



The Beauty of Cloud

Why cloud is the foundation of future success for beauty and personal care brands





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Introduction

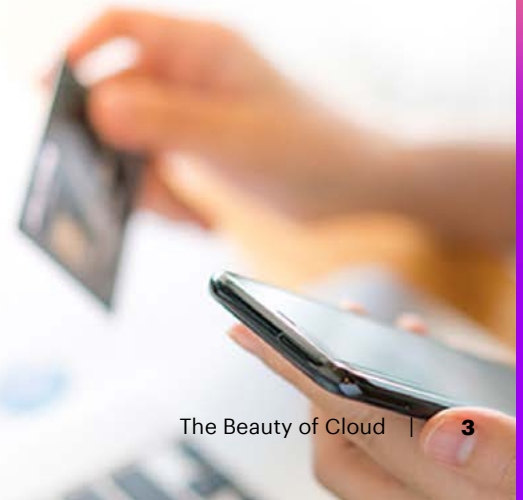
A fundamental change is taking place in the way consumer products are bought and sold. Driven by evolving consumer expectations and widespread digitalization—and further accelerated by COVID-fueled digital adoption—brands in many industries and many territories are pivoting away from the traditional wholesale model and selling directly to their customers.

For beauty and personal care manufacturers, this is overturning decades of conventional wisdom about how their industry works. Not so very long ago, the whole business model was centered around manufacturing to stock, selling to bricks-and-mortar retailers, and communicating via mass-media marketing. The “customer” was, for all intents and purposes, the retailer. And the “product” they bought was pallets of goods manufactured in bulk.

With the direct-to-consumer (D2C) revolution, it's very different. Rather than selling to a few hundred familiar retailers, beauty and personal care brands must pivot to serving potentially millions

of consumers, all of whom have their own individual needs and expectations—and, what's more, will often lack a pre-existing direct relationship with the company.

That needs a different kind of business and operating model. It changes so much about how the business functions, from the way products are manufactured, sold and distributed, to the approach to marketing spend, to the need for advanced customer segmentation, to the provision of seamless customer experiences over multiple sales channels, to the back-office tools and platforms the business uses.



A new kind of consumer landscape

Beauty business models aren't the only things that are changing. The needs and expectations of consumers are also now dramatically different. Today's consumers increasingly want hyper-personalized products and services delivered on demand—and are less willing to restrict their purchasing choices to whatever happens to be on the store shelf at any moment.

This need is particularly acute in beauty and personal care, where consumers are even more likely to want the exact shade, finish, or scent that's "just right" for their unique skin tone, hair type, or personal preference.

At the same time, advanced consumer-facing beauty tech is becoming increasingly popular. For example, "smart" mirrors, smartphone apps, and virtual try-ons are all now an important part of the consumer experience—letting customers test out and tailor beauty products before purchasing.

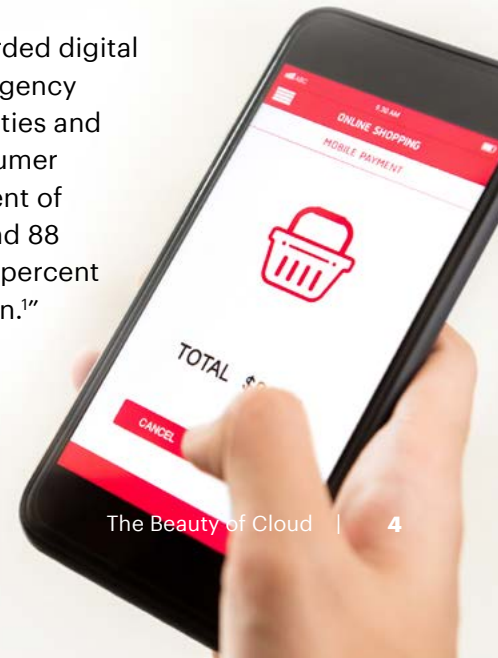
The COVID-19 pandemic has ramped up the commercial pressure on beauty and personal care brands even further. With everyone at home, with offices closed, and with no social engagements to attend,

both the need and the opportunity for consumers to buy and use beauty products has been significantly reduced.

