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Title : Case Study about Global Strategic Management of L'Oréal

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ABSTRACT

This paper attempts to analyze L'Oréal as a beauty leader and its strategies which made the company become and remain the largest cosmetics and beauty company. L'Oréal is a worldwide company and has large shares of market in the most of marketplaces where it invests, making use of powerful variety of marketing tools and strategies. Exploiting both traditional and innovative marketing techniques, L'Oréal aims to grown its customer base to two billion by 2020 while implementing CSR strategies, analyzing their business units by identifying high-growth prospects according to growth rate and market share and investigating the strategies that have been used to achieve it.

The evolution of the L'Oréal journey throughout the years shows how the brand combination within a portfolio is a key factor for company growth and development which is a crucial phase to understand the company competitive advantage. With the combination of large amount in capital available and high technical capabilities, L'Oréal has access to resources to produce in a large scale while making use of its strong research and development department to bring up innovation. The corporate level strategies involve horizontal integration, vertical integration and strategic alliances to build a stronger image in different geographic markets. The importance of market analysis in all business areas, the corporate strategies and marketing challenges as they globalize, the importance of understanding the customer, proper use of resources and capabilities, customizing its products and business strategies as key points to strive and prosper are being discussed in the paper.

Keyword : L'Oréal, Global Strategy, Global Strategic Management, Globalization, Product Development, R&D, CSR, Multiculturalism, Global Business, Universalization.

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Chapter 1

INTRODUCTION

I. Background of L'Oréal

1.1. Overview

L'Oréal is the world's largest cosmetics company headquartered in France. Its core business focuses on manufacturing cosmetics. Their main products are hair colour, hair care, perfume, skin care and make-up. Dedicated for the beauty for over 100 years, L'Oréal ranks number 1 in the list of the world's top cosmetics companies in 2016 by Women Wear's Daily Magazine which is a fashion-trade industry journal sometimes called "the bible of fashion". L'Oréal annual report has shown that it has the highest sales in 2015 with US\$29.94 billion, followed by Unilever with US\$21.66 billion and nearly twice higher than Procter & Gamble.

1.2. History

Founded by Eugène Schueller - a young and creative chemist in 1909, L'Oréal initially began with first hair dyes that he himself formulated, produced and offered to hairdressers in Paris. Since this first step, the founder set up culture that is now typical gene of L'Oréal: research and innovation in the service of beauty.

Through one century operation, the company experienced four main phases.

1909-1956: The first steps, constructing a model

Its founder - Eugène Schueller graduated from France's national chemical engineering school in 1904 and went on to establish his own enterprise on 30th July 1909 that later wellknown as L'Oréal .

Thanks to deep knowledge in chemics , Schueller developed his abiity for new ideas and came out his fitrst hair dye named Oréal which was combination of blended harmless chemicals. The dye was an outstanding breakthrough at that time, offering a wide range of colors different to others in the market which commonly used henna or mineral salts so gave quite artificial look.

In 1925, the company renamed as L'Oréal. Since that time, It has changed consumer's daily life much.

1957-1983: Globally expanding through acquisitions

This period was formative years of "Le Grand L'Oréal". At the decision of its former chairman – Mr. François Dalle, the Group went to internationalization. Its strategy was acquisitions of other strategic brands, grounding spectacular growth for the Group. Emblematic products joint in. The company's motto was "Savoir saisir ce qui commence"

(seize new opportunities).

Brasil was the prior destination with a direct presence in 1959 which became platform for the whole of Latin America. The acquisition of Lancôme - a fantastic perfume, skincare and make-up brand - in 1964 was the first strategic move to become a luxury cosmetics empire. One year later, purchasing Garnier enabled L'Oréal to own a portfolio of organic haircare products – a different compliment to haircare. In 1970, by taking over Biotherm, L'Oréal stepped its research effort to skincare field. Specially, the year 1973 revealed the growth of the Group in dermatological and dermopharmaceutical activities after its acquired a majority interest in pharmaceutical company Synthelabo. In 1976, L'Oréal bought mascara brand Ricils to enter make-up segments. At that time, the agreement with Netsle provided L'Oréal's international development in particular markets as Japan to expansion in Asia. In 1983, it set up an R&D centre focusing on hair care and skincare to tailor its products to the Japanese .

1984-2000: Become number one in the beauty industry

These seventeen years were marked by a great growth, dominated by significant investments in research. The Group had successfully become the world cosmetics leader through its global presence of brands owing to numerous strategic acquisitions.

2001-now: Embracing diversity in its global growth

Building a portfolio of powerful and international brands, L'Oréal has enhanced its competitive advantage by embracing diversity in its global growth agenda. The Group keeps making new acquisitions to catch global and regional needs. It also undertakes social responsible initiatives to enjoy sustainable development. Interestingly, the acquisition of The Body Shop in 2006 marked its encouragement in natural products and against test on animals.

1.3. Key facts and figures

Until now, L'Oréal operates in 140 countries by 82,900 employees. It has about 35,000 patents granted in total and nearly 500 patents newly registered every year. Its strength in Rerearch and Innovation is recognized in top 20 Diverse and Inclusive companies by Thomson Reuter in 2016. It has 34 research and evaluation centers, 44 factories and 153 distribution centers worldwide. In 2015, it recorded US\$29.94 billion of sales, in which 17.4% accounted for operating profit.

II. Performance of L'Oréal

2.1 A global success

L'Oréal presents in 140 countries on all five continents. While the world was in affection of global crises, L'Oréal still earned money in all over the countries they opperate and continued to improve and develop their current capability. In 2015, L'Oréal' sales in Europe

growth 2.3% in Western Europe and 9.8% in Eastern Europe while that number in North America was around 3.5%. Because of good performances in Japan, India, Australia and Thailand, specially L'Oréal Luxe brand improved in the fourth quarter, its sales went up by 4,7%. 4.6% growth in sales was revealed in Latin America. The highest growth was particularly in Africa, Middle East with figure of 12.1%. Specifically, Egypt, Pakistan and Saudi Arabia sales growth reached the top of 20%.

2.2 L'Oréal Mission

Beauty is a language

For over a century, the company has devoted energy and its capacity for an only purpose: beauty. It is a rich business sense, as it allows all individuals to express their individuality, get confidence and open up to others.

Beauty is universal

L'Oréal is committed to all the world's women and men to provide the best quality, efficacy and safety of cosmetics innovation. By satisfying the infinite diversity of beauty needs and desires around the world

Beauty is a science

Since its inception, the group has been pushing the frontiers of knowledge. Unique research arm enables it to continuously explore new fields, invent future products, and inspire beauty rituals from all over the world.

Beauty is a commitment

The company provides access to products that enhance well-being, mobilizing its innovative strength to preserve the beauty of the planet and supporting local communities. These are exacting challenges, which are a source of inspiration and creativity for L'Oréal.

Beauty is for all

By leveraging the diversity of its team, as well as the richness and complementarity of its brand portfolio, L'Oréal has made cosmetic the universalization of its next few years of projects.

2.3 L'Oréal ambition

L'Oréal's ambition is to create more and more people around the world by creating an unlimited variety of cosmetic products to satisfy their beauty needs and desires.

Beauty for all, beauty for each individual

In L'Oréal, there is no single and unique beauty model, but numerous forms of beauty, with the period, culture, history and personality linked to attract more women and men to use our products to contact an extremely diverse population, with Universalization of the beautiful vision. In our view, universalization does not imply reunification, but instead is

inspired by the diversity of innovation.

Observing local beauty customs

L'Oréal's research and innovation team to reshape themselves, to create the world's diversified cosmetics. In every region of the world, it has set up a research platform, a true professional center, designed to customize the beauty. These fields of study have created new products that can be a global success. This is a real turning point in thinking about innovation.

Facilitating access to cosmetics products

In the market undergoing major changes, L'Oréal every year forward, bringing the best beauty for everyone. With a portfolio of 32 international brands and an organizational structure based on distribution channels, the company has the ambition to meet the needs of each consumer according to his or her habits and lifestyles. Therefore, L'Oréal in their own way to promote the development of the border, and to meet the challenges of more and more innovation.

Accelerating the regionalization of our expertise

In order to win another billionaire in the world is an ambitious project to inspire L'Oréal. An economic, but also human adventure requires rapid deployment of its forces and companies in various fields, including research, manufacturing, marketing, sales, interpersonal and administrative teams to accelerate the transformation. This big project is also an opportunity for innovation and the establishment of L'Oréal tomorrow.

III. Divisions of L'Oréal

L'Oréal has a strong and long-term brand which is being positioned to consumers across all income levels by providing a wide range of beauty product. The company wants people around the world to have easy access to their products that match their desire, lifestyles and beauty needs. L'Oréal's segmented its brand into five different Division where each of the brands develops a specific image of beauty by universal consumption and distribution channels.

L'Oréal has 5 brands and divisions that are detailed below.

3.1 L'Oréal Luxe

L'Oréal Luxe opens a unique world of beauty. Its international brands incarnate all the phase of elegance and purification in three major specializations: skin care, makeup and fragrances. This division product is sold in department stores, cosmetics stores, travel retail, own-brand boutiques and online site.

3.2 L'Oréal Consumer Products

The Consumer Products Division offers the best in accessible cosmetics innovation to a wide customer around the world and distributed in mass retailing channels.

3.3 L'Oréal Professional Products

The objective is to be the leader in each professional beauty category: hair care, nail beauty and skincare and distributed in worldwide salons.

3.4 L'Oréal Active Cosmetics

Highly complementary beauty-health brands supported by professional healthcare partners and sold in health care channels worldwide including pharmacies, drugstores and etc.

3.5 The Body Shop

The Body Shop using the world's finest natural ingredients to create a high-quality product in a sustainable and ethical way.

Consumer Products Division has generated highest sales compare to other brand divisions and is strengthening its leadership in a dynamic dermo-cosmetics market. L'Oréal Luxe are also catching up with its growth driven by its cutting-edge innovations. The Professional Products Division is taking benefits of new plan to boost the professional beauty market, and continues to improve steadily. Last, the Active Cosmetics Division are doing well by conquering the health care channels worldwide.

IV. Reasons why we choose L'OREAL as our case

The background of L'Oréal has motivated and inspired us to make deeper research on. It is obvious that L'Oréal got start from the hair-color business, such a small business with one person in that time but shortly after, successfully branched out into other cleansing and beauty products. For over a century L'Oréal has been devoted all energy and competencies to just sole business – beauty. Nowadays, L'Oréal is such a truly global beauty brand with a large number of internationally famed products. The beauty of passion of L'Oréal really excites our attention.

The second impression is the unique strategy of L'Oréal – universalization strategy. It is convinced that there won't be existed a single and unique model of beauty at L'Oréal, However, it is an infinite diversity which changed according to the times, cultures, histories, individuals...etc. The definition for L'Oréal's strategy is: "Universalization means globalization that respects differences. Differences are at desires, needs and traditions". L'Oréal is driven by the vision of universalization of beauty over the world to catch a larger numbers of male and female and meet intensive diverse populations. With prosperity of unique and international portfolio of 32 complementary brands on 140 countries, L'Oréal believes to push back the boundaries and meet every demand of customers according to his or her habit and lifestyle.

Last but not least, Product innovation is a factor that makes L'Oréal to become special. In order to create cosmetic products which could adapt to the rich diversity of people on over the world, L'Oréal has have established many Research platforms, veritable centers of

expertise in the service of a personalized beauty on five continents. They believe that product innovation ought to meet cultural expectation, it managed to adapt to specific cultural difference in beauty market on over the world. L'Oréal currently has six worldwide research and development centers, two in France, One in the U.S. Another in Japan. In 2005, L'Oréal established one R&D in Shanghai, China, and the final is in India.

“For a Brazilian woman, hair and body are most important, for a Chinese woman facial skin is the priority, for an Indian woman it's make-up. Our approach is the ‘universalization’ of beauty, i.e. globalization without uniformization” explained Jean-Paul Agon – Chairman of L'Oréal.



Chapter 2

CORPORATE STRATEGY

I. Corporate strategy

1.1. Expand through Acquisition

L'Oréal growth strategy has been carried out both through internal development and through acquisition of companies already operating in the cosmetics industry. In particular, external growth by acquisition is part of L'Oréal's long-term strategy, with a long-term annual growth goal of 10%. This option has also been facilitated by the group's liquidity and low debts. Purchases of more companies allows the group to reach the critical size needed for exploiting economies of scale both in R&D activities and in marketing and distribution. The acquisitions also promote L'Oréal to quickly expand its geographical horizon and develop its market segments. The actual portfolio of 25 prestigious brands is the results of a series of acquisitions that began many year ago, which is described in the table below.

Table 1: Acquired brands of L'Oréal from 1967 - 2015

Year	Luxe	Consumer Products	Professional Products	Active Cosmetics	The Body Shop
1967	Lancôme (France)	Garnier (France)			
1971	Biotherm (France)				
1980				Vichy (France)	
1985	Ralph Lauren				

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	(the U.S); Giorgio Armani (Italy)				
1989				La Roche-Posay (France)	
1993			Redken (the U.S)		
1996		Maybelline New York (the U.S)			
2000	Kiehl's (the U.S)	SoftSheen.Cars on (the U.S)	Matrix (the U.S)		
2002	Shu Uemura (Japan)				
2005				SkinCeuticals (the U.S)	
2006					The Body Shop (UK)
2008	Yves Saint Laurent Beauté (France)				

2010		Essie (the U.S)			
2011	Clarisonic (the U.S)				
2013	Urban Decay (the U.S)				
2014		NYX Professional MakeUp (the U.S); Magic Moment (China)	Decléor (Japan - Shiseido); Carita (Japan - Shiseido)		
2015		Niely (Brazil)			

All acquisition of L'Oréal had been decided strategically. The target firms usually have ideal characteristics:

- Diversifying products in different geographical markets which L'Oréal is already there (Redken in the U.S as example);
- Operating in profitable geographical markets in which L'Oréal aims to be leadership (Magic Moment in China is a good example);
- Offering types of products that completes the portfolio of L'Oréal products or brands (the American Essie helps L'Oréal complete consumer products by its diversifed nail care and art products);

- Having technologies and competences complementary to those of L'Oréal, both on products and on market segments (La Roche-Posay entered in L'Oréal, thanks to its strong dermatology research capability).

As a results, these critical acquisitions provide L'Oréal chances to obtain important objectives. They help the group reach a needed size for exploiting economies of scale not only in R&D but also in marketing and distribution, therefore enhancing its market share. New resources, competences and technologies have been quickly acquired thanks to several purchasing of companies owning series of laboratories. Satisfying local needs is another advantage of this strategy. Owing to own local companies, L'Oréal easily overcomes entry barriers in some market where cultural obstacles and tariff barriers are presented.

1.2 L'Oréal global strategy

L'Oréal is a global company that spans the globe. French cosmetics company French cosmetics company (SFTIC) set up more than 100 years, developed into a multinational company in 140 countries and regions with more than 88,900 employees. Its global product portfolio is represented by 32 global brands, controlling 19,9% of the world's cosmetics market.

They have a very well-known and trusted image because they have been around for so long as a quality brand. They also have a professional sector (Keratase, Redkin, L'Oréal Professional) that is used and trusted worldwide throughout high end salons. L'Oréal Laboratories has developed groundbreaking innovations such as the first shampoo without soap, the first fast bleaching agent, which first highlights the enhanced enhancement shampoo, the first hair color without ammonia or artificial skin called Episkin. With the slogan "Because we're worth it", they push the message "beauty for all" to attract a wide range of consumers regardless of their ethnicities, gender, and age.

L'Oréal chose a unique strategy: the popularity of. This means capturing, understanding and respecting the globalization of differences. The difference lies in desire, needs and

traditions, to provide tailor-made beauty, and to satisfy the wishes of consumers around the world. L'Oréal is driven by the vision of the world.

L'Oréal very powerful design brands / products to meet the regional and national needs. They have a wide variety of products ranging from make-up, skin care to hair care, attracting all different types of consumers. They also started men's products, such as Kiehl's men's fragrance, lotion and shower gel.

They feature famous celebrities such as Beyoncé, Penelope Cruz, and Jennifer Lopez to attract worldwide attention but also to appeal to a wide range of ethnic consumers. They have also started to offer products that are all-natural, plant-based, and sensitive or acne-prone skin types.

Based on conditions such as demographic, geographic, socioeconomic, lifestyle / personality, L'Oréal determines the characteristics of the client so that they can approach best suited to each audience segment group

- Demographic: Age, marital status, gender
- Geographic: Global, hemispheric, national, state, city, postal code, climate, rural, urban.
- Socioeconomic Income, class, vocation, education, religion, ethnicity.
- Lifestyle/personality Attitudes/opinions, interest, tastes and preferences.

