



# Passport

## L'ORÉAL COMPANY PROFILE – SWOT ANALYSIS

December 2012

# Scope

- All values expressed in this report are in US dollar terms, using a fixed exchange rate (2011).
- 2011 figures are based on part-year estimates.
- All forecast data are expressed in constant terms; inflationary effects are discounted. Conversely, all historical data are expressed in current terms; inflationary effects are taken into account.



## Disclaimer

Much of the information in this briefing is of a statistical nature and, while every attempt has been made to ensure accuracy and reliability, Euromonitor International cannot be held responsible for omissions or errors.

Figures in tables and analyses are calculated from unrounded data and may not sum. Analyses found in the briefings may not totally reflect the companies' opinions, reader discretion is advised.

*L'Oréal has performed well thanks to a segmented portfolio lending it the flexibility to address diverse consumer groups across the world. However, competitive intensity is increasing, which L'Oréal needs to heed to retain its market position in the long run.*

## STRATEGIC EVALUATION

COMPETITIVE POSITIONING

MARKET ASSESSMENT

GEOGRAPHIC AND CATEGORY  
OPPORTUNITIES

BRAND STRATEGY

OPERATIONS

RECOMMENDATIONS



# Key company facts

## L'Oréal Groupe

Headquarters: France

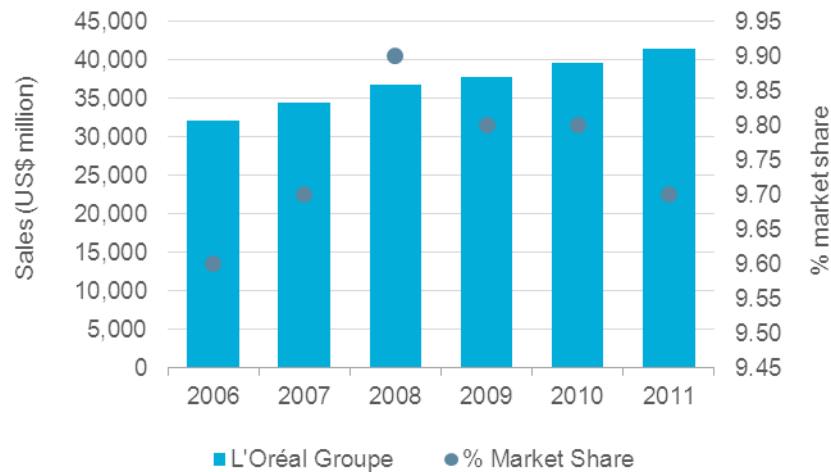
Regional involvement: Global

Category involvement: Skin care, colour cosmetics, hair care, fragrances, men's grooming, sun care

World BPC share 2011: 9.7%

World BPC value growth 2011: 4.8%

L'Oréal Groupe Sales vs % Market Share  
2006-2011

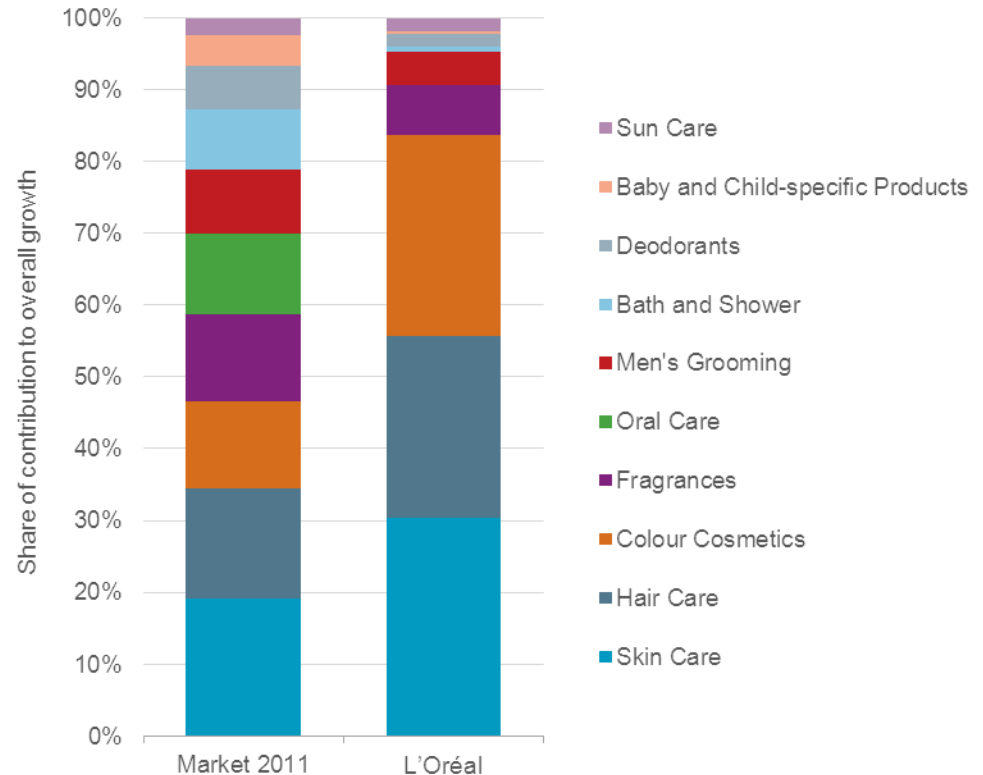


- L'Oréal is the second leading beauty and personal care manufacturer in the world, following Procter & Gamble at number one. Excluding shaving, L'Oréal's market ranking rises to number one globally. The company has a comparatively narrow focus, exclusively in beauty and personal care, as opposed to some of its key rivals Procter & Gamble and Unilever which are present in home care and beauty and personal care.
- L'Oréal's exclusive focus has enabled it to make more targeted investment in R&D and advertising, growing to be a formidable force in the industry. In colour cosmetics, L'Oréal is the leading provider at over 19%, with Estée Lauder a distant second at 8% market share. It has also made strong strides in skin care through a number of launches based on cutting edge technology.
- Despite its good market coverage, the company's market share dropped marginally. L'Oréal has been affected by lower hair care sales in Western Europe. In addition, market growth was partly driven by commodities such as oral care and bath and shower in which L'Oréal has limited presence.

# Commodities contribute to overall growth in BPC

- L'Oréal's key portfolios are skin care, hair care and colour cosmetics, with a combined contribution of 80% to its retail sales in 2011. While skin care, colour cosmetics and hair care contributed 50% to total industry absolute value growth in 2011, for L'Oréal these categories made an 80% contribution to the company's absolute value growth. The remaining 50% of the industry's absolute growth derived mainly from categories such as oral care, bath and shower and deodorants, witnessing increasing premiumisation. Launches in oral care claimed more professional cleaning features, while bath and shower tapped into spa technology taking advantage of reduced spa visits in the face of the economic recession. Deodorants have benefited from technological advancement.

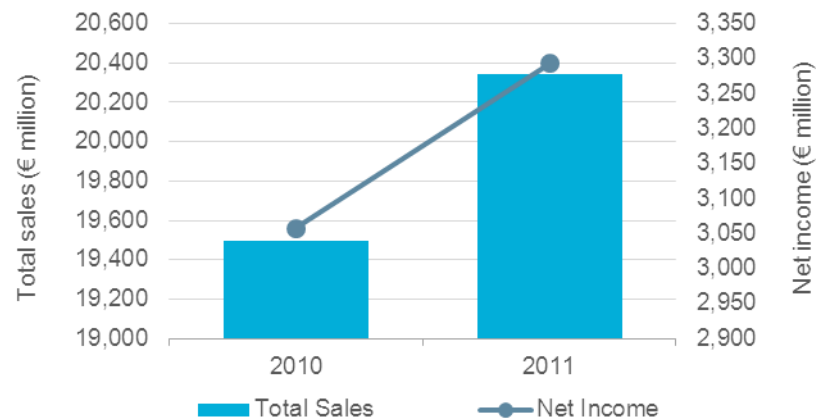
Proportion of Category Contribution to Absolute Value Growth 2011



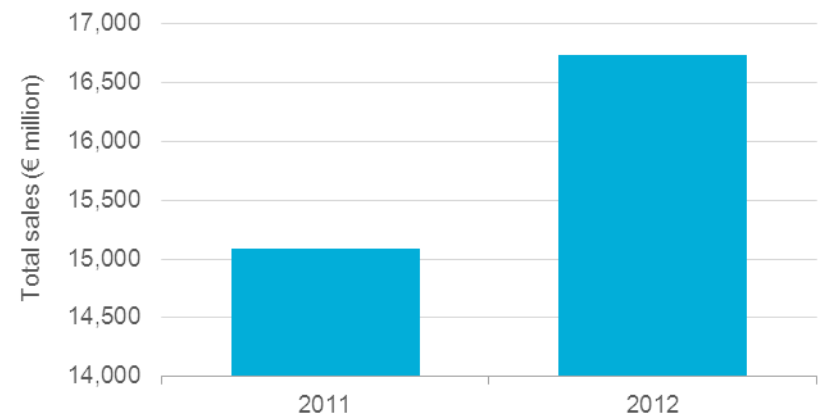
# Financial analysis

- L'Oréal's total sales have shown good growth in both 2011 and through the 9-month period in 2012. L'Oréal's luxury division performed well driven by innovations and emerging market growth. L'Oréal added breakthrough features to its launches appealing to consumers for the novelty of the launch, thus justifying its pricing. In addition, it is continuing with its global expansion announcing the opening of a manufacturing hub in Indonesia, which will serve Southeast Asia. It announced the acquisition of Vogue to expand its presence in some Latin American colour cosmetics markets. L'Oréal's segmented portfolio has lent it the flexibility to address diverse consumer groups across the world. While Lancôme serves global premium consumers, Yves Saint Laurent is targeted towards Western European consumers. L'Oréal Paris is geared towards price-savvy consumers and Garnier for lower-income groups. The company had a void in terms of addressing young consumers looking for affordable yet exciting luxury colour cosmetics, which Urban Decay is expected to fulfil. However, it needs to address its presence in the affordable natural/organic segment going forward.

### Total Sales vs Net Income 2010-2011



### Total Sales 9-Month Period 2011-2012



# SWOT: L'Oréal Groupe

## STRENGTHS

### Innovation

- L'Oréal is able to think outside the box. Its expansion through skin care device Clarisonic demonstrates its ability to venture outside regular product categories to drive growth.

### A well-segmented portfolio

- L'Oréal has a well-segmented portfolio operating across different pricing tiers. This has helped L'Oréal to drive sales growth at economically challenging times.

## OPPORTUNITIES

### Natural/organic brands

- There are opportunities for L'Oréal to further tap into natural/organic. It could even consider an acquisition in this area and Yves Rocher could be a good fit for L'Oréal.

### Clarisonic in China

- L'Oréal has been driving Clarisonic in the US and reportedly launched it in France. China too is a prospective market given consumer preoccupation with skin care.

## WEAKNESSES

### Hair care has been less dynamic

- Hair care has been less dynamic for L'Oréal, contributing to its drop in market share in 2011. It faces challenges from P&G and Unilever, but announced that it has exciting launches in the pipeline.

### Less dynamic in natural/organic

- L'Oréal has been less proactive in the natural/organic category, although it has done well to revive The Body Shop. It could benefit from greater penetration in the category.

## THREATS

### Economic adversity

- Economic forecast is bleak propelled by the Eurozone debt crisis. At the same time, emerging markets such as China are reportedly cooling down.

### Growing competition in emerging markets

- L'Oréal has done well in terms of emerging market expansion but competition is becoming more intense. For example, Estée Lauder and Coty are both targeting China.

# Growth objectives on track

## Doubling consumer base

- L'Oréal's key objective is to increase its consumer base from one billion to two billion by 2020/2025. The company has been targeting emerging markets and is well on track. It has done well in China where it is increasing penetration through both premium and mass brands. In India, it targeted men's skin care and is increasingly expanding Garnier. It recently announced the completion of a manufacturing site in Indonesia and acquired a Colombian colour cosmetics brand.

## Category expansion

- L'Oréal's goal is to drive sales growth through category expansion. It has been aiming to grow in deodorants and body care. It entered a number of new markets such as Ukraine with deodorants, but the pace seemed to have slowed down recently. It is expanding in body care with Roger & Gallet but its most successful category expansion has come from adding skin care device Clarisonic in the US.

## Brand segmentation

- L'Oréal brands are distinctly segmented across pricing tiers and target audiences. While YSL and Lancôme are premium, L'Oréal Paris operates in the upper tier of the mid market and Garnier is a mass brand. The retail channels are strictly maintained for these brands so as not to dilute brand image. For example, premium ranges are mainly available in department stores, while Garnier is used for penetrating in emerging countries' lower-tier markets.

## Sustainable development

- L'Oréal's sustainable development programme includes eco-responsible strategies and is ranked among the top 100 most sustainable companies. In 2009, the company announced three environmental goals: to cut by half its greenhouse gas emissions, water consumption and waste generated in its factories and distribution centres. Its recent production sites are built in a more environmentally-friendly manner.



