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THE ECONOMIC IMPACT OF THE UK PERSONAL CARE INDUSTRY IN 2022

REPORT FOR THE BRITISH BEAUTY COUNCIL

MARCH 2023

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To discuss the report further please contact: **Rob Harbron**: rharbron@oxfordeconomics.com

Oxford Economics

4 Millbank, London SW1P 3JA

Tel: +44 20 3910 8061

ABOUT BRITISH BEAUTY COUNCIL

The British Beauty Council is a not-forprofit organisation dedicated to solving beauty's shared challenges and unlocking opportunities for future generations. It represents the wider industry by generating conversation with the Government to tackle issues facing all stakeholders, today and in the future. Founded in 2018, the Council is dedicated to elevating the voices, opinions and needs of the British beauty industry - from hairdressing to aesthetics, therapy and spa; in education and training; and formulation to manufacture, supply, logistics packaging, design, retail and media.

The Council collaborates with a diverse network of patrons and affiliates so that every sector within the beauty industry can thrive. It is governed by an esteemed Executive Board, which is supported by a 60+ strong Advisory Board from across the beauty industry. With this backing, the non-profit is able to tackle the diverse hurdles facing British beauty and lead the way with policy-driven initiatives that future-proof the whole industry.

Its ambition is to ensure that the beauty industry is recognised and valued at all levels of government, throughout the wider economy, and by consumers. By supporting a successful, innovative, and inclusive British beauty industry, it promotes the interests of people and companies engaged in all sectors of beauty business.

In 2023, the Council's work encompasses four main pillars: Policy and Influence, Environmental and Social Governance, Growth and Talent. The overarching aims of the Council never waver; however, our specific goals evolve alongside the modern beauty industry.

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EXECUTIVE SUMMARY

The personal care industry provides goods and services that households rely on every day, from basic toiletries through to luxury cosmetics and hairdressing and beauty services.

In 2019, the British Beauty Council and Oxford Economics launched the first comprehensive study of the value the personal care industry creates for the UK economy in terms of its contribution to GDP and the jobs it sustains. For the first time, this helped to establish an economic footprint of the industry, as it straddles several different official industry classifications.

£24.5 bn **TOTAL GDP CONTRIBUTION** BY THE PERSONAL CARE



This report by Oxford Economics and the British Beauty Council describes findings from a refresh of this research which has quantified how the industry's economic impact has evolved since 2018. We also present analysis of the wider socioeconomic contribution that the industry makes through its support of employment opportunities for a diverse workforce. Lastly, we investigate the impact of various structural changes that the industry is faced with, and how these present both opportunities and challenges to businesses operating within the sector.

THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY

In 2022, the personal care industry supported a total GDP contribution of £24.5 billion. Just over half of this contribution (£12.3 billion) was generated by the industry itself, representing 0.5% of the nation's GDP. A further £4.9 billion of economic activity was stimulated elsewhere in the economy by the industry's domestic supply chain purchases, otherwise known as the industry's indirect impact. Through the wage payments made to the industry's workers and those along the supply chain, a further £7.3 billion of economic activity was supported, known as the industry's induced impact.

The personal care industry supported employment of 550,000 across all channels of economic impact in

2022. 379,000 of these jobs were supported directly by the industry itself, with the hair and beauty services sector supporting direct employment of 209,000 alone. This direct employment contribution represented 1.1% of total jobs in the UK in 2022.

In 2022, the personal care industry supported tax contributions of £6.8 billion to the UK Treasury:

£3.4 billion of this contribution is sustained by the industry itself with a further £1.3 billion arising from indirect and £2.2 billion from induced channels.

The challenges presented by the Covid-19 pandemic meant that the direct GDP contributions of the personal care industry fell by 28.1% from 2019 to 2020. Since then, the industry has shown signs of a recovery, with growth in direct GDP contributions stronger than in the retail and wholesale industries.



EXECUTIVE
SUMMARY

EXECUTIVE SUMMARY

DIVERSITY AND OPPORTUNITY IN THE PERSONAL CARE INDUSTRY WORKFORCE

The diversity of its workforce and high rates of entrepreneurship are hallmarks of the personal care

industry. The personal care industry has four times as many women as men and is a younger workforce than the wider working-age population. Though men are in the minority in the industry, they are also more diverse in some regards than the wider economy. For example, they are more likely to identify as being of an ethnic minority, and to have a sexual identity other than heterosexual or straight.

Entrepreneurs play an important role in the industry. Rates of business ownership are almost three times higher than across the economy as a whole, and over 80% of business owners in the industry are women. In recent years, growth in the number of SMEs in the industry has exceeded growth in other areas of the economy such as the wider services and manufacturing sectors.

IN 2022, THE PERSONAL CARE

INDUSTRY SUPPORTED A TOTAL

GDP CONTRIBUTION OF

£24.5 bn

(£12.3 billion)

its workforce, having supported the completion of almost 80,000 recognised qualifications in the 2021/22 academic year alone. Of these 80,000 qualifications, around 70% were at GCSE equivalent standard, and a further 21% were at A-level equivalent standard.

The industry also plays an important role in educating

The personal care industry is notable for the consistency of its employment footprint across the entirety of the UK, regardless of the underlying economic strength of the area.

We ranked local authorities according to the prevalence of personal care industry employment and split them into four equal groups. In the middle two groups, personal care accounted on average for a relatively similar one in 150 and one in 116 jobs. Even between the top and bottom quarters the gap was not much wider, with the personal care industry accounting for one in 216 in the bottom group and one in 72 jobs in the top. This shows the industry's footprint is meaningful and relatively stable across the majority of the UK.

While the industry is notable for the consistency of its accounts directly for more than one in every 50 jobs.

Moreover, a greater proportion of the personal care industry's employment is concentrated in areas with to support employment and business opportunities in communities that have relatively high rates of deprivation.

There is also evidence that the personal care industry

footprint, it also plays an outsized role in certain pockets of the country: for example, in several local authorities it

relatively high income deprivation and unemployment versus comparable sectors such as the retail sector as a whole and construction. As such, the industry helps

plays a role in fostering opportunities for upwards social mobility.

The industry also plays an important role in educating its workforce, having supported the completion of almost 80,000 recognised qualifications in the 2021/22 academic year alone.



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PERSONAL CARE INDUSTRY ACROSS ALL CHANNELS OF ECONOMIC **IMPACT IN 2022**

¹The employment figures in this paragraph and the one below are based on data available from the Office for National Statistics on personal care industry jobs by location. Due to data constraints, this covers less of the beauty sector than our economic impact analysis in Chapter 2 and as such is not directly comparable in terms of the absolute level of jobs: this analysis is intended more to illustrate the geographic spread of the industry.

EXECUTIVE SUMMARY

Statistical modelling suggests that those in the personal care industry are more likely to become business owners or managers than those in the rest of the economy, regardless of their background. This trend is particularly strong for those educated to below degree level, suggesting the personal care sector may offer a route to upwards social mobility for those without the opportunity or desire to pursue higher education.

STRUCTURAL CHALLENGES AND OPPORTUNITIES FACING THE INDUSTRY

In common with many other sectors in the UK, the personal care industry has needed to adapt to structural changes that have challenged and disrupted existing business models. Two major areas of change have included technological developments over the last decade that were accelerated by the Covid-19 pandemic, and operational challenges facing businesses since the UK's exit from the European Union.

Technological progress in the personal care sector has enabled more aspects of operations to be digitalised, making greater use of computers and the internet.

Through our research, we identified five key themes around digitalisation affecting the personal care industry.

• The growth of e-commerce as a sales channel in the UK as evidenced by ONS data that shows total e-commerce sales grew from 3.4% of total retail sales in 2007 to a peak of 30.7% during the pandemic before falling to 26.5% in 2022. This is also the case for the personal care sector where the revenue coming from online channels grew from 23% of total revenue in 2017 to 40% in 2022.

- The increasing use of Augmented Reality (AR) tools
 is reflected in applications like "e-makeup" and "virtual
 try-on" which offer a personalisation dimension that
 was previously elusive for digital channels. These tools
 are popular with users, enhance consumer engagement
 and help contribute to sustainability.
- Innovative Artificial Intelligence (AI) applications are also supporting businesses in the personal care sector to offer more personalised services. Major personal care product manufacturers have launched AI-supported applications which help consumers customise their product selection or create bespoke solutions catering to their needs. AI is also being leveraged in other areas of personal care business such as product control, supply chain management, and customer analytics.
- Leveraging the reach of social media has become increasingly important for the sector's marketing approach and for bridging the personalisation gap as the sector has moved to an increasingly digital presence. Social media offers brands a direct channel to reach a very wide international audience where they can promote their brand and keep customers up to date with their latest products and offers. Within that space, influencers have established themselves as a potent marketing tool with evidence showing that 68% of marketers work with influencers and 88% of brands have a dedicated influencer budget.² Our review also found that brands allocated an average of 25% of their marketing budget to influencer marketing and that the majority of brands were planning to increase the share of marketing budget that they allocated to influencer marketing in 2023.3 Influencer marketing has been found to be an effective form of marketing with evidence suggesting it can outperform other forms of advertising⁴ and can yield a higher return on investment.⁵
- The integration of three-dimensional (3D) printing in some companies' operations has delivered innovative applications that provide further customisation options for consumers.

Our review of the literature and data combined with evidence from stakeholder interviews found that many UK businesses are experiencing adverse effects following Brexit. The key impacts identified include increased trade barriers and a shortage of skills following changes to migration laws:

- Trade barriers materialised in the form of administrative complexities and additional paperwork which contribute to businesses' lack of understanding around new processes. This issue is particularly acute in relation to Ireland and Northern Ireland. In addition to increased complexity, compliance costs have increased as businesses are required to adhere to new packaging and labelling rules. A survey conducted by the British Chambers of Commerce found that 49% of UK exporters reported facing difficulties in adapting to the changes required to trade goods following the UK-EU trade deal. This aligns with the views shared by the experts we interviewed who agreed that Brexit had caused delays for exporting businesses in the personal care industry.
- There is also evidence that the new trade barriers following Brexit have disproportionately damaged smaller businesses and this can be harmful for the personal care sector which is mostly comprised of SMEs. Further research carried out by the British Chamber of Commerce found that the negative impacts of Brexit for UK businesses included rising costs and increased bureaucracy, which smaller businesses did not have the time or money to deal with.

- A shortage of skills following Brexit was also a concern identified in the literature and by our interviewees, particularly for segments which previously relied on EU workers for positions which do not meet new visa requirement thresholds. Oxford Economics analysis showed that 59% of full-time employees in the personal care industry earned less than the skilled worker visa earnings threshold in 2022, compared to 33% of all employees in the UK.
- Our **analysis of export data** revealed that the personal care industry is more reliant on exports to the European single market compared to overall goods exports.
- Since the Brexit referendum, exports of personal care products to the European single market have been weaker than to other markets.
- While difficult to isolate the specific impact of Brexit from other issues over this period such as the Covid-19 pandemic, as well as changes in official data collection methods, this divergence does suggest that Brexit may have led to a weaker export performance for personal care manufacturers.
- To put this into further context, total goods exports from the UK to the European single market have performed better than exports of personal care goods. However, this growth is linked in large part to industrial goods. Exports of other consumer-facing product groups such as clothing and food have also declined.

A survey conducted by the British Chambers of Commerce found that 49% of UK exporters reported facing difficulties in adapting to the changes required to trade goods following the UK-EU trade deal.

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²HubSpot, "<u>State of Inbound Marketing Trends</u>", published 2022

³ Aspire, "The State of Influencer Marketing 2023", published 2023

^{4/5} Influencer Marketing Hub, "Key Influencer Marketing Statistics to Drive Your Strategy in 2023", published January 2023

^{6/7} British Chambers of Commerce, "BCC Research Finds Little Love for EU Trade Deal", published February 2022

INTRODUCTION

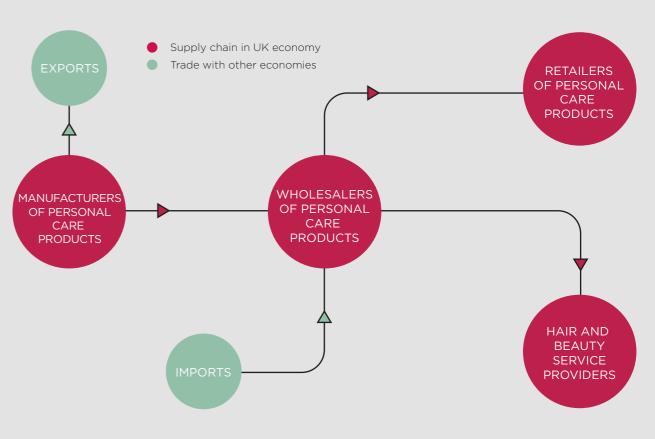
1.1 STRUCTURE OF THE PERSONAL CARE INDUSTRY

The personal care industry does not fit neatly into one existing official industry classification: instead, it is comprised of several elements of the economy:

- Hairdressing and beauty services: a variety of providers delivering services to consumers, with beauty products purchased from wholesalers. One example of this is beauty salons, which, as well as delivering services, will rely on purchases of beauty products to serve their customers.
- Retailers and wholesalers of personal care products: retailers represent the top of the supply chain for products sold directly to consumers. Wholesalers meanwhile act as the middle point between domestic and overseas manufacturers and both retailers and service providers.
- Manufacturers of personal care products: products made in the UK are produced by manufacturers to sell domestically in the UK and to export markets around

The figure below illustrates the supply chain linkages between these different elements of the core industry.

FIG. 1 THE SUPPLY CHAIN OF THE PERSONAL CARE INDUSTRY



⁸ The exact structure of the personal care industry was created previously by the British Beauty Council and BritainThinks through a series of workshops, interviews and surveys with a variety of industry stakeholders. This structure was used in the previous Oxford Economics study, and more detail can be found in the Appendix.

INTRODUCTION

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INTRODUCTION

As well as the core industry above, we also incorporate some additional measurable impacts of key industries that supply the sector. Our methodology allows us to estimate the share of the personal care industry's supply chain that is accounted for by advertising and market research, which we include as a key promoter of the industry.

1.2 STRUCTURE OF THIS REPORT

This report begins in **Chapter 2** by providing the results of our updated analysis on the economic footprint of the personal care industry for 2022. We focus on the GDP, employment, and tax contributions that the industry makes, and provide benchmark comparisons to other industries.

Chapter 3 then goes on to look at the evolution of the industry's economic performance over the years since our previous report, presenting a time series of results from 2018 to 2022. This is put into context against how the wider economic landscape has changed over that time through the significant impacts of Covid-19, Brexit, and more recently, rapid increases in the cost of living.

In **Chapter 4**, we paint a picture of the personal care industry's demographic composition using nationally representative survey data, also looking at working patterns and the role of entrepreneurship and SMEs in the industry. We also look at the footprint of the industry across the different areas of the UK, and in particular in areas with high levels of income deprivation and unemployment, as well as using statistical modelling to examine whether the personal care industry may play a role in contributing to social mobility.

Finally, in **Chapter 5**, we discuss how the industry has evolved in relation to structural changes facing the UK economy like the Covid-19 pandemic and Brexit. We combined three research methods to gather new insights and analytical findings on these two key themes:

- We conducted a literature review to gather evidence on the wider role of digital technology within the personal care sector and to examine how Brexit impacted businesses' ability to export their products and services, import required inputs, and to hire skilled staff.
- We conducted six interviews with expert industry stakeholders themed around adaptation to these structural changes.
- We analysed data to describe the path of e-commerce activity in retail in the UK over the past three years and how that relates to structural changes that were already underway. We also mapped detailed productlevel international trade data to the UK's beauty sector to trace how exports have evolved since Brexit and any divergence in performance between sales to the European single market compared to other international markets.



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THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY IN 2022

AN INTRODUCTION TO OUR ECONOMIC IMPACT ANALYSIS

In this report we use economic impact analysis to understand the impact of the personal care industry on the UK economy. This involves quantifying the industry's economic impact across three channels:

- **Direct impact** relating to the industry's own activities in the UK. This encompasses the economic activity and employment supported directly by the industry itself.
- Indirect impact the economic activity stimulated by the personal care industry's supply chain. This channel includes output and employment supported by the industry's purchases.
- Induced impact the economic impacts arising as the personal care industry's employees and workers supported by the industry's supply chain spend their wages and stimulate further economic activity.
- **Total impact** the economic impacts arising from all channels of analysis.

Using the economic impact analysis framework, we quantify the personal care industry's economic impacts in terms of:

- GDP, more specifically, the industry's "gross value added" (GVA) contribution to UK GDP. GVA is equivalent to revenue minus the cost of bought in goods and services used up to produce that revenue. GDP contributions are quantified in £ billions/ millions, with comparisons over time presented in 2022 prices. For brevity, we refer to these GVA contributions to UK GDP as "GDP contributions" throughout the report.
- Employment, expressed as workforce jobs for ease of comparison with the Office of National Statistics' (ONS) employment data.
- Tax revenues, that flow to the UK Treasury. In this report we have split this tax contribution by labour taxes, corporation taxes, and other taxes. The other taxes group is split between taxes paid on products purchased by the industry and taxes on production, business rates for example.

The results of economic impact analysis are presented on a "gross" basis. This means that they ignore any possible displacement of activity in other industries caused by the personal care industry's economic footprint. The analysis also does not consider what the resources used by the personal care industry could alternatively produce in their second most productive usage.