II. Business Level Strategy

The detail action of Business level strategies is to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. In other words, business-level strategy is concerned to create the differences between firm's position and rivalries in an industry. In order to pinpoint the position, the firms have to decide whether it should perform activities differently or act different activities in comparison with its rivals. In business level strategy, there are two types of competitive advantage, one of them is Lower cost, the other is Uniqueness (or Differentiation). Firms ought to compare which kind of competitive advantage would create more value. Before doing it, it is required to define

which competitive scope firms want to choose to compete across, a broad market or narrow market. The final step of business strategy is to decide generic strategies in business level. There are five generic strategies, as demonstrating in figure 1:

Figure 1: Business level strategy



In L'Oréal, it is obvious to see that differentiation is the strategy they have chosen over a century whichever are the divisions. The target market is always global. In order to make our reports more clearly and accurately, it is decided to analyze according to one brand of L'Oréal only - L'Oréal Paris. The reason why we choose L'Oréal Paris is that it belongs to L'Oréal Consumer product divisions. As we know, L'Oréal's Consumer product divisions are all highly sensitive to global economies of scale and scope, it not only reached customers' demand but also is responsive to expectation of L'Oréal, achieve global to local balance and the sale is increased year by year. Now we can take a look of multicultural in unique diversification strategy of L'Oréal Consumer product divisions are going to apply to achieve broad target market.

2.1 Multicultural

Serving diversity type of markets need an adaptation of products, services, and business models that meet the local country conditions by understanding different type of cultures and the various needs of consumers in the cultural market area which we can see in context of L'Oréal market as well.

The French cosmetics company indicate this global-local tension which has formed a portfolio of international brands from many different cultures such as French (L'Oréal Paris, Garnier, Lancôme), American (Maybelline, Kiehl's, SoftSheen-Carson), British (The Body Shop), Italian (Giorgio Armani), and Japanese (Shu Uemura). L'Oréal dedicated multi-cultural beauty as part of consumer products division.

All L'Oréal products have been spread around the world, inspired by the beauty rituals and culture. They are not only successful in the place where they originated from but also have gone international, they think the traditional concepts of beauty change as you travel the world.

Beauty is short-term and can be expressed in diverse ways, it is not just an esthetic but reflects a deep and bold personality. L'Oréal has chosen famous stars with inimitable charisma that inspire women around the world with their unique style. The incredible careers and charismatic personality of L'Oréal's ambassadors appeal in the motto "Because we're worth it", a powerful message of empowering beauty for the last 40 years. Furthermore, the market for multicultural beauty is set to become even more diverse, as the growth of interracial couples creates new dynamics in terms of skin, hair colour and behaviour.

2.2 L'Oréal Paris

L'Oréal Paris is one of the brand of L'Oréal's parent which encompasses in many field of beauty business. There are four major beauty categories now, these are hair-colour, cosmetics, haircare, and skincare. All branches of L'Oréal Paris are really famed and successful. In hair-color, some renowned brands like Superior Preference® and Couleur Experte®. In

skincare, these are Revitalift® , Age Perfect® , Men Expert, Sublime Glow, Sublime Bronze, Excellence et Feraïa®. L'Oréal Paris Cosmetics are Colour Riche®, True Match™, Voluminous®, Telescopic®, and Volume Shocking™ mascaras. Hair Expertise™ is the famous products as talking about Hair-care. With a wide portfolio of products under L'Oréal Paris brand, the market segment of L'Oréal Paris become larger and larger. In 2015, the sale percentage of L'Oréal Paris make up at the half the sales of the consumer products SBU.

As the leader of beauty industry over the world, L'Oréal Paris has made an unparalleled commitment R&D, technology in order to provide piece of groundbreaking innovation, high quality products for not only femal, male, children but also person of all ages and ethnicities. L'Oréal Paris has developed from one philosophy: *“to innovate and offer top performing products at great prices to the greatest number of consumers possible”*. L'Oréal Paris has placed executives from combined socio-cultural backgrounds in its activity: new product diversification and new market development.

2.2.1 New product diversification

With the mission is to make these scientific innovations accessible to all. L'Oréal Paris believe offering opportunity the whole world for improving their well-being and self-worth. Keep up with the latest beauty fashion trend, L'Oréal Paris work really hard to offer a wide range of new products which gain high ranking from all type of customers in 2016 from skincare, haircare to makeup. For example, three kind of clay mask with main ingredient (Kaolin), a most common ingredient could remove oil and dirt quite well without stripping the skin. A full set of L'Oréal Paris Extraordinary Clay hair care including shampoo, conditioner and mask with 30% mineral clay, which is believed to absorb excess oil and purify the hair right after, providing long-lasting freshness. In addition, L'Oréal Paris seem to the first drugstore brands that spotlight the first make-up for hair, . “Root cover up” – a temporary root touch up spray, quickly cover gray hair.

However, the most successful for L'Oréal Paris in 2016 is brought from make-up “L'Oréal true match foundation” with 23 shades. It is believed to bring the best beauty to every women all over the world, no matter what their ethnicity or background. To celebrate this products, L'Oreal Paris has launched the #YoursTruly True Match campaign, which share the diversity stories behind the relationship of True Match. Discovering 23 influential individuals stories of what diversity and finding what perfect shade truly express one's esteem. In addition, the “Youth truly campaign” is not target for women, is aim for man as well. L'Oréal Paris is the first cosmetic company who is featuring a man as a mass market cosmetics. With the slogan “because we're worth it”, L'Oréal Paris desire to create beauty product which can be used by all, they fancy to bring beauty to as many people as possible, no matter their genders are.

2.2.2 New Market development

For developing new market, in 2015, L'Oréal Paris focuses on developing China. Many products were sold in China from skincare, hair care to make-up, not only for female but also for male. “Facial skin is the most important for Chinese women” Understanding the culture of this countries, L'Oréal Paris researchers have latched onto cosmetic waters in vogue. This routine has recently emerged in China which was inspired by Japanese, and have thus offered a unique and special innovative texture for skincare products is necessary. For make-up, Chinese girls are likely to be surfing on cushion as well as all in one liquid trend. In addition, L'Oréal has launched an app, named Makeup Genius, to let women virtually try on make-up with many styles. This app is really successful attracting 4.7 million over total 14 million downloads.

Furthermore, China where is becoming one of the giants of global e-commerce with greatly influential by social networking site. L'Oréal Paris has quickly to follow and take advantage of the kind of this platform, built up the first international brand on T-mall and some powerful online selling website of China. In 2015, L'Oréal Paris was voted as the first foreign and successful brand in China. Currently, China has become the second larger market in sale

generation, behind the United States yet before France.

III. Functional Strategy - Operational

L'Oréal's operational decisions are guided by some overall strategic considerations, such as distributing around the globe headquarters, production sites, evaluation centers and research centers.

Nowadays it consists of:

- 5 Hubs – USA, Japan, Brazil, China, India and world center.
- 23 – Research Centers
- 16 – Evaluation Centers
- 49 – Scientific and Technico-regulatory departments

Managing operations on the universalization strategy is based on a specific industrial policy, arranged by regions in order to stay close to markets, and make the most of all opportunities faster.

Each headquarter has its own marketing, human resources, financial department, etc. Even though these departments have their own local strategies they all follow guidelines. Operations at L'Oréal cover seven different fields: purchasing, production, quality, environment-health & safety, supply chain, packaging & development, and real estate. L'Oréal has a tactical plan towards to improving and opening new factories and hubs to facilitate the distribution of products and be closer to the markets.

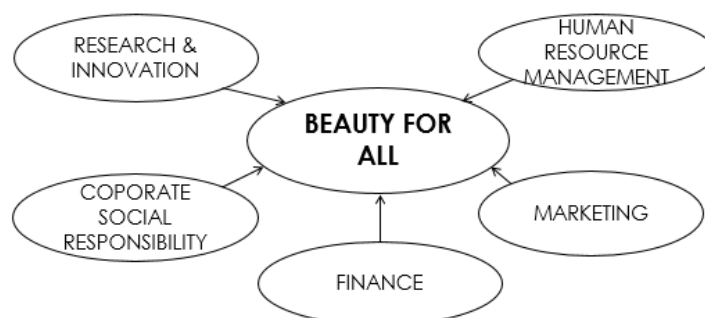
Since 2010 they are implementing a “wall to wall” approach. This tactical plan is based on including a packaging production unit on-site in order to reduce the time between production and preparation of orders. It also increases the productivity and the flexibility of the factories. L'Oréal has been expanding geographically open new markets, accordingly to the corporative strategy of globalization. Along the years L'Oréal has started important changes related to the way the company operates, focusing on streamlining, simplifying and making business more efficient. The business has been through continuously industrial re-engineering in all areas, focused in optimize its operations and increase productivity. The long-term goal is to consolidate growth around globe while establishing strong and sustainable growth in the new markets.

Chapter 3

STRATEGIC MAP

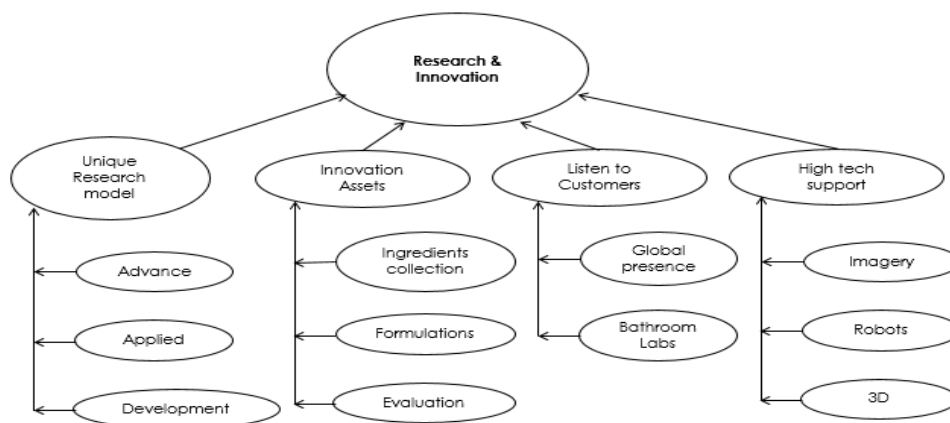
L'Oréal's mission is to provide **beauty for all**. To take it in practical, a strategic map is very crucial to clarify what tasks to do to reach a particular goal. L'Oréal's strategic map is centered by mission **BEAUTY FOR ALL** and five dimensions circulated to help the Group achieve its mission. The five dimensions are: research & innovation, corporate social responsibility, human resource management, marketing and finance management. What L'Oréal does in each dimension are described as followed.

Figure 2: Strategy map of L'Oréal



I. Research and Innovation

Figure 3: Research and Innovation



For 100 years, L'Oréal has built its unique research model to response to the world's vastly diverse beauty expectation. It believes only strong cosmetics research can generate products that provide apparent and sustainable results. Its research & innovation model is organized to three major pillars with main function as follow:

- Advanced Research: to enrich knowledge and discover new active ingredients for all kind of product lines;
- Applied Research: to develop new effective formulations from vast collection of ingredients;
- Development Research: to tailor formulations adapted to particular brands identities and consumer expectations.

1.1 Assets for innovation

To keep staying ahead of the world market and bring cosmetic innovations to everyone, L'Oréal builds three precious assets: a unique collection of effectively active ingredients and formulation which is constructed by Advanced and Applied Research; huge amount of experts in cosmetics industry and expertise in evaluation which is indispensable for convincing new products to the market by demonstrating their safety and effectiveness scientifically and rigorously.

1.2 Research that listens to customers

L'Oréal is founded on not only scientific research but also attentive listening to consumers from all walks of life and observation of their behavior to beauty.

By strengthening its global presence through the six regional poles - Europe, Brazil, the U.S., India, China and Japan - L'Oréal's Research and Innovation can step closer to its major customers and enrich its beauty concepts of each region. The research teams build partnerships with local experts to discover new territories. To be clearer, L'Oréal develops 19 research and innovation centers located in 6 poles all over the world. The European pole majors Advanced Research, covering 3 global centers for each of the 3 lines of business – skin, hair care and

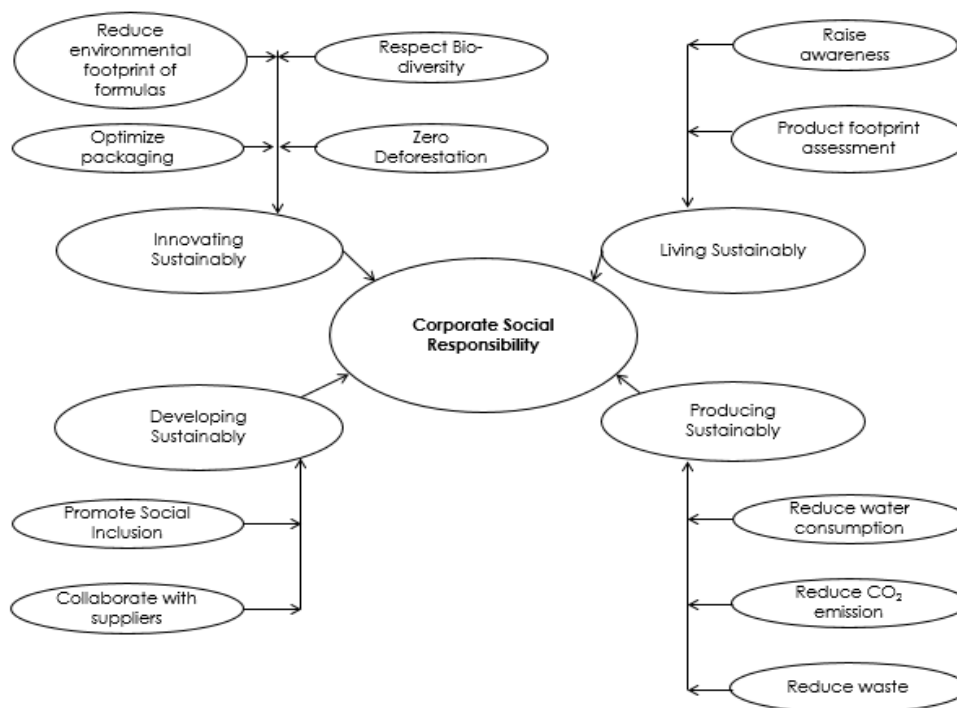
make-up. Other poles are in the U.S., China, Japan, Brazil and India. Mission of these poles is to tailor the global strategy to specific features of their markets. They are not only there to invent new products that later may become global innovations; but also observe and listen to local consumers in partnership with 16 evaluation centers. In the evaluation centers, "bathroom laboratories" which are equipped with several cameras support local teams to explore consumer behavior all around the world. These teams also go to customers houses to meet them, interview and gather information. Besides, importantly, compliance of L'Oréal global products with local regulations is another crucial role of these teams.

1.3 Advance technology to support research teams

L'Oréal provides scientists powerful means to take advantage of their creativity. They typically have medical imagery technology, intelligent robots and even 3D modeling. Thanks to medical imagery, the L'Oréal researchers are able to collect information in real time and three-dimensional images inside human skin, including thickness, structures' variety and composition till micro level. This is a modern means of assessing effectiveness of active ingredients and formulas in the epidermis up to the upper dermis. Automatic robots are now working alongside scientists to help them doing routine tasks, following by saving a lot of time and giving freedom to their creativity. Interestingly, success development of an energizing model of a head of hair assists researchers to hypothesis aggression of hair lines being wet, cut, or grown with a real challenge.

II. Corporate Social Responsibility

Figure 4: Corporate Social Responsibility



Inherent in its mission of providing beauty and personal care products is L'Oréal's responsibility towards its consumers, partners, employees and other stakeholders.

Sharing growth is part of the main topics underlying L'Oréal's commitment to its community. Especially, it means that the group pays a lot of attention to its surrounding communities, by creating helpful projects that meet real social needs and are aligned with L'Oréal's activities.

The Group has also developed a remarkable platform of predictive strategies that allows them to identify new ingredients or new innovations to constantly enhance our products' safety as well as their performance. In addition to this, their practice of listening to our consumers or other stakeholders helps them to understand their concerns and to consider these also when deciding to reduce or to remove certain ingredients.

L'Oréal developed a sustainability program to explore their 2020 objectives, commitments and concrete achievements. The program explores four pillars Innovating, Producing, Living and Developing. Some of actions include:

Enhance biodegradability and reduce the water footprint in order to minimize the environmental impact of formulas, and thus have a better environmental footprint of their products. Amid the products launched in 2015, some show biodegradability levels between 97% and 99% in the L'Oréal Group's brands.

The Water Footprint Network explains water footprint through a “virtual water” concept, which identifies the quantity of water necessary for the production and use of a product. It incorporates two key parameters that mirror the environmental quality of raw materials, biodegradability and aquatic eco-toxicity.

By 2020, L'Oréal aims that 100% of their new products will have a better environmental or social profile while the consumer will experience better benefits, and better packaging solutions is really important to achieve this goal.

