Disruptions in Iranian Beauty Retail through Digital Transformation
ABSTRACT
Given the pace of changing technology in retailing, researchers are pursuing a systematic knowledge of the nature of evolving technology in retailing, as well as examining the impacts of new technology in this business. Nowadays, traditional retail establishments encounter enormous challenges from online retailers, and intelligent and immersive retail technology is a valuable tool for creating a unique in-store experience. As a result, the focus of this study will be on customers’ views toward new technologies, as well as the customer’s preferred purchasing channels for beauty products and the impact of these technologies on customer behavior. Hence, this research can provide new insights on consumers’ preference for online or offline retail formats in the Iranian beauty business, allowing for the creation of a precise image of future retail practices in store-based retailing or e-retailing in Iran. In addition, the goal of this paper is to gain a deep understanding of how beauty customers feel about the importance of new technology in offline settings.

Qualitative data from 18 in-depth consumer interviews reveal several drivers for purchasing from online platforms among participants, including discount price, convenience, trust, interaction or getting information by reviewing other customer’s comments, etc., as well as several barriers (the lack of the opportunity to test products, lack of communication with retail staff for getting information, lack of confidence) to consumers’ acceptance of purchasing online. The use of digitization in physical stores as a means of empowering them is highlighted by the juxtaposition of these characteristics as hurdles or drivers. The findings have a number of managerial ramifications.

KEYWORDS
Sephora, Innovations, Cosmetic Industry, retail formats, online retail, brick-and-mortar stores.

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1. INTRODUCTION

Today, it is evident that online retailers have become a significant threat to traditional ones, with e-commerce successfully seizing new opportunities through digitization, while physical retailers continue to lose ground (Stieninger et al., 2021). Millennials are driving this trend in the cosmetics sector. According to TABS Analytics (2018), millennial women in the United States are the heaviest buyers in cosmetic categories, and according to WGSN report in 2019, female Generation Z has become the largest group of beauty spenders, and more than 30% of this age group is shifting their purchase channels. They intend to spend less time in physical stores as they did previously (Skeldon, 2020). Furthermore, according to data, Asia Pacific is the world’s leading cosmetics market (Statista, 2019), accounting for nearly 40% of the worldwide market. Furthermore, after Saudi Arabia, Iran is the Middle East’s second-largest cosmetic consumer (Jozi, 2016). The cosmetic sector, on the other hand, has profited from the growing use of social media platforms such as Instagram in all countries (Statista, 2020), and Iranians are no exception. We are witnessing a dramatic growth in the number of them using this platform not only to communicate with friends but also as an online marketplace (Parsa, 2019). Furthermore, according to the Iranian Association of Cosmetics, Toiletries, and Perfumery Importers, Iranians spend 4.5% of their annual income on beauty products, which is three times higher than their European counterparts (Financial tribune, 2016). As a result, analyzing the behavior of these customers is critical for projecting the trend of this market. Despite the fact that Iran’s retail industry is still quite traditional, it has all of the required prerequisites, such as increasing internet connections (Mordor Intelligence, 2019) or the young, internet-savvy population for the success of E-commerce. Furthermore, Iran has nearly 70% internet penetration (World Bank, 2021), and online purchase has a 60% annual growth rate in this country, with nearly 9,000 online retail outlets (Financial tribune, 2017). Furthermore, many

OBJECTIVE

Considering the lack of digital transformation in the beauty market in Iran, the focus of this study will be on customers’ views toward new technologies, as well as the customer’s preferred purchasing channels for beauty products and the impact of these technologies on customer behavior.

METHODOLOGY

the methodology implemented for this study was qualitative-based. 18 interviewees were conducted applying the judgmental sampling method and two criteria were used for selecting research participants, female customers who are using cosmetic products regularly. Data were gathered through a structured interview using the form of online asynchronous interviews.

RESULTS

The results reveal several of the most important drivers for purchasing from online platforms among participants, including discount price, convenience, trust, interaction or getting information by reviewing other customer’s comments, etc., as well as several barriers (the lack of the opportunity to test products, lack of communication with retail staff for getting information, lack of confidence) to consumers’ acceptance of purchasing online.

IMPLICATIONS

The findings provide several theoretical and managerial implications. This research provides new insights into consumers’ preference for online or offline retail formats in the Iranian beauty business, allowing for the creation of a precise image of future retail practices in store-based retailing or e-retailing in Iran. In addition, the goal of this paper is to gain a deep understanding of how beauty customers feel about the importance of new technology in offline settings.

