

Sustainability reporting trends in cosmetics

**DISCLOSURES BY NORTH
AMERICA'S TOP 100
COMPANIES**

ESG RESEARCH SERIES BY INDUSTRY

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Overview

This white paper provides cosmetics retailers, manufacturers, and their suppliers with insights into two key areas of sustainability reporting:

- 1) Priority criteria identified by global frameworks, standards, and rating agencies.
- 2) Actual reporting behavior of the top 100 cosmetics companies in North America.

You will gain an understanding of:

- How sustainability and environmental, social, and governance (ESG) reporting evolved to become a key business focus across all industries, globally.
- How material ESG initiatives are fundamentally tied to achieving sustainability outcomes.
- The five key business drivers of ESG and sustainability programs and performance in the North American cosmetics industry.
- The priority material ESG and sustainability topics, with key performance indicators (KPIs), for the North American cosmetics industry as defined by international frameworks, standards, and rating agencies.
- The leading material ESG and sustainability topics of the top 100 North American cosmetics brands based on actual reporting behaviors.
- The importance of building a robust ESG and sustainability program by pursuing third-party assurance.

THIS WHITE PAPER LEVERAGES PUBLICLY DISCLOSED DATA FROM THE TOP 100 COSMETICS COMPANIES BY REVENUE DOING BUSINESS IN THE UNITED STATES & CANADA PER ZOOM INFO (AUGUST 17, 2023). SGS EXPERIENCE IN DELIVERING SUSTAINABILITY ASSURANCE SOLUTIONS ALSO INFORMS THIS CONTENT. OTHER SOURCES ARE LISTED IN REFERENCES. ORGANIZATIONS WERE NOT CONTACTED DIRECTLY WHILE GATHERING THE FINDINGS OF THIS WHITE PAPER.

Executive summary

Almost 100% of senior retail executives in North America agree that consumers expect them to operate in a more sustainable way.¹ A majority of North American cosmetics companies publicly disclose ESG and sustainability performance data. Of those reporting, nearly all report on both environmental and social topics while only roughly 20% (it varies) set clear public targets for future improvement. The most common environmental topics reported, in order of frequency, include materials sourcing, packaging and waste, energy management, and GHG emissions. The top social topics are product health and safety, diversity and equal opportunity, occupational health and safety, and human rights.

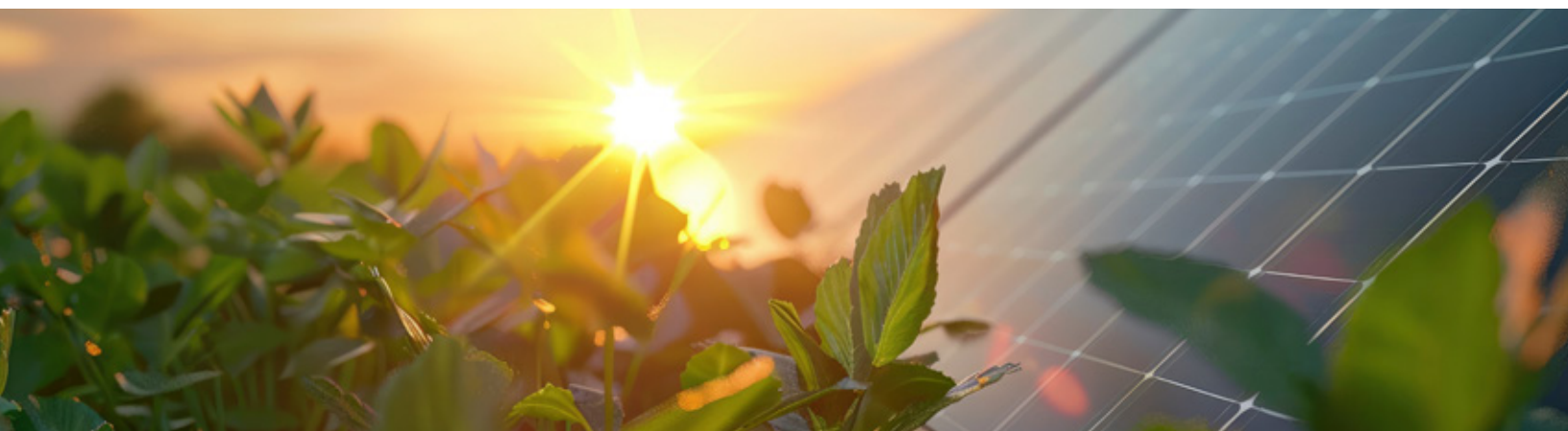
A best practice for industry comparison and achieving positive outcomes is aligning with a globally accepted reporting framework or standard. While this is still an emerging trend in the cosmetics industry, the most common guidance followed is the

