

# The strategy of the body shop

[Business](#), [Strategy](#)



" Business people have got to be the instigators of change. They have the money and the power to make a difference. A company that makes a profit from society has a responsibility to return something to that society."

1 (Roddick, 1991)

This statement, by Anita Roddick OBE, founder of 'The Body Shop', demonstrates the strong ethical dimension of the company's way of doing business. She opened her first shop in Brighton on March 26th 1976 selling 25 varieties of 100-percent natural skin and hair care products inspired by cultural knowledge from around the world. The company has expanded dramatically since its origins and now has over 1900 stores worldwide.

Despite its rapid growth, the strong beliefs and values existent in 1976 remain deeply embedded within the organisational culture. Throughout this writing I will discuss these beliefs and values in the context of corporate strategy and decision-making, and demonstrate how it relates to theoretical frameworks within the corporate strategy field. I will analyse The Body Shop's strategies using these theoretical models, and compare and contrast the models themselves.

The strategy of The Body Shop in comparison to other businesses within the cosmetics and toiletries industry was unconventional. Their rapid growth, achieved mainly through franchising, was primarily due to the 'green' nature of the organisation, prioritising ethical practice over making profits.

" Ever since she started The Body Shop in 1976, Roddick had made a habit of going against the tide of the industry's established business practices."

2 (Mintzberg, Quinn, Ghoshal, 1991: 447)

This quotation reinforces the notion of The Body Shop's alternative approach to strategy. Unlike other companies within the industry, they didn't make miraculous claims for their products; they allowed labels with detailed lists of the ingredients and properties of products to tell customers about each good. This links in with the fact that a major component of The Body Shop's strategy was that they never engaged in any advertising. Throughout history and in contemporary advertising, organisations within the health and beauty sector have constantly bombarded the public with claims and promises associated with their products through the use of adverts and promotions.

" The cosmetics industry makes its money through packaging and advertising, which together are 85 per cent of its costs."

3 (Mintzberg, Quinn, Ghoshal, 1991: 453)

This is a cost that The Body Shop's strategy enabled them to avoid. The business was started with just a \$6000 bank loan, and so it wasn't possible to engage in expensive advertising campaigns, moreover, it was against the values of the organisation, who preferred to rely on word-of-mouth and publicity to secure sales. It is said that the initial success of the first store was a lot to do with the curiosity and publicity acquired through a local newspaper article illustrating the fact that it was called " The Body Shop" and was located close to a funeral parlour.

Their strategy exploits the fact that they are a socially responsible organisation, meaning that customers buy their products knowing that

nothing has been artificially manufactured and are produced with 100 percent natural ingredients. This unique selling point, together with their prominent beliefs and values, has the affect of providing The Body Shop with a competitive advantage over other firms in the industry. This will be developed in more depth later in the writing.

The Body Shop's strong social message is reflected in every aspect of their mission statement. From dedicating the business to the pursuit of social and environmental change, to meaningfully contributing to local, national and international communities in which they trade. 4

" The company is significantly involved in local communities and is prepared to get political and talk about big issues in countries where it does business. No company in the world campaigns at the level we do, or turns their shops into action stations, or challenges the role of business like we do."

5 (Roddick, 2002)

Throughout history The Body Shop has rapidly expanded geographically as well as in terms of their sales and product portfolio, however, in the late 1990s their performance began to suffer. As a result, February 2000 saw fundamental changes to the organisation and management, including substantial changes to the board of directors, and the outsourcing of manufacturing to a company named 'Creative Outsourcing Solutions International Limited'. Anita and Gordon Roddick became non-executive directors and there were five new appointments to the board, including a

new CEO. Despite these changes The Body Shop's performance failed to be rejuvenated, which forced them into more drastic changes.

" In the most recent annual report, Peter Saunders (CEO) commented that the group's objective now was to apply a strategy to drive performance across the global business... The single most important priority, he added, was to improve comparable sales performance across stores through effective new product launches."

6 ('Intel', 2003: 137)

These new objectives seem to have the effect of diluting the self-proclaimed visions and primary concerns of The Body Shop. It could be said that the current management have somewhat contradicted Anita Roddick's earlier philosophies.

" Too many businesses have gotten distracted with management structures and... making money."

7 (Roddick, 1991)

One of the main underlying reasons why they have encountered their current problems is because many companies within the health and beauty industry have noted the success of The Body Shop and are responding to the ever-increasing 'green consumer' themselves through the release of their own versions of 'all-natural' products. Examples being 'Estée Lauder Origins', 'Revlon New Age Naturals', and 'Clairol Herbal Essences'. Competition erodes

profit, and, as a result of the increase in competition, The Body Shop have lost their competitive advantage of being able to supply what others cannot.

