

Can the expansion of cosmetic product manufacturing outsourcing raise cosmetic private label value? A comparative case study of Nardo's Natural and Cosmax

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Abstract: While the scale of cosmetic product manufacturing outsourcing in the United States has been expanding, the global private label values have risen, for both U.S.-based private label suppliers and overseas private label suppliers. This correlation points to the central research question of this paper, which is whether the expansion of cosmetic product manufacturing outsourcing raises cosmetic private label value. Meanwhile, looking at the development of U.S. private label suppliers and overseas private label suppliers, overseas private label suppliers are more famous in the American cosmetic market. Does this mean that overseas private label suppliers benefit more from this wave? If so, what are the reasons for this difference? Based on this set of research questions, this paper selects one representative from each of the local private label suppliers and overseas private label suppliers, i.e. Nardo's Natural and Cosmax, and conducts a comparative case study of the two. The findings show that the expansion of cosmetic product manufacturing outsourcing raises cosmetic private label value and the value of overseas private label suppliers achieved benefits more due to their larger scale, more comprehensive service, and more global strategic perspectives.

Keywords: Cosmetic Product Manufacture Outsourcing, Private label Value, American Cosmetic Industry, Cosmax, Nardo's Natural.

1. Introduction

In recent years, the American outsourcing need for cosmetic product manufacturing has significantly increased. In the meanwhile, with the cost advantage gap among the U.S., Mexico, and Asian countries shrinking, in American industries, the domestic outsourcing strategy becomes popular, which means that American brands can outsource their product production but they should better choose a U.S. domestic outsourcing service supplier (Pearce II, 2014). Under the trend of the American cosmetic industry and the support from the domestic outsourcing strategy, American domestic private label suppliers should have made great achievements in their value increment. But in reality, it's hard to find even one piece of news or academic article talking about it. On the contrary, it's known to all that some Asian private-label suppliers such as Cosmax have done well in the field and reached significant business growth in the American cosmetic market (Dong-hwan, 2024). Thus, it's necessary to discuss whether the expansion of cosmetic product manufacturing outsourcing raises cosmetic private label value and figure out why overseas private label suppliers seem to benefit more from it. Against this backdrop, this paper aims to present the answers to these two research questions based on a comparative case study of Nardo's Natural, the representative of an American domestic private label supplier, and Cosmax, the representative of an overseas private label supplier.

2. An Overview of the U.S. Cosmetic Industry

Looking at the current momentum of the U.S. cosmetics market, it is certain that the U.S. cosmetics market is

expanding and that this trend will continue for the next five years. According to the data revealed by Mordor Intelligence (2024), the market size of the U.S. colour cosmetics market (including beauty and personal care products) will reach USD 93.74 billion in 2024. After this, the U.S. colour cosmetics market will maintain its current growth trend at a CAGR of 2.63% and reach a market size of \$106.74 billion by 2029 (Mordor Intelligence, 2024).

Behind this promising growth are two industry changes that cannot be ignored. One is the increasing demand of Americans for organic, natural, and cruelty-free cosmetic Products (Global Market Insights, 2023; Mordor Intelligence, 2024). With health and wellness being treated as more important than ever before, American consumers are raising their awareness of some of the chemical ingredients in cosmetic products and are increasingly looking for safe, natural, and low-irritant cosmetic products. Simultaneously, in a social and cultural environment of animal protection, U.S. consumers are more inclined to choose cruelty-free cosmetic Products, which means that no animals will get hurt during the product experiments (Global Market Insights, 2023). The other one is the rising demand of American Generation Z for cosmetic products. At present, customers of Generation Z have gradually stepped into their job positions, which significantly raised their purchasing power. Meanwhile, Generation Z commonly cares much about their appearance and beauty, so cosmetic products have been a necessity for them (Destefano, 2023; Mordor Intelligence, 2024).

Against this backdrop, many American cosmetic brands actively invest a lot in research and development and innovate their products to adjust to these industry changes and cater for customers' preferences. During this intense competition, five brands including Estée Lauder, L'Oréal S.A., Unilever PLC, Colgate-Palmolive Company, and Procter & Gamble

Company stood out as industry leaders (Mordor Intelligence, 2024).

3. An Overview of U.S. Cosmetic Product Manufacture Outsourcing

Instead of producing cosmetic products on their own, cosmetic brands can outsource their product manufacture to private labels or contract suppliers. In terms of the former method, private labelling is a relatively more affordable way since the private label suppliers can provide produced cosmetic formulas and products for the clients to sell under clients' names. This **means** if a cosmetic brand chooses this way, it will not need to invest in researching a new formula but just purchase products from private label suppliers and sell them to final customers. On the contrary, cooperating with contract suppliers is more flexible since brands can develop their own formulas and design new products but assign the contract suppliers to produce based on their formulas and product design solutions. It can be seen that cosmetic product manufacturing outsourcing is a cost-effective way for cosmetic brands to expand their production.

