

L'oreal and the cosmetic industry essay



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Executive summary The following report is doing about the Cosmetics industry, using a particular focus on one of its company : L'Oreal. This report will define the industry and its scope in a first time. Then, the report will determine the key strategic issues and the critical success factors facing the cosmetics industry and L'Oreal in the next five years. Next, the report will identify the organisation likely to be successfull or not, paying a particular attention to the competitive position of L'Oreal. Finally, the report will identify the strategic options available in the cosmetics industry and determine which options are most appropriate to L'Oreal to ensure its success in the next five years.

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Industry definition and scope Since it was developed nearly a century ago, the cosmetics industry hasn't stoped its

evolution. In 2000, the cosmetics industry represented a \$166.2 billion market worldwide. As a result of research and innovation, this market was projected to reach \$198.

2 billion in the year 2003. The world market in cosmetics and fragrances is estimated to increase by 4 to 7% per year since 1995. The cosmetics industry operates everywhere in the world. The biggest markets are Western Europe, North America and North-East Asia, in terms of numbers of customers and sales. Cosmetics companies use to classify their customers and sales in four region: •Western Europe •North America •Japan •Rest of the world The world's growth is dynamic, in particular in the region of "rest of the world".

This region includes new and emergents countries such as Brasil, China, India and Russia for example. The growth of sales in this region was +7.3% between 2002 and 2003 and even more between 2003 and 2004, with an increase by 8.7%.

However, certain markets look mature, apparently not much extensible. The Western Europe market has increased by only 1.8% in 2004, and even worst, the Japanese market has suffered from a decrease in sales by 1%. In Europe, there was a sharp and an unforeseeable drop in consumer spending.

As an example, Germany and Japan are considered as mature markets mainly because of the unfavourable general economic climate; sales experienced a slight decline in 2004. There was no economic growth in Germany due to a high unemployment rate, which created a price consciousness for customers, and also to the development of private label

products and discount stores. The cosmetics industry is a very segmented market that includes the following segments: hair care, skin care, make-up, fragrances and perfumes, oral care, deodorants, sun care, baby care and men's toiletries. The Hair care segment leads the industry with 22% of the market. Innovation and technology developed new products such as shampoos, conditioners, colorants, styling products, mousses, etc.

Although the men's personal care market represents only 4% of the industry, it is a growing and demanding market. Life expectancy is increasing worldwide. As a result, a graying population is becoming more and more important. Older persons are still concerned with their appearance, and they are spending more money and time on their personal appearance. The potential market is also growing by the fact that younger children become more interested in cosmetics. As a result of this increasing potential in the cosmetics industry, the environment is very competitive.

The main competitors are L'Oreal (FR), Procter & Gamble (US), Unilever (NED), Johnson & Johnson (US), Shiseido (JAP), Avon (US), Schwarzkop & Henkel (GER), Schering-Plough (US), Beiersdorf AG (GER), Colgate-Palmolive (US). L'Oreal is the world leader: 52% of the cosmetics products sales in Europe, 28% in North-America, 19% everywhere else. The competition is doing through the innovation of products (by the laboratories), the communication and promotion (advertisement). Several thousand new products are launched on the market each year.

Re-inventing, Creativity and Innovation are all Key in product success. Considering the industry life cycle state, the cosmetics industry is in a

shakeout cycle. Due to the importance of innovation in the cosmetics industry, the product life cycle is short. There are about a thousand new launched products every year on the market. Companies are international and despite this fact, most of them try to create specific products for specific area, to be every time closer to the customers. Key strategic issues in the cosmetics industry This second part of the report will analyse the driving of change and the growth of the future in the cosmetics industry.

To determine the key strategic issues, it is usefull to do an EPISTLE analysis, which examines the impact of Economic, Political, Informational, Social, Technological, Legal and Environmental factors on a specific industry, considering urgency, probability of Occurence and differential Impact.

Research and development: Firstly, facing the cosmetics industry in the next five years, will be the research and development capabilities. Indeed it is very important for a company to consider its level of investment allocated in research and development activities. Companies should maintain a strong commitment in it.

It must be a big investment. It is essential to remaining at the forefront of the increasingly competitive markets by developping new plants, new laboratories, and constantly innovate in new and improved products.

Development of new technologies: Next to this, companies need to keep an attention on their E-Commerce capabilities. It will define the future of the consumer products industry. There is a rapid accelerating to buy online. A good technology infrastructure, using a rebuilt of the IT system, will permit a better buying programme.

