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Kylie Cosmetics

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Introduction

In the fall of 2015, eighteen-year-old Kylie Jenner was gearing up to release her first proprietary cosmetics product, the Kylie Lip Kit. Jenner was the youngest member of the Kardashian-Jenner family, which had achieved worldwide fame through their hit reality TV show, *Keeping Up with the Kardashians*. Up until then, Jenner had executed a handful of endorsement deals and brand partnerships to varied success. Using \$250,000 of her income from these prior deals, she decided to take a leap and fund the new venture.

Less than four years later, in March 2019, *Forbes* declared that Jenner had become “the youngest self-made billionaire ever”¹ at just 21 years old. Jenner had surpassed the record previously held by Mark Zuckerberg,ⁱ and she now joined an elite group of billionaires that also included the founders of Airbnb, Uber, Pinterest, and Instagram.² Her company, Kylie Cosmetics, was valued by *Forbes* at \$900 million, of which she owned 100% of the equity. The original single-product focus (the lip kit), had expanded to a large suite of cosmetic and skincare products for the lips, eyes, and face, as well as makeup applicators and accessories. In the process, she had also built one of the most-followed accounts on Instagram and had a total of 175 million followers across Instagram, Twitter, and Snapchat combined.³

By all accounts, the rapid success of Kylie Cosmetics had been extraordinary, eclipsing benchmarks and expectations associated with cosmetics brands and celebrity-backed businesses alike. In 2018, its third year of operation, the company generated \$360 million in sales, outpacing Tom Ford Beauty, helmed by the famous fashion designer, which took 10 years to generate \$500 million in revenue.⁴

ⁱ Zuckerberg had built his 10-figure fortune by the age of 23.

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Yet despite this early momentum and media buzz, growth at Kylie Cosmetics was beginning to slow. A report by Rakuten Intelligence noted a 14% dip in sales at Kylie Cosmetics in the first five months of 2019.⁵ Meanwhile, just as trade magazines and business journals were beginning to take Jenner and her company seriously, industry observers and venture capitalists became more vocal about their skepticism, with some arguing that the business was not sustainable and others suggesting that Kylie Cosmetics leaned too heavily on its founder's potentially fleeting fame.

As Kylie Cosmetics entered its new chapter as a 'unicorn,'ⁱⁱ some key questions emerged. What were the drivers of the company's early explosive growth? Would these drivers be sustainable in the long term? Where could Kylie Cosmetics go from here as it looked to create further growth? Did the company have a lasting value proposition?

Background—Not So Humble Beginnings

Kylie Kristen Jenner was born in August 1997 in Los Angeles, California. Her platform for fame and wealth, however, was launched long before that. Her mother, Kris Jenner, was the ex-wife of renowned LA lawyer Robert Kardashian—who famously defended O. J. Simpson in his 1995 murder trial—and her father, Caitlyn Jenner,ⁱⁱⁱ was a famous gold-medal Olympian who had broken records competing in decathlons across the world. The Kardashian-Jenner family grew up in a well-connected, high-income enclave in southern California. Significant name recognition, however, did not come until 2007 when Kylie's older half-sister, Kim Kardashian, became a close friend and stylist to heiress and socialite Paris Hilton, occasionally appearing on Hilton's reality TV show, *The Simple Life*.

That same year, when Jenner was just 10 years old, cable channel E! Entertainment premiered a new reality TV series, *Keeping Up with the Kardashians*, that aimed to follow the glamorous and chaotic lives of the Kardashian-Jenner clan. Given her recent, heightened media attention, Kim Kardashian was set to be the star of the show. The series arrived on television screens just as reality TV shows following the rich and famous were beginning to gain serious traction. Hilton's *The Simple Life* and Ozzy Osbourne's family-centered MTV series were two runaway hits that preceded *Kardashians*. The Kardashians' show instantly resonated with audiences—primarily the coveted female 18 to 34 demographic—and was quickly renewed for a second season.^{iv}

ⁱⁱ Startup unicorns are companies with valuations of \$1 billion or more.

ⁱⁱⁱ Caitlyn Jenner was previously known as Bruce Jenner.