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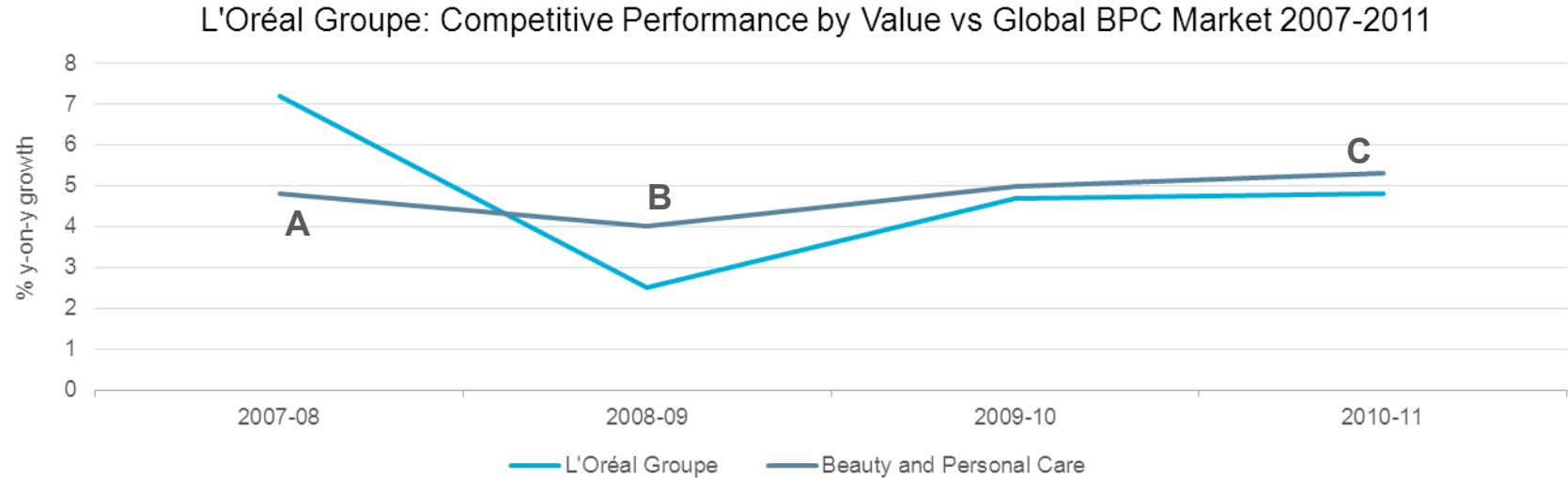
## Major global players in beauty and personal care

Beauty and Personal Care: Top Global Players  
by Value 2010/2011

Company	% share 2010	% share 2011
Procter & Gamble Co, The	11.5	11.5
<b>L'Oréal Groupe</b>	<b>9.8</b>	<b>9.7</b>
Unilever Group	7.0	7.8
Colgate-Palmolive Co	3.6	3.8
Avon Products Inc	3.2	3.2
Beiersdorf AG	3.2	3.1
Estée Lauder Cos Inc	2.9	2.9
Johnson & Johnson Inc	2.8	2.8
Shiseido Co Ltd	2.6	2.5
Kao Corp	2.2	2.1

- The global beauty and personal care market remained stable in competitive context over the review period, with the top four remaining entirely unchanged.
- L'Oréal's ranking remained static at second position although the company has lost 10 basis points in market share mainly due to growth in categories such as oral care where it lacks presence as well as less dynamism in one of its major categories, hair care, which has come under strong competitive pressure.
- Within the global beauty and personal care market, Unilever made the best improvement in value share in 2011 thanks to its acquisition of Alberto-Culver, which boosted its presence in Australasia, Eastern Europe and North America during the year. The acquisition helps Unilever to pull further away from Colgate-Palmolive to challenge more closely second-ranked L'Oréal.
- Shiseido improved its value share in 2010 thanks to its acquisition of Bare Escentuals in the US market, as the company stepped up its international expansion in recent years. Yet difficult sales in core domestic market Japan led to the company's share erosion in 2011.

# L'Oréal falls below industry growth



**A:** In 2008, the acquisition of Yves Saint Laurent helps the company beat the global growth rate.

**B:** 2009 is a difficult year for the company with strong exposure to premium cosmetics, which are hard hit by the economic downturn. Consequently, the company's growth rate falls below that of the global beauty and personal care market.

**C:** L'Oréal's global growth in beauty and personal care falls slightly below that of the industry in 2011, when industry growth is partly driven by commodities such as oral care and bath and shower. L'Oréal has no presence in oral care and is a small player in bath and shower. In addition, its hair care share falls due to Western European weakness.

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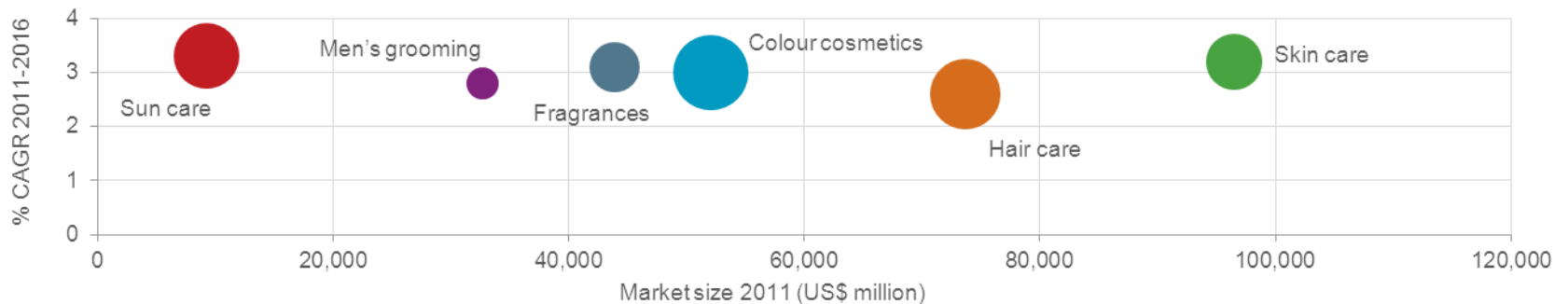
RECOMMENDATIONS



# L'Oréal focuses on skin care

- In recent years L'Oréal has been focusing on skin care, recording the highest growth rate in terms of CAGR between 2006 and 2011, making breakthrough launches such as Visionaire. L'Oréal surpassed Procter & Gamble as the leading player in China skin care, projected to drive absolute value growth between 2011 and 2016. It is now venturing into skin care devices with Clarisonic.
- L'Oréal ranks number one in colour cosmetics leading its immediate rival Estée Lauder by 12 percentage points. L'Oréal operates a number of brands across various pricing tiers catering to a wide range of target audiences. It is now pushing colour cosmetics beyond immediate BRIC markets, as indicated by its recent acquisition of Colombian colour cosmetics brand Vogue. In addition, it has also agreed to purchase Urban Decay, a US brand catering to a younger audience.
- While L'Oréal made strong strides in skin care and colour cosmetics, hair care has been relatively less dynamic in developed markets although the company has announced exciting launches in the coming months.

L'Oréal Groupe: Beauty and Personal Care Presence 2011 and Growth Prospects by Category 2011-2016

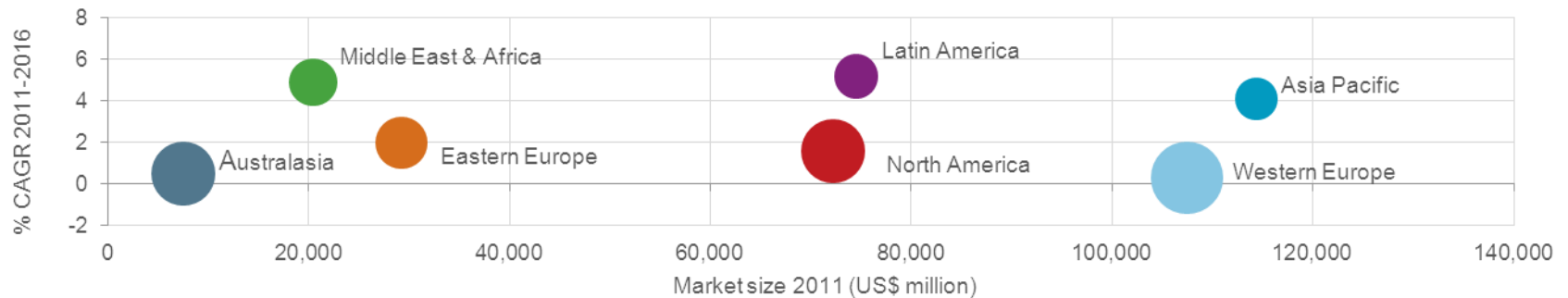


Note: Bubble size shows company share of category 2011. Range displayed 3.5-19.2%

# Flexible portfolio helps drive year-on-year growth globally

- L'Oréal has a well-balanced regional portfolio with a good presence in both developed and emerging markets. In Western markets L'Oréal has been driving growth through value addition including breakthrough launches across the wide pricing spectrum, lending it a degree of flexibility to cater to a wide range of consumers, thus helping the company to drive growth even in the face of economically challenging times. Despite lower growth prospects, L'Oréal has been targeting the US given the significant market size. It has made a few acquisitions in the market including Clarisonic and more recently announced its plan to buy the US colour cosmetics brand Urban Decay to strengthen its position in beauty specialist retailers. In emerging markets, L'Oréal's strategy depends on market-specific conditions. In China, L'Oréal has been driving sales growth for both premium and mass ranges, while in India the company is aiming to expand in the mass market through Garnier. It is also targeting markets beyond BRIC countries as indicated by its acquisition of Vogue in Colombia. It has also announced the completion of a manufacturing site in Indonesia, which is set to serve as the hub for Southeast Asia.

L'Oréal Groupe: Beauty and Personal Care Presence 2011 and Growth Prospects by Region 2011-2016



Note: Bubble size shows company share of region 2011. Range displayed 5.5-16.0%

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## Key findings





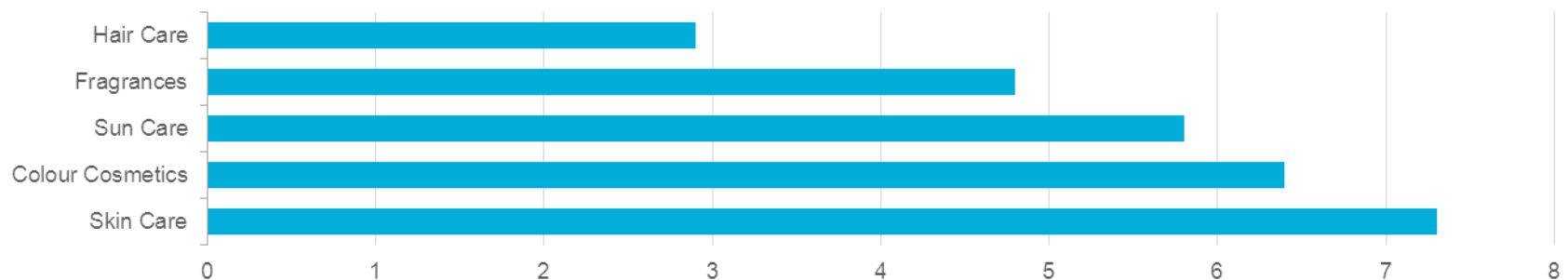
## NEED FOR INNOVATION

L'Oréal's acquisition of Clarisonic clearly demonstrates its ability to drive growth through category expansion although in terms of actual size it is still a small base. Despite the market size there is strong growth potential particularly in China where L'Oréal could consider expanding Clarisonic. In addition, the company needs to strengthen its position in the natural/organic range.

## L'Oréal prioritises skin care but competitive threat ahead

- L'Oréal skin care can boast of receiving the most attention within the company as the category's CAGR exceeded 7% over 2006-2011; the highest in comparison to other key categories in which L'Oréal operates. L'Oréal has a wide coverage across the pricing tiers and retail channels in skin care and has had a number of successful launches to its credit including Génifique and Visionaire.
- L'Oréal has now gone a step further tapping into niche skin care categories. In 2011, L'Oréal acquired Pacific Bioscience Laboratories, allowing it to add the sonic skin care device Clarisonic to its portfolio. The company has invested in the Clarisonic, launching new products including Opal Sonic Infusion, specifically designed for the eye area.
- L'Oréal's strategy to tap into niche segments to drive category growth is a prudent one, but L'Oréal faces major competition as the skin care market heats up. China, the most prospective skin care market, is targeted by leading skin care players. In Western Europe, L'Oréal's largest regional market, manufacturers are aiming to boost growth through mass-positioned natural/organic ranges, a segment in which L'Oréal lacks meaningful presence. Despite a successful run in skin care, L'Oréal's future prospects in skin care would largely depend on how well it responds to these trends.

