

Opportunity Outlook for Kiehl's Brand Development Based on McKinsey's Seven-step Model for Cosmetics Industry Analysis

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Abstract: The popularity and competitiveness of the cosmetics industry make it necessary for companies to have a thorough understanding of the market to stay ahead of the competition. The aim of this research paper is to analyze the opportunity outlook for Kiehl's brand development based on McKinsey's seven-step model for cosmetics industry analysis. The general content of the research includes a detailed analysis of the cosmetics industry based on McKinsey's seven-step model, a case study of Kiehl's brand development, and a discussion of Kiehl's opportunities for growth. The findings from this research paper indicate that Kiehl's has the potential for growth by targeting specific markets such as the anti-aging segment and expanding globally. The research concludes that Kiehl's should leverage the opportunities identified in this analysis in brand feature reinforcement, marketing strategies and quality guarantee to stay being superior to others in the highly competitive cosmetics industry.

Keywords: cosmetics, industry analysis, development opportunity, McKinsey's seven-step model, Kiehl's

1. Introduction

The cosmetics industry has undergone significant changes in recent years, with new products and brands emerging and consumer demand shifting. The growth of social media and e-commerce has also impacted the industry, with consumers now having greater access to a wider range of products than ever before. Against this backdrop, there is a need to assess the opportunities and challenges facing established brands like Kiehl's. However, existing research focusing on cosmetic companies' development remains limited. For instance, in 2016, the research 'Exploring the Factors Influencing the Growth of Cosmetic Companies in the Chinese Market' by Li, D. and Wang, C. examined the factors that influence the growth of cosmetic companies for the Chinese market. The results of the study showed that factors such as market demand, brand image, product quality and price had a significant impact on the successful growth of Chinese cosmetic companies [1]. However, this study had been conducted several years ago and is not necessarily fully applicable to current market conditions. Moreover, authors Yi, Y., and Shen, Y. conducted a research 'A Study on Strategic Development of Cosmetics Companies in the Global Market', they explored the strategic development of cosmetic companies in the global marketplace. By analyzing several case studies of

cosmetic companies, the researchers suggested key factors for success in a global competitive environment and discussed the strategic options for companies in terms of product innovation, branding, and market positioning [2]. However, this study cannot reflect the latest market changes and challenges. There are gaps in knowledge regarding the specific strategies and tactics that the cosmetic corporations can adopt to capitalize on emerging opportunities and address challenges in the industry, as well as the potential outcomes of such measures. This research paper seeks to fill these gaps by exploring the opportunities and challenges facing Kiehl's, using McKinsey's seven-step model for cosmetics industry analysis as a framework. Specifically, the study will examine the current state of the cosmetics industry, analyze Kiehl's position within this market, and propose strategies for future brand development. This study can inform future research in this area and provide valuable insights for companies seeking to develop their brand in the cosmetics industry.

2. McKinsey's Seven-step Model

McKinsey's seven-step model is an analytical approach to business opportunities. It's a kind of thinking and working method that is very important for start-ups and mature companies in practical application. The first step is to identify the market by answering two questions: What is the market? Where is its value chain? Then we have to find out the driving factors affecting the market such as environmental factors, short or long-term factors, the population, dividend growth, and policy factors. The third step is looking for market demands by categorizing customers, understanding the growth trends in each category, and understanding the key buying factors of customers. The next step is market supply analysis, which means presenting the function and characteristics of the industrial chain, the consumer profile, their behavior characteristics, the distribution of the product, the industry's geographical distribution and the weak point of the industrial chain. The last three steps are searching for opportunities for new creative spaces, which are the parts that the suppliers cannot achieve, then subdividing the entrepreneurial model, and finally making venture capital decisions.

3. Analysis of the Cosmetics Industry Based on Seven-step Model

Firstly, the cosmetic industry chain is divided into upstream, namely raw material supply, midstream, which consists of manufacturing and brand owners, and downstream, the online and offline sales channels. The cosmetic industry chain mainly includes four important links: research and development, production, brand and channel. Since the production cost accounts for a relatively low proportion (only about 10%) in the terminal retail price of cosmetics, the advertising and marketing, rent, deduction points and labor costs borne by brands and distributors are the main expenses in the product circulation process [3]. Therefore, the main pricing power of products is controlled by brand owners and channel operators. Relatively speaking, the profitability of cosmetic production is limited, with a gross profit rate of 25-40% [4]. However, the production-side is mainly B2B, so the client-side has strong stability. At the same time, the cost input is relatively fixed, so the overall stability of the operation is stronger.

