

The intensity of rivalry in the cosmetics industry marketing essay



**ASSIGN
BUSTER**

L'Oreal's industry is that of perfumes and cosmetics which belongs to the consumer goods category. This industry is very lucrative; actually, company revenues in the world cosmetics industry have doubled in 15 years reaching 124 billion dollars in 2008. In 2006, the cosmetic market increased by 4, 8 %. This industry is marketing intensive and competitive and is growing quickly and constantly because it is not influenced by the economic cycles.

Nevertheless, this growth is not homogeneous; indeed, the emergent markets like Asia, Eastern Europe and Latin American contribute to 60% of the world growth whereas traditional markets are slowing down

SWOT

A SWOT analysis (strengths, weaknesses, opportunities, threats) helps a firm's decision makers determine what makes the firm distinctive, where its skills lie, and what its abilities are in the context of the market. It is a natural part of the planning process, and the starting point for a firm when assessing its environment.

L'Oreal's strengths include the fact that it is the largest seller of hair care and beauty products in the world. It is the market leader, concentrating on 12 core brands which account for 90% of its sales. Some of these products are diversified by price, and some by cultural image. The company has taken advantage of economies of scale in packaging and advertising, enabling improvements in profit margins. Its net profit has doubled every 5 years during the last decade.

L’Oreal provides significant funding to research and development, uses and develops leading-edge technology, and regularly and successfully introduces new products onto the market.

Its weaknesses include profit margins that are slightly below some of its smaller rivals, a decentralized organizational structure that can make control difficult, and the difficulties in coordination and control of activities and image when operating in a global market.

Opportunities stem from the fact that L’Oreal has concentrated on hair-styling and color, skincare, cosmetics and fragrances, the fastest growing field in the beauty business. It is benefiting from increasingly ageing and affluent population in developed countries. Emerging markets accounted for 27% of world cosmetic sales in 2000 and are growing. Fluctuations in the economy have little impact on this market.

L’Oreal registered more than 400 patents last year, which could give them even greater market share in the future. Several acquisitions added to the bottom line and provided opportunities to enter new areas at lower costs. L’Oreal also benefited from favorable exchange rates in 2000.

Threats include a potential for monopoly that restricts it from entering into large mergers. Also, L’Oreal’s products are luxuries that could be hurt by an economic downturn, although that has not happened in the past.

Peste analysis

POLITICAL:

The political challenge is that L’Oreal and Oriflame should conform to all the different government leadership styles in various countries it operates within. L’Oreal faced a decline in the dermatology branch led by its Galderma brand due to new legislations governing drugs (Euromonitor, 2005). The EU law affects L’Oreal. L’Oreal is restricted in their use of certain kinds of chemicals, such as Phthalates which is carcinogenic (The Rules Governing Cosmetic Products in the European Union). L’Oreal is obligated to produce safe products that do not contain any harmful substances. Also, legislation for advertising is also affecting L’Oreal. L’Oreal has to follow the rules set by Advertising Standards Authority. For example, advertisements cannot be misleading that over-exaggerating the functions of a product (The Control of Misleading Advertisements Regulations 1988).

ECONOMIC:

Buoyed by the 12 per cent growth in its operations, L’Oréal has identified as one of top-twenty growing businesses globally. The French cosmetics major’s sales in some regions grew 40.3 per cent last 3 years.

Jean-Paul Agon, the CEO of L’Oréal, has termed this potential as a big opportunity for the company. The company sees an addition of 70 million new consumers due to growth in per capita income in the world’s population projected by the World Bank.

The company plans to open 110 more Body Shop outlets across the globe next year. The share of the Indian market for example to L’Oréal’s turnover of 15.8 billion is small. With other emerging economies, Asian (ex.)

contribution to the growth in the global cosmetics market amounts to 60 per cent.

Its portfolio of brands includes the cosmetics range of L'Oréal Paris and Maybelline NY, shampoo range Garnier, luxury products such as Lancôme and active cosmetics such as Vichy.

SOCIAL:

Because L'Oréal's business is at the center of people's everyday lives and well-being, the Group is closely involved in the life of the communities in which its facilities are located.

