

ESTEE LAUDER. ENVIRONMENTAL MARKETING ANALYSIS AND MARKETING PROSPECTS

ASSESSMENT 2

MODULE TITLE: MARKETING MANAGEMENT LCMB7001

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1. INTRODUCTION

If one word should be chosen to most accurately define the beauty industry, this would be “dynamic”. The market has grown significantly in recent years with more and more individuals and companies joining the industry. What is a new product today is outdated tomorrow. Buying personal care products is not only a necessity anymore, it’s a trend and a way to show social status. This first part of this report focuses on analysing the marketing environment of one of the key players in the cosmetics industry, Estee Lauder.

A visionary of her time, Estee Lauder started her company with four skincare products in 1946. Nowadays the company offers makeup, skincare, haircare and fragrance under various brand names, known globally. Operating predominantly in the luxury segment, the company’s mission is “Bringing the best to everyone we touch and being the best in everything we do”

2. MACRO ENVIRONMENT ANALYSIS

Being aware of the constantly changing environment in which a company operates is essential for a successful marketing strategy (Hooley, 2012, p.55). The macro environment of an organisation is the habitat in which it conducts its operations. It is influenced by various factors, which will be further discussed below in the context of Estee Lauder.

- *Political & Legal factors*

With its operations conducted in more than 150 countries, Estee Lauder has to comply with various regulations on import/export, labour, competition and taxes. The company's headquarters are situated in the United States, a major influencer on the global political scene. Trump's tax reform, resulting in significant tax cuts for big corporations has given a chance to the company increasing its profitability or relocating its resources. Despite this, the political environment could be described as more unfavourable than favourable, because of the tendency of political instability in some profitable Estee Lauder markets. The emerging trade war between the United States and China will not only negatively affect Estee Lauder's competitiveness in the Chinese market but will create a barrier for future expansion in the Asian country, whose makeup market is forecasted to have 18.3% growth from 2019 to 2024. BREXIT in the UK is another political reform which can create threats for the company. On the other side, BREXIT will create obstacles for competitor brands, originating from the EU, which can be beneficial for Estee Lauder growing its market share.

- *Economic factors*

Undoubtedly, the global pandemic of COVID-19 has been the biggest event of 2020 so far, resulting in a global distortion of the economy. Employment rates have seen a historical drop and the huge cash injections from governments to support the economy during the pandemic will increase inflation rates. This could result in less buying power and increase in

prices. Although Estee Lauder operates predominantly in the premium segment, where buyers' decision is less affected by income, the global essence of COVID-19 can create an unfavourable environment. Travel retail is a growing segment for Estee Lauder's business, which at the moment is in stagnation, due to the numerous travel restrictions across the world. What is more, the beauty retail industry in the UK (and other countries) hasn't fully reopened yet with close-contact being restricted. In the highly competitive luxury cosmetics market, the inability to experience the product prior buying is a drawback, as the customer is deprived of "experience" and "feel" the product and cosmetics spending is driven a lot by emotion.

- *Social factors*

Luxurious brands have become a way to show social status and people try to associate their personality with them. With the upcoming generations becoming more conscious about what is written on the tag, these social trends give Estee Lauder opportunities for expansion and increasing their brand value. What is more, social media and the internet have become an essential source of information for consumers and can be quite influential in the decision-making process, especially for personal care and beauty products. The COVID-19 pandemic has enhanced the digitalization of society which can be beneficial for Estee Lauder if the company succeeds to deliver sufficient digital awareness and valuable content. Another social trend which shapes buying behaviour is the urge to pursue a healthy lifestyle and to use clean products. With its skincare segment, which accounted for 44.1% of FY2019 revenue and with its continuous innovation in the field, this creates a very favourable environment for the company to increase its competitive advantage.

