

# Business overview of estee lauder



From humble beginnings in 1946 the cosmetic company started by Joseph Lauder and his wife Estée Lauder has evolved into a multibillion dollar empire stretching across various cities and continents. Today Estee Lauder is one of the world's top cosmetic brands with estimated sales of \$ 7. 8 billion in 2010. (elcompanies. com, 2011)

The company manufactures an amalgamation of skin care, makeup, fragrance and hair care products. It employs over 31, 200 people both domestically and abroad and has operations in 150 countries and territories. The company has a portfolio of well established brands such as Aramis, Clinique, Bobbi Brown, Tommy Hilfiger, , Donna Karan and Smash box among others. Some product lines such as Clinique and Bobbi Brown specialize in manufacturing cosmetics while other such as Donna Karan and Tommy Hilfiger specialize in a whole range of products including perfumes, accessories and apparel. (elcompanies. com, 2011)

In terms of market share Estee Lauder controls a sizeable 46% of the cosmetic market in the US. In terms of International market share 61 percent of the company's total sales occur in North America, 27 percent originate in Europe and the Middle East and the remaining 12 percent occur in the Asia Pacific. (elcompanies. com, 2011)

Most of the company's phenomenal success in the last 65 years success is attributable to the marketing talents of its founder Estee herself. Inspired by her uncle who was a chemist Estee followed in his footsteps and brewed a series of creams in her kitchens. In the era preceding the Second World War she worked hard to promote her own brand of cosmetics. In 1946 she got her

first break when Saks Fifth Avenue agreed to buy her creams and sell them over the counter. In a few short years Estee managed to turn her fledgling cosmetic company into a major market player. She implemented a unique marketing strategy which would come to define Lauder's approach in the future. This technique employed the use of innovative packaging materials to make the product look distinguished and appealing. In the post world war era when most cosmetic companies were selling their lipsticks packaged in plastic Estee distinguished her product by packing it in upscale and innovative metal cases.

Another technique pioneered by Lauder which has now achieved standardization in the cosmetic industry is the "get a free gift with your purchase offer". Estee was the first cosmetic manufacturer to experiment with this technique when she first started giving out free samples with purchases to encourage new customers. These innovative marketing campaigns resulted in the brand achieving huge popularity and creating a niche for itself in the cosmetics market. (elcompanies.com, 2011)

The initial and continued success of Estee Lauder can be attributed to the strength of its internal capabilities. These include strong management skills, adequate price product, promotion and placement mix, identifying the right target markets and using the right distribution and placement strategies to reach these markets. However these factors alone do not affect performance. There are several external environmental factors which have affected the performance of the company over the years. These include factors such as competition, changes in laws and regulations and the advent of new technology. When developing a marketing strategy it is essential to

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examine both the inherent capabilities of the company as well as the external factors influencing the industry and the organization. Smooth implementation of the company's strategic plans requires that factors in both the internal and external environment factors be closely examined and evaluated using specific analytical tools. The internal strength and weaknesses of the organization as well as the opportunities and threats that it faces can be discussed using analytical tools known as the SWOT analysis and the PEST analysis.

### **Using the SWOT analytical Approach**

A strength, weaknesses, opportunities and threats analysis known as the (SWOT) is an important exercise when drafting the company's strategic plans because it will help determine where the company currently stands in terms of its strategic capabilities and what areas require improvement. It will also provide an understanding of the external environmental factors that will affect the company's operations and what strategies should be adopted to either exploit these factors or minimize any negative effects they might cause. (David, 1995)

One of the key strengths of Estee Lauder is its brand name and the exclusivity and prestige that it accords to its customers. This brand equity can be used to attain and sustain competitive advantage.

Another key strength is a high performing human resource and finance function. Superior staff performance and the presence of qualified and trained employees indicate a strong Human Resource Function within the Organization. The ability to meet all debt obligations, a strong balance sheet

and the fact that the company generates profit above its breakeven point implies that the Company has a high performing financial function.

Another key strength is accorded by the diversity of products offered by the company. No other company offers such diversity both in terms of the number of brands and product lines that a customer can buy.

One of the major weaknesses of the company is that new customers often perceive Estee Lauder prices to be high in comparison to other retailers. Customers of a specific income group may therefore not be interested in shopping at the company's stores.

One opportunity that Estee Lauder can exploit includes the increased use of mobile technology to access the internet. Since people use the internet more frequently to conduct online transaction Estee Lauder can use this opportunity to launch mobile applications which allow users to access the online manufacturer and conduct transactions through the mobile.

Another opportunity is the acquisition of a prime competitor. This would accord the company both economies of trade and result in a stronger more diversified entity. It would also add value to the company's shares and help enhance the company's brand identity and good will

Opportunities can also be accorded by expanding into international markets. This will help identify and generate new consumer markets in emerging economies which may have a demand for the company's products.

One of the threats that Estee Lauder faces is the possibility of hostile takeover and merger bids by other rivals in the market, changing legislations

which affect the company's domestic and global operations as well as the onset of the global recession. The global recession which started in 2008 has led to a reduction in the global disposable income and hence the inclination of people to spend.