THE ECONOMIC IMPACT OF THE PERSONAL CARE

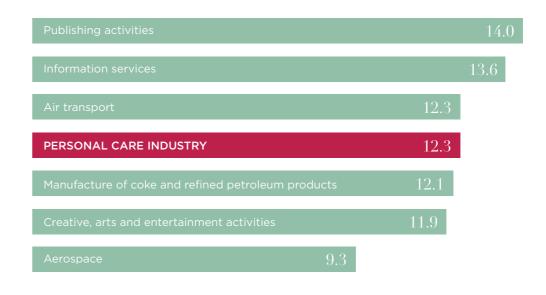
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THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY IN 2022

FIG. 2 ILLUSTRATION OF THE CHANNELS OF ECONOMIC IMPACT DIRECT INDIRECT **IMPACT IMPACT STAFF** STAFF A company or sector It also spends money **INDUCED** employs lots of staff. with suppliers who **IMPACT** Its operations employ staff, generate generate GDP and tax GDP and pay taxes. for the authorities. They use other suppliers in turn. Employees (including of the suppliers) spend their wages in JOBS the wider economy, GDP generating more jobs, GDP and tax revenues. TAX GDP TAX JOBS JOBS TAX GDP TOTAL IMPACT Added together, these three effects - direct, indirect, induced - comprise the total economic impact of the company or sector

FIG. 3 DIRECT CONTRIBUTION TO GDP OF THE PERSONAL CARE INDUSTRY IN 2022 (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



2.1 DIRECT IMPACTS

2.1.1 DIRECT CONTRIBUTIONS TO GDP

In 2022, we estimate that the UK's personal care industry's direct contributions to GDP totalled £12.3 billion, equivalent to 0.5% of the total economy. To provide context for this contribution, the industry's GDP contribution was greater than that of the UK's creative, arts, and entertainment sector or the aerospace manufacturing sector and comparable to that of its air transport sector in 2022. The contribution was an increase on £11.2 billion in 2021 but, as the next chapter will show, it remains below its recent peak in 2019 before the impacts of the Covid-19 pandemic and the UK's departure from the European Union hit.

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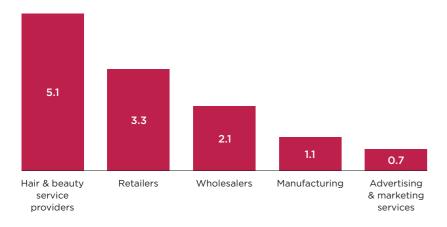
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THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY IN 2022

FIG. 4 DIRECT CONTRIBUTIONS TO GDP OF THE PERSONAL CARE INDUSTRY IN 2022, BY SUB-SECTOR

(£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



Breaking this contribution down into the personal care industry's sub-sectors, in 2022 the largest contribution was provided by hair and beauty services, estimated to be £5.1 billion, representing 41% of total personal care direct GDP contributions.

The distribution chain, comprising wholesale and retail services, contributed £5.4 billion to UK GDP in 2022. GDP contributions by UK-based personal care product manufacturers were estimated to exceed £1 billion. Economic activity associated with advertising and marketing of personal care products and services directly contributed a further £700 million to GDP in 2022.

2.1.2 DIRECT CONTRIBUTIONS TO EMPLOYMENT

Through its economic activity, the personal care industry directly supported employment of 379,000 jobs. This is equivalent to 1.1% of all employment in the UK and is comparable to the employment of the UK's legal services sector, warehousing and storage activities sector, or hotels and accommodation sector.

FIG. 5 DIRECT EMPLOYMENT CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY IN 2022 (HEADCOUNT)

Source: Oxford Economics, ONS



The majority of this employment was in the hair and beauty services sector which alone provided 209,000 jobs. The activity of hair and beauty service providers sustains significant employment because of its labour-intensive nature and limited scope for automation meaning that more workers are employed to produce output.

FIG. 6 DIRECT EMPLOYMENT CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY IN 2022, BY SUB-SECTOR (HEADCOUNT)

Source: Oxford Economics, ONS



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THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY IN 2022

The industry's distribution chain makes up another significant portion of total employment; retailers and wholesalers supported employment of 112,000 and 35,000 jobs respectively. Reflecting their relatively higher labour productivities, the share of employment provided by domestic manufacturers and advertising and marketing services is significantly smaller than their shares of GDP contributions. UK personal care industry manufacturers are estimated to provide 17,000 jobs and advertising and marketing services are estimated to provide just over 5,000.

The benefits of employment go beyond just job creation. As Chapter 4 sets out in detail, the personal care industry has a more diverse workforce than other UK sectors. It has four times as many women as men and is a younger workforce than the wider working-age population. They are more likely to identify as being of an ethnic minority, and to have a sexual identity other than heterosexual or straight. The industry's footprint also helps to provide employment opportunities in areas with high levels of income deprivation and unemployment.

2.1.3 DIRECT TAX CONTRIBUTIONS

Through taxes paid on the workers it employs, taxes paid by employees, taxes paid on its purchases and taxes levied on production and profits, the personal care industry directly contributed £3.4 billion to the UK Treasury in 2022.

FIG. 7 DIRECT TAX CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY IN 2022, BY SUB-SECTOR (£ MILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS

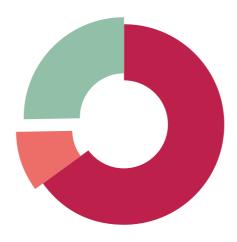


The largest contribution was made by the hair and beauty services sector, largely due to the labour taxes paid on its significant direct employment. The second largest tax contribution was made by retailers, estimated to be £930 million, then wholesalers who contributed £750 million. Personal care industry manufacturing and advertising and marketing services contributed £210 million and £120 million respectively.

This tax contribution can be divided by the type of tax paid: labour taxes, comprised of income tax, employee and employer national insurance contributions, corporation taxes paid on industry profits; and other taxes: taxes paid on the industry's purchases and taxes on production, analogous to business rates.⁹

FIG. 8 DIRECT TAX CONTRIBUTION OF THE PERSONAL CARE INDUSTRY IN 2022, BY TAX TYPE (£ MILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



- \bullet 2,210 / 65% Labour taxes
- \bullet 850 / 25% Other taxes
- 330 / 10% Corporation taxes

The majority of taxes paid in 2022 come from taxes on employment, making up 65% of taxes paid. The personal care industry paid £330 million in corporation tax in 2022. Within the industry, hair and beauty services have benefitted from small business rate reliefs, first within the 2018 budget¹⁰ and then the 2021 budget,¹¹ greatly affecting the taxes paid on production. In 2022, the personal care industry paid £850 million in other taxes, 25% of total taxes paid.

2.2 TOTAL ECONOMIC IMPACTS2.2.1 TOTAL CONTRIBUTIONS TO GDP

Incorporating the economic activity stimulated by the industry's supply chain purchases and the wage expenditure of the industry and supply-chain supported workers, the total economic impact of the personal care industry totalled £24.5 billion in 2022. As Chapter 3 will show, this marked a second successive year of growth but was still below the recent peaks of 2018 and 2019, before the industry was impacted by Covid-19. The next chapter will also look at the impact of the recent cost of living crisis, while Chapter 5 looks in detail at the effects of Brexit on the personal care industry.

In addition to the £12.3 billion worth of GDP contributions created directly by the personal care industry, £12.2 billion was stimulated elsewhere in the economy. Therefore, the personal care industry is estimated to have a GDP multiplier of 2.0, meaning that for each £1 million it contributes to GDP itself, another £1 million is supported in other sectors by its intermediate consumption and wages paid. Of this further £12.2 billion, £4.9 billion of contributions to GDP arise from indirect channels, economic activity supported by the industry's supplychain spending. Induced contributions to GDP, activity supported by wage-induced expenditure of personal care industry employees and workers in its supply chains, were estimated to be £7.3 billion in 2022.

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⁹These taxes represent those paid by the personal care industry itself. VAT paid by consumers is not considered part of an industry's gross value added, so is not included here.

¹⁰ Gov.UK, "<u>Business rates information letter</u>", published 2018

¹¹ Gov.UK, "2022 Retail, hospitality and leisure relief scheme", published 2021

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THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY IN 2022

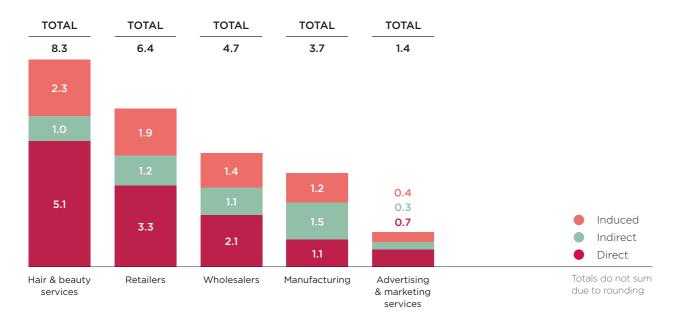
FIG. 9 TOTAL CONTRIBUTION TO GDP OF THE PERSONAL CARE SECTOR IN 2022, BY CHANNEL OF IMPACT (£ BILLIONS, 2022 PRICES)



Disaggregating total economic impact by the personal care industry sub-sectors reveals how indirect and induced impacts vary across sectors dependant on the value of their supply chain purchases, wages paid to their workers and differing industrial compositions.

FIG. 10 TOTAL CONTRIBUTIONS TO GDP OF THE PERSONAL CARE INDUSTRY IN 2022, BY SUB-SECTOR AND CHANNEL OF IMPACT (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



Hair and beauty service providers supported the largest total contribution to UK GDP. Its supply-chain purchases and wages paid supported a further £3.3 billion of contributions to GDP outside of the personal care industry, generating an economic footprint of £8.3 billion across all three channels of impact. The services subsector has a relatively small indirect impact as it requires fewer purchases to produce value and its purchases are largely contained within the industry's supply chain. It has the highest induced contributions to GDP, driven by the wages paid to its significant direct employment. 45% of total economic impact is generated by the distribution chain, with contributions from retail totalling £6.4 billion and wholesale £4.7 billion. Conversely to the hair and beauty services sector, manufacturing has a relatively large indirect impact. This is because the sector requires more intermediate consumption to produce its output and purchases are not contained within the supply chain. This indirect impact of £1.5 billion contributes to manufacturing's estimated £3.7 billion total contributions to GDP. Personal care advertising and marketing services were estimated to support a total contribution of £1.4 billion to GDP.

2.2.2 TOTAL CONTRIBUTIONS TO EMPLOYMENT

Through direct, indirect, and induced channels, the UK's personal care industry is estimated to have supported 551,000 jobs in 2022. As Chapter 3 will show, the industry's labour force was also profoundly affected by the impact of Covid-19, with a decline in 2020 only starting to recover in 2022. Chapter 5 also discusses the skills shortages that have affected the industry since Brexit.

Of this total employment contribution, 69% were supported by the industry directly. Furthermore, 76,000 jobs were supported by the industry's supply-chain purchases and 96,000 from economic activity stimulated by wage-induced household expenditure. The personal care industry has an employment multiplier of 1.5 meaning that for every 10 jobs supported by the industry directly, five will be supported elsewhere in the economy.¹²

FIG. 11 TOTAL EMPLOYMENT CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY IN 2022, BY CHANNEL OF IMPACT (HEADCOUNT)

Source: Oxford Economics, ONS



¹² This multiplier is lower than the industry's GDP multiplier due to variations in labour productivity across the UK economy. Most of the employment directly generated by the industry lies in beauty services, a sector with low labour productivity due to limited scope for automation. Industries that benefit from personal care supply-chain purchases and wage expenditure are likely to have relatively higher labour productivity and so relatively less employment is sustained from economic activity.

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THE ECONOMIC IMPACT OF THE PERSONAL CARE INDUSTRY IN 2022

FIG. 12 TOTAL EMPLOYMENT CONTRIBUTIONS OF THE UK'S PERSONAL CARE INDUSTRY, BY CHANNEL OF **IMPACT AND SUB-SECTOR** (HEADCOUNT)

Source: Oxford Economics, ONS



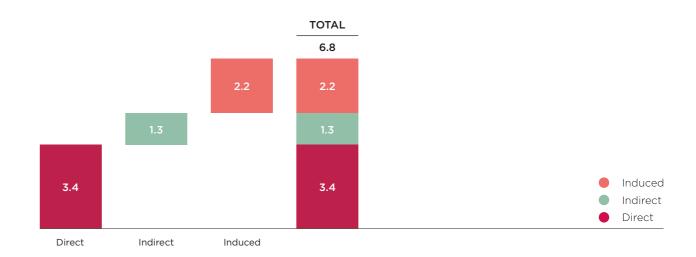
Just over 250,000 jobs are supported by the hair and

beauty services sector; 83% of these jobs lie within the sector itself with the remaining 43,000 generated by indirect and induced output. As Chapter 3 will show, this sub-sector suffered the greatest volatility in employment post-Covid-19, as it was most directly affected by lockdown and social-distancing restrictions. Retailers supported total employment of 157,000 with 19,000 through indirect and 26,000 through induced channels. The indirect and induced impacts of wholesalers provided a further 38,000 jobs, supporting a total employment impact of 74,000 jobs. Personal care manufacturing and advertising and marketing sectors sustained total employment of 53,000 and 15,000 jobs, respectively. Reflecting the observation seen in the industry's total contributions to GDP, the indirect and induced impacts represent a smaller proportion of total impacts for service providers and retail relative to the other modelled sectors.



FIG. 13 TOTAL TAX CONTRIBUTIONS SUPPORTED BY THE UK'S PERSONAL CARE INDUSTRY IN 2022, BY **CHANNEL OF IMPACT** (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS

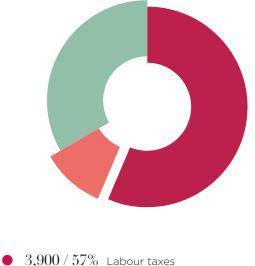


In 2022, the personal care industry supported a total of £6.8 billion tax contributions to the UK government. Half (50%) of this tax was paid by the industry itself, 18% through activity supported by indirect output and 32% through induced channels. The tax contributions follow a similar time pattern to GDP contributions over time, with 2022 showing growth on £6.3 billion in 2021 but still below the recent peaks in 2018 and 2019 before Covid-19 struck, as Chapter 3 will show in more detail.

Of this tax, 57% was paid through labour taxes, 10% through corporation tax and 33% in other taxes. A greater proportion of taxes are paid through taxes on production, within "Other taxes" as the sectors that are indirectly supported by the personal care industry are less likely to benefit from the business rate reductions that hair and beauty services benefit from throughout the period of analysis.

FIG. 14 TOTAL TAX CONTRIBUTIONS SUPPORTED BY THE UK'S PERSONAL CARE INDUSTRY IN 2022, BY TAX TYPE (£ MILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



- 2.300 / 33% Other taxes
 - 700 / 10% Corporation taxes

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To provide further context for the personal care industry's economic impact in 2022 we consider the evolution of the industry since 2018, when our previous report was produced. This helps identify the challenges that the industry has faced in recent years as well as illustrating its path towards recovery. We first set out how the UK economy as a whole, and household finances in particular, have changed since 2018, allowing us to set the performance of the personal care industry against this backdrop.

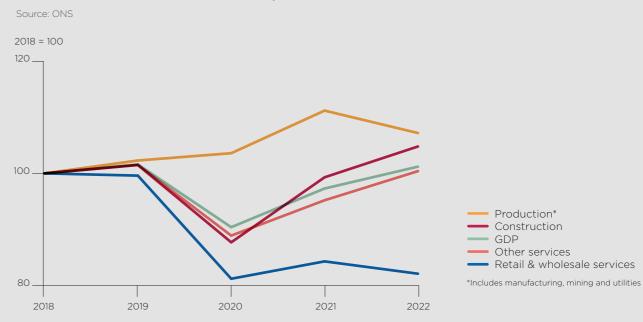
3.1 THE UK ECONOMY OVER THE PAST FIVE YEARS

3.1.1 UK GDP: STILL DOWN ON PRE-CRISIS BUT ON PATH TO RECOVERY

The UK economy has faced major challenges over the past few years. In 2020, the world was rocked by the disruption brought about by the Covid-19 pandemic and the public health response that followed. From 2019 to 2020, the UK's GDP decreased 11.0%, a historically unprecedented shock.¹³ Since then, GDP has slowly risen but remained in 2022 down on 2019 levels by 0.4%.

This effect has been felt particularly keenly in the retail and wholesale sector, which was 17.6% smaller in 2022 than in 2019. Other parts of the economy such as the rest of the services sector and the construction industry have largely recovered from the effects of the pandemic, while the production sector, driven by manufacturing, was only minorly affected by Covid-19 shutdowns, with the sector larger today than in 2019.

FIG. 15 UK GVA BY BROAD INDUSTRY GROUPS, INDEXED AROUND 100 AND IN REAL TERMS¹⁴



Office for National Statistics, "GDP and events in history: how the Covid-19 pandemic shocked the UK economy", published May 2022
 Elements of the personal care industry are included in the GDP, production, retail and wholesale, and other services sectors here, though represent only a small portion of the total of each.

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TRACING THE PERSONAL CARE INDUSTRY'S IMPACT THROUGH TIME

3.1.2 CONSUMER SPENDING COLLAPSED DURING THE PANDEMIC AND NOW FACES A FURTHER SQUEEZE BY RISING COST OF LIVING PRESSURES

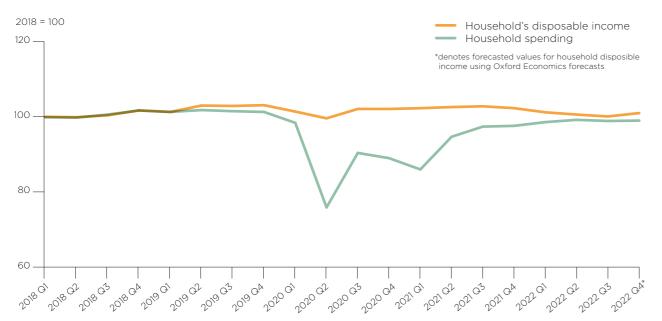
As the government responded to the spread of Covid-19, schemes such as the Coronavirus Job Retention Scheme (furlough) and the Self-Employment Income Support Scheme were introduced to try to protect household incomes. These schemes were fairly successful in limiting significant declines in real household disposable incomes, compared to the much larger decline in GDP.