As governments across the world continue to battle the healthcare emergency, consumption is likely to remain suppressed in affected markets in the short term—increasing the need for greater agility, productivity, and efficiency in R&D, manufacturing, supply chains, and front- and back-office processes.

At the same time, the pandemic has fast-forwarded digital adoption by several years, bringing renewed urgency to the need for omnichannel D2C retail capabilities and digital beauty tech services. "Accenture's consumer research has shown, for example, that 89 percent of people would now consider in-app ordering, and 88 percent home delivery. What's more, a huge 81 percent said they'd now use a virtual styling consultation."

[1] Accenture COVID-19 Consumer Pulse Research, conducted 2nd-8th June 2020



A pivotal moment for beauty and personal care

Where does all this leave beauty and personal care brands? Many are facing an existential moment. To make hyper-personalization and D2C work at scale, entire business models need to be rethought and entire value chains reconfigured. Three capabilities in particular are now essential:

1 Hyper-personalized customer interactions



Brands must look to leverage significantly larger data sets (both first-party internal data and third-party external data) in close to real time—and so create a dynamic individual record for each customer capable of serving a “segment of one”.

2 Omnichannel retail experience



Brands should be ramping up D2C sales across all channels—ensuring seamless consumer experiences across digital, mobile, web, pickup, and in-store purchasing—supported by innovative front-end “beauty tech” capabilities, plus seamless integration with the ERP backend.

3

Agile and responsive supply chains



Brands should look to accelerate the ongoing shift from mass-production and manufacture-to-stock to greater levels of product customization, D2C delivery models and a higher proportion of manufacturing to order.

These capabilities are critical in transforming the previously linear beauty value chain into an agile and multi-dimensional delivery model that is aligned to consumer preferences. Previously distinct and siloed processes must be linked and integrated, enabling fast and consistent flows of data, materials, and products through a network of interconnected functions brought together with consumer experience goals.



