

Achieving sustainable business models in cosmetics brick-and-mortar retail by accentuating customer experience management and differentiation

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30.04.2020

1 Abstract

As consumers are gradually leaning towards e-commerce due to its practicality and swiftness -when compared to traditional retailers; is there a future for brick-and-mortar¹ businesses? (Stasik, 2019) Does the beauty industry or -more accurately their consumers; shift towards a similar behavior model? In some countries, this phenomenon has already occurred, and cosmetic brands have begun to offer additional value on their e-commerce channels for example in the shape of 'how-to' video tutorials or utilizing their social media to show how a certain product would look on different complexions. Employing theory on consumer behavior put forth by Solomon et al, (2013) among others as a foundation with *Customer Experience Management Rebooted* by Walden (2017), the ideas were juxtaposed with e-commerce literature. Employing the above-mentioned research as an outline, this thesis will inspect how the cosmetics retailers in Finland have adapted to the rise of e-commerce. Additionally, this thesis uses data from numerous journals -which could be pertinent for the topic; as it aids the researcher in grasping the multiple aspects which could influence the buying behavior of cosmetics users. The results indicate that e-commerce does not pose an imminent threat to bricks-and-mortars due to the strong dependency of customer service in cosmetics retail. However, traditional retailers must emphasize their customer experience management as well as, differentiation from their competitors since online retailers are steadily increasing their grip on the target demographics. To sum up, the findings of the thesis suggests that in the cosmetics industry online retailing is not going to replace traditional brick-and-mortar stores at any rate in the following years yet, simply their presence as a competitor forces the traditional retailers to re-evaluate or alter their business practices in order to stay relevant.

¹ "brick-and-mortar" refers to a traditional street-side business which offers products and services to its customers face-to-face in an office or store that the business owns or rents. (Murphy, 2019)¹

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2 Introduction

The beauty industry is projected to hit \$805.51 billion by 2023 and half of its growth arises from e-commerce, which highlights the significance of e-commerce within the industry as they plan for the long-term. (Desalvo, 2019) Yet, there are great discrepancies in the favored channels between demographics as highlighted by Stasik (2019): “In the love triangle between digital, physical and the consumer, consumers are refusing to pick sides. The lack of Team Digital or Team Physical loyalty is most notable in younger generations, who live in a multi-channel world.”

As mentioned above, the cosmetics industry is projected to grow at a steady pace in the following years. Additionally, as the fight for rights and recognition by the global LGBTQ-community has become one of the most prevailing topics in all media it has simultaneously highlighted a large demographic for cosmetic brands to cater towards and aid them in generating additional revenue. (Bendix, 2018) Around the globe in ever more societies, the gay minority is gradually becoming more visible. New media which features homosexual lifestyles has become a norm, and the consumption patterns attached to them flourish. Thus, marketers claim that the gay community is as attractive as a marketing niche as many other subcultures and that this demographic form a ‘hungry target’ (Solomon et al, 2013, p. 12)

Furthermore, when considering the current climate around the globe where governments are enforcing a state of emergencies to limit the movement of people, companies operating in fields such as hospitality, entertainment, and sports industry are suffering from diminished sales -or even complete shutdown because of the travel regulations and government restrictions. Along with every individual told to avoid large groups and stay indoors because of the looming threat of COVID-19 is there a possibility for traditional brick-and-mortar cosmetic stores to flourish in these troubling times? (Yle, 2020, Broyd, 2020)

2.1 Justification

The researcher was motivated to tackle this topic since in the past few years it has become more and more apparent that large groups of consumers prefer to treat their shopping ‘fix’ online instead of the traditional stores. To acknowledge this occurrence, it does not require much insight even as an ordinary Finnish consumer as large sales

events in stores such as Stockmann have steadily seen to attract fewer individuals. (Ehandel, 2018)

Thus, it has become apparent that the way forward for many companies must include a catered approach towards the individuals who prefer e-commerce -when possible; to serve the alteration in the customer behavior, and the cosmetics industry is no different.

Global cosmetic sales (including compound annual growth rates) during 1997–2001 in the major regions

Region	Sales (\$ million)					%CAGR 1997–2001
	1997	1998	1999	2000	2001	
North America	6,689.0	7,027.0	7,264.7	7,523.9	7,768.8	3.81
South America	2,050.1	2,185.7	2,407.1	2,651.2	2,897.5	9.03
Europe	4,729.3	5,142.6	5,618.5	5,898.4	6,105.9	6.60
Asia	5,115.3	5,188.5	5,387.7	5,525.3	5,716.8	2.82
Total	18,583.7	19,543.8	20,678.0	21,598.8	22,489.0	4.88

Figure 1- Global cosmetics sales before e-commerce, (Kumar, 2005)

2.2 Significance

The usage of tablets, computers, and particularly smartphones has been steadily accumulating since we entered the new millennia, which has encouraged companies to exploit e-commerce to expand their customer base, cut overhead costs to a minimum, or even operate completely without a physical location. (Khurana, 2019) Moreover, the e-commerce cosmetics purchases in Finland have increased at a rate that should have alerted the traditional retailers, as in 2018 approximately 33 percent of consumers purchased their cosmetics online yet, in 2020 it is over 50 percent. (Karine, 2020) However, there are still large demographics who prefer the personal touch to their shopping and crave traditional service where they are physically been served. Nonetheless, it is evident that e-commerce has altered the way businesses approach the way they conduct their operations as more delivery and click-and-collect services are beginning to appear in stores around the globe. (see also, Click & Collect to grow almost £10bn, 2019)

3 Literature Review

The following segment assesses the recent literature on e-commerce and its effect on 'bricks and mortar' stores as well as, the general buying behavior of cosmetic consumers. As this thesis analyses, the possible causality between such factors as drops in sales due to the emergence of online retailers the literature review will employ theoretical articles from authors since they are frequently capable in revealing a current view on the topic nonetheless, books that offer a comprehensive understanding of the cultural significance to business practices in Europe will be employed. Yet, the focus will additionally be on the current climate of the 'regular cosmetics consumer' and how they navigate between the increased options of purchasing the products they crave. This approach is applied so that the researcher can gain a multifaceted concept of the topic.

3.1 What is E-commerce?

"Electronic commerce or e-commerce...is a business model that lets firms and individuals conduct transactions over the internet. E-commerce operates in all four of the following major market segments.

- Business to business
- Business to consumer
- Consumer to consumer
- Consumer to business

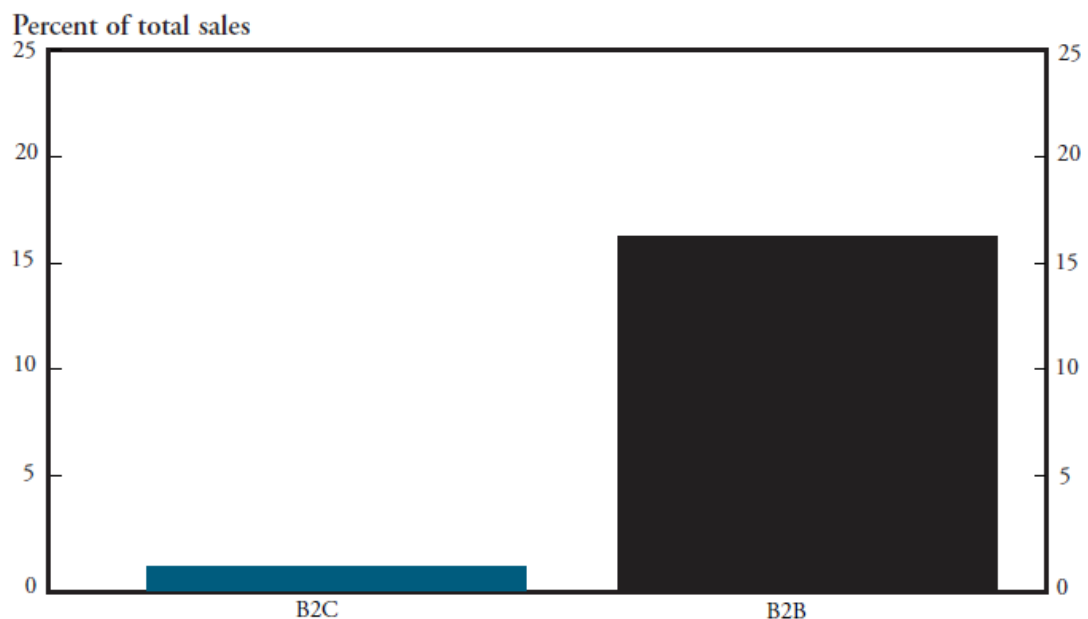
E-commerce, which can be conducted over computers, tablets, or smartphones may be thought of like a digital version of mail-order catalog shopping." (Bloomenthal, 2019)

3.2 General effect of e-commerce to 'bricks and mortar stores'

The emerging landscape for Retail E-commerce by Bakos (2001) describes the effect of e-commerce on bricks and mortar in addition to, the dynamic of the traditional customer as the arrival of the internet has improved the search cost for products. His work has been published by many journals such as Management Science and The Journal of Economic perspectives which validates his credentials on creating a well-developed argument on the topic in question. (NYU Stern, 2020) Furthermore, Bakos's research studies how lower information costs should push markets toward a greater degree of price competition -particularly for homogenous goods; and how online retailers can use internet technology to provide differentiated products consequently,

avoiding competing purely on price. (Bakos, 2001, p. 70) Additionally, Bakos examines the study by Brynjolfsson & Smith (2000) which highlights that on-line retail markets are more price competitive -proven by the fact that online prices of books and CDs are on average at 9-16 % lower than in conventional stores. (Bakos, 2001, p. 78) Moreover, they claimed that on-line retailers change prices in much smaller increments than traditional retailers. The weaknesses of Bakos' study for this research primarily arise from the analyzed product type, as cosmetics may require further understanding or guidance than for example a DVD of your favorite movie. The reason cosmetic brands still often incorporate consultants and sales personnel into their practices is due to the fact that certain products may lose their edge when applied incorrectly. Furthermore, if an experienced cosmetologist or salesperson is able to explain how to utilize a product to its utmost potential this may give the consumer substantially more value from their purchase or even instill brand loyalty to the customer. Additional shortcoming may stem because this study was published in 2001 when on-line services and e-commerce practices were light years behind what they are presently, however, it provides a comprehensive base on the topic for the researcher to build on.