However, despite household finances largely holding up, consumer spending saw a decline of more than 25.1% between the end of 2019 and Q2 2020, in large part because opportunities to spend were so curtailed by restrictions. The sharpest spending cuts were in sectors that rely on high levels of contact or social interaction.

The removal of all restrictions as the threat of the pandemic eased helped consumer spending to return towards pre-Covid-19 levels in mid-2022. However, since then, further pressure has been placed upon household finances with high levels of inflation, exacerbated by effects triggered by the war in Ukraine, eroding family spending power. Over the course of 2022, real household disposable income is expected to be 1.72% lower than it was in 2021. This is a more significant decline in real household disposable income than seen over the course of 2020 and the largest decline since 2011.

FIG. 16 UK HOUSEHOLD DISPOSABLE INCOME AND CONSUMER SPENDING, INDEXED AROUND 100 AND IN REAL TERMS

Source: Oxford Economics, ONS



¹⁵Oxford Economics, "Oxford Economics forecasts", published February 2023

3.2 CONSUMER SPENDING ON PERSONAL CARE

Reflecting trends in the wider economy, spending on personal care products and hair and beauty services declined sharply over the course of the Covid-19 pandemic before returning to growth in 2021 and 2022. However, the decline was more severe in this spending category than overall consumer spending, at 25.6% from 2019 to 2020, compared to an overall consumer spending decline of 12.9%. In 2022, spending on personal care products and services remained 16.2% below 2019 levels.

Within total spending on personal care, hair and beauty services were hit especially hard by the tightening of social-distancing restrictions. During periods when lockdowns required the mass-closure of most of the economy, hair and beauty service providers were forced to completely shut and then wait longer than most of retail to reopen.¹⁷

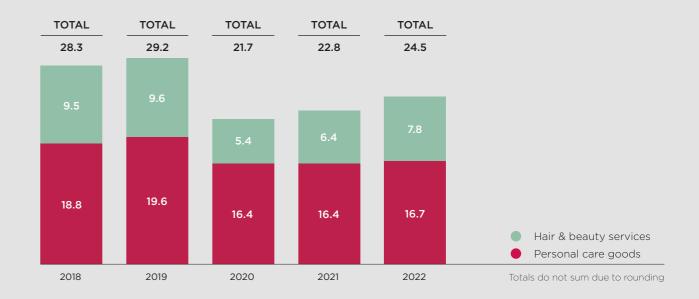
As the threat of Covid-19 lessened and lockdowns were lifted, hair and beauty service providers were presented with further obstacles to navigate as employees had to adapt to new social-distancing requirements. In 2020, spending on hair and beauty services almost halved, declining by 44.4%. Despite the challenges that hair and beauty services continued to face in 2021 and 2022, spending grew by 19.5% and 22.4% in each year.

The same period saw the wider industry embrace digitalisation and e-commerce. As Chapter 5 sets out, more aspects of operations have become digitalised, enabling firms to make greater use of computers and the internet – and particularly Augmented Reality and Artificial Intelligence technologies.

The 2020 decline in spending on personal care goods was less severe, decreasing by 16.3%, as some personal care items are always needed, and others like personal hygiene products became more essential than ever. However, since then, these items have seen a much slower recovery than personal care services, rising by only 1.6% between 2020 and 2022.

FIG. 17 CONSUMER SPENDING ON PERSONAL CARE PRODUCTS AND SERVICES (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



¹⁷ Pragmatix Advisory, "<u>Hair, beauty and the pandemic: An industry at the sharp end</u>", published February 2021

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¹⁶ Office for National Statistics, "<u>UK Economic Accounts</u>", published December 2022

TRACING THE PERSONAL CARE INDUSTRY'S IMPACT THROUGH TIME

3.3 THE EVOLUTION OF THE PERSONAL CARE INDUSTRY

3.3.1 DIRECT IMPACTS OVER TIME

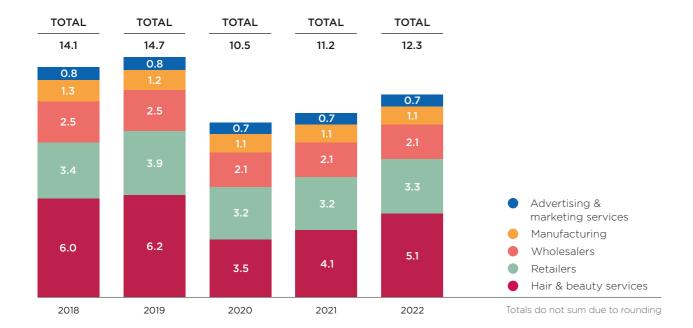
Against the backdrop of an economy that has not yet recovered from the effects of the pandemic, household finances that continue to be squeezed, and reduced overall spending on personal care products, the industry itself is smaller than measured in our previous study. However, 2021 and 2022 did exhibit the start of a recovery back towards pre-pandemic levels.

Contributions to GDP

The growth in the direct contribution to GDP of the personal care industry in recent years reflects trends in consumer spending on personal care goods and services. The challenges presented by the Covid-19 pandemic saw the industry shrink by 28.1% from 2019 to 2020 to a low of £10.5 billion. In 2021, the industry showed some signs of recovery, with GDP contributions growing to £11.2 billion. From 2021 to 2022, the recovery was stronger, growing 9.4% in 2022 to an estimated £12.3 billion direct contribution to GDP.

FIG. 18 DIRECT GVA CONTRIBUTIONS TO GDP OF THE PERSONAL CARE INDUSTRY, BY SUB-SECTOR (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



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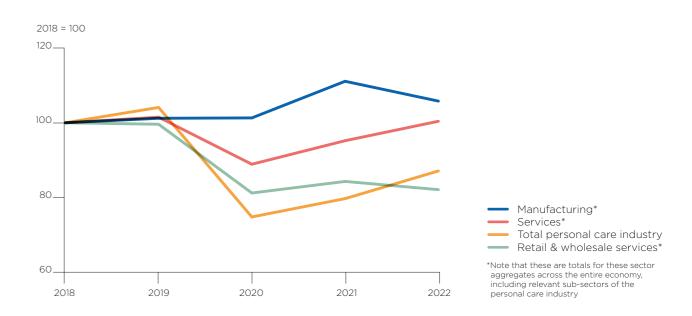
Consistent with the sharper decline in spending on hair and beauty services, the GDP contributions of hair and beauty service providers were most affected by the Covid-19 pandemic. From 2019 to 2020, the contributions to GDP of hair and beauty service providers fell from £6.2 billion to £3.5 billion, a decrease of 44.5%. Since 2020, the GDP contribution of hair and beauty service providers has rebounded to £5.1 billion, 81% of its 2019 £6.2 billion pre-Covid-19 peak. The GDP contributions of the other personal care industry sectors follow trends in consumer spending on personal care goods closely with the combined GDP contributions of the distribution chain growing from £5.3 billion in 2020 to £5.4 billion in 2022.

The GDP contribution of the advertising and marketing services sub-sector, which represents activity at advertising firms supported by personal care industry spending, also saw a decline during the Covid-19 pandemic and a slow recovery since then. This mirrors the trends seen in the retail, wholesale and manufacturing sectors of the personal care industry, with total advertising spend by the industry across all media types estimated to remain subdued despite recent rapid growth in digital marketing and e-commerce. More detail on these trends is given in Chapter 5.

Comparing the growth of the personal care industry from 2018 through to 2022, the decline in the GDP contributions of the personal care industry was more severe than each of the main industry groupings within the economy. Since then, the growth of the industry has been faster than total retail and wholesale industries and similar to that of the total service sector.

FIG. 19 GROWTH IN GDP CONTRIBUTIONS OF THE TOTAL PERSONAL CARE INDUSTRY COMPARED TO SELECTED INDUSTRY GROUPINGS INDEXED AROUND 100 AND IN REAL TERMS

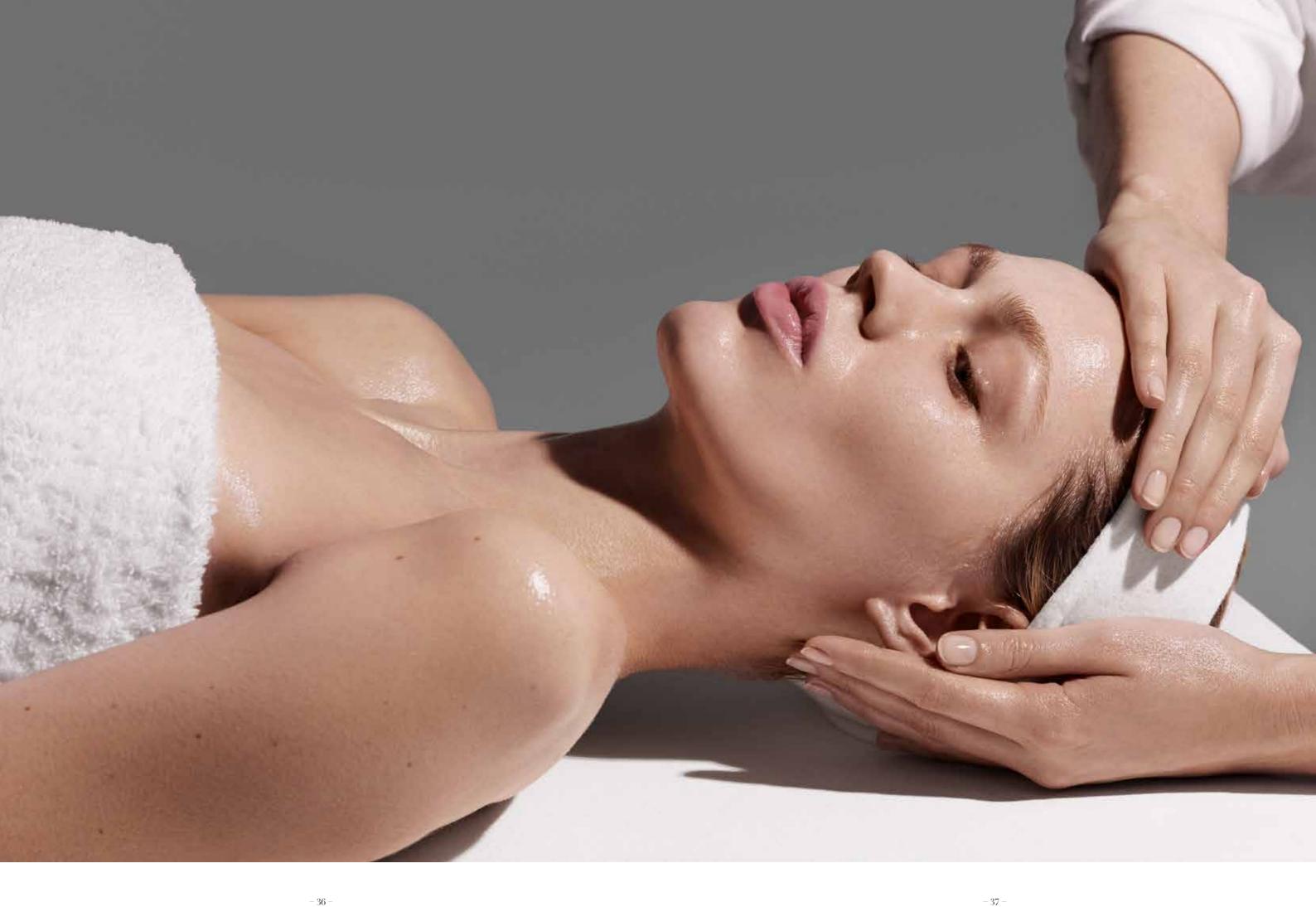
Source: Oxford Economics, ONS



¹⁸ Oxford Economics for British Beauty Council, "<u>Value of Beauty</u>", published 2019

¹⁹ All GDP contribution and tax estimates are expressed in 2022 prices

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TRACING THE PERSONAL CARE INDUSTRY'S IMPACT THROUGH TIME

Direct contributions to employment

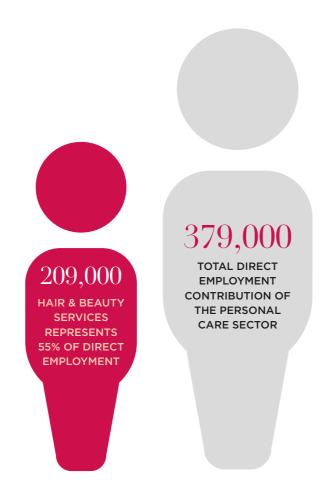
From 2019 to 2020, employment sustained by the personal care industry fell by 20.2%, a smaller decrease relative to the decline in GDP contributions. This is because from 2019 to 2020, industry productivity fell across all sectors, meaning relatively more jobs are required to produce the same level of output. In the following years, average productivity in the personal care industry started to rise again, leading to stagnant employment growth, despite a rise in GDP contributions. As a result, employment in 2022 remains 20.8% below its 478,000 pre-pandemic peak in 2019.

Throughout the period, employment was dominated by the hair and beauty services sector, falling from a peak of 269,000 in 2019 to 187,000 in 2020 and then growing to 209,000 in 2022 as the sector recovered. Due to improvements in sector productivities outpacing increases in GDP contributions, employment in 2022 remains lower than it was in 2020 for all other personal care industry sectors.

As set out in detail in Chapter 5, the industry has suffered from skills shortages. In the last two years in particular, recruitment and retention have also been negatively affected by Brexit.

Direct tax contributions

Growth in the direct tax contributions of the personal care industry follows the industry's growth in GDP contributions for most years. The primary exception is from 2018 to 2019 where the introduction of personal care business rate reliefs lowered the tax paid by beauty service providers. Another exception is in 2022 as an increase in the rates of national insurance contributions for a portion of the year caused labour taxes to increase relative to employment.



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FIG. 20 DIRECT EMPLOYMENT CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY, 2018–2022, BY SUB-SECTOR (HEADCOUNT)

Source: Oxford Economics, ONS

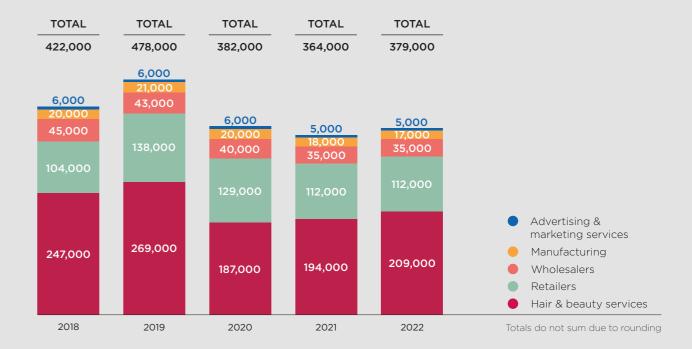


FIG. 21 DIRECT TAX CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY, 2018–2022, BY TAX TYPE

(£ BILLIONS, 2022 PRICES

Source: Oxford Economics, ONS



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TRACING THE PERSONAL CARE INDUSTRY'S IMPACT THROUGH TIME

3.3.2 TOTAL IMPACTS OVER TIME

Total contributions to GDP

The total contributions to GDP of the personal care industry follow trends in growth of direct contributions to GDP from 2018 to 2022. Incorporating the indirect and induced impacts of the personal care industry, total contributions to GDP peaked at £29.1 billion in 2019 before declining to £21.5 billion as the effects of Covid-19 impacted both the personal care industry and the economic activity sustained by its purchases and wage payments. Since then, total economic impact has grown to £24.5 billion in 2022. From 2020 to 2022, induced impacts grew faster than indirect impacts as the sectors driving the industry's intermediate consumption (manufacturing and retail) grew slower than the sectors driving employment and wage payments (hair and beauty services).

Total employment contributions

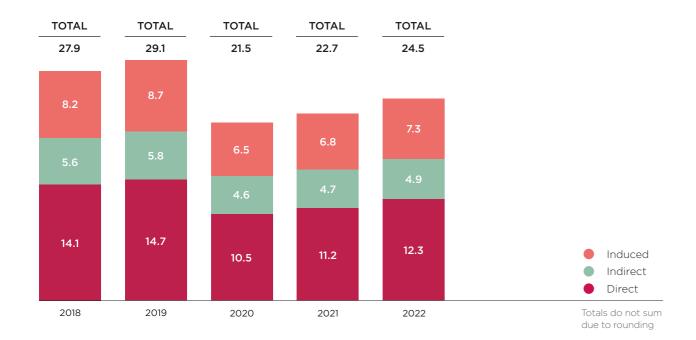
Total employment contributions are dominated by the personal care industry's own employment for every year and so growth follows similar trends to direct employment over time. From 2020 to 2021, while the industry's intermediate consumption and compensation of employees increased, labour productivity grew at a faster rate meaning that stimulated economic activity sustained less employment. As a result, total employment contributions of the industry fell for two consecutive years from 2019, before growing to 551,000 jobs in 2022.

Total tax contributions

The 2020 decline in total tax contributions mirrors that of the industry's direct tax contributions, decreasing 21.9% from 2019's estimate. Since 2020, total tax contributions have grown year on year with 2022 tax contributions boosted by temporary national insurance contributions changes that saw higher rates paid for a portion of the year.

