

A strategic analysis of estee lauder



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In the world of business today, where competition is one of the major challenges that every organisation is facing, the need for strategic planning and analysis arises. These are essential for the survival of an organisation as well as determining the direction in which an enterprise is going in relation to its environment in order to achieve a competitive advantage by formulating a competitive strategy. It is important that an organisation grabs every opportunity that is coming along its way, and responds to any risks and limitations presented by the external environment.

In order for an organisation to make and take correct decisions, it requires an understanding and knowledge about the impact the environment can have on the organisation. This is strategic management. It is therefore important not only to look at what is best for the organisation, but also to take the needs of shareholders into consideration. For effective strategic management, it is important to have a strategic analysis. The reason for an analysis is because; the issues that are "being analysed are often quite complex" even if there may be enough information available Fleisher. C & Bensoussan . B (2002).

This study is organised as follows; Chapter two defines important terms which will help in the further understanding of this study. Chapter three introduces the company Estee Lauder. Chapter four evaluates the strategic analysis of Estee Lauder by looking at techniques, models and processes, and chapter five concludes.

Chapter 2

Strategic Analysis

This is where a strategy is formulated by carrying out a research on the organisation and the business environment in which the organisation operates (BNET Business Dictionary.)

However, Professor Les Worrall defined it as, "...a theoretically informed understanding of the environment in which an organisation is operating, together with an understanding of the organisation's interaction with its environment in order to improve organisational efficiency and effectiveness by increasing the organisations capacity to deploy and redeploy its resources intelligently."

2. 1 Strategic model

Managers must take in to account three major factors when strategic decisions are made;

The shareholders expectations and objectives - it is important that organisations are clear about their long-term objectives. However, due to factors that an organisation does not have any control over may influence the organisation to change its objectives, thus conflicting with the shareholders. Therefore, management must know how to reconcile the shareholders expectations while setting the objectives of the organisation.

Available resources for an organisation to achieve its objective - Depending on the strengths and weaknesses of organisations resources, the firm can pursue its strategies. However, these may change with the prevailing environment.

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Total environment within which the organisation operates – Forecasting what the future may bring is a difficulty that managers face, because the environment is uncertain. This factor also has an influence on what strategy can be pursued.

Taking each of the above three factors into consideration is known as strategic analysis.

2. 2 Aim of strategic analysis

It understands an organisations strategic position.” Strategic analysis forms a view of the key influences on the present and future well-being of the organisation and what opportunities are afforded by the environment and the competencies of the organisation” Baily. P, Farmer. D, Jessop. D, Jones. D (2005).

2. 3 Importance of strategic analysis.

Strategic analysis is important in providing an organisation with meaningful insights and with a clear framework so as to prepare itself for change. Its importance lies in evaluating patterns and trends for the organisation. It is also important in the identification and assessment of the opportunities available to the organisation Fleisher. C & Bensoussan . B (2002). It also helps the organisation understand its strategic position by providing information such as; what is happening in the business environment and industry, and what competencies should be developed so as to stay competitive.

It gives the description of strategic goals and the firm’s business strategy. Strategic analysis also leads to goals that are clear and relevant, helps in the

taking of decisions with better quality, and provides a secure future by preparing the organisation with what may happen in the future.

Strategic management

This is a process of making and implementing strategic decisions. The organisation must also analyse the competencies already present in the organisation. These competencies help in formulating strategies. The process should consist of the following elements;

The analysis of a strategy- Understanding the changes going on in the environment in which the organisation exists, and how these affect the organisation, its activities, its strength of resources and the expectation of stake holders, also analysing competitor strategies through assumptions, focusing on weaknesses and threats.

The choice of strategy- This is concerned with all the possible causes of action which may be taken. Eliminating out many other strategies chosen, and putting in order of importance.

An evaluation of each of the causes identified- The selection of those which the organisation must attempt to follow, and therefore discuss at length the strategies short-listed.