E-COMMERCE SALES IN 2002 RELATIVE TO TOTAL SALES



Note: Total sales is a measure of the annual sales of manufacturers, retailers, and selected services surveyed by the Census Bureau.

Chart 1, (U.S. Census Bureau, 2002)

What impact will e-commerce have on the U.S? economy by Willis (2004) examines the multitude of economic factors that have contributed to the rapid growth of e-commerce as well as, measures the possible long-term outcome of the overall economy due to the future growth of e-commerce. (Willis, 2004) The author begins by analyzing the size and growth of e-commerce before examining the factors that contributed to its strong growth and finishes by assessing the implications of the continuous expansion of e-commerce for the general growth and inflation. (Willis, 2004) Willis illustrates multiple reasons why e-commerce greatly benefits the seller. E-commerce businesses are able to transact with their buyers at a lower cost, while providing their customers increased product selections and information along various dimensions. Switching to electronic commerce has cut average transaction costs for British Telecom from \$113 to \$8 (Willis, 2004) Additionally, the author presents numerous benefits for the buyer in an e-commerce transaction. The ability to place digital orders remotely saves both on the time required to complete a transaction in addition to the time spent searching for products. Electronic commerce also allows buyers to quickly search across sellers for the lowest prices for specific products or services (Willis, 2004) The author presents his argument well while supporting it with statistics about various companies as well as, the general e-commerce growth numbers with references to the U.S Census bureau. (see Chart 1) However, even after considering the multitude of similarities between the 'typical' Finnish cosmetics consumer and their North American counterpart (see also Chart 2 & 3) there are many differences on how these demographics embrace brand loyalty, where they like to shop their products and behavior based on income levels.

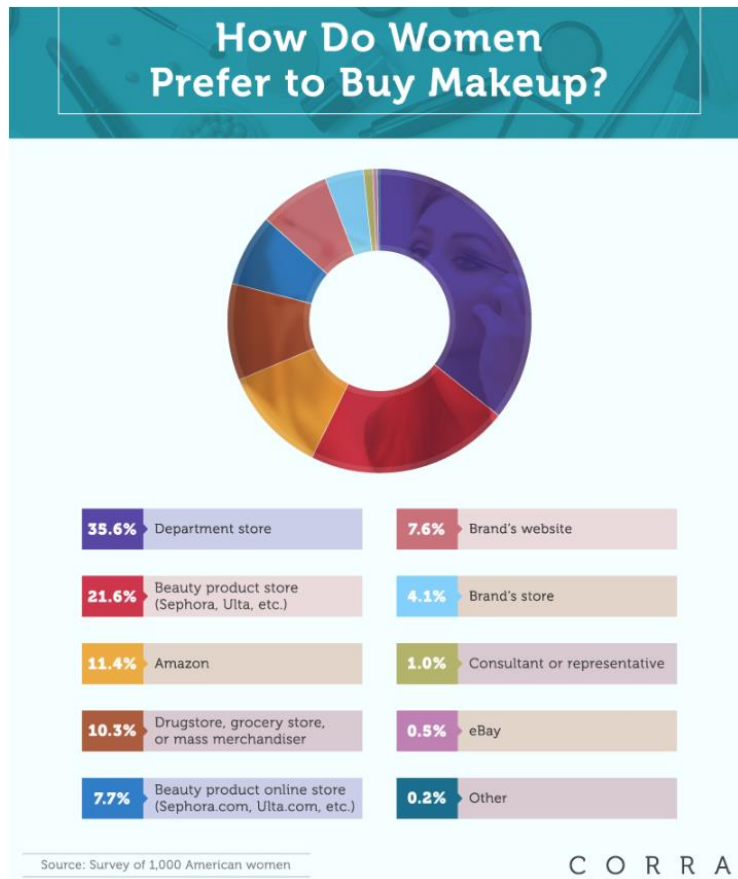


Chart 2 (Corra.com, 2019)

The evaluation of e-commerce impact on business efficiency by Barsauskas et al, (2008) utilizes logical and systemic analysis on e-commerce from expert researches in addition to, empirical findings on the cost structure and processes management of a wholesale company to determine the various viewpoints in the area of e-commerce's impact on business cost-efficiency in addition to, identifying the main strategic areas of e-commerce's impact on cost efficiency. (Barsauskas et al, 2008) The authors of this research have a long history in the field of business, which is highlighted by their careers in ISM University of management and economics and Kaunas university of technology respectively. The study begins with the discussion of the various presumptions relating to e-commerce's impact on cost efficiency, and how the impact of these factors can be measured before delving into the existing literature identifying the main areas where e-commerce may have an impact on supply chain management. Lastly, the results from empirical research are presented, that confirm the arguments of the theoretical analysis on e-commerce's impact on business efficiency in supply chain management. (Barsauskas et al, 2008) Moreover, this study emphasizes the integral

approach on how to study e-commerce and its effect as explained by Barsauskas et al, (2008): “ While analyzing the e-commerce impact on business results, it is reasonable to segregate different areas of e-commerce use in business: e-commerce in supply chain management known as business-to-business e-commerce; and e-commerce in relation with customers known as business-to-customer e-commerce.” This claim further demonstrates the worth of Barsauskas et al, study for the researcher’s topic, as it takes into consideration both aspects of e-commerce’s effects on conventional stores. Yet, Barsauskas et al, study possesses similar weaknesses for the researcher as the work by Bakos (2001) as the types of products or companies are not interchangeable to cosmetics. Similarly, the macro factors at play in Finland - particularly in the cosmetics industry; are vastly different from that of Lithuania.

The online world- Beauty counter of tomorrow by Grubow (2010) illuminates the rise of e-commerce and digital marketing and its consequences to the cosmetics industry. The author highlights several new occurrences that stem from the arrival of the internet, such as the shift from the traditional beauty counters in stores to blogs online to find tips on how to correctly apply the products. Blogs have -in effect; replaced the beauty counters of the past by proving a more personal interaction for purchasing decisions. In addition, they provide an important experiential aspect for consumers to interact with one another in their own kitchen or at a coffee shop. (Grubow, 2010) Additionally, the concerns that the bricks and mortar stores have faced during this evolution of sales channels are addressed by Grubow (2010): “Although brick-and-mortar stores have traditionally ruled the beauty industry, within the past decade, department store beauty counters have continued to struggle, losing more than half of their market share to specialty stores like Sephora and Ulta...Crabtree & Evelyn filed for bankruptcy in July 2009 but will emerge in 2010 with a strategy focused less on retail locations and more on e-commerce” Grubow’s article offers a detailed snapshot on the cosmetics industry from the point of view of the consumer as well as, the companies themselves. Moreover, this article focuses on the different methods general cosmetics stores have incorporated into their business practices to survive in the era of e-commerce. Yet, Grubow’s research examines nations that lack similarities with Finland’s consumers such as Japan, South Korea, and China. Thus, there are major differences between the demographics and their buying behavior, and the work by Grubow has to be critically evaluated before concluding.

3.3 Cosmetics industry

Exploratory analysis of global cosmetic industry: major players, technology and market trends by Kumar (2004) is a broad overlook of the industry, which studies its main characteristics, current conditions, technology, trends, and the impact of globalization for the industry. While the majority of this article only provides a more thorough understanding of the industry as a whole the technology and innovation-chapter analyses the issues regarding the e-commerce of cosmetics necessary for the researcher's study. Cosmetics simply cannot be sold identically to other commodities as explained by Kumar (2004): "...for cosmetics companies, it is potentially a bigger leap than other sectors to market online, as a lot of the sell is dependent on face-to-face consultation. While sampling can be facilitated online, through printable vouchers, it is a bit more of a challenge, particularly as colour and texture cannot be accurately conveyed over a computer screen." Nevertheless, Kumar's work offers a slightly outdated view on cosmetics e-commerce as is evident in statements such as: "...some experts believe that mobile marketing is more suited to cosmetic brands than the web...Latter is almost inappropriate to this sector because the web is still more populated by young males. Women are researching and buying online, but more for bigger purchases such as cars or holidays." (Kumar, 2004) Thus, Kumar's work is not without its limitations. Due to the analysis being compiled in 2004 it has missed the evolution of e-commerce as well as, the additional scrutiny on product safety concerns, animal rights in product development, and environmentalism within the industry. However, his input on some elements within the industry is still prevalent thus, the article offers important insight for the researcher.

