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Press release

Cosmetics industry fears another lockdown.

More than half of cosmetic companies are very worried about a possible second lockdown. Twenty percent of them are running their businesses day-to-day, while 30% anticipate significant drops in activity if that happens, according to the report "Cosmetics Industry and COVID-19. Six Months of Operation During the Pandemic", developed by the Polish Union of the Cosmetics Industry. Only 40% of businesses have no fears about the future. A select few have succeeded in turning the pandemic crisis into profit or innovation. What are the current challenges facing cosmetic companies in Poland?

Six months of operation during the pandemic

Compared to other major industries, the cosmetics sector handled the first wave of the pandemic relatively well. According to **Blanka Chmurzyńska-Brown, CEO of the Polish Union of the Cosmetics Industry**, this is not the first time in history that we had to quickly adapt to new realities: *I absolutely believe that the cosmetics industry coped with this unprecedented crisis efficiently - better than many others producers of fast-moving consumer goods whose businesses experienced a shake-up. The pandemic situation confirmed that the Polish industry is made up of genuine leaders, and the fact that the cosmetics industry was selected as one of the "Champions of the Polish Economy" was not accidental. Nevertheless, we still have a long way to get back to where we were last March, when we saw dynamic growth in every aspect of our business. These days, businesses are focused on solving immediate problems - hardly anyone can afford the luxury of relaxed planning.*

Inevitable drops

Despite a fast reaction and a good sense of trends, the industry is experiencing visible drops. The colour cosmetics and perfume sectors were hit the hardest. When working from home, these are not essentials. Their manufacturers are predicting even a 20% drop in turnover.

Also, water-alcohol gels, to which many companies switched their production last March and April, turned out to be a temporary solution. Although they will definitely stay around for longer, the market was very quickly saturated with them. Today, over 70% of respondents whose company switched to producing these products have problems selling them, both in Poland (96% of responses) and for export (1/3 of responses). An additional obstacle in this case may be the current EU debate on the marketing declarations allowed for water-alcohol gels that are cosmetics. In recent weeks - although this is probably the worst possible time - the European Commission has focused on the issue of distinguishing between cosmetics with secondary antibacterial properties and biocides.

How did we respond to the challenges?

Companies had to deal quickly with changes in distribution channels. After the first difficult months, drugstores, where more than half of the respondents in the first round of the survey declared a drop in turnover by as much as 57% on average, rebounded slightly. In the second round of the survey, this declaration was made by 41% of respondents, indicating a 30% drop in turnover. Not surprisingly, e-commerce has skyrocketed. Sales in this channel in both rounds of the study increased by about 50% in approx. 40% of cases. Of course, those who already had such solutions in place and did not have to start from scratch were in a winning position when it came to e-commerce. Online stores took a new approach to sales. They brought in specialists to reconstruct the online store and find new ways of operating within B2B and B2C channels. However, e-commerce still has a lot of development potential in the cosmetics sector. One in three respondent in round I and 42% in round II did not use this distribution channel for sales at all.

According to **Edyta and Filip Pawluśkiewicz, owners of Seboradin**, consumers have become less impulsive and put more thought into their purchases: *We see fewer people in shopping malls as customers are using e-commerce more for shopping, so we have taken a number of steps to strongly promote Seboradin online. Our current strategy is using the power of social media. We have also introduced a new service for our customers, which is a free online trichology consultation. This has increased traffic in the area of e-commerce, as well as increased interest in our products in online stores.*

Product range has also changed. New or improved products, as well as changes in production techniques were introduced. There are more types of immunity boosting, antibacterial and specialist cosmetic products available. R&D departments had to quickly identify and respond to new consumer needs.

External communication changed completely. Prior to the pandemic, sales in the cosmetics industry were mainly done face-to-face, both with buyers and consumers, e.g. during a dermoconsultation. Now most activities are done online. Online consultations have replaced stationary ones, and instant messaging has become the main tool of dialogue.

Almost half of respondents also declare a drop in exports in their companies as a result of the pandemic. Seven percent of companies closed this sales channel altogether. Only 20% of companies maintained their level of export at a previous level, and in 15% of cases export improved. More than half of the companies exporting goods believe that the export situation is slowly stabilising and returning to normal. However, 28% see significant difficulties in re-entering certain markets. In turn, 16% of respondents believe that recovering exports will only be possible with state aid.