United Nations Sustainable Development Goals (UN SDGs), the Sustainability Accounting Standards Board (SASB) Standards, the Global Reporting Initiative (GRI) Standards, and the Taskforce for Climate-related Financial Disclosures (TCFD) Framework. Often, reporting organizations are aligning with more than one of these forms of guidance. The majority of reporting brands were disclosing ESG and sustainability data via their corporate websites. However, publishing a comprehensive stand-alone report makes it easier to comply with reporting frameworks and standards by including an index for ease of finding necessary information for comparison.

Less than 1/3 of top cosmetics companies in North America disclosed details of a governance body (e.g., senior ESG committee) in place to oversee and manage their ESG and sustainability programs. All of those with a governance body included board-level oversight.

This implies that, although the majority are carrying out and reporting on initiatives, they do not have top-down leadership to drive significant and lasting change. This highlights a critical discrepancy between 'real-life' actions and Governance & Ethics being the top priority for the industry from investor-driven frameworks, standards, and rating agencies.

Finally, our research shows that just over 20% of North America's top cosmetics companies disclosed third-party assurance of their reported ESG and sustainability data — the majority at a limited level of assurance. Meanwhile, a recent survey of global investors indicated that 87% of respondents believed that corporate reporting contains unsupported sustainability claims. 75% of these respondents also said they would have greater confidence in sustainability reporting if it was accompanied by an independent reasonable assurance report.²



The growing importance of ESG & sustainability

CLIMATE CHANGE BECOMES THE TOP GLOBAL ECONOMIC RISK

ESG is an acronym for three categories of non-financial reporting: Environmental, Social & Governance. “Non-financial” refers to any disclosures material to an organization’s bottom line, yet not measured in currency. For this reason, they are also referred to as “extra-financial” to remind us that they do, in fact, have real financial implications.

After the global economic collapse in 1929, the financial sector spent 50 years on reform to protect investors and the economy. Instead of historical cost accounting for accuracy, the focus became decision-useful data and context regarding future performance (e.g., discounted cash flows). In the 1970s, finance professionals first identified two major types of non-financial data deemed material to organizational performance: environmental externalities and social goals. In 1980, this led to the United States adding a Management Discussion & Analysis section in the annual reports of publicly traded companies — resulting in the term Environmental, Social & Governance (ESG).

It took another 30 years to develop the sustainability reporting frameworks, standards, and rating agencies for

businesses that we have today. In 1975, 83% of the S&P 500 market value was in tangible assets like buildings, equipment, vehicles, and inventory. By 2020, that completely flipped to 90% of the S&P 500 market value held as intangible assets like intellectual property, brand value, and goodwill. Intangibles can change more quickly than tangibles, and thus carry more inherent risk from poor ESG performance.

ESG reporting is driven by financial materiality. It focuses on impacts that environmental and social issues pose on the financial performance of an organization in the short, medium, and long terms. In the 2022 World Economic Forum’s Global Risks Report, nearly one thousand global leaders in business, government, and civil society voted climate change (environmental) as the #1 economic risk in the world.

So, why the controversy?

