



Company Spotlight: L'Oreal

L'Oreal Paris to introduce new facial cleansing brand in 2010

Cosmetics company L'Oreal Paris is planning to unveil facial cleansing products under the new Go 360 Clean brand in 2010.

According to reports, the new line focuses on consumers between the ages 18 and 30 and will have four products including a Deep Facial Cleanser, a cleanser for sensitive skin, a Deep Cream Cleanser and a Deep Exfoliating Scrub.

Each of the four products will be available with a scrublet, a plastic scrubber which is meant for exfoliation on the face, reported news sources.

Key facts		Major products & services	
Address	41 rue Martre 92117 Clichy FRA	Hair color products Hair styling products Make-up products Skin care products Sun protection products Toiletries Perfumes and colognes	
Telephone	T: 33 1 47 56 70 00		
Fax	F: 33 1 47 56 86 42		
Website	www.loreal.com		
Euronext ticker	OR		
Employees	67,772		
Turnover	E17,541m		
Financial year end	December		

L'Oreal is a France-based global cosmetics company, engaged in the production and marketing of a range of perfume, make-up, hair and skin care products. The company operates in over 130 countries. The company's products are sold under well-known brands such as L'Oreal Paris, Garnier, Maybelline, SoftSheen Carson, CCB Paris, L'Oreal Professionel, Kerastase, Redken, Matrix, Mizani, Lancome, Biotherm, Helena Rubinstein, Kiehl's, Shu Uemura, and Giorgio Armani.

In addition, the company has a financial stake of 9% in Sanofi-Aventis, a pharmaceutical company specializing in therapeutic segments such as cardiovascular, thrombosis, central nervous system, oncology, metabolic disorders, internal medicine and vaccines.

L'Oreal operates through three business segments: cosmetics, the Body Shop and dermatology.

The cosmetics division of L'Oreal functions through four operating segments: professional products, consumer products, luxury products and active cosmetics. The cosmetics division comprises skincare, haircare products, make-up, hair colorants, perfumes and other products.

The professional products segment markets haircare products to professional hairdressers, who use or sell these products in their hair salons. The segment's key focus is to service the greatest number of hair salons around the world, firstly by offering differentiated brands for different individuals, and secondly by increasingly targeted innovations to improve the quality of services in hair colorants, permanent waves, styling and haircare. The professional products division of the company covers four brands: L'Oreal Professionel, Kerastase, Redken, Matrix and Mizani.



The consumer products segment sells products through mass-market retailing channels. The consumer products range includes haircare, skin care and make-up; and perfume products. L'Oreal's core brand, L'Oreal Paris, has successfully tailored its affordable product range to become the foremost beauty brand worldwide. The company also focuses on differentiating and enhancing the value of the segment's product ranges through innovation, while developing blockbuster products to drive market growth. Leading brands in this segment include L'Oreal Paris, Garnier, Maybelline New York, and Softsheen-Carson.

The luxury products segment markets premium offerings and services to consumers. Luxury products are sold through select retail outlets. The firm offers three major luxury cosmetics businesses: skincare, make-up and fragrances. Leading brands in this segment include Lancome, Helena Rubinstein, Biotherm, Shu Uemura and Kiehl's. The luxury products segment also includes perfume brands: Giorgio Armani, Ralph Lauren, Cacharel and Viktor & Rolf.

The active cosmetics segment sells dermo-cosmetic skin care products through pharmacies and specialist retailers. Pharmacists and dermatologists also offer advice on using the company's products at the point of sale. The brands in this segment include: Vichy, La Roche-Posay, Inneov and Skinceuticals.

The Body Shop segment operates a chain of cosmetic stores specializing in skin care and haircare products made from natural ingredients. By the end of the 2008 financial year, the company operated 2,550 stores in 62 countries worldwide.

The dermatology segment includes dermatological and pharmaceutical activities of the company. Galderma Laboratories (dermatological company), a joint venture with Nestle, specializes in skin diseases such as rosacea, psoriasis, eczema, and skin infections such as acne. Galderma boasts three of the 25 best selling drugs in dermatology in a highly competitive specialty market.



SWOT Analysis

Table: SWOT Analysis	
Strengths	Weaknesses
Portfolio of strong brands	Slow revenue growth
Diversified geographic presence	
Strong R&D capability	
Opportunities	Threats
Acquisitions and alliances	Increasing competition
Growing men's grooming market in India	Growing counterfeit goods market
Rising European facial care market	Global macroeconomic pressures
Source: Datamonitor	



Strengths

Portfolio of strong brands

L'Oreal has a strong brand portfolio. Its brand line-up includes Body Shop, Garnier, Maybelline, Kerastase and Redken, all of which are recognized globally. It has an ideal portfolio of diversified and complementary brands to penetrate and occupy new markets. According to Millward Brown Optimor, L'Oreal stood at 45th place in the global top brands ranking of 2009. The company markets its products under 23 international brands all over the world. Thus the company can capitalize on its strong brand equity and product portfolio to attract and retain a loyal customer base. Strong brands also support new product launches and business expansion.

Diversified geographic presence

L'Oreal has a diversified geographic presence. The company currently has operations in over 130 countries across five continents. In FY2008, revenues from Western Europe accounted for 45.5% of total revenues, mainly in Germany, the UK and Northern Europe. North America contributed 23.8% to total revenues and strengthened its positions in consumer products, professional products and active cosmetics. The 'rest of the world', which includes Asia, Eastern Europe, Latin America and Africa-Orient-Pacific, accounted for the remaining 30.7% of total revenues. The BRIMC countries (Brazil, Russia, India, Mexico and China) accounted for a substantial portion of the increase in total revenue. The company is not over-dependant upon any one geographic region. A diversified geographic presence provides the company with the flexibility to withstand a setback in any one region and leads to stable revenue growth.