Implementation of selected planned strategy- This is turned into an effective caused action. Discuss on implementing, but not actual implementation.

2. 4 Importance of strategic management

It is a planned process that needs to be followed

It considers the future and anticipates what it could bring

It increases organisational growth as it brings in opportunities

It also looks at the threats the external environment may pose and works on how to get rid of or manage these

Helps companies remain stable by foreseeing what the future may bring.

Chapter 3

3.1

An Organization is a consciously coordinated social entity, with a relatively identifiable boundary, that functions on a relatively conscious basis to achieve a common goal or set of goals. Richard, (2002)

Estee Lauder was founded in 1946. It is a globally recognised company, whose headquarter is in New York, but is in over 140 countries. It manufactures and markets hair care products, fragrances, skin care and makeup. The company has 29 brands, some of which are; Estee Lauder, Clinique, M. A. C, Aramis, Bobbi Brown, Darphin and many more. Estee Lauder is technologically advanced and has a reputation for innovation, superior quality and sophistication.

3.2 Estee Lauders Strategy

Koontz and O'Donnell describes strategy as “ a decision about how to use available resources to secure a major objective in the face of possible obstructions..... such as competitors, public opinion, legal status, taboos and similar forces”.

Their strategy is to build a diversified business base, which they believe will strongly boost up their growth globally. Their focus is to remain a distinguished leader in the global prestige cosmetics. Their three essential growth strategies are:

Their geographic presence should be expanded and strengthened

Their product categories should also be strengthened

Their channels of distribution should also be strengthened and diversifiable.

3. 3 Vision & Mission

A company's mission and vision is for its employees and customers. The Mission defines and reflects the company, its core purposes, its values and principles. The vision however, provides an image of the future.

The Vision Statement of Estee Lauder:

“ Bringing the best to everyone we touch”. By “ The best”, we mean the best products, the best people and the best ideas. These three pillars have been the hallmarks of our Company since it was founded by Mrs. Estee Lauder in 1946. They remain the foundation upon which we continue to build our success today.”

3. 4 Objectives

They are energetic, innovative and first for customers

Power endeavour to do our very best and enhance the company's leadership throughout the world

Building strong global brands through innovative delivery of products and increase revenues

Look after our people so they can look after our customers

Understand customers better than anyone and Use our strengths to deliver unbeatable value to our customers

Business relationships

Through distribution channels, reaching the customers globally

Trust and respect each other

3. 5 Scope

According to Mintzberg and Quinn there are five definitions of strategy:

Strategy as a plan

Strategy as a pattern

Strategy as a position

Strategy as a perspective

Strategy as a ploy

Estee Lauder adopted:

Plan

Estee Lauder has good planning and they strongly believe all their success is all because of its planning.

Perspective

Estee Lauder's perspective was to increase its company growth globally by 2008. This was achieved mainly because of the international business, mainly from emerging markets such as China and India.

Chapter 4

4 Estee Lauder's External environment analysis

4.1 PESTEL Analysis for Estee Lauder:

PESTEL analysis is the external analysis of the different macro-environmental factors that a business must consider. Kotler (1998) The PEST analysis is a useful tool for understanding the position, potential and direction for a business as well as the market growth or decline.

“ The radical and ongoing changes occurring in society create an uncertain environment and have an impact on the function of the whole organization” Tsiakkios, (2002). Hence the analysis of the macro-environment is very important to identify factors which could affect various variables and arrangements within the organisation.

Macro-environmental analysis assist Estee Lauder management to increase its attentiveness of appropriate environmental changes thus improve strategic planning by enriching its industrial and market analysis. The PESTEL analysis in addition to Porter's Five Force model and SWOT can be applied by an organization to review its strategic direction. These have been discussed below.

