

# Indicator Analysis for Cosmetics Companies: Evidence from L'Oréal, Shiseido and Estée Lauder

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**Abstract.** The Chinese cosmetic market increases dramatically in the last five years, which may correspond with the worldwide consuming and investing trend. This paper refers to the profitability performance of three multinational cosmetics companies, i.e., L'Oréal, Shiseido, and Estée Lauder. The best way to illustrate their aspects is ratio analysis combined with visualizations. To be specific, profitability, liquidity as well as working capital indicators are utilized. As for profitability indicator, it includes net profit margin, return on capital employed. Liquidity indicators include current ratio or quick ratio while working capital indicators include inventory turnover period and cash flow. According to the analysis, P&G and L'Oréal are the best seller in the current market because their market proportion are over 50%. Then, the selling of Shiseido and Etsee lauder are ranked after L'Oréal. The strategy these companies chose is significant to get high sales volume, which includes online or offline sales modes etc. The reflection of the ratio also represents some shortage of their operating. These results shed light on guiding further exploration of the profitability and investment performance.

**Keywords:** Cosmetic Companies, Comparison Strategy, Market Performance & Risk.

## 1. Introduction

The Chinese cosmetic market increases fast in the last five years because of the greater customers who prefer consuming more on cosmetic products for charming appearance [1-3]. China is the second-largest cosmetics market with aspects of both supply and demand after the United States. Skin care hair care and cosmetics are the three most important part of the industry. Henceforth, the winners are those groups with transnational transaction which covers every aspect of human's outlook. The most representative companies are L'Oréal, Shiseido, and Estée Lauder.

For worldwide cosmetics market, current share price of L'Oréal is \$346.80, and the degree of change is growing 2.44%. Shiseido's share price is \$40.28, which is increasing 5.11%. Estee Lauder Companies has the highest share price of \$608.50 and appears an increase of 3.43%. The investors can have confidence to shares holding prospects being going to make a profit. The situation is almost the same in China, where L'Oréal is the biggest winner in cosmetics industry, which has a sales revenue of \$29.83 billion. The skin care is the largest proportion of all cosmetic kinds, which is up to 27%. The whole industry appears a prosperous prospect, this trend may be lasting to the next decades. Regarding to detailed corporations' performance in China. As shown in Fig. 1, several companies domain the market of importing. Comprehensively consider both the international reasons and Chinese local developing situations, choosing the representative L'Oréal, Shiseido and Estée Lauder and make a comparison.

In order to figure out the development situation of some famous companies, this paper investigates the profitability performance, liquidity, and investment in the same period. The reminder of the paper will be separated as follows. part of the paper is organized as follows. The Sec. 2 will describe the data origination as well as the calculation of indicators. The Sec. 3 will detail L'Oréal's strategy and risk using ratio analysis based on the indicators mentioned above. The Sec. 4 will introduce Shiseido's strategy and risk using ratio analysis based on the indicators mentioned above. The Sec. 5 will detail Estée Lauder's strategy and risk using ratio analysis based on the indicators mentioned above. Eventually, a brief summary will be given in Sec. 6.



**Figure 1.** Ratios of different corporations in Chinese cosmetic market share

## 2. Data & Method

The data is collected from these companies' official website. The selected indicators are Return on capital employed, net profit margin, working capital, quick ratio, and current ratio. The calculation formulae are given as follows:

- Return on capital employed = PBIT/capital employed
- Net profit margin = net profit/revenue
- Current ratio = current assets/current liabilities
- Quick ratio = (current assets-inventory)/current liabilities
- Working capital = current assets-current liabilities.
- P/E ratio = share price/Earning per share
- D/E ratio = debt/equity

Based on the formulae, the calculation results of the indicators are shown in Table. 1. According to the results, for profitability, Estée Lauder performs the best (16.49% of return on capital employed, but Shiseido (2.59%) is far lower than the industry average (13.24%).

For liquidity, three companies' quick ratio are above the average (0.49), Estée Lauder also do the best, which reaches 0.97. The lowest is L'Oréal's quick ratio (0.51). For Working capital, L'Oréal has the most working capital for 6.29%. However, Estée Lauder appears a reversed amount of -12.33%, which may because of too many trade payables or some factories are ceased to produce some high value or popular products. For gearing, Estée Lauder has the highest financial risks of debts solvency at approximately 0.97, however the L'Oréal's leverage ratio (0.2447) is below the average (0.33).