In 2007, L'Oréal started a responsible packaging policy with three important pillars: Respect, Reduce and Replace.

Having better packaging solutions relies on responsible sourcing of the materials used. Especially, using resources from sustainably managed and preserve biodiversity. Likewise, L'Oréal aims to completely stop using PVC in its packaging by 2016.

L'Oréal's approach is built upon three pillars:

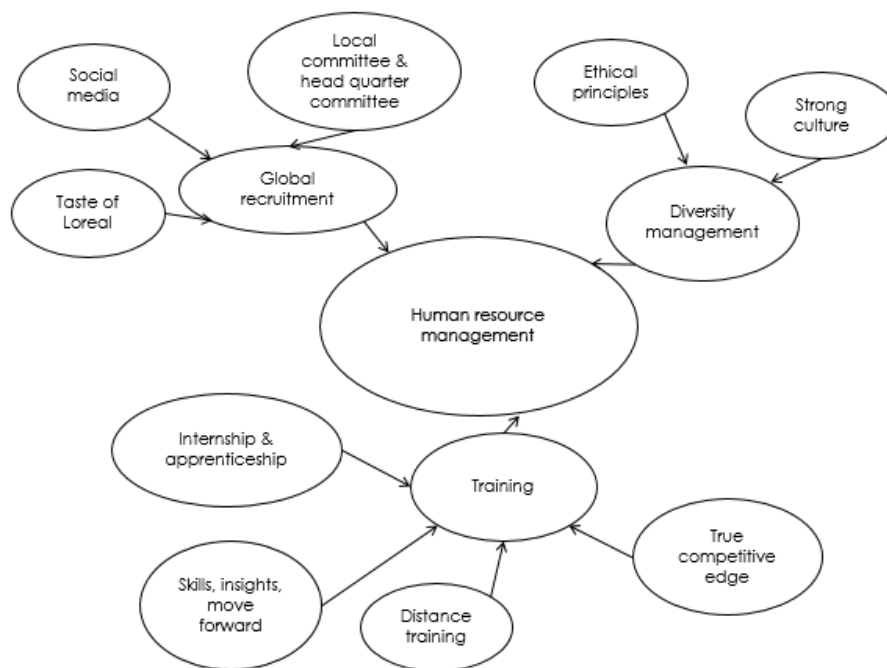
- Using renewable and raw materials.
- Creating eco-friendly processes.
- Creating ingredients with favorable environmental characteristics. Eco-design helps improve the formulas', particularly by improving their biodegradability and reducing the water footprint.

Achieving zero deforestation is another crucial commitment. As part of its commitment to zero deforestation, L'Oréal puts in practice action plans to make sure a sustainable supply of soya oil, palm oil and wood-fibre based so that none of its products is related with deforestation.

Final, but not last, is respecting biodiversity. By 2020, 100% of their new products will have better environmental or social characteristics. To achieve this goal, the Group prefers to use renewable raw materials sourced from sustainable supply chains or processed using Green chemistry.

III. Human Resource (HR) Management

Figure 5: Human Resource Management



L'Oréal's quest for universality has profoundly changed the challenges and lives of the group around the world, while developing a positive strategy for recruiting international talent. Their HR policies focus on two areas: exploring talented individuals, diversity in all, being able to manage the markets around the world today and tomorrow, but also ensuring that talent can be expressed in a collective framework that provides them with respect, Incentives and career development possibilities. This is a key point because economic success and best social performance must go hand in hand. They have a responsibility to put their values into practice and to create a working environment based on respect, solidarity and recognition of individual values.

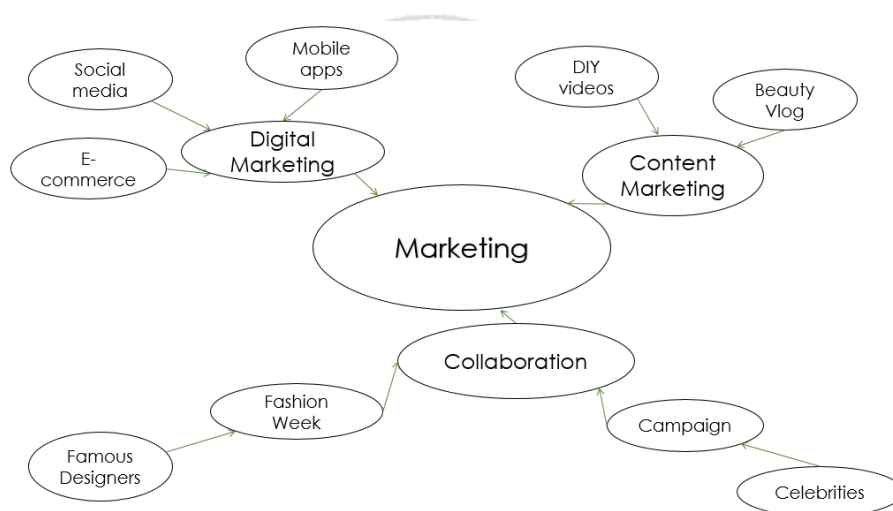
L'Oréal's human resources management strategy can be classified as: the diversification of management as the company's core values, global recruitment strategies, investment resources

and training programs. Because their ethical principles shape their culture, strengthen our reputation, and must be recognized and recognized by all honest L'Oréal staff - to act in good faith is essential to building and maintaining trust and good relationships, respecting their Work on many people's lives, courage ethical issues and transparency to be true, sincere, able to prove our actions and decisions. For their culture, they accept up to 50 graduates per intake, as well as more than 140 interns and placement. They are looking for innovative, socially competent entrepreneurs who will invest in our culture and make incredible new bonds, support each other inside and outside the office, and discover active social life in L'Oréal as their sports team, Dance classes and fantastic event planning. Their goal is to make L'Oréal a great place in which to work and treat their employees is the greatest asset. Employees have a right to a safe and healthy working environment in which individual talent and merit are recognized, diversity is valued, respect for privacy is maintained, and the balance between professional and personal life is balanced. They provide employees with an exciting environment, exciting personal opportunities and a changing opportunity to encourage openness, courage, generosity and respect for the atmosphere so that all employees are free to raise their questions, thoughts and concerns. For their global recruitment strategy, they unified brands across all sites in the countries they operate in. Each site's work section lists available positions in the country, with only a few links to the relevant social networks. Their work site links to Facebook pages, LinkedIn pages, Twitter feeds and YouTube. In order to ensure that employees in the earliest stages of career exposure to staff, L'Oréal decided to establish a formal entry plan. L'Oréal organized "FIT Week" activities, held a series of meetings for all employees. At the same time, it is widely publicized via e-mail, intranet, posters and contests. New recruits or persons transferred from another country or department are automatically enrolled in Level 6 courses. At least five days before their arrival, the HR department ensures login details, e-mails and phone calls are in place, and a desk and security pass is ready, as well as a product "goodies package". On their first day, the new arrival coincides

with human resources and their line manager. They are shown to their desk, introduced to the team, and then spent time with their HR manager, who explains how FIT plans to work. There is a team lunch, and they are assigned a mentor who is in this role for at least the first year. In the next two weeks, new employees meet with other employees from the company - whether it be marketing, health and safety, or product planning. In the first month, they and the human resources department to review, follow-up on a regular basis.

IV. Marketing

Figure 6: Marketing



L'Oréal had success so far in reaching out to the diverse needs of customers from different countries around the world, across different income level, cultural patterns and offering them products that worth every penny. L'Oréal sold its product based on the fundamental of customer demand in a country rather than selling identic type of products across the globe. The company build a large number of brands adapted to local culture and attracted to different market segment instead of generalizing the brand. L'Oréal went on not only being a local product but also doing well in international market. Below several marketing strategies that L'Oréal use to sold their beauty products across the world.

4.1 Digital Marketing

At the forefront of the digital revolution, L'Oréal is constantly looking for new ways to connect with consumers. From innovative e-commerce strategies to cutting-edge apps, they are leading the way into a new era of beauty. The digital strategy adds value to L'Oréal innovations by catching up to latest trends via Internet monitoring, introducing the new cutting edges mobile apps called Makeup Genius and creates an even closer relationship with consumers through their well-known brand ambassadors with millions of fans following them on social networks.

Social media is crucial to driving engagement and affinity for marketing. L'Oréal's social media presence is impressive. Being present where your customers are, being part of the wider conversation and playing a part in the evolving consumer journey are the key element in the use of social media for business purposes.

From E-commerce side, L'Oréal had great potential in its distribution channel, thanks to a strategy tailored to the specifics and different practices of each market. They also set up an online shopping to enhance customers online shopping experience.

4.2 Content Marketing

The beauty category is a perfect for content marketing where most of women do blogging and following influential beauty expert through those platforms which give brands the opportunity to teach and entertain consumers in an authentic way. In 2011 L'Oréal launch a website called Makeup.com, providing beauty hacks, tutorial video and expert tips daily in a unique design. L'Oréal used to partner with YouTube influencers, beauty bloggers which allows the brand to reach an elusive audience, the essential key to increasing company growth. When combined with product recommendations from L'Oréal's brand, the result is not too obvious which made it that looks relevant without overselling it to customers.

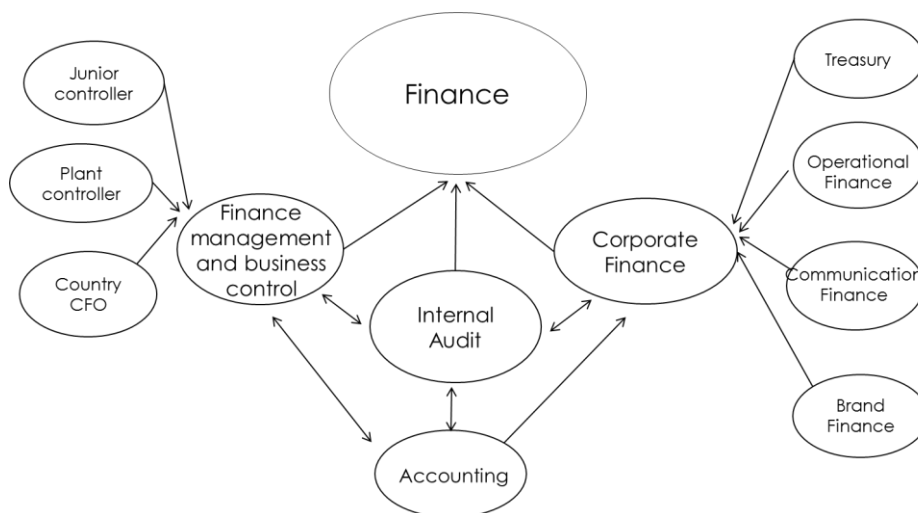
4.3 Collaboration

L'Oréal had done many campaign with well-known celebrities, partner with famous designer in launching new product lines and fashion shows. By doing this kind of collaborations had make L'Oréal brands getting more popular and known worldwide, fashion designers may get all the attention during fashion week but beauty brands also play a significant role from makeup to professional hair style which presented during a catwalk soon consumers will start to look up for the products that being use in the models.

For the campaign, a beautiful campaign built of the raw insight of the everyday struggle of women of color. Beauty does not apply to only single face shape but there's a lot different face shape all over the world. The problem that we have in the beauty industry is the lack of makeup shades variety. L'Oréal Paris finally introducing the solutions through its new campaign for the True Match Super Blendable Foundation, this campaign aims to highlight that there is a perfect foundation shade that fit each person, regardless of what your skin tone is.

V. Finance

Figure 7: Finance



Together with the business units, the finance and management control are key important part for L'Oréal's performance, making valuable contribution to its dynamics of growth. Finance and Management control has some grass-root functions, such as the teams directly contact with the

business units to provide accurate information for their need, and also help draw up appropriate predicts and recommendations. There are three kind of financial strategic management in L'Oréal. Those are corporate finance, finance management and business control, and internal audit.

5.1 Corporate Finance

Accounting and treasury have a major part for L'Oréal acquisition globally. With security and reliability, the main mission is to provide relevant information on accounts and financial file for entity in together will local regulatory timeline.

In close collaboration with other business and the internal audit, the accounting teams have to ensure that procedure and accounting standard must be properly applied. For instance, they have to modify the organization operation pursuant to the changes in accounting or tax law and regulation both at national or multinational level.

The treasury teams appraise the cash-flow and currency exposure throughout the fiscal year. They also manage banking relationship, focused more on security and some payment method to ensure L'Oréal correctly applied.

Simply speaking, corporate finance is overall L'Oréal financial consolidation. They analyze and interact with other division, reporting their activities directly to Paris headquarters.

Other corporate finance functions include:

- Financial communication: the task is to provide the annual Report, the L'Oréal Finance digital magazine, the Letter to Shareholders, digests and newsletters. Their activities mainly involved in publication
- Brand/ Commercial Finance: it used to analyze, manage with interaction with different functional department like Marketing, Sales, Operations, and Purchasing
- Operation Finance: their activities are to provide financial analysis and strategic support for all production and distribution from manufacturing, supply chain to corporate operation.

5.2 Finance management and business control

Here are the “financial eye” of each subsidiary of L'Oréal. They analyze, plan and control the way which the revenue is generated. They also help to make the right investment decisions and profitable evaluation and prediction. There are some functions which are divided in finance management and business control

- Junior Controller: The purpose is to participate in the budget planning and make forecasts for brands or SBUs. Within high responsibility, it is required to check expenditure allocation and help optimize costs. The contribution of Junior controller for business is offering monthly reports, being involved in the main strategy.

- Business Unit or Plant Controller: It is also responsible for budgets drawing, but for higher level than Junior controller. Besides that, accounts checking, cash flow, expenditure allocation are another task of them. They help to manage all resource and expense to make sure the optimize for each investment.

- Country Chief Finance Officer: It ensures the economic scale and balance by managing different functions from management, account, finance, legal and tax for whole countries in which subsidiary is located.

5.3 Internal audit

Obviously, the mission of internal audit teams is to ensure that all regulations standards and internal controlled methods are properly applied. It is need to assess and timely assist management teams by carrying out audits, recommendation and implementation. Their identification and risk assessment may affect L'Oréal's operation for not only subsidiaries but also divisions and whole L'Oréal. The Internal audit teams must deal with a wide range of problems such as commercial policy, logistics, stocks, cash flow, purchases, accounts, etc. Sometime they also need to work with accounting approaches or audit systems to make sure providing the excellent opportunities and financial exposure.

Chapter 4:

INDUSTRY ANALYSIS

The field business of L'Oréal group is mainly in cosmetic industry, which has grown over the past few decades to become a billion-dollar industry nowadays. However, there are certain factors which affect the profitability of cosmetic industry. These are bargaining power of customers and suppliers, threat of new entry, the threat of substitutes as well as intensity of rivalry in the industry. In this report, we will briefly analyze those factors by using Porter Five forces analysis. Before analyzing the five forces, it is better to understand cosmetic industry, the growth rate, market share, the structure of market in general.

I. Cosmetic industry

The cosmetic industry is such a highly competitive and timely changing market due to consumer preferences and industry trends. These products are facing, and will continue to face, with competition of consumer recognition and market share. The graph below illustrates the growth of global cosmetics market, estimated annual growth rate, as %.

Figure 8: Growth of the worldwide cosmetics market from 2006 to 2015



Obviously, the worldwide cosmetics market has been slightly stable over the past five years, pushing up the total market value from €127 billion in 2005 to reach the peak at €203 billion in 2015. The latest growth number, estimated for 2015, grew by an estimated 3.9%.

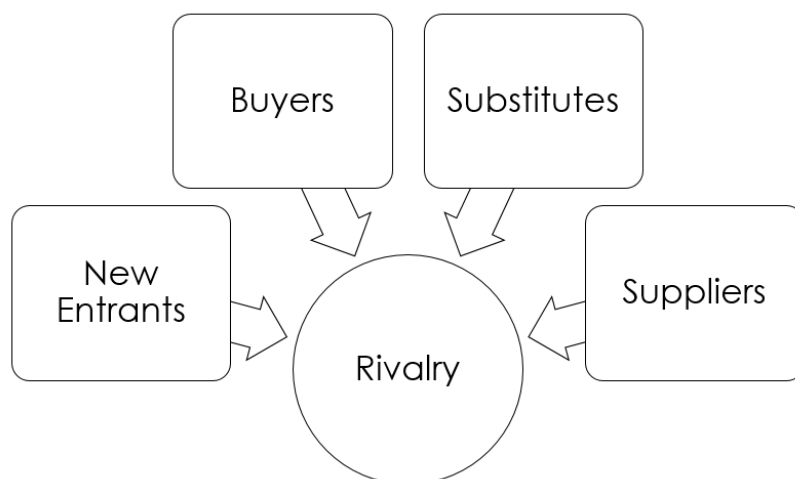
There was a considerably slowdown at 2.9%% and 1% respectively in the financial crisis years of 2008 and 2009 only.

