

Estée Lauder Has Top Core Products But Outdated Image

Companies: AVP, EL, EPA:CDI, EPA:OR, TYO:4911

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Research Question:

Did The Estée Lauder Cos. Inc. (EL) meet expectations for holiday sales? Will EL be able to reach projected sales growth with its core products and new product launches?

Summary of Findings

- Estée Lauder’s skin care and makeup lines met or, for some sources, exceeded holiday sales expectations. Fragrances sales were reported as flat or up only slightly year to year.
- Continued sales growth is expected in 2011, with core skin care products like [Advanced Night Repair](#) and Clinique’s [Even Better](#) products leading sales. The BRIC (Brazil, Russia, India and China) markets, especially China’s, are expected to present growth opportunities for Estée Lauder.
- The Estée Lauder and Clinique brands must overcome a reputation of being for older women as well address higher raw-material prices that could affect margins.
- New products, including the [Wild Violet](#) makeup and fragrance line, mascara, new lipstick colors and a foundation with sunscreen, also are expected to contribute to continued sales growth this year. A new creative director and two new makeup models will reinvigorate the Estée Lauder brand as well.
- EL’s Bobbi Brown and MAC are reported to be the edgier, trendsetting brands that are gaining share among younger consumers.

Silo Summaries

1) SALES PROFESSIONALS

Six of seven sources said their holiday sales were up year to year; the remaining source reported flat sales. Sources’ expectations for 2011 sales were positive, thanks to product introductions including new lipstick colors, bottom-lash mascara and a foundation with sunscreen. EL’s best-selling products in 2010 were skin care items, including Estée Lauder’s Advanced Night Repair and Clinique’s Even Better line. Skin care products are expected to continue to sell very well in 2011. MAC and Bobbi Brown are popular EL brands among younger shoppers and are expected to do well this year. Two sources reported a decline in the use of gift promotions to spur sales while two sources reported product price increases.

2) SUPPLIERS

A raw ingredient supplier reported an increase in his business to Estée Lauder, while two fragrance suppliers described business as flat. Likewise, the ingredient supplier expects 2011 sales to be strong as consumers to luxury products; the two fragrance suppliers were less optimistic and expect the fragrance sector to be flat. Estée Lauder is viewed as an industry leader but not necessarily as a trendsetter. One source described Bobbi Brown and MAC as edgier divisions that were on the move in design and sales among younger consumers. Pricing has remained flat. The raw goods provider expects soy and petroleum-based materials to be higher priced this year.

3) INDUSTRY EXPERTS

All four sources viewed Estée Lauder as one of the leading companies in the industry. They expect the company to perform well in 2011, but one tempered the optimism by saying that growing an older, larger brand can be difficult. This same source expects Estée Lauder’s growth to come from the BRIC markets, especially China. R&D is a strong asset for the company. Its Night Repair products and Beautiful fragrance are big successes, and Clinique’s Even Better is one of the leading anti-aging treatments. Market growth was 4% in the prestige cosmetics category, and sources expect this rate to continue for this year.

	Estée Lauder Met Holiday Expectations	EL Brands’ 2011 Sales Will Increase	New Products Will Drive Sales
Sales Professionals	↑	↑	↑
Suppliers	→	→	→
Industry Experts	↑	↑	→

The Estée Lauder Cos. Inc.

Background

Estée Lauder shares remain near their 52-week high, and analysts are questioning if the company's accelerated growth in 2010 can be maintained or expanded in 2011. Estée Lauder was able to return to [growth](#) in the competitive prestige cosmetics category through new product launches and favorable margins. The company has provided year-to-year sales [guidance](#) at 7% to 9% growth for FY11, well off of its first-quarter [sales growth](#) of 14%.

CURRENT RESEARCH

In this study, Blueshift will assess whether Estée Lauder met holiday sales expectations and determine if the company can maintain or expand on its 2010 success throughout 2011.

Blueshift employed its pattern mining approach to establish and interview sources in four independent silos:

- 1) Estée Lauder sales professionals (8)
- 2) Suppliers (3)
- 3) Experts (4)
- 4) Secondary sources (4)

Blueshift interviewed 15 primary sources and included four of the most relevant secondary sources focused on the cosmetics and skin care industries.

Silos

1) ESTÉE LAUDER SALES PERSONNEL

Six of seven sources said their holiday sales were up year to year; the remaining source reported flat sales. Sources' expectations for 2011 sales were positive, thanks to product introductions including new lipstick colors, bottom-lash mascara and a foundation with sunscreen. EL's best-selling products in 2010 were skin care items, including Estée Lauder's Advanced Night Repair and Clinique's Even Better line. Skin care products are expected to continue to sell very well in 2011. MAC and Bobbi Brown are popular EL brands among younger shoppers and are expected to do well this year. Two sources reported a decline in the use of gift promotions to spur sales while two sources reported product price increases.

➤ A Clinique/Estée Lauder section manager at a Southern California Nordstrom Inc. store (JWN)

This source said Estée Lauder sales overall did very well through the holidays, but Clinique held the lead, with the bulk of revenues coming from skin care and perfume sales. Estée Lauder's main brand is more classic and not quite as popular as Bobbi Brown or MAC among younger consumers. MAC was in high demand because of the brand's demo chairs and free consultations. New promotions for Clinique include a gift with purchase in May and, next month, a mascara specifically for [bottom lashes](#).

- "Clinique products sell very well in this store. We had a strong Christmas season. The Estée Lauder night creams and other skin products are popular, but not as popular as Clinique."
- "Customers love the fact that we have Clinique products for every possible scenario. The most popular sellers right now are the [Even Better Clinical Dark Spot Corrector](#) and [Even Better Makeup](#). But we have a lot of customers who ask for specific things, like the [Redness Solutions](#) and [Acne Solutions](#) line. They love that we have something that is going to be tailored to their specific situation."
- "Fragrances by Clinique are also popular. We (Estée Lauder) have the new spring line [Wild Elixir](#), but the most popular fragrance has always

The Estée Lauder brand is not as popular with younger women because it's got an older woman's sort of feel to it. It's a little more refined in terms of the ads and the models. Comparing it to MAC or Bobbi Brown, it's a little more classic, which can steer certain customers toward something else or attract those that wouldn't necessarily go for one of the company's other brands.

