

THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENT OF FINANCE

FEASIBILITY ASSESSMENT FOR A MALE COSMETICS COMPANY

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SPRING 2017

A thesis
submitted in partial fulfillment
of the requirements
for a baccalaureate degree
in Finance
with honors in Finance

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ABSTRACT

FEASIBILITY ASSESSMENT FOR A MALE COSMETICS COMPANY

The cosmetic industry, dominated almost exclusively by women, may be positioning itself for a massive transformation in customer demographics, expanding the profitability function to include a new variable: selling cosmetic products to men. This thesis examines the feasibility of creating a male cosmetic company. The objective of this report is to investigate solutions to the questions, “*Could there truly be a market for male cosmetics, and if so, how do you promote cosmetic adoption across genders?*” Beginning with a literature review examining the history of cosmetics through time, the changing social dynamics and drivers supporting the cosmetic industry’s expansion, and the existence of male cosmetic trends internationally, the groundwork is laid in support of validating the author’s predictions on shifting market trends. What follows is a feasibility assessment, presented in the format of a business plan, dissecting various cosmetic industries, potential markets, customer analyses, sales strategies, and financial planning. Included within the financial planning segment are a startup cost projection, a three-year profit and loss pro forma, a Net Present Value (NPV) calculation, and a break-even analysis. In conclusion, a discussion of the concept’s feasibility and scale of impact is considered.

Keywords: Entrepreneurship, Startup, Finance, Cosmetic, Business Plan, Feasibility Assessment.

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ACKNOWLEDGEMENTS

I would not be a member of the Schreyer Honors College, if it were not for the encouragement of Michael Krajsa during my sophomore year at Penn State Lehigh Valley – an instructor of marketing and management, a faculty liaison, an influential advisor, and friend.

I am grateful for Brian Davis’s uplifting support during hectic times and for his patience in working with me to develop this thesis as my Honors Adviser and Thesis Supervisor – the product of countless iterations and unpredictable winding turns.

I am thankful for experiencing Orié Barron’s philosophy of life as a journey, as it resonated with me and reinforced my desire to pursue ideas much bigger than myself, while reminding me to focus on the process as much as the outcome. And thank you for your time spent reading my thesis.

For instilling the best virtues in me, for helping shape the man I am today, and for your unwavering, unconditional support, thank you mother.

For opening up my eyes to the joy of companionship, for showing me what it means to love, and for staying by my side through all life throws our way, thank you Brianna Ruggiero.

Chapter 1

Background

Since the dawn of humanity, cultures have applied various forms of cosmetics for, among other things, religious ritual, aesthetic enhancement, and to signify status or class. In our nation, the application of cosmetics –makeup specifically – has been associated with the female gender as a strive toward idealized perfection, or the beautification of the female aesthetic. This pursuit is largely motivated by society's obsession with body image, as well as the media's persistent cultural hyper-sexualization.

There is much to be said concerning our nation's silent expectation that women apply cosmetics, as the very act of doing so has become synonymous with femininity itself; however, instead of addressing this observation, peering further, there appears to be an unrealized opportunity lingering silently amidst the conflict of gender expectations. Men have been left out of the conversation, as if they themselves could not benefit from products that enhance their appearances; cosmetic solutions for men which complement their own features appear to be nonexistent within the United States.

In countries beyond our own, such as South Korea, Australia, and parts of Europe, cosmetics for men – including makeup – are not some secretive niche, but an emerging and booming market opportunity. This trend sometimes disguises itself in more subtle and masculine undertones, such as corrective cosmetics, a description of a technique using makeup to create the illusion of superior facial balance and proportion, or cosmetic camouflage, applying makeup to conceal skin or pigment irregularities on the face or body. Whatever the term, in international markets we find men wearing makeup, and more surprisingly, a growing trend of social acceptance to the fact. I believe the United States is next in line for the adoption of this trend.

On November 22, 2016, during Thanksgiving vacation, my significant other noticed an advertisement on television featuring what appeared to be a male model representing a popular, female oriented cosmetic company; however, this was no ordinary male and this was no ordinary cosmetic brand. The company was CoverGirl, and this man was CoverGirl's first CoverBoy, a 17-year-old high school teenager from New York. During the remainder of Thanksgiving vacation, I experienced what felt like a barrage of cosmetic brainwashing, with commercial after commercial depicting how the viewer's physical appearance could be improved, exaggerated, punctuated, and stylized with the help of cosmetic 'x' and 'y'. It was here too, where I made another shocking discovery; a cosmetic company whose name I did not catch branded their advertisement with the famous gender equality movement logo, an equal sign, mid-way through its advert. What is the significance of all this?

I believe the cosmetics and beauty industries are on the verge of a massive expansion. The women's cosmetic market is unquestionably saturated, and for continued sales growth I hypothesize a strategic target market shift – a focus on selling to men. I believe the gender equality branding, mixed with male model cosmetic influencers, are subtle nods at attempting to bridge a gap between men and cosmetics that may plant the seeds for male cosmetic adoption sometime in the future. I believe that these evidences are of no surprise when you reflect on male makeup trends overseas. I believe that younger generations today – generations often classified as narcissistic (due to technology) and body-image obsessed – will be the drivers for this movement due to our desire to manage our impressions and control every element that uniquely reflects us as individuals. Amidst these realizations and hypotheses, many important questions emerged, such as, *“Are men not allowed to improve, exaggerate, punctuate, or stylize their own appearance? And if they are (if it is socially acceptable), why can't I find advertising*

for such products in mainstream media? More importantly, how would the process of men applying cosmetics differ from women?” I venture we are living through the emerging stages of a massive societal shift that will challenge perceptions of gender roles and even masculinity itself.

It seems in certain cultural contexts, society has advanced beyond the stages of metrosexuality and welcomes the rise of the Spornosexual – a term coined in 2014 by author and journalist Mark Simpson to describe a social media/selfie- and physically-obsessed male who attempts to emulate the bodies of sport and porn stars (Simpson 2014). In other words, the term conveys an era of ultra-groomed men who hone their physique for the sake of simply looking good. This evident, albeit slow, psychological shift – most prevalent among younger generations – makes males ever more vulnerable to the bombardment of tactical cosmetic advertising in the expected future.

The cosmetic company that can figure out the million-dollar question, *“How do you sell cosmetics to men and make them want it?”* will likely receive a billion-dollar reward. This feasibility assessment presents my ideas on addressing this issue and will explore the development of a male cosmetic company strategically positioning itself to leverage these changing times.

Chapter 2

Literature Review

Cosmetics have evolved through time and are embraced differently in various cultures – both past and present. Today in the United States, the use of the word cosmetics automatically conjures thoughts of femininity and reminds one of constant advertisements from an industry set on convincing female consumers they need just one more product to look their best or achieve the perfect appearance.

Cosmetics were not always applied for the purpose of accentuating one's attractiveness. In ancient times, roughly 100,000 B.C., it is believed that the Neanderthal man applied decorative body paints made from mud and dried plants to provide camouflage, to internalize the characteristics of powerful animals by marking one's self in similar pattern, or in rituals, such as honoring the solar spectrum (Hunt, Fate, & Dodds 2011). The original and most definitive use of cosmetics surfaces in early 3000 B.C., where Egyptians have been documented applying various forms of cosmetics and using basic grooming products, such as creams, razors, and pumice stones to enhance their appearance (Hunt, Fate, & Dodds 2011). Around this period, cosmetics can be found across the globe in almost every society; the Middle East, Asia, Greece, Rome, Japan, Europe, Australia, and in the Americas, even Indian American tribes applied makeup for ceremonial events or battle (Wikipedia 2017). During these periods, men have been noted to wear makeup alongside women in several cases, as cosmetics and personal care accessories often reflected one's rank, such as in Ancient Egypt (Edmonds 2011). Cosmetics were also applied for practical purposes, such as for protection from the sun, or for ascribing to each culture's conventions of beauty ("A History of Cosmetics," n.d.). Cosmetics existed in

some fashion since the ancient world, through the middle ages, during the renaissance periods, through the 19th and early 20th century until today; throughout the span of these years, various lotions, powders, scents, dyes, polishes, lipsticks, and other products have been developed. During these time periods, men have also cared about their appearance, even to the point of applying makeup, but this trend is less common as history progressed and the application of cosmetics – makeup, specifically – began to be associated as a womanly characteristic around 1850 AD; prior to this point in history, both men and women wearing makeup was socially acceptable (“Makeup History,” n.d.). In fact, mens’ use of cold creams, powders, pastes, and scents was, in many cases, considered customary.

The latest evolution in the cosmetics industry came from CoverGirl in 2016. James Charles was announced as CoverGirl’s first CoverBoy, or male representative. While James’ debut was interpreted by some as an appeal to the effeminate man, he has stated, “...[this] shows that this industry is actually becoming genderless, and we’re really making the push toward equal opportunities for everybody” (Safronova 2016). In line with this sentiment, James also stated in an interview, “...Our industry has been tailored towards women for so long, so I think the only way that men will start to become more comfortable will be if stereotypes are removed” (Andrews 2016). An emergence and redefining of male beauty standards for male cosmetics is the latest industry trend. Men have become increasingly socialized to feel more body- and self-conscious; a Mintel study showed 17% of young men aged 16 - 24 believe male models in advertising have made them more self-conscious of their appearance (Graham 2016). This nuanced expression of masculinity comes as no surprise – history has shown male cosmetics had, at one point, been socially acceptable. For example, in ancient Egypt, men applied kohl (an ancient eye cosmetic made by grinding stibnite to charcoal) around their eyes for protection from

the sun and from eye infections, and for ritualistic purposes; in the Hellenistic Age (roughly 31 B.C.), Alexander the Great applied eye makeup around his eyes for practical purposes too; in ancient Rome (8 B.C.) Romans allegedly painted their heads to disguise premature baldness; and during the pre-French revolution (18th century), men used cosmetics such as powdered faces to conceal facial imperfections and protect against sunlight (Cracknell 2015).

The men's grooming market has become a multi-billion-dollar worldwide industry, and it includes a variety of products, such as face creams, hair gels and removal products, and more. Brazil, South Korea, the US, Germany, India, the UK, and China have all been listed as booming markets for men's toiletries, and as men begin to be targeted by male-friendly advertising regarding their grooming and appearance, this trend will continue to grow (Fury 2016). Beyond toiletries and personal grooming products, male cosmetics benefit from gender role erosion and the redefining of masculinity, internationally. The biggest example of this can be found in South Korea. Reportedly the largest market in the world for men's skincare and makeup at \$494.5MM in 2011 according to a report in The Associated Press, many men associate appearance with power and sophistication (Klug 2012). The country's popular culture and media drive this trend forward; for example, comic books featuring men wearing makeup are plenty, and K-pop, a music genre originating in South Korea, showcases a new form of masculinity, where men authentically express themselves – in clothing and in appearance through makeup – without feeling constrained by traditional gender roles (Bennett 2017). What a contrasting form of masculinity in comparison to US culture; yet, these image-obsessed men may actually appear more intimate and emotionally expressive because of their aesthetic philosophy – often resulting in rapport with fans and their communities. These bands' rising popularity in the US means that even locally, the traditional interpretation of masculinity is being challenged. The male-

conscious trend is occurring all throughout the world, and the US is likely to experience similar evolutions in culture.

Society's youth will be the target of male cosmetic advertising, as the younger generations appear to be separating from the idea of rigidly defined gender expectations. Ironically, in US modern popular culture, male actors and celebrities, news anchors, and talk show hosts, among others, apply makeup routinely prior to their appearances; so, the issue is not whether men can wear makeup to enhance their presentation and wondering if they would benefit, instead the issue becomes making male cosmetics mainstream. As defined by cosmeticsmag.com, the critical question can be framed, "How do you court a consumer base not quite convinced they want or need what you're selling" (Freed 2015). Many companies are trying; Mintel reports that between 2007 and 2012, the number of global launches in the men's beauty and personal-care category surged 70 percent, surely an attempt to capture some of the emerging male market (Freed 2015). The largest drivers for this trend in the US will be (social) media and the shift in generational psychology regarding gender identity. Countless studies link media exposure to increased self-consciousness, body image issues, and dissatisfaction with one's appearance (Bessenoff 2006). While men may not be affected by these issues to the extent that women are, the modern age of social media has exaggerated our perceptions of self. Photo editing, social sharing, and media account management make social media users more prone to critic and perfect the image they are projecting for viewers – hinting at subtle narcissistic undertones. Selfies have ingrained the notion that our appearances matter more than they used to, and that capturing the perfect photo often comes from staged environments. And because how quickly first impressions are formed, many individuals and younger generations are,

whether they consciously know it or not, becoming more efficient at *presenting their best version of themselves*.

