

EMPOWER THE FUTURE OF CHINA PRESTIGE BEAUTY

SEPHORA



20 November, 2020

1 – Sephora China Prestige Beauty White Paper



2020 marks the 15th anniversary since Sephora has entered China.

Sephora is now the largest prestige beauty retailer with a comprehensive super omni-channel in China. From its first door in 2005 to 261 doors covering 77 cities across China today; with own E-commerce site, APP, mini program, Tmall, JD, and Tmall Global, etc. catering to over 800 cities in China, Sephora is dedicated to empower Chinese customers to unleash their beauty power, by providing continuous 24/7 experience to over million of beauty lovers, every single day.

For the first time ever, Sephora has collaborated with Ipsos to uncover 7 major trends in China prestige beauty industry, sieving through Sephora member survey data, enormous Omni-channel transaction data as well as consumer social listening. This white paper is conducted with the purpose to serve Prestige Beauty Brands to gain latest customer insights, to fine tune growth strategies, as well as to well connect and win new generations.

Sephora's outlook on the China prestige beauty market beyond 2020...



CONSUMER

- Sophisticated Gen-Z
- Evolving Male Beauty



CATEGORY

- Preference by Region
- Premiumization Keeps Momentum
- Redefine C-beauty



CHANNEL

- Bolster Complete Beauty
- Unlock the Full Potential of Omnichannel

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Sophisticated **GEN-Z**

There is no doubt that Generation-Z (born after 1995) has become the leading voice that shapes the future of shopping.



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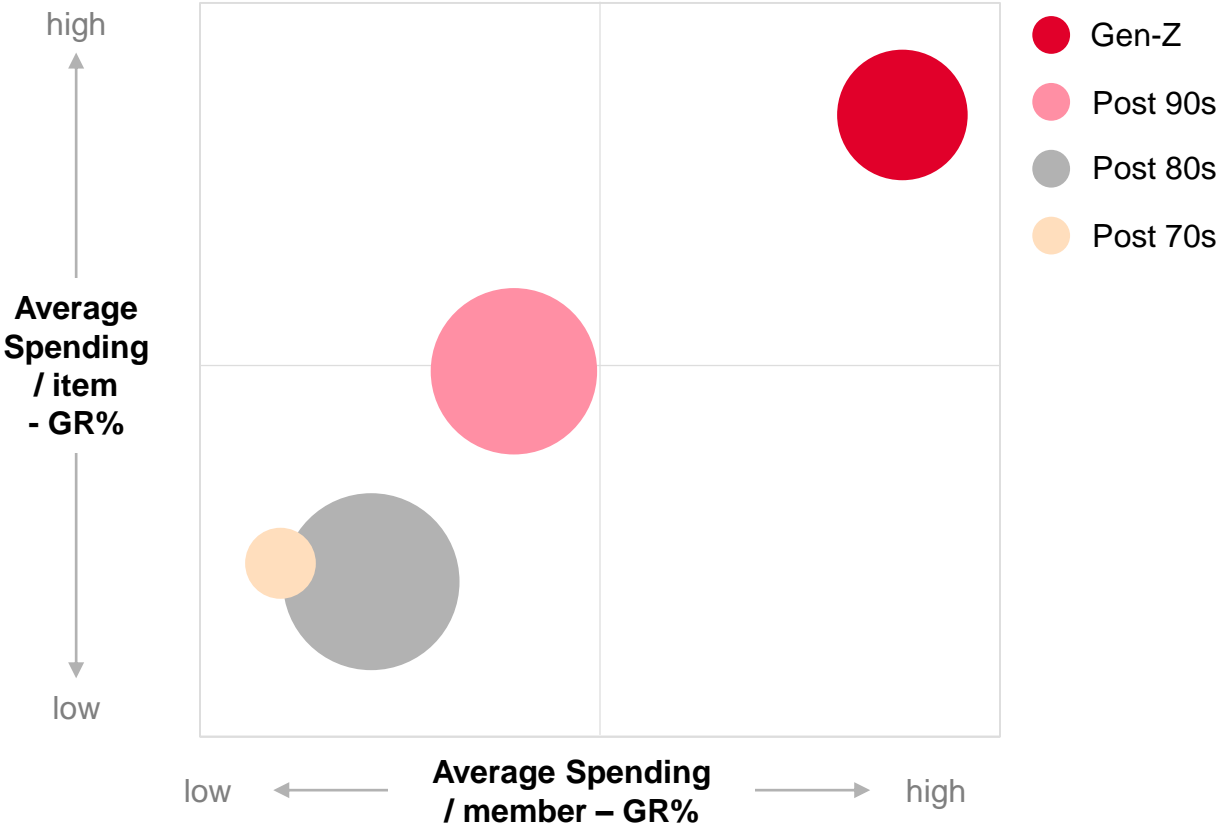


Photo credit: Sephora

As gen-z comes of age, they will become one of the most valuable segments with **growing spending power & potential in productivity.**

Sephora Member Landscape

Circle size: Member base up to Jun 2020
X/Y axis: YoY Growth Rate - %



Gen-z are portrayed as a segment with **sophisticated demands for beauty.**



More knowledgeable.

83%

(+5% vs. total)

I would collect information from multiple channels before purchasing.

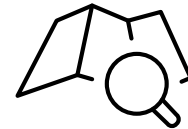


Increasingly sophisticated.

60%

(+8% vs. total)

My skincare routine includes more steps than one year ago.



