

INGLOT: Conquering the World

Case Study

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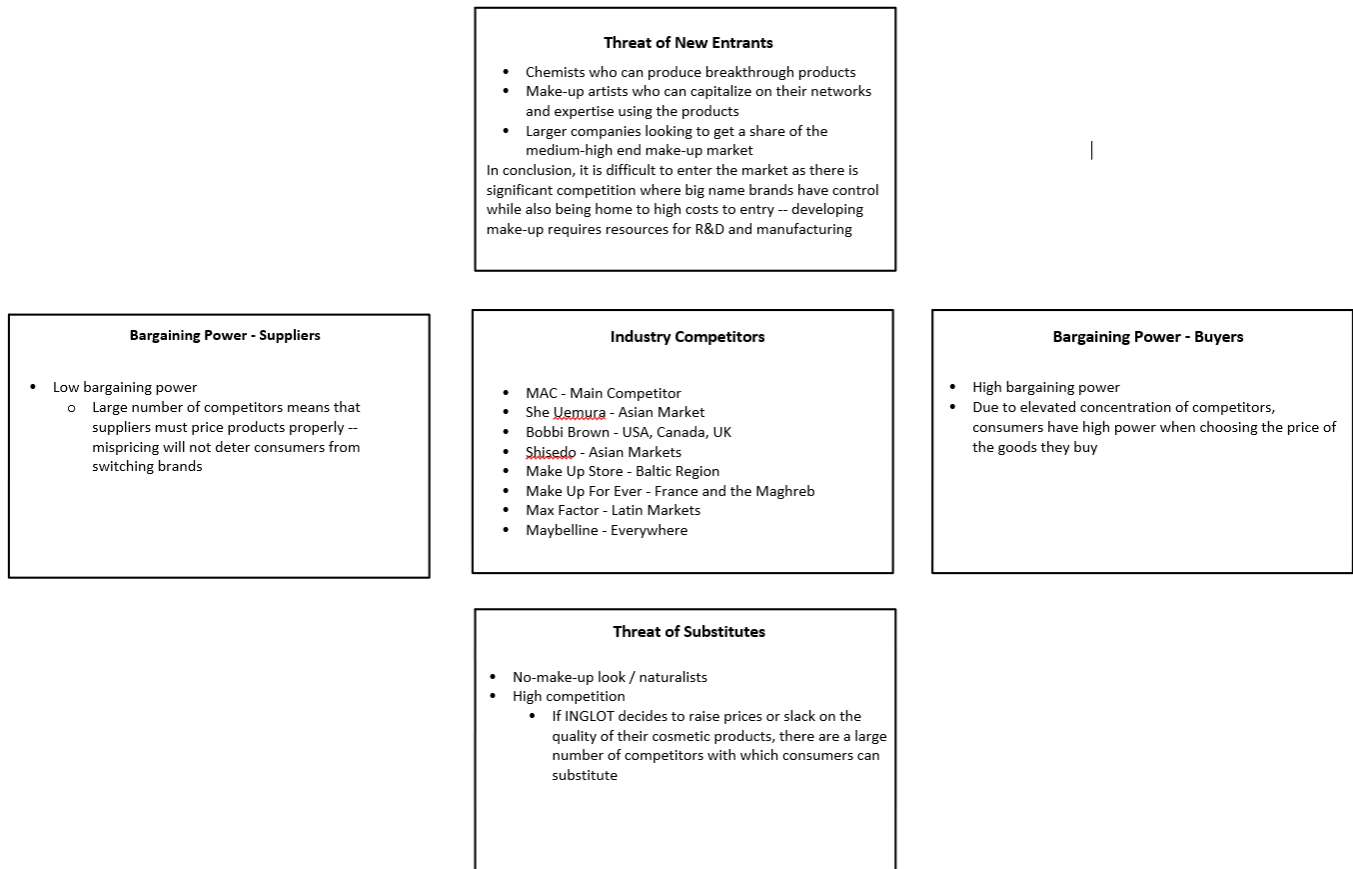
1. What is INGLOT's strategy based on the information presented in the case?

