

How Sephora Revolutionized Makeup Consumption

- There really is a before and after Sephora, when it comes to the makeup industry. Until about 20 years ago, this is how most Americans shopped for luxury makeup. A sales representative of the brand would stand behind the makeup counter and help customers make a purchase.
- That completely changed with Sephora. Now it's a free-for-all, people walk in the stores, they test whatever they want, nothing is behind the glass.
- So, how did this French retailer come to dominate the global personal care and beauty product industry, and what business practices helped make it the industry leader that it is today? This is the Economics of Sephora.
- Today, the beauty retailer employs over 36,000 people in more than 2,700 stores, in over 35 countries. Those stores carry over 250 beauty brands.
- [Man] At this point, Sephora's like kind of my second home.
- The Sephora that we know today has its roots in a small perfume shop that opened in 1969 in Limoges, France. At that time, the perfume and cosmetics market was dominated by a service-based retail model in which staff typically received commissions based on sales. Instead, Sephora used the assisted self-service model, in which customers are free to test products in the store.
- You have a full where you can just like literally grab whatever and you can try on the lipsticks, you can try in the eye shadows. I always leave looking like a literal different person than I arrive.
- Sephora customers can still request help from a sales associate who Sephora calls a beauty advisor.
- A little bit more trust with the sales representatives in a Sephora store, because they're brand agnostic. So they can tell you, maybe you should buy the mascara from this brand, but you should buy the blush from a different brand.
- Sephora also bucked convention in the manner in which it displayed its products.
- [Woman] So make-up items are next to each other. Whereas from the same brand, a fragrance would be in the fragrance aisle. From the same brand, a skincare product would be in the skincare aisle.

- Then in 1997, founder Dominique Mandonnaud sold Sephora to the large luxury retail conglomerate, LVMH. One of the advantages of being owned by a conglomerate like LVMH, is that the company can jump very quickly on trends. And actually, several of the brands that are sold in Sephora stores are owned by LVMH.
- [Narrator] One of the popular brands owned by LVMH is Fenty Beauty by Rihanna. And then Fenty of course has a huge section. The whole row of Fenty, we got the lip glosses up front.
- Sephora's success also stems from its exclusive line of products. There's a little bit of a tension in the relationship between a store and a brand. Because Sephora is such a hot store for makeup brands to sell their products in, Sephora ends up having a lot more leverage in that relationship.
- The challenge for high-end beauty brands these days is that they're really facing a conundrum. They've become increasingly dependent on Sephora for sales growth, but because LVMH also produces beauty brands and there's an element of competition there, and more brands are coming out constantly. The shelf space is shrinking.
- In part due to that product exclusivity, Sephora boasts a loyal customer base. So what you'll find oftentimes on Instagram or TikTok, is that people have these haul videos where they're showing all the products that they bought in Sephora, and they're going one by one, talking about them.
- This is the KOSAS tinted face oil, and it's \$42. I recommend this product to everyone and they're always like I'm paying \$42 for a face oil, yes you are.
- Many faithful customers are members of Sephora's Beauty Insider program, which has three different tiers and more than 25 million members. The lowest tier is the Beauty Insider. The next level up is VIB, or Very Important Beauty Insider, which users must spend \$350 in a calendar year to unlock. The top level is called Rouge, which customers can access after spending at least \$1000 in a calendar year. Benefits like savings increase with each tier.
- I'm Rouge, don't judge me, I know I spend a lot of money. Okay, I get it.

- But the real advantage for Sephora for the beauty rewards program is that every time a customer goes in there, Sephora knows exactly what they bought. And that is very valuable information for the company to understand who the customer is, what they're purchasing and then down the road, be able to market in a very personalized way to that customer.
- Yet as much as the company profits on exclusivity with its products when it comes to Sephora's consumer base, the retailer takes inclusivity seriously.
- One of the ways that Sephora has tried to become more inclusive is by featuring a larger number of brands in their stores, they've made an effort to include black-owned brands, and then also by pushing brands to expand their product lines and offer products that appeal to people from different racial groups, different ethnicities.
- In 2021, Sephora relaunched Color IQ, a skin tone-matching technology. The company offers to assist customers in selecting the most natural products for their skin tone. All the products that would be your exact color.
- And Sephora is still expanding. In December 2020, the company announced a partnership with the department chain Kohl's, to install 850 shops inside Kohl's stores by 2023. Since opening 200 Kohl's locations this summer, Sephora has added 200,000 new Beauty Insiders.
- In a statement to the Wall Street Journal, a Sephora spokesperson said, "we want to be an unequivocal global leader in the prestige beauty space and a purpose-driven brand that is a transformative opportunity for everyone we touch." They continued by outlining three main areas, customers, brands, and teams.
- Sometimes when customers step outside of the Sephora store, they will have splotches of makeup all over their arms. And that really showcases what they've been doing in this store.