^{iv} Today, it is one of the longest-running reality TV shows in the United States, and its success has been so notorious that the *Hollywood Reporter* called the time during the first ten years of the series "The Kardashian Decade." The show "now airs in 167 countries, boasts nine spinoffs to date and has ranked as E! Entertainment's top-rated series since 2010." The family's current contract with E! was allegedly negotiated for \$100 million through 2020, making the Kardashian-Jenners among the highest-paid reality TV stars in history. Sources: *The Hollywood Reporter* (August 16, 2017) and *Variety* (October 24, 2017).

As the youngest of the six siblings, Jenner did not receive much airtime in the early years of the show. As she entered her teens, however, this began to change. Her mother and manager Kris Jenner began sourcing endorsement deals, modeling gigs, and brand partnerships for Jenner together with her older sister Kendall. These included limited edition product lines with brands such as OPI, PacSun, Topshop, Steve Madden, Glamhouse, Sugar Factory, and Bellami Hair (the latter of which Jenner partnered with independently).⁷ Other revenue-generating opportunities for the two youngest sisters included awards-show hosting gigs (Jenner and Kendall hosted the 2014 iHeartRadio Much Music Video Awards) and a short-lived, unsuccessful venture into authoring young adult novels.

Quickly, the media noted something had changed about Jenner—her lips. In 2014, rumors surfaced that she had undergone various cosmetic enhancements, specifically lip injections to emulate the ample pout of her older half-sisters. Articles surfaced with picture slideshows tracking just how dramatically Jenner’s lips had changed in a matter of months. At first, Jenner dismissed these rumors and ignored the media attention, but in an episode of *Kardashians* in May 2015, the 17-year-old finally admitted to having undergone cosmetic procedures: “I have temporary lip fillers. It’s just an insecurity of mine, and it’s what I wanted to do.”⁸

Rather than hurt her image, this moment was a turning point for Jenner, who at the time was searching for her niche and fine-tuning her brand within the Kardashian-Jenner empire. The focus on her lips had gone viral to the point of generating an internet phenomenon known as the Kylie Jenner Lip Challenge, in which teenagers would suction a shot glass or bottle head in order to swell their lips to the size of Jenner’s. She realized that this public obsession created an opportunity. In the summer of 2014, she pooled \$250,000 of her own money and prepared to launch the Kylie Lip Kit.

The Cosmetics Industry and the Rise of Cult Beauty Brands

In 2017 the global cosmetics industry (including color cosmetics, skin care, fragrances, hair care, soaps, shower gels, and sun care products) was valued at \$532.34 billion and was projected to reach \$805.61 billion by 2023, advancing at a compound annual growth rate of 7.14%. The United States was the world’s largest beauty market, capturing 20% of the share, followed by China (13%) and Japan (8%).⁹ Unlike other industries, the cosmetics industry was notably resistant to economic downturns, owing to a growing usage of products by women (and increasingly men) around the world,¹⁰ as well as an inclination of consumers to favor cosmetics over other discretionary items.¹¹

Whereas in decades past, the industry was dominated by legacy conglomerates such as Estée Lauder and L’Oréal, in the 2010s the rise of e-commerce and social media created a platform for independent, direct-to-consumer brands to target, acquire, and build relationships with young customers who were hungry for more authentic brands that reflected their individuality (either through more inclusive shades or through an ethical, sustainable, cruelty-free ethos). For example, Emily Weiss, the founder of cult beauty brand Glossier (now valued at \$1.2 billion), began her endeavor with a simple beauty blog, *Into the Gloss* in 2010, and grew it to 10 million page views per month before debuting the first four Glossier products in 2014.¹²

Celebrity makeup artist Pat McGrath similarly built a significant following on Instagram before launching her eponymous cosmetics brand in 2015. By 2019, it was estimated to be worth more than \$1 billion.¹³ According to *Women's Wear Daily*, while sales of traditional makeup decreased by 1.3% in 2016, sales of independent brands (like Glossier) grew by 42.7%.¹⁴ Cosmetics conglomerates began to take note and by the end of the decade there was a boom in beauty mergers and acquisitions, with indie brands like Tatcha and Drunk Elephant getting swept up by giants such as Unilever and Shiseido in nine-figure deals.¹⁵