A step forward on sustainability in the cosmetics industry: A review by Bom et al, (2019) analyses the modern climate of the cosmetics industry where consumers, lawmakers, and states demand transparency from companies on how they conduct their business in a sustainable manner. Concerns have arisen over issues such as product packaging methods or environmental impact in the shape of deforestation or pollution. (Bom et al, 2019) Thus, the general public opinion has put additional scrutiny on all companies – particularly within the cosmetics industry; in which demanded the businesses respond in a way that pleases the 'conscious consumer' and ensures that the global warming does not come any quicker as addressed by Bom et al, (2019): "...it is important for cosmetic companies to keep up with the expectations of the consumers, as a crescent amount of people are slowly shifting mindsets, seeking

sustainability through their purchases. There is a need for companies to create innovative sustainable products to stay ahead in a highly competitive market where more choice and ever greater efficacy are expected by the consumer. However, in this evolutive process, companies face difficulties when adapting to sustainable practices, especially when it comes to select ingredients to formulate their products.” This study will help the researcher in comprising an even more wide-ranging view on the cosmetics industry in addition to, underlining the possible influence that the newly enforced worldwide importance on sustainable business practices could have on the e-commerce and ‘bricks and mortar’ retail. The paper by Bom et al, is an excellent source of material for this research as it paints an extremely fresh view on the cosmetics industry and details the surrounding intricacies that businesses face that stem from the looming threat of global warming. Although, as the researcher won’t be focusing on sustainability nor how it is applied within the cosmetics industry this paper will not be utilized in its entirety. Also, this research fails in providing a more accurate perception of Finland’s current situation which is integral for this project.

3.4 Customer experience management (CEM)

Customer Experience Management Rebooted by Walden (2017) analyses why the majority of customer experience management fails in improving the customer’s real experience and how to focus on the subjective emotional observations which drive the customer’s ‘experience’ instead of the standard quantitative service efficiency metrics which are usually gathered by most CX (=customer experience) tools. The author presents an outlook where businesses are at risk due to their extreme focus on efficiency, which in turn leads them unable to connect with their customer base on a deep level thus, they fail in developing an original brand image. (Walden, 2017, p. 5-7) In addition, the researcher explains the importance of comprehending the customer drives and how to approach them correctly. Drives encompass the expressed as well as the unexpressed needs of customers or in other words, their goals and sub-goals. This involves a multitude of influences: sometimes rational, sometimes emotional, sometimes about affect, sometimes a conditioned response, sometimes subconscious and so on. Yet, the reason Walden prefers to use the term drives instead of needs is that ‘needs’ tends to focus the business on a simple rational view of the customer, whereas drives feels to focus on things more broadly. (Walden, 2017, p. 13) This is something that various cosmetic brands put a plethora of effort into, as to how else could you differentiate from your competitors when certain luxury cosmetics come from

the same factory as their 'bargain' counterparts. (see also, These inexpensive steals are made by the same companies as luxury brands, Yarbrough, 2019) Thus, Walden's work provides a great source for this thesis as it provides the framework for businesses in a manner that definitely aids the researcher in analyzing the possible causation between brand image and cosmetics consumer's buying behavior.

3.5 Consumer behaviour

3.5.1 General

As explained by Solomon (2019): "...Consumer behavior can be defined as the study of the activities involved when people select, purchase, use, or dispose of products to satisfy their needs and desires...In its early stages of development, consumer behavior researchers referred to the field as buyer behavior; this reflected the emphasis at that time (1960s and 1970s) on the interaction between consumers and producers at the time of purchase. Most marketers now recognize that consumer behavior is, in fact, an ongoing process, not merely what happens at the moment a consumer hands over money or a credit card and in turn receives some good or service."

3.5.2 European consumer behaviour

Consumer behavior: A European perspective by Solomon et al, (2013) is the 5th edition of a book series that tackles the European consumer's habits and factors that fuel their buying behavior. Additionally, the book analyses the numerous demographic groups, subcultures, and lifestyles of Europeans in addition to, issues relating to marketing such as the importance of understanding consumers when formulating a marketing strategy or when determining the most suitable segment for whom to cater your company products to. Due to the nature of this study, the emphasis will be on the chapters – part A: Consumers in marketplace, part C: Consumers as decision makers and part D: European consumers and their social groups; which discuss the buying behavior of Europeans, and how globalization has introduced the *etic* and *emic*-perspectives into consumer culture which in turn, supports the researcher when delving deeper to the factors that separate the Finnish cosmetics consumer from their European counterparts. These sections exemplify textual and content analysis on the topic and aid the researcher in this thesis while enforcing the necessity of utilizing this book. "...etic perspective, which focuses on commonalities across cultures. An etic approach assumes that there are common, general categories and measurements

which are valid for all cultures under consideration... On the other hand, many marketers choose to study and analyze culture using an emic perspective, which attempts to explain a culture based on the cultural categories and experiences of the insiders. For example, cultures vary sharply in the degree to which references to sex and nudity (and other controversial issues) are permitted.” (Solomon et al, 2013, p. 43) Moreover, this book identifies the relationship between consumer behavior and culture as a two-way street, as products and services that resonate with the priorities of a culture at any point in time have a better chance of being accepted by the consumer. On the other hand, the study of new products as well as, innovations in product design successfully produced by the culture at any point in time provide a window on the dominant cultural ideals of that period. (Solomon et al, 2013, p. 531) The above-mentioned perspectives are just a few great examples of this particular book which will later be applied by the researcher to help identify the Finnish cosmetics consumer.

3.6 Limitations

The literature that was reviewed does possess some limitations, particularly when considering the research questions for this thesis. As this study will emphasize on the Finnish cosmetics consumer -which has very limited academic studies based upon it; the literature chosen above all face a similar limitation. Furthermore, the limitation with Walden’s customer experience management arises from the fragmented academic coverage on the subject. Its approaches to measurement are suggested and their limitations noted. Since the multi-dimensional, situation-specific nature of the CEM favors qualitative approach rather than quantitative measurement. The unique nature of customer experience -which is always specific to a customer, or a specific time and location; in the context of a specific event, limits its managerial usefulness for planning and controlling purposes. Many companies see customer experience management (CEM) simply as a successor to customer relationship management (CRM). However, issues of inter-functional integration become an even greater task. (Palmer, 2010) As for the limitations in Barsauskas et al, *The evaluation of e-commerce impact on business efficiency* the limitations stem from the research structure. Since the main research area is business-to-business -and its impact on business efficiency through supply chain management improvement; its worth for the researcher is limited.

The following chapter -Research methodology; justifies the chosen methodology and research strategy for this thesis. Moreover, it will examine the strengths and

weaknesses of the research approach that was chosen as well as the employed data collection methods.

4 Research methodology

For this thesis, the emphasis will be on quantitative research of secondary data, such as earlier studies on the effects of e-commerce to brick-and-mortar stores in nations that have similarities with the Finnish demographics, consumer buying behaviour and customer experience management. Furthermore, articles, books and inspection on all relevant academic research publications and statistical data -particularly the material gathered from the researcher's job at SOK; found on the topic will be utilized by the researcher. The focus will be on the impact of e-commerce to brick-and-mortars, and if they had to adapt to the changes in consumer behaviour how did they implement it in their practices to, find a sustainable business model. In addition, as this thesis examines the 'traditional' Finnish cosmetics consumer the researcher will identify possible differences between the demographics found in Finland. Thus, the data gathered will be juxtaposed and analysed so that the following questions would be answered.

- How did E-commerce effect the brick-and-mortar cosmetics stores way of operating in Finland?
 - Positive and negative aspects
- Is E-commerce endangering the brick-and-mortar cosmetics stores in the long term -and if so how?

4.1 Research philosophy

The research philosophy applied in this thesis is that of *realism*. Essence of realism is that what we sense as reality. That objects have an existence independent of the human mind. (Saunders et al, 2009, p. 129).

Realism can be divided into two different categories: *Direct realism* and *critical realism*. The philosophy in this thesis falls under critical realism. Critical realists think that we experience mere sensations and images of many things in the world, but not the things directly. Critical realists also argue that the only way to comprehend of what is

happening in the world is if we understand the social structure that has birthed to the wonder that is trying to be understood. Thus, what we are seeing is merely a small part of the bigger picture. Critical realists think that it is possible to identify that which we do not see through both the practical and the theoretical processes of the social sciences (Saunders et al, 2009, p. 114) Additionally, critical realism is recently articulated epistemological position, derived from both objective and subjective ontologies (O’Gorman & Macintosh 2015, p. 61).

Following this research philosophy makes sense considering the given research question of this thesis. Given that the decision to purchase a product through e-commerce instead of the traditional way may stem from various factors ranging from practical or economic reasons, brand value or beliefs. These factors are usually something that cannot be directly experienced or seen, and the critical way to understand them derives from understanding the social structures that made the occurrence possible.

