

# Research on Multinational Cosmetic Corporations' Business Models and Marketing Strategies Based on the 4P Theory: A Case Study of L'Oréal Group

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**Abstract.** With the development of the cosmetic industry, the competition among cosmetic groups and brands is becoming more and more intense. In the process of operation, enterprises not only need to build a reasonable business system but also adopt effective marketing means to ensure the attractiveness of their products. L'Oréal Group, as a leading company in the cosmetics industry, has high-quality products and an excellent business system. After more than one hundred years of development, L'Oréal Group's production and sales network spreads all over the world, with a stable customer base and strong profitability. Based on the literature research and the application of 4P theory, this paper analyzes L'Oréal Group's operation strategy and marketing strategy separately to explore its advantages. It is found that L'Oréal Group's pyramid brand layout guides its product, price, place, and promotion strategies, and it uses mergers and acquisitions to continuously expand the number of brands and capture a larger range of global markets. This well-established operational approach has helped the L'Oréal Group to continuously expand its sales and increase its influence in the world.

**Keywords:** Multinational Enterprises; Marketing; 4P Theory; L'Oréal.

## 1. Introduction

The cosmetics industry is one of the dynamic segments of the global FMCG market, and its market is highly competitive. In this huge market, brands are actively competing for market share by launching a wide range of products and adopting innovative sales models. Currently, globally renowned cosmetic groups such as L'Oréal, Estee Lauder, LVMH, etc. dominate the cosmetics market and lead the direction of the market. With rich experience and excellent innovation in the cosmetics field, these giant companies not only promote the continuous upgrading of products but also set industry benchmarks in marketing and brand promotion. Their product lines cover a wide range of market segments, from skincare to color cosmetics to fragrances and personal care products, meeting the needs of different consumer groups. As a result, these cosmetic groups have earned widespread recognition globally as well as maintained a superior competitive position in the marketplace. In the ever-changing market environment, the successes of these companies provide valuable insights for other brands and also motivate them to continuously strive for innovation and product quality to meet the ever-changing market demands. According to the report of Brand Finance in the UK, L'Oréal Group is regarded as The Beauty Queen: the world's most valuable cosmetics brand, valued at US\$1.2 billion, which is the absolute top 1 in the cosmetics industry [1]. As a multinational cosmetics group, L'Oréal Group has achieved outstanding results, being inseparable from its excellent marketing and business operation strategies. An in-depth analysis and study of L'Oréal's successful operational and marketing strategies is of great significance to the development of the entire cosmetics industry. Through such a study, valuable experiences and lessons can be learned, which will help other cosmetic brands to better cope with market challenges and enhance their competitiveness.

This paper will study L'Oréal Group's corporate operation strategy and marketing strategy through the study of related literature and materials, including cosmetics industry literature, L'Oréal Group-related literature, and industry hot issues related literature. Among them, L'Oréal's marketing strategy is analyzed based on the 4P theory, which analyzes each of the four aspects: product, price, place,

and promotion. From the above analysis, L'Oréal Group's advantageous strategies are extracted for other cosmetic brands to learn and reference.

## **2. L'Oréal Group's Corporate Operations Strategy**

### **2.1. History and Development of the Company**

L'Oréal is the name of a single cosmetic brand as well as the name of a multinational cosmetics company based in France. Founded in 1909 by Eugène Schuyler, the L'Oréal Cosmetics Group is one of the Fortune Global 500 companies and the No. 1 cosmetics company in the world (according to the COSMETC 50 2023 published by Brand Finance in 2023). The group started with the world's first non-toxic hair dye by breaking away from the traditional formula of hair dyes and has since expanded its cosmetics empire by acquiring brands in various skincare, beauty, and fragrance categories and refining its market segments [2]. From 1909 to 1962, L'Oréal was in its infancy, with research and development as its cornerstone and hair coloring products as its initial development. L'Oréal was listed on the French stock exchange in 1963, and from 1963 to 2000, the Group entered the skincare, color cosmetics, and perfume categories through outward mergers and acquisitions, and has entered a period of stable development since 2001, meeting the emerging needs of the world's populations for cosmetic products through a steady stream of mergers and acquisitions. As an internationally recognized large-scale multinational group, L'Oréal Group has four different business divisions, namely Professional Products, Consumer Products, L'Oréal Luxe, and Active Cosmetics, which cover the needs of almost all consumer groups for "beauty transformation". L'Oréal Group has been dedicated to the cosmetics industry for 110 years, providing professional services to women and men consumers from all over the world. Today L'Oréal owns 36 brands, including the famous top brand HR, the first-tier brands LANCOME, YSL, Giorgio Armani, the pharmaceutical brand La ROCHE-POSAY, the color cosmetics brand ShuUemura, Maybelline, and so on.

