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# L'Oréal and the Globalization of American Beauty

On a muggy summer day in 2004, Philip Clough, president and CEO of Kiehl's Since 1851, a small upscale cosmetics maker, was directing the placement of moving boxes around his business's new office in a renovated warehouse on Hudson Street in lower Manhattan's Greenwich Village. As Clough gave a tour of the group's spare fifth-floor office space, there was little evidence that Kiehl's represented one of the most radical experiments in the 97-year history of its corporate parent, Paris-based L'Oréal, the world's largest beauty firm.

L'Oréal USA purchased Kiehl's in 2000 as part of a seven-year, carefully planned acquisition strategy. The U.S. buildup was critical to the globalization of L'Oréal's business, which had grown from 25,000 employees and $4 billion in revenues in 1988 to 50,000 employees and $14.3 billion in revenues in 2002. By adding popular American brands such as Maybelline, Redken, Matrix, SoftSheen-Carson, and Ralph Lauren Fragrances to its portfolio of French brands, L'Oréal had created an international brand portfolio for consumers with a wide range of incomes and tastes in 140 countries.

In the early 1980s, achieving such a high level of global distribution was barely in the sights of L'Oréal senior managers. L'Oréal was France's leading beauty company, but its international presence was limited. Many believed that the conception of Parisian beauty as being expensive and high culture—the image of all L'Oréal brands at the time (e.g., Lancôme in cosmetics and L'Oréal Professional in hair care)—limited the company's ability to expand into international markets. Jean-Paul Agon, president and CEO of L'Oréal USA, explained:

> We did not have an accessibly priced, genuinely popular [brand] with a global potential. We had a couple in Europe, but we didn't have anything that we thought had world potential. That was a major problem because to develop in many of the newer markets in the world, our L'Oréal brand was simply too premium for the level of affluence of those countries. We had some of the products we needed, but there were some huge parts of the business missing, mainly cosmetics. We really needed in our portfolio a more attractively priced proposition, not just to fill a hole in the States and in Europe, but to go around the world and in all the new markets.

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Moreover, few senior managers at the time believed that even Lancôme, one of L'Oréal's most successful brands, could compete effectively in the U.S.—one of the world's largest markets for beauty products—against American foes such as Estée Lauder and Revlon.

The acquisition of U.S. brands not only bolstered L'Oréal's international presence but also enabled the evolution of L'Oréal's internal organization, which eventually split into three main product divisions:

- The **Consumer Products Division** sold hair-care, skin-care, makeup, and perfume products through mass-market retailing channels at competitive prices (2003 revenues increased 7.7% on a like-for-like basis to $9.4 billion).

- The **Professional Products Division** sold colorants and hair-care, texture, and styling products to hairdressers and salon professionals worldwide (2003 revenues increased 8.6% on a like-for-like basis to $2.4 billion).

- The **Luxury Products Division** housed L'Oréal's prestige cosmetics and perfume brands. Products were distributed through selective retail outlets, such as department stores, perfumeries, travel retail outlets, and the group's own boutiques (2003 revenues increased 4.2% on a like-for-like basis to $4.3 billion).

By 2004, more than 94% of L'Oréal's revenues were coming from 17 core brands spread across these divisions. (See **Exhibit 1** for a breakdown of brands by division.)

Kiehl's was considered a key addition to L'Oréal's luxury collection: its skin-care, body-care, fragrance, and hair-care products were renowned for their high quality, effectiveness, and cult following among celebrities. Customers made pilgrimages from around the world to the original Kiehl's location in New York's East Village, where samples were handed out liberally to any customer. Its customer base was loyal and younger than the traditional luxury cosmetics consumer. Its Generation X employees elicited gasps of "Oh my God!" when they told friends that they worked at the Kiehl's store in Manhattan.

Kiehl's represented a significant departure from the other offerings in L'Oréal's product mix. "We bought it precisely because we thought it was interesting to see a brand do things successfully that were contrary to what we would have done," said L'Oréal CEO Lindsay Owen-Jones.[1] L'Oréal brands had million-dollar advertising budgets. Kiehl's did no advertising at all, and its products were, at the time of the acquisition, notably hard to find. L'Oréal owned no stores, no salons, no spas, nor any other point of sale. Kiehl's, by contrast, had done much of its business from a single neighborhood store that offered attentive service, a few retail outlets in upscale department stores such as Bergdorf Goodman and Neiman Marcus, and mail order.

As Clough explained, L'Oréal intended to expand Kiehl's and sell its original products in stores around the world:

> When L'Oréal bought Kiehl's, it was a small family company. Celebrities touted our products in the media. And demand was swamping the only store we had. Part of Kiehl's allure was that few people outside of New York had access to our products. In the past several years we have opened quite a few stores around the globe, created a website, and expanded our business several times over. The issue going forward is: Are there any limits to how far we can take Kiehl's in the global marketplace? For instance, how do we preserve the integrity of the brand as we take it worldwide?

## Background

In 1907, chemist Eugene Schueller formed L'Oréal, naming the company after his first product, L'Aureole (French for "halo"), the world's first synthetic hair-color product. Manufacturing products during the night, he sold them to Parisian hairdressers in the morning, with actual deliveries in the afternoon[2]—a tight combination of production, sales, and marketing that became a L'Oréal hallmark. By 1912, L'Oréal products could be found in the Netherlands, Austria, and Italy.[3]

In the mid-1930s, Schueller entered the market for hygiene and toiletry products for the body and hair.[4] In 1934, he invented the first mass-market soapless shampoo, Dop. In the following year, he launched a pioneering sunscreen, Ambre Solaire, just before France's then left-wing government established a compulsory two-week paid annual holiday. These successes earned L'Oréal a reputation as a European leader in hair-coloring and body-care products.

L'Oréal entered the U.S. market soon after World War II. In 1953, the company formed licensee Cosmair Inc. to distribute its hair products to U.S. beauty salons. Initially, Cosmair had 20 employees and was based in New Jersey.[5] By 1963, Cosmair had $6 million in U.S. sales[6] but was facing several challenges new to L'Oréal. First, unlike in the European market, in the U.S. markets local middlemen rather than national distributors delivered to beauty shops, and L'Oréal had few if any relationships with such middlemen. Second, American hair salons and their clientele were unfamiliar with L'Oréal brands and their quality, so they resisted selling L'Oréal products. Finally, L'Oréal managers were discovering that French prestige, which had been helpful in selling perfumes, was less useful in selling hair-coloring products in the U.S. market.

In 1957, Schueller died, and leadership of L'Oréal passed to his right-hand man, François Dalle. During the 1960s, Dalle continued the company's international expansion, took the company public (1963), and sold off the company's soap unit. The company then reorganized to reflect the purchasing patterns of that era.[7] Beatrice Dautresme, executive vice president of Strategic Business Development, described the transition:

> Francois Dalle initiated the concept of selling beauty through several channels of distribution because these corresponded to economic levels as well as psychographic or psychological levels. Consumers in the beauty sector had different purchasing habits: self-service for easy access and convenience, professional advice from hair specialists in salons, highly trained beauty advisors in perfumeries and department stores, or medically trained advisors in pharmacies. These four channels of distribution offered different price levels, from very accessible to luxury.

To build its presence in these channels, L'Oréal acquired several French brands, including Lancôme (1964), which had a precise range of perfumes and upscale cosmetics, and Garnier (1964), which had a range of hair-care offerings among mass distributors. By 1970, 85% of sales came from Europe; 50% of sales and 60% of profits were made in France.[8]

When left-wing politicians argued for state control of France's top companies in the early 1970s, Dalle established a complex ownership structure to secure the company against state interests. He established a holding company, Gesparal, which became L'Oréal's new majority stockholder with a 54% share. Schueller's daughter Liliane Bettencourt became Gesparal's majority stockholder with a 51% share; her shares in L'Oréal eventually helped make her one of the world's wealthiest individuals (number 11 according to *Forbes*'s 2004 list of richest people). Nestlé acquired the remaining 49% stake in Gesparal.

As Dalle revamped the firm's ownership structure, he also diversified L'Oréal's asset portfolio and expanded its presence in the U.S. hair-color market. In 1973, L'Oréal bought a majority stake (53%) in the French pharmaceutical company Synthélabo. The same year, L'Oréal also launched its now famous "Because you're worth it" advertising campaign in the U.S. to support its leading consumer hair-coloring product, Preference by L'Oréal. (See **Exhibit 2** for an advertising sample from this campaign.) With this popular advertising campaign, L'Oréal established a reputation for quality among U.S. consumers for the first time that enabled the firm to sell its products for a higher price than its competitors.

