Urban Decay Case Study

Elif Negiz

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Case Study Analysis
Does Pink Make You Puke?

In a booming cosmetic market, it takes vision and determination to create a successful makeup line. This is the case study of Urban Decay Cosmetics in 1996. Urban Decay knew the demands of a potential niche market, and has since expanded to become an Urban Decay empire.

Founder of Urban Decay, Sandy Lerner decided to create her own makeup line with purple, green and other out of the ordinary colors that spoke to her soul. Sandy’s business manager, David Soward, introduced her to Wende Zomnir, a creative businesswoman who recognized the market opportunity for color variety in the cosmetic industry. Over tea, the women decided to have color mixing sessions for potential nail polish colors. In January 1996, Urban Decay was unleashed and has had strong market presence since. Women around the world are fans and consumers of Urban Decay, redefining beauty and revolutionizing the cosmetic industry forever.
Company Overview

It started in 1996…

The mid 90’s cosmetic industry was dominated by pink, red and beige tone’s. In 1995, Sandy Lerner mixed raspberry and black together and formed a new color called “Urban Decay.” Lerner and Holmes decided to create a cosmetics company stemming from the inspiring color. They released Urban Decay in January 1996, consisting of ten lipsticks and 12 nail polishes featured in the line. Inspired by the urban landscape that surrounded the founders, they named their products “Roach, Smog, Rust, Oil Slick, and Acid Rain.”

The headquarters are based out of Newport Beach, California. This innovative approach to makeup caught on quickly, because the founder created whacky names for eyeshadow and eyeliner colors, such as “oil slick”, “yeyo,” and “kush” to name a few. Urban Decay created their vivid and deep makeup colors and names to reflect the realities of the urban environment.

Sandra Lerner is quite the entrepreneur. She founded Cisco Systems with Leonard Bosack, one of Silicon Valley’s biggest success stories. They created the first commercially successful router, a device that enables once incompatible computers in far-off computer networks to communicate. In 1990 they walked away with $170 million after getting kicked out by the professional managers the firm’s venture capitalists brought in.

In 1996, Urban Decay grossed less than 5 million wholesale, its first year on the market. Urban Decay exceeded as a brand because they accessed a key niche market opportunity and knew how to speak to them. “Fundamentally I was just pissed off that [cosmetics firms] were telling women they had to look like Barbie,” Lerner said. “I think we’ve created something that is about choice. You don’t have to be afraid of anything you can wash off.”

Lerner and her financial advisor, David Soward, who is now the president of Urban Decay spent six weeks putting the product line together. Their first advertisement said, “Does pink make you puke?” Urban Decay was specifically targeting young women who wanted more choice and more color options than
what was available to them before. This unique approach to makeup caught on quickly. After Lerner contributed $1 million of his own money to Urban Decay, they managed to get the product line inside of Nordstrom, according to Forbes.

This new, trendy style of makeup caught on so quickly that industry giants such as Revlon began copying the darker, edgier side of makeup through new product launches. Lerner, a Stanford graduate, wrote a letter to Revlon cosmetics president, Kathy Dwyer, stating that the giant company had “ripped off” Urban Decay’s new products with its new Street Wear line of alternative colors. She started the letter with, “Does pink make you puke? I doubt it.”

Within a couple of years, Urban Decay became so popular that many of their products became replicated. They were a game changing company which helped to take the cosmetic market from just pink’s and red tone’s to every color in between, mainstream.

“Young women today have never known a world where they couldn't get purple nail polish over the counter. Mission accomplished.”
Market & Industry

Urban Decay is in the personal care/ makeup and cosmetic industry. They are currently owned by L’Oreal, the world’s largest cosmetics group based out of France. Urban Decay started in 1996 and then was purchased by the LVMH luxury group in 2000 before being sold two years later to the Falic Group. In 2009, Urban Decay was acquired by private equity fund Castanea Partners, then acquired by L’Oreal in 2012.