The factors affecting the cosmetic market can be divided into two parts: public policy and the market. In China, the government's policies will continue to support the development of enterprises in the future by releasing policies such as Notice on Adjusting Cosmetics Consumption Tax Policy, but they will also be strictly regulated under some regulations on administration, for example, Measures for the Administration of Cosmetics Registration and Filing which clarifies the procedures, time limits and requirements for the registration and filing of cosmetics and cosmetics new raw materials and details the responsibilities and obligations of registrants, recordholders and domestic responsible persons, boosting the high-quality development of the cosmetic industry. In the market itself, as cosmetics belong to daily necessities, the industry has a large stable user market, and its scale

is still expanding because male cosmetics consumption continues to upgrade while the number of female consumers continues to increase [5]. On top of that, the increase of platform channels and the ascending social attention both promote consumption.

To find out what the cosmetic market demands, classifying customers is important. As the current cosmetics consumer market is dominated by women, the consumer group can be divided into three categories. First of all, girls aged between 18 and 25, who begin to try makeups but have weak consumption power. Secondly, females over the age of 25, who have a variety of makeup needs and have certain consumption power. Lastly, women who aged more than 30 have a strong need for makeups and are highly able to consume it [6]. Meanwhile, male consumers are quickly becoming the blue ocean of the cosmetics market. As society has become more accepting of self-care, men are now more interested in investing in skincare, grooming, and beauty products. It is anticipated that the market share for men's skincare products will rise by USD 5.78 billion from 2021 to 2026 [7]. With men becoming a growing consumer base, it's clear that the cosmetics market has a new blue ocean to explore. After that, it is available to analyze the key buying factors for these customers. Consumers focus on the effect the most. In the second place, they pay attention to stars' and friends' recommendations. The products' appearance and the limited or customized ones are taken into consideration thirdly and lastly as well.

What's next is analyzing the cosmetic market supply, which includes presenting industry chain players, industry chain functions and characteristics, behavioral characteristics of the crowd, cosmetic category distribution, sales geographical distribution and industry chain pain points. The competitive pattern is decentralized upstream. When it comes to midstream, the competitive pattern is also decentralized in the manufacturing part, and the market size of the brand owner is higher than other links of the industrial chain. What's more, downstream channels are developing in the direction of diversification, and e-commerce is the most important sales channel at present [8]. Among consumers, women dominate the market and men have great consumption potential. Because women are the dominant consumer group, they specialized in focusing on beauty, either their getting pretty or the beautiful packaging of products; then they specialized in conformity and pursuing discounts. On the distribution of cosmetics, facial cleansers are the most commonly used skin care products for consumers, followed by facial masks and lotions. However, the urban division of consumer groups presents a relatively uniform distribution. Quite importantly, there are still many weak points in the industrial chain. For instance, it is difficult and costly for media to get customers; high-class cosmetics are expensive and people cannot accept the price; sales are easy to be affected by season, publicity, fashion, brand and so on; ultimately, online purchase lack much trial experience, personalized recommendation and product explanation.

Step five is to find out the opportunities for new ventures. First of all, there is medical-research co-creation, as sellers could clinically tap into consumer skincare pain points. In addition, pharmaceutical ingredients can be extended to cosmetics, for example, from herbal ingredients. Besides, post-medical skincare needs are a nearly untouched territory that can be explored. Consumers' demands for post-medical skincare products are mainly focused on moisturizing and repairing, calming and soothing, enhancing medical effects, and preventing re-tanning. In addition, due to the emotional impact of post-medical procedures, consumers also have requirements for the experience of using post-medical skincare products.

For entrepreneurs, the business model breakdown could clearly present how many choices they have to begin their business. The current offline cosmetic stores are mainly divided into three models: brand counters (single-brand cosmetic stores), multi-brand cosmetic chain stores and cosmetic experience stores, each of which has its own advantages and disadvantages. The biggest advantage of brand counters is that they don't need to work hard to attract traffic, because their own brand appeal is already big enough. Brand counters are usually only found in big shopping malls, airports and other

places with heavy traffic, because if customers see the brand, there will be traffic. However, such brand counters or single-brand cosmetic stores only attract "brand fans" and lose a lot of potential consumers. Secondly, the high initial investment is also a difficult gap for entrepreneurs to cross. Multi-brand cosmetic chain stores are a very hot business model in recent years, such as the more famous Watsons, Guerlain and Flower Select are all in this mode. By cooperating with multiple cosmetic manufacturers, they provide consumers with a wide range of products, and as long as they have skincare needs, they can find the skincare products they need in the store. The advantages of this model are very obvious, with high consumer stickiness and high order rates. Although the profit margin is not as high as that of brand counters, the total revenue is still very substantial. The cosmetic experience store is also a relatively new model; the main feature is to take into account the service and sell goods, the combination of streamlined salon services and product sales, and experience and service as a selling point. The advantages of this model are a high turnover rate and a high customer return rate. Consumers will naturally buy good products after the experience in the store, and this model of recommendation allows consumers to visit the store again, increasing the chances of cost growth. However, for this model of cosmetics, the difficulty is the technology of skin care because entrepreneurs need to hire facial care technicians, and the technician training takes a certain amount of time. Therefore, the cost will grow, but it will be far less than the brand counter.

