Internal and external influences on l'oreal

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Globalisation is the system of interaction among the countries in the world in order to develop the global economy, through integration of economics and societies all over the world by involving technological, economic, political, and cultural exchanges which made possible largely by advances in communication, transportation, and infrastructure, (source: http://hubpages.com).

A business firm which want to or operates in global environment needs to be aware that there so many to face in that business environment (internal and external), because the firm will operates across more than one country and across different social and culture issues, political and legal systems, economic system and technology. Stakeholders interest like community, politicians, other competitors, suppliers, employees, shareholders, will be more demanding across wider global business enviroment where the global firm will get involve in the business, and this will be more challenging to the firm. The product which a business company will offer to the market needs to be global products that will achieve competence against other competitors who operates in global business too.

Task one

The Analysis of primary internal and external influences to L'Oreal.

Globalisation.

There several primary influences to company like L'oreal to go global like as follows bellow.

Goverment drivers, like favorable trade policies, compatible technical standards, and common marketing regulations.

Competitive drivers, like high import of goods, interdependence of countries, competitors from different countries, and globalisation competitors.

Market drivers, influences by having global channels, transferable marketing, common customer needs, and global customers.

Cost drivers, like low transportation costs, global scale economies, need for technology, steep experience curve, difference in country costs and high product development costs.

According to casestudy shows number of influences to L'Oreal as subjected. In internal influence were about to build the organisation structure which can be global administration and cope with the external global environment by stabilising their available resources so they can be competent to gain the capability to compete against other competitors globally. They been able to build up the organisation strengths through carefully plans strategy of acquring other cosmetics companies so they can spread up their wings in the international markets by using strong and potential brands in their new and existing global markets , which some of the brands were L'oreal origin brands like lancome and other adopted brands like Matrix, Maybelline, Kiehl's, SoftSheen-carson, Shu Uemura, Redken. Also moving business strategy from domestic strategy to international strategy that will enable the company to compete in global environment, The marketing failure during 1953 after entering U. S market through the company formed licensee Cosmair Inc. to distribute L'Oreal products(pg3 on the case study) this made the corporate management of L’Oreal to structure their corporate plans from failure to success, But management did able to consider company redisign to gain key success through designing good distribution channels, flaxible management development of internal structure and culture so they can cope with outside business environment to maintain stability, example L’Oreal managent under Dalle able to take the company to public(1963), sold off the company’s soap unit and also did able to respond in political issues of state control of france’s top companies(pg3 on case study).

The current organisational structure were doing well in terms of achieving goals in case study it shows they had good reputation and market share in france and also in europe even though they were selling their products to customers in premium price. Organisation were recruiting skilled and talented staffs who can able to run up the company to successful point in future time without looking location of individual, example Lindsay Owen Jones who was CEO british born(case study pg 4). Good allocation of resources to invest in foreign markets enables L’Oreal to gain other oppotunities apart from U. S market. Example L’oreal management after bought the brand of Helena Rubinstein was best opportunity to go extra miles to gain other markets which are outside of U. S like Europe, Japan and Asia and brand has very good market awereness to its customers. Through acquisation L’oreal company were able to access available resources from other company like distribution channels, skilled staffs.

Because of global marketing environment Lindsay Owen Jones the CEO of L’Oreal he started to redisgn the corporate strategy so the company can able to cope with the international geographical environment of where will operates, below here shows the Strategic Choices of company can use four basic strategies to enter and compete when decide to operate in international market like follows:-

Pressure for Local

GLOBAL

STRATEGY

TRANSNATIONAL

STRATEGY

INTERNATIONAL

STRATEGY

MULTI-DOMESTIC

STRATEGY

High

Cost pressure

Low

Low Pressure for local High

Transnational Strategy.

This strategy firms must exploit experience curve cost economies and location economies, transfer distinctive competencies within the firm and pay attention for pressures for localisation. To do this their need to be flows of knowledge from the parent to subsidiaries, flow from foreign subsidiaries to the home country, and from foreign subsidiaries to foreign subsidiaries, a process that known as global learning. The approach of transnationals is not appropriate in all situations, nor is it without costs. Where demands for local responsiveness are low, a global strategy may still be the most appropriate . The coordination and management challenges of a transnational also create higher cost and benifits than with one of the more traditional strategies. A transinational strategy makes sense when a firm faces high pressure for cost reductions, high pressures for local responsiveness, and where there are significant opportunities for leveraging valuable skills within a multinational’s global network of operation. In some ways companys that pursue a transnational strategy are trying to simultaneously achieve cost and differentiation advantages. As attractive as this may sound, the strategy is not easy to pursue. Pressure for local responsiveness and cost reductions place conflicting demand on a firm, being locally responsive raises costs.