ORIGINALITY

With the adoption of a qualitative research method, this research offers precise information on the customer attitudes, perspectives, and channels preferences in the beauty market in Iran.

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brick-and-mortar stores, notably in the cosmetics industry, have been forced to close their physical locations or have turned to e-commerce as a sales channel. As a result, certain solutions for surviving this type of business are urgently needed. Physical stores, on the other hand, have no method of integrating physical and digital elements in this industry.

This research addresses the issues as mentioned above for exploiting the possibilities of digitalisation in Iranian retail stores and gives guidance for retailers according to customer’s preferences towards digitalisation by elucidating customer preferences toward various channels and considering how digital technologies influence the customer, and developing answers to the following questions:

RQ1: What is the customer’s preference toward purchasing channels (e-retail or traditional stores or Hybrid) and what is the current most-used purchase channel?

RQ2: To what extent customers are enthusiastic about digitalization in cosmetic retail?

The answers to the aforementioned questions draw a more accurate picture of Iran’s future cosmetic retailing. The study process includes two key steps: (1) determining their existing preferred channel for purchasing beauty items, and (2) determining their attitudes toward these new technologies in retail environments.

The rest of this paper is organized as follows: Section 2 presents the theoretical background for identifying innovative retail technologies in the beauty industry, considering customer’s attitudes towards these new technologies in retail settings and considering customer’s current preferred channel for purchasing beauty products and evaluating customer’s first impression when they encounter with these technologies.

Following that, it will consider research questions and a summary of our research design. Subsequently, it has developed a methodology section. The research findings will be presented later. The last section depicts the conclusion and management.

2. THEORETICAL BACKGROUND

The theoretical background is divided into three parts to identify: 1) innovative retail technologies in the beauty industry; 2) customer attitudes toward these new technologies in retail settings; and 3) the customer's current preferred channel for purchasing beauty products and evaluating customer's first impression when they encounter these technologies.

2.1. Identification of innovative retail technologies in the beauty industry

The first product was sold via a scanner about 40 years ago (Inman and Nikolova, 2017). However, we have witnessed an increase in the use of digital transformations in the retail industry around the world, such as interactive dressing rooms, interactive mirrors, and other sorts of digitalized tools. Unfortunately, Iran is an outlier, and the trend is slowing down in this country. Furthermore, many retailers know that they cannot compete effectively on pricing with these online channels or platforms in this changing environment and according to enabling e-commerce in many industries. As a result, they should focus on improving the customer experience and increasing engagement (Reinartz et al., 2019). Consider the use of digital transformation by Sephora, a market leader in the cosmetics business. Sephora has successfully blended digital and in-store selling in recent years (Fast Company, 2015). With 2300 stores in more than 33 countries, Sephora was named Retailer of the Year for 2017 by the 2018 World Retail Congress, despite the industry’s decline. It seems that employing a wide range of AI technology (e.g. Sephora Visual Artist, Tap & Try, Pocket Contour or, Color IQ) across their app and in-store helps to create an in-store
purchasing experience that is appealing to younger customers (LG, 2018). Similarly, Clinique made an Apple iPad available in top department stores for customers to identify their skin types and receive thorough and personalized recommendations by printer or email (Pantano and Vannucci, 2019). Self-checkout payment systems, digital wallpaper, tablets, electronic scales, virtual catalogs, and digital signage are just a few examples of cutting-edge digital technology in the cosmetics sector. It should be noted that this form of technology should assist consumers in achieving an outcome that they would not have been able to achieve without it (Grewal et al., 2019). We should evaluate Iranian clients' sentiments toward digitization before recommending these technologies to Iranian retailers.

However, unfortunately, Iran is an exception, and this trend is slowly in this country. Additionally, in this changing environment and according to empowering e-commerce in many industries, it is recognized by many retailers that they could not compete efficiently on the price with these online channels or platforms. Hence, they should focus on customer experience and increasing their engagement (Reinartz et al., 2019).