## *Dream To Be Number One in U.S.*

In 1984, 38-year-old Lindsay Owen-Jones became CEO of L'Oréal after a three-year stint running the company's U.S. division. Affectionately known inside the company as "OJ," the Oxford-educated Owen-Jones was a 15-year veteran of the firm and the first British-born individual to ever head a major French business. Owen-Jones was born in Liverpool and had Welsh origins. He began working for L'Oréal selling product on the streets of Normandy, France. His penchant for clear thinking, packaging, marketing, and languages as well as fast cars, yachts, and helicopters prompted some observers to describe him as a "James Bond" and "product freak" whose "laser eyes" and penetrating questions could unnerve the most confident manager. He was also considered an "eternal student of sell through" for his frequent trips to department stores, where he would quiz customers and sales-people on every aspect of the beauty business.[9]

Owen-Jones was the first senior manager to effectively promote the idea that L'Oréal could become the largest beauty products firm in the United States. Following through on this idea meant overcoming several obstacles. First, L'Oréal USA did not have much of a U.S. presence, as its brands were managed individually through the licensee Cosmair. As one manager said, "Being big in the States means you are big worldwide. If you don't have the States or Europe, you are nothing." While heading the U.S. operations, Owen-Jones argued successfully that L'Oréal's European brands like Lancôme could—and more importantly should—compete with established American names such as Estée Lauder and Revlon.[10] He battled Estée Lauder for counter and shelf space in American department stores and won. In 1983, he convinced Macy's to give Lancôme the same amount of space as Estée Lauder and that year boosted Lancôme's U.S. sales by 25%.[11]

Even with Owen-Jones's success in the U.S. market, L'Oréal was at a significant disadvantage competing against leading U.S. beauty makers. In the professional division, Clairol was the leading U.S. hair-color brand, with a 70% share of the U.S. market. Although hair coloring was L'Oréal's strength—it was the firm's original and most profitable product line—"hair color was really the business that we were fighting to get in, but Clairol seemed unbeatable," said one manager. Another manager added:

> In 1980, L'Oréal in the U.S. was a very small business in the professional salon segment. It actually just existed with the L'Oréal brand, which is a mass-market brand. Being so small in the professional division was a big, big problem, because in almost any country where we had been successful, we had always started with the professional market and then launched our mass-market L'Oréal brand.

At the end of the 1980s, L'Oréal was continuing to draw most of its revenues from France and Europe.[12]

Between 1984 and 1995, L'Oréal moved cautiously to acquire new assets amidst an industrywide consolidation then under way in the world beauty industry. Although some firms had sold and manufactured their products in foreign countries for decades, the industry remained quite fragmented in the 1970s, reflecting wide variation between countries and cultures in their concepts of beauty and levels of personal hygiene. Consumer products companies already selling dental and shampoo products moved into cosmetics, buying leading U.S. companies and globalizing their brands. For instance, packaged goods giant Unilever acquired Chesebrough Ponds in 1986 and Calvin Klein fragrances in 1989. Not to be outdone, household products maker Procter & Gamble (P&G) acquired Richardson Vicks in 1985, an acquisition that delivered such brands as Oil of Olay (skin care) and Pantene (hair care). In 1989, P&G bought cosmetics and perfume maker Noxell, which brought CoverGirl (makeup and nail care). And in 1991, P&G added cosmetics maker Max Factor, which included a then hardly noticed brand, SK-II.

## Building the U.S. Operations: Phase 1

During the 1980s, L'Oréal was constantly assessing acquisition opportunities. In the early 1980s, L'Oréal purchased stakes in two American brands, Ralph Lauren Fragrances and Helena Rubinstein, a cosmetics maker with international distribution. After a five-year period, L'Oréal had taken full ownership of both brands (Helena Rubinstein in 1988 and Ralph Lauren in 1990). Agon explained L'Oréal's rationale for the Helena Rubinstein acquisition:

> In the 1950s, Helena Rubinstein was, along with Elizabeth Arden, one of the most popular luxury beauty makers in the U.S. However, by the late 1980s, it was being sold in U.S. drugstores at very cheap prices and was not receiving much merchandising support. It had a much better position outside the U.S. We bought Helena Rubinstein mostly because of its good position in other parts of the world, such as Europe and Japan and Asia, where it was considered upscale. The thought was that we would eventually reintroduce the brand in the U.S. as a more upscale brand.

The Ralph Lauren acquisition, lauded by analysts, was designed to fill a gap in L'Oréal's Luxury Division, which had only a smaller, more mass-market fragrances brand, Cacharel. L'Oréal's wholly owned U.S. subsidiary, Cosmair, set up a separate unit to handle the Ralph Lauren Fragrances business and established L'Oréal's first U.S.-based international brand management team, which was responsible for creating new products and developing market positions and strategies.

By 1993, nearly 10 years after company managers had begun dreaming of a leadership position in the U.S. market, L'Oréal's only U.S. acquisitions had come in the Luxury Division. Publicly, Owen-Jones acknowledged, "Sticking to traditional luxury brands would, in the long term, be a serious brake on [L'Oréal's] growth."[13] That same year, L'Oréal USA made its largest, most critical U.S. acquisition to date when it purchased California-based Redken, a maker of fashionable hair-salon products, for around $200 million.

### *Redken*

L'Oréal had had a strong relationship with Redken founder Paula Kent Meehan, a Hollywood actress turned hair-care product maker. Meehan, a gregarious, self-effacing former cheerleader, created a midpriced salon brand with revenues of $125 million. Redken was well-known for its extensive network of salon educators, which included 900 part-time and full-time hairdressers who worked with salons on how to use Redken products.

Although much of Redken's senior management stayed with the firm after the acquisition, one senior L'Oréal manager described the integration as "tough. It took three years to really turn it around." In fact, just a few months after the acquisition, a big earthquake in nearby Northridge led to extensive damage at Redken's Canoga Park facilities in the San Fernando Valley. These facilities were sold in 1994, and much of the production was moved to Kentucky.

Initially, Redken managers launched new products independently of L'Oréal's corporate headquarters in New York City. However, several of these post-acquisition launches were unsuccessful. The Redken brand management was later relocated to L'Oréal's U.S. corporate headquarters in New York City, where it was rebranded Redken 5th Avenue NYC.

The Redken acquisition triggered a reassessment of L'Oréal's entire hair-care division. Senior managers realized that they needed a division focused entirely on sales to salons and hairdressers. The U.S. professional market was unlike the professional market in Europe, where mid- to luxury-hair-care products were sold in department stores. By contrast, most of the mid- to luxury-hair-care products in the U.S. were sold in salons and other American specialty beauty supply stores. Salon sales had larger profit margins than mass-market hair-care products. Eventually, sales in the professional division made up a third of all L'Oréal hair-care sales.[14] They also realized that Redken had global potential as an American brand of American origin.

The year 1994 marked a decisive moment in L'Oreal's history when it purchased Cosmair and integrated its U.S. licensee into the L'Oreal Group. The acquisition gave L'Oreal the ability to implement its strategy of acquiring U.S. brands to complement its existing European ones. Two years later L'Oréal purchased American cosmetics icon Maybelline from investment banker Wasserstein Perella & Co. for $508 million. With this purchase, L'Oréal obtained a 17% share of the $2.3 billion U.S. mass cosmetics industry.[15]

### *Maybelline*

With 1,700 employees and $350 million in revenues, Maybelline was the third-leading U.S. make-up brand.[16] It had a production and distribution center in Little Rock, Arkansas. Its headquarters and applied research laboratories were in Memphis, Tennessee.[17] Maybelline had little presence outside the U.S.; 87% of revenues (1994) came from the U.S. market. Its best-known brands included Great Lash (a mascara launched in 1971), Moisture Whip (a lipstick launched in 1981), and Shades of You (a cosmetics line launched in 1991). In the U.S., Maybelline was sold primarily in drugstores, mass-market discount stores, supermarkets, and cosmetics-specialty stores.[18]

At the time of the acquisition, Maybelline had lost focus, according to many industry analysts and watchers. Two years before the acquisition, Maybelline branched out into the lucrative anti-aging cosmetics market with its Revitalizing brand. Revlon quickly responded with an aggressive and well-capitalized advertising campaign for its Age-Defying brand, overwhelming Maybelline's poorly performing Revitalizing. Another sign that Maybelline had lost focus came when brand managers decided to drop for a brief time one of Maybelline's most famous taglines: "Maybe she's born with it. Maybe it's Maybelline."[19] Ketan Patel, senior vice president of marketing for Maybelline, summarized the state of the Maybelline brand at the time:

> During our research, we found that the other [competing] brands had unique positions within the marketplace but that consumers were unable to define what Maybelline was. It was sort of a sleepy, almost a stale brand. I recall consumers in focus groups saying, "Maybelline? That's my mother's pink nail polish." We had comments about "pink and green Great Lash mascara." Which I want to point out we are very proud of to this day because it's the leading mascara in the world, launched in 1971. But consumers had this image of a mascara company or Great Lash and not a full cosmetics house. L'Oréal and Revlon were clearly the fashion

> brands at the time. Revlon was sexy and chic; Revlon and L'Oréal were girls that I want to go out with, and Maybelline was something my mother wore.