Global Strategy.

Firms that pursue a global strategy focus on increasing profitability by reaping the cost reductions that come from experience curves effects and location economies. That can be called a company pursuing low cost strategy. The production, marketing and research and development activities of firms pursuing a global strategy are concentrated in a few favorable locations. Global firms tend not to customise their product offering and marketing strategy to local conditions because customisation raises cost, it involves shorter production runs and the duplications of functions.

Multidomestic Strategy

Compay pursue this strategy orient themselves toward achieving maximum local responsiveness. The key distinguish feature of multidomestic firms is that they extensively customise both their product offering and their marketing strategy to match different national conditions. Consistent with this they also tend to establish a complete set of value creation activities.

International Strategy

In this strategy company try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products. Most international firms have created value by transferring differentiated product offerings developed at home to new markets overseas.

Analysis of how globalisation influences policies and decision making in L'Oreal.

L'Oreal able to increase acquisation to maintain market share against other competitors so the company can stay into its business. Value creation were made into L'Oreal products by renovate those brands they were so strong in the market and had very good perception to its customers because if there is more value in the product that means there is value and trust between two parties, firm and customer. Because of globalisation L'Oreal did able to design the Organisation structure which will fit on the global environment the firm is facing. Barlett and Goshal outline a range of organisation structures developed by multinationals to meet these global challenges, Like as follows below.

Global Co-ordination

Low High

International

Divisions

Global Products

Companies

International

Subsidiaries

Transinational

Corporational

Low

Local Independence

And

Responsiveness

High

International Divisions

The structure is appropriate where there is little requirement for global coordination and little need to tailor products to local requirements.

Global Product Companies

The need for greater global integration has seen many multinationals moving towards global product structures with product divisions integrating activities on a world wide basis from component supply, through manufacturing to research and development. This structure creates many opportunities to achieve cost efficiencies and transfer resources that are dependent upon sophisticated planning and control systems. However the pressures to respond to local needs seem to be increasing in many global markets. In case study page 10, CEO Owen Jones said that L'oreal to be truly global company they need to promote around the world American brands because that was other great alternative in the beauty industry and also they didn't accept only local brands, by trying to put all L'Oreal brand everywhere by selling United states to Americans, Japanese, Chinese and Italian elegance to the Japanese, French beauty to Africans, and also Japanese chic to Brazillians.

International Subsidiaries

Many organisations are structured around international subsidiaries that respond more closely to the needs of the local market, often at the expense of control from the centre and a uniform organisational structure. However, whilst this structure has been appropriate in the past, as global competition becomes more intense, there may now be a need to look at greater global integration.

Transnational Corporations

The increasing pressures of global competition upon companies to both globally co-ordinate activities and respond to local needs has led to the emergence of the transnational organisation . The traditional multinational structures are seen to be converging upon a new organisational structure that depends upon an integrated network of interdependent resources.

Also L'Oreal company according to case studies shows the numbers of responds to change the products offering to its customers through understanding their customers and the life styles they have. By using Ansoff four strategic options, he claimed that in marketing we can only ever be talking about products and markets, and that these can only be old, or existing, and new, or potential. Below is a figure shows Ansoff Matrix model in strategic choice.

Products

Present New

Market Penetration

LOW RISK

Product Development

MEDIUM RISK

Market Development

MEDIUM RISK

Diversification

HIGH RISK

Exist

Markets

New

source: abe manual

Market penetration

On this strategy present product and present market will be appropriate when a market is growing and not yet saturated, example L'oreal company when was marketing in France market before decide to go abroad market. By attracting non users of the product, or purchasing rate of existing customers. The strategy can be implemented through increasing activity on one or more of the mix elements. Example aggressive promotion, pricing, using more intensive distribution.

Product development.

The strategy deals with New product at existing market, an organisation develops a new product to sell at its existing market. Sometimes can be simply the product refinement, could be change of taste or packaging. Product development is most prevalent when branding exists. Promotional aspects will be emphasise the added qualities of the new product and link it specifically to the security of and confidence in the brand. This strategy builds up customer loyalty and the benefits to be gained by purchase and other mix elements like distribution may remain unchanged.

Market Development

On this strategy is about the company sells the existing product at new market, is often found when a regional business wishes to expand or if new markets are emerging because of changes in consumer habits. It can also occur when a new use has been discovered for an existing product. Implentention of this strategy involves appealing to markets sectors not currently catered for and many mean a repositioning of products, new distribution methods or channels.

