SMARTER PERSPECTIVE: COSMETICS & BEAUTY

The U.S. Cosmetics and Beauty Industry: Steady Growth, Shifting Loyalty, and What It Means for Lenders

By Gary Dressler

August 2026

The State of the U.S. Cosmetics Industry: Steady Growth, Shifting Loyalty, and What It Means for Lenders

After a stretch defined by pandemic-era surges, viral product cycles, and a subsequent hangover of overvalued brands and underwater investments, the beauty industry has settled into something closer to a mature consumer category. Growth is real, but it is no longer explosive. Competition is intensifying. And the businesses attracting capital right now are not the ones with the best marketing story; they are the ones that can prove their numbers hold up under scrutiny.

Overview

Prestige beauty sales grew 6% to $8.1 billion in the first quarter of 2026, while mass retail climbed 7% to $18.1 billion, the first time in five years that prestige and mass have moved at nearly identical rates. That convergence is itself a signal worth sitting with. For most of the last decade, prestige outran mass by a wide margin, driven by premiumization and a shopper willing to trade up. Now the two channels are growing in tandem, which suggests something more structural than a single quarter's noise: consumers are shopping both ends of the shelf at once, chasing routines that feel affordable in some categories and elevated in others. Fragrance, facial skincare, hair treatments, and everyday personal care products, the things people reach for as small, repeatable acts of self-care, are carrying most of that growth.

Skincare and Fragrance

Skincare remains the category's most dependable engine, and increasingly its most scientific one. Clinical, science-backed brands now capture more than a third of category dollars, which tells us something important about where consumer trust is heading. Shoppers are no longer satisfied with a compelling ingredient story; they want evidence the product works, and they are willing to pay a premium for it. Makeup, by contrast, is still searching for its next real catalyst. Dollar sales edged up modestly in the first quarter while unit volume actually declined, particularly at mass retailers, though lip products and blush held up well. It is the one major category where innovation has been more incremental than transformative, and it shows in the numbers.

Fragrance is the standout of the moment, posting double-digit gains in both luxury formats and travel-size minis, which is a curious pairing until you think about how differently consumers are using scent today. They are trading up for special occasions and trading in for everyday trial, sometimes in the same shopping trip. The broader market context supports this picture of a mature but still-expanding category. The domestic beauty and personal care market sits at roughly $107 billion this year, with growth expected to settle into the low single digits annually over the next several years, a trajectory that looks nothing like the breakout years of the early 2020s and everything like a category finding its long-term ceiling.

The New Growth Story

Online and social commerce are no longer supplementary channels. They have now become where discovery and purchase increasingly converge. Beauty is the leading category on TikTok Shop, and the platform, which launched only in late 2023, already accounts for roughly a tenth of total beauty e-commerce sales industry-wide.

AI-driven product matching and virtual try-on tools are a big part of why that channel has scaled so quickly. Shoppers can now point a phone camera at their own faces, get a shade match generated in real time, and check out without ever leaving the app. Brands that have invested early in those interfaces are seeing it show up directly in conversion rates.

We have watched enough consumer categories go through this kind of channel shift to know it rarely stays contained to marketing budgets. It reshapes inventory planning, working capital timing, and increasingly the collateral profile lenders are underwriting against, since a growing share of a brand's most bankable assets now sits in social receivables and platform relationships rather than traditional retail shelf space.

Also worth noting, growth is increasingly coming from higher-income households, while spending among lower-income shoppers is softening. Club and dollar channels are gaining share as budget-conscious consumers stay in the category rather than leave it, while Amazon continues to expand its beauty footprint through new brand partnerships. For a business built around a single retail channel or one income band of consumer, this uneven growth is a real demand risk, not just an abstract trend.

That same unevenness shows up inside individual retailers, not just across channels, and it complicates the usual assumption that big-box automatically means value. Walmart has added dozens of prestige beauty brands over the past year to court higher-income shoppers, even as it stays the default value destination for budget-conscious households buying in bulk. Costco is doing something similar, leaning into bulk fragrance and cosmetics for a membership base that skews affluent, while dollar and club channels keep gaining ground with value-focused shoppers. Amazon is pulling both levers too, growing its premium beauty store while still serving as the easy option for everyday replenishment. Growth is showing up at both ends of the price spectrum, and the middle is what's under the most pressure.

Capital Markets Implications

None of this is happening in a vacuum for the people who fund it. Capital markets have gotten considerably more disciplined about what they will support. The freewheeling investment era of 2020 through 2023, when a compelling narrative could substitute for operating fundamentals, left a fair number of narrative-driven bets underwater, and investors have responded by demanding proof rather than promise. The next wave of deal activity, expected to pick up this year as private equity sponsors face pressure to return capital and strategic buyers re-enter the market, will concentrate around skincare and haircare, the categories with the clearest growth trajectories and cleanest exit paths. Fragrance, despite its current momentum, faces more skepticism about long-term

durability, while cosmetics continues to produce interesting newcomers even as persistent questions about differentiation keep deal volume muted there.

That same selectivity is reshaping the ownership structure of some of the industry's largest portfolios. Coty, which built out a sizable mass color cosmetics business over the past decade, launched a strategic review this year that could lead to the sale of brands including CoverGirl, Rimmel, Sally Hansen, and Max Factor, as the company redirects investment toward its core, higher-margin fragrance business. It is not the only strategic player retrenching. Estée Lauder has been exploring the sale of Too Faced, Smashbox and the K-beauty brand Dr. Jart as part of its own turnaround, and Kimberly-Clark's planned acquisition of Kenvue has left the future of Kenvue's beauty brands, including Neutrogena and Aveeno, unresolved. The pattern is consistent across all of these situations: companies that expanded aggressively through acquisition during the last growth cycle are now paring back to the categories where they hold the clearest competitive advantage, which is creating a steady supply of carve-out opportunities for buyers and lenders willing to underwrite standalone brands separated from a larger parent.