Since its establishment, the growth and expansion of the L'Oréal Group has allowed it to continue to accommodate brands from different cultures from around the world and to build its market network around the world. Today, the L'Oréal Group is a leading company in the industry, with a gross profit of 15,282.6 million euros according to the financial data for the first half of 2023, which provides a strong profitability and market influence [3].

### **2.2. Organizational Structure and Governance Model**

For more than a century, L'Oréal has been building a unique portfolio of brands to fulfill the desire for diversity. Through acquisitions, L'Oréal has expanded to 36 diversified and complementary international brands, of which only L'Oréal and KERASTASE are own brands, while the rest have been acquired through mergers and acquisitions. The group now has eight mega-brands with annual sales of more than €1 billion, including L'Oréal Paris, LANCOME, Garnier, Maybelline, Yves Saint Laurent, L'Oréal Professionnel Hairdressing, Giorgio Armani and Kiehl's [4]. It is now richer, stronger, and more diverse than any other company in the global beauty industry. L'Oréal Group will continue to expand its portfolio through targeted acquisitions as part of its efforts to create the future of beauty.

The L'Oréal Group is composed of four operational divisions, each of which creates and improves a variety of consumer goods under its own brand in its respective markets:

1) The Professional Products Division offers knowledge to industry experts in the beauty industry.

Over the past 100 years, this division has been deeply involved in the field of hairdressing and has developed deep expertise and a wide range of products suited to the needs of the market. A group of unique brands have been set up, including L'Oréal Professionnel, Redken, and Pureology;

2) The Consumer Products Division wants everyone to have access to the best products the beauty industry has to offer.

The Division is supported by the use of its specialized and regional brands (Stylenanda, Essie, Mixa, etc.), as well as four main worldwide brands (L'Oréal Paris, Garnier, Maybelline New York, and NYX Professional Makeup);

3) The Luxe Division develops extraordinary services and goods for the most discerning customers through careful distribution.

This division has built a number of illustrious brands that are setting the standard for the cosmetics sector. Yves Saint Laurent Beauté, Lancôme, Kiehl's, Giorgio Armani Beauty, Biotherm, Helena Rubinstein, ShuUemura, IT Cosmetics, Urban Decay, Ralph Lauren, Mugler, Viktor & Rolf, Valentino, Azzaro, Prada, Takami, etc.)

4) The Dermatological Beauty Division, whose mission is to assist everyone in achieving healthy, attractive skin?

The company's range of highly complementary brands, which includes La Roche-Posay, Vichy, CeraVe, SkinCeuticals, Skinbetter Science, etc., is created to stay up with the most important skincare trends and professional advice [3]

In 1963, L'Oréal went public, and the Betancourt family maintained its position as the majority shareholder, which has continued to this day. The L'Oréal Group operates on the principle of strict separation of control and management, with the Betancourt family holding four seats on the Board of Directors and only holding shares without direct involvement in operations. The company is run by professional managers. All of the Group's CEOs are qualified managers who have worked for the organization for many years and have undergone professional training before being chosen. This system guarantees the continuation of L'Oréal's business model and the consistency of its development plan.

