Study on the Business Management Models and Marketing Strategies of Major Cosmetic Groups in China: The Case of L’Oréal Group

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Abstract. The cosmetics industry is one of the most dynamic and competitive sectors within China's fast-moving consumer goods (FMCG) market. L'Oréal is a market leader in the cosmetics industry, with a diverse product range encompassing skincare, hair care, fragrances and other categories. The company's portfolio includes renowned brands such as Lancôme, L'Oréal PARIS and Maybelline, which are regarded as market leaders within their respective product categories. L’Oréal has been present in China for over two decades, during which time it has enjoyed considerable success in marketing its products. However, the growth of the local cosmetics industry has presented the company with a number of challenges. This paper employs textual analysis to examine L'Oréal's operational and marketing strategies in the Chinese market, as well as the issues and solutions inherent to its existing marketing strategies. Additionally, it delves deeper into the consumer behavior patterns in China that influence L'Oréal's market positioning, and explores how the company leverages digital platforms for targeted campaigns. Furthermore, the study highlights the cultural nuances that L'Oréal must navigate to resonate with its Chinese audience effectively, emphasizing the importance of localization in its marketing mix.

Keywords: L’Oréal, Marketing, co-operation, business management.

1. Introduction

In the context of the contemporary competitive society, characterized by deepening reform and liberalization, and the rapid development of the economy, China's economy has undergone a gradual transition from a seller's market to a buyer's market [1]. In the context of the cosmetics industry, what strategies can domestic enterprises and their products adopt in order to establish their own distinctive characteristics and differentiate themselves from their competitors? The question thus arises as to how users may be attracted on the basis of their distinctive personality. How might businesses survive and develop in the context of intense domestic and international market competition? Branding represents an effective solution to this problem, as it encourages consumer spending. The Chinese cosmetics market is one of the fastest-growing in the world. The rate of growth in sales of cosmetics in China is approximately 1.5% per annum, which is considerably higher than the average rate of growth of the national economy [2]. The current level of cosmetics consumption in China is relatively low. However, as people's concepts of life evolve, progress is made, and their living standards continue to improve, the consumer group is expanding. The Chinese cosmetics market shows great market potential and room for development, even in the midst of the economic crisis, due to the large population base and the diversity of consumption levels in China.

Over the past two decades in China, L'Oréal has developed a number of effective marketing strategies. In the cosmetics industry, numerous brands view L’Oréal as a primary competitor. Some directly imitate and learn from its marketing methods, while others develop bespoke marketing strategies to enable them to compete with L’Oréal. Since the reform and opening up of China, a proliferation of local cosmetic enterprises has occurred, with a period of accelerated growth occurring in the 21st century. L’Oréal’s marketing strategy offers invaluable insights and practical significance for the long-term development of local enterprises in China and their advancement into the international market.

This paper adopts the literature research method and will include five aspects: an introduction to L'Oréal China, L'Oréal China's business management and operation model, L'Oréal's marketing, and suggestions for L'Oréal's future operations.

2. The L'ORÉAL Group

2.1. The Origins and Subsequent Development of The L'Oréal Group

L'Oréal Paris was established in 1907 by Eugène Schuyler. 'L'Oréal' is derived from the Greek word '*OPEA*', which translates to 'beauty'. L'Oréal's product range has expanded considerably since its inception, encompassing not only hair coloring products but also a diverse array of other categories, including skincare, cosmetics, hair coloring and hair care, and shampoo. These products are distributed globally and have achieved considerable commercial success. The L'Oréal Group comprises many well-known brands, including Lancôme, L'Oréal Paris, Maybelline, and others. Each of these brands commands a significant portion of the market within its respective product category. L'Oréal Paris officially entered the Chinese market in the late 1990s and has since become a highly regarded brand in China. L'Oréal Paris products have consistently accounted for a significant portion of sales in the Chinese cosmetics market, with a notable increase in market revenue over an extended period [3].

