



How Digitally Native Brands in Cosmetics Drive Growth Through Social Media

The global cosmetics industry, historically dominated by billion-dollar corporations with heavyweight marketing capabilities, is being challenged by rapidly growing “digitally native” vertical brands. Also known as v-commerce brands, these relative newcomers are disrupting the cosmetics industry through direct-to-consumer business models that leverage social media platforms to create and communicate a compelling customer experience.




The most successful digitally native brands include “unicorns,” and many achieve revenues in the hundreds of millions only four or five years after inception. After a successful launch phase, they become a valuable asset for corporate groups looking for brands in fast-growing segments (e.g., natural cosmetics) that have an established reputation and a loyal customer base, especially among Millennials and Generation Z (see Figure 1).

With the rise of peer-to-peer marketing and social media becoming a powerful brand communication channel, influencers have become instrumental in developing brand reputation and acquiring customers. Glossier, with \$100 million+ revenue four years after launch, has successfully turned its customers into fervent brand promoters who expand the brand’s reputation and attractiveness beyond U.S. borders. Morphe was one of the first digitally native brands, building its success through social media with the

collaboration of renowned influencers. Star influencers and beauty bloggers such as Kylie Jenner and Huda Kattan launched their own cosmetics brands, benefiting from their substantial communities of followers.

Digital brands capitalize on the trend of communities sharing their likes and experiences. Millennials and Gen Z, who grew up with reality TV and social media, look for advice and recommendations from a relatable community. They find Instagram to be the top platform for brand discoverability and follow people, rather than brands, for inspiration. They also increasingly look to influencers for their “beauty secrets” and product recommendations.

Figure 1
Rising digitally native brands

Brand	Creation date	 # followers	 # followers	 # likes
Milk Makeup	2016	1.3m	91k	72k
Kylie Cosmetics	2015	20m	916k	3.8m
Glossier	2014	1.9m	139k	258k
ColourPop	2014	7.4m	156k	1.7m
Drunk Elephant	2013	541k	n.a.	43k
Huda Beauty	2013	35.2m	3.1m	6.9m
Morphe	2009	4.1m	n.a.	783k
IT Cosmetics	2008	1.4m	39k	1.5m

Source: L.E.K. analysis and research

How Digitally Native Brands in Cosmetics Drive Growth Through Social Media was written by **Fadi Chebli** and **Jonathan Simmons**, Partners and **Lise Djaad**, Director at L.E.K. Consulting. Fadi and Lise are based in Paris, and Jonathan is based in London.

For more information, please contact consumerproducts@lek.com.



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Key characteristics of digitally native brands in cosmetics

Observing the business models of digitally native brands in the cosmetics industry, six key characteristics show up as success factors:

1. Direct dialogue with the consumer. Digitally native brands are particularly customer-focused and establish a continuous dialogue on social media. The objective is to collect feedback on products, innovative ideas and improvement levers for the shopping experience. Brands carefully monitor social media posts for impact on brand reputation and to define action plans for continuous improvement.

Glossier crowdsources product ideas via Instagram and CEO Emily Weiss' "Into The Gloss" blog. This is how the company developed its Milk Jelly Cleanser, collecting thousands of customer comments from a simple question: "What's your dream face wash?" The brand is also very responsive to customers' questions or advice requests on Instagram. Recent startups such as Laboté and Proven are fully demand-driven, gathering individual customer's needs and requirements to develop personalized products.

2. Authenticity in brand storytelling. Digitally native brands engage customers beyond simply the products they sell — through distinctive storytelling that conveys a strong and clear set of values. Successful cosmetics brands show that the founder (who is also usually the CEO) plays an instrumental role in building brand authenticity and trust with consumers.

Drunk Elephant and It Cosmetics publicize their founders' personal stories as the brands' reasons for being. By sharing their experiences with cosmetics and proving the effectiveness of their products, the founders engage on a personal level with consumers.

3. Influencer relationship management. A major customer acquisition lever, digitally native brands invest heavily in influencer partnerships. The choice of influencer, the marketing campaigns conducted and the performance tracking in terms of sales generation are of great concern for brands. Influencers are growing in number, with varied levels of engagement from social media communities, so choosing the right influencer is increasingly challenging for a brand looking to create trust and positive sentiments over time.

The influencer marketing strategy varies according to the brand's history and the founder's proficiency with social media. Successful brands tend to work with a mixed pool of influencers (from micro to star influencers) to increase traffic generation through individual campaigns and establish brand reputation over the long term.

4. Products and operational transparency. Consumers are increasingly sensitive about the environmental credentials of cosmetics. Brands generally, and digitally native ones especially,

emphasize transparency regarding the type and origin of ingredients used and the sourcing and manufacturing processes. By doing so, they reassure consumers about product quality and demonstrate an authenticity that aligns with brand storytelling.

