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Can Lipstick Save An Economy?

According to reports by Euromonitor, an unexpected increase in the sales of a single commonplace item has been observed at different times in different parts of the world. In the US in 2001, in Japan in 2011 and in Malaysia in 2009—all periods where these countries were experiencing hard economic times.

The item in question is lipstick, sales of which have consistently increased during times of recession. During the 2008 economic downturn, global cosmetic brand, L'Oreal, grew by 5.3% due to increased sales of lipstick.

The term "the lipstick effect" was first coined by the chairman of Estee Lauder, Leonard Lauder. His theory states that during economic downturns the consumption of big-ticket items such as cars, real-estate, and long-distance vacations becomes limited, which creates a demand for smaller items to create a limited luxury feeling. His theory was based on make-up, but it can apply to many other items as well.

So, while an economic downturn is a threat for companies, it also brings opportunities. How can companies optimize this?

Let's start by looking at consumer reactions in a time of recession.

Decrease on consumption of durables

At the beginning of an economic downturn its length and depth cannot be known. The first reaction by consumers is a sharp reduction on high ticket items. They tend to stop buying new cars, changing houses, renewing furniture, etc, instead postponing these purchases until there is more clarity.

Changes in consumption patterns

The second reaction normally seen within 3 to 6 months is a change in consumption patterns, such as switching to new shopping channels such as discount stores. They also tend to switch to supermarket own-brand labels.

Changes in consumer behaviors

Consumers become more rational and sensitive to price, looking for more information and comparisons before making a purchase. And they tend to stay at home more rather than planning outside activities.

So, how should companies respond?

Do not compete on price only

Competing on price with private labels or lower quality brands is one of the biggest mistakes that companies make. Relying on heavy promotions will mean your consumers focus only on price, which is a losing battle long-term for a strong brand whose strengths are image, quality and innovation.

Improve segmentation and re-size your offer

Understanding your consumers and creating a bigger segmentation is key to overcoming the negative effects of a downturn. Instead of focusing on price promotions, companies can focus on creating new offerings and more value for consumers with a combination of design, service and variety.

Focus on innovation

Focus on innovation and your brand has more chance of winning the battle. Offer consumers a totally new experience that others are not.

Although periods of economic downturn change consumer behaviors, expectations and spending patterns, there are still ways to overcome the challenges.

As seen in the lipstick effect, consumers only need small adjustments to start spending.

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