

# L'Oréal's Business Strategy

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The success of new products, the international breakthroughs made by our brands and our spectacular progress in the emerging markets have enabled L'Oréal to achieve another year of strong sales growth. This momentum, combined with the tight control of costs, led to an important improvement in profitability, despite an exceptionally unfavourable economic and monetary environment.<sup>1</sup>

— Lindsay Owen-Jones, Chairman and Chief Executive  
Officer of L'Oréal Group

### INTRODUCTION

Founded in 1909, L'Oréal had become the world leader in the cosmetics market by 2003. Providing a variety of beauty products, it has transformed from a French company in the early 1900s to a global titan in the 2000s. Its product range included makeup, perfume, and hair and skin care products, which were tailored according to the consumer needs. The company believed in the strategy of innovation and diversification. L'Oréal's growth depended on the global brand, which helped in sustaining the mature consumer-products market even in times when global markets themselves were shaky. High profile, celebrity-driven marketing campaigns and Web-enabled information and customization sites as well as aggressive expansion and acquisition enhanced its global brand image. The cosmetic market as a whole had been slightly on the decline since the late 1990s. But the L'Oréal products were becoming popular due to their uniqueness and catering to the beauty needs of different ethnic groups

and gender. In 2003, the group was number one in the U.S. cosmetic market, but it faced tough competition from Estée Lauder and Procter & Gamble. This made the group refocus its business strategies.

### BACKGROUND

L'Oréal, the world's largest cosmetic company, was established in 1909 by a French chemist, Eugene Schueller. After manufacturing and selling the cosmetic products in Paris for a few years, Schueller started exporting to other European countries like Holland, Austria, and Italy. Gradually the L'Oréal products were distributed to the United States, South America, Russia, and the Far East. By 2003, the L'Oréal group had entered 130 countries, through its 290 subsidiaries and around a hundred agents. More than 80 percent of group sales were generated outside France, with operations in every major territory.

In the 1970s, it acquired Laboratories Garnier of Paris, and this group became one of L'Oréal's largest divisions. The heart of L'Oréal's strategy was the cosmetic and dermatological research department. The group earmarked 3 percent of its turnover (sales) to the research and development work. Since the 1980s, the group had particularly focused its attention on North America with a series of smart launches, clever acquisitions, and dynamic marketing causing problems for domestic rivals.

Since its establishment, the L'Oréal group had marketed over 500 brands, consisting of more than 2,000 products. It provided products for all sectors of

beauty business, such as hair color, permanents, styling aid, body care and skincare, cleansers, and fragrances.<sup>2</sup> Its general cosmetics portfolio contained many of the world's biggest beauty products. It owned numerous brands, including Kerastase, Garnier, Maybelline, Helena Rubenstein, Giorgio Armani, Vichy, and La Roche Posay.

The company believed that diversification and innovation were its critical success factors. L'Oréal's concern for offering products that were adaptable to the demands of its clients showed its passion for innovations. Thus, it invested heavily in research and development and recovered its investment by globally launching its new products. All research was centered in France. As finished products were developed, they were offered to subsidiaries across the world. Because brand life cycles for cosmetics could be very short, L'Oréal tried to introduce one or two new products every year in each of its worldwide markets. L'Oréal marketed products under its own name as well as under a number of other individual and family brand names. For example, it marketed Anaïs Anaïs perfume, the high-end Lancôme line of cosmetics, and L'Oréal brand haircare products.

L'Oréal's strategy was to trickle down technology over time from high-end outlets like department stores to mass markets, such as drugstores. The mass-market brand Plenitude had become the market leader in France, but sales in the United States had not been promising. With innovations and diversifying strategies L'Oréal overcame all these hurdles to an extent. In

2001, the Group, headed by CEO Lindsay Owen-Jones, had a turnover (sales) of €13.7 billion. In 2003, L'Oréal was the world's largest skincare company, with revenues of US\$17 billion, and employed 50,000 people.<sup>3</sup>

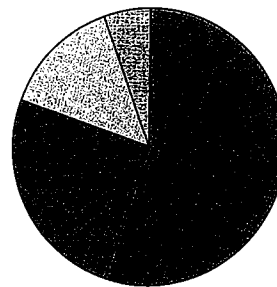
## PRODUCT CATEGORIES

Since its beginning, the L'Oréal Group had developed products in the field of cosmetics. It had four product categories: consumer, luxury, professional, and active (Exhibit 1). These products catered to the needs of hair, skin, makeup, and so on. The consumer products encompassed all the brands distributed through mass-market channels, ensuring that L'Oréal quality was available to the maximum number of consumers. The consumer division accounted for more than half of the sales in 2003. The luxury division offered a range of prestigious international brands selectively distributed through perfumeries, department stores, and duty-free shops. The professional division, the market leader in its sector, offered specific hair care products for use by professional hairdressers and products sold exclusively through hair salons. The active division created and marketed brands of cosmetics and dermatological products for selective distribution through pharmacies and specialty health and beauty outlets. The major brands in these divisions were L'Oréal Paris, Biotherm, Giorgio Armani, Lancôme, Shu Uemura, Polo Ralph Lauren Blue, and L'Oréal Professional.