*Clinique/Estée Lauder Manager
Southern California Nordstrom*

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been [Happy](#). It's just a really hot seller."

- "Skin care is always improving, so we don't know what items are going to be coming out. But usually we'll hear about spring/summer products in February."
- "MAC is a pretty popular brand, but honestly, because I work at this counter, I don't hear about what they or other Estée Lauder brands are coming out with. I can say that prices are never an issue. We don't get complaints at all about them, and the prices we see now are not really expected to change that much in the next few months."
- "Our next Clinique promotion [a gift with purchase] is coming in May. That's what we've been told. I don't know that the fact that we haven't had one so far this year has made a difference. Sales have been doing well."
- "The Estée Lauder brand is not as popular with younger women because it's got an older woman's sort of feel to it. It's a little more refined in terms of the ads and the models. Comparing it to MAC or Bobbi Brown, it's a little more classic, which can steer certain customers toward something else or attract those that wouldn't necessarily go for one of the company's other brands."
- "Something else that's new and coming from Clinique is a \$10 lower-lash mascara. Customers have wanted, this, and it's finally coming out next month."

Reporter Observations: The Estée Lauder counter did not have any customers the entire time our reporter was in the store. This location promotes Clinique over the Estée Lauder name products. The MAC counter had about six customers, including two in chairs getting demonstrations. It was by far the department's busiest section.

➤ A Estée Lauder counter manager and a Clinique salesperson in San Francisco department store

The Estée source said the brand had achieved record sales benchmarks for the 2010 holiday season. January sales were down compared with December, as expected, but better year to year. This source expects sales to continue to grow as the store benefits from heavy tourist traffic—approximately 60% tourists and 40% local customers. Skin care products and makeup are always the best sellers. New products and new combinations are introduced on a regular basis, and the sales staff is required to attend training on the new items. The Clinique sales associate said her counter's sales were \$3 million in 2010, in line with 2009. She expects her sales to improve slightly in 2011, keeping pace with the economy.

- "Sales have been excellent through the holidays and even into January. We exceeded all of our sales benchmarks and set sales records as well. Sales have fallen in January compared to December, but that is a purely seasonal thing."
- "Expectations are for sales to continue to be strong throughout 2011."
- "Estée Lauder is introducing or at least repackaging new products all the time. The science and technology is a big part of this business, and we are always coming up with new and better products. The sales staff is always going to training for new products or new ways to use and sell products."
- "I don't really hear much from the competition because we are the top company at least here in this store. This past year we surpassed [L'Oréal's/EPA:OR] [Lancôme](#) in sales, and I don't think we will ever look back. We have so much to offer. Almost all these brands on this floor are Estée Lauder. If a customer does not like something in one brands lineup, we can direct them to one of the other Ester Lauder brands and still get the sale."
- "Product pricing did increase in 2011 about 10% overall, and I do not expect excessive gift promotions until Valentine's Day."
- "I think the biggest trend right now is the amount of science associated with skin care. The company is really making products that work, and they are doing it with better science."

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*Estée Lauder Counter Manager
San Francisco Department Store*

Reporter Observations: This store visit was conducted on a Friday between 1:30 and 2:30 p.m. The sales associates on the floor outnumbered the shoppers three to one. The makeup counters with chairs offering free samples were about half full, and few transactions took place during our visit. No special promotions or free gifts with purchase were observed. Consultants for Estée Lauder brands and their competitors were in the aisles trying to engage shoppers.

➤ A sales manager at the Estée Lauder counter at a Southern California Macy's Inc. store (M)

This source said Estée Lauder sales were very strong during the holidays and up year to year. Top sellers included perfumes and the Estée Lauder Advanced Night Repair skin cream.

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- “Sales were very good over Christmas. We sold a lot of the Estée Lauder fragrances, but skin care is our best selling item.”
- “The most popular item in skin care is the Advanced Night Repair. It’s consistently our biggest-selling skin care product. Everyone loves it. After that, it’s the fragrances. And among them I have to say that [Beautiful](#) is the best-selling fragrance we have in the store.”
- “I think we are going to be doing very well in the year ahead.”
- “We have a new line of fragrances and makeup that just came out. It’s the spring line and it’s called Wild Violet. That is already doing relatively well. And we have a new mascara that is actually outselling the existing Estée Lauder mascara. That’s the [Sumptuous Extreme Mascara](#), and it’s very, very popular. We have a new day-wear foundation with sunscreen that is also very popular. It’s only been out for about a week.”
- “I’m not really sure what products are coming out from competitors because I don’t pay attention to those. I do know that Estée Lauder is very popular. Behind that, the second most popular brand of skin care and cosmetics in this store is Clinique.”
- “We have seen very little change in prices. I know that a lot of our sales promotions offer the Night Repair in smaller portions because it’s popular and we know that if we sell the promo bags we can likely get new fans of the product to come and make the full purchase.”
- “I think Clinique is doing very well. It’s always been a very good selling line, and I would say that’s going to be the same in a year.”
- “Trends right now are the anti-aging, of course, with minerals and daywear with sunscreens. I think those are the kinds of things that we will see more advances being made on. We also will be seeing much brighter colors and more feminine pinks and purples in lip gloss and eyewear for spring.”

Reporter Observations: The Estée Lauder counter had brisk traffic during Blueshift’s visit. Customers were purchasing the face creams and the new mascara. Skin care products were highly promoted and seemed to be generating the most interest among shoppers, who were testing products and talking with consultants. A large Estée Lauder display listed the company’s top 10 customer favorites, with the Night Repair coming in the top spot.