Political factors

The political environment within which an organisation exists has far reaching consequences. The political environment most obviously operates at National level, but may also be significant at local and international levels. Estee Lauder gives direction to countries through the way they exert control over the economy. Estee Lauder should not only be cognisant with the politics of a country, but also with the media, industry and labour leaders. The following political factors can affect the business environment:

Level of government involvement in business

Stability

Liberalisation

Taxation

Co-operation and integration, e. g. EU

Economical factors

This is concerned with the nature and direction of the economy in which a firm operates. Estee Lauder looks at the interplay of market forces that dictate the state of the economy and implications on both commercial and non-commercial organisations. Prices vary from brand to brand and product to product, but these are usually in the higher ranges of an industry. The factors include:

Exchange rates

Interest rates

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Spending power

Inflation and employment

Socio, Cultural Factors

The socio cultural influences on businesses vary internationally. These affect a society's basic values, perceptions, preferences and behaviours. It is vital that such factors are considered if an organization wants to achieve its proposed objectives. Factors include:

The dominance of the religion

Education and belief

The impact of language upon the diffusion of products onto markets

When do customers have time for shopping

The roles of men and women within society and depending upon that the products should be launched

Estee Lauder has received customer complaints regarding the fact that new products are being tested on animals first. They have to look into this matter as it can pose serious issues with the customers.

Technological factors

More and more businesses are affected by technology. Technological factors affect the operations of the firm since technological changes serve to avoid obsolesce and to promote innovation of relevant techniques in the industry. Estee Lauder has rapid technological changes in its products, and these

products can be accessed online via the internet. Some technological factors are:

IT rapid growth

Innovation

Government spending on research

New discoveries and developments

R & D expenditure

Product life cycle

Environmental Factors

These factors are also known as the Natural factors. These factors help Estee Lauder in showing strategic doubts and their worth in the predicting and planning processes using environmental aspects. There have been emissions of harmful gases and fluorocarbons, which Estee Lauder must take care of as it is an environmental threat. It increases the significance of the following factors:

Shortage of raw material

Increased pollution

Increased governmental intervention

Legal Factors

Estee Lauder functions within a structure of Government regulations and legislations. These laws and regulations should be considered when running businesses:

Labour laws and industrial relations

Municipal licenses

Formation

Taxation

Competition

Copyright and patent laws

Minimum wages laws and Employment law

Demographic Factors

These factors may also exist under the macro-environmental factors.

Following factors must be considered with regard to the key Demographic trends by Estee Lauder:

World population growth

Changing household

Geographic population shifts

Better-educated, more white-collar workforce

Increasing Diversity

Changing age structure

Population consists of generational groups.

Distinct segments typically exist within these generational groups.

4. 2 Porters Five Force Model

This model evaluates a company's competitive position. Any business works to develop an edge over its rival firms. This model helps in the understanding of the ' industry context' in which Estee Lauder operates. Below is a diagrammatical representation of the model.

[http://www. maxi-pedia. com/Five+Forces+model+by+Michael+Porter](http://www.maxi-pedia.com/Five+Forces+model+by+Michael+Porter)

Barriers to entry

This is low in the case of Estee Lauder as it has made its position pretty strong and hence new entrants will not pose a threat to it as it will be difficult for these to enter into the market as the barriers are pretty high. They also have good access to their distribution channels and the correct knowledge of the segments they are operating in.

Substitutes

This is also low in the case of Estee Lauder. Customers have built a customer loyalty. Estee Lauder also provides the best quality products whose performance is to the mark as is the name, therefore threat of substitutes will be low.

Bargaining power of suppliers

The suppliers would have a low bargaining power as Estee Lauder is a huge brand and the volume of goods required from the suppliers around the world is also huge. There would be very many suppliers willing to supply such a company, hence it is important for the suppliers to provide the company with what they require and something that is unique from its competitors.

Bargaining power of buyers

This is high as buyers can easily switch to other big brands as the number of these brands present in the market segment is high. However, due to customer loyalty to the brand, it does not face much of this as it provides its buyers with what they want and how they want it.