In conclusion, the whole market in general, is a particularly robust market. The value of product is adaptable of consumer preference, it changes over and over. The cosmetics consumer always seeks for quality and novelty value with leading-edge technology and new trends.

One the other hand, notably, it must be admitted that cosmetic industry is large market which has high entry costs. It is such a dynamic industry yet requires huge investments in research and development to meet client needs. Furthermore, although it is competition market, however, all competitors are rather intensive. Those are large and famous manufactures such as The L'Oréal Group, The Procter & Gamble Company, Unilever, Shiseido Company, Limited and Estée Lauder Companies, Inc.

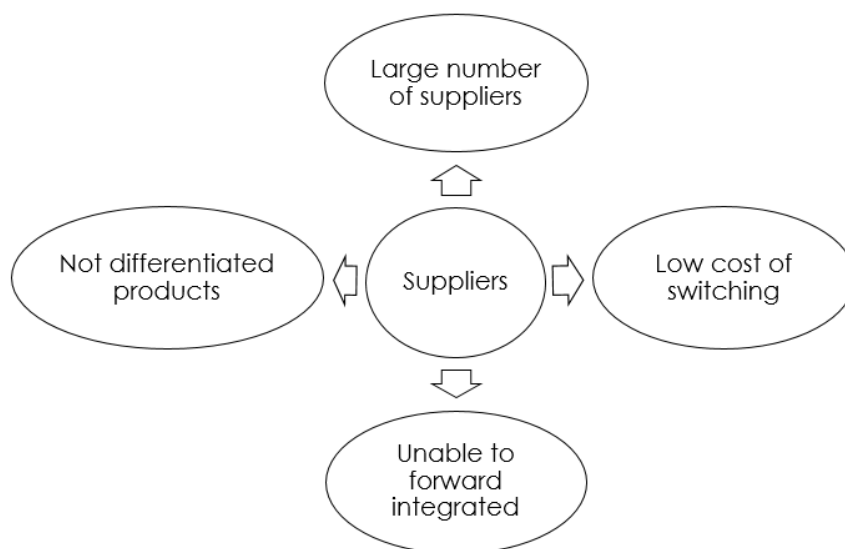
Further analysis with respect to the Porter Five forces will be undertaken below.

Figure 9: Porter Five forces



II. Number of suppliers

Figure 10: Bargaining power of suppliers



L'Oréal works with several hundreds of suppliers world-wide whom it has long and close relationships with. Suppliers for L'Oréal are varied in four main domains: raw material, packaging material, contract manufacturing and machinery. The Group has selected them on their sensitivity to create new things, ability to deliver service on time and a bunch of standard including flashpoint of their supplied ingredients. All suppliers are regularly assessed based on key performance indicators: quality, efficient logistics, social and environmental responsibility, innovation, competitiveness.

In general, in cosmetics business, there are hundreds of suppliers but a few giant customers dominating market (L'Oréal, Unilever, P&G, Shiseido and Estée Lauder), leading to weak bargaining power of supplier. Moreover, because L'Oréal is the biggest cosmetics company, its suppliers are put in very weak negotiating position.

2.1 Cost of switching suppliers

Having an enormous account of suppliers always available for 44 factories around the world provides L'Oréal easy way to switch from one supplier to another if anyone of their

suppliers does not satisfy its conditions.

2.2 Unique/differentiated products of suppliers

Mass production in giant factories of L'Oréal needs standardize inputs. Therefore, L'Oréal issues a strict regulation to their supplier to follow. Let's take renewably sourced raw materials as an example. L'Oréal has been engaged since 2005 in principles from the Convention on Biological Diversity to no longer reference products with an unfriendly environmental source. Therefore, a series of actions were implemented to its partners to guarantee they also follow all of these principles. The Group provides them what it wants to have on the environmental profile of the purchased materials. Same approach is taken with packaging and equipment suppliers.

L'Oréal strongly supports its suppliers in reaching its expectations, also restrict give an end to relationship with suppliers who persistently lose track. Therefore, products of suppliers are generally hard to differentiate

2.3 Ability to forward intergrated in to focal industry

Many of L'Oréal's products are sold through retail channels, such as department stores or supermarkets, drug stores. It makes close and long lasting relationships with these chains to prevent any potential threats as supplier's upgrade to producers and sell their new but alternative products in the market.

With these factors, the bargaining powers of suppliers can be considered very low.

III. Bargaining power of buyers - low

❖ Customer profile of L'Oréal

- Age 16 to 60 years' old
- Middle to upper class
- Higher education and cultural knowledge
- Higher income level
- Influence on the world in general

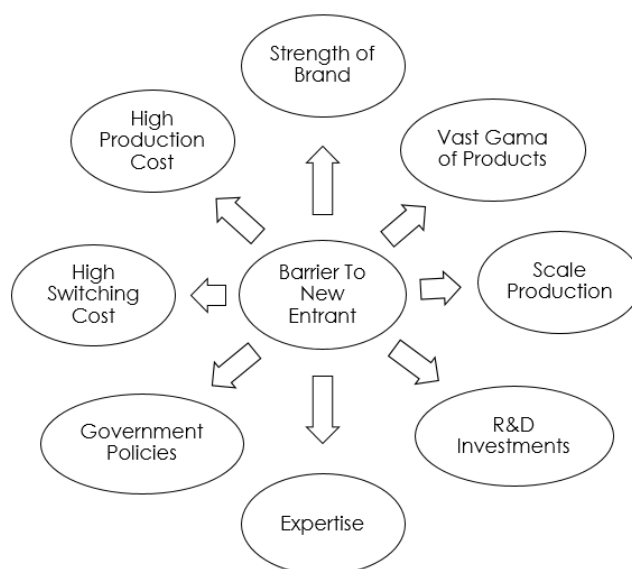
- Man and woman, the majority of women
- Have leisure time
- Is critical, and informed consumer
- Not afraid to complain, not tolerant of mistakes and failures in products

The customer is the company's main source of income. However, it is possible for buyers to switch between competing products / services, which gives them the power to bargain for price, quality, availability of information and place of purchase. Buyers' bargaining power depends largely on the degree of market competition and the number of alternative products. Buyers' ability may be high when buyers focus on the ratio of firm concentration, dependence on existing distribution channels, buyer information availability, buyer price sensitivity, and differential advantage (uniqueness) Home switching costs. The customer's bargaining power analyzes the impact of consumer price changes on the beauty industry. This factor analyzes the power of consumers to manipulate price changes caused by changes in demand (Aaker, 2000: 102-120). When consumers have high bargaining power, manufacturers and sellers may not be able to fully predict the future needs of the market. This may prevent them from achieving long-term profitability due to unpredictable demand patterns.

The power of the consumer to the company is growing, because the accessibility of the company's information is growing. However, L'Oréal is considered a high-end and high-tech industry leader, guiding demand rather than follow. Purchases are quite low, so suppliers have a high level of product quality and differentiation. Because of the high price (luxury), do not need a lot of buyers. Incentives for higher quality products and products with a strong brand identity make L'Oréal and luxury cosmetics industry, consumer bargaining power is relatively low.

IV. Threat of new entrants

Figure 11: Bargaining power of new entrants



The strength of the L'Oréal brand amongst new entrants relies on the offer of a vast gamma of products for different segments and the benefit from economies of scale for its production.

In the cosmetic industry, brand identity and product differentiation is very high. Also, a high capital is required for investments in R&D to create new products. As well as it needs high investment in product testing, and advertising.

Only a few middle and small-scale firms have access to the funds and expertise required to perform this effectively and new entrants might encounter challenges positioning their products on the shelves due to the high control of the distribution channels, and having to deal with government policies and regulations that continue to get stricter in the cosmetic industry, creating capital and social barriers.

It also needs to be considered the switching cost, which apparently doesn't seem high. However, consumers develop a trust relationship with brands and might not want to take the risk of trying a new product and being allergic to it.

In conclusion, the threat of new entrants is fairly low because there are big players in the

global cosmetics market that have the power to create barriers to entry. In spite of that, visionary new entrants can dedicate their products to markets that aren't fully explored, for example products dedicated to vegans and celiac allergy.

V. Threat of substitutes

It is rather less potential for products substitution. L'Oréal is a big beauty company that had many diversifications for its beauty products which divide into different type of product divisions. Their products ranging from cosmetics, skin care and down to hair care products. Honestly, it is complicated to find substitute product of L'Oréal products in beauty market business. The only substitute that believe might become a replacement for the products called cosmetics surgery.

Most women feel that wearing makeup does make them feel more secure and confident where it remarkably affects the way people view themselves and how they feel about their own looks. When you feel lack of self-confidence to go out without putting makeup then it's supposed to be a problem that should not be ignore further.

The concept of cosmetic surgery has finally gained the popularity that it has now especially among its takers in this modern world. There's a lot of cosmetic surgeries like embroidery eyebrow, eyeliner tattoo, lips filler and so on, by getting those surgeries women think it help them save a lot of times and pure utter laziness.

Yet, it remains as one among the many interesting and controversial issues discussed in beauty industry. The cost of surgery is very expensive and considering side effects that might happens, customers are unlikely to get cosmetics surgery. Still, the rise of cosmetics surgery considers to be a threat to L'Oréal.

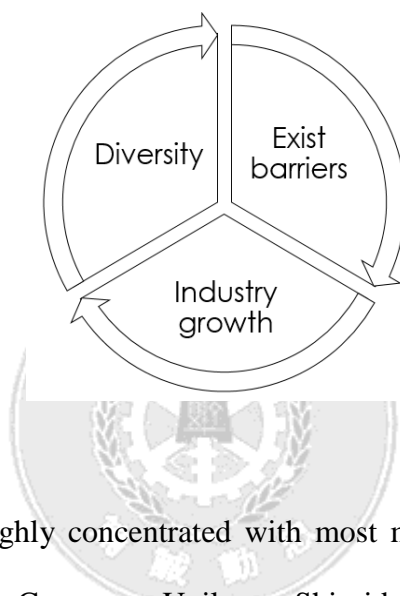
Another potential substitute called 'no makeup' or so called natural looks. Those who was born with natural and fair skin might not need to put on makeup cause somehow, they already good without makeup.

The threat of substitution that appeal in an industry will affects the competitive

environment within the company in the same industry and will drive company ability to achieve greater profit because consumers can choose to purchase the substitute products which offer almost equal standard. In conclusion, due to L'Oréal wide variety of products that covers most of the beauty lines the potential of substitute products considers low.

VI. Intensity of rivalry in industry

Figure 12: Intensity of rivalry



6.1 Concentration

The cosmetic market is highly concentrated with most major key players The L'Oréal Group, The Procter & Gamble Company, Unilever, Shiseido Company, Limited and Estée Lauder Companies, Inc., being mentioned in cosmetic industry part. Those are large multinational companies with great facilities, finance, capital..., resulting in high fixed cost on manufacturing and high competition on price.

In conclusion, the degree of rivalry's concentration must be assessed as high due to the elevated level of competition.

6.2 Industry growth

The industry growth rate is considered relatively high. This is because, consumers are aware of the necessary and important of cosmetic, especially for their self-esteem and confidence.

6.3 Exit barriers

Barriers to exit which included the high fixed cost for development and research, manufacturing... so forth. There are a large number of machines and equipment which used for researching and developing cosmetic products. Due to the high investments, it is really difficult for firms to leave the industry without achieving, at least the ROA (return on assets).

6.4 Diversity and Product differentiation

L'Oréal has a strong and long-term brand which is being positioned to consumers across all income levels by providing a wide range of beauty product. The competitive advantage of L'Oréal is diversity and product differentiation. This is because L'Oréal has strong marketing abilities and product engineering. They also have strong capacity in research from basic to advance level, reputation for quality and technological advance, long history and strong cooperation of channels. However, for perfume industry, it is quite difficult for L'Oréal to position and differentiate itself from competitors.

VII. Conclusion

In summary, based on some analysis above, it can be concluded that the intensity of rivalry in cosmetics industry is extremely high to medium.

All in all, the impact of Porter Five forces on L'Oréal has also been discussed thoroughly. It is shown that L'Oréal has low threat of suppliers, substitutes, new entrants and customers bargain power and high competitive rivalry. Those factors create for L'Oréal a great amount of opportunities and threats.

As analyzing above, global cosmetic industry is robust market with high profitability, lucrative as well as competitions. L'Oréal should be able to vindicate their position, predict the change in market segment in order to become a pioneer who seizes profitability of industry. There are three major trends underpinned the growth worldwide of cosmetics market nowadays. The first one is

the expansion driven by digital communications, next is the high-end channels, and final one is the increase of the middle classes in the New Markets, in which more and more consumers are looking for innovative, high-quality products. By focusing on these tendencies, L'Oréal could ensure that they will definitely achieve a market segment, develop customer loyalty and long-term profitability over the years. Particularly, defeat industry rivalries.



Chapter 5:

STRATEGY GROUP

I. Variables identification

Beauty is a diverse market that has a wide range of products, it offers from hair products to skin care cosmetics and make up. Cosmetic buyers are viable prospects for marketers as women today are constantly being reminded of what is considered beautiful. Cosmetic buyers are as diverse as the products they buy since we all have different preferences while making purchase decisions.

When it comes to product selection, aside from choosing brands the most used parameters are age, divided by *teenagers* (below 18 years old), *young adults* (19 – 34 years old), *adults* (35 – 49 years old) and *mature* (above 50 years old) then price range was divided by low, medium and high.

The cosmetics brands were categorized in three categories, each one of them having six different brands as showed below:

- **High End:** Cle De Peau, Chanel, YSL, Dior, Lancôme, NARS
- **Mid End:** Shiseido, Make Up Forever, Smash Box, MAC, Clinique, Benefit
- **Low End:** L'Oréal Paris, Maybelline, Cover Girl, Avon, Revlon E.L.F

Teenagers consider makeup really exciting when they first start wearing it, probably because it is something they haven't been allowed to wear before or had the opportunity to try it, which stimulates them to buy and try it themselves, starting with light makeup such as lip-gloss, mascara and progressing further. For example, America has seen a sharp upswing in marketing geared to teens since the 1980s, indicating their significant buying power. The use of beauty products by teenage girls circulates over \$9 billion dollars a year. The money

for buying these products is provided by parents, but also by summer and part-time jobs.

Young adults' usage in cosmetics is driven by self-conscious, feels insecure or as if something is missing from their faces and the desire to keep up with trends where celebrity idols have a given certain amount of influence in this group as they tend to trying their favorite idol looks.

Adults' consumption is based on their desire for maturity and flawless complexion looks, creating the illusion of fair skin while trying to punch up the looks without being garish.

For the *mature* category is about choosing the colors judiciously, keeping their skin healthy and enhancing the strength points of their appearance. Cosmetics believe to equate a part of women self-worth with how they look on the outside and how much makeup is able to improve their appearances.

When it comes to beauty, in general, price plays a tricky role. Most of makeup consumers search for items that can help to build up their self-esteem and are willing to pay more money for it either because the product promises a special result or because an influencer wears it, at the end it all comes to feeling confident.

II. Clusters Identification

Following the identification of the parameters and brands positioned, seven clusters were identified. The seven clusters are as shown below:

- The Premium cluster: is composed of brands that focus on women in a mature stage of their lives that look for products with high quality and affordable price. The respective brands included in this group are: Dior, Lancôme, YSL and Chanel.

- The Luxury cluster: involves brands connected to desire and not easily accessible. Those brands are focused on women at young adult ages that are successful and use brands to reflect or emblazon it. This cluster included only one brand: Cle De Peau.

- The Essentials cluster comprises brands that are focused on affordable makeup essentials. The respective brands included in this group are: L'Oréal Paris, Avon, E.L.F, Maybelline, REVLON and Cover Girl.

- The Trendy cluster is composed by brands connected with fashion tendencies and due to the volatility of it these brands are often launching new products and exploring new ways of getting in touch with their consumers online. The respective brands included in this group are: Makeup Forever, Benefit, NARS and Smash Box.

- The Cosmeceuticals cluster is composed by brands that bring up the non-aesthetic benefits of the products. The respective brands included in this group are: Shiseido and Clinique.

- The PRO cluster includes only one brand, MAC, that doesn't fit perfectly to others clusters due to its strong reference as a quality brand and fairly accessible price and purchasing access compared to brands with the same reputation.

III. Internal competition among clusters

Beauty industry now is a growing and potential market that particularly robust in make-up market which is steadily expanding. It is obvious that make-up market is dynamic and intense competitive market.

Traditionally speak, as we know "Essential cluster" with its low-end brands aim to celebrate uniqueness and specialty about each individual consumer to help them reach their own beautiful potential. The cluster comprised of teenager and trendy young females with low income or someone who don't want to pay so much money on makeup. Those brands are quite common and can be easily found anywhere, for example, drugstores, discount store, supermarkets or cosmetic specialty stores... to name but a few. Inexpensive and suitable for all women around globe are the characteristic of this clusters.