L’Oreal’s brands are organized by target consumer and their distribution channel to “best serve all beauty aspirations.” L’oreal certainly saw market opportunity for the niche market Urban Decay attracts. L’Oreal’s annual report classifies Urban Decay as the “New Luxury,” brand, represented as the “new digital” and “alternative” addition to L’Oreal. Urban Decay boosts nearly 3.5 million followers on Instagram and almost 2.5 million likes on Facebook. With their heavy brand presence online, Urban Decay became the perfect edition to the L’Oreal family.

L’Oreal also owns popular brands Maybelline, Clairsonic and Lancome, with annual sales exceeding $26 billion.
Urban Decay reported sales of $130 million for the 2011-2012 financial year. The general manager of Urban Decay said “L’Oreal’s strong innovation capabilities and presence in every channel of distribution will enable Urban Decay to reach its full potential in the marketplace.” L’Oreal purchased Urban Decay for around $350 million.

According to L’Oreal’s annual reports, L’Oreal needed to gain market share with young women who wanted affordable luxury cosmetic goods. Also, consumers are trending towards higher expectations of health and beauty combined. Urban Decay has a cruelty free and partly vegan line, attracting the niche consumer L’Oreal needed.

Urban Decay is a cruelty free line, meaning they do not test on animals. Some of their products are additionally vegan, meaning they don’t use beetle shells and other animal parts in their products. This is a huge area of difference for Urban Decay, and something very important to a lot of consumers. L’Oreal purchasing Urban Decay sparked conflict and fear among consumers. Urban Decay, known for being cruelty free and vegan, was now owned by a company that does not have animal testing policies. Popular brands owned by L’Oreal including Giorgio Armani and The Body Shop to name a few, have no policies against these actions. Urban Decay immediately released statements saying they were remaining cruelty free.

Almost 62 billion dollars is spent on cosmetics in the United States each year. As shown by the chart below, the amount of makeup sold has increased steadily over the last ten years. I believe this is due to increased social media usage, specifically for our target audience, as shown on the chart. Also shown on the chart is time spent online, users are not only using the internet more but are spending a significant amount of time online, creating a new media outlets to reach and engage with customers. As information spreads digitally, backstage industry tips and product knowledge has become easy to share and learn about. The cosmetics market, especially those brands targeting millennials, have potential to grow their brands through the internet as social media and information spreading continues to grow.
Daily time spent on social networking by internet users worldwide from 2012 to 2015 (in minutes)

- 2012: 96.6 minutes
- 2013: 100.2 minutes
- 2014: 103.2 minutes
- 2015: 106.2 minutes

Bar chart showing the number of internet users, social network users, and smartphone users in millions for the years 2014 and 2018.
Strategies

Urban Decay’s makeup is sold on their website, also through popular stores such as Macy’s, Sephora and Ulta. Urban Decay’s competition includes many brands carried at these same retailers, including Makeup Forever, MAC, Too Faced, Benefit Cosmetics, and Stila. These brands are at the same price point as Urban Decay and many have lines very similar including color options and quality of product. Brands such as Maybelline sold at CVS and Walgreens are competition of Urban Decay because of their cheaper price point. Urban Decay has to remain popular in the market through strategic online engagement to speak to their audience. Bloggers reviews, product overviews, and ratings online all help to speak to millennial’s buying habits. By creating buzz online to drive sales to their ecommerce and retail stores, Urban Decay has launched successful marketing plans online. As many brands have replicated Urban Decay’s color options, Urban Decay has to continuously brand themselves as relevant and stay in the front of their target consumers mind.

Urban Decay holds competitions through popular social media networks such as Instagram and Facebook for their fans to win contests and new products they launch, such as their world famous “Naked” palette. In 2014 alone, Urban Decay sold more than five million units of Naked Palettes. Since L’Oreal’s acquisition of Urban Decay, they have nearly doubled their sales in the past two years according to L’Oreal’s annual report. L’Oreal points that the keys to Urban Decay’s success are the Naked Palette, their buzz on social networks, and a strong focus on their points of sale.
Urban Decay’s target market, women ages 18-35 heavily engages with online interactivity. Urban Decay is opening stores in 8 more countries this year, further expanding their global market. Urban Decay uses their website, Instagram, Twitter, Pinterest and Facebook to heavily target and engage with their consumer base, provide answers to questions and host contests and competitions. For Urban Decay, they are challenged to keep their niche market engaged by marketing with strategically marketing their content online.

