

REVIEW OF THE IMPACT OF THE COVID-19 PANDEMIC ON THE COSMETICS INDUSTRY (May 2020)

Introduction

The United Kingdom, as many other countries and regions, has been for the last few months under the blanket of influence of the current public health emergency, the COVID-19 pandemic. Since its outbreak, the CTPA has remained committed to providing support to the UK cosmetics industry through direct action with CTPA members and continued engagement with the UK Government, including BEIS (Department for Business, Energy and Industrial Strategy) and DIT (Department for International Trade). Both the CTPA and the UK Government have been keen to understand the impact of COVID-19 on the industry, enabling the development of strategies and resources aimed at supporting the industry through the coming weeks and months.

To gain the information and knowledge necessary to conduct a review of the impact to industry, the CTPA engaged directly with its members and the wider industry. The 'CTPA COVID-19 Survey to Industry', hereafter referred to as the 'Survey', was launched on 14 April 2020, aimed at gaining insight into a wide range of topics including regulatory challenges, supply disruptions and changes to business operations. We further explored the information provided with some of the respondents as well as engaging in direct conversation with CTPA members. This review is an analysis of all the information provided by CTPA Members and other industry contributions. Importantly, the CTPA Survey will remain open for any additional contributions as the pandemic and UK Government response evolves in time, to capture new information and further developments.

As of 18 May 2020, date of publishing of this review, a total of 27 companies contributed with total or partial responses to the Survey and, as mentioned, some of them further contributed in discussions with the CTPA. The CTPA would like to extend its gratitude to all persons and companies involved in these discussions, reflecting the spirit of collaboration and a unified industry approach towards the pandemic.

Survey response profile

As mentioned in the introduction a total of 27 companies contributed to the Survey, with these being mainly manufacturers or brand owners of cosmetic products, together with importers, retailers, distributors and even service providers. Participation from CTPA members represented a total of £1.2bn UK revenue (CTPA, 2019), but contributions to the Survey were both from CTPA members and non-members. All participating companies operate within the cosmetic and personal care space, there was also an overlap with companies that covered other product types such as home care and detergents (30%), biocides (22%), medical devices (10%) and medicines (10%). In Fig. 1 the size of the company of respondents shows an even split between smaller company profiles. A total of 55% of companies contributing to the Survey are within the small and medium size business profile with less than 250 employees, while 30% of the contributing companies filled the profile of a large company. Geographically distributed across different regions of the UK; only 19% of respondents operated or manufactured products solely for the UK market, with 74% declaring a presence in other countries or regions such as the European Union, Asia, US and Australia.

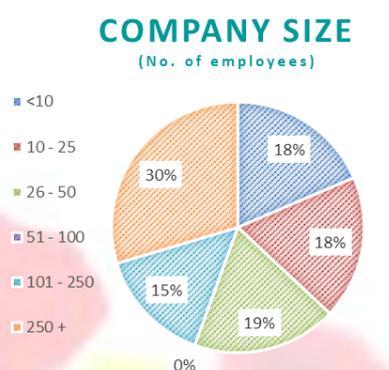


Fig 1. Company size of Survey respondents.

Notably, this is in line with CTPA's understanding of the cosmetics industry within the UK, and therefore adds to the notion of the Survey as a cross-section of the impacts across CTPA membership.

Cosmetic products

Exploring the challenges under the EU Cosmetic Products Regulation (CPR), the Survey intended to capture possible challenges that could be specific to the cosmetics industry, from a regulatory, development and introduction into the market perspective.

From all respondents, 55% declared they were not experiencing major impacts from a regulatory point of view due to the COVID-19 crisis. This figure grows to 76% of companies saying that there were no additional difficulties in placing cosmetic products on the market from a compliance perspective. Encouragingly, 80% of respondents considered that the guidance available from the EU Commission, the UK Government and the CTPA to be sufficient, with CTPA Guidance being used across other business bases outside of the UK.

