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### When **Image Is Everything**; Cutting Prices Would Cheapen Cosmetics' Allure. Besides, They Don't Have to.

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My medicine cabinets are crammed with cosmetics. Age-defying moisturizers that don't suit my skin type, glide-on eye shadows too glittery for my taste. The candy-colored lip gloss, the fruity-acid skin creams -- they may as well be in the kitchen cupboard.

But all that's beside the point. A long time ago, I realized what the cosmetics industry already knew: I'm a sucker for freebies. Hence my collection, relics from past gift-with-purchase offers.

What better way to lure me in?

"Gifts" are an industry-wide phenomenon in the \$ 7 billion world of prestige beauty products, the pricey brands found in department stores.

The gifts -- usually gift-with-purchase and the more recent purchase-with-purchase -- are the manufacturers' way of saying: "Thanks for your business." It's also their way of saying: "You'll never see a sale at this counter."

While the rest of America has become Discount Nation, top-of-the-line cosmetics remain a one-price business. Freebies are in lieu of sales.

Brand image is most often cited as the reason for the no-price-cuts approach. As the thinking goes, a sale would degrade the product's brand equity. Lowering prices might attract the riffraff and compromise the product's exclusive allure.

"The manufacturers are selling 'hope in a jar,' " said Vicki Williams of Signature Sales and Marketing in Toronto, quoting Revlon co-founder Charles Revson's famous line. "The fastest way to kill the brand is to over-distribute it or put it on sale."

Not to mention that a sale is hardly necessary -- especially from the department stores' point of view.

Unlike clothing, most cosmetics are not seasonal. With few exceptions, they have a long shelf life. Stores are under no pressure to sell them fast.

Perhaps more on point, many major cosmetics companies do the unthinkable: They take back unsold inventory from the retailer.

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Department stores stumbled into this sweet deal back in the 1950s, when makeup manufacturers were desperate to break into high-class retail venues, said Allan Mottus, editor of the *Informationist*, a cosmetics trade publication.

The better brands committed to certain conditions to get plum spots inside the stores. They trained the stores' cosmetics saleswomen and paid all or part of their salaries.

They picked up marketing costs, including promotion of gifts, first offered by Estée Lauder, doyenne of the beauty business.

The ground rules still exist, and their cost is reflected in the price of the cosmetics, even the "free" ones.

It doesn't take a genius to figure out that a \$ 25 lipstick yields high margins. And then there's the fact that any gifts that come with it apparently tend to generate immediate payback.

Here's how: If Clinique, a division of Estée Lauder, offers a particular mascara in its gift package, it immediately sends out an extra supply of that mascara to the stores offering the gift package. "We know we'll see our customers coming back to the counter asking for it," said Thia Breen, Clinique's general manager for retail in North America.

A specialty store in Washington once generated half a million dollars of sales in one day by offering a small mesh bag of makeup samples with each purchase, said a retail executive who once worked there. The bag was a \$ 15 value, at most.

"It's amazing what people do to get that little bag," the executive said.

Need I explain further why cosmetics companies now dominate the coveted main floor of nearly every department store? Oh yes: The department store gets a cut from the cosmetic sales, just the way a mall developer gets a cut of every mall store's sales.

Demand for the products appears recession-proof. Even when the economy was down, sales of prestige skin-care products and cosmetics were up, though fragrances took a hit, according to research firm NPD BeautyTrends.

Skin-care products alone generated \$ 1.8 billion, partly driven by anti-aging products popular with baby boomers, said Timra Carlson, a vice president at NPD Group, a market information firm.

This year, products priced at over \$ 75 are selling very well, Carlson said. Perhaps because the most affluent customers also tend to be the least price-sensitive.

None of this is to suggest that cosmetics companies never change their prices. They just do it in creative ways.

Mottus, editor of the *Informationist*, said generally a third of each company's offerings is new every year. That allows the firms to reformulate their products and change prices, maybe by coming out with travel-size versions.

"They don't lower prices on existing products and create havoc and confusion," Mottus said. "Once things go on sale, the consumer never knows what the true value is. That's what's killing the apparel business right now."

Outside the cosmetics industry, makers of other luxury goods have found ways around that issue. Consider the luxurious Mercedes S-Class sedans. Rarely do they go on sale in this country, said Praveen Kopalle, an associate professor at Dartmouth College's Tuck School of Business.

But to capture consumers who are shopping for lower prices, the automaker offers the much less expensive C-Class sedans, Kopalle said.

"The strategy is to come up with a product-line extension which is a different brand name at a lower price point," Kopalle said. "That way you don't tick off the S-Class segment by diluting their brand, but Mercedes still gets to expand their customer base."

L'Oreal Group spends a lot of money distancing its high-end Lancome brand from the mass-market L'Oreal brand, some industry experts say.

The parent company has a very clever approach, one analyst said: Once a Lancome product is well established, the company will reformulate the product and offer a similar version under the L'Oreal brand name. By that time, Lancome has come out with its next new big thing.

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Of course, retailers reap the benefits of these marketing strategies. But loyalty to a particular cosmetics brand does not necessarily extend to the retailer. Shoppers tend to follow the gift no matter where it lands.

And even though retailers and cosmetics companies have trained us to stop waiting for a sale, we still keep looking for value. That poses its own pitfalls.

For instance, I recently spotted a very enticing purchase-with-purchase offer. The manufacturer was showcasing a bag full of goodies for about \$ 20 with any purchase.

The bag was a \$ 100 value. It included a full-size portion of my favorite face wash, which alone cost nearly \$ 20.

I waited in line. I watched.

At least three customers in front of me left in a huff when they realized the bag was not free. One customer berated the saleswoman, quite loudly. "Why in the world should I be paying for this bag?" she yelled.

I gave the saleswoman a sympathetic look.

She slipped me an extra lipstick sample.

Margaret Webb Pressler is away but will resume work on "Selling Us" when she returns.

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