The shifting male identity is another driver proving the adoption of male cosmetics is likely in US markets. The metrosexual male, a classification characterized as a heterosexual man who cares for fashion and personal grooming, has existed since the mid-1990s. This emergence created market opportunities for companies to provide product categories that appealed to such men (Griffiths 2016). Today, a new classification of masculinity has surfaced known as the spornosexual male. This individual is characterized as a groomed male who places even greater attention on perfecting his appearance and improving his physique. This shifting categorization of masculinity within our very own culture provides a fresh opportunity for companies to, once again, develop and expand product categories. In fact, according to a report from Mintel, a new generation of male make-up products are set to explode as men place greater emphasis on their appearance (Libby 2015). It is up to marketers to educate the male population about what products are available to them and then aid them as they venture into applying these products, as they strive to look their best.

Men are the perfect next segment for the expansion of the cosmetic industry. As men increasingly care for their own appearances and use social media, and as younger generations are raised in societies where men are increasingly image-conscious, the adoption of male cosmetics is not a possibility, but an eventuality.

Chapter 3

Executive Summary

Contact Information

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Business Lifecycle

Stage

Development

Initial Employee

Count

1

Value Proposition

Empower men to take control of their appearance and refine themselves to look and feel their best

OBJECTIVE

Company strives to become the leading male cosmetics brand in the United States. With **Company's** cosmetic product line, men are empowered to refine themselves and take control of their appearance – to look and feel their best.

PROBLEM + OPPORTUNITY + SOLUTION

Just like women, millions of men are self-conscious and feel anxiety over their appearance, or simply want to improve their look. Beyond proper grooming habits and living a healthy lifestyle, men have little optionality to improve their appearance. Male cosmetics are the next big evolution in the cosmetics industry, and **Company** aims to become the leading male cosmetics brand.

Through **Company's** cosmetic and skincare coverage products offered through its online store, men will be able to conceal facial imperfections, such as acne, uneven skin pigmentation, undereye circles, and more, while also enhancing their features through complementary grooming products, all which are undetectable. **Company** believes that its target customer would be willing to purchase a combination of the following products: exfoliating facewash/cleanser or face masks, concealing moisturizers, foundations, lip balms, applicators, and a nail care set, as these products can easily be incorporated into a regular self-care regimen without stretching much beyond the target customer's comfort zone. Additional products may include a matte bronzer, an eyebrow pencil/gel, an eyelash curler, and toner.

However, for this feasibility assessment and for financial pro forma purposes, product sales have been limited to a single cosmetic product and a single facewash.

INDUSTRY ANALYSIS

Operating conditions in the following industries effects **Company**: Global Cosmetics Manufacturing, Cosmetic and Beauty Products Manufacturing in the US, and Online Perfume and Cosmetic Sales in the US. In all of these industries, expected growth is either relatively stable or booming (e.g. Online Perfume and Cosmetic Sales in the US). There is high demand for differentiated products, research and development investment is projected to continue growing, competitor concentration is low, barriers to entry are either moderate or low thanks to online retailing, and the male segment is growing exponentially, especially in international markets – proof of concept for US markets.

MARKET + CUSTOMER ANALYSIS

Market data for male consumption of cosmetic products could not be sourced; instead the US male cosmetics target market size of 37,727 was determined using the following logic: according to 2010 US Census Bureau data, the total US population was estimated to be 308,745,538, of which 49.2% were male (Appendix, Item A). **Company's** target age range is between 18 and 24, of which there were 30,672,088 individuals. Roughly half of the US total population are men (49.2%), so applying the 49.2% ratio of males in the total population to the estimated 30,672,088 individuals 18 to 24 years of age results in a potential target market of roughly 15,090,667 males. **Company** applied a massive discount of 95% to the potential 15,090,667 males, resulting in an estimated 754,533 males who are expected to be interested

Industry

Cosmetics;
[Male] Makeup &
Skincare

Related Industries

Global Cosmetics
Manufacturing;
Cosmetic & Beauty
Products
Manufacturing in the
US; Online Perfume &
Cosmetic Sales in the
US

**Market Size & Year
3 Expected Capture**
37,727 males; 25%

in personal grooming and appearance. **Company** believes that through an intense viral and psychological marketing campaign, 5% of total potential male customers aged 18 through 24 interested in their appearances and in grooming can be converted to buyers; therefore, 5% of 754,544 males is a final US male cosmetics target market size of 37,727 persons. This is a worst-case sizing estimate, since in reality, there is no age restriction to whom may purchase **Company's** products, and the arbitrary discounts severely downplay the potential consumer base.

Target customers are males living in the United States aged 18 through 24, with disposable income who desire to improve their appearance and who use products to complement their appearance and personal grooming. They are motivated buyers and may be either graduating high school, currently enrolled in college, employed, or simply care about their physique.

COMPETITION

While a brief competitor analysis of traditional cosmetic companies is included in this feasibility assessment when examining the three aforementioned industries, in-depth competitor analyses have been restricted to existing male cosmetic companies, discovered via search engine searches for obvious keywords terms (e.g. *male cosmetics* and *makeup for men*). Only four competitors were found in this male cosmetics segment, with only one brand being founded in the US; the other three were founded in Australia (BM Cosmetics), the United Kingdom (MMUKMAN), and Canada (FORMEN). This domestic competitor, found at www.menaji.com, is the dominant threat to **Company**; founded in 2000 by a celebrity makeup artist with over twenty-five years of experience, MĒNAJI is considered the pioneer

Customer Profile

Male, age 18-24,
disposable income;
self-conscious or
seeking improvement

of Identified Niche Competitors

4

Differentiation

Marketing: unique customer profile; large-scale marketing initiatives stimulating mass-market awareness of male cosmetics

of the men's cosmetic skincare market. Fortunately, all of these competitors seem to be doing little to aggressively stimulate market demand; by focusing on an older age and socioeconomic demographic (MĚNAJI), by having an unfocused and chaotic ecommerce store pushing affiliate products (MMUK MAN), or by attempting to appeal to a luxurious consumer group (BM Cosmetics), **Company** believes these competitors do not hold any impenetrable competitive advantages. Moreover, as part of **Company's** differentiation and competitive strategy, a unique and large-scale marketing initiative will be executed with the goal of trying to stimulate mass-market awareness (and appeal) to the value of male cosmetics for ordinary men who simply want to improve their appearance.

GO-TO-MARKET STRATEGY

Company's go-to-market (GTM) plan has three phases: Phase 1 – Beta, Phase 2 – Growth, and Phase 3 – Maturity. In the six months of Phase 1 – Beta, objectives include developing a private label and conducting a beta test of fifty users, developing **Company's** ecommerce website, and sourcing contract manufacturing and a third-party logistics provider (3PL) to handle fulfillment in preparation for Phase 2 – Growth. In Phase 2, a two-year minimum timeline, **Company** will need to ensure it has an inventory management solution in place, in order to complement the contract manufacturing and 3PL initiatives from the previous phase, as well as to prepare for anticipated traffic. Afterward, **Company** intends to hire additional staff; develop a loyalty/rewards program; engage in website search engine optimization to capture internet traffic; execute a large-scale marketing campaign, build the brand via social media platforms (Facebook, Twitter, Instagram, and YouTube); reach out to social media lifestyle influencers, male lifestyle publications, male beauty editors, and lifestyle bloggers;

GTM Phase 1 – Beta

Six months; test market with private label product; develop unique product with contract manufacturers and secure 3PL services

GTM Phase 2 -**Growth**

Minimum two years;
hire staff, create
loyalty program,
execute marketing
campaign, build brand
via social media,
connect with
influential sources,
create blog, establish
key partnerships with
celebrity influencers
and male salons

Funding**Requirement**

\$100,000

Year Three Gross**Sales**

\$2,546,573

develop and populate **Company's** blog; and seek partnerships with celebrity influencers and male salons.

FINANCIALS

Total funding is expected to be \$100,000, generated from the owner's initial contribution of \$25,000, a crowdfunding campaign with an anticipated fully funded goal of \$25,000, and non-interest-bearing contributions totaling \$50,000 from a network of family and close friends. Total costs are estimated to be around \$97,125, resulting in a surplus between total funding and costs equaling \$2,875. Startup expense categories are: travel, office supply expenses, accounting and legal expenses (including registering the company as a legal entity), upfront yearly insurance prepayment, a yearly TurboTax software subscription, and a yearly subscription to a Shopify ecommerce website. The final startup cost will be an investment in initial inventory, along with third-party logistics fulfillment; this category is estimated to total \$76,397, or 50% of year one's total cost of goods sold (\$152,794). The remaining cost of goods sold is expected to be funded through sale of initial inventory. An additional \$10,000 has been budgeted for miscellaneous expenses, as a safeguard against an unpredictable startup environment or for increased costs in attaining sales.

Year one, two, and three gross sales are estimated to be \$305,589; \$1,018,629; and \$2,546,573 respectively, with net operating income in the same years of \$32,898; \$89,150; and \$319,494. Year one, two, and three assume a market capture rate of 3%, 10%, and 25%, respectively. A Net Present Value (NPV) calculation was performed and resulted positively (\$256,494); the NPV was discounted at an 8.80% discount rate, an additional 2% beyond the

Net Present Value**(NPV) Analysis**

\$256,494

Break-Even Units &**Dollar Sales**

15,413 units;

\$231,194.00

twenty-year junk bond yield, according to www.barrons.com. Finally, a breakeven-even analysis was performed showing the units and dollar sales required to achieve break-even in year one – 15,413 and \$231,194, respectively. **Company** expects profitability in year one.

Because these projections are crude estimations of the future, they serve only as rough guidelines for **Company's** expectations. The reader should take into consideration the extreme discounting applied when conducting the analysis, and must also factor in the challenging market conditions that could hinder this prospect, as lucrative success depends on **Company's** ability to stimulate market demand. Still, based on the findings of this feasibility assessment, the male cosmetics startup concept shows strong potential.

Chapter 4

Business Description

Business Concept

Company empowers men to take control of their appearance and look their best, by providing a complete line of cosmetic products through its online store, delivered straight to the consumer's door. **Company** believes men should feel attractive and confident, and provides products so men can achieve this goal.

Product Description

Company is a male cosmetics brand aiming to provide a range of cosmetics for men who wish to project their best version of themselves. An intense marketing campaign will be created to stimulate demand for male cosmetics and grooming products, and also to raise awareness for proper personal care and grooming techniques (refer to Go-To-Market Strategy). Assuming demand exists for male cosmetics, the next question becomes, "What products or services will be offered to satisfy this demand?"

Company believes the target market is seeking to enhance their appearance to reflect a refined day-to-day look, as opposed to the flamboyant glam currently donned by some men (whether part of the LGBT or drag community). Because the brand is targeting men who wish to enhance their ordinary appearance and maximize their presence, while concealing the fact that cosmetic products were applied, discretion in product formulation is key (specific ingredient formulation will not be discussed in this feasibility assessment). Still, if this is true, an analysis of cosmetic best practices for women can be of particular value and serve as a template for

available cosmetic options for men. Below, are what **Company** considers to be the maximum level of product possibility for the target male.