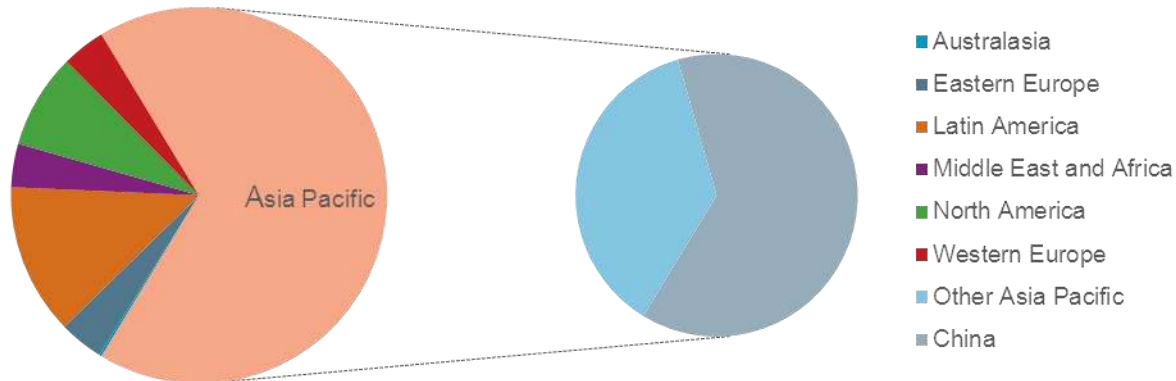
L'Oréal % CAGR 2006-2011



# Skin care players target China for growth

- Asia Pacific is projected to contribute the most to skin care absolute value growth between 2011 and 2016 and this growth will be mainly driven by China. Consequently, China skin care is heating up. L'Oréal has performed successfully in China skin care through a wide range of brands across the pricing tiers and retail channels to cater to varying consumer needs and affordability. To this end, it overtook Procter & Gamble as the number one player in skin care in 2008.
- Given the strong growth prospects for China skin care, other leading skin care manufacturers are targeting China for growth. Estée Lauder has launched a skin care brand specifically designed for Chinese consumers while increasing the number of outlets in second- and third-tier cities. Coty has struck a deal with China's largest retailer to market its skin care brand Lancaster. In the face of growing threat, the question is how best L'Oréal can defend its position in the market. It could follow Estée Lauder and introduce a similar brand to Osiao, but this may not be prudent. It may make more strategic sense to introduce Clarisonic in China.

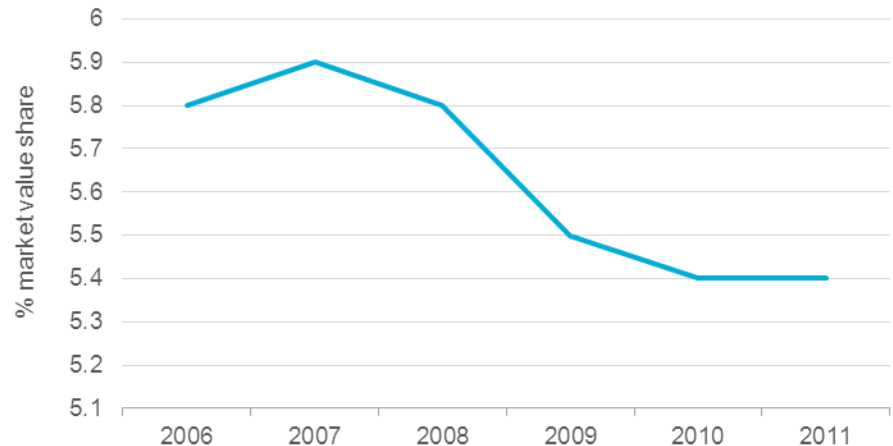
China Contribution to Absolute Value Growth in Skin Care 2011-2016



## EL China-specific skin care brand Osiao a high risk venture

- Estée Lauder is not the first to introduce a brand specific to Chinese skin type. Shiseido launched Aupres for Chinese women in 1994, although Aupres is now categorised as a mass brand whereas Osiao is a premium brand.
- Aupres has been facing challenges in China's skin care market with its market share declining between 2007 and 2010 and levelling off in 2011. Aupres has suffered from lack of innovation. A more confined market focus meant that scale was smaller making R&D a more costly venture. Shiseido is now aiming to overcome the scale issue by introducing Aupres in Malaysia and Thailand.
- Aupres' performance is an indication that Osiao is likely to face a number of obstacles. One benefit Osiao has over Aupres is that the brand is the result of R&D that has already taken place. In addition, Estée Lauder too aims to expand it regionally.
- There is, however, another risk of the brand not being accepted by Chinese consumers. Brands passed off as specifically designed for Chinese consumers may need to be based on local ingredients and it is likely that Chinese consumers would trust local manufacturers more than foreign players.
- Whether Osiao is successful or not depends on how well Estée Lauder convinces its target consumers, while L'Oréal is better off focusing on its existing brand portfolio until such a market develops in the future.

Aupres: Market Share in Skin Care in China  
2006-2011



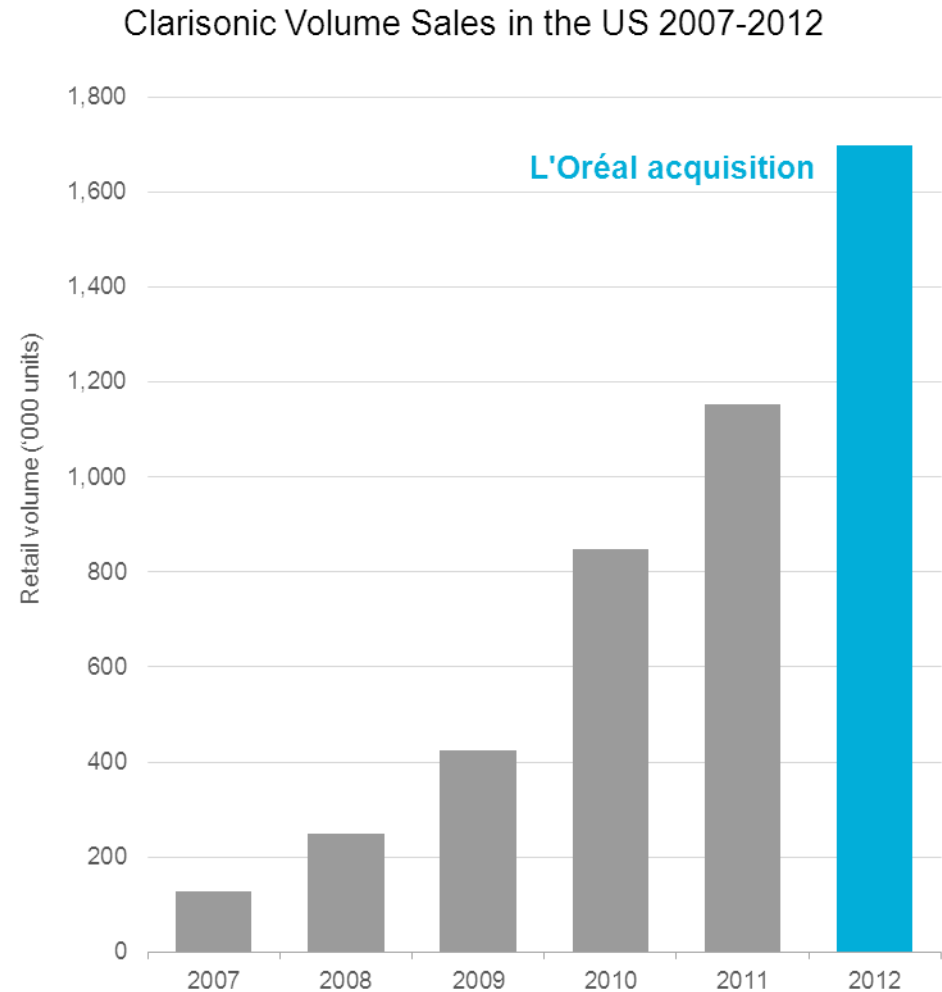
## Clarisonic to help beat competition in China

- Chinese consumers' pre-occupation with good skin combined with increasing affordability, provides L'Oréal with a strong growth opportunity for Clarisonic.
- The product's claim of greater efficacy, aided by the sonic powered brush helping to absorb the cleanser and exfoliate much better by removing chemicals from the face, could prove a great success among Chinese consumers.
- Clarisonic is available on a number of internet retailing channels such as Taobao in China, although there are doubts about the product's authenticity. Regardless, it has received rave reviews on the internet from Chinese consumers.
- In addition, L'Oréal is unlikely to meet competitive barriers since the sonic skin care device is a novel concept and this could translate to considerable sales growth for L'Oréal. However, L'Oréal needs to be mindful of the fact that Procter & Gamble, erstwhile leading player in China's skin care market, also owns a sonic skin care device, Olay Pro-X, which it might consider introducing, making L'Oréal's entry more difficult.



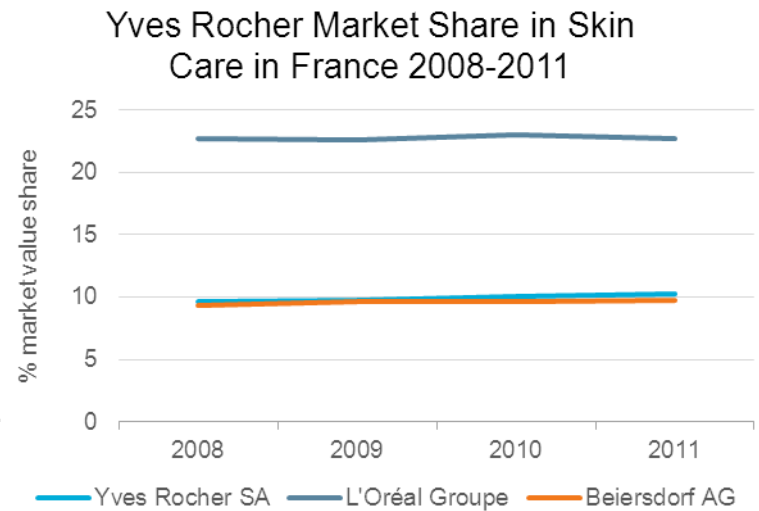
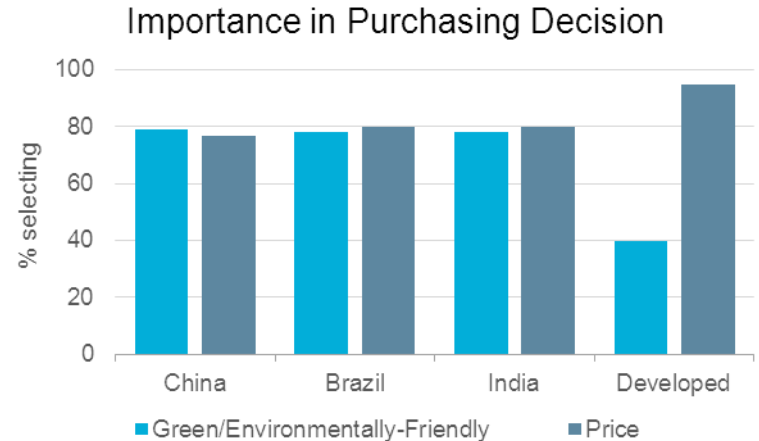
## Clarisonic drives growth in the stagnant North American market

- Clarisonic is one of the most successful stories in consumer appliances in recent times recording strong growth between 2007 and 2012. It has proved successful in the otherwise stagnant North American market. The product is available in department stores and direct channels. It has been strongly promoted by trade press and social media.
- Clarisonic is placed at the premium tier and thus beyond the affordability range of many consumers particularly during the economic downturn. Despite this the product has experienced robust growth indicating the brand's strong market potential.
- While, through Clarisonic, L'Oréal has demonstrated the ability to think outside the box it seems to be missing a rising trend in its immediate market. Consumers are showing greater health and environmental concerns leading to growing demand for natural/organic products, particularly in the skin care category.



# Mass range green offerings a potential threat in Western Europe

- L'Oréal has been facing challenges from manufacturers offering value range natural/organic brands in its leading regional market Western Europe. As Euromonitor International's consumer survey indicates there is a good market potential if green credentials can be combined with price and quality. This is further substantiated by Euromonitor International market data.
- Yves Rocher and Beiersdorf have tapped into this market potential, which helped them drive market share growth. In 2011 alone, L'Oréal lost 30 basis points to Yves Rocher and Beiersdorf which gained 20 and 10 basis points, respectively, on the back of natural/organic launches in L'Oréal's leading market France.
- Yves Rocher is a mass-market beauty and personal care manufacturer. Its products are based on natural ingredients and deemed high quality and efficacious. One of its new launches, Elixir 7.9, is a skin care serum made from plant extract. It proved very successful in France in 2011 eating into L'Oréal's market share.
- Beiersdorf launched Nivea Pure & Natural in 2011 which claims to derive 95% of its ingredients from natural sources. It is sold at an affordable price point, helping the brand to gain share in markets such as France.



# L'Oréal plans to expand Kiehl's at 20%-lower pricing

- It is reported that L'Oréal is planning to expand Kiehl's in Western Europe. However, the concern is that the company has stated that it would reduce Kiehl's pricing by 20%. According to L'Oréal the reason for slashing the prices is to align the brand's pricing with the US market.
- L'Oréal has lost share to brands with natural positioning in Western Europe and to combat the competitive challenges it needs to enter this market segment without much delay. Since it lacks a suitable brand in the mass range it is likely that L'Oréal feels compelled to introduce Kiehl's at a lower price point. Moreover the available range of premium cosmetics in the natural/organic segment is more competitively priced than Kiehl's.
- There is a potential this could have an adverse impact, as seen in China, although this is a very different market. When Shiseido launched Aupres in China it was initially marketed as a premium brand. However, when the brand failed to drive growth Shiseido lowered the price, which had a more adverse impact on the brand as it failed to occupy a specific market position, failing to capture either mass or premium. Lowering pricing for premium brands is generally not a prudent move. Kiehl's has been reporting robust growth globally and this move could jeopardise Kiehl's market potential.