Innovations from the research laboratories and a large number of initiatives ensured growth for the

### EXHIBIT 1

#### Breakdown of 2003 Consolidated Cosmetics Sales by Division



- 54.80% Consumer Products
- 25.10% Luxury Products
- 13.90% Professional Products
- 5.50% Active Cosmetics

Source: [www.loreal.com](http://www.loreal.com).

group's core brands. The company achieved major market share in all of its product divisions. The Professional Products Division achieved 8.8 percent growth in the first half of 2003. The division took new initiatives in all business segments, particularly in colorants with the launch of Luo (a new translucent colorant) and Equa (a formula developed specifically for the needs of the Japanese market). The Consumer Products Division achieved 9.3 percent growth for the first half of 2003 over that of the previous year, which was well ahead of the growth rate for mass-market products. This growth could be attributed in particular to the launch of innovative products such as Couleur Experte colorants and Double Extension mascara. The Luxury Products Division, operating in markets that were more sensitive to the economic slowdown and the reduction in air travel, managed to maintain growth of 0.2 percent. This performance came from the success of new products such as the Résolution facial skincare from Lancôme, a brand that at the end of 2002 became the world's number one in the selective retailing channel. In perfumes, the successful European launch of Polo Blue by Ralph Lauren confirmed the excellent results achieved in the United States. The Active Cosmetics Department continued its international rollout, while improving its market shares in Europe. It thus achieved a growth rate of 10.9 percent, in line with the figure for the first half of 2002. This was boosted especially by the successful Myokine facial skincare from Vichy and the skin redensifier Innéov Fermeté, launched in five European countries, heralding the group's first move into the cosmetic nutritional

supplement market. Dermatology achieved sales of €139 million, representing like-for-like growth of 7 percent. Galderma performed well on the acne and rosacea markets. In geographic terms, Galderma continued to achieve sustained growth in North America and made strong advances in Latin America (growth in Brazil was 8 percent and in Mexico 22 percent) and Asia (growth in South Korea was 23 percent).

## NEW WORLDWIDE MARKETS

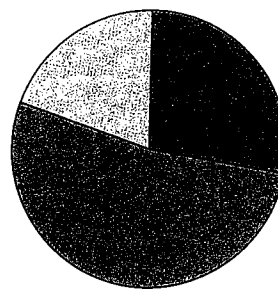
L'Oréal was surging in markets from China to Mexico (Exhibit 2). Its secret was conveying the allure of different cultures through its products. Whether it was selling Italian elegance, New York street smarts, or French beauty through its brands, L'Oréal was reaching out to more people across a bigger range of incomes and cultures than just about any other beauty-products company in the world.<sup>4</sup>

The success of L'Oréal cosmetics had been built on the promotion of different brands in different nations, the choice of which was based on views of the local culture. For people interested in finding the most American product possible, the French company used the name Maybelline. Those preferring the most French were given the L'Oréal brand. All the different lines were sold in all of the markets, but only one was excessively promoted, depending on the market.

L'Oréal was number one in the cosmetic industry but competition in the U.S. market as well as international markets such as Japan, China, etc., was growing. In the United States, L'Oréal and Estée Lauder were

### EXHIBIT 2

#### Breakdown of 2003 Consolidated Cosmetics Sales by Geographic Zone



■ 27.60% North America  
 ■ 52.70% Western Europe  
 ■ 19.70% Rest of the World

Source: [www.loreal.com](http://www.loreal.com).

head to head and Procter & Gamble was slightly behind them. Internationally L'Oréal was facing competition from global as well as local players. Germany's Beiersdorf had stolen a march on L'Oréal by beating it to the market with its Nivea Kao brand of strips used to clean pores. Worldwide, Nivea ranked number one in mass-market face cream, with 11 percent share, slightly ahead of L'Oréal's Plenitude. Procter and Gamble's Oil of Olay skin cream was on par with L'Oréal's Plenitude around the globe.

By tailoring its products to the demands of a specific marketing group with the backing of the international brand name, L'Oréal achieved profitable results for the year 2000, in countries such as Japan (up 46 percent), Korea (70 percent), Brazil (44 percent) and Russia (47 percent) to name but a few. The growth continued in 2003 also. It was very strong in Central and Eastern Europe (up 26.2 percent), particularly in the Russian Federation, where sales advanced once more (up 38.8 percent) after three years of extremely fast growth.

The group made important breakthroughs in the newer markets in 2003. It ventured into the Chinese market, which was crowded with 3,000 domestic cosmetic manufacturers. More than 450 foreign companies had invested in excess of US\$300 million in China over the last decade, further stimulating the rapid growth of this sector. L'Oréal, Procter & Gamble, Unilever, and Shiseido ranked among notable international competitors in China. Total sales of cosmetic products in 2000 exceeded RMB30 billion (US\$3.66 billion). Since economic reform started 20 years ago, China's cosmetics market had grown an average of 23.8 percent a year from 1982 to 1998. Although this growth slowed down to about 12.9 percent a year after 1998, cosmetic sales in China were expected to reach RMB80 billion (US\$9.76 billion) by 2010.<sup>5</sup> L'Oréal wanted to cash in on this opportunity.