FIG. 22 TOTAL CONTRIBUTIONS TO GDP OF THE PERSONAL CARE INDUSTRY, 2018-2022, BY CHANNEL OF IMPACT (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS



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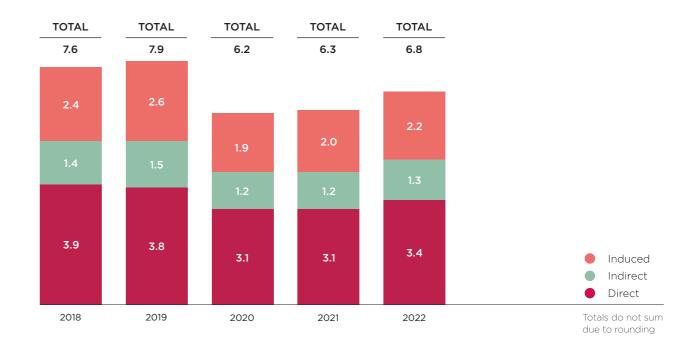
FIG. 23 TOTAL EMPLOYMENT CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY, 2018-2022, BY CHANNEL OF IMPACT (HEADCOUNT)

Source: Oxford Economics, ONS



FIG. 24 TOTAL TAX CONTRIBUTIONS OF THE PERSONAL CARE INDUSTRY, 2018–2022, BY CHANNEL OF IMPACT (£ BILLIONS, 2022 PRICES)

Source: Oxford Economics, ONS





4.1 THE PERSONAL CARE INDUSTRY'S WORKFORCE

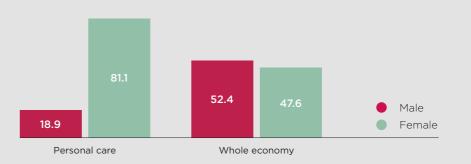
The personal care industry is characterised by its diverse workforce, distinctive working patterns, and the outsized role of business ownership.²⁰

4.1.1 DEMOGRAPHICS

The personal care industry's workforce has four times as many women as men.²¹ Over 80% of the personal care industry's workforce are women. In contrast, the workforce of the economy as a whole skews slightly towards men. This illustrates how the personal care industry helps to provide employment opportunities for women, who are under-represented in the overall labour force.

FIG. 25 THE PERSONAL CARE AND WHOLE ECONOMY WORKFORCES BY SEX, 2021-2022²² (PERCENT)

Source: Annual Population Survey



hotograph: Liz Collins

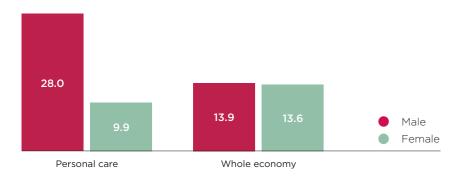
²⁰ The definition of the personal care industry used in this section differs slightly to that used in Chapter 2 due to data constraints. Specifically, we do not consider those working in non-specialised retail stores where beauty items are sold and those working in the manufacture of electric domestic appliances, some of whom will produce beauty items.

²¹ Office for National Statistics, "Annual Population Survey July 2021 to June 2022", provided by ONS request service

²² The Office for National Statistics' Annual Population Survey does not ask for a respondent's gender identity, so the data used refer to an individual's current sex.

FIG. 26 PERCENTAGE OF THE PERSONAL CARE AND WHOLE ECONOMY WORKFORCES IDENTIFYING AS AN ETHNIC MINORITY, BY SEX, 2021–2022 (PERCENT)

Source: Annual Population Survey

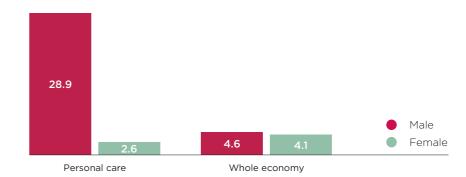


Men as a whole may be under-represented in the industry, but ethnic minority²³ men are not.²⁴ In relative terms, ethnic minority men are twice as prevalent in the personal care industry compared to the economy as a whole. Almost 30% of men in the personal care industry are ethnic minority men, compared to around 15% in the economy as a whole.

The demographics of men working in the personal care industry also differ significantly to the rest of the economy in terms of sexual identity. Men working in personal care are around six times as likely to have a sexual identity other than heterosexual/straight²⁵ than men in the wider economy.²⁶ In the personal care industry, 28.9% of men identify as a sexual identity other than heterosexual/straight compared to 4.6% in the economy as a whole. In contrast, women in the personal care industry are slightly less likely to have a sexual identity other than heterosexual or straight at 2.6% compared to 4.1% of women in the economy as a whole.

FIG. 27 PERCENTAGE OF THE WORKFORCE WITH A SEXUAL IDENTITY OTHER THAN HETEROSEXUAL / STRAIGHT, BY SEX, 2021-2022 (PERCENT)

Source: Annual Population Survey



The personal care industry is younger than the rest of the economy. Almost half of the workforce is under the age of 35, compared to around a third of those working in the wider economy.²⁷ The median age of the personal care industry workforce is 36, compared to 41 in the UK workforce as a whole. Interestingly, the personal care industry exhibits a marked drop in representation between the age groups of 35 to 39 and 40 to 44, before picking up again between the ages of 45 to 54. This occurs both for men and women, with a proportionately larger decrease for women.

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²³ In line with <u>guidance from the Office for National Statistics</u>, the term 'ethnic minority' is used to refer to all ethnic groups except the White British group. Ethnic groups are condensed due to sample size restrictions in the underlying data, which mean that breakdowns by ethnic group are not always possible.

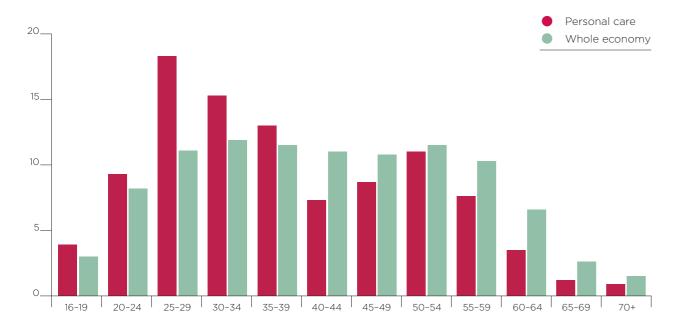
 $^{{}^{24/26}\,}Office\,for\,National\,Statistics,\,"Annual\,Population\,Survey\,July\,2021\,to\,June\,2022",\,provided\,by\,ONS\,request\,service$

²⁵The ONS' Annual Population Survey asks individuals whether they are: heterosexual or straight, gay or lesbian, bisexual, or other. Due to sample size restrictions, sexual identities other than "heterosexual or straight" are grouped.

²⁷ In line with guidance from the Office for National Statistics, the term 'ethnic minority' is used to refer to all ethnic groups except the White British group. Ethnic groups are condensed due to sample size restrictions in the underlying data, which mean that breakdowns by ethnic group are not always possible.

FIG. 28 THE DISTRIBUTION OF AGE IN THE PERSONAL CARE INDUSTRY AND THE WHOLE ECONOMY, 2021–2022 (PERCENT)

Source: Annual Population Survey



In summary, workers in the personal care industry are younger and more likely to be female than the working population as a whole. Moreover, men in the personal care industry also differ to those in the wider economy as they are much more likely to identify as being of an ethnic minority, and to have a sexual identity other than heterosexual or straight.

4.1.2 EDUCATION

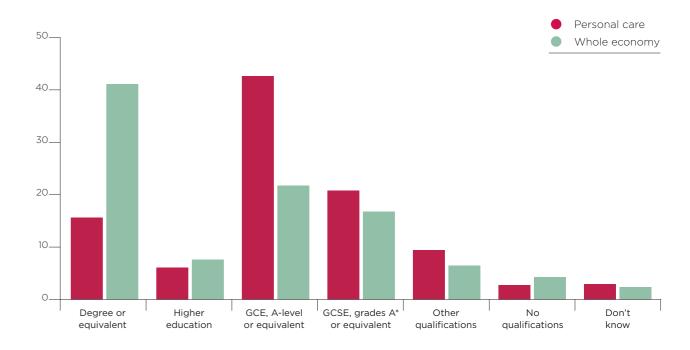
The personal care industry is more likely to employ those educated up to A-level or equivalent standard than the rest of the economy. Almost two-thirds (64%) of those in the personal care industry are educated to at least A-level or equivalent which compares, for example, to 55% of the retail industry.²⁸

Among those in the personal care industry educated to at most A-level or equivalent, the most common qualifications are RQF²⁹ level 3 qualifications (44%), trade apprenticeships (25%), and A-levels (15%).³⁰ Examples of such qualifications relevant to the personal care industry could include a Level 3 NVQ Diploma in Hairdressing, or a recognised Level 3 apprenticeship.

FIG. 29 HIGHEST LEVEL OF EDUCATION IN THE PERSONAL CARE INDUSTRY AND THE WHOLE ECONOMY, 2021–2022 (PERCENT)

Source: Annual Population Survey

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Personal care industry employees are less likely to be educated to degree-level than workers in the economy as a whole, but also less likely to have no qualifications than those in the economy as a whole. This suggests that an A-level or equivalent qualification is typically sufficient to enter the industry. Of those educated to degree-level, some enter the workforce with degrees specialist to the personal care industry. In the 2021/22 academic year, 1,545 students were enrolled on these programmes in the UK.³¹ 1,160 specialised in hair and make-up, 375 studied beauty therapy and 10 were enrolled in spa management.

The personal care industry plays an important role in developing the skills of its workforce through its support of vocational education. In the 2021/22 academic year, students completed 77,000 qualifications with specialist applications to the personal care industry. 32 The industry plays an important role in supporting the delivery of these programmes by offering practical work experience to students. Of these qualifications, 53,000 (69%) were level 2 qualifications (equivalent to higher-grade GCSE qualifications), with another 16,000 (21%) level 3 programmes (equivalent to an A level qualification) completed.

Of the remaining 8,000 qualifications, 7,000 (9%) were entry level or level 1 qualifications (equivalent to foundation-grade GCSE qualifications) and 1,000 (1%) were advanced level 4 or 5 qualifications (equivalent to a higher apprenticeship or foundation-level higher education).

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²⁸ Office for National Statistics, "Annual Population Survey July 2021 to June 2022", provided by ONS request service

²⁹ The Regulated Qualifications Framework

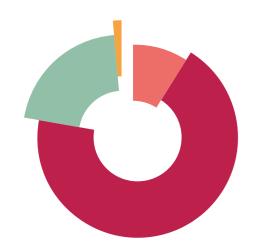
³⁰ Office for National Statistics. (2022). "Quarterly Labour Force Survey, July-September, 2022". [data collection]. UK Data Service. SN: 9027, DOI: 10.5255/UKDA-SN-9027-1

³¹HESA, "What do HE students study?", published January 2023

³² Ofqual, "<u>Vocational qualifications dataset</u>", published December 2022. Data only available for England.

FIG. 30 VOCATIONAL EDUCATION SUPPORTED BY THE PERSONAL CARE INDUSTRY, BY QUALIFICATION LEVEL

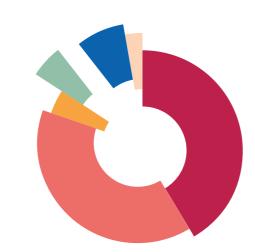
Source: Oxford Economics, Ofqual



- 7,000 Entry level / Level 1
- 53,000 Level 2
- \bullet 16,000 Level 3
- 1,000 Level 4 / Level 5

FIG. 31 VOCATIONAL EDUCATION SUPPORTED BY THE PERSONAL CARE INDUSTRY, BY SUBJECT, 2021–2022

Source: Oxford Economics, Ofqual



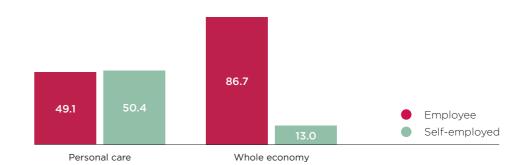
- \bullet 32,000 Hair services
- \bullet 30,000 Beauty treatments
- 3,000 Holistic treatments
- \bullet 4,000 Basic and introductory
- personal care industry training
- ullet 6,000 Multidisciplinary
- 2,000 Other

Students completed the majority of these qualifications in hair services (42%) or beauty treatments (39%). The remainder covered holistic treatments such as massage and acupuncture (4%), basic training serving as an introduction to the industry (6%) and multidisciplinary subjects cutting across multiple applications (8%).

In summary, the personal care industry workforce is more likely to be educated up to a maximum of A-level equivalent standard than the economy as a whole, and less likely to have no recognised qualifications. The industry also itself plays an important role in meeting its needs for a skilled workforce by supporting the completion of almost 80,000 relevant qualifications in the 2021/22 academic year alone.

FIG. 32 EMPLOYEES vs. THE SELF-EMPLOYED IN THE PERSONAL CARE INDUSTRY AND WIDER ECONOMY, 33 2021–2022 (PERCENT)

Source: Annual Population Survey



4.1.3 WORKING PATTERNS

Around half of those working in the personal care industry are self-employed, compared to just over one in 10 in the economy as a whole.³⁴ Self-employment and the independence that this provides, for example, in setting working hours may benefit those needing flexible working.

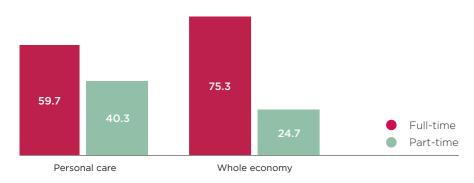
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 $^{^{\}rm 33}$ The column pairs do not add to 100% as a small percentage of "other" responses were omitted.

³⁴ Office for National Statistics, "Annual Population Survey July 2021 to June 2022", provided by ONS request service

FIG. 33 PART-TIME vs. FULL-TIME WORKERS IN THE PERSONAL CARE INDUSTRY AND THE WIDER ECONOMY, 2021–2022 (PERCENT)

Source: Annual Population Survey

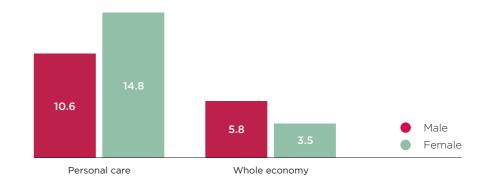


In addition to being more likely to be self-employed, 40% of the personal care workforce works part-time.³⁵

This is higher than the economy as a whole where the figure is just 25%. As with self-employment, greater opportunities for part-time work are consistent with the personal care industry providing an alternative to standard working practices, which may be less suitable for example for those with childcare responsibilities.

FIG. 34 BUSINESS OWNERSHIP IN THE PERSONAL CARE INDUSTRY AND ECONOMY AS A WHOLE, BY SEX, 2021–2022 (PERCENT)

Source: Annual Population Survey



4.1.4 BUSINESS OWNERSHIP & SMES

The personal care industry workforce has high rates of business ownership compared to the rest of the economy. Around 5% of the overall UK working population are business owners, compared to 14% of workers in the personal care industry.³⁶ This is consistent with the higher proportion of self-employed individuals in the personal care industry.

Rates of business ownership in the personal care industry are particularly high for women. Women are four times as likely to own a business in the personal care industry compared to across the economy as a whole. Indeed, 15% of women working in the industry are business owners, which compares to 3.5% in the total economy. They are also more likely to be business owners than men working in the personal care industry.

In combination with the high representation of women in the industry, this means that 86% of business owners in the personal care industry are women. This is in contrast to the overall economy, where only 35% of business owners are women.

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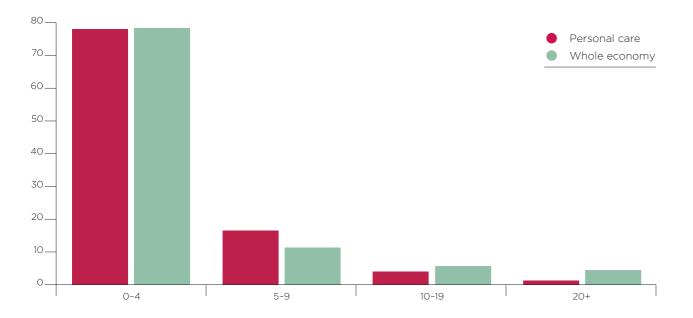
-50 -

³⁵ Office for National Statistics, "Annual Population Survey July 2021 to June 2022", provided by ONS request service

³⁶ Office for National Statistics, "Annual Population Survey July 2021 to June 2022", provided by ONS request service

FIG. 35 PERCENTAGE OF REGISTERED SMEs IN THE PERSONAL CARE INDUSTRY, BY NUMBER OF EMPLOYEES, 2021–2022 (PERCENT)

Source: Interdepartmental Business Register



High rates of business ownership in the industry are consistent with personal care SMEs being, on average, smaller than those in the economy as a whole.³⁷

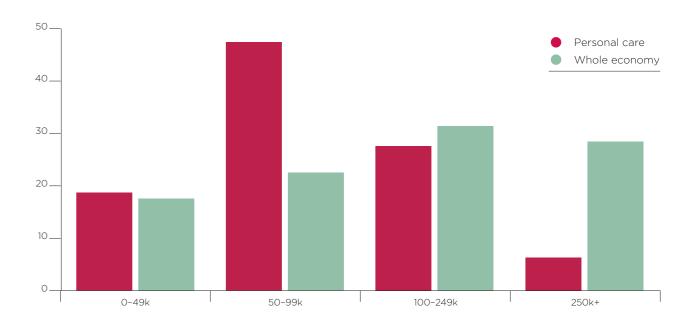
More than nine out of 10 (95%) of personal care SMEs have fewer than 10 employees, whereas around 90% of SMEs in the wider economy have fewer than 10 employees. The turnover of personal care SMEs tells a similar story. Around 66% of personal care SMEs have a turnover of less than £100k, whereas only 40% of SMEs in the rest of the economy have a turnover of less than £100k.

