

SPECIAL REPORT



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by AMBER NICOLE ALSTON

The beauty industry has undergone a huge shift. According to *Forbes*, consumers spent \$445 billion on skincare, haircare and color cosmetics in 2017, a number fueled by changes in technology, socio-political developments, retail trends and the proliferation of social media. The innovations taking place in the beauty industry have presented unique opportunities to licensees, licensors and IP holders looking to extend the life of their properties.

“Change was the theme of the beauty industry in 2017, from the shifts in trends and category performance to the wave of mergers and acquisitions, which show no signs of abating in the near future,” says Larissa Jensen, executive director and beauty industry analyst, The NPD Group. “The industry has not only adapted to this change but has continued to achieve strong and consistent growth, as it has seen for the last few years. We can expect change to continue to be the catalyst of growth for the industry in 2018.”

Traditionally, large beauty conglomerates like L’Oréal and Estée Lauder have controlled the market. Having the resources to support the sourcing, lab testing, distribution and marketing necessary to launch a new product, they dictated trends, created and sold product unrivaled.

“Beauty was a vacuum we were able to control. You could only buy Lancôme at a department store and a studio line at the drug store,” says Paul Flett, senior vice president,

sales and business development, Healthy Lifestyle Brands. “With the new retail market structure, consumers can buy their products online and in many more places.”

Collaborations were reserved for celebrities with a global presence, a necessity for companies looking to profit at their large number of distribution points. Brands like Disney and other children’s entertainment properties ventured into beauty in the ‘80s and ‘90s, but their partnerships were limited to playful goods like clear lip gloss and sparkly nail polish for young girls.

The dawn of social media democratized the beauty industry. Hyper-visual platforms like YouTube and Instagram offered men and women from all walks of life a place to build a community around makeup, skin and hair care. It also allows space for honest reviews about products.

Now, licensors have stepped into the beauty category hoping to appeal to consumers who have expanded the boundaries of what beauty can be, and who are interested in seeing their favorite properties behind the makeup counter.

Recently, Peanuts Worldwide paired with Korean beauty brand Innisfree for a line of nail, lip and eye products; Fleischer Studios teamed with LVMH-owned MAC Cosmetics for a red lipstick inspired by Betty Boop; and Toei Animation linked with Japanese beauty brand Creer Beaute for a line of “Sailor Moon”-inspired lipsticks.

Unexpected entries include The Andy Warhol

Foundation and Artestar for a collaboration with NARS, Pantone and Sephora for a Color of the Year collection, shoe brand Christian Louboutin and Batallure Beauty for nail polish, Crayola's partnership with Clinique and ASOS for separate lines, fitness giant Equinox and Wieden + Kennedy New York for perfume and lipstick, MGA Entertainment and Taste Beauty for an LOL Surprise! line, Emoji with Pond's for skincare, SEGA and GlamGlow for a Sonic the Hedgehog skincare capsule and Nintendo with Shu Uemura for a range of hair products.

Publishers have also taken interest in beauty products. *Vogue* teamed with Comme des Garçons for a 125th anniversary fragrance, Lagardère Active partnered with Watier Cosmetics for a line inspired by *Elle* and Hearst teamed with The Box Out Group for a *Cosmopolitan* subscription box

The collaborations point to the personal nature of beauty—a subjective, discernible category that is often the subject of debate. Brands like Nintendo and Crayola inspire childhood nostalgia but offer product refined enough for adults; while Andy Warhol and Christian Louboutin products can provide shoppers with an affordable piece of an aspirational brand.

Taste Beauty has taken notice. Earlier this year, the manufacturer restructured its licensing business into three categories—Taste & Friends, which focuses on evergreen brands and has partnerships with Disney, Nickelodeon and General Mills; Taste Beauty, which focuses on Gen Z consumers; and Taste Labs, an incubator that orchestrates exclusive collaborations with retailers, media and lifestyle brands.

“Self-care is a driving force. It’s not a big impulsive purchase, but it’s something that you can share,” says Alex Fogelson, co-founder and chief executive officer, Taste Beauty. “Some consumers like having one patch of color from something like the Nickelodeon splat; others like collecting these items—they’re a showpiece.”

Equally impactful on the beauty industry are influencers, the social media stars whose effect on the purchase decision is in some way significant or authoritative. They have surpassed celebrities as the preferred spokespersons for beauty products and have landed partnerships with leading makeup companies.

A survey conducted by influencer marketing research

group MuseFind found that 92 percent of customers trust an influencer compared to a celebrity endorsement. *Bloomberg* adds that companies spend \$255 million on influencer marketing per month.

Beauty brands of all sizes have entered into deals with top influencers. Mac Cosmetics tapped 10 influencers from around the globe, each with an Instagram following between 800,000 and 4.3 million; Too Faced cosmetics has tapped Kande Johnson for two collaborative color cosmetics lines; Ofra Cosmetics and Too Faced linked with NikkieTutorials; Anastasia Beverly Hills teamed with Nicole Guerriero; and MAC Cosmetics has plans for a line with Patricia Bright. The Brand Liaison currently reps influencer Sofie Dossi, while Brand Central supports licensing for LaurDIY.

“The blogger has now taken the place of the beauty editor and the beauty consultant,” says Byron Donics, founder, president and chief executive officer, HTI Collection. “We’ve seen a major shift in the statistics we get from retailers about the percentage of consumers who walk in, having consulted that product through someone online. It’s over 80 percent.”