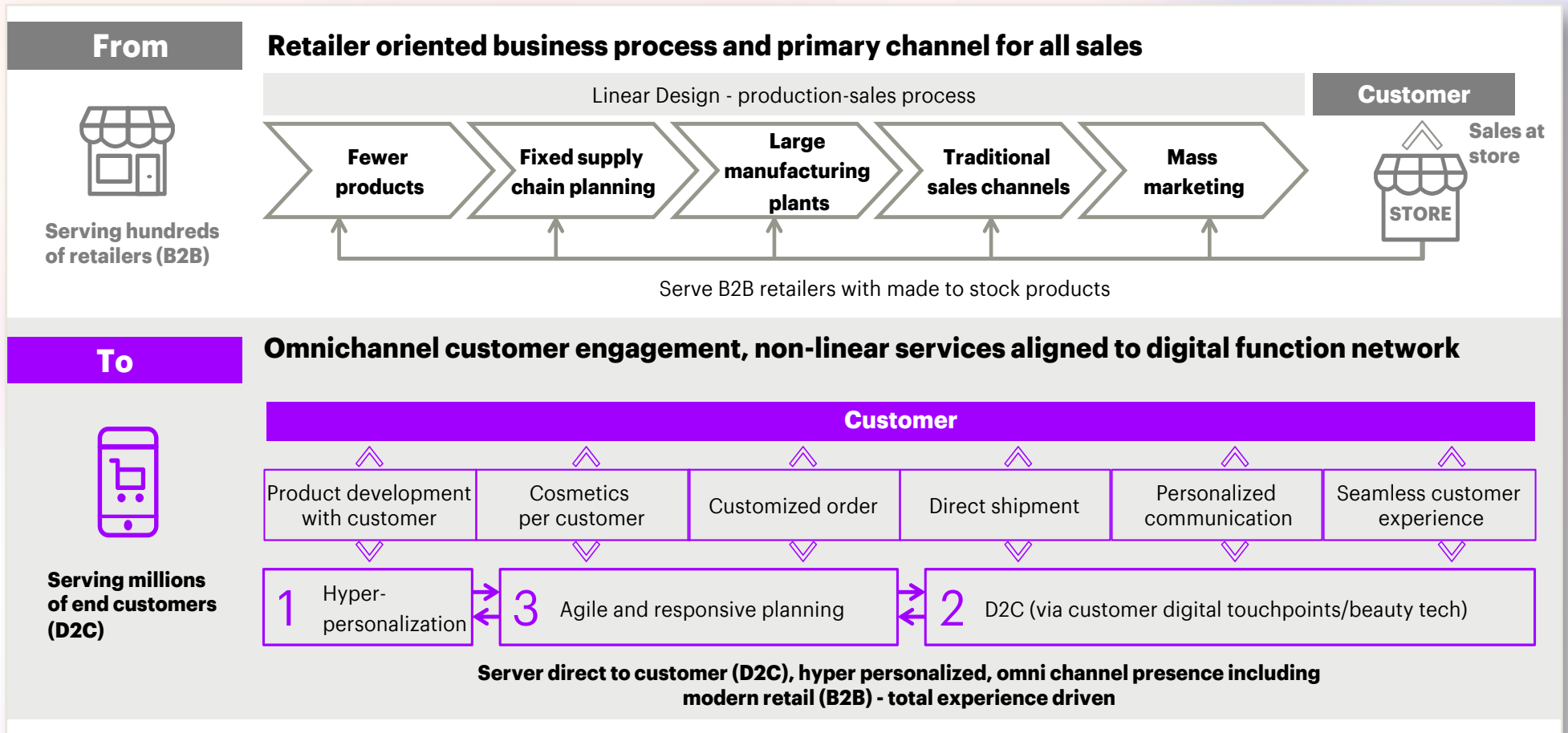


Figure 1 — Reimagined beauty and personal care business value chain



A finely balanced transition

The stakes are high. Get the transformation right, and a beauty brand can expect to enjoy accelerated growth and a direct one-to-one relationship with consumers by providing them with the hyper-personalized products and services they increasingly demand.

But get it wrong and the consequences can be severe. Accenture's analysis suggests that, handled badly, a transition from wholesale to D2C can destroy profitability in the short term. Figure 2 shows how easily a consumer goods company can go from a 20 percent positive EBITDA to a 10 percent negative in the early years of a D2C transformation.

This is why it's vital to manage the transition in a considered and sustainable way. That means choosing carefully when and where to introduce personalization (such as for the most relevant consumer interactions or for high-end "premium" products).

It also means using advanced data analytics to target brand marketing more effectively—thus reducing the cost of consumer acquisition—as well as pivoting to a more agile supply chain model that reduces manufacturing and obsolescence costs.








Key lines	Traditional CPG	D2C in initial years	Drivers
 Promotions Spend	4-5%	10-15%	Personalization to drive relevant customer choices and premiumization reducing need for high promotion sales
 Advertising/ Cost of Acquisition	10%-15%	20%-25%	Reduce cost of acquisition on back of data driven marketing – first- and third-party data
 Supply Chain Cost	5%-7%	10%-15%	Agile supply chain to reduce cost of manufacturing and obsolescence costs
 SG&A	5%-10%	10-15%	Reduce SG&A costs by cloud enablement of legacy systems
 EBIDTA	20%+	-5-10%	

Figure 2 — Priorities for mitigating costs associated with a transition to D2C



Cloud: The foundation of a profitable future

One capability above all is critical in this transformation—the cloud. By simplifying and standardizing technology architectures in the cloud, beauty brands can not only increase their agility and flexibility, they can also create a platform for the consumer-centered innovation that will be vital for their future growth.