However positive these figures might appear, both those companies experiencing difficulties and those companies that reported no undue difficulty expressed the following concerns:

- Long-term supply of finished cosmetic products: premises both in the UK and outside of the UK are facing lockdown procedures that will introduce delays in production; disruption to movement of goods across the UK; import and export of goods as countries introduce restrictions to protect internal markets and as organisations involved in the documentation required are not available, such as Embassies involved in legalising documents.
- Raw material availability: well known is the reduction on available raw materials, with over 50% of respondents reporting difficulty in the sourcing of ingredients. Substances such as ethanol are used across different product categories, including biocides and paints; however, additional raw materials are at risk of a reduced availability such as carbomer thickeners, phenoxyethanol or disodium EDTA. These raw materials are used in the manufacture of hand hygiene products and disruption in the supply would challenge the ability of the industry to make these available to the consumer. Finding alternative sources for raw materials can be a complex exercise taking from weeks to months and in some instances, alternative sources are not available.
The CTPA launched the 'CTPA Emergency Response Exchange' (CERE) to facilitate communication between companies in need of raw materials and other components or services with companies able to supply these. So far, this initiative has been greatly successful.
- Research and development: reported also was the challenge from the point of view of being able to conduct scientific, clinical or consumer studies. Social-distancing rules and lockdown procedures have compromised the ability of testing houses to conduct operations, which in turn impact the ability for companies to develop or research the efficacy or safety of products in development. New products, therefore, could be precluded from entering the market.
- Manufacturing: cosmetic products are produced under Good Manufacturing Practices and quality controls. However, 40% of companies have implemented additional health and safety measures or conducted a review of the current policies and practices in place to accommodate for social distancing measures and/or lockdown procedures. Shifts have been introduced, additional Personal Protective Equipment (PPE) has been provided and in some cases, screens have been installed to ensure adherence to UK Government Guidance.
In some cases, companies can choose to request the services of inspection providers to certify adherence to Good Manufacturing Practices, which requires annual physical visits to manufacturing

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premises. Of the participating companies, 16% identified a possible risk to their certification status which could have direct cost implications but also additional reputational damage as these certifications are recognised in other countries or markets.

- Infrastructure and equipment: changes in company practices and behaviours have meant that 52% of respondents had to make a direct economic investment to continue to operate. Additional office space, increased cleaning and sanitation, IT investment to enable remote working, improved security, and warehousing for stock due to forecast variations are some of the ones mentioned.
- Political concerns: quite vocally, a large number of companies participating actively expressed concern regarding the political situation in the UK. While the Survey did not include mention or reference to the current transition period following the UK's exit from the EU, respondents included comments in support of an extension to the transition period in order to mitigate the supply chain and economic impacts of COVID-19.

Biocidal Products

The scope of the CTPA is limited to cosmetics and personal care products. However, much of the infrastructure, equipment, raw materials and scientific/regulatory knowledge required to manufacture cosmetics are similar to those required to manufacture hand sanitisers. The Survey covered these products and while the majority of respondents (63%) declared being aware of the derogations under Article 55 of the EU Biocidal Products Regulation (BPR) issued by the Health and Safety Executive (HSE) and other EU agencies with regards to biocidal hand sanitisers, only 22% manifested the intention to manufacture such products, but even these reported having to make adjustments in the manufacturing facilities to be able to do so. Guidance on the derogations was considered adequate by 60% of the Survey participants, however, it was expressed that the clarity with regards to the derogations was slow, which delayed some of the internal commercial decisions with regards to these products.

From the companies that operated within the scope of the BPR, they were able to report a notable improvement to the timings to place products in the market for hand sanitisers. Outside of the derogations, the estimated time was months/years, whereas with the derogations in place these were reportedly down to days/weeks.