Drunk Elephant and It Cosmetics communicate prominently about product composition and are transparent about the manufacturing process. Similarly, ColourPop uses influencers to produce videos about in-house facilities.

5. Adaptability in the go-to-market cycle. As they grow, digitally native brands need to maintain flexibility in the supply chain to adapt to changes in consumer demand. In terms of the go-to-market cycle, their agility means they can be faster to market than larger competitors, launching new products or capsule collections that keep the customer regularly entertained and surprised.

Kylie Cosmetics, for example, drives customer demand through the release of limited editions such as themed or seasonal launches. The brand marketing calendar is coordinated with founder and CEO Jenner's life events (e.g., her birthday, the birth of her daughter).

6. Asset-light operating model. Most digitally native brands outsource the development and production of their cosmetics lines, buying finished products with branded packaging. This operating model allows brands to accelerate the go-to-market cycle and renew the product offering following the fast-fashion trend (especially for makeup brands).

Huda Beauty does not own a laboratory or a production facility, and collaborates with a pool of suppliers selected for each project according to their expertise.

The influencer — A powerful marketing lever

Most digitally native brands invest heavily in influencer marketing to grow brand awareness and traffic generation, along with other digital marketing levers (e.g., search engine optimization, search engine advertising).

Among the top 25 beauty influencers worldwide, approximately 70% operate in the U.S. and total approximately 300 million+ followers on Instagram and YouTube. In Western Europe, the number of beauty influencers reached approximately 15,000 in 2018, with approximately 1,000 influencers with 100,000+ Instagram followers.¹

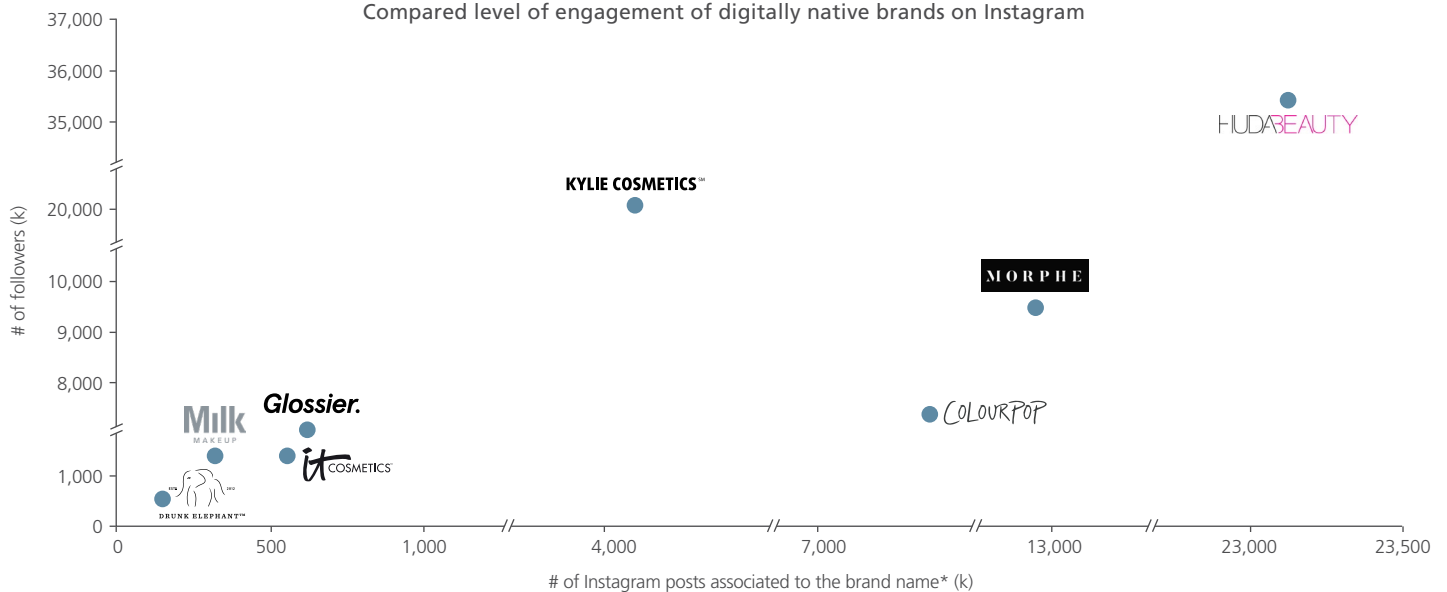
The power of influence on social media is measured through the level of engagement that a blogger, an Instagrammer or a celebrity drives among his or her community of fans. It is not the number of followers alone that equates to the level of influence, but the actual traction an individual generates when publishing content in terms of likes and posts. This is why brands focus more on micro influencers who drive strong engagement from their communities of fans, despite a relatively low number of followers (see Figure 2).