Breaking the personal care sector down into its constituent parts, approximately 91% of SMEs are hair and beauty service providers, 4% are retailers selling personal care products, 4% are wholesalers, and 2% are manufacturers of personal care products.³⁸

The number of personal care industry SMEs has grown in recent years. There are 25% more registered SMEs in 2022 than there were in 2015. Growth in the number of registered SMEs in personal care exceeded growth in the number of registered manufacturing and services SMEs, but was lower than growth in the number of registered businesses in the construction industry.³⁹ The personal care industry experienced growth in the number of registered SMEs despite the Covid-19 pandemic, in contrast, for example, to the services sector (net of personal care) which saw a flattening in growth between 2019 and 2022.⁴⁰

FIG. 36 PERCENTAGE OF REGISTERED SMEs IN THE PERSONAL CARE INDUSTRY, BY TURNOVER BAND, 2021-2022 (PERCENT)

Source: Interdepartmental Business Register



Growth in the number of registered personal care SMEs is driven by growth in the number of micro-businesses with between zero and four employees. There are 46% more SMEs with between zero and four employees in 2022 than in 2015. In contrast, the number of SMEs with more than five employees has decreased since 2015. This implies that whilst the number of personal care SMEs has increased since 2015, the average personal care SME is now smaller.

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^{37/38/39} Office for National Statistics, "<u>UK business: activity, size and location (2022 edition)</u>", published September 2022

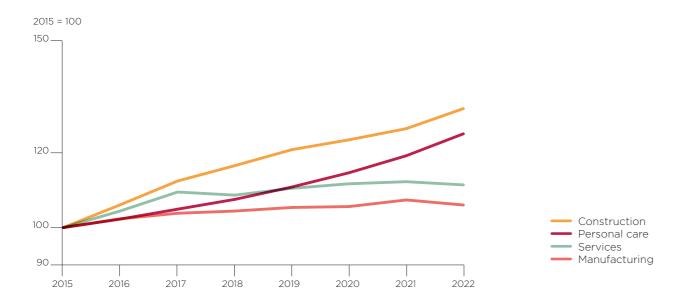
⁴⁰The underlying data only captures businesses registered for VAT and/or PAYE meaning that growth in unregistered businesses may be different.

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THE PERSONAL CARE INDUSTRY AND ITS REACH ACROSS THE UK

FIG. 37 GROWTH IN NUMBER OF REGISTERED SMEs BY PERSONAL CARE, AND COMPARATOR SECTORS SINCE 2015⁴¹

Source: Interdepartmental Business Register



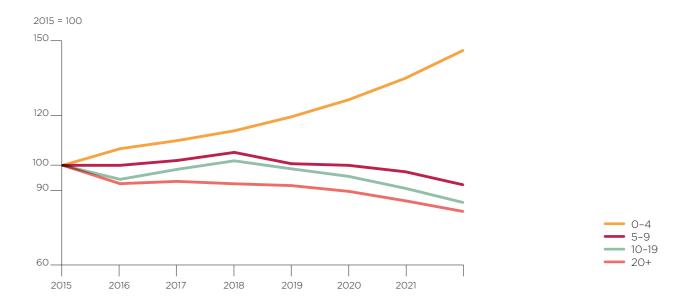
4.2 THE PERSONAL CARE INDUSTRY'S FOOTPRINT ACROSS THE UK

The personal care industry is notable for the consistency of its employment footprint across the entirety of the

UK. We ranked local authorities according to the share of employment in the personal care industry and split them into four groups: the bottom quarter, lower middle quarter, upper middle quarter and upper quarter⁴².

FIG. 38 GROWTH IN NUMBER OF PERSONAL CARE INDUSTRY SMEs BY NUMBER OF EMPLOYEES SINCE 2015

Source: Interdepartmental Business Register



In the lower and upper middle quarters, personal care accounted on average for one in every 150 and one in every 116 jobs respectively. Even between the bottom and upper quarters the gap was not much wider, with the personal care industry accounting for one in every 216 in the bottom group and one in every 72 jobs in the upper. This shows the industry's footprint is meaningful and relatively stable across the majority of the UK.

In certain pockets of the UK, the personal care industry plays a greater than average role in the local economy. The two most prominent examples of this are London, and Yorkshire and the Humber. Across London as a whole, the personal care industry directly accounts for one in every 80 jobs, and in Yorkshire and the Humber this figure stands at one in every 97 jobs.

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⁴ Changes to the underlying data prior to 2015 do not allow comparisons going further back. The services sector is defined as SIC sections G to U, net of those sections' personal care components. Manufacturing is defined as SIC section C, net of its beauty components. Construction is defined as SIC section F.

⁴² Analysis in this section is based on data available from the Office for National Statistics on personal care industry jobs by location. Due to data constraints, this covers less of the beauty sector than our economic impact analysis in Chapter 2, and as such is not directly comparable.

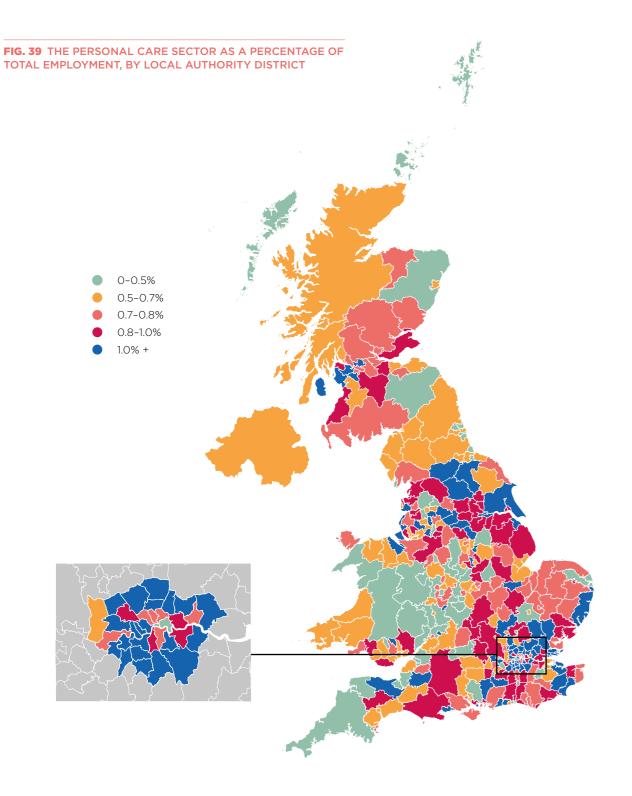


FIG. 40 TOP 10 LOCAL AUTHORITY DISTRICTS FOR INTENSITY OF PERSONAL CARE INDUSTRY EMPLOYMENT

Source: ONS Business Register and Employment Survey

RANK	LOCAL AUTHORITY DISTRICT	PERCENTAGE OF TOTAL EMPLOYMENT IN THE PERSONAL CARE INDUSTRY
1	Hammersmith and Fulham	4.6%
2	East Hampshire	3.1%
3	Croydon	3.1%
4	Broxtowe	2.4%
5	Arun	2.3%
6	Kensington and Chelsea	2.0%
7	Rochford	1.8%
8	Richmond Upon Thames	1.7%
9	North Ayrshire	1.7%
10	Mendip	1.6%

On a more granular level, the personal care industry plays an outsized role in a number of local authorities. Four of the top 10 local authorities for "intensity" of personal care industry employment are located in London. For example, in Hammersmith and Fulham the personal care industry accounts for one in every 22 jobs, and in Croydon it accounts for one in every 32 jobs. Outside of London, personal care has a particularly large presence at local authority level in East Hampshire, Broxtowe, and Arun. These local authorities tend to have one or more large personal care industry employers, who may have their head office or a manufacturing plant in the local authority.

4.2.1 THE PERSONAL CARE INDUSTRY IN DEPRIVED AREAS

The personal care industry's footprint extends to the poorest local authorities and those with the highest levels of unemployment.

We ranked local authorities in England according to local levels of unemployment. We then split them into ten groups and calculated the number of personal care jobs as a share of all personal care jobs in each group. We found that almost half (45%) of personal care jobs are in local authorities with the highest levels of unemployment.⁴³ In comparison, 41% of retail sector jobs and 41% of construction jobs are concentrated in those same local authorities.

Similarly, we divided local authorities into ten groups based on local levels of income deprivation. We found that 41% of personal care jobs are in the local authorities with the highest levels of income deprivation.⁴⁴ In the construction sector, the figure is lower at 37% in the same set of local authorities, and in retail it is slightly lower at 40%.

As such, the personal care industry plays an active role in local economies regardless of income deprivation and unemployment. Moreover, relative to the retail sector as a whole, slightly more of the beauty sector is concentrated in areas of higher unemployment and income deprivation.

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⁴³ 45% is the sum of personal care employment in local authorities in the 8th, 9th, and 10th deciles of unemployment rate divided by total personal care employment.

⁴⁴ 41% is the sum of personal care employment in local authorities in the 8th, 9th, and 10th decile of income deprivation (according to the Indices of Multiple Deprivation) divided by total personal care employment

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THE PERSONAL CARE INDUSTRY AND ITS REACH ACROSS THE UK

4.3 PERSONAL CARE AS A PLATFORM FOR SOCIAL MOBILITY

We explored how the personal care industry may act as a platform for social mobility and tested this hypothesis using statistical modelling and a nationally representative dataset.

The importance of fostering social mobility⁴⁵ is recognised in the UK government's "Levelling Up the United Kingdom" white paper published in 2022.⁴⁶ There are several avenues through which the personal care industry may contribute to upwards social mobility more broadly.

Firstly, it may have lower educational barriers to entry by typically only requiring A-level or equivalent qualifications, in contrast to some industries for which educational requirements may act as a blocker to individuals from deprived backgrounds. Indeed, differences in the quality and quantity of education received were identified as a core driver of the pay gap between those from disadvantaged and affluent backgrounds.⁴⁷

Secondly, the higher rates of business ownership, and growth in the number of SMEs in the industry, imply that the personal care industry may offer an important avenue to business ownership, as a further route to upwards social mobility.

Moreover, the personal care industry's consistent footprint throughout the UK including in deprived areas means it is well-placed to address social mobility's geographical dimension. Social mobility is particularly low in deprived areas so personal care's role in fostering upwards social mobility could be particularly important in such places. In areas with the highest levels of social mobility, individuals from disadvantaged backgrounds can earn twice as much as disadvantaged individuals in areas with the lowest social mobility areas.⁴⁸

Ethnic minority individuals are also more likely to live in income-deprived neighbourhoods, ⁴⁹ which are associated with lower levels of social mobility. As the personal care industry has proportionately more ethnic minority men than the wider economy, it may be well placed to play a role in providing those working in the industry a route to upwards social mobility.

4.3.1 THE ROLE OF THE PERSONAL CARE INDUSTRY IN CREATING OPPORTUNITIES FOR SOCIAL MOBILITY

To understand the potential role of the personal care industry in facilitating upwards social mobility, we looked at whether, regardless of background, those in the personal care industry are more likely to be managers or business owners.⁵⁰

We found that similar individuals working in the personal care industry are more likely to be business owners or managers than those working in other industries. We also found evidence that particularly those educated to below degree-level⁵¹ are more likely to be managers or business owners in the personal care industry than similar individuals in other industries. As such, the personal care industry may offer a route to upwards social mobility, especially for those without the opportunity to pursue higher education.

Managers in the personal care industry earn around 28%⁵² more than non-managers in the rest of the economy.⁵³ As such, managerial opportunities in the personal care industry may provide a route to higher income, as one important dimension of upwards social mobility.



⁴⁵ The UK's Social Mobility Commission defines social mobility as the link between an individual's occupation or income and the occupation or income of their parents. Where this link is weak, social mobility is higher, as an individual is less constrained by their parents' socioeconomic status.

⁴⁶ HM Government, "Levelling Up the United Kingdom", published February 2022

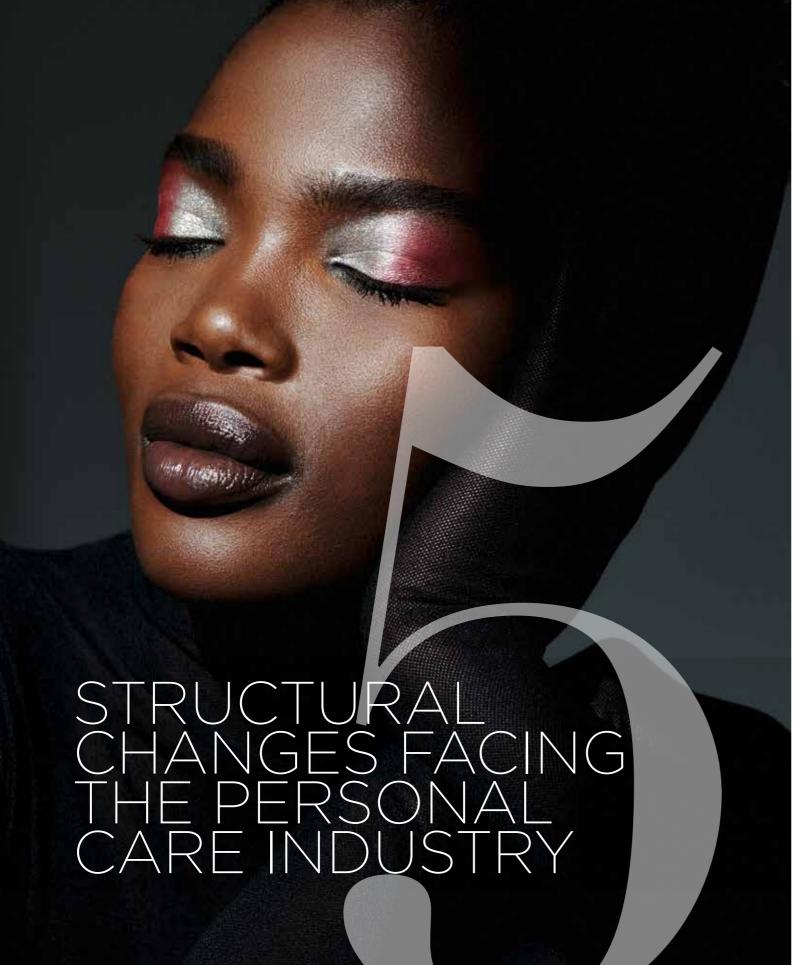
^{47/48} Social Mobility Commission, "<u>The long shadow of deprivation; differences in opportunities across England</u>", published September 2020 ⁴⁹ Ethnicity facts and figures service, "<u>People living in deprived neighbourhoods</u>", published June 2020

⁵⁰ We used the Labour Force Survey and an econometric model which controls for various socioeconomic and demographic characteristics of an individual, as well their familial background. For more detail, see Appendix.

⁵¹ With the exception of those with no qualifications at all.

⁵² Derived from a comparison of gross weekly pay in managers in the personal care industry with non-managers in the rest of economy between 2017 and 2019. Comparable data is not available for the personal care industry for business owners.

⁵⁵ Office for National Statistics. (2022). "Quarterly Labour Force Survey, July - September waves, 2017, 2018, 2019". [data collection]. UK Data Service. SN: 9027, DOI: 10.5255/UKDA-SN-9027-1



In common with many other sectors in the UK, the personal care sector has needed to adapt to structural changes that have challenged and disrupted existing business models. Two major areas of change are digitalisation and operational challenges facing businesses since the UK's exit from the European Union (also referred to here using the shorthand "Brexit").

This chapter highlights the key challenges and opportunities facing the personal care industry in these areas, as identified by our desk research and interviews with industry experts.

5.1 DIGITALISATION OF THE PERSONAL CARE SECTOR

Technological progress in the personal care sector has enabled more aspects of operations to be digitalised, making greater use of computers and the internet. Through our research, we identified five key themes around digitalisation that are particularly important for the personal care sector.

- The growth of e-commerce as a sales channel
- The increasing use of Augmented Reality (AR) tools
- Innovative Artificial Intelligence (AI) applications
- Leveraging the reach of social media
- Integration of three-dimensional (3D) printing

Beyond these five themes, the sector has also been affected by the growth of remote working observed across the economy during and after the pandemic. This has increased the necessity and prevalence of digital communication platforms and has affected worker productivity. Based on responses to the Opinions and Lifestyle Survey (OPS), more than eight in 10 UK workers who had to work from home during the pandemic said they planned to hybrid work in the future.⁵⁴ A survey of 1,004 full-time employees across the U.S. found that employers can expect a productivity increase of 1.4 working days per month from employees that work from home.⁵⁵ Digital communication platforms, such as Teams, Zoom, and Slack can provide fast and convenient communication between employees who are working remotely.56 For example, 91% of respondents to a 2020 survey of users in the U.S., U.K., Australia, and Canada stating that Slack has improved their ability to work remotely.⁵⁷

5.1.1 THE GROWTH OF E-COMMERCE AS A SALES CHANNEL ACROSS THE RETAIL SECTOR

Sales through the internet, otherwise known as e-commerce, have been growing much faster than their offline equivalents in recent years, rapidly expanding as a share of the total marketplace. This trend is observed across the UK economy and in the personal care industry specifically. In the period between 2017 and 2019 the share of the industry's revenue coming from online channels increased from nearly 23% to over 28%. Restrictions on movement during the Covid-19 pandemic reinforced the trend, driving online sales up to 40% in 2022.