When people point to a conflict between financial performance and protecting the planet or people, they are referring to impact materiality: the impacts of an organization on the environment or society. The term “double materiality” is often

associated with “sustainability”, which refers to an organization considering both financial and impact materiality when defining material topics to measure and manage — in an effort to maximize profit while also limiting social and environmental harm. This aligns with voluntary standards like the Global Reporting Initiative (GRI), the UN Sustainable Development Goals (SDGs), and regulatory schemes like the EU’s Corporate Sustainability Reporting Directive (CSRD). Successful programs addressing financially material ESG topics are the foundation for successful sustainability programs addressing broader issues.

CLIMATE ACTION FAILURE IS CONSIDERED THE MOST CRITICAL THREAT TO THE WORLD IN BOTH THE MEDIUM TERM (2-5 YEARS) & LONG TERM (5-10 YEARS), WITH THE HIGHEST POTENTIAL TO SEVERELY DAMAGE SOCIETIES, ECONOMIES, & THE PLANET.

- World Economic Forum Global Risk Report (2022)



ESG: A KEY FRAMEWORK WITHIN CORE BUSINESS STRATEGY

ESG is a lens into how organizations measure and manages environmental and social topics that impact them financially. It is directly tied to core business strategies of leading organizations across industry. There has never been more alignment in reporting frameworks, standards, and rating agencies than today.

The most trusted and utilized investor-driven reporting guidance include:

- Integrated Reporting (IR) Framework
- Sustainability Accounting Standards Board (SASB) Standards
- Taskforce on Climate-related Financial Disclosures (TCFD) Framework

All three were combined under the Values Reporting Foundation and then absorbed into the International Financial Reporting Standards (IFRS) Foundation. IFRS guidance is followed by the majority of jurisdictions worldwide, excluding the United States, where GAAP accounting principles are still in use. IFRS released their S1 & S2 Sustainability Standards in June 2023, and are now the best starting point for any organization wanting to identify and report on material ESG topics, including industry-specific disclosures.



THERE HAVE NEVER BEEN MORE BUSINESS TOOLS, FRAMEWORKS, & STANDARDS FOR BUSINESSES TO IMPLEMENT ESG INITIATIVES & TO GATHER INFORMATION ON ESG PERFORMANCE.

ESG & sustainability in the cosmetics industry

TOP 5 DRIVERS OF ADOPTION & GROWTH

1 Regulation



Greenhouse gas (GHG) regulation is leading the way in North America. In Canada, the IFRS S2 climate-related standards came into effect on January 1, 2024. Large industrial emitters, large federal suppliers, and federally regulated financial institutions all have climate disclosure rules. In the United States, climate disclosure rules also exist or have been proposed for large industrial

emitters, large federal suppliers, large publicly traded companies, large companies doing business in California, and large banks. Broader ESG and sustainability disclosure is required by larger North American companies doing business overseas due to international regulations, including the IFRS S1 Sustainability Standard and CSRD from the European Union.

2 Sustainability scores



ESG rating agencies continue to score publicly traded companies against their peers, driving organizations to act given their use in decision-making for lenders and investors. The most reputable rating agencies include: Dow Jones

Sustainability Index (DJSI), Morgan Stanley Capital International (MSCI) ESG, Institutional Shareholder Services (ISS) ESG, and Sustainalytics.

3 Supply chain pressure



The sustainability scores of publicly traded companies by ESG rating agencies are impacted by transparency and performance in their supply chain. To manage this, brands have rapidly increased surveys and requests for suppliers to disclose sustainability data — often on accepted platforms like

CDP for climate-related disclosures and EcoVadis for broader ESG and sustainability disclosures. This provides transparency in the brand's supply chain. Scores are increasingly used to support whether a supplier can meet minimum requirements or become a preferred vendor.



The Responsible Beauty Initiative (RBI) is an EcoVadis sector initiative for cosmetics focused on sustainable procurement. L'Oréal, Groupe Rocher, Clarins, Coty, Firmenich, Estée Lauder, The Body Shop, LVMH, Cosnova Beauty, and other leading brands have begun requesting that suppliers share ESG data to improve transparency and sustainability throughout the entire beauty chain. Many small and medium-sized enterprises, often privately owned, are now disclosing through the platform for the first time.

