L’ORÉAL’S CRITICAL SUCCESS FACTORS AND THEIR IMPACT ON FIRM PERFORMANCE

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Contents

1. Identify the critical success factors that have made L'Oréal a success to date

1. Innovation.

L'Oréal's innovation capability is baked into its company history and is listed as a key purpose in their 2022 annual report (L'Oréal Finance 2022).

In 1909, as women's hair style began to change in France so did their hair product needs.

It's founder who was a chemist, patented a women's hair care formula which was the start of L'Oréal (L'Oréal Paris 2023).

Patents as a proxy for innovation can provide a sustained competitive advantage as it allows companies to monetize technological innovations that other competitors do not have access to (Pickering and Mathews 2000) (Appendix 4.1).

This is product differentiation and allows firms to charge more for their products and increase their effectiveness (Pickering and Mathews 2000).

L'Oréal have filed 561 patent applications in 2022 (L'Oréal Finance 2022) and inventing new products leads to new value streams that L'Oréal can take advantage of (Pickering and Mathews 2000).

Innovation and research and development carry risks (e.g., low or no return in profit), but L'Oréal have managed to turn it into a core competency.

L'Oréal Groupe have invested over 1 billion euros in Research and Innovation and Generated 38 billion euros in sales in 2022 (L'Oréal Finance 2022) which means almost 3% of their sales was reinvested into research and innovation.

2. Large brand portfolio.

L'Oréal have a large brand portfolio through acquisitions. This has been a critical factor in L'Oréal's success as it allows them to expand their product offerings and consumer segments.

"L'Oréal Groupe" is divided into 4 divisions: "Professional Products", "Consumer Products", "L'Oréal Luxe" and "Active Cosmetics" (L'Oréal Finance 2022) (Appendix 1).

Brand accumulation and segmentation allows them to serve existing consumer markets and reach new markets effectively (Appendix 4.2).

L'Oréal's Dermatological Beauty division's mission statement is to "offer life-changing and sustainable dermatological solutions to all" and cites their 250,000 healthcare professionals' partners, while the consumer products division's mission statement is to "democratize the best of beauty" with high focus on sustainability (L'Oréal Groupe 2020).

This is key to their internationalisation and market expansion strategy.

L'Oréal's innovation and brand accumulation strategy work synergistically by granting L'Oréal more and more control over the beauty industry both by cornering the market and product differentiation. Both are valuable, rare, inimitable resources.

2. Porters Five Forces

Threat of new entrants. Low.

1. Economies of scale/Capital requirements. L'Oréal have a global presence in over 150 countries as well as access to 20 research centres (L'Oréal Finance 2022). L'Oréal Groupe's total assets accumulate into 46.8 billion Euros as at the 31/12/2022 which makes the capital requirements and economies of scale they leverage are too high to compete (L'Oréal Finance 2023).

They also utilise intangible assets which are too complex to easily imitate.

Bargaining Power of Buyers. Low.

1. Retailers channels. L'Oréal practices indirect selling and L'Oréal is the third largest advertiser globally across all industries (Branco, 2021), hence it would be a big cost to the retailer if they did not sell L'Oréal products.

We know that L'Oréal is stable in times of crisis due to diversification as its E commerce grew 62% during the Covid pandemic where many brick-and-mortar retailers closed (Lowe 2021).

Bargaining Power of Suppliers. Low to Moderate.

1. Key ingredients. L'Oréal serves over 150 countries with 20 research centres (L'Oréal Finance 2022) with 40 international factories and source raw ingredients from 50,000 suppliers (Seifert and Markoff 2022).

L'Oréal's suppliers can be separated into two groups 1. Raw materials, 2. Packaging (Branco 2021). L'Oréal also eliminated single use plastic in their packaging in 2020 (L'Oréal Groupe 2022).

Regulations exist regarding manufacturing of cosmetic products as well as sustainability goals that makes manufacturing their products complex. Key ingredient suppliers are affected by manufacturing regulations and packaging suppliers are affected by sustainability goals using recyclable materials (Branco 2021).

Threat of substitution. High.

1. Substitute products. Patented products are substitutable, e.g., "Dermalogica" (Unilever) which is a retinol serum (Dermalogica 2023), versus L'Oréal Paris "Pure Retinol Night Serum" (L'Oréal Paris 2023), both reduce wrinkles and aging.

There is also a wide range of generic beauty products available in cosmetics that may be able to offer similar value to customers at a lower price (Branco 2023). The product offerings between competitors are similar and switching costs are low.

Competitive Rivalry. High.

1. Similar conglomerates. The cosmetics industry is dominated by a couple of big players who are conglomerates including Unilever, Estee Lauder, Procter & Gamble, Shiseido and LVMH. These large conglomerates also own a vast multitude of other beauty brands that compete with L'Oréal.

The rate of industry growth between these competitors is also slow which increases competitive rivalry (estimated 6% in 2022, L'Oréal Finance 2022).

3. Critically analyse L'Oréal's competitive position using theory/models and provide examples of firm activities that justify your analysis

L'Oréal's competitive position can be analysed in multiple dimensions, matching internal activities and external factors, using models such as a Competitive Advantage Model, PESTEL, SWOT, and BCG.

L'Oréal's competitive position is strong. This must be analysed relative to competitors and geographic positioning in the cosmetics market. The model used is SWOT, strengths, weakness, opportunities, threats.

Strengths

Acquisition capabilities: A large brand portfolio provides numerous strengths and benefits. This includes increasing scope of their products through marketing to new and existing segments, capturing market share and internationalisation. It also supports synergy in innovation between divisions and improves the balance sheet (Appendix 2.1.2, 4.2, 5.2)

Innovation capabilities: Their innovation is a core competency, and they invest 2.5% of their revenue before tax into Research and Development (1.1 billion USD) (L'Oréal 2022). They have also filed 651 patents in 2022 which provides a competitive advantage through monopolising innovation (Yang et al., 2018) (Appendix 2.1.1, 4.1).

Opportunities

Internationalisation in emerging markets: This can be accomplished through brand acquisition like the Body Shop (Appendix 5.2), or their joint venture involving Shihyo in South Korea (Appendix 2.3.1)

Emerging markets can be seen in parts of Africa and the middle east as well as Asia, if L'Oréal adapt their product portfolio and acquire the intangible knowledge of local brands then they would seize the opportunity (Appendix 2.3.1, 5.2, 6)

Weaknesses

Easy substituted despite patentability: L'Oréal are seen as a department store brand with lower price and lower-quality ingredients relative to competitors (Shen and Bissell 2013). Patenting is also limited in its ability to monopolises monetisation of a unique product because similar outcomes are achievable with multiple different product formulations (Appendix 4.1). An example of this is Unilever's Dermalogica retinol cream (Dermalogica 2023), versus L'Oréal Paris' retinol cream (L'Oréal Paris 2023).

As such, consumers seeking expert, high quality care, particularly in emerging markets such as derma cosmetics or injectable treatments will find lacking product offerings in L'Oréal's product lineup as it is not a speciality despite their Luxe division's specialisation and consumers may be more drawn to the brand who has a specialisation there (Appendix 1.1.1, 1.2.2).

Furthermore, this is the case in emerging markets such as China, the middle class is expanding (Hawk 2023) and therefore consumers will preferentially purchase higher price products as they have higher socioeconomic status. This may also be the case in Western countries in times of economic growth and the reverse in times of economic slowdown (Appendix 6).

Relying on brand loyalty to compensate for easily substitutable products to stay competitive is also an intangible resource that is difficult to maintain, quantify and manage and presents itself as a weakness because it is reliant on their reputation, which can hurt sales in times of scandal (Appendix 5.2)

Spending on research and development: L'Oréal spend a lot of money on research and development which eats away on profit margins. It also carries a risk that the cost of research and development will not result in a return in a viable product that they can sell.

Threats

Competing brands are a threat to L'Oréal: There are similar conglomerates such as Unilever who have a similar product offering with a similar amount of brand acquisition (Appendix 2.4.1, 3.4.1).