- *Cultural factors*

Merriam Webster defines culture as "the customary beliefs, social forms, and material traits of a racial, religious, or social group". Culture influences one's perceptions, preferences and behaviour. Estee Lauder has to adapt its marketing mix strategy to local norms. Majority of brands in the cosmetics industry tend to use "catchy", often sexual words and phrases to name their products. Religion can be very influential in some cultures as in the case of Saudi Arabia. Too Faced's (Estee Lauder's most recent brand acquisition) "Better Than Sex" mascara had to be renamed to "Better Than Love" to match the country's religious beliefs. Culture plays an important role in shaping beauty standards, too, therefore customers have different demands in different parts of the world. Being a company focusing a lot on research and customer insights, culture is a favourable force for Estee Lauder.

- *Technological factors*

Technology is at its peak of development and while Generation X is used to living without mobile phones and the internet, for the majority of Generation Z these are at the top of their needs. Technological innovation creates opportunities by a better understanding of needs and wants and improves the customer journey. 3D printing could be very beneficial for a global company like Estee Lauder, diminishing distribution issues. Nowadays when purchasing makeup, physical stores may still be the preferred location as the customer gets

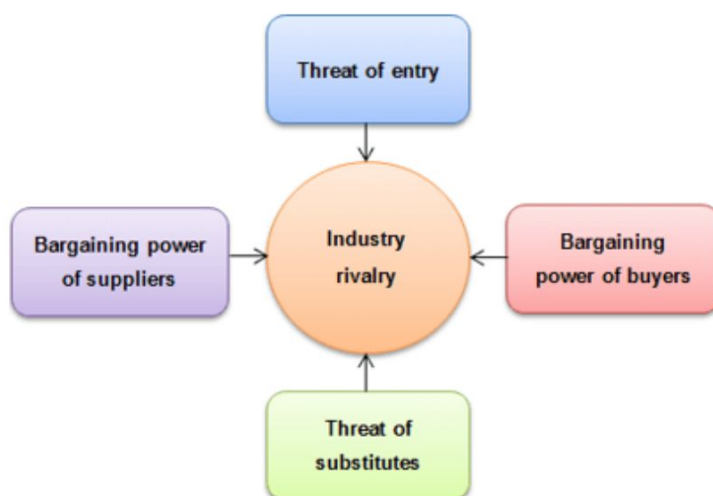
to physically experience the product, but 5G, "the internet of things, virtual reality and artificial intelligence could open whole new prospects in front of customer experience and efficiency. Estee Lauder has five R&D facilities across the world, which creates a favourable environment for the beauty brand.

- *Environmental factors*

The beauty industry is said to be one of the biggest plastic polluters. It was estimated that it produces 120 billion units of packaging every year, with these numbers predicted to increase along with the growth of the industry. Along with the plastic, it creates excess cellophane, cardboard and paper waste. Corporate sustainability is not only government regulated, but a growing social matter, that is why it could be stated that the force is unfavourable, because of the high costs associated with sustainability and the social pressure. Estee Lauder has been focusing on recycling, reducing carbon emissions and waste to zero and has set clear goals to reformulate its packaging so it is recyclable or reusable. Another recently revealed issue was the ethics of extracting one of the main ingredients in eyeshadows and powder products, mica. The main source for it is the Indian states of Jharkhand and Bihar, where this remains a primary source of income for the locals. Estee Lauder tackles the issue of child labour being used in these sites by partnering up with local NGOs to protect child rights. With its extensive societal marketing, the company perceives environmental factors as a challenge to be tackled through innovation and sustainability.

3. PORTER'S FIVE FORCES MODEL

After analysing the macro environment in which Estee Lauder operates, to better understand how Estee Lauder is positioned in the cosmetics industry and the latter's profitability, Porter's Five forces will be applied.



- *Threat of new entrants*

This is medium in the case of Estee Lauder as it has a strong brand name, long history and heritage in the industry. It possesses economies of scale and it is known for its many brand acquisitions. On the other side, online shopping and digital advertising have lowered the barriers to entry. Due to the dynamics of the industry and current trends, new entrants in the skincare segment like DECIEM have a growing awareness because of its low price, high-quality skincare solutions, which creates disadvantages for high-priced companies like Estee Lauder.