Launch and Growth—A Cosmetics Powerhouse is Born

Jenner debuted her product on November 30, 2015, offering three shades of the Kylie Lip Kit for purchase directly on her website. The \$29 product consisted of a dual package of liquid lipstick and lip liner that emulated the plump, matte lips she had become famous for. Jenner had begun 'teasing' the product release several months prior through her social media channels and made an official announcement 24 hours before the online launch. The release was an absolute success. Inventory sold out in less than a minute and the website crashed repeatedly. According to *Forbes*, re-sellers began offering the Lip Kits on eBay for as much as \$1,000.¹⁶

In the months and years that followed, Jenner continued to experience unprecedented demand and sales for the Lip Kit, as well as her expanded suite of products as she transformed her brand under the broader umbrella of Kylie Cosmetics. A year after launch, in November 2016, Jenner's holiday collection generated \$19 million in sales within 24 hours of going live. With just a year of operation under its belt, the company was selling over 50 different product SKUs and had made a total of \$307 million.¹⁷ By the end of 2017, Kylie Cosmetics had added another 30 products to its repertoire and grew an additional 7% in revenue.¹⁸ Concurrently, industry observers began to suggest that Kylie Cosmetics would reach unicorn status (a valuation of \$1 billion) by 2022.¹⁹ By 2018, revenue climbed to \$360 million.²⁰ Indeed, the growth of Jenner's cosmetics powerhouse significantly eclipsed both legacy brands and celebrity-helmed businesses alike. As *Forbes* journalist Natalie Robehmed observed, this level of success was unparalleled:

How does Kylie Cosmetics revenue performance measure up against other beauty titans? Well, it took fashion genius Tom Ford 10 years to reach half a billion dollars in sales after he launched his beauty line in 2006. It took L'Oréal's Lancôme cosmetics line 80 years to hit \$1 billion. It took MAC 13 years to achieve \$250 million and another 10 years to reach \$500 million, even with Estée Lauder owning a majority and then all of it during that time frame.²¹

Drivers of Success for Kylie Cosmetics

A combination of factors contributed to the growth and success of Kylie Cosmetics.

OUTSOURCING EXPERTISE AND OPERATIONS

In 2014, when Jenner was in the earliest stages of developing the concept for her lip kit, her mother, Kris Jenner, enlisted the help of Laura and John Nelson, the founders of Seed Beauty. Seed Beauty was a white label cosmetics producer focused specifically in leveraging partnerships with celebrities like Jenner, managing brand incubation, production, shipping, and fulfillment for its clients. The operational know-how and specific sector expertise of Seed Beauty was crucial to the early success of Kylie Cosmetics:

Jenner wisely defers to the Nelsons' know-how rather than develop and test new formulas, a process that can take up to six months. That allows Jenner to introduce new products for her trend-driven fan base within weeks of conjuring them.²²

This relationship fueled growth and success for both. In fact, Seed Beauty reportedly had 500 employees working on their most high-profile client by the summer of 2018, while Kylie Cosmetics employed just seven full-time staff.²³ Other key needs were similarly outsourced. In addition to manufacturing and packaging through Seed Beauty, Jenner also used e-commerce platform Shopify to manage sales and fulfillment for the brand. Per *Forbes*: “as ultralight startups go, Jenner’s operation is essentially air. And because of those minuscule overhead and marketing costs, the profits are outsize and go right into Jenner’s pocket.”²⁴

SOCIAL MEDIA

From the start, social media—and Jenner’s impressive use and understanding of the major social platforms—played a crucial role in the success of Kylie Cosmetics. Prior to launching the first lip kit product, Jenner had 56 million followers across Instagram and Twitter. Four years later, that number had tripled.²⁵ From teasing product releases, to announcing new launches, re-posting customer reviews, and providing makeup tutorials, Jenner’s almost hourly use of social media was central to the ongoing promotion of Kylie Cosmetics and her efforts to acquire and engage with customers. According to a 2019 Mobile Marketer report, “Kylie Cosmetics generate[d]... the most social media engagement among cosmetics brands while spending nothing on paid social ads.”²⁶

The fact that Jenner was able to market her products directly to hundreds of millions of fans and potential customers in the target demographic—without spending any money on promoted posts or digital advertising—was a key success driver that the founder recognized herself: “It’s the power of social media. I had such a strong reach before I was able to start anything.”²⁷ While rival cosmetics brands spent significant amounts of money to have social media influencers plug their products, Jenner had grown to become one of the most powerful influencers on social media, and she dedicated her platform almost entirely to promoting Kylie Cosmetics products.