I see opportunity with Urban Decay creating competitions for each major city in the United States. They could first test their social media engagement with select cities then revise the plan to create it nationally. Urban Decay recently had a competition for a Halloween Contest, with over 3,400 entries of makeup looks created by their fans uploaded directly to the Urban Decay website. This allows direct interaction with Urban Decay and gives Urban Decay the opportunity to see trends among consumers with their makeup, which products are being used most frequently, what key buzz words are used and who their audience is. By having such a successful contest for Halloween, Urban Decay should continue this for the Holidays by having contests and giveaways to embrace the “holiday spirit.” This prime engagement is key to communicate with their target demographic, women ages 18-35, who are heavily engaged online. Urban Decay has two opportunities: continue their buzz online through innovative strategies, and continue to differentiate themselves from the competition.

For spring, Urban Decay could have a campaign for being cruelty free. The “cruelty free” bunny ears are stamped on each brand that’s cruelty free. They could promote a hashtag #UDCrueltyFree and have fans upload their Easter looks using Urban Decay products, stating why they love cruelty free products, for the chance for one winner to score Urban Decay products, all cruelty free.
Urban Decay definitely listens to their customers and gives feedback and releases products that the consumers are interested in having. The demand for an all matte palate in the market led UD to create their top selling, Matte Basics one and two palate’s. These top selling, shimmer-free palate’s are perfect for anyone regardless of age or race. Since Urban Decay listens to their market and has not had a campaign for cruelty free products, they should focus on this for a campaign as it was a huge concern for their consumer base upon merging with L’Oreal. This campaign would target Urban Decay’s audience, give insight onto which products are trending for spring, provide a visual for engaged consumers, and reinforce the brand image of being cruelty free.

Urban Decay has to work to promote their products and brand through marketing tactics that will help to engage with their exact target audience. Urban Decay, a revolutionary makeup line that has been dropping jaws and raising eyebrows since 1996 will continue to be successful thanks to their engaging content online with their niche market who is concerned with trend, style and animal friendly products.
## Swot Analysis

### Strengths
- Riding high in the niche market in Cosmetic industry has helped boost Urban Decay and raised reputation and turnover.
- The services/products offered by Urban Decay are original, meaning many people will return to Urban Decay to obtain them.
- Urban Decay’s marketing strategy has proved to be effective, helping to raise profiles and profits and standing out as a major strength.
- Urban Decay’s reputation is strong and popular, meaning people view it with respect and believe in it.
- Development and innovation are high at Urban Decay with regard to their products/services, which is a sure strength in its overall performance.

### Weaknesses
- Changes in the way consumers shop and spend and other changing consumer patterns could be a threat to Urban Decay’s performance.
- Not keeping up with changes in technology could be detrimental to the future of Urban Decay as they could slip behind their rivals.
- Extra competition and new competitors entering the market could unsteady Urban Decay and be a threat.
- The actions of a competitor could be a major threat against Urban Decay, for instance, if they bring in new technology or increase their workforce to meet demand.
- Price wars between competitors, price cuts and so on

### Opportunities
- Looking at export opportunities is a way for Urban Decay to raise profits.
- Changes in technology could give Urban Decay an opportunity to bolster future success.
- Urban Decay could benefit from expanding their online presence and making more money from online shoppers/internet users.
- The changes in the way consumers spend and what they buy provides a big opportunity for Urban Decay to explore.
- New market opportunities could be a way to push Urban Decay forward.
- Forming strategic alliances and joint ventures is an opportunity for Urban Decay to maximize profit and gain new business.

### Threats
- Not reducing costs in the same way as their competitors means Urban Decay is outlaying more of their profits. Having higher costs than competitors is a major weakness.
- Over pricing, setting too high prices for Urban Decay products/services makes them uncompetitive, which is a major weakness.
- Urban Decay is in a poor financial position which makes it weaker than its competitors.
- Urban Decay does not function internationally, which has an effect on success, as they do not reach consumers in overseas markets.
- A limited customer base is a major weakness for Urban Decay as it means they have less people to sell or market to.