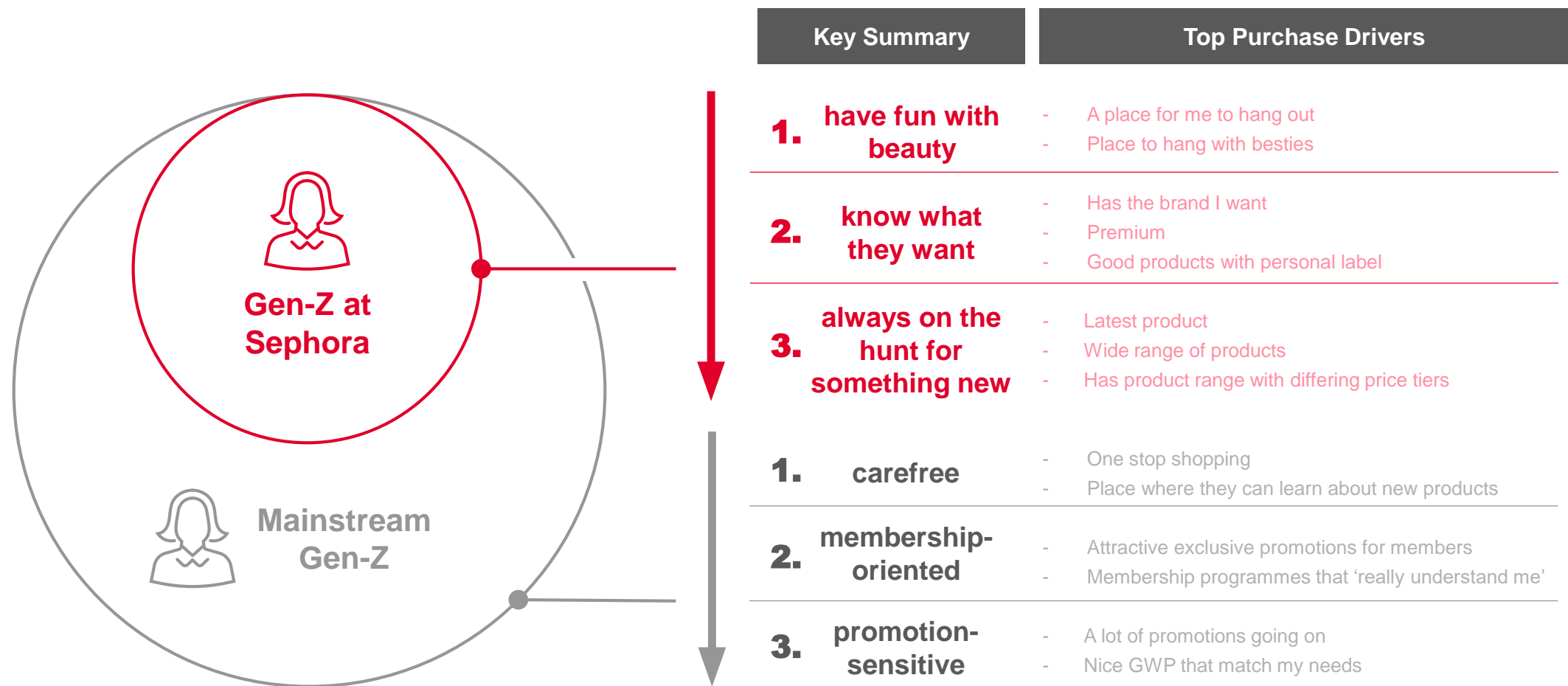
More pioneering.

48%

(+4% vs. total)

I enjoy discovering and trying out products from indie brands.

Now, let's further zoom into Gen-Z at Sephora – they like to **have fun with beauty**, **know exactly what they want**, and are **always seeking novelty**.



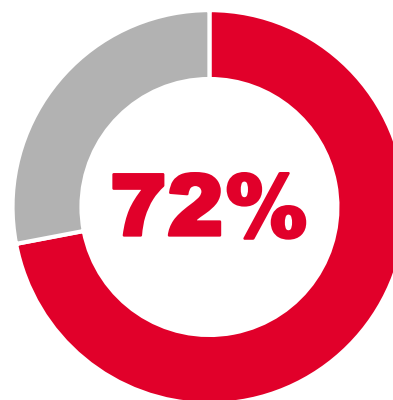
Evolving **MALE BEAUTY**

As the society evolves, men are making inroads into the beauty territory in ways their fathers couldn't have imagined.

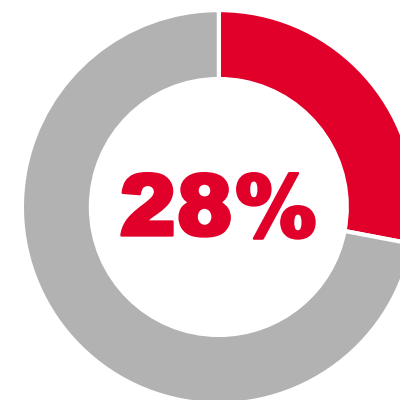




According to Sephora male members – who care about beauty, **appearance is of great importance** and **worth spending much time on everyday**.



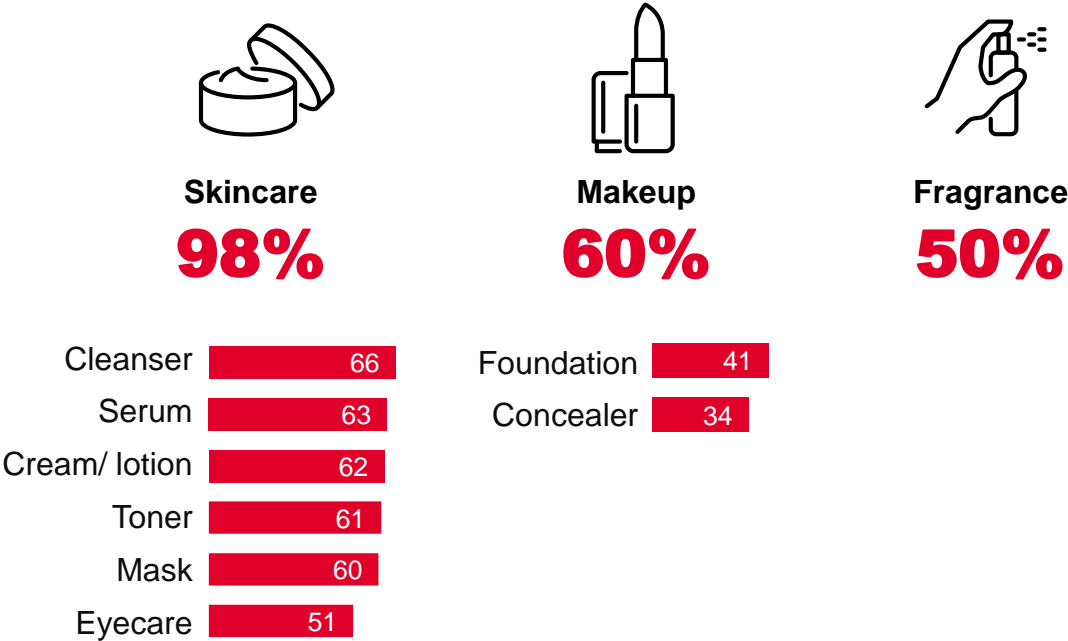
'Outward appearance is very important to me'



Spend more than 30 mins per day on skincare

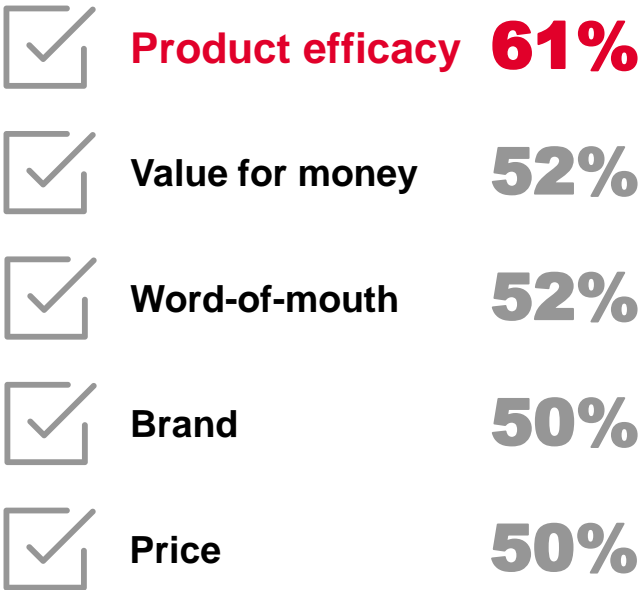
Male beauty is led by skincare category, and men begin to add products with specific functions like serum, mask, eyecare to their daily routine. The top consideration for their beauty purchase is **product efficacy**.

