Trading Up, Trading Down

A New Diligence Framework for Beauty and Personal Care

The beauty and personal care investment landscape has bifurcated. Most PE capital is still allocated as if it has not. This paper investigates the structural shifts that are reshaping where value is created and provides a framework for how to structure diligence, which metrics matter, and where durable return profiles sit.

INTRODUCTION

Structural shifts and implications to diligence

Shift #1: Three distinct consumer profiles are emerging

The K-shaped economy has segmented the beauty consumer into three structurally distinct cohorts – upper, middle, and value – each with diverging spending, brand relationships, and tolerance for price. Aggregate category growth statistics often obscure this divergence.

Shift #2: Brand equity is real. Most of it is not defensible

Not all brand moats are equal, and the current environment is accelerating the gap between durable ones and transient success stories. Formulation IP, clinical channel credibility, and routine embeddedness are holding. Marketing-led prestige positioning and selective distribution are eroding faster than average hold period models.

Shift #3: The infrastructure layer remains the most underweighted opportunity

Co-manufacturers, private label platforms, formulation providers, and ingredient distributors sit beneath the brand layer and serve all consumer segments. They participate in growth without brand risk, generate recurring revenue with durable margins, and (usually) are available at lower multiples than equivalent brand assets.

HOW TO USE THIS FRAMEWORK

Three questions for every beauty diligence

1 *Identify the consumer*	2 *Test brand defensibility*	3 *Consider infrastructure*
Which consumer archetype does this asset serve? Is that segment's spending expanding or contracting? Does the brand's revenue mix reflect a single segment or multiple?	Is the brand's equity anchored in (i) formulation IP, clinical credibility, or in (ii) marketing spend, cultural association? The former compounds; the latter depreciates.	Before underwriting a brand multiple, assess whether an infrastructure asset might offer equivalent growth exposure with lower entry multiples and higher structural durability.

THE K-SHAPED CONSUMER ECONOMY

Consumer segmentation as thesis principle

The K-shaped economy has created three structurally distinct consumer segments in beauty and personal care, each with different spending trajectories, brand relationships, and implications for where capital should be deployed.

	Spending Behavior	Representative Assets	Investor Implications
Upper consumer	Accelerating spend on premium, science-backed, and experiential beauty. Less price-sensitive; more ingredient-literate. Willing to pay for clinical credibility and brand story.	• Prestige skincare • Clinical actives • Luxury fragrance • Omnichannel prestige platforms	This segment is expanding its beauty wallet. Premiumization is real here, but assets are also priced at a premium.
Middle consumer	Under the most pressure. Trading down from mass-premium while becoming more sophisticated about ingredients and efficacy. Loyalty is weakening. Highly susceptible to dupe alternatives.	• Mid-tier branded beauty • Department store cosmetics • Mid-market DTC • Mass-premium brands	Highest risk segment in which to acquire. Revenue may hold while cohort retention erodes, a pattern sometimes missed in diligence.
Value consumer	Growing in absolute number and spending share. Sophisticated about efficacy relative to price. Gravitate toward private label, dupes, and DTC value platforms with strong ingredient stories.	• Private label • Dupe DTC platforms • Mass-market VMS • Value-positioned clean beauty	Counterintuitively, this segment is generating some of the most interesting brand-building opportunities, including DTC and dupe platforms that build genuine brand equity.

Key takeaways

The middle consumer squeeze is an important dynamic to understand before evaluating an asset in the space. A brand that looks stable in revenue may actually be losing its most valuable consumer cohort – aspirational middle consumers trading down – while retaining its least valuable (price-driven buyers looking for a one-off promotion). Upper consumers continue to have resilient spending profiles, anchored in clinical effectiveness. Value consumers are growing as a share and creating new opportunities for capital allocation.

THE INVESTMENT THESIS

Mapping segment vs. brand defensibility

In a K-shaped economy the consumer segment you serve matters as much as what you sell. Mapping beauty assets on these two dimensions surfaces distinct opportunities with different return profiles.

