



*Department of Economics and Finance*

*Thesis in Management*

# Business model adaptation in the Cosmetic industry: The Nyx Professional makeup case

SUPERVISOR

Prof.  
Francesca Vicentini

CANDIDATE

Sara Zito  
190281

ACADEMIC YEAR 2016/2017

*To my family, who always encourage me  
to follow my passions,*

*to my closest friends, who are my  
personal Board of Directors.*

***She quietly expected great things to happen to her, and no doubt that's one of  
the reasons why they did.***

- Zelda Fitzgerald

## *Table of Contents*

### **Business Model Adaptation in the Cosmetic Industry: The Nyx Professional makeup case**

<b>Introduction.....</b>	<b>5</b>
<b>Chapter 1 Business Model and Strategy.....</b>	<b>7</b>
1. What is a Business Model?.....	7
2. Business Model vs. Strategy.....	9
3. Strategies.....	10
3.1. Corporate Strategies.....	13
3.1.1. Internationalization.....	14
3.1.2. Porter’s Diamonds.....	17
3.2. Business Strategies.....	18
4. Business Model Adaptation.....	20
4.1. BM Innovation and performance.....	21
5. Who is interested in the Business Model?.....	21
6. Business Model Frameworks.....	22
6.1. RCOV framework.....	22
<b>Chapter 2 The Cosmetic Industry.....</b>	<b>24</b>
1. The world of beauty in 2016.....	24
1.2. The Make-up category.....	26
1.3. Generation Z.....	26
2. Makeup in Italy.....	27
2.1. Italian market share and volume.....	29
3. Competitive analysis.....	30
3.1. Porter Five Forces.....	30
3.2. Leading Italian Companies.....	33
4. L’Oréal.....	34
4.1. Brand division.....	34
5. NYX Cosmetics.....	35
5.1. History.....	36
5.2. L’Oréal acquisition.....	37
5.3. Strategy.....	38
5.4. NYX Cosmetics Italy.....	38

**Chapter 3 NYX Business Model.....40**

- 1. Business Model Canvas.....40
- 2. Nyx Professional makeup Italy Canvas.....42

**Conclusions.....55**

**Survey .....57**

**References.....58**

## **Introduction**

Cosmetics are considered to be any type of product or mixtures used to complement or enhance the beauty or looks of a person.

The usage of cosmetics is documented since prehistoric times; in 2000 BC in Iraq the use of perfumes and eyes pigments was already spread, Egyptians are membered for their black eyeliners and green pigments on the eyelid, Greeks put white lead to achieve a paler complexion and their women introduced elaborated hairstyles to the world.

The first appearance of razor was in the ancient Rome, then in the Middle Ages tweezers, medieval women used to pluck their eyebrows, curl and dye their hair.

In 17<sup>th</sup> century pale skin became a sign of wealth, poor women had to work outdoors all day, so they were suntanned, a mixture of white lead and vinegar was used to achieve the Golden Age look together with black patches to recreate fake beauty marks and black eyebrows.

People started to produce cosmetics at home in 18<sup>th</sup> century, and rapidly it became a mass production. Although in 19<sup>th</sup> century, during Victorian age, the use of cosmetics was not approved anymore, so they started to be sold under the counter.

In the early 1900s the first modern cosmetics were invented; such as lipsticks and mascara.

From then the cosmetic industry continue to grow sharply, today it is a multi-billion-dollar industry with large multinationals supplying all over the world.

France hold a privilege role in the perfumes market and it is also well known and appreciated for makeup products.

In the recent decades, especially after the spread of YouTube (2005), makeup has become viral on the web, and many beauty channels and blog was born.

USA is a pioneer in this market, still today the most followed beauty bloggers are American.

This contributed to create the need to have a homogenous supply of makeup products all over the world. In the recent years many national brands are expanding using the internationalization corporate strategy.

The aim of this thesis is to analyse the process of internationalization of Nyx Professional makeup, and American brand acquired from L'Oréal Paris in 2014. This paper will focus on the launch in Italy, in chapter 3 the Italian business model will be build according to my personal researches.

I decided to write this thesis because I have always been passionate about makeup, I grew up in the era of YouTube and nowadays I got to know a lot about beauty bloggers and the digital part of this industry.

I also have my own experience as a small makeup blogger and last year I followed closely Nyx during its Italian launch, so I decided to put together my passions with my studies.

The thesis will analyse at first the theoretical background regarding the business model and strategies, then it will follow a focus on the cosmetic industry, globally and in the Italian market and finally Nyx Professional makeup is presented and the Business model will be recreated through the Canvas.

## Chapter 1

# Business model and Strategy

One of the central tasks of entrepreneurs is to precisely address the ways in which their businesses interacts with suppliers, customers, and partners.

Entrepreneurs often “try to find fundamentally new ways of doing business that will disrupt an industry’s existing competitive rules, leading to the development of new business models.”

Even when firms replicate the business model of an existing organization, they may have to adapt these designs to their own particular market niche<sup>1</sup>.

### 1. What is a business model?

The emergence of the Business model concept first appeared in the mid 90s, with the advent of the Internet, some scholars also attribute it to the rapid growth of emerging markets<sup>2</sup>.

It is a model, so it’s a representation of reality. It is a way to explain how firms “do business” through the creation, delivery and capture of value.

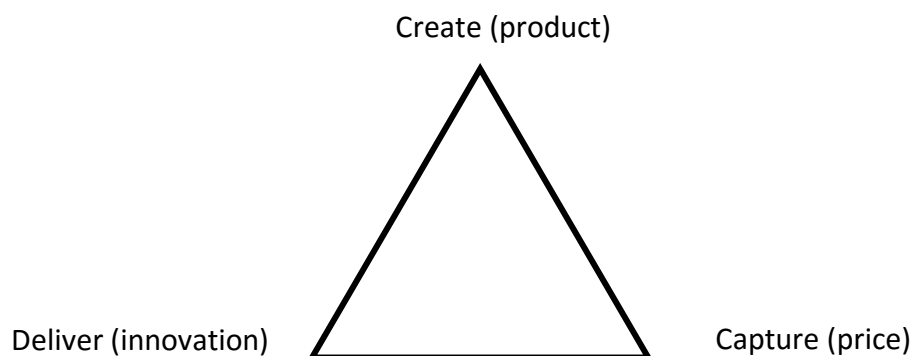


Figure 1: Value creation

---

<sup>1</sup> Source: Aldrich (1999), McGrath and MacMillan (2000)

<sup>2</sup> Amit & Zott (2001)

Scholars still do not agree on what a business model is, often the word is adopted with an idiosyncratic definition that fit the purposes of the study, but it's not always easy to reconcile definitions with each other.

It has been defined as: a statement, a description, a representation, an architecture, a conceptual tool or model, a structural template, a method and a framework.

Some of the most influential definitions are from:

Chesbrough & Rosenbloom (2002): *“the heuristic logic that connects technical potential with the realization of economic value”*.

Magretta (2002): *“stories that explain how enterprises work. A good business model answers Peter Drucker’s age old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?”*

Drucker: *“a business model is nothing else than a representation of how an organization makes, or intends to make, money”*.

A good business model should succeed in explaining how the firm is going to make money including also some information about the reasons why a customer would recognize a value in the product or service offered and the reason why he would be willing to pay a price for it.

Nevertheless, there exist some common acknowledgments: business model is distinct from products, firm, industry or network. It is focused on a specific firm and it looks at a wider environment, a network of partners, suppliers, customers and distribution channels.

It is not a value proposition, a revenue model or a network of relationships by itself, it is all of these elements together.

Business models reflect strategic choices, both corporate and business strategy and it allow to understand the key assumptions of the business, what are the cause-effect relationships.



Moreover, the BM succeeds in explaining the performance and the competitive advantage of a firm; it allows to understand the way in which the firm can achieve and use its resources in order to offer its customers a higher value and make money with it.

When a new model changes the dynamics of an industry and it's difficult to replicate, it can result in a powerful source of competitive advantage, but it's very different from the product market position of the firm.

*“Firms that address the same customer need and pursue similar product market strategies can do so with very different business models; business model design and product market strategy are complements, not substitutes<sup>3</sup>”.*

## **2. Business Model vs. Strategy**

Compared to strategy, the business model is more focused on cooperation, partnership, value proposition and the role of customers, elements which are vaguer in the strategy literature.

It does not focus on competition and the current state of the market, while the business strategy deals with it.

Two companies may adopt the same business model, but have very different financial results due to their business strategy.

We can consider the example of Facebook and MySpace: both the platforms were born with the same business model; at the beginning they targeted a specific group of customers (university students for Facebook and musicians and artists for MySpace), as they grew in popularity, Facebook decided to expand its strategy and open to new kind of users (like high school students and workers), while Myspace choose to maintain its limited audience remaining a social network addressing the needs of a small niche. The result is that nowadays even musicians have switched to Facebook because it is a much larger platform and gives the opportunity to advertise to a larger audience.

*“The business model encompasses the pattern of the firm’s economic exchanges with external parties.”<sup>2</sup>*

---

<sup>3</sup> Amit & Zott (2010), The business model: theoretical roots, recent developments.

According to Richardson, it explains the way in which the activities of the firm work together to implement its strategy. The focus of the attention is on how all the elements of the system fit into a working whole.

A reasonable conclusion is to say that both business model and strategy are closely interlinked. In order to be successful a company must seek the ideal business model and market strategy.

To better understand the differences and how the business model is able to concretize strategic choices we need to look closely at the strategic patterns.

### **3. Strategies**

The strategic management is a process made up of analysis, decisions and actions that an organization undertakes to create and sustain a competitive advantage.

A firm has a competitive advantage over another when it is able to exploit resources and capabilities in order to achieve a higher return respect to competitors. The competitive advantage is a dynamic concept, after a firm succeeds in achieving it, it must be sustained over time.

The strategy is the analysis of all the processes a firm has to consider to run the business, it is crucial to understand goals in the long, medium and short run.

We can define strategy as the integrated and coordinated set of commitments and actions designed to exploit core competencies of the firm and gain a competitive advantage.

Strategy is the direction and scope of an organization over the long term, which achieves advantages in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholders' expectations<sup>4</sup>.

The formulation of the strategy comes after the analysis of the internal environment: mission statement, vision and analysis of the strengths, weaknesses, opportunities and threats of the firm (SWOT analysis) and the external environment.

---

<sup>4</sup> Johnson (2008), Exploring corporate strategy

*Figure 2: Layers of the business environment*



The Macro-environment is used to identify the impact of future trends regarding politics, economics, demography and technology on the organization.

The Industry or sector environment is made up of firms producing the same products or services. The most used toll to analyse this market is the Porter Five Forces model.

The competitors and market layers is the closer one to the organization, it includes all the firms on a specific sector competing about different characteristics. The degree of distinction between these firms can be identified constructing the strategic groups for the sector.

After the analysis of the environments, the strategy is formulated to decide how and where to compete in the market according to the attractiveness of the latter.

