 2020, which was -13%. The possible reasons for the surge in sales of perfume business may be that the taste of people changed during the recent 2 years. Also, there was an outbreak of corona virus in 2020 so people spent less went outside and most of the time they stayed at home to prevent the infection of epidemic. This means that the chance for using perfume fell. This can be a possibility in the fall of the net sales of the perfume. In recent years, the luxury industry as a whole has been in decline due to the intensity of events such as the covid-19 that have had a negative impact on the global economy and consumption. At such times, perfume and beauty, which are relatively inexpensive, can often help brands rediscover new growth. Compared to leather goods and ready-to-wear, the perfume and beauty markets are generally more resilient and their individual prices are much more affordable than categories such as clothing, which can help brands reach some users who are not reached by their core products in order to expand their target audience [6]. In addition to nurturing consumers, more importantly, beauty products, as FMCG (fast moving consumer goods) products, can generate sustainable revenue growth for brands. As a result, the brand had to face a crisis of declining sales and profits and look for a last point of growth, and the significance of promoting the perfume brand on a large scale at this time was originally the result of a positive response to the market.

To see the data of the make-up products in the Estée Lauder Group, it had a fall in its net sales in 2020 and 2021. It may also be caused by the outbreak corona virus in the world. After the propagation

and outbreak of covid-19 in 2020, the government in many countries locked down the city and residents were not allowed to go out so that people had less use of those make-ups for hanging out, working or going to school. This can also explain the decrease in sales of cosmetics in 2021. However, the net sales of make-ups rose, which was 11%. The possible reason for this may be the good turnaround of the epidemic in the world as well as the opening of the government policies in different countries. So far this year, many countries and cities have gradually opened up their policies towards the epidemic. Compared to 2020 and 2021, public places such as restaurants, amusement parks, bars, schools and companies are already operating normally, unlike the previous two years when they were closed off from operations. In addition to this, concerts, and events are gradually resuming. This means that the epidemic is having less and less impact on people. In 2022, most people will be able to travel and move around as normal. As a result, make-ups are being used more and more frequently than before as a necessity for most people before they go out and about. So, this may be the reason for an increase in sales of make-ups in 2022.

In addition to the change of net sales in the make-ups and perfume. The sales of skin-care products were always positive(increase). For the sales of hair-care products, expect there was a fall in the sales in 2020, the other four years were all increased.

4. The European and American Markets Recovered Strongly, China Weighed on the Region, a Rare Decline

Table 3: The Estée Lauder Group's revenue growth by region over the last five years [3].

	2022	2021	2020	2019	2018
Asia Pacific	-1%	29%	15%	21%	29%
Europe, Middle East and Africa	11%	11%	-3%	15%	21%
Americas	22%	-	-20%	-5%	4%

Table.3 represents the Estée Lauder Group's revenue growth by region over the last five years which is 2018 to 2022.

After the outbreak, offline sales channels gradually began to recover and sales in Americas began to grow. The revenue from the Americas increased 22% in 2022, which is a significant improvement compared to the data in 2021, which decreased 20%. This table reports that a gradual recovery in physical retail traffic has led to double-digit net sales growth in the United States, Canada and Latin America, and that net sales in every product category and in almost every distribution channel have increased in the region. In addition, the EMEA region maintained steady play. Net sales grew in almost all markets, led by the UK, and thanks to the recovery of the real economy, most emerging markets in the region saw net sales increase to double digits [5]. In the recent years, the sales in Asia Pacific had shown a fall. However, Asia Pacific remained Estée Lauder's second largest market. The research shown that Asia Pacific contributing US\$5,437 million in net sales, but did not continue to lead the way. Also, there was a declining in the first, third and fourth quarters, with the exception of the second quarter. So it is not surprisingly down 1% year-on-year for the full year. The Estée Lauder Group explained that the main reason for this was the impact of COVID-19, which offset net sales in more than half of the markets in Asia Pacific. And, growth in the first nine months of the fiscal year was offset by COVID-related restrictions in China in the fourth quarter, which temporarily limited

retail traffic, travel and distribution capacity. Besides, due to the sudden outbreak of the epidemic in Shanghai in the first half of 2022, the company's distribution facilities in Shanghai were unable to meet physical and online orders until early June, when normal capacity was restored. During the most time of the first half in 2022, Shanghai was locked down and the transportation to deliver those products stopped. This also influenced the purchase of products of the Estée Lauder Group from other cities in China because many brands have their main shipping warehouse in Shanghai, so that many products cannot be delivered until the opening of Shanghai in June 2022. In its earnings report, Estée Lauder also noted that the Asia Pacific region had made a number of efforts to cope with the challenges. At the time, physical net sales were down due to continued increases in COVID-19 cases and weak traffic in the areas most affected. The company and many retailers were able to capture consumer demand online, garnering double-digit online growth figures that offset the decline in brick-and-mortar shops.

5. Conclusion

China, a market valued by the Estée Lauder Group, remains a key market for Estée Lauder, although the impact of the sudden outbreak in Shanghai in the first half of this year has significantly reduced sales and revenues in the Asia Pacific region [7]. The Estée Lauder group has invested US\$35 million in the establishment of the Estée Lauder Global Innovation and Research Centre in Shanghai, which is understood to be the largest innovation and research centre in the Estée Lauder Group's international markets [8]. It will be operational later this year. Nowadays, competition from various brands and groups is fierce, and I wonder if Estee Lauder Group will be able to stand firm in the Chinese market [10]. So the next marketing strategy of the Estée Lauder Group becomes extremely important. There must be a problem with Estee Lauder Group's marketing strategy as well. The decline in revenue in Asia Pacific in 2022 shows that there is a problem. Perhaps the Estée Lauder Group could set up some product supply factories in other cities to avoid the next drop in sales like the one that occurred in Shanghai due to the outbreak. At the same time, there are also claims that while the proportion of online sales is increasing, the pricing system is becoming increasingly confusing. There is even a situation where the official retail price is rising, but the actual price to the consumer is falling, creating a unique 'secondary market'. Goods from e-commerce, department stores, duty free and travel channels are being sold wholesale to third and fourth tier markets at low prices in the name of group buying, adding to the confusion of the price system. This has undoubtedly had an impact on the premium image of the Estée Lauder Group brands. There are also many cheap and good branded goods available domestically in China. This is also a challenge for the Estée Lauder Group. (Excluding those who are loyal to the brand) Perhaps Estee Lauder Group could introduce some niche brands and make them more competitive to appeal to different demographics and customers. At the moment, the Estée Lauder Group is in an upward trend. The next strategies and sales are worthy of our anticipation.

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