Purchased Products - %



4.5 skincare products per man

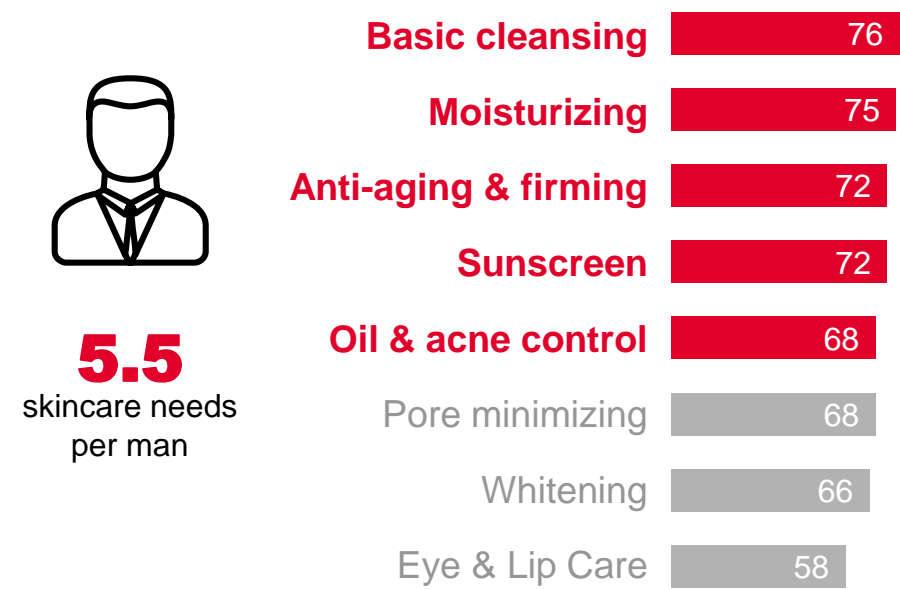
Top Purchase Consideration Factors



Despite their multiple needs toward skincare, men do **request simplicity in usage regimen**. Hence **an all-in-one product** is in high demand.

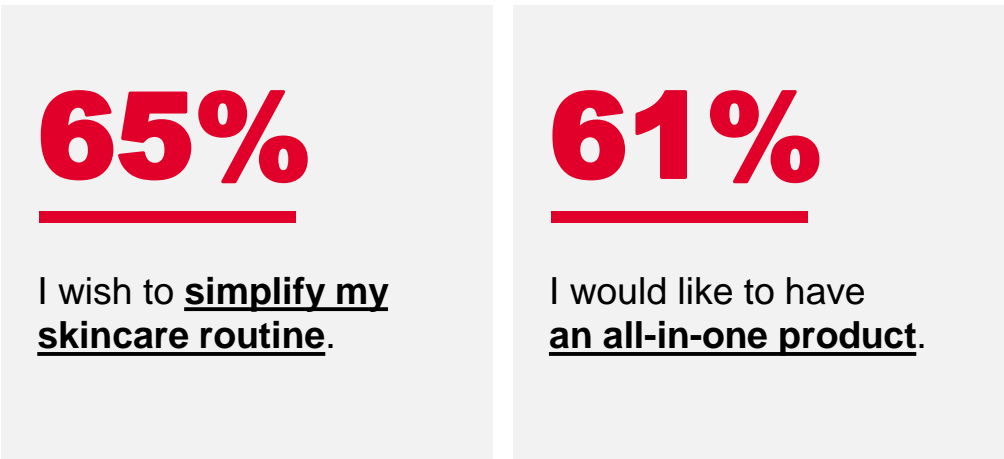
Their Skincare Needs...

% of extremely and very important (Top 2 of 7pt)



Demand for simplicity...

% of consumers completely or relatively agree (Top 2 of 7pt)



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Preference **BY REGION**

The diversity in beauty categories across the China market suggests an increased need for brands to apply thoughtful regional strategies.

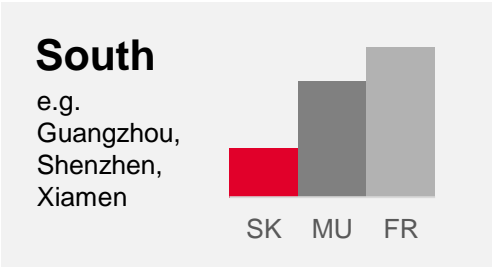
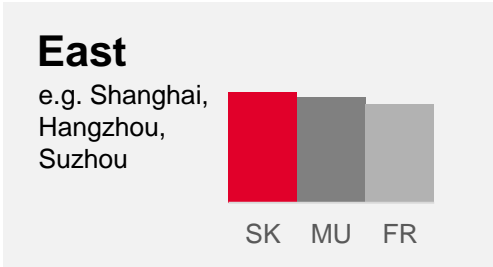
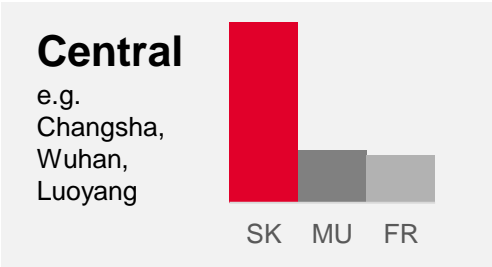
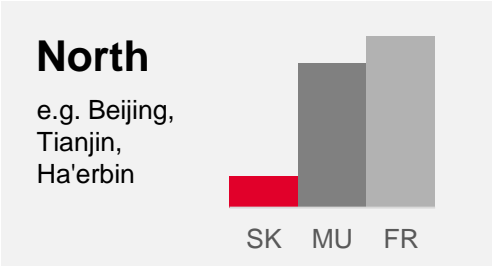
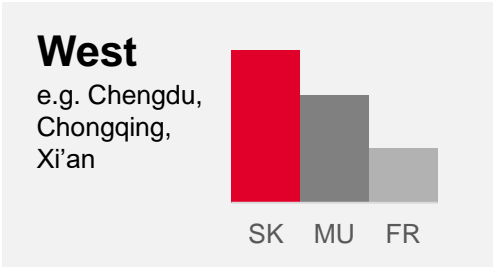
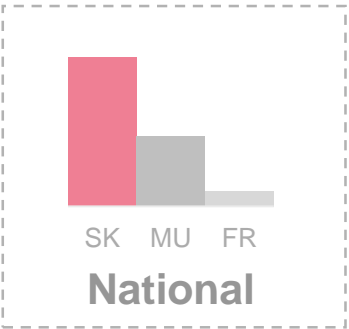


Different regions in China have different category preference— **western & central regions are skincare-focused** while **north & south regions are passionate about makeup & fragrance**.

