DOI: 10.54254/2754-1169/84/20240794

A Comparative Analysis of Cosmetics Companies

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Abstract: This paper focuses on three cosmetics companies: Coty, Johnson & Johnson, and Estee Lauder. First of all, we collected some questionnaire survey data, in 2021, 68% of respondents believe that the price of beauty products is more important, 56% of respondents believe that appearance is first, and only 8% are strongly influenced by advertising. Therefore, we believe that the influence of advertising is declining, and the quality of the product itself and the comprehensive competitiveness of the enterprise are becoming more important. Then we learned more about the background and history of the three companies. We then analyze each company's raw material issues, which can reflect each company's target market, operations and business risks. In addition, we analyzed pricing, which can reflect the target product market and product depth of different makeup companies. Not only that, the company's business orientation and forward-looking is also what we need to understand. Finally, after synthesizing the above analysis, we believe that Coty's business risk is the largest, and the other two are not different.

Keywords: Cosmetics Industry, Comparative Analysis, Business Risk Analysis

1. Introduction

This paper chooses three companies: Coty Inc., Johnson & Johnson, Estée Lauder into our research. Coty Inc. is a company started with its perfume but recently turn their attention to utilizing the impact of social media. Coty owns KKN, Kylie Cosmetics. Coty often collaborates with celebrities and influencers to create innovative and trendy beauty products, aiming to stay at the forefront of the ever-evolving beauty industry. Coty makes positive changes in today's informatized world. Johnson & Johnson is a healthcare company and consumer goods is one aspect of their production. Johnson & Johnson emphasizes responsibility to customers, employees, communities, and shareholders. Johnson & Johnson produces consumers goods ranging from which are easy to get from any supermarket or store to high-end pharmaceutical ones. Considering of Estée Lauder, it is a renowned beauty and skincare company celebrated for its high-end products and prestige brands. What sets Estée Lauder apart is its commitment to luxury and innovation in the beauty industry. Estée Lauder often collaborates with top-notch makeup artists and designers, maintaining a reputation for quality and elegance in the beauty market. These three brands has their own pros and cons. It is very interesting looking into the impact of different market strategies and product features on capital structures and business risks.

Coty Inc. is a multinational beauty and cosmetics company that operates in the consumer packaged goods industry. Founded in Paris, France, in 1904 by François Coty, the company has a long history in the beauty and fragrance sector. Coty is renowned for its wide range of products, including cosmetics, skincare, hair color, and fragrance lines. The company's brand portfolio includes iconic names such as CoverGirl, Max Factor, Kylie Cosmetics, Kylie Skin, Kylie Baby, Max Factor, Marc Jacobs, Miu Miu and so on. It's worth mentioning that Coty Inc. bought a majority of stakes from Kylie Jenner, who successfully take advantage of one's fame, founded Kylie Cosmetics and hit the 1 billion mark in just 4 years. Brand Visibility and Recognition: Kylie Jenner's fame and social media presence provided Kylie Cosmetics with unparalleled visibility. Her large following on platforms like Instagram and Snapchat allowed her to directly engage with fans, showcase product launches, and share personal experiences with the products. This not only boosted the brand's recognition but also created a sense of authenticity and connection with consumers. Personal Branding: Kylie Jenner's personal style and image have strongly influenced the brand's aesthetic. The products often reflect her own makeup preferences and fashion choices, contributing to a cohesive and recognizable brand identity. Collaborations and Influencer Marketing: Kylie Cosmetics leveraged collaborations with other celebrities and influencers, tapping into their fan bases and expanding its reach. These partnerships helped the brand stay relevant and reach new audiences. The collaborations also added diversity to the product offerings, attracting a broader range of consumers [1].

Johnson & Johnson (J&J) is a multinational American corporation that operates in the pharmaceutical, consumer goods, and medical devices sectors. Founded in 1886 by Robert Wood Johnson, James Wood Johnson, and Edward Mead Johnson, the company has grown to become one of the largest and most diversified healthcare companies in the world. In partnership with skin experts and dermatologists, we create innovative products that include treatments for acne and eczema, gentle skin-loving cleansers, moisturizers that repair the skin barrier and sunscreens that defend against inflammation, premature aging, and skin cancer. Johnson & Johnson owns brands Aveeno, Clean & Clear, Lubriderm, Neutrogena, Rogaine, Johnson's producing skincare or cosmetics products. They have advantages of Dermatologist Recommended, Clinically Proven Formulas, Affordability and Accessibility. Take Aveeno as an example. The brand's products are designed to be gentle on the skin, making them suitable for various skin types, including sensitive skin. Many Aveeno products undergo clinical testing to ensure their efficacy. This emphasis on scientific validation can instill confidence in consumers regarding the performance of the products. Aveeno products are often reasonably priced and widely available in pharmacies, supermarkets, and online retailers.

