Using the SWOT model to analyze the development strategy of L'Oréal Group

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Abstract. L'Oréal mainly produces and markets skin care, makeup, perfume, and hair care products. It has many well-known brands, such as Lancôme, L'Oréal Paris, and Maybelline, and its performance is leading in the industry. With technology developing, the way that cosmetics companies sell their products has changed. Big developments and changes are happening in this industry. This paper aims to analyze the strategy of L'Oréal in the new condition. This paper uses SWOT analysis to discover the characteristics of the company, especially compared to its competitors. Then the author uses the data from the balance sheets and income statements of L'Oréal, Estee Lauder, and Shiseido, compares some key ratios, and finds out the strengths and weaknesses of L'Oréal. The author finds out that investment value is its strength. This paper points out the advantages and disadvantages of the L'Oréal company and analyzes the development strategy of the company. Other companies can learn from their experience and better adjust to the new condition in the cosmetics industry.

Keywords: SWOT model; financial analysis; development strategies.

1. Introduction

1.1. Background

With the economy developing, more and more people are increasing their need for skincare and makeup products. The market for cosmetics companies is becoming larger and larger. In the meanwhile, the cosmetics industry is changing rapidly. Nowadays, technology plays an important part in people's daily lives. With technology developing, e-commerce is gradually replacing physical stores. The new way of marketing and sales has changed the cosmetics industry greatly. New cosmetics companies are rapidly growing and traditional cosmetics companies are actively changing their development strategies. L'Oréal is the biggest company in the industry. It is a typical example for people to look into the industry and learn from its experience. This paper tries to find out the strategy of L'Oréal in these new conditions.

1.2. Related research

Zhou and Xu use the 5T theory perspective to analyze companies' microblog advertising strategies, they found that L'Oréal is the pioneer. It set up "L'Oréal China", the company's official microblog, and set up a team to run and manage the microblog. L'Oréal's all brands are connected through microblogs and surrounding "L'Oréal China" as the center. This can put their power of influence together and it is suitable for companies that have many paralleled brands like L'Oréal. It is the pioneer of advertising in microblogs, and the typical experience accumulated is worth learning from other companies [1]. Zhu uses the 4C theory to analyze how the company advertise on the Internet and found that it has succeeded because it deeply realized customers' need and habits, worked out different strategies when facing different customers, and adjusted its strategy when facing opportunities. In the meanwhile, L'Oréal also has many weaknesses in online advertising, for example, it is hard to combine online and offline activities, cope with different customers, provide services to customers and maintain the advantage in makeup science [2]. Xie uses the SICAS model systematically analyzed L'Oréal's hair care products' digital marketing strategy. Xie found that with the development of the Internet economy and the increase in the popularity of mobile phones, hair care brands need to combine means to find and connect with young consumers in a more efficient way, rather than the previous digital delivery method, which is one-way communication with consumers, ignoring the changes in their behavior and missing opportunities [3]. Yu uses the PEST and SWOT model to analyze L'Oréal's marketing strategy in China from the new retail perspective. In recent years, with the development of science and technology, a new generation of information infrastructure, such as the 5G network, has continued to develop. China's new retail has developed rapidly, and more and more multinational companies have begun to change their business models. In the cosmetics field, companies represented by L'Oréal began to explore their new retail model and made certain achievements [4].