1. Exfoliating Facewash/Cleanser
2. Face masks
3. Moisturizer/SPF/primer
4. Toner
5. Foundation/Concealer
6. Matte Bronzer
7. Lip balm
8. Eyebrow Pencil
9. Eyebrow Gel
10. Eyelash Curler
11. Eyelash Gel
12. Tweezers
13. Noise Hair Trimmers
14. Product Applicators
15. Nail care set: Clip, File, Cuticle Oil/Cream & Trimmer, Hangnail Clipper, Buffer Pad, Finish

In the cosmetic industry, often times products containing the same or slightly modified formulations are rebranded, repackaged, and sold to consumers; other times, new and innovative formulations are introduced into the market. Through either strategy, countless iterations and product combinations exist based on the list presented above. Until **Company** discusses specific product compositions with formulators and/or manufacturers and assesses desirable ingredients most favorable for mens' preferences and ranging skin characteristics, each product's intrinsic differentiation amongst other competitors cannot be discussed. Obviously, the specific formulations of each product – which could be competitive advantages – will be thoroughly addressed prior to launch, but is beyond the scope of this feasibility assessment.

Company believes that its target customer will be willing to purchase the **company's** exfoliating facewash/cleanser or face masks, moisturizer, foundation or concealer, lip balm, applicators, and nail care set, as these products can easily be incorporated into a regular self-care regimen without stretching much beyond the target customer's comfort zone; **Company** believes it would be counterintuitive to assume the average male who has never applied cosmetics would be so inclined to purchase matte bronzer, eyebrow pencils/gels, eyelash curlers, and toners, although the **company** does intend to make these products available for purchase eventually, in order to establish itself as a formidable competitor and capitalize (through upsells) on the male cosmetics and grooming trend. It should be noted that the marketing campaigns will not focus on all these other product categories though; instead, marketing will focus primarily on breaking down the stigma of men using makeup and cover-up products, meanwhile offering complementary personal care and grooming products through the website to add to **Company's** value proposition.

The law does not require FDA premarket approval for cosmetic products and ingredients other than color additives, although there are laws and regulations applying to cosmetics on the market in interstate commerce, which state that the FDA can pursue regulation against products that are not in compliance with the law; namely, that ingredients and the finished products must be safe, the product must be properly labeled, and the ingredients must not misbrand the cosmetic under the laws that the FDA enforces ("Laws & Regulations," n.d.). Fortunately, **Company's** product development and FDA compliance will be delegated to contract manufacturers.

Chapter 5

Industry Analysis

When launched, **Company** will be participating – either directly or indirectly – in the following industries, from the most general to the most specific: Global Cosmetics Manufacturing, Cosmetics & Beauty Products Manufacturing in the US, and finally, Online Perfume & Cosmetic Sales. (Beyond these industries, an extended analysis might include investigating potential complementary industries, such as Direct Selling, Department Stores in the US, or Beauty, Cosmetics, and Fragrance Stores in the US.)

Global Cosmetics Manufacturing

This industry prepares, blends, compounds and packages toilet preparations and personal-care products, and its major products categories are skincare, hair care, cosmetics, and fragrances. Traditional competitors here are large multinational organizations who sell products downstream in demand industries, such as global wholesale and retail trade, global department stores and general merchandise stores, and global supermarkets. Overall, the industry is expecting robust growth through 2022, thanks in part to strong development initiatives for products that cater to specific age groups, genders, ethnicities, and consumer preferences.

Drivers and Trends

In developed markets this industry is mature, but it is dynamic due to product innovation and high demand for luxury/prestige product lines. In emerging markets, there is growing demand for prestige products as well, and the industry is further stimulated by adapting to

consumer preferences for organic and all-natural products. A notable trend in this industry is the recognition and increased development of male [skincare] products, especially in Asia, where greater than half of the global men's skincare market resides according to Euromonitor ("Men's Grooming," 2016). For many cosmetic companies, this market represents a new era of opportunity; for example, according to Estee Lauder president Lynne Greene in a 2014 New York Times interview, it is estimated that the new male skincare may grow faster than the company as a whole would in coming years (Friedman 2014). Moreover, this change to the traditional core product portfolio has resulted in the creation of new markets; therefore, it is of no surprise that the number of industry operators has increased an annualized rate of 3.9% to 21,354 since 2012, and total industry employment has increased to over 1MM workers in 2016 – a 3% growth from 2015 (Cohen 2017).

Drivers here include global per capita income, world price of crude oil, GDP of the BRIC nations, and global research and development funding. 2017 global per capita disposable income is expected to increase; over the five years to 2022, BRIC nations' gross GDP is expected to grow at 4.8% annually, according to IBISWorld (Cohen 2017). Additionally, as global economic activity is projected to increase, especially in emerging and developing countries, to 3.4% in 2017 and 3.6% in 2018, increases in global per capita disposable income will stimulate consumer purchases of more expensive cosmetics, according to the International Monetary Fund ("World Economic," 2017). Because petroleum is a key input in this industry's products and for operations, the world price of crude oil effects this industry's bottom-line; while in 2016 the International Agency's (IEA) World Energy Outlook (WEO) projects global price of crude oil to rise between \$79 – 82 per barrel by 2020, \$111 - 127 by 2030, and \$124 – 146 by 2040, US oil prices will likely experience downward pressure due to stimulated US production levels via

removed export restrictions (Rapier 2016). In line with this, IBISWorld's forecasted value for crude oil in 2022 stands at \$60.50 per barrel ("World Price," 2017). Finally, global research and development funding is projected to decrease in 2017, a potential setback to the industry.

Competition

2016 industry revenues were \$308,865MM, and the industry's contribution to the global economy was predicted to grow by an annualized rate of 2.7% between 2012 and 2022, to \$342,816MM in revenue, according to IBISWorld (Cohen 2017). The three major industry participants make up approximately 30% of the entire industry and are L'Oreal (~12.6% market share), Unilever PLC (~7.8%), and Coty Inc (~7.5%), who acquired Procter & Gamble Company's beauty segment in 2016. Other participants, including Estee Lauder Companies, Inc. (~3.8%), Shiseido Company Limited (~2.3%), and Beiersdorf AG (~1.9%) comprise the remaining 70% of the entire industry, suggesting industry concentration is low (Cohen 2017).

Cosmetic and Beauty Products Manufacturing in the US

Narrowing down our analysis further, **Company** will be effected by Cosmetic and Beauty Products Manufacturing in the US, an industry with total revenues totaling roughly \$42.3B and with anticipated annual growth between 2016 and 2021 of -0.5% (Cohen 2017). Similar to the Global Cosmetics Manufacturing industry described previously, this industry prepares, blends, compounds, and packages beauty products and cosmetics. The industry is segmented into the following product categories: skin care, hair care, cosmetics, perfumes and colognes, and other (deodorants, oral hygiene, depilatories and shaving products, sunscreen,

nonmedicated powders and feminine cleansing products, and bath preparation items). Of the industry's \$42.3B in revenues, according to 2016 data, 28.9% of revenues were from skin care products, 22.3% were from hair care products, 20.9% from other, 17.3% cosmetics, and 10.6% from perfumes and colognes (Cohen 2017). Additionally, the industry can be further segmented by income quintile (refer to Trends and Drivers, below). Key economic indicators and drivers here include the Consumer Confidence Index, research and development expenditure, world price of crude oil, and the trade-weighted index. Demand industries include supermarkets and grocery stores; pharmacies and drug stores; beauty, cosmetics, & fragrance stores; health stores; department stores; and hair and nail salons.

Drivers and Trends

According to 2016 projections on IBISWorld, this industry is considered mature and growth is expected to slowly decline through 2021 at a low annualized rate of -0.5%; moreover, industry revenue is expected to have declined to \$41.3 billion, partly due to uncertain consumer confidence, the expected future increase in crude oil prices, and increased levels of imports affecting domestic demand (Cohen 2017). However, these projections must be amended; The Conference Board (CB) Consumer Confidence measure, a gauge for consumer confidence in economic activity that predicts spending, has printed higher than expected readings since the time IBISWorld's estimates were made. For example, February 28, 2017 data released struck 114.8 versus the forecasted 111.0, and the economy appears to be improving overall ("United States," 2017).

IBISWorld also reports increased research and development expenditure in the US from an estimated \$372.6bn in 2017 to \$408.8bn in 2022 (Cohen 2017). This is a positive sign for the

industry, as it is expected that this increased expenditure will stimulate new product development and result in superior product formulations and increased product quality. This increase is both negative and positive for **Company**; it will likely result in increased competition, but it will also provide an opportunity for **Company** by increasing consumer demand for differentiated products.

Because the strength of the US dollar against foreign trading partners' currencies can impact international affordability of domestic production and increase foreign product demand over US demand, it is critical that the trade-weighted index (TWI), known also as the real broad index, be factored into industry analysis. Increases in the TWI often signal decreased demand for US products; however, according to IBISWorld, the TWI is expected to decline between 2017 and 2022 by a compound growth rate of -0.3%, a somewhat positive sign for domestic manufacturers (Cohen 2017).

Finally, while the industry has faced growing pressure from foreign imports selling at lower prices in the past several years, satisfying roughly 20% of domestic demand in 2016 according to IBISWorld, domestic exports have increased due to the exploitation of niche overseas markets such as men's skincare products in Asia-Pacific countries, which account for roughly 65% of global spending in this category (Cohen 2017). This is both positive and negative for **Company**. The fact that large domestic cosmetic companies are desperately trying to penetrate this niche market overseas supports my hypothesis that this is in fact a credible but premature, untapped domestic market opportunity. On the other hand, large domestic cosmetic, beauty, and grooming competitors are able to experiment and test out marketing campaigns and logistic initiatives *now*, and then bring that experience back to the US should demand for male cosmetics dramatically increase. **Company** should view this as a major threat, and should focus

on building out its marketing and brand loyalty as soon as possible to avoid being eliminated by competition.

Industry demand is affected by many other variables: level of marketing, quantity of celebrity endorsements, ability to convince consumers to “trade up” their products (as consumers often trade out versus increase total volume of purchases), ingredient sourcing and impact on long-term health, environmental practices, and level of disposable income (as products in this industry may be classified as discretionary spend). With respect to income, the market may be further segmented. 31.6% of industry revenue in 2016 was attributed to the highest income quintile, signaling a strong link between high disposable income levels and product sales (Cohen 2017). The second highest (18.5%) and third highest (12.6%) income quintile, best described as *aspirational shoppers*, has shown slight contraction in the five years leading up to 2016 (Cohen 2017). The bottom two quintiles of purchasers (a combined 17.7%) can be described as having limited disposable income, and being least likely to experiment with trying new products; however, as disposable incomes slowly rise, this segment is able to afford purchasing higher-priced products (Cohen 2017). In evaluating these data points, **Company** should focus on a target income demographic that possesses enough disposable income to warrant experimenting with new products.

Finally, the industry is highly concentrated in the West and Mid-Atlantic regions of the US, making up roughly 29.3% and 20.9% of industry revenue (Cohen 2017). The state with the highest number of industry establishments is California (23.5%) followed by New Jersey (9.5%), Florida (7.6%), and New York (7.1%) (Cohen 2017). Major cities in California and New York would be ideal targets for **Company** to market to, as these areas have a dense population and fashion-forward cities with diverse groups of people, while being geographically positioned to

benefit from nearby downstream markets; for example, on the Mid-Atlantic side along New York and New Jersey, several upstream chemical producers and downstream consumers (e.g. retail centers) are located in close proximity, and local shipping ports make shipment very practical.

Competition

While the industry's geographic concentration is high, competitor concentration is low. Major companies are Estee Lauder Inc. (~15.5% market share; brand names: Clinique, Origins, Aveda, MAC, and Bumble and Bumble), L'Oreal USA Inc. (~7.5%; brand names: Garnier, Maybelline, Lancôme, Kiehl's, Ralph Lauren (fragrance), and Urban Decay), Mary Kay Inc. (~5.4%), and Unilever (~4.9%) (Cohen 2017). According to IBISWorld, the four largest companies generated approximately 33.3% of total industry revenue in 2016, while 66.7% of market share was attributed to other small competitors (Cohen 2017). Moreover, 65% of companies in this space employ fewer than twenty people, which proves competitor concentration is low; however, in general, competition is high and increasing. The number of industry companies has increased dramatically from 2011 to 2016 to 3,384 operators (a 5.8% annualized growth rate) (Cohen 2017). Barriers to entry are neither high or low but are increasing, due to an overly saturated and mature industry life cycle, medium capital investment costs (e.g. factory and production equipment, if not contract manufacturing; roughly \$0.26 is spent on capital for every \$1 spent on labor), economies of scale, increasing difficulty in generating brand awareness over competitors, and due to the fight for retail shelf space. **Company** aims to avoid these hurdles by working with a contract manufacturer to avoid expensive capital investment costs. Moreover, **Company** aims to avoid the mainstream

competitive landscape by focusing exclusively on the male cosmetic niche to generate brand awareness and provide product differentiation, while servicing customers online through its ecommerce website.