4 Consumer demand



Although fourth on this list, consumer demand for responsible products and brands is driving change. In January 2024, 69% of respondents of a Global Cosmetic Industry magazine survey confirmed that they are willing to pay more for cosmetic products that are marketed as 'sustainable' or 'eco-friendly'.³ McKinsey's US Consumer Sentiment Survey

revealed that 60% of respondents said they'd pay more for a product with sustainable packaging.⁴ Also, 86% of Canadians would be happy to pay more for a product with eco-friendly packaging.⁵ This ties directly with the reality that 'packaging and waste' is the top environmental priority area for North American cosmetics retailers as identified by global frameworks, standards, and rating agencies.

GEN Z HAS OUTSIZED INFLUENCE ON THEIR GEN X PARENTS WHEN IT COMES TO SUSTAINABLE SHOPPING. BY 2030, GEN Z WILL REPRESENT 27% OF THE WORLD'S INCOME, SURPASSING MILLENNIALS BY 2031.⁷

Consumer demand will continue to influence decision-making at the board level. The Lifestyles of Health and Sustainability (LOHAS) segment of consumers constitute a \$546 billion global market. In the USA, they make up 23% of market share and average 10% year over year growth. This trend is not slowing down.⁶

5 Recruitment & retention



A wider pool of top talent is available to organizations that can brand themselves as a responsible place to work. According to IBM's 2022 Institute for Business Value survey of 16,000 employees across 10 countries, 67% of job applicants are more willing to apply for and accept positions with companies they feel are sustainable. In the

UK, a similar Unily survey of 2,000 office employees showed 83% felt their employer was not doing enough to tackle sustainability and climate change, while 65% would prefer to work for a company with stronger environmental policies.

ESG PRIORITIES BASED ON GLOBAL FRAMEWORKS, STANDARDS, & RATINGS

Let's hone in on the priority ESG material topics with related disclosures and KPIs for the cosmetics industry that have been identified by global frameworks, standards, and rating agencies through multi-stakeholder approaches — including investors and industry professionals.

1. GOVERNANCE & ETHICS



Related Disclosures & KPIs

- Senior governance structure for managing material ESG topics
- Names and qualifications of leaders assigned to senior ESG governance
- Stakeholder engagement process to identify ESG risks and opportunities
- List, description, and management approach of material ESG topics
- Certify to governance standards (e.g., ISO 22301, ISO/IEC 27001, ISO 37001)
- Tier 1 suppliers certified to a governance standard, by type

2. PACKAGING & WASTE



Environmental

- Packaging made from recycled &/or renewable materials
- Packaging that is recyclable, reusable, &/or compostable
- Strategies to reduce the lifecycle environmental impacts of packaging
- Certify to packaging standards (e.g., BRC Global)
- Tier 1 suppliers certified to a packaging standard, by type

3. CHEMICAL SAFETY



Environmental & Social

- Products that contain REACH substances of very high concern
- Products that contain substances on the California DTSC Candidate Chemicals List
- Revenue from products designed with Green Chemistry principles
- Process to identify & manage emerging materials & chemicals of concern

4. CARBON FOOTPRINT



Environmental

- Product carbon footprint (LCA)
- Scope 1 direct emissions
- Scope 2 indirect imported emissions
- Scope 3 indirect value chain emissions
- Certify to climate standards (e.g., ISO 14064-1, ISO 14067, ISCC)
- Tier 1 suppliers certified to a climate standard, by type

5. MATERIAL SOURCING



Environmental

- Certify to environmental standards (e.g., ISO 14001, ISO 50001)
- Tier 1 suppliers certified to environmental standards by type
- Palm oil certified to the Roundtable on Sustainable Palm Oil (RSPO)
- Total water withdrawn with High or Extremely High Baseline Water Stress
- Total water consumed with High or Extremely High Baseline Water Stress

6. PRODUCT QUALITY



Social

- Certify to quality standards (e.g., ISO 22716, ISO 9001)
- Tier 1 suppliers certified to a quality standard, by type

7. LABOR STANDARDS



Social

- Certify to social standards (e.g., BSCI, ISO 45001, SMETA, V-Label, Fairtrade)
- Tier 1 suppliers certified to a social standard, by type
- Diversity in leadership & workforce, by type
- Giving to charitable organizations
- Employee volunteer time with charitable organizations
- Charitable giving & employee volunteer program impact

TOP 100 COSMETICS COMPANIES: 12 KEY INSIGHTS

Now let's have a look at the actual ESG and sustainability reporting behavior of the top 100 cosmetics companies doing business in the United States and Canada, based on revenue.

