



Unlocking New Horizons: Tarte's Entry into the Clean Toiletries Market

Section C - Team 50

Kenan Bauer | Gwen Guo | Soojung Kim | Aditya Menon | Yujia Zhai



Executive Summary

Pressing Issue & Solution :

Expanding into the clean toiletries market, to address high competition in the cosmetic industry and Tarte's lack of diversity in influencer and customers

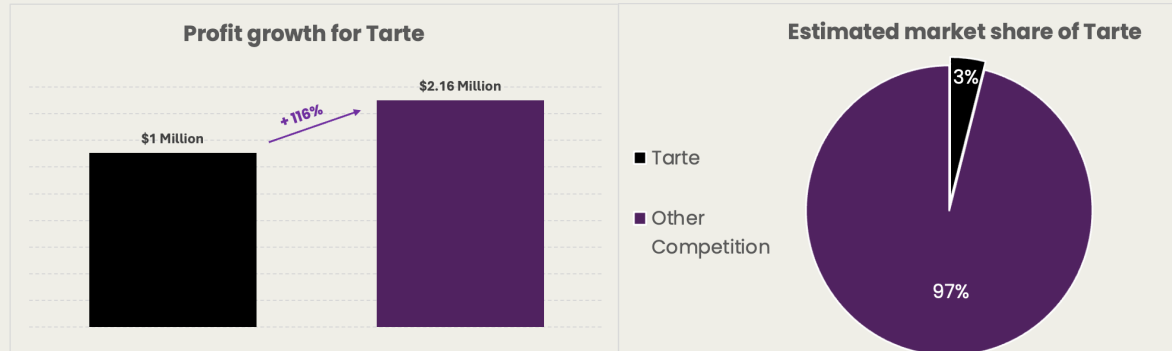
Execution



Project Goal :

Capture First-Mover Advantage || Tap into High-Demand, Fast-Replenishing Products || Boost Customer Lifetime Value || Address Diversity Concerns with Broader Appeal || Achieve Economies of Scale for Greater Efficiency

Estimated Outcome



Market share in toiletries by year 3 expected to be 3%

→ resulting in \$30 million revenue

Identifying the Pressing Issue: Industry Analysis

* Refer to Appendix 3 for a detailed version of the Industry Analysis and an Environmental Analysis

Supplier Power High

Difficulty in finding suppliers who can meet all requirements:

Clean Ingredients, PETA Obligations, U.S. FDA Requirements

→ **Limited Supplier Pool:** Few cosmetics manufacturers and ingredient suppliers meet all these criteria, increasing the power of the few that do.

Buyer Power High

For Individual Buyers:

- Multiple Alternatives & Low switching costs
- Customers Making informed purchase

For Retail Buyers:

- Tarte's Dependency on Sales Channels
- Retailers strong bargaining power

Threat of New Entrants High

The barriers to entry is relatively low, due to the presence of high technology and e-commerce. Regulatory policies are an aspect that make entry a bit difficult.

- Social media and digital marketing
- Low capital requirements, third-party manufacturing
- E-commerce platforms
- Regulatory policies can be addressed through partnerships with certified suppliers and labs

