



Executive Insights

The Future of CBD in Health and Beauty

The cannabidiol (CBD) era in health and beauty has arrived. With U.S. retail sales of CBD topical and skincare products estimated to be close to \$1 billion in 2019, a growing number of companies believe CBD will not be another passing fad. CBD is not just another natural extract for health and beauty products, as it comes with complexities — along multiple dimensions — that make it unique.

With the [cultivation of hemp-derived CBD federally legalized](#), the likes of both large, established health and beauty players,

such as Estée Lauder and L'Oréal, and small and emerging CBD players, including Charlotte's Web Hemp and CV Sciences, are responding to consumer interest by developing CBD-infused topical formulations (see Figure 1). Importantly, multiple major retailers are initiating programs to sell topical CBD products, while others have already come on board; [Walgreens](#), [CVS](#), [Rite Aid](#) and [Sephora](#) all initiated sales of CBD in 2019.

For health and beauty companies that have determined CBD products to be a strategic fit, it is important to move quickly as the market becomes increasingly crowded.

A natural evolution

Increased awareness of health and wellness among consumers has been driving a macrotrend toward natural health and beauty

Figure 1

Sample of CBD topical formulations currently on the market



Origins (Estée Lauder) Hello, Calm Relaxing & Hydrating Face Mask



Kiehl's (L'Oréal) Cannabis Sativa Seed Oil Herbal Concentrate



Charlotte's Web Hemp Infused Cream



CBD Oil (CV Sciences) Hemp Body Cream, CBD Oil Gold Formula

Source: Company websites

The Future of CBD in Health and Beauty was written by **Maria Steingoltz**, Managing Director, and **Emile Santos**, Principal, in L.E.K.'s Consumer Products practice. Maria is based in Chicago and Emile is based in New York City.

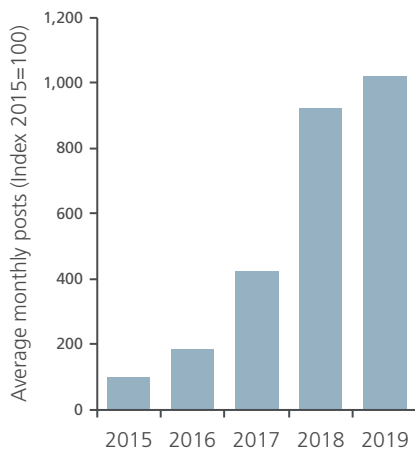
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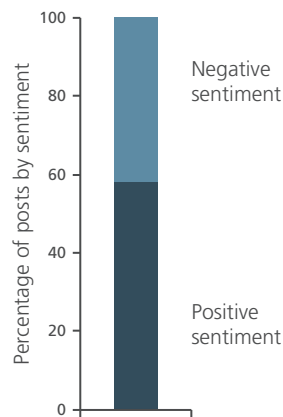
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Figure 2
Consumer interest in CBD

Volume of U.S. social media posts related to CBD (2015-19)



Sentiment of U.S. social media posts related to CBD (2015-19)



Source: Crimson Hexagon

products, fueling demand for natural extracts. For both beauty and skincare products, consumers are looking for alternatives to synthetic chemicals to optimize and boost the well-being of their bodies and the appearance of their skin. In a recent study of U.S. consumers, 64% of respondents indicated that purchasing healthy, clean or personalized beauty care products was important to them.

Over the past decade, driven by the rising awareness of side effects from synthetic products, natural plant extracts such as moringa, jojoba oil and turmeric have become increasingly popular. The latest natural extract to emerge as a health and well-being plant extract is CBD, and consumer interest is soaring (see Figure 2).

The number of CBD mentions on social media has grown by a compound annual growth rate (CAGR) of 80% since 2015, and approximately 60% of CBD-related commentary on social media is positive. Although only 20% of addressable consumers have used CBD in the past six months, adoption is likely to increase quickly — over 40% of nonusers indicate they “probably will” or “definitely will” purchase a CBD beauty product in the next six months (see Figure 3). Consumers also indicate interest in a range of CBD-related health benefits (see Figure 4). Importantly, according to L.E.K.’s 2019 Health and Wellness Survey, those who have tried CBD beauty products express strong satisfaction with the efficacy of the CBD products that they use.

