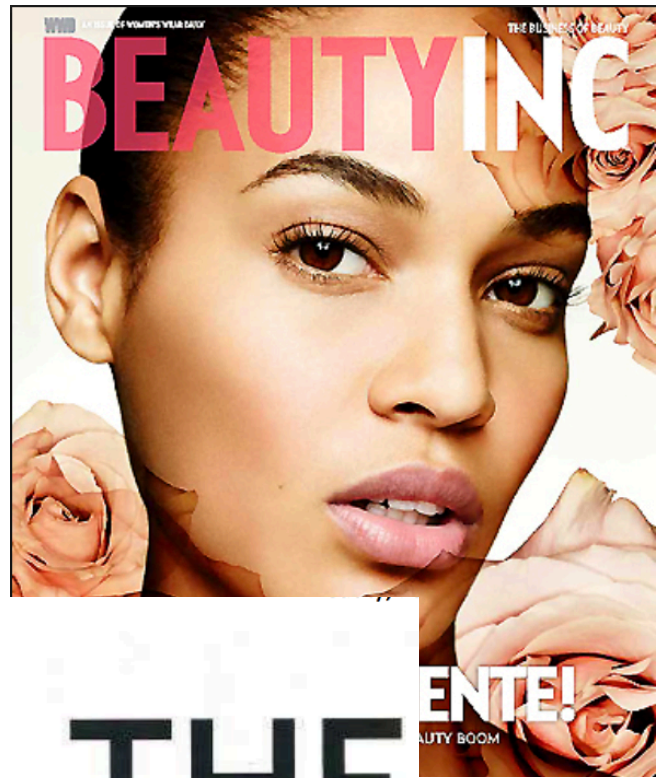


ALCHIMIE
FOREVER

OF SWITZERLAND

Beauty Inc, 2012

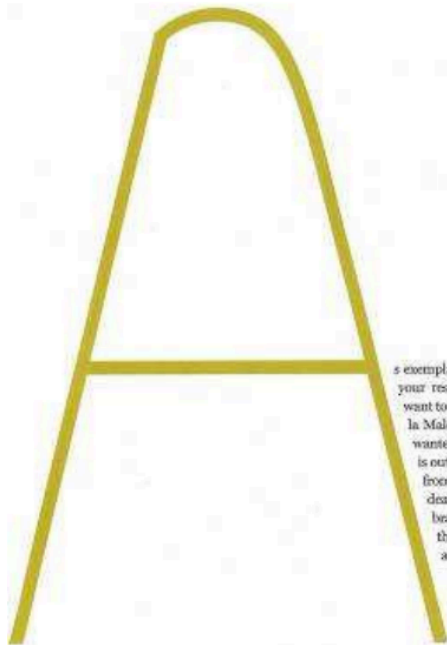


THE NEXT
GENERATION

THE CRIMSON GUARD

IT TAKES MORE THAN JUST SMARTS. FROM THE ART OF THE DEAL TO LAUNCHING A STARTUP, FOUR HARVARD GRADUATES—EACH INVOLVED IN A DIFFERENT ASPECT OF THE BEAUTY BUSINESS—REVEAL HOW THEY'RE SUCCEEDING TODAY.