	Strong Defensibility	Weak Defensibility
Upper consumer *(Growing)* *Examples of Attractive Positioning:* SkinCeuticals ADVANCED SKINCARE BACKED BY SCIENCE	**High conviction** *Clinical skincare, science-backed wellness* Premiums are sustainable when anchored in formulation IP and clinical credibility. Upper consumers are expanding their beauty wallet and rewarding differentiation.	**Caution** *Trend-driven prestige DTC, fashion-adjacent color* High multiples, fragile brand equity moats. Upper consumers are becoming more ingredient literate, and trend-driven differentiation erodes.
Middle consumer *(Squeezed)* *Examples of Attractive Positioning:* OLAPLEX	**Selective – requires entry discipline** *Established mid-market with clinical credibility or professional channels* Investable if the moat is real, but the middle consumer is under pressure. Aggregate revenue stability can mask cohort deterioration.	**Avoid** *Mid-tier branded beauty, mass-premium without differentiation* The most dangerous quadrant. Revenue holds while the consumer base erodes, a dynamic that may be missed in diligence.
Value consumer *(Expanding)* *Examples of Attractive Positioning:* e.l.f. BEAUTY	**Dupe-to-brand opportunity** *Ingredient-forward DTC value platforms with brand-building trajectory* An emerging archetype with real upside. Starts with price parity, earns loyalty through transparency, builds genuine equity.	**No brand play here** *Mass color, commodity personal care* No investable brand moat. Avoid as a brand asset. Infrastructure play may be the right entry point into this segment.

THE INFRASTRUCTURE LAYER

Serves all consumer segments simultaneously

Contract Manufacturers	Private Label and Brand Incubators	Specialty Ingredients and Formulation Providers

The supply chain / infrastructure layer serving this space is highly attractive. Infrastructure participates in volume growth without brand concentration risk, often at lower entry multiples.

BRAND DEFENSIBILITY

What makes a beauty brand defensible?

Most beauty brands have equity. But how defensible is it? IGS identified several durable moats and some that are quickly eroding in the current environment.

Durable Moats

← Increasing Defensibility

Formulation IP & clinical differentiation

- Proprietary ingredients, patented delivery systems, or clinical-trial-backed claims that are hard to replicate.
- Dermatologist or salon endorsement with third-party validation that mass alternatives cannot access.

Examples: Patented actives, Rx-to-OTC bridges, clinical-study-backed claims

Routine embeddedness & system architecture

- Multi-step systems create behavioral switching costs – the consumer stays because the system works as a whole.
- Cross-SKU attachment is both a loyalty signal and a retention mechanism.

Examples: Skincare regimen systems, AM/PM routines, treatment protocols

Authentic community & cultural identity

- When a brand is genuinely co-created with its community – multicultural beauty, subculture-native brands – the authenticity is the product and cannot be manufactured.

Examples: Multicultural haircare with heritage, founder-community aligned indie brands

Nondurable Moats

Marketing-led prestige positioning

- Premium pricing anchored in packaging or influencer association. Some cultural premium but less defensible. Social media compresses the awareness gap between original and dupe to weeks.

Viral / trend-driven brand momentum

- Rapid revenue growth driven by a single viral product or platform moment. Cohort LTV often deteriorates post-peak as acquisition normalizes. Diligence captures the growth but may miss the retention cliff.

Retail distribution without (channel) differentiation

- Ubiquitous retail presence signals scale but not defensibility. Brands are exposed to retailer private label competition on their own shelf.

Key takeaways

The diligence question should not be solely centered around whether a brand has equity, but whether that equity resists replication. In a K-shaped environment this distinction is compressing: upper consumers reward genuine differentiation more; value consumers increasingly can see through marketing language.

THE DUPE OPPORTUNITY

A path to real brand equity

The dupe ecosystem is not just a threat to incumbent brands. It is also generating a new class of investable platforms: DTC businesses that start with ingredient parity, earn consumer trust through transparency, and have a credible path to owning a brand with real equity.

Stage #1: Value-positioned DTC brand

A consumer-facing brand built explicitly on ingredient parity and price transparency — "same actives as a *prestige brand*, at a fraction of the price." The business model is DTC-first. CAC is structurally lower than prestige because the price advantage is the acquisition hook.

Stage #2: Attribute-led platform with equity forming

Consumers are returning for the brand, not just the price. The ingredient-transparency content strategy has built a community that is loyal to the brand's position. Retail entry begins. The value positioning is still present, but it is no longer the only acquisition driver.

Stage #3: Independent brand with durable equity

The most interesting evolution: a dupe brand that has built genuine community, developed proprietary formulations, and earned loyalty independent of its price positioning. The 'dupe' origin story becomes irrelevant as the brand stands on its own.

WHAT MAKES A DUPE BRAND

What are key attributes of dupe brands

The most interesting dupe-to-brand investments are not the ones trying to be prestige. Instead, they are building real brand equity in the value segment that the K-shaped economy is expanding. For these assets, exit optionality includes not just a new financial sponsor, but also strategic acquirers winning back the value consumers they are now losing.

