

## NUDESTIX: THRIVING IN SPITE OF A GLOBAL PANDEMIC

*Samantha Krol wrote this case under the supervision of Lee Watkiss solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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In early 2020, Nudestix Inc. (Nudestix) was affected, like many businesses, by the global coronavirus disease (COVID-19) pandemic. Nudestix chief executive officer (CEO) and founder, Jenny Frankel, sat in her Toronto office pondering the implications for her Canadian-born beauty brand. Since its inception in 2014, Nudestix had seen tremendous growth, and its products were now available in over 30 countries and through 850 points of distribution. Was this success going to unravel due to COVID-19? With so many factors beyond Frankel's control, could Nudestix overcome the uncertainty and challenges that accompanied the pandemic?

### A FAMILY COMPANY

Frankel, a 20-year veteran of the beauty industry, had graduated from the University of Toronto as a chemical engineer. Motivated by her interest in the beauty category, Frankel began her career as a product developer for Make-Up Art Cosmetics (MAC). There, she revolutionized the lip gloss category by creating the original formulation for MAC's signature gloss, Lipglass. In 2000, Frankel left MAC to create a complexion beauty brand called Cover FX Skin Care Inc. Then in 2011, Frankel decided to take a step away from work, entering early retirement in order to spend more time with her teenage daughters, Ally and Taylor.

Frankel's retirement was short-lived: As Frankel spent more time with Ally and Taylor, she closely observed their beauty behaviours through her entrepreneurial lens, and she noticed that the girls struggled to find beauty products that met their daily needs. Inspired by her daughters' beauty lifestyles, Frankel identified a gap within the well-established cosmetics industry. She explained, "Women increasingly sought simple, easy-to-use products that would shorten their makeup routines. They admired a natural look with neutral tones." Armed with this insight, the three Frankel women, together with husband and father Lorne Frankel, launched Nudestix's first product in May 2014.

Rather than taking an impersonal big-business approach, Frankel adopted a family-owned business model that enabled consumers to form direct connections with the brand and the women behind it. Frankel explained, "Unlike my parents' generation, which wasn't very social with their kids, my generation talks to their kids, shares ideas, gets inspired, and are more open to being friends and collaborating."<sup>1</sup> Frankel assumed the role of CEO and used her deep industry connections to establish the brand and develop the requisite infrastructure. Ally and Taylor participated in product development and acted as chief inspiration officers, while also managing the company's social media presence.<sup>2</sup>

In describing her daughters' roles, Frankel said, "I really try to ensure that Nudestix is inspiring, fun, educational . . . that I don't get overly involved in their voices."<sup>3</sup> Frankel added, "From the mom's perspective . . . every day I'm watching them grow and I'm creating these hashtag girl bosses that are independent and creative and excellent at what they do . . . They've presented to groups of 400, 500 executives at Sephora—they've accomplished things that most adults might think are intimidating, and they don't think twice about it."<sup>4</sup>

## AN IMMEDIATE SUCCESS

In the summer and fall of 2013, emphasizing simplicity and naturalness, Nudestix developed prototypes of its signature multi-purpose makeup pencils. Armed with these prototypes and her vision, Frankel persuaded the high-end boutique retailer Space NK to sell Nudestix products in its stores. Frankel recalled, "In exchange for an exclusive three-month launch, they partnered with me to be my press arm [acting much like a PR agency] in North America and the UK. They created so much buzz."<sup>5</sup> Nudestix leveraged this buzz to convince more premium retailers—including Forever 21 Inc., Sephora, QVC Inc., and Urban Outfitters Inc.—to offer Nudestix products.<sup>6</sup>

Within a year, Nudestix was on the shelves of more than 100 stores worldwide. It had also signed an exclusive agreement with online retailer Beautylish Inc. (Beautylish).<sup>7</sup> Concluding a remarkable first year, Nudestix won the New York-based Cosmetic Executive Women's 2015 Indie Brand of the Year award.<sup>8</sup>

In 2015, higher-than-expected sales per retailer led Nudestix's revenue to surpass \$5 million.<sup>9</sup> Nudestix also had to expand its facilities, moving in May 2014 from its home base into a 74-square-metre facility in Toronto. Yet, within six months, Nudestix was uprooting itself once again—this time for a 260-square-metre space, also in Toronto.

By early 2020, Nudestix had almost 100 products, up from the original 41 at its launch.<sup>10</sup> Nudestix had increased its retail partners to include Cult Beauty and Fenwick of Bond Street in the United Kingdom, as well as Beautylish and Ulta Beauty Inc. in the United States.<sup>11</sup> Nudestix was also offering its products in more than 850 retail locations in 30 countries around the world, including 500 retail locations in the United States.<sup>12</sup>

## STRATEGY

Nudestix's beauty empire had been built using a disciplined and focused strategy. Central to its success was delivering upon its value proposition. Frankel explained, "Nudestix is a global brand, and when we create a product we think about all skin tones, all ages, all sexes, all skin types."<sup>13</sup>

Nudestix formulated products using clean, non-toxic ingredients. Its multi-purpose pencils were paraben free, preservative free, gluten free, cruelty free, and vegan.<sup>14</sup> Nudestix's packaging embodied an eco-conscious design: each pencil was packaged in a reusable, matte black tin with a mirror on the underside, offering consumers convenience for an on-the-go routine.<sup>15</sup> The pencils eliminated the hassle associated with makeup brushes and instead allowed consumers to blend and smudge the makeup with their fingers.

