

**N**OWHERE IS the struggle between beauty's new world order and the older ways of doing business as pronounced as the direct-sales channel.

On the one hand, brands such as Rodan + Fields, Nerium International and Beautycounter are among the fastest-growing companies in the business—in any channel. On the other, established names like Avon, Amway and Mary Kay are posting year-over-year declines, struggling to reestablish relevancy with shoppers.

Why the disparity? For the beauty direct-sales industry, which Euromonitor estimates as having 2016 sales of \$4.8 billion in the U.S., success today is almost solely reliant on digital acuity.

"While we continue to see that the majority of sales are still being done in the brick-and-mortar space, the growth we continue to see from the online space is huge...it's working for every category of beauty," says NPD Global Beauty analyst Karen Grant. "Brands that are able to respond very quickly to what they're hearing from their users are the ones that are winning."

That interactive relationship has benefitted companies like Glossier, which was born on social media and is continually spreading its digital tentacles. "We've involved her since inception," says founder and chief executive officer Emily Weiss. "From product development through to helping us launch products."

Glossier has responded by launching not just those coveted products, but programs based on customer behaviors. The BFFs program, which gives customers a discount code to provide to their social media followers, is one example, and the Glossier representatives program, which is still in beta, is another.

A few hundred women are part of the test, Weiss says, and each rep has her own backend

dashboard where she can track against peers and goals. Incentives range from product discounts to trips to New York. On the front end, the rep's pages are content platforms. "You can post photos of products and say, 'Click the link in my bio to buy or learn more,'" Weiss says. Reps are encouraged to curate and share their routines, including highlighting non-Glossier products. "We believe in the democratization of beauty and in reflecting consumer behavior," Weiss says. "She's already purchasing across a wide spectrum of brands."

So far this year, the rep program has brought in 7 percent of Glossier's revenue, Weiss says, adding the return rate is under 2 percent.

While Glossier's program is in its infancy, Beautycounter, which founder Gregg Renfrew calls a "direct-retail" business, has an active sales force of 25,000. Unlike other direct-sales companies, Renfrew has no problem experimenting with retail: Last summer, she opened a Nantucket pop-up shop, and is plotting a more "robust" pop-up strategy for 2018. She even brought Beautycounter to Target, but says that while the effort was successful from a sell-through point, it wasn't from a storytelling perspective.

"For me, it is always: 'How do we take the best-in-class attributes of direct sales, e-commerce and retail and meld them into a new type of business, which we call direct retail, which allows you to mobilize a network of independent consultants while simultaneously meeting the needs of today's consumer?'" Renfrew says, noting consumers want to be able to shop single brands in multiple channels.

"Companies that are not focused on becoming digital-first, that aren't trying to build direct relationships with consumers, are not listening to their clients and building merchandise strategies around them, those companies are going to be over," she says.

For Beautycounter, the direct-sales channel provides a storytelling outlet for its brand story. The company's reps generally handle customer acquisition, and then digital takes over from there. "Over 75 percent of our transactions migrate immediately online, and from that point, they become an online customer for us," Renfrew says.

Beautycounter is currently working on an app for its sales force that incorporates mobile training and selling tools, as well as ways to increase productivity and manage client bases. The company is also ramping up its video strategy, including shoppable videos on Instagram. "Today, you have product companies or you have media companies," Renfrew says, noting the two haven't been paired off well traditionally. "We're going to start to look more like a media company than a traditional consumer-products company... through video and film and bite-sized pieces of information."

Beautycounter isn't alone in tapping into social commerce. Coty Inc. invested in the social selling business Younique, thanks to its expertise in using social media to move merch. For 2016, Younique posted approximately \$400 million in sales and has about 250,000 presenters, says Coty ceo Camillo Pane, who says it lives at a "great intersection between an e-commerce business...with the social aspect of an everyday consumer's life."

"We believe this is a very strong future potential proven by growth," he says.

But despite the upward sales trajectory of next-gen direct sellers, many of the companies aren't considered hot targets in the current M&A market, despite their digital prowess. Market sources say the unfamiliarity of most would-be acquirers with the direct-sales model and the industry's reputation as a pyramid scheme, are among culpable factors. "This is a different business model," says Wendy Liebmann, ceo of WSL Strategic Research, noting potential buyers may be wary because a variation in the business model could indicate a tricky integration. "This is an opportunity to add to the portfolio, but there's the complexity of selling [direct] versus putting brands into more traditional [distribution]."

For New Avon, the U.S. operation of the beauty company started in 1886, the Cerberus investment is a means for technological advancement, and hopefully, a turnaround. Cerberus took over 80 percent ownership in the business in 2016. "[Cerberus] investments are allowing us to invest in technology, in new marketing efforts, as well as the training and development in our sales force in ways that we haven't been able to for the last several years," says Betty Palm, New Avon's president of social selling. One example is a new feature that "allows representatives, at the push of a button, to send out new product...to their entire social network," Palm says. "It just makes it very easy to conduct business."

Dr. Katie Rodan and Dr. Kathy Fields know the

# RIDING THE WAVE

A NEW GENERATION OF **DIRECT-SALES BUSINESSES** IS HARNESSING THE POWER OF DIGITAL TO DRIVE AGGRESSIVE GROWTH—AND COUNTER THE CHANNEL'S HISTORICALLY BAD RAP.

By **ALLISON COLLINS** Illustration by **DAN PAGE**





power of the channel firsthand. They pulled their namesake skin-care brand out of department stores after buying it back from the Estée Lauder Cos. in 2007 and transitioned to a direct model for more effective storytelling.

"There was not that high touch that they were looking for to communicate about the performance of the product," says Lynn Emmolo, chief brand officer at Rodan + Fields. Now, the business has about 200,000 consultants and more than \$1 billion in sales.

"Our customer is a prestige customer demographically," says Emmolo. "If you define prestige by what is sold in a department store's four walls, then yes, there's an issue...people aren't shopping that way, but that doesn't mean the prestige user isn't shopping."

Rodan + Fields has also tapped into social selling, for example, producing content for Facebook Live. A recent video with Drs. Rodan and Fields reached more than 5.7 million viewers.

Japanese catalog business DHC is also focusing on e-commerce and customer acquisition through paid social as it ramps up U.S. operations, according to Cynthia Popper, communications lead of DHC. "We've completely flipped our business model to be social and e-commerce first," she says. To that end, DHC is scaling down its product offerings to make them more "palatable" for the e-commerce customer, tailoring the brand's 300 stockkeeping units down to its most popular products.

Five-year old Nerium has developed proprietary software that on-boards information from new countries and supports brand partners and customers, and connects marketing web sites, e-commerce back office and digital applications. The software rollout has green-lighted Nerium's global expansion, chief executive officer Jeff Olson says.

"We act as their Amazon, so if they make a sale on their web site, we ship it out for them," says Amber Olson Rourke, chief marketing officer. Nerium also provides its sales force with myriad marketing tools. "We give them social media graphics, social media videos, assets that are loaded onto their phone," she says. Sales reps can download the app on their phone to sync videos and graphics. If they post a video, that video is coded to bring shoppers to the rep's e-commerce web site.

Nerium is actively trying to counter the reputation of the direct-sales channel as a glorified pyramid scheme. While historically, direct-selling companies have a compensation plan that requires sales representatives to buy inventory and sell a certain amount of product in a certain time period, Nerium requires its reps to spend \$80 a month—less than the cost of its night cream. "People buy inventory to demo and sell, but they buy because they want to, not because they have to," Olson says. "My litmus test is, would people buy your product if there wasn't a business opportunity attached to it?...90 percent of our sales are from people buying the product, not selling." ■