► A Estée Lauder counter manager at Bloomingdale’s Inc., suburban Chicago

This source was very positive about holiday season sales and the prospect of increased sales in 2011, especially with any kind of colored makeup. She said [Tom Pecheux](#) as the new creative director will have a notable effect on sales and on the company’s runway and marketplace presence. She also the company’s [two new promotional models](#) will provide a wider and more youthful appeal. Although gifts with purchase are popular and create higher sales, this source said Estée Lauder sales are steadier as a result of great customer service. Bloomingdale’s beauty consultants keep details on their customers and their purchases, and keep in regular touch with them. She said the biggest trends are colored makeup, including this spring’s line of violet tones, and anti-aging serums. Estée Lauder’s Advanced Night Repair is one of the top selling anti-aging serum in the world. All the other brands are trying to catch up to this product.

- “Our holiday sales are exactly what we expected. It was busy and we were pleased. A store or department’s numbers really depend on their team, especially during the holidays. We have a great team here and that does not always happen. In 2009, business was also steady and busy during the holidays. Our sales numbers were nearly the same both years—just a few thousand dollars off between the two. In 2011, I do expect sales of colored makeup to increase—anything from your eyes to your lips to your cheeks.”
- “I think the hiring of Tom Pecheux as our creative director will really help our company’s image and increase our sales. Our image is changing, and his presence will keep it coming. We want to be perceived as more modern than previously thought. We want to appeal to a younger, hipper customer that wants to take care of their skin and look good. We are known for the slogan ‘Beautiful Makeup Starts with Beautiful Skin,’ and we want to show that more than ever.”
- “They have also brought in two new models for our promotional ads. We have had the same model, Hilary Rhoda, for almost five years, so hopefully the models will bring a fresh look and face to Lauder. One is an Asian model named Liu Wen, and the other is a French model [Constance Jablonski]. Their looks are a departure from the more traditional look of our previous models. I think the new models will have a wider appeal as we are

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*Estée Lauder Counter Manager
Chicago Bloomingdale’s*

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trying to bring in new and younger customers. Traditionally, Lauder has been a brand for older women, and we want to change that image.”

- “Our best sales undeniably are during promotional times. Customers love the free gift with purchase. But I have heard from friends at other stores like Macy’s and Lord & Taylor that their customers and clients will only come in and purchase when there is a free gift. Sales during gifts with purchase account for the bulk of their sales. In contrast, at Bloomingdale’s we keep a file and record of our loyal customers and, for the most part, they will shop and purchase their favorite products even if there is not a gift with purchase. Yes, they like the freebies, but our sales are more consistent and steady. We do not rely solely on promotion periods as much as the other stores. We have more of a loyal customer base and we do everything we can to maintain it.”
- “MAC is one popular brand we do not carry at Bloomingdale’s. Bobbi Brown sells the most. Clinique sales are steady, but here Lauder does better. When I started a year ago, Clinique was No. 2. Bobbi Brown is still No. 1, but now we [Lauder] are now No. 2.”
- “We are launching a new line of lipsticks called [Pure Color](#). They will have better pigments in them, have better shades; they will plump up your lips and will also be more moisturizing than the other lipsticks available. ... They will be rolling out in the next two to three months.”
- “We just got in the spring collection called Wild Violet. Purples are going to be the ‘it’ color this season. The Lancôme spring line has a lot of purple shades, and so does Bobbi Brown. ... The current trend in makeup is definitely the violet tones—in anything you can buy that has color. We have violet mascara in two shades, eyeliners, lipsticks, blushes and a variety of great eye shadows.”
- “In skin care, the trend is anti-aging serums. We are the leader in this category and have been for years. Our best and top rated seller is our Advanced Night Repair. It is the one in the brown bottle. It is the No. 1 anti-aging serum in the world. One ounce costs \$47.50 and should last one two months, and 1.7 ounces is \$77 for a five month supply. You only use one drop a night. Even if I did not work for Lauder, I would still use this product. It is the best.”
- “I have not heard of any company launching anything too drastic this year. Actually, companies have not released their calendars yet since it is just the beginning of the year. I do know that every brand has launched or is launching an anti-aging serum. I guess they are trying to take some of our business since we started the trend and are No. 1 in the world, by far. Our product, the Advanced Night Repair, targets 90% of the free radicals on your skin. ... No product on the market today compares or can match that. The other companies have a long way to go to catch up to us on this one.”
- “In fragrance, our new [Pleasures Bloom](#) is doing great. We sold out of it the first week we had it in. We have it in stock now. It is a fresh, floral scent, and our customers really like it. We are the biggest fragrance house in the world as well. We have moved beyond the traditional fragrances that the older crowd prefers like [White Linen](#). The younger customers really like the newer fragrances.”
- “Our prices go up a little every year; it is kind of expected. As far as I know, that is true for all the brands on the floor across the board everyone increases on something. I know for sure Clinique went up a bit on some products. In Lauder, some of our fragrances and skin care went up 50¢ while other products stayed the same. It is totally random. We never know what will increase in cost or exactly when.”

Reporter Observations: Blueshift visited the store the day after the Bears/Packers football game and found few employees and even fewer customers on the floor. The Estée Lauder manager said the store was even quieter during game day. During our 30-minute visit, only one customer was at the Lauder counter. She was Asian and around 40 to 50 years old, and she asked about a boxed skin care collection priced at \$49.50. She did not make a purchase and had no other bags with her. The Lauder counter area looked very clean, and the promotional items were nicely displayed.

➤ A Estée Lauder counter manager for a suburban Chicago Nordstrom store

This source said artistry brands like MAC and Bobbi Brown are top sellers for her store but that her holiday sales exceeded projections and were up 16% year to year. She expects sales growth to continue, especially since the company is working toward modernizing its image. She is looking forward to the upcoming lip and nail colors. The skin care line nets the most sales at this store, especially the Advanced Night Repair and the [Re-Nutriv Ultimate Lift Age-Correcting Creme](#). Initial sales of the Nutritious line, which is exclusive to Nordstrom stores in the United States, were a bit sluggish but Asian and younger customers are steadily learning about and purchasing the product, especially during gift with purchase promotions.