LIMITED EDITION PRODUCTS AND LAUNCH STRATEGY

Jenner was able to create a consistent sense of urgency, “fear of missing out” (FOMO), and scarcity for her new products by focusing on limited edition sets and one-off celebrity collaborations with her famous family members and friends. Seasonal launches drove significant sales, including her 2016 holiday collection and her Valentine’s Day offering that same year, which sold out in 10 minutes. Just as with her holiday collection, the Valentine’s

products were soon selling on eBay for many multiples above the retail price.²⁸ By 2019, limited edition sets remained a focal point of new product development at Kylie Cosmetics. This approach created a sense of scarcity and uniqueness that played an important role in driving sales. As Z. John Zhang, a professor of marketing at The Wharton School told *Forbes*, “There are lots of substitutes if you want your lips to look a certain color, the problem is people aren’t buying functionality, they are buying desirability.”²⁹

THE FLAGSHIP PRODUCT

The initial Kylie Lip Kit was defined by its thick, matte texture that created a dramatically fuller lip. Jenner had pioneered the trend for this look prior to launching her company and even boosted sales for other major cosmetics companies, such as MAC, when fans speculated that she was using their lipsticks as part of her makeup regimen. Shortly after the launch of the lip kit, Google search queries for “matte lipstick” surged and continued to escalate through 2017. In its 2016 consumer trends report assessing data from 20 million users, the social commerce site Polyvore claimed that matte lipstick was the second most-searched beauty product of the year and that Jenner was the most influential figure in 2016 beauty trends. While beauty bloggers and product reviews appeared skeptical that the actual ingredients used in Kylie Cosmetics products were superior to drugstore equivalents, Jenner’s ability to craft products around beauty trends that she herself was fueling contributed to the rapid growth of her company.

THE FOUNDER

Of course, Jenner herself was a crucial component in her company’s early success. Not just as the founder, CEO, Chief Marketing Officer, and Chief Creative Officer, but as its spokeswoman, model, and face of the brand. Customers were not simply buying a product, they were tapping into a lifestyle, image, and brand that Jenner and her family had been steadily cultivating for over a decade. While undoubtedly fueling business success, it also led to criticisms about how much credit Jenner should receive for it. Many argued that the success of Kylie Cosmetics was solely attributable to Jenner’s extreme privilege and family fame (criticism reached its peak in the wake of the 2019 *Forbes* article, with many objecting to the concept of Jenner being a “self-made billionaire”).

Objectively, however, Jenner’s brand and fortune had eclipsed other celebrity-led brands with a similar financial background and platform. By 2019 Jenner’s net worth was nearly three times as much as that of her older and more famous half-sister Kim Kardashian West (with an estimated net worth of \$350 million),³⁰ despite Kim’s significantly longer lead time running endorsement deals and growing her own personal brand. Jenner’s net worth was over three times as much as that of Paris Hilton (estimated at \$300 million),³¹ who had also built a sweeping multi-product brand since the early 2000s based off of her personal privilege and fame. Jenner’s pre-existing wealth and fame no doubt contributed to the success of Kylie Cosmetics, but there also appeared to be something singular to this product and this founder that played a larger role.

A Loss in Momentum—Kylie Cosmetics Sales Begin to Drop

Yet despite this phenomenal early success, recent sales trends at Kylie Cosmetics were beginning to spell trouble ahead. A report from Rakuten Intelligence observed a 14% drop in sales at Kylie Cosmetics between January and May 2019, and a 62% drop between November 2016 (the company's peak) and November 2018.³² While Jenner's flagship product—the Lip Kit—appeared to be faring better than the market (declining 2.3% from June 2016 to May 2019, versus an industry-wide decline of 5.3% for lip merchandise), her satellite products for the eyes and face saw a decline in sales of 29% and 8% respectively between May 2017 and May 2019, compared to an industry increase of 12% and 8%.³³

Even more noteworthy was Rakuten's observation that customers of Kylie Cosmetics were not loyal: 60% of customers who bought a product online from the company between June 2016 and May 2019 did not make a repeat purchase.³⁴ Although this report did not track brick-and-mortar sales in Ulta stores, where Kylie Cosmetics had a physical retail partnership and which may have partially cannibalized the online business, it did begin to call into question the staying power of Kylie Cosmetics.