Online Perfume and Cosmetic Sales in the US

The Online Perfume and Cosmetic Sales industry describes companies that sell perfume, makeup, and other cosmetic products online, and includes revenues produced by brick-and-mortar stores' online storefronts. Per 2016 data on IBISWorld, this industry produced revenues of \$7.2B and profits of \$419.5MM, has had 20.9% annual growth between 2011 and 2016, and is anticipated to grow 13.9% annually between 2016 and 2021 to reach \$13.9B (Carter 2016). There are 1,368 businesses operating within this highly competitive industry; meanwhile, there are low levels of concentration (Carter 2016). Key product segmentation as a percentage of \$7.2B revenues are skin-care (~43.9%), cosmetics (~42.2%), and fragrances (~13.9%), and females are estimated to make up 58.8% of revenues, although the male segment has been growing due to the increase of image-conscious males (Carter 2016). The market may be further segmented by consumer age. According to IBISWorld, consumers aged 35 to 44 comprised 26.7% of the market, consumers aged 25 to 34 totaled 24.4%, ages 45 to 54 totaled 21.4%, ages 55 and older totaled 17.1%, and consumers aged 24 and under totaled approximately 10.4% (Carter 2016). Being that the largest two age segments combined – ranging from ages 25 to 44 (51.1% of the market) – likely have secure income streams available for discretionary spending and therefore have greater access to products that fit their care for appearances in society due to their lifecycle stage, this is a logical driver for the growth in online perfume and cosmetics sales. While **Company** intends on reaching out to this audience, it aims to specifically target the most

open-minded age group, the 10.4% of consumers aged 24 and under. All in all, this is a combined target market share of 61.5% (for description on market sizing, refer to Market and Customer Analysis). The segmentations outlined above – percent of cosmetic sales to industry revenue, the number of male consumers, and the age data – all will be used for the initial market sizing of the male cosmetic market; however, as explained later, this approximation will not hold as a reliable measure of the male cosmetics market.

As opposed to the two previous industries analyzed with life cycle ratings of *mature*, the Online Perfume and Cosmetic Sales industry is in the *growth* stage. This signifies revenues are growing faster than the economy, many new operators are entering the market, there is rapid technology and process changes, there is a growing customer acceptance of diverse products, and there is rapid introduction of products and brands. This is an opportunity for **Company**, since this business climate seems to suggest low barriers to entry, as well as strong consumer demand for differentiated product offerings. Additionally, although the industry is in a growth stage and 58.5% of revenues are attributed to women, a majority of these new entrants will not be competing within the male cosmetics niche; in fact, many companies that cater to men often specialize in male grooming and skin care (such as shaving products and face washes), so there exists an opportunity to dominate the male cosmetic niche as traditional power players seem to be nonexistent here because of premature market demand. Industry growth is made possible because of the Internet's accessibility and because of the savings generated by avoiding the retailing middle-man, but also because products have been increasingly adapted in an attempt to capture younger consumers who are inclined to care for their aesthetic and who are price sensitive. Also, the increased prevalence of the conscientious male consumer has driven growth in products such as shaving balms, hair care, and facial creams. Finally, as costs of computer

processing power decline and the ease of connectivity to the Internet increases, as well as the ease of implementing technology tailored to e-commerce business' needs, the drivers are in place for sustained industry growth.

Regarding operating conditions, the key supply industries here are Cosmetic and Beauty Products Manufacturing in the US (analyzed previously) and Drug, Cosmetic, and Toiletry Wholesaling, while the key buying industries are consumers directly. The level of capital intensity is rated as *medium*, with an estimated \$0.15 in capital costs per dollar of labor expenditure (Carter 2016). Because most capital investment involves only warehouse space, computer equipment and software, and vehicles for transportation, the industry is less capital intensive compared to any retail store. Revenue volatility is rated *medium*, as some cosmetics consumers, personal care products often appear to fall under nondiscretionary spending, somewhat hedging against consumer purchasing patterns changes due to fashion changes or household disposable income changes. Also, the level of regulation appears *light, but increasing* according to IBISWorld (Carter 2016). This presents a slight hurdle; with the passage of the Streamlined Sales and Use Tax Agreement (SSUTA) in 2005, the initiative to collect taxes on online sales became common practice in twenty-four participating states – a practice that, prior to 2005, was not required according to the US Supreme Court due to the complexity of managing variable tax rates for non-physical retailers doing business across the country (“Streamlined,” n.d.). Typically, if a tax is to be collected, an online retailer can collect sales tax when the transaction occurs or else the tax burden falls on the consumer to be paid directly to the state. With pending legislation regarding the Marketplace Fairness Act introduced in 2013, state governments will be able to collect and use sales taxes directly from online retailers who have no physical presence in a state, thereby shifting the tax reporting responsibility from consumers to

retailers in an effort to mitigate the lack of consumer compliance (“What is,” n.d.). With these two regulations, part of an online retailers’ pricing competitive advantage would be lost, and even worse, small to medium-sized industry participants would likely require tax departments to handle the tax reporting complexities, resulting in decreased sales volume for the former and increased costs for the latter.

Drivers and Trends

Demand determinants for cosmetics, fragrances, and skin care products are affected by many variables, such as fashion trends, heavy marketing spend, the competitiveness and pricing strategies of rival brick-and-mortar stores, consumer attitude toward animal testing, consumer attitude surrounding the use of synthetic chemicals and the effects on health, environmental and ethical consumerism, and socioeconomic and demographic factor, such as state of the economy and its connection to disposable income. A few key indicators and drivers for the industry are per capita disposable income, percentage of services conducted online, number of broadband connections, number of mobile internet connections, and the world price of crude oil. As stressed previously, disposable income effects consumer spend on cosmetics and personal care products; fortunately, per capita disposable income is expected to increase in the coming years. The percentage of services conducted online is projected to grow 8.6% between 2017 and 2022 up to 23.3%, indicating a strong trend toward online resource consumption and reinforcing the industry’s expected future growth and demand (Carter 2016). Also, the number of broadband connections is estimated to experience compound growth of 3.7% between 2017 and 2022, reaching 399.3 million connections, allowing for increased online demand for goods as consumers turn to online storefronts more for convenience and cost-savings (Carter 2016).

Similarly, the number of mobile internet connections is expected experience compound growth of 5.1% between 2017 and 2022, reaching 399.5 million connections; this will enable consumers to quickly price check brick-and-mortar prices and ideally transition to buying products primarily online (Carter 2016). Finally, the world price of crude oil is most certainly a driver as discussed previously; although the price of crude oil is expected to increase in the future, an online retailer still is not hurt as much as the traditional retailer who has to increase product prices to pass on the costs to consumers or else risk lower margins.

Many industry opportunities lie within small and growing markets and niche product categories. For example, industry trends involve catering to underrepresented markets, such as young consumers between the ages of 18 and 24, personal care products for men (i.e. shaving, wrinkle-reducing moisturizers, etc.), and naturally derived and ecofriendly products. Threats worth noting are saturation and external competition. Because of the rapid previous growth and current growth rate, concern exists surrounding the hyper-competitive climate, as well as the eventual plateauing of expansion. Moreover, dominant brick-and-mortar participants with fantastic name brand recognition can easily invest in building up their own online storefronts' product categories, as well as expand their in-store experiences to attract customers away from online retail competitors.

Competitive Landscape

The industry's concentration is low, but the competition is very high due to extremely *low* barriers to entry. The factors through which participants compete in this industry revolve on price, product packaging, online shopping experience, absorption of shipping costs, and through the use of loyalty incentives to encourage repeat purchases. Startup costs are *low* and allow an e-

commerce site to be easily established, since online stores do not need retail brick-and-mortar locations to conduct business. Also, because online stores do not need to be physically present for customers, they are able to further drive down costs by establishing warehouses on each coast located near a major import or export center for international sales and fast national mail deliveries. Globalization in the industry is also *low* but it is increasing, as the majority of industry participants are US-owned, and therefore, earn revenue domestically, but international participants are expanding operations to penetrate the US market. According to IBISWorld, the major player in this industry is Estee Lauder Inc. (~5.3% market share; brands: Clinique, MAC cosmetics, and Bobbi Brown), while 94.7% of remaining market share is comprised of highly fragmented, smaller participants, such as Moet Hennessey Louis Vuitton S.A. (~4.3% market share), and Ulta Salon, Cosmetics & Fragrance Inc. (~4.2% market share) (Carter 2016). In conclusion, **Company** aims to take advantage of the low barriers to entry, low industry concentration, moderately low capital investment costs, high demand for product differentiation, high projected industry growth, and high levels of Internet connectivity by focusing exclusively on the male cosmetic niche to generate brand awareness and provide unique product differentiation.

Chapter 6

Market and Customer Analysis

Market Analysis

Gathering quantitative market data for the male cosmetic market is challenging, as men's usage of *cosmetics* – in the literal term – is a premature market in the US, and therefore market data could not be sourced. However, there are market reports available on Men's Grooming in the US. Euromonitor provides one such report, showing how men's grooming has grown by 4% between 2015 and 2016, reaching total sales of roughly \$8.5B ("Men's Grooming," 2016). Unfortunately, included in this broad category are toiletries, shaving products, fragrances, deodorants, hair, skin, and face care products, and varieties of razors. There appears to be no accurate method for data tabulation and market sizing for male cosmetic products– a critical hurdle for **Company's** financial analysis. One way to avoid this issue might be to examine market sizing for male grooming in Asian regions, as these markets contain the largest and fastest growing segments of male cosmetics and personal care consumption in the world; unfortunately, international cultural dynamics differ completely from the US, and attempting to use that data as a proxy would lead to unreliable conclusions. In fact, any analytical method will not provide foresight into better understanding the male cosmetic market in the US, as technically it does not yet exist. There appears to be no obvious demand for coverage or enhancement products for men in the US, such as concealers, foundations, and more. This is a positive advantage. Because the probability of men applying such products is severely downplayed, should a marketing campaign succeed in generating instant virality to the idea men *looking their best* and applying products to achieve this, **Company** will be positioned as one of

the primary beneficiaries of such a cultural shift. In a market study conducted by Global Industry Analysts, Inc, the key market drivers for the growing global men's grooming products market are "the rise of the self-identifying metrosexual male with high disposable income, increased acceptance of and spending on personal care cosmetics by men, development of high performance and multi-functional products, and an expanding base of affluent middle class consumers" ("Men's Grooming Products," 2015). Today, we are bordering on the edge of a sweeping psychological shift in how men view themselves and how much effort they are willing to invest in improving their appearance.

Traditionally, market analysis would start with the Total Available Market (TAM) (the aggregate market demand for a product/service); the Serviceable Available Market (SAM) (the segment of the TAM targeted by products/services within a company's geographical reach); and the Serviceable Obtainable Market (SOM) (the portion of SOM that a company is available to capture) (Brouster

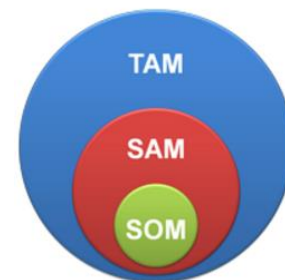


Figure 1: Market Sizing Diagram

2015). Instead, because it appears impossible to gather such data, in an effort to size the market, the following general market sizing factors were used from the Online Perfume and Cosmetic Sales in the US industry analysis conducted previously:

- 2016 revenues: \$7.2B
- Cosmetics segment percentage of revenues: 42.2% (\$3,038,400,000 market size)
- Total estimated male contribution to revenues: 41.2% (\$1,251,820,800 market size)
- Target age range, 0 – 44 years old, percentage of revenues: 61.5% (\$769,869,792 market size)
- Arbitrary discount to account for inaccuracy of percentage computations: 90% (\$76,986,979 remaining market size)
 - o Accounts for crude inclusion of minors in age range, as well as invalid assumptions linking total industry revenue contribution by men to percentage of cosmetics purchased

Unfortunately, that number cannot be trusted at all, since even the logic used in arriving to that number is not sound. An alternate method of sizing the market might involve identifying the total potential number of customers, then from there, assuming what percentage of individuals may actually be converted into paying customers. This is the estimate that will be used in the financial projections. To calculate this, data from the US Census Bureau for Population by Sex and Selected Age Groups: 2000 to 2010 was used (Appendix, Item A).