The high-end anti-aging skin care market is vast. With the rise of consumer awareness of anti-aging in recent years, the medical beauty market continues to grow, and customer demand for natural and productivity continues to rise, while the industry's new regulations gradually introduced. High-end anti-aging and skincare brands for sensitive skin are areas that investors need to pay more attention to.

4. Opportunity Outlook for Kiehl's Brand Development

Founded in 1851 in Manhattan, New York City, Kiehl's gradually built up its unique image by combining expertise in the fields of beauty, herbs, pharmacy and medicine, and evolved into a full-service pharmacy and care products; by the early 1960s, Kiehl's pharmacists, with their vast experience and expertise, began to develop different lines of care products for both men and women based on customer needs; for more than 150 years, Kiehl's has remained committed to providing customers with the most professional consultation services and top-quality care products for face, body, hair and even after sports [9]. A prospect analysis can help Kiehl's identify untapped markets or niches where it can expand their product line, or opportunities to improve their current products to better meet customer needs as well. What's more, the results of a prospect analysis can help Kiehl's develop marketing strategies that resonate with their target audience, such as creating content that appeals to male consumers or eco-conscious consumers.

Kiehl's should stick to its brand positioning as a 'simple' high-end skin care product. Being always adhered to the pharmacy tradition of making every product and formula to address the needs of the skin or solve skin problems as the primary goal, focusing on all-natural products that do not cause excessive irritation to the skin is Kiehl's more competitive point than other skin care companies [10]. Having an independent department store positioning with more diversified products and higher overall consumer ratings also gives Kiehl's more room to manifest its pharmacy brand culture. Additionally, Kiehl's ought to continue to implement the action of not doing any excessive packaging, this is extremely recognizable among skincare brands. The maximum use of recyclable materials and adherence to the concept of simplicity and environmental protection is also a continuation of the 'pharmacy' image. Since 2016, experts have been seeing a brewing belief and willingness among consumers to pay for more sustainable products [11].

When it comes to the marketing strategy of Kiehl's, it ought to continue carrying out the Try Before Buy plan. Kiehl's needs to do more in terms of cosmetic trial kit in order to attract more

customers. This type of marketing is similar to customers buying a sample first and then buying the item. The difference is that there is usually no guarantee that the samples purchased off-site are authentic, and the launch of the Try Before Buy program on the website eliminates this concern. On top of that, Kiehl's should do more on public welfare marketing as well. Public welfare marketing can enhance the value of the brand, and more importantly, it can realize the social value of the brand. Not only because the meaning of commercial brands is to find social significance, taking the way of public welfare marketing can effectively realize the co-construction of brand value and social value, stimulate the creation of higher value for the brand, and also feed the development and growth of the brand [12]. Since its inception, Kiehl's has been committed to giving back to society, focusing on the care of vulnerable children, environmental protection and AIDS protection. The Mountain Nature Conservation Center and the Sail Project are two of these causes. With the upgrading of consumption, people's needs are also rising, requiring more spiritual consumption, and brands need to keep up with people's needs and make public welfare marketing a long-term IP of the brand so that people's consumption needs can eventually feed the brand's social value and eventually precipitate into the brand's assets.

According to a market research report by Technavio, the professional skincare market is estimated to grow at a CAGR of 5.88% between 2022 and 2027 [13]. This growth has led to an increase in the number of skin care brand companies entering the market. However, the overall economic strength of these companies is generally weak, with limited funds available for research and development and the production of products. This has led to some brands cutting corners by using cheaper raw materials, which has resulted in frequent quality incidents with skin care products and decreased consumer stickiness. In this case, Kiehl's should stick to using high-quality ingredients in their products and investing in extensive quality control measures. This will help it maintain a loyal customer base and attract new consumers who value quality over price. Kiehl's also has to work hard on product effectiveness, giveaways, and promotions to keep up with a highly competitive industry.

5. Conclusion

In conclusion, the research paper has analyzed the cosmetics market using McKinsey's seven-step model and provided a case study of Kiehl's brand development. The research has revealed numerous opportunities for Kiehl's growth, including adhering to brand positioning and brand culture, carrying out the Try Before Buy plan, conducting public welfare marketing, expanding product lines, and insisting on quality control. However, there are still a few existing shortcomings; for instance, the research on Kiehl's international market opportunities is limited. To improve this research, future studies can focus on further exploration of Kiehl's global expansion strategy and Kiehl's plan to attract new customers through innovation and differentiation. Overall, Kiehl's has strong potential to establish itself as a high-end, sustainable brand, and the company has many opportunities to capitalize on in the coming years.

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