Industry Rivalry High

The cosmetics industry is highly competitive

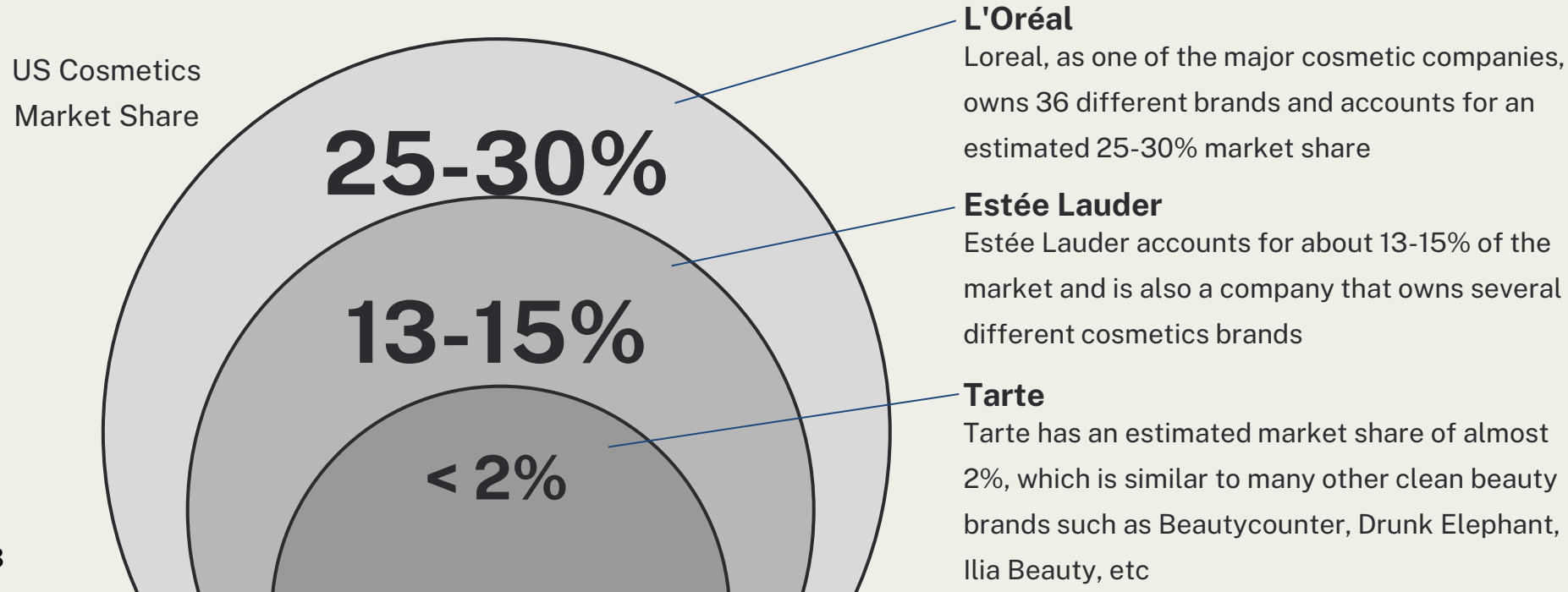
- Intense Competition
- Rapid Innovation
- Digital Presence, fast-changing social media trends

Threat of substitution Low

We are not focusing our analysis on this force because the substitutions for cosmetics (such as eyelash extensions, tattooed makeup, homemade ingredients) are niche/preferential substitutes and do not pose a significant threat

Identifying the Pressing Issue: Market Share

As mentioned in the Industry Analysis, the cosmetics industry overall is saturated and highly competitive. Additionally, Tarte is in a relatively small segment of the US cosmetics market referred to as “clean beauty” brands, shoulder-to-shoulder in terms of market share with many others within it.



Entering a Potential Market: Blue Ocean Creation

Industry	Within the cosmetics industry there are opportunities to expand into other segments.
Strategic Groups	Currently, Tarte is positioned in the Natural and Organic (“ <i>Clean Beauty Brands</i> ”) strategic group, but through product diversification could tap into the Mass-Market group as well. It is important that they do not lose their core identity of clean ingredients and ethical production while expanding product lines that could take on the strategy of market leaders such as L'Oréal.
Buyer Group	Opportunity to redefine the buyer group by being more inclusive of male, family, and mature demographics.
Scope of Product Offering	Expansion into body and hair care products on top of cosmetics builds an ecosystem of natural and clean products that fills a consumer's beauty routine with Tarte products. This idea opens the capacity of bundle sales and more shelf space at retail stores.
Time	Relatively early in the trend of a “clean” focused brand that specializes primarily in makeup products. Tarte could also be considered as a first mover in the integration of makeup and body/hair products using natural ingredients.

