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The Strategic Management of L’Oreal

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# 1 | Strengths and Weaknesses

## Strengths

The strengths of L’Oreal are as follows: placing an emphasis on global product research and innovations, the ability to differentiate its brands through a variety of distribution channels, and a diverse and well-known brand portfolio.

The strategic model for L’Oreal focuses on a strong commitment to technology, research, and innovation in order to create high-quality products. In 2013, L’Oreal increased its R&D spending by 8.4% with a total investment of 857 million euros towards research and innovation efforts. These efforts focused on creating customized and unique products all over the world. In order to gain an understanding of each area's local characteristics, L’Oreal has built research centers in both mature and emerging markets including Europe, Japan, United States, China, Brazil, and India (L’Oreal's model of innovation: Strong research, 2013). Conducting research in these centers allows L’Oreal to produce products that are suited to the specific needs of consumers in each country and region. The company's strong innovative capabilities enable them to create products that cater to the needs of consumers as well as relate to their specific culture and traditions. This strength supports the company expansion in its customer base and presence in new markets.

Another strength of L’Oreal is the ability to differentiate its products through five different distribution channels. The consumer products division is a mass-market distribution channel and is the largest business unit for L’Oreal. L’Oreal Luxe is considered the prestigious and diverse division because its mission is to provide unique and high-quality products to both men and women through a diversified distribution channel. The professional products division distributes its products through professional salons and strives to utilize innovation and professional expertise to bring salon quality products to consumers. The Active Cosmetics Division focuses on the skin-care segment to provide products to consumers who live an active lifestyle. The Body Shop is the unique from the beauty divisions because of its mission to provide products that follow fair trade principles and practice corporate social responsibility through beauty boutiques around the world. L’Oreal's ability to provide a large number of products and brands to consumers through several distribution channels not only increases their competitive advantage but their bargaining power as well (All the L’Oreal Brands, n.d.).

One of L’Oreal's greatest strengths is the company's well-diversified brand portfolio that is easily recognized by consumers across the globe. A recent study revealed that 80% of women recognize the L’Oreal brand phrase, "Because I'm Worth it" (Because You're Worth it, n.d.). L’Oreal has over 28 brands across several divisions within the beauty industry including hair care, cosmetics, hair color, skincare, and fragrances. L’Oreal began with a mission to satisfy the needs of women, but has succeeded in global diversification by providing products to a wide range of consumers including men, women, and children of all ages. The company’s success in brand diversification can be supported by 624 registered patents in beauty products and technology. Apart from a well-diversified portfolio, L’Oreal is the leader in the cosmetics industry for its ability to globalize brands to 130 different countries around the world (Key figures: Brands, employees, sales, 2013).

## Weaknesses

The weaknesses of L’Oreal include a lack of control of third-party retailers and a decentralized organizational structure.

 One weakness that L’Oreal possesses is the company's strong dependence on third party retailers. Because of their heavy dependence on third parties, they have less control over their brand image, as well as limited ability to make changes in inventory. Furthermore, this could lead to issues developing brands in the country or countries that L’Oreal is looking to enter. This heavy reliance makes L’Oreal more prone to risk from external parties (L’Oreal S.A., 2014).

Another weakness of L’Oreal is the decentralized organizational structure. Due to the amount of brands and subdivisions the company has, it is extremely difficult to keep control over every segment of the business. This poses a weakness for the company because, in a decentralized organizational structure, there are many different individuals who have authority to make business decisions. Therefore, a large company like L’Oreal will experience many different opinions throughout the company, and it can be difficult to maintain communication of strategic goals. From a manager's perspective, the amount of subdivisions L’Oreal possesses could cause major stress and present many obstacles (Vitez, 2014).

# 2 | Macroenvironment

The different forces of L’Oreal's Macroenvironment include macroeconomics, global, technological, demographic, social, political and legal forces.