- “Over the holidays, we actually did better than projected. We were up 16% on Estée Lauder compared to last year. I cannot really say what will happen in 2011, but we are very hopeful that our sales will continue to trend up. We are changing our image, trying to attract more young customers and get away from the image of being an

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'old lady brand.' Also, this year, we will have all new lip and nail colors. Our Pure Color lipsticks are being reformulated and should do really well. We have a new creative director who is a known makeup artist, and he is reworking all our colors. Bobbi Brown, MAC and [Christian] Dior [S.A./EPA:CDI] are known more as artistry brands, more for the trendy, creative customer. With Tom's influence, I think we will be able to compete better with those brands. At this store, the artistry brands do sell better, and I believe MAC is No. 1. I cannot say where Lauder falls with regards to sales ranking ... but we are doing really well and I can only see it continuing."

- "Our hottest seller is the Advanced Night Repair. Another big seller is the newer product called Re-Nutriv Ultimate Lift Age-Correcting Creme. It was just launched in the fall of 2010. No one has anything like it on the market, and I have not heard of anyone who is coming out with anything like it. It lifts and firms the skin. Although it is our most pricey skin care product at \$250 for 1.7 ounces, it really works well and our clients who use it swear by it."
- "Our new spring collection just arrived. The color palette is violet-based this year. They are really pretty colors. I think they will sell well. As the year continues, we are excited to see what our new creative team will come up with regards to colors in our makeup and the looks we are promoting. But again, our best seller is the Advanced Night Repair. I use it, and it is the one product in our line that I will always use, even if I am not working for Lauder."
- "I have heard about a new brightening radiance product coming out in 2011. It is supposed to be some kind of treatment that you put over your makeup. I have not seen the products or used it. We do not have the full information on it yet and have not been trained on it either. We get training a few times a year—once during the spring season, the fall and winter. Our training is extremely important so we are knowledgeable for our clients."

We are very hopeful that our sales will continue to trend up. We are changing our image, trying to attract more young customers and get away from the image of being an 'old lady' brand.

*Estée Lauder Counter Manager
Chicago Nordstrom*

Reporter Observations: Two white women shopping together—one around 60 years old and the other in her 30s—were the only customers at the Lauder counter during our visit, and store traffic in general was light. They asked about all-day lipsticks, specifically in pink. They could not determine which shade they had used in the past. The sales associate advised them that the lipsticks were being reformulated and reintroduced this February. The shoppers decided to wait to make a purchase. The counter looked clean and organized. The display and promotions materials had a nice presence and were easy to see.

➤ A Clinique regional account manager, southeast United States

This source said December sales fell about 3.5% for the Estée Lauder brand but rose approximately 7% for Clinique year to year. This year's sales have been trending toward a 7% increase year to year thanks to new product launches. Still, the Even Better product line is the winner for Clinique, for which core products are more important than new items. The emphasis on free gifts to generate sales is being downsized. Product prices have been increased.

- "EL always sells blockbuster during the holidays. Advanced Night Repair is their top-selling product. Clinique's best-selling products were [Laser Focus](#) and Even Better Clinical. Clinique is not a fragrance house like Lauder. They have more focus on skin care than anything, versus EL whose qualifier for the blockbuster is fragrance. They have a huge fragrance push each holiday season."
- "Clinique is demonstrating consistent growth. I expect sales to continue this trend positively in 2011. I don't know what Estée Lauder has coming up, but Clinique has a lot of new product launches."
- "With our new product launches in EBC and Laser Focus, we are trending at a 6% to 7% increase [year to year] Without these products, we would actually be flat or slightly down."
- "The launches are important. However, they do not compare to the sales of EBC [Even Better Clinical] or ANR [Advanced Night Repair]. ... Even Better Clinical is a huge trend. Mass market and other cosmetics brands are trying to recreate this product. It has a huge demand and is doing more volume than we ever anticipated. We have a patent to the formula for the next year; after that it is expected that EL will manufacture a serum with our formula."
- "The new strategy is to downsize gifts as much as possible, with more focus on basic business."
- "The average price point at Clinique is \$25. We recently had a price increase of 50¢ on basic stock."

The new strategy is to downsize gifts as much as possible, with more focus on basic business.

*Clinique Regional Account Manager
Southeast United States*

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- “It seems that [MAC](#) is the biggest trendsetting brand. Each season, they release a new collection. This season is Wonder Woman.”

➤ A cosmetics store manager in France

This source said sales were higher but store traffic was lighter year to year. Estée Lauder and Clinique products always do well in the skin care and makeup departments, particularly Clinique’s Basic 3-Step and Even Better Clinical and Estée Lauder’s Advanced Night Repair, but lag in the fragrance department. [Clarins](#) surpasses Estée Lauder and Clinique in skin care sales. Estée Lauder and Clinique have been the most aggressive with gift with purchase offers.

- “Cosmetics sales were good during the 2010 holidays. However, the traffic in the store was pretty steady from November through December and we did not see particularly heavy traffic where the store was completely filled at certain moments. Concerning sales numbers it was better than last year, but in terms of traffic it was less heavy than last year.”
- “The main competitor for skin care is Clarins because in general they have the highest sales. Clarins generally sells better than Clinique and Lauder. For makeup Dior is probably their main competitor. Estée Lauder and Clinique are less well-known for their perfumes. The best seller in perfumes would be [Chanel \[S.A.\]](#).”
- “Prices have not varied at all for Estée Lauder or Clinique; they always stay very stable.”
- “We see a lot of free gift with purchase offers. Estée Lauder and Clinique are probably the brands that do this the most”
- “New trends we are seeing more of are pore concealers or wrinkle concealers. Clarins and Lauder often come out with these products first. The new tinted cream from Lauder is a very good product and is pretty innovative. Dior’s serum [One Essential](#) is also a new product that is popular.”
- “We had customers come in and ask for Lauder’s [DayWear Plus](#) before it came out.”

➤ An Estée Lauder counter representative for a London department store

This source was optimistic about Estée Lauder’s sales this year after a sluggish 2009 and 2010. She expects women will begin to spend more on makeup and skincare, particularly on EL’s younger brands, MAC, Clinique and Bobbi Brown.