In March, during the first lockdown, exports in our company stopped completely (one exception was Sweden, but for us it is a small market). In June, export activity quickly rebounded, and in the third quarter we even noticed increases compared to the same period last year. Unfortunately, since October, exports are dropping again (we are hearing from other markets that buyers are not as active). We have already implemented a survival plan for the next 6 months to get through the pandemic wave and protect the team again, says **Jacek Płucienniczak from Pharmann**.

As **Blanka Chmurzyńska-Brown** points out, it is good that the government funds supporting cosmetics

export have finally been shifted to online events, such as the recent WeCosmoprof: *Obviously, nothing can replace face-to-face meetings that allow you to best present the strengths of domestic companies, their know-how, people, and brands. However, we hope that, at least to a small extent, WeCosmoprof was an opportunity for businesses operating in Poland to establish new relationships.*

After six months of operating during the pandemic, what is most important for entrepreneurs in the cosmetics industry? With the number of cases growing exponentially every day, work organisation remains a challenge. The pandemic, as in any industry, has also affected the way companies work internally. Remote or hybrid work, disbursed team and data management, digitised contacts with customers or buyers - all this required the adaptation of IT systems, staff education, equipment change and appropriate data protection management within the organisations. In normal times, it would take weeks to implement changes in any of these areas.

Anna Bieluń, co-owner of the Ministry of Good Soap (Ministerstwo Dobrego Mydła), emphasises that small cosmetic manufactories that base their production on the work of a small group of highly qualified craftsmen (in our case - soap makers), fear that their employees will get COVID-19: *Our customers expect from us a great offer of Christmas gifts, produced on an ongoing basis and sent immediately, so at this particular time we cannot afford a downtime that may threaten the company's financial stability.*

What other challenges are businesses facing today? In comparison with the first round of the Kosmetyczni.pl survey, many companies managed to ensure and maintain financial liquidity. Today, 29% of businesses are worried about it, but in May it was as high as 58%. The lack of packaging is now a much smaller problem (a drop in responses from 64% to 39%). The top three challenges, however, include disruptions in the logistics chain of raw materials, the demand barrier of individual customers and disruptions in transport.

Apart from adapting to the new situation, businesses are mainly involved in: developing new sales channels (70%), maintaining and increasing export (59%), and limiting the impact of production on the environment (48%). The importance of the environment in the study shows that companies, alongside recovering from the pandemic, continue to watch trends and are thinking long term about non-COVID related challenges.

Most of the member companies, and there are over 200 of them in the Polish Union of the Cosmetics Industry, are very cautious about their predictions about the future. If we are in fact faced with another worst-case scenario and another lockdown, the situation of colour cosmetics producers will definitely worsen. How much? The real impact of the pandemic on the industry will probably be assessed over the next few months, maybe even a year. Only then will it become clear whether order volumes and customer preferences have changed permanently. If so - I am sure that companies will do whatever they can to adapt to the new realities again, says **Blanka Chmurzyńska-Brown.**

The Polish Union of the Cosmetics Industry, as the only organisation in Poland, represents and supports the strategic goals of entrepreneurs exclusively in the cosmetics industry. Since 2002, it has been an active voice of the sector in the law making process. It collaborates effectively with Polish and European administrative institutions on a daily basis, and together with the member companies it creates and implements solutions that help develop the Polish cosmetics market, which today is in fifth place in the European Union.

The Union is part of Cosmetics Europe - the European industry organisation and the Lewiatan Confederation - the most influential organisation of employers in Poland. It is also involved in activities that build the sector's position abroad by helping promote the export of Polish cosmetics, build partnerships and, together with partners, remove barriers to international trade. The organisation also acts as a platform for sharing knowledge – it educates and trains companies, improving the quality of the entire sector. For 13 years, it has also been running the social project Beautiful Life Foundation.

The Union brings together nearly 200 companies, including cosmetics producers and distributors, laboratories, consulting companies and teaching centres, as well as their industry partners - suppliers of packaging and raw materials. It unites and works on behalf of startups, small family businesses, as well as large international corporations and major Polish cosmetics companies, which work together effectively in an atmosphere of mutual respect and trust, while maintaining all rules of competition.

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