L'Oréal operates around globe through its wholly owned subsidiaries, L'Oréal (country name), and has four divisions – consumer products, professional products, active cosmetics and luxury products.

The beauty and wellness sector is on the brink of a boom, according to research agency AC Nielsen.

L'Oréal has a duty to conduct itself as a socially responsible company and wants to contribute to projects that help the public, in the form of long-term sponsorships and partnerships.

These are often local initiatives focusing on specific issues – women and science, solidarity, education – and are consistent with the values that the Group has espoused for almost a century. The aim of these initiatives is to establish a strong foothold in the economic and social life of the countries in question.

The most striking and symbolic example of L'Oréal's social commitment is the international corporate program For Women in Science, developed in partnership with UNESCO.

TECHNOLOGICAL:

Founded by a research scientist, Eugene Schueller, L'Oreal has always embraced technological innovation. L'Oreal is convinced that, in the long term, quality and innovation are the only ways to satisfy an increasingly diverse and ever more demanding consumer base.

L'Oreal says that shop shelves will soon see the world's first cosmetics products to incorporate stunning new colour effects that rely on light refraction and not pigments.

The technology is about to create colour through light and not through pigment. Basically uses nano science to control the colour effect by layering the compound's structure. Different gaps in the layers and varying numbers of layers can all influence the colour outcome when it is exposed to light.

The direct competitor to L'Oréal is Oriflame, the world's largest manufacturer of high-quality cosmetics, perfumes, and hair and skin care products.

Although L'Oreal the company doesn't manufacture a perfume it owns the brand Lancôme that produces Tresor a perfume that rivals Oriflame significantly.

PORTER

The intensity of rivalry in the cosmetics industry is influenced by the following industry characteristics:

The degree of Competition:

Companies like Oriflame and L'Oreal increase rivalry because a number of companies compete for the same number of customers. The companies like L'Oreal and Oriflame have nearly equal market share which results into an intense struggle for market leadership and hence increased rivalry.

Switching Cost:

As a customer is free to switch from a product of one brand (say L'Oreal) to another brand (say Oriflame), there is a greater struggle to capture customers and retain them and hence the low switching cost increases the rivalry in the cosmetic industry.

Degree of Differentiation:

Since, there is a negligible level of differentiation in the products in cosmetic industry (say L'Oreal and Oriflame); there is an enhanced level of rivalry in the cosmetic industry.

Exit Barriers

Since the entire assembly of plant and equipment required that is required for manufacturing a cosmetic product is highly specialized and particular, these assets cannot easily be sold to other buyers in another industry and hence this implies that the exit barrier is high leading to enhanced rivalry.

High exit barriers

Place a high cost on abandoning the cosmetic product and cause a firm to remain in an industry, even when the venture is not profitable

New Entrants

New firms may enter the industry and affect competition. Theoretically, any firm should be able to enter and exit a market and thus, profits always should be nominal. In real life situation, industries are characteristically such that they protect the high profit levels of firms in the market and inhibit additional rivals from entering the market which are called barriers to entry.

The barriers to entry in the cosmetics industry is influenced by the following industry characteristics:

Government Rules:

Cosmetic companies have a lot of regulations and requirements imposed by the government to launch a single product. This is due to a high level of direct contact between cosmetics products and human body

Economies of Scale:

Since, the minimum size requirements of the firm to reap a profit is very high in cosmetic industry considering the expensive and specialized infrastructure requirements, the threat of new entrants is very high

High Initial Investments and fixed costs:

To build a cosmetic industry requires a significant amount of capital investments, associated with research and development and marketing expenditures. Hence, the threat of new entrants is high in cosmetic industry.

Financial Highlights:

Oriflame Cosmetics

First Quarter 2010

Sales +6% to €361. 9m (€341. 3m)

Operating profit: €42. 2m (€37. 9m)

Net profit at €37. 2m (€24. 2m).

Operating cash flow: €20. 7m (€12. 6m).

L'Oreal

Key numbers for fiscal year ending December, 2009:

Sales: \$25, 041. 7M

One year growth: 1. 3%

Net income: \$2, 568. 6M

Income growth: (6. 5%)