Regional Category Preference

Normalized regional sales data

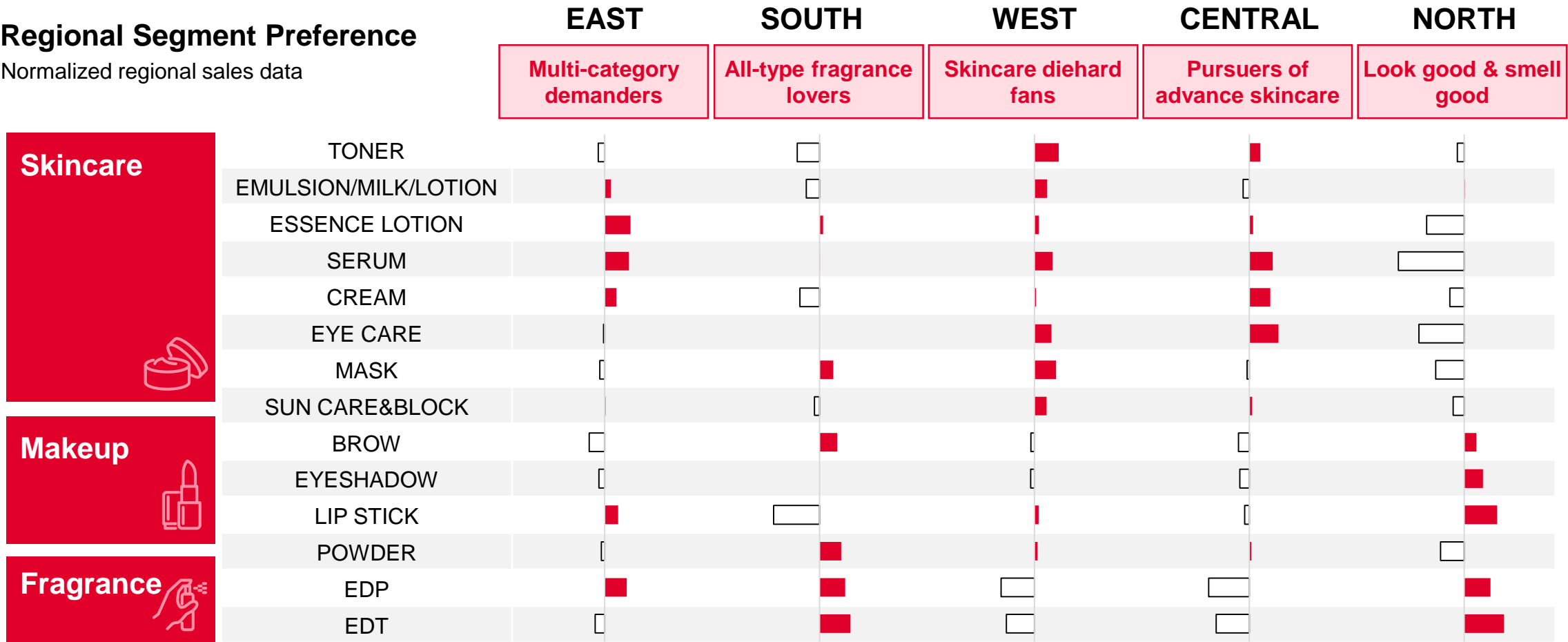
- Higher tendency to favor skincare
- Higher tendency to favor makeup
- Higher tendency to favor fragrance



Obvious differences of segment preference are observed across regions as well.

Regional Segment Preference

Normalized regional sales data

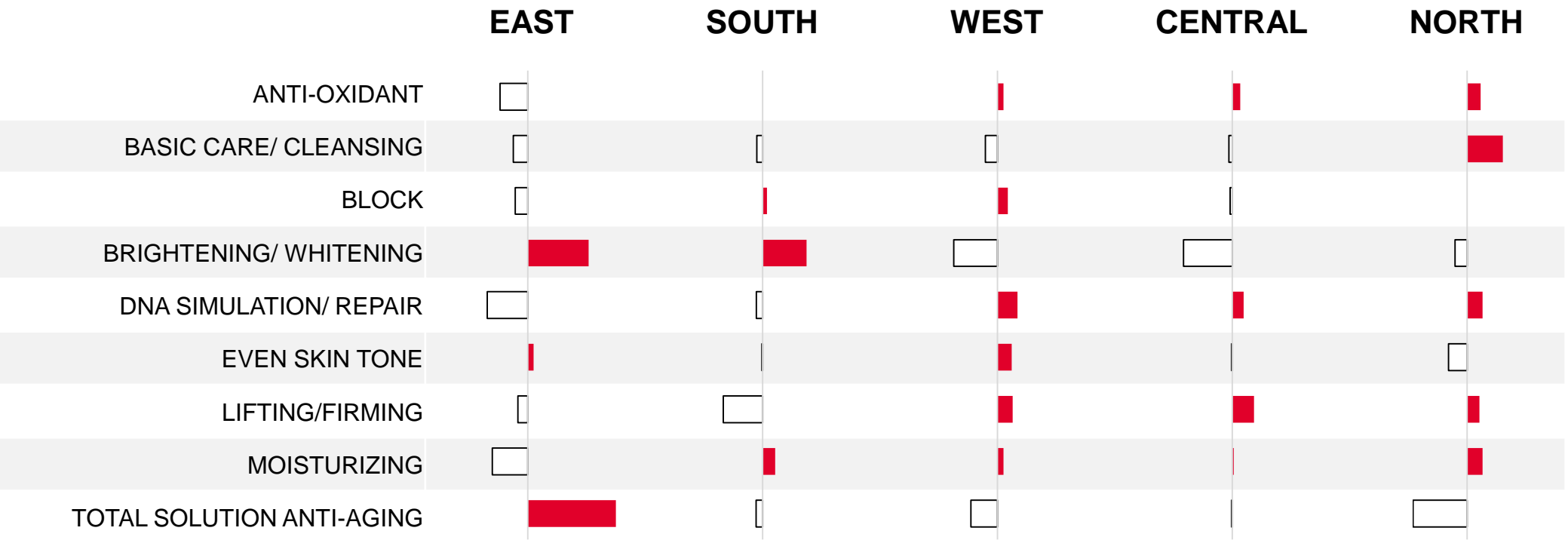


Higher tendency to favor this segment Lower tendency to disfavor this segment

Given the geographical & climate disparities, the **preference on skincare functions varied too**. East & south regions highly request whitening, east region has a strong need for anti-aging solution. Non-coastal areas all demand repairing, north region particularly demand basic care, and both central & north regions calls for firming.

Regional Skincare Function Preference

Normalized yearly regional sales data



■ Higher tendency to favor this segment □ Lower tendency to disfavor this segment

PREMIUMIZATION **Keeps Momentum**

The last few years have indicated an evident tendency towards premiumization, which keeps rising in prestige beauty industry, regardless of pandemic.