In addition to this slump in sales, the company experienced sporadic waves of negative press spanning from poor customer service, faulty products, order mix-ups, and a non-existent return and refund process.³⁵ Other critics called out Jenner for appropriating the look and aesthetic of women of color as she built Kylie Cosmetics. A 2018 article in *i-D* explored the various ways in which Jenner was believed to have appropriated and sold “black features and culture to make her multi-million-dollar fortune.”³⁶

Jenner was able to draw young customers in with her powerful brand and savvy social media presence—but were the products strong enough to create enduring customer loyalty? In an extended Twitter post in July 28, Andreessen Horowitz investment partner Li Jin observed that the Kylie Cosmetics brand would need to move “beyond” its founder in order to last:

To become an enduring, standalone business, it's necessary for all influencer brands to go beyond being tied to a single person and create a 'purpose brand.' . . . To build a sustainable brand, companies need to tap into a deeper connection with consumers—whether that's by creating a differentiated product or a superior user experience, or attaching to a larger movement that has longer-term appeal after the underlying celebrity fades. Social media has made it easier than ever to attract an audience and build widespread influence, and the barriers to entry to starting a new brand are lower than ever. The result is an unprecedented number of new influencer-driven media/product companies—but with potentially shorter lifecycles and lower defensibility. To ensure sustainability of her company, [Jenner] could aim to create cosmetics that deliver a real improvement from what else exists out there.³⁷

Indeed, countless other celebrity-driven brands had failed due to a dependency on the founder, but some had successfully built brands that went “beyond” their famous founder. Jin points to Jessica Alba's Honest Company and Gwyneth Paltrow's Goop as strong examples of

“modern companies that have done well in transitioning from hyper-centered around an individual to purpose brands.” Though not without operational challenges and fluctuations in valuation, both The Honest Company and Goop leveraged the fame and brand power of their founders at the outset, before establishing lasting customer affinity and a clear value proposition that extended beyond their celebrity spokeswomen. In the case of The Honest Company, the suite of ethically and environmentally conscious household products came at a time when consumers were actively seeking more responsible options for everyday goods.

By contrast, other success stories would indicate that enduring and sustainable companies can in fact rely on their famous founders as a core selling point to consumers. Perhaps the strongest example of this is Oprah Winfrey, whose decades-old media empire has always—and continues to—center around her personal brand and celebrity. Between the Oprah Winfrey Network and Harpo Productions, her own investments of her income as a talk-show anchor, and an additional partnership and 10% stake in Weight Watchers, Winfrey was estimated to have a net worth of \$2.8 billion in 2017.³⁸ Winfrey’s success would indicate that it is possible to build a lasting brand centered around a single individual.

A Major Acquisition—The Next Phase of Kylie Cosmetics

In November 2019, after many months of speculation, it was announced that beauty conglomerate Coty, Inc., which oversees brands including OPI nail polish, Clairol hair dye, and Covergirl, had acquired a controlling stake in Kylie Cosmetics for \$600 million. Jenner’s company was now valued at \$1.2 billion. Kylie Cosmetics generated an estimated \$177 million in revenues in the trailing 12 months prior to the acquisition³⁹, indicating a valuation of six times revenue—significantly greater than similar companies in the market. According to *Business Insider*, Coty’s shares jumped 6% following the announcement of the acquisition.⁴⁰

In a press release, Coty’s Board Chairman, Peter Harf, stated that “[Jenner] is a modern-day icon, with an incredible sense of the beauty consumer, and we believe in the high potential of building a global beauty brand together.”⁴¹ Though Coty would have a 51% controlling share, Jenner would retain ownership of the remaining 49% and would stay intact as the face of the brand, with her team managing creative control, product decisions, and communications.⁴² Coty’s CFO, Pierre-André Terrisse emphasized the value of Jenner’s personal brand (she now had 270 million social media followers, 75% of whom were in the 18-34 demographic) in fueling future growth at the company: “[Jenner] brings incredibly strong brand equity as both a person and as a brand. . . . This exposure to much younger consumers is something currently lacking in Coty portfolio and beauty brands.”⁴³

What Now?