Strong R&D capability

The company's research and development (R&D) group comprises departments specializing in the technologies critical to its various product categories. The company has a cross-functional product development process intended to optimize its ability to bring to market its new product offerings and to ensure that it continually has new products lined up in key categories under its various brands, including L'Oreal Paris, Garnier, Maybelline, SoftSheen Carson, CCB Paris, L'Oreal Professionel, Kerastase, and Redken. The company operates extensive cosmetics and dermatological R&D facilities in the US, France and Asia. To maintain its competitive edge, L'Oreal has increased its focus on R&D in the last few years.

During FY2008 the company incurred R&D expenditures of E581.3 million (\$855 million). It engages 3,268 people in cosmetics and dermatology research activities. The company registered 628 patents related to cosmetics and dermatology in FY2008. Strong R&D capability allows the company to launch new products frequently and expand its presence in new markets.



Weaknesses

Slow revenue growth

L'Oreal's long-term revenue growth has been low when compared to its competitors like Estee Lauder and Avon Products. For example, L'Oreal's revenues grew at a compounded annual growth rate (CAGR) of 5% during the period FY2006-08 to reach E17,541.8 million (approximately \$25,810 million) in FY2008. Its nearest competitors, Estee Lauder and Avon Products, reported a higher revenue growth of 11% and 10%, respectively, in FY2006-08. Slow revenue growth compared to competitors such as these indicates a decline in competitiveness and a lack of revenue-driving products.



Opportunities

Acquisitions and alliances

The company has made several acquisitions in recent years. L'Oreal acquired YSL Beaute, a cosmetics and fragrance division of the Gucci Group in June 2008. In FY2007, L'Oreal moved into the fast-growing natural cosmetics market by launching Sanoflore, an organic cosmetics brand, in seven European countries. L'Oreal signed a licensing agreement with Diesel in 2006, enabling L'Oreal to build up a powerful fragrance business. Also, with the acquisition of Laboratoires Sanoflore, L'Oreal gained a foothold in organic cosmetics, a segment that is set to grow strongly worldwide.

The most important acquisition in 2006 for L'Oreal was The Body Shop, a company founded by Anita Roddick that has gained a presence in 57 countries over the last 30 years. This has added to the company's portfolio of complementary international cosmetics brands. These acquisitions will allow L'Oreal to capitalize and explore the growing demand for natural personal care products.

Growing men's grooming market in India

The men's grooming product market is witnessing a significant boom in India. As per industry estimates, the Indian male grooming market, which is worth around INR7,500 million (\$173.2 million), has been growing at a very consistent pace of about 20%. L'Oreal India launched Garnier Men in May 2009. Its products include moisturizer SPF 15, fairness moisturizer oil control and fairness face washes. Male grooming is becoming an exciting market. Thus L'Oreal has an opportunity to leverage its market position to tap the men's cosmetics market in India.

Rising European facial care market

The European facial care market experienced growth between 2004 and 2008. The sector generated total revenues of \$11,300 million in 2008, representing a CAGR of 4.5% for the period spanning FY2004-08. Market consumption volumes increased with a CAGR of 3.3% during FY2004-08, to reach a total of 1,200 million units in 2008. The market's volume is expected to rise to 1.4 billion units by the end of 2013, representing a CAGR of 2.8% for the FY2008-13 period.

The performance of the market is forecast to decelerate, with an anticipated CAGR of 3.5% for the five-year period FY2008-13, which is expected to drive the market to a value of \$13,400 million by the end of 2013. The company generates 45.5% of its total revenue from the Western European market. L'Oreal already has a strong foothold in European market and hence is well positioned to benefit from the demand for facial care markets.



Threats

Increasing competition

The skin care, makeup, fragrance and haircare businesses are characterized by intense competition throughout the world. The company competes in selected product categories against a number of multinational manufacturers. In addition to products sold in the mass-market and demonstrator-assisted channels, the company's products also compete with similar products sold in prestigious department store channels, through door-to-door sales, by mail-order or through telemarketing by representatives of direct sales companies. Brand recognition, quality, performance and price have a significant influence on consumers' choices among competing products and brands. Advertising, promotion, merchandising, the pace and timing of new product introductions, line extensions and the quality of in-store sales staff also have a significant impact on consumers' buying decisions. L'Oreal's major competitors include Revlon, Unilever, Procter & Gamble, Avon, Shisiedo, and Estee Lauder. Increasing competition could adversely affect the company's margins.

Growing counterfeit goods market

The growing market for counterfeit goods has been on the rise across industries and is affecting the sales as well as the image of the established brands. With global annual sales of around \$500 billion, these counterfeit goods are expected to cross \$2 trillion in sales by 2026. The fake goods in this industry are eating into the market share of the branded products through their low price offerings. Since customers end up buying counterfeited products bearing look-a-like brand labels, the low quality of these fakes affects consumer confidence and tarnishes the brand image of the genuine company. Thus L'Oreal is exposed to these dangers, and any poor or negative experiences reported about counterfeit products will have a major affect on the company's fortunes.

Global macroeconomic pressures

The company's business faces adverse effects because of the recent global macroeconomic pressures in its geographic regions. Recent global economic events, especially in North America, including job losses, the tightening of credit markets and failures of financial institutions and other entities, have resulted in challenges to its business and heightened concerns regarding further deterioration globally.

Consumer spending is generally affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs, gasoline prices and consumer confidence. Consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower, and may impact the sales of its products. If conditions continue or worsen, the company could experience declines in revenues, profitability and cash flow due to reduced orders, payment delays, supply chain disruptions or other factors caused by the economic challenges faced by customers, prospective customers and suppliers.

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