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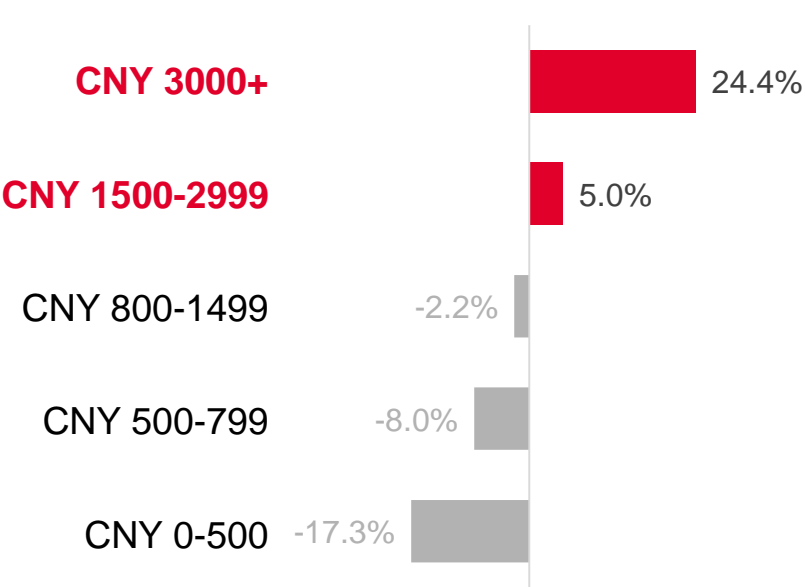


Photo credit: Sepho

The trend of **premiumization keeps it momentum** at Sephora with yearly increasing transaction value. **The top drivers of trade-up are mostly product-driven** – better function, texture, and WOM.

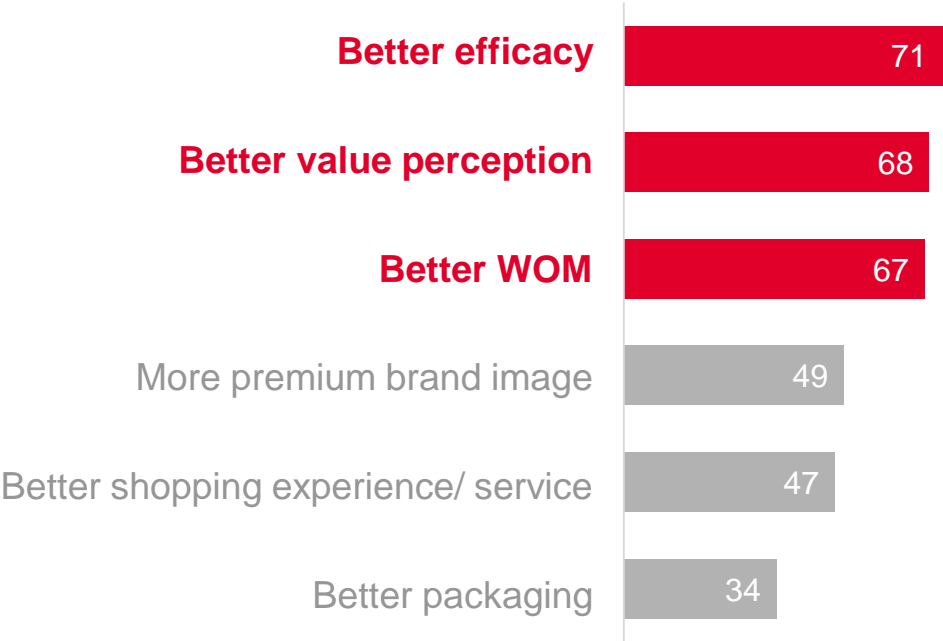
Maximum Transaction Value

YoY Growth Rate: 2020 vs. 2019



Drivers of Trade-up - %

% of extremely and very likely (Top 2 of 7pt)



Sephora has established **its leading image of a prestige beauty retailer** in the market, and the main attractions of Sephora's premium-ness include: **authenticity, trial experience, membership, and complete brand & product offering.**

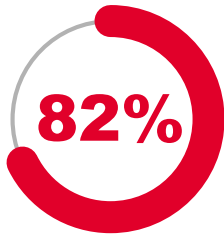
Sephora Premium Image Perception - %

% of consumers completely or relatively agree (Top 2 of 7pt)


among general
beauty consumer




among Sephora
members



Members agree that Sephora is their destination to purchase prestige beauty products.

Sephora's Top Attractions

- No. 1** Product Authenticity
- No. 2** Convenience of product trial in store
- No. 3** Attractive membership & benefits
- No. 4** Premium brand portfolio & full product assortment

Product sampling is the most effective trigger for trade-up, other than value promotion.

Triggers for Trade-up - %

% of extremely and very likely (Top 2 of 7pt)



Best Practice


In October 2019, Sephora members who had purchased product A were offered complimentary free sample of product B (from the same brand but pricier than A).

Within 1 month, the purchase rate of product B among redeemers is higher than non-redeemers by **54%**

Redefine **C-BEAUTY**

‘C-beauty’ is emerging and becoming a prestigious trendsetter.





Local brands are gaining popularity recently, **majority of consumers have purchased C-beauty** and half are showing growing interests.

88%

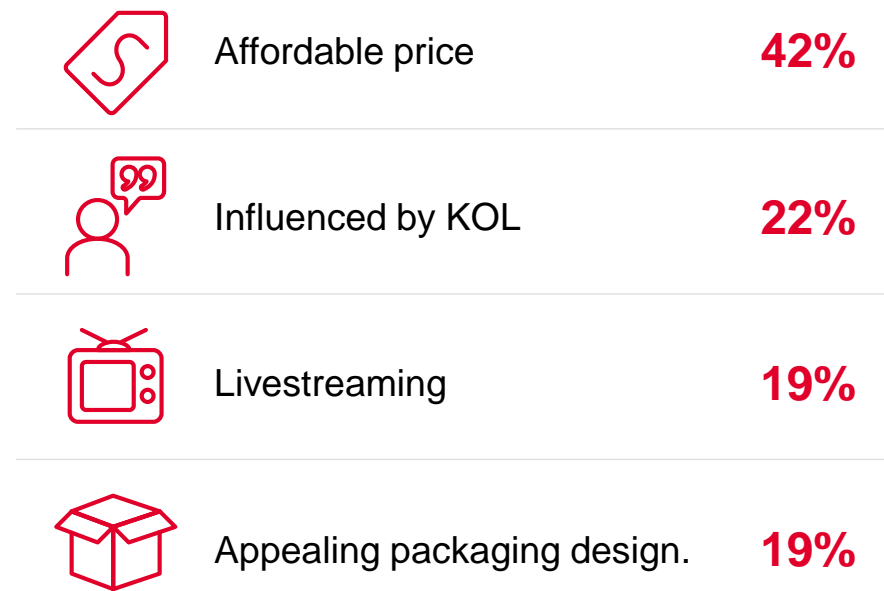
‘I have purchased C-beauty products in the past one year.’

52%

‘I have growing interest in C-beauty brands.’

Affordable price remains as the top motivation behind purchasing local C-beauty products. Meanwhile, it is observed that **prestige C-beauty brands are emerging** with increasing sales potential & high purchase interest.

Local C-beauty buyers
are more attracted by...