¹ Sources: Lefty, Izea, Forbes, L.E.K. research and analysis

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Figure 2

Compared level of engagement of digitally native brands on Instagram



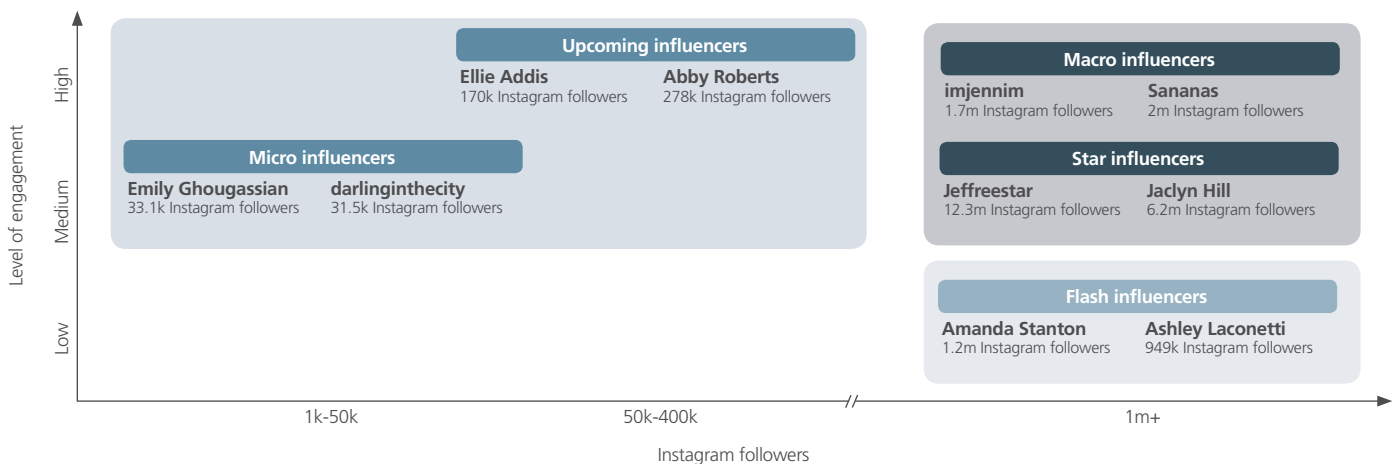
Note: *Calculation based on number of posts per associated brand-name hashtags (e.g., #glossier + #glossiermakeup)
Source: L.E.K. analysis, interviews and research

As they grow, brands try to find the right mix of influencers to enlarge their social media reach, collaborating with macro influencers — those with 1 million+ followers — and upcoming and micro influencers. Macro influencers typically participate in building the brand’s storytelling and give legitimacy to the brand’s claims, while micro influencers help develop brand awareness and adoption by conveying trust (see Figure 3).

As the CEO of an influencer agency commented: “... the creation of an authentic brand story is crucial to a successful online brand image. If chosen well, an influencer becomes a successful ambassador for your brand, will tell your brand story and do the peer-to-peer marketing for you.” With the brand’s reputation and attractiveness relying to such a high degree on influencer partners, brands must pay close attention to the influencer’s image and level of engagement.

Figure 3

Influencer profile segmentation



Source: L.E.K. analysis, interviews and research

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Star and macro influencers

Mostly used to develop the brand image over time, star and macro influencers embrace the role of brand ambassador on social media and leverage their relatability to provide legitimacy. Through such partnerships, brands seek to foster a community feeling and create conversations that generate peer-to-peer marketing. The typical marketing operations undertaken by macro and star influencers include content creation (YouTube videos, blog posts), event engagement with fans and advertising campaigns.

ColourPop invested heavily in makeup collaborations with beauty star influencers such as Zoella (9.9 million Instagram followers) and Jenn Im (1.7 million Instagram followers). Morphe developed its reputation through partnerships with globally renowned beauty influencers such as Jeffree Star (12.3 million Instagram followers) and Jaclyn Hill (6.2 million Instagram followers).

Linked to the creative agency Milk Studio, Milk Makeup collaborated with famous artists such as Wu Tang Clan and Teyana Taylor to drive advocacy from a larger spectrum of consumers who are interested in the brand's cosmetics and also have a foot in the music and culture industries.

By publishing a beauty blog while launching her own brand, Kattan maintained "influencer status" and is still strongly relatable to her followers. Today, she is one of the top 10 beauty influencers worldwide.

Flash influencers

Usually rising TV stars (especially from reality TV), flash influencers have quickly built notoriety outside social media. They did not start out as influencers, so they rarely create content but rather promote a brand through sponsored posts. However, these influencers tend to have lower consumer engagement because they are less recognized as cosmetics experts or true beauty advisers. Moreover, flash influencers can have a polarizing effect on consumers who associate the brand with the influencer's personal image.