Yan consults a large amount of data and lots of cases found that multi-brand strategy is a commonly used strategy in brand management, especially in the cosmetics industry. P&G, Unilever, L'Oréal, Estee Lauder, Shiseido, and other international cosmetics companies have all adopted this strategy to continuously expand the company. The success of L'Oréal multi-brand management mainly lies in three aspects: relatively independent brand management mode, distinctive brand marketing mode, and brand differentiation. Two major deficiencies: market segmentation needs to be further improved, and brand positioning within the company needs to be further clarified and improved [5]. Zhang uses the 4P theory to analyze the marketing strategy of L'Oréal in China. The success of L'Oréal lies in its flexible use of multi-brand strategy and diversified marketing strategies for brand development so that it can effectively cover multiple market segments. At the same time, each brand in the company will be promoted to develop independently. The disadvantage of L'Oréal's marketing strategy is that the complexity of multi-brand management can't ensure the balanced development of each brand. It is difficult to grasp the complex changing market, and digitalization needs to be deepened [6]. Zhang uses the 4P theory to compare the strategies of L'Oréal and Shiseido. With the development of globalization, a large number of multinational companies in the cosmetics industry have poured into China. They can meet the needs of Chinese consumers for high-end cosmetics, and bring great challenges to local cosmetics companies. In the current fierce competition in China's cosmetics industry, marketing strategy has become an inevitable factor in the success of companies [7]. Huang collects data on the global cosmetics industry published since 1985, analyzes the development trend of patented technology in the cosmetics industry, the distribution of main applicants, geographical distribution, and technological innovation, and focused on the patented technology of L'Oréal. From the development history of L'Oréal, it can be seen that the core technology is the basis for its advancement. L'Oréal should increase investment in R&D, improve product quality, improve intellectual property protection, establish brand advantages, and combine technological innovation with brand operation [8].

Gao and Tian use the perspective of the online celebrity economy to analyze the strategy of L'Oréal. The event between Jiaqi Li and L'Oréal was used to discuss how to improve the marketing strategy of cosmetics companies based on the online celebrity economy. Faced with the new normal of the economy, problems such as weak supervision of marketing channels and vicious competition have come one after another. The sales channels should be supervised, and the competition should be fair. Cosmetic marketing will move towards transformation under the support of the online celebrity economy and realize a new revolution in online marketing [9]. Gao et al. discover the event between Jiaqi Li and L'Oréal and think that L'Oréal is suspected of false publicity and unfair competition. The occurrence of a crisis is inevitable, and public opinions on the Internet will affect the brand image and reputation. Once handled improperly, the company may become depressed. Therefore, companies should attach importance to crisis management and actively respond to online public opinions [10].

1.3. Objective

This paper aims to discover the strengths and weaknesses of the L'Oréal group and analyze its development strategies. First, the author uses the SWOT model to analyze the company's strengths, weaknesses, opportunities, and threats. Then the author uses the data collected from the annual reports to calculate some important ratios. To find out more about L'Oréal's strengths and weaknesses, the author compares the ratios with the ratios of Estee Lauder and Shiseido, which are the main competitors of L'Oréal. After that, this paper discusses the relationship between its strategies and its strengths and weaknesses.

2. SWOT

2.1. Strengths

The first strength of L'Oréal is the quality of its products. The company has acquired lots of brands and many of them are well-known for their high-quality products, such as Lancôme, and YSL. Economies of scale are the second strength of L'Oréal. The company is one of the biggest makeup companies in the world. It can buy raw materials and produce products at a relatively lower price. The third strength of the company is its brand's power of influence. Every year, the company invests a huge amount of money in advertising its brands and many of them have gained a lot of fans. They are popular among customers. The fourth strength of L'Oréal is its continuous acquisitions. It is growing fast and acquiring new brands, so it is equipped with different types of brands. Its product line is complete.

2.2. Weaknesses

There are several weaknesses of the company. The first one is the management of distributors. L'Oréal has many distributors around the world, and it is hard to control each of them. The second one is the services of the distributors. The distributors sell products and provide services to the customers directly.

2.3. Opportunities

There are many opportunities for L'Oréal. The first one is the growing markets. Many developing countries, such as China in Asia, are having larger and larger markets for makeup products. The second one is the development of the economy. With the economy developing, more and more people are becoming able to afford and favor relatively high-priced products. The last one is the popularization of science. L'Oréal's development of science and technology is good for their innovation. Customers' popularization of science will boost the sales of specially invented products.

2.4. Threats

There are four main threats for L'Oréal. Firstly, COVID-19 has adversely affected the company's business. Secondly, with social platforms' help, there are many new entrants in the industry. Thirdly, traditional big companies, like Estee Lauder, are fiercely competing with L'Oréal. Lastly, the need of the market is changing rapidly.