- “Sales of Estée Lauder were fair, not brilliant but fair. It’s consistently a good brand. It is a good seller. People tend to like to give Estée Lauder presents at Christmas because it is a tried-and-tested brand. Our sales for 2010 were probably 10% to 15 % better than in 2009.”
- “The products that sold the best were definitely the eye creams—our [Time Zone](#) for eyes—and our foundations. ... The worst? It’s hard to say. I think that lipsticks were down. There’s so much choice with other brands.”
- “I expect sales to be good hopefully by the first half of 2011. By the second half of 2011 we expect even better sales. I am very positive about sales because I genuinely believe that there are a lot of good Estée Lauder products out there this year.”
- “I think that Estée Lauder will always have steady sales, but I believe that you need new products, new lines and other incentives to generate interest in your company. It’s no good sticking with older products, you need to get people interested in new things too.”
- “I believe that our launches will be very big this year, bigger than those in 2010. ... I think that the newest products are much better than Even Better Clinical and Advanced Night Repair.”
- “For spring 2011 you have the Wild Violet collection coming out. That’s big. It’s got eyeshadow, lip gloss. I think that the daytime moisturizer DayWear will be big this year because the formula has changed and it now offers more moisturizing benefits and antioxidant properties. There is the new makeup: [Double Wear Mineral Rich Loose Powder Makeup](#). There will be even more extreme mascaras.”
- “I cannot say what our competitors will do. I think that Estée Lauder is loved by women of all ages. One promotion or a free offer of some blusher or something by some other brand isn’t going to change that.”
- “You can’t help but hear about Avon [Products Inc./AVP]. They’ve got their [Anew](#) beauty range, which is going to be popular. They are doing a new mascara this year. It’s a dual-end mascara, it’s anti-aging. That is the big market this year—anti aging products. We see Avon as a competitor because they threaten to take away sales, but overall Estée Lauder is still the best company.”
- “We have many deals and that was what was popular during Christmas. It was those things that sold—the sets, the free gifts offer. I’m not sure we can ever afford to stop doing those offers. We did a deal where you get two products free with any purchase. Overall, the £30 to £50 [\$48 to \$80] price range is always the most popular. I think that our pricing is fine. It caters for all budgets including £10 [\$16] and up. Avon offers good prices too, but at the same time they are not considered as plush as Estée Lauder.”
- “MAC and Bobbi Brown are moving faster now. ... In general, MAC appeals to younger women; they’ll always find money for makeup! ... MAC has an incredible list of celebrities behind it, Mary J. Blige included. That helps,

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Clinique is amazing too. I'm not sure that [Clinique has] ever had a bad year; their skincare line is so well trusted."

- "The newest trend in skincare is organic skincare made with as many natural ingredients possible that enhance the skin. As for makeup it follows the seasons with fashion colors. In autumn you'll see warm browns, purples and brighter shades."

2) SUPPLIERS

A raw ingredient supplier reported an increase in his business to Estée Lauder, while two fragrance suppliers described business as flat. Likewise, the ingredient supplier expects 2011 sales to be strong as consumers to luxury products; the two fragrance suppliers were less optimistic and expect the fragrance sector to be flat. Estée Lauder is viewed as an industry leader but not necessarily as a trendsetter. One source described Bobbi Brown and MAC as edgier divisions that were on the move in design and sales among younger consumers. Pricing has remained flat. The raw goods provider expects soy and petroleum-based materials to be higher priced this year.

► A president of a raw ingredient manufacturer supplying the cosmetics/personal care industry

The source said cosmetics/personal care sales industrywide rose 8% to 9% during 2010 compared with 2009 and that Estée Lauder's and L'Oréal's 4Q10 orders increased for natural and vitamin additives used in creams and cosmetics. In December, orders for specific ingredients were up 50% but might have been due to the supplier's growth and a drop in material cost. The use of CoQ10 and vitamin E is on the rise. New products are driven by scientific research and reformulations rather than a change in ingredients. L'Oréal is more of a trendsetter than Estée Lauder, but Estée Lauder can out-market other brands. The prestige/luxury market should see momentum build as customers return from cheaper retail stores to prestige brands. Consumer prices are poised to increase because of the higher cost of petroleum-based ingredients.

- "There was significant erosion in demand at the beginning of the recession in terms the total industry. The numbers are climbing back up, and I would say sales are up in general about 8% to 9%. The numbers I've seen show a better future and increase in sales for the prestige lines because customers that were buying from retail will go back to their regular brand. I don't see the luxury [cosmetics] market declining unless the economy declines. People will go back to their normal routines."
- "We deal primarily with L'Oréal and Estée Lauder, and both have shown an increased interest in our products and have increased orders. But others have a higher [vitamins/natural ingredients] inclusion rate. We supply niche products to EL, but others may use more of our products. ... But they pose no challenge to EL because they can out-market them."
- "[Shiseido \[Co. Ltd./TYO:4911\]](#) is the other player and has been coming on strong, but we do not supply them. They have a different mindset and like to buy from suppliers in their own country."
- "We have seen that L'Oréal is more of a trendsetter than Estée Lauder, but neither one is on the forefront. The new trends and ideas are taken by the larger companies from the smaller companies."
- "There are no real market threats to EL as long as they keep their marketing geniuses. Madison Avenue drives EL and L'Oréal more than the product or consumer."
- "We are seeing a pickup in the use of antioxidants and vitamin E in cosmetics. They have been in products for years, but their use has increased as the public becomes more aware of the benefits. The benefit is from the efficacy standpoint for the antiwrinkle properties. It also improves the texture and the shelf life of the products."
- "We are seeing an increase in the use of CoQ10. ... The use of antioxidants is increasing. You used to see mention of vitamin A and vitamin E on the label ingredients, and now they are touting it on the front of the label. ... The known benefits established by scientific studies have created a perceived difference. It's no longer enough to provide a product that feels good and looks good; it has to be effective as well."

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*President
Raw Ingredient Manufacturer*

The Estée Lauder Cos. Inc.