For investment, L'Oréal has the best performance in P/E ratio of 34.16, all three companies are performed good in this aspect. Overall, the coronavirus damages the whole industry and reduces people's consuming and investing level. This macroeconomic factor largely influences cosmetics industry' profitability and financing abilities. In addition, the make-up industry is similar to oligopoly, some restrictions are from the start of a new brand establishment.

**Table 1.** Horizontal comparison between the three companies and industry

	L'Oréal	Shiseido	Estée Lauder	Industry
ROCE	15.7%	2.59%	16.49%	13.24%
Quick ratio	0.51	0.77	0.97	0.49
Working capital	6.29%	1.02%	-12.33%	0.98%
P/E	34.16	29.36	32.29	25.42
D/E	0.2447	0.323	0.9682	0.33

### 3. L'Oréal

Contemporarily, L'Oréal has established its international portfolio of more than 30 brands, that's why L'Oréal's sales in Chinese market grew up to 35% in 2022, including makeup 35%, haircare 33%, perfume 6%, skincare 26%. As for Profitability, the net profit is 15.39%, ROCE is 15.7%. Regarding to liquidity, the quick ratio is 0.51 and the current ratio is 0.93. The working capital is 6.29%, the D/E ratio (leverage) is 0.2447 and the P/E ratio is 34.16. L'Oréal has successfully marketing strategy. For digitization, it uses new cutting - edge technology to design advertising to form the brand affection of customers. It is a mutual benefit strategy to improve its performance as it can cross domain in several industries such as artificial intelligence. In addition, it uses the social media and KOL. Combined with e-commerce, it has accounted for 28.9% of sales by cooperating with T-mall.

However, as for existing potential risks, current liabilities maybe too high to damage its liquidity or inventory holding is too much. If beyond the reasonableness inventory level, L'Oréal's quick ratio will continually decrease. What's more, the competitors are growing rapidly, it needs to research new products frequently. There were lawsuits towards its technology to uterine cancer because of frequent use of hair straightening products, which is notorious in black people.

For the suggestions, L'Oréal ought to expand research and development costs to take responsibility to different nationalities to achieve the vision of universalization. In addition, finance management should be better by managing current assets and current liabilities in a reasonable range. Besides, one needs to pay attention to what scheduled subsidiary companies should be takeover, to avoid wasting capital in risky or high leveraged subsidiaries. The diversity of products is covered enough (from brands to kinds), the quality of products needs to be regulated more strictly. A series of concepts in this new era such as Low carbon and big data analysis ought to be detailing utilize with particular schedule.

### 4. Shiseido

Shiseido produces several products with the ratio of Skincare 7%, Haircare 18%, Cosmetics 55%, Fragrance 20%. It is the fifth largest cosmetics company in the world and the largest cosmetic firm in Japan. As for profitability, the net profit is 7.44% and ROCE is 2.59%. For Liquidity, quick ratio is 0.77, current ratio is 1.28 and working capital 1.02%. For Gearing, the D/E ratio (leverage) is 0.323. For investment ratio, the P/E ratio is 29.36. As for its successful marketing strategy. It appears a trend of upside collaboration with luxury brands such as Tory burch through joint designed products. Unlike L'Oréal's stability maintaining strategy. Management realizes the importance of online stores. The imitation of other brands is appearing by establishing internet channels and official websites. This Japanese company announced its "Beauty Method" concept store. Shiseido is partnering with stylish brand Tory Burch, for a fresh take on SPF with the launch of limited-edition. The founder of TB facilitates the cooperation about sun care and appreciate the Shiseido's uniquely groundbreaking SPF technology which provides a shortcut to the meticulous skin care. This action can bring recognition and fame for Shiseido and improve its brand level. In addition, mutual benefit and consistency of Shiseido's vision are advantages.

For existing potential risks, the P/E ratio is too low representing the share price is lower or the earnings per share is higher and may attract less investors and less capital introduced. The operating scale may be confined due to lack of enough resources. Lack of international recognition, may be not fit western people's skin or physical condition. Stock price of Shiseido is always risky because it is fluctuated with period. No stability appears is a warning to shareholders. Shiseido Americas Corporation has been hit with a class action lawsuit over its bare. Minerals makeup line, it may be resistant in some areas because of the different culture.