4.2 Research approach and purpose

There are two main research approaches to follow: *Deductive approach*, which possesses several important characteristics. Firstly, there is the search to explain causal relationships between concepts and variables as in, is e-commerce endangering the livelihood of brick-and-mortar stores. Subsequently, when using this approach, you develop several hypotheses and test these assumptions by employing quantitative data. Hence, the researcher’s study would utilize *structured methodology* which would facilitate replication and therefore, ensure reliability. (Saunders et al, 2009, p. 125; Gill & Johnson, 2010) On the other hand, the *Inductive approach*, in which the researcher collects data and develops a theory based on the results gathered of the data analysis. Thus, the purpose of the approach would be to get a ‘feel’ of what was going on to better understand the nature of the dilemma. (Saunders et al, 2009, p. 126)

This thesis follows the *deductive approach*. It involves a development of theory which is then subjected to a test. Deductive approach is the dominant approach used in natural sciences, where existing laws present the basis for the research, and allow the anticipation of a phenomena before predicting the occurrence of that set phenomena and therefore, allows them to be controlled. However, as deduction has its origins in natural science instead of social science the researcher must be wary of its limitations,

and be extremely critical when comprising conclusions since creating cause-effect links between variables without grasping how humans behave in the social world often fails in providing an accurate snapshot of the phenomenon. (Saunders, 2009, p. 126)

Deduction has five stages through which the deductive researcher progresses (Saunders et al, 2009, p. 124-125)

1. Deducing a hypothesis (a testable proposition about the relationship between two or more concepts or variables) from the theory;

The reviewed literature presented in the previous chapter sets the said basis for explanation and development of a theory, and supports that in the cosmetics industry brick-and-mortar stores are slowly losing market share to their e-commerce competitors.

2. Expressing the hypothesis in operational terms, which propose a relationship between two specific concepts or variables;

The concepts will be measured by conducting a secondary data research (discussed in the following chapters 4.3 and 4.4) using both quantitative and qualitative measures to provide examples to test the hypothesis drawn from the literature related to the topic.

3. Testing this operational hypothesis;

The deductive approach undertaken in this study slightly differs from the norm in a sense that the research strategy of this thesis was more about propositions than it was about testing a certain hypothesis.

4. Examining the specific outcome of the inquiry (it will either tend to confirm the theory or indicate the need for its modification);

The outcome of the analysis will be examined through a set of propositions

5. If necessary, modifying the theory in the light of the findings; (Saunders et al, 2009, p. 124-125)

Deductions aims to explain causal relationships between variables. In the case for this thesis, that relationship can be seen between the arrival of e-commerce in cosmetics and the downslope in sales for the high street retailers in Finland. Deduction further dictates that the researcher should be independent of -or objective towards; what is being analysed, which for the conducted research posed no difficulties despite some of the material that will be presented in findings originate from the researchers work and are confidential.

Furthermore, the research purpose can be divided to three categories: Exploratory, descriptive and explanatory.

The way in which the research question was first presented was descriptive in nature. The main goal of the descriptive research is to provide an accurate profile of persons, situations or events. This was done first through examining the reviewed literature and finally by presenting and analysing the findings. With descriptive research, it is crucial to have a clear picture of the phenomena on which you wish to collect data on prior to its collection. (Saunders et al, 2009, p. 140) Yet, the descriptive research acted as a forerunner to additional explanatory research. This thesis –as it focuses on finding how to find sustainable business models for bricks-and-mortar cosmetics stores, seeking new insights to determine how the emergence of e-commerce has affected these stores and assess the phenomena of e-commerce versus traditional retailers in a new light; was best suited for *descripto-explanatory* study. (Saunders et al, 2009, p. 140)

4.3 Research strategy

Main research strategy undertaken for this study was secondary data analysis. Since this thesis will require national comparisons between the cosmetic consumer demographics in Finland secondary data can provide a useful source from which to answer the research question and address the objectives -particularly when considering the time and budget limitations. (Saunders et al, 2009, p. 257)

Data collection techniques and data analysis procedures are divided to two distinctive categories: *qualitative* and *quantitative*. Data produced by quantitative research is always numerical and can be expressed in terms of quantity and it is analysed using mathematical and statistical methods. Quantitative analysis techniques such as graphs and charts allow us to explore, present, describe and examine relationships and trends

within the data yet, as every analysis technique it comes with its fair share of weaknesses. Quantitative data analysis is a field where it is not difficult to carry out an analysis which is simply put, wrong, or inappropriate for your purposes. The negative side of readily available analysis is that it becomes even easier to generate elegantly presented rubbish. (Saunders et al, 2009, p. 414, 416)

Qualitative research does not rely on numbers or numerical data but involves words or language, and for it to be useful it needs to be analysed and its meaning understood. (Saunders et al, 2009, p. 106, 414) Furthermore, qualitative approach is often used to find out about the behaviour of subjects under study, and is based on the subjective assessment of behaviour, attitudes, beliefs, opinions etc. (Krishnaswmi & Satyaprasad 2010, p. 6) What is more, qualitative research is best when investigating reasons for human behaviour such as underlying motives and desires nevertheless, to apply qualitative research in practice is relatively difficult. (Kothari, 2004, p. 3-4)

This study follows the multiple method approach by employing *quantitative* and *qualitative* data although, the emphasis will be on the *quantitative* data. Still, both types of data were collected, but they were analysed in a more qualitative manner. This set approach is popular within management and business-related research, where a single study may use both qualitative and quantitative technique to proceed as a single entity. (Saunders et al, 2009, p. 151)

The used research method can be further categorized as *library research*, which uses methods like analysis of documents and historical records. (Kothari, 2004, p. 7) As for the time horizon of the study, it can be categorized as *cross-sectional*, since it studies a phenomenon at a particular time. (Saunders et al, 2009, p. 155)

4.4 Data collection and analysis

Data mean all relevant material and facts from past and present, that serves as a base for analysis and studies. The data that is needed for social sciences research can be categorized into:

1. Data pertaining to humans
2. Data relating to organisations
3. Data pertaining to territorial areas (Krishnaswmi & Satyaprasad 2010, p. 85)

This thesis draws from *data pertaining to humans* and *data pertaining to organizations*. Data pertaining to humans was researched as it consists various necessary influences that determine how an individual comprises their own consumer behaviour such as: attitudes, opinions, awareness, knowledge, intentions etc. Data relating to organizations, however, is as vital for this study as its counterpart. It consists of data related to the organization's ownership, origin, objectives, resources, performance, functions and growth. (Krishnaswmi & Satyaprasad 2010, p. 85) For this thesis analysing the organizational data aids in comprehending the actions companies sought to adapt to -or minimize the significance of; the emergence of e-commerce.

Furthermore, data sources can be classified into two distinctive bases: *primary* and *secondary* sources. Secondary data usually comes in form of reports, public databases, documents, journals, magazines, websites, newspapers, books or articles. (O'Gorman & Macintosh 2015, p. 79) This thesis employed secondary sources exclusively as no interviews, surveys etc. were conducted due to the nature of the research question. Furthermore, given the nature of the topic and time limitations using secondary data was the most suitable option for the researcher.

Utilizing secondary data as the sole source of information has its advantages and disadvantages that both need to be acknowledged. (Krishnaswmi & Satyaprasad 2010, p. 87)

Advantages

- Gathering secondary can be done quickly and with low costs.
- Wider geographical area and longer reference periods may be covered thus, secondary data extends the space and time reach of the researcher.
- The use of secondary data increases the data base from which scientific generalizations can be made.

Disadvantages

- The data available might not meet the specific needs for the research. The definitions that are adopted by the data collectors might vary, units of measure might not match, and the time periods might be different.

- The available secondary data may not be as accurate as desired, which is why the assessment of the accuracy of the data is vital and the researcher needs to know how the data was collected.
- Some secondary data may not be up to date and therefore, might become obsolete as soon as it appears in print.
- Information about the whereabouts of sources might not be available, and the accessibility is not ensured.

Consequently, the researcher must be particularly careful when choosing to employ secondary data approach, as it must be made sure they possess the following characteristics. (Kothari 204, p. 111)

a) reliability

- a. This was tested by finding out who did the data collecting, what were the sources of data, were they collected using the proper methods and what time they were collected at.

b) suitability

- a. The data that is suitable for one research, it might not be suitable for another. Thus, it was cautiously evaluated that the secondary data used was suitable for answering the research questions.

c) adequacy of data

- a. If the level of accuracy in the data is to be found inadequate for the purpose of the research, it should not be, and was not, used.