Overall L'Oréal have strong internal capabilities that match perfectly with the emerging opportunities on the international market, yet also have key weakness and threats due to their product portfolio dictated by their market positioning that allow rival firms to grow and capitalise on.

Addressing these weaknesses and threats are critical to business continuity as the world economy changes, so some product adaptation will be required. This can be addressed by utilising their innovation and acquisition capabilities.

4. Critically evaluate the success of the company's acquisition history and its impact of the firm's performance.

Use theory and evidence to justify your analysis and provide recommendations for L'Oréal.

L'Oréal Groupe currently owns 36 brands and have a long history of acquisitions dating back to the 1960s (L'Oréal Finance 2022). A brand portfolio is a valuable resource of a firm and thus can provide a sustained competitive advantage if it is valuable, rare, inimitable, and organised (Cardeal and Antonio 2012) (Appendix 4.2).

L'Oréal's acquisition strategy has brought success and benefitted firm performance through 3 main avenues which provides a competitive advantage**. 1 It increases L'Oréal's scope in the industry, 2. It supports innovation, 3. Its balance sheet improves.**

L'Oréal's brand acquisition strategy has 3 phases, 1. Brand aggregation, 2. Reduction and rationalisation of brands, 3. Competitive conceptualisation (Chailan 2010).

1. Increases L'Oréal's scope in the industry. Scope in the industry via brand accumulation is accomplished through three ways. It, 1. Increases product offerings through segmenting the market, 2. Captures market share, 3. Internationalisation.

1.1 Segmentation: The number of segments in which a firm markets its brands to indicates the scope of its product—market coverage (Morgan and Rego 2009) and acts as a growth engine resulting in higher profit (Faria 2014) (Appendix 1)

Owning more brands allows L'Oréal to segment the industry by targeting existing consumer segments and capturing new consumer segments by 1. Providing new product offerings, 2. Industry positioning.

Segmenting allows L'Oréal to undergo a brand expansion strategy that is critical to the long-term success in a highly competitive market (Appendix 3.4), where product outcomes are imitable (but specific product formulations are not, a distinction is made between the patented composition of a product and the outcome of that product (e.g., reduced wrinkles) which is imitable with difficulty using a slightly different product composition) (Appendix 3.5.1, 4.1).

Product offerings: They have 4 product divisions that they have divided their acquired brands into. Each one has its unique product offerings for different consumer segments (e.g., professionals, consumers, luxury, and dermatological solutions) that supports its segmentation strategy and targeted market expansion (Appendix 1).

Their 4 product divisions are an expression of their brand expansion strategy as it defines the relationship between their brands and thereby simplifies their management.

***Market positioning/advertisement*:** Brand radicalisation where each brand must fight for its survival. L'Oréal's former CEO is quoted 'We have a rather complete and balanced brand portfolio. The potential acquisitions will rather be companies which will supplement our portfolio on niches, or which will supplement our international device' (Chailan 2010) (Appendix 4.2, 5.2).

Marketing the firms' brands across a higher number of market segments is associated with lower advertising costs due to economy of scope and scale and a greater number of brands marketed across a small range of segments paired with consumer perception of quality is the best strategy for brand portfolio marketing (Morgan and Rego 2009).

1.2 Capturing market share: Market share is an important vector through which the success of the firm is determined, and brand accumulation is a keyway in which this happened. When L'Oréal acquires a brand, they also acquire its market share. Market share can increase the productivity of the firm as well as deter market entrants (Appendix 3.1) (Morgan and Rego 2009).

When analysed empirically, market share leads to higher profits as it leads to higher customer loyalty through brand recognition (Morgan and Rego 2009).

1.3 Internationalisation: Brand acquisition also allows L'Oréal to internationalise and penetrate markets globally. Two examples of this are L'Oréal Luxe's acquisition of Takami Prestige skincare in 2021, and acquisition of "Youth to the People" (another skin care brand) which is based in California (Deloitte 2022) (Appendix 6).

Increasing product offerings to different countries expands their brands internationally and positions them as an international competitor, which is critically important in a mature industry with low growth (Appendix 1.2.1, 3.3.1).

2. Synergy in innovation. The large market coverage across multiple segments and product offerings promotes innovation between the research and development pathways under each brand. Each product that is patented is owned by L'Oréal.

Optimisation of innovation is an important part of the beauty care product and treatment research process via their brand management strategy as each brand within the L'Oréal portfolio has specific roles (brand product division (Appendix 1)) allowing them to have a greater span of innovation (Chailan 2010).

Patenting is more effective under a brand portfolio as it creates scarcity in the industry through legal regulation and is valuable, rare, inimitable, and organised in L'Oréal (Appendix 4.2) are important in creating a sustained competitive advantage as it allows L'Oréal to exploit patented innovations from acquired brands.

One example of an innovative new product is their novel androgenic alopecia treatment known as Serioxyl (Revene 2023), that operates under a similar but unique mechanism of action as popular hair loss prevention shampoo Rogaine.

This specific patent utilises a novel product formulation that cannot be legally imitated.

3. Financial data and the balance sheet. Acquiring brands, and managing a portfolio leads to a better balance sheet, allowing them to claim a higher stock price as well as have better access to capital (Morgan and Rego 2009).

Their share price has risen almost 400% since 2013 (L'Oréal Finance (2023).

According to Brealey (2000), while profit maximisation is both important and desirable in firm performance, risk to return ratio is much more important due to risk management.

Bigger brand portfolio can reduce risk in terms of cash flow variability, access to credit, and provide diverse market offerings (Morgan and Rego 2009).

Conclusion: Utilising the product portfolio and product innovation to segment and target the consumer market via brand loyalty is the most important way in which L'Oréal's brand acquisition as a critical success factor has led to success for the company.

This is facilitated by their brand portfolio (critical success factor) which provides a series of complex, intangible, valuable, rare, inimitable, and organised resources that provide a sustained competitive advantage.

Recommendations:

Emerging markets on the internationally represent unique opportunities for growth, particularly in Asia. L'Oréal should seek to expand its product offerings and brand image through acquisition.

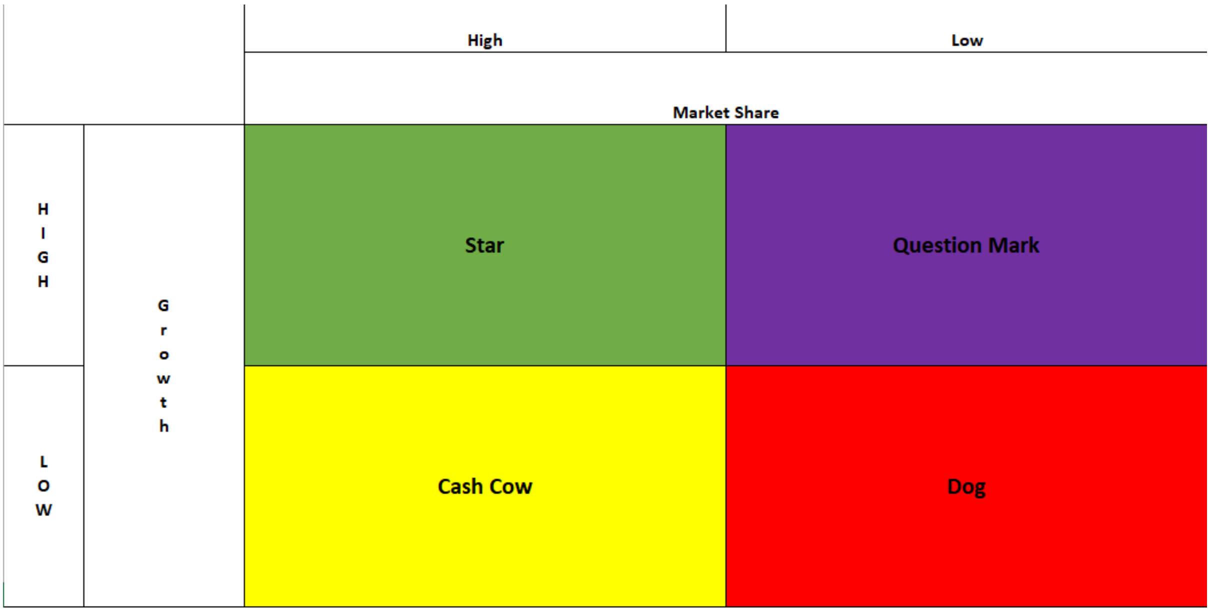
1. L'Oréal should expand into dermatological treatments (Appendix 1.1.1) aggressively in certain emerging markets such as emerging markets (Appendix 6.4) by leveraging their innovation and brand acquisition capabilities.