2.2. Customer’s attitude towards these new technologies in retail settings
In light of the high costs of intelligent technology in the retail store, it appears that retailers should gain a better understanding of their consumers’ views about it as well as the factors that drive adoption (Roy et al., 2018). About the need for in-depth research on this topic, Gao and Bai (2014), Garaus et al. (2016), and Inman and Nikolova (2017) contend the dearth of research related to customers’ perceptions of smart technology. Lin and Hsieh (2006) depicted a very complex interaction between customers and technological use. The growing spread of technologies in retail stores likely is appreciated by some consumers, but on the contrary, other customers have a negative attitude toward them (Dabholkar, 1996). The result of Rosenbaum and Wong (2015) depicts that a customer could have favourable and unfavourable technological simultaneously. Then, the balance between the two aspects determines whether customers are willing to accept or reject this type of technology. According to Grewal et al. (2019), retailers must carefully consider what will delight customers. As a result, the views of customers about digitalization are taken into account in this research. Sephora's digital tools are useful for evaluating customers’ opinions on digitalization in physical stores.

2.3. Customer’s current preferred channel for purchasing beauty products and evaluating customer’s first impression when they encounter these technologies
Retail leaders have expressed a concern that online shopping could make physical stores obsolete (Lee and Tan, 2003; Keen et al., 2004). Researchers are concentrating their efforts on forecasting this trend. For example, Santulli (2019) considers the influence of Augmented Reality (Azuma, 1997; Azuma et al., 2001) on consumers’ online purchase intention, and the respondents were asked whether they prefer shopping online or offline, and the majority of participants stated that they shop both through online and offline, but they prefer the online retail when they know exactly what they want they prefer physical stores when they feel the need of looking for new products. Furthermore, his findings show that using Sephora Virtual Artist has an impact on online purchase intention, and individuals are interested in purchasing through it. Some customers want to try out cosmetics before buying them (Jozi, 2016). As a result, people prefer to shop at physical businesses. In Iran, one of the most important retail market characteristics is that customers consult with retailers prior to making a purchase. Hence, retailers clearly influence customer purchase decisions (Mordor intelligence, 2019).
However, we cannot deny that many customers shop through online channels, and there is an urgent need to shift the role of the physical store as the principal means of selling goods to new ones. Retailers might, for example, employ physical stores as logistics hubs or as a location for customers to pick up online orders (Maekelburger et al., 2017). Consumers prefer purchasing from Hybrid Retail, according to some past study (e.g. Arora et al., 2017, Collin-Lachaud and Vanheems, 2016). The findings of the Stieninger et al., (2021) study also show that Austrian retailers appreciate the importance of a hybrid shopping model and are eager to invest in digital in-store solutions. This research will consider both currently preferred channels for purchasing beauty products and, as mentioned above, considering their first impression by watching Sephora Virtual Artist performance.

3. METHODOLOGY OF RESEARCH
According to Saunders et al. (2012), this research is based on conducting a phenomenological study of beauty customers to better understand their behaviour towards beauty products. Phenomenology is defined by Teherani et al. (2015) as an approach for explaining a phenomenon from the perspective of some people who have experienced it. Examining the critical questions of our research, the methodology implemented for this study was qualitative-based. In the first step of the research, 25 customers were approached via a phone call to inform them about the research objectives and invite them to participate in our study. These consumers were the researcher’s colleagues, and they were approached intentionally based on their age, gender, and use of cosmetic products. Eighteen consumers agreed to participate, resulting in a 73% response rate. The participants were employed using a judgmental sampling method, and two criteria were used for selecting research participants, female customers who are using cosmetic products regularly. Data were gathered through a structured interview using the form of online asynchronous interviews (Priporas, 2020), which according to Isaac and Eid, (2019) make respondents feel more comfortable.

These women were interviewed on their preferences toward retail channels, shopping habits, and opinions toward digital transformation in e-commerce and brick and mortar retail. We will show them a short clip of the performance of Sephora Virtual Artist to evaluate their first reaction and attitudes toward its implications. “Visual Artist tool that overlays virtual makeup onto consumers’ faces in real-time” (Scholz and Duffy, 2018, pp. 6). This study has been designed to gain insight into customer purchasing habits, preferred channels, and the attitude toward new technologies. We also expressed our appreciation for their cooperation and mentioned the time for attending our interview. The survey was conducted during the summer of 2021. The data was copied into a Word file after receiving participants’ confirmation for taking part in the interview and conducting them. The participants were all female. As seen in Table 1, the majority of the sample was made up of full-time employees aged 25-34.