- *Substitutes*

From cosmetics surgeries and procedures to "dupes" and counterfeit products, skincare and beauty products have a lot of substitutes. Permanent and temporary cosmetic enhancements (laser facials, lash extensions, botox injections, etc.) undergo growing popularity in developed countries, especially among high-income classes, which are Estee Lauder's target market. At the same time, luxury brands have been the main target for counterfeiters. A lot of smaller brands have been launching an "improved formula" of famous brands' products and retail them for a very low price (see *below image*). This can not only steal potential target markets but can derogate the brand image.

I always stick to the same foundation but this time I thought I'd try something new. Estee lauder is a whopping £30, the w7 is £2.99 in b&m! You can't even tell the difference! I'm converted and saving myself £27 😊 May not be as good for some people but I'm definitely swearing by it!



Source: <https://www.mirror.co.uk/>

However, Estee Lauder is known for its high-quality products and high reputation. The company develops beauty solutions for years by research and development in skincare and makeup, which is a major competitive advantage. They have created a loyal customer base and strong brand name which balances this force to medium.

- *Bargaining power of suppliers*

The suppliers would have low bargaining power as Estee Lauder is a huge multi-brand company brand and produces at large volumes. The cost of changing suppliers is low, there are a lot of suppliers and the raw materials are cheap.

- *Bargaining power of buyers*

This is high as buyers can easily switch to other big brands as the number of these brands present in the market segment is high and the differences between the products are small. Estee Lauder practices a regional approach to best respond to consumers' needs and focuses a lot on market research, innovation and customer service.

- *Industry Rivalry*

Despite being one of the top players in the beauty and cosmetics market, this force is high for Estee Lauder. Its top rivals are L'Oreal (the market leader), Unilever, P&G. However, among the big companies in the industry, Estee Lauder has marked the highest increase in revenue, 37,9%, followed by L'Oreal (24.1%). Due to its high profitability and span of operations, aggressive acquisition strategy and economies of scale, Estee Lauder has a competitive advantage. A threat to the company though could be the growing influence of social media and the shift to online shopping. Recently a lot of new makeup brands have emerged and makeup buyers are more and more influenced by current trends and experimenting with new brands, so if Estee Lauder doesn't respond accurately to them, this can be a threat.

4. SWOT ANALYSIS

The below matrix identifies Estee Lauder's internal strategic factors (strengths and weaknesses) and the main external factors (opportunities and threats) which can influence the company's future development.

STRENGTHS • Strong brand name and reputation • Growing market share • Economies of scale • R&D focus	WEAKNESSES • A large scale of operations • High prices • Lack of presence in lower segments
OPPORTUNITIES • Growth of emerging markets (China, India) • Global technological innovation • Online shopping trend • Industry growth	THREATS • Counterfeit products & substitutes • Intense competition • Changing consumer needs • Unstable political environment

The brand name, "Estee Lauder" itself is a strength and boasts for high brand equity. With its large scale of operations, the company has high bargaining power and has achieved economies of scale. In 2018 the cosmetics market marked a 5.5% increase from the

previous year and Estee Lauder is expected to have the biggest growth of market share compared to its main competitors L' Oreal and Unilever. The company invests a lot in research & development, which creates great opportunities in the fast-developing technological environment. On the other side, the global essence of the organization can fail understanding consumer needs, specific for a region and lack of operational control. As of 2018, the Asia Pacific region was the industry leader, accounting for 40% of the global market, which gives Estee Lauder opportunities for expansion. On the other side, the current political events in the USA can negatively influence international trade and create uncertainty for potential changes in tax regulations and legislation. What is more, the economic crisis due to COVID-19 could result in lower buying power. The intense competition on the market and the lack of presence in lower segments can create a threat for Estee Lauder. The growing number of counterfeit products can not only affect the profitability, but it can derogate the company's brand image.