VRIN Analysis of Tarte's Clean, Cruelty-Free Beauty Offering

Value

Tarte's clean, cruelty-free beauty offering taps into the growing demand for ethical products, creating a strong value proposition. By aligning with consumer preferences for responsible beauty, Tarte charges premium prices that offset higher sourcing costs while driving profitability through loyal, repeat customers. This boosts customer retention and brand equity, reducing marketing costs and creating a competitive advantage that turns ethical practices into tangible financial gains, making this resource highly valuable.

Rare

Tarte's long-standing commitment to cruelty-free and clean ingredients gives it a first-mover advantage in a market that is still evolving. While many competitors are now adopting clean beauty practices, Tarte's early and deep integration of these values sets it apart. Few competitors can combine Tarte's ethical standards with successful product innovation and branding at its scale, making this resource relatively rare in the beauty industry.

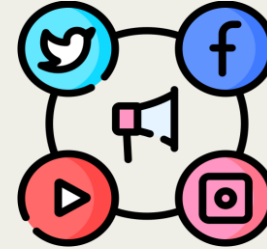
Inimitability

Building a clean, cruelty-free brand requires significant time, strong supplier relationships, and adherence to strict regulations. Tarte's established reputation and supply chain make it hard to replicate. While competitors can try, recreating Tarte's brand authenticity and customer trust will be costly and time-consuming, giving Tarte a strong strategic advantage.

Non-substitutability

Consumers who prioritize clean beauty and cruelty-free products are unlikely to switch to non-clean brands, as the ethical component is a non-negotiable part of their purchasing decision. Competitors may offer alternatives, but they would need to replicate both the clean standards and the brand trust that Tarte has cultivated over time to truly substitute the value. As clean beauty becomes a mainstream demand, Tarte's established position makes this resource hard to substitute.

Solution : Product Diversification - Entry into Clean Toiletries Market



Stepping into the Clean Toiletries Market

Capitalize on Clean Product Legacy

Extend Tarte's reputation for natural, sustainable products into personal care (eg. shampoo, deodorant, and lotion)

Leverage Existing Techniques:

Use Tarte's current expertise in clean beauty production for toiletries

Frequent-Use Products:

Introduce daily use products with faster replenishment cycles compared to makeup

Tarte for All: Inclusive Influencer Campaign

Collaborate with Diverse Influencers

Partner with influencers of various demographics to increase exposure to wide variety of mature, male, family customers, expanding audience reach:

Launch Campaign #TarteForAll : Beauty Inside Out

Center the campaign around the inclusive message to appeal to a broad audience

Clean Toiletries Journey : Benefits from Development to Sales

Decrease Supplier Power

Gain higher negotiating leverage with suppliers by driving demand for clean ingredients



First Mover Advantage

Positioned to lead the clean toiletries market as the first big cosmetics company to enter this space

Cross-Selling and Bundling

Boost sales through product bundles and campaigns, encouraging customers to purchase multiple items



Expand Distribution Channels

Increase brand recognition by expanding sales into more offline retail stores (eg Target)