A dowdy, midwestern cosmetics brand may have seemed an unlikely place for L'Oréal to pin its hopes of becoming the top beauty firm in the U.S. L'Oreal was confident, however, that it could do a better job of running the brand than Maybelline was doing. "We can apply our expertise and technology to improve Maybelline's products, its marketing, its brand image, and increase its share of U.S. sales," said one executive.

The international potential of Maybelline was, perhaps, just as compelling as its domestic potential, according to another manager:

> Maybelline had an incredibly powerful value. It was an American brand; it corresponded to this idea that in America girls are so well made up, and therefore, this idea of perfection coming from America. This had a big appeal with young people all over the world. French elegance could be something a little older, but Maybelline had the power to become a really powerful entry line into the younger and less affluent consumer. Maybelline gave us a much more accessible brand which could be sold internationally immediately.

Analyst reaction to the Maybelline acquisition was generally positive. Analysts pointed out that the Maybelline acquisition would help "offset the seasonal aspect'' of L'Oréal's business, where roughly half of Cosmair's turnover came from prestige brands, which were highly dependent on second-half Christmas business.[20] The deal did surprise some industry observers who had expected L'Oréal to develop its existing brands.[21]

### *Rejuvenating Maybelline*

Maybelline's headquarters were moved to join L'Oréal's corporate headquarters in New York City, where the new subsidiary could draw from a larger pool of cosmetics experts. Two of its major sub-brands were soon dropped (Revitalizing and Shades of You). Advertising for the remaining brands was completely changed, as L'Oréal boosted ad spending for Maybelline by 30% to $70 million, and the Maybe/Maybe tagline was brought back. Patel explained:

> We modernized the advertising. We added an urban flair, with Christy [Turlington, the Maybelline spokesperson] in lifestyle situations. It was very important for the 1990s working women to have efficient products. Speed was a concern. We launched technologically advanced products like Express Finish fast-dry nail enamel, and Great Wear makeup. In the advertising we showed her in and around New York. Everything from the choice of fashion to the music—all of those details were quickly upgraded. So the advertising was completely refreshed. [22]

Maybelline also rolled out a radical new makeup collection that had bright, risky colors such as vibrant citrus yellow and lime green. Named "Miami Chill," it was Maybelline's largest season color collection in 10 years. Patel added:

> We really needed to do something very different to wake up the brand and portray us as a cosmetics house. In cosmetics, color collections are used every spring and every fall to launch your latest colors and as a way to revamp your basic color lines. It's certainly a way to make a statement. But Maybelline had stopped doing color collections for some years, so we thought, "Let's see, we're moving Maybelline from Memphis to New York—but where should we take our first color collection?" Why not take her to South Beach in Miami—the "hot" destination for cool people and fashion? So we moved Maybelline from Memphis to New York, and we

> showed her off in South Beach. Going to South Beach was unusual for Maybelline but not unusual in the U.S. or for the world for that matter. It was an instant success. The sell through was phenomenal. Miami Chill was important for two reasons. For our consumer, it was, "Wow, is this Maybelline?" And for our retailers it was a signal that the company was changing.

Industry observers also saw these moves as a signal that L'Oréal was going after market leaders and sought to become a leading player in the U.S. market.

For L'Oréal, Maybelline's success also expanded the range of market opportunities available to the Consumer Division. One manager described Maybelline's fit with L'Oréal's other consumer brands:

> Maybelline had American values and was street smart, as opposed to traditional elegance; it was New York as opposed to Paris. It had wider distribution, better covers, and a wider range of shades that probably appealed to a wider ethnic range of consumers. It was 30% cheaper, fantastically available, and a good value. They are totally complementary and occupy two different brand positions. They fit together perfectly, and we can take them round the world, all of the elegance of Paris for L'Oréal, all of the fun and accessibility of America of Maybelline.

From 1996 to 2002, sales of Maybelline outside the U.S. grew 93%.[23] As it grew and its international presence expanded, one manager said, "Maybelline has become L'Oréal's passport to the conquest of new, emerging markets. It's great for people buying their first makeup." In 2004, Maybelline was rebranded "Maybelline New York" in the U.S. market, a name that it had already carried internationally for several years.

## Building U.S. Operations: Phase 2

### *SoftSheen-Carson*

Between 1998 and 2000, L'Oréal purchased the top two U.S. ethnic hair-care manufacturers. The combined acquisitions of Soft Sheen and Carson were believed to have cost L'Oréal about $370 million.[24] In exchange, L'Oréal obtained 20% of the fragmented ethnic hair-care market.[25] At the time, the U.S. ethnic hair-care market, which catered to African-Americans and others of African descent, was large, complex, and competitive.[26]

African-Americans spent two to three times more per capita on hair care than any other U.S. ethnic group. Though they represented 13% of the U.S. population, African-Americans accounted for 30% of total U.S. hair-care expenditures, which totaled $1.2 billion in 1999.[27]

The segment was dominated by family-run African-American businesses that for decades had designed low-technology products like "relaxers" that straightened kinking hair.[28] One manager described the fragmented nature of this market:

> The African-American market is unique. It has many distribution channels: roughly 40% of sales come from Targets and clubs like Costco. The rest come from barber and beauty shop suppliers. There are no national chains that serve this market. It is very fragmented and less responsive to advertising and promotions. It is most responsive to word of mouth and radio advertising. Discounts are expected, and the market is subject to rapid shifts.

Soft Sheen was the leading U.S. producer of ethnic hair-care products. It was a Chicago-based black-American icon that at one time employed the largest number of black MBAs in the country. It had product lines in both the consumer and professional market, including Optimum Care, Care Free Curl, Sportin' Waves, Baby Love, Tender Care, and Wave Nouveau.[29] Soft Sheen had sales in 66 countries and reportedly reached 33 million U.S. customers, mostly women. L'Oréal acquired Soft Sheen first in 1998.

In 2000, L'Oréal purchased Savannah-based Carson, which had a 35% share of the U.S. ethnic hair-care market and an established presence in South Africa.[30] The entire African hair-care market had an estimated market value of $1 billion. The importance of this market was not lost on L'Oréal management. "You can't pretend to be No. 1 in the world, and forget about 1 billion consumers of African origin," said one manager. [31]

Carson's management was moved to Chicago and integrated with the SoftSheen team. In 2003, L'Oréal built a multimillion-dollar research and development facility in Chicago to focus exclusively on the hair and skin needs of people of African-American descent. L'Oréal's Ethnic Skin and Hair Research Institute was the only such facility of its kind in the world.

### *Matrix*

In 2000, L'Oréal purchased Matrix, the leading U.S. hair-care brand in the professional market. Industry sources estimated the purchase price at more than $500 million.[32] Matrix was founded in 1980 by Arnold ("Arnie") Miller, a hairdresser and entrepreneur in Cleveland, Ohio. Miller built strong partnerships with U.S. distributors and with agents in several countries who began to import his products. By many accounts, Miller was a brilliant marketer and product developer who created product lines that targeted individuals with fine blond hair. His most popular product was Biolage shampoo. Like L'Oréal founder Schueller, Miller would ask clients what they wanted and successfully (and quickly) deliver products that fit their specific needs. According to one manager, "Miller would say, 'Tell me what you want. I'll make it for you.' He had knee-jerk reactions to market trends that led to some great things. For instance, he created Biolage, which incorporated botanicals, in response to Aveda, a hair- and skin-care brand that also focused on natural ingredients and environmental messaging."

After Miller died in the early 1990s, his widow ran the business and then sold the company to Bristol-Myers Squibb (BMS) for an estimated $400 million in 1994.[33] At the time, BMS was on the brink of building a beauty business with profits from a heart drug then in development. However, a month after acquiring Matrix, the BMS heart drug failed to pass a key clinical trial, and the company suspended its expansion into the beauty market. BMS allowed the technology behind the brand to languish, and according to one manager:

> BMS weakened the DNA behind Matrix. Every successful professional brand has an association with a place and a person, and Matrix had associations with neither one. Redken was associated with California and a smart, Hollywood actress who created technologically sophisticated products and offered detailed education to salons and stylists. L'Oréal Paris was connected with Paris and our founder. When we acquired Matrix, we had to rehabilitate its associations with Arnie Miller, who was a truly innovative person, revamp some sub-brands that had Miller's energy, like Biolage, and we moved the company to NYC, where we could infuse the entire brand with some passion.

When L'Oréal moved the company headquarters to New York City a few months after the acquisition, many managers elected not to make the journey east. The aim was to have Matrix occupy the same position in the professional market as Maybelline occupied in the consumer market: a low- to mid-priced offering able to cater to the entire global mass market.

