Case study on l’oreal

Business

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Summary L’Oreal was the world largest French-based cosmetic company, achieved successfully in global marketing with businesses in East and Western Europe, North America, Latin America, Asia and some other countries.

Later, they spotted on China as a potential cosmetics market due to its extremely high population and entered the Chinese market to compete with other cosmetic brands as a late entrant. This report attempts to discuss on L’Oreal’s expansion in China. For example, in order to speed up the growth in the Chinese market, L’Oreal signed agreements to acquire two famous Chinese cosmetic brands, Yue-Sai and Mininurse. Moreover, according to the contracts, both the founders of Mininurse and Yue-Sai were required to never enter the cosmetics market. Were these problems that affect L’Oreal’s management on the two Chinese brands and its future growth in China? They are to be identified and analyzed in detail. Conclusion and recommendations will be given at the end of the report on how to well manage the two Chinese brands and make sustainable growth in the future.

For example, keep the original cosmetics product packaging of Yue-Sai instead of re-packaging it due to the risk of losing brand loyalty. Remain the original core identity of the cosmetics when improving the formula of it. Yet, it is suggested to build up better business strategies for L'Oreal's development in China in the future. Introduction This report aims to discuss base on L'Oreal's expansion of business in China and addresses mainly on three questions: First, how would you see L'Oreal managing the Chinese brands without their Chinese founders? Second, how would you manage L'Oreal's portfolio in China with their newly acquired Chinese brands? Third, how would L'Oreal continue to grow in China? At the beginning, the basic background information of L'Oreal and its two acquisitions in China will be given. Issues will be identified and analyzed in related to the acquisitions of L'Oreal and the two Chinese brands, Yue- Sai and Mininurse. Approaches will be recommended as in solutions at the end of the report.

Background Information * L'Oreal: Largest cosmetic manufacturer in the world, engaged in the production and marketing of hair styling, hair care, skin care, body care and make-up with 17 brands over 130 countries. Its cosmetics make the most profit out of all sales. * China's cosmetics market: Around 1. 3 billion population with an increasing annual income and living conditions. Meanwhile, L'Oreal discovered China as a potential place with cosmetics sales growth in the last 20 years for business expansion and had acquisitions with two famous brands, Yue-Sai and Mininurse. * Mininurse: Brand of Shenzhen Raystar Cosmetics Company.

Its sales reached $47 million in 2003. It is listed in the top 3 domestic skincare brands in China. It gained strong reputation and brand recognition among Chinese woman and young customers as the best domestic products with reasonable price. * Yue- Sai Kan Cosmetics (Yue-Sai): Became the top cosmetic line in 1996. It sold products at more than 900 stores in 240 of China’s largest cities with sales of almost $47 million in 2003.

The founder Yue-Sai Kan used her own imaged as the product packaging and brought adverse effects on Chinese women. Findings and Analysis L’Oreal managing the Chinese brands without their Chinese founders Originally, the acquisitions should be a win-win game. For example, it enhanced L’Oreal portfolio to move quickly into the Chinese cosmetic market, getting more deep down to reach and sell its product to the mass market. However, at the earlier stages, the founders of Yue-Sai and Mininurse had made compromises with L’Oreal that they would never enter the cosmetics market. This could be a big issue to L’Oreal in managing their Chinese brands, as these two Chinese brands had already built up a high profile and good reputation among the Chinese women. That was a risky strategy.

L’Oreal might have to take risk of losing great brand image. Besides, staff was lack of incentives and loyalty to the company. Hence, it could bring to an outflow of talent which even caused lack of innovations for product developments. Yet, L’Oreal’s strong technological force and experience could help the brands to go further inevitably. Managing L’Oreal’s portfolio in China with their newly acquired Chinese brands L’Oreal has been developing its own brand mainly in Western countries.

Entering to such a new foreign countries is not easy, especially China is a comparatively conservative country. There are more that need to be concerned. For example, laws and regulations in China, language barriers, different strategies and cultures adaptation, pricing problems, different resources and customer need etc. Also, those newly acquired Chinese brands' products were similar to the L'Oreal's portfolio. It would increase L'Oreal's task of brand management.