There are few examples of digitally native cosmetics brands that collaborate with flash influencers because they rely on beauty experts to promote their brands. Flash influencers such as Amanda Stanton (1.2 million Instagram followers) and Ashely Iaconetti (949,000 Instagram followers) typically collaborate with fashion and beauty brands such as FabFitFun and TRESemmé.

Jenner built her profile through a reality TV show. Her success on Instagram made her a star influencer with more than 130 million followers, thus acting as the ultimate influencer for her makeup brand.

Upcoming and micro influencers

Micro and upcoming influencers are active content creators with strong engagement from their following communities. They are recognized as legitimate experts in one domain (e.g., organic beauty) and develop recognition on social media by providing opinions on product testing (gifted by brands). Cosmetics brands typically collaborate with such influencers on spot operations, such as product posting (gifted or sponsored), affiliate links and discount codes.

Micro influencers also develop profiles through user-generated content or the publicity of "regular" Instagrammer posts on a brand page. This type of marketing is highly beneficial for brands, which develop a better understanding of customers' behavior and opinions on products, benefit from free content generation, and optimize conversion rates and engagement from customers. "Regular" users' opinions are generally more trusted, and customers feel valued by the rewarding publicity the brand offers them.

Glossier and Drunk Elephant leverage user-generated content marketing. The brands publicize posts and photos from customers on Instagram, converting regular customers into free micro influencers. It Cosmetics collaborates with a network of upcoming and micro influencers such as Emily Ghougassian (33,100 followers) who mainly publicize product effectiveness (e.g., before and after photos). This content is reposted on the brand's Instagram page, which gives consistency to the brand's claim of "Real Beauty. Real Results!"

Conclusion

Digital marketing channels have lowered barriers to entry into the cosmetics market, enabling the creation of these new digitally native vertical brands and disrupting a market that has long been dominated by billion-dollar corporations. Compared with traditional paid, media-intensive campaigns, social media requires only a modest investment to create an authentic and engaging consumer campaign. Brands can also operate "asset light" — accessing consumers directly via online shops and outsourcing product development and manufacturing. The flexibility this affords means that digitally native brands can offer an exciting, surprising and engaging customer experience from a much lower cost base.

While market entry may be easier, the task of winning in this fiercely competitive space remains a significant challenge. The core asset for long-lasting success in consumer markets is a robust brand reputation and consistently high levels of customer engagement. With the rise of influencer marketing, brand control is increasingly in the hands of third parties, and the risk of brand damage is real. As the number of influencers and brand

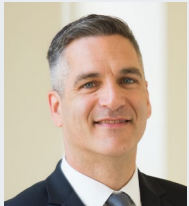
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agreements proliferate, consumers are becoming more suspicious of promoted content on social media and may be deterred if they suspect a lack of transparency. The “social” proof is one of trust, and the more authentic it is, the more beneficial for the sustainability of the brand.

Competitive pressure in the cosmetics market is building, forcing the big brands to further develop their direct-to-consumer channels and requiring digitally native brands to have a considered, consistent and controlled marketing strategy. As Jenner, who became the youngest-ever self-made billionaire less than five years after launching her cosmetics brand,² can attest, the rewards of success are considerable.

² <https://www.vox.com/the-goods/2019/3/7/18254738/kylie-jenner-forbes-self-made-billionaire-lip-kits>

About the Authors



Fadi Chebli is a Partner in L.E.K.'s Paris office and is a member of the European Retail and Consumer Products practice. He has nearly 20 years of international experience, advising

clients on corporate strategy, digital strategy, performance improvement, and business transformation within the broader retail and consumer products sector. He advises clients in several European countries as well as in the Middle East. Fadi graduated from Sciences-Po Toulouse, Toulouse Business School, and is a CFA charter holder.



Jonathan Simmons is a Partner in L.E.K.'s London office. He has over 30 years of strategy consulting experience and leads L.E.K.'s European Retail and Consumer Products

practice. Jonathan has provided strategic advice to a broad range of U.K. and European-based companies, with a particular focus on specialty retail, apparel and accessories, sports retail and brands, airport retail, automotive services and grocery retail. Jonathan holds an MBA from Harvard Business School.



Lise Djaad is a Director in L.E.K.'s Paris office with over 10 years' experience in strategy and management consulting within the retail and consumer markets. She has extensive experience in the apparel and cosmetics

sectors, helping fashion brands to turn their business and operations into customer-centric modes, designing price positioning, marketing and retail network development models and performing market due diligence to understand the patterns for success or failure. Lise holds a Masters in Project Management from ESCP Europe.

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