⁵⁴ ONS, "<u>Is hybrid working here to stay?</u>", published May 2022

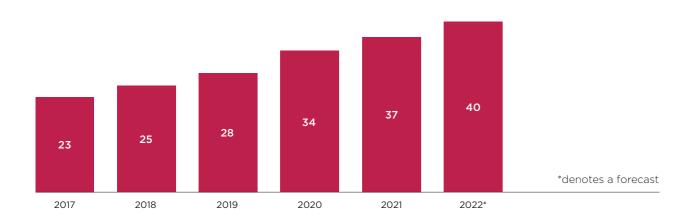
⁵⁵ Carlos Hidalgo, "<u>The Benefits of Working from Home, Part 2: The Business</u>", RingCentral, published May 2020

⁵⁶ LPI, "<u>The Global Impact of Remote Work</u>", published January 2022

⁵⁷ Slack, "<u>How workplace technology has impacted business communications</u>", published February 2022

FIG. 41 PERCENTAGE OF SALES REVENUE FROM ONLINE SALES IN THE BEAUTY & PERSONAL CARE SECTOR

Source: Stastita

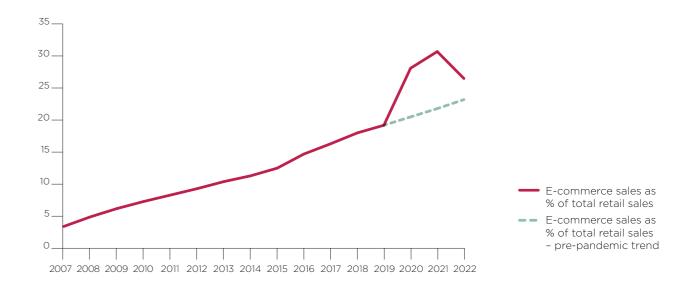


This trend in the personal care industry reflects an economy-wide pattern: e-commerce sales represented just 3.4% of total retail sales across all product types in the UK in 2007, when comparable data began being collected. This share had risen to an average of 19.2% in 2019, prior to the Covid-19 pandemic.⁵⁸ The upward trend accelerated during the pandemic itself, with e-commerce sales peaking at an annual average of 30.7% of total sales in 2021. As social distancing restrictions imposed during the heights of the pandemic subsided, so did the prevalence of internet sales to some degree, with the average for 2022 falling to 26.5%.

However, the data suggest that the pandemic may have led to a permanent increase in the importance of e-commerce to consumers, as a simple extrapolation of the pre-Covid-19 trend would have led to a lower share of 23.2% in 2022.⁵⁹ The shift to online sales has affected the retail industry with one source suggesting that more than 10,000 stores have closed in Great Britain as the industry moved to online platforms.⁶⁰

FIG. 42 UK TOTAL E-COMMERCE SALES AS A SHARE OF TOTAL RETAIL SALES

Source: ONS



The importance of the internet as a sales channel is greater for large firms: 59% of UK businesses with over 1,000 employees made e-commerce sales in 2019, compared to just 27% of small firms with 10–49 employees. However, it is at these smallest firms where the rise in e-commerce has been fastest, with the share of firms using this channel nearly doubling between 2009 and 2019 compared to a much more modest increase for large firms.

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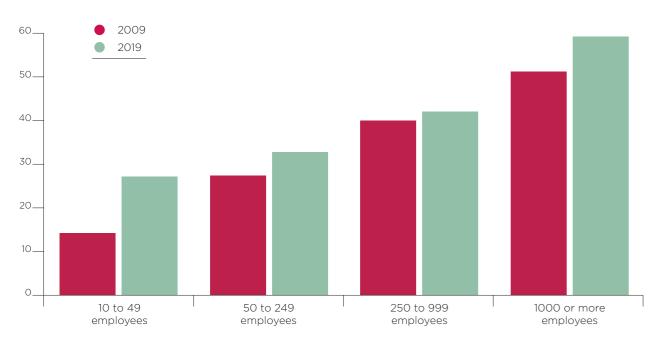
⁵⁸ Office for National Statistics, "<u>Internet sales as a percentage of total retail sales (ratio) (%)</u>", published January 2023

⁵⁹ Based on an average annual increase of 1.3 percentage points seen between 2008 and 2019.

⁶⁰ PwC, "Rate of store closures slowing, but chain operators not replacing vacant units", published February 2022

FIG. 43 PROPORTION OF UK BUSINESSES MAKING E-COMMERCE SALES, BY SIZE OF BUSINESS

Source: ONS



Our interviewees shared insights into the growth of e-commerce over recent years, which has been propelled by the pandemic. In their view, a personalised in-store experience was an important part of the consumer journey before the pandemic for many product categories and most services. However, the pandemic necessitated an alternative channel for consumers given restrictions in movement and shop openings.

It was noted that the shift to online channels during the pandemic led many companies to think about how they can offer consumers the same level of personalisation they are accustomed to in the physical environment. At the same time, some commented that consumers were now looking for a more interactive digital experience than previously.

Two interviewees also highlighted a shift in consumer demand from make-up and other categories that had previously been used to complement consumers' external appearance towards other categories that prioritised health and care. They still see a strong role for e-commerce after the pandemic, but they also highlight that retailers will need to find ways to create synergies between the online and physical customer experience.

One other point raised in our consultations was that the shift to e-commerce during the pandemic enabled brands with smaller budgets to be more competitive because the costs of setting up an e-commerce presence are relatively lower than maintaining a physical store. This led to a more competitive landscape that benefitted consumers.

5.1.2 THE INCREASING USE OF AUGMENTED REALITY TOOLS

AR technology has several personal care-related applications, such as the use of filters to apply "e-makeup" and change hair styles on digital platforms such as social media and video conferencing. AR can also be used for "virtual try-ons," which allow customers to digitally test different personal care products, easily browsing different product types and colours. For example, one AR tool allows users to try a variety of lipstick shades using their mobile phone, tablet, or computer.

AR has been found to reduce consumers' confusion when faced with a wide product assortment, which in turn can lead to an increase a consumer's intention to buy a product.⁶¹

These new tools are not only attractive to businesses for increasing revenues but also with users themselves: a survey of Snapchat's primarily younger user base found that 93% were interested in using AR during the shopping experience.⁶² These tools also help to increase customer engagement, with roughly two thirds of online shoppers reporting that the use of AR and three dimensional visuals on websites increased their confidence that they were buying the right product and 42% saying they would pay more for a product if visualised in this way.⁶³

One interviewee from a digital platform that makes use of AR technology, highlighted how AR helped bridge the personalisation gap that arose during the pandemic. They also suggested that AR had the potential to support the sustainability agenda by supporting virtual try-ons and accurate sizing estimations, thereby reducing returns and wastage. One study commissioned by Snapchat covering the UK and three other markets found that 66% of shoppers who used AR were less likely to return their purchases.⁶⁴

On the other hand, one other interviewee suggested that AR and VR technologies were yet to become mainstream, and their value was limited in very specific product categories like make-up, while they had limited value to add in categories such as fragrances.

5.1.3 INNOVATIVE ARTIFICIAL INTELLIGENCE (AI) APPLICATIONS

Al applications in retail have grown in popularity with brands using the technology to more effectively identify consumer needs and create personalised routines and products. Global spending by retailers on Al services is expected to grow to £10 billion by 2023 and multinational brands are leveraging Al technology in their operations.

One personal care products manufacturer has an in-store beauty app that uses AI for real-time skin-tone detection to help customers find their perfect shade of foundation, as well as a mobile application that uses AI to help support visually impaired consumers in applying makeup. Another beauty products manufacturer, has launched a technology that can judge the quality and problems of the user's skin and can create skin-care products that address each user's specific skin concerns.

One interviewee highlighted that virtual try-on technology was associated with higher conversion rates for prospective customers as well as more time spent on their brands' sites. Another interviewee mentioned that consumers were increasingly demanding more technical consultations that used AI tools, such as scans that processed data points on consumers' skins. These tools have gained popularity with young customers, with a survey of Generation Z⁶⁸consumers finding that 68% desire these personalised recommendations for skin and beauty products.⁶⁹

Al can also be used for back-office functions like demand forecasting and product development using machine learning. It can be used to analyse social media comments, website reviews, and purchase data to highlight what has been popular and provide predictive analytics for upcoming period. One personal care brand uses these data to analyse consumer preferences and uses insights from the analysis to build new personal care products.⁷⁰

⁶¹ Sergio Barta, et al, "<u>Using augmented reality to reduce cognitive dissonance and increase purchase intention</u>", Computers in Human Behaviour, 2023

⁶² Snapchat, "How Gen Z is Reshaping Communication and Redefining the Shopping Experience with AR", published August 2022

⁶³ The Harris Poll for Threekit, "Survey: 60% of Online Shoppers Say They're More Likely to Buy a Product If It's Shown in 3D or Augmented Reality", published September 2020

⁶⁴ Snapchat, "Exploring the Utility of AR in Marketers' E-Commerce Plan", published August 2022

⁶⁵Corina Stirbu, "<u>The high-tech industry trends in 2022</u>", Wolfpack Digital, published November 2021

⁶⁶ US\$12 billion in source material.

⁶⁷ Juniper Research, "How Al can revive retail", published April 2019

⁶⁸ There is no exact definition of Generation Z, but the term is commonly used to represent people born between the late 1990s and some point in the early 2000s.

⁶⁹ Sophie Smith, "<u>How AI and AR are revolutionising the beauty industry</u>", theIndustry.beauty, published January 2022

⁷⁰ Premier Software, "How is Al affecting the beauty industry?", accessed January 2023

There is also a role for Al in the manufacturing process, in functions like quality control automation, colour matching, and defect detection of personal care products, which can save time and increase accuracy. For example, businesses are using Al in digital olfaction, the process whereby technology captures odours using sensors and then uses machine learning software to interpret and classify them. This technology can accurately verify the quality of raw material and finished products, which can help prevent spoilage and product recalls, and reduce the cost of meeting quality standards. Also, in response to the consumer demand for ingredient transparency and clean ingredients, businesses are using Al in personal care supply chains to help them ensure undesired ingredients are not included in their products.⁷¹

Businesses can also use AI to improve the efficiency, agility, and sustainability of their supply chain. AI can leverage real time data to make Time to Market (TTM) forecasts, equip businesses with real-time data on inventory performance and rising trends, and analyse complex factors that contribute to its carbon footprint.⁷²

For one interviewee, Al played a key role in increasing customer satisfaction and retention. The company's use of Al software to support with customers' queries and to provide them advice has contributed to a 96% customer satisfaction rate. The same company has established a data analytics team that analyses customers' interaction with the brand at various online touchpoints. We also heard that the use of Al was limited in one company's beauty portfolio and that they instead focused on the use of analytics to understand the performance of digital sales and marketing channels given the wealth of data that was now available.

The same interviewee suggested that some companies used technological solutions to manage supply chain risks, for example through better tracking during the shipping process or by diversifying their exposure to certain ingredients and materials.

5.1.4 LEVERAGING THE REACH OF SOCIAL MEDIA

The use of social media as a business tool has been increasing across the overall retail sector worldwide, with the value of global sales directly through social media platforms estimated to have increased to £800 billion in 2022. T3.74 Social media is used as a form of marketing – through digital ads and influencer marketing – but also as a platform for selling products directly to consumers. In 2021, nearly 2 billion social media users made purchases on social platforms. One study conducted interviews with personal care industry businesses and found that using social media for promotion is effective for the following reasons:

- The size of the platforms means content reaches large audiences:
- It facilitates communication between the business and consumers regarding topics such as services, offers, and discounts;
- Platforms are easy to use/navigate for businesses and consumers:
- Social media is low-cost relative to other marketing tools

The growth of influencers as a tool for marketing

All interviewees agreed that social media played a key role in the modern personal care ecosystem as they allowed users to personalise their experience, thereby mirroring the experience attained through physical channels which was previously hard to emulate. Three interviewees highlighted influencer marketing as an important channel that had become increasingly important in recent years, with one explaining that individuals tended to follow influencers with whom they identified, therefore making advertisements via this channel more targeted than other forms of advertising.

One respondent, an influencer marketing analytics firm, noted that the transition to digital marketing was well underway before the pandemic but it accelerated significantly in 2020. In the digital space, influencers have a key role as audiences can relate to them and, in time, build trust that helps guide them through their purchase decisions. It was noted that English-speaking influencers effectively had no geographical limits and can therefore reach a very wide global audience. They also highlighted that this momentum was not impervious to policy changes such as stricter privacy regulations which diverted marketing budgets away from digital channels.

Our review found evidence that brands are increasingly turning their attention and spending towards influencer marketing. According to one report, the global influencer marketing market size increased significantly since 2016 when it was estimated at \$1.7 billion to \$16.4 billion in 2022 and is forecasted to increase to \$21.1 billion in 2023.⁷⁷ Another report found that, in 2022, 68% of marketers work with influencers and 88% of brands have a dedicated influencer marketing budget.⁷⁸ According to one study, brands allocated an average of 25% of their marketing budget in 2022 to influencer marketing.⁷⁹

The same report states that despite initial fears that influencer marketing could lose momentum due to Covid-19, it has continued to increase in popularity since 2020.80 A survey of 1,078 consumers in the U.S. found that 68% of respondents spent more time on social media following the pandemic and 58% of consumers noticed more influencers and sponsored content on social media platforms.81 From a business perspective, another study found that 68% of brands were planning to increase the share of marketing budget that they allocated to influencer marketing in 2023.82 The same study, however, suggests that this increase could be partly explained through influencers' growing charge rates.

The increasing use of influencer marketing in the personal care industry

The growth of influencer marketing has also been observed in the personal care industry. One 2018 report surveyed a sample of beauty marketing specialists and found that 74% of them spent over 10% of their marketing budget on influencer marketing while 20% of them spent over 30% of their budget.⁸³ The same report found that 38% of respondents would increase their influencer marketing budget by 10–20% in the next year, while 27% expected an increase of more than 20%.⁸⁴

This is reflected on the influencers' side with 47% of respondents to a survey of 1,865 mostly US-based influencers on Instagram saying that their earnings had increased after the start of the pandemic. Some of the biggest influencers can be paid large amounts for sponsored content. For example, Huda Kattan, the highest paid beauty influencer on Instagram, can make up to \$168,000 for an Instagram post.

Influencer marketing has been found to be an effective form of marketing with evidence suggesting it can outperform other forms of advertising.⁸⁷ According to one report, 60% of marketers in the US, UK and Germany, agreed that influencer marketing has a higher return on investment than traditional advertising.⁸⁸

Evidence also suggests that influencer marketing is an effective form of marketing for the personal care sector. Our research found reports that indicate that for every dollar spent by personal care brands on influencer marketing, brands can receive between £4.66⁸⁹ and £8.81 in return.^{90,91}

66 -

⁷¹CB Insights, "<u>Al Is Driving Efficiencies In The Beauty Industry - And How Brand Can Benefit</u>", published August 2021

⁷² Intelistyle, "<u>Al in Fashion: An Extensive Guide To All Applications For Retail</u>", published June 2022

⁷³ Stephanie Chevalier, "<u>Social commerce sales value worldwide 2022-2026</u>", published July 2022

⁷⁴ US\$ 992 billion in 2022

⁷⁵ Quentin Nolibois, and Tara Burns, "<u>Shopping on Social Media Platforms Expected to Reach \$1.2 Trillion Globally by 2025, New Accenture</u>
Study Finds", Accenture, published January 2022

⁷⁶ Kulvinder Kaur and Pawan Kumar, "<u>Social Media: A Blessing or a Curse? Voice of Owners in the Beauty and Wellness Industry</u>", The TQM Journal, 2022, pp.1039-1056

⁷⁷ Influencer Marketing Hub, "<u>Influencer Marketing Market Size (2016-2022)</u>", published 2022

⁷⁸ HubSpot, "<u>State of Inbound Marketing Trends</u>", published 2022

^{79/82} Aspire, "The State of Influencer Marketing 2023", published 2023

⁸⁰ Influencer Marketing Hub, "<u>The State of Influencer Marketing 2023; Benchmark Report</u>", published February 2023

⁸¹ Ryan Skinner, Forrester, "<u>How Has The Pandemic Impacted Influencer Marketing</u>", published July 2020

^{83/84/91} Fashion and Beauty Monitor, "Influencing Beauty", published 2018

⁸⁵Nick Bahlanov, HypeAuditor, "Our Survey Data of 1865 Instagram Influencers", published June 2021

⁸⁶ Cosmetify, "The Beauty Influencer Rich List", published August 2022

⁸⁷⁹⁰ Influencer Marketing Hub, "Key Influencer Marketing Statistics to Drive Your Strategy in 2023", published January 2023

⁸⁹ US\$5.78 in 2022

Customers can also turn to influencers when searching for personal care product information. One study found that nearly 67% of respondents seek information about beauty products prior to purchasing them from social media influencers, compared to 44% from company advertisements.⁹²

Digital marketing and our economic impact results

E-commerce and the use of influencers has been rising sharply in the personal care industry as detailed in this chapter, along with other forms of digital advertising. Despite this significant increase, the size of the advertising and marketing sector's economic footprint supported by the personal care industry remains down on pre-Covid-19 levels, as shown in our results in Chapter 3.

This is due to a few key factors. Firstly, digital marketing is one part of the overall advertising mix, alongside traditionally important channels for the industry such as TV, newspapers and magazines. Overall, our desk research suggests that total advertising spending by the industry across all media types may remain down on pre-Covid levels in real terms, meaning less total economic activity supported in the advertising sector than before the pandemic.⁹³

Secondly, our interviews have noted a trend towards bringing digital marketing operations in-house rather than outsourcing them to marketing agencies. This is backed up by general survey evidence from around the world, which points to the vast majority of firms across the economy using small in-house teams for at least part of their digital marketing operations, including social media. 94,95 As such, a rise in spending on digital advertising is expected to help support employment levels within the core personal care industry, rather than wholly impacting the advertising sector.

Lastly, our desk research suggests there has been a large increase in the price of digital advertising over the past few years. 96.97 This means that extra spending by personal care companies on digital advertising does not necessarily lead to increased employment either in-house or at marketing agencies, and may simply be taken as higher revenue and profits by the advertising platforms. As the largest digital platforms are ultimately owned by companies outside the UK, it is likely that some of this extra spending will "leak" out of the national economy, rather than lead to extra GDP for the UK.