### **2.3. Transnational Development Strategies**

The "cross-cultural advantages" of businesses engaged in worldwide operations can be identified as the result of many social and cultural norms, economic circumstances, technological advancements, and factors relating to human resources. Before enterprises conduct cross-border operations, they must analyze and evaluate the investment environment of the host country to make rational decisions and layouts. The L'Oréal Group's global expansion and successful operations are an example of cross-cultural strength. In order to satisfy the demands of all customers, L'Oréal has always acknowledged individual variations and made it a purpose to broaden its portfolio of brands and products. Each customer has a distinct physical make-up and features that differ in age, skin tone, and hair type. Cultural diversity makes consumers in different countries have different perceptions and needs for cosmetics and personal care products. In the process of cross-border development, L'Oréal Group has preserved the brand's plurality to the greatest extent possible, adapting to the characteristics of consumers in each country and region, and thus won the favor of countless consumers.

## **3. Analysis of L'Oréal 's Marketing Strategy Based on 4P Theory**

### **3.1. Product**

#### **3.1.1. Product Portfolio and Brand Strategy**

L'Oréal has expanded its core business areas and markets through global acquisitions and expansions over the years, and its product strategy focuses on specialization as well as diversification. L'Oréal's products are more concentrated in skincare, color cosmetics, and hairdressing products, with a narrower product portfolio compared to the rich product lines of Procter & Gamble and Unilever (e.g., household cleaning products). This gives L'Oréal the competitive advantage of concentration, which not only deepens its image as a professional cosmetics maker but also facilitates the centralized use of multiple resources within the Group to promote its central products. The choice of a narrower product portfolio for in-depth research and development will help L'Oréal to enhance its product specialization and expand the breadth of application of a particular product, ensuring that consumers

in its global markets can find the suitable product. As the world's most successful cosmetics group, L'Oréal owes much of its success to its brand layout. The brands under L'Oréal Group have extremely clear hierarchical divisions, constituting a unique brand "pyramid" layout. Low-grade, mid-range, high-grade, and luxury brands are frequently included in a category's brand portfolio, and the product lines that fall under these various brand portfolios each have unique product concepts and positioning. While avoiding direct competition, these brands complement one another, and distinct product positioning enables customers with various demands to select various goods. L'Oréal takes these four major channels as the longitude and the brand as the latitude to form a brand matrix with strong integration ability, so as to implement the brand portfolio strategy and integrate the complicated brand system [5].

### 3.1.2. Research, Development and Innovation

L'Oréal has always placed great importance on R&D and innovation, Barbara LAVERNOS, L'Oréal's Deputy CEO, in charge of Research, Innovation and Technology, says, L'Oréal was conceived by a chemist as the result of science and a vision. Since that time, science has continued to be the foundation of our concept. Our 4,000 researchers worldwide are driven by a single obsession: providing our customers with the most cutting-edge science and unparalleled aesthetic experiences through our Brands that satisfy the limitless variety of their wants and aspirations. [6]. With 20 R&D centers in six hub regions - the United States, Brazil, South Africa, India, China, and Japan - L'Oréal has invested 1,029 million euros. As science and technology evolve, L'Oréal continues to improve its ability to innovate, creating and developing more personalized and inclusive products, services, and beauty experiences. The variety of consumers provides L'Oréal's R&D teams with a never-ending source of creativity and innovation. Discovering and highlighting the distinctive uniqueness of each consumer, the diversity of their skin and hair, and their different beauty routines enables L'Oréal's R&D teams to develop new products and formulations for them in a more personalized and inclusive way. In order to understand the causes of hair and skin aging and advance the next wave of precision beauty technology strategies and product development, L'Oréal and Verily, Alphabet's precision health management firm, entered into a strategic cooperation agreement in early 2022. L'Oréal R&D and Innovation Center's Augmented Beauty team of professionals is able to unleash the full potential of L'Oréal's century-old research data on skin, hair, and biomarkers through algorithms and artificial intelligence, and to meet and anticipate consumers' expectations through disruptive innovations to create a new, all-encompassing beauty experience, as well as more personalized services and applications.