The strategies of The Body Shop can be analysed using several theoretical models from within the strategy discipline. Situation analysis can be used to determine what advantages BS have, or have had, over their competitors, and can illustrate how The Body Shop was so successful for many years. This theory, termed by Mintzberg as the 'Design School', was based upon work by Professor Kenneth Andrews and addresses, amongst others, the view that:

" Strategy is concerned with identifying opportunities in the enterprise's external environment which it is better qualified to exploit than its competitors."

8 (Lilley, 2003)

The current situation of The Body Shop was analysed by Mintel and appears in their February 2003 publication on health and beauty retailing in the UK.

## STRENGTHS

- \* Strong worldwide coverage helps to spread corporate risk.
- \* Well known and well respected global brand.
- \* Franchising has enabled the company to grow at lower cost and lower risk.
- \* Still has strong ethical and environmental credentials.

## WEAKNESSES

- \* Mature business, with declining like-for-like sales.
- \* Appears to lack the inspiration to re-invent itself.
- \* Vulnerable to imitators.
- \* Franchising reduces level of corporate control.
- \* Rapidly rising rental costs in the UK.
- \* Limited growth opportunities in terms of new geographical regions.

#### OPPORTUNITIES

- \* Still potential to enter new markets in Europe especially Central/Eastern Europe and other parts of the world.
- \* Implementation of strategy to control costs and working capital in order to improve profitability and cash generation.
- \* Development of more pharmacy concessions in Ireland and possibly other markets.
- \* Further development of e-commerce and other non-store channels.

#### THREATS

- \* Strong competition from other innovative and environmentally friendly health and beauty retailers.
- \* Great competition from discounters and grocers' health and beauty offer.

\* Recent new product launches have yet to produce a positive impact on sales densities.

\* Continued lack of like-for-like sales growth threatens profitability and the group's scope to expand physically.

'Figure 1': SWOT Analysis of The Body Shop International Plc. 9 (Intel, 2003: 144)

The above analysis was compiled after The Body Shop's decline in performance - it is clear that all the threats from the external environment are modern occurrences that wouldn't have been an issue during their period of rapid growth in the 1980s. Throughout this time they effectively maintained a portfolio of differentiated products and, perhaps more prominently, a unique and differentiated brand image, which enabled The Body Shop to compete and be successful.

" Product differentiation means that established firms have brand identification and customer loyalties, which stem from product differences, or simply being first into the industry."

10 (Porter, 1980: 9)

The environmentally friendly and ethical practices that The Body Shop claim they dedicate their business to could be described as their core competence within the industry. Even to this date Anita Roddick and the organisation actively campaign in issues such as animal testing, human rights, and protecting our planet. No other business within the health and beauty



industry is as heavily associated with ethical and environmental practices as The Body Shop. The core competence of an organisation characterises its whole range, take for example, Sony's ability to miniaturise electronics or Aston Martin's competence in producing flawless motorcars. It is clear to see that The Body Shop's core competence is not only reflected throughout their product range, but is evident throughout all their business activities, from their minimal use of product packaging, to the layout of stores.

" Core competencies and market-led strategy are nowadays the only pathways toward success."

11 (Sophocleous, 2003)

The strategy that The Body Shop employed can be analysed with another useful framework in the field of strategy, namely " The Five Competitive Forces that Determine Industry Profitability" by Michael E. Porter. This cannot be applied directly to The Body Shop, but can be used to analyse the external environment in which they operated in the past, and how it changed in the late 90s.

'Figure 2': Forces driving industry competition. 12 (Porter, 1980: 4)

The main principle behind this model is that the profitability of an organisation is determined by the collective strength of the five forces; in other words, the industry structure directly affects industry profitability. The Body Shop initially operated within a niche market where there were no real competitors offering the same products nor backing the same principles that they were. The threat of substitutes was minimal because if customers

wanted all-natural products they would almost certainly have had to buy them from The Body Shop. In relation to the threat of new entrants, initially there was nothing stopping rival firms from competing within the all-natural cosmetics and toiletries sector, however, no other companies actively engaged in the ethical and environmental practices to the extent that The Body Shop did.

The barriers to market entry increased in relation to the amount of stores opened by The Body Shop, and during their period of rapid growth, their power within the niche market could have been regarded almost as monopolistic. However, customers who preferred to buy all-natural products but didn't regard it as being entirely necessary could easily have turned to other companies' products within the wider industry, that didn't exercise such dominant views on ethical and environmental issues.

The low threat of 'all-natural' substitution that existed in the earlier stages of The Body Shop, coupled with the fact that the arrival of new entrants was particularly low, provided them with the opportunity to control the prices they charged for their products. The argument becomes more complex when trying to categorise The Body Shop into a particular market. They could be regarded as operating completely within their own sector, but can also be viewed as just another cosmetics company with the advantage of having a differentiated product range and image.

" Differentiation, if achieved, is a viable strategy for earning above-average returns in an industry because it creates a defensible position for coping with the five competitive forces."