2.2. The L'ORÉAL Group in China

In 1997, the L'Oréal Group formally commenced operations in the Chinese market. In February 1997, L'Oréal established its Chinese headquarters in Shanghai. In 1999, the L'Oréal Group commenced production at its large-scale factory in Suzhou Industrial Park. In 2000, Hélène, a luxury cosmetics brand, entered the Chinese market with the opening of its first counter in Shanghai. In 2001, the Garnier Research Centre commenced operations in China, and LA ROCHE-POSAY, a therapeutic skin care product for dermatological diseases, was introduced to the Chinese market. In the same year, Biotherm, a premium skincare brand, commenced operations in China. In 2003, the L'Oréal Group proceeded with the acquisition of the well-known Chinese mass-market brand *Xiaohushi*. In 2004, the L'Oréal Group proceeded with the acquisition of the Chinese make-up and skincare brand *Yuxi*. L'Oréal China is headquartered in Shanghai until June 2024. It has five offices across China, 25 brands, a research and development and innovation center, a training center, two factories in Suzhou and Yichang, and five distribution centers, with over 10,000 employees [4].

2.3. The Financial Situation of The L'Oréal Group in 2023 and 2024

The L'Oréal Group's full-year 2023 results demonstrate a sales volume of 41.18 billion euros, representing a 7.6 percent increase compared to the previous year. Additionally, the operating profit reached 8.143 billion euros, indicating a 9.2 percent growth from the previous year. This result marks the first occasion on which L'Oréal has surpassed the 40 billion euros mark in sales, representing a record high. The year 2023 was a highly successful one for the L'Oréal Group, which achieved its highest year-on-year growth rate Despite the challenges of geopolitics, inflationary pressures, and the slow recovery of China's beauty market, the company has achieved growth for more than 20 years (excluding 2021). This success can be attributed to the effectiveness of its multi-polarization model and the robust growth observed in emerging markets.

Table 1. Sales by Division and Region

Sales by Division and Region						
	2nd quarter 2024			1st half 2024		
		Growth			Growth	
	Million Euros	Like-for-like	Reported	Million Euros	Like-for-like	Reported
By division						
Professional Products	1,183.4	+0.9%	+1.1%	2,426.7	+5.7%	+4.9%
Consumer Products	4,149.4	+6.7%	+7.3%	8,322.2	+8.9%	+8.3%
Luxe	3,765.8	+2.8%	+5.8%	7,578.8	+2.3%	+4.0%
Dermatological Beauty	1,777.2	+10.8%	+11.1%	3,793.0	+16.4%	+15.5%
Group Total	10875.8	+5.3%	+6.7%	22,120.8	+7.3%	+7.5%
By Region						
Europe	3,550.0	+9.7%	+12.2%	7,283.3	+11.1%	+12.2%
North America	2,783.6	+3.4%	+5.5%	5,798.7	+7.8%	+8.7%
North Asia	2,752.0	-2.4%	-2.4%	5,474.7	-1.7%	-3.1%
SAPMENA-SSA	922.5	+14.0%	+14.3%	1,884.0	+15.2%	+14.3%
Latin America	867.6	+12.3%	+13.3%	1,680.2	+14.2%	+15.8%
Group Total	10875.8	+5.3%	+6.7%	22,120.8	+7.3%	+7.5%

As illustrated in the Table 1, all divisions exhibited positive momentum, with the Dermatological Beauty Division and the Consumer Cosmetics Division demonstrating the highest growth rates. The L'ORÉAL Group's brands are currently organized into four principal product divisions: The four main product divisions are as follows: Professional Cosmetics, Consumer Cosmetics, Dermatological Beauty, and Luxe.

The only region to demonstrate a decline in sales was North Asia, with a year-on-year decrease of 1.7 percent (at actual exchange rates) and 3.1 percent (at reported exchange rates). In Mainland China, the beauty market exhibited a decline in the second quarter, attributable to a high comparison base and sustained low consumer confidence.

