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MEJO 475

2/6/2018

Assignment #1 - L'Oreal

1. Overall Cosmetics Market

A. According to the Mintel Report

- Color cosmetic market showed a growth of only 2% in 2017
- The \$11 billion color cosmetic market is saturated
- Many women are turning to value brands to save money
- Opportunities exist in
 - Facial makeup products that offer skin care benefits
 - Athletic cosmetics and hybrid products for active lifestyles
- Color cosmetics in the Mintel Report
 - Eye cosmetics (eye shadow, eyeliner, mascara, etc)
 - Facial cosmetics (foundation, powder, blush, bronzer, etc)
 - Lip cosmetics (lipstick, lip gloss, lip liner, etc)
 - Sales are tied to beauty trends
 - Creates challenges for manufacturers and the market

B. Issues

- Many makeup consumers lack engagement with beauty category
 - Only 1 in 4 is Beauty Enthusiast
- Leading brands challenged as value brands encourage experimentation.
 - NYX, e.l.f. are examples of value brands that are selling well
 - Cover Girl, Almay are popular brands that are now struggling
 - P&G sold the Cover Girl brand to Coty Cosmetics this past year
 - Sephora and Ulta did well and are examples that the prestige end of cosmetics is doing well
 - L'Oreal USA is strongest player and growing with 41% of market share and 3.5% gains in 2017.

- Labels that did well are Maybelline, L'Oreal, and NYX which are the lower end priced cosmetics of their line.
 - Strongest gains were in the smaller brands and private labels, such as e.l.f., LA colors, and Burt's Bees.
 - The larger mass brands are being squeezed out of the competitive market by the smaller brands and private labels.

C. Opportunities

- Facial make-up offering skincare benefits in high demand
 - Anti-aging and moisturizing big appeal to older women
 - Acne control and pore reduction big appeal to teens, young women
- Multipurpose products and athletic make-up
 - Multipurpose sticks appeal to 1/3 of women 25-34 years old
 - 35% of women 18-24 interested in athletic make-up
 - Appeal to busy, active women
- Shift users from Frustrated but Engaged to Beauty Enthusiasts
 - Improve communication about product benefits
 - Help to guide women through purchasing and application of cosmetics, thereby improving their skills with make-up.

D. Market

- Facial makeup is the highest spending amount in cosmetic line
- Trends determine growth
- Women allocate more of their money to make-up than comparable goods.
- Natural look is popular
- Aging population & multicultural population alter product landscape

E. Market size and forecast

- Steady growth predicted
- Include skincare benefits into make-up
- Athletic cosmetics (sweat-proof)
- Hybrids simplify makeup routines (application)

F. Market Breakdown

- Facial 47%
- Eye 37%,
- Lip 16%

G. Market Perspective

- More money being spent on makeup
- Facial skincare added to make-up is seeing increasing demand and purchasing
- Natural looking makeup is an opportunity for market growth

H. Market Factors

- Growing female population
- Category growth in products that contain skincare, appear natural, easy application, and sweat-resistant.
- Multicultural population alters product landscape: Broader variety of makeup needed with shades that match skin tones
- Hispanics highly engaged in beauty routines

I. Consumer

- Broad variety of formats support widespread product use
 - Younger and Hispanics use more and drive new formats; more willing to shop variety of retailers and trade-up for higher priced items
- Most women have consistent routines
- Mass-merchandise, drug stores highly visited
- Anti-aging, moisturizing creams in demand
- Product innovations appeal to engaged segments

J. Brand/Company Key Players

- Middle brands lose share to smaller players and value brands
 - P&G, J&J, Revlon, Coty posting losses as consumers turn to lower priced items
 - L'Oreal USA continues to experience growth from Maybelline, L'Oreal, NYX
- On-trend products, value brands, new facial makeup formats show growth
- Leading companies, off-trend formats face challenges
- Athletic, hybrid, skincare claims, natural claims major breakthroughs

- What's struggling
 - in general: Blush, Bronzer, Lip gloss, Eyeliner, Eye shadow
 - specifically: Maybelline eyeliner, L'Oreal eyeliner. Revlon concealer
- What's working
 - new facial makeup that improves appearance of skin, eyebrow makeup, concealer
- What's next
 - Natural products, skincare, athletics, hybrids
- L'Oreal USA is strongest player and growing (41% mkt share; 3.5% gain)