The organization is in charge for strategies implementation at distinct levels:

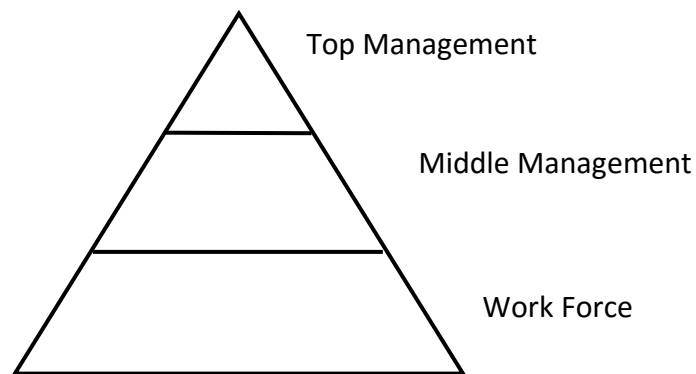
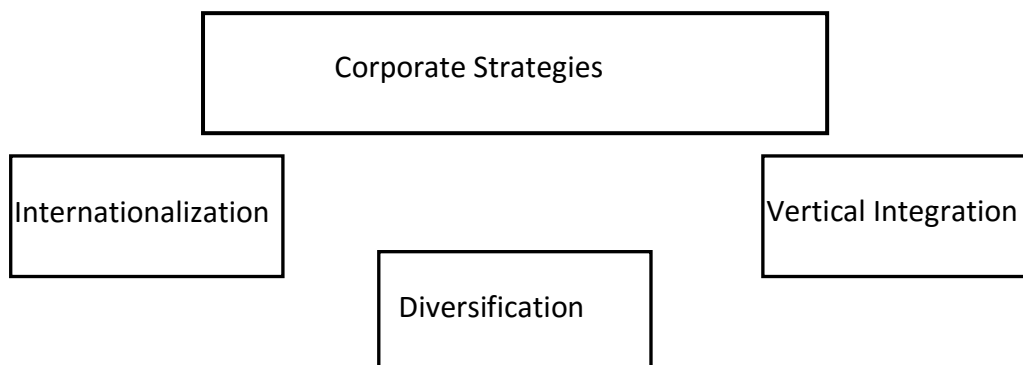


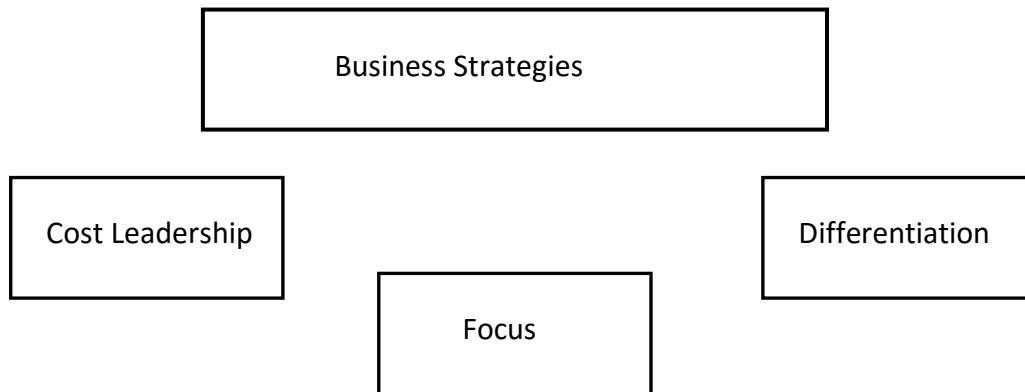
Figure 3: Organizational levels

Strategies divide in:

- Corporate strategies: answer the question “Where to compete?”. They are addressed by the higher level of the firm, the top management. It concerns with the overall scope of an organization.
- Business strategies: answer the question “How to compete?”, it is also called competitive strategy and it relates to particular strategic business units. These kind of strategies are defined by the middle management.
- Functional strategies: regarding the specific functional areas, such as marketing, finance, operation.

Our analysis will concentrate on the first two, for each of them there are three main decision paths:





### 3.1. Corporate Strategies

As will be discussed later on, the main focus of this paper is on internationalization strategy, it will be the corporate one presented more in details.

Corporate strategies enable the firm to choose a well-defined position in the market place, both in terms of country (being a national or a multinational firm) and sector.

According to Ansoff product/market growth matrix, the firm has four different paths for strategic development:

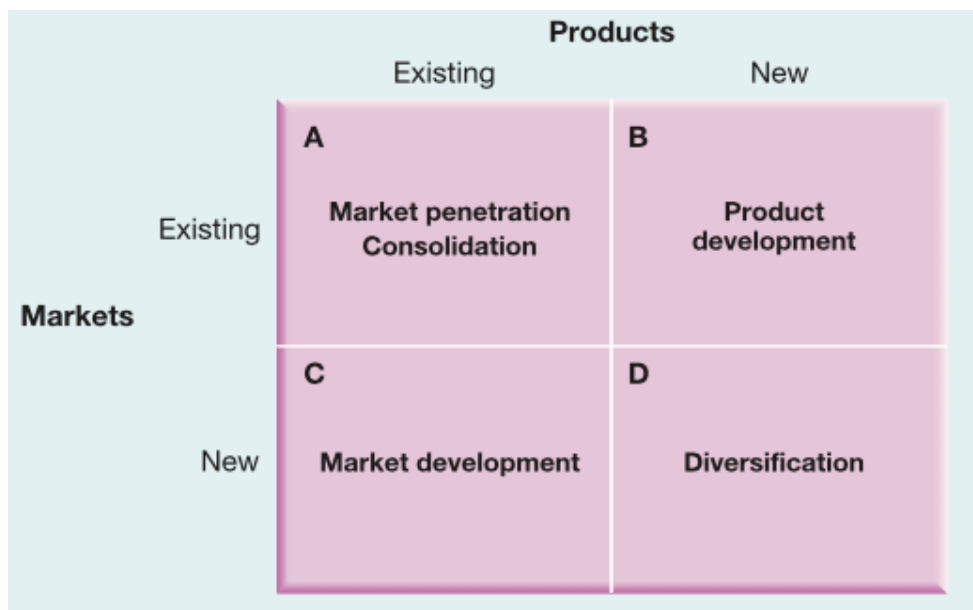


Figure 4: Ansoff matrix

The starting point is in the box A, where there're the existing products in the existing markets. The firm may decide to: concentrate still on the existing environment (box A), develop new products and innovations for the existing market (box B), bring existing products into new markets (box C), or moving to the most radical innovation with new markets and products together (box D).

Diversification consists in moving from one industry to another, change the main sector in which the firm is operating.

Vertical integration is more about working in the supply chain at a different level, backward or forward integration into adjacent activities (e.g. of backward integration, when a firm decide to become also a distributor in the same sector).

### **3.1.1. Internationalization**

Internationalization strategy is the decision of expanding the market to other countries. It depends both on the external environment and organizational capabilities.

Drivers of internationalization

Not all internationalization processes are the same, sectors are characterized by different scenarios.

Recently this strategy is highly influenced by the lower level of international trade barriers, improvements in communication such as cheaper air travel and Internet.

The analysis of the drivers is a very complex one, since the factors that must be considered are always evolving and added.

According to Yip (2003), the main drivers of the internationalization strategy are:

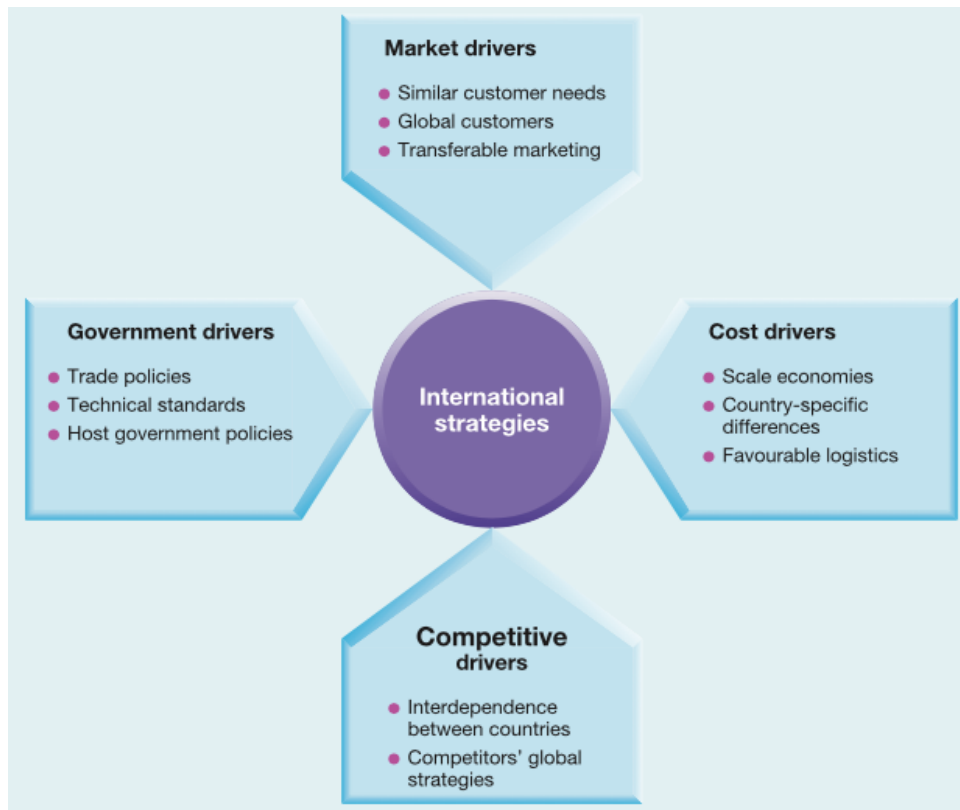


Figure 5: drivers of internationalization

- **Market drivers:** the process of internationalization becomes easier if the foreign markets are in some sense “standardized”. This implies similar customers’ needs and tastes, the presence of global customers (multinationals are able to use standardized components in all of their factories around the world) and transferable marketing.
- **Cost drivers:** by expanding the market frontier costs may be reduced. One of the reasons is economies of scale.

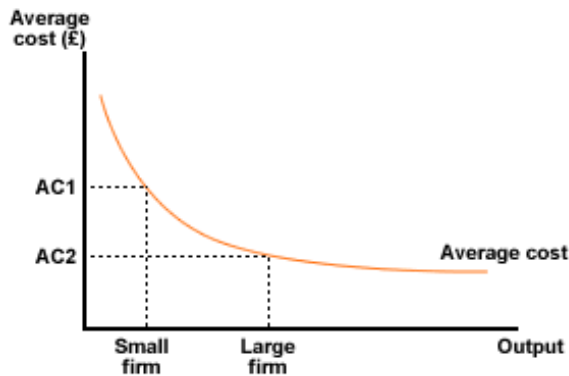


Figure 6: Economies of scale

Increasing the volume of production will reduce the average costs of the firm.

Another cost driver are the country-specific differences: it is about international economics and the different factors allocation in each country (e.g. move manufacturing industry in countries where labour is cheaper).

Finally, the firm has to consider favourable logistics, the cost of moving products or services across countries relative to the final value.

- Competitive drivers: consider the interdependence between markets, most of the time businesses located in different countries need to coordinate with each other in order to maintain the equilibrium of value creation. Moreover, this concept is linked to globalized competitors. Competitors will push the firm to adopt a globalized strategy, because they may use one country's profit to cross-subsidize the development of another one.
- Government drivers: governments of the target countries have a key role in this strategy. They influence the internationalization decisions with tariffs barriers, technical standards, subsidies, currency and capital flow controls.

The degree of openness generally varies from industry to industry.

The European and North America Free Trade agreement have made significant improvement regarding restriction and they pushed countries to internationalize.

A firm willing to enter into a foreign market, will start to look also at disadvantages of the strategy. In the introduction phase, there will be weaknesses comparing to the existing competitors in that specific country; they will have superior market knowledge, stronger relationships with local suppliers and customers and already a well-shaped supply chain.



### 3.1.2. Porter's Diamond

A good manager, when approaching internationalization, should also consider specific sources of national advantage that are intrinsic in the country's market and difficult to imitate.

The Porter's Diamond explains the reasons why some firms tend to have sustained competitive advantage more than other in particular sectors.

Before deciding to internationalize, managers should find out sources of national advantages.