## Macroeconomic Forces

Our group specifically looked into the makeup industry within France because L’Oreal is headquartered in Paris, France. After evaluating the rate of the French economy, interest rates, currency exchange rates, and interest rate, we found France slowly making their way out of a recession. According to the OECD Economic Forecast Summary, the GDP rate is projected to keep increasing in 2015 with an estimate of .8% and 1.5% in 2016. The economy will keep growing from the improvements in the global environment, favorable exchange rates, and a slower pace of fiscal consolidation, (OECD, 2014). Although France has seen its share of hard times, the makeup industry has and will continue to see positive growth. According to the Make-up Industry Profile: France, the population reported in 2013 was 65.5 million, which is a .4% increase from 2012. With this increase in population, there are more consumers able to buy their products and stimulate the economy. This has also affected the country's inflation rate, which decreased to 1% in 2013, compared to 2.2% in 2012. Finally, the country has reaped the benefits of the euro being valued more than the American dollar. Reports stated for 2013; every 0.7533 euros equals $1 dollar.

## Global Forces

Although the makeup industry has seen much success in Europe, the overall economy of Europe has been declining. This causes a threat for L’Oreal because consumers are not spending as much as previous years and has led the company to introduce their products into emerging markets. Former president and chief executive officer of L’Oreal USA, Jean-Paul Agon, was quoted in a 2005 Women's Wear Daily article explaining the emerging markets potential with China. "Take China," he said "We started the business in 1997. It's growing very fast, but we are still quite small, so the potential for growth is infinite. Brazil is a big country. We are there, but we are still testing the opportunities" (Born, 2005). According to Bloomberg Businessweek, L’Oreal is customizing their products to pave a path into the Chinese market. L’Oreal is achieving this by using traditional Chinese herbal remedies and developing products specifically for the male market.

Another emerging market that L’Oreal has been trying to take advantage of is Brazil. However, they have not seen steady success in their strategy. According to the Wall Street Journal (2011), Brazilians typically purchase cosmetics from door to door sale representatives. This type of strategy is unfamiliar to L’Oreal and to make up for their lack of expertise with door-to-door sales, they have integrated sale representatives in department stores and pharmacies. They are also trying another sales method by providing more natural and local ingredients in their products worldwide. In hopes to increase their financial stability in Brazil, L’Oreal recently signed an agreement to acquire the Brazilian Brand, Niely Cosmeticos. This is one of the leading hair care and hair color brands amongst the middle class in Latin America.

## Technological Forces

An article by Chan-Koo Kang (2012), titled The Cosmetics Industry Adopts a High Tech Makeover, summed up the developments of Korea's cosmetic industry into three driving forces: biotechnology, convergence solutions, and technology/ ingredient marketing.

Biotechnology takes a new role as cosmetics research moves from traditional formulas and texture to using aging prevention and treatment ingredients. Kang (2012) defines an example of this with L’Oreal's creation of a gene-activating serum called Genifique in 2009. This global success took ten years of research with the study of 4,400 genes and 1,300 proteins by scientists (Kang, 2012). Another industry example within L’Oreal is their ownership of Korea's number one cosmetics manufacturer, AmorePacific, which built a new bioscience R&D center in 2011 to stay ahead in innovation (Kang, 2012).

The second technological force relating to L’Oreal is convergence solutions. This force describes the convergence of medical and other technology-based solutions integrating into the business of cosmetics. An example of this is pairing cosmetics with other industries. These complementary industries include electronic devices, smartphones, and health foods. L’Oreal made a huge step towards technology when acquiring Pacific Bioscience Laboratories Inc., which is the market leader for sonic skin care devices. The sonic skin care device uses technology because it is a rechargeable facial brush and hopes to replace the traditional face wash wipes.

The final force shaping the cosmetics industry is innovation or improvement with technology and ingredient marketing. One channel of information to the customer, described by Kang's article, is Internet reviews and ratings of products. This is especially relevant to L’Oreal's business because many customers’ rate and comment about their products on Facebook and Amazon reviews. L’Oreal has re-launched their websites in order to add more communication to encourage customer feedback and engagement with their products.

## Demographic Forces

The demographic forces for L’Oreal has seen many changes in the recent years. This includes a disproportion of ages in the workforce, expansion of the middle class in emerging markets, and an increase of the use of skin care products by men.

