

## Contemplating Cash: Matte Beauty LLC

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Caroline Wiedenman Glackin is an entrepreneurship educator and author. She co-authored Mariotti and Glackin, *Entrepreneurship, 5e*, and has published broadly in entrepreneurship. She is the Associate Editor for Entrepreneurship for *IJIC*, is an Editorial Board Member for *Entrepreneurship Education and Pedagogy*, and a reviewer for the *CASE Journal*. Several of her case studies have won awards and she enjoys working with new case writers. Dr. Glackin holds an A.B. from Bryn Mawr College, an MBA from The Wharton School, and a PhD from the University of Delaware. She is an Associate Professor of Entrepreneurship at Fayetteville State University.

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Complete but unfinished. That's how Taneisha Chandler felt about her work. She was wrapping up her junior year as an entrepreneurship student at Fayetteville State University when she completed the financing plan for Matte Beauty LLC. Taneisha had worked on her idea for a new, natural, fresh, and affordable cosmetic line for women of color over several years. She produced the initial products at home from natural ingredients and tested them on herself and friends. Taneisha took advantage of every entrepreneurship class to further explore the idea until she was certain she had identified an opportunity with solid potential for sustainable success. Yet, after developing her projected financials and financing strategy, Taneisha wasn't satisfied that her approach was the best it could be.

Matte Beauty was different from most cosmetics companies for several reasons, the primary one being the channel of distribution. Taneisha selected the direct selling channel with online options after reading a case study about Traci Lynn Jewelry and hearing the CEO of another direct selling organization discuss the benefits of the channel in terms of reduced personnel overheads and advantageous cash flows. Because the direct selling salesforces of these companies consisted of thousands of independent sales representatives, the companies only paid commissions on sales after they were made with no ongoing wage or benefit costs for the representatives. Also, customers paid for the purchases at the time of ordering, typically via credit card, so that accounts receivable were eliminated. At a small operating scale, inventories were able to be produced to order, keeping finished goods inventories at a minimum.

Direct competition for Matte Beauty in the direct selling channel was limited but well established. The Beauty and Personal Care sector of the U.S. direct selling channel totaled \$5.5 billion in retail revenue in 2018, accounting for 15.6 percent of channel revenues (DSA, 2019). Dudley Beauty Corp, a 53-year-old supplier of haircare products for primarily African American customers was the direct competition, although they were best known regionally and to a more mature demographic. Avon and Mary Kay were both publicly traded direct sellers of cosmetics with products for women of color in their product lines. Overall, the Cosmetic and Beauty Products Manufacturing Industry (NAICS 32562) in the United States was characterized by high levels of competition. There were 4,020 businesses in the industry generating \$49.5 billion in revenue and \$3.5 billion in profit with 36.0 percent (\$17.8 billion) in cosmetics (Hiner, 2020).

Matte Beauty was developed to enhance beauty and self-confidence for women of color, primarily those between 30 and 65 years old. Initial products included makeup for lips, eyes and faces that covered up blemishes and scars and boosted the natural beauty of the

wearer. In addition, Matte created makeup kits for consumers and sales kits for its direct selling beauty consultants. These products were sold online and directly through Matte's network of independent beauty consultants and distributed from its base in Charlotte, North Carolina.

For her financial projections, Taneisha divided her sales into four categories: sales kits, memberships, non-member sales, and member sales. Sales kits were designed for Matte Beauty's independent beauty sales consultants to purchase and use to market Matte Beauty products. Each consultant purchased an enrollment kit according to their interest and capacity. Consumers paid annual membership fees to get product discounts without becoming consultants and building a business. All sales to non-members (regular consumers), online and through consultants, were included in one category while sales to paying members were added into the other. Non-members paid full retail price while members had discounted pricing. This breakdown was typical of the revenue streams for direct selling organizations.

As she reviewed her financial projections, Taneisha reconsidered some of her critical assumption. She planned on start-up costs of approximately \$506,000 to establish a modest-sized manufacturing facility and warehouse in Charlotte and build Matte Beauty. Her financing plans included savings, friends and family contributions, and an angel fund investment totaling \$500,000. Specifically, she projected an investment of \$200,000 from IMAF Charlotte in return for a 40 percent share of the company. These funds were paired with a community development loan of \$250,000 for 10 years at 6 percent interest. Taneisha saw that her startup costs were considerably greater than her initial projections and required longer to acquire. She wasn't confident that she captured the cash flow benefits of her chosen distribution channel. With only a year until graduation, Taneisha wanted to find a way to start generating revenues from Matte Beauty sooner rather than later.

## References

Direct Selling Association. (2019). 2018 Industry Overview. Retrieved from, <https://www.dsa.org/statistics-insights/factsheets>

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