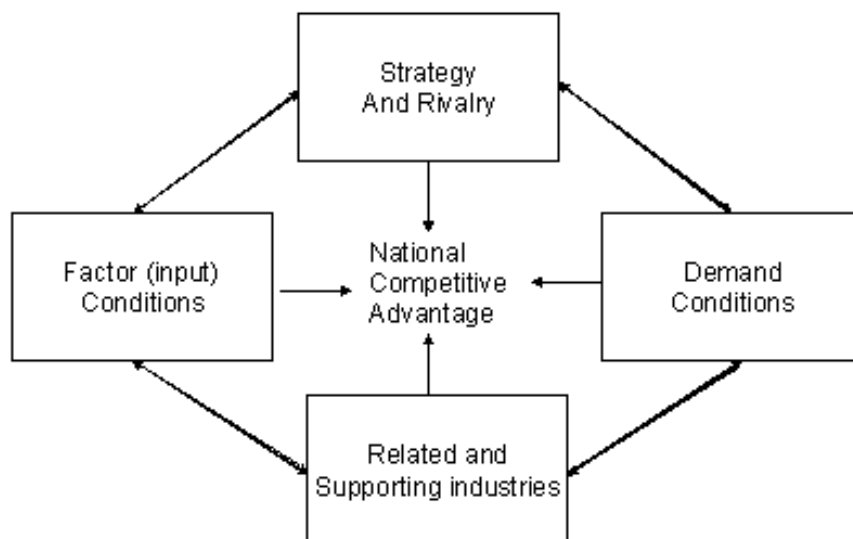


Figure 7: Porter's Diamond

According to the model there're four determinants of national competitive advantage:

- Factor conditions: factors are the inputs to producing the final output (e.g. raw materials, labour). The ability to achieve or maintain certain resources determines the advantage of one country over another.

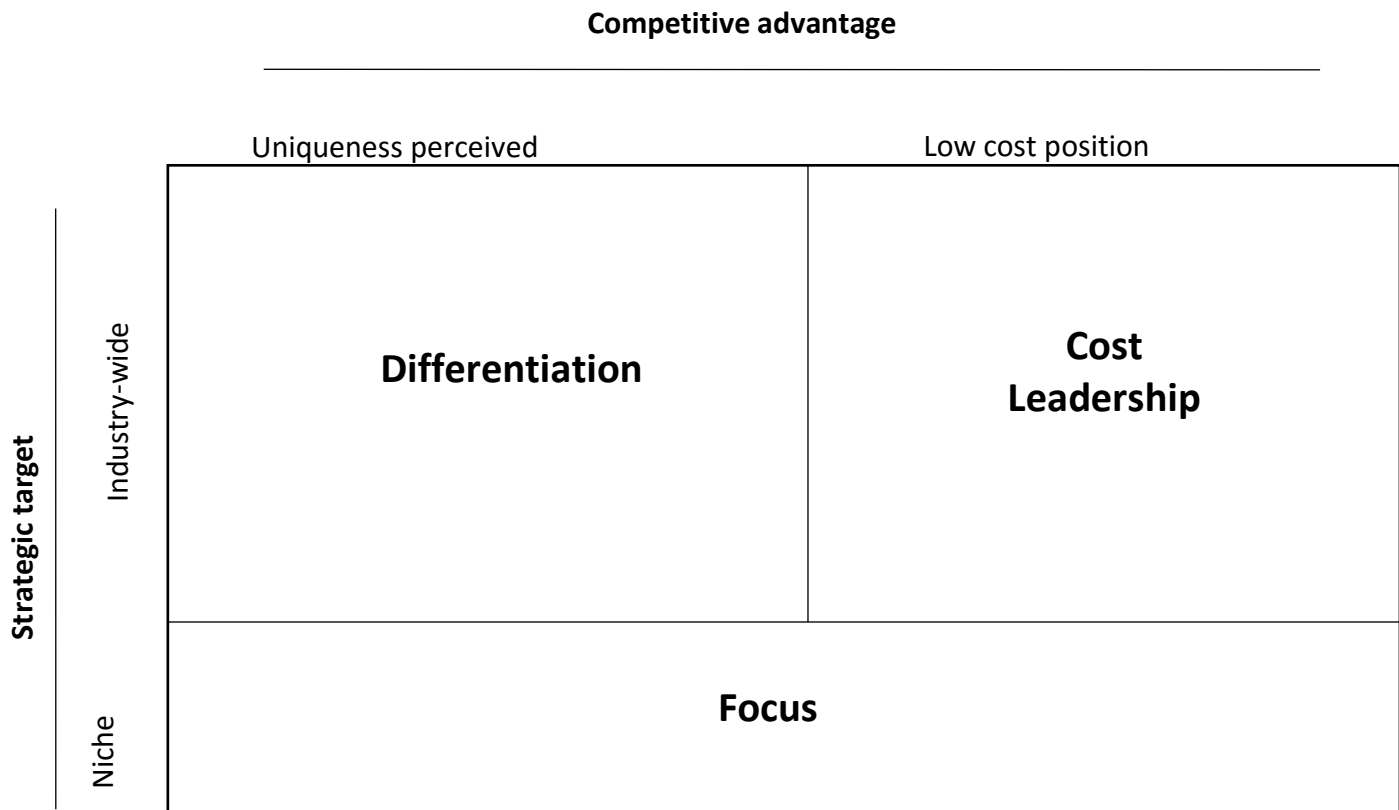
- Demand conditions: the shape of the domestic demand can affect the international success of a firm abroad. If the home customers are particularly demanding, this will help the firm in relating with foreign scenarios.  
e.g. the sophisticated tastes of France and Italy concerning the fashion industry had a crucial role in the achievement of competitive advantage of these two all over the world.
- Related and supporting industries: it is concerns the concept of external economies of scale.  
It occurs when the unit per output depends on the size of the industry.  
Concentrating production of an industry in one or a few locations can reduce the industry's costs, even when the single firms remains quite small.  
Some examples are: the hi-tech industry in the Silicon Valley, the investment banking in New York or the entertainment industry in Hollywood.
- Strategy and Rivalry: the way in which the firms are organized, objectives and competitors. A competition environment can lead firms to find ways to increase production and develop innovations.

### **3.2. Business Strategies**

Business strategies are linked to desires and preferences of the market as well as internal operations of the company.

In order to better understand the business strategy of a firm, it's useful to carefully analyse the Porter's Five Forces framework and the Supply chain of the firm. These tools will be used later on to identify the strategy of the focal firm.

Porter addressed 3 generic business strategies:



Cost Leadership is based on the idea of gaining efficiency exploiting economies of scale and reducing the overall cost structure. This way the firm is able to offer to the market products that are cheaper than the ones of the competitors.

Differentiation focal point is on how consumers perceive the value of a product. The aim is to be perceived as a unique company in terms of what you are offering, the customer is ready and able to pay and higher price (called premium price) respect to the one of competitors.

For both strategies, the target is represented by the industry-wide.

In Focus strategy, we move from a huge number of customers, to a niche target. The companies who pursuit this strategy choose just one segment and satisfy the needs of customers often using differentiation. This way they are able to create almost a personal offer.

From this picture of strategies, we can conclude that the business model is strictly linked to strategic choices (both business and corporate ones), in the sense that it has to reflect them. It is essential to clearly identify the strategy of a firm before trying to address its business model, even if strategies constitute just a part of the entire model.

The strategic choices that characterize a firm can be done both intentionally or by default, the role of the business model is to concretize these decisions and make them explicit.

In one of his recent studies, Porter addressed the characteristics of a business model:

- Conceptualize the venture as an interrelated set of strategic choices
- Seek complementary relationships among elements through unique combinations
- Develop activity sets around a logical framework
- Ensure consistency between elements of strategy, architecture and economic growth.

#### **4. Business model adaptation**

A good business model should fit both internal and external environment. As the external conditions change, the model will require adaptations.

Changes in the components may be due to managerial decisions or to the external environment. For these reasons, the business model of a firm is continuously evolving, firms should be able to get from this dynamic situation always new opportunities to grow.

Demil and Lecocq in their paper suggest three guidelines to sustain advantage and not to passively suffer external changes:

- Do an analysis of the external environment in order to monitor future risks and uncertainty in the business model
- Recognize that non predictable events will always be an issue in firms' business model and try to predict potential consequences of them
- Try to be part of the changing process, improving innovation by yourself

These guidelines will lead to the "dynamic consistency", defined by the authors as "the capability to anticipate changes and implement incremental or radical changes to adapt the business model to maintain or restore ongoing performance".

According to Chesbrough, a technology by itself has no single objective value, its economic value remains latent until it is commercialized via a business model. The same technology commercialized in two different ways will yield to different returns.

The innovation and effectiveness of a business model can lead to achieve a superior value creation and replace the old way of doing things to become the standard of the next generations of entrepreneurs to beat<sup>5</sup>.

#### **4.1. BM Innovation and performance**

There's a close relationship between business model innovation and a firm's performance, it was analysed by: *Giesen, Berman, Bell and Blitz in 2007*.

A firm can experience three types of business model innovation: Industry models (innovation in industry and supply chain), Revenue models (innovation in the way of generating value), Enterprise models (innovation in the role that the structure of an enterprise plays in new or existing value chains).

They reported that: each type of innovation is able to generate success and that the ones in enterprise model based on external collaborations are much more effective on older companies.

### **5. Who is interested in the Business Model?**

- Investors: banks and venture capitalists
- The company itself: if the model tells a good story, it can align everyone in the organization around the key value of the firm.
- Competitors and potential ally
- Customers: usually the ones that look in specific at the business model are the ones who want to build a long term relationship with the firm. They will be concerned about the relationships with other customers and even suppliers.
- Suppliers: similar concerns of customers, but they are on the opposite side of the supply chain. They are interested in the perspective of growth.

---

<sup>5</sup> Morris & Magretta (2005),

For these reasons the business model representation must be something that everybody can understand, intuitively, easy to show and discuss, but at the same time it should not oversimplify the complexity of the firm's function.

## 6. Business Model Frameworks

Since there's still not a deep understanding of the business model definition, different frameworks are used to represent and explain it.

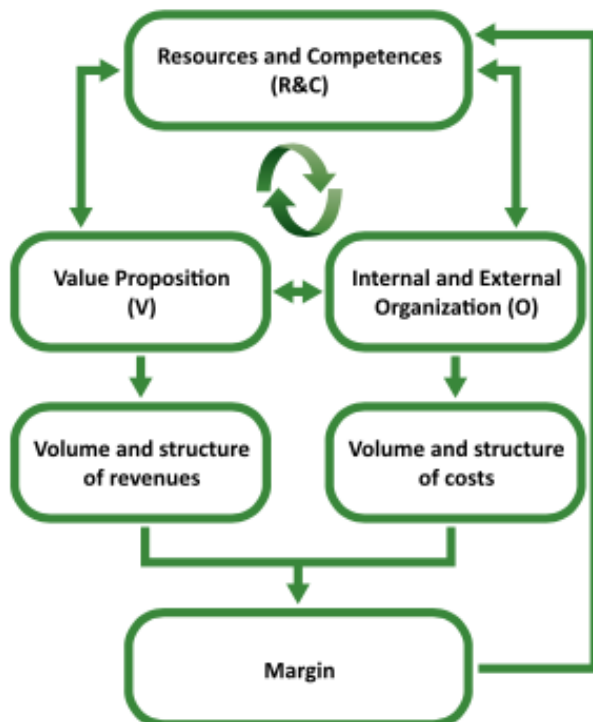
### 6.1. RCOV framework

According to this framework, the most important components of a business model are: Resources and Capabilities, Organization and Value Proposition.

According to Demil and Lecocq (2010), the business model is a snapshot, at a given time, of the ongoing interactions between and within these components.

This is a very dynamic model, the evolution of this framework is continuous. A change in one of the components will lead to modify all the others, creating a "permanent disequilibrium".

Figure 8: RCOV framework



The interaction between the components will lead to develop a new value proposition, this latter, will influence changes in the organizational system and new combination of resources and competencies.

