

2023 FASHION SCHOLARSHIP FUND CASE STUDY  
THE FUTURE IS NOW: MERCHANDISING CASE STUDY

# SEPHORA

*AN OMNICHANNEL MERCHANDISING  
STRATEGY TO REIMAGINE THE SEPHORA  
COLLECTION INTO A PHYGITAL  
EXPERIENCE WHILE BUILDING BETTER  
BRAND AWARENESS*

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# EXECUTIVE SUMMARY

SEPHORA IS A VERY SUCCESSFUL BEAUTY COMPANY; HOWEVER, THERE IS A DISCONNECT BETWEEN SEPHORA THE RETAILER AND SEPHORA THE BRAND. THE SEPHORA COLLECTION BEAUTY ROUTINE CAMPAIGN IS MEANT TO REINTRODUCE ALREADY EXISTING PRODUCTS TO A POTENTIAL CUSTOMER. THE CAMPAIGN WILL HIGHLIGHT 11 SEPHORA COLLECTION PRODUCTS, A BRAND AMBASSADOR, THE RETURN OF VIRTUAL ARTIST, SEPHORA AS A SIX-MONTH VIRTUAL POP UP, AND VARIOUS SOCIAL MEDIA CONTENT FROM THE SEPHORA SQUAD. THE ASSORTMENT WILL BE SOLD IN-STORE AND ONLINE ON SEPHORA.COM AND THE SEPHORA APP. THIS CAMPAIGN IS MEANT TO GIVE CUSTOMERS THE OPTION TO ENGAGE WITH BEAUTY EITHER ON THEIR OWN TERMS OR IN A SEPHORA STORE. THE SEPHORA COLLECTION BEAUTY ROUTINE CAMPAIGN WILL BE ABLE TO STIMULATE CONSUMER EXCITEMENT AND INTEREST BY COMBINING PHYSICAL AND DIGITAL ELEMENTS TO CREATE A PHYGITAL EXPERIENCE.

# BEAUTY IN THE METAVERSE



Jon Roman, the Senior Vice President of Global Consumer Marketing and Online at Estée Lauder said that “The metaverse is essentially limitless in terms of how one can express themselves through things like their avatars and it’s this that will unlock more surreal beauty looks, new areas of inclusivity and abstract self-expression.”(1)



In April, Charlotte Tilbury sponsored the Girl Gamer Festival and launched Pillow Talk Party Virtual Beauty Wonderland, its first virtual store. To enter the wonderland, guests would scan a QR code and be greeted by a 3D avatar of Charlotte with 3D products that spin and floats. The world included masterclasses with global pro artists and shopping with friends (1).

Estée Lauder had invited users to step inside the little brown bottle of the iconic Advanced Night Repair that unlocked an exclusive POAP and one NFT wearable that gave the users’ avatars a glowing radiant aura that lasts if the user wishes (1).

Tatchaland is virtual island in Animal Crossing: New Horizons, where players can relax and meditate in virtual spas and bamboo forests as part of Tatcha the skincare brand promoting a virtual self-care break. To reach gaming communities, e.l.f. Cosmetics and Em Cosmetics have established a presence on Twitch, which is a platform that prioritized video game live-streaming (2)

The beauty industry has always been home to perfume spritzers, testers, and beauty consultant advice. Due to the pandemic, the industry has had to adapt through unique technological options to effectively handle consumer need. Brands have kept customers engaged by using artificial intelligence, augmented and virtuality reality, livestreaming, and contactless offerings across channels.3 In the past two years, brands like Clinique, Charlotte Tilbury, and Nars have delve into the metaverse and web3 through creating products for avatars, virtual storefronts, games, and NFTS. In 2022 alone, L’Oréal filed 17 trademarks for virtual cosmetics in 2022 online and Estée Lauder became the exclusive partner for Decentraland’s Metaverse Fashion Week last March (4).