INGLOT's analyses of strategic goals includes an analysis of INGLOT's vision, mission statement, and strategic goals as well as internal and external environment of the organization. INGLOT's vision stems from the vision of its founder, Wojciech Inglot. He envisioned a brand and company that would be able to offer affordable cosmetics made of the highest quality ingredients. INGLOT is currently looking to expand its brand presence throughout the world. INGLOT is looking to expand its breadth through either geographical expansion into Brazil or China, deepening of market penetration in existing countries or by diversifying the product offering they currently offer by offering perfumes, male cosmetics or antiaging products. To analyze the internal and external environment, we will conduct a SWOT Analysis

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> • Little debt – can borrow in times of need • Strong growth in sales – shows growth of brand recognition and loyalty within consumer base • Recognized as one of the highest quality and innovative cosmetics company • Access to high-quality, low-cost labour within Przemysl • Garnered attention of a wide array of consumers due to high-quality products paired with reasonable pricing • Ability to produce in-fashion products due to local presence of production facilities • A private company – management is able to make tough decisions without having to cater to analysts or investors • Franchised out to family-owned businesses; these businesses can be a strong asset when expanding • INGLOT can turn retail spaces into INGLOT stores within 48 hours • Significant in-house capacity for future expansion 	<ul style="list-style-type: none"> • Does not conduct marketing and deems it too expensive • R&D, one of their strengths, was dependent on the now-deceased founder • Provide access to all of INGLOT's inventory at every store – this can be costly and inefficient • Raw materials are expensive as they are sourced and produced within Poland whereas they can be outsourced • High-quality workers may migrate to higher-paying countries such as Germany or France • Management team consists fully of family – ideas can be biased and stale • Foregoes margins during sale of goods to franchisees in exchange of limited trouble conducting business internationally • Heavily reliant on partnerships
<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> • Expansion into China, Brazil, or Indonesia <ul style="list-style-type: none"> • Have connections within Poland and can leverage in order to attract overseas partners looking to channel INGLOT's networks • Dominating pre-existing markets <ul style="list-style-type: none"> • Expanding to find more families looking to take on the responsibility as an owner of an INGLOT franchise • Learning more about the countries INGLOT operates in and opening-up stores owned by the company • Following-up on Latin American applications • Diversification into other consumer-product spaces – make-up industry is heterogeneous and catering to niche markets is viable • Emerging economies – INGLOT has realized success off seemingly unattractive markets in the past; establishing oneself in a market as such can prove to be fruitful 	<ul style="list-style-type: none"> • Competitive landscape – many are attempting to copy INGLOT's model • Competitive wage – Polish workers may migrate to find higher paying jobs; 24% what German workers get paid, 21% what French workers get paid • Country-specific downturns – USA/Poland specific downturns can have a huge impact on INGLOT figures as these countries are where INGLOT heavily distributes • Deterioration of family-run franchises will have detrimental effect on INGLOT's capability

2. What are the characteristics of the external environment within which INGLOT operates?

To understand the external environment of INGLOT, it is useful to use the Porter's Five Forces model as this model analyzes the external environment of the cosmetics industry:



With the analysis of the external environment, we can deduce some of the major factors that affect INGLOT's success within the cosmetics industry:

Industry Competitors: INGLOT participates in an industry where it is highly competitive, and each competitor holds a significant portion of the market. Because of a concentrated competitive landscape, INGLOT has limited bargaining power within the market. Not only do they have to be careful pricing their products, they must market themselves properly in hopes to build customer loyalty – customer loyalty will allow INGLOT to price their products at whichever price they choose without losing a significant market share.

New Entrants: With the advancing technologies of the current generation and the increasing barriers to entry, there lies a space where INGLOT can capitalize on. Because there are increasing innovations in all industries, INGLOT can aim to target these small competitors who are producing cutting-edge products while not having the resources to compete on a grandeur scale.

3. What are INGLOT's resources and organizational capabilities?

To understand INGLOT's resources and organizational capabilities, we will analyze their tangible resources, intangible resources, and organizational capabilities.

Tangible Resources

Financial resources – INGLOT currently has \$30.4 million in assets, yet it is unknown how these assets are divided. It will be difficult to determine what the cash and cash equivalents of the firm will be yet we can make fair assessments of the firm's capacity to raise capital through equity and debt. The firm has a very low debt-to-equity ratio and is determined to keep it low. The firm has managed to sustain its growth through internally raised funds. This suggests that the firm is capable of raising equity and will also have limited trouble raising debt if it is required.

Physical resources – INGLOT has stores located across the world yet owns a limited number of stores. INGLOT owns stores located in Australia, Lithuania, UK, Ukraine and the US; a total of 25 stores owned by subsidiaries of INGLOT. Alongside these INGLOT-owned stores, INGLOT operates production facilities in Przemysl, Poland. INGLOT also has access to the highest-quality materials that are used to produce cosmetics; materials that come from countries such as Japan and Switzerland.