Resources may come from the market or internally to the firm, while competencies is the managerial ability to develop services using interactions between resources.

The organizational system is described by the Value Chain and the Value Network, all those relationships that the firm has with stakeholders.

The value proposition is the promise that the firm is doing, the set of goods or services that are able to produce value for the customers.

The focus of this framework is on creating and capturing value using the circular mechanism in the middle. The components of the business model are interrelated as a bundle of resources.

The Business Model canvas is the most recent framework and will be presented later on in chapter 3 together with the implementation of the latter for the focal firm.

## Chapter 2

### The cosmetic industry

Chapter 2 deals with the worldwide trends of the cosmetic industry during the last years. The Italian market will be then analyzed more in detail, since it is the main topic of interest of this paper.

#### 1. The world of beauty in 2016

The worldwide cosmetic market was stronger in 2016, with a growth of +4.0%<sup>6</sup>.

The general trend during the last 10 years is positive and estimated to keep growing.

The actual market share divided according to geographic zones is:

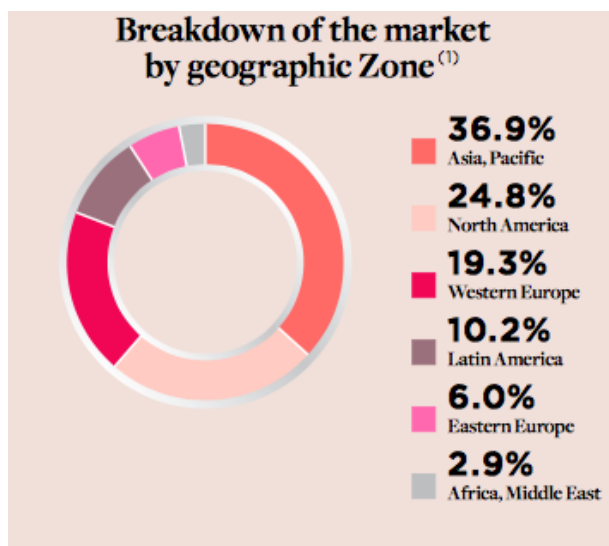


Figure 9: Breakdown of the market by geographic zone

The market is then divided according to product categories; the main ones are:

- Skincare (market share 36.3%)
- Haircare (22.9%)
- Make-up (18.2%)
- Fragrances (12.0%)
- Hygiene products (10.5%)

---

<sup>6</sup> Data from L'Oréal Financial Report 2016.



L'Oréal financial statement of 2016 divides the main worldwide players according to sales (revenues calculated in billions of USD) as follows:

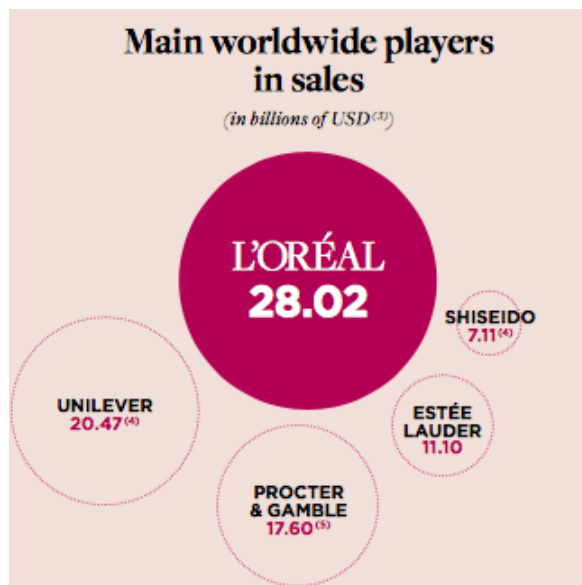


Figure 10: main worldwide players in sales

L'Oréal is the worldwide leader in the market, followed by Unilever and P&G, all of them offering a well differentiated portfolio of brands and products.

The massive growth in the sector is due also to the boom in online sales. During the 2016 online shopping for beauty products has grown by 11.0%.

This trend is nurtured by the increasingly popular web channels, through which companies communicate with their customers.

Shop online can be divided in two main categories: e-commerce directly owned by each brand and retail online stores.

Both of them offer to the customer additional online material, such as: tutorials, reviews, picture of the products, beauty vloggers and influencer videos.

## 1.2. The make-up category

In the worldwide market, the makeup category is the leader in the growth of the sector, with a +8.4% for 2016.

In all geographic zones the makeup sector is growing faster than the cosmetic market; specially in Western Europe the rate of growth is 6 times larger than the one of the entire market.

Makeup is the most dynamic category both in luxury, mass-market and professional sector. Going more in details, the most successful product category in the last year are lipsticks. With a +13.6% rate of growth in sales, lip products are the most demanded good in the sector. According to the report, almost 1.5 billion lip products are sold per year.

The trend varies according to geographical area, with USA at the top position, almost 68% of women use at least one lip product, and the majority of them have a vast range of choice.

## 1.3. Generation Z

The recent growth of makeup sector is driven by Millennials (between 1980 and 2000) and Generation Z (1995-2010).

They are the main target of the most successful makeup brands and they are represented by young adults and teenagers called "the Selfie Generation".

In particular Generation Z is made up of individuals which are confident with technology, continuously interacting on social media and customized to the use of internet since their childhood.



Even though the majority of people in generation Z is not working yet, they seem to have developed an appetite for premium beauty brands.

They have a beauty budget higher than the per capita average in most of the worldwide countries.

Most of their incomes come from parents or part time jobs, but beauty is becoming a priority at an increasingly young age.

It can be due to the early exposure to the digital world, with picture on social media, ability to learn from YouTube tutorials and the possibility to share and confront beauty experiences directly on the web, without leaving their bedrooms.

Usually sharing looks or beauty products on Internet is also a way to start a conversation, communicate with each other and obtain acceptance inside a community.

The current market is largely influenced by this generation, creating products for their needs and also adapting beauty terms, such as the recent “Strobing techniques”, “baking” and the term coined by a teenage in Chicago “makeup on fleek”, to mean “on point”.

These terms have quickly spread across the world and now are largely used in the community and by all the makeup brands.

A large role in this process is played by social media and brand ambassadors, mostly influencers. They are able to connect consumers to the biggest beauty brands.

One recent and impressive example is the case of the web star Kylie Jenner; when she announced that her most used lip products were a combo of MAC Cosmetics lipstick and lip liner, respectively Velvet Teddy and Whirl, these items went out of stocks for a long period both in physical and online stores.

## **2. Makeup in Italy**

The makeup market is made up of: face makeup, eye makeup, lip makeup and nails makeup. In the recent years, the Italian market has grown at a slow rate, and this trend is expected to continue.

In 2015 the market total revenues<sup>7</sup> were 1,193,4 m\$.

---

<sup>7</sup> Source: Marketline

The Italian annual growth rate between 2011 and 2015 was 0.7%. The growth rate is considerable lower compared to the German and French one, which have rates from 10 to 13%.

Table 1: Italy make-up market value: \$ million, 2011-15			
Year	\$ million	€ million	% Growth
2011	1,162.6	1,047.8	
2012	1,169.2	1,053.8	0.6%
2013	1,176.5	1,060.4	0.6%
2014	1,184.6	1,067.7	0.7%
2015	1,193.4	1,075.6	0.7%
CAGR: 2011-15			0.7%

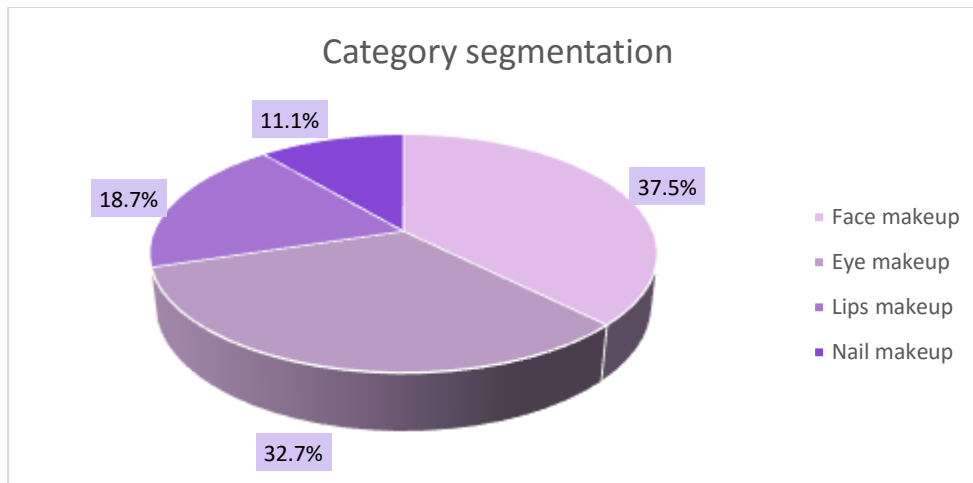
SOURCE: MARKETLINE MARKETLINE

Figure 11: Italian makeup market value (\$ million)

The forecasting growth is expected to decline of -0.4% in the 2015-2020 period.

The most productive segment is the face makeup, with a market share equivalent to 37.5%, followed by the eye makeup segment with 32.7%.

Figure 12: Italian Category segmentation



## 2.1. Italian market share and volume

According to the data, L'Oréal S.A. is the leader in the Italian market for makeup, with a 23.7% of market share.

The share is allocated among lots of brands belonging to the company, they are divided according to the target market in: L'Oréal Luxe, professional product division, consumer product division and active cosmetic division.

The first competitor according to the market share is Beiersdorf, producing famous skin care brands such as Nivea. Even though the share is not even a half compared to the L'Oréal one.