Pushed by the prosperous development of the U.S. cosmetic industry, many American cosmetic brands choose to outsource their product manufacture to expand their businesses since this method ensures rapid production and delivery of products (Petruzzi, 2023). On the one hand, Xherald (2023) pointed out that currently, North America is the main region of cosmetic contract outsourcing since countries in this region not only have many mature cosmetic manufacturers and contract service suppliers but also show great demand for cosmetic products. In North America, the U.S. is the biggest market for cosmetic product manufacturing outsourcing and the scale of cosmetic product manufacturing outsourcing in the U.S. is also widening (Xherald, 2023). On the other hand, Latest Tech. and Trends Insights (2024) came up with the point that by 2023, the private label cosmetic market will have reached a value of USD 8.58 billion and will grow at the rate of 7.2% in the next eight years. Under this global trend, U.S. cosmetic private labelling also has a great chance to go further. Especially, in recent years, the cosmetic manufacturing outsourcing market has fluctuated intensively due to the economic environment, the Covid-19 pandemic, and geopolitical wars in Eurasia. Out of the consideration of cost and risks, easier and cheaper private labelling may be the mainstream of cosmetic production outsourcing (Latest Tech. and Trends Insights, 2024).

4. Case Study

4.1. The Growth Road of Nardo's Natural

The company was founded in 2009 by four brothers, Kyle, Danny, Keith, and DJ Mastronardo, and within two years of starting the business, its sales volume reached \$30,000 (The Mentors, 2019). 15 years later, Nardo's Natural Beauty is now doing \$6.8M in turnover and has grown from four brothers to 45 employees. However, even though Nardo's Natural benefits more from the above-mentioned "insourcing incentives", compared to Cosmax, the leading private label supplier in the global cosmetic product manufacture outsourcing industry, which has a market share of more than 20% of the US cosmetic outsourcing market with more than 6556 employees, Nardo's Natural can be considered to be lagging far behind. Therefore, this section will compare

Nardo's Natural and Cosmax in order to analyze the reasons for such a huge difference in their development and answer the question of whether the expansion of cosmetic product manufacturing outsourcing raises American domestic cosmetic private label value.

One of the most pivotal points in the growth of Nardo's natural was when the Nardo brothers chose to participate in the entrepreneurial reality TV show "Shark Tank". In this reality show, the Nardo brothers successfully attracted Barbara Corcoran to invest in their business by promoting their entrepreneurial story and natural, handmade beauty products. Corcoran invested \$75,000 for a 50 per cent stake in Nardo's Natural, which became the first pot of money for the brand's continued growth and expansion (Spears, 2024).

With Barbara Corcoran's team on board, Nardo's Natural took a series of actions to pave the way for its success. First, it conducted an in-depth analysis of competitors' products to identify its core competitive advantages (Small Business Trends, 2012). Secondly, it changed its labelling, and packaging and cut back on its product line to focus more on its core "Fouever Young" natural skincare set (including a cleanser, mask, moisturiser and lip balm) (Small Business Trends, 2012). Finally, following the advice of Barbara Corcoran's team, the small family business model was abandoned in favour of outsourcing to a contract supplier in the area where the company is located to produce the products (Small Business Trends, 2012). In other words, at the initial stage of the business, Nardo's Natural did not have the ability to produce on a large scale, and therefore could not act as a private label provider, but rather was a general beauty company that sold its products on an outsourced contract basis for profit.

After appearing on Shark Tank, Nardo's Natural gained a lot of exposure. Statistics showed that within 24 hours of the show's airing, its website received more than one million hits and more than a hundred orders for its products (Small Business Trends, 2012). With the order increasing and the profits from product sales expanding, Nardo's Natural has built a complete product manufacturing plant and order fulfilment centre. The product range was further expanded from organic skin care products to natural cosmetics, such as foundation, lipstick, mascara, eyeliner, and BB Cream. The business model has also changed to the current two-tier system of offering private label services to other cosmetic brands while selling its natural products directly to the customers (Hopkins, 2023). When it comes to private label service, Nardo's Natural is very customer-friendly, offering free label design and customised packaging (Hopkins, 2023). In other words, if a cosmetic brand chooses to work with Nardo's Natural, all it has to do is sell the products customised by Nardo's Natural and advertise its brand.

4.2. The Expansion of Cosmax Business

If we compare Nardo's natural with Cosmax, we can draw a very superficial conclusion that, with the increasing scale of outsourcing in the US cosmetic industry, Cosmax private label value achieves a much higher lift than Nardo's natural by a much greater margin.

