Company Watch: Acquisition strategy sets L'Or?©al up for strong future growth

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L'OrÃ©al has been on a spending spree in recent years to build up its ethical credentials, explore alternative distribution channels and lessen its dependence on Western Europe.

L'Oreal takes position to make long term progress
The French cosmetics and toiletries giant achieved sales of US$29.8 billion (rsp) in 2007 according to Euromonitor International figures, representing an increase of over 5% on the previous year's total in actual terms. L'OrÃ©al's performance fell just short of global market growth and while its status as the world's second largest beauty firm is secure, it has made no progress in closing the gap on Procter & Gamble.

Despite this less than stellar performance, L'OrÃ©al is positioned to make strong progress longer term. Operationally, the company is very efficient â€“ 2007 was another year of double-digit net profits for L'OrÃ©al - enabling it to draw on large cash reserves to innovate and make acquisitions. The company has a well-financed portfolio spanning all beauty sectors (save oral hygiene), price points, regional markets and distribution channels, through initiatives such as the LancÃ´me e-shop and direct sales unit Le Club des CrÃ©ateurs de BeautÃ©.

L'Oreal sets beauty trend
L'OrÃ©al has earned a reputation for trendsetting, enabling it to take advantage of consumers' growing willingness to trade up in key beauty sectors such as hair and skin care, and colour cosmetics, which account for 84% of the company's business. It also places a strong emphasis on advertising, often using celebrity spokesmodels and exploring new media including the internet and mobile phones. This is not only winning sales for the company in its core markets of Western Europe and North America but in the dynamic emerging regions too, expansion into which has become key to L'OrÃ©al's long-term strategy. The beauty firm's R&D centre in China, for example, is focused on developing products specific to the needs of Asian skin and hair.

L'Oreal acquires The Body Shop
Consolidation is an important competitive strategy in the beauty market and in this, too, L'OrÃ©al is active. However, it is not targeting major players (although rumours abounded in 2007 that it was interested in Clarins) and it is instead picking up smaller companies that occupy strategic market positions.

The company took the surprise step of purchasing ethical beauty retailer The Body Shop in 2005. L'OrÃ©al has since made major strides to improve its ethical profile, most recently joining an initiative to minimise its carbon footprint. Natural, organic and green cosmetics have become arguably the most significant in shaping the global beauty market today and major players have been tempted by the generous margins in this lucrative segment.

The Body Shop acquisition may have been just as much about distribution and geographic expansion for L'OrÃ©al than it was about image repositioning, giving it access to the specialist channel and providing it with an important platform for entrance into countries with underdeveloped retail markets. The Body Shop has been expanding throughout India since June 2006. L'OrÃ©al also picked up two Chinese brands, Mininurse in 2003 and Yue-Sai in 2004, as part of its global expansion plans and now ranks second in the local cosmetics and toiletries market. A more recent acquisition, in late 2007, was of hair care specialist Canan in Turkey.

L'Oreal taps into niche market
More recently, L'OrÃ©al's focus has been on bolstering the higher end of its portfolio. The company has made a major push into the US$2.8 billion US salon hair care market with three acquisitions - Columbia Beauty Supply, Beauty Alliance and Maly's West â€“ since mid-2007. L'OrÃ©al has also added weight to its luxury division through the purchase of YSL BeautÃ© and its rumoured bid for Giorgio Armani. L'OrÃ©al's reliance on Western Europe means it must take advantage of the opportunities in this very competitive market in which premium cosmetics are predicted to grow at a CAGR of 2.52% between 2007 and 2012 compared to 1.65% for mass cosmetics. The purchase of YSL BeautÃ© between 2007 and 2012 will be a step towards securing L'OrÃ©al's position in the premium market segment. L'OrÃ©al's acquisition of YSL BeautÃ© will increase its premium portfolio from 26% to 31%, providing it with a competitive edge in both Western and emerging markets. In February 2008, L'Oreal purchased CollaGenex, a pharmaceutical company supplying the dermatology market.

L'Oreal should seek acquisition target in emerging markets
Going forward, L'OrÃ©al is expected to continue seeking out acquisition targets. However, it should be focusing its search

on the emerging markets. Despite its efforts to diversify geographically, 72% of L'OrÃ©al's sales still come from Western Europe and North America, where it faces stiff competition and the threat of economic recession. Last year the company signalled that it would be interested in buying an Indian skin care brand, but Latin America could prove a more fruitful prospect. L'OrÃ©al ranks lower in Latin America than it does in any other region yet local consumers put a strong emphasis on hair care, the company's core competency, and the US$10.4 billion sector is the largest in the region's beauty market. The company could also apply the strategy it uses to attract Hispanic consumers in the US to the Latin American market.

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