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BEAUTY

# The rise of THG: the next Farfetch of beauty?

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The Hut Group, which acquired Cult Beauty in a £275 million deal this week, is fast emerging as a key player. Can it take on major players like Sephora, Ulta and Amazon to become a global Farfetch-style marketplace leader?

BY KATI CHITRAKORN

6 AUGUST 2021

CULT BEAUTY

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ult Beauty for £275

The under-the-radar e-commerce giant, based in Manchester, with a presence in 195 countries, has big ambitions. “We’re focused on building THG into the world’s No. 1 beauty platform,” says chief executive Matthew Moulding. To get it there, THG’s betting on its upmarket, curated and speedy shopping experience, backed by strong partner relationships with lots of brands. It will happen in “the next couple years”, Moulding says.

The deal takes Cult off private shareholders’ hands, including majority investor Mark Quinn-Newall – co-founder of Net-a-Porter – and co-CEO Alexia Inge.

Inge was drawn to THG’s growth, having watched the firm “enrich and accelerate their [brand] offering with world-class ecommerce capabilities, as well as exciting CSR, people and sustainability initiatives,” she explains. “We’ve been looking for a partner who could bring us rapid technological and operational advancement, e-commerce innovation and the muscle of scale. I in particular was looking for a suitor who loves what Cult Beauty does,

liked that we are a bit different and saw the value in the quirkiness and humanity that we've built into the business.”

The addition to THG's portfolio, which already includes e-tailers Lookfantastic and Dermstore, and beauty brands such as Illamasqua and Eyeko, will bolster its position in the market and enable it to forge closer ties with many of the brands sold by Cult, Moulding says. “The biggest players are LVMH-owned Sephora and Ulta. Taking Cult on board will help us to close the gap. At a group level, we want to become the go-to destination for any beauty brand owner. We want to be the dominant party.”

Founded in 2004 by Moulding and John Gallemore with a £500,000 investment and initially focused on selling electronics, music and gaming as a white-label e-commerce provider, THG was valued at more than £5 billion when it floated last year in what was one of London's largest tech IPOs to date. Its growth strategy is now rooted in beauty and wellness and has followed a Farfetch-style model: in addition to carrying an assortment of eight prestige beauty brands on its global site and pursuing M&A, the group also operates more than 200 online sites with end-to-end service for clients including L'Oréal, Estée Lauder Companies, Johnson & Johnson and Procter & Gamble. It's now on track for sales of £2.23 billion for 2021, a 38 percent climb, with profits of £208 million. Still, that dwarf's Ulta Beauty, who posted sales of \$6.2 billion last year. Sephora doesn't report revenues. THG expects Cult to contribute an estimated £60 million in sales this year, and £140 million in 2022.

Cult Beauty's co-founder and CEO Alexia Inge, THG's chief executive Matthew Moulding  
THE HUT GROUP

The acquisition of Cult Beauty gives THG access to indie brands, says Moulding. “They pride themselves on bringing exciting brands to market. We want to invest to allow them to continue doing that, while adding some additional services behind it as well.” That includes fully migrating Cult onto the THG Ingenuity platform, which powers brand’s online sites, by the end of the year, an advantage for indie brands that otherwise don’t have the capacity to build their own DTC e-commerce stores, he adds.

Around two-thirds of Cult’s brands are not currently listed on existing THG Beauty sites, and less than 50 per cent of Cult’s sales are international, representing an opportunity to broaden consumer choice globally for both parties including Cult’s subscription box business and digital marketing services. THG’s own subscription box service, Glossybox, has just under half a million monthly subscribers, according to the company.

Global expansion is coming. Customers in the US will be predominantly sold Dermstore and Lookfantastic brands, while the UK, Europe, Asia and the rest of the world will be targeted by Cult Beauty and Lookfantastic.