Increase Customer Lifetime Value

A broader product range enhances customer loyalty and strengthens brand affinity



Achieve Economies of Scale

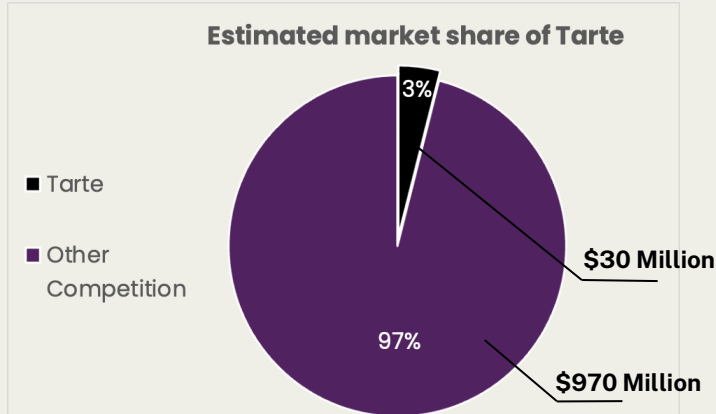
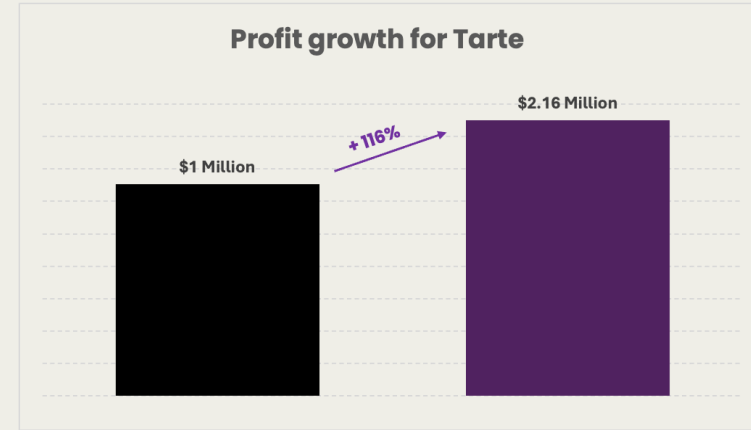
Expanding the product line allows Tarte to reach economies of scale, reducing costs and increasing profitability



Evaluating: Tarte's Clean Toiletries Diversification Strategy

Profit Potential:

- **Revenue Growth:** Estimated 15-20% profit growth in the first 2 years from **clean toiletries**
- **Incremental Revenue:** \$6 million in Year 1, \$7.2 million in Year 2, totaling \$13.2 million over the 2 years
- **Profit Margin:** With a 30% profit margin, projected profit for Year 2 is \$2.16 million



Market Share Gains:

First-Mover Advantage:

- Tarte can capture 2-5% of the premium clean toiletries market within 3 years, leveraging its strong brand equity in clean beauty
- Market Size: \$1 billion clean toiletries market projected by 2030

Revenue from Market Share:

- 3% estimated market share in **toiletries** by year 3
- \$30 million revenue from capturing 3% of the \$1 billion market

*Refer to Appendix 2. for Cost Estimation Method

Strategic Timeline in 1 year & Estimated Cost for \$ 5,000,000...

(\$ Estimated Cost (USD))



