



Beyond Headlines



EDITION 5

THE LIPSTICK INDEX

FINANCE AND INVESTMENT CELL
SHRI RAM COLLEGE OF COMMERCE

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INTRODUCTION

Imagine your country facing an economic downturn. Spending declines across sectors, yet an intriguing consumer pattern emerges. Consumers have turned to small, inexpensive treats as a substitute for large, unaffordable purchases. These inexpensive treats are neither ornaments nor apparel, but something as common as lipstick

When money gets tight, people don't just stop wanting things; they start wanting different things. The Lipstick Index, a term Leonard Lauder introduced in 2001, captures this odd twist. In the fall of 2001, Estée Lauder's lipstick sales rose 11% following the 9/11 attacks.

Instead of going after expensive luxuries, people chase after small indulgences such as lipstick. So, it is not just about vanity, but more about holding onto a sense of control by finding a way to feel optimistic without finding yourself in a budget deficit. Thus, the idea is that expensive desires shrink, but small treats surge. What started as a quirky observation now stands as a serious economic signal. The Lipstick Index has evolved, armed with data, real sales numbers, and analytics. It transcends metaphor; it becomes a lens through which one can discern the collective psyche of consumers during periods of economic distress.

In an international survey by Deloitte across 23 countries, over three-quarters of consumers said they had made a "treat-yourself" purchase in the past month. However, only 42% said they could afford to, indicating that "small indulgences" remain significant even when budgets are tight.

WHY LIPSTICKS? THE PSYCHOLOGY OF SMALL CONSUMERS



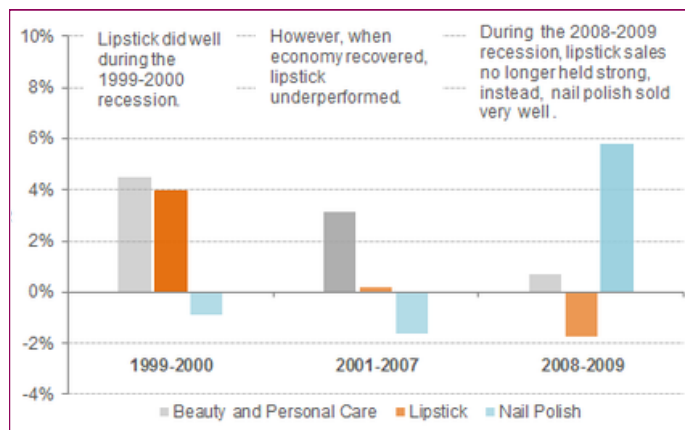
Economists have always known that people aren't cold calculators. In times of uncertainty, emotions become a defining force in decision-making, and the simple act of purchasing lipstick during an economic downturn transforms into a quiet gesture of defiance. Behavioural economists call this the "micro-resilience effect." When people are unable to fulfil their insatiable desires, they reach out for affordable items that act as symbols of stability.

Such purchases arise from a deeper desire for emotional gratification. When people are constantly reminded to stay within their budgets, these small items act as quiet yet persistent symbols, reassuring them that hope, though diminished, remains. These small items can vary from lipstick, a fancy coffee, to any other premium skincare item.

Lipstick index not only reflects what is being sold in the market, but it also projects a public check on the public mood and behaviour in the markets.

DEEP DIVE INTO THE DATA

In 2008, while the world economy collapsed, Estée Lauder and L'Oréal saw their sales in certain products take off. During the 2008 global recession, while consumer spending fell by over 8% overall, Estée Lauder's lipstick sales rose 11%.



Let's break down the psychology behind this phenomenon. This data point best illustrates the lipstick index: the 8% decline reflects consumers' initial reaction to the recession, while the subsequent 11% increase in lipstick sales suggests that such purchases serve as a coping mechanism. A recession stirs not only financial strain but also emotional distress. In such times, lipstick becomes a small yet meaningful indulgence, offering consumers the joy of a new product without placing a heavy burden on their wallets. Moreover, wearing lipstick can boost self-esteem, helping individuals navigate the emotional turbulence brought on by economic downturns.

How companies leverage this index:

Companies that recognise the emotional side of spending come out ahead during downturns. The Lipstick Index gives them an early heads-up; people are shifting from flashy spending to private comforts.

Luxury brands and FMCG players use the Index to:

1. **Fine-tune Product Lines:** Spotting the "downshift" early lets them ramp up entry-level products.
2. **Predict Recovery:** When lipstick sales rebound, it's usually a sign that hope is returning, often before the official economic numbers catch up. Companies then know when it is time to reduce excessive lipstick supply and divert resources elsewhere.

STRATEGIC AND POLICY IMPLICATIONS

For Businesses:

When executives bring behavioural analytics into their strategy, they can adjust promotions, pricing, and product launches in sync with the mood of the moment. This will help them gain a competitive edge over companies that are not taking such factors into consideration, eventually leading to profits and increased market share.

For Investors:

Tracking micro-luxury trends gives investors an edge. An increase in lipstick sales indicates economic slowdown, and a decline indicates economic growth. Taking these factors into consideration can help investors make smart investment decisions. This will help take calculated risks when moving money in consumer discretionary stocks.

For Policymakers:

Unconventional signals like the Lipstick Index add another layer to the usual economic data. They can spot swings in consumer stress or confidence before the big numbers, such as the CPI, GDP shift. This insight into consumer behaviour can help influence the formation of monetary and fiscal policies.

GLOBAL VARIATIONS, CULTURAL AND GENDER NUANCE

The Lipstick Index pulls people in because it feels universal, but that's also where it stumbles. What counts as a "little luxury" depends on where you are. In Asian countries, the demand for skincare is higher compared to cosmetic products, fueled by a need to have acne-free and youthful skin. Meanwhile, in Western countries, cosmetic products still rule, with a smoky eye, glittery eyelids or bold red lip being a form of self-expression.

In emerging economies, particularly countries in Latin America and the Middle East, people turn to haircare or fragrances. This demand exists due to higher disposable income, urbanisation and an expanding middle-class population. These aren't just small treats, but they're practical, they fit into daily life, and they still let people dream a little.

In the U.S., high-end lipstick sales rose 49% from April to May 2024, up 27.7% from the previous year.

Contrary to the lipstick index, where the demand for a product rises during times of economic crises, the demand for men's underwear decreases, as it is an unseen item.

The purchase of a product like such can be delayed so as to save money to invest in other things they consider essentials.

CONCLUSION

The Lipstick Index is a reflection of a consumer's psychology during uncertain times in the global economy. It provides us with useful insights into how tiny choices and decisions reveal big truths, revealing how humans cope in different times and further stands as a true testament in proving that humans are not robotic calculators. So, the next time a boost in lipstick sales is observed during uncertain times, it's important to remember that it is not about protecting one's beauty but a classic case of consumer psychology where it stands as a sign of resilient consumers unexpectedly coping with life.

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APPENDIX

Is it time to reassess the “Lipstick Index”?

Lipstick index: Adobe sees consumers covet high-end cosmetics while pinching pennies with groceries

What is the lipstick index, and why is it so important right now

The Lipstick Index: Kissing A Strong Economy Goodbye

The Lipstick Index