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Esté Lauder leans on ecommerce, Chinese market presence to navigate crisis

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William Lauder delivered the final keynote address on the first day of the FT's Business of Luxury conference. Image credit: Esté Lauder Companies

By ELLEN KELLEHER

A tremendous increase in online sales has partially offset the disastrous financial impact of the COVID-19 pandemic on **Esté Lauder Companies**, according to William Lauder, executive chairman of the beauty products manufacturer.

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In dialogue with Roula Khalaf, editor of *The Financial Times*, Mr. Lauder said at the FT's Business of Luxury Summit on Nov. 23 that strong online sales, particularly in China, were buoying profits at Esté Lauder Companies. At the same time, late surges in COVID-19 have forced more store closures and cut operating hours at its network of outlets around the world.

"Now that we're seeing the second or third lockdowns coming, many of [our] locations are either shutting down or going into more restricted operating hours," said Mr. Lauder. "But that being said, we saw a tremendous increase in our online and direct-to-consumer businesses all around the world."

"An extraordinary increase," he said. "We were able to harvest some of the resources from our bricks-and-mortar stores to be able to serve that consumer because our distribution centers associated with ecommerce were not necessarily able to handle the surge that came their way."

Focus on China

Echoing other industry executives, Mr. Lauder listed China as a bright spot in recovery efforts as the country has had more luck in controlling the virus and Chinese consumers have been shopping in "meaningful ways."

China has now overtaken the United States as the world's economic powerhouse, according to figures released by the International Monetary Fund last month, which predicts that the Chinese economy will grow 1.9 percent this year. Meanwhile, the U.S. economy will shrink by 4.3 percent and the Eurozone by 8.3 percent.



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

As a result, strategies to reach Chinese consumers are paramount for luxury players as they head into 2021 ([see story](#)).

The slowdown in tourism, however, continues to hamper business severely as those consumers who were buying beauty products in airport lounges are no longer doing so.

Skincare products are currently in vogue, according to Mr. Lauder, as more people want to make sure they look their best for Zoom calls while working remotely. Other items selling well are eye shadow and perfumes while lipstick remains less popular.

The key question being studied by executives at Estée Lauder is how the pandemic will fundamentally change the ways we live and shop.

"I fully expect adjustments like direct-to-consumer online shopping and home delivery will have a meaningful impact in certain sectors of our economy," Mr. Lauder said. "Certain types of retail will not be as vibrant as it used to be because more and more consumers are shopping directly and having it delivered directly."

Another permanent change likely to affect Estée Lauder is the diminished importance of business travel.

"I don't think it's going to be as frequent as it used to be," he said.

At a macro level, the pandemic's effect on the retail industry will be Darwinian and the retailers which manage to survive will do so with a smaller footprint in many cases.

Mr. Lauder also predicts that open-air shopping and a trip to a store in town might one day become more popular than a visit to the mall. If his forecasts are correct, this is a trend that could benefit small entrepreneurs.

"You may see a resurgence in Main Street shopping in a way that you have not before," he said.

Cities in China and South Korea, which are among the world's most densely populated, are the model for how to navigate the pandemic in Mr. Lauder's view.

"There are societies that in real-time are doing exactly what others say they are not able to do," Mr. Lauder said. "It's really more a matter of adopting the best practices to make sure it happens."



Este Lauder is experiencing strong growth in China. Image credit: Este Lauder

Still hopeful about the return of bricks-and-mortar stores, Mr. Lauder is quick to point out that shopping is a form of entertainment. He also downplayed the idea that Este Lauder, which already sells via Macy's and Nordstrom, would one day seek out Amazon as a shopping partner.

"We are doing all we can to keep up with the demand from our consumers from our existing partners," he said.

Este Lauder's future as a sales organization in the eyes of Mr. Lauder is in the omnichannel experience, where the company will be able to serve the customer wherever she or he is comfortable shopping.

"People should be recognized for being good, loyal customers," he said. "We believe very strongly that repeat purchases from consumers is the way to long-term sustainable success."

Mr. Lauder also has no intention of slowing down the company's tradition of scooping up smaller players that are likely to grow in profitability within 10 years.

"What we have to do is look at the green shoots that are coming out of the ground and try to see which of those are going to become small trees," he said. "We are always looking for those brands that we think have a long life and we might be able to put into our network around the world."

China tricky to navigate

The COVID-19 pandemic has compounded challenges for brands as they widen their appeal beyond their home markets.

Este Lauder, companies need to focus on opportunities in China, the largest country to emerge from the crisis, and go from the defensive to offensive ([see story](#)).

According to a 2019 report from J.P. Morgan, China is the world's second-largest beauty market and sales there jumped almost 13 percent in 2018. Luxury labels including Este Lauder have also benefitted the most from the boom in ecommerce beauty sales.

While luxury products only account for about a third of beauty sales in China, these brands have grown at a faster pace than mass-market beauty. Beauty group L'Oral has a 17 percent share in China, followed by Este Lauder with 13 percent and Shiseido at 6 percent ([see story](#)).

Este Lauder's strength in China and brand recognition throw up an opportunity that Mr. Lauder intends to seize.

"China is coming back strongly because they've done a good job at containing the virus and managing it, and people in that country have been able to feel more comfortable going out," Mr. Lauder said. "We should continue to do well there."