Another tool that exclusively examines external factors that affect a company's operations is the PEST Analysis. This tool looks at the political, economic, social, and technical, factors that will affect the cosmetic industry. Let us examine these factors in greater detail:

**POLITICAL** -The integration of more countries in the EU and the negotiation of more Free Trade agreements with former countries of Eastern Europe has opened up more opportunity for cosmetic companies such as Estee Lauder to set up operations in these countries.

**ECONOMIC** – The cosmetic sector is particularly prone to the effects of the global recession. The global recession has resulted in massive job losses in US as well as Europe and this has significantly reduced the disposable income of individuals and families. Retailers selling luxurious items are particularly affected by the recession.

**SOCIAL** – Changes in social trends may impact the products and operations of the company. The new trend to use anti aging treatments even when one is still relatively young has increased the popularity of anti aging creams and formulas. Skincare is one of the company's forte and this new trend has boosted the sales of one of the company's core product line.

TECHNICAL - The development of the internet has facilitated the retail process and made it easier for customers to buy cosmetic products online.. This has helped to increase the cosmetic business and also made it more global. Buying online is also more convenient and can be done in the relative comfort of one house without facing conventional shopping hazards such as parking difficulties.

### **Assessing the logistics and supply chain processes of the company using a Value Chain Analysis**

All business operations in the company are structured as a Value chain. A Value Chain Analysis is a tool which is employed to assess the company's logistic and supply chain process. The value chain analysis breaks down the logistics and supply function of the company as follows.(David 1995)

**Inbound Logistic:** This involves procuring the right components and raw material to manufacture the product such as the ingredients for the creams, cosmetics and perfume. Most of these ingredients are synthetic

**Operation:** This process includes hiring employees, conducting research activities, identifying potential domestic and international markets etc charges.

**Outbound Logistic:** This involves the various ways in which the product can reach customers including distribution to conventional retailer stores as well as other new innovative channels such as online retailers like Amazon and eBay

**Marketing and Sales:** This process includes all the various promotional and marketing activities involved to increase sales and create a greater awareness of the company's various brands. This includes advertisements in print social and broadcast media as well as celebrity endorsements

**Services:** This involves activities which enhance the value of the product. It may include the presence of a makeup artist to demonstrate how the customer can achieve a makeover on a daily basis by using MAC products. By using a trained makeup artist to educate the customer in how to use the product in a professional manner the company can achieve great results for the company.

The value chain analysis examines all the logistic and supply chain elements in detail and assess whether they are being effectively utilized in conjunction with the overall strategic objective of the company.(David 1995) It also examines whether each function is being conducted effectively and how it can be altered to achieve further productivity profitability and competitive advantage.

## **Evaluating effect of Globalization on Estee Lauder**

Defined as the integration of political economic and social culture the concept of globalization removes boundaries and brings nations together to share resources for further economic progress and development. (Hirst, and Grahame, 1996). For Estee Lauder globalization has accorded the following opportunities

1) The prospect of capturing new and larger markets on foreign ground. The markets in the US are over saturated at the moment with lots of competitors

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ving for a chunk of the market. However foreign markets on the other hand still exhibit a huge volume of demand and Estee seeks to earn a lot of profit by catering to this demand.

2). Entry into a specific markets also gives the company a vantage point to enter other regional markets where demand for cosmetics, perfume and hair care are equally high.

In order to function efficiently in global markets it is essential that Estee Lauder alter its strategy to accommodate the following elements:

1. Differences in Language and culture. To give its product wider acceptability and understanding Estee Lauder will also have to promote its product in both English and the native language of that country All kinds of promotional campaigns which appear in print, television, and outdoor media will have to be bilingual. The company should initially use reward based campaigns to attract new users. Also to facilitate smooth business practice it is advisable to translate all formal written business documents into the local language To ensure that business partners and clients do not misunderstand the objectives of the company it is also wise to hire a translator. This is particularly necessary to facilitate communication in the local market (Griffin, and Pustay, 2006).

Hiring personal with experience in the local market that is familiar with local trends and market conditions. This will enable the company to gain knowledge about the local conditions which it can use to negotiate in a new and foreign marketplace. (Below, Morrissey & Acomb, 1990)

3. Training the sales and technical support teams: The Company would have to train new recruits on the technical aspects of selling products in a new market. They would require people who probably have previous experience in selling products to the local market and have a prior base of clients that they can start by selling to. Similarly the company would have to train a bilingual support team to address customer's queries

4. Repatriation of Funds: Estee Lauder would have to consider local laws and regulations before repatriating funds home. If there are certain restriction imposed by the foreign country's law companies cannot repatriate all the income it generate. This places a limitation on the funds that the company can repatriate home.

#### 5. Understanding the Consumer Segment

Estee Lauder must make an effort to understand its target market. The company should undertake market surveys to gauge how customers feel about their products. Consumer's preferences and needs must be taken into account to alter the product or strategy used to promote the company's products