5.1.5 INTEGRATION OF THREE-DIMENSIONAL (3D) PRINTING

3D printing has applications in the personal care industry, such as in print-at-home make-up. For example a technology start-up launched pre-orders for a 3D make-up printer in 2019. This printer device, around the size of a shoebox, pairs with a smartphone app to identify colours from photos and images. Make-up is then mixed inside the device to precisely match the desired colours and printed onto sheets, from which it can be applied to the skin.

A product from a manufacturer of consumer goods, goes one step further with a handheld device that scans users' skins and then mixes and directly applies make-up ondemand. The wand device is designed to help users hide discoloured skin or age spots.

3D printing can also be used to produce artificial nails. For instance, a beauty tech start-up, offers custom made nails using 3D printing technology. Users upload five images of their hands to an app, and these are used in the company's software to build a 3D nail model. The model is then used to generate a 3D pattern file for each design selected by the customer from the company's gallery. This is used to 3D print a set of nails at the company's premises that is custom fit to the exact shape and size of the customer's nails.

5.2 THE EFFECT OF BREXIT ON THE PERSONAL CARE INDUSTRY

Our review of academic literature and online publications found widespread evidence that UK businesses, across the industrial spectrum, have and continue to experience adverse effects and unintended consequences following Brexit. The key impacts identified in the literature include increased trade barriers and a shortage of skills following changes to migration laws, which are the focus of this section.

5.2.1 INCREASED TRADE BARRIERS

All interviewees who commented on Brexit agreed that it had caused delays for exporting businesses in the personal care sector. These were attributed to increased administrative complexities, additional paperwork, and a lack of understanding of new processes particularly in relation to Ireland and Northern Ireland. For example, the implementation of the UK's Cosmetics Regulation requires companies who sell their products in both the UK and the EU to duplicate large amounts of paperwork and to establish a large entity or "Responsible Person". One interviewee ceased exporting to the Republic of Ireland due to new export requirements, regulations, and duties. These same interviewees commented on the increasing cost of doing business due to packaging and labelling changes.

These views chime with opinions offered by respondents to a survey conducted by the British Chambers of Commerce which found that nearly half (49%) of UK exporters reported facing difficulties in adapting to the changes required to trade goods following the UK-EU trade deal.⁹⁹

As a result of increasing costs and complexity one interviewee suggested that funds were being diverted away from other productive uses while another one said they were unable to meet requests of large EU customers and, as a result, had to set up EU hubs to carry out some transactions.

There is also evidence that the new trade barriers following Brexit have disproportionately damaged smaller businesses. Oxford Economics analysis of ONS data found that the personal care sector was predominantly comprised of small businesses with 95% of beauty businesses employing fewer than nine workers. OR Research carried out by the British Chamber of Commerce found that the negative impacts of Brexit for UK businesses included rising costs and increased bureaucracy, which smaller businesses did not have the time or money to deal with. One paper explored how SMEs were likely to be affected by Brexit. The findings suggested that they were likely to be adversely affected by the following:

- A new value added tax on goods imported from EU region into the UK, which would affect 100,000 small businesses:¹⁰³
- No longer having access to the European Investment Fund's (EIF) funding of innovation among SMEs;
- New migration laws restricting the access of SMEs to the competitive skills and low labour costs of EU migrants and:
- Major disruptions of goods and services between the UK and EU making it difficult for SMEs to fulfil customer orders.

5.2.2 SKILLS SHORTAGE

The personal care sector has experienced a skills shortage following the pandemic as people reassess their work life balance and the cost of living continues to rise. Previous research suggests this has led to many leaving the industry for some higher-paying roles in hospitality and retail, as well as opting for the flexibility linked with self-employment.¹⁰⁴

Difficulties in recruitment and retention of employees following Brexit are likely to exacerbate this trend. One report found that industries that rely heavily on EU migrants and also offer relatively few jobs that meet the skill and salary criteria for work visas will be particularly affected by the introduction of a "skill-selective" work visa system.¹⁰⁵

⁹² Dina Gerdeman, Harvard Business School, "<u>Lipstick Tips: How Influencers Are Making Over Beauty Marketing</u>", published August 2019

⁹³ Zenith Media, "<u>Business Intelligence: Beauty and Personal Luxury</u>", published 2021

⁹⁴Bannerflow Media, State of In-housing Report, published 2022

⁹⁵ Clutch, "85% of Small Businesses Manage Social Media In-House but Should Use External Resources to Reduce Costs During the Economic Downturn", published May 2020

⁹⁶ Ezoic, "Online Ad Revenue Index (UK)", published 2023

⁹⁷ Measured/Business Insider, "<u>Digital ad prices have been skyrocketing since 2020"</u>, published November 2022

⁹⁸ The Responsible Person is the individual or company responsible for ensuring the regulations are followed. Every cosmetic product placed on the GR market must have a Responsible Person

⁹⁹ British Chambers of Commerce, "BCC Research Finds Little Love for EU Trade Deal", published February 2022

 $^{^{\}rm 100}$ Office for National Statistics, "<u>UK business: activity, size and location</u>", published September 2022

¹⁰¹ British Chambers of Commerce, "BCC Research Finds Little Love for EU Trade Deal", published February 2022

¹⁰² Jiaqi Gao, "<u>Analysis on the Overall Effects of Brexit</u>", Advances in Social Science, Education and Humanities Research, 2022, pp.1525-1529 ¹⁰³ Before Brexit, no import VAT was applied to goods moving between the EU and the UK.

¹⁰⁴ Pragmatix Advisory, "Careers at the cutting edge: Tackling the skills shortage in the hair and beauty sector", p43, published March 2022.

¹⁰⁵ Madeleine Sumption, "How is the end of free movement affecting the low-wage labour force in the UK?", CEPR, 2022, pp.81-90.

To be eligible for a skilled worker visa, jobs need to pay at least £25,600 per year or £10.10 per hour (whichever is higher in a particular role), or higher still if the "going rate" for the job is more than both of these. This rate is reduced to £20,480 for jobs on the Shortage Occupations List: however, no jobs in the personal care industry are on this list.

Our analysis based on this £25,600 annual salary threshold shows that 59% of full-time and 95% of part-time employees in the personal care industry¹⁰⁶ earned less than the minimum earnings required to apply for a skilled worker visa in the UK in 2022. In comparison, only 33% of all full-time workers in the UK earned below the skilled worker visa threshold, suggesting that the personal care industry is disproportionately exposed to the limitations imposed by new visa rules.¹⁰⁷

A different report found that 57% of hair and beauty businesses reported having unfilled vacancies in March 2022, and half of hair salons said it took them over 16 weeks on average to fill a vacancy.¹⁰⁸ A panel discussion with industry experts found that the key reasons for a skills shortage were the following.

- Reduced demand from salons for apprentices due to the pandemic, the cost of living crisis and a move to self-employment.
- Reduced demand for hair and beauty apprenticeships due to the sector's lack of promotion and rewarding career path, and the low funding band for hair and beauty apprentices.
- Businesses face high costs for hiring older apprentices.

Recruitment and retention have also been negatively affected by Brexit. The report found that London and the South of England had been more impacted than the rest of England, reflecting larger populations of European migrants in these areas prior to the referendum. Within the hair beauty services sector, barbershops have been the worst affected, with 50% of survey respondents finding Brexit had severely or slightly affected their ability to find experienced staff.¹⁰⁹

One interviewee pointed out that since Brexit, companies had been unable to recruit any EU candidates earning under £25,000 a year unless they were on a graduate scheme. Prior to Brexit, 7% of workers across their business were EU nationals. It has become increasingly complicated to fill vacancies, as companies are competing for a more limited pool of people and visa sponsorships are costly.

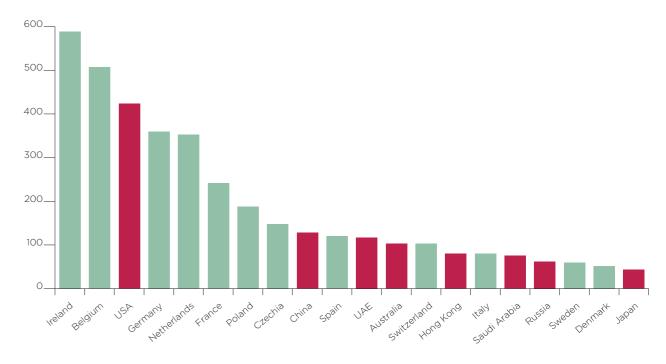
5.2.3 ANALYSIS OF UK EXPORT DATA

The UK's personal care industry exported £4.5 billion worth of personal care products in 2021,¹¹⁰ representing 1.4% of total UK goods exports.¹¹¹ The industry is relatively reliant on countries in the European single market for export demand:¹¹² 66.5% of exported personal care products are bought by the European single market, notably higher than the average of 51.5% across all UK goods exports. Ireland is the single largest buyer of UK personal care exports, and a further seven out of the top 10 destinations are also EU countries.

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FIG. 44 TOP 20 EXPORT MARKET DESTINATIONS FOR THE UK PERSONAL CARE INDUSTRY IN 2021 (£ MILLIONS, 2022 PRICES)

Source: Oxford Economics, UN Statistics Division



Growth in exports of personal care products over time

Between 2010 and 2016, UK exports of personal care products were rising to both the European single market and the rest of the world, at average annual rates of 3.1% and 5.3% respectively.¹¹³

The following years saw the UK negotiate its withdrawal with the EU before entering an 11-month transition period from January 2020. The transition period and the UK's complete withdrawal from the European single market in January 2021 coincided with the Covid-19 pandemic, meaning the impact on trade flows of Brexit itself is harder to examine. Furthermore, the methods and systems used for collecting export data by the UK government changed following Brexit, meaning data from before January 2021 are not directly comparable with that after. Together, this makes it difficult to draw definitive conclusions on exact rates of export growth in recent years.

However, as illustrated in the figure below, exports of personal care products from the UK to the European single market have generally declined since 2018. In contrast, exports of personal care products to the rest of the world have generally held more constant in the years since the Brexit referendum.

While detailed additional analysis would be required to determine what proportion of this decline represents the impact of Brexit, the barriers raised by the exit from the single market are likely to have played a part.

- 7**1**

¹⁰⁶ Includes workers in personal care product manufacturing, wholesale and retail as well as beauty services workers.

¹⁰⁷Oxford Economics analysis of Office for National Statistics data, "Annual Population Survey July 2021 to June 2022", provided by ONS request service

^{108/109} Pragmatix Advisory, "<u>Careers at the cutting edge: Tackling the skills shortage in the hair and beauty sector</u>", p8, published March 2022.

¹⁰ UN Statistics Division, "<u>UN Comtrade Database</u>", published February 2023

Total exports exclude exports of precious metals. Comtrade trade flows are expressed on an overseas trade statistics basis and so are not directly comparable with the ONS' published balance of payment statistics.

¹¹² The European single market is comprised of the EU-27 member states plus Iceland, Liechtenstein, Norway and Switzerland.

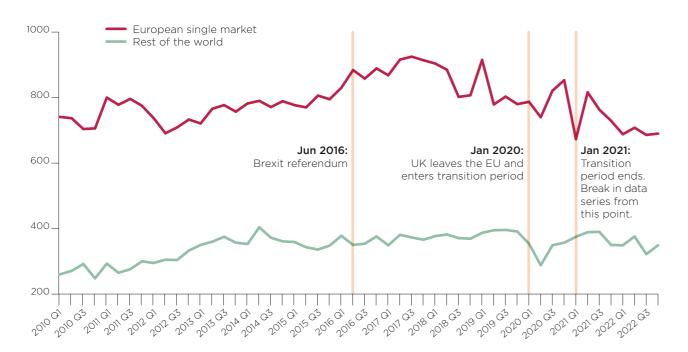
¹¹³ Average annual growth rates were calculated by calculating a compound annual growth rate (CAGR).

¹¹⁴ In January 2021, HMRC switched to using a different system and sample for collecting trade data as EU systems were no longer available. Data before and after this point are not directly comparable. ONS analysis suggests that if the full time series were all calculated using the new approach, total exports from before January 2021 would be approximately 5% higher. This amount is likely to be different product groups, but no analysis has yet been done at that level of disaggregation. A further change in methods happened in January 2022: this change reduces the data for this period but does not affect any other period.

FIG. 45 UK QUARTERLY EXPORTS OF PERSONAL CARE PRODUCTS, BY DESTINATION MARKET

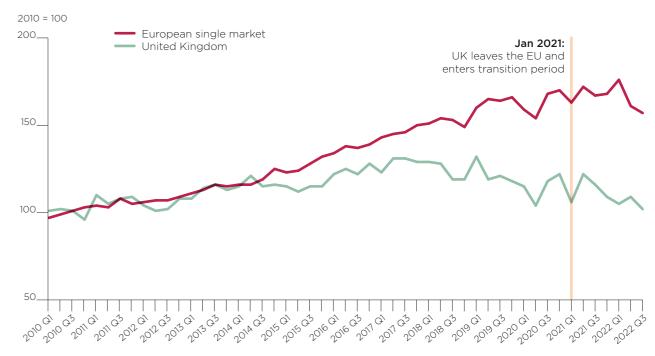
(£ MILLIONS, 2022 PRICES, SEASONALLY ADJUSTED)

Source: Oxford Economics, UN Statistics Division



Further evidence pointing to Brexit restricting UK export growth is provided by comparing total UK exports of personal care products with exports of the same products from European single market countries.¹¹⁵ From 2010 to 2016, growth in total exports of personal care products was broadly similar for the UK and European single market countries. However, a divergence has emerged since 2016, as illustrated in the chart below. While not definitive, this again suggests that exiting the EU is likely to have diminished export opportunities for personal care product producers based in the UK.

FIG. 46 TOTAL EXPORTS OF PERSONAL CARE PRODUCTS, BY ORIGIN MARKET TO THE REST OF THE WORLD,



Personal care product exports to the European single market versus other product groups

Growth in exports of personal care products to the European single market has been weaker since the end of the UK's Brexit transition period in January 2021 compared to total UK goods exports.¹¹⁶

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INDEXED AROUND 100 AND IN REAL TERMS Source: Oxford Economics, UN Statistics Division

¹¹⁵ This group omits the United Kingdom despite its membership of the European single market pre-Brexit. The group also omits Malta and Cyprus due to data restrictions. Data for France and Austria is imputed for later years using Eurostat trade data.

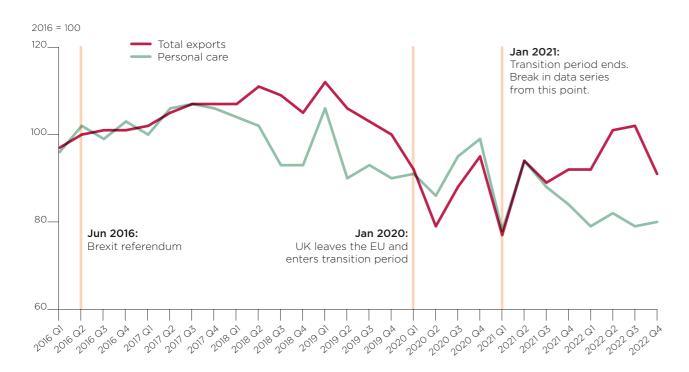
¹¹⁶ Total exports exclude exports of precious metals.

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STRUCTURAL CHANGES FACING THE PERSONAL CARE INDUSTRY

FIG. 47 UK QUARTERLY EXPORTS OF PERSONAL CARE PRODUCTS, BY DESTINATION MARKET (SEASONALLY ADJUSTED)

Source: Oxford Economics, UN Statistics Division



Looking beneath the headline total exports series shows that other product groups with a household consumer focus have also performed relatively weakly during this period. Exports of food, drink and tobacco have declined at around the same rate as personal care products, while exports of textiles, clothing and footwear have fallen even further. At the other end of the scale, exports of industrial products such as chemicals, machinery and manufacturing inputs have seen much more buoyant growth during the same period.

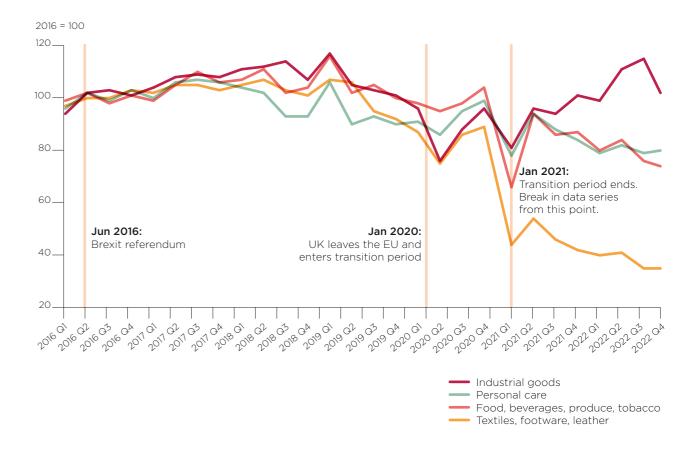
The trade barriers that arise from increased costs and complexity of trading with Europe since Brexit have created obstacles to growth of the personal care industry. As an industry with a high representation of SMEs, the personal care industry is likely greatly affected by the impacts of Brexit in increasing the costs and complexity of dealing with Europe. Furthermore, the industry's relatively low average wages and reliance on EU workers mean that it is disproportionately impacted by changes to UK visa requirements post-Brexit, contributing to skills shortages.

Definitive conclusions are made difficult by the effects of the Covid-19 pandemic and data collection changes, but Brexit is likely to have played a part in declines in exports of personal care products to the European single market.