K. Facial Make-up

- Broad variety of formats support widespread use
- 7 out of 10 women use facial makeup
- Age and income drive usage: younger and \$50K+ annual income
- Younger women (18-34 years old) are core users of newer facial make-up such as primers, bronzers, beauty balms, and color correcting creams
- Hispanics use a variety of facial make-up
- African Americans have difficulty in matching skin tones, and with darker skin many don't feel they need facial make-up
- Frustrated But Engaged open to new facial formats

L. Skincare Benefits

- Anti-aging and moisturizers in high demand
- Age dictates skincare benefits sought (young, anti-acne, reduce size of pores)
- Opportunities to reach Black women (moisture in makeup)

M. Eye Make-up

- 75% of women use eye make-up
- Mascara is a staple
- Use of eyebrow makeup growing
- Hispanics use a range of products
- African American women use eyebrow makeup
- Beauty Content and Enthusiasts are core users

N. Lip Make-up

- 70% of women use lip makeup
- Older women stay with traditional lipstick
- Younger women experiment
- Multicultural women use broader variety of lip make-up
- Beauty Enthusiasts use several lip formats

O. Repertoire of Products Used

- Women incorporate a range of products into their routines: 40% of women use 7 or more types of products; 16% use 11 or more product types.
- Younger women use broader variety of products
- Hispanics likely to use 11 or more types of products
- Strong product usage shows popularity of natural look is not limiting number of make-up products women use, but is simply causing shifts in types of products they buy and use on a regular basis.

P. Makeup Routines

- Most women invest the same time and money on make-up as in the past
- But 17% spend more and 15% use more-----this speaks well for category growth
- Older women less likely to keep up with current trends; stay with what has worked for them (tried and true)
- 20% of women spend less time on makeup because they have less time----opportunity for products that allow women to multi-task (stick make-up)
- Younger women show higher engagement routines than last year----35% research the products they use; 30% wear more make-up
- Multicultural women increasing their engagement with make-up (especially Hispanics)
- Frustrated But Engaged spending more time and money

Q. Retailers Shopped

- Women rely on convenience and price when choosing retailer
- Online retailers pose threat to brick-and-mortar stores
- Ulta and Sephora have more sales than department stores and other specialty stores
- Younger women willing to shop around

- Hispanics visit a broader variety of retailers
- Beauty Enthusiasts shop around

R. Interest in Innovations

- Innovations that improve appearance of skin gaining big interest
- Multipurpose offerings, athletic products fit women's busy lifestyles; want easy application and sweat-proof
- Many women lack enthusiasm for innovation; prefer familiar formats
- Younger women and Hispanics seek innovative offerings
- Innovations appeal to Beauty Enthusiasts

The companies in this space include brands within divisions of L'Oreal. These include L'Oreal Luxe, the Consumer Products Division, and the Professional Products division. The Luxe Division includes more upscale brands which are sold at department stores, cosmetic stores, brand-owned boutiques and online. The Consumer Products Division contains more affordable brands that are sold in mass retailing channels such as supermarkets, drugstores, and traditional stores. Finally, the professional products division, which distributes hair products to salons worldwide.

The Luxe segment encompasses 30.8% of sales for L'Oreal along with 21.2% profitability. Meanwhile consumer products encompasses 48.1% of sales and 20.2% profitability. Professional products makeup 13.6% of sales and 20.3% profitability. Another segment, titled "Active Cosmetics" makes up 7.5% of sales and 23.2% profitability.

2. Results from Survey of 892 female internet users 18+

- **Beauty Content Segment- Consists of 1 in 5 makeup users (21%)**
 - Segment consists of users who generally don't have strong feelings toward cosmetics but still use a variety of products
 - Generally aren't enthusiastic about high-end or natural cosmetic products
 - Do not place strong emphasis on keeping up with cosmetic and/or beauty trends
 - Less likely than other to try new beauty products
 - Strong product usage; have complex beauty routines (do not like the natural look)