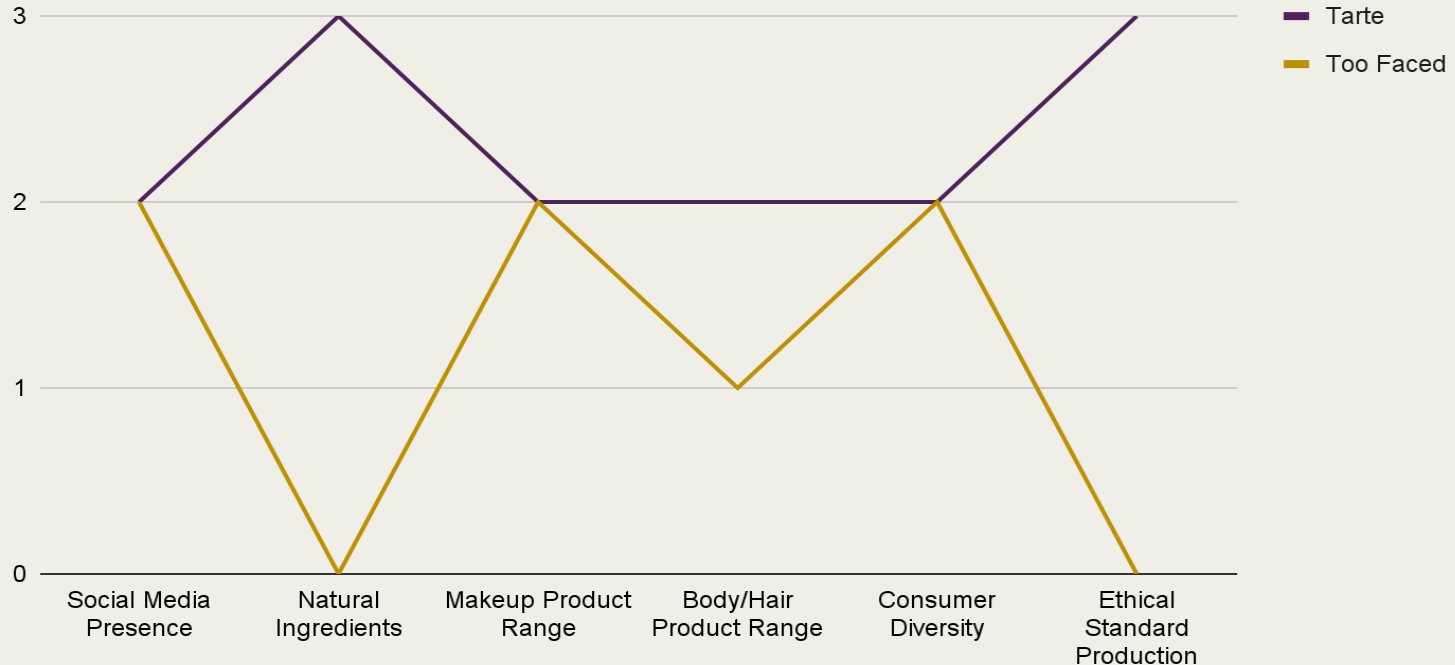
Strategy Evaluation: Value Curve

****Assuming after implementation of the new strategy**

Too Faced - competitor in the cosmetics market, expanding from makeup to body/hair products

Similarities: High social media presence, a wide range of makeup products, and mainly started from young customers

Differences: Too Faced has a limited range in body/hair products and does not abide to ethical or natural production



Is it worth the additional sunk cost?

R&D for new product lines

- Formula adjustments
- New packaging designs

Relatively short R&D period due to the nature of cosmetic production & similar ingredients and manufacturers, expected to break even in a few years

In a growingly saturated clean cosmetics market, allocating resources for new products could be our only option to differentiate and maintain profitability

Marketing restructure:

- Tarte's primary source of exposure has been social media, with contents and influencers mainly focused on 18-35 females
- Marketing costs to change targeted audience to include more male, mature, and family-oriented influencers would occur

#Tarte for all Campaign
Lower cost through word of mouth

Additional effect: renewing brand image tackles the current controversy on Tarte's lack of diversity and inclusion in influencer marketing

APPENDIX 1. Profit and Market Share Estimation

Assumptions for Revenue Growth Rate:

- Based on 15-20% annual growth, reflecting the clean beauty market's strong growth potential
- Clean toiletries starting revenue: \$5 million (estimated based on similar product launches)
- Assumed 30% profit margin for clean beauty products

<https://www.precedenceresearch.com/toiletries-market>

- Clean beauty products typically priced 20-30% higher than conventional

<https://nielseniq.com/global/en/insights/analysis/2021/2030-glow-up-the-future-of-clean-beauty/>

Assumptions for Market share

Market Share Capture (2-5%):

- Based on Tarte's first-mover advantage and success of similar brands expanding into adjacent categories we assume Tarte can capture 2-5% market share

Market Size (\$1 Billion):

- The clean toiletries segment is estimated to reach \$1 billion based on overall clean beauty market growth

<https://nielseniq.com/global/en/insights/analysis/2021/2030-glow-up-the-future-of-clean-beauty/>

APPENDIX 2. Cost Estimation

- Based on Kosé's (Tarte's Parent Company) [first-quarter report of 2024](#), Tarte's estimated annual sales are around \$500 million USD (U.S.: 16,863 million yen; Europe and other markets: 2,232 million yen)
- Most cosmetic companies allocate 1-3% of sales to R&D. Due to Tarte's existing supplier relationships and strong bargaining power, we estimate 1% of sales will be allocated for R&D on the toiletry business line, totaling \$5 million USD
- This budget is divided across five phases in the strategic timeline, with the most investment in **Product R&D** and **Product Launch & Distribution**, while distribution will focus on offline retail expansion, which incurs higher costs

