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Service Sector After-Pandemic Recovery - focus on Ukrainian beauty sector

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Abstract— The presented paper focuses on the changes in the beauty market due to pandemic limitations, social isolation, and economic shutdown. The research hypothesizes that social and economic life will not return to previous approaches and routines; we face the new reality as consumers and entrepreneurs. The success of the business, recovering, and developing the economies depends on how quickly the characteristics of this new will be identified. We focused on the beauty industry segment in the world and Ukraine and highlighted the overall inclinations from business perspectives and predispositions from the consumer one. The basis for the industry development will be sustainability and authenticity.

Index Terms— microeconomics, macroeconomics trends, sustainable development, beauty industry, entrepreneurship, Ukraine

I. INTRODUCTION

There is no doubt that we are living in the VUCA world and trying to forecast future trends. For now, we can identify several trends that will influence social life and economic activities nearest future. Undoubtedly, the COVID-19 pandemic changes the framework of modern economic development and fastens numerous processes in R&D, technologies, and other spheres of business, governance, and life. The consequences of virus spreading, and lockdowns are harmful, especially in the short-term perspective (it affects private life and business but increases government debts and financial uncertainty). Nevertheless, pandemics became the catalyst for the changes (e.g., the flexible working day become a reality even for organizations and workers) and illuminated the fallibility of some assumptions (e.g., that emissions can be reduced by rejections of flies for business and tourist purposes). Nowadays, forecasting has become more complex, but we know about the trends and development possibilities before 2020.

According to definition, the service industry is an economy

that creates services rather than tangible objects. Economists divide all economic activity into two broad categories, goods and services (Encyclopedia, 2021). The share of the service sector in the world economy has constantly increased for the last 20 years (World Bank, 2021), for the advanced economy - about 60-80%. (fig. 1). Moreover, during the past century, the service sector expanded rapidly and has become the most significant economic sector in most developed nations. The service sector has become more important in economic development because of higher added value.

The high added value created in the sector also makes it extremely crucial in the economic after-pandemic recovery. Recovery will occur in the "next normal" situation. The next normal concept is a term coined by McKinsey institute based on the assumption that exists before and after, the period before COVID-19, and a new norm that will appear in the post-viral era: the next normal. For studying next normal, we focus on the service sector and, more precisely, the beauty industry. The choice is based on the unique combination of social and economic issues that are interconnected in this sphere. The beauty industry's next normal will reflect the latest economic, financial, and technological trends and changes in our understanding of beautiful, fashionable, meaningful, and relevant.

As soon as in our research, we will focus on the beauty industry for more detailed illustration. So first, illuminate how much we spend to look good because even the transition to a predominantly online existence and wearing masks and social distancing has not reduced the pressure on consumers. Companies and manufacturers are currently looking for new offers and requirements. And we are still expected to look stylish with the haircut, toned skin, no cellulite, etc.

II. LITERATURE AND TRENDS REVIEW

In general, the global market for beauty and self-care is developing very dynamically - in 2017, the world market

