

L'oreal strategic management change



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1. INTRODUCTION.

During the last years the organizations have been going through a process of expanding their barriers to reach new markets across the globe, this process is known as globalization, this describes the process by which societies, cultures, and economies happen to be integrated creating a massive market all over the world in which different companies can be part of.

The following report was made upon L'Oreal analyzing how every acquisition made by the company was a fundamental part to become the leader and biggest cosmetic company in the beauty industry, how did they enter the US market by acquiring the main US brands at that particular time, and finally it will analyze their implemented strategies and market challenges showing how new strategic partners can make possible growth through globalization.

The centre of attention of the report will be focused on the internal and external influences to L'Oreal, and how globalization could affect policies and decisions made by the company.

L'Oreal was created by Eugene Schueller in France 1907 and named after his first product L'Aureole, the aim of this French chemist was to create the first synthetic hair-color product ever made and then start selling it within France and perhaps some parts of Europe, however, as the time goes by, L'Oreal positioned as the leader in European hair color market and skin care, but this wasn't good enough for them, as they wanted to reach new markets as the American, and Asian, therefore, L'Oreal made certain acquisitions, as well as the implementation of new market strategies and corporate strategies to successfully reach their goals.

1. 1 SWOT ANALYSIS THEORY.

Now the first part of the report will be focused on the primary internal and external influences that the company is subject to, to be able to analyze this influences, I would like to use the SWOT analysis which is a strategic planning method to identify the internal and external factors that are contributing or retaining the company to achieve their goals, The strengths and weaknesses refer to the company and its products whereas the opportunities and threats are usually taken to be external factors over which the company has no control. SWOT analysis involves understanding and analysing the strengths and weaknesses and identifying threats to the business as well as opportunities in the marketplace. Once that is done, we can then attempt to exploit strengths, overcome the weaknesses, grasp the opportunities and defend the organization against threats. This is one of the most important parts of the planning process. SWOT analysis asks the questions that will enable you to decide whether your company and the product will really be able to fulfil your plan and what the constraints will be.

[1]

1. 2 STRENGTHS.

L'Oreal has gone through different types of management from their creator, to the CEO Owen Jones, Jones management style has brought to the company a revolution from a French based cosmetic company to a world leader in the cosmetic industry, L'Oreal main ability is to acquire local cosmetic brands (Ralph Lauren Fragrances, Helena Rubinstein)[2] re-arrange their operational strategy and finally place them in a better location among the competitors, their brand management has been a massive tool to position L'Oreal in the place they are, as every single product and brand they

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manage is aiming to an specific segment of the different markets, rather than placing their products indiscriminately as every market has a different demand to be supplied.

Another strength of L'Oreal that can be clearly identified is their patent desire to invest in Research and Development, with this we can assure that L'Oreal is an organization that is looking forward to implement the latest technology in all their products so that they can efficiently satisfy all their customer needs. They spent an average of 3% of their revenue in R & D, when the average of the industry is less than 2%[3], L'Oreal is aware that in the days we live in, any advance in technology represents a competitive advantage and subsequently that's the best manner to own a market.

L'Oreal has also shown their strength when it gets to marketing campaigns as they know that in order to be successful internationally you must be flexible and able to adapt to new environments, and to be more specific you must be able to produce exactly what a customer is demanding, which is the case of Savannah-Based Carson, which had a 35% share of the US ethnic hair care market and established presence in South Africa, this market has an estimated value of 1 billion dollars, according to L'Oreal's product manager " You cant pretend to be No 1 in the world and forget about 1 billion consumers of African origin"[4]

1.3 WEAKNESSES.

Now to look at the weaknesses of the company, even with the success of the globalization impact, L'Oreal haven't done so much to diversify their

products, rather than that, they have focused all their efforts in developing products for the main areas they work on (hair, skin, make up, and perfume).

With the US brands acquisition, L'Oreal split into 3 main product divisions, consumer, professional, and luxury, in his objective to be the world leader in the beauty industry, CEO Jones has focused his efforts on the consumer brands as they are easier to retail, and relatively less expensive therefore is not that hard to build up a reliable data base, however the other 2 areas are very important as well and eventually if they focused their efforts on improving either one or even both of them the response may be positive and subsequently they will be able to reach a bigger portion of the market.[5]

Another weakness of the company, and is commonly seen in this kind of organizations is the decentralized organizational structure, with this I am referring to the flow of information and control of the company due to many subdivision, this could affect the production level of the company because of the need of giving reference to the other members of the board and directors of the company.