FIG. 48 UK EXPORTS TO THE EUROPEAN SINGLE MARKET OF PERSONAL CARE PRODUCTS AND OTHER SELECTED PRODUCT GROUPS, INDEXED AROUND 100 AND IN REAL TERMS¹¹⁷

(SEASONALLY ADJUSTED)

Source: Oxford Economics, UN Statistics Division



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¹¹⁷ This product group is comprised of chemical and plastic products; machinery, arms, vehicles and electrical equipment and mineral products and base metals.



A. BRITAIN THINKS' DEFINITION OF PERSONAL CARE PRODUCTS

Before the British Beauty Council and Britain Thinks' Defining Beauty report in 2019, 18 a consensus on which goods and services could be considered as part of the personal care industry did not exist. Through a series of workshops, interviews and surveys, a set of personal care products and services were defined, reflecting a consensus across the industry's diverse perspectives. Three broad groups of products and services were identified, as shown below. The products in this structure formed the basis for Oxford Economics' first economic impact study of the personal care industry and was used again in this update.

FIG. 49 CLASSIFICATION OF PERSONAL CARE PRODUCTS WITHIN THE BRITAINTHINKS DEFINITION OF THE PERSONAL CARE SECTOR

PERSONAL CARE & MAINTE	ENANCE PRODUCTS
Dental care	All dental products for personal use
Hair	Products for care, washing, styling and grooming of hair
Personal care and hygiene	All personal care products, including deodorant, personal hygiene products: soaps and wash products, bath products and relevant accessories
Skin and body care	Creams and wash products for face, lips, feet, hands and brows.
Sun care	Sun creams, lotions, after-sun and self-tan products
Hair removal	All shaving, waxing and depilatory products for domestic use
Nail care	Nail care and maintenance products and accessories
PERSONAL ENHANCEMENT	PRODUCTS
Cosmetics	All varieties of make-up, cosmetics and make-up removers
Nail colour	Nail varnish products
Accessories and applications	Applicators, disposables, electricals, accessories and applications
Hair enhancements	Hair colour, relaxers and other chemical services, extensions, wigs and enhancements
Personal fragrance/perfume	Perfume, eau du toilette, eau de parfum, after shave and body sprays
BEAUTY SERVICES	
Holistic treatments	Massage, reflexology and acupuncture
Beauty treatments	Face, brows, lashes, feet and nails treatments, as well as tanning, hair removal, mobile beauty, consultations and tutorials
Hair services	Haircuts, barbering, colour, perms, relaxing and other chemical services, extensions, wigs and mobile hair services

¹¹⁸ BritainThinks for British Beauty Council, "<u>Defining Beauty</u>", published January 2019.



Photograph:

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APPENDIX

B. ANALYSING THE ECONOMIC IMPACTS OF THE PERSONAL CARE INDUSTRY

Updates to the economic impact results for 2018 published in our previous report

The previous study published by British Beauty Council and Oxford Economics in 2019 contained estimates of the economic footprint of the personal care industry in 2018. In this study we provide updated estimates for the year 2018. Differences between these updates and those published in the previous study are due to a mixture of factors including the following list below:

- Revisions have been made by the ONS on official data on consumer spending and the structure of the personal care sectors. Historical revisions to ONS data are a regular occurrence and can reflect extra information now being available as well as changes to ONS methods and systems.
- When Oxford Economics estimated 2018 results previously, not all data was available for 2018 and it was necessary to make some short-term forecasts in some elements of modelling. These forecasts can now be replaced with actual historic data.
- Like the ONS, Oxford Economics also regularly reviews and updates the modelling processes used to create economic impact estimates. This can be due to factors such as the implementation of new datasets not previously available or to new understanding and approaches to different aspects of modelling.
- The 2018 results were previously presented in 2018 prices, which were the "current" prices at the time.
 When making comparisons between different years, we remove the effect of inflation by presenting the results from each year in "constant" prices. This means that the 2018 results are now presented in 2022 prices.

With the changes above, the figures presented in this report for the years 2018–2022 are consistent and directly comparable with one another and reflect Oxford Economics' latest modelling techniques.

Explanation of methodology used to calculate direct impacts

Household spending on personal care products is derived by taking national accounts consistent ONS Consumer Trends data, ¹²⁰ mapping this onto more detailed Living Costs and Food Survey data ¹²¹ and then detailed spending diary responses microdata obtained from the ONS' Secure Research Service. Using this detailed spending data ensures that the spending driving our modelling is consistent with the BritainThinks' product definitions. ¹²²

This household spending is used to estimate revenues for personal care retailers and hair and beauty service providers. From this revenue, gross value-added contributions to GDP, employment and a portion of taxes paid are calculated using Annual Business Survey (ABS) data.^{123,124} The ABS also provides detail of an industry, detailing relationships between sales, intermediate consumption, compensation of employees and purchases for resale. The latter was used to identify the purchases of beauty products to model the value of the supply chain of beauty products from retailers and service providers to wholesalers and manufacturers. Supply use tables are used to estimate the propensity of personal care manufacturers to export and wholesalers to import accounting for the role of trade within modelling.¹²⁵

Taxes paid by the industry are estimated through multiple avenues of analysis. Taxes on its employment are estimated by first using ONS Annual Survey of Hours and Earnings¹²⁶ and Average Weekly Earnings¹²⁷ data to estimate industry wages. Employment and wages are used to estimate how much income tax and national insurance contributions are paid. Taxes on profits are estimated from gross operating surplus using HRMC's corporation tax statistics.¹²⁸ Taxes paid on production are estimated from gross value-added using ABS data and taxes on purchases are estimated from ONS input-output data.¹²⁹

Explanation of methodology used to model industry indirect and induced contributions

The indirect and induced contributions were analysed using Oxford Economics' in-house UK economic impact model. This builds on an ONS input-output table for the UK to analyse the interactions between different sectors of the UK economy, as well as the structure of household consumption. The personal care industry's domestic purchases outside of its own supply chain is used as the first tier of spending, allowing us to model the industry's indirect impacts. Additionally, the industry's compensation of employees and the compensation of employees supported by the industry's indirect impacts are used to drive induced spending impacts through the model.

C. ECONOMETRIC MODELLING METHODOLOGY

As outlined in chapter 4.3, there are several reasons why the unique characteristics of the personal care sector may contribute to upwards social mobility over and above the rest of the economy. We developed an econometric model to test this hypothesis.

Defining social mobility

To model the potential impact of working in personal care on social mobility, we first needed to arrive at a definition of social mobility.

The UK Social Mobility Commission defines absolute social mobility as occurring when someone's occupation class or income is higher than that of their parents.^[3]

Friedman & MacMillan (2017) implement this definition in practice by comparing occupations of individuals with the occupations of their parents using the National Statistics Socio-economic Classification (NS-SEC). The NS-SEC is a hierarchy of occupations ranked according to their socioeconomic status which allows any two occupations to be compared. NS-SEC 1 and 2 are professional and managerial occupations (e.g., doctors, teachers, nurses), 3 and 4 are intermediate occupations (e.g., small business owners) and 5, 6 and 7 are routine and manual occupations (e.g., receptionists and van drivers).

Given the lack of data on parental income, we focus on occupations and define someone as having achieved upwards social mobility if they are a business manager or owner. As such, we compare the likelihood of being a business manager or owner in personal care versus the economy as a whole. This typically maps to at least having an NS-SEC level 4.

Aim of the econometric modelling

A simple comparison of the likelihood of being a manager or business owner in personal care versus the rest of the economy would not allow us to conclude that social mobility is higher in the industry. This is because there are other factors which determine social mobility beyond just the industry that a person works in, such as their place of birth or family background. If these factors are not accounted for then we may wrongly suggest that social mobility in a sector is higher, when it could also be the nature of individuals working in the sector that drives social mobility.

We use the statistical technique known as econometric modelling to account for these other factors which drive social mobility and thereby attempt to isolate the causal impact of personal care on social mobility. In practice, it is very difficult to rule out all sources of bias so the analysis should nevertheless be treated with caution.

Data

To test the hypothesis, we used data from the Office for National Statistics' Labour Force Survey, which is the largest household study in the UK and is used for official employment and unemployment statistics. It contains data on respondents' employment circumstances, demographics such as age, gender, and region, and several measures of a respondent's family background. To increase the sample size available, and hence the robustness of the analysis, we used a single wave of data from five years of the LFS (2017–2022).

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¹¹⁹ Oxford Economics for British Beauty Council, "Value of Beauty", published 2019

¹²⁰ Office for National Statistics, "Consumer trends, UK: July to September 2022", published December 2022

Office for National Statistics, "Family spending in the UK: April 2020 to March 2021", published July 2022

¹²² BritainThinks for British Beauty Council, "<u>Defining Beauty</u>", published January 2019

¹²³ Office for National Statistics, "<u>Annual Business Survey: standard extracts</u>", published June 2021

¹²⁴ For years of analysis where the ABS cannot provide employment data, Oxford Economics' forecasts for employment and gross value added are used to impute data

¹²⁵ Office for National Statistics, "Input-output supply and use tables", published October 2022

¹²⁶ Office for National Statistics, "Employee earnings in the UK: 2020", published November 2020

¹²⁷ Office for National Statistics, "<u>EARNO1: Average weekly earnings</u>", published November 2022

¹²⁸ HM Revenue & Customs, "<u>Corporation Tax Statistics 2022</u>", published September 2021

¹²⁹ Office for National Statistics, "<u>UK Input-output analytical tables: 2017</u>", published April 2021

¹³⁰ Office for National Statistics, "<u>UK Input-output analytical tables: 2017</u>", published April 2021

¹³¹ Social Mobility Commission, "<u>State of the nation 2021: Social mobility and the pandemic</u>", published July 2021

¹³² Sam Friedman and Lindsey Macmillan, "Is London really the engine-room? Migration, opportunity hoarding and regional social mobility in the UK", National Institute Economic Review, 2017, pp. 58–72

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APPENDIX

Basic research model

Our model tested whether there is a relationship between the likelihood of being a business owner or manager and working in personal care whilst holding other factors constant. These other factors included a range of demographic variables, and three "social mobility controls" which were:

- The household's main earner at aged 14, and whether they were employed
- The occupation of the household's main earner when the respondent was aged 14
- Whether an individual was living with their parents, extended family or neither at age 14

When holding these other factors constant, evidence of a positive relationship between working in personal care and being a business owner or manager would suggest a positive effect of personal care on social mobility.

We used this model for our main definition of social mobility (being a business owner or manager) and for an alternative definition for if an individual is at least NS-SEC level 4.

Results

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We found that an individual working in personal care is more likely to be a business owner or manager than a similar individual working elsewhere in the economy. We tested whether individuals with certain characteristics such as gender, ethnicity, and education were more (or less) likely to be upwardly mobile as a result of working in Personal Care. Our analysis showed that those educated to below-degree level are more likely to be managers or business owners in the personal care industry compared to those working in other industries.

The results were qualitatively similar using the alternative NS-SEC definition of social mobility.

D. EXPERT INTERVIEWS

We interviewed six industry experts on the evolving role of digital technology and the impact of Brexit on the personal care sector

Four of the interviews were conducted via online video call while two interviewees provided written responses.

We interviewed a Senior Sector Lead at a digital platform; a Global Chief Commercial Officer at a health and beauty retailer; the Chief Strategy Officer of a social media analytics firm; and an industry editorial expert. The written responses were provided by the UK arm of a personal care products manufacturer and a beauty product online retailer.

DIRECT CONTRIBUTIONS TO GDP, £ BILLIONS, 2022 PRICES									
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	6.0	3.4	2.5	1.3	0.8	14.1			
2019	6.2	3.9	2.5	1.2	0.8	14.7			
2020	3.5	3.2	2.1	1.1	0.7	10.5			
2021	4.1	3.2	2.1	1.1	0.7	11.2			
2022	5.1	3.3	2.1	1.1	0.7	12.3			

INDIRECT CONTRIBUTIONS TO GDP, £ BILLIONS, 2022 PRICES									
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	1.0	1.5	1.2	1.6	0.3	5.6			
2019	1.2	1.4	1.2	1.7	0.3	5.8			
2020	0.7	1.1	1.0	1.4	0.3	4.6			
2021	0.8	1.1	1.0	1.5	0.3	4.7			
2022	1.0	1.2	1.1	1.5	0.3	4.9			

INDUCED CONTRIBUTIONS TO GDP, £ BILLIONS, 2022 PRICES									
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	2.7	2.2	1.6	1.3	0.5	8.2			
2019	2.9	2.3	1.7	1.4	0.4	8.7			
2020	1.6	1.9	1.4	1.2	0.4	6.5			
2021	1.9	1.9	1.4	1.2	0.4	6.8			
2022	2.3	1.9	1.4	1.2	0.4	7.3			

	TOTAL CONTRIBUTIONS TO GDP, £ BILLIONS, 2022 PRICES								
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	9.7	7.2	5.2	4.2	1.6	27.9			
2019	10.3	7.5	5.4	4.3	1.6	29.1			
2020	5.7	6.3	4.6	3.7	1.3	21.5			
2021	6.8	6.3	4.6	3.7	1.3	22.7			
2022	8.3	6.4	4.7	3.7	1.4	24.5			

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APPENDIX

	DIRECT EMPLOYMENT CONTRIBUTIONS, HEADCOUNT								
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	247,000	104,000	45,000	20,000	6,000	422,000			
2019	269,000	138,000	43,000	21,000	6,000	478,000			
2020	187,000	129,000	40,000	20,000	6,000	382,000			
2021	194,000	112,000	35,000	18,000	5,000	364,000			
2022	209,000	112,000	35,000	17,000	5,000	379,000			

	INDIRECT EMPLOYMENT CONTRIBUTIONS, HEADCOUNT								
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	13,000	26,000	21,000	23,000	6,000	88,000			
2019	15,000	23,000	22,000	24,000	6,000	90,000			
2020	9,000	22,000	22,000	22,000	5,000	80,000			
2021	10,000	20,000	20,000	20,000	5,000	75,000			
2022	12,000	19,000	19,000	21,000	5,000	76,000			

	INDUCED EMPLOYMENT CONTRIBUTIONS, HEADCOUNT								
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	36,000	29,000	21,000	16,000	6,000	108,000			
2019	37,000	30,000	22,000	18,000	6,000	113,000			
2020	26,000	31,000	23,000	19,000	6,000	104,000			
2021	27,000	27,000	20,000	16,000	5,000	96,000			
2022	31,000	26,000	19,000	16,000	5,000	96,000			

	TOTAL EMPLOYMENT CONTRIBUTIONS, HEADCOUNT								
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL			
2018	296,000	158,000	87,000	59,000	18,000	618,000			
2019	322,000	191,000	87,000	63,000	18,000	681,000			
2020	221,000	182,000	85,000	61,000	17,000	566,000			
2021	231,000	159,000	75,000	55,000	16,000	535,000			
2022	252,000	157,000	74,000	53,000	15,000	551,000			

	DIRECT TAX CONTRIBUTIONS, £ MILLIONS, 2022 PRICES									
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL				
2018	1,770	930	830	230	150	3,900				
2019	1,530	1,080	800	220	160	3,800				
2020	1,060	940	700	240	120	3,050				
2021	1,200	890	690	210	120	3,120				
2022	1,370	930	750	210	120	3,390				

INDIRECT TAX CONTRIBUTIONS, £ MILLIONS, 2022 PRICES						
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL
2018	210	400	310	360	90	1,360
2019	260	390	360	400	90	1,510
2020	140	320	310	320	70	1,170
2021	170	320	310	320	70	1,190
2022	210	330	320	340	80	1,280

INDUCED TAX CONTRIBUTIONS, £ MILLIONS, 2022 PRICES						
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL
2018	790	640	460	360	130	2,380
2019	850	670	500	410	130	2,570
2020	480	570	420	350	110	1,930
2021	560	560	420	350	110	2,000
2022	700	580	430	350	120	2,170

TOTAL TAX CONTRIBUTIONS, £ MILLIONS, 2022 PRICES						
	HAIR AND BEAUTY SERVICES	RETAILERS	WHOLESALERS	MANUFACTURING	ADVERTISING AND MARKETING SERVICES	TOTAL
2018	2,760	1,970	1,610	940	360	7,640
2019	2,640	2,150	1,660	1,040	390	7,880
2020	1,680	1,830	1,430	910	300	6,150
2021	1,930	1,770	1,420	880	300	6,300
2022	2,280	1,840	1,500	900	320	6,840

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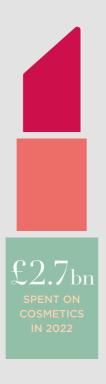
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APPENDIX

CONSUMER SPENDING ON PERSONAL CARE PRODUCTS AND SERVICES IN 2022, BY PRODUCT					
BROAD PRODUCT GROUP	PRODUCT/ SERVICE	£ MILLIONS, 2022 PRICES*			
Personal care & maintainance goods	Personal care and hygiene	3,180			
Personal care & maintainance goods	Hair products	1,950			
Personal care & maintainance goods	Skincare and bodycare	1,840			
Personal care & maintainance goods	Dental care	1,600			
Personal care & maintainance goods	Hair removal	710			
Personal care & maintainance goods	Suncare	380			
Personal care & maintainance goods	Nail care	80			
Personal enhancement goods	Cosmetics	2,750			
Personal enhancement goods	Fragrance and perfume	1,970			
Personal enhancement goods	Accessories and applications	1,630			
Personal enhancement goods	Hair enhancements	290			
Personal enhancement goods	Nail colour	280			
Beauty services	Hair services	6,180			
Beauty services	Beauty treatments	1,420			
Beauty services	Holistic treatments	240			

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*Note: figures are rounded



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To become a Patron or for general enquiries: joinme@britishbeautycouncil.com

Press enquiries:

britishbeautycouncil@seengroup.com

British Beauty Council

27 Rathbone Street, London W1T 1NH

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