2. L'Oréal should expand their luxury product offerings in emerging markets where the middle class is expanding (Appendix 6.2) and is projected to continue expanding by leveraging their innovation and brand acquisition capabilities.

3. L'Oréal should expand their consumer products in countries where GPD is falling (Appendix 6.2) to leverage their consumer products division.

Appendix

1. BCG Matrix



The BCG matrix is a tool used to analyse and help businesses understand their competitive landscapes as well as manage their product and brand portfolio. The BCG matrix operates on an axis of market share and market growth and categorizes the brand based on degrees of both in each quadrant.

In the context of L'Oréal which has 4 business units (Consumer products Division, L'Oréal Luxe, Professional Products Division, Active Cosmetics Division) and we can map them on the BCG matrix.

Because of the size of L'Oréal Groupe as a conglomerate that own a vast multitude of other brands and the diversified needs of consumers across the globe in all the countries that L'Oréal operates in, the BCG matrix is much more efficient if we take a more granular approach by analysing the 4 product divisions of L'Oréal to fully map the competitive landscape. This will tell us more about the competitive landscape as we are now organising the company by its product offerings and consequent growth opportunities.

Segmenting the market allows L'Oréal to target more efficiently as well as create more value. Here for simplicity, we are using sales as a proxy for growth.

<u>**1.1 Question Mark**</u>

1.1.1 Dermatological division. The dermatological beauty division of L'Oréal has evolved in the "derma cosmetics" market which is described as a "branch of dermatology using cosmetics in the scientific management of a variety of skin disorders" (Dreno et al. 2014) which contrasts with dermatology as it would normally leverage pharmaceutical intervention and cosmetics as cosmetics are traditionally designed to enhance appearance only.

The Dermatological division is responsible for 13.4% of L’Oréal’s sales in 2022 and includes brands such as Cera Ve and Vichy. Its sales grew 21.9% in 2022.

It innovates in new areas such as aesthetics medicine through new cutting-edge dermatological solutions which is different to normal cosmetics sold by Consumer Products or luxury products such as Luxe. An example of derma cosmetics would be L’Oréal Paris’ retinol (also known as vitamin A) anti-ageing cream which is patent pending (L’Oréal Paris 2023).

The derma cosmetic industry is also growing, in 2021 the market size was valued at approximately 51 billion in 2021 and is projected to reach approximately 130 billion in 2030 (Allied Market Research 2022). Therefore, because the potential for growth is high based on the market growth, the division has low market share and high growth already we can assume that this division is a question mark with potential to become a star.

1.1.2 Professional division. The professional division is responsible for 11.7% of L’Oréal’s sales and has such products as L’Oréal Professional Paris and Matrix in its brand portfolio. It has 6 brands including “L’Oréal Professional Paris” and “Matrix” and provides professional B2B hair products and services to hairdressers (L’Oréal Groupe 2023).

According to Allied Market Research (2023), the global professional beauty services market was valued at approximately 211 billion in 2021 and is expected to grow to approximately 348 billion in 2031, a comparatively smaller growth than the dermatological beauty division.

It experienced 10.1% market growth in sales. It has more moderate growth and potential to grow with moderate market share making it a question mark with potential to become a star.

<u>1.2 Cash Cow</u>

1.2.1 Consumer products division. L’Oréal has several products within its consumer product division that would be considered “Stars” with high market share and high market growth.

The consumer products division exists to serve the public in their cosmetic needs and includes brands such as L’Oréal Paris, Maybelline New York, and Garnier.

According to the 2022 annual report by L’Oréal (L’Oréal finance 2022) 36.6% of sales comes from the consumer products division which is number 2 compared to its Luxe division. It has also experienced 8.3% growth in sales in this division, which is low, but on par compared to rivals such as Unilever who experienced 7.8% sales growth in 2022 in their Beauty and Wellbeing division which includes brands such as Vaseline and Dove (Unilever 2023). L’Oréal Groupe also grew 14%, in comparison to Unilever Conglomerate whose sales growth was 9.0%.

Allied Market Research (2022) states that the global cosmetics market size was valued at 380 billion in 2019 and is projected to reach 463 billion in 2027 making this a matured market due to relatively lower growth (CAGR of 5.3% 2021 to 2027).

We can infer therefore that this the consumer division with High market share and Low growth is a cash cow that requires high investment due to its competitive landscape as well as its brand acquisition strategy with consistent moderate returns year after year.

1.2.2 Luxe division L’Oréal Luxe is L’Oréal’s luxury division and sells luxury cosmetic products using high quality ingredients in all their products, using “superior quality and innovation” (L’Oréal Groupe 2023) brought in 38.2% of the 2022 sales for L’Oréal Groupe (L’Oréal Groupe 2023) and is ranked as its number 1 division in terms of sales. Its brand portfolio includes Lancôme, Armani, and Prada. Its sales grew 10.2% in 2022.

It has low to moderate market growth and high market share which puts it as a cash cow.

The Luxury cosmetics market was valued at 47 billion in 2022 (LinkedIn 2023) with a CAGR of 7.44 (2022-2028), which makes it moderate growth, low market share with low market potential. The Luxe division is a dog comparatively and without significant investment the division will not grow.

1.3 Overall Judgement

The competitive landscape is very competitive and L'Oréal must continue to expand its product offerings into new segments, potentially through acquisitions by taking advantage of their pre-existing acquisition and innovation capabilities.

These two capabilities are critical to the current and future success of L'Oréal and will work synergistically to cater to different skin types around the world.

2. SWOT

A SWOT analysis maps out the strengths, weaknesses, opportunities, threats of an organization. The model is used to build on the strengths and opportunities while minimizing the weaknesses and threats. It combines internal and external variables in an audit and adds value to the company by matching internal strengths with external opportunities.

2.1. Strengths

L'Oréal is an expert of matching its strengths with market opportunities – culminating in market control. It does this in a pincer movement of innovation and brand accumulation. These are two synergistic strengths that 1. Allows them to come up with new products that they can charge more for based on product differentiation utilising a core competence, 2. Corners a new/existing market via brand accumulation strategy.

2.1.1. Innovation capability. L'Oréal reinvested approximately 2.5% of its revenue before tax back into Research and Development in 2022 which works out to approximately 1.1 billion (L'Oréal 2022).