The deal is the latest in a string of transactions in the online beauty sector. In July LVMH-owned Sephora acquired rival beauty e-tailer Feelunique for £132 million. It's the first step that Sephora has entered the UK market. It follows Sephora's announcement in June of a long-term partnership with European e-commerce platform Zalando, which will launch Sephora in Germany in the fourth quarter of 2021, and expand into other European markets in 2022. Revolution Beauty also listed on the London Stock Exchange last month.

BeautyBay, another player in the sector, is preparing to go public, too. Luxury fashion e-commerce platform Farfetch also plans to launch beauty in 2022.

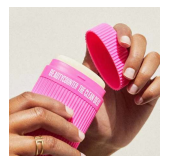
“For quite some years now the beauty market has been really buoyant. It has easily outpaced apparel by exhibiting a kind of dynamism and innovation; that kind of thinking has been pretty thin on the ground in fashion,” says retail analyst Richard Hyman. “Over the past year everyone has sat on their hands, but I think that the end is in sight and the price of assets is probably better now than it's going to be in the next six or 12 months when there's more of a recovery train.” A “huge” acceleration in e-commerce within beauty, and beauty's faster bounce-back, are also reasons for increasing investments and expansion in the market, adds Bo Kim, a principal in beauty and digital strategy at Gartner.

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BY KATI CHITRAKORN



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THG, in vying to become the leader in beauty e-commerce, will find itself in thick competition. E-commerce giant Amazon has emerged as a key player in luxury beauty, particularly during the pandemic when stores closed and other retailers faced shipping

delays. “Convenience, speed and selection are the reasons that Amazon is successful. It’s really a one-stop shop for many customers,” says Gartner’s Kim.

Hyman notes that curation remains a weak spot for Amazon: “The way to compete with Amazon successfully is to be different. You’ll never beat them on their terms. The thing about Amazon is that it’s less a retailer and more a transactional channel. It’s pretty much a one-size-fits-all offering.” Where The Hut Group can thrive is through retailing, which means inspiration, engagement and adding value, he says.

Moulding says everybody is a competitor. “There isn’t a single party on the planet that isn’t trying to get into beauty right now — but our model is very differentiated,” he says. “I think that Amazon will always have a position in beauty, but it’s not doing what we are, when you consider our proposition of working with brands to develop products, support manufacturing and provide them with end-to-end tech services.”

“Why would you buy a beauty product from Amazon versus Lookfantastic or Cult Beauty? It’s not going to be cheaper. It’s not going to be content rich. You’re not going to get your subscription service,” Hyman adds. “Amazon has no competitive advantage when it comes to curation, but as a service, they are really strong.” Amazon could not be reached for comment.

“As consumers become more and more influenced by the ethos and values of the places where they choose to spend their money, it only amplifies the need to double down on earning trust in everything we do,” says Cult Beauty’s Inge. The goal is to get to a place where the retailer can offer a real-time, personalised customer journey for all shoppers, she says.

Moulding is also betting on technology as a key differentiator such as its internal fraud platform, warehouse management software and influencer platform. “We are a digital-first business operating in a digital-first world. Nobody else is going to do that,” he says.

## **Future investments**

THG has raised \$1 billion in equity for strategic M&A and has just opened a new 300,000 square foot content studio in Manchester — the largest in Europe — and another almost-million square feet of distribution capability. In the US it is opening up multiple warehouses this year, including a \$255 million takeover of Bentley Laboratories, a US upmarket beauty products developer, this May.

Technology and “good quality” brands are where THG plans to deploy its capital, says Moulding, who wouldn’t name specific targets. “We remain very open-minded about brand acquisition, but it really does revolve around those two sectors. The investments we’re making are almost the easy bits.” Onboarding and integrating new teams and systems are more challenging, he says.

Luring brands away from other retailers will be a key test. Moulding says THG is an attractive partner to brands that may lack investments in areas such as technology or fulfillment. “We can help you build your brand to be as big as you want to be. When we make any investment, it’s so we can do better product development. It’s also why we are making huge investments in tech, because it almost guarantees new brand sales on a profitable basis,” says Moulding. “The reality is that this is a long way to go. We’re pretty new on this journey.”

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