BY MOLLY PRIOR
ILLUSTRATIONS BY PAUL WEARING

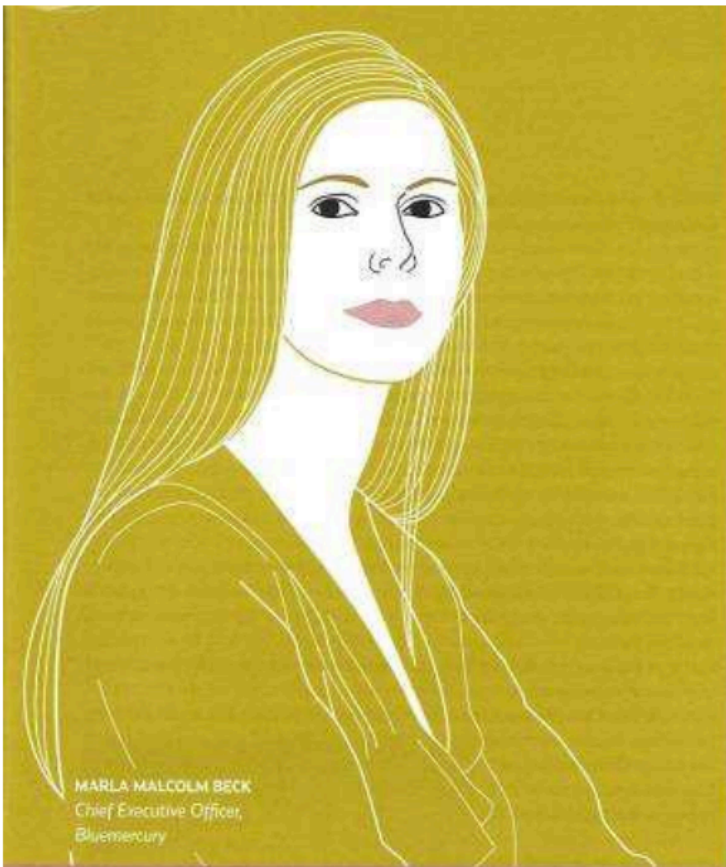


As exemplary as it is to have Harvard University on your resume, these Ivy League graduates didn't want to impress the boss. Katia Beauchamp, Marla Malcolm Beck, Jani Friedman and Ada Polk wanted to be the boss. Each of these four women is out to make her mark on the beauty industry from all different angles: from the art of the deal to launching a start up, from building a brand to constructing a retail empire. Here, they share their outlooks on the year ahead and their views on what it takes to succeed.

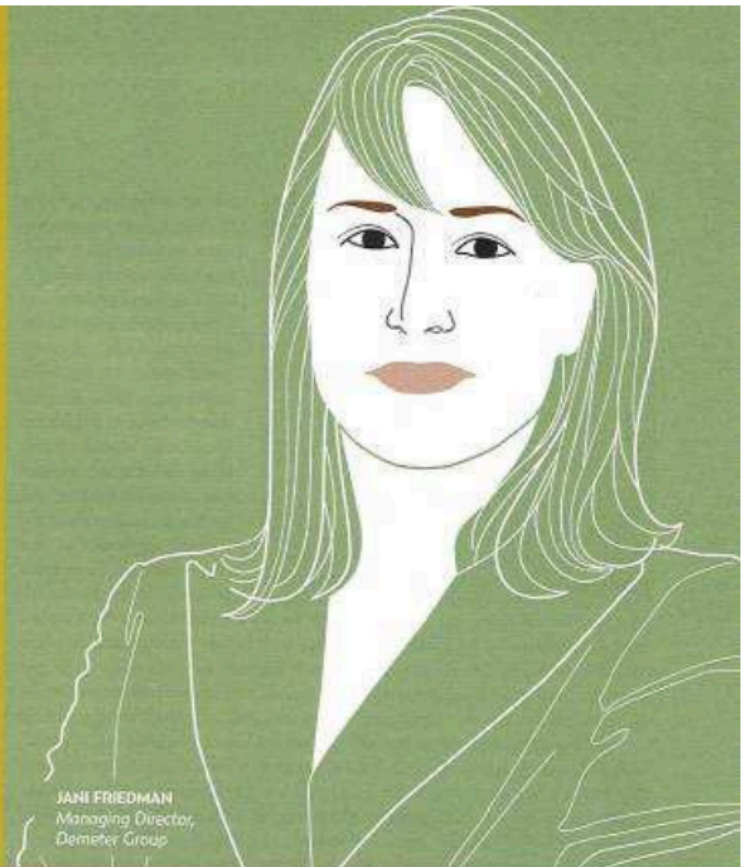
Beauty Inc: Where do you see growth in the industry overall, and for your company, in the next 12 months?

BEAUCHAMP: E-commerce has been a focus for many companies for years, but now there is a new thinking around content and commerce. This concept is essentially important for beauty and it is at the forefront of our minds at Birchbox. We are focused on growing the subscriber base and engaging with women who are looking for discovery. Birchbox is a fun way to get to know new products and brands but it's also highly effective [marketing].