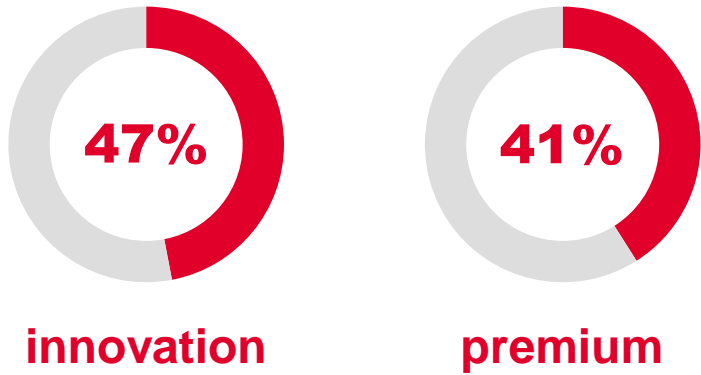
Among C-beauty buyers, many show interest
towards prestige C-beauty...



Prestige C-beauty brands are also **linked with innovation & premium**. What sets prestige C-beauty buyers apart is that they pursue **higher value, product efficacy, quality**, and consider prestige C-beauty brands to be **better for Chinese skin**.

Prestige C-beauty is associated with positive image such as...

% of consumers completely or relatively agree (Top 2 of 7pt)



Prestige C-beauty buyers are more attracted by...



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Bolster **COMPLETE BEAUTY**

Sephora is constantly dedicated to promoting complete beauty for consumers to create a total look.



Brand diversity & full assortment at Sephora **facilitate sales of different segments within same brand.**

In 2020,

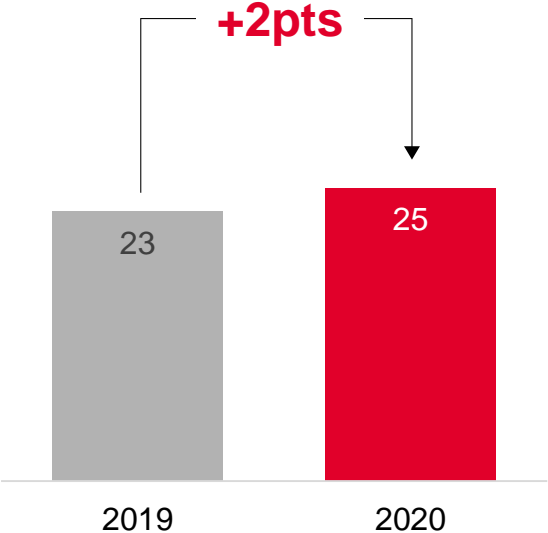
1 out of 4

consumers purchase more than 1 segment from the same brand within 3 months.

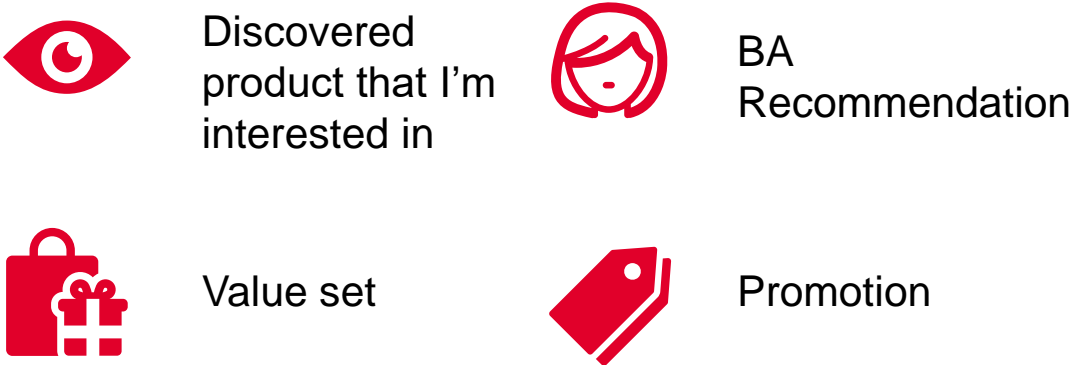


The share of members who purchase **multi-segments within same brand remain growth in 2020**. On top of promotion & value set, **Product Discovery & BA recommendation** are key triggers.

Member share of those who purchase different segments within same brands



Top Triggers for purchase different segments within same brands



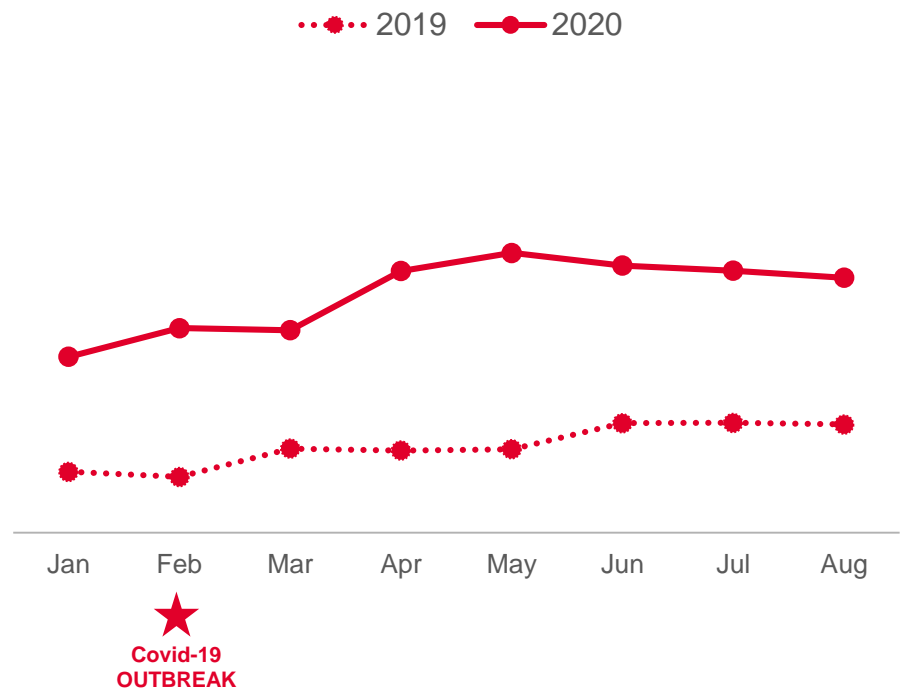
Unlock the Full Potential of **OMNI-CHANNEL**

As consumers nowadays browse online and visit offline seamlessly, driving omni-channel excellence is inevitable.