Founded in 1946 by Estée Lauder and her husband Joseph Lauder, Estée Lauder Companies, Inc. (EL) is a renowned American manufacturer and marketer of prestige skincare, makeup, fragrance and hair care products [2]. Its products often incorporate advanced technologies and formulations, targeting a wide range of beauty concerns. Estée Lauder operates globally, with a presence in over 150 countries. They are available in department stores, specialty retailers, and online, catering to a diverse and widespread consumer base. Estée Lauder has established itself as a symbol of luxury and elegance in the beauty industry. The brand's focus on premium ingredients, sophisticated packaging, and a commitment to quality has contributed to its reputation for offering upscale beauty products [3]. Estée Lauder Companies, Inc. boasts a diverse portfolio of prestige beauty brands, each with its own unique positioning and target audience. They have Too Faced, Tom Ford Beauty, Le Labo, LAMER, Bobbi Brown, M.A.C. The company's emphasis on innovation, quality, and luxury across its brands has contributed to its success in the competitive beauty market.

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2. Data Analysis

The data from yahoo finance is calculated and Table 1 shows the results.

Table 1: Financial Ratios of Three Companies.

Companies	WACC	Beta	EBIT	Leverage Rate
Coty	11.47	2.57	668	0.29
J&J	6.45	0.5	22001	0.41
EL	8.62	1.04	3203	0.31

The weighted average cost of capital for COTY is 11.47%, indicating a higher investment risk for the firm. Investors must aim for a return greater than this cost to generate a profit. COTY's beta value of 2.57 suggests that the company's stock prices will vary more than the market average, leading to increased investing risks. COTY'S earnings before interest and taxes were $668, highlighting the company's limited profitability prior to deducting interest and taxes. The debt-to-equity ratio of 0.29 for COTY suggests that the firm relies significantly on debt to finance its operations. This elevates the company's financial risk to some degree. Considering the research above, investors should be cautious when deciding whether to invest in the firm. Investors should consider the company's financial status, industry standing, and other relevant criteria to make well-informed investment choices, notwithstanding the company's terrible financial position.

Johnson is a globally recognized corporation that engages in several sectors, including medications, medical servers, and other medical items. Johnson's finance expenses are comparatively low due to its WACC of 6.45%. Johnson's varied business structure results in a low WACC, showcasing the company's advantageous financing costs and reducing financial risks. When evaluating Johnson's risk level, it is important to take into account the beta coefficient of its stocks. Johnson's beta coefficient of 0.5 suggests that the company's stock price fluctuates less than the overall market. This may appeal to risk-averse investors, since they are more likely to choose investments with fewer risks. Furthermore, Johnson's financial success is noteworthy. In 2001, Johnson's earnings before interest and taxes surpassed those of the other two firms, demonstrating the company's substantial performance improvement over the previous year. This result showcases the company's robust profitability and lays the groundwork for its future growth.

Ultimately, it must acknowledge the influence of Johnson. The leverage rate is the ratio of a company's debt to total assets, and Johnson's leverage is 0.41. Johnson's capital structure shows a significant level of dependency on debt. The large debt structure may boost the company's earnings but also raise financial dangers. Johnson will need to carefully manage its debt levels in the future to preserve its financial stability and risk tolerance. Overall, Johnson is a corporation with robust financial stability and promising growth opportunities. Its low weighted average cost of capital (WACC), reduced beta coefficients, pre-interest profit growth, and larger leverage have all strongly supported its future expansion. Reducing financial risks while achieving good profits will be a crucial challenge for Johnson in the future.

Estée Lauder's financial plan includes the WACC as a crucial component. The firm's WACC is 8.62% based on the most recent financial data. This places the company in a good position since it is greater than its rival Johnson but lower than Coty. This data primarily represents the capital structure of EL and the proportional distribution of various types of capital. The company's capital structure reflects its investment strategy and focus on shareholder value, while having a somewhat elevated weighted average cost of capital (WACC). EL's beta coefficient is 1.04. This number is suitable for risk-averse and cautious investors. The beta coefficient quantifies a company's exposure to market risk, specifically market volatility. In EL, the beta coefficient remains within the range acceptable to

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most investors. The statistic is linked to the portfolio's total risk, indicating that EL's market risk is reasonably low, a crucial feature for its investors. In the previous fiscal year, the company's pre-tax earnings amounted to $3,203, demonstrating the profitability and efficiency of its operations. This data also validates the brand value and market position of EL, bolstering its reputation among investors. EL has an average leverage of 0.31. Companies have access to the same financial source with fewer obligations. This financial approach enhances the company's liquidity and flexibility while also mitigating its financial risk to a certain degree. Yet, low liabilities might also enable organizations to get more capital for strategic planning and commercial growth. EL's financial status displays the effectiveness and strategic approach of its capital activities. These qualities allow EL to sustain its dominant position in a competitive industry and provide attractive returns to investors. EL must retain the flexibility and adaptability of its financial strategy to deal with market changes and competitive challenges in the future.