1. Vallis, B. (2022, May 23). How beauty is entering the metaverse, from nfts to virtual cosmetics. Harper's BAZAAR. Retrieved October 17, 2022, from <https://www.harpersbazaar.com/uk/beauty/a40046366/beauty-metaverse/>  
2. Guinaugh, O. (n.d.). The Gen Z Beauty Consumer US, 2022. Mintel Marketing Research. Retrieved October 17, 2022, from <https://reports-mintel-com.proxy.library.kent.edu/display/1099775/?fromSearch=%3Ffreetext%3Dgen%2520%2520beauty%2520consumer%26resultPosition%3D1%26resultPosition%3D1>  
3. Ortega, M. (n.d.). Beauty Retailing US, 2022. Mintel Marketin Research. Retrieved October 17, 2022, from <https://reports-mintel-com.proxy.library.kent.edu/display/1045645/?fromSearch=%3Ffreetext%3DBeauty%2520Retailing%25202021%2520%26resultPosition%3D1%26resultPosition%3D1%26resultPosition%3D1>  
4. Kennedy, J. (2022, May 29). Beauty's place in the metaverse. The Business of Fashion. Retrieved October 17, 2022, from <https://www.businessoffashion.com/articles/beauty/beautys-place-in-the-metaverse/>  
Image 1: <https://beautymatter.com/articles/charlotte-tilbury-and-obsess-create-the-pillow-talk-party-virtual-wonderland/>; Image 2: <https://holmagazine.com/estee-lauder-participating-in-decentralands-metaverse-fashion-week/>; Image 3: <https://www.allure.com/story/tatchaland-tatcha-animal-crossing-island-visit>

# MARKET SEGMENTATION



## DEMOGRAPHIC

- Gen Z & Millennials aged 18-35
- Male, Female, Gender Fluid
- Consumers entering young to mid-adulthood



## BEHAVIORAL

- Consumers who spend copious amount of time beautifying themselves
- Consumers who practice routine and self-care rituals daily or weekly
- Consumers who share their love of self-care with others



## PYSCHOGRAPHIC

- Consumers who enjoy self-care as a form of wellness
- Consumers who value the health of their skin
- Consumers who value quality and luxurious skincare and cosmetics



## GEOGRAPHIC

- Suburban and urban areas of the United States, Europe, Asia, and Australia

## TARGET PERSONA

Hunter is a 25-year-old young professional currently on a “funemployment” before they start their new hybrid job as an associate financial analyst at a national bank with a \$92k salary. They live in the heart of San Francisco, California. A workaholic, Hunter has begun working out and listening to podcasts in the mornings to relieve the stress of their job. They have social anxiety and prefer to connect with new people online. They have religiously done their makeup every day since they were 18. When buying makeup and skincare, they look at product reviews from TikTok, YouTube, and try the product before committing to purchasing. Their nearest store is the Sephora Laurel Village on California Street. (Appendix A)



# RETAILER COMPARISON

## SEPHORA

- “Our mission at Sephora is to create a welcoming beauty shopping experience for all and inspire fearlessness in our community” (5)
- Over 2,700 stores in 35 countries worldwide with 340 curated brands and over 45,000 products, including the Sephora Collection
- Beauty Insider with the Beauty Insider Community on the app & Sephora Credit Card
- Sephora at Kohl’s – an exclusive beauty section for Kohl’s. Expected to have at least 850 locations by 2023
- Sephora Accelerate – helps BIPOC beauty founders with a 6-month brand incubator with the opportunity to launch within Sephora (6)



- “Every day, we use the power of beauty to bring to life the possibilities that lie within each of us — inspiring every guest and enabling each associate to build a fulfilling career” (7)
- Over 45,000 stores in the United States with over 25,000 products, including the Ulta Beauty Collection
- Ultamate Rewards & Ultamate Rewards Mastercard
- Ulta Beauty at Target – an expansion of Target’s beauty section. Currently have over 200 locations with a goal of 800 total locations
- MUSE Accelerator – helps 8 early stage BIPOC beauty brands in a 10-week training with \$50,000 in financial support and one-on-one mentorship (8)

5. About Us. Sephora. (2022). Retrieved October 17, 2022, from <https://www.sephora.com/beauty/about-us>  
6. Accelerate. Sephora Accelerate. (2022). Retrieved October 17, 2022, from <https://sephoraaccelerate.com/>  
7. About us: Company. Ulta Beauty. About Us | Company | Ulta Beauty. (2022). Retrieved October 17, 2022, from <https://www.ulta.com/company/about-us>  
8. Muse accelerator program: Muse. Ulta Beauty. (2022). Retrieved October 17, 2022, from <https://www.ulta.com/company/dei/muse/muse-accelerator>

# WHY SEPHORA



Sephora is the best brand for this campaign because it is positioned as an expert in beauty products and trends that prioritizes enhancing the consumer experience at every stage. Sephora has created a space for beauty education and a digital community for its customers to interact with each other.