According to 2010 data, the total population was estimated to be 308,745,538, of which 49.2% were male. Narrowing down the market would involve targeting a specific age demographic; the selected age demographic falls between ages 18 and 24, of which there were 30,672,088 individuals in the US as of 2010. Through time, it appears the number of women only slightly outpace the number of men; therefore, applying the 49.2% ratio of males in the total population to the estimated 30,672,088 persons 18 to 24 years of age results in a potential target market of roughly 15,090,667 males. Now, in the best-case scenario, all these males would be purchasers of beauty and personal care products. Realistically, that is not the case; therefore, **Company** applied a massive arbitrary discount of 95% to the potential 15,090,667 men, and the resulting number of men interested in personal grooming and appearance is arbitrarily estimated to be 754,533. Referring to the discussion of earlier of TAM, SAM, and SOM, this would be SAM – the segment of the TAM targeted by **Company's** products within **Company's** geographical reach; because, **Company** will be conducting business online, it is not limited by geographic reach. The TAM has been omitted, since **Company** would need to calculate worldwide demand for its products and its ability to satisfy global demand, an impractical task at present. Regarding SOM, the portion of SAM that is available to capture, **Company** believes that through an intense viral and psychological marketing campaign, 5% of the total potential

male customers aged 18 through 24 interested in their appearances and in grooming can be converted to cosmetic buyers; therefore, 5% of 754,544 males is a more reasonable potential male market size of 37,727 persons.

Market Competitors

It was not possible to gather comprehensive data on market competitors; what is included below are the most prominent competitors discovered through manual Internet keyword searches for companies offering male cosmetics (for example, by typing into Google's search bar, "male cosmetics, man makeup, male makeup, etc.).

www.mensmake-up.co.uk

Beginning around 2011, online male makeup store mensmake-up.co.uk has attempted and has appeared to have succeeded in offering the UK's widest range of makeup for men products. Its own product line, MMUK MAN, claims to be UK's number one brand with over 10,000 loyal customers and turnover of £750,000 in 2015. In addition to its own brand, the company also acts as a marketplace connecting consumers with a variety of other brands, benefitting from the sale of those products as well. Its website is broken down into the following categories: Face, Eyes, Refills, Brands, Imperfections, Clearance, and Skin Care. The site boasts an enormous grouping of products, and each category mentioned above has subcategories filled with even more products; for example, under the category Face, some subcategories include concealer, BB cream, tinted moisturizer, foundation, bronzer, anti-shine, skin primer, beard, and more, each linking to its own curated selection of productions. MMUK MAN has been

featured in GQ, Ape to Gentleman (blog), Men's Health (magazine), Attitude (magazine), AskMen (male improvement website), Manface (blog), and The Huffington Post. In addition to the brand's own male makeup blog with updates every few weeks, the brand also has social media presence through Twitter (471 followers), Facebook, Pinterest (144 followers), Instagram (581 followers), Google+, and Tumblr. In 2016, MMUK MAN teamed up with differio(.com), a New York City-based store offering trendy apparel for men, as its launch in the US market in an effort to make MMUK MAN products available both online and in a major city store in the US. Future anticipated store locations include the Dubai Mall, as well as store and salon partnerships across the UK, all in an effort to shift the online brand toward expansion into brick-and-mortar.

In my opinion, this brand tries to be too much of everything, with site-wide product offerings exceeding 700 items. There appears to be little initiative from this competitor to grow the overall industry demand, as opposed to collecting sales from whatever little demand exists. The brand's product descriptions, product packaging, and overall presentation seem to be an attempt to appeal to a more classy, sophisticated customer archetype; I believe the real money is in appealing to a younger demographic that is extremely image-conscious, and this is only done by crafting marketing campaigns around these *average* characterizations, not intimidating them with the constant branding of "man" and the limitless product offerings.

www.bmcosmetics.com.au

BM Cosmetics was founded in 2014 by actor-turned-entrepreneur Beau Moi, and the website claims to be Australia's first makeup brand for men with a range of skincare

and cosmetic products. Its branding emphasizes formulations, highlighting the value of this element in its male cosmetics products, as male skin texture and facial hair do alter the makeup experience and can be a barrier if not addressed properly. On this ecommerce store, the products, branded as a premium skincare and corrective enhancements range, are separated by three categories: Makeup, Skincare, and Extras. The ecommerce store gives me the impression of someone's personal brand trying to appear as something it's not - a premium product line. So, with a basic online storefront presentation and few but expensive product offerings (~\$30 - \$50 per item), this competitor looks underdeveloped. The brand has attempted to expand internationally to Panama, but there isn't much news of any other international expansion nor would I consider this foreign brand a threat. In terms of social media, the website has accounts on Facebook, Twitter (14.4K followers), and Instagram (35.7K followers), but has no blog.

The brand appears underdeveloped, while attempting to brand its products as premium and charging premium prices. Though its social media accounts seem to have fantastic following, one weakness is that the branding appears to cater to a more affluent customer demographic; this brand, like several others, gives me the impression that in an effort to appear "professional" and "exclusive", it has actually completely mistaken what I feel is the most profitable customer segment – ordinary 18 through 24-year-olds with some disposable income who simply want to look better.

www.formenmakeup.com

Going by House of Formen or FORMEN, this website claims to be the globe's first professional male cosmetic house. The company was founded in 2010 in Canada,

and now has an office in New York City (a PO Box in New York, at least). The brand's two major product categories are a professional makeup for men line and a clinical skincare line, for a grand total of eight products. Its clinical skincare line has consisted of four products – brightening hyaluronic acid crème and serum, tamarind green tea toner, and vitamin C cleanser – but all these products are “out of stock”. The company is currently closing a Kickstarter round (March 27, 2017) with a successfully funded goal of approximately \$3,000 to launch its new skincare line: a vitamin C facial cleanser, a daily anti-aging moisturizer, and a 6-in-1 brightening CC cream. This does not appear to be a new product line at all; the 6-in-1 brightening CC cream is a preexisting product within the brand's professional makeup for men line. Moreover, the brand already offered a vitamin C facial cleanser, so this whole campaign appears to be not much more than a rebranding initiative to generate buzz. In the professional makeup for men line, beyond the 6-1 brightening CC cream, is a blotting powder to remove facial shine, a concealer to conceal blemishes and skin imperfections, and an under-eye concealer color palette to remove dark circles. Regarding the FORMEN brand's social media initiatives, it has a blog that has not updated since August 10, 2016. Its Twitter account has not been updated since December 19, 2016 and has 117 followers. Its Facebook account (1,101 followers) hasn't been updated since December 15, 2016, and its Google+ account has only 4 followers. The company's Instagram (3,926 followers) is very active, and posts are mainly of the founder's lifestyle and travels pertaining to the company.

The site's registrant and brand founder, Andrew Grella, may have previously worked on a cosmetic startup attempt between 2012 and 2015, since his name is associated with a brand known as Man Up Products Inc. that no longer appears active.

Under the former brand, his startup was featured pitching a cosmetic line in Canada's television show *Dragon's Den* (America's version of *Shark Tank*), but even that episode has been removed.

www.menaji.com

This brand can easily be considered **Company's** biggest competitor. Founded in 2000, MĒNAJI Advanced Men's Skincare considers itself a disruptive brand and claims to be the first to introduce the world's best concealers for men. Headquartered in Southport, CT but also doing business in New York City and Los Angeles, as well as online in more than twenty countries, it offers male skincare and makeup items. The brand has the following product map: Cleanse (face and body scrub; deep cleaning masque; clear shave 3-in-1), Correct (911 Eye Gel; eraser), Protect (power hydrator; lip balm agent), and Conceal (urban camouflage concealer; HDPV anti-shine powder; HDPV anti-shine sunless tan). Additionally, the company offers gift sets, such as male starter kits, adult acne sets, and travel kits. The company, clearly emphasizing itself as the first to bring mens cosmetics and beauty products to the consumer market, identifies itself as a world-class, rich, luxurious, and highly advanced grooming brand, and some of the products are priced to reflect this. The founder, Michele Probst, is a celebrity makeup artist with over twenty-five years of experience who launched this line of makeup products marketed directly to men prior to the men's grooming explosion; she is considered an industry expert and is considered the pioneer of the men's cosmetic skincare market. The brand's website states that it has been featured in over 10,000 articles and television segments. Although her company is most likely the biggest

competitor in the space, in my opinion her efforts to make male cosmetics mainstream have been side-lined by her premium, celebrity-oriented branding and inability to connect to **Company's** target market's demographics. Regarding the brand's social media initiatives, its Facebook account is active and current (2,758 followers), its Twitter (1,593 followers) is active with over 5,795 posts, its Instagram is active and current as well (8,138 followers). Its Pinterest is active (523 followers), and its YouTube has twenty-six subscribers and two videos (one and three years ago), but doesn't appear active. The brand also maintains an active blog, with ties to the fashion industry and professional makeup artists. In an effort to increase market penetration, the brand also partners with makeup artists, barbers, and stylists by offering them 40% of all products, free ground shipping in the USA, and special wholesale sets.

Competitor Analysis

Based on the competitor descriptions above, we can see these market participants are all optimists, prematurely seeking to take advantage of male cosmetic adoption. More importantly, with the emerging trend of men caring for their appearances now more than ever, these participants are positioned to capture any positive cultural changes. That being said, these participants do not seem to be aggressively stimulating market demand. I believe that these brands are focusing on marketing to men who are already considering the idea of applying makeup or who are directly looking for some coverage solution, whereas they could be spending advertisement dollars making ordinary people realize how much they can benefit these products. FORMEN, the brand with the Kickstarter campaign, scores first in search engines when seeking information on makeup for men, yet the brand is immensely underdeveloped; therefore, I do not

believe this brand has enough of a value proposition to secure the top link in the future against more thoughtful competitors. MMUK MAN tries being too much of everything and needs to decide if it is a marketplace or a brand, since the endorsement of other products seems slightly counterintuitive. Moreover, this brand has only operated in the UK and is brand new to the US market. Its debut, partnering with an apparel store does not seem to be doing much in the way of stimulating market demand. MËNAJI, while the strongest competitor, appears too preoccupied with an older, more premium clientele.

For now, the list of competitors was brief. However, should this trend gain traction and make its way toward becoming mainstream, participation from larger traditional competitors is expected. For example, to test the waters, in 2015 MAC launched a celebrity makeup collection for men consisting of three items: an eyebrow finisher, a foundation palette, and a creamy highlighting base. Around 2013, Tom Ford, an American fashion designer, film director, screenwriter, and film producer, announced his collection of premium luxury male products set for distribution in around fifty stores worldwide in key fashion cities.

Because the competitive landscape is very small, operating with a veil of secrecy while testing the market in beta phase prior to launch is a necessity, as concepts and branding elements can easily be replicated and implemented by competitors who are already wishing to infiltrate this untapped market. Aside from differentiating through offering superb quality products at affordable prices with wonderful formulations, the biggest threat to **Company's** viability here are traditional cosmetic competitors.

In this section of the report, an analysis of **Company's** intended brand and products would be conducted, and as well as an assessment of its value proposition, differentiation, and strengths and weaknesses versus its competitors. Because this concept is still in its early phases

and because of my inexperience with the industry, for now I will avoid talking about product differentiation. Ultimately, **Company** intends to become a one-stop solution for men to take care of all of their appearance and grooming needs. Because this would involve competition in numerous product categories, **Company** will first specialize in cosmetics for men, and generate brand awareness through powerful marketing (refer to Go-To-Market Strategy), with the goal of eventually growing large enough to provide complementary products and expand internationally – even if only online.