4.1 SWOT ANALYSIS MODEL - PROS AND CONS

The SWOT analysis is a very useful tool for understanding and decision-making for all sorts of situations in business and organisations. With its simple, 2x2 matrix it allows a clear visual representation of Strengths & Weaknesses (internal factors) and Opportunities & Threats (external factors). The model is more useful and comprehensive than a simpler two-dimension pros and cons evaluation. On the other side, the SWOT analysis is subjective as from one's perspective one element could be seen as a strength/opportunity, but from another perspective, it can be a weakness/ threat. For example, the shift to online shopping is perceived as an opportunity for marketers, but for retail departments, it creates a threat. What is more, the same element could be positive and negative at the same time: the global scale of operations is a strength for a company because it creates opportunities for competitive advantage, but at the same time it could be seen as a weakness because the bigger the company is, the harder it gets to exercise control over operations at different corporate levels. The SWOT model could create further difficulties since it requires to ignore internal threats and opportunities.

5. SEGMENTATION, TARGETING AND POSITIONING

The company divides its market by age, gender and race segmentation. Demographics are an essential factor in the cosmetics industry, as products need to have different features to suit consumer's specific features such as skin or hair type, complexion shade. The primary target market for Estee Lauder is the contemporary woman, aged 20-40, often a savvy beauty products user. Estee Lauder also segments its market by geographical regions as beauty standards and consumer needs are very much influenced by the local culture. The company is adapting its product mix to the region's needs and wants which derive mostly from local beauty standards. Therefore, the targeting strategy of the company is differentiated. Estee Lauder bases its positioning strategy on the characteristics of its products and the associated benefit for the customer. Product names are the best example of this strategy, directly identifying the product's main purpose and benefits - "The Mattifier Shine Control Perfecting Primer + Finisher", "Pure Envy Sculpting Lipstick", "Double wear

Stay-in-place Flawless Concealer". The company also practices user positioning strategy by consumer testing and surveying and then using their feedback as part of their advertising:



THREE WEEKS

- Lines and wrinkles appear reduced.
- 88% of women said skin looked more youthful.¹

ONE BOTTLE²

- Now, skin feels firmer. 89% of women agreed.¹
- Skin looks healthy, has a new bounce and vitality.

Wake up to more youthful-looking skin.

SHOP NOW

¹Consumer testing on 543 women.
²50ml/1.7 oz. bottle.

6. MARKETING MIX STRATEGIES

The marketing mix of a company is all the tools a company can use to create consumer engagement and deliver customer value. (Kotler, 2019, p.51). Although Estee Lauder commercializes products rather than services, this report will focus on the 7Ps, as customer service is an essential part of their marketing strategy.

Product

Estee Lauder operates in a few segments - skincare, makeup, fragrance and haircare. Some of the most popular brands being MAC, Bobbi Brown (makeup), La Mer, Clinique (skincare), Jo Malone, DKNY (fragrance), Aveda (haircare). The company uses different brand names for the different ranges of products, but what associates all brands is high quality, luxury packaging, unique benefits and product features. The company is known for its intensive brand extension strategy, focusing on high-potential brands across the industry.

Price

The price mix of Estee Lauder uses a combination of premium and psychological pricing strategies. Focusing mainly on the upper-social consumer class, premium pricing indicates high quality and helps maintain the company's brand image of a luxury brand. The company focuses on the emotional factor when buying cosmetics and has introduced the psychological pricing strategy across its brands. This strategy is not only beneficial for increasing the average order value (AOV), but it enables Estee Lauder to broaden its target audience.