Diversification

This strategy is where new product will be sold in the new markets sometimes introduced so that the firm will not become too dependent on its existing strategic business units (SBUs), this is kind of insurance for future of the company incase of any disaster that would happen due to drastic environmental changes in future where the company is operating it business. This can be considered as means of growth and expansion of power to against competitors. The new product can me totally innovated which has never been seen in the marketplace, or the product is new to the firm but has already been the in the marketplace. Diversification can be Horizontal integration acquisation of another organisation which has a desired features, the firm that is acquired mighty use similar production methods, its distribution channels may highly effective and prove advantageous or has got great capacity. Or Vertical Integration where involves acquisition of some other enterprises in the chain of distribution between manufacturer and customer, can be forward towards customer or backwards towards the source of materials. Other diversification also can be Conglomeration where moves a company away from the its existing product market situation into an entirely new area in order to satisfy a primary objective.

Critical evaluation of the effectiveness of L'Oreal response to globalisation.

Due to global environment has its complexity and uncertainties, L'Oreal did able to respond through building organsation which will cope with changes in business environment by competing with other firms operating in the same beauty industry, L'Oreal was selling a products (e. g Lancome in cosmetics and L'Oreal professional in hair care) which targeting in high income customers by selling their products in high price, which limited the company to expand into international markets. Also their brands where only potential in Europe and not USA and the price strategy they were using were not accessible. This made L'Oreal management to review their marketing strategies into global level. L'Oreal had market entry strategy in USA market, first was licensee to cosmair to supply L'oreal products after the strategy did'nt perfom better, then L'oreal management did apply another strategy which was acquisition strategy. There are different entry strategy to foreign markets a business company can use, entry strategy can be Turnkey project, Exporting, Franchising, Licensing or Joint ventures. Licensing agreement is at arrangement where by a licensor grants the rights intangible properry to another entity (the licensee) for a specified period, and in return the licensor receives a royalty fee from the licensee. Intangible property includes patents, inventions, formulas, Trademarks, processes and designs. Acquisation is about one firm buys another firm. Hamills model, Motives for acquisation are economic motives, strategic motives, finance motive and behavioral and managerial motive.

Economic motives can be synergy in value chain, economies of scale, improved efficiency, purchase of managerial skills and unique resources.

Strategic motives this can aslo be diversification, competitive by gaining market control or remove competitors or both, buy rather than build market share, or instant growth.

Behavioral and managerial motives also this can be increasing management utility and sales growth, personal goals of senior managers, separation of ownership from control.

Financial motives is about Financial engineering, Valuation gap theory and increasing shareholder value.

In Addition of popular American brands such as Maybelline, Redken, Matrix, SoftSheen-Carson, and Ralph Lauren Fragrances to its portfolio of french brands, L'Oreal had created an international brand portfolio for consumers with a wide range of incomes and tastes in 140 countries.

Because the market in France and part of Europe maybe were seems to be saturated, and L'Oreal perhaps was facing a bit competition from rival companies in france and other part of Europe made it to seek other new attractive market which was USA market to extend its market share and increase the revenue.

By using Boston Consultancy Group Matrix(BCG) theory based on Market share and Market growth rate of the Small Business Units(SBUs).

Boston Consultancy Group Matrix.

STARS

QUESTION MARKS

CASH COWS

DOGS

High

Market growth

Low

Relative Market Share

Source: abe manual.

Question Mark

Are products which have low market share and are in high growth markets. The product has not yet reached a dominant position in the market. Although it may be generating funds, it still requires a lot of investment for development and the company must decide if they to keep investing.

Star

If Question marks succeed they become stars, leaders in high growth markets. Stars are the providers of tomorrow and the company with no stars should worry. On the figure above shows two star products, one which has the leading share in its market and one which has only slightly more share than its leading competitor. Efforts should be made to increase the share of the second product in order to secure its future profitability, particularly as the market has a very high growth rate this could be where future earnings lie. Also this stage may involve investment in promotion and distribution incase of competition, and Star can also produce revenue and use resources which may lead to break even.

Cash Cow

When market growth reaches a stable level, Stars become cash cows providing they hold a leading share of the market. If they lose any market share to the competition they will slip into either being a marginal Question Mark or at very worse, a Dog or sometimes if a firm continued to support other categories and neglegeted its cash cow then its could eventually become a dog. Cash Cows produce good revenue, do not require high investment and often mean the economies of scale can be gained. The money earned from cash cows should be used to invest into other products.