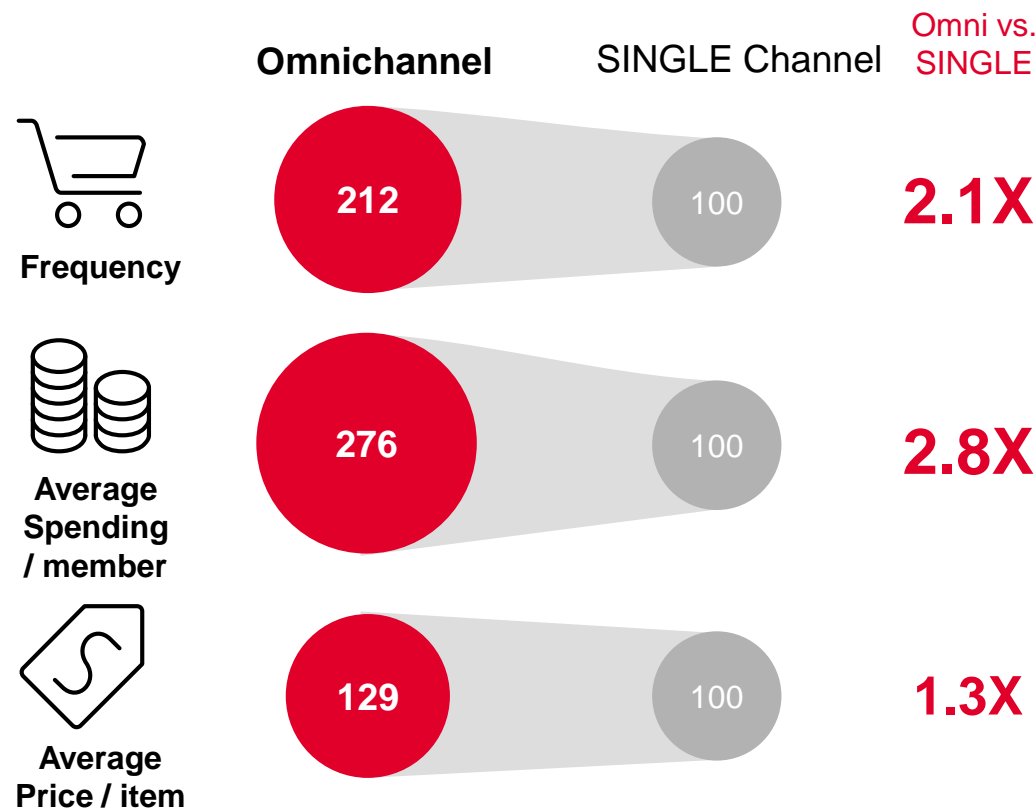
Omnichannel consumers are proven **to visit more frequently and spend more.**

Omnichannel sales share at Sephora
keeping growth



Omnichannel performance at Sephora

Indexed based on 2020 YTD sales

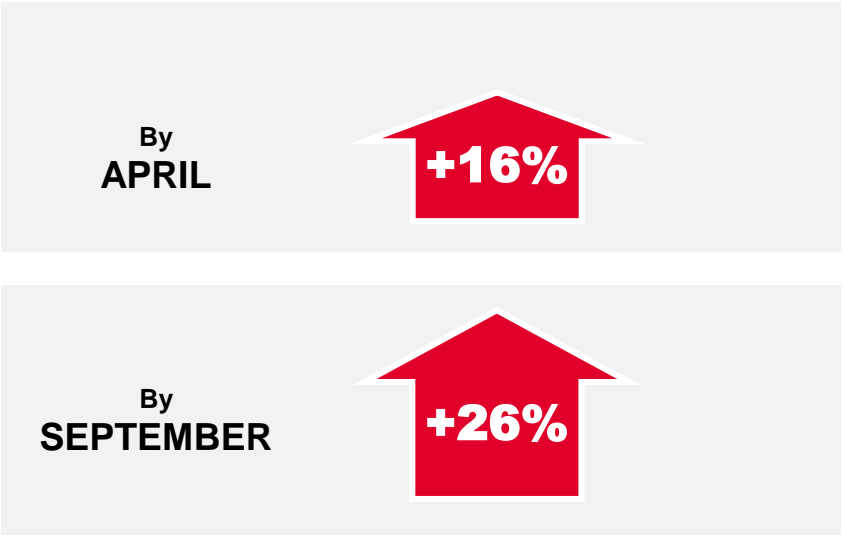


They also turn out to be **more loyal both to Sephora and to Brands** after the pandemic.