Increasing consumer awareness and interest are translating into strong retail sales growth. Following the passage of the 2018 U.S. Farm Bill, topical CBD product sales have grown rapidly. CBD topical products currently make up about 25% of the CBD category, but are expected to take share from ingestibles due to U.S. Food and Drug Administration (FDA) regulation of CBD in food and beverage products.

More than your average plant extract

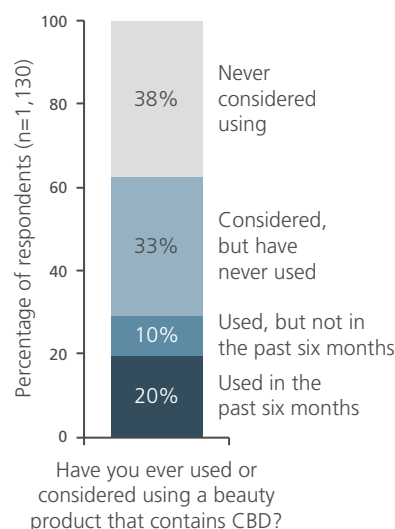
CBD is not just your average natural extract. Unlike other health and beauty plant extracts, CBD carries with it a unique blend of market tailwinds and challenges, all of which need to be considered carefully before companies dive into the market (see Figure 5).

CBD market tailwinds

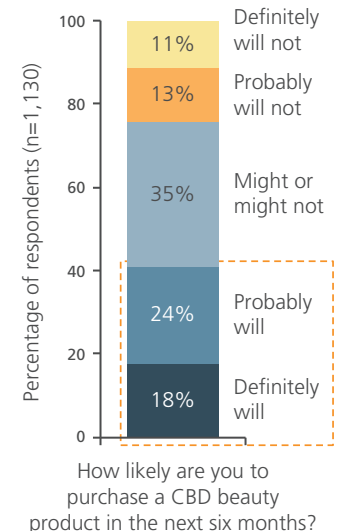
High relative market interest: Compared with other plant extracts, the level of interest in CBD is growing exponentially faster (see Figure 6). While this provides tremendous tailwinds to potential market entry, it has also led to a particularly fragmented, fast-moving, crowded marketplace that brands and consumers alike need to navigate.