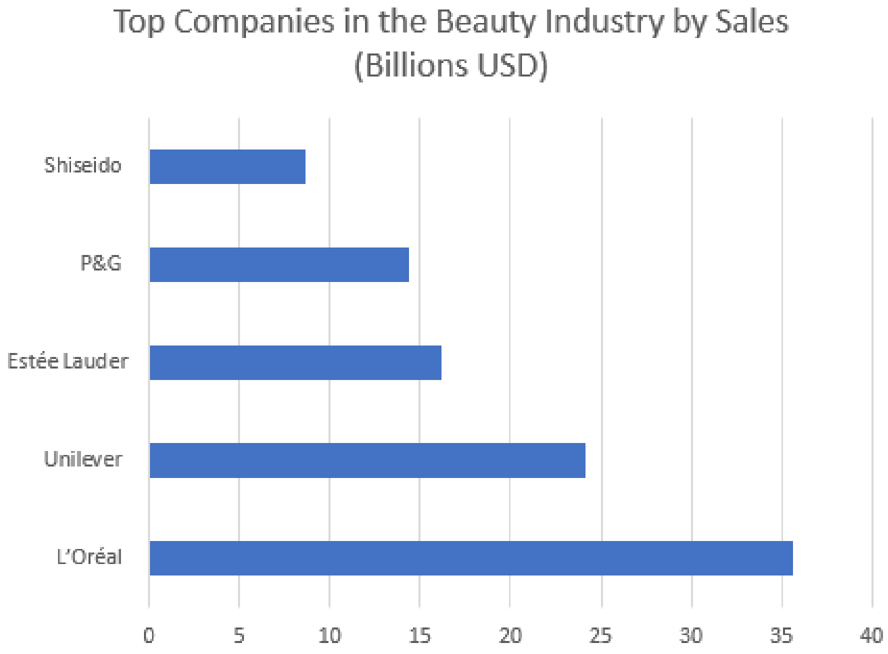
They also file many patent applications every year, filing 651 patent applications in 2022 and 23,568 granted patents in totality since its inception (L'Oréal 2022). According to Chen and Yan (2021), L'Oréal Groupe's Research and Innovation employs over 4,000 people in 21 research centres.

Core competencies are the root of a company's competitive advantage and in this case, innovation is a core competency for L'Oréal. The patents as an intangible asset flow from their core competency and provides a basis for the advantage through monopolising an innovation (Yang et al., 2018).

For example, L'Oréal have patented the molecule of a novel androgenic alopecia treatment known as Serioxyl (Revene 2023) that is available over the counter as a cosmetic product.

2.1.2. Brand Accumulation. According to L'Oréal's 2022 report (L'Oréal Finance 2022), the beauty market grew 6% in 2022 and the estimated market is worth more than 250 billion. L'Oréal Groupe has captured the highest percentage of sales in USD of a single company in the beauty industry at 38.2 billion, while the next company is Unilever at 23.8 billion.

Top players in the beauty industry (By sales) (Howarth 2023)



L'Oréal Groupe currently owns 36 brands including Maybeline New York and Garnier, where each individual brand is specific to L'Oréal. A brand is an intangible resource that provides value through incentivising customer loyalty. According to (Chailan 2010) L'Oréal has a 3-phase process to brand accumulation involving 1. Aggregation of brands, 2. Reduction and rationalisation of brands and organisation of the relationship between brands, 3. Competitive conceptualisation and development of a non-inimitable company specific model.

This final step is key and involves combining a set of brands with the key competencies.

Aggregation of brands allows L'Oréal to be present in multiple different markets, expand a supplier network and increase rivalry between brands/business units.

Reduction and rationalisation allow L'Oréal to focus on growing key brands and integrate them into their strategy without dividing their attention such as when L'Oréal sold Dermablend (L'Oréal 2020) and the Body Shop (Butler 2017).

Competitive conceptualisation is bringing together all brands in its portfolio and integrating them into a strategy that allows them to compete long term with a well-managed portfolio and diversified consumer product offering. L'Oréal is currently in phase 3.

In this case L'Oréal's long term strategy is to capture market share and brand accumulation is one way they do it.

2.2 Weaknesses

2.2.1 Risk with R&D. To stay competitive L'Oréal must continually come up with new technological innovations either to reduce costs, improve quality or improve operational efficiencies. This is made possible only through high investments into R&D and high operational costs.

However, there are risks associated with the health and wellbeing of consumers of L'Oréal's products. In one instance L'Oréal have been sued by a woman in Missouri who reported developing uterine cancer after using L'Oréal's hair straightening products days after a U.S. national institute (National Institute of Environmental Health Sciences) published a study indicating that hair straightening products significantly increase the risk of uterine cancer (Pierson 2022).

According to Chang et al., (2022), some of the chemicals that cause cancer include formaldehyde, formaldehyde releasing chemicals, and oxidized paraphenylenediamine which are carcinogenic and found a higher incident rate of uterine cancer with women who used hair straightening products.

2.3 Opportunities

2.3.1 Emerging Markets. There are emerging markets in the growing middle class of non-western countries that pose a unique opportunity for L'Oréal to expand into e.g., Eastern Europe, Asia, Latin America, the Middle East, Africa.

The Asian cosmetics market is the fastest growing market after Western Europe. One example of this is Malaysia who in 2019 spent approximately $400 million in toiletries and cosmetics (Hassali 2019).

L'Oréal have been expanding into the Asian market in 2022 with a Joint Venture known as Shihyo which features 24 cosmetic products based in South Korea which is their first joint venture into a foreign market (Wray 2022). Continued expansion and continued innovative product offerings in Asia may allow them to grasp a high market share. Its investments into innovation also make these opportunities more pervasive as it could help L'Oréal cater to different types of skin across ethnicities as cosmetics may not be standardised.

They have also set up a Research and innovation centre in Midrand (L'Oréal Groupe 2023) in sub-Saharan Africa to cater to African cosmetic needs. This is all part of L'Oréal's strategy to expand into global markets.

2.4 Threats

2.4.1 Competition According to Unilever's 2023 web page (Unilever 2023) they have over 20,000 total patents and invested over 850 million in R&D. This is a comparable amount to L'Oréal, and Unilever are the #2 competitor in the cosmetics market by sales (Howarth 2023)

They have a similar but more expansive brand acquisition strategy, owning 400 brands globally but 9 in the beauty industry including Dove and Vaseline (Unilever 2023). While they remain second to L'Oréal, make less revenue and reinvest less in R&D they are none the less a comparable competitor.

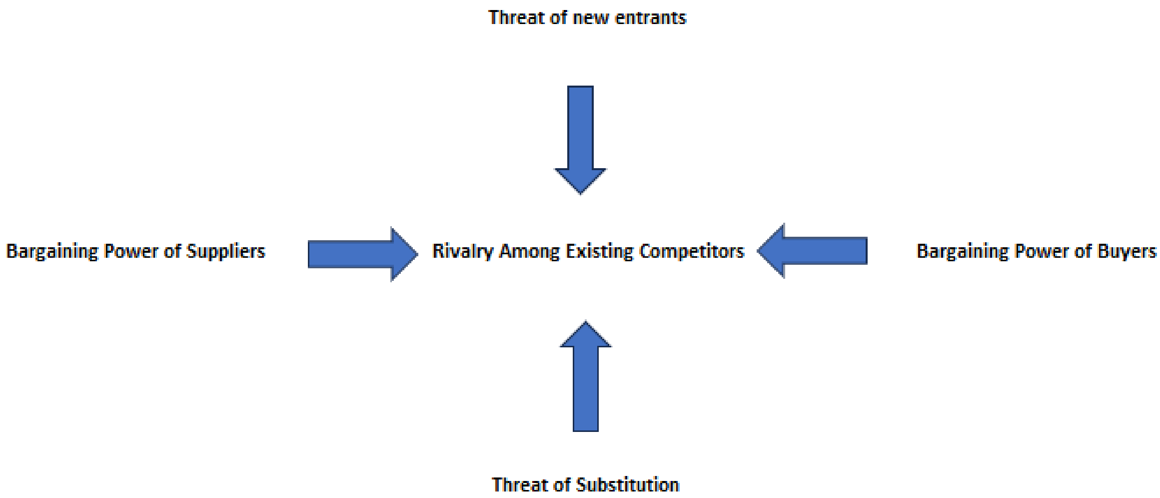
They can mitigate the effects of Unilever and similar brand competition by continuing to expand their market and product offerings.

2.4.2 Beauty standards changing. The change in beauty standards may largely be out of L'Oréal's control. If a new beauty market surrounding a specific product emerges, characterised by high market growth and low barriers to entry, then this allows room for competitors to quickly grow and expand.

Examples of current beauty and cosmetics trends are cosmeceuticals (products that affect skins biological function) (Rathod et al., 2020), fairer skin (Davids 2016) and Luxury Cosmetics (LinkedIn 2023).