- Worldwide retailer that sells well-known international brands exclusively
- Wide range of beauty and skincare brands available from affordable to high-end
- Strong loyalty initiatives with the Sephora Beauty Insider Program and an interactive and education app that focuses on community

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- Prioritizes other brands in marketing and in store merchandising over the Sephora Collection
- Beauty services are limited to skincare, face waxing, and makeup services
- Limited shelf-space and inventory due to the influx of brands and samples

- Strong knowledge of their target customer and the beauty industry
- Growing demand for skincare and beauty products
- Delve into men's and gender neutral beauty and skincare products as gender norms are becoming obsolete

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- Individual beauty and skincare brands websites, such as Fenty Beauty and Laneige
- Beauty and skincare has become a very niche market
- Affordable beauty and skincare brands that have the same quality as the Sephora Collection and brands Sephora carries

# MERCHANDISING PLAN



The Sephora Collection will be launching a beauty routine to help customers become more familiarized with the assortment and encourage beauty lovers to try new products. The products in this assortment will be existing products that Sephora is reintroducing to its customers. The goal of launching this beauty routine is to help create repeat purchasers of the Sephora Collection and to build better brand awareness. 53% of US consumers mostly repurchase the same products/brands (3). The aim is also to spark creativity with this beauty routine as not every has the same makeup order or uses the same products. It's all dependent on the individual and how they want to express themselves to the world that day. The assortment includes the: Smooth + Blur Primer, Retractable Brow Pencil – Waterproof, Best Skin Ever Foundation, Best Skin Ever Full Coverage Multi-Use Concealer, Soft Matte Powder Bronzer, Soft Matte Perfection Blush Duo, Translucent Loose Setting Powder, Mini Pocket Sun Eyeshadow Palettes, Big by Definition Defining & Volumizing Mascara, Outrageous Plumping Lip Gloss, and All Day Makeup Setting Spray. This assortment will be available to try on with Virtual Artist, either in-store or at home on the Sephora App.

# IN-STORE MERCHANDISING



**VIRTUAL ARTIST  
DISPLAY**

**VIRTUAL ARTIST  
DISPLAY**





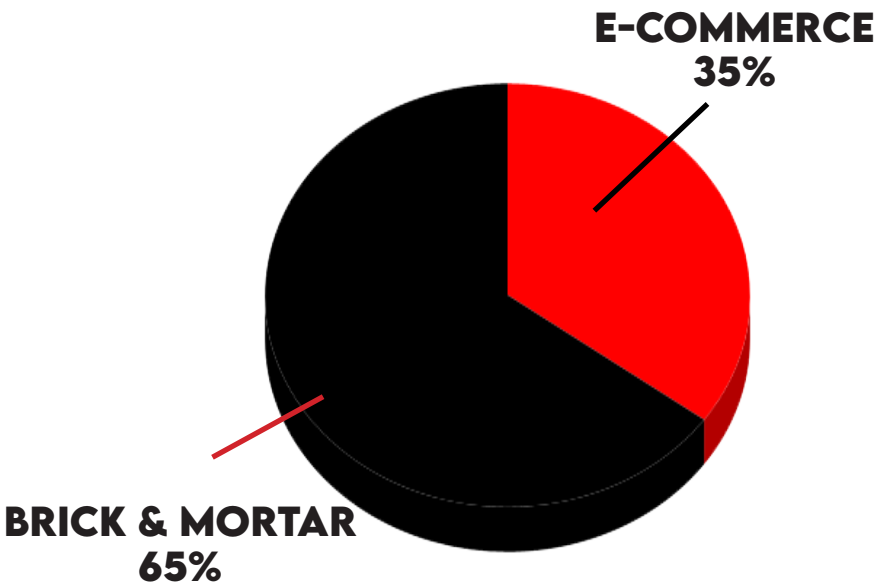
# IN-STORE MERCHANDISING

Sephora displays and markets all its products by brand and makeup application order. Sephora encourages customers to touch and try on the products based on their displays. The Sephora Collection, depending on the size of the Sephora, is usually placed on the walls of the store. The location of the Sephora Collection will remain the same to not confuse the customer. At the end of Sephora Collection display will be two iPads one each side with only the Sephora app. The iPads will automatically begin on Virtual Artist to become an augmented reality mirror. (Appendix B)