Figure 3
Use and adoption intention of CBD products

Use of CBD beauty products



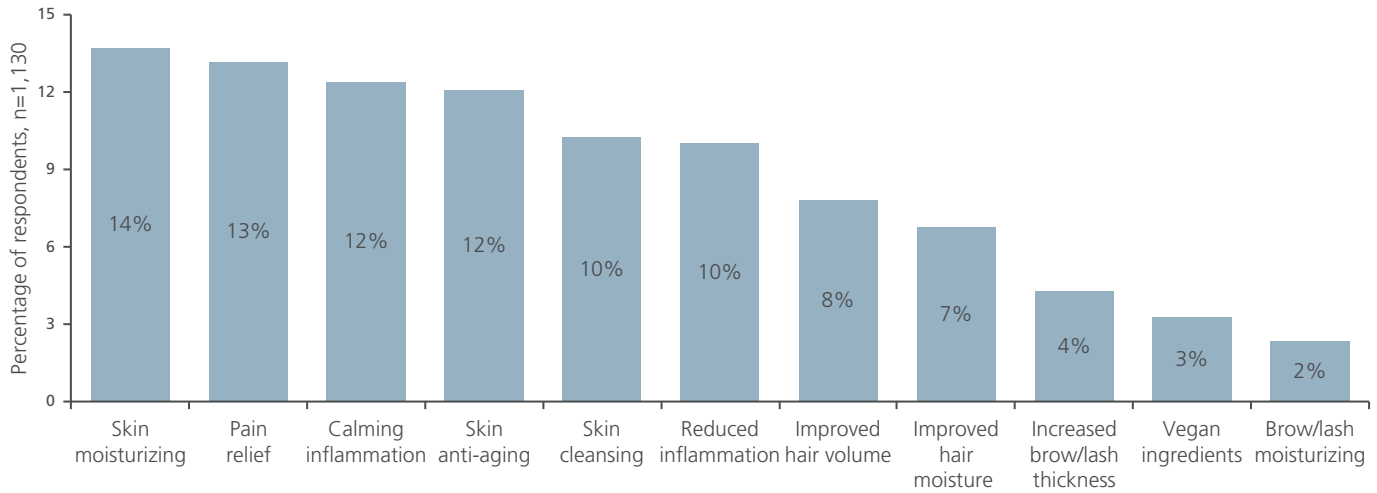
Stated adoption intention



Source: L.E.K. 2019 Health and Wellness Survey

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Figure 4
Benefits sought by consumers in CBD beauty products*



*Of the following potential benefits of a CBD beauty product, which, if any, would you be most interested in?
Source: L.E.K. 2019 Health and Wellness Survey

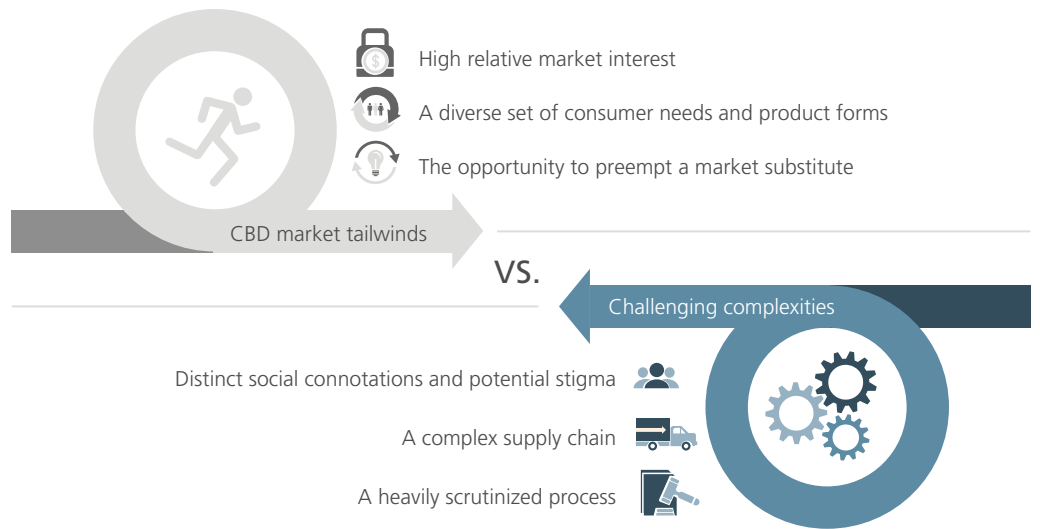
A diverse set of addressable consumer needs and product forms: Consumers believe that CBD has a much wider set of consumer use cases in topical products than most plant extracts, ranging from [improved skin hydration](#) to [reduced inflammation](#), which can potentially be used to treat skin conditions such as eczema, psoriasis and acne (see Figure 7). L.E.K. Consulting’s consumer research has identified a wide range of distinct consumer segments interested in using CBD, each of which is unique. CBD is also versatile as an ingredient; it is infused in a variety of product forms for localized treatment.

The opportunity to preempt a market substitute: For companies manufacturing and marketing products containing similar use cases (e.g., hydrating skin lotions, pain-relieving creams), CBD is an opportunity to reinforce or extend the brand that needs to be considered in the context of its current offerings.