Return Purchase Rate to Sephora

Gap vs. Feb 2020 as baseline

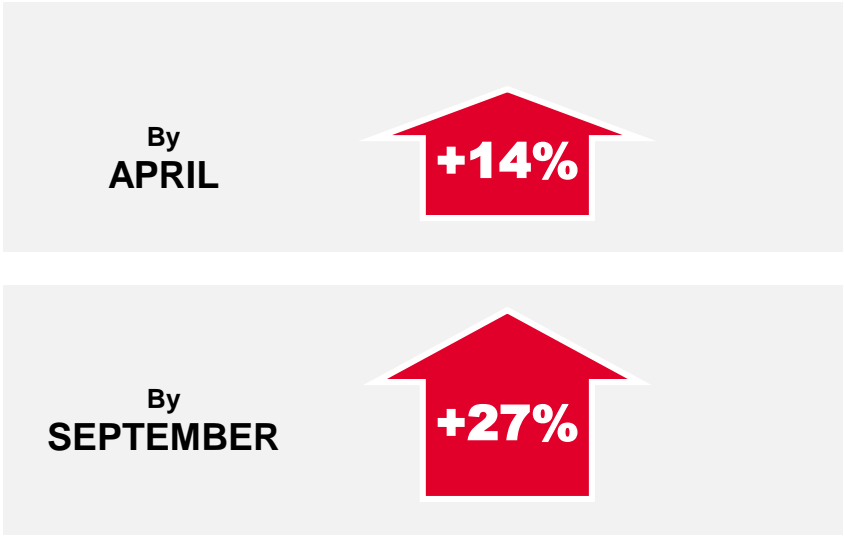
Omnichannel vs. SINGLE Channel



Return Purchase Rate to BRANDS

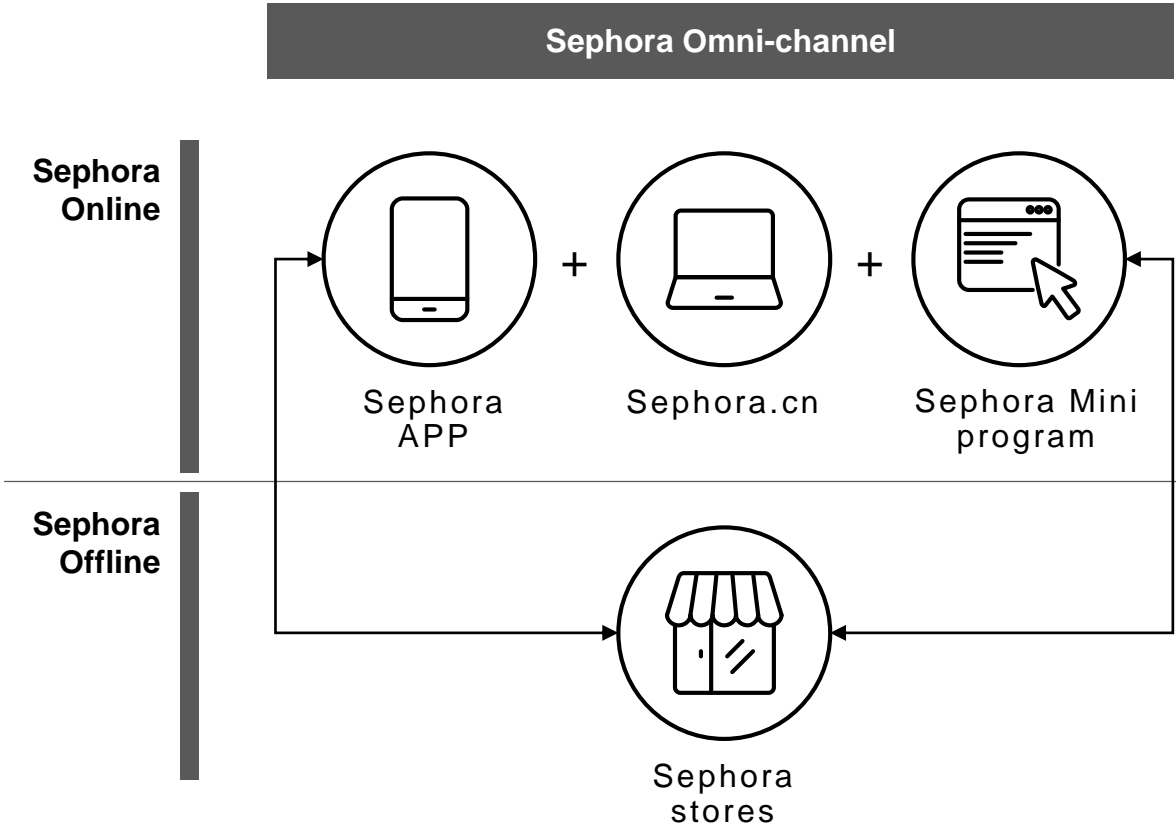
Gap vs. Feb 2020 as baseline

Omnichannel vs. SINGLE Channel



Sephora believes **physical and digital as wholly complementary**, they enhance each other. Sephora is the best possible Omni Beauty platform and amplify its reach to consumers at each stage of purchase.

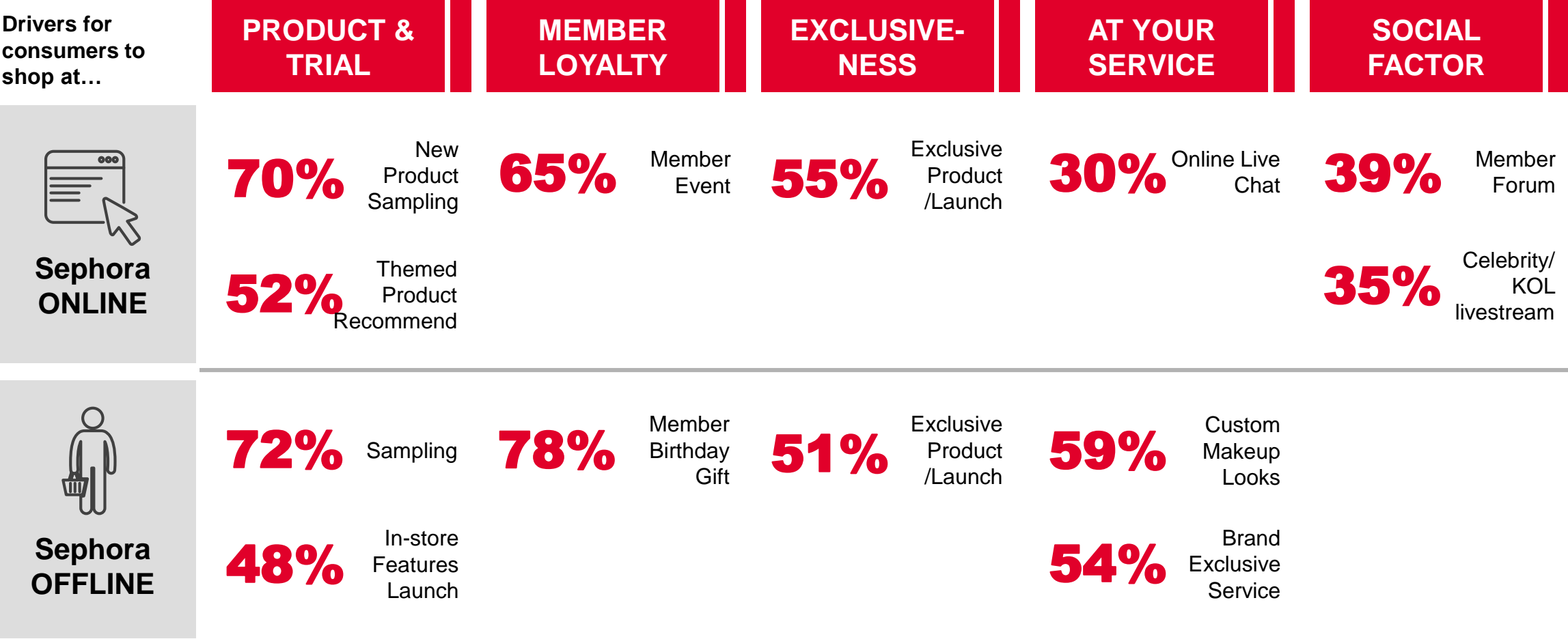
Sephora’s Omni-channel Landscape



Browse Online + Purchase Offline

According to Sephora data: in past 12 months, the proportion of offline-only Gold members who **search & browse online for the exact product information** in 30 days before the transaction achieves **25%**

5 key drivers to **Unlock the Full Potential of Omnichannel** & drive business growth both online & offline.



Sephora's outlook on the China prestige beauty market beyond 2020...

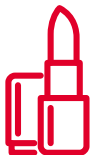


CONSUMER

- 1 **Sophisticated Gen-Z**
- 2 **Evolving Male Beauty**

Gen-Z is full of potential and they are more knowledgeable, increasingly sophisticated and pioneering.

Appearance is also important to men and worth spending time on. Skincare is the most prevalent category, and the demand for an all-in-one product is high.



CATEGORY

- 3 **Preference by Region**
- 4 **Premiumization Keeps Momentum**
- 5 **Redefine C-beauty**

Regional strategy should be deployed to meet diverse needs in prestige beauty categories across China.

Premiumization continues within Sephora, and sampling is one of the most effective tactics in driving trade-up.

Prestige C-beauty is emerging and perceived as innovation and premium.



CHANNEL

- 6 **Bolster Complete Beauty**
- 7 **Unlock the Full Potential of Omnichannel**

Cross-sales is on an upward trend and one of four Sephora members purchase multi-segments under same brand in 3 months.

Omnichannel has proven its value to all players. Sephora owns 5 key drivers to unlock the full potential of omnichannel: product & trial, loyalty, exclusive-ness, service and social factors.

The post-Covid-19 world requires beauty brands to stay closer than ever to consumer trends, to act quicker than before along the category shift, and to win with the winning channel strategy.

Here's how it can be done.

Implications for brands:

- 1** Closely monitor the evolving China market and appeal to the changing consumer needs by offering relevant products.
- 2** Approach Gen-Z in ways relevant, combination of digital and physical. Watch out skincare needs for male.
- 3** Rapidly evolve the product portfolio to adopt a regional strategy. Prestige C-beauty is likely to become the next phenomenon.
- 4** Embrace omnichannel to serve consumers needs for shopping anywhere, anytime, on any device in return for increased profitability and loyalty.

THANK YOU.

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