### 3.1.3. Product Positioning and Differentiation

L'Oréal Group's product positioning and differentiation rely mainly on its brand pyramid. The all-round brand and product structure is the most unique advantage of L'Oréal. Taking China as an example, L'Oréal's brand pyramid in China has products and brands from the bottom to the top of the tower, including LANCOME and Helena Rubinstein in the high-end market, Vichy, LA ROCHE-POSAY and KERASTASE in the mid-end market, and L'Oréal Paris, Maybelline, and YUE SAI in the low-end market. Due to the complexity of the market, L'Oréal's "pyramid" in different countries and cities is not exactly the same, but the implementation of its differentiation strategy is absolutely built on the basis of guaranteeing the brand's excellent quality and image, and even the brands in the low-end market have high-quality assurance.

L'Oréal tends to build brand identification based on the different positioning of the products and construct the brand image. The primary demands for cosmetics items are emotional and expressive, and the major difference between brands is not functionality but rather the many identities, tastes, lifestyles, and aesthetic philosophies that the brands represent [5]. Consumers' desire to buy is 3/4 psychological and 1/4 functional [7]. L'Oréal's pyramid pattern, with large differences between brands and wide coverage, can meet the different needs of different consumers and provide them with product services while strengthening their emotional identity. For example, the high-end line positioning of LANCOME and Helena Rubinstein can bring emotional value and identity to

consumers, and the American cultural background of Maybelline New York can bring the satisfaction of chasing fashion to affordable consumers. The various brand pairings and product positioning maximize the L'Oréal Group's brand aggregation power and increase its sway over the cosmetics sector.

## **3.2. Price**

### **3.2.1. Pricing Strategy**

For each product in its brand pyramid, L'Oréal has a different pricing strategy. Market-skimming pricing (A method entails setting the product's price extremely high at the beginning of its life cycle in order to maximize the profit and recover the investment as quickly as possible), which ensures a higher profit, is typically used for high-end and luxury brand products at the top of the pyramid. For mid-range products in the middle of the pyramid, it mainly adopts the moderate pricing, while for low-end products, in order to swiftly gain market share and increase influence, it mostly uses the penetration pricing (A marketing approach that involves establishing a product's price at a lower level at the beginning of its market introduction to attract the greatest number of consumers).

At the same time, L'Oréal Group has adopted the product category pricing routinely used by major cosmetic brands. Different pricing has been adopted for different product efficacy, dosage forms and packaging. In skincare, cleanser products are usually priced low, water, lotions and creams are mid-priced, masks are moderately priced, and essences are usually priced the highest. In terms of product efficacy, products with basic efficacy such as moisturizing are underpriced, while products with additional technology such as whitening, spot reduction, and anti-aging are the most expensive [8].

### **3.2.2. Price Competition Strategy**

L'Oréal meticulously creates a uniform price system and places a strong emphasis on long-term development when setting the prices for its products. Strict price levels and their range of applications are established. L'Oréal has simultaneously established market retail guide prices and unified retail prices, protecting the reputation of the company's brands and preserving the stability of market prices.

L'Oréal has a wide range of brands and products. The cost of the same product varies widely across brands, yet they all adhere to the principle of unity, and the price range of the product is determined by its various forms. For instance, the average price of skin care products is more than that of color cosmetics, and the price of facial cosmetics is unquestionably higher than that of lip cosmetics. The complete portfolio of goods offered by L'Oréal spans all price points, caters to customers in all market groups, and maintains competitiveness throughout all divisions of the cosmetics sector. The cosmetics industry is rapidly evolving, and L'Oréal is even granted thousands of patents every year. Pricing based on various sales periods has emerged as another successful competitive strategy for L'Oréal as the average product life cycle continues to shrink. For instance, Maybelline, with an average unit price of 90 yuan, underwent a thorough price decrease in the summer of 2003. The price of lipstick has dropped to 39 yuan, and individual types of lipstick have even been sold for less than 20 yuan at a price that is even lower than many Chinese local brands. This greatly benefits consumers who are budget conscious but brand loyal. These products are more than two years old, which not only ensures the display of new products on the counter but also clears the product inventory. With the use of this adaptable pricing strategy, L'Oréal has successfully increased product competitiveness while turning a profit.