- Members of this segment may be engaged in the color cosmetics industry, but are happy with the offerings already available to them. They are generally content with their current routines
- Household income <50k
- **Beauty Enthusiasts Segment - Consist of 1 in 4 color cosmetic users (26%)**
 - Prime target for the color cosmetics market
 - Members of this segment express positive attitudes towards beauty
 - Members of this segment have positive views toward higher-end products
 - Enjoy experimenting with new offerings
 - Express strong interest in new makeup innovations
 - Shop around at a variety of cosmetic retailers and spend a good amount of money
 - Ages 18-34
- **Frustrated but Engaged - Consists of 1 in 5 users (20%)**
 - Members of this segment are invested in beauty routines
 - Members are willing to allocate additional time and money toward makeup
 - Believe that high-end and natural products work better than “mainstream” products
 - Enjoy trying new products
 - Enjoy keeping up with trends
 - Members of this segment are key targets for new product innovation
 - Express some frustrations: believe that complex routines are a waste of time; express skepticism towards beauty product claims
 - Boosting confidence among this group can guide them toward the optimistic Beauty Enthusiasts segment
 - Represented in a variety of ages
 - Tend to be Hispanic
- **Basic Beauties - Largest consumer segment - Consist of 1 in 3 users (33%)**
 - Usually older women (55+) who have more established beauty routines
 - Less likely to enjoy experimenting; tend to prefer simpler beauty routines
 - Tend to stick with products that are “staples”
 - Use fewer products
 - Tend to buy products from drugstores or mass merchandisers (prefer convenience and low-prices)

- Although not really drawn to makeup innovations, still enjoy products with benefits such as anti-aging

Consumer Market:

In 2017, the cosmetics market experienced only moderate growth (2%), meaning that the market saw slower gains compared to gains from 2015 and 2016. The makeup market is currently saturated, and more women are looking to value brands in order to cut costs and save money. However, non-value brands have the opportunity to reinvigorate sales by marketing products that offer skin care benefits. Athletic cosmetics (cosmetics that can withstand sweat and high activity) and “hybrid” products (combination makeup products, such as a combination highlight and contour stick) can also be marketed toward more active and busy consumers. Among makeup users, only one in four fall into the Beauty Enthusiasts segment. The rest fall into all the other less-engaged sections.

More women have been turning to value brands such as e.l.f. Aside from value products being less expensive, these products also minimize “the risk in experimenting”, meaning that a consumer does not have to worry about spending a lot of money on a product that they might not like or ever use again. These products appeal to engaged, but cost-conscious, young women. However, smaller brands are contributing to the saturation of the market.

Skincare-inspired benefits in cosmetics, such as anti-aging and moisturizing components, are in high demand among color cosmetic users. The presence of skincare-related claims can help combat market saturation by giving a brand a competitive and unique edge. Anti-aging/moisturizing claims are appealing to older women, which can be successful since they are an aging population that is less engaged in the category. In a survey conducted in May 2017 that surveyed 749 female internet users who are 18+, anti-aging, moisturizing, and evening skin tone were the top 3 results of desirable product features.

The “Frustrated but Engaged” segment is involved in their makeup routines, but express frustrations that could limit their involvement. Members of this group are prime targets for brands because of their willingness to increase their time/money to the beauty category. There are many opportunities to combat negative perception. These include improved communication surrounding product benefits, guiding women through the purchasing and application processes (helping them to feel more confident in their skills

3.

The L’Oreal Group is the world’s largest cosmetics company. The focus of The L’Oreal Group is on excellence in beauty, innovation, sustainability, diversity, and scientific research. Its brands are

managed within the group by divisions that have expertise in their distribution channel. This makes it possible to respond to customer expectations according to customer lifestyles, and to adapt to the local distribution conditions around the world. There are presently five divisions, or strategic business units (SBUs) in the L'Oreal Group.

L'Oreal Luxe is the most prestigious and modern of its international brands. This SBU specializes in promoting luxury beauty products in skincare, make-up, and fragrances. Because of the exceptional high quality of these prices, and the price that accompanies them, L'Oreal Luxe searches for selective distribution channels that offer excellent customer service. As a result, these products will only be found in specialty cosmetic stores, L'Oreal-owned boutiques, and high-end department stores. Some of these product names include Lancome, Cacharel, Giorgio Armani, Shu Uemura, Diesel, Guy Laroche, and Paloma Picasso.