3. L'Oréal's Business Operations and Management Model

3.1. The Analysis of The Commercial Operation Strategy of L'Oréal China

L’Oréal’s sustained growth and success over the past three decades are closely linked to its market expansion strategy in China. L’Oréal has actively expanded the Chinese market, starting from consumer demand, establishing a high brand reputation, and investing significant resources to develop diverse sales channels and a vast sales network. L’Oréal’s operational layout in China is informed by its international background conditions. As an international company with over 30 brands spanning multiple categories, L’Oréal’s strategy at the corporate level in China leverages the company's strengths and is conducive to its continued growth and development in the Chinese market [5].

3.1.1. Diversification of Products

L'ORÉAL's head office employs a global acquisition strategy, pursuing global investment in other brands and the expansion of business markets. This strategy entails the constant expansion of core business areas and markets of operation, as well as the integration of L'ORÉAL's own corporate culture across different countries and markets. L'Oréal has a diversified portfolio of brands and products in China. L'Oréal has more than 30 brands in its product catalog, with over 25 of these already available in the Chinese market. The product range is extensive and diverse, comprising items at varying price points to meet the needs of consumers with different purchasing power. This ensures the brand proposition remains flexible, thereby enabling it to compete with other brands and reducing the potential for risks and threats to the business process.

3.1.2. Combining Localization and Internationalization

L'ORÉAL's approach to localization and internationalization in the Chinese market appears to be a contradiction; however, it can in fact coexist. Localization allows for a closer connection with consumers, which can be beneficial for the company's management in China. In China, when L'ORÉAL promotes the internationalization of its own brand culture, it also implements the concept of localization. This enables Chinese consumers to accept new products and associate them with their own actual needs, thereby promoting consumption. Regarding sales network development, the L'ORÉAL Group adapts to the local needs and development of China, developing in conjunction with the local sales platforms in China.

Furthermore, L'ORÉAL China recruits local personnel for the selection of management professionals, thereby facilitating integration into localized operations. Consequently, L'ORÉAL China also collaborates with localized measures in its marketing strategy to adapt to the competitive landscape of the Chinese market, aligning its product offerings with the needs of Chinese consumers, and integrating internationalization and oriental cultural elements in its brand image, thereby enhancing its brand recognition.

3.2. L'Oréal's Management Model

3.2.1. Refinement of Branded Markets Based on Product Features

To accommodate the disparate target markets and sales channels of its constituent brands, the L'ORÉAL Group has subdivided its portfolio into four principal divisions of cosmetic products: the Luxe Division, the Consumer Products Division, the Professional Products Division, and the Dermatological Beauty Division [6]. In the Chinese market, there is a diverse range of brands, including those in the premium cosmetics sector, mass cosmetics, professional hair products, and active health cosmetics. In order to meet the diverse demands of the market, L'ORÉAL employs a range of positioning strategies and differentiated sales channel strategies for different brand categories. This approach allows the company to achieve relatively complete channel coverage.

3.2.2. Segmentation of The Brand Market According to Region

L'Oréal introduces different brands in different regions, depending on the specific market. The world map is divided into five regions: Europe, North America, North Asia, Latin America, and SAPMENA-SSA (South Asia-Pacific, the Middle East, North Africa, and sub-Saharan Africa). The Chinese market is a case in point. In addition to the introduction of brands at all price levels into the Chinese market, the L'ORÉAL Group has also acquired a number of local brands in China. This has facilitated the localization of the marketing, allowing L'ORÉAL to build its pyramid in the region [7]. Consequently, the company's business operation models also encompass more detailed marketing according to different segments of the regional market.

4. Analysis of Marketing Strategies of L'Oréal Group in China

4.1. L'Oréal China Marketing Strategy

L'Oréal Paris employs a dual approach to sales, utilizing both online and offline channels. L'Oréal Paris has established official retail outlets on various online platforms, including Taobao, T-mall, and Jingdong. These outlets focus on the brand's skincare, color cosmetics, and hair coloring and conditioning products. In October 2010, L'Oréal Paris commenced its presence on major online platforms. The brand's flagship shop has experienced growth, and the scope of services has been expanded gradually. This has enabled the company to gradually build an ecosystem for sales, with an increasing market coverage. L'Oreal Paris places significant emphasis on the integration of online and offline consumption scenes, with a particular focus on online marketing. The company's e-commerce sales strategy is characterized by active participation in major e-commerce shopping festivals and the creation of innovative marketing strategies.