Appendix 3. Industry Analysis (detailed)

Supplier Power **High**

Difficulty in finding suppliers who can meet all requirements:

- **Clean Ingredients:** Suppliers must provide non-toxic, ethically sourced components
- **PETA Obligations:** Compliance with cruelty-free practices is mandatory
- **U.S. FDA Requirements:** Must meet strict safety, labeling, and quality standards, even for international products
- **Limited Supplier Pool:** Few suppliers meet all these criteria, increasing their power

Buyer Power **High**

For Individual Buyers

- **Multiple Alternatives & Low switching costs:** Many brands offer similar eco-friendly, cruelty-free options, and customers can easily switch due to the low cost of cosmetic products
- **Customers Making informed purchase:** Easy access to product information and social media enhances consumer awareness of price differences across channels and brand comparisons

For Retail Buyers

- **Tarte's Dependency on Sales Channels:** Without its own offline stores, Tarte relies on offline channels (eg. Sephora) to offer customers an in-store experience
- **Retailers strong bargaining power:** Large retailers can choose products, demand lower prices or exclusive promotions, and switch to similar brands if demands are not met

Appendix 3. Industry Analysis (detailed)

Threat of New Entrants **High**

The barriers to entry is relatively low, due to the presence of high technology and e-commerce.

- **Social media and digital marketing** allowed entrants to rapidly build fame. Incumbents have low competitive advantage
- **Low capital requirements** and **third-party manufacturing** reduce barriers, which drives price competition and lower profit margins
- **E-commerce platforms** to bypass traditional retail channels reduces the importance of scale in distribution, allowing smaller companies to compete more effectively
- **Regulatory policies** adhere to standards of ingredient safety make such an industry difficult to enter. More startups navigate these regulatory frameworks through partnerships with certified suppliers and labs

Industry Rivalry **High**

The cosmetics industry is highly competitive

- **Intense Competition:** Established brands like Estée Lauder, L'Oréal, and Benefit Cosmetics aggressively compete for market share
- **Rapid Innovation:** Frequent product launches and marketing campaigns drive constant change
- **Digital Presence:** Brands heavily invest in online marketing, influencer collaborations, and social media engagement
- **Differentiation:** Brands that maintain unique formulations and product quality stand out in the market, more competitive positioning themselves
- **Market Position:** Despite rivalry, Tarte ranks third in the U.S. prestige makeup market, indicating strong competitiveness

Competing with each other for market share, and blocking new entry is a bonus
Include market share of top 5 cosmetic companies

Threat of substitution

We are not focusing our analysis on this force because the substitutions for cosmetics (such as eyelash extensions, tattooed makeup) are niche/preferential substitutes and do not pose a significant threat

Appendix 3. Environmental Analysis

Demographic changes

- More diversity and inclusion: influx of male consumers, more attention to different skin types and shades
- Gen Z trends in social media (tiktok)

Macroeconomic impacts

- Rise of e-commerce
- High inflation has decreased disposable income, affecting demand for beauty products. Beauty products affected because they are non-essential goods

Social-cultural influences

- Clean Beauty: customers care about safe/natural ingredients
- Post-pandemic behavior, people feel less need to wear makeup
- Personalized Skin-Care: customers look for products tailored to their individual needs
- Consumer preferences are pushing producers toward eco-friendly products

Global Trade Pressures

- Transportation between international manufacturers to retailers
- Import/export Tariffs
- Varying international regulations and standards for cosmetic ingredients and labeling make it challenging to ensure compliance across different markets
- Currency Fluctuations Affecting Profit Margins

Technological developments

- Computer analysis of different skin conditions/types
- Marketing
- Virtual try-on tools
- Chatbots to consult customers to personalize choices

Political Legal Pressures

- Animal cruelty during R&D
- The Food, Drug, and Cosmetic Act bans distributing adulterated cosmetics, ensuring products are safe and free from harmful substances.

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