### *Kiehl's*

In 2000, L'Oréal purchased Kiehl's after a three-year courtship. The owners finally agreed to sell when the company could no longer meet demand for its products. Although some tears were reportedly shed by long-standing employees fearing the company would lose its independence, analysts praised the acquisition.[34] One industry consultant said, "Kiehl's is a brilliant acquisition because it strengthens L'Oréal's position in the specialty store high-end segment of the business, which is an area where they have not been particularly important players. It is also an area which has been more resilient to erosion from alternative channels of distribution."[35]

Kiehl's had a distribution network that included upscale stores such as Bergdorf Goodman, Saks Fifth Avenue, and Neiman Marcus. A Neiman Marcus executive commented, "Their business is fabulous and it's been that way for quite a long time with us. There's so much demand that sometimes it's a challenge to keep up with it."[36] At Saks, an executive added, "Kiehl's is one of our fastest growing businesses and I see it becoming a core business." An industry analyst added, "Kiehl's has an excellent brand name and it will position L'Oréal to tap into a younger and more naturally oriented consumer. It's also a gift brand." The analyst added that Kiehl's had "a good mail-order business."[37]

In succeeding years, Kiehl's benefited from L'Oréal's infrastructure. It opened 15 freestanding stores (see **Exhibit 3** for locations and opening dates), developed its Internet business, and moved its Manhattan headquarters twice in order to accommodate new growth, eventually ending up some 40 blocks from L'Oréal U.S. corporate headquarters in midtown Manhattan.[38]

## L'Oréal in 2004: A Global Corporation

In 2004, L'Oréal was enjoying its 19th consecutive year of double-digit growth. It had become an international beauty products powerhouse focused almost exclusively on the manufacture, development, and sale of its nine French, six American, one Italian (Giorgio Armani Parfums), one Chinese (Yue-Sai, acquired in 2004), and one Japanese brand (Shu Uemura was acquired in 2001). (See **Exhibit 4** for revenues per brand.) Its organizational structure, marketing, strategy, and culture were all oriented to the fast-growing global personal-care market, which was valued at $160 billion and expanding at 7%, twice the rate of the developed world's gross domestic product.[39] (See **Exhibit 5** for regional brand distribution.) According to Owen-Jones, L'Oréal's U.S. brands were a significant component of this orientation:

> We had to recognize that if we wanted to be a truly global company we would have to promote around the world American brands because that was the other great alternative in the beauty industry. And so we did something that was basically unthinkable for most multi-national companies. We didn't just accept to have local brands. We tried to put our brands everywhere. We sell the United States to the Americans, the United States to the Chinese, Italian elegance to the Japanese, French beauty to Africans, and Japanese chic to Brazilians.

### *Organization*

L'Oréal had a matrix organizational structure. (See **Exhibit 6**.) Its main headquarters were located in Clichy, just outside Paris, France. Three division chiefs and three top regional leaders reported directly to the CEO. The division chiefs were responsible for guiding overall brand strategy, global brand sales and profitability, and marketing. The zone managers (North America, Europe/Africa, Asia) were responsible for sales in their respective regions and, more broadly, for executing the sales strategies developed by the international brand teams, which were also responsible for developing new products, branding, and market-positioning statements. The brand teams were based in the country or region of origin of their respective brands. For instance, each European brand had a team based in Paris. Each American brand had a team based in New York. The Shu Uemura team was based in Tokyo.

The international brand teams worked closely with their respective division heads and top regional leaders to develop market strategy and new product ideas. Country managers had frequent contact with the general managers in charge of each brand, feeding them information on their country needs. They provided feedback on promotional strategies in their respective countries and sometimes contributed to the development of new products, which required coordination with the company's research and development (R&D) department.

### *Research and Development*

L'Oréal had a strong commitment to research and development that many insiders considered to be among the firm's most distinctive values and a comparative advantage over competitors. According to one manager, "The success of our company is built on our technology, our ability to make technical improvements to product. This was revolutionary. All the famous people in the industry, like Charles Revson, were saying, 'We sell hope in a jar.' We don't say that. We sell the science of beauty in a jar."

L'Oréal made a larger financial commitment to R&D than its competitors. In 2003, L'Oréal spent $600 million on research—about 3% of turnover compared with an industry average of less than 2%.[40] The large R&D capital investment allowed L'Oréal to fund more than 2,800 scientists in four main research centers—France, Japan, and two in the United States. A fifth was planned for China. L'Oréal scientists were filing about 500 patents a year, and the firm had a portfolio of more than 20,000 international patents.[41] L'Oréal's industrial organization included 47 factories worldwide, 88 distribution centers, and 14,500 employees in manufacturing sites. Ninety-four percent of L'Oréal products, 3.4 billion units, were made in L'Oréal factories by L'Oréal employees.

The scope of L'Oréal's R&D activities allowed the firm to reduce production costs. In 1996 it found that its recently acquired Maybelline was making mascara for 20 cents in its huge Little Rock plant; the same product cost 46 cents to make in L'Oréal's European plants. L'Oréal restructured its European production using Arkansas know-how. L'Oréal's purchasing costs fell to 19% of sales, while at European hair-care rivals Beiersdorf and Wella the same costs were 27% and 25% of their sales, respectively.[42]

L'Oréal promoted close relationships between R&D and international brand teams. For example, when Garnier managers decided that the brand needed a fruit-based shampoo for the European consumer market, they worked closely with L'Oréal's European scientists, who realized that fructose, a type of sugar common in fruit, strengthens hair and contributes to hair growth.[43] Thus was born Fructis shampoo—a "natural fruit juice" shampoo that initially targeted Europe's environmental youth movement, the so-called greens. In 2003, Fructis was successfully launched in the U.S. behind a capital-intensive promotional campaign.

### *Marketing*

The strong relationship between L'Oréal's marketers and its R&D teams could also span geographies. In 2000, L'Oréal's Japanese management team wanted to expand its position in Japan's fast-growing wet lipstick market. Maybelline's MoistureWhip had had little success testing in the Japanese market. Japanese women found it too thick and greasy. L'Oréal managers in Japan believed that a lipstick that combined lipstick and a moisturizer with a more translucent shine might work better in their market. So, they worked with product developers in the U.S. to create such a product. The result of their efforts, Water Shine lipstick, was a huge success in Japan, selling more than 1 million units in its first month.

The Maybelline global brand team built on Water Shine's success in Japan, creating Water Shine Diamonds, a lipstick that contained small microscopic glass beads coated with silver. When applied, the product made lips sparkle like diamonds. The new Water Shine Diamonds brand was launched worldwide, at department stores in Shenzhen and Seoul, at Wal-Mart stores across the U.S., and at stores in France, Great Britain, Spain, and Russia. In 2002, one in three lipsticks sold in France was a Maybelline Water Shine.

The international brand teams were responsible for not only developing new products but also ensuring the integrity of a given brand's positioning. According to Agon, president and CEO, L'Oréal USA:

> Imagine that each brand is a box. Each box is really very precisely defined, in that it occupies a very distinct market position. It is sold to a particular type of customer through a particular distribution channel. Our managers around the world know that they can't play with the position of the brands. We don't play with the boxes. The trick is to do innovative things inside of each box.

With international brand teams based in the brand's home country, the team's global product plans were skewed toward the needs of that country, especially if that country was the United States. According to one international marketing brand director (or DMI, for "Direction de Marque Internationale"):

> DMIs in the U.S. market are sometimes easily influenced by the fact that the U.S. market is so large. It's disorienting sometimes. So we have to be extra cautious to ensure that our global plans are compatible with markets across the world, not just the United States. Also, while we create the plans that the regional offices execute, if sales don't reach expected targets we as DMIs have to be careful to not let our egos get in the way. If something goes wrong it could be our plan or it could be on the execution side.

Sustaining a consistent brand positioning in far-flung markets was, at times, a challenge. According to one manager, "We had a U.S. brand in Japan that was allowed to get away from the global marketing plan. The ads and promotions were oriented more to the Japanese market rather than the brand's global message, which involved democracy, independence, and freedom. We had too much local adaptation. Maintaining the same brand message in every country is possibly the most difficult problem I have."

### *Strategy*

L'Oréal's strategy focused on internal growth, disciplined global marketing, continuous product innovation, and creating a strong presence in every distribution channel of each product division, all over the world. While acquisitions played an important role in expanding L'Oréal's product portfolio and generating revenue growth, Owen-Jones contended:

> Acquisitions have never been the priority. Our priority is internal growth, but we'll make acquisitions if we think they'll add internal growth over a number of years.[44] All of the acquisitions we've made have always had the objective not to become bigger or even to create a fairly short-term growth and profits, but to increase or support or prolong our internal growth rate. And any acquisition we look at, whether small or big, would always be judged on that criterion.[45]

For L'Oréal, acquisitions fell into one of two categories: strategic or tactical, both of which were required to satisfy stringent growth and profitability requirements. Strategic acquisitions had global potential in their own right. Tactical acquisitions generally filled gaps in existing brand product portfolios and could be selected on a local-market basis.

Some tactical acquisitions were rolled up or integrated into L'Oréal's large core brands. For example, L'Oréal acquired Colorama, a Brazilian nail-polish maker, in 2001. L'Oréal then merged Colorama with the much larger Maybelline. In 2000, L'Oréal acquired Miss Ylang of Argentina, the country's leading maker of makeup with a 25% market share;[46] it was soon marketed as Maybelline-Miss Ylang. According to Béatrice Dautresme:

> We've been nourishing Maybelline internationally by acquiring some local brands, which we have brought to the Maybelline brand. Within 18 months we convert the local brand to a Maybelline product in every single way: formula, packaging, blister pack, advertising, merchandising, everything. We've done that in five or six countries where we have found powerful local makeup brands.