Customer Analysis

Target customers are males living in the United States aged 18 through 24, with disposable income who desire to look their best and who use products to complement their appearance and personal grooming. Target customers are motivated to purchase products that they feel will enhance their appearance and give them some form of competitive edge over what they currently look like. What follows is a sample of selected customer archetypes:

Archetype 1:

Zachary King is a high school senior who always wanted to feel visually attractive, but for him that feeling didn't come as naturally as it did for others. He may have uneven skin tone, slight pigment discolorations, or suffer from blemishes like acne. He may have a part-time job after school or receive allowance, but will be graduating and relocating soon. This gives him a chance to start fresh, and he feels a sense of empowerment as he becomes more conscientious of his health, physicality, and apparel choices. He understands the power of first impressions and

wants to do everything he can to maximize how great he looks in time for college, so he can feel confident and attractive.

Archetype 2:

Jake Matthews is a college student who cares how he looks. He always feels there is room for improvement and isn't blessed with perfect skin. He is self-conscious. Whether he is spending hours at the gym improving his physique, countless time on social media updating all his profile pictures, or going anywhere in public, he wants his image to reflect his concern for his looks as well as show that he isn't afraid to put in the work to improve himself. He isn't afraid to stay out late and party either, but he doesn't want to look *dead* in the morning when he has to wake up and maintain his image all over again the following day. He is open-minded and has disposable income through part-time work, through financial support from family, or by way of excess loan money (again, he prioritizes his appearance).

Archetype 3:

John Marston has always been self-conscious; he learned early on in life that appearance can make a huge difference in how people treat you, and he maintains himself accordingly with a range of personal care products. John is employed and his job requirements involve constant interaction with others. Any way he can improve his appearance he does, as he never forgets how people treated him differently when he started caring about his weight, hair, and grooming as an adolescent. He feels this sustained care differentiates him in his workplace, but he feels like he can do more to improve his appearance.

Chapter 7

Go-To-Market Strategy

Before anything else, the following statement is the most important point of this entire thesis:

Every person deserves to feel attractive and happy – man or woman.

Company aims to be different than other cosmetic solutions for men; while the majority of competitors focus on the professional side of male cosmetics (such as in the entertainment industry), focus on luxurious and premium product lines, or focus simply on rebranding female cosmetics and selling these products to men, **Company** is trying to provide value to all males, regardless of status or class, wanting to look their best. While the product itself is physical, the real competitive advantage is found in the intangible, coercive advertising element **Company** seeks to employ, which empowers ordinary men toward taking a greater interest in their appearance through educational outreach and strong social media engagement. Moreover, traditional makeup companies do not *actively* pursue males, as they assume it to be an unprofitable and unattainable segment due to ‘rigid’ societal standards. Therefore, being the brand with the strongest marketing and product selection catering to an untapped market will provide the competitive edge that differentiates the **Company’s** brand. **Company’s** objective is to create a psychologically shifting marketing campaign that can loosen modern gender stereotypes and rigid definitions of masculinity, while making men feel more self-conscious – through various social strategies – in order to open them up to trying new products.

Company’s Go-To-Market (GTM) plan has three phases: Phase 1 – Beta, Phase 2 – Growth, and Phase 3 – Maturity.

Phase 1 – Beta

Objectives:

- ➔ Alpha test using available market products (ten users)
- ➔ Development of private label and trial run
- ➔ Develop ecommerce website (Shopify)
- ➔ Beta test private label (forty additional users)
- ➔ Gather market feedback and iterate
- ➔ Begin sourcing contract manufacturer/3PL partner

Company's objective in this six-month beta phase is to test the local market for any signs of consumer adoption and to iterate based on feedback received. Alpha testing will begin with a maximum cap of ten individuals. This cap was established because **Company** will not actually have product at this point. In order to test the market, **Company** will be purchasing highly-rated men's cosmetics products from preexisting competitors and will be offering these as *unbranded* samples to receptive family, friends, and associates that match target customer profiles. During this process, **Company** will be developing its own Shopify ecommerce store and will be consulting cosmetic private label manufacturers, in order to build inventory in anticipation of the following beta testing on an additional forty users, for a total of fifty users. By creating an online store, **Company** is able to bypass traditional retailers and pricing battles over shelf space, reinvesting these cost savings into product development; moreover, an online store is most sensible at this stage in the market, as men would not feel comfortable publicly purchasing cosmetic products anyway. Private labeling allows **Company** to focus on branding and selling makeup and skincare products, by choosing from a pre-existing range of manufacturer supplied formulas that can be relabeled and sold under the **Company's** brand. Working with a private

label manufacturer removes the burden of developing products and adhering to FDA regulations, removes the responsibility of dealing with manufacturing logistics, and allows **Company** to maintain low startup costs while testing the local market; for example, order minimums tend to be low and start at around only a couple hundred dollars according to various private label cosmetic quotes online. Once ten regular users have been found, the next stage would be advancing to beta testing using the selected private label products. **Company** would ideally conduct beta testing in markets where the social demographic structure would imply the highest success rate, such as in large cities with diverse cultures and with connections to the fashion industry; however, because beta testing's primary purpose will be to collect market feedback and iterate in preparation for the growth of Phase 2 and large-scale marketing initiatives – and not to announce **Company's** brand launch – the localized testing is intended to remain contained. That being the case, some outreach efforts for beta testing might include activities, such as browsing online forums, chatrooms, and communities targeting individuals struggling with overwhelming feelings of self-consciousness and image anxiety, while another initiative may be setting up booths at local malls or in crowded public spaces and reaching out to passers-by for live demonstrations. A detail of such an encounter is included below:

A classy woman would ask men passing by if they would like to undergo a two-minute transformation that will instantly improve their appearance. If the man agrees, the woman takes a photo of his face, assuring him that whatever happens in the next two minutes he can compare to this photo and that his appearance will be dramatically improved in that short amount of time. She asks him to cleanse his face with a **Company** branded cleanser, and then begins loosely applying subtle amounts of branded product

(perhaps a foundation and/or concealer) to one side of his face only. Once she has completed one side, she allows him to observe the difference in the mirror. Afterward, she completes the other side and takes another photo. Because the transformation was done behind some form of concealed curtain or closed-off booth, no one is aware of the fact that this man just used cosmetics. He returns to the public looking great, but before he does, he is handed a business card-sized printout. On one side, separated by a dividing line, is his before and after photo, and on the other side of this printout is **Company's** logo, website, contact information, and a discount coupon code for placing an online order. Although product for purchase is available at the booth, the man isn't expected to buy product now; instead, he is asked to pay close attention to how he feels and looks for the rest of the day. The man leaves, and minutes later he is intercepted by an attractive female who casts a glance his way and offers a subtle smile. The staged female will actually be a member of **Company's** team, and will be the final psychological reinforcement intended to make the man associate **Company's** products to his sudden increased attractiveness; hopefully, this memorable experience increases the man's self-consciousness and increases the likelihood of converting him to a customer.

Throughout beta testing, **Company** will be gathering market data, analyzing competitors' current product offerings, and will commence Phase 1 by looking to establish a contract manufacturing partner and a third-party logistics partner to handle fulfillment, all in preparation for Phase 2 – Growth.

Phase 2 – Growth

Preliminary Objectives:

- Establish contract manufacturing and third-party logistics partners
- Establish inventory management solution

Objectives:

- Hire staff
- Develop loyalty/rewards program
- Website search engine optimization
- Begin [viral] marketing campaign
- Build brand via social media platforms (Facebook, Twitter, Instagram, YouTube)
 - YouTube: Male makeover challenge; how-to guides; lifestyle tips
- Reach out to social media lifestyle influencers, male lifestyle publications, male beauty editors and lifestyle bloggers
- Populate blog posts (how-to guides, lifestyle-oriented posts)
- Key partnerships: Celebrity (television commercial); male salons

Company's objective in this minimum two-year growth phase is to take existing product demand from Phase 1 as proof of concept, and launch a viral marketing campaign that can inconspicuously alter the stigma associated with men and makeup. In order to accomplish this, the marketing messages will have to completely eliminate traditional terms like “makeup” or “cosmetics” when promoting the brand. The message must be tailored in a way that plays on individuals' self-interest, such as branding media to target feelings of inadequacy or empowerment, desire for self-improvement, embarrassment due to physical appearance, or the desire for a competitive edge. The goal here is to persuade nonusers, those who are not receptive at all to the idea of using product, to become prospects by subconsciously forcing them to become more self-conscious. How? By making them focus on their flaws or by making them

focus on how they can improve their physical appearance. There is no need for a confident male with great genetics to become an initial customer; by default, customers have to be in a disadvantaged position in order to benefit from what **Company's** products offer. This means that those in this *disadvantaged* position must be made to dwell on their state of affairs long enough in order to develop a compelling desire to seek a solution. Eventually, the brand aims to offer much more than cosmetics; ideally, **Company** would offer an entire line of branded personal care and grooming products to truly help maximize the customer's aesthetic, but also to maximize his lifetime value (CLV) as a consumer, the prediction of net profit attributed to the entire future relationship with a customer.

Prior to embarking on this marketing campaign in Phase 2, **Company** would have had to advance from sourcing product using a private label manufacturer to using a contract manufacturer. This shift is necessary, as contract manufacturing offers **Company** more flexibility, by allowing for specialized formulation and packaging design. These elements will be key competitive differentiators and will be important aspects to the marketing campaign. Contract manufacturing serves as the foundation for **Company's** growth and expansion efforts. In addition, **Company** would need to ensure all logistical concerns are addressed through a third-party logistics and fulfillment partner, so that large order volume can flow without issue; this may involve partnering with 3PLs that reside on both the west and east coasts to handle national order flow more efficiently. Moreover, **Company** will need to implement several pieces of software, such as an inventory management solution and accounting software, as well as hire staff.

In preparation for the viral marketing campaign, **Company's** social media accounts must be created and must actively engage users. Accounts will include Facebook, Twitter, Instagram,

and YouTube. **Company** will use YouTube to stimulate engagement, brand awareness, and virality; for example, aside from posting how-to guides on style and appearance, **Company** will film a regular stranger transformation series, where a willing male in public will be given an impromptu transformative makeover using **Company's** products – similar to what was described in Phase 1 – and the footage will be broadcasted on YouTube. This form of guerilla marketing not only pushes brand awareness through real world demonstration of value to potentially millions of viewers, it also serves to slowly chip away at the unfamiliarity of seeing men try cosmetics products, while undeniably forcing viewers to focus on the results. Aside from the media accounts mentioned above, **Company** will curate its own blog filled with helpful appearance tips and will be sure to include men's lifestyle content, in order to integrate the conceptually contrasting ideas of masculinity and makeup, and reduce mental friction for potential and current customers. Part of **Company's** social media efforts will also involve reaching out to male social media lifestyle influencers to raise awareness, provide product samples, and possibly set up affiliate networks. Other hopeful key partnerships include a celebrity endorsement (and television commercial), affiliate partnerships with male salons, and advertisements in male lifestyle publications and with male lifestyle bloggers. Another possible marketing route would to solicit male beauty editors and male beauty influencers on social media, but **Company** must be careful here, since influencers may associate its brand with cosmetics, and men will not want to use product that is profiled that way.

The viral marketing strategies have not been discussed in detail, since many of these initiatives will be crafted from the feedback gathered in beta testing and from understanding the brand's product differentiation, after contract manufacturing has been secured. In line with the efforts above, **Company** will develop a strong loyalty and rewards program to encourage repeat

purchases and support the community. Finally, prior to any large-scale marketing initiative, **Company** must build out its webpage and keyword rankings through search engine optimization (SEO); this is necessary, since if executed successfully, all web queries for terms like “male cosmetics” or “man makeup” will be redirected to **Company’s** website, which build **Company’s** brand awareness and may work to erode competitors’ current and future customer base.