4.2. Problems with Marketing

4.2.1. Over-Reliance on Web Host Promotions

Consumers demonstrate greater loyalty and trust in brands that employ stable pricing mechanisms, which can in turn lead to more stable sales of goods [8]. L'Oréal Paris's marketing strategy is undermined by the instability of its product pricing. In 2021, the company was the subject of consumer complaints due to significant discrepancies between the prices of its products on e-commerce platforms and those offered on offline platforms. One notable example is the "price treaty" signed with the Taobao platform, which stipulates that L'Oréal Paris products can only be offered at the lowest prices in the shopping stores of the two Taobao platform anchors, Li Jiaqi and Weiya [9]. Prices offered through any other sales channels must not be lower than or the same as the price of the same products. The most notable of these is the 'price treaty' signed with Taobao platform anchors Li Jiaqi and Weiya. This treaty stipulates that L'Oréal Paris products can only be offered at the lowest price in the shopping stores of these two anchors, and that the price of any other sales channels shall not be lower than or the same as the price of these two anchors. The pricing inconsistencies observed in the case of L’Oréal Paris can be traced back to 2020. At that time, L’Oréal Paris launched the same product, L’Oréal Paris Ampoule Mask, on different platforms, resulting in price discrepancies. For instance, on the Pinduoduo shopping platform, the price was 169 yuan for 20 tablets, while on the Taobao platform, it was 15 tablets of 165 yuan. Notably, in the shops of the two anchors, the price was as low as 120 yuan for 15 tablets. Furthermore, there are multiple instances of disparate pricing for the same product across various platforms, including Jingdong, Tmall, and Taobao. The presentation of the same product on multiple e-commerce platforms with fluctuating prices has the potential to negatively impact the brand-consumer connection, erode consumer trust in the brand, and impede the brand's long-term growth and development.

4.2.2. Misinformation Between Different Sales Channels

The advancement of mobile technology has enabled the targeting of new consumer groups, and the significance of online live sales has been increasingly recognized by L'Oréal Paris. In response, the company has initiated the construction and promotion of a product live broadcasting room on various online platforms. This represents a significant stride for L'Oréal Paris in its quest to boost product sales, offering a wider consumer base the opportunity to purchase its wares. It also serves as a tangible illustration of L'Oréal Paris' brand strategy, which aims to bolster the brand's competitive edge. In addition to the price volatility issues, the choice of L’Oréal as the brand spokesperson during the epidemic has, to a certain extent, also damaged L’Oréal’s brand image. Despite this, L’Oréal Paris subsequently issued an apology to consumers on platforms. However, this behavior unquestionably demonstrates that L’Oréal Paris's publicity and promotional strategy is flawed, failing to adequately respect the rights and interests of consumers and significantly impacting the brand's image, thereby limiting its future growth [10]. The brand's image has been significantly impaired, thereby constraining its future growth and development.

5. Solutions to Marketing Problems

5.1. Improving the Commodity Price System

The pricing mechanism represents a crucial aspect of commodity sales, with the product price also representing a significant factor for consumers when making purchasing decisions. Instability in market pricing can have a detrimental impact on consumer trust in a brand. In order to stabilize product pricing, it is first necessary for L'Oréal Paris to clarify the internal pricing structure of its products and to identify the consumer groups to which they are targeted. On this basis, L'Oréal Paris sells its products on multiple channels and platforms. In order to ensure consistency and transparency, it is essential that there is a unified aggregation of the platforms, which should display the same price and provide unified information and supervision. L'Oréal Paris has established official retail outlets and official live broadcasting rooms on Taobao, Tmall, Jingdong, and other platforms, thereby creating a more mature operational and maintenance system. This provides a solid foundation for L'Oréal Paris to stabilize pricing in collaboration with online platforms. L'Oréal Paris has collaborated with Tmall and Jingdong to regulate the pricing of its products across the network, utilize legal instruments to address the issue of unscrupulous merchants selling counterfeit products and reduce the number of unofficial directly managed shops selling L'Oréal Paris branded products. L'Oréal has also collaborated with Tmall and Jingdong to regulate the pricing of its products across the internet. This has involved the utilization of legal instruments to address the activities of unscrupulous merchants engaged in the sale of counterfeit products and to reduce the number of unofficial retail outlets offering L'Oréal products for sale [11].