DISCLOSURE

1

Have businesses publicly disclosed ESG & sustainability performance data?

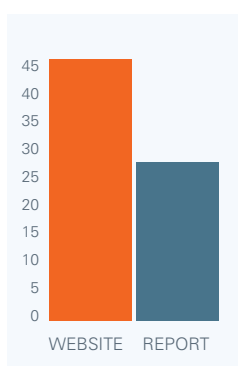
70% - YES 30% - NO



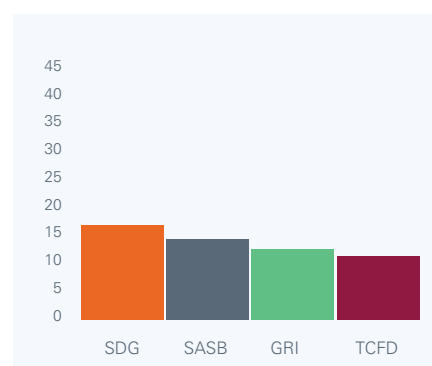
2

What are the most common avenues of disclosure and reporting frameworks? ►

DISCLOSURE



FRAMEWORKS



ENVIRONMENTAL

3

Of reporting businesses, have they disclosed environmental performance data?

94% - YES 6% - NO



4

What are their 3 most commonly disclosed material environmental topics?

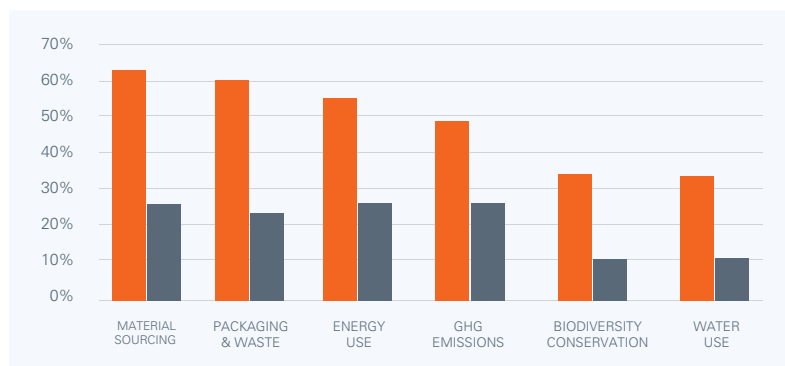
- 1) MATERIAL SOURCING
- 2) PACKAGING & WASTE
- 3) ENERGY MANAGEMENT

5

Which environmental topics most commonly have improvement targets?

- 1) ENERGY MANAGEMENT
- 2) GHG EMISSIONS
- 3) MATERIALS SOURCING

MATERIAL ENVIRONMENTAL TOPICS



DISCLOSED TARGETS

SOCIAL

6

Of reporting businesses, have they disclosed social performance data?

94% - YES 6% - NO



7

What are their 3 most commonly disclosed material social topics?