1.4 OPPORTUNITIES.

Due to the good performance of L'Oreal, they have had certain opportunities which they knew how to use, for example the market in Africa, as they had the vision to recognize the enormous potential of this market, now L'Oreal is the leader of this segment, which wasn't very attractive to the competitors, at the first stage because they didn't know that people in Africa may be interested in this sort of products which led them to lose interest for this segment and as a consequence L'Oreal settled down as the leader of the

industry by implementing their acquiring strategy along with specific marketing strategies, basically, L'Oreal realized that the main thing to take over Africa was to develop a product which completely satisfy the population , due to this, L'Oreal invest in a multi million dollar research and development facility in Chicago to focus exclusively on the hair and skin needs of the people of African-American descent.[6]

As stated before another big opportunity for L'Oreal to grow is to focus more on their line of dermocosmetics (anti-aging), as this area has a very small portion of the revenue and considering the research network they have, it would be interesting if they focused their efforts to create a new anti-aging product at affordable price and distributed through their channels to reach a bigger population.

L'Oreal being the world leader of the beauty industry could diversify trying to enter new markets such like the clothing taking advantage of their well known name as they already have a strong influence over the new trends of fashion in terms of make up, hair and skin care.

1.5 THREATS.

In relation to the threats and challenges, even that L'Oreal is the market world leader; there are some competitors in the industry and competitors for every single product division of L'Oreal (consumer - professional - luxury), competitors like Estee Lauder, Proctor & Gamble, Revlon, and Max Factor, specially for the Japan market, which is the market that L'Oreal is aiming to control.

L'Oreal is the world leader in the industry, however their competitors have been able to strategic place some of their products in the actual market, reason why L'Oreal is considering acquiring an other brand (Nivea) so that they can gain a better position in the European market.

1. 6 SWOT MATRIX

STRENGTHS

* The ability to acquire new brands and transform then into new market leaders

WEAKNESSES

* Lack of diversity on their product catalogue

OPPORTUNITIES

* As they have all the knowledge and capacity they are able to explode new markets such like the African market

THREATS

* Some other competitors in the industry that currently are stronger in some other segments of the market like in Asia

Now that the SWOT analysis has been done, it's clear that the reason of success of L'Oreal is the focus they have implemented on their strategies, as they have been able to identify internal and external influences that gives them a competitive advantage over the rest of the competitors in the industry, as they know exactly where do they want to be, how are the going to achieve their goals, and what is the best way to get to that desire success.

Profit margins are easily destroyed when companies focus on internal issues versus the external conditions that affect customers. Revenue comes from <https://assignbuster.com/loreal-strategic-management-change/>

the outside, from customers buying products or services, not from implementing new technology, re-engineering business processes or building great teams. Focusing on external forces increases the bottom line. In fact, by shifting to an external focus, companies can often increase profits from 5 to 10 percent. An external focus, however, means more than just gathering competitive and market intelligence. It takes more than empty customer-centred rhetoric. It starts with the CEO and requires core behaviours to focus on where the money comes from.[7]

2. GLOBALIZATION.

The second part of this report will be analyzing the following topics:

- * The impact of globalization in the organization.
- * How does it affect their policies and decision making,
- * How effective has L'Oreal been according to this new situation.

2.1 CONCEPT OF GLOBALIZATION

As stated in Time International (1999), globalization means that countries, economies, companies or people in general are coming closer together. This is not because they are forced to do so, but because they want to do so. In fact they want so much to come closer to others that they cannot help themselves. As worldwide communications get better, information, technology, people and financial flows move faster. The cultural assumptions and premises of democracy and free markets spread and become more readily accepted. This very attractive and almost irresistible globalization process becomes more widespread[8].

Friedman (2000) states that the driving force behind globalization is free market capitalism, which uses free trade and competition to create virtual rulers of the world markets. These very powerful capitalists make economies to increase and be efficient. With the opening up of world markets, globalization has become a major force shaping both management theory and practice. Forces of globalization have been accelerating and, as such, are shaping policies and behaviours of nation states as well as corporate entities all over the world.[9]

2. 2 How did L'Oreal become the biggest beauty company?