Challenging complexities
Distinct social connotations and potential stigma: Even

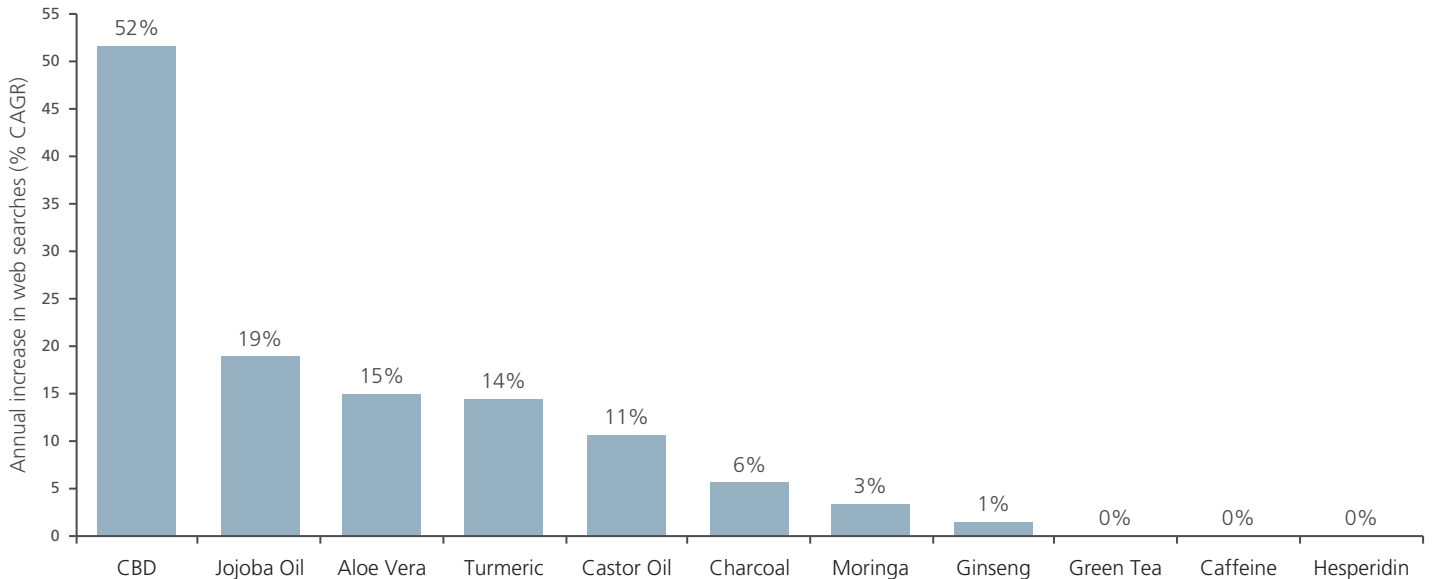
though CBD is derived from hemp, not marijuana, there remains a social stigma and uncertainty in the minds of consumers who may confuse CBD with THC or associate CBD with drug-use stereotypes. Further, terminology used for CBD products, such as “full-spectrum vs. isolate” and “hemp oil vs. hemp extract,” drive confusion due to a lack of widespread consumer understanding.

Figure 5
CBD: Opportunities and challenges



Source: L.E.K. analysis

Figure 6
Plant extract global web interest



Source: Google Trends

A more complex supply chain: The Farm Bill opened a path toward legal cultivation of CBD, but hemp is a complex crop to grow and extract from. Yet while some in the CBD market were initially concerned about supply constraints, U.S. acreage devoted to hemp production more than [quadrupled in 2019](#), with recent signs pointing to [oversupply](#) in the market. In the meantime, given the nascent state of cultivation, the quality of hemp and the level of output for CBD extracts still vary. Internationally developed CBD may be an opportunity, but quality concerns of international plant extracts could be an issue.

Quality control to ensure the consistency of CBD concentration (if companies are not using a CBD isolate) is key, and the science is still in progress. Additionally, consumers are often unaware of the exact dosage for topical products to be effective. As a result, securing a reliable, traceable supply of CBD to support scaled growth and determine the correct dosage is a core challenge to navigate.

A heavily scrutinized process: While CBD derived from hemp has been removed as a Schedule I federally controlled substance, legal risks still remain. As the Farm Bill is renewed every five years, the CBD market will rely on future bills to maintain the federal status of hemp cultivation. Additionally, the FDA has questioned the exact function of CBD in cosmetics, opening up the market to further legal scrutiny.