Technological resources – INGLOT has ownership of many innovative products and related machinery; breathable nail enamel, rainbow-coloured make-up containers, the Freedom System, etc. These products are technologically advanced and give INGLOT a competitive advantage over competitors.

Organizational resources – INGLOT has a strong production capability in which the company can produce on-demand goods in Poland in sync with the fashion of the current year. This is unlike competitors who must produce goods for the following season it takes competitors 6 months to re-stock cosmetics; INGLOT is able to do so more efficiently and effectively, thanks to their streamline production capabilities. INGLOT is also able to turn retail spaces into INGLOT stores within 48 hours whereas competitors can take up to 3 months. This is due to their ability to produce customizable furnishings for the store.

Intangible Resources

Human – INGLOT has well-trained production and R&D personnel that are relatively inexpensive. This has been a strength since the opening of the production facilities in Przemysl during INGLOT's first days. INGLOT also has an advantage thanks to their franchisees; INGLOT partners with families who have a strong stake in the business. This leads to well-run and highly effective businesses.

Innovation – INGLOT focuses on premium quality cosmetics and aims to keep ahead of competition by continuously researching new products that will do well in the industry. Although this was a forefront in the past, the death of the founder could have a significant impact on INGLOT's ability to produce innovative packaging and cosmetics as he oversaw INGLOT's R&D.

Reputation – INGLOT is known for its premium quality cosmetics. This is a good thing as consumers can expect to receive great products for the reasonable pricing they pay. This builds customer loyalty as consumers do not need to think twice about purchasing INGLOT products. Customer loyalty is a driving advantage in the highly-competitive cosmetics industry. INGLOT also maintains a strong relationship with its franchisees and attempts to involve them in hopes of synergizing the capabilities of both the company and the local franchisee. INGLOT has been able to capitalize on this in the past in regions such as Greece and South Africa.

Organizational Capabilities

INGLOT is able to properly implement the skills of its workers to produce quality goods that are then sold to consumers at a reasonable price. They are able to change in-fashion trends into ideas and products that can be quickly initialized and dispensed into local stores so that consumers can buy them and use them while the look stays in fashion. INGLOT's agility allows INGLOT to satisfy the wants of consumers for being cutting edge with the makeup they wear and produces a strong competitive advantage that is difficult for competitors to copy.

4. How does INGLOT acquire and develop its resources and organizational capabilities?

INGLOT has managed to acquire its resource capabilities over time. Through internal expansion, INGLOT has been able to keep debt to a minimum. INGLOT took a risk in 2000, opening their very own store within Poland, yet decided to switch over to the franchising model. This allowed INGLOT to continuously keep the debt off their books as franchisee owners took on the bulk of the risk and costs associated with a successful store.

With the initial opening of INGLOT in Przemyśl, INGLOT managed to set base in a city that would have appreciating infrastructure and good trade routes. The lack of work within Przemyśl allowed INGLOT to attract the highest-quality workforce within the city while creating worker loyalty. INGLOT decided to continue almost all operations within Przemyśl – 95% of production happened within Przemyśl, Poland. This meant that INGLOT could capitalize on economies of scale when producing goods for their stores. INGLOT could produce all the goods required out of one place and have goods shipped at the soonest moment rather than having to send shipment orders to different stores from different production plants. INGLOT has managed to re-stock shelves quickly relative to competitors and can continue producing to demand as their initial investments into the production facilities in Przemyśl has capacity for growth.

INGLOT has also stuck true to their vision since the beginning. Wojciech Ingłot wanted to create a company that provided the highest quality cosmetics for a reasonable price and has managed to do so by sourcing high-quality raw materials from trusted countries while hiring low-cost labour.

INGLOT has managed to stay innovative thanks to the founder's involvement in R&D. Wojciech was deeply involved in managing R&D for Poland and the USA and managed to produce groundbreaking innovations in the field of cosmetics, mainly the Freedom System. Wojciech, the late-founder, was the pinnacle of innovation at INGLOT. He was involved in the creation of the Freedom System and other innovations such as the rainbow-coloured packaging and breathable enamel. Wojciech was continuously finding ways to innovate and differentiate, yet the loss of the founder may hurt INGLOT's ability to continue to do so. There needs to be a strong replacement of the late-founder if INGLOT wishes to continue differentiating in the highly-competitive cosmetics industry. Through the continuous attempts of INGLOT to keep up the vision of the founder, INGLOT has been able to develop the reputation of a company that produces goods that are reasonably-priced yet have high-quality.