Customers can try on products via the live camera or utilize a model with a similar complexion as them. Customers will be able to log into their Sephora account to save the photos of themselves or model with the products they tried on. Beauty Advisors, or Sephora employees, will be able to help the customer with any issue involving the iPads and Virtual Artists. The iPads will also be able to tell the customer if the product and shade they want is in stock and where to find it on the shelf. If a product is not available, they can choose to order it to their homes with free shipping available.

The iPads will also allow customers to do a Foundation Quiz, Lip Quiz, Brow Quiz, and a Complexion Builder Quiz, which are all available on the Sephora.com. However, the iPads will prioritize Sephora Collection recommendations. If a customer is more comfortable, they can use their own mobile device to use Virtual Artist rather than the iPads.

# ALLOCATION & DISTRIBUTION



Even in economic uncertainty, the beauty industry is buoyant industry with sale on the rise. In the first half of 2022, Sephora grew at double digits compared to 2021 and 2019 with strong store performance (9). For BOPIS, or Buy Online, Pick Up In Store, Sephora saw a 7.9% share increase over its competitors (10). Consumers have shifted back to in-store as online beauty sales for the industry have experienced a year-over-year 14% decrease in 2022 (10).

For the Gen Z customer, even when purchasing online the in-store experience is important to inform for purchases. They primarily shop in-store when it comes to beauty products (2). Millennials, specifically higher-income Millennials, prefer to shop online over in-store (11).

## DISTRIBUTION

The assortment will be sold exclusively on Sephora.com, the Sephora app, and freestanding Sephora stores. Online sales include Buy Online Pick Up in Store, Pick Up Curbside, and Pick Up In-Store, Instagram Shop, TikTok Shop, and Facebook Live Shopping. There are about 524 Sephora freestanding stores in the United States.

<b>BRICK &amp; MORTAR</b>	<b>1,835,048 UNITS</b>	<b>65%</b>
<b>E-COMMERCE</b>	<b>988,103 UNITS</b>	<b>35%</b>
<b>OMNICHANNEL</b>	<b>2,823,151 UNITS</b>	<b>100%</b>

9. 2022 first half results. LVMH. (2022, July 26). Retrieved October 17, 2022, from <https://www.lvmh.com/shareholders/agenda/2022-first-half-results/>  
10. Lobad, N. (2022, July 21). Online beauty sales drop 14 percent, 1010data finds. WWD. Retrieved October 17, 2022, from <https://wwd.com/beauty-industry-news/beauty-features/online-beauty-sales-14-percent-down-1010data-1235259851/>  
11. Marketing to Millennials US, 2022. Mintel Marketing Research. (2022). Retrieved October 17, 2022, from <https://reports-mintel-com.proxy.library.kent.edu/display/1147541/?fromSearch=%3Ffreetext%3DMarketing%2520to%2520Millennials%26resultPosition%3D1>

# ASSORTMENT PLAN

The SKU Plan and retail price will mimic the current plan as these products are already being sold at Sephora, in person and online.

