

BEAUTY

What's Next for Beauty Investors

A return to pre-pandemic beauty habits means people are heading back to stores to shop for skin care and makeup — and investors are rethinking where they're putting their cash.



Brands that have prioritised brick and mortar and e-commerce are most appealing to investors. Shutterstock

By **RACHEL STRUGATZ**

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Nine months ago, at the height of the Covid-19 pandemic, Richard Gersten, founder and managing partner of True Beauty Ventures, which last week closed a \$42 million fund, said investors were exclusively interested in digital-first beauty brands.

Nearly a year later, priorities have shifted. Now, “there’s been a return to the store for beauty ... people like shopping in those environments,” he said. “What’s different today versus a year ago is that people now realise that.”

While raising its own fund, Gersten said the one-year-old firm (which has made six investments in the beauty and wellness space, including at-home hair treatment brand K-18 and **sexual wellness label** Maude) got pushback from potential investors “who thought brick-and-mortar was dead and shouldn’t be part of our growth strategy.”

But a quicker-than-expected **return to pre-pandemic beauty routines** changed that thinking. With the majority of restrictions lifted, consumers are not only buying lipstick again, they’re doing so in a store.

Heading into 2022, investors are increasingly interested in brands that have a strong presence both online and in-store. The most desirable beauty companies will have entered brick-and-mortar in their early days, if not at launch (a shift for a space once led by direct-to-consumer brands) and play in growing categories, like wellness.

The Distribution Pendulum

Consumer trends drive and shape investor trends, so the two evolve in tandem. After both consumer and investor interest swung back and forth between digital and physical shopping during the pandemic, today’s stakes have made it so investors are increasingly interested in brands that can do both. What’s most appealing is companies that have a physical element (and the earlier on the better), as well as a digital strategy.

The necessity of both became apparent over the course of 2020. When non-essential retailers closed in March, online became the sole sales channel for a number of brands. Those that already had a strong digital presence or quickly pivoted towards e-commerce were better equipped, modifying social media, merchandising and marketing strategies to entice homebound shoppers. Even when stores reopened, consumers were wary about shopping in person and online remained the preferred shopping venue until spring of 2021.

Habits changed fast a few months ago, as people returned to stores to shop for skin care and makeup in droves, and now, brands are rethinking how they go to market in a post-pandemic world.

Brick-and-mortar beauty is set to get another jolt once **Target and Kohl’s launch their Ulta and Sephora shop-in-shop concepts** in stores as early as this month, a move that will provide the prestige labels gaining distribution in Target or Kohl’s through such partnership exposure to new consumer audiences.

“The ability to bring newness into your store is key,” said Alex Fitzgerald, principal in the consumer practice of Kearney, a global consulting firm. “It’s a win for the retailer.”

Lucky for brands, it’s easier than ever to enter brick and mortar. Retailers are just as eager to carry newer, digital-first start-ups as the start-ups are to be on shelf. Walmart recently revealed its own aggressive beauty strategy, starting with launches from digital-first brands like **Gen-Z skin care line Bubble** and Crayon Case, a colour cosmetics brand, while Glossier, perhaps the best-known digital-first beauty brand,

“In the past I don’t ever think I had a client that was less than 12 months old that had an opportunity to be part of Nordstrom, now it’s an option,” said Katya Constantine, chief executive officer of DigiShopGirl Media, a marketing agency that’s worked with brands like Away and Madison Reed.

For retailers, the benefit is partnering with younger, digitally native brands that three years ago wouldn’t even consider selling at Walmart or Target; while for founders and investors, the primary appeal of wholesale partnerships with big box or specialty retailers is that it’s a much more affordable brand awareness tool than digital, which is expensive and often less effective.

“If you’re a beauty brand that’s depending one-for-one on paid advertising and Facebook right now that’s not an attractive game,” said Alicia Sontag, co-founder and partner at Prelude Growth Partners.

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The Hot Categories

Having a robust digital and physical retail strategy is essential for investors eyeing beauty brands, but certain categories are more likely to produce the next billion-dollar acquisition.

“You look at the current portfolio coming out of Covid and it’s not by accident that it’s largely concentrated in skin care and hair care,” Gersten said of Truly Beauty Ventures’ investments in K-18 and Kinship.

Nick Brown, co-founder and managing partner at venture capital firm Imaginary, sees an opportunity in categories that were tempered by the pandemic. A return to equilibrium in terms of how people spend their money will fuel growth in makeup in the coming months and years.

“Anything where there was a correlation between being stuck at home and a unique jump in sales is a little less exciting for us at this point,” Brown said, referencing hair colour and nails.

Colour cosmetics are expected to make a comeback after a years long downturn that hit a low point last year. Investors, citing the cyclical nature of the beauty industry, are readying for **a makeup renaissance**.

Sontag is interested in **multicultural hair care** and “**masstige**” skin care lines, as well as products or services in the broader wellness category, whether it’s sleep, menopause or mental health.

Nisha Dua, co-founder and managing partner at BBG Ventures, is looking to the Black female consumer, a market that’s previously been underserved. The firm is an investor in Mented, a colour line, and RadSwan, which makes synthetic hair wigs.

“Being able to look for companies that have more economy in acquiring customers because they’re less crowded is where we look,” Dua said.

Sephora and Ulta Battle for the Big-Box Retail Market

What Beauty Products Will Consumers Buy in 2021?

The Return of Makeup

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