

# Sample case study on the body shop

[Business](#), [Company](#)



## **The Company**

### Overview

The Body Shop is a successful chain of cosmetics shops, based in the United Kingdom, and founded in 1976. The company has shown remarkable growth, with revenues increasing from £2 million to £28 million in just 4 years from 1983 to 1987. The rapid growth was accomplished largely by franchising. By almost any measure, the first 15 years of the company's existence must be considered one of the most successful in business history.

## **Key economic and technical background**

The company was founded on a mixture of ethical principles and savvy business insight. The founder realized 2 important facts:

- First, traditional cosmetics companies spend only 15% of the product price on the actual product. 85% of the money is spent on advertising and packaging.
- Second, non-invasive topical creams and cosmetics have not been shown to produce significant improvements in youthful or beautiful appearance.

## **Therefore purchasing by the consumer is based on irrational thinking, unrelated to any factual data.**

The Body Shop founder decided to use simple inexpensive packaging, and to promote the products by free newspaper articles. The founder decided that “ethical principles” would engender positive emotions toward the company and hence stimulate product sales. The founder was correct in her beliefs, probably beyond her dreams. The marketing message is purely on being an “

ethical company” and promoting a “ Body Shop lifestyle”. This message has been phenomenally effective.

### **The “ ethical company” lifestyle**

The founder truly believed that companies should act in a certain fashion, and she was ahead of the rest of the market in that respect. The founder articulated those feelings in a way that consumers could act.

- First, the Body Shop used simple and inexpensive packaging, convincing consumers that this allowed lower prices, and did not clog the environment with non-biodegradable trash. By shopping at the Body Shop, the consumer is saving the environment.

- Second, the Body Shop used natural ingredients, such as coconuts. There is no claim that coconuts make a person any more beautiful than hexanediol, but at least there is no need to test poisons on animals. The consumer is a good person for using these products.

- Third, as women buy the majority of cosmetics, a company largely staffed by women will be more responsive to women’s needs and the empowerment of women. By shopping at the Body Shop, the consumer is doing her part for women’s rights.

- Fourth, the Body Shop funds philanthropic activities in underprivileged societies. By shopping at the Body Shop, the consumer is doing her part to save the world.

These four components came together in an emotional state which can be characterized as “ the Body Shop lifestyle”. Consumers felt proud to be acting in an ethical and environmentally conscious fashion, and liked doing

business with the Body Shop. These emotions engendered extremely strong brand loyalty and repeat purchasing.

### **Central control**

The centralized control is very strict. With only minor exceptions, all products must come from the corporate center, even those ordinary products that could be sourced locally. Franchisees do not control their building leases. Even store displays are mandated and supplied from corporate central.

### **Charismatic leader**

The Body Shop corporate has a strong charismatic leader, who inspires employees and consumers, and also provides a public relations windfall in the form of free news articles.

### **The Founder**

When she opened her first shop in 1976, Anita Roddick was 33. Ms. Roddick had travelled worldwide during her 20s, and had learned how people in Third World countries chose local, natural ingredients for cosmetics and body lotions. Probably 20 years ahead of her time, Ms. Roddick believed that these ingredients would sell successfully in the United Kingdom. From the 1960s onwards, starting with “The Silent Spring”, people were starting to be distrustful of large corporations and artificial chemicals (Carson). Ms. Roddick captured that “natural products” trend from the very beginning.

After an initial success, a startup needs to decide whether it is “an attractive small company” or a “high potential venture”. Ms. Roddick made the decision that The Body Shop would be a “high potential venture”. This remarkable decision propelled the company to unimaginable success.

Key to success was the reinforcing of the aura of the “ Body Shop lifestyle”, without which sales of the rather mundane products would falter. Ms. Roddick successfully strengthened this “ do good, be good” theme which touched the nerve of the time and cemented consumer loyalty.

## **The Industry**

The Body Shop brought disruptive change to the cosmetics industry. The industry was selling mysterious inexpensive chemicals in fancy packages with advertising showing beautiful people. Apart from some sales in department store kiosks, the products were sold through mass market stores. Manufacturers did not have their own dedicated stores. Then, as now, the industry was dominated by the few large companies that could afford extensive television and print advertising.

The Body Shop disrupted this scenario in three ways. First, by eliminating expensive packaging and advertising, the products could be sold at a lower price point. Second, by using “ natural” ingredients, the products fit the “ anti-chemicals” trend of the later 1900s. Third, by using captive stores, there was enthusiastic direct selling, and the elimination of middlemen expenses.