For suggestions, it should keep the specific designation for targeted market and take advantage of the skills of extracting nutrition from health and green materials such as herbs. Taking root in oriental market then seeking the opportunities to western market are also vital to finish its midterm schedule

'win 2023'. It is necessary to attach importance to comprehensive market analysis. Following the creators said (i.e., respect people, society, and the environment) is also crucial. It is necessary to not only focus on maximizing shareholders' wealth, but also focus on the value of economy. The cost of a new project and the benefit should be measured whether it is worth doing or not. Steadily increasing its share price is a key step to allow less over the counter transactions to reduce the risk, because Shiseido has the quickest growing speed of shares.

## 5. Estée Lauder

The Estée Lauder is an American multinational make up manufacturer which owns great prestige, its business ranges in skincare is 24%, makeup is 56%, fragrance is 10%, hair care products is 10%. As for the profitability, the net profit margin is 12.66%, and ROCE is 16.49%. For the liquidity, the quick ratio is 0.97, the current ratio is 1.68 and working capital is -12.33%. For gearing, the D/E ratio (leverage) is 0.9682 and for investment ratio, the P/E ratio is 32.29.

For Estée Lauder's successful marketing strategy, the main reason of this luxury skin care products producer refers to a noticeable transfer from professional women toward a younger demographic. Its developing trend is opposite to the Shiseido, EL appears a downside and horizontal developing track. The company's updated concentration on big-data analysis and make advertisements or cooperate with bloggers to advocate products. Moreover, managers also regulate the PR to preserve its brand image. It forms a win-win situation. In addition, Estee Lauder is a frontier beauty brand which launches beauty-focused apps for the Google Assistant on Google Home, to be at the forefront of designing personalized consumer beauty services through the emerging world of voice activation.

Regarding to existing potential risks, liquidity problem may be caused by overtrading as the sales revenue increased rapidly but a falling net profit margin to match its higher sales. Management accountings have not well managed day-to-day internal labor costs, and production cost have been rising in the developed countries. This uprising in labor costs in Estée Lauder's key markets could damage its net profit margins by increase in cost of sales. Negative currency movements in international transactions.

For Suggestions, it ought to reduce dependence on specialty stores, which will confine the store in a small customer group and may lead to fraud and risk to affect going concern. It is necessary to fully use floating rate difference to take advantage of uprising value in domestic currency. Management accounting should supervise the day-to-day production more efficiently. Eliminating the idle time or fictitious things is also important, because the larger the company is, the harder controls can be taken of. Considering the recession economic environment, the targeted clients should not only be wealthy class people. It should also improve the sales service when selling products, since service as an attribution of visible products is attached attention by customers. Services (e.g., professional make-up artist) help customers to improve their makeup skills and provide enough trial products for customers to decide if this product fit themselves or not.

## 6. Conclusion

In summary, this paper investigates the performance of L'Oréal, Shiseido and Estée Lauder based on relatively complete ratios of different aspects of companies. According to the analysis, the macroeconomic and microeconomic environment have strong impact on the company decisions for their strategies at the same time. The competitors' market policy may be the same, but the effect is different, which depends on the brand image, developed basis, inherent skills, and core technology. These factors are generalized to internal conditions and external factors. In addition, the period these companies take the strategies may lead to different outcomes. In the recession period, the effect may not be so noticeable. Something also significant is that the customer relationship, which can be inferred to upstream and downstream relationships (the suppliers and the retailers). Besides, some asset evaluation works should be undertaken to assess the current value of the inventory holding and

some non-current assets may face obsolete risks. In this case, it should be impaired properly. Reviewing the board minutes, one sees any share returns schedule have been agreed by most of shareholders, such as issue bonus shares or issue more shares to dilute shareholders' returns. Promotions are significant when these cosmetic companies entered a new market. Online advertising and offline trials or gifts can quickly stick the root and get customers' affection. Nevertheless, the calculations are not systematic processing, the sources of information may contain bias or errors. In the future, all the statistics will be much more accurate with the spread use of systematic applications and big data help companies to move forward a single step. Overall, these results offer a guideline for national cosmetics brands strategy decisions.

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