<table>
<thead>
<tr>
<th>Demographic characteristics</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>Gender</td>
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<tr>
<td>Male</td>
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<tr>
<td>Female</td>
<td>18</td>
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<td>Age</td>
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<tr>
<td>18-24</td>
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<tr>
<td>25-34</td>
<td>9</td>
<td>50%</td>
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<td>35-44</td>
<td>6</td>
<td>34%</td>
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<tr>
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<td>Student</td>
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Source: Authors’ data elaboration
4. DISCUSSION OF RESULTS

4.1. Participant’s classification results

In the present study, through the data gathered the participants were divided into three main categories. (1) The first group was highly interested in using technologies, and their preference was purchasing online, and when Sephora virtual artists encountered them, they mentioned they are enthusiasts about working with it in the cosmetic stores. Moreover, there are many young people (25-34 years old) in this group. (2) The second group were some customers familiar with new technologies and interested in consulting with retail managers or retail staff in purchasing cosmetic products, more specifically in purchasing new products. The largest percent of this age group was among 35-44 years old. (3) The third group preferred purchasing cosmetic products from brick and mortar stores. Furthermore, the majority of clients in this group are older than those in the first (45-54 years old). However, this latter category also has a positive attitude toward Sephora Artist and uses similar tools in the physical store.

4.2. Customer’s preferred purchasing channels for cosmetic products

Our first question inquired about their preferred channel for purchasing cosmetic products. The following excerpts show how the participants in this study offered nearly similar responses to our first question (Table. 2).

However, there were four opposite viewpoints towards purchasing online which can be seen in the Table 3.

Table 2. Some of the participant’s responses to the first question (their preferred purchase channel was online)

<table>
<thead>
<tr>
<th>Participant Respond</th>
<th>Name</th>
<th>Age</th>
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</thead>
<tbody>
<tr>
<td>&quot;I don't like to go to the physical store and I prefer the purchase online maybe because I am lazy. However, there are other reasons like as I like to purchase from Digikala as it has many discounts on cosmetic products&quot;</td>
<td>Neda</td>
<td>28</td>
</tr>
<tr>
<td>&quot;I don't want to take the effort to drive or go somewhere and I easily purchase from Digikala or Ruja Shop.&quot;</td>
<td>Maryam</td>
<td>31</td>
</tr>
<tr>
<td>&quot;From 5 years ago, I purchase from Rujashop or Khanomi websites and I am sure they have original goods. It is so important for me, because every time I purchase a cosmetic from brick and mortar store, unfortunately, it was fake&quot;.</td>
<td>Hosna</td>
<td>26</td>
</tr>
<tr>
<td>&quot;Whenever I decided to purchase a cosmetic item, I go to Digikala and read all comments about that product. After it, I will finalize my shopping and for this reason, my preferred channel is online websites&quot;.</td>
<td>Leila</td>
<td>35</td>
</tr>
<tr>
<td>&quot;I like the simple way of purchasing from online stores particularly Instagram. I follow several beauty pages that introduce new cosmetic products and also they teach makeup with them. In addition, I can read other customers’ comments. Sharing these opinions is the best way for getting information about a new product for me&quot;.</td>
<td>Azadeh</td>
<td>37</td>
</tr>
<tr>
<td>&quot;It is a fact that online websites have always a huge discount on cosmetic as well as beauty items, so I search regularly on this website. Maybe I didn’t need too many products that I purchase them, however, because it (them) had discount I decided to shop it (them)&quot;.</td>
<td>Mehri</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Authors’ data elaboration
Table 3. Other participant’s viewpoints to the first question (their preferred purchase channel was offline)

<table>
<thead>
<tr>
<th>Participant Respond</th>
<th>Name</th>
<th>Age</th>
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<tbody>
<tr>
<td>&quot;My preference is purchasing from physical stores. I love to talk about cosmetic retailer's staffs. They give such good advice to me for purchasing these products&quot;.</td>
<td>Zahra</td>
<td>47</td>
</tr>
<tr>
<td>&quot;I shop some things online, like grocery items, but when it comes to purchasing more individual things like lip glass or other cosmetic products, I want to test them and see the colour&quot;.</td>
<td>Kamand</td>
<td>33</td>
</tr>
<tr>
<td>&quot;I just love the easy way of purchasing from brick and mortar stores and I hate to download many apps for purchasing online. Especially I don’t want to pay online. It is so hard for me&quot;.</td>
<td>Anna</td>
<td>38</td>
</tr>
<tr>
<td>&quot;I usually shop with a friend, therefore, shopping from physical stores is entertainment for me and I don’t want to replace it with online shopping&quot;.</td>
<td>Marjan</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: Authors data elaboration