A global trend of an aging workforce has increased the amount of employees retiring, and decreased the amount of skilled workers available to hire in several nations (Badkar, 2014). Japan and some European countries are amongst those within the aging workforce sector who have a decrease in the amount of young, skilled workers. Developing countries, such as Brazil and China, will provide an opportunity for L’Oreal to find young and educated employees in the future market. Age also plays a significant role on product development for the beauty product industry. If the average age of the population is expected to be greater than younger generations, this is an opportunity for L’Oreal to provide products that would satisfy the beauty demands of older generations (age defying products, skin care, etc.).

 An increase in the middle class of developing nations will increase the demand for luxurious beauty products for this social class. Emerging markets provide a huge opportunity for the beauty industry to increase sales and profit growth in the future. Interest for beauty organizations in emerging markets to expand globally presents an opportunity for L’Oreal to acquire or partner with these organizations in order to further increase brand presence on a global level.

 The final demographic force that has a positive effect on L’Oreal is the growth of interest in skin care products by men. Current trends reveal that men have been placing a higher importance towards personal appearance than years past, especially in eastern cultures such as China. This provides L’Oreal the opportunity to target this segment by providing products that are suitable for the male population, such as facial serums and creams (Men's Skin Care to Help Drive Global Beauty Growth, 2013).

## Social Forces

The social forces that affect L’Oreal's product include using organic and natural ingredients, anti-aging products, and a growing concern for skin cancer and chemical use in products.

There has been an emerging global trend and consumer interest in using products that are made from organic and natural ingredients (Partington, 2014). The addition of The Body Shop division has inspired a trend to create natural products for other beauty divisions within L’Oreal. Increased stress levels, due to busy lifestyles, have resulted in recent consumer trends to slow down and place more emphasis towards beauty and health around the world. This provides L’Oreal with an opportunity to reach a new segment in the beauty industry.

Aging concerns and the desire for anti-aging products has increased significantly in recent years (Mitteness, 2013). One of the newest emerging trends is the desire for anti-aging technology in hair care. With age, hair becomes thin and brittle. Therefore, an increase in demand for products that satisfy this need to maintain healthy hair is increasing. This gives a huge opportunity for L’Oreal to provide products that meet these several needs of aging consumers.

Skin cancer and chemical concerns are also a major trend amongst consumers nationwide. The use of organic UV protection lotions and serums is becoming increasingly popular. There has also been a rise in the demand for beauty products to be used by men in recent years, specifically skin care regimens. The male skincare market is currently dominated by Asia, but the acceptance of skincare products by males in western countries is increasing.

Political and Legal Forces

 A political force that challenges L’Oreal's ability to serve regional and national markets involves adapting their products, services, and business models to local cultures. To be culturally diverse, L’Oreal hires professionals with multicultural backgrounds to be clearer of the laws and regulations that govern each international market (Hae-Jung, 2013).

 The main legal force that currently affects L’Oreal is the Food and Drug Administration (FDA) regulations. The legal authority of the FDA over cosmetics differs from other industries they regulate, such as drugs and medical devices. Under United States law, cosmetic products and ingredients do not need FDA premarket approval. However, FDA can pursue legal action against products introduced into the market that do not comply with the current laws in place. The FDA has the right to reprimand individuals, or firms are not in compliance with the law (U.S., 2014). For example in 2012, the FDA sent a formal warning letter to Lancome USA, a L’Oreal unit. Their website specifically advertised that some of its skin creams could reduce signs of aging. By making those statements, the creams needed to be labeled drugs and reviewed under the Federal Food, Drugs, and Cosmetic Act. The warning letter further explained that the marketing of those products with the anti-aging claims violates the Act. L’Oreal promptly responded by reviewing and editing their website and product labels to ensure the advertisements were legal (Roosevelt, 2012).

# 3 | Corporate Level Strategies

The corporate level strategies that L’Oreal possess are horizontal integration, vertical integration, and strategic alliances to continue their success as a worldwide leader in cosmetics manufacturing. The company has utilized the advantages of horizontal and vertical integration to build a more pronounced image in new geographic markets. These new markets include Asia/Pacific, Latin America, Eastern Europe, and Africa/Middle East. For example, by the end of the year 2013, L’Oreal had officially acquired Interconsumer Products Group in Kenya and Cheryl's Cosmetic pharmaceuticals in Mumbai. This enabled L’Oreal to increase market share in the skin and hair care segments (Trefis Team 2014). With the increase of recent and rapid acquisitions in these emerging markets, L’Oreal has continued to gain additional market share in the beauty industry.

