

# BEAUTY CONNECT

**BAIRD'S TAKEAWAYS**

**November 2023**

# Baird's Takeaways from Beauty Connect Los Angeles

*We recently attended the Beauty Connect conference in Los Angeles, which was well attended by brand founders, investors and service providers. This conference struck us as a little bit different from other beauty industry conferences that we have attended this year, as the presentations and panels focused a bit more on how brands can turn challenges into opportunities when it comes to (i) developing a brand identity, (ii) ensuring that marketing investments are effective, (iii) the importance of having a clear (but flexible) distribution strategy and (iv) leveraging technology to promote more sustainable product formulation. We offer a few takeaways below.*

**1. ESTABLISHING YOUR BRAND IDENTITY IS CRITICAL, SO IS STICKING WITH IT**

**3. DISTRIBUTION: THE IMPORTANCE OF OMNI-CHANNEL IS A GIVEN; THE IMPORTANCE OF A DISTRIBUTION STRATEGY IS LESS WELL-UNDERSTOOD**

**2. INVESTING IN MARKETING CAN BE IMPACTFUL, BUT BEING THOUGHTFUL ABOUT MARKETING MAKES ALL THE DIFFERENCE**

**4. LEVERAGING TECHNOLOGY TO PROMOTE MORE SUSTAINABLE PRODUCT FORMULATIONS**

# Establishing Your Brand Identity is Critical, So is Sticking With it

- We heard how important it is for brands to stay focused on their core DNA, even though there might be changes in the products themselves, the route to market, and the marketing approach. Sheena Zadeh-Daly (the founder of Kosas) and Brook Harvey-Taylor (the founder of Pacifica) both talked about how they believe a key factor in their success is having stayed true to the original premise and promise behind their brands (Kosas: a passion for color, and Pacifica: a mission to promote ethically natural beauty). Not chasing trends and rising above the noise of newness is critical when it comes to building a brand over time.
- Chelsea Riggs (the founder of Amika) talked about how “fearless experimentation” has been critical to the success of Amika, but that she has balanced that creative approach with discipline in remembering that “while you can be anything you want, you can’t be everything.” For Amika, this had meant being expansive with their product development (aiming to serve many different hair care needs) while being consistent in their distribution strategy, as Riggs emphasized how helpful it has been for the brand to have stable distribution in Sephora for more than a decade.
- Melissa Butler (the founder of The Lip Bar) addressed the important of segmentation, especially in the current economic climate, where consumers are feeling more pressure to make choices about where they spend their money. Indeed, while color cosmetics might be considered a less essential expenditure for some, Butler’s view is that if you have been successful in helping consumers consider your products as offering value (regardless of their price point), those consumers will prioritize your product regardless of how pinched their pocketbooks might be.



# Investing in Marketing Can Be Impactful, But Being Thoughtful About Marketing Makes All the Difference

- TikTok has changed the beauty industry landscape, as it now bridges across brand and product discovery, education, and shopping. Every brand and company - both big and small - seem to recognize that today, TikTok has the potential to be the single most impactful marketing medium. However, there is a recognition that what distinguishes TikTok is the level of authenticity and uniqueness to the videos posted on the site, and that for companies who have invested heavily in the past to perfect their marketing messages, the unscripted nature of TikTok videos can be discomfoting.
- With that in mind, it is not surprising that Spark Ads (where brands can both create their own posts and leverage UGC) is the fastest growing segment of revenue today for TikTok. Importantly, we also heard that brands remain committed to traditional media as well. Specifically, e.l.f. told us that largely owing to their enormously impactful television advertisement during the Super Bowl, the e.l.f. Power Grip Primer is now the best-selling beauty product in mass (the first time in 25 years that a non-mascara product has held this distinction).
- One representative from L'Oreal talked about how important it was for the marketing department and the supply chain department to communicate, as when a particular marketing campaign leads to a boost in demand for a product, it is important that the supply chain is prepared to meet the demand. Indeed, there is a fine balance between having consumers be enthusiastic about a new product and having them be frustrated when that product is not in-stock. L'Oreal commented that it is rarely the big, marquee SKU that goes viral on TikTok; rather, it is often the more niche, more differentiated product that generates an unexpected surge in demand, which the brand manufacturer has often not anticipated.
- In looking ahead, there was some discussion about how marketing might change over the next few years. One interesting point raised that as network speeds continue to increase, digital experiences are going to evolve to be more immersive, more 3-D, and potentially more personalized. While there still seems to be much debate about the role of AI when it comes to marketing (e.g., could Chat GPT lead to mass customization of TikTok videos?), there does seem to be consensus thinking that given the importance of marketing to beauty consumers, the brand founders and owners should be keeping their eyes open as technology evolves.

# Distribution: the Importance of Omni-channel is a Given; the Importance of a Distribution Strategy is Less Well-understood