## BRICK & MORTAR

Products	# of SKUS	Retail Price	# Stores	# Units	Total Units	Total Retail	Total Unit Classification %
Smooth + Blur Primer	1	\$ 16.00	524	16	8384	\$ 134,144.00	0%
Retracable Brow Pencil - Waterproof	6	\$ 12.00	524	20	62880	\$ 754,560.00	3%
Best Skin Ever Foundation	50	\$ 20.00	524	30	786000	\$ 15,720,000.00	43%
Best Skin Ever Full Coverage Multi-Use Concealor	50	\$ 15.00	524	30	786000	\$ 11,790,000.00	43%
Soft Matte Powder Bronzer	6	\$ 24.00	524	12	37728	\$ 905,472.00	2%
Soft Matte Perfection Blush Duos	6	\$ 16.00	524	12	37728	\$ 603,648.00	2%
Translucent Loose Setting Powder	1	\$ 24.00	524	14	7336	\$ 176,064.00	0%
Mini Pocket Sun Eyeshadow Palettes	4	\$ 10.00	524	10	20960	\$ 209,600.00	1%
Big by Definition Defining & Volumizing Mascara	1	\$ 12.00	524	20	10480	\$ 125,760.00	1%
Outrageous Plumping Lip Gloss	8	\$ 13.00	524	16	67072	\$ 871,936.00	4%
All Day Makeup Setting Spray	1	\$ 13.00	524	20	10480	\$ 136,240.00	1%
<b>Total</b>					1835048	\$ 31,427,424.00	100%

## E-COMMERCE

Products	# of SKUS	Retail Price	# Units	Total Units	Total Retail	Total Unit Classification %
Smooth + Blur Primer	1	\$ 16.00	1581	79048	\$ 1,264,771.54	8%
Retracable Brow Pencil - Waterproof	6	\$ 12.00	1976	98810	\$ 1,185,723.32	10%
Best Skin Ever Foundation	50	\$ 20.00	2964	148215	\$ 2,964,308.31	15%
Best Skin Ever Full Coverage Multi-Use Concealor	50	\$ 15.00	2964	148215	\$ 2,223,231.23	15%
Soft Matte Powder Bronzer	6	\$ 24.00	9881	59286	\$ 1,422,867.99	6%
Soft Matte Perfection Blush Duos	6	\$ 16.00	9881	59286	\$ 948,578.66	6%
Translucent Loose Setting Powder	1	\$ 24.00	69167	69167	\$ 1,660,012.65	7%
Mini Pocket Sun Eyeshadow Palettes	4	\$ 10.00	12351	49405	\$ 494,051.38	5%
Big by Definition Defining & Volumizing Mascara	1	\$ 12.00	98810	98810	\$ 1,185,723.32	10%
Outrageous Plumping Lip Gloss	8	\$ 13.00	9881	79048	\$ 1,027,626.88	8%
All Day Makeup Setting Spray	1	\$ 13.00	98810	98810	\$ 1,284,533.60	10%
<b>Total</b>				988103	\$ 15,661,428.89	100%

# OMNICHANNEL LAUNCH

## SOCIAL SELLING

Instagram and TikTok have marketplaces due to the popularity of the apps and the customer engagement it creates. Sephora has its online store linked to TikTok, Instagram, and Facebook. It has a marketplace on each of these three platforms. Instagram Shop and Facebook Shop allow you to directly shop on the platform and TikTok Shop directs users directly to the product link on the website.

## IN-STORE

The stores will have 1-2 iPads directly on the ends of the Sephora Collection display with signage in front of the store and near the checkout counters.

## SEPHORA.COM

The Sephora Collection Beauty Routine assortment will be on the homepage of the website with a shop now link at the bottom with Sephora's other current marketing, like Bestselling Beauty. On the top menu bar of the website will be a location for Virtual Artist.

## EMAIL MARKETING

Current email list customers will receive an email announcing the return of Virtual Artist on the website and app, the Sephora Collection Beauty Routine assortment and new ambassador, and the temporary launch of SEPHORiA for six months.

## PHYSICAL SIGNAGE

Signage will be placed in front of the store and in the checkout line to grab the attention of customers. There will be three different signs, one for SEPHORiA, one for Virtual Artist, one for the Sephora Collection Beauty Routine assortment and brand ambassador. They will also include a QR code to encourage customers to download the Sephora App.

## SEPHORA APP

In the News For You section, there will be a quick article introducing the Sephora Collection ambassador and explain how to use Virtual Artist. The bottom of the app, where the menu is located, will have an icon for Virtual Artist that will directly take customers to use the feature.

## CUSTOMER SERVICE

Beauty Advisors will complete training on Virtual Artist and be able to help customers in-store when using the iPads. They will also help customers find the products in-store or help them to buy the products via the iPads. On the Sephora app and Sephora.com, there will be a live chat feature that will allow customers to ask any questions they have and deal with an issue that may occur.