13 (Porter, 1980: 38)

To justify this quotation in relation to The Body Shop we must consider them to be in the wider cosmetics industry, which has a high level of competitors. Their differentiation led to customers' increased loyalty in The Body Shop brand, which resulted in a lower sensitivity in price. This had the effect of protecting the company from competition and rivalry. However, as time progressed, other companies intentionally sought to compete directly in the field of environmentally friendly products.

The Body Shop was able to gain an advantage over competitors by not utilising traditional distribution channels - for many years they only sold their products through their own shops. This reduced the threat of new direct competition from other companies, as the level of investment required by a new entrant would be extortionate considering they would have to open an abundance of specialist shops. However, to overcome these problems the new competitors emerged using traditional distribution channels, such as through supermarkets and department stores.

" The strength of the five forces varies from industry to industry, and can change as an industry evolves."

14 (Porter, 1985: 4)

The above statement from Porter's work in 1985 is related to the case of the cosmetics and toiletries industry in that the emergence of greater competition in the 90s meant that the strength of the competitive rivalry aspect of the five forces within the industry increased. In addition, customers

now have the ability to simply pick and choose alternative brands' all-natural products in confidence - an increase in the threat of substitution.

Through the use of Porter's five forces model we can see that the changes in the strength of the forces within the cosmetics and toiletries market have accounted for the recent decline in performance of The Body Shop. In the early days of the company, the threat of like-for-like substitutes and the associated power of customers were relatively low in comparison to the modern day situation. Competitors have increasingly matched the core competences of The Body Shop, and, as a result, the significant competitive advantage that they once had has been reduced.

" Competition in an industry goes well beyond the established players. Customers, suppliers, substitutes, and all potential entrants are all 'competitors' to firms in an industry."

15 (Porter, 1980: 6)

This quotation by Porter reveals that the five forces model has limitations with regard to The Body Shop case. The Body Shop do not regard their suppliers as competitors; in fact they want to actually financially support their suppliers. This is evident from their mission statement in their aim of balancing the financial and human needs of their suppliers. These more esoteric aspects of The Body Shop's strategy, termed by Anita Roddick as them doing 'business as unusual', highlights another main drawback of the five forces model, in that it is geared around profit being the primary concern of an organisation and doesn't provide any flexibility or scope for change.

The Body Shop's early successes can be partly attributed to the strong customer base they secured due to the general movement in society towards being more environmentally and ethically aware. The framework doesn't deal effectively with this idea of customer preference or changes in trends, nor does it cope with the notion that customers were gained through the fact that they appreciated, and could relate to, the values and beliefs of The Body Shop and their efforts to pursue social and environmental change, and not just because of factors relating to price.

On the other hand, the SWOT analysis model is useful for clearly displaying the advantages of an organisation in relation to the market within which it operates, together with the negative aspects of the internal organisation and external environment. As with all theories, however, there are a number of limitations associated with it. All of a business's strengths do not necessarily directly contribute towards providing a competitive advantage, SWOT analysis also has the tendency to take a single dimension of a firm's strategy over-emphasise it.

It is difficult to prove which strengths are likely to provide the most benefit to an organisation, and also determine which opportunity should be given more attention to shape the overall strategy of the business in question. The findings of SWOT analysis are greatly shaped by the opinions and perceptions of managers or analysts, meaning that they can be regarded as subjective in nature as opposed to the, perhaps initial appearance of being objective and rationally constructed.

" What we are dealing with here is not the organisation or environment 'in itself', rather we are attempting to extract and combine the perceptions of these entities that exist in the minds of managers."

16 (Lilley, 2003)

In conclusion, after analysing the strategy of The Body Shop using frameworks from the strategy discipline, it is apparent that SWOT analysis deals well with the unique aspects of The Body Shop's strategy. Although the analysis of The Body Shop's situation is greatly dependent upon personal judgement, their strengths shown in figure 1 give an accurate account of the 25-year success story, which was primarily based upon The Body Shop's core competence in displaying continuous proactive dedication towards ethical and environmentally friendly practices, together with their prime high street and inner-city shop locations, and famous and respected global brand.

The reasons for their decline in performance during the late 90s are clearly displayed in the 'threats' category of the analysis, prominently highlighting the emergence of increased competition from other companies operating within the health and beauty industry, who are reaching consumers through traditional distribution channels and via supermarkets.

Michael Porter's model of the five competitive forces is valuable in that it offers a simple, structured analysis of the industry, but is limited in the sense that it's unable to satisfactorily consider the dynamics of markets, for example, the movement of consumer preferences towards environmentally friendly products. It can provide a helpful starting point for further analysis,

but simplified versions alone can prove inadequate. It provides an account of how conventional, profit-maximising firms are affected by the structure and occurrences of the external environment, and how those firms can work towards shaping and exploiting the environment to their advantages, but fails to comprehensively account for the successes of unorthodox firms like The Body Shop, who do not, at least in their own claims, follow the usual route of or towards profit maximisation.