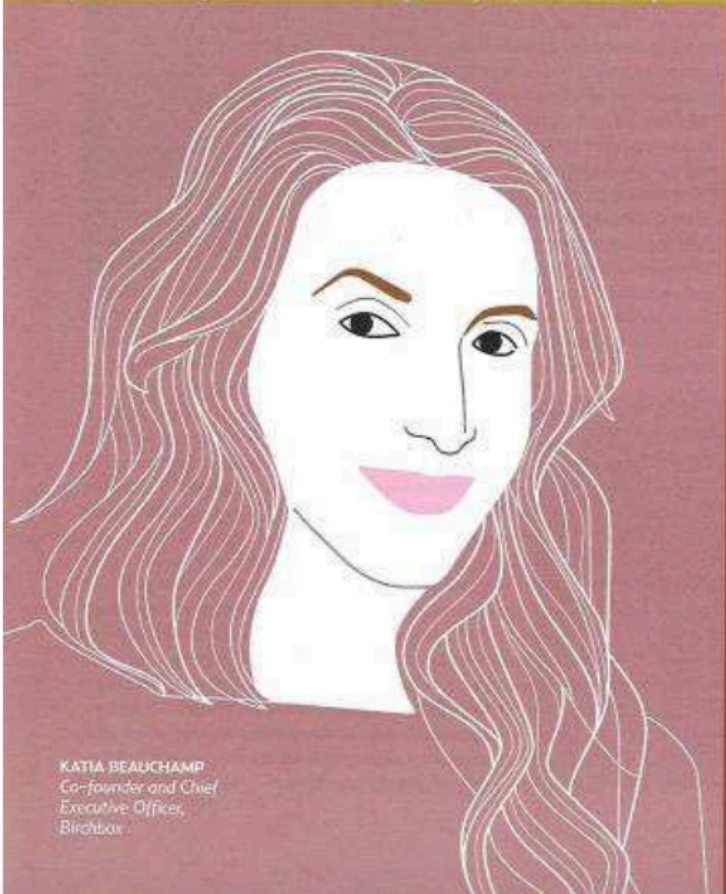
BECK: There are two things driving the industry: One is this quest for the latest technology in skin care and two is the fashion element of color. Categorywise, antiaging skin care is still absolutely booming. In the fall, we launched ReVive Intensive Crème Luster SPF 30 for \$375. It was one of our best launches in years. Also, any new, fashion-



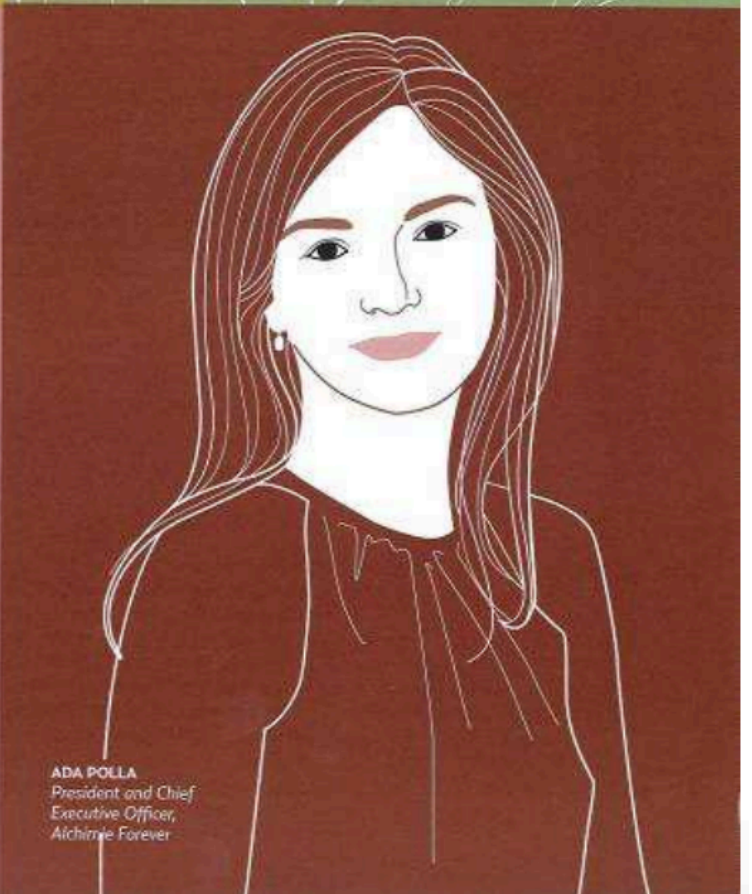
MARLA MALCOLM BECK
Chief Executive Officer,
Bluemercury



