

28,423 views | 28,424 views | Sep 4, 2019, 08:00am EST

The Future Of Retail In The Beauty Industry Will Be Very Different



Richard Kestenbaum Contributor ⓘ
Retail

f

🐦

in



Tinge users COURTESY TINGE BEAUTY

The beauty industry has seen enormous innovation and entrepreneurship in the last several years. Countless new brands have been created and an endless array of new ingredients have been developed. But one thing that has changed in almost every other sector of retail has not yet disrupted the beauty industry: beauty products are still sold primarily as they always have been, in stores. Sure, there are replenishment

sales on [Amazon](#), and [Glossier](#) has an exceptional online business, and there are some other sites selling beauty direct-to-consumer as well. But for the most part, the traditional mode of going to a store to try out a product in order to learn about it still dominates. Unlike many other types of retail, online purchasing of new products has not caught on in the beauty business yet. Industry experts will tell you it's because it's hard to see if a product works for you without using it yourself first and that's stores' big advantage. Beauty products are particular to each user so it's among the last industries to adapt to online.

That's starting to change. The latest crop of new brands are taking a different approach to developing their businesses. They are focusing much more on selling direct-to-consumer and less on selling in retail stores. Although they haven't eliminated traditional retail completely, they are doing it more strategically either to build awareness or to generate revenue to get to scale faster. What we've seen in other sectors of retail is that the companies that are founded to include selling direct-to-consumer in their structure, what's now called "digitally native," are the ones who are able to disrupt legacy retail store selling.

The development of these direct-to-consumer businesses are an important sign of change in retail for beauty and a challenge to established retail channels. [Elizabeth Kopelman](#) of Frisson Beauty points out that these changes are "powered by [artificial intelligence] which is driving personalization...[while] sampling, loyalty/rewards, cross- and up-selling [and] promotions are all key to successful direct-to-consumer [sales]."

There are numerous challenges for a beauty brand to sell directly to consumers without involving a retailer. The biggest challenge is getting consumers to be aware of and interested in the brand without spending all your investors' money. The way the new brands do it is by identifying a market that has been overlooked or taken for granted by larger, more established companies, targeting their promotion at consumers whose needs haven't been addressed. Those consumers are very receptive to the brand's entreaties because the messaging is focused on what they've been

looking for.

The strategy has a number of advantages:

Today In: [Retail](#)

- It avoids sharing the profit with the retailer.
- It keeps customer acquisition costs on Facebook and Instagram low by targeting very specific consumers who are more likely to respond with less online messaging.
- It avoids being lost in the advertising clutter because the message is so focused.
- Selling direct-to-consumer enables two-way communication between the brand and the consumer, without interference from the retailer. That facilitates the development of a relationship with the consumer and ideally, loyalty that is based on that relationship and the opportunity to build a community of users with shared interests and needs. Kopelman calls this the “connective tissue” of a consumer community. Consumers feel empowered and become influencers with their own right to spread the word about the brands and products they love. The feedback and relationship with consumers enables organic innovation based on consumers’ input.

Where Are We Seeing This

There’s a conference coming up in New York called [Beauty & Money](#) where beauty startups can meet financing sources and 12 companies, picked by a panel of industry experts are being spotlighted. For the first time, the vast majority of winners are focused on a previously-ignored, highly-targeted niche and almost all of them are developing direct-to-consumer strategies that are fundamental to their businesses. It can’t be a coincidence that industry experts are now choosing companies that are emphasizing direct-to-consumer sales as their future hopefulness. Something is happening in the beauty business.

How We Know This Strategy Will Work

When one of the companies, [PiperWai](#), started their business over five years ago, millennial women in urban areas who wanted products that were vegan, gluten-free, cruelty-free and nontoxic (like their flagship product, charcoal deodorant) were a small niche market which very few brands were targeting. By focusing on those women early, PiperWai was able to build a successful direct-to-consumer business. Now that market has exploded and PiperWai has grown with it. Their history proves out the idea that focusing on a niche and growing as it builds is a successful strategy for a beauty company to sell direct-to-consumer.



Piper Wai products COURTESY PIPER WAI

To be successful, the choice of a niche to focus on can't be random, it has to be a real opportunity with enough consumers in it to support a business and it has to have been overlooked in the past. If the right markets are chosen, they're opportunities for whoever can establish leadership in the niche. The process will also create challenges for the established players who will lose market share to the upstarts as we are already seeing.

One thing that all these new direct-to-consumer companies have in common is that they hold down their marketing costs by getting their customers to do some of the

work for them. When consumers are enthusiastic, they become evangelists and influencers for the products that are relevant in their lives and solve problems that were previously unsolvable.

So what is a niche that's good enough to build a business on? Here are some ideas we're seeing from these award winners:

Niche Focusing By Age Groups



Pause Well-Aging products COURTESY PAUSE WELL-AGING

All the major skin care brands sell to women of menopausal age. But none of those brands have ever explicitly and openly targeted women as menopausal, it's always been unmentionable. That's what [Pause Well-Aging](#) is doing and they are getting real traction.