Product innovation was central to Nudestix's success. The strategy demanded that Nudestix expend internal resources only on those activities for which it offered a unique capability; for everything else, it relied on carefully vetted and cultivated partners. As a result, the beauty brand was able to dedicate its own highly skilled workforce to developing and improving its formulas. According to Frankel, product innovation began with being apprised of the latest trends. With this in mind, Frankel and her experienced taskforce

ensured that Nudestix was always ahead of the curve by staying informed about changing consumer behaviours through Fashion Week shows and community feedback.<sup>16</sup> Frankel explained, “The process of product development is . . . really about working on many things at once.”<sup>17</sup> There was always a new product, shade, or texture being developed in the Nudestix headquarters. Frankel concluded that this strategy allowed Nudestix “to introduce new products to the market quicker.”<sup>18</sup>

Although product innovation was an important part of the process, Frankel added that this involved more than simply developing and improving the formulas. Nudestix also paid careful attention to the design of its packaging to ensure that it was delivering on its commitment to sustainability.<sup>19</sup>

Nudestix also retained tight control over its marketing, which was led by Ally and Taylor. Because the company’s target consumers were young, a majority of Nudestix’s marketing tactics were carried out through social media platforms. Frankel explained: “They’re not reading magazines; they’re not watching TV; they’re watching YouTube videos; they’re on Instagram; a brand could be a person, product or retailer. Who and what they like to follow are very lifestyle driven.”<sup>20</sup> Eschewing traditional advertising methods, Nudestix focused on its digital presence and created its signature hashtag, #gonudebutbetter.<sup>21</sup> Nudestix’s marketing also featured social influencers, including musician Macy Kate and actress Hilary Duff.<sup>22</sup>

Nudestix relied on a bevy of partners to support these core activities. It outsourced the vast majority of its manufacturing to a Korean company, which then transported the goods via airfreight to Nudestix’s various distribution centres around the globe. Once the products were received at the distribution centres, Nudestix’s assembly, warehouse, and logistics teams were responsible for packaging and shipping all orders to retail partners and clients worldwide.

As Nudestix grew, it struggled to maintain the degree of personal contact needed to ensure each retail store achieved its sales targets. Consequently, in 2020, Nudestix partnered with Beauty Barrage, a sales and education management company. Frankel explained, “We love to educate, we love to service clients, we love to show them how to create a Nudestix look and when you have 500 locations, in the U.S. alone, you need an army.”<sup>23</sup> Frankel added that the strategy for the presentation was “to be seamless at store level so that the Beauty Barrage brand ambassadors look like they work for Nudestix in-store.”<sup>24</sup>

As Nudestix entered the new decade, it was on the precipice of global success.

## TROUBLE AHEAD

On December 31, 2019, China’s authorities alerted the World Health Organization (WHO) to a cluster of pneumonia-like cases in Wuhan, China, a city that was home to more than 11 million people. On January 23, 2020, Wuhan and surrounding cities were put under lockdown, and all non-essential businesses were closed. The situation quickly escalated, as countries across Asia continued to report an increasing number of confirmed cases.<sup>25</sup>

By February 1, 2020, 100 of Nudestix’s stores in China were closed and, within three weeks, the remainder of Nudestix’s stores across the entire Asia-Pacific region were affected, including those in Singapore, Thailand, Indonesia, Malaysia, India, Australia, and New Zealand. With 25 per cent of Nudestix’s business in Southeast Asia, Frankel had an early window into the response to COVID-19. Frankel explained,

This gave Nudestix a six-week window foreshadowing what could potentially happen should COVID-19 expand beyond the Asia-Pacific regions. What we noticed was that the recovery was not going to be quick, and it was not going to be consistent. Put it this way: we knew that there was no such thing as a “post-COVID” from what we learned in Southeast Asia. We learned that there is a new normal, and everybody has to be very agile and flexible. For instance, look at a market like Singapore. They closed early February. They reopened early March because the community spread was under control, but within two weeks, they closed down again because of a second wave.

Brick-and-mortar stores accounted for approximately two-thirds of Nudestix’s revenue and 80 per cent of its costs, yet when retail stores closed in Asia, the associated fixed costs remained. Frankel explained, “We learned very quickly with Southeast Asia that we need to be very conservative and we have to plan for a worst-case scenario.”

That worst-case scenario quickly became Nudestix’s reality only a week later. By mid-March, the remaining 75 per cent of Nudestix’s business was affected by COVID-19. Just as in Southeast Asia, governments in Europe, the Middle East, and North America began implementing stay-at-home orders and closing all non-essential businesses. If stores did not immediately close as a result of COVID-19, they had to take other precautionary measures such as reducing hours or services or implementing work-from-home measures. The common effect among companies was a severe decline in revenue. Frankel’s first step was to reforecast revenue from existing channels to \$0. Frankel knew she would have to quickly pivot Nudestix’s strategy in order to minimize losses. The question was, how?

## ENDNOTES

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- <sup>19</sup> *Ibid.*
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