5 Findings

5.1 The current climate of cosmetics and e-commerce in Finland

In Finland, the consumers interested in cosmetics have a multitude of distribution channels from where to locate the products they so crave from pharmacies, airports, health stores, grocery stores, cosmetics stores to the newest addition of online retailers. Finland has only a few cosmetics brands -such as Lumene or ByRadii; thus, most products sold consist of imported foreign brands. The industry has experienced steady growth -apart from a small blip of 2 % in 2017, and in that same year, the generated profits of cosmetics were €900 million. (Karine, 2018)

European cosmetics consumption by country in 2018		
values in € millions – retail prices		
	2018	% var. 2018-17
Germany	13,804	1.8%
France	11,394	0.3%
United Kingdom	10,940	-2.1%
Italy	10,152	1.3%
Spain	6,958	2.0%
Poland	3,861	4.8%
Netherlands	2,859	2.4%
Belgium/Luxembourg	2,101	1.6%
Sweden	1,979	-4.0%
Switzerland	1,885	-3.5%
Austria	1,423	1.9%
Portugal	1,394	2.7%
Romania	1,361	6.8%
Norway	1,220	-1.1%
Denmark	976	3.1%
Finland	967	1.0%
Greece	861	1.4%
Ireland	816	2.1%
Hungary	768	2.3%
Czech Republic	734	0.0%
Slovakia	596	4.4%
Bulgaria	410	5.1%
Croatia	372	1.1%
Lithuania	248	3.8%
Latvia	178	4.7%
Slovenia	176	1.1%
Estonia	149	4.2%
Total – EU	78,577	0.9%

Source: Cosmetics Europe, 2018

Figure 2, European cosmetics consumption, (Cosmetics Europe 2018)

Finnish cosmetics markets do distinguish themselves from their European counterparts which are reinforced by the sales statistics between European countries (see also Figure 2). Consequently, certain demographics of Finnish cosmetics users have been

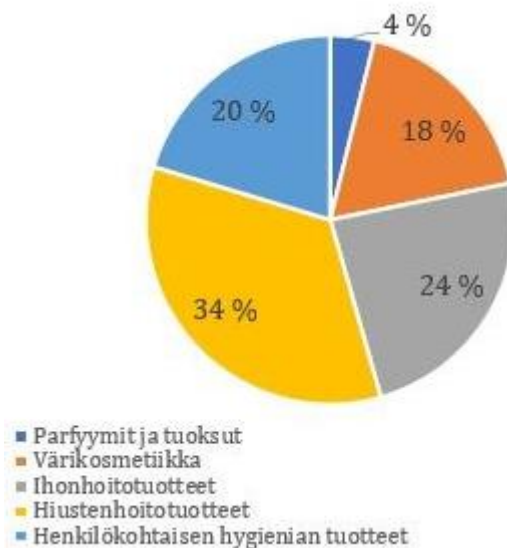
influenced by the social media and internet in general, which has enabled brands to utilize etic perspective in their promotion methods in Finland. As explained by Solomon et al, (2013): "...etic perspective, which focuses on commonalities across cultures. Etic approach assumes that there are common, general categories and measurements which are valid for all cultures under consideration...Another 'global segment' that is often referred to is young people whose tastes in music and fashion are strongly influenced by international pop culture broadcasting many of the same images and sounds to multiple countries." (p. 43) However, there still is discrepancies between different nations. For example, Finnish consumers tend to use more capital on hair products but less on fragrances (see Graph 1), which is why hair products have the largest share of the cosmetics sold in Finland followed by skincare products and personal hygiene products. (Karine, 2018) The following chapter will expand on the cosmetics demographics and segments found in Finland.



Chart 3. The most used channels when purchasing cosmetics in Finland. Chart 3 shows that the most popular is department stores followed by markets/grocery stores, cosmetics stores inside shopping centers, pharmacies, e-commerce, Tax-free, cosmetics brick-and-mortar, from trips abroad and bargain stores. (Mustonen 2019, **confidential**)

Furthermore, Finnish consumers have profoundly participated in the rise of organic cosmetics particularly from local businesses. From 2018 to 2019 the sales of organic cosmetics increased by 22 percent, and when considering the current trends -such as environmentally friendly manufacturing & products and well-being of oneself; sales will most likely keep the same upcurve. Additionally, recent studies specify that a marketing concept that reinforces the consumer-brand relationship brings additional benefits for

the brand against competitors. This is evident from the way many cosmetic brands have prioritized in improving the relationships between their existing customers instead of purely focused on gaining new customers. This phenomenon is even more vital for luxury cosmetic brands, as their customers most value characteristics such as trust, affection and closeness, recognizability, and claimed accolades. (Hodge, Romo, Gonz ale; Garc a, Fionda-Douglas, 2015, p. 631-657) Local cosmetics businesses - especially manufacturers of organic cosmetics; employ emic approach as they cater towards a local demographic segment which is attracted by the values those brands have. "...emic perspective, which attempts to explain a culture based on the cultural categories and experiences of the insiders...Cosmetics like those of The Body Shop, made of natural materials and not tested on animals, which reflected consumers' apprehensions about pollution, waste and animal rights. "(Solomon et al, 2013, p.43, 531)



Graph 1, cosmetics sales by product line (Teknokemia, 2018)

5.2 CEM in cosmetics

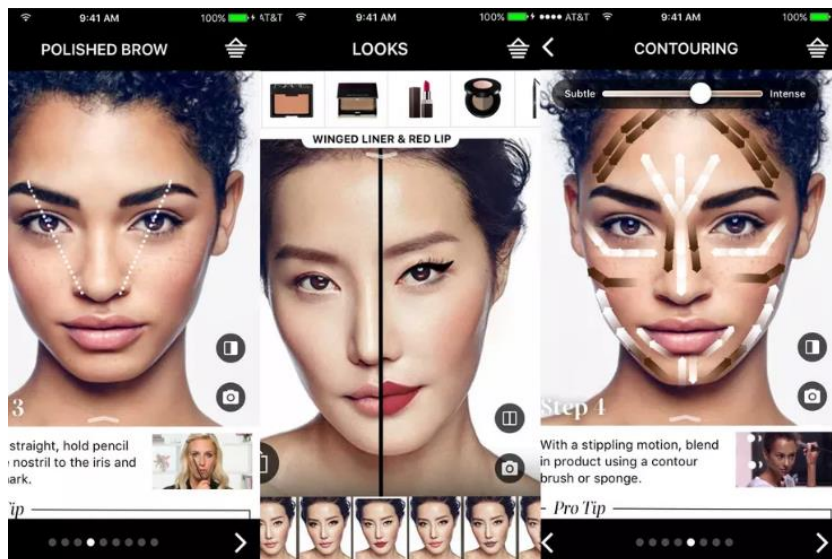
Moreover, since cosmetics and particularly the service aspect of its sales process differ from many other commodities the employed approach of the retail must include the CEM-aspect as addressed by Desalva (2020): "Beauty is both a practical, functional purchase and an emotional one. Shoppers are looking to better understand products – what they look like, how they are made, their purpose – but they're also looking to evolve their beauty routines. Such information is sought both on and offline, so consumers feel informed and stay connected to brands before and after buying, and no

single channel is more important for engagement.” This statement is further supported by Walden’s (2017) observation about the importance of emotion within sales since emotions help us to learn as they inform us of our emotional expectations. Furthermore, through semantic content (the phenomenology of specific emotion words), valence (positive and negative) and arousal (high and low stress) emotions work for hand in glove with both conscious and nonconscious cognition. Additionally, our personality, mood, and social environment help us know what is important, and behind it, all is how we are primed as individuals. As what drives the customer in different modes of decision making whether this is immediate or where we anticipate emotional reward (the former often leading to poorer decision making than the latter. (Walden, 2017, p. 155)

The value of customer experience management in cosmetics is something that multiple brands and retailers have put added emphasis on. By employing strategies such as social proofing², click-and-collect³ or virtual try-on (see also picture 1) which utilizes augmented reality (AR) to scan faces, and lets consumers test a variety of products on themselves as well as, provides them with make-up tutorials. (Carman, 2017) Predominantly click-and-collect has been applied by retailers as a way to differentiate and defend retailers from online competition, as it is able to compress sales time. Additionally, as claimed by Mortimer and Grimmer (2017): “Retailers can save a lot on click and collect. It reduces operational costs and leverages impulse purchases. Retailers are finding that in-store collection also provides them with additional opportunities to connect with customers and enhance the customer experience.”

² ” Social proof is often used by e-commerce marketers as a way to increase sales. In simple terms, social proof refers to our *belief* that the actions of others are the *correct behavior* in a given situation. The use of social proof in e-commerce takes different forms, including customer testimonials and celebrity endorsements.” (Keskin, 2019)

³ Click-and-collect is: “a way of buying something in which you order and pay for it on the internet, then collect it yourself from a shop.” (Cambridge Dictionary, 2020)



Picture 1, AR-technology in cosmetics (Sephora, 2017)

5.3 Cosmetics as a product

Since cosmetics as a product type falls into luxury items instead of necessities such as food or clothing -apart from hygiene products; therefore, the way companies can distinguish their products is the most vital aspect of promoting cosmetics. Yet, even in times of recession or global pandemic consumers will not halt their buying habit on cosmetics as addressed by Collins (2020): “While essential purchases, like cleaning and health-care supplies, continue to dominate consumer spending, online beauty sales are starting to trend upward. In the prestige beauty category, online sales — normally 20 percent of the U.S. business — went up by 47 percent the week of March 28, capturing about 90 percent of total beauty spend, according to the NPD Group.”