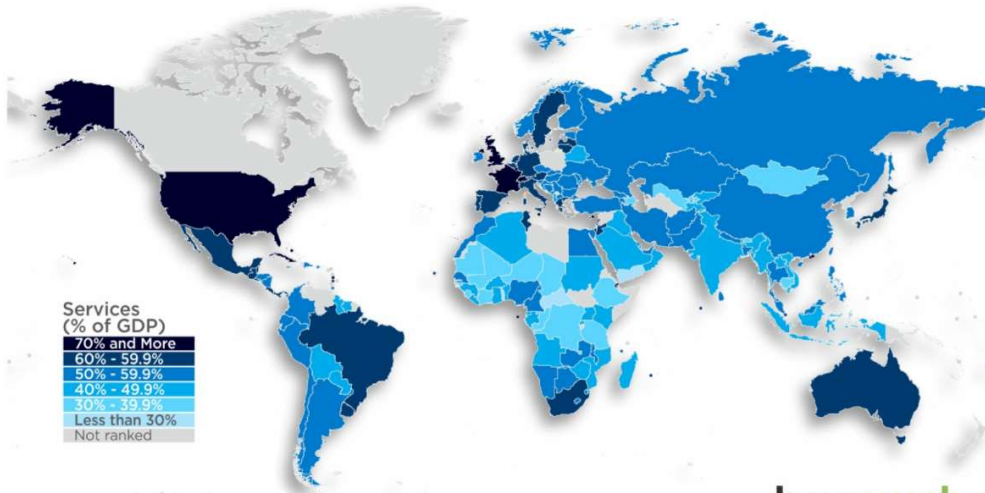


amounted to 532.43 billion dollars. and is projected to reach 805.61 billion by 2023 (proConsulting Analytics (2020)). However, the market is currently going through difficult times; if according to research in 2017, the average woman in the United States (because the United States is the world's largest market for beauty products) spends about \$ 313 per month on their appearance, in 2021 they fell to \$ 50 (Haynes C. (2017), Statista (a) (2021)).

According to statistics (Statista (a) (2021)), revenue in the beauty and personal hygiene market in Europe in 2021 will reach 121 billion dollars and expected annual market growth in 2021-2025 is 3.39%. The most lucrative segment is personal hygiene (\$ 51.5 billion). And revenue from online sales is currently 21%.

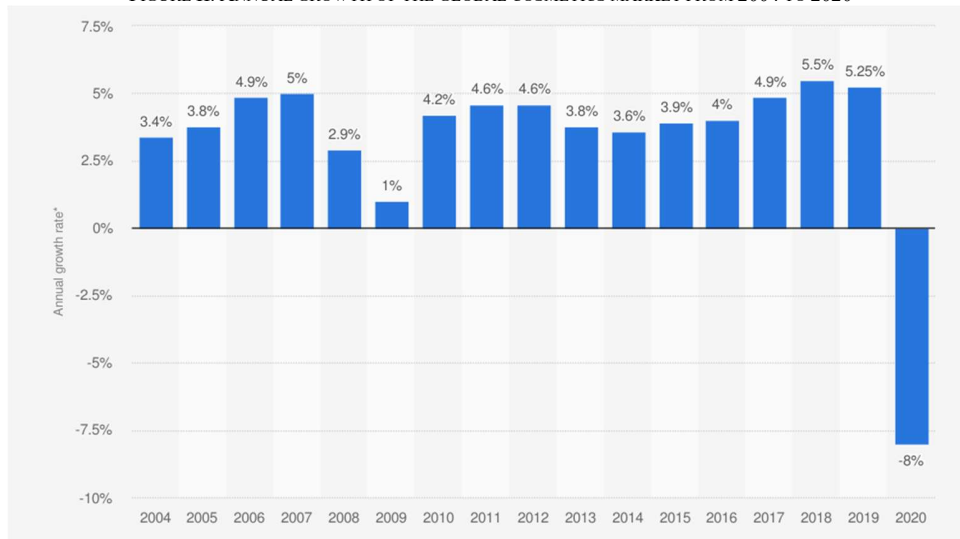
The global trend is also far from optimistic (fig. II)

FIGURE I. SERVICE AS A SHARE OF TOTAL GDP (%)



Source: Howmuch (c)(2020)

FIGURE II. ANNUAL GROWTH OF THE GLOBAL COSMETICS MARKET FROM 2004 TO 2020



Source: Statista (c)(2020)

For comparison, in Ukraine, the market is \$ 1.8 million, and its expected growth is 1.22%, and revenue from online sales is only 2%. At the same time, the Picodi service team conducted a survey on Ukrainians' spending on cosmetics in 2020 and found that women spend about UAH 7,200 on cosmetics every year (Analitical review (2020)). Price, composition, and personal preferences are the main factors that guide them when choosing goods and products. At the same time, the least

attention is paid to the advice of doctors, makeup artists, and public figures. In comparison, men spend UAH 3,800 a year on various means and often buy them when they run out. Brand and price play a role in choosing products for men.