In addition, there was a 2. 4% sales drop for Mininurse, therefore re-packaging and scientific enhancements were crucial. More Chinese cultural elements should be added in order to gain public recognition. L'Oreal's continue growth in China More than 4000 Chinese manufactures producing 25000 varieties of cosmetics, which local brands targeting low-end markets. Although it had 60% market share, 80% was pocketed by international brand.) A wave of consolidation was triggered within the Chinese cosmetics industry where more mergers waiting to take place between local cosmetics companies and their foreign counterparts.

L'Oreal faced a strong competition onwards. Nevertheless, apart from continue focusing on the urban region in China, it was also necessary to look into the undeveloped region to discover new markets. Furthermore, L'Oreal itself should maintain the " westernized" line for the urban regions instead of being too assimilated with other Chinese brands while adding in Chinese cultural elements. Actually, the future of Mininurse is hard to predict. And originally, the acquisition of Yue- Sai was just to help L'Oreal to step up quickly in China.

As a result, better business approaches and marketing strategies should be carried out for long-term development of L'Oreal in China. Recommendations

There are a few recommendations in this report in making sustainable growth for the two brands and keeping still and stable in brand management. Referring to the first question, there is no need for re-packaging for Yue-Sai products as it might risk the loss of brand loyalty. Also, core identity of the cosmetics should be preserved while making improvements on the formula. Meanwhile, talking about the internal human resources management, there should not be much change and try to boost up the staff incentive and loyalty because they could be anxious about the leaving of founders.

Secondly, be cautions to the all barriers when managing L'Oreals portfolio into China with their newly acquired Chinese brand. Market segmentation is needed so as to divide the brand products for different types of users. Moreover, Chinese culture should be integrated more when marketing the brands. For example, promote their idea of " natural beauty", and find famous Chinese TV or film stars as model for advertisements. On the other hand, moving from management and training plant to global brand research and marketing unit could be possibly increased. It helped reduced transportation costs where key operations were localized.

More importantly that is, L'Oreal could gain market leadership in domestic market before exporting to the rest of the world. Thirdly, in order to make L'Oreal continue grow in China, L'Oreal should continue doing research and development at the Pudong Research Centre in Shanghai, because it allowed for high quality production with a world-class team of chemists and physicians that it could provide opportunities to increase production of the brands. And with higher sales volumes of low-end products, L'Oreal could gain the brand loyalty of the Chinese mass population. Besides, it should establish a line to target the new markets in underdeveloped regions because there was large number of potential customers whom previously had been neglected. There were many migrated women labor majorly aged 18-30 who were generally naive about cosmetics and bought on the basis of price rather than brands.

Therefore, promotions and marketing could be done more in this sector. Yet, L’Oreal should keep an eye on the urban region customers and maintain the westernized” line to specialized its products and keep up with the sales. Also, it should make good use of the acquired brands in pushing L’Oreal move. For example, use the founders’ name or image to slowly promote L’Oreal in creating public awareness. Marketing strategies should be well-implemented.

Conclusion In conclusion, a brief introduction and background information about L’Oreal and the two acquired Chinese brands, Yue- Sai and Mininurse is given at the beginning. Issues such as having risky strategy in losing brand and staff loyalty, strong competitions of new mergers, having so many barriers in entering the Chinese markets are analyzed and derived for L’Oreal from the three key questions in the report: managing the Chinese brands without their founders after acquisitions, managing L’Oreal’s portfolio in China with their newly acquired Chinese brands and its continue growth in China; where solutions and improvements are suggested in the part of recommendation. For example, eliminate the needs for re-packaging for the brand in maintaining its customers brand loyalty, add more elements of Chinese culture, well-managed with the originally resources- the Putong Research in Shanghai. To sum up, the future for L’Oreal was bright and optimistic. Problems could possibly be sorted out in terms of having better business approaches and marketing strategies for implementation.