They can mitigate this by advertisement to attempt to increase brand loyalty to dissuade consumers from using other products, lowering the risk of product substitution (Yee and Mansori 2016).

3. Porters 5 forces



The profit potential of an industry is determined by the combination of all the below 5 forces: Supplier power, Buyer Power, Threat of Substitution, Barriers to entry, Rivalry.

3.1 Threat of new entrants into the cosmetics market. Low.

3.1.1. Brand Accumulation / Recognition. L'Oréal own 36 well-known brands and dominate the market share of the market with 20% market share globally (L'Oréal Finance 2022), and the most amount of sales at 35.64 billion USD, after Unilever which has 24.17 billion USD in sales (Howarth 2023).

The only risk that is associated with new entry is one that would be caused by sudden changing beauty standards, but this can be mitigated through promotion increasing brand loyalty (Yee and Mansori 2016).

Their innovation investment strategy utilising patents also creates a barrier to entry to new firms entering the market.

3.1.2. Economies of scale / Capital requirements. L'Oréal serves over 150 countries with 20 research centres (L'Oréal Finance 2022) with 40 international factories and source raw ingredients from 50,000 suppliers (Seifert and Markoff 2022).

According to a 2023 report (L'Oréal Finance 2022), L'Oréal Groupe's total assets accumulate into 46.8 billion Euros (31/12/2022).

This means that the capital requirements are far too high for any new entrant into the market to be realistic. The only threat would be from already existing big players in the beauty and cosmetic market.

If there was a sudden market disruptor with a new up and coming brand, there is a strong likelihood that L'Oréal or one of the other top brands would acquire them.

3.2 Bargaining Power of Buyers. Low.

3.2.1. Retailers / marketing channels. L'Oréal practices indirect selling, meaning they sell their products not directly to the consumer but to retailers via a distribution network. If you go to L'Oréal's website or L'Oréal Paris's website and search for products to purchase, you will be redirected to a retailer (see screenshot below). In this case, when attempting to purchase a Vitamin C face mask, you will be redirected to the "Boots" website where you can make the purchase.

Because L'Oréal are a giant of industry, is the third largest advertiser (across all industries (Branco, 2021)) it would be a bigger hit to the retailer if L'Oréal did not sell their products on their website than it would for L'Oréal, who sells across multiple other retailers (e.g., superdrug, FeelUnique, LookFantastic, Tesco). Thus, there is an imbalance of power in favour of L'Oréal and other big players such as P&G, Unilever that limits the bargaining power of buyers.

We know that L'Oréal is stable in times of crisis due to the diversification as its E commerce grew 62% (Lowe 2021).

3.3 Bargaining Power of Suppliers. Moderate.

3.3.1. Key ingredients, supplier monopoly / supply disruption. In the beauty industry there is moderate bargaining power of suppliers. This is because L'Oréal is highly diversified. L'Oréal have a global presence in over 150 countries as well as access to 20 research centres (L'Oréal Finance 2022), with 40 international factories and source raw ingredients from 50,000 suppliers (Seifert and Markoff 2022).

L'Oréal's suppliers can be separated into two groups 1. Suppliers of raw material, 2. Packaging (Branco 2021).

However certain regulations exist regarding manufacturing of cosmetic products as well as various sustainability goals that L'Oréal have been undertaking for a variety of reasons that makes manufacturing their products slightly more complex. Key ingredient suppliers are more affected by manufacturing regulations and packaging suppliers are more affected by sustainability goals with the switch from single use plastic to recyclable materials (Branco 2021).

L'Oréal is also a big player in a mature market which incentivises suppliers to do business with them as it may be more secure.

3.4 Competitive Rivalry. High.

3.4.1. Similar conglomerates with similar brand accumulation strategies and similar R&D budgets.. The cosmetics industry is dominated by a couple of big players who are conglomerates including Unilever, Estee Lauder, Procter & Gamble, Shiseido and LVMH.

These large conglomerates also own a vast multitude of other beauty brands that compete with L'Oréal that could work as substitute products with different formulations and ingredients (thereby avoiding legal patent protection of L'Oréal) that fulfil the same functions as L'Oréal owned products.

3.5 Threat of substitution. High.

3.5.1. Close substitute products. The existence of close substitutes influences the price that L'Oréal can charge for their products because it means that customers can switch to substitute products that do the same thing for a similar price.

An example of competing products is "Dermalogica" (owned by Unilever) which is a retinol serum (Dermalogica 2023), and L'Oréal Paris "Pure Retinol Night Serum" (L'Oréal Paris 2023), both of which contain Retinol as the key ingredient while offering to reduce the appearance of wrinkles and aging.

L'Oréal has a multitude of competitors who operate in the beauty cosmetics market. These competitors include Unilever and Proctor and Gamble who are conglomerates that own a vast multitude of subsidiaries who compete directly with L'Oréal and L'Oréal subsidiaries. They also have comparable R&D investments, developments, and economies of scale with suppliers so can offer similar products at a similar or lower price.

There is also a wide range of generic beauty products available in the cosmetic and beauty industries that may be able to offer similar value to customers at a lower price (Branco 2023).

4. VRIO

Resource	Valuable	Rare	Inimitable	Organised
Patents	Yes	Yes	Yes	Yes
Brand Portfolio	Yes	Yes	Yes	Yes

To determine if a company has a competitive advantage, we must see if their resources are Valuable, Rare, Inimitable and Organised (Cardeal and Antonio 2012).

A resource creates value when it allows the company to implement strategies that improve is efficiency and effectiveness (Cardeal and Antonio 2012). It allows the exploitation of opportunities or neutralisation of threats.

A rare resource is more valuable as it enables a company to exploit a resource differently from competitors providing a unique value creating strategy.

If resources were imitable then the unique value creating strategy would disappear. A resource is inimitable if they are ambiguously related, socially complex, involve legality.

Firms that develop better ways of integrating their resources have more and stronger sources of competitive advantage (Cardeal and Antonio 2012).

4.1. Patents

Valuable? Yes. In 2022 L'Oréal filed for 561 patents (L'Oréal 2022). Patents drive and incentivise L'Oréal's innovation as it secures their ability to monetise their research and development by protecting their intellectual property and neutralises the threat of other firms innovating using their technology and results in increased profit margins by creating scarcity of their products.

L'Oréal were also awarded 6 innovation awards at CES in 2023 for technological developments in beauty technology (L'Oréal 2023). CES stands for "Consumer Electronics Show", and is a convention held yearly showcasing the lates inventions in consumer electronics.

The two innovations they introduced was the "HAPTA Makeup Applicator" (a makeup applicator designed for people with limited fine motor skills) and "L'Oréal Brow Magic" (an autonomised eyebrow makeup applicator). Both inventions have applications to be used for people with limited hand mobility.

L'Oréal Groupe have invested over 1 billion euros in Research and Innovation and Generated 38 billion euros in sales in 2022 according to their annual report which means almost 3% of their sales were reinvested into innovation (L'Oréal Finance 2022).

Innovation and research and development carry risks (e.g., low or no return in profit), but L'Oréal have managed to turn it into a core competency and effectively monetise it.

L'Oréal also patent new innovations to prevent other companies from utilising their innovations and thereby secure their competitive advantage through product differentiation (via innovation/new products).

These patents are not all new inventions like the aforementioned two, but ingredients to makeup, cosmetic compositions, delivery systems, specific makeup formulations etc.,

One example of L'Oréal's cosmetic patent from 2021 is "COMPOSITION COMPRISING A DICARBONYL DERIVATIVE AND METHOD FOR STRAIGHTENING THE HAIR USING THIS COMPOSITION" (Justia 2021) which is a formulation to a composition that can straighten curly hair temporarily at room temperature with a heated flat tong.

Rare? Yes. The exploit of patents in the cosmetic industry is not rare, as it can be observed by L'Oréal's biggest rivals, Estee Lauder, and Unilever. Patent exploitation is rare enough to provide scarcity in the industry, but not rare enough to allow L'Oréal to have supernormal profits and perfect competition can be observed in the cosmetic industry.