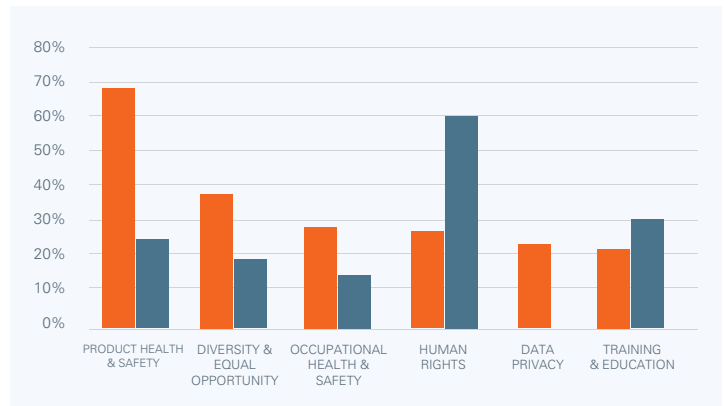
- 1) **PRODUCT HEALTH & SAFETY**
- 2) **DIVERSITY & EQUAL OPPORTUNITY**
- 3) **OCCUPATIONAL HEALTH & SAFETY**

8

Which social topics most commonly have improvement targets?

- 1) **HUMAN RIGHTS**
- 2) **EDUCATION**
- 3) **PRODUCT HEALTH & SAFETY**

MATERIAL SOCIAL TOPICS



DISCLOSED TARGETS

GOVERNANCE

9

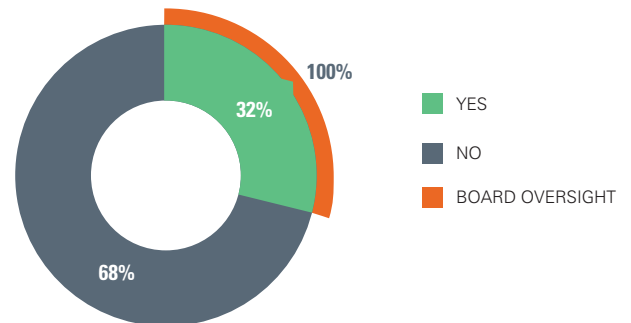
Have businesses established a senior-level governance body to manage ESG & sustainability risk and performance?

32% - YES 68% - NO

10

How many (of those) governance bodies have board-level oversight?

100%



THIRD-PARTY ASSURANCE

11

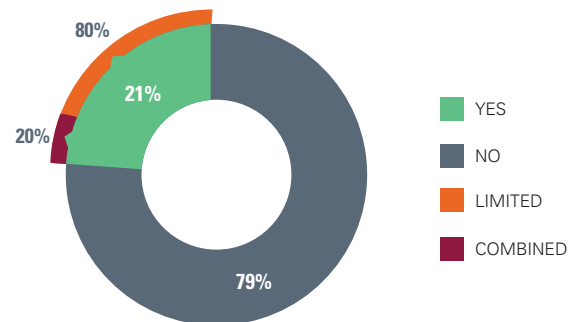
Have reporting businesses had their ESG & sustainability performance data assured by an independent third-party?

21% - YES 79% - NO

12

What level of assurance was sought for ESG & sustainability performance data?

20% - COMBINED 80% - LIMITED



Companies disclosed an average of 7.4 KPIs



LEADERSHIP PRACTICES & CHALLENGES

Cosmetics industry leadership practices

According to the data, your business can take a leadership position in the North American cosmetics industry by adopting the following practices that are most commonly being pursued by industry leaders. These can mitigate risk for your business, enhance stakeholder satisfaction, and increase consumer demand for your products.

First, you can publicly disclose data about your organization's environmental and social performance using an international framework like the UN SDGs, SASB, GRI and/or TCFD.

Second, you can report KPIs related to common environmental topics such as materials sourcing, packaging and waste, and energy management while setting

improvement targets in areas including energy management and greenhouse gas (GHG) emissions.

Finally, you can report KPIs related to common social topics, such as product health and safety, diversity and equal opportunity, and occupational health and safety while setting improvement targets in areas, including human rights and training and education.

Cosmetics industry challenges

The majority of cosmetics companies publicly disclosing ESG and sustainability information are doing so via their corporate websites, often resulting in poor or unclear coverage of data indexed to reporting frameworks or standards. A stand-alone report would resolve for these discrepancies.