## SMS MARKETING

An announcement shorter than the email will be sent via SMS to participants with a link to download the app and a link to the SEPHORiA website.

# MARKETING PLAN

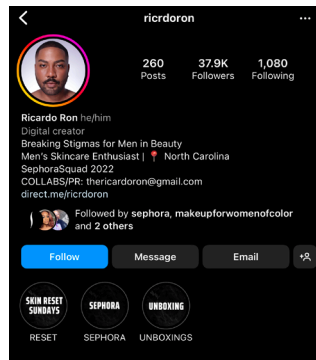
**A VITAL PART TO THE MARKETING CAMPAIGN WILL BE TO DISCONNECT SEPHORA THE RETAILER WITH SEPHORA THE BRAND. THE OVERALL GOAL IS TO BRING GREATER AWARENESS TO THE SEPHORA COLLECTION WHILE BUILDING A CONNECTION WITH GEN Z AND MILLENNIALS.**

## SEPHORA COLLECTION BRAND AMBASSADOR



Miquela Sousa will be the new Sephora Collection dedicated ambassador to help promote the brand and its newest beauty routine. Miquela is a virtual avatar with 2.9 million followers on Instagram (@ilmiquela) and was one of Time's 25 Most Influential People on the Internet in 2018. Miquela will partake in all the same social media content, besides going to a store, and will be the face of the in-store advertising.

## SOCIAL MEDIA & THE SEPHORA SQUAD



The 2022 Sephora Squad consists of 55 content creators, who are diversity and passionate beauty lovers that share Sephora's values with various follower sizes. The Sephora Squad will create organic content on YouTube, Instagram, and TikTok. The content will include them trying Virtual Artist in store and/or the Sephora App, browsing the SEPHORiA website, and promoting the beauty routine products using #SCBeautyRoutine. Each content creator will use the product assortment to create their own beauty routine that suits them.

## SEPHORA EXPERIENCE



From July 2023 to December 2023, the one-day SEPHORiA House of Beauty event will become a 6-month campaign and serve as an ongoing virtual pop up shop. The website will now include customizable avatars that will have the option to try on the new Sephora Beauty Routine. Users will be able to gain Beauty Insider points and exclusive deals that can be used on online or in-store purchases. For most of the launch, the Sephora Collection will be the only beauty brand creating content and part of the games on the website. In September 2023, SEPHORiA will have its House of Beauty event similar to 2022. (Appendix C)

# INCOME STATEMENT

## INCOME STATEMENT

Net Sales	\$ 47,088,852.89	100%
Cost of Goods Sold	\$ 14,638,583.20	31%
Gross Margin	\$ 32,450,269.69	69%
Marketing & Selling Expenses	\$ 4,338,400.00	9%
General & Administrative Expenses	\$ 3,048,743.29	6%
Net Income	\$ 25,063,126.40	53%

## KEY ASSUMPTIONS

- The projected revenue from the collection is 5.7% of total annual United States sales assuming \$830,843,917 in six-month sales (9).
- These numbers are based on the first half of 2022 LVMH financial report, which ended of June 30, 2022
- The total annual US Sephora sales were based off these assumptions
  - Sephora is a part of the Selective Retailing Business Group of LVMH
  - The Selective Retailing Business Group is 18% of LVMH
  - The United States region comprises of 43% of total Selective Retailing sales
  - Sephora is estimated to be about 30% of Selective Retailing sales
  - The currency exchange rate of 1 EUR to 0.97420 USD
- Launch expenses are 2% of the total Marketing and Selling Expense assuming that it is \$287,308,355
- In-Store Virtual Artist Display Expense is based on if every store (524 total) receives two iPads and on average an iPad costs \$800

## MARKETING & SELLING EXPENSES

In-Store Virtual Artist iPad Displays	\$ 838,400.00	19%
Influencer Marketing	\$ 1,400,000.00	32%
Advertising & PR	\$ 900,000.00	21%
Virtual Artist & SEPHORiA Development	\$ 1,200,000.00	28%
Total	\$ 4,338,400.00	100%