- “In December we saw a recognizable uptick for that particular sector. From our standpoint, we saw orders [for CoQ10] increase by 50% between 2009 and 2010. Part of it is that we are becoming more known, and part of it is that the price has dropped by half.”
- “The use of vitamin E has been increasing over the last 15 years, and it has emerged and then descended, not in terms of its use as an ingredient, but in terms of advertising and marketing.”
- “There is not a product pipeline per se, but there are definite marketing/advertising cycles. Not many manufacturers actively seek out new ingredients in the application [of cosmetics/creams]. The difference is in the formulation and the scientific research behind the efficacy of the ingredient.”
- “There are no pressing raw-material issues. The only challenges are those surrounding the use of soy-based and natural vitamin E versus the petroleum-derived ingredients. The problem is the use in human nutrition. Corn and soy distribution in those products takes precedence over their use in supplements and cosmetics.”
- “There will be an increase in raw materials costs [for corn and soy-based], but EL uses very few soy-based ingredients and is heavier on the petroleum based. From our standpoint, the cost of ingredients to customers has come down between 2010 versus 2009. But the cost on petroleum formulations has gone up ... by as much as 10% to 15% between 4Q10 and 1Q11. This will affect the larger companies because they use a lot of petroleum-based ingredients. It will pass to the consumer, and I would bet cosmetics prices at the consumer level would go up. My perception is that they have kept the prices low at the consumer level during the downturn.”

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➤ A VP and senior perfumer for a fragrance and flavor company

The “nose” for a company that creates fragrances for a number of luxury brands said the fragrance industry has remained relatively stagnant since 2009. He sees a trend toward richer perfumes, but he does not expect Estée Lauder to set that trend as it has in the past. He considers brands that belong to L’Oréal’s luxury product division to be edgier trendsetters but said EL brands MAC and Bobbi Brown have been picking up steam as well. EL’s classic fragrances like Beautiful, [Donna Karan’s Cashmere Mist](#) and Clinique Happy did well last year and were on the top 10 list.

- “I don’t have data on fragrance sales in the fourth quarter of 2010 yet. I think they did OK. I don’t think they did great compared 2009. I think 2010 was slightly better than 2009, if not the same. I think the classics still did pretty well.”
- “I don’t know how they will do in 2011. As an industry, we see business picking up in general.”
- “I see a little bit more of a trend toward richer perfumes as opposed to light and airy fragrances. That doesn’t necessarily mean heavier; it just means more rich and a more expensive smell, accomplished by using certain materials.”
- “I don’t think that Estée Lauder is setting the trends. They are a company that used to set trends, but I think their fragrances have become quite boring, frankly. Maybe L’Oréal as a group has been coming out with edgier fragrances. L’Oréal has many brands in their luxury products division like Giorgio Armani, Lancôme, etc. I wouldn’t pinpoint one in particular, but I think that in general they are a bit edgier than Estée Lauder.”
- “In general ... MAC has been increasing for a while and maybe Bobbi Brown as well. Those brands in particular have kind of stuck out. They are a little more edgier.”
- “Estée Lauder’s prices have been consistent; they haven’t really raised prices. On our end, the prices they would pay for our services have been a little less than in the past. This is just due to general economic conditions.”

➤ A CEO of a fragrance design firm for major makeup and perfume companies

This source said the low-end fragrance industry is doing much better than the high-end fragrance industry. Estée Lauder, a “middle-of-the-road” department store brand, is performing well. Estée Lauder and other EL brands like Clinique continue to surpass their competitors because of their extremely loyal customers and their tremendous brand credibility. Two of their perfumes, Beautiful and Pleasures, remain among the top 10 in the industry.

- “I speak to a lot of fragrance suppliers, and I have not heard one of them saying the industry is really picking up or that this [2010] was a good year.”
- “I think that with the credibility that Lauder has they do surpass the competitors. They are a department store business and their salespeople and employees push the Lauder business.”

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- “Estée Lauder’s and Clinique’s clientele are very loyal. They have a tremendous amount of credibility both in the cosmetics and the fragrance business. When they come out with a new fragrance, people will try it. I have spoken to people at Lauder, and apparently business is good with them. ... They are not upper end like Neiman Marcus, and they aren’t Wal-Mart either. They are in the middle.”
- “I don’t know the numbers, but I would suspect they are similar to last year’s. In Lauder’s case I would also suspect that those are pretty good numbers.”
- “They put a lot of research into their cosmetics lines to find new ingredients and they do a lot of safety and efficacy testing. Throughout the years, particularly Clinique has gained a great reputation for that. People go to the counter knowing they will get a good, safe product that works. They put a huge amount of money in that.”
- “Their main cosmetics competitors would be Lancôme, Shiseido, etc., but EL holds its own.”
- “People are not very adventurous when times are tough. They will stick to traditional fragrances they are familiar with, like feminine, romantic, floral fragrances. Nobody is breaking down any barriers right now. When people have money they will go out and try something new, but right now it is still floral type fragrances. I am seeing a beginning of a trend of adding some oriental notes in the background to give it a little more depth and feeling, but I don’t see a huge step toward a new trend. Lauder is usually the one to set the new trends, so I think everybody is just playing it safe right now.”
- “Beautiful is always their No. 1 product, and Pleasures is not too far behind. That has been the case for years.”
- “The fragrance industry goes through cycles in their trends. First, everybody wants designer fragrances; then they want celebrities. I think right now everybody is still in the celebrity mode. ... I would guess Lauder is going into some new celebrity launches.”
- “I imagine some of their fragrances were not as big successes at Beautiful and Pleasures, but when they launch something new they stand by their product. They promote it, offer gifts with purchases, etc. They put money into every launch to make it successful; they don’t just launch something and walk away. I would say that whatever they don’t consider a success would probably be considered a success by most companies.”
- “The low-end fragrance industry, i.e., products offered in chain drugstores or body splashes, are doing very well because of their low price. The high-end fragrance industry is suffering and is down compared to the mass-market fragrance industry. People who have the money are going to go out and buy the designer fragrances, but your average person is not.”
- “Pricing has been very stagnant. Everybody watches what the others are doing, and they’re putting the same price on it. Everybody lines up exactly with their competitors.”
- “The only thing that is going on in pricing now is the free gifts with purchase to draw in extra customers. I think a lot of brands are cutting back on gifts with purchase because it gets very costly and it comes out of pocket. But they have other ways of getting the consumer to the counter.”