## **3.3. Place**

### **3.3.1. Global Sales Channels**

Seven primary L'Oréal channels, including supermarket retail, department store counters, branded retail stores, hair salons, pharmacies, travel retail, and e-commerce, are widely dispersed. L'Oréal's numerous brands determine the diversity of channel selection, with different grades of brands forming differentiated sales channels. Based on brand positioning and differentiated channel layout, the Group focuses on the in-depth matching between channels and brands with different positioning, so as to

give full play to the characteristics and advantages of various channels and enhance the operational efficiency of the Group's global channel system. The Professional Products branch supplies products to salons all over the world, the Active Cosmetics division largely sells its goods in pharmacies, and the L'Oréal Luxe division retails in department shops and cosmetic stores. Small and medium-sized supermarkets and significant retail channels carry the brands of the Consumer Products business.

L'Oréal has a diverse array of sales outlets and channel penetration, each with differing levels of penetration and market share. Due to the different economic conditions and industry development in each country and region, it takes a long time for international brands to penetrate the local market. In the process of expanding global sales channels, L'Oréal's usual way is to acquire local brands. Taking China as an example, L'Oréal acquired Chinese brands such as MININUERSE and MG when it entered the Chinese market, which quickly opened up the market and gained the speed advantage and used it as a base to open up the sales channels of other brands and increase its market share.

### **3.3.2. E-commerce and Online Sales**

The cosmetics industry's sales channels have been substantially enlarged by the growth of e-commerce. L'Oréal entered the world of e-commerce slowly; in 2010, only 5% of its marketing budget was allocated to digital media. L'Oréal has historically relied heavily on offline department store distribution. Consider the Chinese market as an example. Before 2010, L'Oréal did not have an e-commerce platform, and more than 70% of the Group's products were sold through department store channels, with the shipments relying heavily on hundreds of dealers throughout the nation. On March 18th, 2014 L'Oréal officially released a statement appointing 36-year-old Lubomira Rochet as Chief Digital Officer, and at the same time made a bold statement at the strategy launch: Becoming the leader in digital beauty. The three pillars of Digital Beauty's strategy are e-commerce, data technology, and consumers. E-commerce broadens users' purchasing options, penetrates emerging markets, and appeals to younger demographics. Data technology helps brands better understand consumers and optimize digital advertising, while consumers help brands build more intimate, individualized relationships with consumers and produce richer emotional interactions with them [9].

L'Oréal Group's e-commerce channels can be divided into three types: DTC (Direct to Consumer), e-retailer, and ecommerce pure player, of which the fastest-growing revenue and the highest proportion of total revenue is the DTC model. The acceleration of e-commerce DTC has a higher priority for premium product lines. In terms of the nature of the product, the user data insights and personalized services made possible by DTC can significantly improve the high-end crowd's complete chain consumption experience, encouraging product sales. An illustration: At the start of 2020, sales of Lancôme's Little Black Bottle on the official website surged by 30 times thanks to marketing plan adjustments and official website optimization. The DTC model will continue to become more significant going forward for the L'Oréal Group.

## **3.4. Promotion**

### **3.4.1. Advertising and Publicity Campaigns**

As a large multinational group, L'Oréal's advertisements are often presented in a variety of ways. L'Oréal frequently produces many versions of advertising to meet the demands of various product promotion markets, although most businesses only produce one advertisement for a certain product. For instance, for Maybelline, L'Oréal positioned it as a New York fashion brand and wanted to create a fashionable image in the minds of consumers, so L'Oréal placed mainly international versions of advertisements shot by American movie stars, but also use different versions of advertisements featuring local well-known stars and lesser-known models to promote Maybelline on various platforms, including TV, outdoor advertising, and e-commerce.