The Consumer Products Division devotes itself to the mass marketing of affordable beauty care and cosmetic products. Its goal is to get quality products at reasonable prices to the greatest number of people. To be successful, it focuses on what is common in the needs of most consumers as well as what is different. In this case, quality products at affordable prices that still provide a variety of variety needs for a variety of women. In distributing their products, this division chooses retailers with a similar mindset, such as supermarket chains, hypermarkets (i.e., Super Walmart), drugstore chains, and mid- to low-end department stores (i.e., Target). Product names include Garnier, Maybelline, Softsheen, and NYX.

While these first two divisions closely align with a differentiated or segmented style marketing, the final three divisions follow a concentrated or niche type marketing strategy. The Professional Products Division manufactures and distributes hair care products to salons. Customers of the salon may then purchase products of a higher quality than what is available through the Consumer Products Division. Labels include Redken, Matrix, and Kersatase. The Active Cosmetics Division provides quality products for the skin that are tailored to people with sensitive skin and dermatological conditions. These products are available through healthcare outlets, such as pharmacies, medical spas, and physician offices. Environmentally friendly products and products not tested on animals has been a primary focus on a segment of consumers. The L'Oreal Group has responded to that with its The Body Shop Division. Products that are The Body Shop branded have not been tested on animals during any part of their research, development, and manufacturing processes. Items for skincare, fragrances, make-up, hair care, and body lotions and scrubs are available in this division. This line is only sold in fine, exclusive boutiques.

The L'Oreal Group is headquartered in Clichy, Hauts-de-Seine, near Paris, France. The building is named the Center Eugene Schueller in honor of the company's founder, Eugene Schueller.

Approximately 1,500 employees work at the home office. Located inside the building is the world's largest hair salon. The customers are retirees and the unemployed. They volunteer to be test subjects for new hair colors, while at the same time they got their hair groomed and styled. On average, 100 stylists serve 300 women and men per day. There is also a registered head office in Paris.

The company has 42 factories worldwide. They employ 89,300 employees, 3,862 of which are dedicated to research. They have one worldwide research center in France, and six regional research hubs. There is one research hub each in Japan, China, India, Brazil, South Africa, and the United States. The L'Oreal Group and its products can be found in 140 countries on 5 continents. L'Oreal USA, with headquarters in New York City, is the largest subsidiary and is responsible for the operations in America. Other international units include L'Oreal Canada, which is based in Montreal and oversees Canadian operations; L'Oreal Australia with head offices in Melbourne; and L'Oreal Nordic with head offices in Copenhagen, Denmark.

According to The L'Oreal Group website, the company concentrates on product categories for hair care, hair color, skin care, sun protection, make-up, and fragrance. The company has 34 brands of products that it distributes through eight channels: hair salons, mass market, department stores, pharmacies, free-standing stores, travel retail, e-commerce, and convenience stores.

4.

L'Oreal Paris is part of the Consumer Products Division brands of L'Oreal USA, one of the international units of the L'Oreal Group. It is a global beauty brand of internationally renowned products, and the biggest beauty brand in the world. With over 50 products sold every second worldwide, it is the top beauty brand sold in retail stores. As a total beauty care company, the brand encompasses the four major beauty categories: make-up/cosmetics, skin care, hair care and styling, and hair color.

The goal of L'Oreal Paris is to make innovative cosmetic and beauty care products that are accessible to everyone. The brand has a strong commitment to research and technology in providing high-quality products. It strives to combine the latest in technology with the highest in quality for the ultimate beauty experience for the mass population. L'Oreal Paris manufactures and distributes over 30 well-known label brands for women, men, and children of all ages and ethnicities. These include Preference hair color, Color Riche lipstick, Voluminous mascara, Revitalift skin care, Elnett hairspray, Men's Expert skin care, and L'Oreal Kids shampoo. In addition, beauty experts from around the world, many of whom apply the make-up and style the hair of famous performers, are employed by or consult for L'Oreal Paris. This gives the public the opportunity to experience products developed by professionals that make the "stars shine."

