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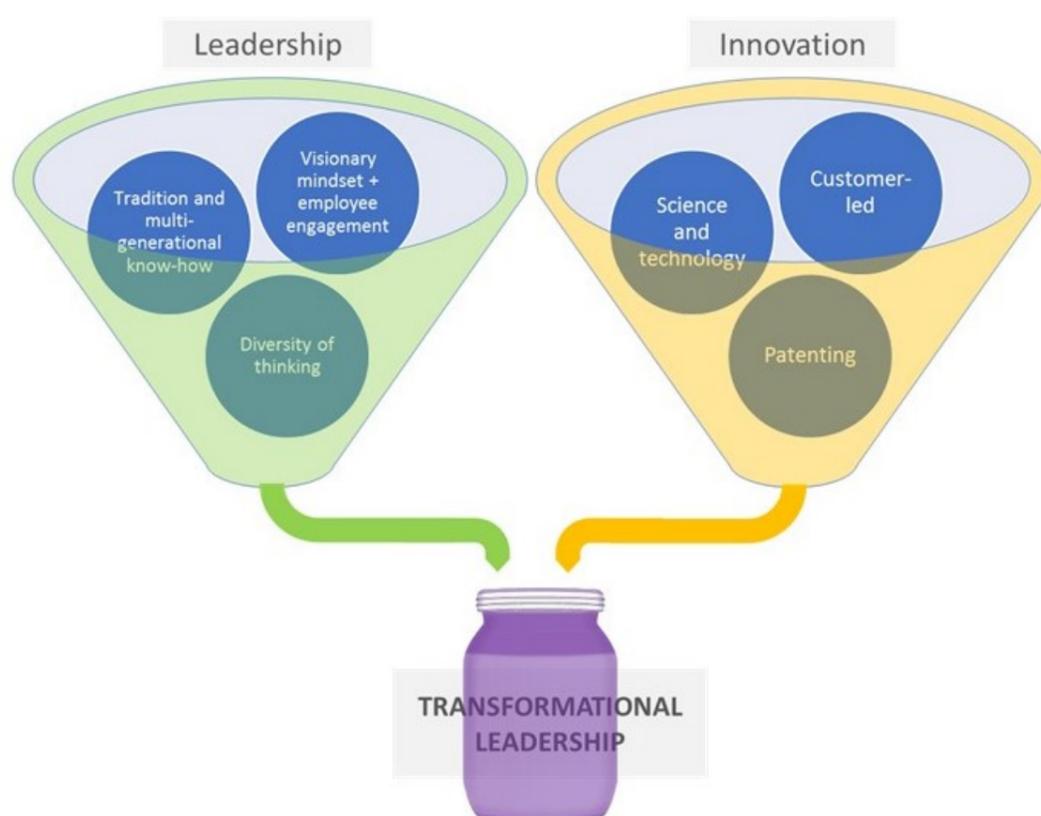
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## Is leadership the secret ingredient of cosmetic innovation?

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Valentina Lorenzon, a London-based strategy consultant specialising in leadership and business management, and Swiss independent scientist Greta Faccio explore the deep, sector-specific relationship that exists between leadership and innovation in the cosmetic sector

The cosmetics industry is notoriously fast-paced and deeply rooted in its customers' ever-changing and emotional decision-making. It goes without saying that innovation has not only deep implications for businesses and the way they are managed, but poses also questions on which strategies leaders need to adopt to foster long-term growth.

Moreover, it prompts reflection on how a focus on innovation translates into a leadership style that encourages the successful achievement of a company's strategic goals.

### Innovation and industry disruption rooted in heritage

The origin of the beauty industry goes back centuries and the creation of cosmetics flourished in antiquity, i.e. during the ancient Egyptian and Roman civilizations.

Many famous cosmetic companies have a history of being family-run businesses and leveraged long and illustrious pasts to build strong brands. Heritage and multi-generational expertise are also used to create a halo of tradition as a key element to convey the quality of their products.

Knowhow that spans across decades under a strong leader have been a winning combination for many businesses in the cosmetics sector. One well-known example is Estée Lauder, whose entrepreneurial mindset and pioneering attitude has created an almost eight-decade long connection with its customers.

As one of her granddaughters recently shared in occasion of the company's 75<sup>th</sup> anniversary, Estée Lauder's key strength was to be an innovator who never lost sight of the changes in the market, how to communicate with her target audience, and how to use her image to build trust in the brand.

Tradition and heritage can also help to foster industry disruption; successful leaders know how to not only look at the past and build on it to keep relevant but also, even more importantly, be at the forefront of the changes needed in the industry.

However, if in the past a visionary leader may have been enough to guarantee success, today's fast-paced cosmetics sector needs leadership that nurtures an innovative mindset across all business units. This is while using a less hierarchical structure to empower employees and give them a platform to share their ideas and suggestions.

The benefits of this approach are twofold: they increase the level of employee engagement, and, at the same time, they guarantee the development of a continuous pipeline of innovation and potential new products.

### **A multi-faceted innovation in a fast-paced, rapidly changing world**

Unlike what other sectors, innovation in cosmetics is not limited to a race towards the launch of the new products that we see on the shelves in our shops. Innovation is evident at multiple levels: formulation claims, limiting the use of preservatives, waterless format, sustainable packaging etc.