Unilever – Unilever have a beauty and cosmetics division and according to Insights Gate (2022) have filed 295 patents in 2021. They also have 43,123 patents globally.

According to (Culliney, 2022) one innovative patent that Unilever have filed for internationally is an application method for Sun Protection Factor combined with a UVA protector that offers a synergistic benefit of sun protection.

Estee Luader – According to insights gate (2022), in 2022 Estee Lauder filed only 8 patents but 129 in 2021. They have 4276 global patents.

One notable patent filed by Estee Lauder is a cream used to treat skin atrophy using DHEA, but with specific esters that promote skin healing properties.

As we can see the ability to file patents, as well as research and innovation is not rare in the beauty industry and is something the "big players" in the cosmetic market do.

While the ability to file patents and innovate is not rare, the ability to leverage specific patents and innovation is rare as patenting an invention monopolises it and other companies that attempt to utilise that intellectual property can be subject to damages.

They are also rare due to the amount of capital it takes to form innovations as well as the funding costs for R&D.

Inimitable? Yes. Patents are an intangible resource, and hence the specific patents are difficult to imitate and exploit by other companies due to the legal ramifications as well as scientific tacit knowledge. While companies cannot use L'Oréal's already patented technology, they can invent their own patents and use intellectual property laws to prevent other companies from utilising them.

While creating a patent is not inimitable, exploiting L'Oréal's already patented technology is, and therefore we can infer that L'Oréal has a competitive advantage with their already patented technology which is functionally inimitable (because while companies theoretically can imitate exact formulas/innovations, they cannot sell them).

Organisation? Yes. L'Oréal's investment into R&D allows them to exploit their patent and innovation capabilities and expand their product offerings by turning intangible patents into tangible product formulations. It is impossible for companies to copy their tacit knowledge.

They also invest into E-Commerce and marketing campaigns that allows them to sell these products and turn a profit.

For example, L'Oréal Paris' (2023) ecommerce website has, aside from basic search filters when browsing haircare products, such as colour and product type, you can also search by "Look" (e.g., Balayage, Cover Grey Hair) and "Concern" (e.g., Hair Breakage, Dull Hair) and "Texture".

Also, when you go to purchase a product, you cannot do it through L'Oréal's website, you must go through an affiliated retailer's website.

L'Oréal act as a stockist and stock other retailers stores to which consumers can purchase from.

This makes their supply chain more agile because it reduces inventory holding costs by using mass market retailers inventory as well as shelf space to bring the product to the consumer at a lower cost. This allows them to exploit their innovation more effectively.

4.2. Brand Portfolio

Valuable? Yes. L'Oréal have a vast brand portfolio with 36 brands and operate solely in the "beauty" industry. It is divided into 4 product divisions – "Consumer Product Division", "Luxe", "Professional Products Division", "Active Cosmetics Division" (L'Oréal 2022).

Brand portfolio brings a multitude of values to the organisation.

1. Its increases L'Oréal's scope in the industry. The number of different segments in which a firm markets its brands indicates the scope of its product—market coverage within an industry (Morgan and Rego 2009).

L'Oréal, by accumulating a multitude of brands across 4 divisions and multiple segments increases its market coverage.

2. Synergy in innovation. Also, the large market coverage across multiple segments creates synergies between the innovation across segments.

3. Market domination/market share increase. According to L'Oréal Finance (2023), their share price has risen almost 4x since 2013. In October 2013 their share price was listed at approximately 125 Euro and in October 2023 it was listed at 400 Euro per share. Increasing brand portfolio has the effect of increasing market share (L'Oréal Finance 2023)

Rare? Yes. Having a large brand portfolio is rare, and not shared by as many conglomerates. It is rare enough to facilitate a sustained competitive advantage over low to mid-tier firms but just enough to remain competitive amongst other big players in the beauty and cosmetics industry.

Other companies such as Unilever and P&G can exploit a similar advantage with similar brands and hence implement a similar value creating strategy, although this is largely limited to some of the big players in the beauty and cosmetics market. Collecting such a portfolio is rare as it requires a huge amount of capital investment and strategic brand management that culminates in a sustained competitive advantage.

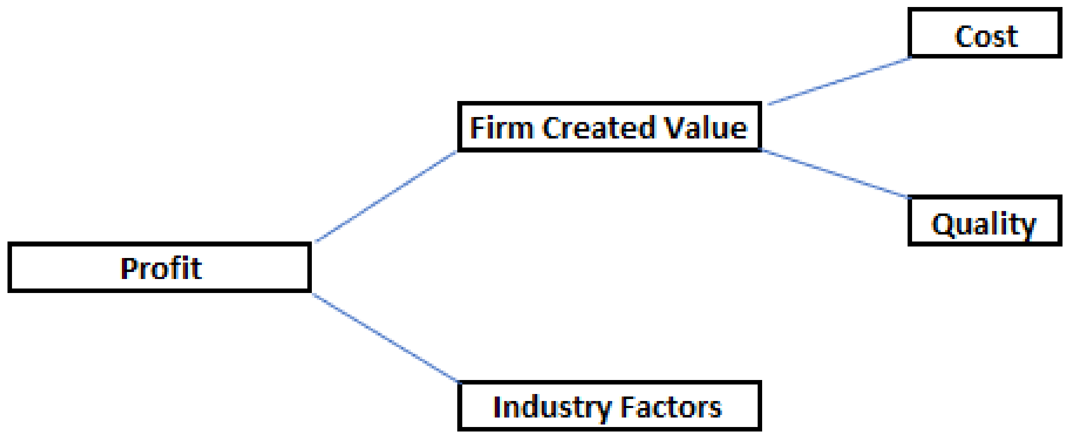
Inimitable? Yes. These brands are specific to L'Oréal and cannot be imitated due to the intangible nature of a brand and reputation.

While it is possible for brands to be collected in a similar fashion, the exact model of accumulation cannot be copied in this exact fashion that allows L'Oréal to provide unique customer offerings in differing segments and have synergies in innovation strategies.

Organised? Yes. Overall L'Oréal's brand portfolio has resulted in a net increase in market share, and it is also divided into 4 divisions that allows them to offer different customer segments unique offerings.

L'Oréal's organisation aspect in their brand portfolio is a dynamic capability. Capabilities can be considered the firms normal rules or processes (Cardeal and Antonio 2012). By having the ability to organise their consumer segmentation via their four product divisions it has allowed them to cater their product offerings more effectively.

5. A framework for Competitive Advantage



This model explains that profits are a consequence of two factors.

5.1. Firm created value relative to competitors.

This itself a result of a. the quality position and b. cost position of the firm.

L'Oréal offer a multitude of quality and price products through different companies under their portfolio, although the L'Oréal Paris brand tends to be a "department store" brand both in terms of quality and price, offering a lower amount of both (Shen and Bissell 2013).

Quality and Cost positioning: The quality positioning of L'Oréal is low relative to competitors, an example of this is their retinol vitamin A cream which sells for less on their website (L'Oréal Paris 2023), compared to a speciality brand Dermalogica which is more expensive on their website (Dernalogica 2023). Dermalogica have positioned themselves as a high quality, high price firm relative to the competitors.

L'Oréal's value creation is relative to its competitors and is in is offering a lower price and "good enough" quality compared to its competitors, and this positioning is facilitated by the high product substitution in the industry it competes in.

5.2. Industry factors.

In an industry with high product substitution and high rivalry, competitors must figure out other ways to compete or reduce the propensity of product substitution. Brand loyalty is an important industry factor that influences how they compete because it reduces the consumers propensity to substitute products. One of the ways L'Oréal build brand loyalty is through marketing which includes branding and advertising campaigns. Consumers with high brand loyalty were also more likely to recommend the product to friends and family.

While there is high product substitution, L'Oréal have built up high brand loyalty in the market (Branco). Yee and Mansori (2019) found that brand loyalty in the cosmetics markets was extremely important and brand loyalty was influenced by brand image, perceived quality, and price which in turn influenced consumer satisfaction.