L’Oreal demonstrates a horizontally integrated corporate level strategy because they frequently acquire companies that are industry competitors in order to achieve competitive advantage in the large scope environment they operate. An example of this is the recent acquisitions of Magic Holdings in China or Niely Cosmeticos in Brazil. In order to increase profitability L’Oreal will leverage their R&D competencies by integrating their extensive science based expertise to differentiate Magic Holdings and Niely Cosmeticos established products. Another horizontal integration for L’Oreal was in February of 2014, L’Oreal announced their completed acquisition of two Japanese companies.The two companies, Decléor and Carita, helped L’Oreal because they are both manufacturers of skin care, hair care, and fragrance products. Most notably within the professional skincare and beauty market, the two Japanese companies are together ranked number two globally (Terifs Team, 2014).

L’Oreal participates in both backward and forward vertical integration as corporate level strategies. An example of how L’Oreal implements forward vertical integration is through The Body Shop and throughout the organizations integrated research and 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. This differentiates the Body Shop from other L’Oreal brands distributed amongst several other retailers. L’Oreal also executes forward integration through its in-house research and development facilities across the country and the integrated production facilities that manufacture the majority of L’Oreal products.

An example of backward vertical integration is L’Oreal's ownership of organic cosmetics brand Sanoflore. The French laboratory specifically designs and manufactures its variety of cosmetics and aromatherapy products (L’Oreal Finance 2006). Sanoflore became a part of the consumer products division and maintains its control as a manufacturer by handling all stages of the aromatic and medicinal plant chain.

Additionally, L’Oreal took an interest in the opportunity to own new distribution channels with the acquisition of Beauty Alliance LLC, a privately held company based out of Florida. Beauty Alliance is the largest growing professional salon distributor because of its ability to sell to 125,000 salons through 870 distributor Sales Consultant and over 400 professional outlets (L’Oreal Finance 2007). Current CEO of L’Oreal USA at the time of the acquisition, Laurent Attal, explained the strategy behind the purchase of Beauty Alliance. Attal stated the goal was for L’Oreal to focus on the US distribution system process and maximize the opportunity to invest in the future of salon professionals (L’Oreal Finance 2007). Mr. Attal further explained how the store and sales consultant networks allowed L’Oreal to continue to meet the needs of small and large salon owners while providing quality service (L’Oreal Finance 2007).

L’Oreal utilized a strategic alliance when they pursued a new industry in their joint venture with Nestle. In 2002, L’Oreal Finance announced the official agreement between the two companies' new laboratory, whose mission is to grow the market of cosmetic, nutritional supplements. The joint venture, named Inneov laboratories, is equally split in ownership between Nestle and L’Oreal. The dual expertise of Nestle's nutrition divisions and L’Oreal's skin and hair biology knowledge will facilitate an active environment for developing the next concentrated nutritional supplements. The ingredients for these nutritional supplements will be carefully selected in order for them to work with the body's natural chemistry. According to L’Oreal Finance statements, Inneov laboratories remain highly ranked in European pharmacies and is the first example of a partnership between the food and cosmetic industries (2002).

# 4 | Business Level Strategies

The business-level strategies that L’Oreal implements are as follows: broad differentiation, product proliferation, implementing an online storefront and the ability to implement a low-cost structure through its global production facilities.

L’Oreal exercises a broad differentiation business-level strategy allowing them to possess a competitive advantage in the industry. L’Oreal recognizes different segments in the market and offers a different product to each segment in order to reach each consumer's needs. L’Oreal does this by offering its products through five different distribution channels which are based on specific consumer needs. The five different distribution channels include consumer products (mass-market), active, luxury, professional product, and the Body Shop. The differentiation between each of these distribution channels is based on desired needs of each segment such as cost and quality of the product. Each distribution channel is carefully maintained, to not risk harming the brands image. For example, the professional products division dispenses its products all over the world to different hair salons and beauty boutiques. The luxury products division products are sold in selective distribution channels including department stores and retail outlets as well as free standing stores and through online websites. The consumer products division distributes products at reasonable prices in all mass-market retailers such as supermarkets and drugstores. (L’Oreal S.A., 2014).