Place

Estee Lauder is a global company, spreading its operations across Asia & Pacific, Europe, the Middle East and Africa, and the Americas. EL uses a combination of a direct and indirect channel of distribution. With the emergence of online shopping, the company has focused to provide its customers with valuable online content on its brands' websites, featuring innovative tools such as foundation shade finder and virtual try- ons to provide the advantages of brick and mortar shopping online. Estee Lauder also stocks its products with other online retailers such as Amazon, Lookfantastic, ASOS. To continuously maintain its luxury brand image for its indirect channel Estee Lauder uses selective distribution. Across the UK and Europe, the company is present in retail points such as Harrods, Selfridges, Boots, Sephora, places associated with a good reputation and customer service.

Promotion

Estee Lauder operates in a highly competitive industry, so it has undertaken the integrated marketing communications model, using various promotion tools to promote its products and maintain continuous growth of brand awareness. Since 2016, as a part of Estee Lauder's growth strategy, the company increased its promotion and advertising budget, focusing its forces and investments more in digital marketing communication channels rather than traditional, which in 2019 accounted for 70% of the total media spend. The company's traditional advertising is spread through various media including TV & radio, newspapers, magazines, outdoor. The company focuses mostly on their coverage in editorial and business magazines, such as VOGUE, Harper's Bazaar, Forbes and presence on international airports. In terms of their digital advertising, the company uses marketing tools like paid search, display ads and its presence on all social media channels. As part of its direct marketing strategy, the company continuously upgrades its brand websites, adding new features and making them more user-friendly. The social media marketing strategy of the company includes partnering up with Youtube and Instagram influencers, but as well celebrity endorsement featuring supermodels like Kendall Jenner, Karlie Kloss, Kate Moss. Apart from its extensive digital presence, the company uses more traditional promotion such as sales promotion (free samples, gift with purchase, bundles) and personal selling via its numerous retail points in airports and department stores.

People

The marketing mix of the company puts an essential focus on the people element. Employees shape the company's image, so Estee Lauder invests a lot in training and maintaining motivation in their employees. Employees undergo continuous training on business objectives, brand values and interpersonal skills. Grooming guidelines for retail employees reflect Estee Lauder's signature style and brand colours.

Process

Estee Lauder has various global operations related to manufacturing, human resource management, retail points management, distribution, etc. All operations at Estee Lauder are clearly defined and communicated to the employees. Both the invisible and visible service process is controlled through departmental and geographical division managerial hierarchy and digital platforms for various processes.

Physical evidence

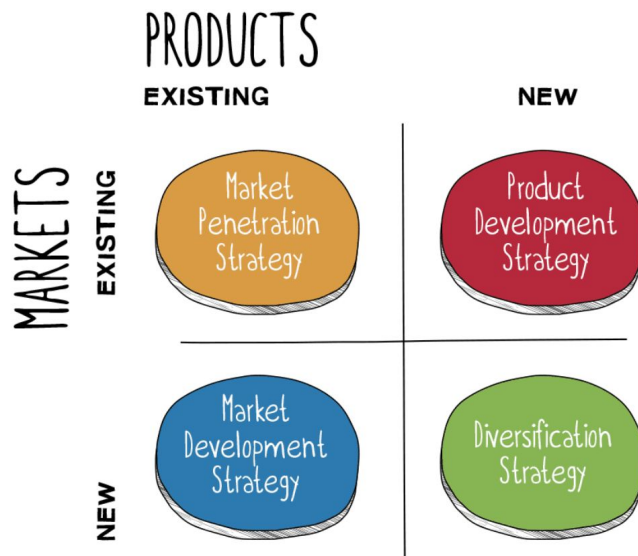
The physical evidence will be of growing importance to Estee Lauder as it works as a differentiation tool. Nowadays the company's brands are easily recognized due to their distinctive store and counters design, employees' grooming, and in-store services such as makeup application and lessons, skincare consultations. Estee Lauder brands are also known for their unique, luxurious packaging styles - from girly and colourful (Too Faced), through functional and simple (MAC, Jo Malone) to sophisticated and elegant (Estee Lauder, La Mer). The company is also very popular with its free sampling techniques across brands, enabling a bigger portion of consumers (including those outside their target market) to experience their products.