The strategy of rolling up small local brands into larger global brands also extended to sub-brands that already existed within L'Oréal's broader product portfolio. In Germany, for instance, products previously offered as "by Jade" were rebranded as "by Maybelline Jade." Similarly, Gemey, the leading French color cosmetics brand, was rebranded Maybelline Gemey.

Local acquisitions sometimes offered access to distribution channels that would have been otherwise difficult to develop. In some cases, developing some local acquisitions resulted in short-term losses, a result that managers at the very top of the organization heralded. One Paris-based executive said:

> We really believe that we have a duty to invest in the medium- to long-term future. Constantly. We even have a name for it: it's called cows and calves. It sounds silly, I understand, but it's a very profound concept. For any manager to be considered a high performer at L'Oréal, he has to prove that he is not just making a successful, profitable business today (cows), but that he is spending a significant amount of that prosperity creating successful businesses for the long term (calves).[47]

### *Culture*

By 2004, L'Oréal occupied a unique position in the fast-paced global beauty market. Senior vice president of Human Resources Bob Niles explained:

> People like to call L'Oréal the leading beauty company. I like to call us the only beauty company. It is true that some of our competitors are players in the beauty business, but we are the only company that covers all aspects of beauty. We understand total beauty, and to fully understand L'Oréal, one has to understand that completeness. Our businesses differ in size, and they cross classes, ethnicities, and all channels of distribution. Yet, they each operate with a distinctive global vision and market approach that fits the identity of a particular brand. No brand is locked into a specific L'Oréal way of conducting its business.
>
> L'Oréal managers have the ability to observe the world day to day and translate what they see and feel into products. They are able to identify trends, truly before they become trends, so that we capitalize on the right products. They have to be clever in their communications to catch the attention of the audience. Our people have endless energy, and they move fast to be first in all that we do. The more flexible, entrepreneurial, global minded, and curious a person is, the more opportunities there are for that person. People stay because there is so much room for development and newness.
>
> In the U.S., we grew up so fast as Cosmair that we had to borrow talent from competitors. Now that we are the leader, we have shifted to a philosophy of growing our own talent. Now, we hire people early in their careers and educate them so that they can become the future leaders of this company. We move people around, through categories, through brands, and often between countries. We match the uniqueness of the brands with the uniqueness of the individuals. We are working very hard to show the best and the brightest that strategic marketing is a great career and the path to general management. While we are a reference for career opportunities in Europe, we are still building our reputation as an employer in the United States.

Niles was confident that L'Oréal could attract America's best and brightest:

> While we are in the beauty business, we have all of the complexities of almost any business: we invest heavily in research, our manufacturing capabilities are extensive, and we are driven by internal growth, which accounts for our financial stability. L'Oréal USA itself is a subsidiary, but we are a complete business ourselves. Over 95% of what we sell is made here in the U.S. We have the headquarters of several brands here in the U.S. Given the size of the U.S. market, we also have a sizable influence on the strategy and development of brands that don't originate in the United States.

Many senior managers at L'Oréal's global and U.S. corporate headquarters were long-term members of the organization and had developed trusting relationships with one another, a high level of trust that enabled major decisions to be achieved quickly and informally. A British senior finance manager at L'Oréal USA said, "At L'Oreal there is a great degree of continuity within the management. This means that the strategies are well understood and potential opportunities can be evaluated efficiently. Similarly, the teams executing the transactions and integrating the acquired brands are practiced and are therefore able to work quickly and communicate well together."

Niles added:

> I came over from Helene Curtis, which had, at the time, recently been acquired by Unilever. Unlike Unilever, L'Oréal is not an exclusive club where you are either in or out. Here it is very fast paced, informal, and not very bureaucratic. This is not only atypical in the industry, but also atypical for a so-called French company. You are judged on what you can do, not on who you know.

The combination of fast, flexible communication and a willingness to take on risk enabled L'Oréal to move quickly in the market, a widely recognized quality that distinguished the company from competitors like P&G. One observer offered the following example:

> In the summer of 2000, a German competitor stunned L'Oréal by announcing it was launching a hip new hair spray in France. On September 8, Vice President and head of the Consumer Products Division Patrick Rabain met in a cramped conference room with his top managers and agreed to launch a spoiler hair spray under the Fructis brand. The plant manager immediately agreed to have 500,000 units for France available in maybe a month if given the formula [immediately], but the labs balked. The hair-spray formula needed a month of safety testing first. Decision: The plants would make the hair spray at the same time the formula was being tested in the labs. If the test failed, they'd destroy the lot. If it passed, they'd launch. This is what L'Oréal executives call "going to the casino." On November 3, Fructis hair spray was in French stores—a good week before the German competition.[48]

### *Competition*

In 2004, the global beauty market was situated at the crossroads of several large-scale demographic trends: an aging population in the Western Hemisphere, aspiring consumers in emerging markets, and a growing interest in beauty products among males all over the world. (See **Exhibit 7** for a list of top global competitors.) L'Oréal was the only cosmetics group present in every distribution channel: mass market, hair salons, department stores, pharmacy, and mail order. (See **Exhibit 8** for market share data.)

Hair care as a general category was L'Oréal's biggest revenue generator, accounting for over 40% of sales. Its salon professional category represented a third of all sales. In the global professional hair-care market, L'Oréal was the world leader, with a 30% share. L'Oréal's main rival in this market, Wella, had a 22% share and was acquired by P&G in 2003. (See **Exhibit 9** for major global players in the professional category.)

P&G's purchase of Wella was part of a broader strategy to increase its focus on the beauty market. However, few analysts believed that the acquisition would have an immediate impact on L'Oréal. In fact, P&G had had difficulty sustaining high levels of innovation following integration of its acquisitions. And, according to a 2003 Morgan Stanley survey, P&G had already lost its leadership position among entry-level consumers (women aged 28–34) in the hair-care segment.

L'Oréal had acquired or developed brands in all of the key markets that served the professional segment. (**Exhibit 10** describes L'Oréal's professional brands and related markets.)

In the Consumer Division, L'Oréal's top three competitors were P&G, Unilever, and Revlon. Each competitor was undergoing significant changes in 2004. While P&G was attempting to absorb Wella, Unilever tried to streamline its brand portfolio, and Revlon struggled to stabilize its finances. As L'Oréal's chief competitors struggled, some L'Oréal executives expressed confidence in their market position.

The Luxury Division's largest category was fragrances, a fiercely competitive business. The top players—L'Oréal, LVMH, and Estée Lauder—were developing and launching new scents at an unprecedented pace. In 2003, more than 400 new scents were launched, up from 370 in 2002 and 328 in 2001.[49] Although significant promotions tended to accompany each launch, few scents acquired loyal followings. And because fragrances were relatively low-technology products, a wide variety of players competed in the fragrances market, including jewelers (Cartier), leather goods companies

(Gucci), apparel manufacturers (Tommy Hilfiger), and individual celebrities (Jennifer Lopez). Within the Luxury Division, a smaller but growing category focused on upscale cosmetics, such as Kiehl's.

## Globalizing American Beauty: Kiehl's

In 2004, Kiehl's was led by 44-year-old, British-born Philip Clough, who became president in October 2003. A 19-year veteran of the firm, Clough began his L'Oréal career in the firm's U.K. office and took on a series of management positions within the Professional Products Division. In 1998, he was promoted to worldwide general manager of Kérastase, L'Oréal's most expensive line of professional products, and then in 2000 became worldwide general manager of Matrix and led the brand's successful international development. As head of Kiehl's, Clough reported to the head of L'Oréal USA's Luxury Products Division.[50]

When Clough became Kiehl's president, the cosmetics maker was already undergoing significant growth. It had opened many stores both in the U.S. and abroad. And with a capital infusion from its corporate parent, Kiehl's had created an online store that sold Kiehl's products to its U.S.-based customers. Despite the growth, Clough saw several issues that Kiehl's would have to contend with in the near future:

> Kiehl's is a difficult test of our globalization strategy, in the sense that Kiehl's is a luxury brand, which in general are brands that have identical positioning and advertising imagery everywhere they are sold. Louis Vuitton is the same Louis Vuitton in France, the U.S., or China. That's typical of luxury brands. However, Kiehl's is based on a grass-roots culture. It's clearly an American brand, but even more specifically than that, it's a New York brand. We have to replicate that grass-roots neighborhood culture wherever we go. And sometimes that is not so easy.