The Premium and Luxury cluster, high-end makeup brands that targeted high income woman, who loves to spend a great amount of money on beauty products. Up to some extent high price is

the indication of good quality. Many of them think that if they pay higher price they get durable and best quality products. They often think that “drug store” brands, the brands in essential cluster is not long-lasting, ineffective and easily causing irritation, redness... so on.

Comparison with essential, premium and luxury clusters seems to be the big debate that is always going on when women (young adults and adults) talk about make-up, they seem to have pretty strong opinions about it. Some only buy in “essential cluster” and often think that “premium and luxury cluster” is a waste of money, which consumers are paying for the nice package only when a drugstore dupe would work as well. Others are reversed, because they stated that “you get what you pay for”.

Among them, there are still lots of woman who don't really care about the price. For them, price is not the difference between expensive and cheap definition. They have to be faced with more options when buying makeup, sometimes expensive makeup maybe not the best option. Lifestyle, budget and effectiveness are things which need to be considered when buying makeup. They make comparison among brands and try to find out which is the best. For instance, they devote more of beauty budget to expensive foundation in premium and luxury clusters. The expensive foundation hides all imperfections very well and product natural, bright and flawless skin. The first choice of mascara will definitely be in “Essential clusters” due to hygiene reasons. Most of mascaras are in liquid which are used near the eyes where every time you re-insert the brush back into the tube, it coincidentally pumps more air and bacteria into the tube. Using old mascara that has gone bad can lead to eye infections and conjunctivitis. Hence, this type of product needs to be replaced every two to three months. Nevertheless, lipstick is quite different. A good lipstick relies on excellent pigmentation and good wear throughout the day. High-end brands in premium and luxury cluster also definitely add more moisturized ingredients to their lipsticks, therefore, customers can get the benefits of add-ins like Shea-butter, olive...etc to prevent from drying out. This is a common

complaint received from drugstore lipstick users. However, high-end brand is not frequent chic, sometimes they either cannot offer trendy color nor they are quite expensive. That is the reason why the option for lipstick is mainly in “Trend cluster” or “Pro cluster”.

Among three clusters mentioning above, “Trend cluster” has high competition. It is believed to be the optimum way of the true value of make-up. Save the budget yet provide good quality. Take primer for instance, in “Trend cluster” many brands like Make-up forever, Smash box...etc. they have launched an entire range of alternative versions to suit every different skin type and requirement and given skin a soft-focus finish and silky texture.

There is little inter-competition for “Cosmeceuticals and Pro clusters”. Cosmeceuticals cluster with some brand like Shiseido, is not responding rapidly enough to changing markets, consumer values and purchasing behavior. The targeted market of them is mature and high income person, who love classic and elegant appearance.

The difference between MAC make up and other cosmetic companies goes as follows: Frist of all, a very large variety of eye shadows and lipsticks colors, including foundation shades for each skin tone. MAC is following professional way. Many cosmetic consumers had complained that they got trouble as finding certain shades, whether it is foundation or eye shadow. They could not find the one that matches their skin tone and reveal perfect. Other competitors such as NARS, Dior, and Makeup Forever also have some renowned primer or foundation shades but they still lack in the eye shadow collection which could match foundation.

IV. Mobility barriers among clusters

The barriers were divided into:

Low-Medium mobility barriers

This barrier separates Low End category with the others. While Low Ends are lower-priced Products suitable for customers who do not want or can't spend large sums of money. L'Oréal's Low Ends products are L'Oréal Paris, Maybelline, Cover Girl, Avon, Revlon E.L.F.

They share a same characteristic that is aimed to young people that still go to school every day and receive support from parents or part time jobs but prefer a famous brand and keep up with trends of celebrities. Products in this category focus on teenage needs.

Medium-High mobility barriers

This barrier separate Mid-Range with High End categories. Mid-Range products are Shiseido, Make Up Forever, Smash Box, NARS, Clinique, Benefit while High End products are Cle De Peau, Chanel, YSL, MAC, Dior and Lancôme. Those products price are expensive and focus on specific needs of customers, keeping the healthy skin with enhancing the strength points of appearance. High End products provide best solutions with premium material for beauty care which only fit for successful females where beauty product is also a way to reflect who there are.

V. Conclusion

From previous analyzing of internal competition of clusters and barriers among them, we propose the best cluster is TRENDY cluster. Following are main reasons:

Firstly, easy mobility of trendy cluster provides it potential chance to switch to another cluster. Thanks to positioning at medium end price, trendy companies can upgrade to high-end when they want to diversified their product portfolio with less confusing from customers about quality than companies in low-end segment. Besides, if trendy wants to widen customer base to lower class during economic downtrend, it could get appreciated response in the market easier than a very high-end coming down.

In the second place, because of demand to be always new to catch the fashion waves, trendy companies can take full advantage of its R&D facilities and marketing strategies. Trendy focuses on young adults who get more familiar with digital marketing than the elders, followed by efficiency of using modern marketing strategies (which are popular in cosmetics industry now) on them— affordable investment but large spread to a huge number of

consumers. Also, investment in R&D facilities can be compensated by little high price and huge amount of consumption.

Finally, competitiveness inside clusters is not so hard. Number of companies in trendy cluster is less than essentials, but higher than luxury and premium's. This means competition is not so fierce as in essentials, but still at a significant level which encourages companies to always renew themselves' products. It is consistent with cluster's characteristics – be always new to catch the latest trend. Again, competition in this cluster brings more advantages than disadvantages.



Chapter 6

ANALYZING RESOURCES AND CAPABILITIES

I. Resources

L'Oréal is recognized as a leader brand on the beauty segment and maintains its competitiveness due to the use of numerous strategies involving value-adding resources and capabilities.

In order to present in a clear and easy understanding way the resources were split into three subdivisions: tangible, intangible and human.

Among the tangible resources are L'Oréal financial, physical and organizational resources. The first one is mostly related to capital, equity, debt, assets and earnings. Annually L'Oréal releases reports presenting relevant information about the company's financial status and these indicators point out the direction the company is taking and its growth. L'Oréal physical and organizational resources include a vast number of locations where the company operates, since its headquarters, industries, hubs and R&D centers are strategically distributed in order to have an optimized coverage, establishing exceptionally successful distribution channel.

The intangible resources include critical factors for the company such as its branding strategies and acquisitions, reputation, history, customer's experiences and loyalty, patents, and copyrights. Throughout its history, L'Oréal has worked hard in order to build a trustful relationship with its customers and construct its reputation as one of the most respected and reliable beauty brand.

Ultimately, its human resources, this group include a mix of important tools for any company that aims to achieve a successful position in the market, and L'Oréal is conscious of its importance. The combinations of skilled and qualified employees, that understand their jobs are recognized as a key point to the business success, and also are empowered by their leaders and therefore feel satisfied and have a better performance. These same employees are stimulated to work in teams and have their skills being frequently improved through training processes and courses.

L'Oréal is a company conscious of the importance of its human capital and provides among different things a working place ranked as one of the most desired places to work in the world.

The combination of valuable resources and capabilities, have the potential to provide favorable scenarios with high competitive advantage. L'Oréal, takes actions to increase its potential resources, therefore guaranteeing its market positioning.

II. Capabilities

2.1 Innovation

With 3,871 researchers and a budget representing 3.1% of its sales, L'Oréal has the largest research and innovation capability in the cosmetics industry. L'Oréal has competitive advantage in all range of cosmetics research, from basic ingredients to advanced formulation research. More than ever, success and growth is driven by “new, different, better” products. By pouring a huge amount of money into innovation, L'Oréal always makes one step ahead.

2.2 Acquisition management

With history of 100 years, the Group has built up, through series of successful acquisitions, a diverse portfolio of international brands which are fame of L'Oréal. Owing to its strategy management of acquired brands, L'Oréal can develop without internal conflict among brands about target consumers, target market, retail channel or supply chain.

2.3 Negotiating capability

L'Oréal is proud of their negotiations capabilities. The Group builds on-job training program for everybody. Not only sellers or purchasers who negotiate directly with customers or suppliers but also back-office personnel are train through basic to extensive negotiation skills. Its purpose is to enhance individual tactical and powerful influence in cooperating with all stakeholders. As a result, for example, L'Oréal products are always in the favorite position on shelves in supermarkets or attractive locations in department stores in comparison with other rivals' products.

2.4 Efficiency of supply chain

L'Oréal has a complex supply chain, but very efficient. To connect suppliers through manufacturers till points of sales, it uses an integrated information system. This technology provides sharing information of market demand, forecasting, daily sales and warehousing to every parts of supply chains, then help managers of each functions make suitable decisions on time. Besides, procurement has deep relationship with suppliers to facilitate 44 plants always in available materials of ingredients and packages.

2.5 Responsiveness to market trend

L'Oréal finds that their multicultural employees (multicultural) are precious resource to help it always control market trend. According to a director who worked with multicultural for 5 years, "Their background is a kind of master class in holding more than one idea at the same time. They think as if they were French, American, or Chinese, and all of these together at once".

2.6 Partnerships

Years by years, L'Oréal's Research and Innovation department has built partnership with a number of private and public institutions to strengthen its science. These partnerships enhance their ability to further research.

2.7 Responsibility to Society

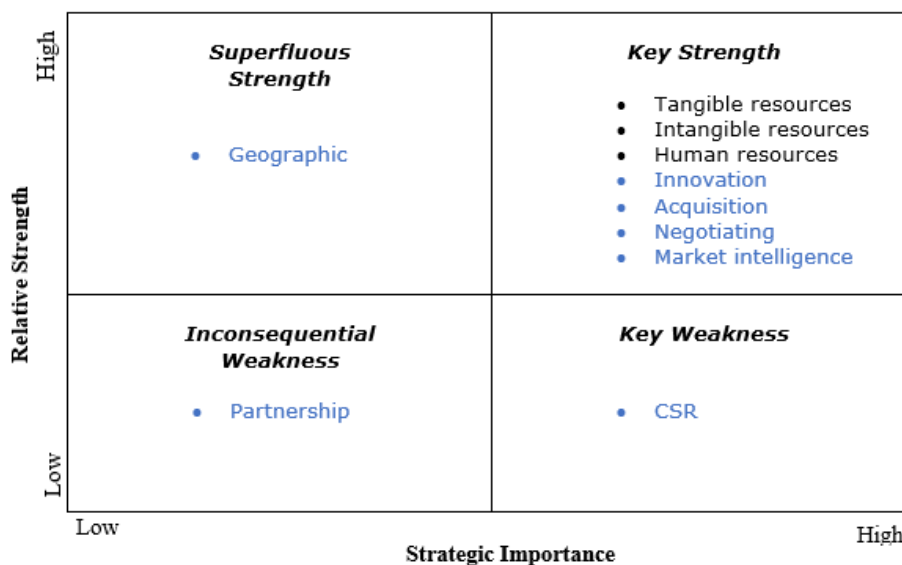
Corporate social responsibility is the first capability when saying about this phenomenon. They are reducing carbon-dioxide emission, zero deforestation, tracing back source of ingredients, etc. Besides, L'Oréal also cares about women position in our society. It promotes women role in the company. Also, it has training for disabled people to join beauty industry, providing jobs or chance to have better life.

III. Developing strategy implications

3.1 Deriving Strategy Recommendations from Resource/Capability Analysis

We'd bringing together the importance and relative strength of the company into the four quadrants tables as below.

Figure 13: Capabilities and Resources



*BLUE = Capabilities, BLACK = RESOURCES

3.2 Appraising L'Oréal resources and capabilities

3.2.1 Superfluous Strength (Low importance, High strength)

❖ Geographic

L'Oréal use decentralized structure for the company where they located manager in each of its subsidiaries companies around the world. As we know that L'Oréal had many subdivisions of products, somehow there are difficulties in the coordination and control of activities when operating in a global market. It's not important to located each manager in each region instead nowadays with the advent of internet they can just remote control the subsidiaries from headquarters.

3.2.2 Key Strength (High importance and strength)

❖ Tangible resources

Strong capital, high cash flow and long term investment in latest digital technology, science and from investors had enabled the company to achieved sustainable development and profitable growth prospect.

❖ Intangible resources

Devoting itself to beauty for over years, they had gained many criteria for an outstanding reputation including their brands and the quality of products and services in keeping customer loyalty. Being transparent, trustworthy and responsive are important to the sustainability of the company where by maintaining a positive reputation for company future growth prospect, increases corporate worth, provides sustained competitive advantage and existence of their business.

❖ Human resources

L'Oréal's impressive global success as the universalization company due to company adaption in the Group's Diversity strategy to their local context by recruiting professionals with multicultural backgrounds in new product development, know how skills and creativity.

❖ Technology

Advanced technology at the heart of innovation where company investing in trends and technology and innovating digitally. At the forefront of the digital revolution from innovative cutting-edge apps to 3D technology machine, they are leading the way into a new era of beauty that will generate even greater innovation in the future.

❖ Acquisition

The company did a series of strategic acquisitions to expand regionally by acquiring brands with global or regional reach and building a portfolio of international brands. These acquisitions are in line with its Universalization strategy, reaching out a billion new consumers over the world and enable to spread its footprint globally and improve profitability for the company's future growth.

❖ Negotiating

Possessing unique expertise in terms of channels, sales, retail outlets that include strategic aspect, drawing up brand and sales strategies, and maintaining relationship side of things. Understanding the brand value gives the L'Oréal power in negotiating where the key objectives is to build strong relationship with key retailers, how you develop your relationship with your key clients while ensuring to hit target sales, creating demand that meets consumer needs and how we commercialize the products together in the hand of retailers.

❖ Market intelligence

An association of market intelligence play significant roles to assess market entry opportunities and to formulate market development plans since standards of beauty varies from one culture to another. In-depth knowledge of diversification in demographic, market potential, culture habits and beauty rituals had become the source of inspiration for the development of new products. This is particularly useful for L'Oréal which is large with many divisions that need to be monitored. Gathering market intelligence may be the most crucial element of L'Oréal executing effective plans for company prosperity.

3.2.3 Inconsequential Weakness (Low importance, Low strength)

❖ Partnership

L'Oréal's less focus on creating mutually beneficial partnerships with publishers, beauty expert and influencers. Like giving out beauty samples on magazines is not new where readers have been attracted to free sample products, bonus gift and money off vouchers instead L'Oréal choose to given the real experiences to customers along with a consult from beauty expert.

3.2.4 Key Weakness (High importance, Low strength)

❖ CSR (Corporate Social Responsibility)

CSR is a common thing that almost every company had applied, L'Oréal had sustainability commitment where they produce and innovate in an ethical way but somehow

the process of act is still not good enough. For example, microbeads that using in the beauty products. Those tiny plastics usually can be find in facial or body scrub, after wash those tiny things can go through water filtration system then goes to ocean, consume by marine animals (ex: fish) then the chain goes up to human who consume fish. Microbeads contain toxic chemicals which is danger for humans, after that L'Oréal had stopped to produces products that contains microbeads.

IV. RESOURCE VRIS

In many ways, the purpose of resource strategy is to achieve competitive advantage via the proper use of resources. As a result, the most important goal of resource analysis is not to value the assets of company. It is used for achieving sustainable competitive advantage. There are some characteristics used to evaluate whether resources fulfill or not. These are valuable, rare, Imperfect-Imitability, and Substitutability, referred to as VRIS.

- Value (V): A resource must enable a firm to employ a value-creating strategy. It makes a valuable contribution to firm.

- Rareness (R): How rare or limited is the resource?

- Imperfect Imitability (I): How difficult is it to imitate the resource

- Substitutability (S): Is it not able to be substituted.

4.1 Tangible resource

4.1.1 Financial resource

❖ Cash

Cash can be used to support acquisitions activities and repurchase the stock or even enhance shareholder value. That is the reason why cash is important and value to L'Oréal. The kind of this asset is rare and not easy to imitate or substitute.

❖ Debt

Debt is value because debt brings more money from outside to L'Oréal, it also helps tax

deduction. Due to cosmetic industry characteristic, all competitors are intense and power. They do have high credit and qualification, connected many sources like bank or institution to borrow money. Therefore, debt is not rare, not difficult to imitate or substitute.

❖ Equity

Equity finance is about to be more valuable than other sources of finance. Because the funding will be flowing to L'Oréal by investors if business is doing well. In addition, with equity finance, L'Oréal doesn't need to keep up with some costs like interest rate of bank loans or debt finance for example. Potential investors always seek comprehensive information on company and their business before investing, they look at carefully about the past results and forecast for future. Investors will invest as they can make sure the profitable and potential of company. Besides that, it is costly and time consuming to raise equity finance. It may take more time to manage and provide regular information for investors. Those are the reasons why equity is finance is rare, difficult to imitate or substitute.