3. Results

Table 1's data is extracted from the income statements of L'Oréal, Estee Lauder, and Shiseido. The data can be used to calculate the gross profit margin of the companies. Gross profit margin= (net sales-cost of sales)/net sales. L'Oréal's gross profit margin is 73.13%. Using the same means of calculation for its competitors, the gross profit margin of Estee Lauder is 75.73%, and the gross profit margin of Shiseido is 74.60%. A higher gross profit margin generally means better profitability. L'Oréal's gross profit margin is the lowest among the three companies, so profitability is L'Oréal's weakness.

Table 1. Gross profit margin

	L’Oréal	Estee Lauder	Shiseido
Net sales	€18.3663billion	$17.737billion	$8.992832billion
Cost of sales	€4.9358billion	$4.305billion	$2.284414billion
Gross profit margin	73.13%	75.73%	74.60%

The current ratios of the three companies are shown in Table 2. The current ratio can be calculated by current assets and current liabilities. Current ratio= current assets/current liabilities. Regarding the data collected from the balance sheet of L’Oréal, the current ratio for L’Oréal is 0.93. Traditionally, a value around 2 was viewed as optimal. L’Oréal’s data is far from optimal. To compare the ratio with more benchmarks, Estee Lauder's current ratio and Shiseido's current ratio are also calculated. Estee lauder's current ratio is 1.60. Shiseido's current ratio is 1.36. The current ratio represents the liquidity of the company. L’Oréal’s current ratio is the smallest among the three companies and liquidity is its weakness.

Table 2. Current ratio

	L’Oréal	Estee Lauder	Shiseido
Current assets	€14.59billion	$9.298billion	$4.530735billion
Current liabilities	€15.7092billion	$5.815billion	$3.336208billion
Current ratio	0.93	1.60	1.36

Table 3 shows the inventory holding period of the three companies. The inventory holding period can be calculated by average inventories and cost of sales. Inventory holding period= (average inventory/cost of sales) *365. Regarding the data collected from the balance sheet and income statement of L’Oréal, the inventory holding period for L’Oréal is 256 days. To compare the ratio with more benchmarks, Estee Lauder's inventory holding period and Shiseido's inventory holding period are also calculated. Estee lauder's inventory holding period is 230 days. Shiseido's inventory holding period is 218 days. The inventory holding period represents the efficiency of the company. L’Oréal’s inventory holding period is the longest among the three companies and efficiency is its weakness.

Table 3. Inventory holding period

	L’Oréal	Estee Lauder	Shiseido
Average inventory	€3.46825billion	$2.7125billion	156.8945billion yen
Cost of sales	€4.9358billion	$4.305billion	262.959billion yen
Inventory holding period	256days	230days	218days

Earnings per share, also called EPS, are shown in the income statement of L'Oréal. The EPS is €6.02. Estee Lauder and Shiseido also show their EPS on their annual reports. The EPS for Estee Lauder is $6.64 and the EPS for Shiseido is $0.92. According to the exchange rate between U.S. dollars and euros, the EPS for Estee Lauder is €6.40 and the EPS for Shiseido is €0.89. Estee Lauder's EPS is slightly more than the EPS of L’Oréal, and Shiseido's EPS is much less than the EPS of L’Oréal. EPS represents the investment value of the company. So, the investment value of L’Oréal is relatively good, it is its strength.

4. Discussion

As for profitability, the reason for L'Oréal’s weaknesses is its management of distributors and different ways to sell products, for example, by Taobao. Because management is difficult for big companies like L'Oréal, it has a problem providing good services to customers. It is crucial to improve the quality of the products and the services L’Oréal had no independent after-sales customer service group on the online marketing platform before. Due to the sharp increase in the sales of online marketing channels during the Double 11 Festival in 2016, the proportion of inventory and actual pre-sale products was greatly different. Consumers were late to receive products and they cannot get back their money, which caused dissatisfaction among consumers. A large number of negative comments online were generated. L’Oréal specially established an after-sales customer group for this purpose, but they were lack of professional customer service ability and did not substantially solve the problem, which led to an increase in complaints and damage to the company’s image to a certain extent. How to do a good job in after-sales work and improve the sales chain is a problem L’Oréal needs to pay attention to. These problems are particularly obvious in L’Oréal, and they influence L'Oréal’s profitability.