5. Does INGLOT possess one or several competitive advantages?

INGLOT possesses multiple competitive advantages that their competitors are unable to copy:

Ability to grow without the need use of large amounts of debt - INGLOT is able to take on debt in the future to help finance any projects they wish to expand into. INGLOT is able to maintain this through their franchising model; INGLOT will only open its own stores when premium retail space is for sale and has price discounts, otherwise, franchisees must provide access to a retail space while paying for initial start-up costs.

Recognized as one of the highest quality and most innovative cosmetics company in the world – INGLOT has a strong brand that loyal customers can purchase from repeatedly. They have managed to build this brand and recognition since the beginning of INGLOT and have been able to maintain it through the production processes within Przemysl with raw materials coming from the best places, such as Japan and Switzerland. Although INGLOT continuously innovated with the make-up they produced, the packaging they used, as well as the product offerings they provided to consumers, they will need to find a way to do so moving forward as the founder, who oversaw the R&D operations, has passed away.

Realizes low cost labour that doubles as high quality – workers in Przemysl find better work relative to other jobs in Przemysl when working for INGLOT; INGLOT is able to attract all the high-quality workers without paying prices demanded in other countries such as France or Germany. Through years of production in facilities located in Przemysl, INGLOT was able to create a loyalty within workers for working at INGLOT. Because of the scarcity of work in the Przemysl, INGLOT has been able to take advantage of the highly-qualified labour while paying a fraction of what they would have to in other countries in Europe.

Attracts wide spectrum of customers through high-quality, reasonable-cost products and services – competitors are unable to copy this as they have high costs associated with producing high-quality goods. INGLOT sources all of its high-quality resources from countries known to produce high-quality raw materials; Japan, Switzerland, etc. INGLOT is able to maintain this expensive method of sourcing products by charging little for labour as well as outsourcing operations to franchisees. INGLOT pays a fraction of what workers would expect in other countries; almost 1/5th of what workers in France expect to be paid. INGLOT also requires that the franchisee takes responsibility for operational expenses as INGLOT makes its revenues from sales to the franchisee; 33% of net selling price of products. Through the combination of the two, INGLOT can keep costs to produce low and burden the franchisee with risk. Along with the franchising agreement, INGLOT states that the store must have a certain number of make-up artists who would be able to help consumers to decide between products while giving expert feedback on their consumption behaviour. This combination of reasonably-priced goods and value-adding services creates a competitive advantage that competitors are unable to recreate.

6. What are the most important threats to INGLOT's competitive advantages based on the information presented in this case?

Although INGLOT has numerous competitive advantages, each of these advantages is vulnerable to its own threats:

INGLOT has yet to enter the emerging markets like China and Brazil – INGLOT has experienced growth alongside the many historical events of INGLOT's past; Polish democracy in 1989 allowed INGLOT to get up onto its feet as a cosmetics producer, INGLOT stores in 2000 allowed INGLOT to grow into a Polish success story which allowed INGLOT to begin expanding internationally by 2006. INGLOT has been able to expand

without having to take on debt or having to spend money on advertising. This has been able to work because INGLOT has been able to leverage their ability to make strong connections with local makeup artists who are capable and determined to creating value for INGLOT. This is a method where INGLOT does not participate wholeheartedly – a method which allows INGLOT to displace the risk to locals who understand the market; Greece succeeded because a local partner had strong partnerships with local make-up schools and professionals, Russia succeeded because the local partner was able to effectively manage inventory and was able to satisfy demands without over-purchasing, South Africa succeeded because the local partner had a deep understanding of the local market. It is fair to say that INGLOT has heavily relied on local partnerships to sustain international growth in countries that are not necessarily emerging markets. It is imperative that INGLOT enters the markets of emerging markets in as these markets will possess the high-capital markets of the future. Without having some skin in the game, it will be tough for INGLOT to grow into the markets. INGLOT could fall behind if they do not find a way to enter markets without the help of a local who will lead the way.

INGLOT's innovative nature lies in jeopardy with the demise of the founder, Wojciech Inglot – INGLOT has been a forefront runner within the cosmetics industry for innovation and quality. This has been the main competitive advantage for INGLOT, helping propel INGLOT into the international markets. INGLOT has been able to introduce great product innovations such as the Freedom System concept, breathable nail enamel, and rainbow-coloured containers. This has been recently put into jeopardy with the death of the founder, Wojciech Inglot. Inglot was heavily involved in R&D since INGLOT's beginnings and up until he death in 2013. His death can prove to be a grave threat to INGLOT's ability to be innovative in the international industry. INGLOT needs to find a way to continue being innovative without Inglot. If INGLOT fails to find someone internally or externally that will be able to take the mantle of INGLOT's R&D sector, INGLOT may lose the brand recognition they have built with loyal consumers and may face losses in market share across all international markets.