Like Nardo's natural, Cosmax was very small in the early days of its business, with only four employees. Since then, however, it has grown much faster than Nardo's Natural, with 6,556 employees and \$1.383 billion in cosmetic sales by 2020 (Park, Hong, & Shin, 2023). Cosmax has crushed Nardo's

natural in terms of both the number of employees and sales. Even though Cosmax only entered the U.S. market in 2013, a full four years after Nardo's Natural was founded, Cosmax has now captured over 20% of the U.S. market share in the sunscreen segment (Cosmax, 2024). Behind this success is Cosmax's more global strategy. The first thing that has to be mentioned is that Nardo's Natural has mainly adopted a localised strategy, focusing on local customers in the US, thus limiting its revenue stream to the US territory. In contrast, cosmax entered the Chinese market quickly after its establishment in South Korea. At the time of its entry, China's beauty market was just beginning, and this first-mover advantage provided it with unprecedented opportunities and benefits. After its success in China, Cosmax continued to cater to the needs of American consumers through innovation and strong productivity and production efficiency through the acquisition of factories and equipment, the establishment of new factories, the establishment of R&D centres, and the acquisition of NuWorld, a top3 beauty company in the U.S. Cosmax eventually gained a firm foothold in the U.S. beauty outsourcing industry (Park et al., 2023). As the scale of outsourcing in the US cosmetics industry has increased in recent years, Cosmax's private label value has grown significantly, and it is now a major private label supplier to Estee Lauder and Stila (Park et al., 2023). Despite the significant fluctuations in its US revenues due to the epidemic, its US annual earnings are expected to further improve to be closer to pre-event levels in 2024 based on projections after it has rapidly adjusted its strategy (Mirae Asset Securities Research, 2024).

To sum up, comparing with Nardo's natural, we seem to verify once again that the expansion of cosmetic product manufacturing outsourcing contributes to the increment in cosmetic private label value. Nevertheless, in the wave of American cosmetic product manufacturing outsourcing, foreign private label suppliers are more advantaged and their private label value grows much faster than that of the top local private label suppliers, such as Nardo's Natural.

4.3. Explanation of the phenomenon

So why do non-American private suppliers benefit more than domestic ones with the expansion of cosmetic product manufacturing outsourcing? By comparing these two representative suppliers, we can get the following possible reasons.

On the one hand, although the US insourcing policy can inject a competitive advantage to local private label suppliers through policy support and encourage local beauty brands to choose local private label suppliers, it is difficult to push these suppliers to export their private label services. This is mainly due to the high value of the U.S. currency, which makes U.S. private label services more expensive than those exported from other countries. As a result, foreign private label suppliers can earn large profits from the US and other countries or regions, while domestic private label suppliers can only rely on locally generated profits. This huge difference in profitability leads to foreign private label suppliers being able to invest more in R&D and production, thus providing better service and greater production volume to US beauty brands that need to outsource their production. Naturally, it is difficult for local private label suppliers to reap the same benefits as foreign private label leaders in the competition of the American cosmetic industry. This is especially true at a time when outsourcing in the U.S. beauty

industry is expanding since the more outsourcing is demanded, the more foreign private label suppliers are in a position to meet these diversified demands and thus achieve higher incremental private label value.

On the other hand, Cosmax can provide more comprehensive services to its customers due to its larger scale and far greater number of talents than Nardo's Natural. For example, Cosmax advocates proactive service, i.e., thinking from the customer's point of view about what the customer needs and providing it to the customer proactively, rather than waiting for the customer to come up with a need for the service and then trying to fulfil it. Under this model, Cosmax is not only able to provide basic outsourcing services such as product delivery and product innovation but also to prevent or completely solve problems that may arise during the process of receiving services by continuously improving IT systems (Cosmax, n.d.). This has led to a much higher level of customer satisfaction with Cosmax than with other private-label suppliers (Cosmax, n.d.). Nardo's Natural has a very good service, such as free label design and packaging, as mentioned above. However, its service is more basic than Cosmax, and it cannot cover the full range of customer needs and lacks sufficient initiative. This difference in scale and service concept makes overseas private label suppliers, especially Cosmax, gain more positive spillover from cosmetic product manufacturing outsourcing expansion.

5. Conclusion

In conclusion, the above introduction and case study uncovered the fact that the expansion of American cosmetic product manufacturing outsourcing truly can enhance cosmetic private label value. With the demand for outsourcing going up, American domestic private label suppliers naturally benefit from this significant industry trend but compared with overseas private label suppliers, domestic private label suppliers benefit less due to the smaller scale, the narrower scope of services, and the different development direction based on reality constraints. In this way, if upholding the opinion that we should protect domestic private label suppliers and let more private label outsourcing orders remain in the territory of the U.S., we'd better make efforts to fill the gaps listed above between domestic private label suppliers and overseas ones and that's what the future research should explore more in-depth.

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