Merci Handy products in teen colors. COURTESY MERCI HANDY

At the opposite end of the age spectrum, teens are challenging because they are fickle and transient, no one remains a teen for too long and their tastes change often. A brand called [Merci Handy](#) has been very successful in Europe and is now coming to the U.S. with a hero product of hand sanitizers targeted with the right colors, packaging and promotion to reach teen girls. It has used hand sanitizers as a lever to gain credibility with teen girls and like Pause Well-Aging, they are focused on the needs of one age group. Merci Handy has used its packaging and marketing to communicate that “we are for you” and now they are poised to introduce a broader product line. Like Pause Well-Aging but at the opposite end of the age spectrum, the right product for a specific, focused market. Look for specific-age products to grow if this works.

Focus On Gender And Price



Huron products for men COURTESY HURON

For the right product types, gender can also be a niche group. While there are plenty of products for men already in the market, there aren't a lot of cool brands at the price level of [CVS](#) or [Walgreens](#). [Huron](#) targets men who won't spend \$50 for a grooming product but who still want cool stuff that feels relevant to them. Huron is using guerrilla marketing tactics, like placing its products in showers at health clubs to generate awareness and stimulate direct-to-consumer sales. Finding new ways to reach consumers where competitors aren't present is a productive way to reach consumers with a message that's relevant. We will continue to see more creative promotion to avoid marketing costs and allow companies to sell direct-to-consumer.

Extreme Problems



Klarskin products PHOTO CREDIT WILFRIED BORDASCH

Some of these startups develop a niche by becoming experts for the most extreme problems. Two companies in the group say they're the place to go after you've tried everything else for acne. Both companies, [Dermala](#) and [Klarskin](#), are getting good reaction to their treatments and traction with consumers.



Dermala FOBO box and happy user COURTESY DERMALA

Their messages target people who know they have a problem, have tried the major brands without success and are looking for the right solution. These consumers are already ignoring the big brands' marketing and that reduces the cost of being reached by Dermala and Klarskin so they can compete in direct-to-consumer.



Halo Smile before and after COURTESY HALO SMILE

Like Dermalma and Klarskin, [Halo Smile](#) targets people whose teeth are too sensitive for conventional whitening processes. These consumers are searching and that leads them right to Halo Smile, an at-home system for whitening your teeth that eliminates pain for people with sensitive teeth.

Because these companies are the provider of last resort, consumers are looking for them. That lowers marketing costs and builds loyalty when they deliver something that works.

Targeting Changes in Culture



Aether products and crystals COURTESY AETHER

Two of the new companies that won awards came about because of changes in culture. What's so interesting about that is that culture is always changing and that presents virtually endless opportunities to service niche markets. For example, [Aether Beauty](#) leverages off interest in the resonance of crystals by putting it in every product. They make natural, clean, vegan products that consumers who are interested in crystals want. Because there aren't a lot of products on the market, if you are interested in crystals, you are more likely to find this product.



Golden Nectar Product by O'o Hawaii COURTESY O'O HAWAII

Crystals are also a component in products made by [O'o Hawaii](#). But they also focus on preserving the natural environment of Hawaii as well as the feeling of a place that is aspirational and exotic for most consumers.

[Tinge Beauty](#) makes skin color products for women of every skin color but they're not for your face. By focusing on skin below the neck, they're avoiding the competition in most of the skincare industry and targeting their niche in a way that makes their products speak clearly to a specific need in the market.

But Still...

None of this means that retail beauty stores are on their way out, far from it. Even though these awards were given primarily to companies that define themselves by their markets, there were still two award winners building their businesses the traditional way, by focusing on ingredients:



Breast and neck products from When COURTESY WHEN

When Beauty makes face masks that hold up to 10 times more than conventional masks, allowing far more skin-treating products to be delivered from a mask.

Ivatherm makes products based on Herculane Thermal Water that is available in only one place on earth. Both these companies are competing in a traditional way, by making an argument for efficacy and results. That's telling us that the traditional way of selling retail beauty is still effective and will continue to be powerful.



ivatherm
Eau Thermale Herculane

Ivatherm products COURTESY IVATHERM

So That's How It Happens...

And that is how the beauty industry starts to transition away from stores and increases direct-to-consumer retail sales. It had to happen, beauty is not immune to the forces affecting all retail. The beauty industry is now, finally, starting to see how it could be threatened by direct-to-consumer sales from brands. That isn't going to go away, it's going to accelerate and we know that because every other retail sector is seeing is the acceleration.

Now beauty retail stores have something to worry about and it's going to get worse. More brands are going to be built from the ground up with a focus on direct-to-consumer. This was an inevitable change and it is finally here.

Follow me on [Twitter](#) or [LinkedIn](#).



Richard Kestenbaum

Follow

I am a C and Partner at Triangle Capital LLC (www.TriangleCapitalLLC.com) where we specialize in mergers, acquisitions and capital-raising for consumer-related... **Read More**

ADVERTISEMENT

RELATED TOPICS

- | | | | |
|-----------------------------------------|---|------------------------------------------------|---|
| 01. BEST SKIN CARE PRODUCTS 2020 | > | 06. TOP 10 SKIN PRODUCTS | > |
| 02. TOP 5 BEAUTY PRODUCTS | > | 07. BEST RETAIL FRANCHISE OPPORTUNITIES | > |
| 03. TOP RETAIL MARKETING TRENDS | > | 08. BEST PRODUCTS TO SELL | > |
| 04. BEAUTY BRANDS | > | 09. WHOLESALE PRODUCTS TO SELL | > |
| 05. TOP 10 COSMETIC BRANDS | > | 10. ORGANIC MAKEUP PRODUCTS | > |

SEE ALSO