Thus, one of the most relevant issues for the beauty of the personal hygiene industry remains how and why consumer habits have changed. Perhaps more importantly, manufacturers wonder whether the change in personal care practices will

continue after the COVID-19 pandemic. Will a more natural look prevail even after we return to work and the policy of wearing masks is relaxed? Moreover, the questions circulating in other industries can actually be formulated as the "new normal"? We formalized the information and developed several trends.

- (a) Personal hygiene and safety products become priority number one. Undoubtedly, soap has become an absolute superstar, as hand washing, along with the science of soap and surfactants, has taken on a new meaning in the daily hand since the beginning of the COVID outbreak. Handwashing remains one of the main recommendations to protect yourself. A new reality is that it reinforces the importance and reach of the personal care industry. Companies also use it for advertising and creating a positive image (for example, Avon (Forbes România (2020)) donated soap to help countries). Hand sanitizer is the best way to protect against the spread and spread of COVID, making personal care products in demand because they are practical, portable, and do not require water. For example, EO Products (Terlep S. (2020)) has announced that it is increasing the production of hand sanitizer, producing four times more than usual, and has no plans to change the price. And LVMH has begun re-equipping its fragrance manufacturing facilities (which usually produce fragrances for Dior, Givenchy, and Guerline) to produce disinfectants (Kestenbaum R. (2020)). P&G has also offered disinfectants on its B2B site for businesses and government agencies to continue protecting employees and consumers (P&G News (2020)).
- (b) Care has become a leitmotif because now we care for ourselves, loved ones, and others. Consumers began to pay more attention to the responsible component of consumption and production. Animal testing of cosmetics is currently banned in Europe, but until May 1, 2021, such tests were required by Chinese law (Waite T. (2021)). However, in May, the mandatory requirements for testing imported cosmetics for general use were abolished. It means that products that do not claim to reduce the signs of aging, skin whitening, or anti-rash should not be tested on animals when imported into the country. Moreover, China has also approved two new non-animal cosmetic testing methods, a sign of a new global trend. As for consumption, there are all the elements of responsible consumption - the safety and naturalness of the product itself, packaging that can be recycled or reused, delivery of products with minimal use of plastic packaging, and more.
- (c) The most up-to-date technologies and innovations as an opportunity to survive and grow. Digitalization is not a new trend, but COVID has turned it into a macro trend, forcing businesses to find digital solutions for almost all areas of the beauty industry, including customer engagement, marketing, product innovation, and testing. The online segment has grown thanks to the so-called "silver surfer" - the involvement of older customers who previously won the purchase in stores.
- (d) The segment of online counseling and training has

- significantly increased. For example, Aveda has created a series of videos on Instagram, offering advice on everything from installing textured hair to styling adult haircuts - and the number of views has increased by more than 200% since its launch. The MAC Virtual Try-On tool, which allows customers to try on 200 eyeshadows and lipsticks, has seen a threefold increase in consumer engagement since the start of the lockdown. John Lewis and Charlotte Tilbury broke the Guinness World Record for the world's largest British beauty master class after 10,000 people signed up to make a brush at home inspired by 90s hairstyles (Wood Z. (2020)).
- (e) The brand's authenticity is becoming increasingly important, as consumer expectations have changed - today, they are looking for natural brands with a clear purpose and a close view of important issues. Customers no longer want to hear that the product will change their lives - they prefer products that are high quality and make them feel good.