 The ability for L’Oreal to market products to the needs of consumers in all market segments within the beauty industry demonstrates how a product proliferation strategy is also being implemented. An example of this is in 2011; L’Oreal launched its first Customer Relationship Management (CRM) program with the goal of connecting with consumers on a greater platform through exclusive rewards. These rewards include free samples, reviews, expert advice, and money-off vouchers for its products (Shearman 2011). The program encourages L’Oreal's customers to register and join the program in order to provide information that can help customize the rewards and offers to their preferences.

 In order to adapt to the technological paradigm shift of online shopping, L’Oreal is focusing recent efforts in expanding its e-business storefront. The shift will allow L’Oreal to distinguish the company's products and services from its competitors. Online marketing efforts continue to lead customers to L’Oreal's beauty brand websites where the company has seen a large increase in online spending. L’Oreal's beauty brand websites are also focusing on attracting more men in the United States. The company hopes to appeal more men to the products and services by marketing the benefit of privacy when purchasing online. The privacy allows men to feel comfortable purchasing beauty products, without feeling ashamed and uncomfortable. This is crucial to L’Oreal because they are competing in a mature industry which it is crucial to deny entry from potential competitors in order to control the market share on a global level.

L’Oreal can achieve value innovation because of its integrated global production facilities located at strategic locations around the world. A total of 47 production facilities is located throughout seven different geographical zones around the world in order to satisfy local needs and trends. The operations department at L’Oreal oversees all aspects of the production process, which allows L’Oreal to achieve economies of scale while maintaining the production of high-quality, niche-need beauty products.

# 5 | Organizational Structure

L’Oreal's ability to execute a low-cost structure that satisfies the needs of different locations around the world demonstrates how a transnational strategy is executed. The complexity and depth of L’Oreal's organizational structure is illustrated through a global-matrix structure in which business units are separated by geographic zone, and then further broken down by suppliers and supporting value-chain activities. L’Oreal's business activities are first broken down by geographic zone in order to integrate research and production facilities on a global scale that satisfy the specific needs of the areas in which they operate. The six different geographic zones in which L’Oreal operates are Western Europe, North America, Asia/Pacific, Eastern Europe, Latin America, and Africa/Middle East. L’Oreal's brands are then further broken down by distribution channel and supporting value chain activities, which is demonstrated in Figure 1. As L’Oreal has expanded on a global level throughout the years, the complexity of organizational structure has increased significantly which demonstrates how L’Oreal operates under a global-matrix structure.

L’Oreal's brand organization involves twenty-five international umbrella brands. These brands are grouped under one of the five business divisions within L’Oreal. The main three business divisions are the Consumer Products Division, Luxury Products Divisions, and Professional Products Division. Additionally, there is a separate department called the Active Cosmetics Department and a retail store recently acquired by L’Oreal called "The Body Shop." Each of the business divisions targets and caters their products to a specific market segment. Refer to Appendix A for a diagram of the organizational structure of L’Oreal.

Referencing diagram from appendix A, the corporate organizational structure of L’Oreal is too complex to be categorized as a functional, divisional, or a metrics structure. L’Oreal's organizational structure is a hybrid of both divisional and functional structures. The functional aspect is demonstrated through the titles of CIO, Finance & Administration and Operations. The divisional aspect is shown through titles such as Luxury Products and Consumer Products. L’Oreal divides its organization through products and geographical divisions including North America, Africa & Middle East, and Asia. L’Oreal's organizational structure displays efficiency in their business units by combining both functional and divisional structures (Telphon, 2010).

# 6 | Competition

## Strategies

There are many large players in the makeup industry that L’Oreal feels pressure from every year. However, the biggest competitor of L’Oreal is Procter & Gamble. A strategy that differs between L’Oreal and P&G is the way they advertise to the consumers. L’Oreal incorporates a "Because I'm Worth It" positioning statement in all their advertisements. According to the former Chief Executive Lindsay Owen-Jones, "L’Oreal offers a unique cultural heritage; Paris, beauty, fashion, an eye for things that are beautiful and that inspire consumers to spend more with the feeling of being special" (Carreyrou and Ellison, 2003). They promise their customers that they will look just as sexy as their spokeswoman, and woo their customers with their Parisian chic products.