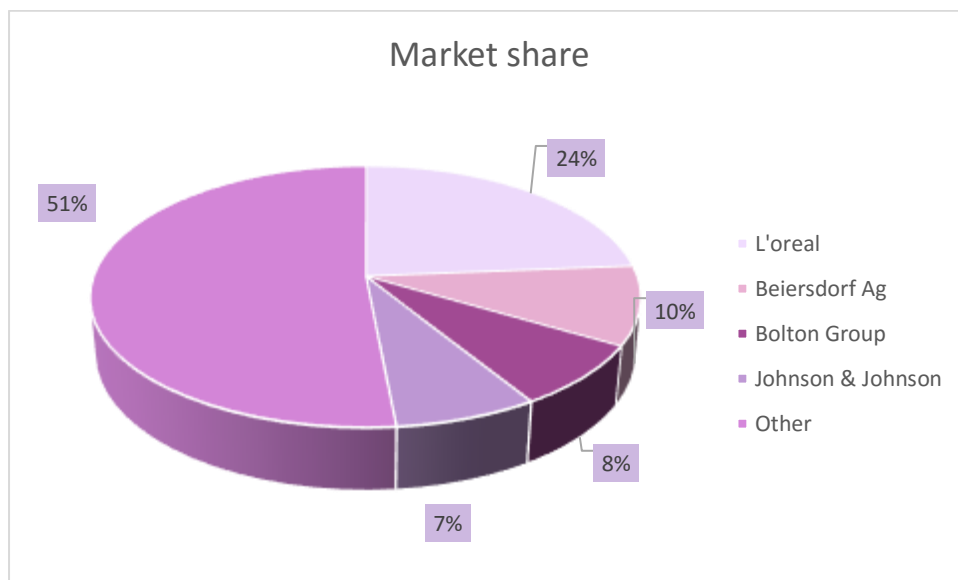
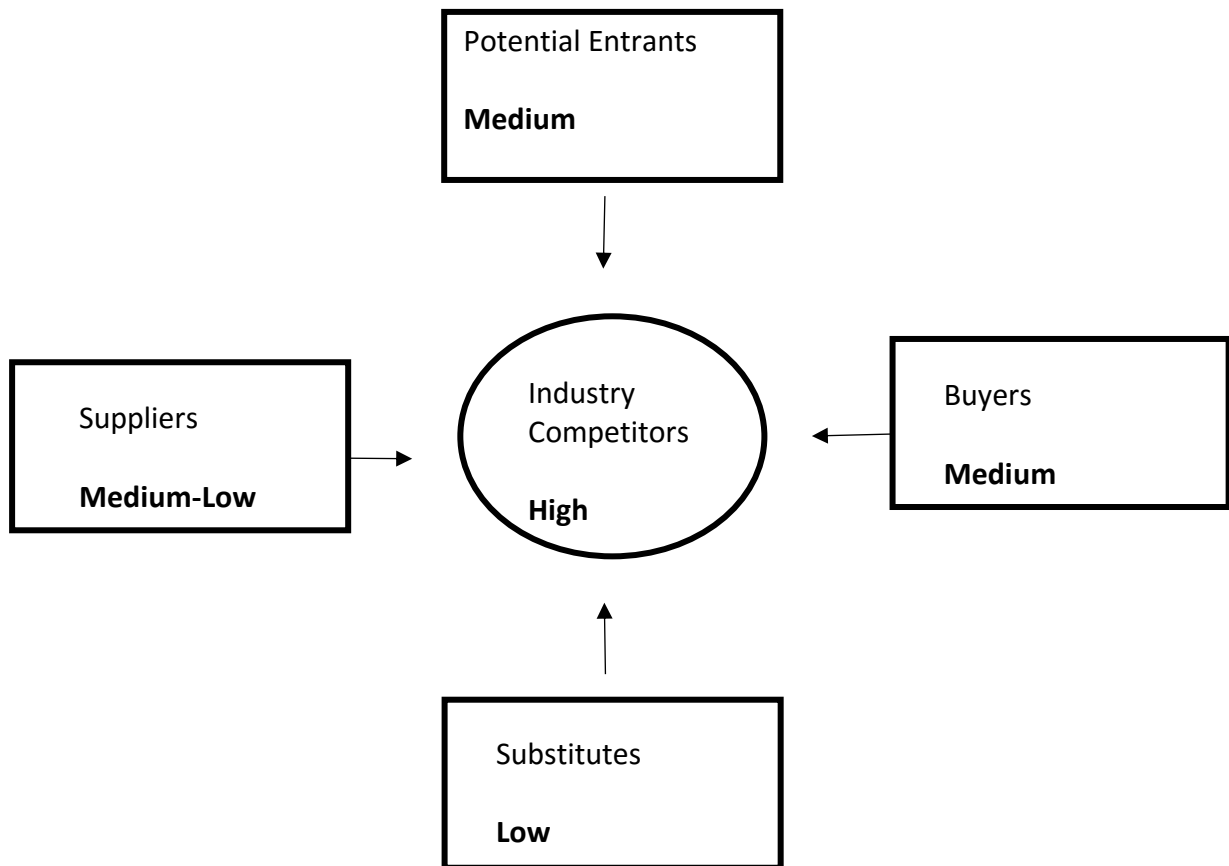


Figure 13: Italian makeup market share, 2015

The Italian makeup market is continuously expanding, in 2020 its market value is expecting to reach \$ 1,220.7 million, an increase of 2.3%-point respect to 2015.

### 3. Competitive Analysis

#### 3.1. Porter Five Forces



- Rivalry: the degree of rivalry is high in the market.

The main reason is in the fact that the leader companies own a lot of recognized brands and operates in distinctive segments and geographical areas.

The top four players own about 49% of the entire market.

Another factor influencing the force is the presence of numerous companies that compete on the same customer segment.

Diversification of product portfolio is the key factor of success; it protects the companies' business against competitive pressure in any particular market.

The rivalry is dictated by switching costs; there is a big struggle in creating products which are able to retain the customers and increase the opportunity cost of trying something new.

- Buyers bargaining power: in the model we consider buyers as the retailers. The buyers bargaining power in the industry is of medium intensity.

Very often the retailers involved are the largest ones, and they occupy an important position in the supply chain of the single companies.

This large bargaining power is balanced by the strong influence of consumers' demand.

Retailers are considered to be at the end of the value chain, it means they are obliged to offer to the customers what they want in a market that is conditional on impulsive change in fashion<sup>8</sup>.

Loyalty, in this case is not a relevant element, in fact it is more likely that customers will generate a sort of loyalty towards a brand rather than a retailer.

Direct selling is also possible in this market, as the case of Avon. The company is able to avoid the conventional retail distribution by using third party independent contractors. They buy Avon Products at a discount and sell them to end-users.

- Suppliers bargaining power: key suppliers in the industry are chemical companies and mineral producers. The force is moderate low.

The raw materials used in the supply chain, such as essential oils and mineral products, are easy to find and commonly available. Moreover, the switching costs are low, so they do not strengthen the suppliers' power.

Companies need to meet quality standards before going in the market, all the raw materials must be tested to see if they cause any adverse reaction to skin or eyes.

As a European member state, Italy must comply with all regulations on cosmetics.

The suppliers' power is also reduced by the fact that generally they are small companies with respect to large cosmetics manufacturer.

---

<sup>8</sup> Marketline, Makeup in Italy, June 2016.

- Threat of new entrants: this force is moderate.

The Italian market portfolio is not so big, it is characterized by few and big multinationals with large investments in R&D and marketing. Possibility of success for new entrants are higher if they decide to specialize on one specific segment.

This is due to the presence of entry barriers characteristics of the industry, such:

- Government rules: due to the direct contact with skin and eyes, new cosmetics products are subject to a lot of government regulations and tests before the launch. One of the most recent is the regulation of March 2013, according to which it is illegal to sell cosmetics developed through animal testing.
- Economies of scale: the exiting companies benefit from the reduction of average cost given by the large quantity of products produced<sup>9</sup>. New entrants will find difficult to compete in price with giant companies such as L'Oréal.
- High initial investments: starting a new cosmetic firm required a large amount in terms of initial investment. The principal areas are: R&D for products and marketing expenditures.

Companies that are already in the market have strong financial position, this also implies that they have higher possibility of investment, for example in the marketing area, which, in particular the advertisement and sponsorship, is specifically important in this industry.

The entrance decision is mainly characterized by growth perspectives and the size of the existing players.

New entrants may start from a small scale, concentrating with a particular market niche.

Another difficulty in the entrance process is in the retailing side.

---

<sup>9</sup> Chapter 1 par. 3.1.1.



Given that the company is not directly selling their products, they have initially to persuade and create partnerships with retailers. Usually large retailers won't be willing to sacrifice space in the store for emerging brands.

- Threat of substitutes: this is the lowest force in the model.

Makeup products have very few substitutes, they are traditional natural products such henna and kohl.

The recent trend is the one for mineral makeup products, they are believed to be lighter, allergy free and healthier for the skin.

Most of the largest companies intervened by creating a line of natural makeup products, or putting some specific product in the existing collections.

### **3.2. Leading Italian Companies**

As said before in the analysis of the rivalry, the market is particularly concentrated, with the top four players owning about 49% of market share.

These companies are: Coty, P&G, L'Oreal S.A. and Kiko spa.

Coty is a multi-segment beauty company; it operates in more than 40 countries. The main business segments are: fragrances, color cosmetics and skin care.

The company includes a lot of brands associated with fashion designers and entertainment personality, especially in the fragrances segment, such as: Calvin Klein, Marc Jacobs, Beyonce and Guess?.

In the cosmetic segment the most famous brands in Italy are: Rimmel for the makeup category and OPI for nail care. This brands are usually sold in the mass distribution channels.

P&G is a global manufacturer and marketer of branded consumer products. The beauty segment offers products such as cosmetics, deodorants, hair care and skin care.

The brand portfolio is much more concentrated on hair care, with brands such as Head & Shoulder, Panthene and Olay.

Kiko SpA is a manufacturer for makeup products and skin care. The company sells its products through its own brand stores across Europe and through the online store which ships to customers worldwide.

#### **4. L'Oréal**

L'Oréal is a French company engaged in the production and marketing of fragrances, makeup and skin care products.

It is the first cosmetic group worldwide, with its presence in 140 countries. In 2016 the Group reached 4.54 billion euros of operating profits<sup>10</sup>.

The expectation for 2017 are solid, in the first quarter the company has grown constantly, with new brand acquisitions and a good acceleration in digital, both marketing and e-commerce<sup>11</sup>

The mission of the group is to offer all women and men worldwide the best of cosmetic innovation in terms of quality, efficiency and safety to satisfy all their desires and all their beauty needs in their infinite diversity<sup>12</sup>.

The strategy chosen by L'Oréal is "universalization", the respect of differences in desires, needs and traditions is crucial.

##### **4.1. Brand Divisions**

The Group has a well diversified brand portfolio, which are complementary with each other.

Brands are organized in Divisions:

---

<sup>10</sup> L'oreal Annual Report 2016

<sup>11</sup> First Quarter 2017 Sales

<sup>12</sup> L'oreal Group mission: <http://www.loreal.com/group/who-we-are/our-mission>

- L’Oreal Luxe, which comprises luxury international brands operating in skin care, makeup and perfume sector. Some of the most attractive brands in this category are: Lancome, Kiehl’s, Urban Decay and Yves Saint Laurent.
- Professional products: this category is distributed in salons worldwide. Most of the products are addressed to hair care, with brands such as the L’Oréal Professionnel and Matrix.
- Active cosmetics: created to meet a range of different skin care needs, these products are developed with dermatologists, cosmetic doctors and other professionals. The division comprises brands such as La Roche-Posay and Vichy.
- Consumer products: it makes the best of cosmetic innovation available to the greatest number of people in the world. The distribution is majorly in the mass retailing channels.

With a share of about 48%, this division is the most profitable one.

The most famous brands in this category are: Garnier, Maybelline New York, L’Oreal Paris and NYX Professional makeup.

## **5. NYX Professional Makeup**

Among the Consumer Product Division, NYX Professional makeup hit the market for its incredible success in just two years.

NYX is considered the cult brand for makeup fans, thanks to its strong online presence and a series of successful launches, it succeeded in quadrupling its sales in the recent period.

According to 2017 statistics NYX is at the fourth place in the ranking of the most popular beauty brands on Instagram<sup>13</sup>

---

<sup>13</sup> Statista.com: Leading beauty brands ranked by number of Instagram followers as of February 2017 (in millions)

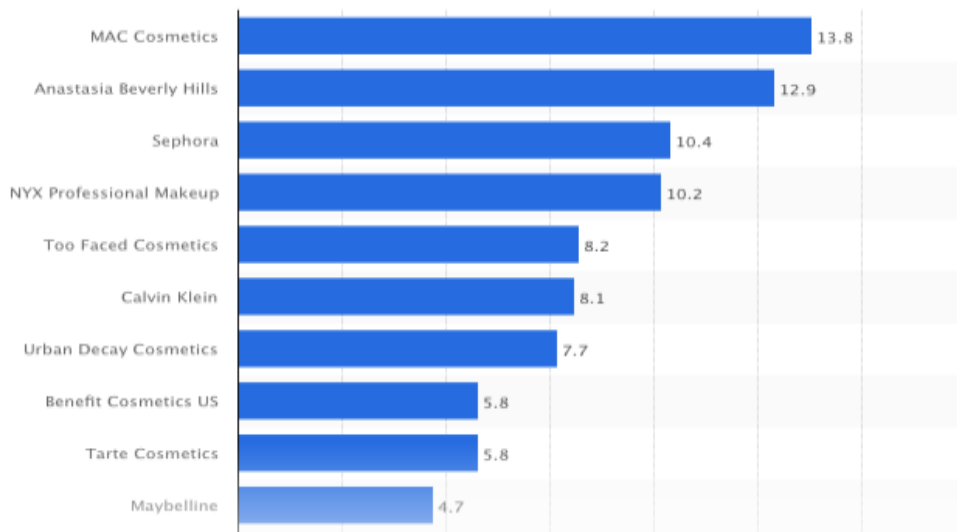


Figure 15: Leading beauty brands 2017

## 5.1. History

NYX Cosmetics was founded in 1999 in Los Angeles by Toni Ko, a Korean young woman. The name derives from the Greek goddess of the night.