Competitive Rivalry

This is high in the case of Estee Lauder. Its major competitors are; Avon, L'Oreal, P&G, Max Factor, Revlon, etc. Estee Lauder therefore needs to have constant innovation of its products so as to stay ahead of competition. There are various brands under the company, therefore, it is important that the range of price is good and they can differentiate their products well without customers facing high switching costs.

Estee Lauder created the line designed for men in 1976. It was called "skin supplies for men" (Estee Lauder 2003a). Avon, Max Factor and Revlon did not have men lines.

4.3 SWOT analysis for Estee Lauder

A SWOT analysis is important as a clear basis is provided to examine the performance of a business. It is also very important for the products a

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company offer, as it is essential in the branding and marketing of the company products. This model helps in the understanding of the ' firm and its surroundings'.

Internal

Strengths

Weaknesses

Strong brand name

Research and development focus

Strong distribution network

Robust revenue and profit growth sales

Weak liquidity position

Customer concentration

Weak performance in a few markets

External

Opportunities

Threats

Demographic trends in the United States

Cosmetics markets in emerging nations

Growing riches- Rich getting wealthier

Counterfeit products

Intense competition

Increasing regulations

Strengths

The brand name, " Estee Lauder" itself is a strength. The name is linked to quality and luxury. The company is also a global licensee for other big brands like; Tommy Hilfiger, Donna Karen, etc. Estee Lauder leads in each market segment in the industry as it develops new products, redesigns existing ones and identifies and considers consumer preferences.

It has a large network of retail. This therefore increases the market penetration opportunities and creates closeness to target customers. It has a strong management strategic perspective, and is also having a great growth. It also has various innovations such as; offering shopping via the internet (it was the first major cosmetic firm to have offered shopping via the internet.)

Weaknesses

The company bargaining power could be lowered by it concentrating on a single biggest client. They also have a poor cost structure in some areas, hence a decline in the performance of sales in certain regions. The company could be exposed to the debt market due to low liquidity levels, and this could thus affect the company growth. It is the Family members that have most of the power over the company. The company's organisational

structure is not easily distinguished. In America, there are particularly lower sales in the fragrance category.

Opportunities

Estee Lauder targets aged people and therefore makes products to suit these people. Its revenues could be boosted by having a strong and great presence in its segments, thus also increasing growth. The cosmetics markets are doing good in emerging markets like India and China, as there are many beauty contests that take place. This cosmetics market is growing due to younger and middle aged women that are being more style conscious. Estee Lauder is also well positioned in these emerging markets. There is also a demand in the luxury goods. More money is spent on these goods. Therefore, the needs of these wealthy people are also taken into consideration, and products made to meet their needs and wants.

Threats

Many fake products are being sold, thus affecting Estee Lauders sales. This can lead to the company losing its exclusivity of the brand. This could thus harm the image of the company. Customers may also be dissatisfied with these products as the fake product may harm them, thus the company would lose out on customers. Many big brands such as; Revlon, L'Oreal, would increase competition in the market. The government may also impose certain rules and regulations on the products saying that the product has high levels of chemicals which are harmful to people. This may thus lead to an increase in the cost of developing the products and also in the launching of the products.

Chapter 5

Conclusion

Businesses are different in many ways; therefore every organisation needs to have a business plan, which needs to be reviewed in order to keep it up to date. The plan at Estee Lauder is articulated by corporate leaders, who give the organisation direction, so as to avoid a strategic drift. They create a vision of a possible future that allows both the managers and others to see clearly the direction to take, building upon the company's current capacity and strength.

To gain competitive edge and analyze the external environment, Estee Lauder could further use the Value chain, BCG growth model and scenario analysis for its strategic analysis. Recommended strategies that Estee Lauder could use are; Forward, backward, horizontal integration, product and market development, market penetration and more diversification. Estee Lauder took the approach of providing great customer service, great quality and staff ownership, hence making it different from the rest.

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