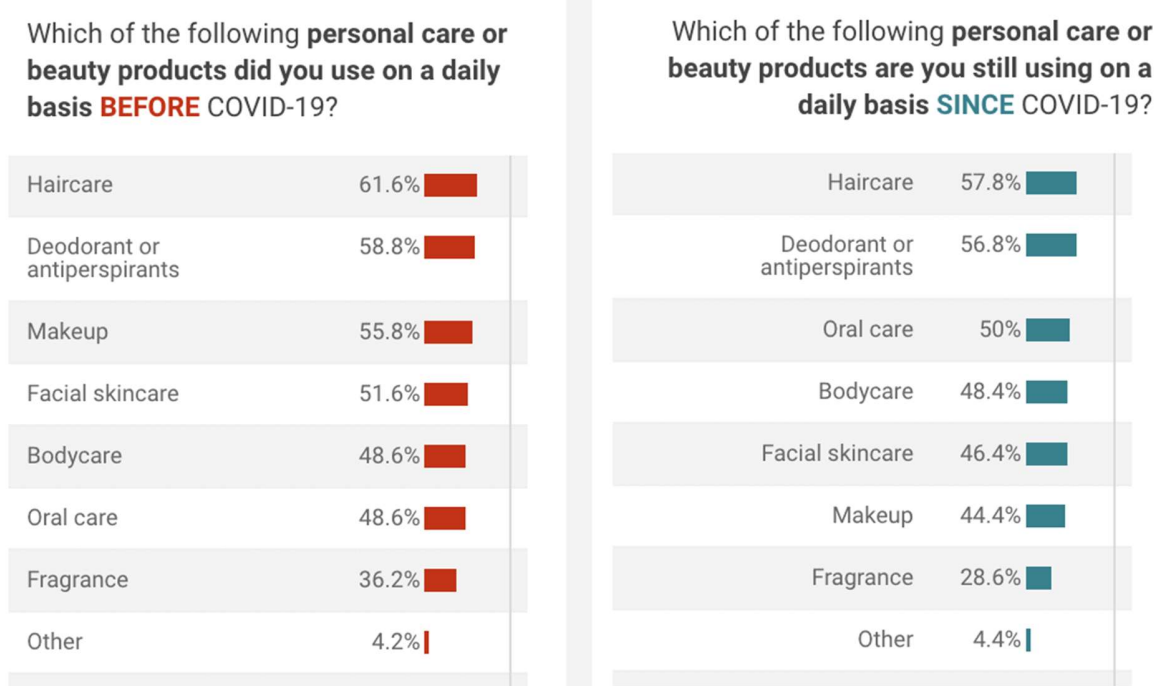
III. RESEARCH OF CUSTOMERS PREFERENCES

It is worth talking about what has become our favorite in modern times of consumption and self-care. Reductions in daily food use are particularly noticeable in makeup, facials, and fragrances. At the same time, demand for oral care products, deodorants or antiperspirants, and hair care products remain reasonably stable during a pandemic. According to the survey (Premise, 2020), 66% of consumers apply less makeup than before, and 17% refuse it altogether. 39% attribute the change in habits to the need to wear a mask, 31% to the remote nature of work, and 11% to social distancing. Also, 55% of respondents are confident that they will not return to the usual pre-quarantine makeup. More information about changes on fig. III.

We identify the main trends:

- 1) Homecare (do it yourself) - living in a lockdown has forced most consumers to reconsider their habits and try the procedures and services previously used in salons to do it yourself. So now, this trend is only consolidating and requires advice, support, and access to products from manufacturers.
- 2) Distancing or remoteness as the ability to order products online and their testing and further support are becoming increasingly important for consumers. From online assistants, meetings, or consultations of specialists and training, video support gradually moves from additional to mandatory services and determines brands or stores' choices.
- 3) Quality, security, sustainability - the use of social networks (including Instagram and TikTok) encourages companies to be more open and communicate with consumers who prefer truthful and helpful information. Also, the issues of sustainable development and care for the environment are gaining publicity and involving the broader public in discussions and concrete actions, so environmental friendliness in all its manifestations is becoming a trend.

FIGURE III. TRENDS IN PERSONAL CARE PRODUCT USAGE



Source: Premise (2020)

- 4) We are new – new needs – changes in everyday life create unique needs (or allow businesses to offer us new solutions to the problems we may face). It could be, for example, anti-stress candles, skincare products under a mask, etc. If it is not possible to emphasize the lips, then there will be new (or updated) trends in makeup, such as colored eyebrows or new colored favorites for hair coloring and brand-new haircuts, so that the mask does not change the proportions of the face and so on.