Toni Ko as a young entrepreneur founded NYX at the age of 25, she spent a lot of time in testing products as a young girl, trying to replicate high-end makeup looks with a teenager's budget.

She comes from a family of entrepreneurs, her parents were in the permutes and cosmetics



business in LA.

The first product of her company was the Jumbo Eye Pencil, initially sold for 1.99 \$.

It still is a best seller after more than 15 years.

The scope of her products is to achieve a department store quality at a drugstore price.

Figure 14: NYX Jumbo Eye Pencil

Initially the products were sold only to beauty professionals, later the sale was expanded to the mass market.

As manager of her own business, she cut out a lot of costs, such as R&D:

*"I did R&D myself," she says. "These other cosmetics guys, they were old men. They were in the business to make money. A lot of them couldn't tell the difference between a lipstick and lip liner."<sup>14</sup>*

Sales experienced a rapid growth in the period of economic slowdown in 2008, due to their professional quality offered at a lower price respect to its more famous competitors.

In the meantime, 2008 was also characterized by the arrival in the market of YouTube and beauty vloggers: young people editing makeup tutorials, unpacking their purchases and reviewing cosmetics.

The first retailer to distribute NYX products was Ulta, starting in 2007.

## 5.2. L'Oréal Acquisition

In 2014 NYX went up to an auction and L'Oréal was the largest bidder with \$500 million.

For the L'Oréal Group it was a great opportunity to strengthen even more its American brand portfolio.

The company has founded its long term strategy on acquisition policy through the years:

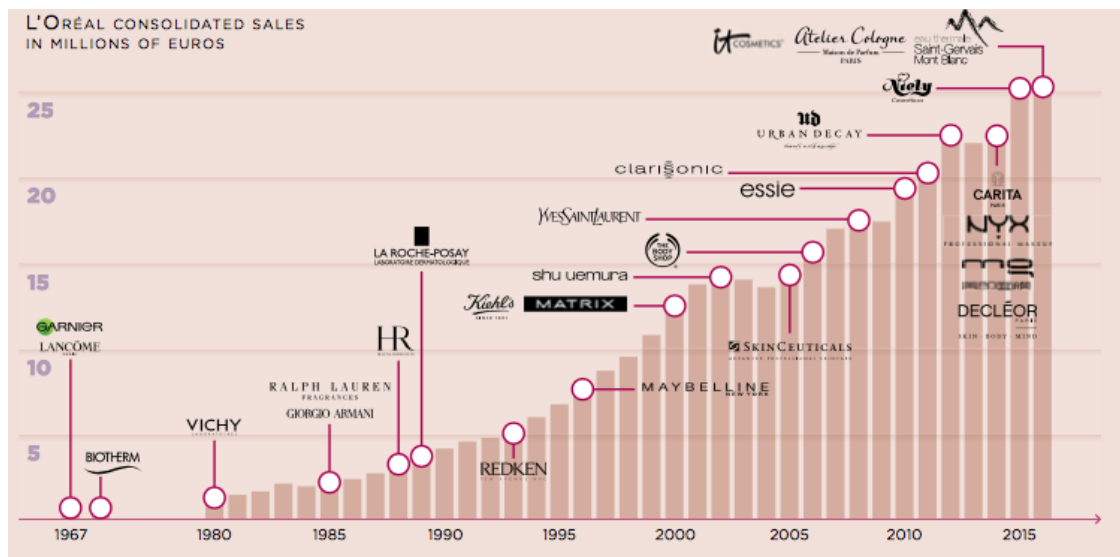


Figure 16: L'Oréal acquisition history

<sup>14</sup> Forbes (2016). Banking On Beauty: How Toni Ko Built NYX Cosmetics Into A \$500 Million Brand

after the acquisition Ko signed a non-compete clause<sup>15</sup>, she could work in cosmetic industry only for other five years. The management was left completely to L’Oreal.

After only two years from the acquisition, NYX is now the fastest growing brand in the Group, not only in its home country, USA, but also worldwide. Around 100 boutiques were opened in 2016.

### 5.3. Strategy

NYX is considered the leader in the massive color cosmetic industry, combining high quality, rich pigments and payoff with an accessible price.

The offer is highly differentiated, with classical, seasonal and on-trend cosmetics, it is a reference point for makeup lovers and professional makeup artists.

Due to attractive contents and event, the brand has created an impressive community.

The relationships with customers, is very close: they are simultaneously customers, fans and creators. It enables NYX to create a multi-channel experience.

### 5.4. NYX Cosmetics Italy

In October 2015 NYX starts its retail adventure, opening the first brand store in California. Rapidly it spread in big European cities like Madrid and Paris. The first Italian store was opened in Milan at the end of 2015.

The store concept is created to facilitate the shopping experience of costumers, involving people with screen, video tutorials and the possibility to interact with the makeup artists in the store. It is designed as a proper temple for makeup lover.



Figure 17: NYX Store

---

<sup>15</sup> Clause in which one party agrees not to enter into or start a similar profession against another party. Also called “restrictive covenants”.

Before the Italian launch NYX products were already sold by some European retailers, but the shop online with shipping costs was considered a limitation, and so the brand was circulating only between a small niche.

The launch was anticipated by a series of events aimed at involving the main Italian beauty influencers. This marketing strategy created a phenomenon that quickly went viral on the web.

A distinctive characteristic with respect to the other Italian brands is the attention to detail: the launch party, called NYX Invasion Party, was a personalized beauty experience involving 8 of the most famous influencers in the Italian scenario. Each of them had a makeup station, a small dimension room, personalized by a designer according to their personalities and features.

The PR & Communication manager Valeria Dehò said: *“We wanted a different night, not the usual event in which a brand auto celebrate itself. We wanted our guests to be the protagonists. [...] The event here in Milan started our pacific invasion, founded on the professionalism of our brand, real and direct contact with our influencers and a continuous and transparent exchange with the online community.”*<sup>16</sup>

---

<sup>16</sup> English transcription of the interview released in Italian.

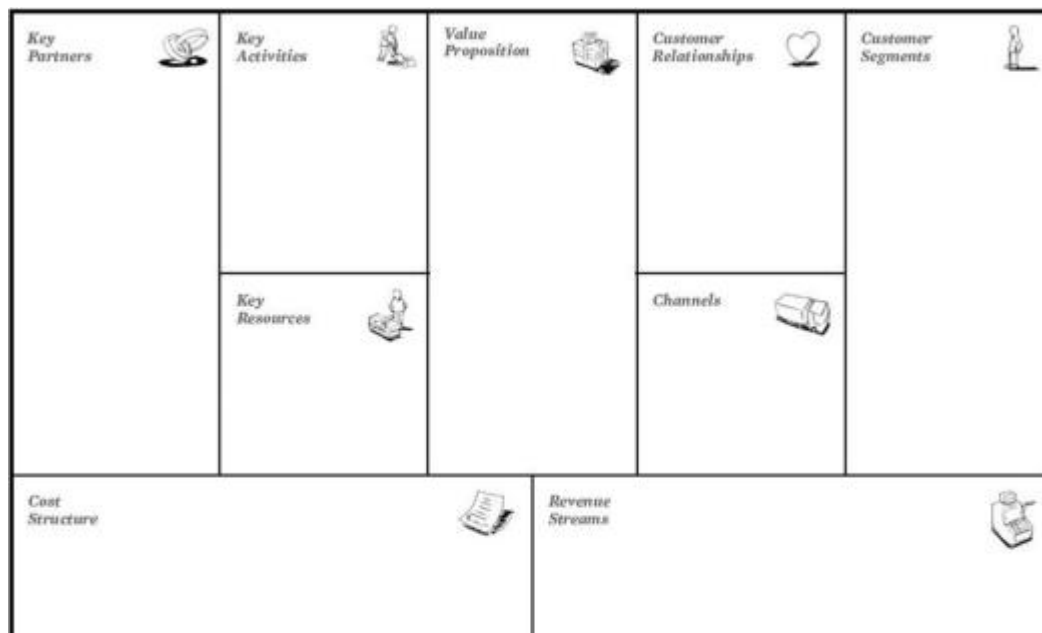
## Chapter 3

In chapter 3 a theoretical description of the business model canvas is provided, right before the analysis of each block for the Nyx Cosmetics Italy Canvas, with a particular focus on the differences in terms of adaptation between the American and the Italian framework.

### 1. Business Model Canvas

The Business Model Canvas is another framework to represent the Business Model.<sup>17</sup> The Canvas was developed by Osterwalder in 2010. This framework has been applied, as a shared language, by many organizations such as: IBM, Deloitte, Ericsson...

Figure 18: Business Model Canvas



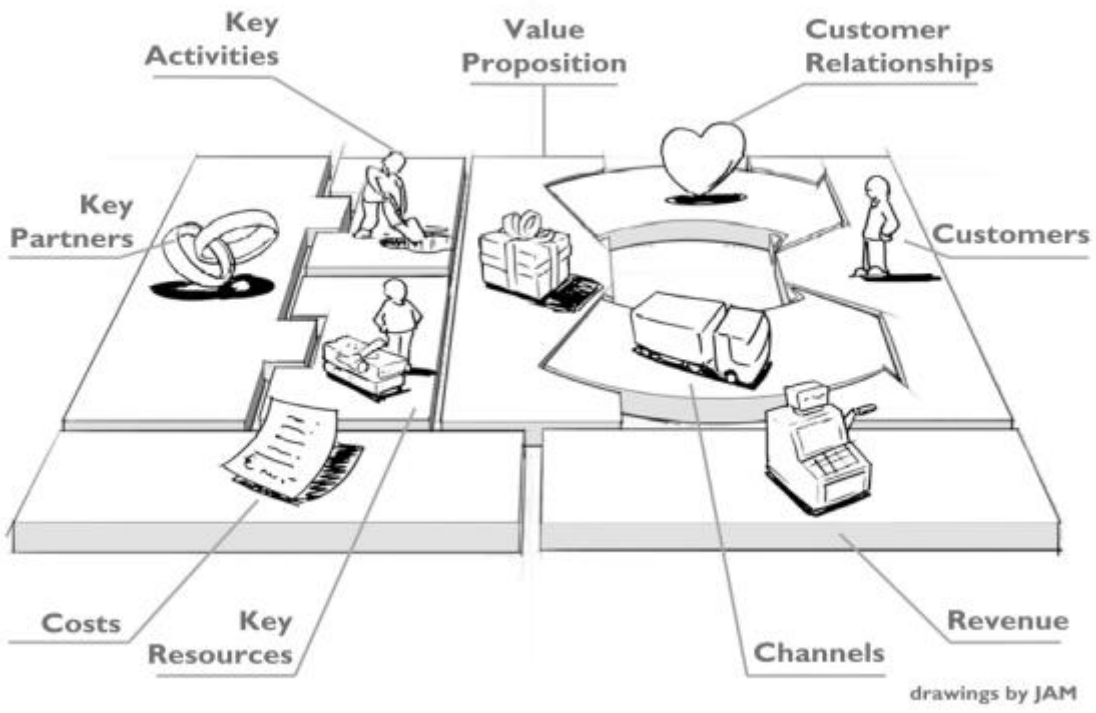
The canvas is composed of 9 building blocks, they cover the four main areas of the business: customers, infrastructure, offer and viability.