The FDA last reiterated its stance in [November 2019](#), noting that brands marketing their CBD topicals for therapeutic use have not been approved and will face increased scrutiny as these claims correlate to classification of the product as a drug. While brands can make claims regarding the aesthetic benefits of CBD topicals, therapeutic benefit claims remain a gray area. Thus, cosmetic brands have been primarily focusing on emphasizing the hydrating, cooling effect of CBD topicals rather than promoting their use for localized pain relief.

Given the heavy legal scrutiny of product claims, companies need to weigh the legal risks with the commercial opportunity. Once companies decide to move forward with CBD, they will need to ensure there are no misleading/false claims and that the product is classified as safe for use when it is ultimately introduced in the retail space. In light of how rigorous the standards for quality assurance and processes and approvals will likely be, companies need to be prepared to market CBD products more aggressively than they do other active plant extracts.

Implications for companies and brands in the marketplace

Clearly, CBD is not a simple functional plant extract that can be incorporated into any formulation. There are complex nuances that health and beauty companies need to navigate. Companies

Figure 7
Advertised use cases

	Reduced skin sensitivity (e.g., dry skin, irritation)	Improved skin texture/reduced signs of aging	Improved skin hydration (i.e., retained moisture)	Antimicrobial properties (e.g., removal of toxins from the skin's surface)	Psoriasis, eczema and acne relief (e.g., reduce visible skin irritation)	Sun damage protection	Pain relief (e.g., aches, joint pain, arthritis)
CBD	✓	✓	✓	✓	✓	✓	✓
Aloe vera	✓	✓	✓	✓	✓	✓	
Moringa	✓	✓	✓	✓	✓		
Castor oil	✓	✓	✓	✓	✓	✓	
Jojoba oil	✓		✓	✓	✓	✓	
Green tea	✓	✓	✓	✓		✓	
Caffeine	✓	✓			✓	✓	
Hesperidin	✓		✓	✓		✓	
Ginseng	✓	✓		✓		✓	
Turmeric	✓				✓	✓	
Charcoal				✓	✓		

interested in CBD need to ask themselves some key questions to figure out whether CBD is right for them/their brands:

- Are we going to enter the market for CBD topical products given the rapid growth of the industry or should we stick to the traditional offerings of our organization that are less scrutinized?
- What's the "size of the prize" for CBD for our organization, and what is the opportunity cost of missing out on early entry?
- How is the market of CBD-interested consumers currently segmented, and where does our customer base fit?
- How aligned is our brand positioning to the various CBD segments?
- How are our current customers' perceptions of our brand going to change (for better or worse) if we offer a CBD product?
- Where should we position our company's CBD products within the market, from consumers to formats to channels?
- With whom should we partner across the CBD value chain?
- What would the role of CBD products be in our company/brand's portfolio?
- How (and why) would our brand's CBD products cut through the noise to win market share?

If after answering these questions companies conclude that CBD is a good fit, they will need to embark on careful planning to establish a reputable, consistent supply of CBD and a mechanism for quality assurance that addresses the complexities. They will need to focus on product development to ensure quality and delivery of claimed benefits. Finally, as the number of brands in this market grows, companies will need to focus on new product launches, educating consumers and specific branding to minimize FDA scrutiny.

CBD is taking the health and beauty industry into the future, and the market opportunity it presents is attractive. As consumers increasingly seek out natural extracts in topicals that proactively optimize the body, companies will need to understand the unique nature of CBD products and plan accordingly. Any company that stands on the CBD sidelines while others begin to capitalize on the emerging trend risks missing out on a high-growth opportunity.

¹Source: L.E.K. analysis

²Source: Google Trends

About the Authors



Maria Steingoltz is a Managing Director and Partner in L.E.K. Consulting's Chicago office. She joined L.E.K. in 2003 as an Associate and works in the retail consumer sector with a special focus in food and beverage, as well as beauty and personal care. Maria advises clients on a range of critical strategic issues, including growth strategy, consumer segmentation, international expansion, pricing, and mergers and acquisitions. In 2014, she was selected as a Rising Star of the Consulting Profession by *Consulting* magazine.



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About L.E.K. Consulting

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