JANI FRIEDMAN
Managing Director,
Demeter Group



KATIA BEAUCHAMP
Co-founder and Chief
Executive Officer,
Birchbox



ADA POLLA
President and Chief
Executive Officer,
Aichmie Forever

MARLA MALCOLM BECK

CEO of Bluemercury When the beauty boutique in her Georgetown neighborhood was about to close, Beck's entrepreneurial ambitions kicked in: Buy the store and recreate it as a luxury apothecary, or as Beck calls it, "a substitute drugstore" for affluent women looking for niche beauty brands. Now, 13 years later Bluemercury has more than 30 stores with staggering growth prospects—the company saw double-digit growth last year, says Beck. She graduated with an MBA from Harvard Business School in 1998.

clear that this category is prime for pick up. People are now coming back to that retro clean, classic look. With the technology and the fashion element, hair clips are going to be one of the biggest categories of the year.

POLLA: I see growth in new retail concepts, including pop-up shops and store-within-stores formats like Macy's Impulse Beauty and Dillard's The Edge. Stores are thinking about how to make retailing more fun and more tailored. I'm also intrigued by *NewBeauty* magazine's retail concept at Fred Segal. It's an interesting trend. Now, magazines are not only influencing consumers in terms of making product recommendations, but they're taking it to the next level by presenting them at retail. For Alchimie Forever, online has been the fastest-growing channel for us and I expect that to continue. We have yet to partner with a marquee retailer, so that is an opportunity for growth.

Where do you see the most opportunity and why?

BEAUCHAMP: We have established ourselves well as a service that subscribers see a lot of value in, because it is something that didn't exist before. We were able to find our initial group of customers mostly through word of mouth and social media. There's a huge opportunity to find more women. We are also challenging ourselves on the technology side to ensure the experience is delightful. Content, commerce and trial are all about discovery. You will be seeing usability changes in the first quarter that will help customers be able to search for product better, and you'll be seeing changes in how product pages are merchandised with content and vice versa.

BECK: The U.S. is a mature market, so you have to choose a specific customer segment and decide how to approach it. As markets mature in any industry you see hyper-segmentation, but as long as brands or retailers are serving a niche effectively you'll see growth.

FRIEDMAN: The professional channel is trying to figure out how to enter the consumer channel. For instance, Algenist skin care is owned by a biotech company called Solazyme. It launched on QVC and in Sephora. Expect to see more of these brands entering the consumer channel.

POLLA: There's an opportunity to cater to consumers' desire for products that they feel good about using. That doesn't necessarily mean green. It's conscious consumption not conspicuous consumption. It's about products that you feel good about buying—you feel good about their ingredients and that they work, but also that the companies behind them participate and give back to their community. We do a lot in the contemporary art world, including with Washington Project for the Arts. My parents have an art gallery. It's a personal passion.

able cosmetics color sells out in two or three weeks. We serve a specific client, an affluent client who is educated and leading-edge, and our trends are driven by that client segment.

FRIEDMAN: It's the niche segments, like devices, that continue to bubble up and change what we think of as traditional categories. Another one that will be big is hair extensions. HairUWear is one of our clients, and as I have been researching the market it's

What do you think the biggest challenges are going to be, and what is your strategy for overcoming them?

BEAUCHAMP: It's always a challenge being the newcomer and getting the attention of established brands. To overcome that, we're focused on being the best executor of our concept that we created. The goal is very simple: We will derive the most value out of a beauty company's sample. We have a conversation with our partners about what their needs are and how we can evolve to be the solution.

BECK: We are in high growth mode. We had a 35 percent growth rate last year. So, the challenge for us is hiring in the field and at the corporate level. Also, as the economy improves, finding great locations is a challenge. When Barry [Beck] and I started the business in 1999 we got to meet Howard Schultz [of Starbucks]. He turned to me and said, "Do you know the biggest problem that you are going to have? Real estate." He's right. Finding great locations at the right price is always a problem. Two years ago, you could roll a bowling ball down Madison Avenue. It was a good opportunity. Now the rents are through the roof.