By this, companies can cut their prices. Furthermore, with this fantastic evolution of new technologies, companies benefit from new sources of communication. It is the development of new media, which help to promote new products. For example, SMS Messaging, online version, sponsoring... It can be as well the creation of “ self service digital kiosks” which are placing in stores to help the customer and give him the information he needs, whenever he wish, with a description of the products in store, the way to use the product...

The retailer Boots in England is one of the first to develop this system in its stores. Changes in lifestyle: The cosmetics industry is facing and encouraging a change in the way that people use cosmetics products in their daily life. The potential market is growing significantly. First of all, men’s personal care market is increasing for more than 10 years now, projected to reach \$122 million in the year 2003, compared to a little \$100 million in 1996.

More often, men are shopping for cosmetics for themselves and the industry has been able to answer their preoccupations. But it is only the beginning and it will continue to increase in the next year. The most important changes will concern the demographic evolution. In mature markets, such as Western Europe, North America or Japan, the rate of older people is rising significantly. Companies will have to face an ageing population in the next few years. It is called the graying consumer market.

Older women and men retain a pride in their appearance and will be an important source of benefits for companies. On the other hand, the

geographical region called “ rest of the world” has a high rate of birth and a huge part of its population which is teenager. This will be a huge source of benefits as well for companies in the next few years. In mature markets, younger children and teenager become more and more interested in cosmetics. Youth market for cosmetics and toiletries is increasing due to greater pocket money levels, young consumers spending more of their parents' incomes and there is also a rising youth earnings from employment.

Level of communication and information technologies: In the next few years, companies in the cosmetics industry will have to develop their informational capacity regarding the need of consumers. Companies started recently to create websites dedicated to brands. It allow a variety of information for products new launches, advices on product use and can also provide product launches. The best way for a company will be to provide websites in different languages in order to give usefull information and to satisfy to a maximum of people. Regarding the next five years: The constructions of new manufacturing plants will be considering: it is very important in terms of innovation, but also companies will have the opportunity to build new plants in countries where the labour cost is cheaper.

Putting business in the hands of local staff will also give the opportunity to be closer to the consumer in emerging countries. By being close to the markets that they serve, companies affiliates are able to adapt the range of products offered and their marketing to best meet the demand of the local market. New technology and communication will contribute to this change.

Critical success factors for L'Oreal Innovation: The capacity of innovation and launched new or improved products is important.

Consumers are faced with a choice of outlets, so they need new reasons to buy new products. Consequently, innovation is an increasingly important factor in order to sustain popularity. The products life cycle in the cosmetics industry is quite short and the need of consumers is changing fast. To adapt and innovate its products to this changes, L'Oreal created a vast and successful system of research and development: almost 3,000 people, 13 research centres and 13 evaluation centres across the world play their part in devising some 4,000 new formulas for the main cosmetics businesses. Quality and safety: This is a very important critical success to take into consideration.

Especially in the cosmetics industry where the consumer is very careful on it. L'Oreal strategy regarding the quality is to procure to the consumer the highest possible standard of quality. L'Oreal has to comply with ever higher standards year after year. The respect of the norms in the industry is a key success as well. Indeed, in the industry, there is a regulatory body which exists, regulating by high institution. Products need to be in the norms, with certifications.

With this aim in mind, L'Oreal manage to adapt its products innovation in a way to suit both consumer's expectations and regulatory requirements.

Powerful brand image: The brand image and the company reputation is very significant for L'Oreal. Only companies with a high brand awareness and recognition can be successful in the cosmetics industry over a long time. The level of investment in advertising and promoting for L'Oreal is very high.

Consumers can easily understand the high-level of quality and safety, and it helps to understand the level of price. Market leader: The position of being the market leader gives to L'Oreal a strong power. In terms of finance, with excellent benefits and a high capacity of investment, human resources, with a high degree to attract new talents, image, with a strong belief in brands. Core competencies Core competencies are a group of production skills and technologies that enable an organisation to provide a particular benefit to customers. Core competencies underlie the leadership that companies have built or wish to acquire over their competitors. L'Oreal classify its products in four divisions: Professional, Consumer, Luxury, Active cosmetics.

L'Oreal intervene in four major segments: make-up, hair care, skin care, fragrances. Considering this situation, the following boards will identify the competitive position of L'Oreal in relation to its competitors per division per products. The main competitors on the european market are Procter & Gamble, Unilever, Johnson & Johnson, Henkel, Revlon. The classification of the segments is: Hair care, skin care, fragrances, make-up, deodorants, oral care.