Achieving success in the Asian market was a goal for L'Oréal in 2000, an aim the company saw as "internationalization" as opposed to "globalization." Beatrice Dautresme, vice-president in charge of strategic business development, commented, "L'Oréal sees the world as a mosaic of different cultures."<sup>6</sup> In China, where the group's core brands are now fully installed, the growth rate was 69.3 percent, largely thanks to the emblematic success of Maybelline, the country's number one makeup brand. Alongside L'Oréal Paris, which reinforced its luxury brand image, Garnier successfully extended its product offering, particularly in the skincare market. Vichy strengthened its number one position in the 2,500 pharmacies that sold the brand's products across the Russian Federation. In Japan the

growth was maintained due to the acquisition of Shu Uemura, cosmetics giant in Japan, and the launch of L'Oréal Paris skincare and makeup lines in Japan, which marked a major advance in establishing the brand in the Japanese market. In India too, growth was extremely rapid at 33.4 percent. This strong performance reflected the breakthroughs achieved by the Garnier brand, which had managed to launch modern colorants that met women's needs at affordable prices. To help fulfill the growth potential in India, the group had started a new factory near the city of Pune (in Western India), which benefited from the most advanced production quality standards.

## CHANGING STRATEGY

L'Oréal was gradually turning marketing efforts to the ethnic beauty industry, and reaping profits. L'Oréal was working hard to grab a portion of the estimated \$14 billion<sup>7</sup> (by 2008) ethnic beauty industry by focusing product lines and marketing on African-American and Asian-American communities. Since 1998, L'Oréal had purchased Soft Sheen and Carson, two black-centered beauty companies, and rolled them into one mega-company. The company had also been busy in acquiring Asian-centered companies, such as Mininurse of China and Shu Uemura of Japan.

L'Oréal had also tuned its research work for developing products specific for the ethnic groups. L'Oréal opened a new research center in Chicago in 2003, to research and study the skin and hair of different ethnic groups. The Institute's first major project was centered on characterizing the chemical and physical properties of African hair. The goal of this research was to better classify hair according to fiber structure so that the performance of hair relaxers currently in the market could be improved. Other projects would investigate skincare problems such as pigment and scarring disorders. Chicago was chosen for a number of reasons. Soft Sheen had long been headquartered in the city; Chicago had historically been a center of black American culture and learning; and there were a number of renowned universities in the area that provided opportunities for synergy with L'Oréal's new research institute. The needs and requirements of consumers of different ethnic origins were different. They had specific skin and haircare needs that required products especially formulated for them. L'Oréal's acquisition of the Soft Sheen-Carson brand, a world leader in skin and haircare for black women, had greatly expanded the Group's activities in this market sector. Jean-Paul Agon, president and CEO of L'Oréal USA, says about the new research center, "The knowledge and insights that we gain through

research conducted at the Institute will ultimately allow us to develop innovative new products that better serve the beauty care needs of the global ethnic market.”<sup>8</sup>

As the cosmetic market for women was becoming somewhat saturated, the cosmetic companies shifted their target. The male cosmetic market, a slow burner in beauty, was predicted to take off in the future. The overall market for men’s cosmetics grew by 9 percent in 1999, according to NPD Beauty Trends (source: Euro RSCG report).<sup>9</sup> Research showed that men were far more brand loyal in this market than women, mainly because they disliked shopping around.<sup>10</sup> An industry insider commented, “The global male cosmetics market is growing 30 percent annually.”<sup>11</sup> L’Oréal had some of the most popular male cosmetics brands in Europe and the United States—including Biotherm Homme, a high-end brand with more than 50 percent market share in Europe. The company began introducing its Biotherm Homme skincare products in China in 2002. The firm had targeted young and fashionable male customers. L’Oréal saw the potential of the cosmetics market for men, although cosmetics for men in 2003 accounted for a very small portion of L’Oréal’s sales in China.

In 2003, for the 19th consecutive year, the L’Oréal group showed a double-digit profit growth rate. The net operational profit rose by 13.5 percent to €1.65 billion (\$2.1 billion) (Exhibit 3). But its consolidated sales (Exhibit 4) had fallen by 9 percent, mainly due to currency fluctuations. In 2003, L’Oréal battled economic slowdown and adverse currency moves, while war in Iraq forced it to cram product launches into the first and fourth quarters of the year. In 2003, L’Oréal was number one in the United States with a market share of 21.2 percent. Comparatively, its competitors Estée Lauder and Procter & Gamble held market share of 19.6 percent and 13 percent respectively.

In 2004, L’Oréal climbed 10 places to the 20th position in the annual *Financial Times* survey of the “World’s Most Respected Companies,” compared to the 30th position it held in 2003’s ranking. L’Oréal Group CEO Lindsay Owen-Jones also made a very strong impression for his leadership qualities; he was ranked number 16 on the list of the “World’s Most Respected Business Leaders,” climbing 14 positions in only three years. In the sector rankings, L’Oréal was placed fourth on the list of some of the world’s largest consumer goods manufacturers.<sup>12</sup>