Business Support

Further, the Survey tried to capture commercial or the impacts from a business viability and overall company perspectives. Out of the participating companies, 90% had at the time of their contribution already taken direct action in response to the pandemic, including lockdown procedures preceding UK Government official guidance, and review of shifts within manufacturing premises. For these actions, 35% of companies replied that investments had taken place in order to facilitate this. The overall majority of businesses (90%) were aware of the business relief measures being communicated by the UK Government, with 50% manifesting that they had requested or were intending on requesting access to these measures (mainly the scheme to enable the furlough of staff). Positively, only 10% declared that the guidance available for access to the relief measures was not clear enough.

With regard to the outsourcing of commercial activities, ranging from the logistics, testing laboratories, warehousing activities and third party environmental audits, 45% of the respondents clearly identified problems or difficulties in maintained access or use of these, with 40% expressing that there were no additional difficulties at the time of their response.

Importantly, businesses are experiencing difficulties in being able to conduct effective risk assessments. To this, 40% of respondents had at the time of their contribution conducted a risk assessment for future

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implications, while 25% had not done so. The remaining 35% expressed uncertainty as the underlying difficulty to be able to conduct a proper evaluation, since it appeared the situation was evolving almost at a daily rate.

Demand, Sale, Distribution and Consumer Attitudes

Further to the analysis on the impact to businesses, the CTPA gathered information to understand the impact to the market with regards to cosmetic products in the UK during and after the COVID-19 pandemic.

It is no surprise that the demand for hand hygiene products has increased, with 65% of participating companies stating that they had begun or increased the manufacturing of these products. Upon further investigation, it was deemed that this increase in demand is difficult to estimate accurately, since it was continuously growing at the time of the contribution. An estimation from a number of companies averaged to approximately a 100% increase in demand versus 2019, however the limiting factor to the increase in production was not consumer demand, but factory capacity and limits to the availability of raw materials and components to support such an increase. When looking towards the impact to demand of these products in the upcoming months, the predictions coming from the industry is that it will continue to increase. The relaxation of lockdown procedures worldwide, implementation or return to work policies and changes in consumer habits towards hand washing and hygiene practices will lead to a steady increase in the demand of these products. As consumers leave their seemingly controlled home environments, they are expected to resort increasingly to hand hygiene products. Estimations vary as to what the final size of the category will be, but it is unanimously perceived that it will be considerably greater than before the pandemic.

However positive to the industry these high increases are, they appear to be limited to the category of hygiene products. Out of all respondents, 70% could identify already a change to the overall consumer demand across other categories, with the remaining 30% expressing uncertainty. These changes reflect the attitude from the consumer toward decreased social interaction and the measures established under lockdown, as well as the problems in accessibility to some of the retail spaces where the product categories are retailed or made available. Colour cosmetics and make-up reported a decrease in sales averaging approximately 60%, with a similar figure being reported for fragrance. Slightly lower is the decrease reported for other categories, such as antiperspirants and deodorants (approx. 40%) and hair styling (approx. 30%). Other product types that have also experienced a decrease yet to be quantified adequately include professional use products and premium skincare brands, where access to the spaces in which these are available (salons, department stores, etc.) is limited at this time. Some categories have experienced increased demand on a smaller scale, such as oral health products averaging a 5% increase, hair colouring products and shampoos (approx. 30%) as well as body washes and other general hygiene products.

This variability in demand has been challenging to predict for businesses, and reported supply chain disruptions to finished goods have meant that 40% of participating companies reported they had identified a risk with regards to currently existing stock manufacture, and a further 30% was uncertain and conducting monitoring activities to assess the impact. Indeed, when exporting products, over 35% of companies reported at the time of their contribution they had experienced difficulties in trying to supply or access markets outside of the UK. Conversely, over 50% reported difficulties in the import of cosmetic products into the UK, with the main reason cited being transport and logistical complications.

Finally, the changes in consumer habits and the notable shift from physical retail spaces to online stores and E-commerce have been significant. All companies approached with regard to this reported a dramatic increase in online sales, ranging from a two-fold increase up to a thirty-two-fold increase in certain categories. However, unanimous was also the concern that this will not make up for the loss of sales from other distribution channels, covering on average 20% of revenue loss.

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