4.1.2 Physical resources

Physical resources are another important component of resources of L'Oréal. The location and size of headquarters, hubs and R&D centers are really important to L'Oréal. In order to achieve mission to listening to customers, L'Oréal's Research and Innovation has been placed closed to its major markets. The headquarters of L'Oréal are being designed as a connected workplace to create an enhanced collaborative environment that reflects a culture focused on innovation, learning, and growth. Specific attention is being paid to our environmental footprint, which aligns with the company's sustainability goals. Hubs are designed in international network place for easy distribution. It took L'Oréal so much time and money to find out the right location. Therefore, the location is valuable, rare, imperfect imitability and substitutability.

4.2 Intangible resource

4.2.1 Reputation

❖ Brands

L'Oréal has the most well-known brands in together with image of brands with prosperity of unique and international portfolio of 32 complementary brands on 140 countries from luxury to consumer products. It is certain to take much effort to create a successful and reliable brand which customers believe and trust in. A business wouldn't be successful if it does not obtain the values of brand recognition by customers. Furthermore, brands are unique, so it is hard to imitate or substitute.

❖ Customer loyalty

Customers are at the heart of a business, keeping existing customers is just as important as getting new customers. Loyal customers lead to repeat business, they tend to make more single transaction, that mean they will buy product from company again and again, spend more money on brand. In addition, loyal customers are likely to explore and try out different product or services. Hence, loyal Customers are extremely valuable. Customers loyalty is unique as well, when customer become truly loyal, company is the only brand prioritized consideration in their mind, other brands seem to be disappeared. Loyalty customer cannot be imitable yet it can be substituted. Customer loyalty is quite difficult to retain. The reason is that cosmetic industry is too sensitive. It changes days by days along with weather, beauty trends or human biology. If the company product is not state of the art, customers may switch into another brand to meet their demand.

❖ History

History is a valuable contribution to company in cosmetic industry. One reliable cosmetic product ought to have more time to research, innovate and create. After creating, it

still need more time to test for irritation, breakout issues. The more tests they do, the deeper knowledge and experience company can gain. They will know well all kind of situations which occur on customers' skin. By doing this, company is believed to create a product with the least irritated percentage.

4.2.2 Technology

❖ Patent right

Patent right is value to company, because it helps company to achieve a monopoly market for such a long time (20 years). That means the precious investments is definitely paid-off. However, patent right is unique within registered country only. When exporting abroad, the power of patent right seems to be decreased due to patent regime of that country. If exporting countries are piracy, they just change some part of product and apply for new patent protection.

4.3 Human resources

❖ Skilled and qualified staffs

A skilled staffs is a person who has special skill, knowledge, and ability in their work. Sometimes a skilled and qualified staffs who may have attended a famous college, university or technical, vocational institutions, or may have gained some special skills on the job. A skill and qualified staffs are valuable because as employing them, they seem to bring new innovation, new perception to company. Everyone has his/her own unique skills. Hence skills and qualification could not be imitable or substituted.

❖ Innovation skills

Innovation skills are important and valuable to all industry in general and cosmetic industry in specific. Innovation ability not only in products and services, but also operation, management which have a significant effect on productivity then growth.

❖ Experienced staffs

Obviously, employees are the heart and soul of the business. They are the mechanism that

help business run smoothly and fast. Experienced staffs are not valuable but essential to business. This is because experienced staffs have a solid knowledge base on their major. They can predict and master all circumstances which occur in work. They also have some skills which are likely to make a precious contribution to work, such as technique skills, time management skills and some interpersonal skills. Experience staffs are about to be valuable, rare, and non-substitute, yet it could be imitable by using systematization.

A briefly resource VRIS analysis was described as following table

Table 2: Resource VRIS

RESOURCE						
	V	R	I	S	Competitive consequences	Performance implication
<i>Tangible resource</i>						
Cash	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Debt	✓	×	×	×	Competitive parity	Average returns
Equity	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Location	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
<i>Intangible resource</i>						
Brands	✓	✓	✓	✓	Sustainable competitive	Above average return

					advantage	
Customer-Loyalty	✓	✓	✓	×	Temporary competitive advantage	Above average to average return
History	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Patent right	✓	✓	×	✓	Temporary competitive advantage	Above average to average return
<i>Human resource</i>						
Skilled and qualified	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Innovation ability	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Experienced staffs	✓	✓	×	✓	Temporary competitive advantage	Above average to average return

V. Capabilities VRIS

5.1 Innovation

Innovation is the key to L'Oréal's new strategy. L'Oréal's commitment to innovation has always been to introduce the formula to enhance the consumer product experience. Not only to continue to develop their knowledge of the physiology of skin and hair types from around the world to meet

everyone's needs, but also to listen and observe consumers, to study climatic conditions in a way they live in order to better understand their Beauty ritual and are encouraged by the return. From the production of skin care, hair care, makeup, nail products, L'Oréal has successfully developed the L'Oréal cosmetic genius application that allows users to use their cell phones to make a digital makeup. Consumers responded positively and downloaded 7 million applications.

5.2 Acquisition management

While developing their own brand, L'Oréal also does the M&A activities. The money to acquire the other brands is huge but the achieved benefit is not small, it helps the company operate smoothly without going through the initial stages of market intelligence, research, culture ... Although the M&A is not new, even their rivals as Unilever also conducted numerous M&A but L'Oréal has been very successful with this strategy. At present, the number of brands which was acquired by L'Oréal is 20.

5.3 Negotiating capability

As we mentioned before, L'Oréal does not only focus on external negotiation as dealing with suppliers, customer, partner, or repurchasing brands, L'Oréal also focus on relationships, interpersonal communication within the company. The company annually organizes many training sessions to help their employees practicing. Even in L'Oréal South Africa branch, any employees who want to be on the Retail design & Merchandising department are required some skills like negotiation, conducting Win-Win situation...

5.4 Efficiency of supply chain

L'Oréal in 130 countries worldwide sales of products, annual sales of 23 billion euros. The company operates 153 distribution centers and 39 manufacturing sites. There are 7,500 supply chain professionals worldwide. The organization is very complex and it is a unique culture. The complexity of the business is high. In the past 12 months, 50% of L'Oréal products are new, the growth rate of 3-4%. Their strategy is to grow in new markets, expand distribution channels (deep

trade items) and build e-commerce channels. As a result, supply chain rhythm and cycle faster than ever before. For supply chain leaders, the boundaries between channels are blurred.

5.5 Responsiveness to market trend

L'Oréal's employees, talents from around the world, are developing their products in addition to match the customer needs in specific regions. The link was created between companies among regions to help updating quickly with the latest trends. L'Oréal shows how the unique features of multicultural thinking enable them to better play five key roles than their single cultural counterparts.

These roles are:

- Creation of creative associations and mapping between geographic markets to enable L'Oréal to develop global products and establish global brands while maintaining sensitivity to local market differences.

- Interpreting complex knowledge, i.e., implicit, collective and cultural dependence, it is not possible to simply "explain" cross-cultural and contextual skills in marketing products such as cosmetics, many of which are understood to be tacit and culturally dependent.

- Predicting cross-cultural conflicts that are critical to the effectiveness of the global team.

- Integrate new team members from different cultures into a team, quickly establish their own interactive norms, a strong "inside and outside" identity, once the team has been particularly difficult for some time to join the team.

- Mediate the relationship between global teams, the cultural diversity of their members, the senior managers they report, or their interactions with their affiliated employees who work with them, usually a single culture.

5.6 Partnerships

For example, Economic Policy Analysis ECOPA provides specialized economic advice to countries and regions with economies in transition, EPA EPA USA, National Toxicology Program, National Institute of Health and the Food and Drug Administration to predict the potential toxicity of chemicals and develop Cost-effective way to prioritize the thousands of chemicals that require toxicity testing. And Pasteur, France, Laval University Hospital Research Center, Canada, Ohio State University, academic research and activities.

5.7 Responsibility to Society

L'Oréal to make every effort to take responsibility for the community. In 2014, they reduced CO2 emissions by 50.2 percent for their plants and distribution centers, and 67 percent of the new products they evaluated had improved environmental or social impact.

A briefly capabilities VRIS analysis was described as following table.

Table 3: Capabilities VRIS

CAPABILITIES						
	V	R	I	S	Competitive consequences	Performance implication
Innovation	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Acquisition management	✓	×	✓	✓	Temporary competitive advantage	Above average to average return
Negotiating	✓	✓	✓	✓	Sustainable competitive	Above average return

Case Study about Global Marketing Strategy of L'Oréal

					advantage	
Efficiency of supply chain	✓	✓	✓	✓	Sustainable competitive advantage	Above average return
Responsiveness to market trend	✓	×	✓	✓	Temporary competitive advantage	Above average to average return
Partnerships	×	×	×	×	Competitive disadvantage	Below average return



Chapter 7

VALUE CHAIN ANALYSIS

I. Primary activities

1.1 Inbound Logistics

Superior incoming materials raise the quality of the finished products

Materials for producing are carefully purchased with full certificate of quality. For example, regarding palm oil, L'Oréal imports 400 tons of palm oil every year, palm oil derivatives which need 60,000 tons of original palm oil to refine. Since 2012, Total L'Oréal's palm oil has adapted RSPO certification (Roundtable on Sustainable Palm Oil certification). Furthermore, so as to ensure a deforestation-free, L'Oréal deployed an unprecedented approach within the oleo-chemicals sector and started to map its entire supply chain and to trace derivatives back to their origin. In 2015, L'Oréal achieved to trace back 80% of its all kind of derivatives up to the stage of refineries, and 50% up to level of factory mills.

Superior handling of incoming materials so as to minimize damage

Suppliers for L'Oréal are engaged with "Ethical Commitment Letter". This letter, translated into 11 languages, recommends suppliers to follow international and local laws about labor force, environment protection. Once joined in "Ethical Commitment Letter", suppliers automatically agree to be audited regularly and irregularly.

Superior market research and forecast

To forecast market demand, L'Oréal has a complex supply chain, but very efficient. To connect suppliers through manufacturers till points of sales, it uses an integrated information system. This technology provides sharing information of market demand, forecasting, daily sales and warehousing to every parts of supply chains, then help managers of each functions

make suitable decisions on time. Besides, procurement has deep relationship with suppliers to facilitate 44 plants always in available materials of ingredients and packages.

1.2 Operation

At L'Oréal, production can be rescheduled up to three days before, giving flexibility to manufacturing chain while preventing site operations from excessive troubles.

Operation is installed through serious continuing steps. When primary materials arrived at site, they are identified and labeled. They read material composition and history, lot number and profile of the provider. They also take samples from each lot to test quality meets requirement or not. Only after being accepted, results are attached. In the later steps, operators can double check materials by scanning their label before input them into manufacturing machines.

In manufacturing step, corresponding recipes are displayed and instructs operator through the procedure when the operator receives an order. Firstly, it checks availability of necessary materials, then, verifies that materials comply with quality for this kind of production or not. The careful preparation raises correctness of production chain although L'Oréal owns thousands of different ingredients. After weighing recipes for production, they come to be mixed, transformed and become final products. They continue to be labeled and come to packing site.

At packing site, they system checks availability of equipment, packaging materials and characteristics. It instructs packaging engineers to take samples of different production lots, shows suitable places in the warehouse to store finished products in order to help fork trucks easy to take later.

1.3 Outbound Logistics

Automated technology

L'Oréal is implementing a “goods-to-person” system in distribution centers in North America and Western Europe. This system automatically delivers boxes and products to the suitable places in the warehouse to help people easy to find it when they are about to distribute. The Group also integrates warehousing and e-commerce sales to enhance distribution performance.

Slotting to warehousing

L'Oréal uses slotting system in its warehouses which brings many advantages, including:

- Reduction in travel time inside warehouses;
- Efficiency in using space in warehouses to store products and materials, also using pallets;
- Reduction in storing or lifting errors;
- Categorization all items logically;
- Ability to track history load in and out, help to forecast.

Now a day, the lines picked per hour has increased about 12%. Much improvement has seen such as reduction in bends and reaches up to 28%, decrease in travel distances up to 21% and climb in lines per hour picked from 10% to 30%, depending on the maturity of the operation. Slotting program is installed in factories in Chile, Mexico, Chile, Brazil, Argentina, France, Canada, other facilities in Western Europe, Asia and South Africa.

Slotting is delivering a sustainable competitive advantage.

1.4 Marketing and sales

Marketing and sales provide the means by which the consumer / user is aware of the product or service and is able to purchase it. L'Oréal offers a portfolio to advertise to their clients so that they can realize that their products are available to the market. Some of the

areas they use are:

- TV, print, retail and billboards (e.g. magazines);
- Celebrity (Spokesperson);
- Sponsors, film and media (e.g., Cannes);
- Digital and internet (for example, YouTube / destination beauty, you can get in L'Oréal, Facebook / how to video shoot beauty blog, user-generated website and the use of network personal, LinkedIn / you are IN? Flipboard / L'Oréal Career)
- Brand storm (the competition between new marketing ideas among students);
- Grassroots movement (for example, assistance to Sharon).

By providing technological innovation to its research team, L'Oréal provides them with a powerful tool to express their creativity and gain faster and faster knowledge of the skin and hair. Today, advances in medical imaging, robotics and even 3D modeling are helping to develop innovative products.

L'Oréal operates 153 distribution centers and 39 manufacturing locations and sells products in 130 countries, there are 7,500 supply chain professionals. That why they easily identify and rapidly provide customers' need. Besides that, L'Oréal has the brand system from low to high end market such as for adults, they have L'Oréal Paris with low price and YSL with high price and so on. Thanks for efforts of L'Oréal in widening their distribution around the world and meets the needs of customers. The company's sale in 2015 was 25.26 billion euros, an increase of +12.1% to 2014's.

L'Oréal stated: "Creativity is the air we breathe - it nourishes our inspiration and shapes our ideas, enabling us to launch 500 new products every year. At L'Oréal, marketing - which fine-tunes these ideas - is right at the heart of our strategy."

1.5 Services

At this stage, the company will investigate after-sales service. Services include all activities that enhance or maintain valuable products or services, such as training, installation, maintenance and spare parts.

"Because you deserve it." And L'Oréal, the world's largest cosmetics company, few companies have a more intimate relationship with customers. With 32 global brands, including Orchid, Maybelline and Redden - L'Oréal helps millions of people to feel proud and beautiful every day. In order to protect and promote these important brands, the company uses Salesforce to maintain operational coordination and interaction with customers. The company uses Salesforce to consolidate its sales and back-end systems to help the professional products division share data and coordinate branding to improve overall operational efficiency. L'Oréal also provides a portal for coordinating salon events for product representatives and beauticians, with product information, demos and training materials. Salesforce is an important tool to enable their endless quest to understand their customers.

L'Oréal not only applied technology in the field of scientific research, but also to provide customers with building applications, such as: L'Oréal cosmetic genius application, 3D print hair follicles. L'Oréal is proud to present a variety of genius makeup applications on March 9, 2016. Make-up geniuses bring a significant added value to women, enabling them to access a large number of their product portfolios, try to use them, share them on social networks and buy them easily. About 3D printing of hair follicles, L'Oréal is developing new technologies that can lead to 3D printing of new hair follicles that can sprout new hair. The technique uses laser-assisted bio-printing to produce biological tissue and can position cells in 3D with extremely high cell resolution (about ten microns) and cell viability (more than 95%) according to L'Oréal' statement.

Skin care and makeup products are often easier to use, however, the hair products often difficult for us to do for ourselves. To resolve this issue, L'Oréal introduced hair color products that the customers can manipulate not need to salon. The product divides into 2 types: shampoo, and spray. Features of this product is not kept color too long on hair, only 4 to 6 weeks, so for those who want to change hair color regularly, this product is a great choice.

L'Oréal always tries their best to create the best product and they do have policies to make sure that their customers will go back home with a smile and their products on hands.

II. Supporting Activities

These activities support the primary functions above in helping the firm to achieve its competitive advantage. These activities are classified as:

2.1 Infrastructure

Firm infrastructure refers to a structure from its management planning, control system accounting, financing to company culture...etc. It is believed to be essential that can help company to create more advantage. For L'Oréal's, organizational structure is important and necessary to ensure a sustainable development. However, it is quite complicated. Simplicity, L'Oréal makes a labor division into centralization and decentralization. Centralization is definitely for upper level manager of L'Oréal who often makes important decision. The workforce has been organized into head-quarters and six regional research centers. Decentralization is defined as two levels. The first one is broad committees, the lower level region management. L'Oréal also processes departmentalization for decentralization level. These are product departmentalization which is used for managing all brands of products of L'Oréal within the groups based on divisions, geographical departmentalization that the managers of different geographical zones in which L'Oréal is located. Research and development departmentalization is use to make customized products for all the diverse customers with diversity habit and lifestyles. Administration, Finance and Human resource

departments are divided base on division and region, but they have same function, that is to make a full connection for whole L'Oréal.