- Just about everyone would agree that it is critical for a beauty brand to be omni-channel in terms of distribution, as the omni-shopper in beauty is spending more than 2x any other shopper today. However, as shopping formats and shopping experiences evolve over time, the speakers we heard from believe that it is important for brands to have a strategy about how they go-to-market.
- Kinda Gates from Glossier talked about how while Glossier started as a disruptive DTC brand the next step for them was to open owned-retail stores, so that the company could control the brand image and the shopping experience. Indeed, only after 9 years of building the brand identity has Glossier become confident in its "right to play" in a multi-brand store (hence the recent launch in Sephora). Going forward, Glossier is evaluating different potential retail partners, but the commitment to preserving a component of a "controlled experience" remains critical to the company.
- David Baker from Beekman 1802 talked about how important it is for brands to show proof of concept as a DTC brand, as retailers will want to see that the brand generates real interest and loyalty among its consumers before putting the brands on their shelves. As such, having the right marketing support behind a DTC launch is critical, so that the brand story can find its way to consumers' eyes and wallets. Determining when the right time is to go into retail is important (the sooner the better is not always right), as managing a retail launch can be enormously impactful, or short-lived, if the brand is not fully prepared from a product, merchandising and supply chain perspective.
- Another perspective came from Neha Singh, the founder of immersive shopping platform Obsess, who talked about the evolution of online shopping, and how even without traditional brick-and-mortar distribution, a brand should focus on keeping their DTC distribution strategy fresh. With regards to virtual online stores and 3-D e-commerce solutions, Singh said that 88% of brands that have implemented a virtual store strategy have found these sales to be incremental to their core business, with brands such as Charlotte Tilbury, K-18 and Laneige having been early adopters of this strategy. Indeed, Singh told us that consumers spend 300%+ more time engaging with brands that offer an "experiential moment" online, whether it be storytelling (how to use certain Charlotte Tilbury product to look like a Disney princess) or an activity (such as a maze that leads you to claim a free product).
- One key focus today is TikTok Shop, which launched as an e-commerce platform just two months ago, and if successful, could be very helpful to brands in quickly getting a pulse on the conversion of marketing dollars to sales dollars.



## Leveraging Technology to Promote More Sustainable Product Formulations

- Sederma is a company that focuses on the development and creation of innovative cosmetic ingredients based on biotechnology, chemistry, and vegetal extraction (i.e., using plants as natural raw material sources). Given the strong growth already seen in the sustainable / biotech skincare market, Sederma is working hard to educate more brands about the opportunities to use differentiated materials in the formulation of their products. The benefits of using more clean ingredients are many: they can lower operational costs, they offer benefits to the brand in terms of sending a message to consumers that the products are cleaner and they limit the impact on the environment by promoting biodiversity and eco-sustainability.
- One of the brands that has engineered their product with biotechnology (and has made it the cornerstone of the brand messaging) is K-18, and we heard from one of the company's chief scientists about how the company has developed a peptide using biotech that helps reverse damage in the hair. This science - "biomimetics" - has enabled K-18 to offer a technologically superior product that serves an important unmet consumer need, while at the same time being environmentally-friendly (e.g., offering highly-concentrated formulas that require smaller plastic bottles and less costly shipping).
- One speaker noted that 77% of consumers are actively searching for sustainable products in their lives. To that end, there was a rallying cry on the part of the speakers to help educate consumers about the materials that are currently used in the formulation of many beauty products, so that those consumers can make better-informed decisions. Specifically, as one example, it was noted that the core ingredient in many black mascaras and eyeliners is in fact lead-based or crude-oil based kohl, which is derived from inorganic materials.
- While using biotechnology is clearly a choice for brands at this point, there was some discussion at the conference about the potential impact of MOCRA (Modernization of Cosmetics Regulation Act), which was signed into law in 2022 but which has a deadline for implementation of December 2023. While all parties seem to agree that the regulations that MOCRA has proposed are generally standard and straightforward (following GMP protocols, tracking adverse events and customer complaint data, etc.), it was noted that these regulations are particularly relevant in the beauty industry due to the large proportion of indie brands that use contract manufacturers.

# About Us:



For the last 30+ years at Citi, I've analyzed public companies in the beauty space as an equity research analyst and worked with beauty, personal care & wellness brands on the investment banking side. I've watched some companies grow faster than others, observed that some businesses are more profitable than others and witnessed some acquisitions create more value for strategic buyers than others. Some companies have had a consistent management team in place for years, while others have had more turnover. Depending on the year, growth rates vary by product category and geographic region. But through it all, the beauty space is among the most dynamic of all the categories I've studied. Growth can be robust, but consumers can be fickle and to be successful, companies must be willing to adapt and evolve, perhaps more so than in just about any other consumer packaged goods category.

I've partnered with Lauren Leibrandt (a seasoned investment banking veteran) at Baird to help build out the firm's Beauty & Wellness Investment Banking Platform. We seek to partner with leading brands across the spectrum of beauty & wellness categories, including color cosmetics, haircare, skincare, fragrance, as well as more wellness-oriented categories such as ingestible beauty, menstrual health, menopause, fertility and sexual wellness. Our goal is to work across the beauty & wellness industry to help create value for founders, employees and owners.

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For the past 15 years, I've worked in investment banking and capital markets, with the majority of my career focused on the Consumer sector and brands empowering the lives of female consumers. I'm a longtime Baird veteran and have previously been at Deutsche Bank and Bank of America Merrill Lynch. Working with companies and management teams is a passion of mine. I've been fortunate to work with companies across a wide spectrum of company stages, transaction sizes and transaction types, including sellside M&A, growth capital raises, public to private transactions, initial public offerings and public follow-on offerings.

We are typically involved in some of the most pivotal periods of a company's lifecycle, and it's thrilling to provide strategy, guidance and advice on how to optimize the range of potential options available to a company in the M&A and capital markets.

Adding Wendy Nicholson to our team is a huge competitive advantage. Her knowledge of the beauty & wellness industry, insights into strategic buyer activity and relationships with the C-suite at these strategics is unparalleled. As a female driven leadership team, we believe we're uniquely positioned to serve brands in the beauty & wellness sector given our innate knowledge of the categories and the various nuances that go into making companies successful and brands thrive.

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## Companies We've Worked With:



