

Customer & Market Due Diligence Of Beauty Treatment Manufacturer: Establishing The Growth Opportunity Of An Industry Transformed By Crisis

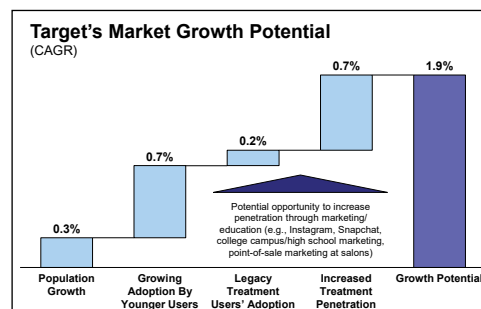
The Challenge: One of our PE clients was interested in investing in a manufacturer of beauty treatment equipment and supplies for salons. The salon channel had undergone significant turmoil and decline over the last few years due to regulatory and media attention over the health risks of a legacy treatment. While the target's treatment presented no health risks, the client wanted to know if this issue/impact on the target's market would adversely affect the target. Accordingly, the client asked Gotham to conduct a 3-week customer & market due diligence to establish: (1) beauty treatment and conversion trends; (2) the outlook for the salon channel and the opportunity for the target's beauty treatment in the wake of regulations and industry consolidation; and (3) the opportunity for the target's beauty treatment in the fitness and the at-home solutions channels.

Rapid Assessment of Channel Health and Market Growth Outlook: Gotham undertook multi-pronged research effort:

- A consumer panel survey of 6,000+ consumers nationwide to better understand: consumer profiles, preferences, and behavior by age cohort and Fitzpatrick skin type scale; consumer perception of the health risks associated with the legacy treatment and trends in treatment preferences; consumer satisfaction with the target's treatment; consumer salon selection criteria and loyalty behaviors; and consumer perspective on treatment in the fitness and the at-home treatment solutions channels
- Interviews with 60+ independent and chain salon operators to understand their: range of beauty treatment offerings; sense of consumer adoption drivers and inhibitors; perspective on industry consolidation; outlook on the future of their business; equipment condition and replacement intentions; and attitude toward replacing legacy treatment equipment with the target's equipment
- Interviews with 40+ fitness club operators to understand: the profile of gyms that offer beauty treatment; the range of treatment services offered, the frequency of treatment sessions; the buying behavior of members, why fitness clubs offer beauty treatments, and why this offering is important to their business model; how fitness clubs manage the cleanup and maintenance of this equipment; and how likely non-participating fitness clubs would be to offer the target's beauty treatment to their members
- Secondary research on consumer behavior and the beauty treatment industry's regulatory landscape
- Competitive landscape profile in the salon channel, including profiles of large and midsize salon chains.

Treatment Market Is Growing with an Opportunity to Accelerate Growth

Concerns related to the health risks caused by a legacy treatment in the target's market had triggered regulatory and media reaction, leading to several states banning this treatment for under-18 consumers. As an alternative to this legacy treatment, the target's treatment did not suffer from adverse health effects and was growing as a result. In fact, the target's treatment was a market point of entry for consumers as almost half received their first treatment before 18 years of age. While growth in the target's treatment was seemingly constrained by misperceptions about some product issues from several years ago (despite those issues having since been resolved), in fact, users who tried the target's treatment consistently became repeat customers, with 63% of them going for a treatment at least once a month. After pinning down market dynamics and consumer behavior, Gotham quantified the target's projected growth by building a market sizing and growth model based on: population projections by race; consumer beauty treatment behaviors as they age; and potential opportunities to increase adoption by investing in marketing to improve consumer perception of the target's treatment.



After Years of Turmoil, Salon Channel Has Stabilized and Is Poised for Growth

In the midst of the industry crisis of a few years ago, many independent salons were forced to close their doors or got bought out by larger players resulting in the number of salon locations being cut in half. We established that the industry was at the tail end of this consolidation and, with larger operators now owning the majority of locations, the salon channel has stabilized. Salons that offered the target's treatment were particularly successful as they were able to capitalize on the growing popularity of the target's treatment. Most salon operators reported increased traffic and sales growth and expressed their intention to invest in their business by adding new equipment, upgrading existing equipment, and adding people to their staff.

Additional Growth Opportunities In The Fitness and At-home Solutions Channels

Gotham's interviews with the fitness channel operators established further growth opportunities for the target in this channel. The fitness channel was attractive as High Value Low Price (HVLP) chains, like Planet Fitness and Crunch Fitness, gained members through low monthly fees and then sold premium memberships that provided upgrades and perks. The legacy beauty treatment had become a crucial offer to recruit new members and was one of the most common upgrades in HVLP gyms. We established that some HVLP chains had started introducing the target's beauty treatment and additional chains were open to introducing it. Our interviews confirmed that the ongoing concern of cleaning requirements associated with the target's treatment was a non-issue as fitness clubs had staff to clean equipment between treatments. Our consumer survey identified that while younger users preferred the higher-service experience of a salon, older users preferred the all-in-one pricing of the one-stop fitness club option.

Branded at-home treatment products appeared to be an additional growth opportunity as consumers indicated that they would like to use an at-home treatment to supplement and extend the lifespan of their treatment between salon visits. Our survey indicated that consumers would be extremely likely to shop for an at-home treatment created by the maker of the salon grade product

The Outcome: Gotham provided the client with fact-based clarity on this opportunity in an uncertain market and established additional growth opportunities, helping the client see past the historical market turmoil to gain the conviction needed to close the deal.