L’Oreal's rival, Procter & Gamble has a different approach when it comes to selling beauty products. They use a "no-nonsense comparative advertising method" that states statistics to show how its products are superior to other brands. According to the article written by Ellison and Carreyrou, one example of one of P&G's promotion was for a Pantene conditioner that offered a ten-day challenge. This challenge promised that hair will be 60% healthier, 85% shinier, 80% less prone to breakage, and 70% less frizzy. In another example, P&G used 60 different methods to measure the size of pores, length of wrinkles, and the color and size of age spots. The researchers used this information in national ads to announce that Olay Total Effects Night Firming Cream worked better than the leading department store brands. The ad featured a jar of Olay stack on top of other products, and it listed the losers. Among the listed losers were two products from L’Oreal's Lancome. P&G has taken over L’Oreal's leading position in mass-market beauty, becoming the largest seller of cosmetics in supermarkets and club stores. Additionally, P&G has more of an advantage in skin cleansers, moisturizers, and shampoos. L’Oreal, however, remains the world leader in beauty and leads the U.S. market in color cosmetics and hair color products (Carreyrou, 2003).

## Competencies

The differences in L’Oreal's and P&G's competencies include what they spend their money on and how much attention they give to their products. L’Oreal spends a large amount of their profits on Research and Development. This allows for them to create differentiated products and perfect all their brands (Carreyrou, 2003). L’Oreal spends 3.4% on R&D percentage of sales whereas Procter & Gamble spends only 2.5% (Mercer, 2014). L’Oreal is more specialized than Procter & Gamble, and that is why more of their sales dollars go to R&D.

 One way P&G separates themselves from the competition is how large of a brand portfolio they possess. According to Meagan Clark from the International Business Times, P&G is divided into five business segments: Fabric and Home Care, Beauty, Baby Care and Family Care, Health Care, and Grooming. This large portfolio enables them to make large profits in other categories and not worry too much specifically on their beauty segment. P&G's Beauty segment makes up 23% of their company, and they have lost market share in this segment to Unilever and L’Oreal. The profit in the U.S. market for the beauty category is about $1.6 billion. Currently, P&G leads at 29%, and L’Oreal follows at 19% (Clark, 2014). Although P&G owns most of the market share, L’Oreal thrives on its increasing sales. They realized that in order to possess the largest market share, P&G needs to start investing more time within this segment to stay ahead of L’Oreal (Carreyrou, 2003).

## Recent Performance

L’Oreal's recent sales performance has increased within the last few years up to 2014. There has been strong growth not only company-wide, but also within the U.S. segment, which has struggled the most. Revenue has increased annually to $5.8 billion since 2009 (IBISWorld, 2014). One of the main reasons for L’Oreal's revenue increase is because of the addition of American brands into the French Portfolio. These new brands help to reach a broader audience internationally. The new additions such as Ralph Lauren perfume and the Matrix hair-salon line represents 20% of L’Oreal's total sales. Currently, L’Oreal receives a third of its revenue from the United States, compared to the 14% from France. Tailoring to international needs has helped increase their sales while keeping them as the world's largest cosmetic company. Another recent performance activity that L’Oreal has demonstrated is the increase in product specialization. As mentioned earlier with the increase of American products, L’Oreal has also increased its Research and Development with male products and international differentiation within their portfolio. They have begun to cater to men and women all over the world discovering that each market wants something different out of their makeup. Understanding the need for product differentiation has been crucial in L’Oreal's success. L’Oreal has also begun imitating P&G's latest products. L’Oreal is now introducing a new shampoo and conditioner under the Garnier brand, Fructis. Within the hair care industry, P&G products are found in the top two slots while L’Oreal is fourth in shampoo and fifth in conditioners (Carreyrou et al., 2003). By infiltrating this market, L’Oreal is trying to increase its sales from a different product segment while competing with one of P&G's major product lines.