We will then identify the core competencies which give a success or not to L'Oreal. Professional Division: L'OrealHenkelP & G Hair careL'Oreal professionalSchwarzkopfWella KerastaselgoraMaxfactor RedkinOsis Matrix Skin careLiftThe core competencies successfull in this division are: quality and safety, because it concerns products which are delivered in beauty salon, innovation. Consumer Division: Hair careSkin careMake-up L'orealL'Oreal ParisL'Oreal ParisMaybelline GarnierGarnierL'Oreal Paris P&GHead & ShouldersOlayMaxfactor Pantene wella UnileverDoveVaseline

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SunsilkLux LuxPonds HenkelToftFa GlissDiadermine SchaumaAok Fa
 RevlonColorsikAlmayRevlon High DimensionGatineau Ultima II J & JClean &
 Clear Neutrogena Roc The main successfull: market leader, brand name,
 image, quality, safety, innovation. Luxury Division: Skin careMake-
 upFragrances L'OrealLancomeLancomeLancomeBiothermH.

RubinsteinH. Rubinstein Kiehl'sGiorgio Armani Ralph Lauren Cacharel P &
 GSK IIHugo Boss De WrinkleLacoste RevlonRevlon beautyCharlie
 HenkelScorpio Sergio Tachini La Perla UnileverCalvin Klein In this particular
 Division, with a high level of glamour and desirability, successfull
 organisations may succeed in a powerfull brand image, quality and safety.
 Active Cosmetics Division: Skin care L'OrealVichy La Roche Posay Inneov J &
 JNeutrogena Roc Aveeno This Division need a high level of innovation, safety
 and quality, as products are selling through dermatological and
 pharmaceutical stores. L'Oreal has strong positions in the four Divisions. It is
 market leader in Consumer Division, having a high standard image,
 competing with important organisations.

L'Oreal brand name is very strong and has influences on consumers decision.
 However, L'Oreal has developed others brands like Maybelline, which is also
 a powerfull brand without having the L'Oreal name. The luxury Division is the
 same for all competitors. A high brand image is the most important.

L'Oreal has serious rivals. The competition is hard through advertising and
 promotion, but the company manage to keep a leadership position. The
 Active Division is the one which looks to be the more “ open” in terms of
 competition. Its rival J & J has a strong position because it is a specialist in

pharmacy, biology and medicine. The analysis of the core competencies is good but not enough to determine with more precision the position of L'Oreal in each Division and its possible development.

It is better to add a strategy clock matrix study for a 3-dimensions view of its general brands' position. Corporate advantage L'Oreal compete using a differentiation strategy, with a value competitive advantage and a wide competitive scope. It means L'Oreal has a strong differentiation by its brand/image. L'Oreal compete as well using a focused differentiation, with a value competitive advantage and a narrow competitive scope.

It means L'Oreal has also a strong differentiation focussed on its brand. L'Oreal is the only one company in the industry with such a large portfolio products (almost 500 brands and 2, 000 different products), combining to a high-level brand image, in terms of quality, safety and innovation. The position of L'Oreal is really strong in the industry. At the moment the only one company who can compete seriously with L'Oreal in term of number of sales is Procter & Gamble.

Besides, Procter & Gamble will probably become the new market leader for the year 2005 or 2006 since it acquired the company Gillette, specialised in a range of Deodorants and Depilatories products for men and women. This new repositionning will maybe push L'Oreal to react. Many ways of development are possible in the cosmetics industry for L'Oreal. First, L'Oreal can carry on with the development of products in its existing competencies.

That was the strategy established the last 5 years. The best strategy is probably to increase its position on the Active cosmetics Division,

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developing new products relating to the high-level skin care segment, through its existing brands Vichy, La Roche Posay or Inneov. This segment will increase in potential of sales in the next few years with the demographic changes and the apparition of a graying generation, concerned by its health and the use of ethical cosmetics products. In its luxury division, L'Oreal will have the opportunity to increase its sales of fragrances from brands like Ralph Lauren, Giorgio Armani or Cacharel with the increasing potential of buying power from teenagers.

From an international view, L'Oreal has to continue to investigate new territories in new emerging countries to keep a strong position in market share. Investigate new segments is possible but restricted. The best option can be to enter the deodorants segment, with a high standard product, to compete directly with its major competitor brand Gillette. There are lots of solutions available to L'Oreal. To be the market leader in such a good and increasing industry helps for the future. The fit of the company is excellent.

The company generate strong profits. The questions of feasibility, suitability and acceptability are simple to answer for L'Oreal. During the last years L'Oreal developed its potential in research and development which is crucial for the future. The organisational structure of the company is clear and well-established. The rentability of L'oreal is excellent: with 5 times less employees than P, L'Oreal earn only 3 times less net profits than P.

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