## **Financials**

As only 5% of the shops were company owned, in the 1980s the Financial Statements reflect primarily sales to the 450 franchised stores, rather than sales to end-user consumers. In 1987, the resulting Gross Margin was a remarkable 50% at £14 million on Revenues of £28 million. Distribution and Administration totaled £8 million, leaving a Net Profit of £6 million or 21% of Revenues.

Revlon is a major cosmetics company selling through mass market stores. In comparison, Revlon has a similarly high Gross Margin, but also huge Selling, Distribution, and Administration costs. Revlon is still a very profitable company, but its Net Profit is only 11% of Revenues (Revlon).

## **Issues and Problems**

Overview

### **The Body Shop in the 1900s needed to confront five topics:**

- Maintenance of the aura of the “ Body Shop lifestyle”
- Increasing competition for “ natural” products
- Managing growth from a centralized organization
- Potentially selling through mass market stores
- Deciding whether to be acquired

### **Maintenance of the aura of the “ Body Shop lifestyle”**

The Body Shop has achieved remarkable growth and consumer loyalty by promoting a lifestyle of good ethics, natural ingredients, no animal testing, protecting the environment, promoting women’s rights, and helping disadvantaged people.

Interestingly, none of these attributes have any relationship to product effectiveness. Even today in 2014 these same attributes are prominent on the Body Shop website. As the company grows it will be increasingly difficult – but not impossible - to maintain this image. By 2014 the company noted on its website that it had over 2, 500 stores, and still its image is enduring.

The risk is that of a scandal that undermines the image. A good example is the Martha Stewart company, which had a similar charismatic founder and

engendered similar loyalty. Then Martha Stewart was convicted of insider trading, and the whole image collapsed (Scannell).

The company and its founder must even more strictly adhere to the founding principles. It would be a disaster if the image were punctured and consumers thought “ the Body Shop used to be a great little company, but now they are just a big corporation like everyone else”. A big risk is that employees in the stores are paid low wages, and that topic could undermine the “ good company” image.

### **Increasing competition for “ natural” products**

Though clean and wholesome, the Body Shop ingredients are commonly available. The attributes of natural ingredients, good ethics, women’s empowerment, charity works, etc. are all relatively easily copied.

It may be easy to copy one attribute of the package, but only The Body Shop seems to have been able to put it all together. Starbucks has also successfully put together such a package (Starbucks), but generally other cosmetic companies are still considered as faceless corporations.

### **Managing growth from a centralized organization**

The franchise model seems to have resulted in an ideal mixture of very strong corporate control over products, locations and marketing, while allowing local decisions on hiring, store cleaning, etc.

There is a risk that the mandated central purchasing and marketing decisions could lead to a franchisee revolt, as has happened quite frequently (Gray). Franchisees can feel squeezed by paying high product prices to the parent, and having little local marketing or pricing control.

Here the remedy is continuous attention from the charismatic founder, and financial success for the franchisees. A successful franchisee will not be unhappy with the parent, especially if she feels appreciated by the founder. Avon Products – a successful cosmetics company – also has a charismatic founder, very involved in the business, who goes to great lengths to make their independent distributors feel appreciated (McConnell).

### **Potentially selling through mass market stores**

Going around the franchised stores and selling through mass market stores is a very risky strategy, but could have a high payoff. Apart from angering the franchisees, this approach has the potential to cheapen the brand image.

Avon never sells through mass market stores. Starbucks coffee and certain pizza brands are very visible in every grocery store. Not relevant to the 1990 case, the Body Shop now sells direct through an online store, which will cause a difficult balancing act in franchisee relationships.

### **Deciding whether to be acquired**

#### Recommendations

It is recommended that The Body Shop more intensely focus on its core principles to maintain the aura of the “ Body Shop lifestyle”. There will be more competition for ethical, natural products, but probably nobody else will put together the “ complete package”. Above all, the company should avoid a scandal.

The founder should increase her public awareness in promoting the company ideals, and especially recognizing and appreciating the efforts of the



franchisees and store employees.

The company should remain the sole product source partly to maintain quality, but more especially to be able to sell inexpensive mundane ingredients as very profitable mixtures to a captive franchisee base. The centralized control also maintains the brand consistency.

### **The company should not sell through mass market stores, as the franchisees would revolt.**

The Body Shop is a phenomenon of the late 1900s. It is doubtful whether it can maintain its high profits as times change and competitors adopt its ideas. The Body Shop has no advantage in product effectiveness, and so is quite vulnerable. It is recommended that the company seek an acquisition parent while everything is going so well.

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