# SIX-MONTH PLAN

## SEPHORA COLLECTION

\*DOLLARS ARE IN MILLIONS

First Half Of 2023		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	SEASON
Second Half of 2023		JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	TOTAL
<b>SALES \$</b>	Sales % TTL Plan	15%	14%	19%	12%	16%	24%		
	Plan	\$ 7.1	\$ 6.6	\$ 8.9	\$ 5.6	\$ 7.5	\$ 11.3		\$ 47.1
<b>STOCK/SALES RATIO</b>	Plan	2.22	2.38	1.75	2.78	2.08	1.39		T.O. 3
<b>BOM STOCK \$ (RETAIL)</b>	Plan	\$ 15.76	\$ 15.71	\$ 15.58	\$ 15.57	\$ 15.60	\$ 15.71	\$ 15.93	\$ 15.69
<b>MARKDOWNS</b>	Plan	\$ 0.21	\$ 0.20	\$ 0.54	\$ 0.17	\$ 0.45	\$ 0.79		\$ 2.35
	%TTL Sales	3%	3%	6%	3%	6%	7%		5%
<b>PURCHASES \$ (RETAIL)</b>	Plan	\$ 7.22	\$ 6.66	\$ 9.47	\$ 5.85	\$ 8.09	\$ 12.31		
<b>SEASON TOTAL</b>	<b>PLAN</b>								
<b>Sales</b>					\$ 47.1				
<b>Markup %</b>					60%				
<b>Markdown %</b>					5%				
<b>Gross Margin %</b>					69%				
<b>Average Stock</b>					\$ 15.69				
<b>Turnover</b>					3				

# PLANS TO SCALE



**TO DETERMINE IF THE NEEDS OF THE GEN Z AND MILLENNIALS ARE BEING ADDRESSED, SEPHORA WILL EXAMINE:**

- Products tried on Virtual Artist
- Number of product returns
- Level of traffic in-stores, Sephora.com, and the Sephora App
- Number of SEPHORiA users
- Discussions on Virtual Artist and SEPHORiA in the Beauty Insider Community Forums

**BY EXAMINING THESE KEY PERFORMANCE INDICATORS, SEPHORA WILL BE ABLE TO CONTINUE TO STIMULATE CONSUMER EXCITEMENT AND INTEREST IN THE SEPHORA COLLECTION. TO SCALE UP THE CAMPAIGN, SEPHORA PLANS TO:**

- Expand Virtual Artist & SEPHORiA on mobile and website to Europe, Asia, and the Middle East
- Extend SEPHORiA's 6-month experience with an additional 18 months
- Expand the assortment with more beauty routines focused on skin type (dry, oily, combination) and finish (matte, radiant, natural)
- Expand Virtual Artist in-store to Sephora at Kohl's locations



# APPENDIX A: CONSUMER INSIGHTS

## GEN Z BEAUTY CUSTOMER

Adult Gen Z is one of the most ethnically and racially diverse generations currently. To them, inclusivity includes race, ethnicity, gender, sexual orientation, body size and disability. The brands Gen Z use are an essential part of their identity which includes transparency, sustainability, and trustworthiness (12).

The pandemic caused Gen Z consumers to focus on their wellbeing by spending more time on their routines.

33% of Gen Z men spent more time sticking to the same routine every day (2). Compared to their older counterparts, Gen Z consumers prefer to use more affordable brands. Mentions of #DrugstoreSkincare and #AffordableSkincare generated a respective \$593.9K and \$465K earned media value from May 2020 to April 2021(2). CeraVe and The Ordinary have been popular on social media for being affordable and influencer approved. Gen Z adults are willing to pay for more high-quality products regardless of their preference for affordable brands (2). In-store experience plays a role in Gen Z informing purchases, even when purchasing online. For beauty and personal care products, shopping in-store remains the most used purchase channel (2). Gen Z is a generation of changemakers and their looking for brands that are doing the same – standing for their beliefs (13).

## MILLENNIAL BEAUTY CUSTOMER

The largest generation currently, Millennials expect tangible benefits when investing time or money. A third of Millennials said that if they saw more racial diversity, they would feel better represented in advertising (11). Millennials want to see a brand clearly communicating their initiatives and actions to help in eliminating racial discrimination. Millennials want to be able to connect with brands and feel that their voices are heard (11).