Dog

Dogs have a weak market share in low growth or stable markets. These products can often take up more time than they are worth. They usually produce low profits and very often incur losses. They will always consume cash, even if it is just in the time taken to manage them. Can be dropped by firm but is not wise to do immediately because they might still poduce profit and can also be used retention to customers.

L'Oreal responded by creating competitive advantage against other competitors in beauty industry.

Michael Porter Generic Strategy explained how the company can gain competitive advantage through differentiation, differentiation focus, cost leadership, and cost focus. L'Oreal management were able to differentiate their products through product divisions (Consumer, Professional and Luxury products division). Also L'oreal used cost leadership and cost focus, by created products range according to consumer classes, by selling them with different range of price, based on ethinic life styles from white to black people.

Also Porter Value Chain Analysis can be useful here to determine the response of L'oreal beauty company to globalisation,

Primary activities.

Inbound logistics, dealing with storing, receiving and distributing the inputs to the product or service. Material handling, controlling stock and transport. Operations, concern of transform different inputs into final products or service, assembly and testing.

Research and development, concerning about gathering useful information from the market like competitors in that market, customers, developing new product or lowering the cost of production (L'Oreal, Research and development activities allowed the firm to reduce production costs). In the case study (pg11), Its " says L'Oreal had strong commitment to research and development that many insiders considered to be among the firm's most distinctive values and a comparative advantage over competitors. Through research and development they did able to discover the new hair Fructis shampoo product made from fruit sugar called fructose.

Production can be creation of goods or services, example Fructis shampoo.

Out bound logistics through local distribution channels which the company had control with it, acquisation enabled L'Oreal management to gain competence in distributing products to consumers.

The Marketing and sales provide the means whereby consumers/users are made aware of the product or service and are able to purchase, L'oreal provided product mix, enough advertising to their customers so the can be aware of their products offering to the market.

Service, service includes all those activities which enhance or maintain the value product or service, such as training, installation, repair and spares.

Support Activities in the value chain give inputs that allow the primary activities to occur, can materials management, human resource management by dealing with recruiting, training, development and rewarding people within the organisation, example in the case study L'oreal hire people early in their careers and educate them so that they can become the future leaders of the company (i. e L'Oreal CEO, Lindsay Owen Jones and Kiehl's president, Philip Clough). Information systems, and company infrastructure this can be the structure of organisation, control stystems and culture of the firm.

Demonstration of some areas for improvement in the response of L'Oreal.

L'Oreal as beauty company needs some area for improvement like as follows;

There is need for L'oreal to creat another range of products which will be different from cosmetics products through diversification, example house hold products or clothing, so can able to maintain the strong position in the market and gain more revenue. Because the L'oreal profit seems to be low compare to other competitors, even though is leading company there is slightly difference in revenue and even in market share too.

The price of L'oreal products seems to be a bit expensive to developing countries in Africa and Asia where majority people are in very low income which the can't afford to buy the L'oreal products only medium and high income people can afford to but them, compare with other competitors like Procter and Gamble or Uniliver which their products in area like Asia and Africa are quite cheap most people can afford them. Example L'oreal did sue Bellure company for selling smelled perfume like a luxury L'oreal perfume (htt://www. newlawjournal. co. uk), this shows that the Loreal products are potential in market but are more expensive which other company getting advantage by coping the products and selling them in cheap price.

There is needs of improvement also in distribution channels so can allow easy accessibility of products to their customers, example Kielhl's products part like Africa there is no kiehl’s store, like Asia which there is good ermerging market opportunities there only very few stores.

Social resposibility according to book of Corporate Communication by Cornelissen pointed as corporate social responsibility is about the recognition of the need for business to deliver the wider societal value beyond shareholder and market alone (pg44). L’oreal management doesnot gives information in how they are connected to their suppliers who supply the materials for fructis shampoo which made from fruit juice, but how the fruits are growing and there is any environmental concern that the major question, because probably this could be another source of environmental degradation. According to The Telegraph article Jan 30, 2008, L’oreal was sued for using Shark oil to make cosmetics which they did stop to use to make major products but still their using shark oil to make lipstic brand type called Shu Uemura, which actually for L’oreal needs to use other source of raw material like vegetable oil than Shark oil which this destroys natural resources in the environment. L’oreal also through advertisiment by using female models this can be misleading to women because most women will respond to advert that there is beautiful model on it by thinking that they will be the same as like the model on the advert, source (http//loreal. exteen. com), this should be improved by selling only cosmetics generally than selecting small number of beatiful model women who can attract majority women in the world to buy products.