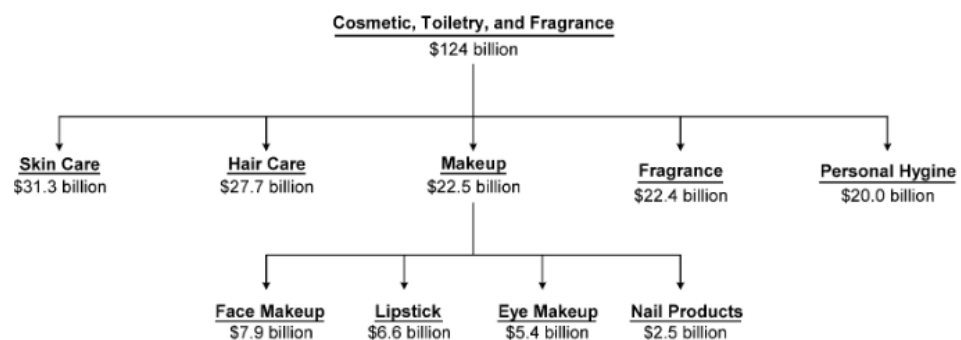
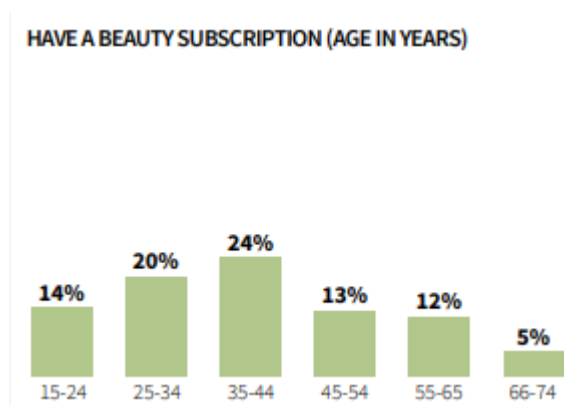


Fig. 1. Classification of industry products and global market size (total and by products) in 2001 (Source: Datamonitor (Lepir, 2003)).

Figure 1, Classification of cosmetics industry products and market size (Datamonitor, Lepir, 2003)

5.4 Finnish cosmetics consumers

The cosmetics industry has traditionally been strictly limited in operating from brick-and-mortar stores yet, since the emergence of e-commerce this channel has struggled as supported by Grubow & Spector (2010, 2017) respectively. As for the buying behavior, consumers in Finland are starting to prefer cosmetics that are compiled of natural ingredients instead of traditional synthetic ingredients. Regardless of the brand image or their product features in today's market, it is simply not enough if your products are manufactured through environmentally friendly methods since consumers want the product ingredients to be scientifically proven to be effective. (Doyle, 2015, p. 36-38)



Graph 2, Finnish consumers with a beauty subscription (Paytrail, 2017)

“It’s no secret, buying makeup as a black person in Britain is a tumultuous task - and the darker you are, the harder it is... It’s invalidating to know that the country you were born and raised in still equates “nude” with white skin. It others ethnic minorities, reminding us that whiteness is perceived as the default and is still very much viewed as the beauty standard. The lack of makeup for darker skin just exemplifies that. It shouldn’t take until 2018 when we’ve been in this country for centuries, to be catered for.” (Arboine, 2019) The dilemma of finding suitable products for your skin or hair is something that some demographics are struggling with therefore, cosmetics users tend to be extremely brand loyal since it is not easy for every consumer to find a new substitute for their favored product. This argument is supported by the increase in

beauty subscriptions as seen in Graph 2, as consumers are more aware of what suits them, and the investment of time, capital, or effort to find a new fitting substitute product further acts as a deterrent.

5.4.1 Demographics

Generally, cosmetics can be divided into three categories: luxury cosmetics, daily cosmetics, and organic cosmetics; which then have additional categories derived from them. All the above-mentioned categories attract different consumers based on their core features, or brand value. For instance, exclusivity, premium pricing, innovation, and high product standards best describe luxury cosmetics. Thus, the segmentation of luxury products is based on precise, calculated design choices and generated marketing in addition to, the brand's strategic implementation. (Som & Blanckaert, 2015, p.94) Accordingly, consumers who choose these luxury cosmetics over the 'generic' cosmetics often base the value of the product not on its practical benefits, but the additional value the product gives that can act as an extension of their status. The cause of this stems from the brand-image and its symbolic and aesthetic value, which brings a certain social status to the consumer. (Som & Blanckaert, 2015, p.94) Therefore, luxury cosmetics are seldom bought online by Finnish consumers, since then their customers would miss a portion of the perceived value -as nobody would see them purchase that expensive commodity. This occurrence is certainly dependant on the availability of set products.

5.4.2 Demographic segmentation

"Demographic segmentation means grouping people who share a common demographic makeup: affluent senior citizens, young low-income minorities and so on." (Kotler, 2012)

Considering the wide selection of cosmetics available for consumers retailers typically utilize demographic segmentation to isolate the market into individual categories and create specific selling points accordingly. This makes their campaign more precise because an organization is then able to focus on serving smaller, more refined segments. (Mialki, 2020) The researcher exploits the demographic segmentation of Sokos to highlight the various types of customers they outfit for. These segmentations tend to differ depending on the business model, industry, size of the business, location, and other factors.

Removed for confidentiality factors

Graph 3, S1 demographics in detail (Mustonen, 2019 **confidential**)

S1 consists of the trend following beauty 'hipsters' who are primarily young women, and large-scale consumers of clothing and beauty products. They consider shopping as a leisure activity and think that taking care of one's looks is extremely important. They can be categorized as early adopters, who spend approximately 150 euros monthly for beauty products.

Removed for confidentiality factors

Graph 4, S2 demographics in detail (Mustonen, 2019 **confidential**)

S2 contains men and women who put plenty of effort into their looks as well as, express themselves with beauty products. S2 does not base their buying decision on price as they consider themselves as 'conscious' consumers, who favor brands that are transparent about their practices.

Removed for confidentiality factors

Graph 5, S3 demographics in detail (Mustonen, 2019 **confidential**)

S3 like S1 consists primarily of women, who think taking care of their appearance is more of a routine that instills confidence than anything else. They are independent in their actions and not as easily influenced as S1 and S2. The majority of S3 consumers are 'urban individualists' based in the capital, Helsinki.

Removed for confidentiality factors

Graph 6, S4 demographics in detail (Mustonen, 2019 **confidential**)

S4 is full of individuals who think that investing in yourself is important but practicality and a good price-quality ratio is the most important factor when choosing a product. They can be further identified as 'price-hunting laggards'. S4 represents consumers who do not enjoy long shopping visits and are always in search of ways to alleviate the effort and time necessary for maintaining their appearance.

Removed for confidentiality factors

Graph 7, S5 demographics in detail (Mustonen, 2019 **confidential**)

S5 consists of practical individuals who do not want to attract any attention with their looks, but the effort some consumers put into their appearance they put into well-being. They are extremely price-conscious, which also fuels their buying decision more than anything else.

Removed for confidentiality factors

Graph 8, S6 demographics in detail (Mustonen, 2019 **confidential**)

S6 can be adeptly categorized as the 'humble' individuals, who consist mainly of over 45-year-old men. They do not put any effort into their appearance, and cosmetics are only purchased at approximately 0,2 every month. Every shopping visit is often scrutinized to save time and minimize possible impulse purchases.

Removed for confidentiality factors

Graph 9, Finland's beauty consumers segmentation (Mustonen, 2019 **confidential**)

The graph above details the entire population of Finland divided into the 6 segments comprised by and for Sokos and Emotion. Instead of focusing on the majority of cosmetics users it could prove more fruitful for some businesses to reassess their core demographic and emphasize on that.

European cosmetics consumption by country in 2018		
values in € millions – retail prices		
	2018	% var. 2018-17
Germany	13,804	1.8%
France	11,394	0.3%
United Kingdom	10,940	-2.1%
Italy	10,152	1.3%
Spain	6,958	2.0%
Poland	3,861	4.8%
Netherlands	2,859	2.4%
Belgium/Luxembourg	2,101	1.6%
Sweden	1,979	-4.0%
Switzerland	1,885	-3.5%
Austria	1,423	1.9%
Portugal	1,394	2.7%
Romania	1,361	6.8%
Norway	1,220	-1.1%
Denmark	976	3.1%
Finland	967	1.0%
Greece	861	1.4%
Ireland	816	2.1%
Hungary	768	2.3%
Czech Republic	734	0.0%
Slovakia	596	4.4%
Bulgaria	410	5.1%
Croatia	372	1.1%
Lithuania	248	3.8%
Latvia	178	4.7%
Slovenia	176	1.1%
Estonia	149	4.2%
Total – EU	78,577	0.9%

Source: Cosmetics Europe, 2018

Graph 10, European cosmetics consumption (Cosmetics Europe 2018)

5.5 E-commerce versus bricks-and-mortar

In Finland, the biggest cosmetics retailers such as Sokos, Stockmann or Kicks have had their e-commerce running even before the COVID19 enforced state of emergencies around the globe yet, as highlighted in the previous segment some consumers -particularly the elderly; are unable or uninterested in using the internet for their purchases as addressed by Postnord (2018): “The average purchase amount per e-commerce consumer in Finland is currently the lowest in the Nordic region, and one barrier that has contributed to slightly lower e-commerce maturity is that it has taken time for the older Finnish generation to adopt the e-commerce trend.” Fittingly, as

detailed in graph 10 below the local consumers prefer to purchase products that they know are exactly as they are portrayed in the online shops such as books, movies, and games. Whereas in cosmetics only 14 out of a hundred of the respondents said they would rather buy online. Considering the major advantage the cosmetics industry has when compared to other industries -for example, retailers of videogames or films; the negative effect of e-commerce may be completely averted due to the strong

Vaikka kosmetiikkaa ostetaankin mieluummin kivijalasta...

Mitä tuotteita suomalaiset mieluummin ostavat digitaalisesti kuin kivijalasta?