L'ORÉAL promotes its products in a variety of ways. When L'Oréal Group's product lines are launched, it often adopts methods such as accompanying free gifts, product instruction booklets, and displaying brightly colored props to attract consumers to make first-time purchases and increase the rate of product promotion. L'Oréal Group's offline stores are staffed by L'Oréal's beauty consultants,

who not only help L'Oréal's counter stores build a professional image but also enhance direct communication with consumers, which is conducive to figuring out the consumers' psychology and flexible sales promotion. L'Oréal's membership system has developed a mechanism of more consumption and more feedback, for members with different consumption amounts and frequencies, different values of membership gifts will be given. This membership system is not only conducive to the collection of member consumption information, and timely product advertising to members, but also conducive to the creation of user stickiness so that members of the brand products generate a sense of trust and identity. At the same time, the brand will regularly organize member salons and other party activities to provide beauty knowledge to promote sales.

### **3.4.2. Social Medias and Digital Marketing**

Since the implementation of digital reform in 2014, L'Oréal has been increasing its budget for social media channels almost every year, and not focusing on a single platform. L'Oréal is present on almost all social platforms and e-commerce platforms in China, constantly penetrating all circles of people, allowing consumers to buy and see, and endeavoring to achieve the interaction of the whole domain. In the deep operation of consumers, L'Oréal has even invested in the embrace of the private domain. In China, for example, L'Oréal Paris has a private domain IP 'Little L'Oréal', which consists of a private domain matrix of official accounts, mini-programs, video accounts, enterprise WeChat groups, personal accounts, and moments. Each section operates in conjunction with each other to enhance marketing efforts. Moreover, with the development of social media, L'Oréal has entered into cooperation with more and more self-media workers, implanting promotional advertisements in videos in various fields to reach a wider range of potential consumers.

## **4. L'Oréal Outlook on Future Sales and Competitive Strategy**

After a century of development, L'Oréal Group has grown into a leading group in the cosmetics industry, and its profitability and influence in the cosmetics industry should not be underestimated. After the 4P analysis above, it can be seen that L'Oréal Group has a perfect brand layout strategy, and has achieved remarkable results in the process of implementation. The future of the cosmetics industry will remain highly competitive, and L'Oréal can continue to expand new ideas under the existing product sales and competition strategy. Firstly, L'Oréal can increase its investment in the male market. At present, the major cosmetic groups have not launched high-end products for men, L'Oréal can use this as a breakthrough to develop new products and increase the promotion of men's toiletries to gain a higher market share in advance. Secondly, with the improvement of people's living standards, people have an increasing demand for skincare and cosmetics, especially women in second- and third-tier cities. L'Oréal can appropriately adjust the brand's advertising content and promotional direction to attract more such consumers, and continue to promote the brand's sinking into more secondary cities. Most importantly, today's digitalization trend makes digital platforms an extremely important channel for consumers to obtain information about cosmetics. In the future, L'Oréal Group will also continue to invest in digital platforms to enhance the digital experience, making offline smarter and online more digital [10].

## **5. Conclusion**

The achievement of L'Oréal Group is derived from its M&A strategy. After a hundred years of development, it has accommodated 36 brands from all over the world and retained the maximum degree of brand identity and diversity. In the face of fierce competition in today's cosmetic market, L'Oréal has developed a reasonable product portfolio based on the brand pyramid and competes for market share through different market positioning of brands and corresponding pricing strategies. In the Internet era, L'Oréal has also been able to change its strategy in a timely manner and carry out a digital layout to maintain the competitiveness of its products.

However, after a comprehensive analysis of L'Oréal Group, this study has relative limitations. This paper only provides a theoretical analysis of L'Oréal Group's operation strategy and marketing strategy, does not involve data organization and quantitative analysis, and does not involve the study of L'Oréal Group's talent strategy, supply chain strategy, and other aspects. This study can add data analysis in the future to make the analysis logic of the article more rigorous and try to use more advanced theories to enrich the analysis.

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