FRIEDMAN: Niche brands are very entrepreneurial in spirit and they have gotten far in life by using creativity as the driver of their business. They don't, however, necessarily understand the role of bringing in top management and strategic thinking into the company. The challenge for me is to be able to find and tap into resources that will help drive their businesses from both a strategic and a creative perspective.

POLLA: The economy is still in a relatively precarious position. For small brands it's harder in a way, because we are less-well capitalized. We can't endure a challenging economy as long as a huge corporation. But ultimately, the biggest challenge is how do you become a household name without losing your niche appeal. Making a mark in consumers' minds is very challenging and time consuming. And time is money.

How can the industry better nurture independent companies?

BEAUCHAMP: This is not one-sided in my mind. It is a give-and-take relationship between the established beauty companies and the newcomers. In terms of give, my request would be to take the meeting—not because you necessarily feel that the idea in its current form is perfect or the best you have ever heard, but because these meetings, conversations and intellectual exchanges have an impact on innovation and how product evolves. Our exchanges with brands continue to have real impact on what we are building. Hopefully, one day, many of those productive conversations become partnerships that benefit both parties.

BECK: The bigger companies have gotten smart about harnessing technology not just from internal research, but also from contract manufacturing. It used to be that the indie brands would find the best technology. Now they are getting blocked out by the big brands. It's a completely different world than the Nineties, when every line in our store was an indie brand because they were producing the most innovation. To nurture them, there should be more partnering between innovative people and larger companies to harness creativity of the indie brand with the power of a big player.

FRIEDMAN: It has to come from the other way around. Brands that want to sell their company have to realize that they may need help from a financial partner. A lot of founders don't want to give up control of the business, but in the beauty industry there are so many brands that have been driven by creative forces and are now hitting a plateau.

POLLA: We work primarily with independent retailers and they are torn. They want independent brands to differentiate them from department stores or Sephora, but they need big brands to drive people into their stores. One of the challenges for a small brand is that the bigger stores can have a very short-term focus. You finally get them to take your brand, you open a bottle of champagne and in three months the numbers are not where they need to be and you are out. Retailers do have a role to play in educating consumers on less well-known brands.

KATIA BEAUCHAMP

Co-founder and CEO of Birchbox

Guided by the belief that beauty products have to be touched and tried, Katia Beauchamp launched the members-only sample site Birchbox.com while in business school. Less than two years later, the site boasts more than 100,000 members, each of whom pay \$10 a month to receive a box of deluxe-size samples from brands like Smashbox, Nars and Kérastase. She graduated with an MBA from Harvard Business School in 2010.

How are you seeing the mind-set of your consumer evolve?

BEAUCHAMP: Previously, there was this sense that customers don't pay for samples. We've proven that there is value in a sample. That's the biggest shift. But of course you need people to subscribe to the service, so we've put a lot of work into creating content. We want them to read our articles, watch our videos and shop. You can shop for full sizes of any product. Now they are spending a lot of time on the site.

BECK: Getting consumers to try non-hero products has become more of a challenge. We are heavy duty samplers, so if we get behind a product with sampling we can drive trial of a product—but the product has to be good.

FRIEDMAN: She is quite set on what she wants and she's going to get it regardless of price. She'll sacrifice other things to get the best, the newest and the greatest and products that offer clinical claims. When it comes to skin care or cosmetics treatments, these products are well researched. She's becoming more strategic about her skin care and, to a certain extent, hair care. The other categories are becoming more opportunistic and price sensitive.

POLLA: We are all more aware of where we are putting our money. People are spending less, so now if she is going to pay \$50 for a moisturizer it has to be worth every single penny.

What has real-world experience taught you that business school did not?

BEAUCHAMP: It's hard to teach how to motivate people and give them the tools they need to have a sense of ownership and the will to persevere in something that is a ton of work. That's something that we are working on. We need to build a company that is laying the foundation to be here for a long time.

BECK: You learn through strategies, numbers and case studies, but you don't learn the impact of human touch: How do you connect with your customer and how do you inspire 400 to 500 employees. Over our 13-year history, one of the reasons we have been successful is we have long-term relationships. My father was

ADA POLLA

President and CEO of Alchimie Forever
Ada Polla, daughter of Swiss doctors Luigi and Barbara Polla, cofounded the antioxidant-rich skin care line Alchimie Forever in 2004 during her second year of business school at Georgetown University. She now runs the business from D.C., overseeing the brand's growth across spas, beauty boutiques and online. She graduated from Harvard University with a Bachelor of Arts in 1999.

an entrepreneur. Everyone always says about him, "Your father is a good man." They say that because they like working with him.