In fact, cloud architectures underpin virtually everything that beauty and personal care brands need to do to achieve growth via hyper-personalized omnichannel D2C sales. Firstly, consider what **hyper-personalization** requires. At the core, this is about understanding each consumer as an individual—a unique person with a distinctive set of behaviors, expectations, and preferences—and using that to narrowly target the brand’s messaging as well as enable individually customizable products and services.

The cloud is critical to acquiring this degree of granular customer insight, providing both a platform for storing, standardizing and linking customer data, and access to cutting-edge analytical capabilities (including machine learning). And because these are delivered as a service, and paid for only when consumed, it’s also a

far more cost-effective architecture than any business could hope to match on-premises. What’s more, cloud requires no significant capital expenditure or lengthy lead times upfront.

Then consider the infrastructure performance needed to support **digital D2C business models**. Not only does the cloud provide the necessary speed and scalability, thanks to its flexibility and wide-array of industry-specific services, it also shortens business innovation cycles. Across product ideation, design, development, and testing, cloud accelerates a brand’s ability to act on the insights it generates—enabling it to better understand when and where personalization and customization will translate into higher profitability and growth.

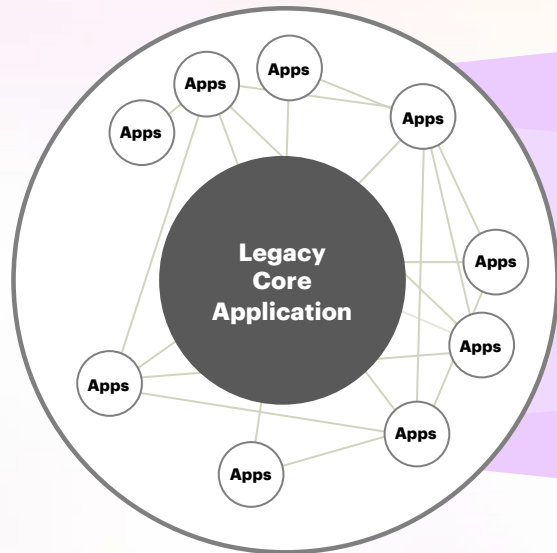
Cloud is also a foundational component of modern **agile and responsive supply chains**. When all supply chain partners are connected on the cloud, and able to share data securely, information exchange latency is radically reduced. That means a manufacturer can get close to a real-time view of the whole value chain end to end, as well as transforming its ability to innovate collaboratively with its supply chain network.



The catch? Many manufacturers are still saddled with monolithic, tightly coupled, and complex legacy technology stacks—typically characterized by a high degree of point-to-point integration and siloed architectures. However, the urgency of the present situation is such that all companies should now be looking to transform their technology setup in the cloud.

The goal? A simplified core platform complemented by an ecosystem of decoupled and resilient cloud applications and capabilities that enable real-time integration and the free flow of data insights across the organization.