Table 4. Customer’s attitude toward smart technologies in physical retail stores

<table>
<thead>
<tr>
<th>Participant Respond</th>
<th>Name</th>
<th>Age</th>
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</thead>
<tbody>
<tr>
<td>&quot;I think establishing tools like as Sephora Artist would create exciting shopping in physical stores. Maybe if there are such tools in cosmetic stores, I will go to retail stores for shopping for my needed products&quot;.</td>
<td>Azadeh</td>
<td>37</td>
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<tr>
<td>&quot;Deciding about shopping beauty products is always daunting for me and this tool not only is so exciting for me but also I could share with my friends my selfie and will get their feedback&quot;.</td>
<td>Leila</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Authors data elaboration

4.3. Customer’s attitude toward smart technologies in physical retail stores (after watching a clip of the performance of Sephora in-store tools)

A short clip describing the performance of Sephora Artist’s was emailed to participants to answer the second study question, RQ2 ("To what extent are customers enthusiastic about digitization in cosmetic retail?"). The majority of participants responded that they would enjoy using these tools and that they are interested in digitalization in physical stores. Furthermore, we should emphasize that all age groups were enthusiastic about this type of technology. The following excerpts help to explain the point (Table 4).

5. DISCUSSION AND CONCLUSION

5.1. Theoretical implications

The findings show that physical retailers should be brought digital and in-store experiences under one roof and create fun and engaging experiences for their customers. We recommend adopting new technology for brick-and-mortar establishments
in light of changing customer preferences toward online purchasing and, as previously noted, their positive attitude toward in-store digitalization. However, it is needless to say that we need careful consideration of all possible barriers to prevent rejecting this type of technology. For instance, in this research, some customers expressed an interest in speaking with retailers or seeking advice on product purchases.

When a store decides to establish digitalization, their staff will undoubtedly be decreased and replaced by devices like Sephora artists. However, it is more likely that the absence of these people leads to dissatisfaction among customers, particularly among elderly individuals, as these people desire human interaction. Therefore, it needs to a long time for falling into the habit of using these devices. Retailers should assign their staff for teaching to customers and helping to them until they learn how to use these technologies. Furthermore, about the first group of customers whom they did not like to go out for purchasing, the finding of prior research and the result of our interview depict that employing digital transformation would create more engagement for customers and it will be a motivation for purchasing from these stores. In addition, we predict that in the early future, we will witness using these technologies in the market leader retailers, and after these technologies work correctly, market followers will undoubtedly be used from them. Finally, as we took a consumer perspective to investigate the possibility of acceptance of digitalization by customers, we hope these digital transformations are used to act as a powerful tool to strengthen these physical stores. It seems brick-and-mortar retailers, through digitalization, will adjust in the growing e-retail channels.

5.2. Managerial practical implications

The following paragraph describes the potential implications that beauty retailers should take for emphasizing investing in online channels and the implication of digital transformations at their physical stores.

1) As mentioned above, one of the most significant characteristics of Iranian customers is consulting with retailers when they are choosing their cosmetic products. The finding of this research depicts this fact among some of the participants. However, we predict the future. As Priporas (2020) signposted in his book, the trend will be changed and consumers will rely more on smart technologies than store personnel (mainly the sales staff).

2) According to recent research, women are more likely concerned than men about enjoying shopping environments (Heitz-Spahn et al., 2018). Therefore, brick-and-mortar retail stores, mainly cosmetic and beauty stores, should employ digital devices to create a fun and engaging purchase journey.

3) The most critical customers in cosmetic products will be Generation Z consumers in the early future. Seemiller and Grace (2019) believe these aged groups are both digitally native and digitally dependent. Additionally, Ng et al. (2019) point out that these groups have a solid connection to innovative retail technologies. Therefore, it is more likely that in the early future, the majority of cosmetic customers will prefer to purchase from e-commerce. Therefore, for surviving physical stores, we should focus on establishing digitalization to engage this aged group in purchasing from these stores.
Digitizing brick and mortar stores should be a priority for this type of store, and implementing many exciting new solutions in digital transformation like Augmented Reality in this sector is undoubtedly one of the best strategies to increase sales. The finding of this research illustrates customers' positive attitude toward Augmented Reality, like Sephora artists in the cosmetic industry. These customers pointed out that if this type of technology is established in the bricks-and-mortar cosmetic stores, it would be well-accepted by them and will lead to increased customer satisfaction toward physical stores and increase sales of cosmetic products in these stores to its higher perceived value. This opinion is consistent with Hänninen et al., (2021) point of view that state, this is important for retailers to continue to invest in physical store space like employing new digital tools such as touch screens to engage more with their customers.

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