Phase 3 - Maturity

Traditionally, an analysis identifying key channels, segments, and future product concepts would be valuable in identifying how the growth can be sustained and in assessing how the company’s lifecycle will transition from its growth phase to a stable, more mature organization. Because of this concept’s perceived difficulty in execution and unpredictable outlook, and because of the hurdles **Company’s** products will experience in physical retail locations, this analysis has been omitted.

Chapter 8

Conclusion

Financial Plan

While forecasts found within financial plans are not always accurate – especially for startups – they are necessary considerations when thinking about a startup’s future, as they serve as the backbone for gauging a business’s ability to appease lenders or remain solvent. In **Company’s** financial plan, startup costs estimates, a three-year profit and loss pro forma, a net present value (NPV) calculation, and a break-even analysis were performed.

Startup Costs

Male Cosmetics Company

FUNDING		Estimated
Investor Funding		
Owner 1		25,000
	Total Investment	25,000
Loans		
Bank Loan 1		-
	Total Loans	-
Other Funding		
Crowdfunding Campaign		25,000
Family & Friends (non-interest-bearing)		50,000
	Total Other Funding	75,000
Total FUNDING		\$ 100,000
COSTS		
Starting Inventory + 3PL Fulfillment		76,397
Shopify Website		348
Turbotax Software		360
Insurance		1,200
Accounting/Legal		2,000
Supplies		3,000
Travel		3,820
Misc.		10,000
Total COSTS		\$ 97,125
SURPLUS/(DEFICIT)		\$ 2,875

Table 1: Startup Funding and Costs

In the figure above, total funding is expected to be \$100,000, generated from the owner's initial contribution of \$25,000, a crowdfunding campaign with an anticipated fully funded goal of \$25,000, and non-interest-bearing contributions totaling \$50,000 from a network of family and close friends. Total costs are estimated to be around \$97,125, resulting in a surplus between total funding and costs of \$2,875. Certain expected costs, such as advertising spend, is not directly included, since initial advertising will be through free platforms and social media. What follows are what is considered the most necessary expenses to found and operate **Company**; these startup expense categories are: travel, office supply expenses, accounting and legal expenses (including registering the company as a legal entity, ~\$500), upfront yearly insurance prepayment, a yearly TurboTax software subscription, and a yearly subscription to a Shopify ecommerce website. The final startup cost will be an investment in initial inventory, along with third-party logistics fulfillment; this category is estimated to total \$76,397, or 50% of year one's total cost of goods sold (\$152,794). **Company** assumed the purchase of half of year one's anticipated volume as a necessary inventory investment, and factored in this COGS investment are costs to produce, package, label, store, process, and ship 50% of products sold in year one. **Company** expects that the 50% remaining anticipated sales for the year will be funded through the initial sale of inventory. Finally, what has not been detailed are initial advertisement costs, as **Company** will be relying on grassroots, guerilla, and social media marketing to gather initial sales; still, an additional \$10,000 has been budgeted for miscellaneous expenses, as a safeguard against an unpredictable startup environment and for costs related to gaining initial sales.

Profit & Loss Pro Forma

Profit Projection 3 yr



Profit and Loss Projection (3 Years)

Male Cosmetics Company

	2018		2019		2020	
	2018	%	2019	%	2020	%
Sales	\$ 305,589	100.00%	\$ 1,018,629	100.00%	\$ 2,546,573	100.00%
Cosmetic A	\$ 101,863		\$ 339,543		\$ 848,858	
Facewash A	\$ 203,726		\$ 679,086		\$ 1,697,715	
Cost/Goods Sold (COGS)	152,794	50.00%	488,942	48.00%	1,145,958	45.00%
Cosmetic A	30,559		101,863		254,657	
Facewash A	61,118		203,726		509,315	
3PL - Fulfillment (warehousing/shpmt.)	61,118		183,353		381,986	
Gross Profit	<u>\$ 152,794</u>	<u>50.00%</u>	<u>\$ 529,687</u>	<u>52.00%</u>	<u>\$ 1,400,615</u>	<u>55.00%</u>
Operating Expenses						
Sales & Marketing						
Advertising Initiatives	45,838	15.00%	152,794	15.00%	381,986	15.00%
Product Demo & Outreach	9,168	3.00%	25,466	2.50%	63,664	2.50%
Car, Delivery and Travel	3,820	1.25%	11,714	1.15%	25,466	1.00%
Research & Development						
Product/Operations Dvlpmnt. & Testing	19,863	6.50%	66,211	6.50%	114,596	4.50%
General & Administrative						
Shopify Website	348	0.11%	948	0.09%	948	0.04%
TurboTax Software	360	0.12%	360	0.04%	360	0.01%
Salaries	30,000	9.82%	120,000	11.78%	260,000	10.21%
Insurance	1,200	0.39%	2,400	0.24%	3,600	0.14%
Accounting and Legal	2,000	0.65%	5,000	0.49%	10,000	0.39%
Supplies	3,000	0.98%	6,000	0.59%	9,000	0.35%
Lease	-	0.00%	20,106	1.97%	46,914	1.84%
Total Expenses	<u>\$ 115,597</u>	<u>37.83%</u>	<u>\$ 410,999</u>	<u>40.35%</u>	<u>\$ 916,534</u>	<u>35.99%</u>
Net Profit Before Taxes	37,197		118,688		484,081	
Income Taxes	4,299		29,538		164,588	
Net Operating Income	\$ 32,898		\$ 89,150		\$ 319,494	

Table 2: Three Year Profit and Loss Pro Forma

As described earlier, according to 2010 US Census Bureau data (Appendix, Item A), the total population was estimated to be 308,745,538, of which 49.2% were male. **Company's** target age range is between 18 and 24, of which there were 30,672,088 persons in the US as of 2010. Applying the 49.2% ratio of males in the total population to the estimated 30,672,088

persons 18 to 24 years of age results in a potential target market of roughly 15,090,667 males. **Company** applied a massive arbitrary discount of 95% to the potential 15,090,667 males, resulting in an estimated 754,533 males who are expected to be interested in personal grooming and appearance. **Company** believes that through an intense viral and psychological marketing campaign, 5% of total potential male customers aged 18 through 24 interested in their appearances and in grooming can be converted to buyers; therefore 5% of 754,544 males is a potential market size of 37,727 men. **Company** considers this the worst-case market size, since in reality, **Company's** products are not limited to 18 through 24-year-olds, and the potential market size has already been extremely discounted in the calculations above.

For a list of assumptions accompanied with a brief description of each line item, refer to Appendix, Item B. By year three, **Company** believes it can capture 25% (9,432 persons) of the 37,727-person male cosmetics market; it also believes it will capture 10% (3,773) in year two and 3% (1,132) in year one. Sales estimates were based on being able to sell two products per customer: a cosmetic product and a facewash product, both products are priced at \$15. The cosmetic product is assumed to be purchased bimonthly, while the facewash product is purchased monthly. Year one total sales, based on a market capture of 3% and based on the purchase of these two products at the correct quantities and intervals, equates to \$305,589 in sales (around 20,373 individual units). According to Euromonitor and contract manufacturer estimates, production cost to total product price can be expected to fall within a 20%-30% range (Barry n.d.). To make this worst-case analysis realistic, **Company** have assumed a 30% production cost to purchase price (\$4.5). **Company** will be relying on third-party logistics providers for the fulfillment of products (storage, shipment, returns); this is expected to add an additional \$3 of cost per product sold, bringing total COGS to \$7.50 per unit in year one. Year

two fulfillment costs are expected to decrease slightly, as sales volume increases. For further breakdown on operating expenses, refer to Appendix, Item B. After all expenses and taxes, year one, two, and three net operating income is forecasted to be \$34,989, \$89,150, and \$319,494, respectively. This business shows profitability, even by year one; assuming these projections could be reached – and market demand could be generated – this appears to be a feasible startup.

Net Present Value (NPV)

A net present value (NPV) analysis was performed to analyze the profitability of this project given its cashflows and startup investment. The table below displays the results.

Rate	8.80%
Initial Cash Outlay	\$97,125
NPV	\$256,494

Years & Cash Flows			
0	1	2	3
\$ (97,125)	\$ 32,898	\$ 89,150	\$ 319,494

Table 3: Net Present Value (NPV) Analysis

According to the NPV positive calculation above and the assumptions in the financial proformas, this venture is feasible. In deciding what rate to choose for the NPV calculation, a discount rate of 8.80% was selected. According to barrons.com, the current 20-year junk bond coupon rate has a market yield of 6.80%. Because this startup carries more risk than even a junk bond – as it depends on being able to modify cultural stereotypes regarding masculinity – an additional 2% was added to the discount rate, totaling a rate of 8.8%.

Break-Even Analysis

Company is profitable in year one, at an estimated \$305,589 in total sales. Because even seemingly profitable businesses can be cash flow negative, a break-even analysis was performed to assess the units and dollar sales required to reach break-even point. The figure below displays the results of the break-even calculation.

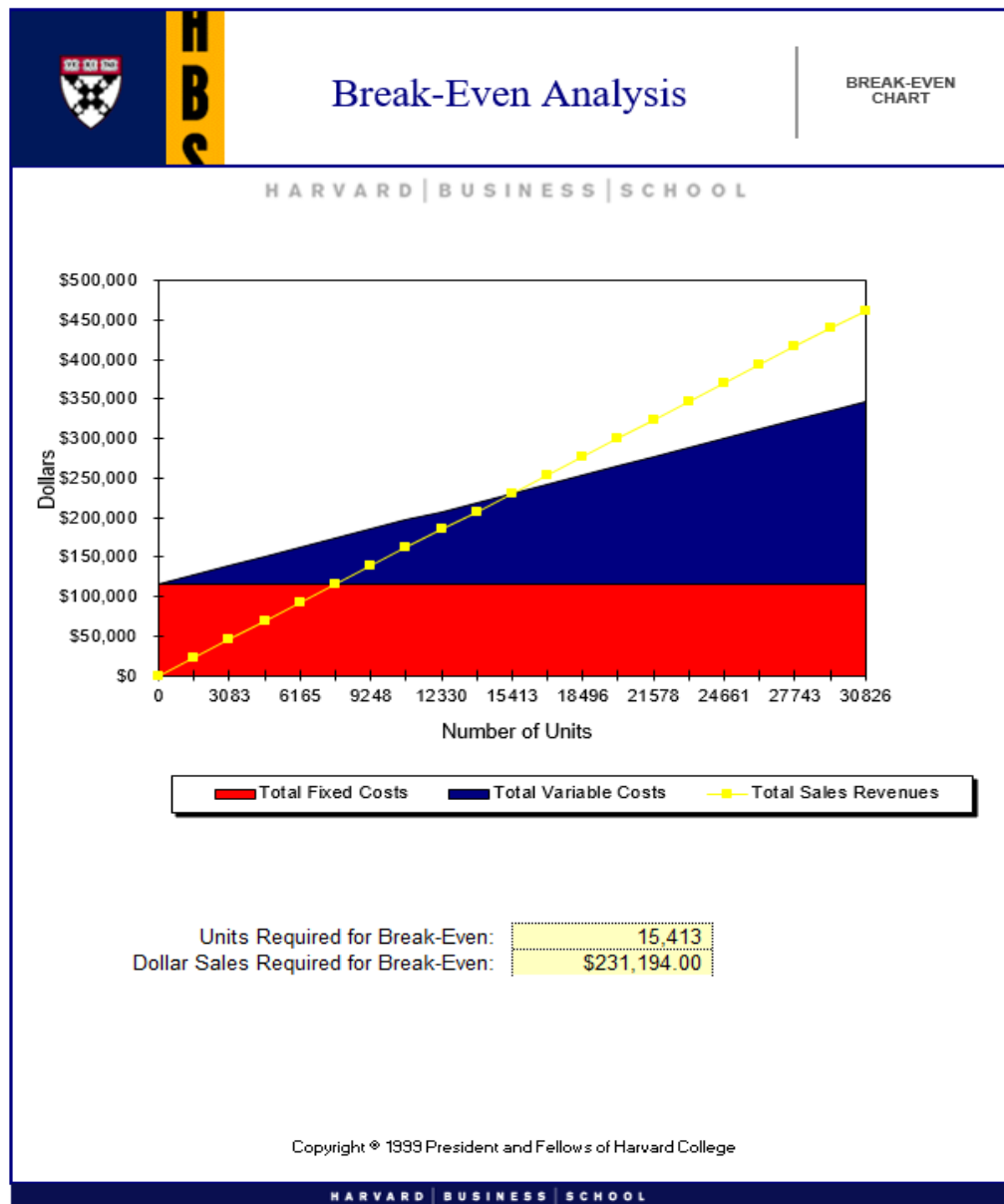


Figure 2: Break-Even Analysis

Priced at \$15 per unit, total units required to be sold in order to achieve break-even are 15,413. As stated earlier, year one COGS per unit total \$7.50. So, breakeven units of 15,413 would amount to a direct cost of sales totaling \$115,587; mentioned previously under startup costs, \$76,397 will be allocated toward initial inventory and third-party logistics fulfillment, while the remaining balance will be funded through initial inventory sales. Given expected unit sales in year one equal 20,376 units, **Company** anticipates surpassing break-even point and achieving profitability in year one.