FRIEDMAN: In business school you feel like every situation is going to work out for the best in the end. You can always fix, you can always win. In the real world that's not going to happen. I'm more realistic about what can be done. I'm not any less ambitious, but I look out more for the red flags.

POLLA: In business school when you write a business plan with a five-year projection, you're told to double your expenses and halve your revenue. What they don't tell you is take your time line and multiply it by 10. Things take so much longer—this is probably true in consumer goods where you are building a brand. In my original business plan I had something like, "Launch my brand, grow brand, sell brand, retire within five years."

Harvard is known for its case studies. Who would you like to read or write a case study on in the beauty industry and why?

BEAUCHAMP: I interned at the Estée Lauder Cos. Inc. while I was at Vassar. It would be interesting to see how Lauder came to understand what it means to build a brand both based on the psychology of who its customer is and the efficacy of the product. And how it then turned that into a repeatable model.

BECK: Someone should be writing a book about Leonard Lauder's thoughts and strategies. Every time you sit down with him he pushes you to think in a way that you

never thought about. He has so many great anecdotes. He said I should be more competitive and then told me a story about when he and his mother met a 12-year-old who was making lipsticks in her kitchen and putting them in bottle caps. Leonard offered to give her some empty sample jars. And his mom said, "Why would you do that? Then we have someone else competing with us." That was his illustration of how competitive you need to be to build a big company.

FRIEDMAN: One of the most interesting stories now is Coty Inc. A couple years ago, who would have ever thought Coty would buy OPI and Philosophy? Why the company did that, how it did that and what it is going to do next would be a very interesting case study.

POLLA: I would love a case study on Bliss. What Marcia Kilgore did for the industry is so intriguing. It would likely be a case study in three parts: How she grew Bliss and the response, what LVMH did with it and what Steiner Leisure is doing with it now. I also would like to see a case study on Living Proof—it started relatively recently and has been able to grow quickly.

What does it take to be a successful entrepreneur today?

BEAUCHAMP: For me, I had to be incredibly optimistic and a little bit naïve to get started. There is nothing more important than energy at first, but then it's about execution—and having the ability to take your large idea and break it apart into bite-sized pieces.

BECK: It's perspiration. There is an idea on every fence post but it's really about getting in the game and trying it. The first idea may not work, but as long as you are in the game something will happen. Something will click.

FRIEDMAN: Now, unless you have retail contacts and a lot of resources behind you, it is very hard to launch a beauty brand. You just can't cut through the clutter. Even though some retailers, like Look Boutique, are taking chances, they are not taking chances on companies below a million dollars. The companies need to have proven themselves a bit first.

POLLA: Persistence is key. My mom always told me, "No means, 'no, not right now, thank you very much.'" Now may not be the right time, but there is always next season or next quarter or next year. But before persistence is passion. It's what sustains me. Because it's really hard. Without passion, forget it. It's what makes it fun most days. ■

JANI FRIEDMAN

A Managing Director at Demeter Group
As an investment banker, Jani Friedman works to find up-and-coming beauty brands the capital they need to reach the next level of growth. As part of her assessment, she applies product and marketing expertise gleaned from her years at Sephora, where she oversaw the skin care business. Friedman's no stranger to fashion either, having worked at Levi Strauss & Co., Anne Klein and Victoria's Secret Catalogue. She graduated with an MBA from Harvard Business School in 1998.

Entrepreneurial Drive: The Quest for Growth

Think Small: Niche segments such as devices and targeted consumer groups will continue to drive both investment and retail sales.

But Focus on the Big Idea: Innovation, be it in product or marketing technique, is what ultimately attracts consumers to a concept.

Follow the Do-Good Doctrine: Women are willing to spend money on themselves, but they want to do so with products that they feel good about using. It's conscious—versus conspicuous—consumption.

Blood, Sweat and Tears: It's harder than ever for an entrepreneur to make it in beauty. Success takes funding, connections—and an ironclad work ethic.

Follow the Leader: Analyze the success of companies you admire to see how you can apply those lessons to your business.