The acquisition strategy implemented by L'Oreal guide them to be the world leader company in the beauty industry; all these US acquisition they made created a sub division within their products catalogue, consumer, professional, and luxury, L'Oreal's success is a clear example of how to implement a corporate strategy and manage a brand internationally to achieve a massive growth even when the market they sell their products in isn't very steady, the key was to understand and successfully satisfy the needs of every customer through its products like they did with the Wet Lipstick in Japan, or the Research and Development process they carry out to satisfy the afro-American customer needs. L'Oreal has the capacity to reach more people across the world than any other beauty company thanks to their distribution channels and also is able to generate a bigger income rather than other companies due to their big products catalogue.

2. 3 The Acquisition process.

As stated in the case, the success of L'Oreal was achieved thanks to all the acquisitions made through out the world and especially in the US, all the

process began by acquiring Ralph Lauren, and Helena Rubinstein which was a cosmetic maker with international distribution, after five years of negotiating process L'Oreal took full ownership of both companies. The next acquisition of the company was Redken in 1994 however the new products launched under L'Oreal's ownership weren't successful so they decide to rename the company to Redken 5th Avenue NY.

Following their process the next company to be acquired was Maybelline which was the third largest company completely based in the US and it was very attractive due to their anti-aging line that was very eye-catching to young population, in the market this is very representative for L'Oreal as this will bring a new image to the company renewing the old French fashion, turning it into a fresh young image.

Soft Sheen and Carson was a key element in the acquisition process as they brought a whole new market to the company that hasn't been taken care of because the current competitors didn't realize that that segment of the population may be interested in this sort of products, and in addition L'Oreal invested 3% of their revenues in research and development to create a new product specially for them.

In the 2000 L'Oreal bought Matrix focusing on their professional line supplying the need of hairdressers and beauty saloons with a high quality standart.

The most important acquisition made by L'Oreal was made in the 2000, they bought Kielh's after a three year countership, the owners finally agreed to sell their company after they realize that they couldn't meet the demand,

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however some of the employees weren't very happy about the new acquisition as they thought that the company would have any independence left after L'Oreal's take over, this new acquisition was very important for the company as Kiehl's could bring a better position related to the store high-end segment of the business.

2. 4 WHAT WAS THE ROLE OF ACQUISITIONS IN THIS GROWTH?

The prospect of increasing profitability and market share by acquisitions continues to exercise a more seductive and immediate appeal to business leaders than a reliance on growth alone. There has always been a substratum of mergers, acquisitions and, indeed, divestments in all developed economies. However, the extent of this depends on the buoyancy of the economy. The periodic rise and fall of such activity has heightened debate among managers, academics, politicians, and regulators about acquisition activity and their benefits, as well as ethical considerations (Vinten, 1992). Mergers and acquisitions (M&A) have a unique potential to transform firms, and to contribute to corporate renewal (Angwin, 2001). They can help a firm renew its market position at a speed not achievable through internal development (Haspeslagh and Jemison, 1991; Harrison, 2002). [10]

Value creation is the important objective in successful acquisitions. Yet, empirical and other studies continue to highlight the low success rates associated with acquisitions. No matter how attractive is the business opportunity associated with an acquisition process, value is not created until capabilities are transferred, and people from both organisations collaborate in order to create the expected benefits and the unpredicted opportunities. This collaboration relies on the will and ability of managers from both

organisations to work together towards a new future. The key to integration is to obtain the participation of the people involved without compromising the strategic task. Finding similar organisational cultures and management styles has become a common panacea for avoiding employee dissatisfaction that could undermine M&A performance. Different authors agree that it is important to consider cultural compatibility as a criterion for screening potential candidates for M&A. On the other hand, managing the cultural differences has been proved as a more realistic and successful strategy in integration processes than finding the “ ideal culture fit”. Buono and Bowditch consider that successful integration can be achieved even between diversified organisational cultures. This viewpoint is adopted in this exploratory study. It examines the strategies being used by executives that encourage employees’ diversity tolerance while allowing for learning to occur within parent and acquired firm. It looks at the strategies the firms implemented to facilitate the units to work together, and integrative practices involving firms within the same industry but from different countries and contrasting corporate values. In bringing together firms with different skills and knowledge bases, acquisitions create unique learning opportunities for the partner firms. As recently argued by management researchers, knowledge and the capacity to create, transfer, transform and utilise it are the most important sources of a firm’s sustainable competitive advantage[11].