3. Business Risk Analysis

In 2021, the most influential factor when choosing a beauty or grooming product among Generation Z consumers in the United States turned out to be the price of the product, as stated by 68 percent of surveyed respondents. 56 percent of consumers revealed to also take into consideration the way the product makes them feel or look, while only eight percent of participants said that their choices in beauty and grooming products were influenced by media articles or influencers.

3.1. Raw Material

Coty, being a global beauty company, uses a wide array of raw materials across its various brands. These materials could include pigments, emollients, fragrances, and other components used in cosmetics and skincare. Coty's business risk is influenced by its reliance on specific raw materials, especially those essential to its product lines. Any disruption in the supply chain of these materials can impact production. Raw material used by brands of Johnson & Johnson is cheaper and more basic. They used ingredients like glycerin, shea butter, and various oils (such as jojoba oil) are commonly used for moisturizing and softening the skin. Estée Lauder is known for using high-quality and often luxurious raw materials in its beauty and skincare products. This may include premium botanical extracts, advanced peptides, vitamins, and other innovative ingredients. The emphasis is often on creating effective and indulgent formulations. Fluctuations in the prices of raw materials, such as fragrance components, packaging materials, and essential oils, can affect beauty company’s profit margins. Economic factors, geopolitical events, or supply chain disruptions may contribute to price volatility.

3.2. Pricing

Since the competition in cosmetics focuses on the product price and service quality, some cosmetics brands have the advantages of scale and specialization, which is more competitive in the price war [4].

Coty owns a diverse portfolio of brands with products catering to different market segments. Prices can range from more affordable options to higher-end products, depending on the specific brand and product [5]. Brands like Kylie Cosmetics or COVERGIRL is with a lower price while perfumes from Coty Vintage can cost you more than hundreds of dollars. Johnson & Johnson operates across a wide spectrum of consumer health and beauty products. Their skincare and cosmetics offerings may include both budget-friendly and higher-priced items, catering to different consumer preferences and needs. Estée Lauder is often positioned as a luxury beauty brand, and its products tend to be priced at a higher range compared to more mass-market brands. The emphasis is often on premium

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formulations and high-quality ingredients. Being a luxury brand, Estée Lauder's products are often more sensitive to economic downturns. Consumers tend to cut back on discretionary spending during economic slowdowns, which can adversely affect the company's sales. Their premium pricing strategy, while part of the brand's allure, can also limit growth in price-sensitive markets [6].

3.3. Geographical Presence and Market Risks

Coty has a significant presence in North America, where it engages with the diverse consumer market for beauty and personal care products. The company operates in various European countries, catering to the beauty needs of consumers in this region. It has tapped into the market in Asia as well. With operations in over 60 countries and sales in over 200 countries, Johnson & Johnson is exposed to various geographic risks. Nearly 55% of its revenue comes from outside the US, making it susceptible to currency risks. Estée Lauder operates globally, with significant revenue generated from the Americas, Europe, the Middle East, Africa, and the Asia Pacific. The Asia Pacific region, particularly China, is crucial for their growth, and any economic or political instability in these areas can significantly impact their performance. According to Euromonitor data, the market size of Chinese cosmetic industry reached 477.7 billion yuan in 2019, accounting for 14% of global cosmetic sales, only second to the United States [7].

Those three companies all operate globally, so fluctuations in currency values can significantly impact the company's financial performance in different segments. Moreover, Managing a global supply chain involves risks related to political events, trade disputes, and natural disasters [8]. These can disrupt the supply of raw materials and finished products, affecting the company's ability to meet consumer demand efficiently.

3.4. Competition and Market Pressure

The consumer goods industry is characterized by intense competition and market pressures driven by various factors, as follows.

Changing Consumer Preferences: Consumer preferences continually evolve, influenced by factors such as lifestyle changes, cultural shifts, and emerging trends. Companies must stay attuned to these changes and adapt their product offerings accordingly to remain competitive.

Technological Advancements: Advances in technology impact how products are manufactured, marketed, and distributed. Companies need to leverage technology to enhance efficiency, improve product quality, and meet consumer demands for innovative features and functionalities.