The second important for L'Oréal is Finance management. Together with the business units, the finance and management control are key important part for L'Oréal's performance, making valuable contribution to its dynamics of growth. Finance and Management control has some grass-root functions, such as the teams directly contact with the business units to provide accurate information for their need, and also help draw up appropriate predicts and recommendations. There are three kind of financial strategic management in L'Oréal. Those are corporate finance, finance management and business control, and internal audit.

In addition, L'Oréal is leader multinational cosmetic company. For them, raw material control is indispensable part, which requires to be managed well. How successful L'Oréal was as applying PRODAC system. All of data of raw material is now readily available and the entire production process is controlled through stringent quality control of raw materials.

2.2 Human resources management

People are a significant source of value. A good HR management is believed to support the attainment of strategic business plans and goals, then stimulating business development with a clear advantage in turn. With this in mind, L'Oréal HR works hard to reconcile three aspects. The first one is Global recruitment. In order to support L'Oréal's managers worldwide, the HR team recognizes that individual talents are the root of all great ideas. The mission of them is to attract, identify, select, develop, reward and retain the finest talent. Recruitment at L'Oréal is about the people and not a process. It is likely to be a long-term process which proactively detects individuals who are certain to enrich HR teams with their diversity, experience and perspectives. L'Oréal has widely use social networking sites to recruit in various countries worldwide. It means different country will have different platform for it. The jobs section of each website lists available positions in that country only. They also

take advantage of Facebook, LinkedIn and Twitter. The objective of those kind online platforms are to help each student or candidate to gain the deeper perspectives and the best define for career plan, those also help L'Oréal recruiters to detect high potential or talent as well. Besides that, L'Oréal has conducted many kinds of programs to achieve the talented candidates. The most two famous games which help L'Oréal identify experts, profession or potential candidate are Reveal and Brainstorm. Take L'Oréal brainstorm for instance, a groundbreaking business game, visits over 280 schools and universities over 40 countries worldwide. Thanks to the competition of this program, over 7000 international participants were attracted, and over 170 employees were employed every year.

A company definitely cannot be successful without creating favorable conditions for the development of talent. That is the reason why diversity management is important for L'Oréal. Their ambition is to set up the standards for gender equality, non-discrimination, the inclusion of the disabled as well as providing opportunities to people of all ethnic and origins within the 140 countries where we operate. Furthermore, L'Oréal has implemented many specific diversity training programs for all level of employees.

The final one is fostering innovation of employees. Global dynamic competitive and diversity is not enough to stimulate innovation for each employee. Understand this issue L'Oréal is continuous improvement by creating many programs like global mentoring program, Employee resource groups, Multicultural talent management, Strategic partnership development, e-Learning modules. By running these programs, the connection of innovation could be maintained and nurtured effectively.

2.3 Technology development

This includes the use and development of technology to enhance the effectiveness of primary activities in terms of value creation such as R&D, product design, cutting edge application and process automation. For L'Oréal, beauty is all about a scientific adventure,

scientific knowledge of the skin, hair, active ingredients, formulation procedures, evaluation technologies where L'Oréal R&D constantly innovate new and unique products that meet customers need that adapt to local conditions around the world. L'Oréal invest a lot in technologies include the digital one which help them generate even greater innovation to satisfied customers. To make further progress, L'Oréal's researchers mostly rely on its advanced technology — medical imagery, robotics, 3D modeling that considerably enrich their approach to development of innovative products that enhance the consumer's experience. With its focus on technology development, L'Oréal is believed to accelerate its innovations and maintain its competitive edge.

2.4 Procurement

Procurement means purchasing the raw materials for the final products and other inputs used in the value creating activities. Variety of raw materials are used to produce cosmetics formulas where L'Oréal purchase those from specialized suppliers who are involved in a constant process of quality and safety research. L'Oréal works with several hundreds of suppliers worldwide whom are regularly evaluated on the basis of their key performances such as: social and environmental responsibility, innovation, quality, logistics and competitiveness to establish long term, transparent relationships with high quality, committed suppliers, thus engaging in a process of continuous improvement. L'Oréal has developed a sustainable sourcing policy for renewable raw materials and guaranteeing the high quality of supplies.

III. What is the value from?

In a year marked by a worldwide economic slowdown and increased international volatility, L'Oréal achieved strong growth in 2015, supported by a positive monetary effect, and outperformed the market in three of its four Divisions.

L'Oréal strategies and investments have kept the company growing even during unfavorable economic times. Producing in large scales and being able to distribute its

products in wide markets all around the world, therefore creating opportunities of growing and encountering its consumers adequately.

The company has also positioned itself close to the markets it explores; this way has been decreasing some of its distribution costs and exploring bigger margins on its retail prices. Also, during the last 5 years, L'Oréal has improved its online marketing strategies and has started selling through some of its brands websites, this way increasing even more its profit margins.

IV. Low cost or Differentiation

Differentiation - Competitive Advantage Strategy

L'Oréal makes use of a hybrid differentiation strategy. It focuses in decrease the costs and consequently being able to decrease the price when necessary while increasing the perceived value.

Due to the combination of large amount of capital available and high technical capabilities, L'Oréal has access to resources to produce in a large scale while making use of its strong research and development department to bring up innovation.

The capacities of optimize the use of resources promoting high productivity and L'Oréal's effective production process and distribution through wide amount of channels provides a favorable scenario for decreasing costs.

Meanwhile, L'Oréal's actions skewing towards creating an emotional connection with its consumers instead of highlighting only its products, clearly shows the company's differentiation strategy.

The company over its consolidation process has always paid attention in building a strong branding strategy, being widely recognized and holding a strong loyalty from its customers. L'Oréal marketing strategies have been always focused on bringing to the customers the benefits and reliability of all products, and making sure the perception of superior quality is stronger than any other competitors.

The combination of these strategies, and minor adjustments made from time to time, along the years has brought L'Oréal as leader and reference in the beauty market.

Chapter 8

BCG MATRIX ANALYSIS

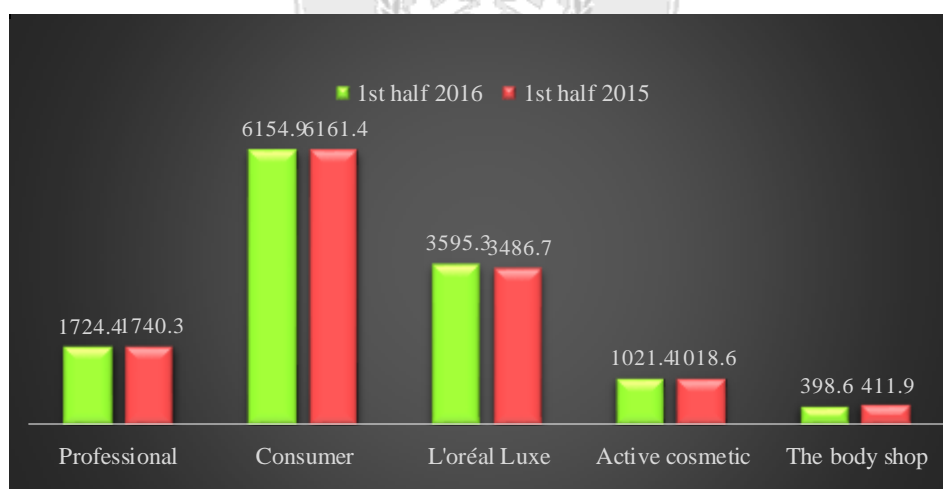
The BCG matrix aims to help corporation analyze their business units by identifying high-growth prospects according to growth rate and market share.

I. L'Oréal Consumer Product – Cash cow (High relative market share, Low future growth)

Cash cow is one of the four segments of the BCG growth-share matrix which represents the division that has a large market share in slow-growing industry or in mature market.

L'Oréal Consumer product which products are distributed in mass-market retail channels is the highest SBUs in term of operational sales among the other divisions belong to L'Oréal.

Figure 14: Sale of operational divisions



As announced on financial report for 2015 and the first half 2016, Consumer Products Division is accelerating. The sale growth is rising in all zones, with strong expansion for in North America and new markets (China and India). In addition, consumer product division is successful in strengthening its leadership in taking up the initiatives in make-up. In 2015, Maybelline was voted for number 1 makeup brand in America, has regained its strong momentum. Thanks to making acquisition of NYX profession makeup, the power of makeup consumer products division of L'Oréal has been

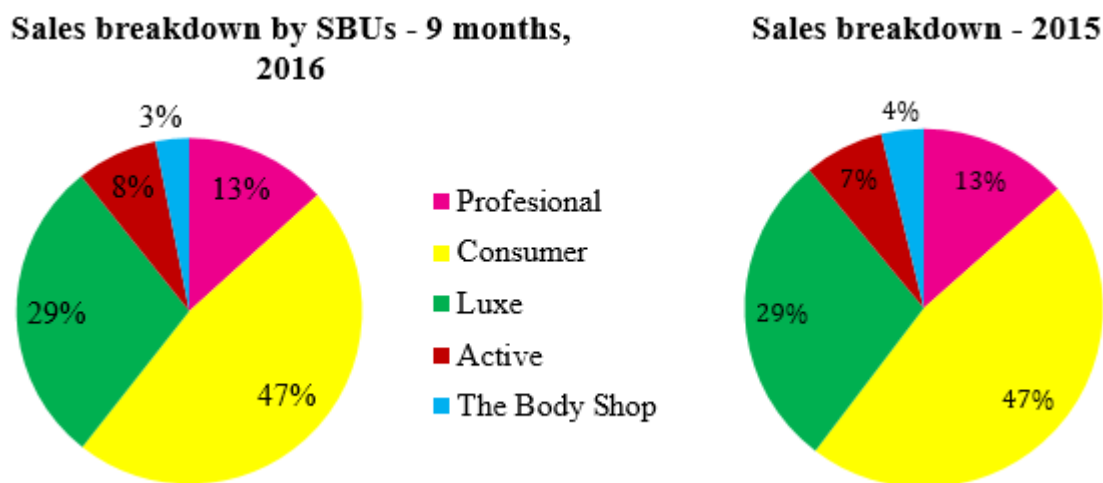
increasing significantly. Besides that, haircare section caught more attention, based on innovation and successful digital strategy, it would lead to help L'Oréal Paris roll out its powerful and get achievement in China, successfully expand into German and Spain market. All in all, Consumer products has outperformed its market and become the huge income generation for L'Oréal.

Regarding market growth rate for consumer products SBU, it is rather pity to know the market is slow-growing, or in other words, it is mature market. This is because cosmetic for consumer products is vast industry with intense competition (strong competitors and new entrants). That means there will be have a large number of suppliers, excessive suppliers with competitive prices and promotion or discount strategy. However, the demand of customers does not grow because the desire of them seems not to appear in consumer products more. The standard of living is higher and higher, people, women in particular, mainly care more about themselves. They fancy to seek some quality products instead. The second sign of mature market is disruptive innovation. Investing in new innovation may too costly and time-wasting, because sometimes it is not paid-off.

In conclusion, due to high market share, well performance in mature or slow-growing market, L'Oréal consumer product division is considered as Cash-cow.

II. L'Oréal Luxe – Star (High relative market share, high future growth)

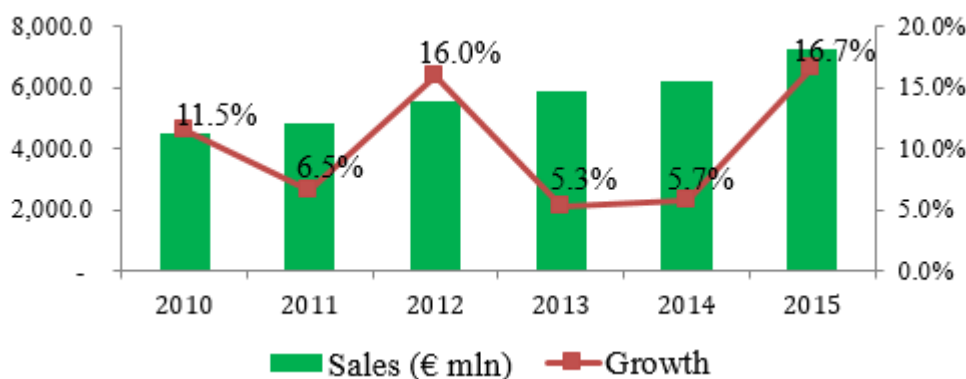
Figure 15: Sale breakdown



L'Oréal Luxe (“Luxe” for short) is the second highest SBU in term of sales contribution with figure of 29% (only after Consumer Cosmetics SBU being 47%) in both 2015 and 9 months of 2016. It demonstrates Luxe has been doing good job for the Group.

Luxe reveals an upward trend in all geographic areas, especially dominates Western Europe market. In 2015, Luxe gained significant market share in five main countries: Italy, Spain, Germany, France and the U.K. Lancôme, Yves Saint Laurent, Giorgio Armani women’s fragrances has proved their success when they were in Top 10 best seller brands.

Figure 16: Sale and growth



As for growth rate, Luxe sees a fluctuation in growth rate of sales during the past 6 years. The highest rate is 16.7% in 2015 thanks to dynamism of make-up and fragrances, as well as e-commerce. Also fluctuating, the general trend is going up through years. The best brand with highest growth rate in this luxury division was Yves Saint Laurent of +18.4%.

In general, Luxe is expected to continue very high future growth at about 15% in the next year.

III. The body shop - Dogs (Low growth, Low market share)

In this quadrant, the Body Shop was considered Dog due to its low market share and growing slowly in the beauty market. The Body shop, which also known as green cosmetics since they're using natural ingredients is L'Oréal's weakest business and generate lowest sales compare to other brand divisions, struggling to keep up with other divisions revenue.

Beside that The Body Shop do less advertisement unlike the other brand divisions which

recruit famous stars to advertise the products which make customer unaware of Body Shop product lines. Before they only produce body lotions, creams but then as they start to making new way to increase their sales then they start to sell makeup and hiring beauty consultants to help customers with their complexion problems.

The worst things if The Body Shop won't see any further improvement for their sales, in Dog quadrants divestment strategy was used. Instead the money they in this quadrant can be used in cash cow or star.

IV. L'Oréal Active Cosmetic – Question (low market share, high future growth)

L'Oréal Group active cosmetics division of the relative growth rate of 7.8%, thus becoming the group's market leader. Skin cosmetics are recommended by health professionals (doctors, dermatologists, cosmetologists and pharmacists) for specific skin care needs because their ingredients are safe and effective. These cosmetics are distributed in traditional medical channels such as pharmacies, over-the-counter pharmacies, pharmacies, clinics or medical spas (Medi-Spas). The Active Cosmetic Division's mission is to help everyone improve the quality and health of their skin, whether or not they are affected by sensitive skin or dermatological conditions in all health care channels around the world: pharmacies, beauty and health retailers, pharmacies and medium.

Table 4: Consolidated sales by geographic zone

€ MILLIONS	2013	2014	2015	2015 WEIGHT	2014 / 2015 GROWTH	
					LIKE-FOR-LIKE	REPORTED FIGURES
Western Europe	785.4	831.7	875.4	48.2%	+4.4%	+5.3%
North America	162.9	172.0	209.0	11.5%	+6.7%	+21.5%
New Markets	628.1	656.7	731.9	40.3%	+12.5%	+11.5%
Total	1,576.3	1,660.4	1,816.3	100%	+7.8%	+9.4%

The dermo-cosmetics market represents 4.4% of the global beauty market and valued at about 7.6 billion euros. However, L'Oréal Active Cosmetics division's sales is more than 1.5-1.8 billion euros, equal to 20-23% of the whole market. As we can see in this table, consolidated sales of Active Cosmetics Division are significantly increasing over years. By more than 100 million Euros increase in sales every year and 10% growth rate, L'Oréal's Active Cosmetics Products are selling leader is France, Germany, Brazil, Italy, China. With 6 brands in over 60 countries, 2 factories and many partnerships, Active Cosmetics Division really is a potential income maker as all Zones are contributing to growth. In the New Markets, the Asia, Pacific, Latin America and Africa, Middle East Zones have all recorded rapid growth. Western Europe accelerated in the second half.

V. L'Oréal Professional Products – Question (low market share, high future growth)

The Professional Products Division allocates its products in shops worldwide. Through its vast array of brands, the division can meet the needs of different hair care salons and hair care needs.

L'Oréal Professional has a significant presence among L'Oréal's SBUs in terms of sales, contributing with 13% of it. They generate relevant amount of cash sales although the market it is inserted has a slow future growth potential. Due to the most advanced innovations in hair care products and services, the Professional Products Division has been increasingly growing, especially on sales of hair color. Also, professional skincare has been increasing due to the fact the more people are looking for alternatives to keep one's appearance fresher.