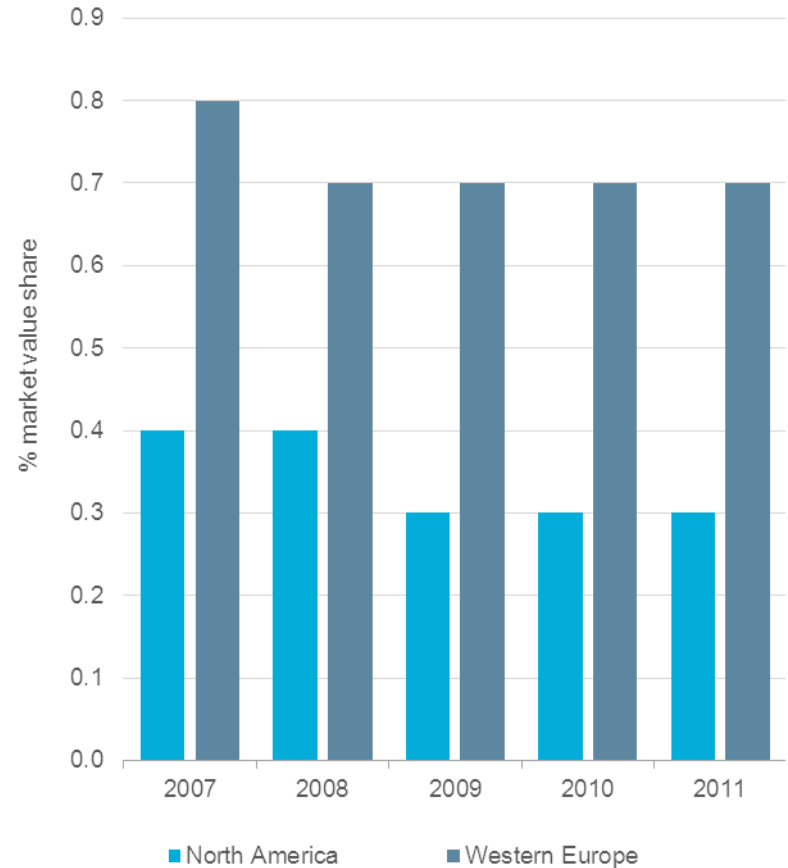




# The Body Shop challenge

- The growing interest in natural/organic brands at affordable price points in developed markets could provide L'Oréal a good opportunity to further expand The Body Shop brand, although there has been a clash of brand ethos obstructing the brand's growth in Western markets.
- The Body Shop proved successful after its launch due in large part to one of its key claims that its products were not tested on animals. Following L'Oréal's takeover, The Body Shop received some negative publicity since L'Oréal's other brands were tested on animals at the time of the acquisition. L'Oréal now claims that it does not conduct animal testing and sponsors research that would help eliminate the need for animal testing altogether, but the stigma remains. There are also groups that claim that L'Oréal continues to test on animals, quoting that brands based on certain ingredients cannot pass safety laws unless tested on animals.
- While The Body Shop faced difficulties, other similar brands entered the market, taking over The Body Shop's market share, making it even more difficult to revive.

The Body Shop Market Share in NA and WE Beauty and Personal Care 2007-2011



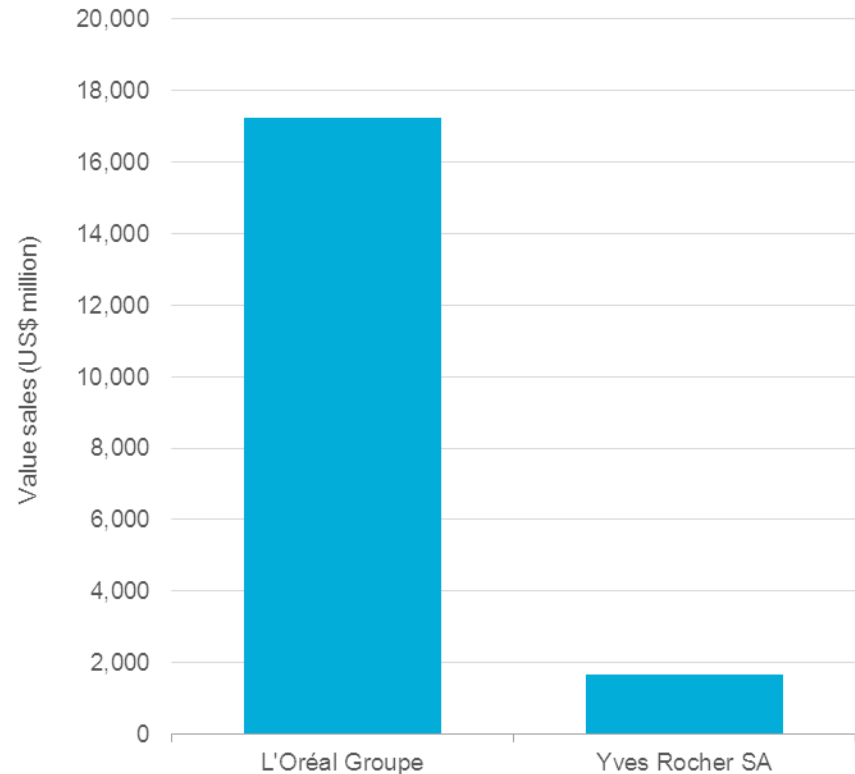
## Would L'Oréal want to divest The Body Shop?

- Founder and CEO of Lush, Mark Constantine, remarked that The Body Shop was not fitting in with L'Oréal's portfolio and that L'Oréal was considering divesting it. This created a considerable ripple in the industry, but L'Oréal denied it. Instead L'Oréal has been expanding the brand in emerging markets.
- L'Oréal has been prudent to realise that despite the hiccups surrounding the acquisition, divesting it would not be strategic given it is a globally well-known brand. The brand's reputation and affordable price points makes it suitable for emerging markets. The brand was unveiled under a new tagline "Beauty with heart", implicitly conveying its averseness to animal testing.
- L'Oréal has designed interactive retail formats around this tagline. One such store is known as Pulse, launched in Hungary and India. Under the Pulse retail format, an area is dedicated to show The Body Shop's commitment to its five core values including protecting the planet, activating self-esteem, defending human rights, supporting community of fair trade and standing up against animal testing. In Puerto Rico, it launched shop-in-shop concept where the outlets have tables with stories behind the brands.
- L'Oréal has joined hands with organisations defending animal rights, contributing US\$1.2 million to the U.S Environmental Protection Agency and partnering with Cruelty Free International to help abolish animal testing. In addition, it has been increasingly committing to the environment-friendly process, making a public commitment to reduce CO2 emissions by 50% by 2020, which can further reinforce its commitment to social causes.
- Given that The Body Shop lost some customers as a result of the acquisition, it is likely to take more than "Beauty with heart" and Pulse to bring them back, but strong growth potential in emerging markets could offset the stunted growth in Western markets.

## Yves Rocher a good fit for L'Oréal

- To overcome the gap, L'Oréal could consider an acquisition and Yves Rocher could fit well into L'Oréal's portfolio given both are French companies. In terms of actual value sales, L'Oréal would not benefit much since Yves Rocher is much smaller in size, but this would allow L'Oréal to enter a market segment in which it is currently absent. L'Oréal can tap into Yves Rocher's sophisticated technology to take advantage of the growing demand for affordable mass-market natural/organic offerings. Yves Rocher too would benefit from L'Oréal's wide distribution network. There may be a question around Yves Rocher suffering the same fate as The Body Shop, but Yves Rocher operates in the space of natural ingredients and efficacy, whereas The Body Shop's slogan was against animal testing. Yves Rocher's market placement is less conflicting with that of L'Oréal's.

L'Oréal and Yves Rocher in Beauty and Personal Care in Western Europe 2011

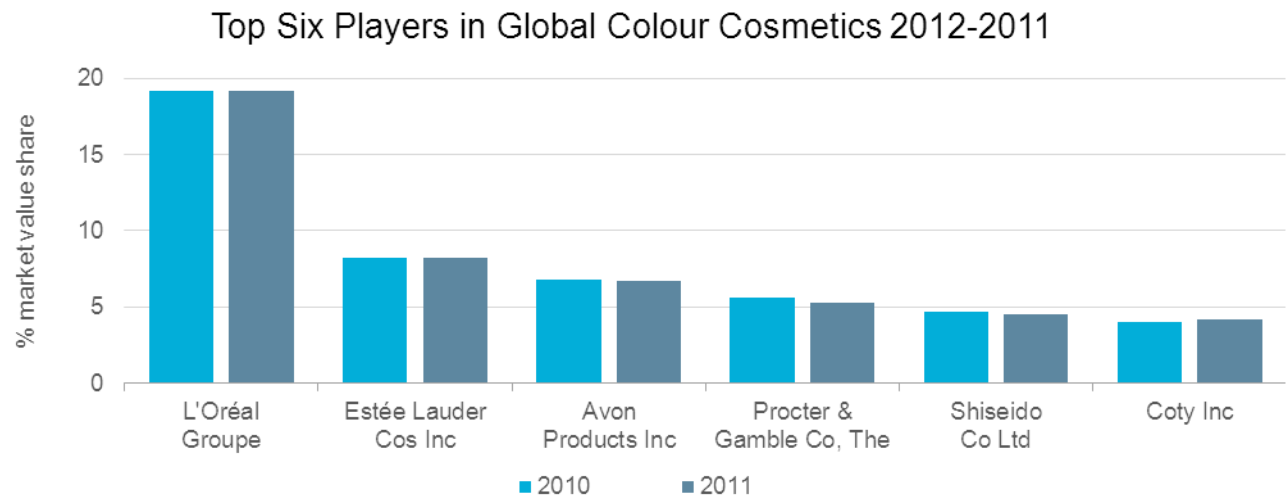


## **STRONG LEADER IN COLOUR COSMETICS BUT SOME SIGNS OF WEAKNESS**

L'Oréal is by far the market leader in colour cosmetics and it would be a long time before a competitor can catch up organically. It has made prudent acquisitions, filling in the voids in its portfolio but needs to address market share loss in Russia.

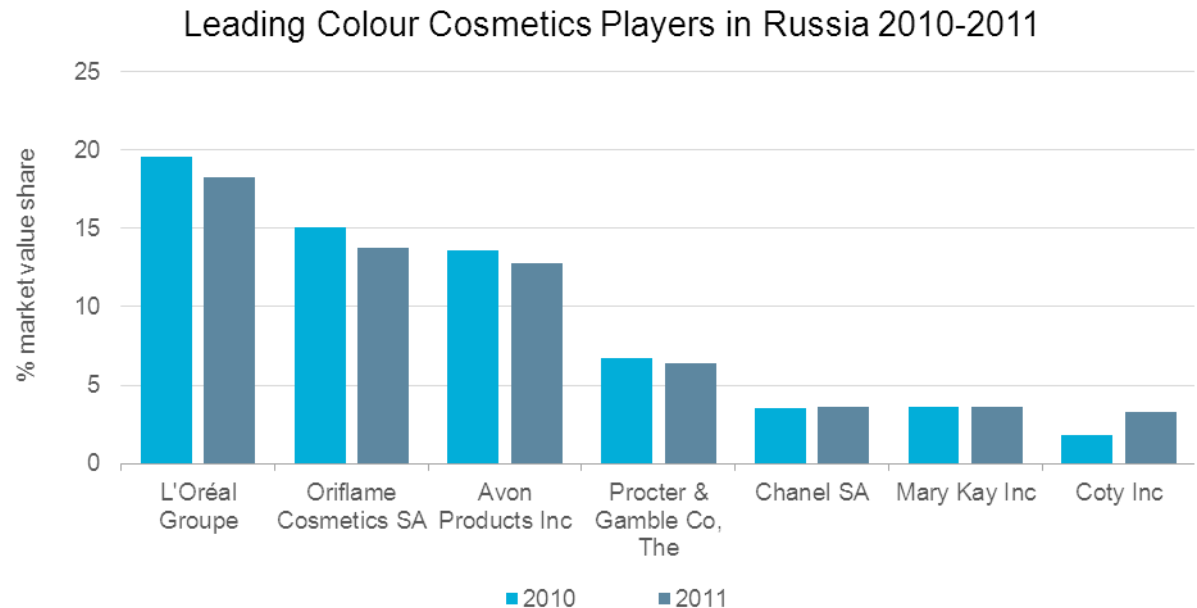
## L'Oréal strong in colour cosmetics but long-term competition looms

- L'Oréal's global market share in colour cosmetics at over 19%, while its immediate rival Estée Lauder in the same category at a distant 8%, reveals a strong market position for L'Oréal. In 2011, L'Oréal's market share remained static, which is a good performance given the competitive nature of the market.
- Despite a strong market position and good performance, there are indications of weaknesses in its operations in certain markets. The key challenges are in the Russian market, where Coty is gaining share, while in China Estée Lauder is increasing its outlets. Chanel is gaining ground in one of the most lucrative markets, Middle East and Africa, while Latin America is dominated by direct sellers. The problem is further compounded by its portfolio extending across a number of beauty and personal care categories diluting the company focus in terms of research and development. In addition, increasing cost of production with soaring commodity prices has been exerting pressure on operating margins in the industry, leaving less room for R&D investment.
- L'Oréal's strong market position in colour cosmetics lends it immunity from looming competition in the short to medium term, but it needs to address them to secure its position in the long run.