IV. FINDINGS

We can assume that governments' macroeconomic policies and microeconomic development, and the overall situation are not the only factors that affect industry development. The behavior and expectations of citizens are crucially important. According to McKinsey Report (2020), Consumer sentiment varies significantly across countries impacted by COVID-19. Consumers in China, India, and Indonesia consistently report higher optimism than the rest of the world. At the same time, those in Europe and Japan remain less optimistic about their countries' economic conditions after COVID-19. Research confirmed our ideas that consumers across the globe have responded to the crisis and its associated disruption to normal consumer behaviors by trying different shopping behaviors and expressing a high intent (65 percent or more) to incorporate these behaviors going forward. However, the change has been less pronounced in countries with a moderate economic shock, such as Germany and Japan (fig. IV).

We observed the coronavirus recession in 2019-2019 when

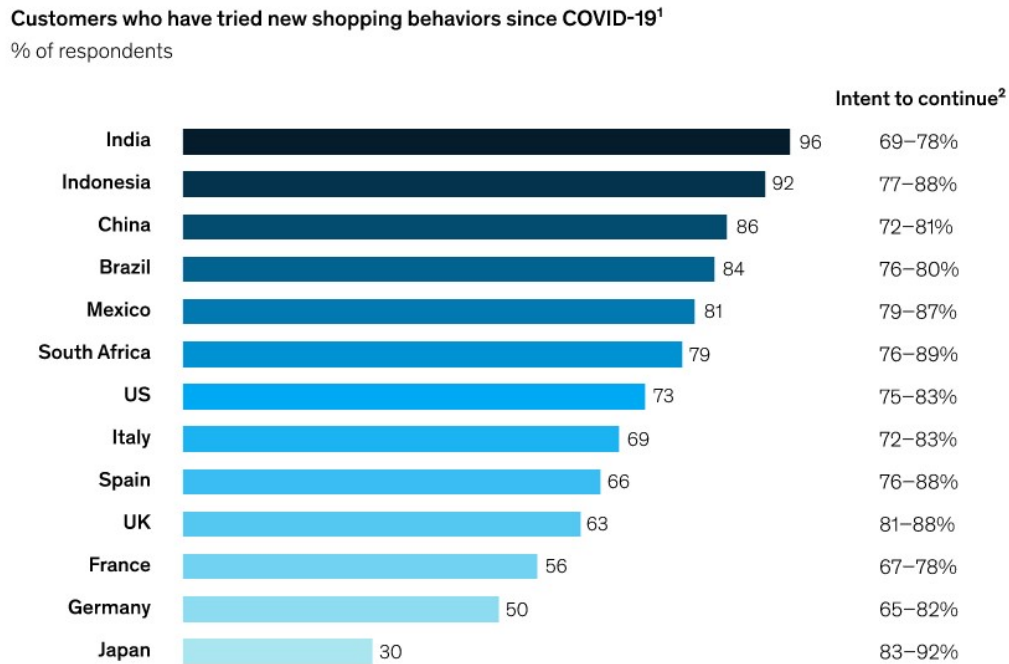
economic activity drops more sharply than any of us have experienced. People do not shop, other than for essentials; people do not travel; people do not buy cars. Moreover, during any recession, people cut back on purchases that can easily be postponed (such as cars and appliances) and increase precautionary saving in anticipation of a worsening crisis. What makes the coronavirus pandemic different is that people will also eliminate spending for restaurants, travel, and other services that usually fall but do not drop to zero. That means an even more deep influence on the GDP decline.

Today, in 2021, the global economy is poised to stage its most robust post-recession recovery in 80 years. Global growth is expected to accelerate to 5.6% this year, mainly in major economies like the United States and China. Although the preliminary countries' growth was revised upward for 2021, they continue to grapple with COVID-19 and what is likely to be its long shadow. Despite this year's trend of global GDP growth, it will be 3.2% below pre-pandemic projections, and per capita GDP among many emerging markets and developing economies is anticipated to remain below pre-COVID-19 peaks for an extended period. As the pandemic continues to flare, it will shape the path of global economic activity.