Traditional legacy architecture



Innovation

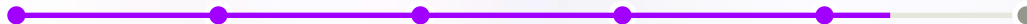
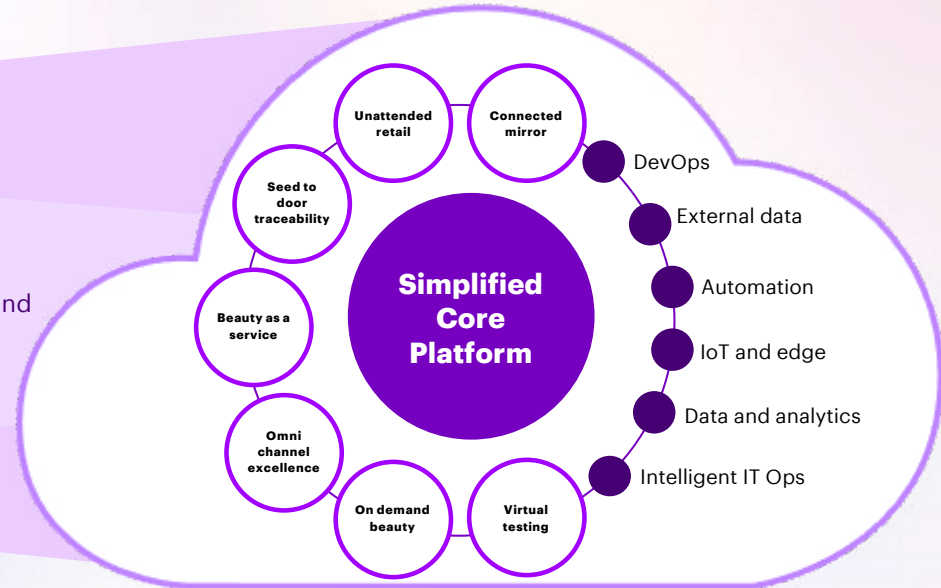


Simplification and standardization



Agility and flexibility

Resilient modern cloud-powered architecture



Use case example:

Influencer marketing and responsive event-driven operations

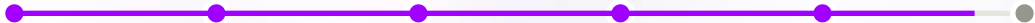
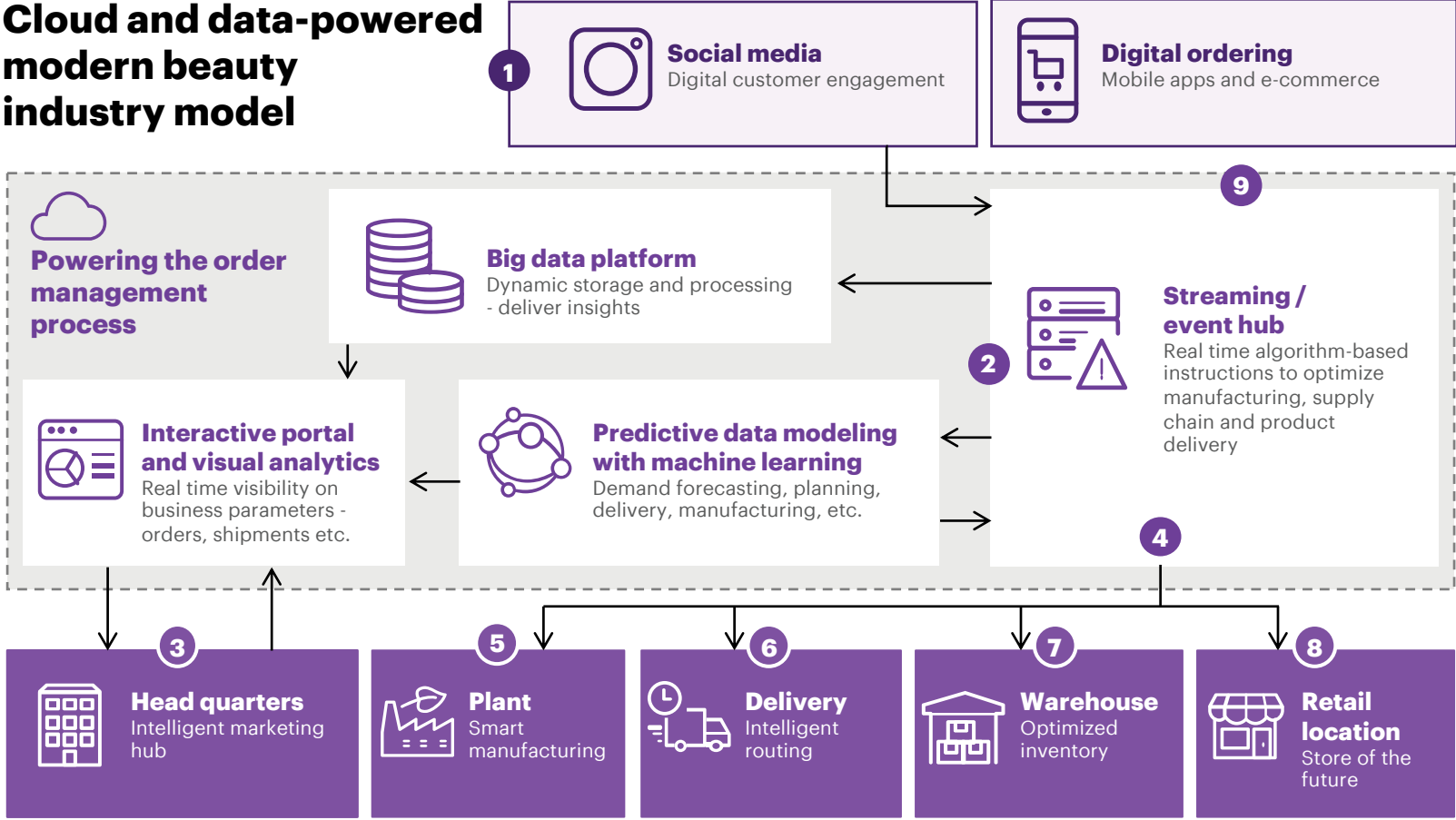
What happens if a social media influencer recommends one of your brand's products to their 15 million or so followers? Your chief marketing officer is understandably delighted. But what about the rest of the business? Will your technology infrastructure, digital channels, manufacturing setup, and back-office systems be able to manage the sudden influx of new D2C customers in a timely and cost-effective way?