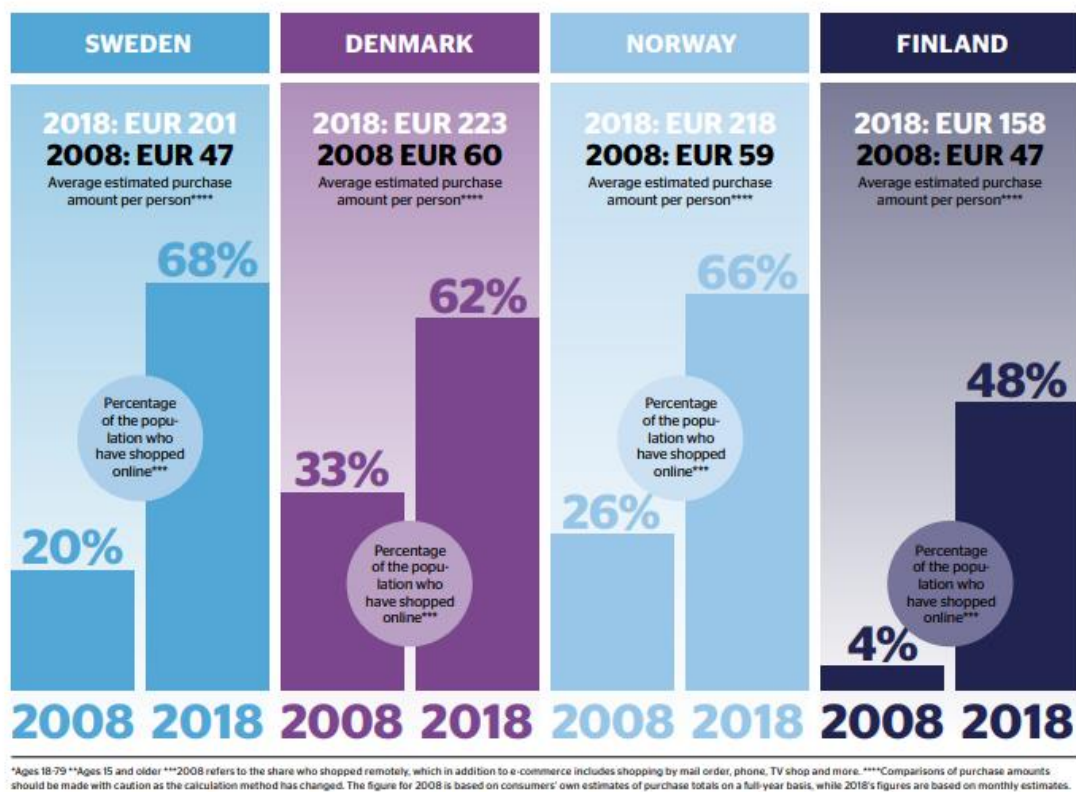
2.10.2019

Lähde: Statista, May 2019.

Graph 10, What products do Finnish consumers prefer to buy online rather than stores (Statista, 2019)

dependency consumers have for the service aspect. Since when one orders a copy of their favorite film online the thought of receiving a wrong film does not even cross the mind yet, when we are examining cosmetics there are so many variants and shades of principally -the same product. Thus, when consumers are searching online for the perfect foundation or lipstick that seems like a perfect fit for them it is not an easy endeavor to 'just choose the product that looks nice', as the product testing is impossible and you are lacking a specialist and the guidance they bring. However, some individuals prefer the easy shopping that e-commerce enables, which is only natural as humans are indulgent lazy creatures which likely derives from ancient survivor instincts. (Jones, 2014, p. 36) On the other hand, even the consumers who prefer bricks-and-mortar for their cosmetic purchases may be deceived, as the lights in the store tend to not resemble natural light. Additionally, cosmetics are not the type of products you can return to the store after the purchase -apart from some exceptions that bricks-and-mortar stores provide; which further complicates the e-commerce

experience. Consequently, in 2020 food delivery app Wolt started a partnership with Finnish cosmetics brand Lumene. This collaboration enables any Wolt-user to order cosmetics right to their doorstep in less than an hour. Currently, the service is only available in Helsinki and the selection is limited to Lumene however, if this experiment proves productive it will likely appear to other regions as well. (Palokangas, 2020) Specifically in this current situation where individuals are afraid to move in public places this partnership could be setting a trend for other cosmetic retailers to follow, or just provide another option for consumers who value effortless transactions.



Graph 11, Comparing traditional commerce to e-commerce (Postnord, 2018)

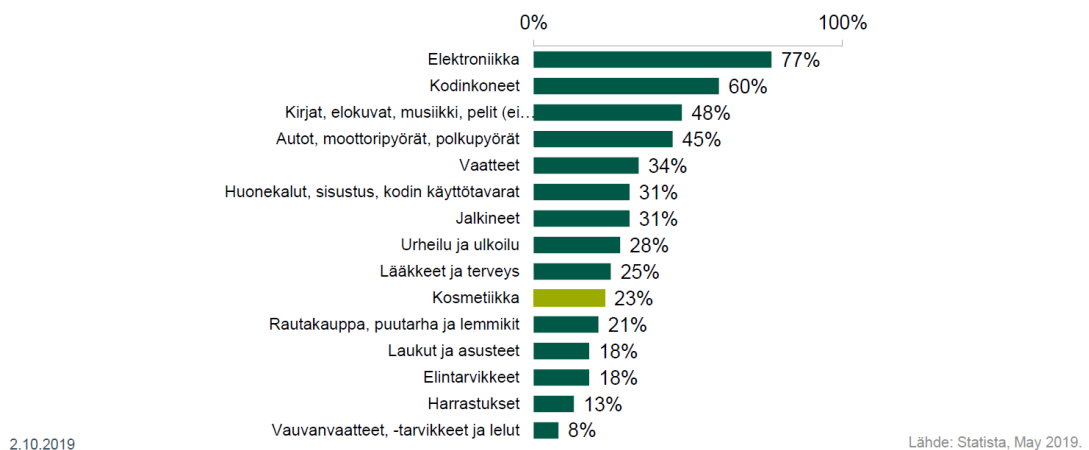
Furthermore, as highlighted in graph 12 77 % of all respondents would rather draw information on cosmetics through offline channels such as face to face conversations with salespersons or makeup-artists in bricks-and-mortars. This supports the argument that cosmetics as a product substantially benefits from having customer service supporting its sales process since the majority of their target demographics do not have the time, interest, or energy to teach themselves online about the best ways to apply these products. However, the Finnish consumer distinguishes from its Nordic cousins as claimed by Eloranta (2018): "What drives e-commerce in Finland is primarily the selection. We do not have as many brands here, neither online nor in physical stores,

and we, therefore, look abroad.” Thus, supporting the argument that traditional bricks-and-mortar cosmetics stores can prosper if they differentiate themselves from their competition online with their product selection.

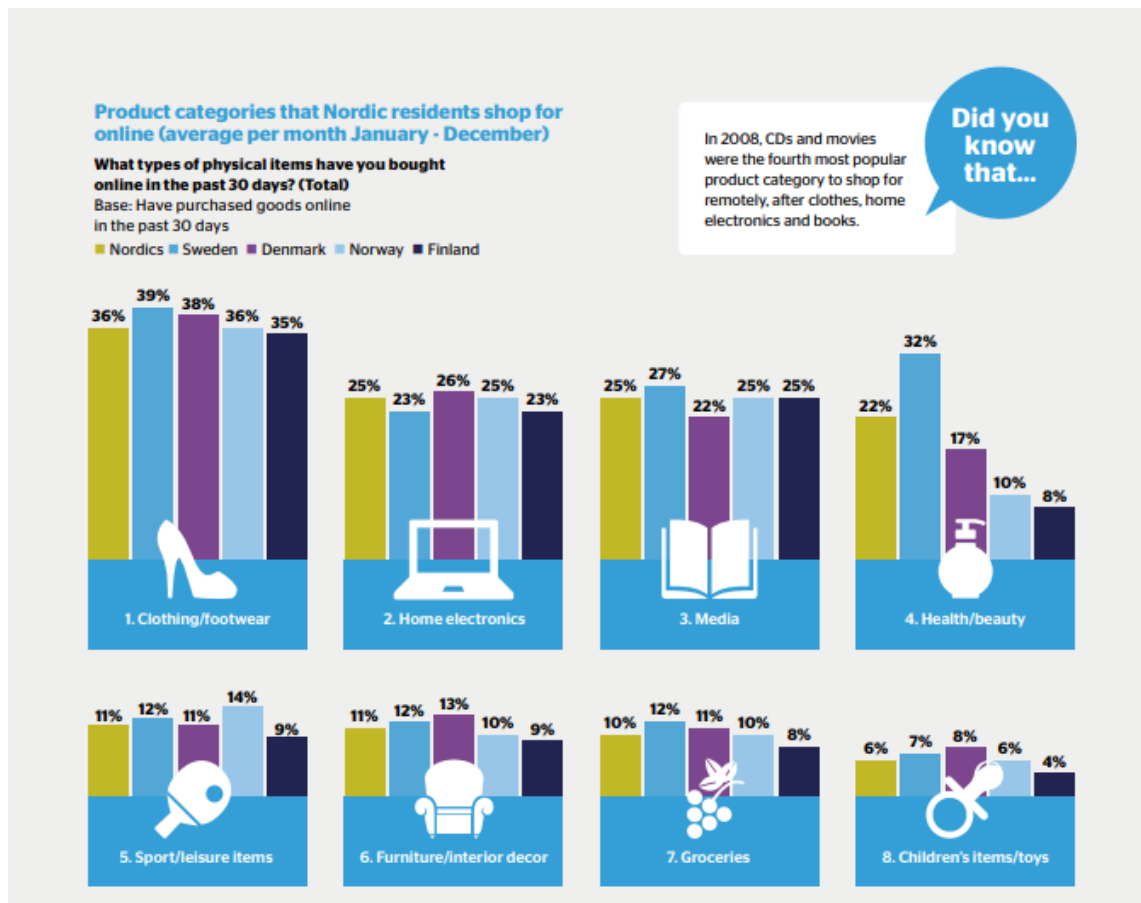
Generally, the digitalization in the cosmetics industry has begun to present itself as more and more applications have appeared from cosmetic brands to improve the communication between the seller and the buyer in addition to, refining the existing brand value and overall customer experience. The importance of consumer education is growing as well since the thirst for knowledge and consumer awareness have steadily increased. Moreover, due to COVID19 and the restrictions on movement consumers are teaching themselves on makeup and hair salon techniques that they can do at home. (Fingredient Oy, 2019, Krause, 2020) “...people who have been "reliant on going to the salon for decades" are now trying to replicate their stylists' work using at-home hair kits...Instead of new products, Bloch said consumers are now "very eager" to gain "actionable information." For example, people want to learn techniques for applying different products and cleaning their makeup brushes — answers to which can be provided by both beauty brands and independent artists. (Krause, 2020)