The centre of the canvas is the value proposition, the right side is considered to be the one linked to creativity, while the left side is more focused on efficiency and reality.

---

<sup>17</sup> In ch.1 par. 6.1. the RCOV was presented





## 2. Nyx Professional makeup Italy Canvas

Figure 20: Nyx Cosmetics Italy Canvas<sup>18</sup>



This chapter will analyse each block, first theoretically, and then focusing on Nyx’s Italian structure.

- **Customer segment:** the target of the firm. An organization can decide to serve one or several customer segments. In order to be successful, customers should be grouped into segments, according to needs, behaviours, demography...

The BM has to address one or a small group of segments and concentrate on them.

If the firm decides to serve more than one segment, they need to be different from each other (e.g. Fashion industry for adults and kids).

<sup>18</sup> Based on personal research

The choice of the segments is dictated by parameters such as: the profitability of the segment, the available channels to reach it and the willingness to pay of the segment.

Usually firms choose to focus on:

- Mass market (no distinction between the segments)
- Niche market (specific and small segments are addressed)
- Segmented market (distinguish segments according to needs and issues)
- Diversified market (focus on two unrelated segments with different needs)
- Multi-sided platforms (focus on two or more interdependent segments)

Nyx belongs to the mass market segment, so it is open to everyone in the market.

The most profitable segment for Nyx Cosmetics Italy can be classified according to two main factors: the demographic one and behaviours.

Starting from US data, I personally conducted a survey in order to investigate the Italian market<sup>19</sup>.

The sample is quite large, almost 400 answers. According to the survey almost 83% of the customer segment has an age between 14 and 30 years old.

Nyx customers mostly belong to Millennials and Generation Z<sup>20</sup>. They are usually makeup artists, people in the sector, or makeup lovers.

This is the most profitable segment, it's easy to reach both with retail stores and online ones and it is continuously expanding.

When these generations shop for beauty products, they heavily rely on social media (95% of them), especially video content for advices. Social have a double function in this case; they highly influence the individuals' personal appearance and they are used as primary source of advice.

---

<sup>19</sup> Link to the survey: <https://goo.gl/forms/eg7HhKccp0yQGbOm1>

<sup>20</sup> Presented in ch.2 par. 1.3.

They usually turn to video tutorial in order to look for: new products (63%), learn “how to do” (54%) and discover new beauty trends (43%).

The majority of the people interviewed said that YouTube is the first source for beauty videos, makeup lovers spend also more than 7 hours a week looking for beauty contents.

- **Value proposition:** a good value proposition is not trying to convince customers of the value of a product, but the other way around. It identifies a need or an issue to be solved and proposes an offering that fit the situation better than other alternatives.

The value proposition describes which products or services are able to create value for the selected segments.

“Which customer needs are we satisfying? What value do we deliver?” these are some of the questions that the value proposition should address.

The value created can be quantitative (e.g. a good price, speed of service) or qualitative (e.g. customer experience).

Some of the elements that contribute to the creation of value are: newness of the offer (it often implies technological innovations), customization (products tailored or co-created by customers), design, brand and price.

Nyx offers a permanent collection of special occasion makeup in addition to a solid selection of every day basics and on trend shades.

The brand distinguishes among the others for being the leader in the massive colour cosmetic industry according to richness of pigmentation and high payoff in products<sup>21</sup>. Its characteristics are: high quality, professional products and accessible price.

- **Channels:** it's the firm's interface with the customers. They go from communication to distribution.

How does the firm reach customers?

Channels are an important element of the customer journey, they can be able to influence the value proposition of a firm and to give a measure to understand what is the post purchase evaluation, the key element to develop loyalty.

---

<sup>21</sup> From nyxcosmetics.com

Not all the products and services can be sold in the same way, channels can be direct or indirect. The firm can decide to use channels that they own (e.g. website), or partners to intermediate between them and the customers (e.g. retail stores).

The main channel of distribution for Nyx Cosmetics are the branded retail stores. The Nyx invasion started in 2014 in Milan, followed by Rome and Naples. Moving on the brand is establishing more and more stores.

In the US, Nyx started as a drugstore brand, it was mostly sold at Ulta and Target, in the recent years it started to open branded stores too. In Italy the brand has never been sold as a drugstore one, Nyx prefers its own branded stores in big shopping centres rather than the most famous shopping streets.

Before the Italian launch, it was not so easy to find Nyx products in the Italian market. There were few online retailers, mostly Spanish, who sold some of the items of the brand.

The massive social media presence and the scarcity of the products contributes to create a strong brand image in the Italian market, even before the start of the social media campaign for the launch.

The second channel, but not for importance, are the social media.

As written in chapter 2<sup>22</sup> Nyx has a strong presence in the social media scenario. It is one of the three most followed beauty brands on Instagram.

For the Italian launch, Nyx established a partnership with “The Big Now”, a PR agency who took care of the main events in Italy.

The objective was to invade Italy with Nyx colours and values<sup>23</sup>. The campaign was articulated in three steps: engage fans in a direct way using word of mouth, in order to do so, the brand first gave to 80 influencers a box with a selection of samples and a personalized gift. The second step was the event; eight out of the 80 influencers were selected to take part at an exclusive event, for each of them a personalized boudoire was built.

---

<sup>22</sup> Chapter 2, paragraph 5.

<sup>23</sup> <http://www.thebignow.it/project/nyx-cosmetics/>

The last step was characterized by the followers, after having seen the event on social media, the word of mouth started to spread. The community wanted to try Nyx products too.

Before the opening of the stores, Nyx launched an online contest to win the same beauty boxes that the influencers had, this way all their social media channels started to be full of Nyx tutorials and products review.



The expectation created in the previous months, allows to turn every store opening into an incredible event. Each event consisted in a meet & greet with some of the most famous influencers, the occasion to have personalized gift and take part to activity related with the Nyx social networks.

According to my survey, this is a winning strategy, since about 92% of the Italian customer base heavily rely on the opinion of beauty influencers about beauty products and trends and 86% of them did buy a product after having seen an online review.

Recently also the online store was opened, this way customers from all over Italy can access to products. After the opening of the first stores, concentrated mainly in Milan and Rome, there had been a big concern in the beauty community from the ones who had not the possibility to buy from other cities. Obviously this new channel pushed out of the market the small online retailers who mostly sold just a part of the items of the brand.

- **Customer relationships:** this block describes the kind of relationship the firm wants to have with each customer segment. Each segment may have a different kind of relationship with the company, it can vary from personal assistance, based on human interaction, to self-service.

The firm can also decide to combine different kind of interactions and offer them in a unique formula.

The recent trends in customer relationship are: communities and co-creation.

Frequently firms build online communities, they help to connects users with each other in order to share knowledge to solve common problems and to give the firm a deeper understanding of its customers' behaviour.

The co-creation process allows consumers to contribute at the development of an innovation and in some cases they have the possibility to totally create and “customize” the product they're going to buy.

Nyx combines in a unique formula different customer relationships.

One of the key element is the presence of a strong community. It is one of the most followed social media profile in the Italian beauty market, with almost 150K followers on Instagram<sup>24</sup>. The winning strategy is the one of a brand able that creates empathy with its fan; who get close to Nyx is treated as a friend, not as a follower.

This is also the vision inside each store, were the customer experience is one of the key point of the journey.

When customers enter in the store, they are not only looking for products to buy, but they have the possibility to enter in contact with qualified professionals who will help them in the research for the perfect item.



With the scope to translate the online experience in the offline environment, Nyx introduced interactive screens in its stores, customers can scan the product code and see all the related pictures associated with it on the social media.

---

<sup>24</sup> The trend already existed in other countries, Nyx is the most socially-savvy cosmetic brand in the world.

Customers and followers, not only play a strong role in the store, but also in the creation process, they are in fact co-creators of the new products.

Most of the Nyx products are created starting from customers' needs, they are presented in the market and eventually adjusted following community suggestions.

This contributes to create a strong sense of belonging towards the brand itself. Nyx is for instance, the first low cost brand to sell the full colour spectrum of liquid foundation, from the extremely pale tones to the darkest ones.

Before the introduction of this line, there was a big concern, especially among the black community<sup>25</sup>, because drugstore brands such as Maybelline or L'Oréal, have a colour range limited to light colours in the Italian market, and often it is not even possible to buy these pigmentations online.

- **Revenue stream:** it represents the cash that the firm can generate from the customer segments.

The pricing mechanism and the payment method vary according to the type of business. Usually asset sale and licensing are used for goods, while usage fees and subscriptions for services.

As for the American model, the main source of revenues for Nyx is asset sales. Nyx sells its products both in physical and online stores.

- **Key resources:** the base of the business model, key resources allow to create and deliver the value proposition, reach and maintain relationships with the customers, earn revenues.

Key resources can be tangible, intangible or intellectual capabilities. They can be owned by the firm or leased by the key partners.<sup>26</sup>

---

<sup>25</sup> Loretta Grace: winner of the first Italian edition of the Nyx Face Awards, YouTube Channel Graceonyourdash

<sup>26</sup> Reference to RBV model



In chapter 1 the RCOV framework was presented<sup>27</sup>, according to Barney<sup>28</sup>, understanding sources of a firm's competitive advantage has become a major area of research in strategic management. There are four empirical indicators of the potential of firms' resources to generate a sustainable competitive advantage: value, rareness, imitability and sustainability.

Edith Penrose, in her paper<sup>29</sup> written in 1959, looked at the firm as a broader set of resources, she wrote that the optimal growth of the firm involves a balance between exploitation of existing resources and development of new ones.

The main tangible resource for Nyx are the branded stores. The number of operating stores have rapidly expanded in the first years, concentrating especially in Milan, Rome and Naples. Nyx is planning to increase the number of physical stores in order to be present in the biggest city all over Italy.

Regarding intangible resources, Nyx is creating a strong brand image in the Italian market, both with the strong role of social networks and events.

With respect other Italian brands, in the same price category, Nyx organizes exclusive events, both for customers and influencers which succeed in focusing the attention of the community on the brand.

One of the latest event was a trip to Amsterdam, organized with some of the most famous Italian influencers, in order to promote the new line of highlighters.

Thanks to this close relationship with influencers and the community, Nyx can exploit a huge database customer. Reactions to influencers' posts and the insights of Nyx social networks, gives to the company the possibility to directly analyse customers' preferences and reactions.

Moreover, being a brand of the L'Oréal group, Nyx can easily rely on relationships and partnerships with other brands of the French group.

---

<sup>27</sup> Ch.1 paragraph 6.1.

<sup>28</sup> Barney, 1991, Firm resources and sustained competitive advantage.

<sup>29</sup> Edith Penrose, 1959, The theory of the Growth of the Firm.

- **Key activities:** what are the most important actions the firm needs to operate successfully? Combined with resources, these activities are essential to create and deliver the value proposition.

The activities have to be identified in the company value chain: for a supermarket the key activities will include the storage and sale of the products, while for Microsoft the main activity will be R&D.

Nyx key activities comprise a huge market research combined with the activity of trend seeking.



Among the Italian low cost brands, Nyx is the leader in innovation, it is the first brand to bring in the market famous product concepts at an accessible price.

An example could be the Farsali oil: this makeup product became recently viral on the social network, particularly on Instagram, with a lot of video tutorial showing it. It is a luxury product, since the price per quantity ratio is particularly high.



Nyx developed a dupe product at an accessible price and it was the first brand to introduce this, and other kind of product in Italy.

Most of the Italian brand in the same category, such as Kiko and Wycon, have the same idea at the base of their business, unfortunately, with the entry of Nyx the path has become more difficult.

Nyx is always a step ahead when it's about importing international trends in Italy, also due to the fact that the other two companies above have their headquarters in Italy, so they have to coordinate a process of trend seeking with the actual creation of the product, while Nyx have access to its Us production.