This is why branding is important, as it signifies a particular value that marketers want to put in the head of consumers, this is illustrated in L'Oréal's acquisition of the Body Shop in 2006.

The Body Shop is a brick-and-mortar retailer store that was acquired by L'Oréal in 2006, and then sold to Brazilian company Natura in 2017 (Yuntao 2023).

It was founded in 1976 by Anita Rodrick in Sussex and produce natural skin care, soap, and lotion and their ethical values are key to their brand image.

It differs from other mergers and acquisitions L'Oréal have invested in due to the amount of money they spend on the company as well as the backlash they faced due to the animal testing that L'Oréal was doing at the time, which contrasted with the ethical values that the Body Shop based its brand values on, and consequently a scandal emerged (Koczer 2012). Sales declined substantially after L'Oréal's acquisition because of this scandal, as consumers became disillusioned with what the brand stood. This shows how important

Koczer (2012) defined mergers and acquisitions as "shift controlling ownership of a company that is taken over by another company by either sharing purchases as well as asset purchases" in their analysis of L'Oréal's acquisition.

Many of L'Oréal's acquired brands still act as subsidiaries which we see here in L'Oréal's acquisition of the Body Shop.

According to Pearce and Robinson (2007), the main reason of acquisition is to achieve a greater market power, improves resources available and creates new efficiencies.

Market power can also lead to a competitive advantage because it can increase the amount of consumer segments to which it can provide offerings to as well as create a high barrier to entry.

The acquisition of the Body Shop (Butler 2017) aimed to do two things by complementing L'Oréal's portfolio.

1. It provided a transfer of knowledge as an intangible resource for becoming a more ethical company which would benefit L'Oréal Groupe's brand image.

2. Allowed them to hypothetically target more consumer segments (in this instance those who put high value on natural and ethically produced products and international consumers).

This is a somewhat pervasive strategy that L'Oréal Groupe have been using in their acquisition strategies.

L'Oréal then sold the Body Shop in 2017 for a loss because of poor sales after a damaged brand image, which negatively affected brand loyalty (Quitlong et al., 2019). The case study is therefore an important qualitative analysis of the importance of brand image and consumer loyalty in the cosmetics market which also paradoxically has high propensity for product substitution.

Brand loyalty is created through various company activities such as marketing and advertising campaigns (Quitong et al., 2019).

Another example of such is a brand ambassadorship strategy which L'Oréal Paris called the "Dream Team" (L'Oréal Paris 2023).

L'Oréal Paris, have a brand ambassador strategy employing various celebrities such as Kylie Jenner and Kate Winslet, amongst others who represent a diverse range of ages and skin tones.

The brand ambassadorship strategy is an offshoot of social media, whereby L'Oréal are attempting to increase in social media engagement to increase sales. The "Dream Team" represent L'Oréal in commercials posted on social media sites such as Facebook and YouTube, as well as certain social programs such as Elle Fanning engaging in the "Stand Up Program" (L'Oréal Paris 2023).

Quitong et al., (2019) showed that social media posting in various formats increases brand loyalty empirically and according to (Shen and Bissell 2013) viral marketing is an essential format to which brands can promote their products and propagate within the minds of their customer, and this is measured through engagement metrics, where the most engaging type of post is an entertaining or informative.

Competitive advantage

L'Oréal operate in a niche in the market, they avoid the product substitution that should exist by offering lower price, lower quality products and through branding which takes advantage of the brand loyalty consumers have.

While a lot of L'Oréal's products are subpar in quality compared to other luxury brands such as Dermalogica, it is hypothesised that their price: quality ratio is well established in the minds of consumers as good quality for the price.

In an industry that is affected by high product substitution due to similar competition throughout price and quality ranges, L'Oréal have leveraged their brand loyalty to produce a sustained competitive advantage.

6. PESTEL

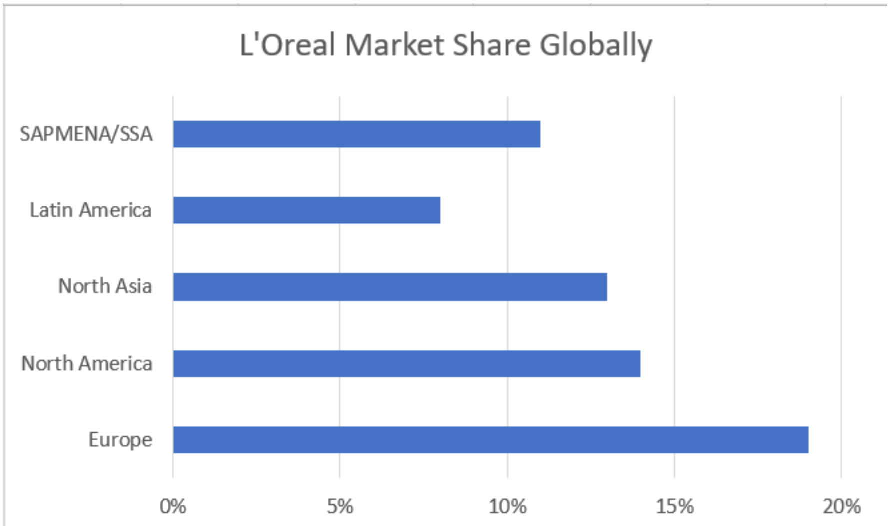
A PESTEL analysis is a model we use to assess the macro-economic factors that affect the company's operations and can assist with strategic planning, risk management, and decision making.

It helps us to identify the external forces that influence our decision making.

L'Oréal are an international company and therefore should have a focus on market penetration in other countries.

L'Oréal global breakdown

This is the following market share of L'Oréal worldwide (L'Oréal 2022).



Europe 19%, North America 14%, North Asia 13%, Latin America 8%, SAPMENA/SSA 11%

According to L'Oréal (2022), the global beauty market grew 6%, global online cosmetics sales grew 7% in 2022, indicating a growing global demand for cosmetics. In their 2022 Annual report, they also highlighted a growing demand for fragrances in the SAPMENA (South Asia Pacific, Middle East, North America).

The PESTEL analysis will analyse a variety of external forces in international markets to assist in planning, risk management and decision making. The main geographic areas the report will focus on is the emerging markets: Asia Pacific, Latin America, Eastern Europe, Africa, and the Middle east as North America and Western Europe have been penetrated very well already and written about a lot in this report.

6.1 Political

Political stability: Political stability is the basic requirement to be able to expand into new global markets. It is difficult to penetrate a market that is politically unstable due to war or other such conflicts due to risk.

Asia Pacific is generally politically stable with an uptick in sales and market share in China growing steadily (25.5% growth in Asia Pacific, it also makes up 32.3% of L'Oréal's sales (L'Oréal 2022)). China is generally politically stable, although tensions exist between China and neighbouring countries such as the United States (CNN 2023).

Eastern Europe is currently not politically stable due to the Russian invasion of Ukraine, consequently L'Oréal Groupe have temporarily closed their various brands stores, counters, E-Commerce sites, and investing in Russia (L'Oréal 2022). As such it is not easy to penetrate or desirable to penetrate the Russian/Ukrainian markets due to high risk of death caused by the war.

Parts of Africa are unstable due to a bidirectional relationship between political instability end economic growth (often resulting in coups in countries such as Liberia, where GDP growth fell to -27% in 1989) (Dalyop 2018). Parts of Africa may therefore be too instable and unsafe with low chance of profits where GDP is low, however politically stable countries such as Botswana (Daylop 2018) represent a unique opportunity for catering to different skin types.

The middle east also has unstable countries although like Africa some represent an opportunity to grow the L'Oréal brand. Unstable regions include Israel, Palestine, Iraq, and show low economic growth overall except for select countries such as UAE and Saudi Arabia.

After an empirical analysis of the literature and analysing 14 countries in Latin America and the Caribbean (LAC) (Azam 2022), LAC has lower levels of government effectiveness, higher levels of corruption and instability as well as a weak institutional framework which causes sluggish economic growth as well as higher crime rates and low enforcement of laws.