While Jenner’s partial sale of Kylie Cosmetics cemented a new chapter for the company, questions remained as to how the 22-year-old entrepreneur would look to grow and evolve her beauty brand under the umbrella of Coty, Inc. Would this be an easy exit opportunity for Jenner? A chance to step back and look elsewhere for new ventures? Or would Jenner remain a hands-on entrepreneur, working closely with Coty’s management on new products for Kylie

Cosmetics? If so, how could the company fuel growth and expansion as it entered its fifth year in operation? Would it be necessary for Kylie Cosmetics to “move beyond” its famous founder to guarantee long-term sustainability?

Exhibits

Exhibit 1

August 2018 Forbes Cover



Exhibit 2

A Tweet from Kylie Jenner Prior to the First Lip Kit Launch



Kylie Jenner ✓
@KylieJenner



24 HOURS follow @lipkitbykylie

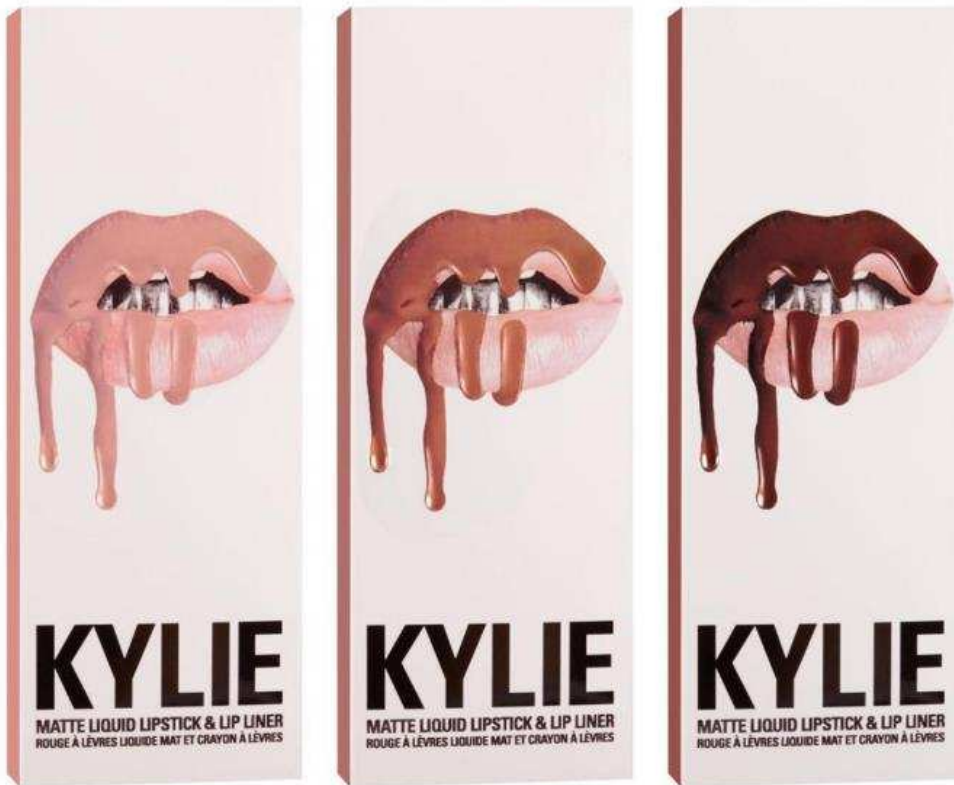


Exhibit 3

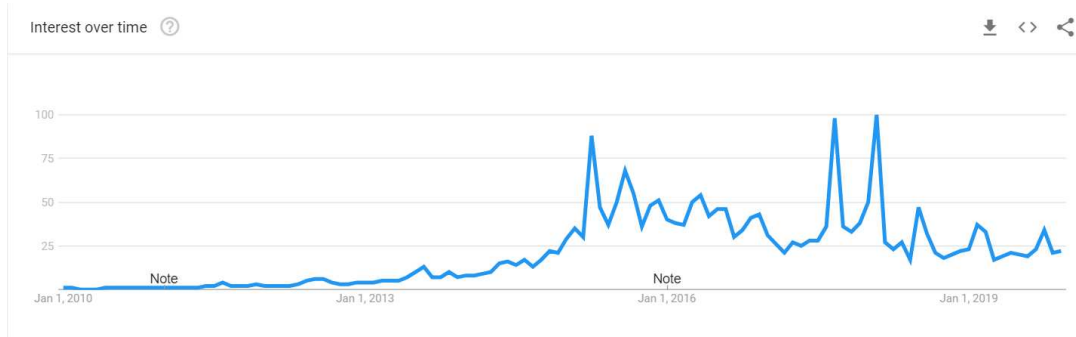
A Tweet from Kylie Jenner Generating Urgency Around a Seasonal Product Launch