In fact, any store opening, no matter where in the world it took place, was supposed to reproduce the essence of the original New York store, while at the same time creating a neighborhood feel that connected with the store's location. Clough elaborated:

> All store openings have the same hardware as the original store. By that I mean we don't change the hardware of our products, their formulae or composition. While every store has the same core elements: wood floors, dropped tin ceilings, chandeliers, a Harley Davidson motorcycle, a skeleton [Mr. Bones], and a pile of local books, the software changes so that each store can forge links with local community and be relevant to local customers.

Creating a neighborhood feel was considered a critical feature of any effort to replicate the Kiehl's store brand. Kiehl's managers sought to locate each store in neighborhoods easily accessible to its consumers, who were generally younger than the traditional luxury brand buyer and more bohemian. According to Clough:

> Our first choice is always to go to a streetfront location in a neighborhood that is a little artistic and hip, where a lot of liberal-minded people like journalists, photographers, doctors live and do their shopping. Same thing applies internationally. In London, we have a store that's located in Covent Garden, near London's Soho district, which is the heart of the city's arts, music, and creative communities.
>
> The brand's success is based on its sincerity and authenticity. It's no frills. It's about the product, the formula, its natural ingredients. So we have an educated customer, who asks all sorts of questions, and highly trained sales personnel, who can explain it. Those are the

> elements we build on. There will always be the simple packaging. There will always be superior levels of customer service in stores that people feel at home in, so customers will want to come back again and again. That's one of the striking things about Kiehl's: our customers are very loyal to us. They love Kiehl's.

Clough emphasized that the continued success of the Kiehl's brand depended on the ability of new stores to make strong connections with their local communities. In the original New York location an impressive amount of wall space was devoted to these activities and events; an entire wall was devoted to pictures of customers' children.

Many customers were attracted to the Kiehl's mission, which set the tone for not only its products but also its corporate philosophy. The Kiehl's mission statement read:

> A worthwhile firm must have a purpose for its existence. Not only the everyday work-a-day purpose to earn a just profit, but beyond that, to improve in some way the quality of the community to which it is committed. Each firm—as should each person—contributes to those around it; and by dint of its day-to-day efforts, the message it thereby imparts is a revelation of the quality standard at which its life's work is conducted. We here at Kiehl's hope that through the quality of our products, by the manner in which our day-to-day contacts are concerned with truth, justice, and fairness, we can in some way communicate to those who may not have been aware of it that these qualities are eternal and renewable every day, making for better citizens, better firms, and better communities.

The first freestanding stores outside the U.S. were opened in London (2002), Hong Kong (2003), and Toronto (2003). Kiehl's also opened retail outlets within large department stores and concept stores, such as Collette, in Paris. Although traffic at the Paris outlet was "a little too transient," the store did well. In the summer of 2004, Kiehl's opened a store in Paris in the Marais district.

Opening a Kiehl's store was a multistep process. The initial decision to open a Kiehl's store in a given location depended on finding a local champion, usually from L'Oréal's Luxury Division. The next step was to spend a few months researching the strengths and limitations of the Kiehl's brand in a given market. A small field team comprising two people might suffice for this stage. Depending on the size of the market, Clough would hire a marketing team or PR agency to begin planning the brand strategy. And, working in conjunction with a local L'Oréal luxury brand manager, the advance team would look for a location and begin recruiting and training, which took place well ahead of launch.

Clough offered some final thoughts on the direction of Kiehl's in the near future:

> In the next several years, we plan on bringing Kiehl's to major cities in every region in the world. This means that, one day soon, Kiehl's will no longer be as hard to find as it now is. It will be more widely available, and it will be accessible to a wide variety of people: through the Internet, specialty stores, and our own global network of Kiehl's stores. But one of the large questions we may have to address, and perhaps sooner than we think, is: Can we do this while sustaining our integrity as an alternative brand with a cult following?

**Exhibit 1** L'Oréal Divisions and Major Brands in 2004

| Division | Brand | Acquired in | Creation Year | Region of Origin |
|---|---|---|---|---|
| **Professional Products Division** | | | | |
| | • L'Oréal Professional | Own brand | 1907 | Europe |
| | • Redken 5th Avenue | 1993 | 1960 | U.S. |
| | • Matrix | 2000 | 1980 | U.S. |
| | • Kérastase | Own brand | 1965 | Europe |
| **Consumer Products Division** | | | | |
| | • L'Oréal Paris | Own brand | 1907 | Europe |
| | • Garnier | 1964 | 1904 | Europe |
| | • SoftSheen-Carson | 1998, 2000 | 1964, 1901 | U.S. |
| | • Maybelline New York | 1996 | 1915 | U.S. |
| | • Club des Créateurs de Beauté | Own brand | 1987 | Europe |
| | • Yue-Sai | 2004 | 1992 | Asia |
| **Luxury Products Division** | | | | |
| | • Lancôme Paris | 1965 | 1935 | Europe |
| | • Giorgio Armani Parfums | 1982 | 1982 | Europe |
| | • Biotherm | 1969 | 1950 | Europe |
| | • Helena Rubinstein | 1988 | 1905 | U.S. |
| | • Ralph Lauren Fragrances | 1984 | 1978 | U.S. |
| | • Cacharel | 1981 | 1962 | Europe |
| | • Kiehl's | 2000 | 1851 | U.S. |
| | • Shu Uemura | 2001 | 1960 | Asia |

Source: Company.

**Exhibit 2** "Because you're worth it" Advertising Promotion (1973)

I use the most expensive
haircolor in the world.
Preference by L'Oréal.
It's not that I care about money.
It's that I care about my hair.
It's not just the color,
I expect great color.
What's worth more to me
Is the way my hair feels,
Smooth and silky but with body,
Feels good against my neck.
Actually, I don't mind spending more for L'Oréal
Because I'm worth it!

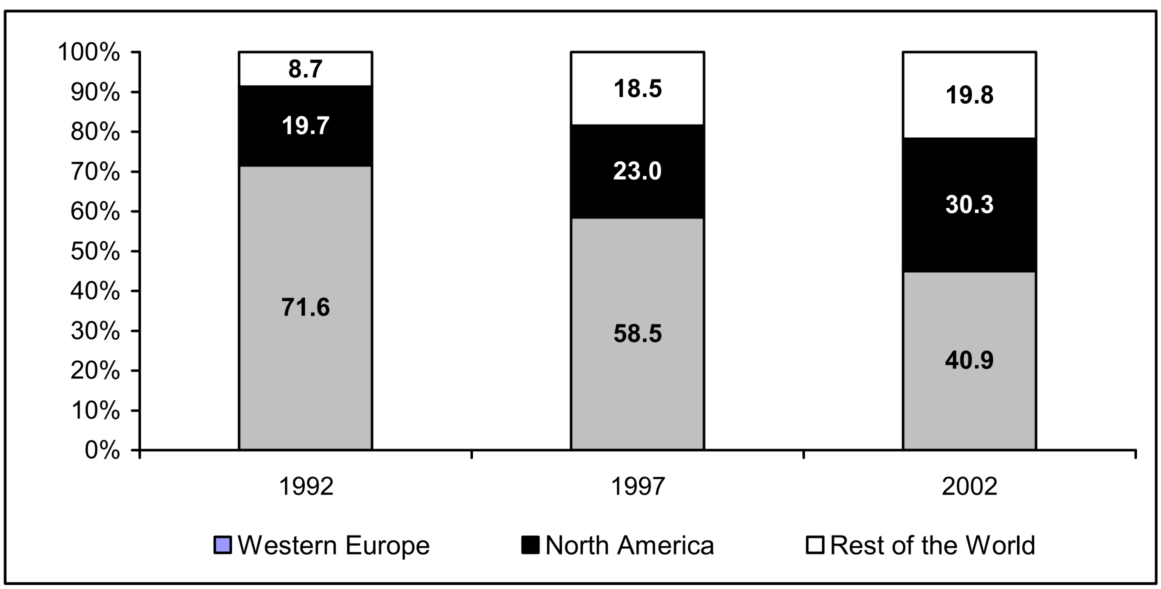
Source: Company.

**Exhibit 3** Opening Dates of Kiehl's Freestanding Stores (post-acquisition)

| Domestic | | International | |
|---|---|---|---|
| San Francisco | May 2001 | | |
| Boston | July 2002 | | |
| Santa Monica | August 2002 | London | September 2002 |
| Philadelphia | November 2002 | Hong Kong | June 2003 |
| South Coast Plaza | May 2003 | Toronto | June 2003 |
| Portland | July 2003 | | |
| Seattle | August 2003 | Taiwan | October 2003 |
| Miami | November 2003 | | |
| Georgetown | April 2004 | | |
| Houston | May 2004 | | |
| Dallas | July 2004 | | |

Source: Company.

**Exhibit 4** L'Oréal: Regional Sales over Time




Source: Cited in Michael Stieb et al., Morgan Stanley Analyst Report, October 10, 2003, p. 12.

