

Estee Lauder Companies

Strategic Analysis

Disruptive Business Models- INV-6037

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Introduction:

Estee Lauder Companies (ELC) is a company which specializes in cosmetics, skincare, makeup, and fragrances. Among its brand, ELC has a remarkably diverse portfolio of brands under its corporate umbrella which include well-known brands such as Aveda, Jo Malone, Bobbie Brown, Clinique, and many others.

Estee Lauder Companies was founded in 1946 when Mrs. Estee Lauder began creating her own products and selling them to customers while her husband, Joseph Lauder, managed many business aspects and the day-to-day operations of the company during its infancy. Over time, they have evolved with popular trends in order to remain relevant with its consumers, while retaining its roots and culture. ELC is currently one of the most pristine companies in luxury skincare, selling products all over the world.

The company's culture can be summarized by this quote from current CEO Fabrizio Freda "Our culture is respectful of our roots and inspired to envision the future".

ELC's vision, as stated on their website, states that they wish to "Bring the Best to Everyone We Touch and Being the Best at Everything We do". This statement can be seen highlighted in their corporate values and goals to provide "unwavering quality and excellence" in all products and services they provide.

Currently, Estee Lauder Companies are ranked 4th globally in beauty and personal care products behind companies L'Oréal Groupe, Procter and Gamble, and Unilever Group.

Strategic Analysis:

Estee Lauder Companies employs various strategies in order to achieve its goals, however we will be focusing on their customer strategies to better understand how they approach their target demographic and entice them to buy ELC products over competitors such as L'Oréal and Unilever.

Currently, most Estee Lauder products are sold in third-party business vendors, most notably Sephora. This allows for a much greater diversification of products based on customer needs, rather than homogeneous boutiques around the world.

Their well-known strategy employs a "Try-On Experience" where customers can try on cosmetic products before making purchases. This strategy was first introduced during the early phases of the company's partnership with Sephora in the 1970s and has been a staple ever since. This specific strategy has been extremely popular with clients throughout the decades and has even inspired competitors to employ a similar tactic. It promotes a very customizable system in which clientele can "customize" their purchases based on their current needs, as skin varies from person to person, and a customizable business strategy can also take advantage of a bundling business model.

Their “High-Touch” model is also one of their many concrete cultural foundations. The company knows the importance of skincare to their clients, which is why they invest heavily in beauty consultants and influencers to provide to best quality of products matched with unparalleled customer service. The “High-Touch” and “Try-on” models pair very well together, making ELC one of the most well respected and loved companies in the industry.

ELC’s current ambition is to target Chinese Consumers (CC) in order to capture this rapidly expanding market. Recently, Chinese citizens have begun spending a lot more on skincare and cosmetic products which Estee Lauder have attempted to capture. So far, their ventures have proven fruitful based on a 9% turnover increase of \$14.86 Billion in 2019. Brands such as La Mer, Tom Ford, Becca, and the Estee Lauder brand have shown to be the most popular among CCs and CEO Fabrizio Freda is adamant that “The growth of skincare in Asia is here to stay for the long-term” despite the volatility of the industry.

Target Market

ELC’s target demographic is relatively simple. The majority consists of women between the ages of 17 to 55. Because their diverse portfolio of brands and products, there is something for everyone, even for men who are interested in cosmetics. Brands such as Becca, Two Faced, and Bobbi Brown tend to attract younger audiences, while Estee Lauder brand, Mac, and Jo Malone are more geared towards older generations.

Fabrizio Freda, CEO of ELC, stated that “Millennials are spending more money on beauty products than any other demographic... Millennials are more experimental... Social media is the place where they discover what’s next”. This generation is currently one of the most important to capture as they are the biggest by population overtaking the Baby Boomers. They are now between the ages of 23 and 38 and will be a major financial powerhouse in the near future.

A recent addition to ELC’s list of target demographic is the Chinese Consumer who, as stated above, represents an ever-growing segment of the world’s market of the cosmetics industry.

Trends:

There has been a growing concern and awareness based on animal testing and animal cruelty in the cosmetics world. Many brands today use animal testing as way to make sure that products are safe for human use. However, due to social media and the news, more people are aware of the dilemma and some even refuse to purchase from companies which do utilize animal testing. According to Cruelty Free Guide, Estee Lauder Companies and its subsidiaries continue to use animal testing for their products and as a result, cannot operate and sell in countries which do not support such actions.

Strategy Scenarios/Recommendations:

There are not currently many recommendations one can make to a Fortune 500 company, however the major one that I believe should be heavily considered given the current world pandemic is a virtual application which allows customers to “try on” products. The software already exists; however, I do believe that past the COVID-19 pandemic, retail shopping will be significantly affected by shoppers preferring to continue to purchase items online. This can impact ELC negatively as many customers enjoy walking in to stores to buy their products. To maximize the number of clients who love Estee Lauder products to continue to shop, a virtual try on application might be an alternative. The app would scan the face of a user and make recommendations, as well as allow them to try on the products. This could potentially be the future skincare and cosmetic purchasing as the business world is moving increasingly towards a fully digital and e-commerce world.

Another recommendation would be to focus on the improvement of social media. On Facebook, Instagram, Twitter, and LinkedIn, Estee Lauder Companies is behind competitor L’Oréal Paris as well as Unilever and P&G. ELC has recently invested a significant amount into influencer in order to close the gap between their rivals. As stated above, Millennials have been a major powerhouse when it comes to purchasing skincare and use social media to find out what the new trends are. Making sure this specific segment is well aware and kept updated on newness is key to winning the social media wars.

Another recommendation is to continue exactly with their current venture in Asian countries. The growing market is very profitable and is still growing. Despite the pandemic and growing trade tensions between the United States and China, it is imperative to capture this market and secure a concrete foothold in APAC countries.

Final recommendation is to cease product testing on animals. With an increasing amount of people rejecting companies which function on animal testing, it is crucial for ELC and all its subsidiaries to find separate methods of product trials. If they continue down this route, it is possible that in the future, they will suffer from customers refusing to buy their products.

Conclusion:

Estee Lauder companies is clearly a very impressive company with an extraordinarily rich history and even richer company culture. They strive to provide the best quality products accompanied by the best quality service by making sure customers remain the main priority. The company does also have some weaknesses which should be addressed in order to close the gap between L’Oréal, and to make sure their products are absolutely cruelty free.

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