Such a wide range of different factors makes the decision-making process particularly complex and may lead to choices that could be unpopular with stakeholders. One of the key challenges for leaders in the cosmetics industry, therefore, is to find the right balance between purpose and profit; between customer-led innovation and commercially viable, sustainable products.

The development of multiple product ranges raises questions about whether to prioritise new products that support long-term strategic objectives and values that are aligned with the company's identity and ESG (environmental, social and governance) or to achieve the best return on investment. As a result, leaders have to consider the various financial and non-financial risks and be able to make timely and effective decisions.

The market is used to cosmetic products being regularly released and desires from clients in terms of trending ingredients, techniques, efficacies, and to align with global changes. As an example, plants and their essential oils have long been used in the preparation of cosmetic formulation for their bioactivity and aromatic components.

However, innovation has not stopped investigating these ingredients by focusing, for example, on uncovering the effects of exotic plants or how to improve the extraction process to include modern techniques and equipment configurations even in recent years. Similarly, the long-time collection of plant material has diversified to include novel biotechnological approaches that look at the plant at the cellular level with all its degree of complexity.

### **Patenting as an antidote to fierce competition**

Innovation is by nature multifaceted. In the case of the cosmetics sector, it can be defined as the search for novel ingredients and actives; formulation techniques; delivery systems; texture modifiers; applicators; packaging and so forth.

The patenting activity of a company reveals the core business and the brand value of the company.

Eos Products, for example, has focused on protecting its proprietary and characteristic packaging. Industrial innovation is often protected by internal trade secrets and thus kept hidden.

Patents offer a guarantee of exclusivity and competitive advantage for generally 20 years but also the requirement of disclosure of the invention details, posing a risk of imitation by competitors. An overview of patents containing the keyword 'cosmetic' in the last ten years highlights the activity of different players and reveals the many directions in which innovation flows.

The need for companies to diversify the focus of their innovation efforts is shown by Avon Products, whose most recent patent portfolio ranges from inventions for novel ingredients for cosmetic formulations to devices for cosmetic application. Avon's patents report compositions to control product appearance and approaches to ensure an increased concentration and stability of ascorbic acid, a famously unstable antioxidant molecule.

This is clearly one of the core areas of focus for a leader because it defines the company's long-term vision and strategic direction, the overarching framework of a company. Patenting often proves to be the most appropriate strategy to diversify and protect the considerable investments required to get ahead of the competition.

This needs a clarity of intent to inform the allocation of financial and non-financial resources, as well as the ability to be decisive and persistent, even in the face of potential challenges. The cosmetics sector is notoriously IP-intensive and this should translate into a leadership approach that makes it possible to push the boundaries and turn innovation into IP that can make a company a driver of innovation instead of a follower.

This requires a suitable mindset and company culture that encourages diversity of thinking, multiplicity of perspectives, openness to change and willingness to learn through trial and error; consequently, leaders play a key role in adopting appropriate strategies of talent recruitment and development as well to drive performance.

### **Establishing a strong reputation and credibility**

As a sector that responds to its customers' beauty, wellbeing and health requirements, the cosmetics industry operates according to strict standards, and seeks a high level of credibility and impeccable reputation.

In addition to the need of acting according to international standards and norms, cosmetic companies are coming under even greater ESG scrutiny. Today's customers are increasingly aware of environmental and sustainability issues and their purchasing decisions are significantly influenced by a brand's ability to be transparent about its sourcing and production processes.

The degree of observation that a company and its leaders are under has reached unprecedented levels. In particular, leaders are expected to make sure that innovation is responding to both lifestyle changes and environmental challenges.

Covid has also challenged the industry's ability to adapt and pivot quickly to respond to emerging requirements that may require significant changes in business as usual activities. Another factor cosmetic companies need to take into account is their customer base is fragmented and there are marked differences between different generations and cultural groups.

This means leadership strategies aimed at building reputation and credibility need to vary depending on each specific target segment and/or its geographical location. Product requirements and expectations can vary significantly, and if differences are not acknowledged and catered for, they may result in an inability to successfully engage and communicate with end customers, especially within new markets.

An interesting example is the strategy adopted by L'Oreal in China in order to leverage customer insights to innovate and stay at the forefront of customer experience and engagement.

In addition, the climate and other environment crises causes consumers to demand sustainable products. In this respect, the sustainability of cosmetics is comprised not only of the product and its supply chain, but also consumer behaviour like the use of water.

The number of startup companies with a sustainability focus is quickly rising. Ingredients are ever more sourced from nature under controlled, sustainable conditions or from other industry byproducts, or from algae, microorganisms, and biotechnological manufacturing processes, e.g. *in vitro* cultivation.

Ingredients such as surfactants, and water- and shipping energy cost-saving formulations such as solid formats, and materials with a lower environmental impact are also the subject of different approaches. As an answer to the microplastic crisis, alternatives are developed not only at the laboratory level but are now also commercially available from many sources such as chitosan-, cellulose- or mineral-based granules.

## Conclusion

As so often happens, there is no straightforward answer to the complex challenges the cosmetics sector are facing. It can only come from the combination of multiple approaches and strategies.

Companies should be prepared to adapt their leadership to embrace all possible opportunities and, at the same time, mitigate any potential risks. As a result of the continuous changes in the sector and in the nature of the companies operating in it, a transformational leadership style is needed to foster impactful change across all parts of the business and encourage product innovation.

Engaging all employees and providing them with a platform to make their contribution to the long-term development of their company might be the way to go.

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