The self-care generation, Millennials advocate for taking more breaks, relaxing, and indulging in daily luxuries to treat themselves. The pandemic and other times of uncertainty have made consumers seek control over their lives. Daily rituals are key to help Millennials maintain their feelings of optimism and grow their sense of control, especially when their lives get hectic (11). Overall, shopping online is the preferred over in-store and this is especially true for higher-income Millennials. Millennials are a generation of self-care and nostalgia; they seek comfort in times of distress and uncertainty as the future continues to be unknown (11).

12. Biondi, A. (2021, July 2). How gen Z is changing beauty. Vogue Business. Retrieved October 17, 2022, from <https://www.voguebusiness.com/beauty/gen-z-changing-beauty>

13. Hope, A. (2017, September 29). How is gen Z shaping the future face of Beauty?: News. Dalziel & Pow. Retrieved October 17, 2022, from <https://www.dalziel-pow.com/news/how-gen-z-shaping-future-face-beauty>

# APPENDIX B: SEPHORA VIRTUAL ARTIST

Sephora had partnered with ModiFace to create Virtual Artist, which is an app feature where customers can experiment with eyeshadows, lip products, foundation, and more. They're able to get a virtual makeover, start in their own tutorials, and share their product try on photos with their friends (14). Virtual Artist utilizes facial recognition to detect the customer's eyes, lips, and cheeks for product placement and allows them to try on makeup virtually. Customers can even compare color swatches on their virtual arm. There is also a feature that gives virtual tutorials customized to the customer's face (14). In February 2018, Virtual Artist had 8.5 million visits and 200 million shades tried on. Customers would visit the app several times a month (15). Virtual Artist is currently only available in Malaysia. Previously it was available in the United States, but was discontinued.

Sephora should utilize the user feedback it had received to create an updated and better version of Virtual Artist. In the world of makeup digital try-on, Sephora is behind. L'Oréal, Laura Mercier, Chanel, Urban Decay, NYX, Maybelline, e.l.f. Cosmetics and MAC Cosmetics all have virtual try on features on their websites and even Sephora's main competitor Ulta Beauty has a virtual GLAMlab. The AR market is expected to be worth more than \$200 billion by 2025 (16). By relaunching in North America, Sephora will be able to reach a larger market enabling them to maintain relevancy with the Gen Z and Millennial consumer. Virtual Artist should be available only on Sephora Collection products during the 6-month launch to incentivize consumers to try those products.



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Image 1: <https://medium.com/marketing-in-the-age-of-digital/do-you-want-to-try-virtual-makeup-with-sephora-fbd1449d7ac1>; Image 2: <https://www.perchinteractive.com/sephora>

# APPENDIX C: SEPHORIA HOUSE OF BEAUTY



In 2022, SEPHORiA Virtual House of Beauty was a four-hour interactive experience with 16,000 global attendees that included live content, games, on-demand videos, and a NFT giveaway (17) It was in a virtual house party format with 7 rooms: The Foyer, Home Theater, La Sala, Kitchen, The Spa, Sun Room, and Backyard (18). The event was promoted to Beauty Insiders who could sign up for 100 points to attend (19). Attendees were able to view livestreamed masterclasses and redeem five tokens for 500 points in the Beauty Insider loyalty program by playing games (17). The NFT giveaway was Sephora's first entry into metaverse-related marketing - a total of 8,000 digital wallets were created to collect NFTs by users. They were free to allow the opportunity for any customer to collect them (17). SEPHORiA House of Beauty previously was an in-person event in 2018 and 2019 before appearing in its virtual form in 2021 (19). The Sephora Collection masterclass had the most views and pre-recorded and livestreamed video events with brands and their founders and influencers were also a popular feature (17). In the future, SEPHORiA is most likely to become a hybrid experience. Sephora SVP of External Communications, Event and Experiential Marketing, Jessica Stacey stated that “we certainly want to be able to ensure that we can provide attendees with the flexibility to attend how they would like, whether it is in the virtual space or whether it is live.”(17)

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Image 1+2: <https://www.bizbash.com/production-strategy/experiential-marketing-activations-sponsorships/article/22458613/how-sephora-expanded-this-years-virtual-house-of-beauty>