The conducted situational analysis of Estee Lauder suggests that by its brand acquisition strategy it has succeeded to expand globally and gain its position in the top 3 of the biggest cosmetic companies. Although the beauty industry is very dynamic and competitive, Estee Lauder keeps up with its competitors by focusing on product and business innovation. EL has positioned itself on the market as a luxurious and high-quality beauty brand. By marketing segmentation, it adapts its marketing mix to different target markets. Although Estee Lauder is a product company, it has extended its marketing mix and uses service excellence to differentiate from competitors.

7. RECOMMENDATIONS

Nowadays a company's success depends highly on whether the customer would prefer your product to one of the many other alternatives. Markets and consumer behaviours are changing globally and the beauty industry is one of the fastest-growing and rapidly changing sectors. To evaluate prospects for Estee Lauder's development, the Ansoff Matrix would be applied. Being one of the most widely used marketing models, it is used to evaluate opportunities for companies to increase their sales through entering new markets (customer segments and geographical locations) or products and services development, with four possible strategies (as shown on the figure below).

THE ANSOFF MATRIX



CREATED BY: IGOR ANSOFF, 1960 ESSENTIAL MARKETING MODELS [HTTP://BIT.LY/SMARTMODELS](http://bit.ly/smartmodels)

After analysing Estee Lauder's current market situation and the external environment where it operates, two of the strategies could be applied to increase sales revenue and market share.

- **MARKET PENETRATION STRATEGY**

Estee Lauder already possesses significant competitive advantage on the market and economies of scale. With its more than 70 years on the market, the company has created a loyal customer base through all operational segments. The company could use its established position on the market to engage the customer on a deeper level with the brand by using IMC and adapt its promotional mix to the specifics of the target market. Although the Estee Lauder brand is perceived more as a brand, oriented towards more mature women, consumer insights point that millennial age makes a significant part of the company's demographics. These new-age customers though have different buying behaviour, they rely a lot on technology and tend to be impulsive in their brand choices. Market Penetration strategy aims to make the existing customers buy more of their products. Building brand loyalty and facilitating its existing marketing and sales channels are the key elements of a successful implementation of this strategy. Brand loyalty is closely connected to creating an engaged customer base, where social media could be a successful and cost-effective tool for engagement and advertising.

EL significantly invests in R&D and innovation. The company has focused more on the digital aspect of its business and aims to create the ultimate shopping experience by combining online and offline channels.

- DIVERSIFICATION STRATEGY

While the Market Penetration strategy focuses on gaining growth by using existing products on existing markets, the Diversification strategy suggests the development of new products and focusing on new markets. With its extensive brand portfolio, Estee Lauder is known for its continuous brand extension by acquisitions within the industry. This is the main corporate strategy to easily respond to new industry trends and meet customer expectations. Estee Lauder has a strong and recognizable brand name, so it could easily create growth by related and unrelated brand extension. Related extension implies developing new products within the beauty industry segments by adapting the product mix to customer demands through innovation. Social factors as the healthy lifestyle trend have increased the demand for organic products and clean beauty. Beauty is closely related to fashion and usually, heavy beauty users are also fashion-oriented. A successful example of unrelated brand extensions is brands like Dior, Chanel, Givenchy, which extended their markets from the fashion industry to the makeup and skincare segment. To further engage its customers, the company could penetrate other markets such as bags and other fashion accessories (a fast-growing market segment) and complete the "Estee Look". The company is already famous for its editorial content and collaborations with popular fashion and media faces. Customers buy brands rather than products which would facilitate the implementation of such a strategy.

Being a global brand with experience and traditions within the industry, Estee Lauder has to find new ways to adapt to current shopping trends and customer demands. The company has established a position in the cosmetics industry and has marked growth in fast-developing segments like skincare and fragrance. It should use its competitive advantages to gain continuous growth by market penetration, but it as well could "secure" its position on the market and value proposition by expanding to new markets and conquering new customer segments.

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