E-commerce and Digital Marketing: The rise of e-commerce platforms and digital marketing channels has transformed how consumers shop for goods and how companies reach their target audiences. Celebrity endorsement simply involves celebrities being engaged as endorsers to promote the advertised products or services [9]. Additionally, and add that celebrity endorsements are considered promotional tools due to their ability to influence consumer purchase intentions, behaviors, and product perceptions. Traditional brick-and-mortar retailers face pressure to establish strong online presences, while digital-native brands companies must continually strive to differentiate themselves in a crowded marketplace.

Regulatory Challenges: Companies in the consumer goods industry must navigate complex regulatory environments, including product safety standards, labeling requirements, and environmental regulations. Compliance with these regulations is essential to maintaining consumer trust and avoiding legal issues.

Globalization: The consumer goods industry is increasingly globalized, with companies operating in multiple countries and regions. Global expansion presents opportunities for growth but also challenges related to cultural differences, supply chain management, and international trade regulations.

Sustainability and Ethical Practices: Consumers are increasingly concerned about the environmental and social impact of the products they purchase. Companies that prioritize sustainability, ethical sourcing, and corporate social responsibility can gain a competitive edge by appealing to conscientious consumers [10].

Coty is trying to corporate with celebrities, as they now own Kylie Cosmetics, Kylie Baby and other brands related to celebrities. Coty's collaborations with celebrities and influencers contribute to its ability to create innovative and trendy products, enhancing its overall competitive position in the beauty industry. To navigate market pressures effectively, Coty needs to stay attuned to consumer preferences, invest in research and development, and maintain agility in responding to industry trends. The company's ability to balance its diversified portfolio, innovation, and strategic partnerships will be crucial in staying competitive in the ever-evolving beauty market.

Johnson & Johnson is developing new and unique products that cater to consumer needs or trends, ensuring the quality and safety of their products to build trust with consumers. The company adheres to strict regulations and safety standards, and any product recalls or issues can impact its reputation and market standing. Johnson & Johnson's well-established reputation for quality and trustworthiness further enhances its competitive position. Johnson & Johnson has the advantage of a diversified portfolio, spanning pharmaceuticals, medical devices, and consumer health. This diversification can act as a buffer against challenges in any single segment. The company's commitment to corporate social responsibility and its global presence also contribute to its resilience in the consumer goods industry. J&J's well-established reputation for quality and trustworthiness further enhances its competitive position, but continuous adaptation and innovation are essential in this dynamic market.

Estée Lauder is known for its innovative marketing strategies, including the use of celebrity endorsements and collaborations with renowned makeup artists. These efforts have helped the brand stay relevant and maintain a strong presence in the competitive beauty market. Adapting to e-commerce and social media dynamics is crucial, requiring Estée Lauder to continually invest in research, development, and collaborations with makeup artists and designers to stay ahead in the competitive beauty market. Estée Lauder's ability to stay ahead of beauty trends, invest in research and development, and adapt to changing market dynamics will be key in facing competition and market pressures in the beauty industry. Additionally, maintaining a focus on sustainability and ethical practices may enhance its appeal to environmentally conscious consumers.

4. Conclusion

In our paper, three cosmetics companies are comprehensively and profoundly profiled. In the company profile, we not only understand the basic information, but also dig into the historical origins of each company, founding background, success factors, business philosophy, target groups, brand image, marketing methods, strong areas and so on. On the basis of quantitative data analysis, we carefully analyze the WACC, Beta, EBIT and Leverage rate of each makeup company, and on this basis, we get some conclusions about the operation and financial risks of the three makeup companies. Coty's stock was volatile and its business risks increased; Johnson & Johnson has less financial risk, but less ability to attract investors; Estee Lauder is more modest and looks like a better choice just based on the numbers. Next, we analyze the business risk of each company qualitatively from various aspects. These aspects include raw material selection and supply, brand portfolio market positioning, global business market, etc. In our research, the three companies have their own advantages and disadvantages. Finally, based on the information and conclusions obtained, we summarize several important factors driving the market pressure, namely, changing consumer preferences, technological advances, e-commerce and digital marketing, regulatory challenges, globalization, sustainability and

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ethical practices, etc., and list a number of initiatives taken by the three representative cosmetics companies in response to the market pressure. Of course, because the number of samples is too small, the data is too complicated, and the influencing factors are too many, the conclusions about the three companies and the cosmetics brand market may be biased, but we think it is not serious. In the near future, I think every enterprise in this market can make a correct business strategy that meets the needs of consumers, which is also a problem that we need to consider as we strive to become the future elite.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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