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Case 5: L'Oréal

- 1) L'Oréal's strategy has changed over time. What are its old strategy and new one? Why did the company change its strategy?
 - Overall, L'Oréal stood by focusing on consumers' psychographics, psychological, and purchasing power profiles. By doing this, they were able to reach the global market.
 - In 1907, L'Oréal began their venture by selling their innovated hair-dye formula known as Aureole to Parisian hairdressers. This strategy hampered their international demand as the concept of Parisian beauty made their brand look unattainable and pricey.
 - After this mistake, a new strategy was made. In 1988, the new CEO Lindsay Owen-Jones focused on five main beauty branches—hair color, skincare, haircare, color cosmetics, and fragrances.
 - L'Oréal's five core businesses had four major operations:
 - **Consumer Product Division:** mass market channel for brands such as Garnier, L'Oréal, Maybelline, and Carson; generated over 50 percent of cosmetic sales
 - **Luxury Products Division:** a division for prestigious international brands such as perfumes, department, and duty-free stores.
 - **Professional Products Division:** hair-care-products exclusively sold through salons and aimed at professional hairdressers
 - **Active Cosmetics Department:** selective; sold through specialty health, pharmacies, and beauty outlets
 - Due to the realization that mass globalization could not cater to every demand, they expanded their core businesses and portfolio to reach a diverse range of people. By customizing which global brands they would use to target specific areas, they were able to expand their consumer diversity. Thus, L'Oréal was able to create low to high-end brands that they could price point accordingly and create specific distribution channels for. For example, L'Oréal would set their premium, mass-ranged ("masstige") products in retail outlets with restrictions on placement, shelf space, and even types of display to keep up with brand image.
 - As L'Oréal's business flourished, it needed to keep up with the market transitions. To keep up with our economy's innovations and transitions, L'Oréal invested a considerable amount in their marketing, specifically advertisement. ¹ In 2009, it was reported that they spent 7 billion U.S. dollars in marketing outlays and placed third in advertisement spending. Furthermore, in the same year, L'Oréal spent 10 percent of its media spending in China, gaining the title of "one of China's largest and fastest-growing advertisers" (Henderson, 2012, pg. 6).

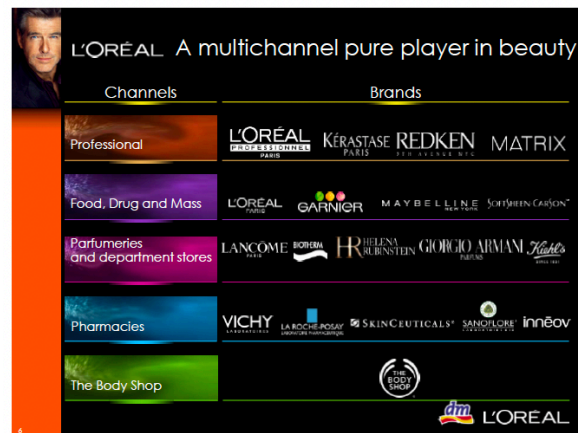
¹ "L'Oréal: Global Brand, Local Knowledge." L'Oréal: Global Brand, Local Knowledge - Case - Faculty & Research - Harvard Business School, <https://www.hbs.edu/faculty/Pages/item.aspx?num=40580>.

- Although their advertisement venture with print, television, and billboards helped them market their products, L'Oréal realized that there was a change in advertising landscapes with the digital revolution (more economical transitions). Due to this, they set their sites on reducing their spending on traditional advertisements and set their sites on digital advertisements.

2) How are they executing the new strategy?