As of the fiscal year of 2014, P&G's beauty sales accounted for 24.0% of total company revenue and 23.0% of net earnings. However, beauty sales have decreased in all of the company's developed markets; particularly within the company's hair care product lines (IBISWorld, 2014). This is not surprising for P&G, within the past five years Procter & Gamble has been consistently losing market share in their Beauty segment. P&G did however have a temporary sales growth for their Beauty segment in the June quarter with an increase of 3%, but slowed to 1% growth in the August quarter. Whereas, L’Oreal's beauty sales rose by more than 4% in the same period (Clark, 2014).

P&G is trying to turn their beauty business around to make it more profitable. The company announced in January that they would be launching a new ad campaign for P&G's Olay that spans across its boutique brands. P&G has also brought back Alan G. Lafley as their new CEO. Through the years 2000-2009, the company transformed into a major beauty player by stripping away businesses that had low profitability. With Alan G. Lafley back on board, P&G is estimated to gain share in the beauty market (Trefis, 2014).

# 7 | Recommendations

There are four recommendations that our group believes L’Oreal should implement based on the above strategic management categories. This includes increasing R&D spending in the hair care segment, leveraging The Body Shop’s natural/organic competencies, franchising L’Oreal salons, and partnering with national sports teams to promote the male cosmetic segment. A final recommendation we have is to restructure the organization of L’Oreal’s brands.

First, we believe that L’Oreal should begin focusing more R&D on the hair care segment to propel themselves in the leading spot above their competitors. Currently, L’Oreal is behind its competitor P&G in the hair industry. In order to increase market share, L’Oreal needs to focus more time on this key category, rather than focusing all their time on skin care. An increase in R&D spending in the hair care category will better differentiate L’Oreal from leading brands in the industry.

The second recommendation is to spend more time advertising their newly acquired retail store ‘The Body Shop.' We feel it is important for L’Oreal's affiliation to be known for this new purchase to help boost its brand image. L’Oreal is an established and trusted name, so consumers who are unfamiliar with The Body Shop brand will feel more confident when purchasing these new products. We also believe it is important for L’Oreal to leverage The Body Shops core competencies and integrate natural and organic ingredients into their current brands. Currently, they have expanded their natural/organic products into emerging market. We recommend L’Oreal expand more of these types of products into the Western market because the natural/organic product category is growing exponentially.

The third recommendation is for L’Oreal to begin franchising its products with a salon service. L’Oreal prides its image as a high class, French chic brand. It is difficult to portray this image in third party retailer stores where they have no control over how the products are marketed. Franchising stores will allow L’Oreal to control the layout of each store, the marketing techniques for each product, and promote a positive image for its brand. Salon franchising with L’Oreal products is acceptable in current and emerging markets in order to infiltrate into these markets to better reach the consumers. It will also benefit L’Oreal because they will hire employees that can be trained to become knowledgeable about each product while demonstrating on the customer. This in return helps customers find the product that most suits them and will build up brand loyalty.

A fourth recommendation for L’Oreal is to partner with different national sports organizations to better reach the male audience. Currently, they have created a multi-million dollar sponsorship with the NHL in Canada to increase brand awareness of their Men's Expert line (Powell, 2013). We suggest L’Oreal to increase brand exposure in the sports marketing business and other major competitive sports to raise awareness of its male product lines. With partnerships in major sports industry, L’Oreal will have the opportunity to provide samples of their products and reach a broader male audience.

L’Oreal’s global-matrix structure makes it extremely difficult to manage and implement business and functional level strategies throughout the organization. Our recommendation would be to restructure by splitting L’Oreal’s segments into different companies in order to properly manage each segment and further differentiate its products. Separating each segment into five different companies will allow managers to focus efforts on a specific category and will alleviate communication confusion between managers. Throughout our research it was evident that L’Oreal has grown substantially and is continuing to expand by acquiring new business. This may lead to problems in the future, as it will become more difficult to implement both business and functional-level strategies with such a complex organizational structure. Restructuring into separate companies will allow L’Oreal to continue to grow and properly manage each segment without loosing control of each segment’s overlying strategies.

# Appendix A | Organizational Flow Chart



(Domingo, 2014)

# Appendix B | Chain of Demand



(Domingo, 2014)

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