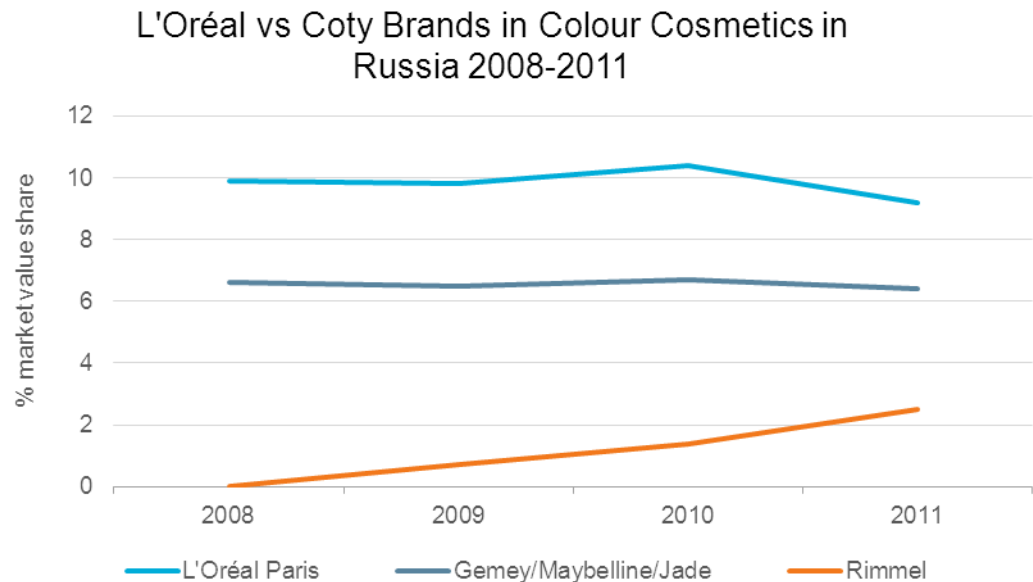
## Losing ground in Russian colour cosmetics

- Russia is L'Oréal's leading market in Eastern Europe, making up for nearly 55% of its regional colour cosmetics portfolio. L'Oréal is the leading player in Russia's colour cosmetics market at over 18% value share, while the immediate rival Oriflame is at nearly 14% value share.
- L'Oréal lost 130 basis points in Russia's colour cosmetics market in 2011 along with declines for the next three competitors. The difficult economic conditions have contributed to the loss of market share, but its next two competitors Oriflame and Avon are suffering from the slow growth in direct selling. As for Procter & Gamble, colour cosmetics is a relatively small part of its total portfolio. Procter & Gamble is currently trying to revive market share growth for its key category laundry care, where it has been coming under strong competitive pressure globally. On the other hand, L'Oréal's loss of market share indicates that it has not fully exploited market potential in Russia's colour cosmetics. L'Oréal operates brick and mortar retail brands and is present across both mass and premium segments. Hence the reasons why its competitors are losing share cannot be attributed to L'Oréal.



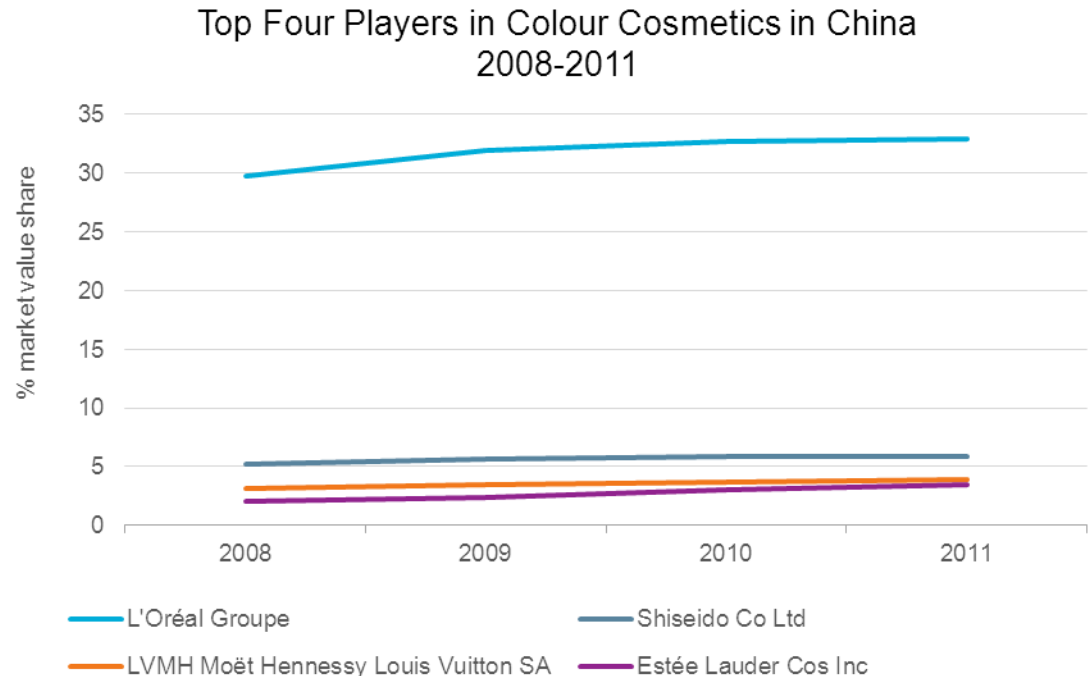
## Coty poses competitive challenges for L'Oréal in Russia

- L'Oréal's loss of market share in Russia's colour cosmetics can be traced to negative sales growth for L'Oréal Paris. The brand experienced negative sales growth across all colour cosmetics sub-categories with the exception of nail products, which is a small part of the brand's total colour cosmetics sales in the country.
- L'Oréal Paris' negative sales growth coincided with Coty's robust growth in the market across all the colour cosmetics sub-categories. Coty markets Rimmel in Russia's colour cosmetics market and has been investing to expand its presence in Russia, opening a subsidiary in 2009 with the objective of establishing a new partnership for deeper penetration into the Russian market. Prior to the subsidiary, Rimmel was marketed through a network of multiple distributors.
- Although Coty is growing from a small base and reaping the benefits of increased investment, Rimmel is cheaper than the L'Oréal Paris range. In the face of economic austerity, Rimmel was more affordable. L'Oréal needs to address affordability of Russian consumers by expanding its more affordable range, Maybelline, which too, however, has lost share in the market. L'Oréal could invest more in product development under Maybelline to overcome the competitive challenges from Rimmel.



## L'Oréal grows in China colour cosmetics but competition looms

- L'Oréal is by far the leading player in China's colour cosmetics market at almost 33% value share in 2011, while Shiseido at 6% is a distant second. It would take a long time before one of the players in China's colour cosmetics could catch up with L'Oréal's position organically, but there are signs of increasing competition which L'Oréal needs to heed to maintain its market position.
- While L'Oréal grew 20 basis points in China's colour cosmetics market, Estée Lauder grew 50 basis points. Estée Lauder is increasingly focusing on China. Estée Lauder has announced that it will increase the number of outlets in China for deeper penetration in second- and third-tier cities. This indicates that there will be more stores offering Estée Lauder colour cosmetics brands. Procter & Gamble has recently announced that SKII is now a billion dollar brand. Given the strong growth potential, it is only a matter of time before Procter & Gamble attempts to expand its presence in China. To beat the competition, L'Oréal needs to focus on the competitive challenges driving growth in both premium and mass colour cosmetics segments.

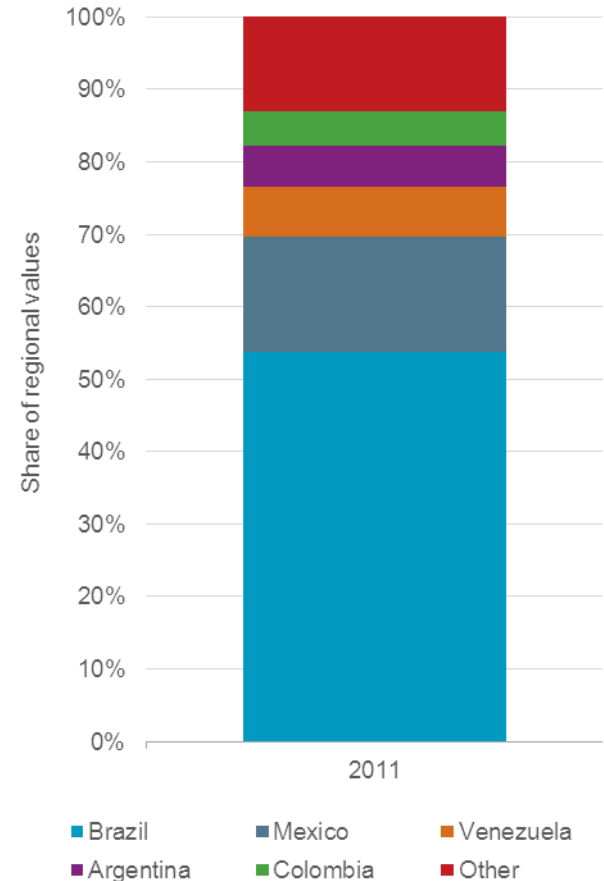




## L'Oréal expanding beyond obvious BRIC markets

- L'Oréal has recently announced that it has signed a deal to acquire a Colombian colour cosmetics brand Vogue, which recorded sales of €30 million in fiscal year 2012. The objective is not just to tap into the Colombian market but also the surrounding markets including Ecuador and Peru in Latin America.
- The Colombian colour cosmetics market is a relatively small market, making it easier to surmount any competitive barriers. Sales of colour cosmetics in Colombia amount to around US\$300 million compared to US\$4 billion in Brazil.
- Avon is the key player in the Colombian colour cosmetics market with 22% value share, equating to US\$71 million. L'Oréal ranks seventh with 3% value share or sales of over US\$9 million. Laboratorios de Cosméticos Vogue SA is the fourth-ranked player at 7% value share. Combined share of Laboratorios de Cosméticos Vogue SA and L'Oréal would lift L'Oréal from its current position to third and value sales would rise to US\$33 million. This is still around half of Avon's sales in the market, but leveraging L'Oréal's R&D could give Vogue a boost to close the gap to Avon.
- On the other hand, Brazil is a far more difficult market to penetrate high entry barriers. Avon is the market leader in Brazil's colour cosmetics market with a 30% value share and Brazil is a US\$4 billion market. It is more strategic to enter Colombia than Brazil.

Colour Cosmetics in Latin America by Market 2011



## Urban Decay fills void in L'Oréal's colour cosmetics portfolio

- L'Oréal has agreed to purchase the US premium colour cosmetics brand Urban Decay, which according to the company is an exciting brand for a younger audience. Urban Decay is categorised as an affordable luxury, selling at accessible price points within the premium segment.
- To date, L'Oréal lacked a brand that could satisfy younger, excitable, modern consumers. Its key premium colour cosmetics brands Lancôme and Yves Saint Laurent are at the upper end of the premium segment and perceived to be for an older audience. Urban Decay will help fill this gap in L'Oréal's premium colour cosmetics portfolio.
- Urban Decay also ensures an additional revenue stream in the US and expands L'Oréal's presence in beauty specialists such as Sephora. L'Oréal has been targeting the US for growth through acquisitions such as Essie and Clarisonic. Despite relatively lower growth prospects, in terms of size, the US is a considerable market. Furthermore, Urban Decay would help L'Oréal compete with its key rival Estée Lauder in the premium colour cosmetics segment.
- Urban Decay has a good presence in digital media which L'Oréal can further tap into. Despite the merits of this acquisition, L'Oréal needs to bear in mind that its portfolio does not become too fragmented with too many disparate brands. Expanding Urban Decay beyond the US would help L'Oréal generate optimum benefit from the brand. The brand's affordable price points and exciting colour palettes would make it a suitable brand in emerging markets.



