

FRAGRANCE AND PERSONAL CARE

## Este Lauder Cos. sees strength in skincare amid COVID challenges in FY 2020

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*Este Lauder and La Mer brands led the way in skincare sales. Image credit: La Mer*

By LUXURY DAILY NEWS SERVICE

Beauty group Este Lauder Companies saw its net sales dip 4 percent to \$14.29 billion in the 2020 fiscal year, although its namesake brand saw double-digit growth for the third consecutive year.

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Retail store closures due to the coronavirus pandemic was the primary contributor to the decline in net sales, which were partially offset by online growth. Shutdowns and social distancing have also impacted consumer preferences, with sales of skincare and hair care products more resilient than those of makeup and fragrances.

Growth, then challenges

Este Lauder Cos. reported net earnings of \$684 million for FY 2020 ended on June 30, compared to net earnings of \$1.79 billion in FY 2019. Net sales fell from \$14.86 billion to \$14.29 billion.

The beauty group began seeing impacts of the coronavirus in the third quarter of the fiscal year, when the majority of its retail stores in Asia-Pacific were closed from February to April.

Bricks-and-mortar locations in Europe, the Middle East and Africa, and the Americas began closing in March. By the end of June, approximately 15 percent of stores in Europe, the Middle East and Africa and 20 percent of stores in the Americas remain closed.

The financial fallout came primarily in the fourth quarter, which saw net sales fall 32 percent from \$3.59 billion in Q4 2019 to \$2.43 billion in Q4 2020.

However, online sales growth accelerated in every region during the second half of the fiscal year. In mainland China, the first market to see an easing of restrictions, net sales increased by double digits year-over-year during Q4 2020 with e-commerce purchases accounting for more than 40 percent of sales in the fiscal year.



*Gift sets for holidays such as Lunar New Year helped drive growth in mainland China. Image credit: Estée Lauder*

Skincare was the only category that saw net sales grow during the fiscal year, with \$7.38 billion in net sales compared to \$6.55 billion in 2019. In Q1 2020 alone, the category's sales were up 24 percent year-over-year ([see story](#)) but ultimately skincare sales finished up 13 percent year-over-year, with growth across most regions.

The Estée Lauder and La Mer brands led the way in skincare sales. Both saw double-digit growth, driven by Asia-Pacific with significant strength in mainland China.

The group's most significant losses came within its makeup category, in which net sales fell 18 percent on a reported basis from \$5.86 billion to \$4.79 billion despite growing by 5 percent in the first half of the year. Fragrances also saw net sales fall, from \$1.80 billion to \$1.56 billion for a decline of 13 percent despite double-digit growth in Asia-Pacific driven by luxury perfumes.



*Makeup saw the largest fall in net sales as consumers stay home. Image credit: Estée Lauder*

Estée Lauder also faced additional supply chain challenges while navigating the pandemic.

The company's cost of goods increased in the second half of FY 2020 due to reduced capacity at manufacturing facilities and an increase in excess and obsolete inventory because of retail closures. While luxury apparel brands may still face difficulties moving inventory from previous seasons, ingredients used in skincare and other personal care products have a more limited shelf life.

Estée Lauder also introduced a new two-year plan, the Post-COVID Business Acceleration Program, in an effort to strengthen its financial flexibility. The beauty group had seen 9 percent growth in net sales during FY 2019 ([see story](#)), and that growth had initially continued into the 2020 fiscal year.

As part of the program, Estée Lauder expects to shutter between 10 and 15 percent of its freestanding bricks-and-

mortar stores while furthering digital investments. The new positions and store closures will result in an estimated net reduction of 1,500 to 2,000 positions globally.

"Through the Post-COVID Business Acceleration Program announced today, we are better aligning our brick-and-mortar footprint to improve productivity and invest for growth," said Fabrizio Freda, president/CEO of Estée Lauder, in a statement. "We are well-positioned to drive growth as the market dynamics support it, yet remain equally mindful of the effects of COVID-19 on consumers, the retail sector and economics, in general, as well as geopolitical uncertainty."

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