That pandemic reshaping based on the beauty industry from the perspectives of entrepreneurial activities and consumer expectations and possibilities allows highlighting the core trend (fig. V). Sustainability has become an even more vital prerequisite for successful development than before. If years before we started to think about sustainable development as a philosophical concept, it became part of international programs and obligations that formed the requirements to business. We can now state that sustainability (not only the safety of the

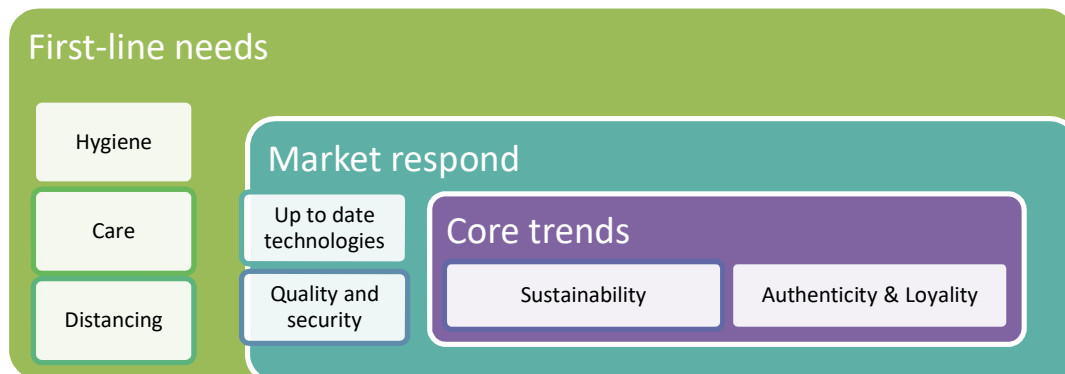
goods but also all cycle of production) becomes part of consumer requirements.

FIGURE IV. THE SPECTRUM OF PURCHASING LOYALTY EXHIBITED BY CONSUMERS AROUND THE WORLD



Source: McKinsey Report (2020)

FIGURE V. CORE TRENDS



Source: Author's own work

We are witnessing another shift in the understanding of sustainable development, which has finally become part of microeconomic life at the level of building a Demand-Supply system. Thus, sustainable development moves from the category of obligations formed at the state level to the expectations created at the consumer level. In general, this will be a boost in the sustainable development of territories. Even if this trend is not immediately disseminated in all countries, its emergence in advanced economies will also change production technologies (and production is in emerging and developing markets). Mentioned above will trigger a chain reaction of changes.

Trends in the authenticity and loyalty of customers to brands are, on the one hand, a signal of increasing trends in conscious consumption. On the other hand, they are supportive of the

movement of sustainable development because authenticity can be seen as locality, which means - reducing the carbon footprint. At the same time, loyalty reinforces the responsibility of manufacturers for their actions at all stages of the product life cycle - from product development (cruel free) to the handling of packaging.

As a result, we can say that overcoming this recession will be based on sustainable development.

V. CONCLUSION

Finally, although the final answers to what the "new normal" will look like are still outstanding, the guidelines and preferences of consumers in the world of beauty are changing

rapidly. The use of makeup is declining, and the possible return of consumers to pre-pandemic makeup and skincare still remains uncertain.

At the same time, we can form the prominent trends that will affect the development of the industry shortly:

- Increased attention to health and everything related to it.
- Continuation of the trend of social distancing and the spread of related practices - wearing masks, using paramedics, keeping distance, etc.
- More moderate and conscious consumption will be based more on trust and authenticity, strengthen confidence to some extent, and accompany a desire to support "ours" in this struggle for economic survival.
- Sustainable development is as dominant in the producer-consumer relationship

Sustainable development will cause changes in production, and a new round of innovation will ensue. Consumers will demand more information and transparency about all stages of production and product quality. With the growing importance of the Internet in communications and sales, there will be a need to expand the channels of communication between seller and buyer and review the tools to protect against unfair competition by misinformation and destruction of the image of manufacturers.

In summary, we emphasize that despite the unconditional negative impact of the pandemic on all spheres of life, recovery is possible only based on sustainable development, which is now becoming a perceived priority for ordinary citizens.

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