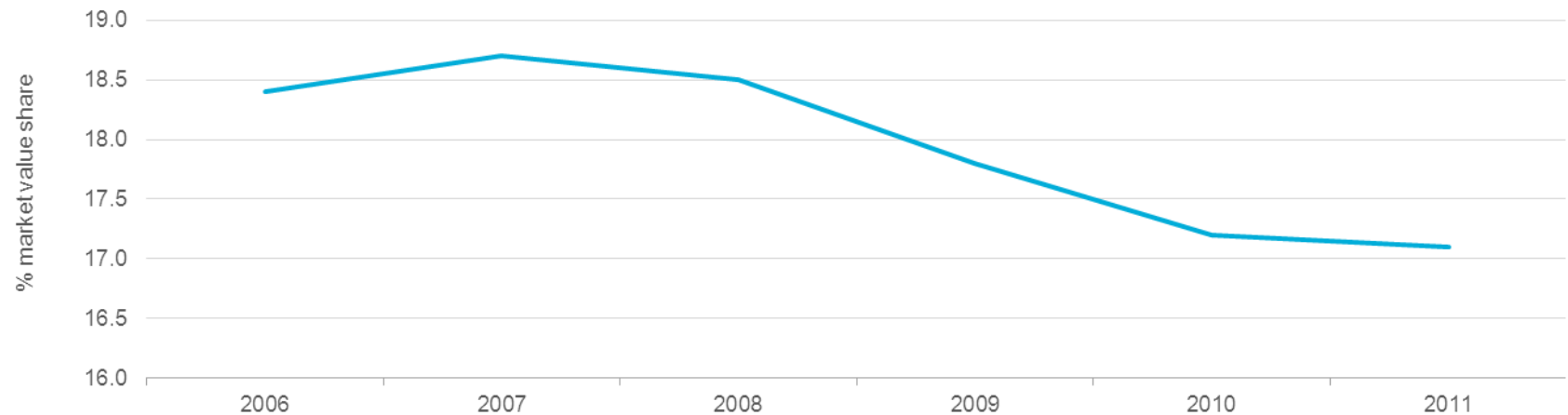
## **FALLING SHARE IN HAIR CARE**

L'Oréal has lost share in hair care in Western Europe to competitors offering value range salon brands through retail channels. This is a trend that proved successful in North America and is now shifting to Western Europe. There is potential that this could be a more global trend. To this end, L'Oréal would benefit from tapping into retail channel salon brands.

# L'Oréal at risk of losing more share in the global hair care market

- Although L'Oréal is the leading hair care player in the global hair care market, it has lost share over the review period mainly due to weakness in Western Europe. L'Oréal performed well in other regional hair care markets, but it was not enough to compensate for the loss in Western Europe. L'Oréal operates in the upper to premium tiers of the hair care market, but recent trends in developed market retail channels have been towards salon brands at affordable price points, appealing to consumers for their value proposition. L'Oréal lacks sufficient presence in this segment. L'Oréal has been less proactive in hair care in comparison to other high-growth categories such as skin care and colour cosmetics. Hair care is poised for good growth in the future as manufacturers seek to drive category growth through innovations, borrowing technology from skin care, to target age-specific hair issues. Unless L'Oréal pays attention to the prevailing trends in hair care, it risks losing more market share in the future.

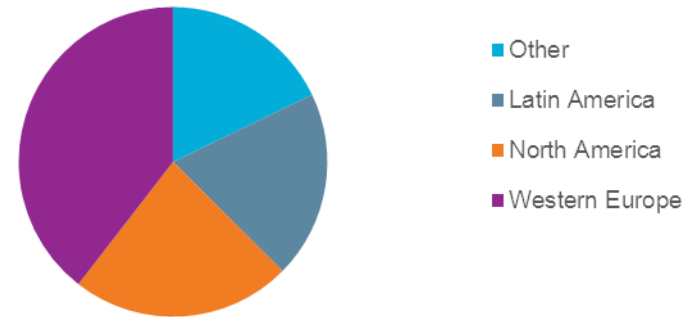
L'Oréal Groupe: Market Share in Global Hair Care 2006-2011



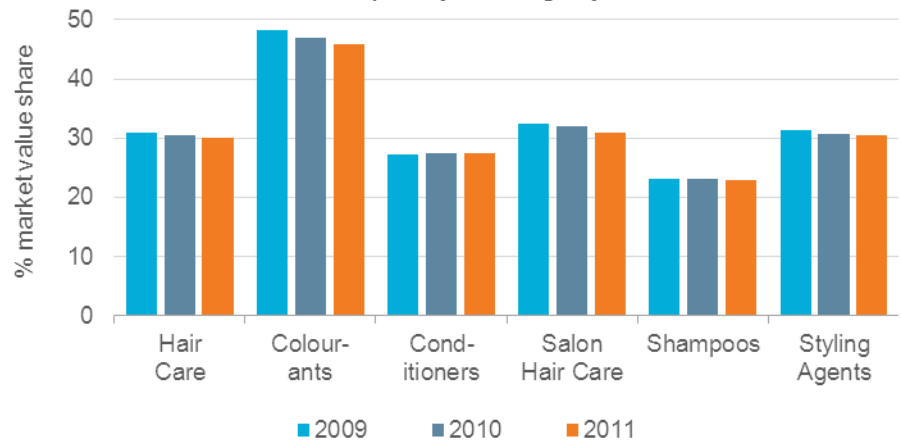
# Market share falls across key hair care categories in Western Europe

- Western Europe, L'Oréal's leading regional hair care market, contributed to the loss in the global hair care market share. L'Oréal lost market share across key hair care categories including colourants, shampoos and styling agents in Western Europe.
- Henkel posed a strong competitive challenge in hair care in Western Europe, performing strongly on the back of its value for money brands. Henkel's salon hair care brand Syoss appealed over other available brands in the market due to its salon positioning and affordable price points, experiencing strong market share growth in the region in 2011.
- In 2011, L'Oréal lost share in two key Western European markets to Henkel. In France, L'Oréal lost 20 basis points, while Henkel gained 120 basis points. Syoss was a star performer gaining 80 basis points. In Germany, Henkel gained 30 basis points, while L'Oréal lost 60 basis points. As has been the case in France, Syoss performed well in Germany, gaining 50 basis points in market share.

L'Oréal Groupe: Hair Care Value Sales by Region 2011

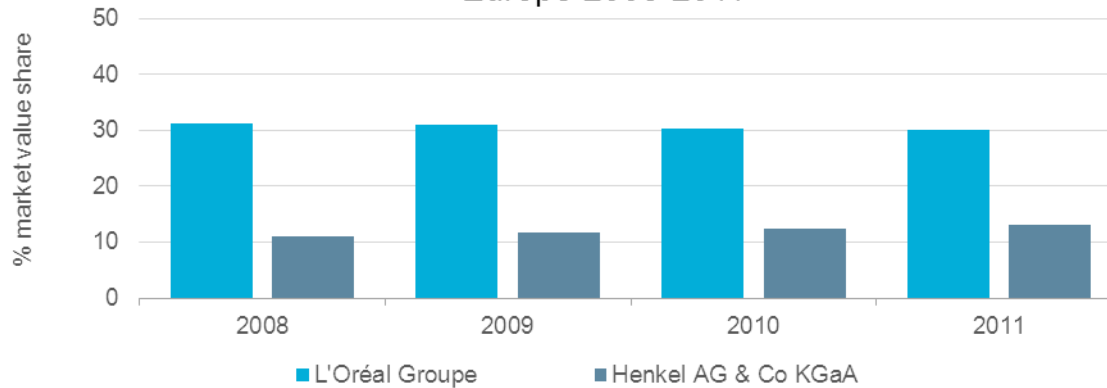


L'Oréal Groupe: Hair Care Market Share in Western Europe by Category 2009-2011

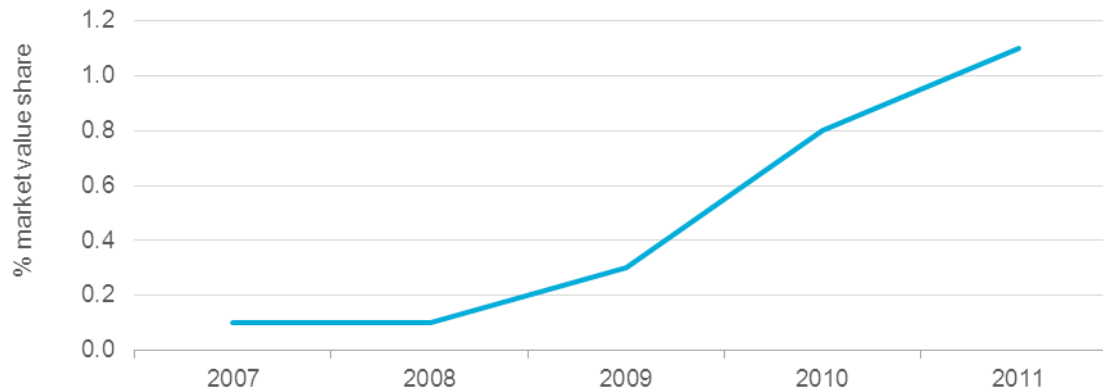


# Salon brand does well in Western Europe

L'Oréal vs Henkel: Market Share in Hair Care in Western Europe 2008-2011



Syoss: Market Share in Hair Care in Western Europe 2007-2011



- Increasing preference for affordable salon hair care ranges initially started in the US, translating to strong performance for brands such as TRESemmé.
- This trend has now shifted to Western Europe as evident in the market share growth for Henkel in the region's hair care market on the back of Syoss.
- The trend for salon hair care value ranges could be expected to expand in other regional markets such as Latin America.
- It is not just Henkel that has tapped into salon hair care value ranges. Unilever is also using Alberto-Culver's salon brands to expand in the value-plus hair care market segment.

## Unilever expands mass salon hair care range

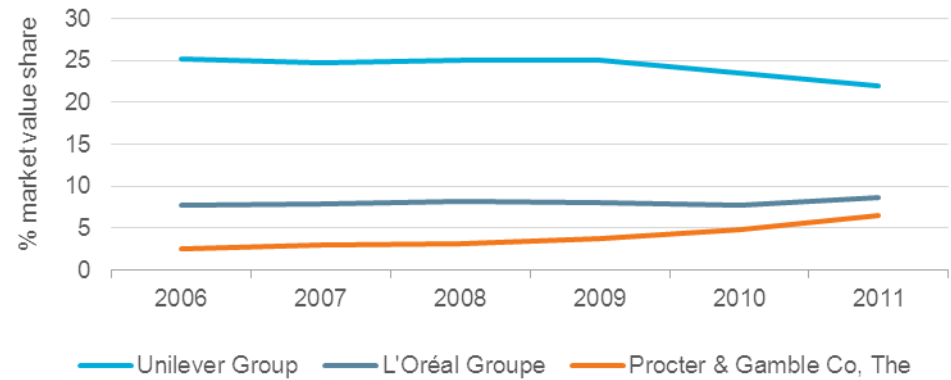
- Unilever has been increasing its presence in salon hair care, starting with Tigi in 2009 and then Alberto-Culver in 2011. Through Alberto-Culver, Unilever gained access to mass salon hair care brands TRESemmé. One of the key objectives behind the acquisition was to tap into the growing consumer trend towards affordable retail salon brands in the US.
- A number of companies are tapping into the growth potential in the US retail salon range. For example, High Ridge Brands is extending VO5 to mass salon hair care in the US. It is due to launch Studio Series in February 2013. The range is made of essential hair oil and consists of 15 shampoos, conditioners and styling agents. The range will market between US\$2.99 and US\$5.99.
- Preference for mass salon range is now gradually shifting to Western Europe – something that Henkel is tapping into. Unilever’s restructuring has left it with an agile structure allowing it to roll out innovations at a faster rate. Therefore, It is not expected to be long before Unilever expands TRESemmé in Western Europe.



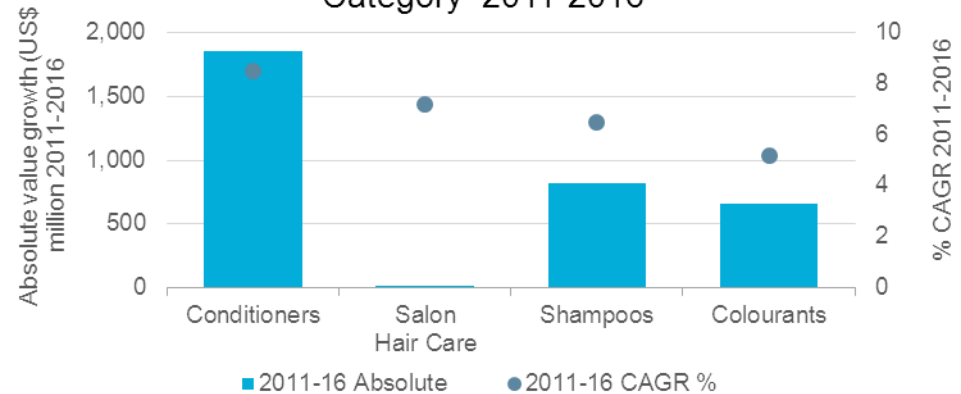
# Unilever salon range a potential threat in Brazil?

- Brazil is projected to drive absolute growth in global hair care. Unilever is the leading player in Brazil's hair care market while L'Oréal represents the second leading player.
- L'Oréal has gained share in Brazil's hair care market thanks to vigorous marketing and advertising, but needs to heed the competition in the long run.
- Unilever launched TRESemmé in 2012, which according to Unilever is performing well.
- Salon hair care has the second highest CAGR projection in Brazil.
- L'Oréal's absence from value range salon brands could indicate stunted growth prospects for the company in the future in hair care in Brazil.