Acquisitions have played a very important role in L’Oreal’s growth, particularly in their expansion through out the world, the more companies the acquire the bigger L’Oreal was getting as well as their profit, in 1996

they bought Maybelline for \$758 million dollars and began a complete restructuring of the brand, starting from moving the headquarters within the USA.

With all the restructuring L'Oreal's CEO Owen Jones successfully achieved to reach from 3% to 15% on the nail market, they have also raise their sales in nearly a 100% and positioned Maybelline in over 70 countries.

Globalization has had a very positive impact over L'Oreal as due to this they had the need to reorganize their company making some sort of decisions like relocating their headquarter for the USA operations in Chicago so that they can have control of all the operations taking place in America in a central place where they can keep track of all their progress, this has also brought another issue related to globalization which is the technology, L'Oreal has invested 3% of their revenue in developing new products where the average of investment in this field in the industry is around 2%, technology has also brought new channels of communication where they can easily be in touch within the company and also they have been able to use cost-efficient distribution channels thanks to their acquisition of Soft sheen-Carson as they had developed cheap delivery systems.

2.5 L'OREAL EFFECTIVENESS

L'Oreal has been going through a massive change since their beginning as they started their business creating a synthetic hair-color product to be sold in France and probably around Europe, the response of the people to the product was so good that the company decided to enter the beauty market, diversifying their product catalogue not only to hair care but to skin care as

well, with the result of being the market leader. However the effectiveness of the company is not very clear at this stage as the product by itself cant guarantee the success of the company, instead of that, a good strategic management along with a visionary CEO can bring a major strength to the organization and will build confidence within the company to achieve their goals as they stated at the beginning, well, this is the case we are analyzing, as previously stated, CEO Owen Jones had the vision to expand the boundaries of the company by acquiring strategic partners that can contribute to a massive growth for L'Oreal, his leadership enables him to see and opportunity of expansion taking advantage of the globalization boom and his vision of opportunities where the competitors didn't see anything was a key to succeed in some parts of the world, L'Oreal was bright enough to understand that the needs or likes of the people in America were not the same as the people in Asia or in Africa reason why they decided to create products for every single market and this gave them the opportunity to be the world leaders in the market. After all this facts it is clear that L'Oreal has had a very effective response to the new changing environment as they are prepared to adapt to new situations and is a company willing to deal with organizational change, this is a enormous benefit for the company as they can easily gain competitive advantage at a low cost of opportunity.

2. 6 IMPROVEMENT AREAS.

L'Oreal is the world leader company in the beauty industry thanks to their brilliant management and their products; however there is always a little extra that can be done to reach that additional little piece of the market. In my point of view I would suggest that the company hire an Asian Marketing

Manager hopefully with a strong Japanese background in order to be able to completely take over this market as this market has a huge potential which was proved with the Wet Lipstick, perhaps if they invest some part of their revenue in research and development as they did with the African market, they might get a very good response as all the markets should be kept in mind as a big opportunity.

L'Oreal could also consider expanding to the Latin American market and specially the South American, now that they control the US market (North America), they can implement their expansion strategy to take over central and south America which is a market that haven't been explored yet or not as much as they could. L'Oreal could implement the same strategy implemented by Dell in Brazil, as they decided to relocate their plant in South America (Brazil) in order to manage all the market from there, taking advantage of the Mercosul market which enables the company to save on taxes within the continent.

And finally L'Oreal should consider to extend their products catalogue to clothing and accessories as this may give them a competitive advantage over the rest of the companies in the same industry, it is very important to try to be always one step ahead of the company and be visionary in order to predict what the market wants and how to supply that demand.

2.7 CONCLUSION.

After analyzing this case it is clear how important is to have a good strategic management and understand how the environment can affect every organization from the most insignificant change to any huge change that

may involve any of the decisions of the company, its understandable that the vision of the CEO of the company can bring success to the organization and build a good know how that will enable the company to enter new markets.

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