Also, the majority of top cosmetics companies in North America have yet to establish a senior-level governance body to oversee and manage their ESG and sustainability programs. This is a real disconnect given Governance & Ethics is the leading material concern of global investors, reporting frameworks and standards, and rating agencies. Finally, the majority of top

cosmetics companies in North America have yet to seek third-party assurance of their reported ESG and sustainability performance data. To combat claims of greenwashing and ensure stakeholder confidence, this is a critical challenge in need of attention.

It is strongly recommended that third-party assurance be sought for a minimum number of critical KPIs to strengthen sustainability reporting.

Sustainability assurance

Across industries, businesses are under stakeholder and regulatory pressure to have their ESG and sustainability reporting independently assured by a qualified third-party. This includes ad hoc verification of individual KPIs (e.g., greenhouse gas emissions verification) and assurance of full compliance with ESG reporting frameworks, standards, and regulations —

such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), the Taskforce on Climate-related Financial Disclosures (TCFD), or the EU Corporate Sustainability Reporting Director (CSRD). New and proposed climate disclosure regulations in the United States and Canada will require assurance, and this trend is

growing globally. It is highly recommended that organizations consider pre-assurance and limited assurance for a minimum number of material KPIs to prepare for these regulations. A qualified independent third-party can validate the completeness and accuracy of your public disclosures and provide a statement of opinion for publication.



How we can help

Are you a cosmetics retailer, manufacturer, or supplier in need of support with your ESG and sustainability journey? Our expert auditors and trainers are available across North America. We can help you build your ESG and sustainability program from the ground-up or rectify gaps within your existing program.

Please reach out to:
Kim.Lefrancois@sgs.com

- GHG Training
- GHG Gap Analysis
- GHG Verification
- CDP Ratings Boost
- ESG Pre-Assurance
- ESG KPI Assurance
- Sustainability Report Assurance
- ESG Training
- EcoVadis Rating Boost
- ESG Gap Analysis

WE CAN PROVIDE EXPERT EDUCATION & ASSURANCE ON YOUR ESG & SUSTAINABILITY PROGRAM, INCLUDING ACCREDITED STATEMENTS OF OPINION THAT CONFIRM THE ACCURACY & RELIABILITY OF YOUR CLAIMS.

SGS: A GLOBAL LEADER IN SUSTAINABILITY & ESG ASSURANCE

SGS is the world’s leading testing, inspection, and certification company. We are also a global leader in the delivery of ESG and sustainability assurance services for over 30 years. Our teams also contribute to the development and auditing of international industry standards.

In 2024, TIME Magazine and Statista ranked SGS 6th most sustainable company in the world. SGS ranked 1st in the Testing, Inspection and Certification sector. This high ranking was supported by our decarbonization target of achieving net-zero emissions by 2050, as verified by the Science Based Targets

initiative. Additional factors included our implementation of energy efficiency projects, use of renewable energy for 97% of the organization’s total consumption, adherence to the United Nations Global Compact, inclusion in the S&P Global Sustainability Yearbook, and recognition by CDP as a leading company. SGS’ commitment to diversity also contributed to earning its ranking, with 31.9% of leadership positions held by women.

We continue to be recognized and ranked highly by every respected ESG rating agency, by which our clients are also being scored.



“Our Strategy 2027 includes ambitious Corporate Sustainability targets and we aim to continue to lead by example by implementing the best practices for maximum sustainable impact.”

Géraldine Picaud, CEO, SGS.



GOLD
Industry rating



LEADER
10 consecutive years



PRIME
Industry rating



AAA
Risk rating



LOW RISK
Rating



A-
Leadership band



References

1

[First Insight and the Baker Retailing Center at the Wharton School of the University of Pennsylvania](#)

2

[Global Investor Report, 2022](#)

3

[Global Cosmetic Industry Magazine Survey](#)

4

[McKinsey US Consumer Sentiment Survey](#)

5

[Cosmetics Industry Statistics in Canada](#)

6

[Lifestyles of Health and Sustainability \(LOHAS\) Consumers Survey](#)

7

[Lifestyles of Health and Sustainability \(LOHAS\) Consumers Survey](#)

When you need to be sure

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