Brazil: Top Three Players in Hair Care 2006-2011



Brazil: Growth Prospects in Hair Care by Category 2011-2016





## L'Oréal to benefit from mass-market salon brands

- Given the strong performance of mass-market salon ranges, it is increasingly becoming evident that L'Oréal needs to consider expanding in this segment. L'Oréal owns a number of salon brands, but the ones that are available in retail channels are in the upper tier.
- L'Oréal has the option of introducing Matrix, an emerging market salon brand, mostly sold in lower-tier salons in India and China. L'Oréal could consider introducing it in Western retail channels as an affordable salon range. There is, however, a risk that the brand may not be well received in Western Europe particularly up against brands such as Syoss and TRESemmé since it is a brand designed for emerging markets. On the other hand, it has the option of extending the retail coverage of Redken, a brand retailing at a similar price range to Syoss. However, Redken is largely confined to the US and it would require considerable investment in increasing the brand's visibility in new markets.
- Despite the difficulties associated with introducing a mass-market salon brand, it is a necessary move as this is a rising trend. Absence from this segment could undermine growth in the future.



## Hair care poised for future growth

- Although hair care is one of the categories with the lowest CAGR forecast, recent developments indicate that this category may soon receive a strong boost as leading manufacturers turn to skin care to draw relevant lessons to drive growth in hair care. According to manufacturers, hair too has age-related issues including increased brittleness, dryness, frizziness, lacklustre colour and thinning, which could be addressed through similar technology used in anti-agers. Future success in hair care would largely depend on how quickly manufacturers can bring product concepts to viable commercial products.
- Procter & Gamble has launched a new line called Pantene Expert Collection in October 2012, consisting of two sub-lines, AgeDefy and Advanced+Keratin. AgeDefy is a thickening treatment, containing caffeine and niacinamide, ingredients also found in skin care. The formulation claims to increase the hair diameter leading hair to look thicker. L'Oréal has taken its stem cell research one step further to incorporate hair care as well. Following extensive research, L'Oréal has revealed an active ingredient called stemoxydine that claims to awaken dormant hair and enhances hair density, but it is yet to reach the market whereas Procter & Gamble has already launched its range. Given that Procter & Gamble is first to reach market it is also likely to benefit from first-mover advantage.



STRATEGIC EVALUATION

COMPETITIVE POSITIONING

MARKET ASSESSMENT

GEOGRAPHIC AND CATEGORY  
OPPORTUNITIES

**BRAND STRATEGY**

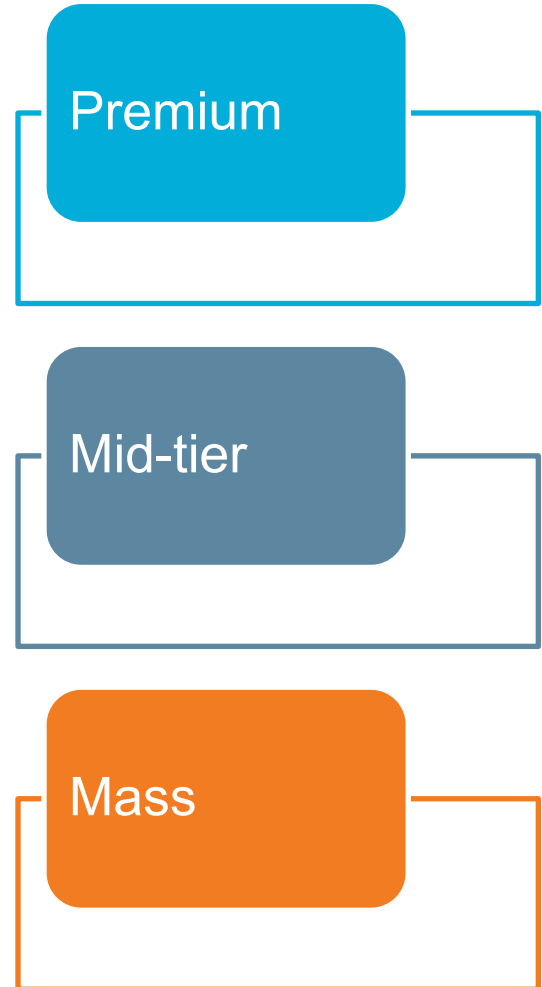
OPERATIONS

RECOMMENDATIONS



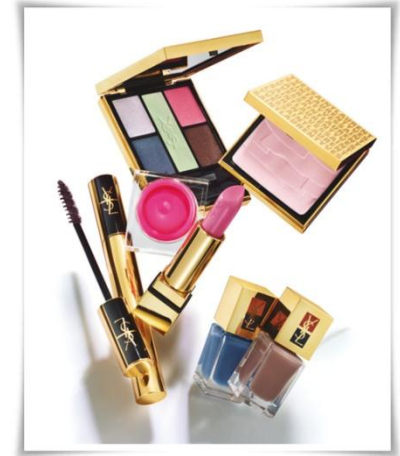
# L'Oréal uses brand segmentation to drive growth

- L'Oréal operates strict brand segmentation across its portfolio to retain its exclusive brand identity. For each of its brands L'Oréal maintains distinct retailing channels to keep its brand image intact. Its premium ranges Lancôme and Yves Saint Laurent are marketed through department stores. Its mid- and lower-tier mass brands L'Oréal Paris and Garnier share the same retailing space in Western markets but the distinctions are made on the basis of price and product offerings.
- Cutting edge formulations are found more under L'Oréal Paris than Garnier. L'Oréal also sells its premium range formulations under L'Oréal Paris when demand in the premium range slows down. L'Oréal uses Garnier to penetrate low-income consumers in emerging markets whereas L'Oréal Paris is reserved for urban consumers.
- The economic downturn necessitated L'Oréal to use its brand portfolio carefully to exploit any growth potential. For example, hair care launches were made under L'Oréal Paris as it was originally a hair care brand, while for colour cosmetics the mass brand Maybelline was used to drive growth. L'Oréal used Lancôme to appeal to a wider global consumer base, whereas Yves Saint Laurent was used to appeal to Western European consumers. For premium and mid-tier brands, it launched more targeted products whereas for mass brands such as Garnier the focus has been on multifunctionality.



# Lancôme for global market growth in premium cosmetics

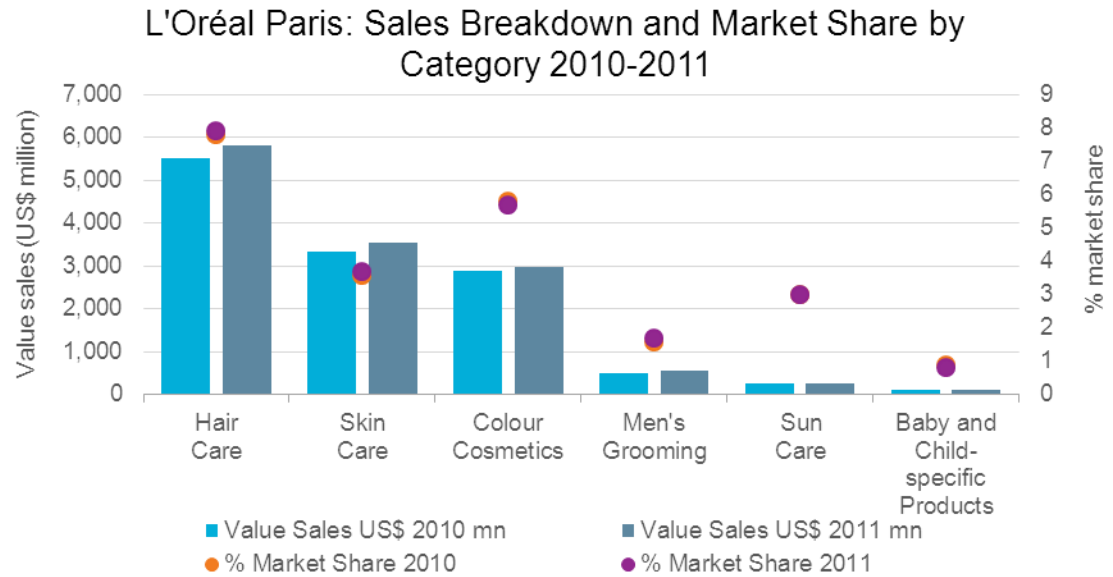
- Lancôme is L'Oréal's leading premium cosmetics brand operating across skin care, colour cosmetics and fragrances although skin care and colour cosmetics form the majority of its global sales.
- Lancôme's global market share in premium cosmetics remained static at 4.4% in 2011, affected by falling share in premium cosmetics in Western Europe in 2011. While premium skin care market share remained steady at 6.2% in Western Europe, market share in colour cosmetics and fragrances declined 10 basis points for each. The premium colour cosmetics market in Western Europe was affected by consumers trading down to cheaper alternatives. For example, Clinique gained 10 basis points in premium colour cosmetics in Western Europe. In premium fragrances the trend was towards more exclusive ultra premium ranges.
- On the other hand, Yves Saint Laurent, a brand L'Oréal acquired in 2008, managed to retain its market share in colour cosmetics and fragrances despite the same price range as Lancôme. L'Oréal focused on the brand's very strong French appeal to attract consumers.



- Lancôme has performed well in Asia Pacific, notably in China, driven by the brand's strong reputation across the world. L'Oréal uses Lancôme to help drive global growth, whereas Yves Saint Laurent is reserved to appeal to consumers with a strong appetite for exclusive French brands. Yves Saint Laurent is mostly present in France with the majority of its sales emerging from premium fragrances, but L'Oréal has been expanding the brand in colour cosmetics launching interesting colour palettes under the brand in Western Europe.

## L'Oréal Paris focusing on hair care and skin care

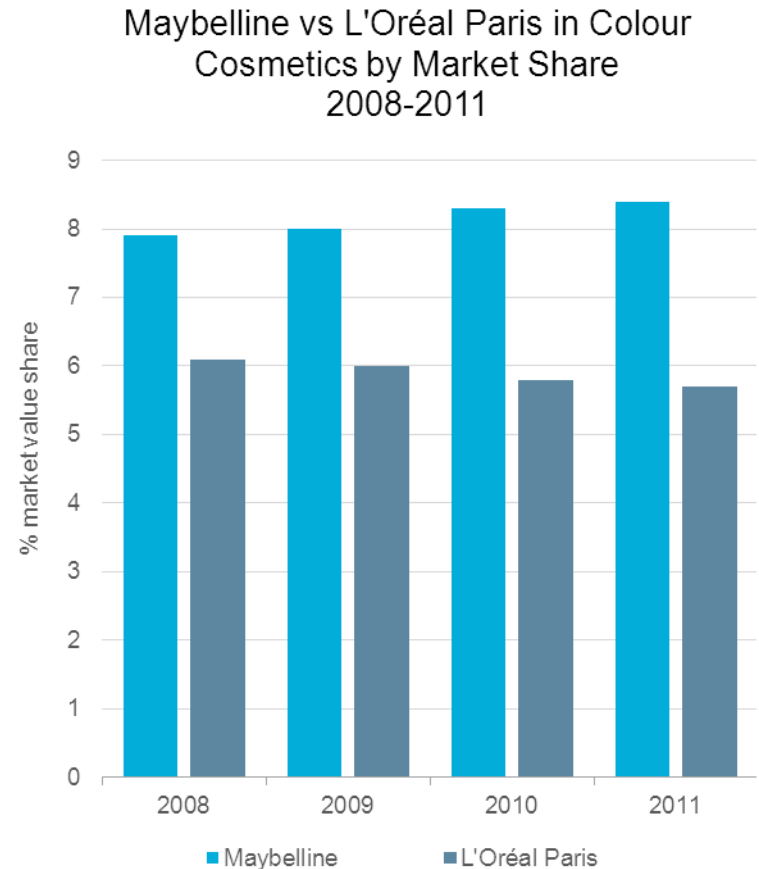
- L'Oréal Paris operates across a number of categories, but its key categories are hair care, skin care and colour cosmetics. In recent years, the brand's focus is gradually gearing away from colour cosmetics to focus more on hair care and skin care.
- In 2011, L'Oréal Paris experienced the highest absolute growth in hair care in comparison to all its other categories. The growth in hair care was contributed by growth in Brazil, the brand's largest hair care market where sales increased over US\$100 million in 2011 accounting for 40% of the brand's absolute value growth globally during the year. L'Oréal Paris has been tapping into key hair care trends including the launch of L'Oréal Elvive Extra Ordinary Oil, dubbed "5-in-1 miracle hair perfector". It can be used as both a conditioning treatment as well as to smooth flyaway hair. The brand's hair care products are segmented to cater to different age groups. It has a shampoo range called Age Defying for mature hair and Studioline Matt and Messy, styling agents, for younger consumers.
- Skin care is the brand's second leading portfolio. L'Oréal Paris usually introduces premium range formulations under L'Oréal Paris; an example being Youth Code known to have a similar formulation to Lancôme's Génifique.