- L'Oréal was able to locally adapt their global brands by having “geocosmetics,” which are beauty researchers who study trends internationally to fit domestic needs. They also had 18 research centers and 12 evaluation centers during this recorded time (2006-2010), holding up to 3,100 research employees in chemistry, biology, medicine, physics, toxicology, etc.
- Along with this, L'Oréal treated each of the four major operations like it was its own individual brand. According to L'Oréal's late CEO, who retired due to the age limit, each product division—Consumer, Luxury, Professional, and Active Cosmetics—needed to be treated as its own brand box as they each had its own distinct market position (Henderson, 2012, pg. 2-3). This was so L'Oréal could have a more efficient way to tailor their brand performance in certain regions and areas.
- In Exhibit 4, we can see how each brand was categorized based on reputation (Henderson, 2012, pg. 11). For specific brands, they developed their marketing portfolio based on the brand's reputation. By doing this they catered their price points and distribution levels and channels in a specific way to not devalue or overvalue their brand boxes.
- To broaden their prestigious brand market, they developed another category known as “masstige” which is the short word for “*prestige for the masses*” (Henderson, 2012, pg. 4). The reason for this is that it gave the impression that their products' brand was of premium quality yet also attainable enough for the mid-market and super-premium market.
- Other than expanding its business using distribution trees of operation, L'Oréal has spent a lot of money on its advertisement campaigns to stand out from new innovations and competitors. Along with being the third biggest spender on advertisements in 2009, they often used celebrity endorsements to push their products' range and create successful advertisement campaigns. During these campaigns (pictures, films, etc.), they would make sure to have people and situations from diverse backgrounds so they could tap into all sorts of portfolios. The key was to target people of all backgrounds.
- After a few years of traditional advertising, the digital revolution completely changed the game as L'Oréal was able to create a new strategy for reaching its audience. They were able to interact with their consumers, utilize the virtual 3D, and tap into unique new approaches to promote brand recognition—for example, how-to videos, beauty bloggers, etc.

Exhibit 4 L'Oréal Portfolio of Brands



Source: Casewriter research.

- L'Oréal was also smart in utilizing its job market. In 2010, they used the fresh minds of young students to help create new ideas to launch their beauty products. They did this in the form of a competition for students to come up with new marketing concepts. With the additional boost of having fresh ideas from young minds, they were able to approach consumers with a new set of marketing strategies.

3) Do you believe that the company will sustain its advantage ten years later?

- It is extremely difficult to say whether or not L'Oréal will sustain its advantage even ten years later. On one hand, L'Oréal has the advantage of brand prestige and having a wide range of operations; however, on the other hand, new innovations are coming into the market every day.
- Furthermore, although L'Oréal's new business strategy allowed them to widen their consumer range, they also had a disadvantage when it came to the domestic competitors during their international ventures. For example, the firm was not able to effectively target Brazilian women even with this group's reputation as the top beauty spenders. This was due to local rivals that understood their local consumers' needs better.
- Although L'Oréal has a wide range of low to high-end brands that are still top players today, they may find it difficult to compete with the newly specialized brands that are being created today. REDKEN, a hair-dye brand, is rather prominent in salons. However, people are finding new ways to dye their hair without the added steps of more chemical damage. ² An instance of this would be CHARCOLITE's brand, charcoal bleach. Instead of using normal hair bleach and a toner to go platinum blonde, charcoal bleach not only eliminates the need for toner but also protects the hair. Based on this example, it is clear to see that recently developed companies are coming up with new and improved ways to stand out.
- If L'Oréal wants to sustain its advantage, it would need to invest more in R&D to keep up with its competitors. It would need to think about the long-term necessities of its consumers while also keeping up with the current necessities.
- Although targeting a wide range is important, today's and the future's innovations will make it harder for them to appeal to consumers. To sustain their market, they need to: (1) understand consumer needs; (2) understand possible problems; (3) have unique, innovative products ready to launch during the appropriate time. Due to the risk of consumer confusion with launching a new and unique product prematurely, they would need to have a pivotal approach while also taking a ladder approach to launching their innovations.

² *Wait...what? Gray Lightener with Charcoal? - Behindthechair.com.* <https://behindthechair.com/articles/wait-what-gray-lightener-with-charcoal/>.