The reason for L'Oréal’s liquidity weaknesses is how it develops technology and creates its advantage. The development of the Internet has brought about significant changes in people's consumption concepts. There are more innovative consumption patterns, a decreasing concentration of communication channels, and stronger individual awareness. The future development of cosmetics should consider how to adapt to the rapid development of the need of the market. Therefore, more resources must be invested in science and technology, R&D, and other work. Modern scientific and technological means such as big data and virtual reality must be introduced in the beauty field to achieve a smooth transformation into a beauty technology company. This is the direction L’Oréal must consider. At the same time, as a comprehensive big company in the industry, its existing competitors are usually also industry giants, such as Estee Lauder, Shiseido, etc. How to maintain its advantages in various competitive fields is also a question L’Oréal needs to think about. With the improvement of the major groups, the differences between them, whether in marketing means or products, are becoming smaller and smaller. How to achieve the uniqueness of network marketing is a key point. In recent years, Chinese local brands have tried to make success in the low-price cosmetics market by low price and high quality, online celebrity marketing. In contrast, adapting to the patriotic trend in recent years is what L’Oréal, a French-born company, cannot do. L’Oréal has many suppliers and is less likely to be affected by them. This problem influences L'Oréal’s liquidity because it has to put much money into developing its technology and creating its advantage.

As for efficiency, the reason for L'Oréal’s weaknesses is its strategy for online selling. It is still struggling to combine online and offline selling and better interaction with customers and celebrities who live broadcast its products. Young consumers are making their buying line longer by interacting more with the sellers. They not only buy products online, but also buy products in physical stores, and later they give comments on the products online. The key problem for L'Oréal is to balance offline and online activities. For example, consumers can try cosmetics in physical stores by booking and reviewing them online. Consumers can also go to the physical stores to receive the gift they get online. L'Oréal is still developing in this kind of area and there are many problems to be solved. This is a problem shared by many cosmetics companies, but it is particularly obvious for L'Oréal. L'Oréal has to better the relationship with not only consumers but also the celebrities that live broadcast the products, for example, Jiaqi Li. Consumers want to have the lowest price when watching the broadcast. L'Oréal should control the price uniformly and give consumers the lowest price only in the broadcast. L'Oréal has to figure out how to make interactions with consumers more convenient and efficient. This problem influences L'Oréal’s efficiency because it is related to the selling activity of the company.

The reason for L'Oréal’s investment strength is its high investment value. Its high investment value mainly represents the following aspects. Makeup and skincare products are becoming more and more important in consumers’ daily life, and the need for these products is continuously growing. The company is producing and markets many popular products, its different products are suitable for different kinds of needs. With the popularization of chemistry, more and more people realize the importance of the ingredients of skin care products, and specially designed skin care products that combine good ingredients are highly appreciated. Although COVID-19 adversely influences the selling of makeup products, new online ways of selling are rapidly developing and have great success. The supervision of the market is becoming complete and can help the whole industry develop consistently in the future. China’s policies are also helping the development of the industry. Last but not least, L'Oréal has established a good image of its brands. In general, L'Oréal's products probably will become more specific and popular among consumers, its online marketing and selling will become more successful, and its brands will benefit from its good images. The development power of L'Oréal is strong, and the future for L'Oréal is promising, so it has high investment value.

5. Conclusion

This paper has used the SWOT analysis and financial analysis to discover the characteristics of L'Oréal. The strategies of the company have been discussed. And the relationships between its strategies and its performances are clear. The author finds out that the reason for its profitability weakness is its difficult management of its distributors. The reason for its liquidity weakness is its need to develop its technology and maintain its performance in the industry. The reason for its efficiency weakness is how it manages and balances online and offline selling. The investment strength of L'Oréal comes from its high investment value, for example, its good brand image. These main findings are L'Oréal's real experiences in the new conditions of the cosmetics industry. It can change its development strategies to adjust to the new environment better. Other companies can also learn from their experiences and make the whole market more efficient and profitable.

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