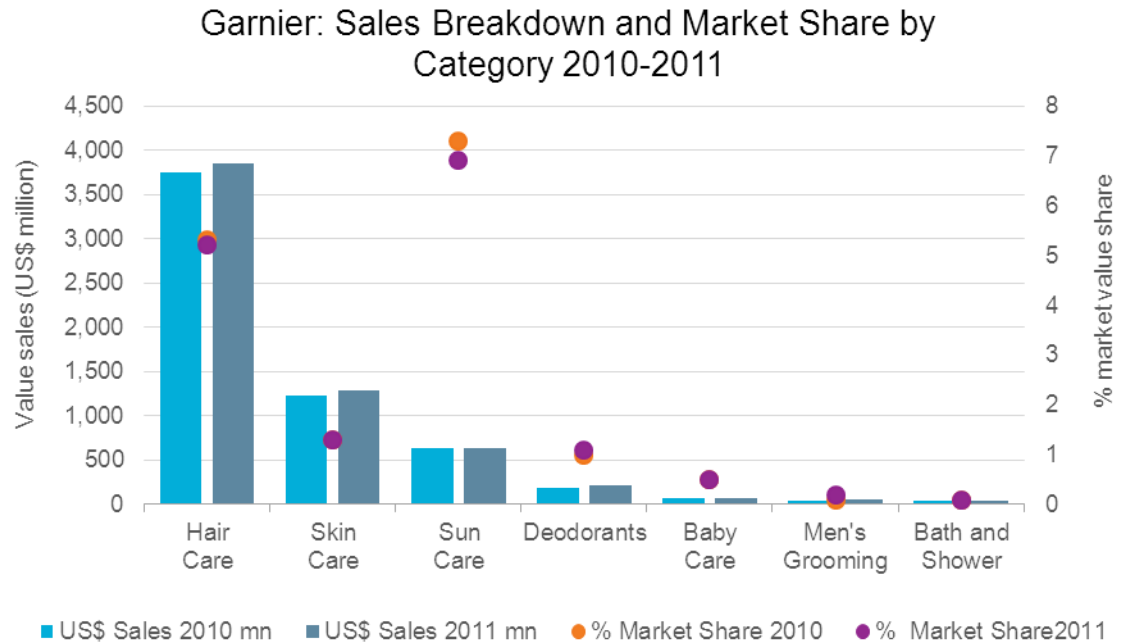
# Maybelline cannibalises L'Oréal Paris' colour cosmetics share

- L'Oréal Paris' market share in colour cosmetics has been steadily declining since 2008 as its sister brand Maybelline cannibalises its global market share. Maybelline's more affordable price points also made it popular with consumers in both developed and emerging markets.
- In recent years, the parent company, L'Oréal, has been using Maybelline to drive growth in colour. Apart from the fact that Maybelline is an affordable brand, which is a key factor motivating consumer purchase at times of economic austerity, Maybelline developed as a colour cosmetics brand while L'Oréal Paris was originally a hair care brand. Consequently, consumers associate Maybelline with colour cosmetics and L'Oréal Paris with hair care. Focusing on the brands' core portfolios allowed the brands to retain their identities more closely.
- L'Oréal has been tapping into the US market to drive growth in colour cosmetics. Maybelline is a US brand and hence it was easier to strike a chord with American consumers with Maybelline.



## Southern European markets affect Garnier hair care sales

- Globally Garnier's share in beauty and personal care remained static at 1.4% in 2011, although it lost share in its key category, hair care, compensated by skin care and deodorants to leave its global market share unchanged.
- Garnier's leading regional hair care markets are Western Europe followed by Latin America. Western Europe contributes 40% to Garnier's global hair care sales and within Western Europe, southern European markets account for over 35% of the brand's regional hair care sales. These markets were strongly hit by the debt crisis as consumers tightened their budgets eventually adversely impacting on the brand's hair care sales growth. Garnier managed to drive market share growth in hair care in Latin America through vigorous spending on advertising and marketing. Garnier hair care performed well in the US as a result of successful launches and the brand's strong value proposition.
- L'Oréal used Garnier to target the men's skin care segment in Asia Pacific. In Latin America, L'Oréal extended Garnier beyond the hair care category to skin care and deodorants.





STRATEGIC EVALUATION

COMPETITIVE POSITIONING

MARKET ASSESSMENT

GEOGRAPHIC AND CATEGORY  
OPPORTUNITIES

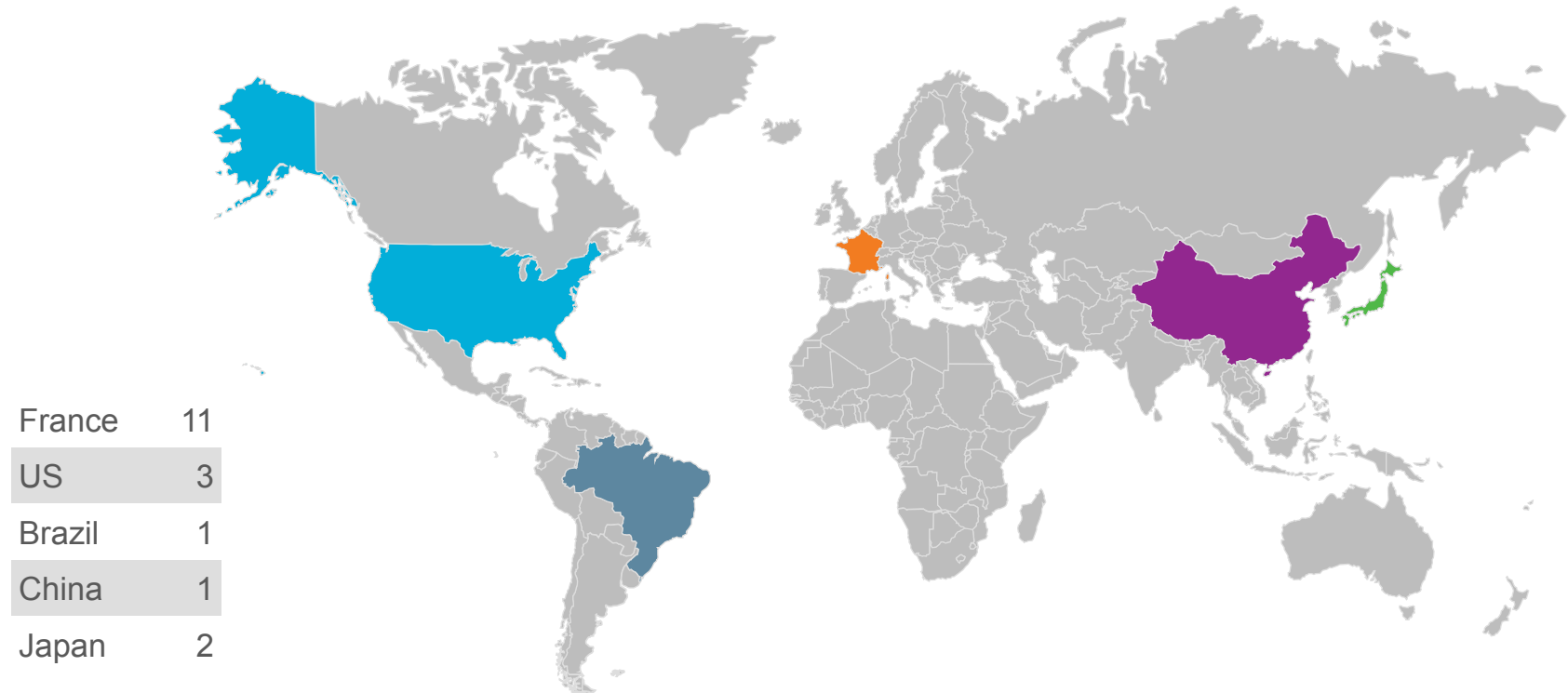
BRAND STRATEGY

**OPERATIONS**

RECOMMENDATIONS



## Regional research and development centres



**Key Point:** L'Oréal has regional research and development centres to enable it to better understand local preferences and thus develop products suited to the locale. For example, the research centre in China studied Chinese hair types and hair care customs for three years, which eventually led to the development of a range of hair care products designed for Chinese hair based on local preferences and hair care practices.

# L'Oréal factory locations

## Factory Locations

North America 10 factories:  
Canada 2, US 8

Europe 20 factories:  
France 14, Spain 2, Italy 1, Germany 1, Poland 1, Belgium 1

Brazil 2

Israel 1

Japan 1

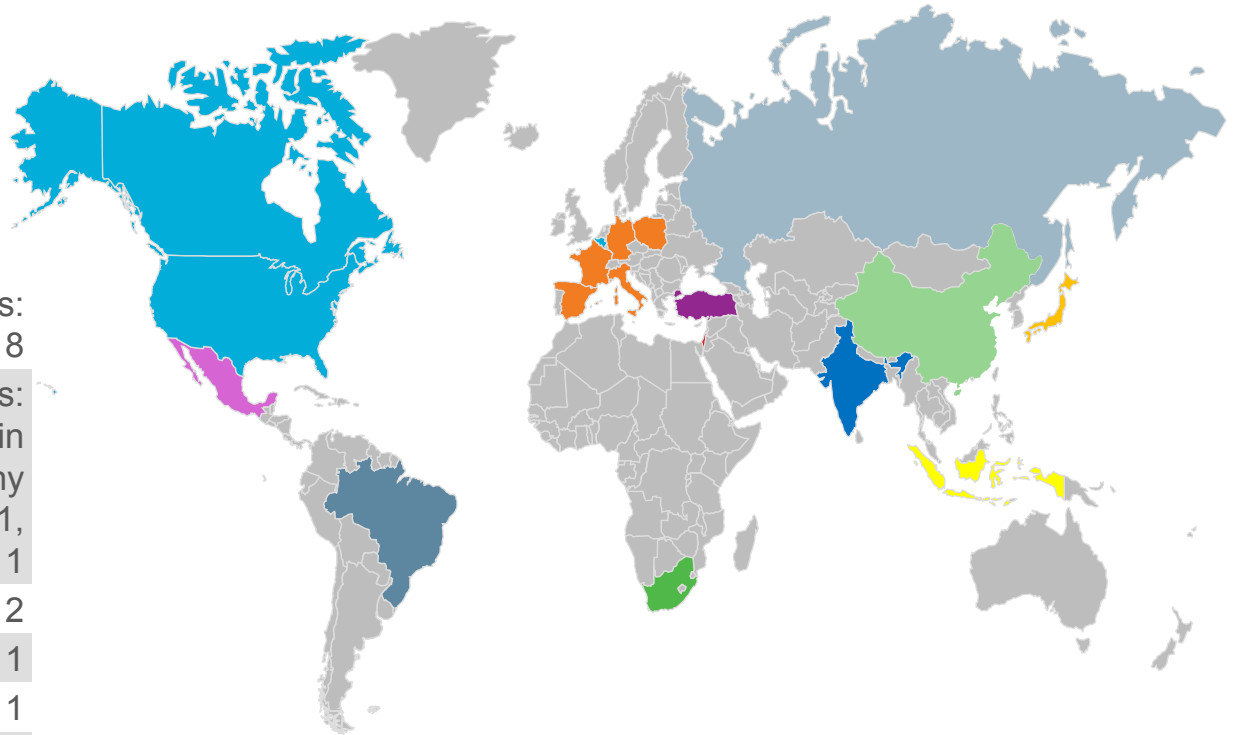
Indonesia 1

India 1

China 1

Russia 1

Turkey 1



# L'Oreal Factory by Category

## L'Oréal Factory Locations by Category

Division	Number of factories	Location
Consumer Products	22	France 4, Belgium 1, Italy 1, Germany 1, Poland 1, US 4, Mexico 1, Brazil 2, South Africa 1, India 1, Israel 1, Turkey 1, Indonesia 1, China 2
Luxury Products	5	France 3, US 1, Japan 1
Professional Products	3	Canada 1, US 1, Spain 1
Active Cosmetics	2	France 2
Dermatology	2	France 1, Canada 1
Raw Materials	4	France 3, Spain 1

STRATEGIC EVALUATION

COMPETITIVE POSITIONING

MARKET ASSESSMENT

GEOGRAPHIC AND CATEGORY  
OPPORTUNITIES

BRAND STRATEGY

OPERATIONS

**RECOMMENDATIONS**



# Niche markets offer growth opportunities

## Develop hair care pace

- Hair care in Western Europe was a key reason for the drop in L'Oréal's beauty and personal care market share globally. Hair care is one of its key categories, but the pace has dropped as L'Oréal focused on other categories such as skin care. It faces competitive challenges from Henkel, Unilever and Procter & Gamble in developed markets and has the option of tapping into retail channels through salon hair brands.

## Growth potential in natural/organic category

- Despite a comprehensive portfolio, L'Oréal is yet to take advantage of growth opportunities in the natural/organic category in developed markets. L'Oréal lost market share in France to Yves Rocher, which triumphed by combining efficacy, price and natural ingredients. Beiersdorf too gained share through Nivea Pure and Natural. L'Oréal has done well to expand The Body Shop in emerging markets but has yet to tap into Western market natural/organic category.

## Russia a potential market for Vogue

- L'Oréal lost market share in Russia's colour cosmetics market as more affordable brands such as Rimmel gained share. L'Oréal needs to focus on Maybelline in Russia and there may be scope for L'Oréal to introduce its newly acquired brand Vogue in Russia.

## Introduce Clarisonic in China

- L'Oréal has been driving sales growth of Clarisonic primarily in the US and recently launched it in France. It could consider launching it in China given Chinese consumers increasing affordability and preoccupation with skin care. The brand is available on a number of websites although there are doubts about its authenticity. Nevertheless, Clarisonic has received rave reviews, indicating a good market opportunity.

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