Personalization is the connective thread running through nearly every part of this shift. What started as novelty tools, quiz-based skincare recommendations, and augmented reality makeup filters is turning into genuine infrastructure. Brands are using AI to translate diagnostic data, a skin scan, a fragrance preference survey, and a purchase history into individualized regimens at scale, and the ones doing it well are managing to do so without making the experience feel clinical or cold. That balance is becoming one of the clearer differentiators between brands that hold consumer loyalty and brands that lose it the moment a competitor undercuts them on price.

Supply Chain Risks

Trade policy is the risk that shows up first in conversations with manufacturers and contract producers, and for good reason. The USMCA, which replaced NAFTA in 2020, governs $1.9 trillion in annual trilateral trade between the U.S., Mexico, and Canada. The trade agreement includes a mandatory six-year review process. On July 1, 2026, the critical deadline for all three countries to unanimously extend the pact for another 16 years, the United States declined to renew it in its current form. This outcome triggers annual joint review processes until the parties agree to extend the agreement or until it expires on July 1, 2036. In the meantime, the agreement remains fully in force, and all current USMCA rights and obligations – including preferential tariffs, rules of origin, and dispute settlement – remain operative.

For the cosmetics industry, this outcome matters significantly. Mexico is a critical sourcing and manufacturing hub for North American cosmetics. The USMCA's rules of origin requirements, which determine the percentage of a product's content that must originate in North America to qualify for duty-free treatment, directly affect supply chain economics and pricing. Prolonged uncertainty could push cosmetics companies to diversify sourcing away from Mexico, disrupting ingredient procurement and increasing compliance costs.

Separately, Mexico's decision to raise tariffs on imports from Asian countries has already pushed up production costs for companies using Mexico as a North American manufacturing hub, with early estimates suggesting increases in the range of 15 to 20% for firms that cannot pivot suppliers quickly. Companies moving fast to diversify sourcing toward Latin America or Europe are managing to hold those increases closer to single digits, but speed matters here in a way it has not in years past.

What is, perhaps, more concerning than tariffs themselves is what tends to happen after a company reacts to them. When brands shift sourcing away from higher-tariff regions under time pressure, they often move into supplier relationships that have not been fully vetted, trading a known cost problem for an unknown quality or fraud problem. This is a historical pattern we have seen play out in other consumer categories undergoing rapid supply chain reconfiguration. Beauty's supply chain is particularly exposed to it, however, given how many specialized raw materials and formulation inputs have limited alternative sources.

There is another warning sign worth watching closely; one that shows up well before it reaches a P&L– payment behavior further up the supply chain. Rising Days Beyond Terms, the measure of how much later than agreed a company pays its own suppliers, is an early tell of liquidity strain, and we are seeing it start to climb across parts of the beauty manufacturing base. Beauty's calendar of seasonal launches, from Lunar New Year to summer travel kits and holiday gifting, places recurring stress on cash flow that steadier consumer categories do not typically face. Brands stretching supplier payments to manage that type of seasonality are often the same ones that will need real flexibility from their lenders when the next launch cycle hits.

Where Lenders Can Add the Most Value

For asset-based lenders financing this space, the seasonal, launch-driven nature of beauty cash flow argues for structures that flex with the calendar rather than apply a flat formula year-round. Building advance rate flexibility around known production and shipping peaks reduces the odds that a borrower trips a covenant during what is actually a normal seasonal build rather than a sign of distress.

Supplier concentration deserves the same scrutiny lenders already apply to receivables. A borrower with a diversified base of packaging and ingredient suppliers, and a documented contingency plan for its most tariff-exposed inputs, is a meaningfully different credit than one with a single point of failure two tiers down its supply chain, and tracking how a borrower's key suppliers are being paid, not just how the borrower's own customers are paying it, can surface stress months before it shows up in a borrowing base certificate.

It is also worth building digital and social commerce metrics directly into the way a beauty credit is evaluated and monitored. A brand's TikTok Shop conversion rate, its repeat purchase rate through an AI-personalized subscription model, or its virtual try-on engagement numbers are increasingly leading indicators of the same demand that eventually shows up in a borrowing base. Lenders who build relationships with borrowers around this data early, rather than waiting for it to appear in quarterly financials, are better positioned to spot early indicators of both opportunity and stress before either becomes obvious.

The wave of portfolio pruning among the larger strategic players is worth watching from a lending perspective too, not just an M&A one. As companies like Coty and Estée Lauder shed non-core brands, those assets do not disappear; they change hands, often to smaller, private equity-backed operators who will need working capital financing structured around a standalone brand rather than a parent company's balance sheet. That creates real opportunity for lenders positioned to underwrite a carve-out quickly and understand which parts of the divested business, from supplier contracts to retail relationships, actually transfer cleanly.

Lastly, the shift toward a greater focus on product fundamentals over trend-forward or "sexy" brand narratives, which is reshaping the investment side of this industry, should inform underwriting on the lending side as well. Borrowers who can point to consistent, documented e-commerce and retail performance, credible margins, and genuine product differentiation are best positioned to weather a tariff-disrupted year and refinance successfully when the time comes. For lenders willing to look past the marketing layer and engage directly with how a borrower is using data and technology to drive real demand, that closer read is making it easier to separate durable businesses from the next round of questionable bets before the capital goes out the door, not after.

GARY DRESSLER
SENIOR DIRECTOR
VALUATION & APPRAISAL
PROFESSIONAL SERVICES

Gary can be reached directly at gdressler@hilcoglobal.com.