**Exhibit 5** L'Oréal Brands in 2002

| | Sales ( million) | % of Total (Accum.) | Western Europe | Eastern Europe | North America | Latin America | Asia Pacific | Rest of World |
|---|---|---|---|---|---|---|---|---|
| L'Oréal Paris | 3,870 | | X | X | X | X | X | X |
| Lancôme | 1,910 | | X | X | X | X | X | X |
| Maybelline | 1,380 | | X | | X | X | X | |
| Garnier | 1,460 | | X | X | X | | | |
| L'Oréal Professional | 1,150 | | X | X | | X | X | X |
| Ralph Lauren | 520 | | X | | X | X | | |
| Biotherm | 450 | | X | | (X) | X | X | |
| Giorgio Armani | 480 | | X | X | X | X | X | X |
| Helena Rubinstein | 370 | | X | | | X | X | X |
| Redken | 420 | | (X) | | X | | | |
| Matrix | 410 | | | | X | | | |
| SoftSheen-Carson | 280 | | | | X | | | S-Afr |
| Cacharel | 200 | | X | | X | | | |
| La Roche-Posay | 140 | | X | | | X | | |
| Kiehl's | 60 | | (X) | | X | | | |
| Shu Uemura | 170 | | | | | | X | |
| **Total Top Brands** | **13,270** | **99%** | | | | | | |
| Other | 124 | | | | | | | |
| **Total Cosmetics 2002** | **13,394** | **100%** | | | | | | |

Source: Michael Stieb et al., "L'Oréal: A Buying Opportunity?" Morgan Stanley Analyst Report, October 10, 2003, p. 14.

**Exhibit 6** Matrix Organizational Structure

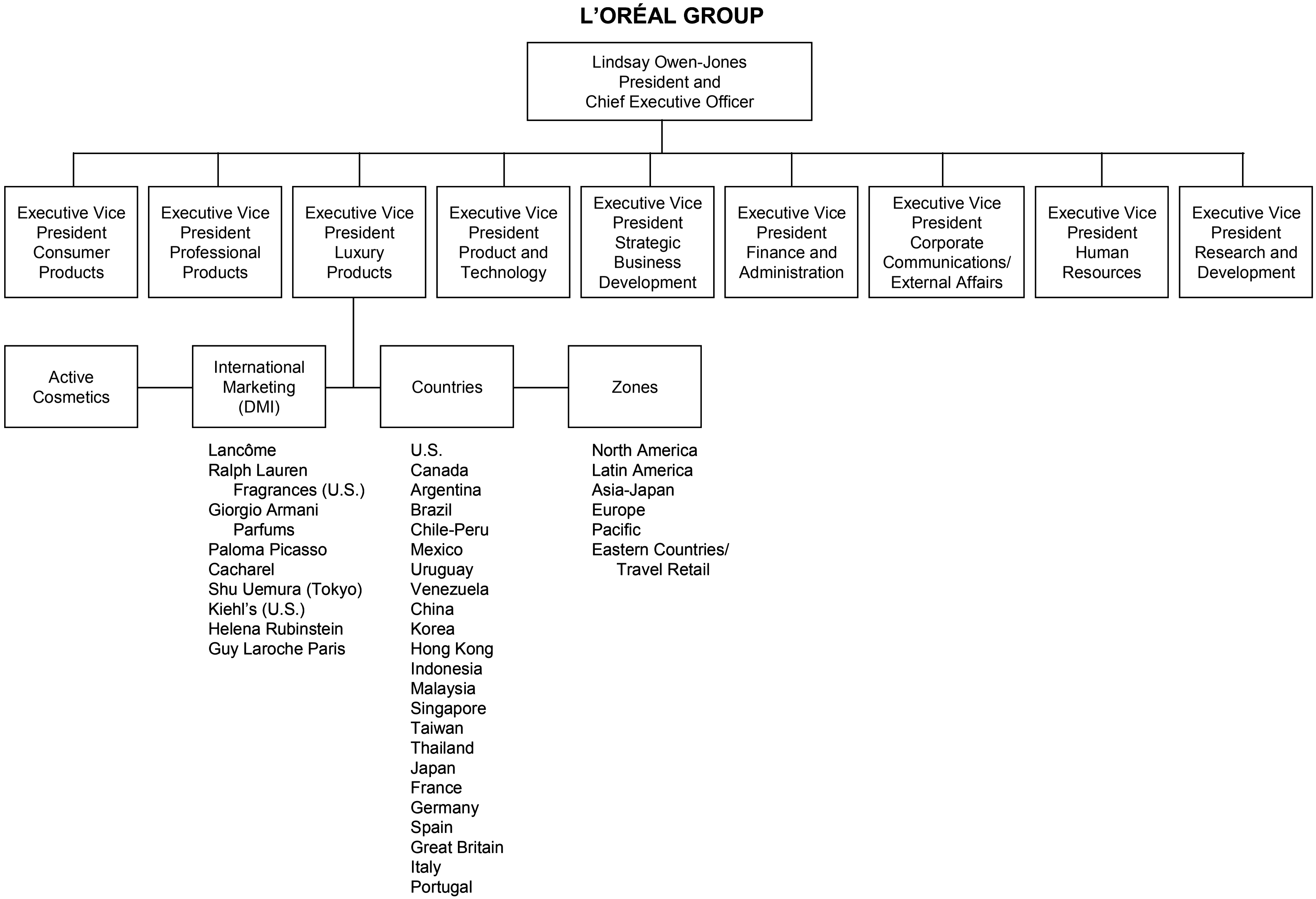
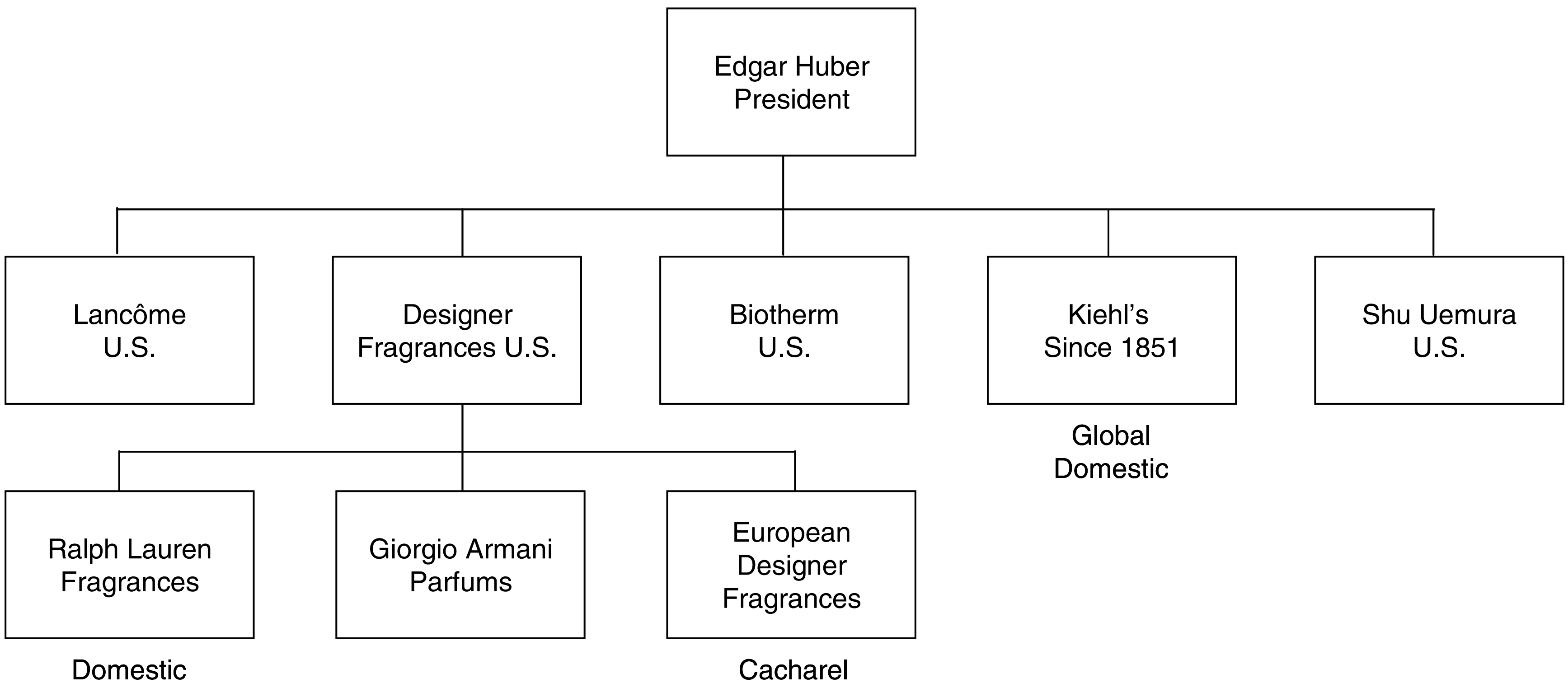


**Exhibit 6 (continued)**

**Luxury Products Division**
**L'Oréal USA**




Source: Company.