Summary

The financial analysis performed shows strong potential. Because these projections are crude estimations of the future, they serve only as rough guidelines for **Company's** expectations. Many of the operating costs are approximations, based on comparable data sourced and expenditure evaluations. For example, costs such as leasing office space, insurance, and software were sourced from publications and online, while legal support or advertising spend were user-generated inputs; however, there are likely to be additional costs that were not mentioned in the analysis at all. Still, the reader should understand the extreme discounting applied when conducting the analysis. For example, year three sales of \$2,546,573 assumes only 25% market capture of the total market sized at 37,727 males (9,432 customers). More importantly, the market size was calculated incorporating an enormous margin of safety; the expected market size assumes only 5% of all males age 18 through 24 are interested in improving their appearance, and the sizing assumptions go on to assume only 5% of that 5% would be considered potential customers who might purchase **Company** products. Therefore, year three sales show a 25% capture rate (9,432 customers) of 5% (37,727 men) of 5% (754,533)

of all men age 18 through 24 (15,090,667). This is an extreme discount on the potential magnitude of sales **Company** expects to earn with its large-scale marketing initiatives; extending the age range beyond the restrictive 18 through 24 age bracket alone opens the possibility for millions more in sales. The most controversial assumptions are the number of purchases made per male and the speed of expected sales. First, the projections assume each male purchase two cosmetics products: one cosmetic product bimonthly and a facewash monthly. Second, because the pro forma was conducted based on assumed market capture rate, year one's capture rate of 3% assumes all 3% of men are sold to immediately and these sales are reoccurring beginning in month one, in order to reach the assumed number of purchases mentioned previously. This is not true, as the quantity of sales will not be the same in months one and twelve, and the differences in cumulative monthly purchases for newly acquired customers will not total that of a month one customer. In other words, customer acquisition duration was not phased in; estimated yearly sales were based on the total number of expected customers by year-end, and then that number was used in month one of each pro forma year's total sales. Factoring in this discrepancy would result in even less net operating income per year; however, even if this is factored in or even if the true frequency of purchase is much less than expected, the extreme discounting applied to the target market size should compensate for these differences, easily.

In the future, I plan to conduct a comprehensive financial analysis with specific manufacturing quotes of a diverse line of products and develop a more thorough understanding of operating costs. I would also like to consider incorporating SPF into the marketing campaigns, as men are more prone to skin cancer than women simply because they don't apply product regularly with built in SPF protection; this should dramatically increase pro forma sales.

Concluding Remarks

Winston S. Churchill has been quoted as saying, “A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.” What began as viewing a single commercial over Thanksgiving vacation turned into this feasibility assessment, and with further development, may possibly evolve into a startup. I understand the topic of this thesis runs contrary to mainstream culture for now, and I understand this concept may be interpreted as the feminization of mankind. But we must be honest with ourselves; makeup has been non-gendered since ancient history, and men deserve the option to look and feel their best too – that feeling is not exclusive to women, men with good genetics (skin), or men with strong self-confidence. As an entrepreneurially-minded individual, I try to observe the world through the lens of opportunity; being *the* company that empowers men to refine their appearance, polish up their aesthetic, and feel confident despite their imperfections would be providing a massive value proposition to many men, and shifting gender dynamics plus international proof makes this concept a valuable and viable opportunity. There certainly is opportunity in every difficulty.

From industry analysis to market, competitor, customer, and financial analyses, this concept passes my feasibility assessment. Of course, market conditions will need to change to make this opportunity a lucrative one; **Company** will need to stimulate demand for its own products through intense marketing efforts and outreach initiatives, as men must become more concerned with their own appearances and must desire improvement in order for sales to materialize. Still, I daydream of the future often, trying to envision what the world will be like in the next five, twenty, or 100 years, and I cannot even begin to imagine the infinite possibilities; but what I can imagine is that men, within the next ten years, will care astronomically more about their appearances than they do today.

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Appendix

Item A: Foundation for Market Sizing Estimates

Table 1.

Population by Sex and Selected Age Groups: 2000 and 2010

(For information on confidentiality protection, nonsampling error, and definitions, see www.census.gov/prod/cen2010/doc/sf1.pdf)

Sex and selected age groups	2000		2010		Change, 2000 to 2010	
	Number	Percent	Number	Percent	Number	Percent
Total population	281,421,906	100.0	308,745,538	100.0	27,323,632	9.7
SEX						
Male	138,053,563	49.1	151,781,326	49.2	13,727,763	9.9
Female	143,368,343	50.9	156,964,212	50.8	13,595,869	9.5
SELECTED AGE GROUPS						
Under 18 years	72,293,812	25.7	74,181,467	24.0	1,887,655	2.6
Under 5 years	19,175,798	6.8	20,201,362	6.5	1,025,564	5.3
5 to 17 years	53,118,014	18.9	53,980,105	17.5	862,091	1.6
18 to 44 years	112,183,705	39.9	112,806,642	36.5	622,937	0.6
18 to 24 years	27,143,454	9.6	30,672,088	9.9	3,528,634	13.0
25 to 44 years	85,040,251	30.2	82,134,554	26.6	-2,905,697	-3.4
45 to 64 years	61,952,636	22.0	81,489,445	26.4	19,536,809	31.5
65 years and over	34,991,753	12.4	40,267,984	13.0	5,276,231	15.1
16 years and over	217,149,127	77.2	243,275,505	78.8	26,126,378	12.0
18 years and over	209,128,094	74.3	234,564,071	76.0	25,435,977	12.2
21 years and over	196,899,193	70.0	220,958,853	71.6	24,059,660	12.2
62 years and over	41,256,029	14.7	49,972,181	16.2	8,716,152	21.1

Sources: U.S. Census Bureau, *Census 2000 Summary File 1* and *2010 Census Summary File 1*.

Item B: Assumptions Used in Financial Profit and Loss Pro Forma

ASSUMPTIONS			
SALES	Year 1-3		
Cosmetic A	\$15 price point x purchased bimonthly (6) x capture rate (year 1-3)		
Facewash A	\$15 price point x purchased monthly (12) x capture rate (year 1-3)		
COGS (per unit)	Year		
	1	2	3
Cosmetic A	\$4.50	\$4.50	\$4.50
Facewash A	\$4.50	\$4.50	\$4.50
3PL - Fulfillment	3	2.7	2.25
Total Cost/Unit	\$7.50	\$7.20	\$6.75

OPERATING EXPENSES	
<p><u>Sales & Marketing</u></p> <p>(1) Advertising</p> <p>(2) Product Demo/Outreach</p> <p>(3) Travel</p> <p><u>R&D</u></p> <p>(4) Product/Operations Dvlpmt. & Testing</p> <p><u>General & Administrative</u></p> <p>(5) Shopify Website</p> <p>(6) TurboTax Software</p> <p>(7) Salaries</p> <p>(8) Insurance</p> <p>(9) Accounting & Legal</p> <p>(10) Supplies</p> <p>(11) Lease</p> <p><u>Income Taxes</u></p> <p>(12) Income Tax Expense</p>	<p><u>Sales & Marketing</u></p> <p>(1) Advertising spend is estimated to be 15% of gross sales; large-scale digital marketing campaigns, tradeshow presence (& other mediums, such as television, print publications, social media influencers, etc.)</p> <p>(2) Activities include free samples, giveaways, contests, etc.</p> <p>(3) Traveling budget includes gas, vehicle maintenance, flights, lodging, etc.; increases as sales increase</p> <p><u>R&D</u></p> <p>(4) Low industry R&D, as most profit is reinvested into advertising</p> <p><u>General & Administrative</u></p> <p>(5) Produced in-house, monthly fee of \$29</p> <p>(6) Monthly fee of \$30</p> <p>(7) Year 1: owner salary: \$30,000 single employee; Year 2: hire 2 additional employees, \$45,000 salary each; Year 3: hire 4 support staff, \$35,000 salary each</p> <p>(8) Quote estimated at ~\$100/month per \$1MM coverage; Year 1: ~\$100/month; Year 2: ~\$200/month; Year 3: ~\$300/month. Reflective of sales increases.</p> <p>(9) Year 1: \$2,000 expense includes \$500 entity filing fee, paperwork, and licenses; Years 2-3: increase as sales increase</p> <p>(10) Miscellaneous office supply expenses (e.g. stationary, postage)</p> <p>(11) Year 1: no facility needed, as owner is single employee. Years 2-3 lease rates reflect MarketWatch estimates of average yearly cost to rent office space in Los Angeles, per employee (\$6,702). Expansion after Year 1 [Year 2: 3 total employees; Year 3: 7 total employees]</p> <p><u>Income Taxes</u></p> <p>(12) Corporate tax schedule, as applied to a C-Corp</p>

Academic Vita of Xydemor Popa

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EDUCATION

The Pennsylvania State University, Smeal College of Business
Schreyer Scholar
Honors B.S. in Finance, Specialization in Entrepreneurship

University Park, PA
Class of: May 2017
Dean's List All Semesters

WORK EXPERIENCE

AFC First Financial Corporation
Intern, Accounting Department

Allentown, PA
June 2015 – December 2015

- Verified processed loan applications to meet compliance standards for corporate and regulatory reporting/auditing. Conducted loan program testing to ensure error-free online application processing. Maintained homeowner insurance database reflecting policy updates. Maintained new contractor business, program applications, and file archive

J. Crew

Whitehall, PA January 2015 – June 2015

Coach

Tannersville PA October 2013-January 2015

Retail/Sales/Cashier/Stock

College Prowler

Web-Based

Team Lead Intern, Marketing and Demographic Research Project

March 2012- April 2012

- Marketing analysis to identify and align management with local user demographics. Presented research to College Prowler management; proposed methods to better capture target market

EXTRACURRICULAR INVOLVEMENT & ACHIEVEMENT

Penn State Investment Association

University Park, PA

Member

January 2016 - Present

- Telecommunications sector team member; analyzing economic trends and investment opportunities

Innoblue

University Park, PA

Member

January 2016 - Present

- Entrepreneurship community; collaborating with rental car startup, Eagle Automotive, to develop business model prototype to distribute to 30+ locations

Beta Gamma Sigma

University Park, PA

Member

January 2016 - Present

- Honored for academic achievement; recognized for being in upper 10 percent of junior class

Business Society

Lehigh Valley, PA

Member

January 2015 – Present

- Support society in outreach events including career prep fair, etiquette networking event, and incubator inception

MDX + PSU + US Innovation Challenge

University Park, PA

Competitor

November 2015

- Collaborated with international team and placed 3rd in entrepreneurship event for proposal to address opportunity gaps and wealth inequalities in low income communities

Penn State Public Speaking Competition

Lehigh Valley, PA

Competitor

February 2015

- 1st place awarded for persuasive speech highlighting significance of Emotional Intelligence (EQ) over IQ

LEADERSHIP

International Student Organization

Erie, PA

Vice President

September 2014 – December 2014

- Helped grow organization to +40 members, supported campaign against ethnocentrism, promoted foreign inclusion and community through various organized events

FastStart Program

Erie, PA

Mentor

September 2014 – December 2014

- Supported international students' & freshman transition to university; peer-support; academic counseling