No influencer has been more successful than Kylie Jenner, the youngest of the Kardashian-Jenner family. On her way to becoming the world’s youngest self-funded billionaire, she has sold more than \$630 million worth of makeup since launching her Kylie Cosmetics beauty brand with LVMH-backed Seed Beauty. The brand has no physical retail presence, save for a few pop-up shops, and does its marketing and distribution online, with Jenner’s posts accounting for most of the brand’s traction.

On the manufacturing side, social media has given niche beauty brands the ability to grow their business without the need for overhead or large marketing budgets. By studying the behaviors, buying patterns and pop culture interests of a given demographic, start-ups can craft products and enter into partnerships that feel tailor-made for their audience.

“Now you can commercialize a business through Facebook,” says Flett. “Before you would have to put hundreds of thousands of dollars forward to produce a commercial; if it wasn’t working, you would have to place it strategically, and now you can do a low-budget, low-tech but effective campaign that goes to mobile phones—you can start small and refine as you move up.”

Seed Beauty, which produces Kylie Cosmetics and Colourpop; Hatch, the company behind manicurist Jenna Hipp’s polish line and makeup artist Kristofer Buckle’s cosmetic range; LVMH-incubator Kendo, which produces Rihanna’s Fenty; and Masea Group, who produces fragrance for H&M, Urban Outfitters, Michael Kors and Aeropostale are among such groups under a private label or discreet manufacturers.

Reflecting changes within society, including a push for racial diversity and LGBTQ inclusivity, beauty companies



and licensed brands have seized on the opportunity to include marginalized people through licensed collaborations. In 2017, pop singer Rihanna and Kendo Brands joined forces for Fenty Beauty. The line included 40 shades of foundation, one of the most diverse beauty offerings of all time.

Vogue estimates that the line earned \$100 million in the first 40 days of its release, with fans willing to pay an average of \$471 per year on the line, more than Kim Kardashian's KKW and Kat Von D's eponymous line. In 2017, *Time* magazine awarded the line Invention of the Year.

"Rihanna spoke to women of color; there is no hotter topic right now, and it's no longer acceptable to be eight shades," says Debi Donics, co-founder and partner, HTI Collection. "A study showed that by 2050, the population will become less Caucasian. We have to service that consumer."

The so-called "Fenty Effect" forced its competitors to re-evaluate offerings, with established companies such as NARS and Make Up For Ever quickly activating campaigns to inform customers that they offered a larger range of shades. Recently, Too Faced cosmetics announced a collaboration with influencer Jackie Aina for its Born This Way foundation; Maybelline tapped influencer Shayla; and MAC is teaming with blogger Nyma Tang.

The push for diversity extends into gender as well. Brands such as Milk Studio's Milk Makeup stand out for the inclusion of men in their campaigns. According to *Euromonitor*, the male grooming industry including haircare, skincare and shower products is expected to earn more than \$60 billion by 2020, outpacing men's haircare and fragrance.

At retail, beauty was segmented into prestige (high-quality products befitting of a higher price point) and mass (lower price and lower-quality fare). As consumers ask for more enhanced experiences at retail and flock to the Internet to make their purchases, the term "masstige" has come to describe the changes taking place at beauty retailers such as Sephora and Ulta.

"The lines from mass to class has blurred," says Debi Donics. "If the L'Oréal mascara at \$8.49 is doing what it's supposed to do for you, you no longer have to buy the Lancôme."

Ulta has revamped its in-store displays for mass products and included products favored by Millennials, regardless of price point. The retailer's new merchandising strategy sees prestige lines like Estée Lauder alongside drugstore staples like Neutrogena.

Ulta is also launching exclusive collaborations and selling products with cult followings.

"We're at a crossroads; we used to say there is product, promotion, place and price—the place is no longer critical," says Debi Donics. "Once upon a time, you'd never talk about going to Ulta. Now you want to be



there, and they are the 80,000-lbs. gorilla in the room."

In the event space, Sephora announced a live beauty event dubbed SEPHORiA that will offer a day of try-ons, lectures and branded events; while Beautycon, the four-year-old beauty convention, attracted more than 150,000 attendees in New York alone. Brands across price points including Fenty Beauty, St. Ives, Beautyblender (a makeup tool company) and more have opted for pop-ups instead of permanent retail opportunities.

The beauty industry has undergone significant change and shows no signs of stopping. With a shifting focus to micro-influencers and the brands, the industry may prove fruitful to licensees, licensors and IP holders looking to extend the reach of their products, specifically into skincare and beauty tech.

L'Oréal recently acquired the Canadian tech firm ModiFace, which makes an app that can superimpose products onto face and hair, while NBCUniversal purchased "Priv," a beauty-service-on-demand application.

According to a recent NPD survey, skincare has overtaken makeup. Healthy, glowing skin is the new status symbol, with sales of prestige skincare treatments up 14 percent in the U.S., ahead of makeup which gained just 4 percent in the last 12 months of the year.

"The biggest thing we can all expect in the beauty industry is change," says Jensen. "While this has been a catalyst for many brands and retailers in beauty, it has left others in the space of uncertainty. However, the industry is especially adaptable to change. Moreover, it is because of change and all the emotion we tie into our decisions that beauty has been at the forefront of growth across many industries and will continue to succeed in the year to come." ©