**Exhibit 7** The World's 10 Largest Cosmetics Companies, Ranked by 2003 Sales Volume

| Company | Brands | Country | Sales Volume (USD billion) |
|---|---|---|---|
| 1. L'Oréal Group | Lancôme, Garnier, Maybelline | France | 15.5 |
| 2. Procter & Gamble | Cover Girl, Max Factor, Olay | U.S. | 13.0 |
| 3. Unilever | Dove, Lux, Ponds | U.K./Netherlands | 8.1 |
| 4. Shiseido | Shiseido, Clé de Peau Beauté | Japan | 5.3 |
| 5. Estée Lauder Cos. | Prescriptives, Aramis, Clinique | U.S. | 5.1 |
| 6. Avon Products | Avon Color, Anew, Skin-So-Soft | U.S. | 4.5 |
| 7. Beiersdorf | Nivea, Eucerin, Matrix | Germany | 3.8 |
| 8. Johnson & Johnson | Neutrogena, Aveeno, Roc | U.S. | 3.7 |
| 9. Alberto-Culver | Alberto VO5, Tresemme | U.S. | 2.7 |
| 9. Kao Corp. | Jergens, Curel, John Freida | Japan | 2.7 |
| 10. Limited Brands | Victoria's Secret Beauty, Aura Science | U.S. | 2.6 |

Source: WWD Beauty Report International, as reported in *The Book of Lists*, December 13, 2004.

**Exhibit 8** Market Share Evolution over Past Five Years (%)

**Hair Care**

| | L'Oréal 1998 | L'Oréal 2002 | P&G 1998 | P&G 2002 | Unilever 1998 | Unilever 2002 |
|---|---|---|---|---|---|---|
| Global | 14.7 | 17.2 | 10.6 | 18.5 | 11.3 | 12.1 |
| U.S. | 10.1 | 23.0[a] | 18.5 | 33.7 | 13.7 | 13.0 |

**Cosmetics**

| | L'Oréal 1998 | L'Oréal 2002 | Estée Lauder 1998 | Estée Lauder 2002 | P&G 1998 | P&G 2002 |
|---|---|---|---|---|---|---|
| Global | 16.6 | 18.7 | 8.7 | 10.9 | 8.7 | 8.6 |
| U.S. | 23.5 | 23.5 | 21.4 | 24.4 | 13.1 | 13.2 |

**Fragrance**

| | L'Oréal 1998 | L'Oréal 2002 | LVMH 1998 | LVMH 2002 | Estée Lauder 1998 | Estée Lauder 2002 |
|---|---|---|---|---|---|---|
| Global | 8.1 | 8.9 | 6.3 | 8.9 | 6.4 | 7.4 |
| U.S. | 6.2 | 13.3 | 3.0 | 4.9 | 16.8 | 13.5 |

**Skin**

| | L'Oréal 1998 | L'Oréal 2002 | Estée Lauder 1998 | Estée Lauder 2002 | Beiersdorf 1998 | Beiersdorf 2002 |
|---|---|---|---|---|---|---|
| Global | 8.4 | 8.8 | 6.4 | 6.4 | 7.2 | 7.7 |
| U.S. | 8.5 | 10.3 | 13.2 | 17.5 | 1.8 | 2.2 |

Source: Cited in Michael Stieb et al., Morgan Stanley Analyst Report, October 10, 2003.

[a]Including Salon hair care.

**Exhibit 9** Professional Hair Care: Top Four Global Players

| | Market Share (%) | Brands |
|---|---|---|
| L'Oréal | 30.0 | Kérastase, L'Oréal Professional, Redken, Matrix |
| Wella | 22.0 | Wella, Londa, Sebastain, Graham Webb |
| Kao | 4.5 | Kao |
| Henkel | 4.0 | Schwazkopf |

Source: Michael Steib et al., "L'Oréal : A Buying Opportunity?" Morgan Stanley Analyst Report, October 10, 2003.

**Exhibit 10** L'Oréal Professional Hair Brands

| | Positioning |
|---|---|
| **(Paris) Kérastase** | Luxury . . . most expensive, sold in specialty shops |
| **(Paris) L'Oréal Professional** | Highest technology, Parisian fashion and tastes |
| **(New York) Redken** | Highest technology, aligned with U.S. tastes, sold to salons |
| **(New York) Matrix** | Democratic, American dream, low to mid price, sold to hair salons |

Source: Company.

## Endnotes

[1] Richard Tomlinson, "L'Oréal's Global Makeover; How did a Brit from Liverpool turn an emblem of French chic into an international star? One brand at a time," *Fortune*, September 30, 2002.

[2] www.emediaplan.com/admunch/Brands/loreal.asp, accessed June 18, 2004.

[3] L'Oréal company history—from L'Oréal company website, www.loreal.com, accessed June 18, 2004.

[4] www.emediaplan.com/admunch/Brands/loreal.asp, accessed June 18, 2004.

[5] http://www.lorealusa.com/group/history.aspx, accessed September 9, 2004.

[6] Ibid.

[7] Purchasing patterns were quite different in 2004, with studies consistently showing that customers regularly shopped for cosmetics in multiple distribution channels.

[8] Company published accounts.

[9] Gail Edmondson, "L'Oréal: The Beauty Of Global Branding," *BusinessWeek*, June 28, 1999.

[10] Tomlinson, "L'Oréal's Global Makeover."

[11] Ibid.

[12] By the end of the 1980s, L'Oréal SA sales in the U.S. represented less than 2% of overall revenues. See Jon Henley, "France honours this Welsh makeover wizard. Because he's worth it," *The Guardian*, July 25, 1998. At this time some brands were also sold in the United States through Cosmair or other arrangements, so the total corporate sales were somewhat higher than 2% of total revenues, although not substantially so.

[13] Jon Henley, "France honours this Welsh makeover wizard. Because he's worth it," *The Guardian*, July 25, 1998.

[14] Michael Steib et al., "L'Oréal: A Buying Opportunity?" Morgan Stanley Analyst Report, October 10, 2003.

[15] Yumiko Ono, "L'Oréal to buy Maybelline for $508 million," *The Wall Street Journal Europe*, December 11, 1995.

[16] Faye Brookman, "L'Oréal-Maybelline Combo Will Give P&G A Run For Its Money," *Women's Wear Daily*, December 15, 1995.

[17] L'Oréal press release, December 10, 1995.

[18] L'Oréal internal document, "Maybelline, the World Leader in Mass-Market Cosmetics."

[19] This ad was known within the company as the "Maybe/Maybe" promotional slogan.

[20] Brookman, "L'Oréal-Maybelline Combo."

[21] Ono, "L'Oréal to buy Maybelline."

[22] Pat Sloan, "Maybelline gets powerful spending push for 1997," *Advertising Age*, December 16, 1996.

[23] Jennie James, "Because They're Worth It; L'Oréal's marketing tilt toward Asians and blacks makes its growth prospects prettier," *Time* Bonus Section, January 26, 2004.

[24] Richard C. Morais, "The Color of Beauty: How do you make consumer brands work overseas?" *Forbes*, November 27, 2000.

[25] Ibid.

[26] For antitrust reasons, L'Oréal was ordered by the U.S. Department of Justice to divest Carson's Ultra Sheen Supreme and Gentle Treatment brands, as well as the Carson name. (The brands were sold to the highest bidder, Germany's Wella AG.) All other Carson brands, including Dark & Lovely, Magic Shave, and the 14 Soft Sheen brands including Optimum Care, Breakthru, and Mizani, remained with L'Oréal.

[27] Morais, "The Color of Beauty."

[28] Ibid.

[29] Chantal Tode, "The Ebb and Flow of Ethnic Sales," *Women's Wear Daily*, August 21, 1998.

[30] April M. Washington, "The price of success Arlington executives see more ethnic firms sold to larger companies," *The Dallas Morning News*, October 11, 1998.

[31] James, "Because They're Worth It."

[32] Julie Naughton,"Matrix to give Cosmair top salon spot," *Women's Wear Daily*, April 21, 2000.

[33] Ibid.

[34] Pete Born, "A Spree for Cosmair: L'Oreal division buys Kiehl's and Matrix," *Women's Wear Daily*, April 18, 2000.

[35] Alev Aktar, "Analysts Praise Kiehl's Acquisition," *Women's Wear Daily*, April 21, 2000.

[36] Ibid

[37] Ibid.

[38] Ibid.

[39] "Pots of promise—The beauty business—Driven by sexual instinct, the beauty business will always thrive," *The Economist*, May 24, 2003.

[40] Ibid.

[41] Hoover's L'Oréal description, accessed June 18, 2004.

[42] Morais, "The Color of Beauty."

[43] Ibid.

[44] Interview in *Fortune*, June 23, 2002.

[45] Ibid.

[46] L'Oréal Corporate Press Pack, "Maybelline: An International Development Success Story," March 2002.

[47] Interview in *Manager Magazine*, January 25, 2002.

[48] Morais, "The Color of Beauty."

[49] Steib et al., "L'Oréal."

[50] This paragraph is based on a July 21, 2003 L'Oréal press release.