They put a lot of research into their cosmetics lines to find new ingredients and they do a lot of safety and efficacy testing. Throughout the years, particularly Clinique has gained a great reputation for that. People go to the counter knowing they will get a good, safe product that works. They put a huge amount of money in that.

CEO, Fragrance Design Firm

3) COSMETICS INDUSTRY EXPERTS

All four sources viewed Estée Lauder as one of the leading companies in the industry. They expect the company to perform well in 2011, but one tempered the optimism by saying that growing an older, larger brand can be difficult. This same source expects Estée Lauder’s growth to come from the BRIC markets, especially China. R&D is a strong asset for the company. Its Night Repair products and Beautiful fragrance are big successes, and Clinique’s Even Better is one of the leading anti-aging treatments. Market growth was 4% in the prestige cosmetics category, and sources expect this rate to continue for this year.

- **The general manager of a large Israel cosmetics company with global distribution**
Estée Lauder dominates the prestige category, with its brands holding most of the top 10 spots. Clinique was a standout in 2010, building on its Even Better line with a clinical skin care line featuring skin brighteners—a relatively new growth category for Western consumers. After stagnation, the U.S. fragrance market grew 2% during 2010 compared with 2009. The prestige category grew 4% year to year while the retail/drugstore cosmetics sector grew 7%.

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- “I was just in a meeting and presentation of the prestige category attended by all of the brands, so my information is very fresh. It’s been a significantly better year in the prestige category. That is the trade category for the department store channel and the category in which Estée Lauder plays—in other words, not the mass market or drugstore category. 2010 as a year was significantly better than 2009. We have seen consumer confidence come back. Plus, a lot of manufacturers took different steps in skin care, launching new products throughout the year with new benefits.”
- “The No. 1 mover has been Clinique and its Even Better Clinical line. It has serum additives for skin discoloration and brightening, which in the Western market is a fairly new category that is growing. Clinique really went after this market, improving its products and developing multiethnic applications, coupled with marketing, TV ads.”
- “On the other side of Estée Lauder is L’Oréal, with brands such as Lancôme, Kiehl’s, Ralph Lauren fragrance and Giorgio Armani fragrance. There are a couple of other key players, including [Philosophy](#) and [Bare Escentuals](#), which was acquired by Shisheido.”
- “There was growth this year in the prestige fragrance category. It was up 2% year to year, to the surprise of many. The category had been declining so the fact that it grew even by a little bit has significance. Prestige cosmetics grew 4%, but the mass market category outpaced prestige, growing 7% year over year.”
- “Estée Lauder, either way, occupies most of the top 10 spots in the prestige category.”

We have seen consumer confidence come back. Plus, a lot of manufacturers took different steps in skin care, launching new products throughout the year with new benefits.

*General Manager
Large Israel Cosmetics Company*

➤ A CEO of a major skin care company

This seasoned executive said Estée Lauder is well-respected in the cosmetics industry and has a leading R&D department, exceptional buying power and winning products. Its challenge will be to generate growth and a more youthful reputation. Growth will come, but most of it is expected in the BRIC (Brazil, Russia, India and China) markets.

- “Estée Lauder is in very good shape as a company; they cut out all the fat about three years ago and really leaned up the company.”
- “I really admire and respect some of the past and present Lauder team, as most people do in the industry.”
- “Estée Lauder has some of the best R&D in the business, and they are not afraid to go outside the company to get what they need. They really have their finger on the pulse of the industry and what people want.”
- “Clinique has a product called Even Better; it’s a really winner in the market. It’s the No. 1 anti-aging cream on the market, or if it’s not the leader it’s in the top five.”
- “They have no pricing issues at all. They have lower priced brands that are still in the prestige category like Clinique and MAC, and they have the higher-priced luxury brands as well.”
- “The company has big buying power when it comes to suppliers; they really have an advantage over the competition in this area.”
- “Estée Lauder’s growth is coming from the BRIC nations, especially China.”
- “It’s very hard to get growth in big brands. Estée Lauder has tried to fire up their brand, but it’s tough. They have an image that their products are for your grandmother.”
- “The company [Estée Lauder] is trying to get a younger image with [Lauder Blue Dahlia](#), but they seem to be tripping on consultant reports.”
- “The company has been looking for way to expand beyond their prestige distribution model. They have no infomercial presence, and they are not on QVC where you can sell \$15,000 of product a minute. It would be hard for them to market there because of their luxury brand approach.”
- “MAC and Bobbi Brown provide Lauder with huge profits. They recently acquired [Smashbox](#), and they’re trying to fix that. If they are successful, it will give Lauder more of a presence in [Sephora](#).”

Estée Lauder has some of the best R&D in the business, and they are not afraid to go outside the company to get what they need. They really have their finger on the pulse of the industry and what people want.

CEO, Major Skin Care Company

➤ The executive of an international makeup and fragrance company and with 30 years’ industry experience

This source said the entire cosmetics industry had a strong holiday sales season, and she expects Estée Lauder did as well. She expects Estée Lauder to continue to perform well in terms of sales in 2011 as the economic recovery

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progresses. Estée Lauder is a prestigious, well-respected company with many brands that often lead the luxury/prestige cosmetics category in sales, product quality and product innovation. Estée Lauder also is an industry leader in advertising quantity and quality, but seems to favor advertising in print rather than TV. The Clinique brand is very popular because it is hypo-allergenic.

- “The cosmetics industry as a whole had a strong Christmas season, so I would expect that Estée Lauder did as well.”
- “I expect Estée Lauder will continue to be a sales leader in the industry, but like any company they will have their ups and downs.”
- “Estée Lauder is a premier, luxury brand that offers great products, has elegant advertising and lots of loyal customers.”
- “A lot of the women that work in my company buy Clinique and Estée Lauder products; they are great products and they work.”