5.2. Improving the Brand Image

In the process of rebranding, it is essential to focus on the publicity and promotion of brand culture, enhancing the cultural nuances of the brand and motivating consumers to develop a novel and elevated level of brand awareness of L'Oréal Paris. In light of the role of products in self-expression and emotional expression, in addition to their functional aspects, it is essential to consider the utilization of novel social media platforms. This entails capitalizing on the online traffic flow of microblogging, jittering and other digital media platforms to disseminate the brand culture of L'Oréal Paris. Furthermore, technological innovation should be leveraged as a means of enhancing brand value, with the objective of disrupting the consumer's pre-conceived notions about the brand, effectively addressing the challenge of L'Oréal's brand image becoming somewhat stagnant and difficult to evolve.

6. Recommendations for L'ORÉAL China's Management and Marketing Operations

6.1. For Business Operations

Considering the growing prominence of local skincare brands in China, multinational corporations such as L’Oréal are compelled to pursue a dual strategy of localization and internationalization for their products. In addition to the acquisition of local brands, it would be beneficial for multinational groups such as L’Oréal to conduct targeted research on products in order to meet the needs of consumers in the Chinese market. Concurrently, consideration should be given to the local sales model in China, with online sales representing the primary focus. Offline counters should be synchronized with online promotions and other activities to facilitate the growth of offline retail.

6.2. For Marketing Strategies

It would be prudent for the L'Oreal Group to consider modifying its marketing approach in order to align it more closely with the purchasing habits of Chinese consumers. Reforms must be implemented across all aspects of the product strategy, price strategy, promotion strategy, and channel strategy in order to align them more closely with the characteristics of the Chinese market. It is essential to take into account both the international market pricing and the competitive landscape in China when determining the actual pricing. Concurrently, L'Oreal must also endeavor to maintain its brand image amidst the competitive pricing landscape, ensuring that fluctuations in pricing do not negatively impact the brand image in the minds of consumers.

7. Conclusion

This paper focuses on L’Oréal China's management and market operations and marketing in the Chinese market, which is discussed in the text analysis. From the aspect of business management, L’Oréal is an internationalized group, which is able to combine internationalization and localization in its business management. L'Oréal Group divides the market according to regions, and different management for different regions can better promote the brand development.

In terms of business operation, L'Oréal China is able to adapt to the current social development, adopting online and offline sales synchronization for sales, and although there have been several marketing problems, the overall marketing strategy is still very effective. As a big international brand, L'ORÉAL has to continuously improve and refine its management style and operation mode, so as to enable the brand to develop stably in the market competition.

In writing the paper, it is limited by the author's personal professional knowledge, cultural background, comprehension and other subjective factors. Firstly, the amount of literature referred to in this article is insufficient, and the literature is somewhat subjective. Secondly, the research perspective is relatively single, and the breadth and depth of analysis are insufficient, thus affecting the comprehensiveness of the research results. Thirdly, there is less research literature on L'Oréal China and some of the literature is old, thus it may affect the timeliness of this study.

In order to address the shortcomings of this study, future directions are proposed: firstly, expanding the scope of references for more in-depth and wider studies. Secondly, increase the practical research on the management and operation of multinational corporations. The success story of L'Oréal as a well-known multinational company is very informative. Including the problems that L'Oréal has experienced in marketing, which may also be the problems that other beauty and skincare brands will encounter in the future. Therefore, whether it is from the management of international companies or the marketing and operation of skincare brands, L'Oréal can be chosen as a suitable research object for more and more in-depth studies.

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