... digitaalinen tiedonhaku on jo suhteellisen yleistä

Online-tiedonhaku Suomessa tuotekategorioidittain: Mistä tuoteryhmistä hakee tietoa mieluummin digitaalisesti kuin offline-kanavista?



Graph 12, In which type of commodities do Finnish consumers preferably gather information through online channels instead of offline channels (Statista 2019)



Graph 13, What products do individuals in Nordic countries order online (Postnord 2018)

5.6 Cosmetics design

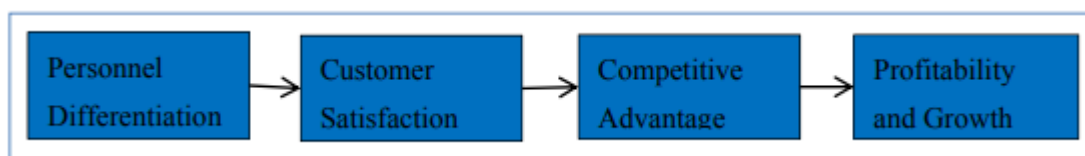
“The word “design” originates from “designare” which means to designate and to draw. Hence design has two aspects: (1) An analytical and creative aspect that addresses intent, plan or goal; and (2) an efficacy aspect that brings an idea into a form such for example, a drawing, model, or sketch. With these aspects in mind, design encompasses every asset that creates brand value, or namely anything concerning the mission, promise, positioning, representation, reputation, and quality”. (Mozota et al, 2010)

In the cosmetics industry, a great deal of cost and time is invested in the development of new ingredients and technology while trying to find greater efficacy than the competitors. This is done to differentiate from other brands, and since it mainly involves science-based chemistry, cosmetics can constantly be improved. This is one of the reasons why top brands have new additions appearing into their product lines nearly every month. Yet, differentiation based on technology might simply be proportional to the difference in the size of a company or the available funding for further research and

development. Thus, some companies must employ new strategies by entirely changing the playing field. This is where a concept called 'dream' comes into the equation. Currently, technological development has reached a point of maturity, and low-quality cosmetics commercially available have been replaced by products that maintain a certain high level of quality. This implies that there is an ongoing reinforcement of the need to differentiate by design, and its one of the reasons why the concept of experience as an economic value cannot be taken lightly, since differentiation strategies which target functional benefits, may not ensure continuous competitive advantage. Furthermore, this kind of strategy invites imitation from competitors. (Nagasawa & Kizu, 2015, p. 55)

5.6.1 Differentiation

Differentiation is defined as the process of adding a set of meaningful and valued differences to distinguish the company's offering from competitors' offerings. A firm can differentiate its offering along five dimensions: product, services, personnel, channel, and image (Kotler, 2003, p. 315)



Graph 14, Personnel differentiation, customer satisfaction and competitive advantage (Bokhari & Chowdbury, 2014)

As mentioned in the previous section, while cosmetics companies may have reached the point of maturity in product development -at least to a degree; they have evaluated new ways of differentiation from their competitors. Either by changing the product ingredients to more organic alternatives to cater to the shifts in consumer buying behavior, adding additional features or by revamping their approach in customer service and customer experience management. (Kotler, 2010) This phenomenon is further supported by Grubow (2010): "...beauty companies are looking for ways to personalize their beauty products and the consumers overall experience." Thus, companies like Sokos maintain their focus on their existing campaigns while incorporating more multi-channel marketing to attract younger demographics and investing on their specialists (see also Graph 14), since institutions can gain competitive advantage through better-trained people (Kotler & Keller, 2009) "The

human resource factor plays an important role in every service organization, especially in satisfying customer needs and thus personnel differentiation has a vital role in all service organizations.” (Kotler & Keller, 2009) Consequently, the newest entrant Kicks launched a concept named Brow Bar which offers customers a salon that specializes in eyebrow shaping and enables them to differentiate from the competition. This approach manages to improve the customer experience in addition to, increasing sales as the customers waiting for their appointments to browse around the store. To enforce the wandering customers buying decision Kicks gives all their Brow Bar-clients a 20% discount on their entire product range. (Kicks, 2020) The example provided above demonstrates how some new entrants in the Finnish cosmetics market have identified differentiation, as the best option to tackle the market where market dominance is divided between two traditional, well-known retailers.

6 Conclusion

The researcher commenced on this project to identify the intricacies in the current bricks-and-mortar retail of cosmetics and if e-commerce threatens their way of operating. Based on the quantitative and qualitative analysis of consumer buying behaviour and business practices of high street retailers, it can be concluded that the cosmetics industry is significantly protected by the service-aspect of its retailing. There are still large demographics who prefer to do most of their cosmetics spending in physical stores to be able to sample products in addition to, receiving specialist guidance on the correct applying of the products as supported by Wright (2019): “Despite the convenience of online shopping, testing out products in person is still extremely important to beauty customers. While tech that allows customers to virtually try on makeup is improving, such as Sephora’s Virtual Artist app or L’Oreal’s Virtual Try On function on their website, testing out products in real life is still considered more trustworthy. Shoppers also get to feel a product’s texture, find out its scent, and do a quick stress test. They also avoid the risk of buying a product online, finding out it’s not quite right when it arrives, and being unable to send it back due to beauty’s understandably strict return policies.”

The researcher chose this research topic by reason of it being a present issue especially in view of current climate of 2020 -COVID-19 and the limitations it has brought to traditional retailers; where consumers prefer to purchase through the internet will more than likely increase through all industries where it is applicable. It is apparent that the expected outcome was a result of the cautious pessimism of the researcher regarding the hypothesis that e-commerce threatens the way physical cosmetics stores operate. Moreover, before analysing the sales of a few retailers, local demographics and their buying behaviour respectively, the researcher felt that the complete shift to e-commerce would be inevitable apart from physical locations used for click-and-collect purchases. Nevertheless, when the restriction of movement dissolves and societies return to normal routines there will be a demand for brick-and-mortar stores in Finland and the rest of the world. As there are large numbers of consumers who prefer not to ‘study’ online on how to use the cosmetics they ordered online thus, they require amenities only traditional stores can offer with their customer

service. However, the negative aspect that e-commerce has ensured is that brick-and-mortar stores can not merely attract consumers by employing a cost leadership-strategy as businesses operating mainly or only online are often able to offer lower prices due to for example: lower information costs. (Bakos, 2001, p. 70)

As stated earlier, the applied data gathering was not without its limitations. The possible generalizations of the results are predominantly without merit as that would require a more extensive data collection from more local cosmetics retailers in addition to, the cosmetic consumers. Furthermore, this thesis was constructed in a strict time frame, which is the foremost reason the data gathering was minimized. This type of research would have benefitted from a longitudinal time frame where the main strength is the capacity to study change and development. (Saunders et al, 2009, p. 155) At that point, the researcher could have studied the effects of COVID-19 and how its hampering of face-to-face transactions materialized in the long-term.

Based on this study, e-commerce does not threaten the existence of bricks-and-mortars in the cosmetics industry. Yet, it applies just enough pressure on the physical stores for them to consider revamping their business model. Therefore, cosmetics brick-and-mortars must develop their customer service -or customer experience management as a whole; specify their offering towards a smaller segment or revamp their product portfolio to differentiate from their competitors. This can be either a positive or a negative aspect -depends on the capabilities of the company; as e-commerce has forced the hand for businesses to adapt to the current climate. Nevertheless, due to the inevitable recession rising from the aftermath of COVID-19 (see also, Coronavirus clearly shrinking Finnish economy, Yle 2020) there might be a growth in online orders for cosmetics due to lower purchasing power of consumers and the appeal of cheaper product prices found online.

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