➤ A group editorial director for a New York-based cosmetics trade publication

This source said Estée Lauder is at the top of its game right now with skin care and fragrance, specifically Night Repair and the Beautiful fragrance. These are two signature products from Estée Lauder and not one of its other brands, showing that the company is leaning on its name and core products and not its acquisitions.

- “Estée Lauder is on fire right now with cosmetics, particularly their skin care products. Of course, Night Repair is leading the charge, but in general all of their skin care products are on fire.”
- “They are also firing on all cylinders when it comes to fragrance: We just got a report this morning that Essential puts Beautiful at the top of the list.”

Additional Sources

A review of beauty industry trade publications and Web sites revealed The Procter & Gamble Co.’s (PG) plans to step up its efforts in the prestige cosmetics category, several new product launches by Estée Lauder and MAC, and two awards won by Estée Lauder for a breakthrough product and best executed product launch strategy.

➤ A Jan. 14 posting on *Women’s Wear Daily*

This article outlined Procter & Gamble’s plans to enter the prestige beauty category, which would provide additional competition for Estée Lauder. Also discussed were industry rumors of P&G acquiring Estée Lauder.

<http://www.wwd.com/beauty-industry-news/p-g-plans-big-move-into-prestige-beauty-3420135?browsesets=18511862058> (subscription required)

- “Procter & Gamble Co. is ramping up the pressure on L’Oréal in the battle for number one in beauty. The Cincinnati-based personal care giant is already a powerhouse in fragrance and now is making moves to snare a lion’s share of the faster-growing prestige cosmetics and treatment market — both L’Oréal mainstays — as well.”
- “[Patrice Louvet, president of P&G’s global prestige division] deftly sidestepped the recurrent questions of the past, in which the market periodically speculates about a possible acquisition of the Estée Lauder Cos. Inc. and, more recently, Beiersdorf.”

➤ A Dec. 10, 2010, report on *Women’s Wear Daily*

This article announced Estée Lauder as the winner of two WWD Beauty Biz Awards: Breakthrough Product of the Year, and Best Executed Launch Strategy.

<http://www.wwd.com/beauty-industry-news/winners-of-the-wwd-beauty-biz-awards-3401286>

- “Breakthrough Product of the Year, Prestige: Thierry Mugler Womanity (fragrance), L’Oréal Professionnel INOA (hair care), Clinique Repairwear Laser Focus Wrinkle & UV Damage Corrector (skin care), Chanel Rouge Coco Hydrating Crème Lip Color (makeup). MASS: Johnson and Johnson Bioelectricity Technology (skin care), Maybelline New York Instant Age Rewind Eraser Treatment Makeup (makeup), Garnier Fructis Style Sleek and Shine Blow Dry Perfector (hair care).”
- “Best Executed Launch Strategy, Prestige: Estée Lauder Blue Dahlia collection (makeup), Kiehl’s Cross-Terrain collection (skin), Bumble and bumble partnership with Sephora (hair), Coty Prestige for Bang by Marc Jacobs (fragrance). MASS: Revlon (makeup), L’Oréal Paris Go 360° Clean (skin), Pantene (hair), Jordin Sparks Because of You by Apra (fragrance).”

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➤ **A Jan. 21 posting on CosmeticsBusiness.com**

This blogger discussed MAC's new line of makeup called A Tartan Tale.

http://www.cosmeticsbusiness.com/products/article_page/MAC_has_a_highland_fling/58720

- "MAC's latest holiday colour collection, A Tartan Tale is said to take its inspiration from the highlands of Scotland and the punk era of the Sex Pistols. The unusual pairing, described as royal and raunchy, has resulted in a range of russet, heather and blue hues cut with vibrant pinks and greens."

➤ **Jan. 26 posting on Raging Rouge**

The article discussed several new products, new colors and new formulations from Estée Lauder and MAC.

<http://www.ragingrouge.com/>

- "From Estée Lauder's Wild Violet collection come these two beautiful Spring 2011 shades. On the left is 'Electric Coral' and on the right is 'Electric Violet.' Both shades are bright pops of color inspired by Spring blooms, but the sheer wash of syrupy 'I just enjoyed a lollipop' wash of color is subtle and beautiful. It's a great way for timid makeup-lovers to incorporate a hint of color into your Spring makeup look!"
- "MAC's Director of Makeup Artistry for India, Mickey Contractor has a depth of experience creating glamorous looks for Bollywood stars. The MAC + Mickey Contractor collection contains vivid jewel-tones and spicy hues that make Indian women burst out into spontaneous song (or so movies made in India would lead me to believe)."
- "Who couldn't use yet another neutral, go-to shimmery gloss? Rich and gleaming with shimmer—MAC Cham Pale Lipgelee is a blendable, moisturizing formula (and that warm vanilla scent is just dreamy). MAC Lip Gelee is an ideal choice for a gloss fan that is looking for something a bit more opaque."
- "Included in the MAC Peacocky collection for 2011 are a wide variety of intense high-pigment eye shadows with an amazingly brilliant metallic finish, and an almost creamy feel when applied!"
- "Estée's latest—the Wild Violet collection—includes two color families: Wild Violet and Wild Coral. After all, Lauder is famous for providing choices!"

Next Steps

Blueshift will monitor the continued success of Estée Lauder's core products as well as its newest releases. We will review the cost of raw materials and the retail prices of products to determine if Estée Lauder is at risk of margin decline. We will research the effect of the new creative director and makeup models and if these new additions can rejuvenate EL's image. We will monitor Estée Lauder's Bobbi Brown and MAC brands, which sources deemed as trendier than the company's namesake brand. Finally, we will review the competitions' attempts to gain market share in the skin care segment.

Additional research by Carolyn, Marshall, Marie Monbureau, Ph.D., Cheryl Meyer, Jacqueline Fox, Tina Strasser, Belinda Robinson and Erica Franklin.

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