Globalization effects on high-quality labour – INGLOT employs workers at a fraction of the wage that are paid out in other countries. In Przemyśl, average hourly rates are 7.1 euros whereas the same worker can earn 30.1 euros in Germany and 34.2 euros in France. This is beneficial to INGLOT as they can charge consumers and franchisees for lower prices, one of the pinnacles of their branding – high-quality cosmetics for reasonable pricing. This can be in jeopardy if globalization provides high-skilled workers with the means to travel to other places in search of work. If workers find that it is of greater added value to migrate for work, INGLOT can lose its competitive advantage of having skilled workers who accept lower wages.

7. What are INGLOT's strategic options post the sudden demise of INGLOT's founder?

INGLOT has a multitude of things to consider, both related and unrelated to the demise of their founder. INGLOT must battle its threats while simultaneously chasing the opportunities that are present. Of the threats that INGLOT faces, the threats that may have the greatest impact on INGLOT's future are the demise of the founder as well as the need to expand into global markets.

INGLOT must face the loss of their founder head-on. To mitigate the issues that arise with the loss of the founder, INGLOT must find someone who can fill his shoes. Wojciech Inglot was deeply involved in R&D and led the efforts in Poland and the US. To fill the void, INGLOT must search for an individual who is capable of innovating as the late-Inglot did. The hire could come from a multitude of places, the first being internal candidates. INGLOT has found talent internally in the past. INGLOT was co-run by the three Inglot siblings. INGLOT promoted the VP of Finance, Nizinski, to president of the management board following the death of Inglot. INGLOT has also promoted late-Inglot's previous assistant, Joanna Kobrylo, to VP of International

Operations. Talent has been found internally and can be done so once again. It is also wise to search externally for candidates as an executive that has external experiences can bring new ideas to the table. Another potential place to search for candidates would be franchisee owners who have proved to be catalytic to the success of INGLOT in their respected areas. Using the help of an international candidate who has worked with INGLOT in the past may prove to be an interesting choice as the new hire will have experience working with INGLOT consumers and products while being able to bring their own personal experiences to the table.

INGLOT also needs to find a way to expand their business internationally. This can come in two ways, the first being expansion into emerging markets. In the past, INGLOT has grown successfully within Poland and has been able to expand into the US with 8 INGLOT-owned stores. Apart from the US and some subsidiary-owned stores in Australia, INGLOT has had to rely on franchisees to open up their own stores within their own country. This has proved to do well for INGLOT yet does not cater to their needs of expanding globally at a pace to take over markets entirely. INGLOT has potential to be a strong competitor in emerging economies yet has avoided trying to adapt to the requirements of conducting business abroad. Although it may be difficult to break into China due to their immense regulatory and protectionist environment, there lies potential in other countries and continents such as Indonesia, Latin America, other parts of Asia, and recently France, wherein which there was an application from a potential franchisee. Latin America and Asia would prove to be a good place to invest time and resources as these economies are emerging and will be home to large markets in the future. INGLOT will also be able to take on debt to finance expansion plans as INGLOT has only taken on little debt in the past. Along with stores that will help target consumers, it will be wise for INGLOT to open up production facilities near the stores; INGLOT has had the advantage of being in stock year-round because of their production capabilities and should attempt to maintain this competitive advantage over competitors. It will also be wise to look into France as the production plants in Poland have a large capacity for expansion; this will give INGLOT an added advantage in comparison to its competitors as INGLOT will be able to keep their shelves stocked without having concerns regarding popular, out-of-stock cosmetics.

Apart from expanding into other countries, it is also wise to investigate the markets INGLOT is already present in. INGLOT has stores in 43 other countries, the majority owned by franchisees. These countries have potential to be markets that could prove to be unexpected successes. This was the case for Greece as well as South Africa. What is needed is to find partners who, not only can run a franchise, but have potential to create a division of franchises within the country. Not only is INGLOT already present in the 43 countries, there are individuals within the country who have personal experience and knowledge about the markets that they deal with. Being able to leverage the relationships that INGLOT has built in the past to deeply penetrate the markets could prove to be more fruitful for INGLOT than emerging markets. There is significantly less risk associated with deepening the product offering and understanding consumer needs of markets that INGLOT is already present in. Countries in which there are more stores would prove to be ideal as the country has proven track records as well as brand recognition. Apart from the countries that INGLOT already mainly deals with, these countries include Finland, Italy, Malaysia, Mexico, Saudi Arabia and a host of other countries.

Source Citation

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