Just 6 countries out of 14, analysed in the LAC had rule of law indexes above 50% (above average), while the rest was below 50%.

6.2 Economic

In recent years China has seen an economic expansion and have a growing middle class and upper class, as well as increasing social trends to purchase more expensive products consequently. Because L'Oréal and L'Oréal Paris products are lower cost and lower price products some market adaption is needed to cater to the increasing economic demands such as increased price and quality or increased advertisement of their luxury product division (L'Oréal 2019). Growth in central Asia is also stable and driven by China's demand for commodities forecasted to grow at 5.7% in 2023 and 5.9% in 2024 (European Bank 2023).

Eastern Europe, including the Baltic states represent an opportunity for L'Oréal, as a "department store" brand (Shen and Bissell 2013) so represents an opportunity for the sale of L'Oréal's lower cost products with a growth is down to .5% in 2023 from 3.9% in 2022 in the Baltic states and in Eastern Europe GDP is has contracted to 1.9% from 2022 (European Bank 2023).

According to the world bank (2023), Sub Saharan Africa's growth is projected to slow to 2.5% from last year's growth at 3.6% in 2022. There are also several conflicts affected regions with limited human capital, several of which are land locked with transport bottlenecks limiting supply chain, with 462 million people living in extreme poverty in 2023.

There are therefore high investment risks due to low political instability causing high risks that are increased by transport bottle necks in the region.

The middle east and north Africa are generally stable, except for some regions such as Iran, where unemployment fell due to the Taliban uprising and Israel and Palestine conflict (World Bank 2023).

The political instability of various Latin American countries can lower the economic activity through corruption and lack of institutional environment (Azam 2022), however recently the region has been experiencing economic stability due to better macroeconomic management post pandemic, including a growth of 2.3% in 2023, as well as a decline in inflation, although many Latin American countries still suffer from high poverty, low investment, low productivity and labour market rigidities (World bank 2023) indicating opportunity for growth and emerging markets. Their markets are growing because of investment and trade.

6.3 Social

There is a global trend for consumers in Africa, Asia (including the Indian sub-continent), and the Middle east towards skin lightening, which is heavily influenced by Western consumerism trends as well as Hollywood movies since the 1960s (Davids et al., 2016).

Some political and economic overtones are also associated with skin lightening in these regions, with beliefs being held that lighter skin tones lead to better socio-economic outcomes (Davids et al., 2016).

Certain anti-aging methods through skin care cosmetics are growing in popularity in China (Sanket et al., 2020) with the rise of derma cosmetics.

There is also potential in the Latin American market for L'Oréal and catering to their societal beauty trends. This can include attractiveness to decreased nasal prominence, paler skin complexion in certain regions such as Chile, indicating the spread of Western beauty ideals (Dimitrov and Kroumpouzos 2023).

6.4 Technology

L'Oréal are an innovative company and there is also an upwards trend towards "derma cosmetics" or "cosmeceuticals" (Sanket et al., 2020) which are essentially cosmetic products targeted at solving dermatological issues. They are the bridge between prescription-based dermatology and cosmetics, and they utilise ingredients such as retinol, peptides, and alpha lipoic acid. Some effects include anti-aging and are gaining popularity in China (Sanket et al., 2020). L'Oréal have an extremely high R&D budget, a high number of patents as well as a brand accumulation strategy that is primed to complementing R&D efforts.

There is also a trend towards dietary supplementation to increase appearance in skin and hair (Sanket et al., 2020).

L'Oréal are also utilising digital technology such as virtual or augmented reality. L'Oréal use the Nial Genius and Makeup Genius apps to allow customers to take pictures of themselves to try on makeup virtually. They can also see what the makeup looks like from different angles (WBR Insights 2023).

While L'Oréal practice indirect selling they have a small number of brick-and-mortar stores in Paris where customers can take advantage of this technology to try on makeup instore (WBR Insights 2023).

They have a growing e-commerce platform.

6.5 Environmental

Eco friendly products, packaging, and practices that they have promised to stop.

According to the 2022 L'Oréal Annual Report (L'Oréal 2022), L'Oréal Groupe have launched "L'Oréal for the future" which is a sustainability program that aims to:

- Reducing the environmental impact of the company by achieving carbon neutral status by 2025 on all their sites
- Encourage other stakeholders (including customers) to also reduce their greenhouse gas emissions by 25% by 2030
- Re-use 100% of water in the industrial processes by 2030
- Source 100% of plastic used in packaging from recycled or biobased materials
- Recycle 100% of waste generated at industrial sites

L'Oréal select its suppliers according to cost effectiveness, quality, safety and corporate social responsibility agenda, and small changes in the global economy and environment can alter the share price of L'Oréal dramatically (Branco 2021).

While L'Oréal are investing in their future sustainability, when benchmarked against their peers such as Estee Lauder, Shiseido, or Unilever they are behind.

The move towards sustainable practices and environmentally friendly products such as packaging (Branco 2021) (L'Oréal 2022), increases the bargaining power of suppliers who must source this material and increases the price. This can manifest in reducing profits for L'Oréal or increasing the price for consumers.

It can also make them more difficult to source raw materials in times of crisis such as the Covid-19 pandemic.

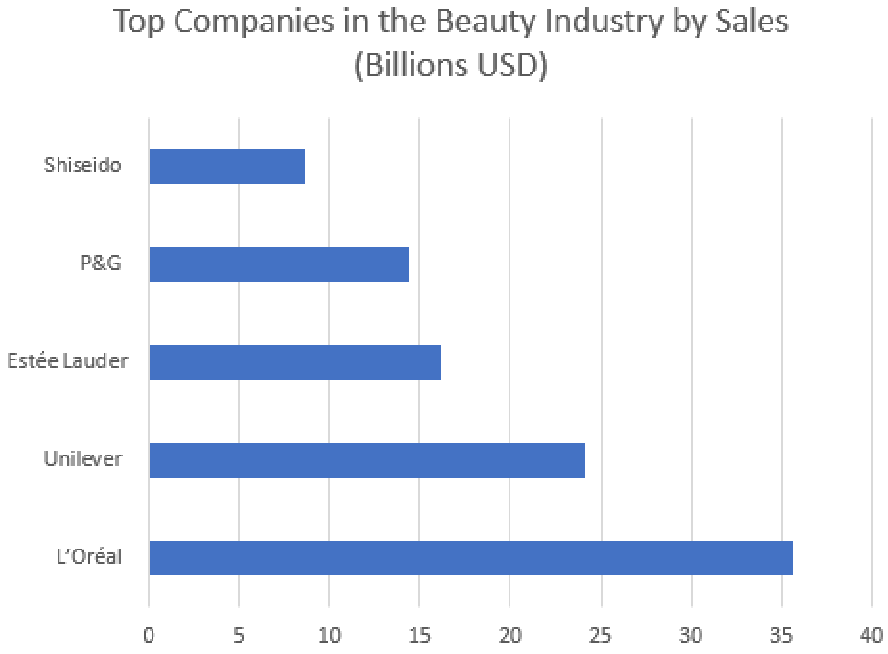
If L'Oréal wish to get ahead in the natural consumer care products, then Latin America represents a unique opportunity to source these raw ingredients which could be a unique selling point, which currently has low exploitation, with only 2% of botanical ingredients consumer globally go towards beauty and personal care products (Bravo et al., 2020).

6.6 Legislative

There are regulations on products which L'Oréal must pass, including the European Medicines Agency, or the FDA which lead to higher costs of research and development. For example, there are several regulations that must be satisfied for reducing heavy metal exposure due to lead and mercury which are common ingredients in skin lightening products (Michalek and Benn 2019).

Intellectual property law s. Several countries such as China do not respect intellectual property laws, which has led to global geopolitical tension which poses a threat to L'Oréal's patents (Zhang and Bruun 2017).

7. Top players in the beauty industry (By sales) (Howarth 2023)



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