1 ***K-shaped demand tailwind***	2 ***Ingredient-forward positioning with upgrade path***	3 ***DTC consumer data asset***
Value consumers are not just price-sensitive, they are increasingly ingredient-literate and brand-capable. A platform that earns their loyalty now is building equity in a growing segment.	Consumer trust built on formulation transparency is transferable to premium SKUs – the brand has already established scientific credibility.	Dupe-native DTC platforms accumulate first-party data at scale. This is a real asset for brand extension and personalization that prestige incumbents can lack.

BEAUTY INFRASTRUCTURE INVESTING

Finding value outside the brand

Beauty infrastructure investing centers on building scaled platforms across contract manufacturing, private label / brand incubation, and specialty ingredients.

	Key Characteristics	IGS Diligence Lens
Contract Manufacturers *Example:* cohere BEAUTY	• Co-manufacturers develop and produce products across customer segments, serving prestige brands, DTC platforms, and private label retailers. • Formulation IP creates relationship stickiness – once a brand's formula is co-developed and (co-)owned by the co-manufacturer, moving is expensive and time-consuming. • There are multiple margin expansion levers through automation, volume, and multi-category capabilities / cross-selling.	• Look for key drivers of value: multi-category capabilities, clinical product formulation and / or certifications / capabilities. • Evaluate customer concentration – having multi-category capabilities reduces concentration risk and increases cross-sell. • Establish who owns formulation IP, which creates barriers to switching. • Assess ability to scale with growing customers.
Private Label and Brand Incubators *Example:* maesa	• Private label platforms and brand incubators develop, manufacture, and in some cases own the brands they produce. • Private label is a direct beneficiary of retailer strategy in the current K-shaped economy, as Walmart, Target, and Ulta are all accelerating owned-brand programs as a margin and traffic driver.	• Assess business model – (i) retailer-embedded private label, with retailer-anchored revenues or (ii) brand ownership for launching owned brands. • For PL platforms evaluate relationship depth and strength (i.e., contract renewal, likelihood to renew / win share of wallet, performance against selection criteria). • For brand incubators assess ability / track record for scaling *multiple* brands.
Specialty Ingredients and Formulation Providers *Example:* vivify BEAUTY CARE	• Specialty ingredient distributors and formulation service providers sit upstream of brand risk. • The ingredient transparency trend creates demand for actives like retinol, peptides, niacinamide, and AHAs that flows through regardless of which brands are winning. • Distributors with proprietary supplier relationships and technical sales capabilities are differentiated from commodity suppliers, with formulation / R&D as an additional value driver.	• Identify whether company sells commodity ingredients or differentiated solutions and key attributes of a specialty portfolio (e.g., ingredients with clinical substantiation, etc.). • Understand whether relationships are procurement-led or R&D-led and whether technical expertise is a major differentiator. • Evaluate whether differentiated ingredients and / or technical expertise result in preferred supplier relationships.

IGS CREDENTIALS

Representative Engagements

IGS evaluated dossier on behalf of American Pacific Group
FRAGRANCES

IGS evaluated tru
FRAGRANCE INCUBATOR
on behalf of a private equity sponsor

IGS evaluated L'ANZA on behalf of Juggernaut Capital Partners
PROFESSIONAL SALON HAIRCARE PRODUCTS

IGS evaluated ANR Arizona Natural Resources Inc. on behalf of Core Industrial
BEAUTY PRODUCT MANUFACTURER

IGS evaluated Camille Rose on behalf of Perspective Equity Partners
HAIR & BODY CARE PRODUCTS

IGS evaluated Vegamour
HAIR WELLNESS PRODUCTS
on behalf of a private equity sponsor

IGS evaluated CFI on behalf of Core Industrial, ANR Arizona Natural Resources Inc.
FRAGRANCE CONTRACT MANUFACTURER

IGS evaluated Marianna on behalf of Core Industrial, ANR Arizona Natural Resources Inc.
BEAUTY PRODUCT MANUFACTURER

IGS evaluated TruSkin (Skin Friendly, Skin Nutrition™) on behalf of American Pacific Group
NATURAL SKINCARE BRAND

IGS evaluated Mansfield-King (personal care contract specialists · ISO 22716)
BEAUTY & PERSONAL CARE PRODUCTS
on behalf of a private equity sponsor

IGS evaluated Sandream Impact, Vivify Beauty Care on behalf of CenterOak Partners
BEAUTY PIGMENT SUPPLIER

IGS evaluated SDC Nutrition on behalf of Shore Capital Partners
BEAUTY SUPPLEMENT MANUFACTURER

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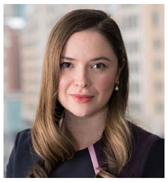

Ana Giuglea
Partner

ana.giuglea@igsinsights.com