In positioning itself in a distinctive and desirable place in the minds of consumers relative to competing products, L’Oreal Paris has developed and promoted a signature phrase and ambassador program. Their slogan, “Because you’re worth it”, is a universal message empowering beauty and women. It speaks to all women, helping each and every woman embrace her unique beauty while reinforcing her innate sense of self-worth. The message is about what women think, and about her self-confidence, her decision, and her style. The slogan has been in effect for 45 years. It was penned in 1973 during the height of the feminism movement. Eighty percent of women recognize and respond favorably to this phrase according to independent surveys. The positioning statement has also been the subject of many articles written about the company in both trade journals and popular newsstand magazines. The words have come to symbolize what the brand stands for, and has become part of its social fabric. Besides promoting products, the motto is used in philanthropy and social causes supported and sponsored by L’Oreal Paris. One such effort is the Women of Worth program that honors and awards women who are making a difference in their communities. Another worthwhile endeavor is Women in Need. This program offers free classes that promote self-esteem and teach job and independent living skills.

The L’Oreal Paris Ambassadors are a group of 35 diverse international women that serve as spokespeople and representatives for the brand and its product lines. The women are chosen because they are highly recognized and respected by the public, and their exceptional careers and personalities resonate the message of “being worth it.” Some of the ambassadors are Jennifer Lopez, Julianne Moore, Karlie Kloss, Gong Li, Liya Kebede, and Diane Keaton. This broad range of spokespeople represents the company’s dedication to celebrating the diversity of beauty. Each year, L’Oreal Paris Ambassadors participate in 20 international red carpets. It is also the official make-up artist for the Cannes Film Festival and other film shows. These film festival and red carpet appearances provide opportunities to highlight the superiority and expertise of the L’Oreal Paris products that are also accessible to every customer.

5.

Strengths

- L’Oreal Paris website has a “Tools and Consultations” section which is useful to the “Frustrated but Engaged” market segment, which can benefit from the guidance

Weaknesses

- Due to the variety of brands and products, there is confusion as to who the main target audience is
- Has too many sub-divisions which can be difficult to

<p>and added confidence in shopping for products</p> <ul style="list-style-type: none"> ● Has variety of makeup and brands that can appeal to different audiences ● The brand has experienced growth in worldwide markets including Asia, Latin America, Eastern Europe, and modest growth in the Middle East 	<p>manage</p>
<p style="text-align: center;"><u>Opportunities</u></p> <ul style="list-style-type: none"> ● Can easily tap into the Basic Beauties segment with its age-defying products ● Has achieved a Newsweek Green score of 89.90%, ranking it as the top performing global company in terms of sustainability. This can appeal to a market that values environmentalism, sustainability and “green” products ● L’Oreal laboratories developed methods that can be used in place of animal testing. Therefore, they can also tap into market that values animal rights ● L’Oreal recognised for its commitment to gender equality at top management level”, beneficial to the brand’s reputation (particularly a brand that appeals primarily to women) 	<p style="text-align: center;"><u>Threats</u></p> <ul style="list-style-type: none"> ● Many young consumers are moving toward value brands such as e.l.f. Potential for these young consumers to develop brand loyalty to these non-L’Oreal products as they get older ● Market is becoming saturated with more of these small brands, making it possible for L’oreal’s market share to go down ● Controversy surrounding diversity models can produce a negative view of the company https://www.thedailybeast.com/loreal-loves-its-diverse-modelsas-long-as-they-dont-have-opinions) ● Competition from other companies that promote diversity in their products, such as Fenty Beauty https://www.fentybeauty.com/)

6.

Overall, we found the assignment to be very educational. We learned a lot about L’Oreal as a brand, what it stands for, and how it manages to please its wide consumer base. In studying the success of The L’Oreal Group, we could see two major strategies at work. One is the importance of identifying the different needs and wants of segments of the population. L’Oreal manufactures and distributes products in five divisions that appeal to five different groups of consumers: the high-end for those consumers who demand the best and can afford it; affordable mass-market products for those who want good make-up but can’t afford a

high price; salon quality hair products sold only at salons for customers who want to get that professional look at home; skincare products geared for those with dermatological challenges and available primarily at doctor's office; and environmentally-friendly, non-animal tested products. The second strategy is the use of a signature phrase in their positioning in the highly competitive market. "Because you're worth it" speaks to every woman, encouraging and empowering her to allow herself to feel and be beautiful. It is a very popular and well-known slogan, and combining this phrase with familiar faces helps keep L'Oreal visible and profitable. In addition to learning more about the brand, it was interesting to find answers to questions by going in-depth and reading through financial reports and various websites, which is a research method that we do not have much familiarity or experience with.