This is where the scalability of cloud architecture comes into its own. Rather than trying to anticipate highly uncertain future demand spikes by building in excess capacity it doesn't otherwise need, the business can access infinitely scalable and cost-effective infrastructure in the cloud—especially if it opts for an event-driven “serverless” architecture which only runs when called.

What's more, when cloud-based predictive artificial intelligence services are built in, the business can start to recognize and act on demand signals like these as soon as they happen. That provides crucial advance intelligence, giving manufacturing, logistics, warehousing, and the supply chain network time to ramp up operations.



Cloud and data-powered modern beauty industry model



See the inherent beauty of cloud

Seize the opportunities of this moment of truth

Many beauty and personal care companies around the world have already started their cloud migrations. But how many can truly say they've pivoted to become a "cloud first" organization—one that uses cloud not only as a source of cheaper infrastructure, but also as a platform for business reinvention and consumer-centered innovation?

The rapidly changing consumer and commercial realities of the beauty industry—dramatically accelerated by the COVID-19 pandemic—mean this is now a priority. And it's all the more important as brands look ahead to a post-pandemic world, in which the demand for human social contact—and thus beauty and personal care products—will likely be explosive.

That's why the ambition must now be to look beyond a pure infrastructure migration to broader cloud horizons. These should include responsive and scalable D2C capabilities, data-driven granular consumer insights, and hyper-personalization in both brand

messaging and product customization—plus the huge opportunities for new customer experience afforded by innovations in cloud-supported beauty tech.

The beauty of cloud is that the opportunities for growth are only limited by the scope of a company's ambition. That's why cloud is the foundation on which the winning beauty and personal care brands of the next decade and beyond will be built. And it's why it's time to commit fully to a cloud-first future.



Want to get started?

Here are three priority actions to consider today...

1 Fix the vision to the strategy.

Bring a clear sense of direction to your company's "North Star" cloud ambitions by defining a clear strategy for a cloud-based business transformation powered by data insights.

2 Make the value case for increased cloud adoption.

Conduct a rapid current-state cloud assessment to provide a rough order-of-magnitude sense of potential savings and value still to be unlocked in the cloud.

3 Define the roadmap for the next phase of your cloud journey.

Set out three to five priority applications which can derive the most value from cloud. Consider launching a Cloud Center of Excellence focused on driving up adoption with an experimentation-led approach.

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