The activity in store, is strictly related to the social media marketing. It is the process to build a campaign on social media. Most of these channels have their own analytic tools to easily check the progresses and efficiency of the campaigns.

People involved in the social media marketing are: current and potential customers, current and potential employees, press and bloggers.

It comprises the maintenance of public relationships and the establishment of a firm's desired social media culture.

- **Key partnerships:** description of the network of suppliers and partners of the firm. Partnerships are very useful to: optimize allocation of resources and so reduce costs exploiting economies of scale, reduce risks and uncertainty (partnership with a competitor, called cooptation) or acquire new resources.

Nyx Italy has developed a network of partnership in order to better reach the Italian audience.

One of its main partners is Olapic, a digital company in charge for the visual contents of the brand. In particular they created a dedicated page on Nyx web site in order to facilitate the shopping online.

The main challenge for shoppers, when it's about makeup, is to take into account

multiple factors; such as skin type, eye colour and more.

With Olapic's help, Nyx is able to leverage its loyal fan base to build a large library of users-generated content (UGC) that provide the consumers a realistic and accurate portrayal of what its products look



like on users with similar features<sup>30</sup>.

On the Italian web site, Nyx has introduced a specific page about makeup looks, which contains all UGC managed by Olapic. Users can post their looks using the hashtag #nyxcosmeticsitaly to have the chance to appear on their page.

For the American market this tool proved to be very successful:

- Customers who interact with UGC have a 93% AOV higher than those who don't.

---

<sup>30</sup> Olapic.com, Case study Nyx Cosmetics

The AOV is the Average Order Value, one of the most important metrics for online stores in order to take the most important decisions such as advertising, store layout and product pricing.

It is given by the ratio  $\frac{\text{Revenues}}{\text{Number of orders}}$ .<sup>31</sup>

- Shoppers interact with an average of 7 user-generated photos per visit
- Shoppers who engage with UGC on the site convert to customers at a rate 320% higher than shoppers who don't.

Another important partnership in the marketing area is the one with beauty influencers and professionals.

The beauty industry is using the power of influencers more effectively than any other industry is, it is estimated that this industry is at least three-five ahead of the others in this front<sup>32</sup>.

The cost of posting on social media is always zero today, but at the same time the amount of contents created is increasing exponentially.

Companies also use social media influencers to measure customers' engagement by analysing their posts and discovering what brands they are being talked about the most.

According to my survey, about 85% of the sample look for beauty videos on YouTube. The feelings about influencers is quite positive, with 92% of them saying that would trust a product showed by them online and 85% which had effectively bought something after having seen a video.

Every month Nyx sends to influencers and professionals of the sector new products to try, they post in response a huge amount of social contents describing the products, the usage and the application.

The challenge of these brand is to break through the noise and establish trust among customers.

---

<sup>31</sup> Bigcommerce.com

<sup>32</sup> Forbes, How social media influencers helped turn NYX and Becca into multimillion-dollar cosmetic brands, May 2017.



Moreover, Nyx stipulates each year different partnerships for the Nyx Face Awards.

It is an online contest for makeup artists and creative members of the community in order to elect the beauty talent of the year. It is composed by 3 video challenges. The winner will have the chance to represent the brand for one year and to go to the LA headquarter.

It is also an occasion for the brand to expand its popularity online, since participants have a conspicuous number of followers online, after the first challenge the top 20 finalists will receive a box full of Nyx products to use in the following rounds.

The first Italian edition was in 2016, before the opening of many stores. It increased the popularity and the curiosity for the brand a lot.

For the 2017 edition Nyx has a partnership with: Clarisonic, Redken, Tezenis and The Happiness Planner.

In the top 20 boxes were present products from the partners, moreover Nyx participated at the at last Tezenis fashion show bringing a lot of influencers at the event.

- **Cost structure:** description of all the costs incurred to operate a business model. It includes: costs of key activities, maintenance of customers' relationships and partnerships.

The general objective is to minimize costs, even though, it really depends on the nature of the business; for some firms the cost minimisation is the focus of the entire business model (e.g. low cost airlines), for other firms it is not so relevant.

We can distinguish firms as:

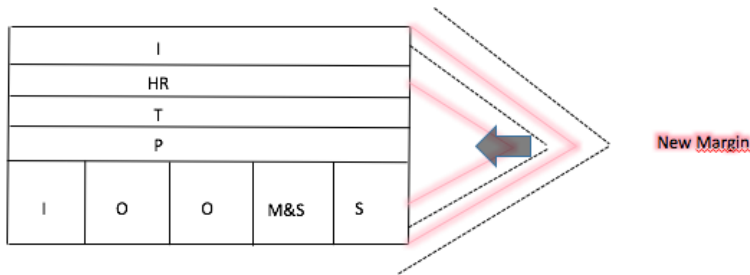
- Cost-driven: focus on creating and maintaining the lowest possible cost structure in order to exploit the cost leadership strategy in the market
- Value-driven: focus more on value creation, premium quality or personalised services (e.g. luxury brands).

The cost structure is composed by: fixed costs, variable costs, economies of scope and economies of scale.

Nyx business strategy can be classified as a cost leadership. The structure of this strategy is generally cost saving oriented.

The value chain is shaped in order to get higher margin by reducing costs:

Figure 21: Cost leadership Value chain



The principal costs estimated for Nyx Italy are:

- Production costs
- Marketing costs
- Stores rent
- Partnerships

Being a cost leadership, Nyx is able to offer its product at a lower price respect to the main Italian competitors.

## Conclusions

From the final picture of the Canvas based on my researches, it emerges one principal difference between the American and Italian business model: after the acquisition by the L'Oréal group in 2014, the value proposition of the brand changed, it went from a purely drugstore brand to a mono-brand store, and consequently all the related business model blocks changed.

The American strategy adapted to the new value proposition with the scope to create a new vision for Nyx, as a more professional and independent brand, it also changed its name from Nyx Cosmetics into Nyx Professional makeup and it expanded the production line.

In Italy, and more broadly in Europe, things went differently; Nyx arrived as a branded store since the beginning, this means a bigger selection of products, not just limited to one stand in a drugstore corner and also the brand itself acquired a higher value immediately.

This way, Nyx was able to position itself at the same level of the most famous Italian makeup brand in the same price category (such Kiko and Wycon).

Nyx Professional makeup is an example of combination of cost leadership strategy implemented with digital technologies; it succeeds to apply a mixed strategy, providing a value added to the strong cost position.

This mixture, makes difficult for competitors to imitate the first mover.

Social media and events are crucial elements in many of the blocks in the canvas, it's the winning strategy to maintain the cost leadership position and at the same time differentiating from other Italian makeup companies.

Especially in the Italian market, before the Nyx launch, influencers' engagement was not a common practise, most of the relationships consisted in free product samples in exchange of influencers' promotions and reviews.

Nyx started to organize more complex events, such as personalized gifts, small travels, different campaigns tailor made for each beauty blogger.

The makeup sector in Italy is a gradually adapting to the Nyx invasion.

During the first year, 2016, many brands started to increase their influencer and community related activities to keep up with the Californian brand.

It will create a complete revolution in the way in which makeup brands interact in the social media and it will speed up the innovation process in Italy.

Moreover, we can consider the process of internationalization as an improvement for overall economic efficiency; from international economic theory, we know that during this process some firms will be forced to exit the national market, and only the most efficient (in terms of costs and productivity) will survive.

It will also benefit consumers pushing existing firms to improve quality and variety of the goods offered in order to remain in the market.



## Survey

In order to investigate the trends of the Italian market, and to build the Canvas, I personally conducted a survey<sup>33</sup> about the role of social media in the Cosmetic industry.

I succeeded to obtain a sample of 382 people, 90% of them makeup artists or makeup lovers.

The answers were used to prove and justify all my researches in chapter 3.

The questions asked were the following:

- Gender
- Age
- Where do you look for beauty information?
- How many hours/week do you spend looking for beauty information online?
- Why do you watch beauty videos?
- How do you watch online videos?
- Where do you watch them?
- Do you trust influencers who show products online?
- Have you ever bought a product after having seen an online video?

---

<sup>33</sup> Link to the survey: <https://goo.gl/forms/5ta8GRGmHPhVBLbo2>

## References

1. Amit R. & Zott C. (2011). *The Business Model: Recent Developments and Future Research*. *Journal of Management*. 2-19
2. Yip G. (2004). *Using strategy to change your business model*. *Business Strategy Review* 15(2): 17-24.
3. Chesbrough H. and Rosenbloom R. ( ). *The role of business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies*. *Industrial and Corporate change*, volume 11. 530-540.
4. Magretta J. (2002). *Why Business Model matters*. Harvard Business School Publishing Corporation.
5. Demil B. and Lecocq X. (2010). *Business Model Evolution: in Search of Dynamic Consistency*. 227-246.
6. Amit R. & Zott C (2010). *The Business Model: theoretical roots, recent developments, future research*.
7. Johnsons G., Scholes K., Whittington R. (2008). *Exploring Corporate Strategies*. Eight Edition. Prentice Hall. (8) 293-320.
8. Giesen E., Berman S.J., Bell R., Blitz A. (2007). *Three ways to successfully innovate your business model*
9. Barney J. (1991). *Firm Resources and Sustained Competitive Advantage*. 100-105.
10. Penrose E. (1956). *The theory of the Growth of the Firm*.
11. Rugman A., Verbeke A. (2002). *Edith Penrose's Contribution to the Resource-Based view of strategic management*. *Strategic Management Journal*. 769-780.
12. L'Oréal Financial Report 2016.
13. MarketLine.com. *Makeup in Italy*. June 2016.
14. Fung Global Retail & Tech.com. *Deep Dive: Generation Z and Beauty – the Social Media Symbiosis*. <https://www.fungglobalretailtech.com/research/deep-dive-gen-z-beauty-social-media-symbiosis/>
15. L'Oreal.com. <http://www.loreal.com/group/who-we-are/our-mission>
16. Loreal-finance.com. *First Quarter 2017 Sales*.
17. Statista.com. *Leading Beauty brands ranked by number of Instagram followers as of February 2017*. <https://www.statista.com/statistics/536991/leading-beauty-brands-instagram-followers/>

18. *Forbes.com- June 2016. Banking of Beauty: how Toni Ko Built Nyx Cosmetics into a \$ 500 Million Brand. <https://www.forbes.com/sites/clareoconnor/2016/06/01/toni-ko-nyx-cosmetics-loreal-sale-richest-women/#516c72397d71>*
19. *Nyxcosmetics.it*
20. *Nyxcosmetics.com*
21. *Loreal.it*
22. *Youmark.it Nyx Cosmetics arriva in Italia. <http://youmark.it/rubriche/nyx-cosmetics-arriva-in-italia-al-via-la-nyxinvasion-firmata-low-unit-premium-cut-di-the-big-now-che-si-e-aggiudicata-lincarico-appuntamento-111-dicembre-per-linaugurazione-del-primo-monoma>*
23. *Thebignow.it. Strategia di lancio. <http://www.thebignow.it/project/nyx-cosmetics/>*
24. *Olapic.com. Case study Nyx Cosmetics*
25. *Bigcommerce.com. What is Average Order Value?. <https://www.bigcommerce.com/ecommerce-answers/what-average-order-value/>*
26. *Forbes.com. May 2017. How social media influencers helped turn NYX and Becca into Multimillion-dollar cosmetic brands. <https://www.forbes.com/sites/deborahweinswig/2017/05/15/how-social-media-influencers-helped-turn-nyx-and-becca-into-multimillion-dollar-cosmetics-brands/#5e1f46e67a44>*
27. *Likeable.com. July 2016. How the Makeup and Cosmetic Industry is Ruling Social Media. <http://www.likeable.com/blog/2016/6/how-the-makeup-and-cosmetic-industry-is-ruling-social-media>*