

# Caso natura harbard narrative



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BUSTER**

Guilherme Leal, and Pedro Passos, the three men responsible for founding and growing the Brazilian company Natura, walked through Red Square in Moscow. They were headed to a nearby business center to monitor focus group discussions designed to help them decide if Natura, the largest direct sales beauty company in Brazil, should invest in Russia.

Natura had come a long way since it was founded by Seabra as a small store in Sao Paulo, Brazil in 1969. Although sales outside Brazil still constituted only 3% of its total revenues, Natura had grown its international operations in recent years. The company had recently established a new direct-selling operation in Mexico, and Venezuela and Colombia were likely to join Natura's portfolio in coming years. The company had just opened a flagship store in Paris, the very heart of global fashion and home to L'Oreal, the world's largest beauty company, and was actively seeking other growth opportunities worldwide.

Natura's international development was met with mixed reviews from industry analysts and investment bankers. Some perceived the development as blind ambition on the part of the company's founders, while others viewed it as a carefully thought-out growth strategy. Even among Natura's senior executives there were differences in opinion on the optimal business model or regions for expansion. Possibilities for growth included moving to Internet sales, selling products in duty-free shops in airports, and creating retail chains in certain countries.

The executives were strongly inclined to keep international investments relatively low until a final decision was made. In 2005, after an initial public

offering (IPO) the previous year, Natura had become Brazil's biggest domestic cosmetics company, with expected gross revenues of around US\$1.5 billion. 1 Natura, considered one of the best brands in Brazil, was a leading company in the sustainable use of Brazil's biodiversity and was known as one of that country's best employers. However, Seabra, Leal, and Passos knew that their proven ability to face global competitors in their own market was no longer The term " biodiversity" as used in this case refers to the diverse plant life found in Brazil. In general terms, biodiversity is defined as the variety of life in all its forms, levels, and combinations in a given habitat. It also includes ecosystem diversity, species diversity, and genetic diversity.

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\_\_\_\_\_ Professor Geoffrey Jones and Senior Researcher Ricardo Reisen de Pinho of the Latin America Research Center prepared this case. HBS cases are developed solely as the basis for class discussion.

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industry was forcing smaller companies to be even more aggressive in developing new product lines, segmenting existing markets, and challenging the previously strong borders between the mass and prestige sectors. However, despite the well-dressed Russian women walking past them in Red Square, the three founders wondered what this country would have in common with their home market, known for its luxuriant Amazon Forest, warm tropical beaches, and an ethnically and culturally diverse population. Beginning with its Cyrillic alphabet, almost everything was initially beyond our understanding,” Leal remembered. As they approached the door to the business center, many thoughts crossed the minds of the Brazilians. Natura, they felt, was a unique company with a growing vision for humanity. Would globalization facilitate the achievement of this vision or prove the ultimate undoing of the company? Was the company ready to build a global business? Was Russia a step too far? The Brazilian Beauty Market Regardless of culture, geographical location, or era, beauty had always created significant economic and social advantages.

Economists agreed that there was a beauty premium: physical attractiveness, which could be enhanced by products of the beauty industry, appeared to exercise a major impact on individual lifestyles, ranging from the ability to attract sexual partners to lifelong career opportunities and earnings. <sup>2</sup> The modern beauty industry was established during the late nineteenth century, as social attitudes toward the use of cosmetics became more favorable and as branding strategies and mass production began to be applied to the former craft industry. In 2004, beauty was a US\$231 billion global business, with compound annual growth rates (CAGRs) close to 5%

since 1999. 4 It appeared largely recession-proof. This growth had been driven by aging baby boomers in Western countries with higher amounts of disposable income and growing middle classes in developing countries such as Brazil (see Exhibit 1 for sales of cosmetics and toiletries by major markets). Preteen girls, metrosexuals, and seniors all offered huge future growth potential.

Brazil was the fifth-largest country in the world in terms of area and as of 2005 held 20% of the planet's biodiversity, mainly located in the Amazon region in the northern part of the country. 5 It had a total population of 180 million and gross domestic product (GDP) that ranked 10th in the world. 6 Approximately 80% of its population lived within 350 kilometers of the coast, with the majority of its 47 million households (83% of the population) located in urban areas. The diverse Brazilian population resulted from the Native American, Portuguese, and African groups (the country's original inhabitants, colonizers, and slaves, respectively) and massive immigrant waves of job-seeking Europeans