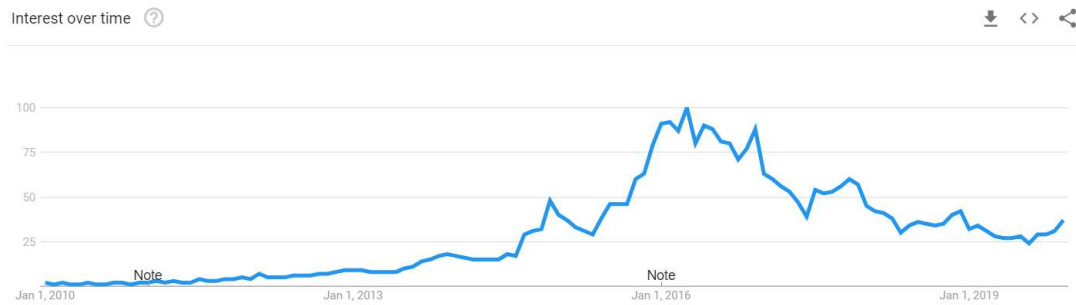
Exhibit 4

Google Trends Showing Interest Over Time

Search term: "kylie jenner"



Search term: "matte lipstick"



Search term: "kylie cosmetics"

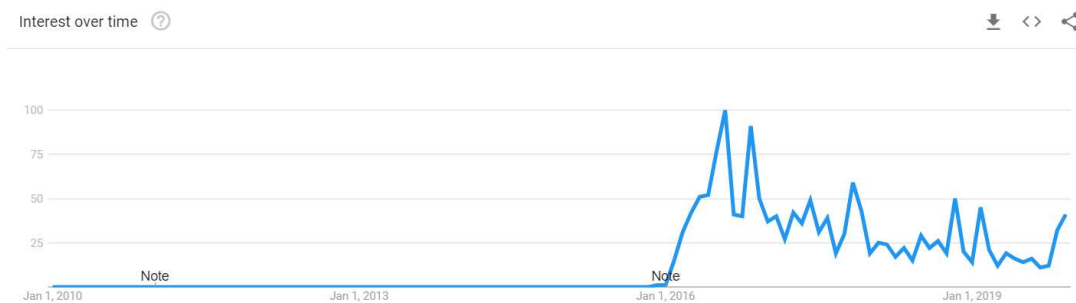
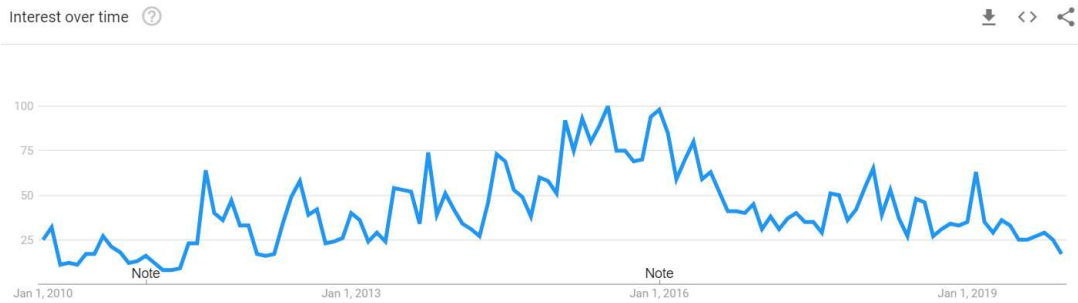


Exhibit 4 (cont.) Google Trends Showing Interest Over Time

Search term: "Kardashian" AND "Jenner"



Endnotes

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