L'Oréal takes advantage of its know-how in R&D and capability of developing new products to attend the highest standards of quality and expertise from beauty salon professionals all over the world and has kept its investments on the Professional Products Division leading us to believe that it is a segment with great potential if well worked.

VI. L'Oréal Synergy

L'Oréal has been increasing its investments on L'Oréal Active Cosmetic and Professional Products SBU's through the last years. Focused on increasing its presence on these potential markets where its market shares still low compared to L'Oréal Consumer Product and L'Oréal Luxe. The company has invested in developing new products bringing innovation to its consumers and has increased the number of channels where they are distributed, including online sales.

Although, L'Oréal doesn't have the best outcome on these segments, they have significantly increased through the years, due to the increase of consumers concerns about aging, beauty and consuming safe products.



Chapter 9

OUTSOURCING AND DIFFERENTIATION

I. Corporate Level Strategy

L'Oréal corporate level strategies involve horizontal integration, vertical integration and strategic alliances, combining the advantages of each strategy to build a stronger image in different geographic markets.

Horizontal integrated corporate level strategy can be seen through L'Oréal strategy in acquiring companies that are industry competitors building up its competitive advantage in the scope it operates. Examples of this are the recent acquisitions of Magic Holdings in China or Niely Cosmetics in Brazil and the latest one was on January 2016 when L'Oréal acquired key assets from Rayon Corporation, a wholesale distributor of salon professional products, strengthening its professional products segment and distribution coverage in USA.

L'Oréal implements vertical integration is noticed on the strategies used on The Body Shop and throughout the organizations integrated research, development and production facilities. Although The Body Shop outsources its raw materials for use in product manufacturing, they also participate in vertical integration by selling their products in their retail stores.

II. Outsourcing Strategy

L'Oréal has devolved mostly as a highly independent business focused in growth and revenue, aiming to stay close to its customers. In terms of manufacturing, and unusually for the cosmetics industry, most of L'Oréal branded products are still manufactured internally. The culture of outsourcing strategy is not really strong particularly due to L'Oréal culture of local power. Although, L'Oréal has a co-sourcing project on procurement of direct material; ingredients and packaging and has developed some procurement of indirect categories; human resources, IT and telecom. L'Oréal combines elements of consulting and outsourcing, with a strong emphasis on risk and gain sharing.

Unlike a consulting approach, and in line with a traditional outsource, the provider would take line management responsibility. But there would be no transfer of staff; instead, the provider team would work alongside existing L'Oréal procurement staff. The provider would also take significant risk in terms of linking reward to real, measurable bottom-line savings, and would commit to a skills transfer program. Finally, the provider would be engaged on a relatively long-term basis but with measures in place to ensure that the contract could be re-competed at that point.

L'Oréal also has an agreement with IBM essentially for expert procurement services using advanced cloud analytics, aiming at achieving new procurement contracts and cost reduction to be delivered at the end of the fiscal year. As part of the deal, IBM brings in strong procurement and category expertise to work along with the existing sourcing team at L'Oréal. Together, these will help the marketing and procurement team at L'Oréal gain immediate and broad access to global data to make faster and more insightful decisions, while ensuring purchasing compliance.

The difference from common outsourcing agreements in this case is L'Oréal retains the procurement department and operations and IBM supplements these operations with its different assets. They provide the analytics platform along with the domain expertise. IBM provides the procurement and category experts to work with L'Oréal and aid in their everyday jobs. L'Oréal retains the team and the process, and has complete control over the business function. IBM was to transform the process and retrain the users and augment L'Oréal's skills with the IBM experts.

III. Diversification Strategy L'Oréal

At L'Oréal, beauty and diversity are related where its global presence and brand divisions had allowed the company to integrate the concept of diversity at all levels while carrying out their beauty mission: beauty for all. L'Oréal use efficient diversification strategies to build a competitive advantage and to take advantage of a financial opportunity that aligns with the business strategic plan. Diversification can be segmented into related diversification or unrelated diversification and for L'Oréal, the company use related diversification where they only focused

on the beauty business. For more than a century, L'Oréal has devoted their energy and competencies solely to one business: beauty (makeup, cosmetics, haircare, fragrances).

Founded in 1909, the L'Oréal Group has become the largest cosmetics and beauty company in the world. L'Oréal has kept the top position for years while the rest company in the same industry underwent some changes. The reasons why L'Oréal can become and remain the world's largest cosmetics company by revenue are its sole focus on cosmetics and beauty products. They never tried to take a different route like other companies do; like having food, beverage and home care business. L'Oréal ambition is to attract more people around the world by creating the cosmetics product that meet the infinite diversity of their beauty needs and desires.

L'Oréal growth strategy has been carried out both through internal development and through acquisition of companies already operating in the cosmetics industry. In particular, external growth by acquisition is part of L'Oréal's long-term strategy, with a long-term annual growth goal of 10%. The acquisitions help promotes L'Oréal to quickly expand its geographical horizon and develop its market segments.

With all those brands acquisition, L'Oréal being positioned it to consumers across all income levels by providing a wide range of beauty product. The company wants people around the world to have easy access to their products that match their desire, lifestyles and beauty needs. L'Oréal's brand portfolio is organized by Division, which each develops a specific vision of beauty by consumption universe and distribution channels.

The brands in different subdivisions didn't compete against each other since one divisions contain more than one brand, so the important fact was defining a strong brand positioning. One brand doesn't copy try to copy another. Related diversification give company the advantages of a diversification strategy such as advantage of existing expertise, knowledge and resources in the company when expanding into new activities which may result in transfer of skills, such as research and development knowledge and sharing of resources.

Chapter 10

NATIONAL DIAMOND ANALYSIS

The Porter Diamond, properly referred to as the Porter Diamond Theory of National Advantage, is a model that is designed to help understand the competitive advantage nations or groups possess due to certain factors available to them, and to explain how governments can act as catalysts to improve a country's position in a globally competitive economic environment. The model was created by Michael Porter, a recognized authority on corporate strategy and economic competition, and founder of The Institute for Strategy and Competitiveness at the Harvard Business School. It is a proactive economic theory, rather than one that simply quantifies comparative advantages that a country or region may have.

I. FACTOR ENDOWMENT

1. Human capital

For French culture, they think human capital is indispensable part of business's success. It is defined as "productive wealth, embodied in labor, skills and knowledge. Started from France, L'Oréal devoted more effort into staffs and employees. However, due to the Universalization strategy. L'Oréal stepped up efforts in recruiting, training the talented person globally. L'Oréal has created some programs like internship training program or graduate program, in which all candidates are required to work in a variety of department within 1 years. By doing this, it could not only help candidate find out their passion and strength, but also help L'Oréal figure out which suitable position for each person. Honorably, L'Oréal was the first winner who was being award twice for best human capital initiative of company in the CAC 40 (the top companies on the French stock exchange), 2009 and 2010 sequentially.

2. Infrastructure

2.1 Research and innovation

In order to close and understand customer around the world, L'Oréal strengthened its global presence by operation through the six regional poles (Europe, United States, Japan, China, Brazil and India). Their mission is also to listen and understand the habits, demands in together with criteria for preferences of local residents where beauty is concerned.

To be clearer, L'Oréal now has 18 research centers worldwide, organized into 6 poles. Among there, the European pole center in France has main function as the global center for Advanced Research to support the other centers. The mission of these poles is to adapt the global strategy to the specific features of its markets. Besides that, there also set up 16 evaluation centers which are believed to support center research.

2.2 Manufacturing facility

As we know, there are three major responsibilities for operations, these are Design, Production and Distribution. Operations contributes to L'Oréal's reputation and works towards its corporate social responsibility commitments. L'Oréal now has:

- 44 factories worldwide
- 153 distribution center worldwide
- 515,000 delivery points

The mission of production and distribution is to support the all of the brands, particularly as they conquer the new markets.

3. Technology

Advance technologies at the heart of innovation. While the development of active ingredients and formulation believed to be the heart of L'Oréal's innovation, the research teams still need to be relied on technology to make progress. These are some famous technological advance of L'Oréal.

The first need to mention is Episkin which was developed by head-quarters in France is a reconstructed skin model providing as an alternative way to animal testing. This model can be adaptable to create a range of skin colors and human cells from young to old. Thanks for the creation of this reconstructed skin model, a safety tests with eco-friendly is conducted. Nanotechnology and nanomaterials with tiny molecular will help cosmetic absorb into skin quickly. It also helps to bring some renowned active ingredient like retinol or Vitamin A into deeper layers to play wonderful effect. The next one is Virtual biopsy. Thanks to Biphotonic microscopy, the L'Oréal researchers have gathered enough image and information inside skin in real time with three-dimensional, including its thickness. This is a means of assessing the effectiveness of active ingredients and formulas as applying into skin. The fourth essential technology for L'Oréal is SkinChip® sensor. It is used to measure the level of skin hydration. The purpose of evaluating the level of hydration is to possibly design new product that are faster and better adapted on each skin in all region, particular for aging skin. L'Oréal also use automatic robots to support their work to save more time. In addition, some special works are designed for robot like in chemist or biology with relevant to strong chemical ingredients. Last but not least, human 3D animation is play essential part in creating new products. It helps researchers to anticipate in reality, noninvasive manner. For instance, how hair will behave as wet, dry, cut... so on.

II. DEMAND CONDITIONS

Nowadays people's demand in beauty is creasing as long with population. From face, hair to body with different types of skins and purposes as day use, night use, moisturizing, etc. Those factors or demands make the beauty industry bigger and bigger. Not at all, people's demands are also depended on their income and afford for product's quality, plus the demands in being differences. By the way, there are more and more men also interested in beauty products for their job's needs or just habit. Because France was known as the country with highest fashion standard and most fashionistas in the world, their people's demand and

requirement in beauty industry must be very high in both requirement and demand. So that, L'Oréal had done these things to create development opportunities based on the available capacity and demands of people in France and threading all over the world:

Research in L'Oréal's genetics

L'Oréal has been a lot of investment in research, and cosmetics innovation will be placed in the center of its growth model. Their mission is also to understand the beauty of the local population preferences, habits, needs and standards. As a result of this interaction between research and marketing, L'Oréal is able to offer cosmetics that adapt to different skin types, hair types and cultures.

A rich and diversified brand portfolio

L'Oréal has a rich portfolio of international brands, unique in the world, covering all the range of cosmetics: hair care, coloring, skin care, makeup and perfume. Are very complementary, and these brands are managed within the group by their respective departments with expertise in their distribution channels. This organization is one of the main advantages of L'Oréal. It makes it possible to respond to each consumer's expectations according to his or her habits and lifestyles, and to adapt to the local distribution conditions anywhere in the world.

Expertise and services close to consumers

To meet the needs of consumers, the operations department in its three core areas (i.e., quality (brand protection), security (personnel and asset protection) and sustainable development (environmental protection) "sustainable plan.

III. FIRM STRATEGY/STRUCTURE

In the environment of the most fashion country in the world, L'Oréal is still in no.1 position in beauty market, with the previous success and current reputation and variety brands in clusters but the story is not that simple. In the country like France, competition level is also highest in the world as of their people's standard. With many companies vary from small,

medium to large which located in different places in county, the differences in strategy, technology are much noticeable.

However, L'Oréal used M&A strategy to own many firms and research centers to reduce competitors, improve their capability and to make sure that their name appears everywhere. Their ambitions over the next few years are to win the world's other 1 billion consumers by creating an infinite variety of cosmetics that meet their beauty needs and desires. To achieve the suggested target, they have many strategies to develop their brand such as:

Corporate strategy

Expand through acquisition

L'Oréal growth strategy has been carried out both through internal development and through acquisition of companies already operating in the cosmetics industry. In particular, external growth by acquisition is part of L'Oréal's long-term strategy, with a long-term annual growth goal of 10%. This option has also been facilitated by the group's liquidity and low debts. Purchases of more companies allows the group to reach the critical size needed for exploiting economies of scale both in R&D activities and in marketing and distribution. The acquisitions also promote L'Oréal to quickly expand its geographical horizon and develop its market segments. The actual portfolio of 25 prestigious brands is the results of a series of acquisitions that began many years ago

L'Oréal Global strategy

L'Oréal chose a unique strategy: the popularity of. This means capturing, understanding and respecting the globalization of differences. The difference lies in desire, demand and traditional order to provide tailored beauty, and to satisfy the wishes of consumers around the world.

Marketing strategy

Empowerment

L'Oréal is about empowering clients. The company is not only promoting itself as a

cosmetic and beauty brand, but also as a source of consumer power and confidence. L'Oréal remains vigilant to ensure its content is licensed to customers and gives them a positive outlook for the brand.

Education

L'Oréal Paris is a trustworthy brand. The company has high brand loyalty and excellent repeat business. Once a female consumer finds her favorite make-up or beauty product, she tends to stick with it. This opens the L'Oréal Paris educational content marketing opportunity. How to make video, DIY, and provide consumers with facts is an important way for brands to reach consumers, while providing useful information and engaging new fans.

Aspiration

By sponsoring events such as the Golden Globe and the project runway, L'Oréal will be positioning the brand as a trademark of hope. The highlight of the charms or fashion shows is the L'Oréal If you want to improve yourself and reach a higher goal of health and beauty, insert and build yourself as the ideal place to buy the product.

IV. Related/Supporting Industries

4.1 Suppliers

L'Oréal creates and develops solid and sustainable relationships with its suppliers around the world, including suppliers of raw materials, packaging and equipment.

Suppliers of raw materials

L'Oréal uses thousands of material such as palm oil, coconut oil, tea tree oil, petrolatum, etc. in production of a huge amount of global products. Even though some materials are plentiful in France, the rests are not. Only France hardly provides enough materials to be adequate its huge demand for 44 plants worldwide. Therefore, L'Oréal need to buy from other countries all over the world.

Suppliers of packaging

Packaging includes carton, glass, plastic in different size and form. The purpose of packaging is to keep main finished products as fresh as possible, also usable easily and eco-friendly. So, the package should be in time the products already produced which means packaging suppliers should be near factories. L'Oréal not only has factory in France, but also in several countries. Therefore, France could not supply all packaging for L'Oréal. It needs to find overseas suppliers.

Suppliers of equipment and service

To facilitate 44 plants, L'Oréal needs a lot of machines and equipment such as heating, cooling, washing machines, etc. These kinds of machines are not typical products of France, could be bought from China or Japan for better price and quality. So, same situation with other suppliers, equipment and service suppliers of L'Oréal are mainly from overseas.

4.2 Research and Innovation Centers

There are many beauty research centers in France, but they are in small or very small size, or not famous. Vichy is an example. Vichy used to be a pure laboratory center famous for medical cosmetics, then, it was acquired by L'Oréal. It means L'Oréal has been acquiring smaller research and innovation centers in France to diversify their research field. More important, L'Oréal also creates research centers in other countries to reach local concept because the aim of L'Oréal is beauty for all. Besides, L'Oréal takes partnership with some universities and institutes to cooperate in research.

4.3 Distributors

A wide range of distributors helps L'Oréal provide its products to customers as much as possible. For luxury products, there are department stores. For consumer products, there are supermarkets, cosmetics chain and convenient stores. For active products, there are drug stores. These kinds of distributors and retailers are at very corner of the world, bringing L'Oréal to every people.

CONCLUSION

After using different tools to analyze, L'Oréal is a very successful case in the cosmetics industry. With the purpose of beauty for all, L'Oréal use globalization corporate strategy as the main direction for other business and functional strategies. Playing in quite dynamic industry but low bargaining power of suppliers and consumers, the company stays at highly beneficial position with low threat of substitutes or new entrants. Its main rivals are Unilever, Shiseido, P&G and Estée Lauder. Those five giant competitors are dominating cosmetics market, resulting high intensity. But L'Oréal has its own strategy to be no.1 in the world. It creates itself much precious resources and capabilities that are sustainable competitive advantage, such as strong innovation, clever acquisition management and efficient supply chain. Thanks to vertical integration deeply, L'Oréal has taken huge advantage of economic of scale and not depended on outsourcing much. At business unit level, L'Oréal has five divisions which play different roles. L'Oréal Consumer Products is a cash cow business, bring stable profit to the company to invest in L'Oréal Active and Professionals units. L'Oréal Luxe is the star unit with high relative market share and high potential for future growth. Regretfully, The Body Shop which was acquired 10 years before is in the dog category in the BCG matrix due to its fall in market share and growth. However, in general, the company uses differentiation strategy to diversify its portfolio to gain profit from worldwide market. From first hair dyes, L'Oréal has grown to other lines of products as skincare, body care, fragrances, etc. It also expands from hometown – France- to other markets as the U.S., Latin America, Japan, China, to name a few. Thanks to high demand of beauty products of the French, L'Oréal has developed its business to catch expectation of every kind of beauty in other countries, also to find more suppliers and factor endowments as human resources, technology to enhance and sustain its competitive advantage to keep leadership position in the world cosmetics industry.

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