THE

VALUE

OF

BEAUTY

BRITISH BEAUTY COUNCIL



# THE ECONOMIC IMPACT OF THE UK PERSONAL CARE INDUSTRY IN 2022

#### REPORT FOR THE BRITISH BEAUTY COUNCIL

MARCH 2023

BRITISH BEAUTY COUNCIL

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#### **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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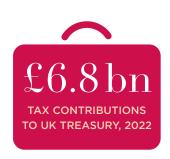


### VALUE OF BEAUTY 2023

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.





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.

#### VALUE OF BEAUTY 2023

## 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.

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. Of these 80,000 qualifications, around 70% were at GCSE equivalent standard, and a further 21% were at A-level equivalent standard.

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.

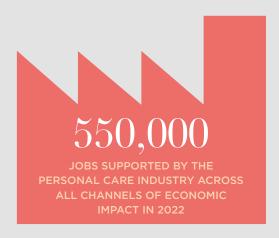
While the industry is notable for the consistency of its footprint, it also plays an outsized role in certain pockets of the country: for example, in several local authorities it accounts directly for more than one in every 50 jobs.

Moreover, a greater proportion of the personal care industry's employment is concentrated in areas with relatively high income deprivation and unemployment versus comparable sectors such as the retail sector as a whole and construction. As such, the industry helps to support employment and business opportunities in communities that have relatively high rates of deprivation.

There is also evidence that the personal care industry plays a role in fostering opportunities for upwards social mobility.

In 2022, the personal care industry supported a total gdp contribution of  $\pounds 24.5~bn$ Just over half of this contribution  $\pounds 12.3~billion)$ was generated by the industry itself, representing 0.5% of

<sup>&</sup>lt;sup>1</sup>The 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.



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#### VALUE OF BEAUTY 2023

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.<sup>2</sup> 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 advertising<sup>4</sup> 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.

<sup>&</sup>lt;sup>2</sup>HubSpot, "State of Inbound Marketing Trends", published 2022

<sup>&</sup>lt;sup>3</sup> Aspire, "The State of Influencer Marketing 2023", published 2023

<sup>&</sup>lt;sup>4/5</sup> Influencer Marketing Hub, "<u>Key Influencer Marketing Statistics to Drive Your Strategy in 2023</u>", published January 2023

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.<sup>6</sup> 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.<sup>7</sup>

- 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.

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<sup>&</sup>lt;sup>6/7</sup> British Chambers of Commerce, "BCC Research Finds Little Love for EU Trade Deal", published February 2022

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p6 *Photographer* Liz Collins, *Make up* Lynsey Alexander, *Hair* David Wadlow, *Model* Aamito Lagum To become a Patron or for general enquiries: joinme@britishbeautycouncil.com

Gary Thompson

Clare Varga

Scott Wimsett

Sharon Wong

John Vial

Press enquiries:

Lauren Myers

Lan Nguyen

Marian Newman

Uchenna Okoye

George Northwood

britishbeautycouncil@seengroup.com

British Beauty Council

27 Rathbone Street, London W1T 1NH

britishbeautycouncil.com

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