

Beiersdorf AG's external and internal factors analysis and strategic recommendations

Student name: Ionel Golovatii

Student ID: 2228604

Module code: LCBB4004

Module name: Marketing Fundamentals

Lecturer: Dr Piyumika Kithulgoda Gamage

Table of Contents

Introduction	3
PESTEL analysis	3
Political.....	3
Economic.....	4
Sociocultural	4
Technological	5
Environmental.....	5
Legal	6
Porter's Five Forces.....	7
Competitive Rivalry.....	7
Supplier Power.....	7
Buyer Power.....	8
Threat of Substitution	8
Threat of New Entry.....	8
SWOT analysis.....	9
Strengths.....	9
Weaknesses	9
Opportunities.....	10
Threats	10
Ansoff Matrix	10
Market Penetration	11
Market Development.....	11
Product Development.....	11
Diversification	12
Conclusion.....	12
References	13

Introduction

In today's rapidly developing business environment, companies must navigate a complex web of internal and external factors to succeed and remain competitive. To achieve sustainable growth and success, it is important for organizations to adopt a strategic approach that aligns with the market dynamics. This report presents a comprehensive analysis of Beiersdorf AG, utilizing strategic frameworks such as PESTEL Analysis, Porter's Five Forces, and the Ansoff Matrix. The aim is to provide a deep understanding of the company's environment, its industry position, and potential growth strategies. Additionally, based on the insights derived from these analyses, strategic recommendations will be formulated to guide Beiersdorf AG in its pursuit of performance and growth.

PESTEL analysis

PESTEL analysis (Political, Economic, Social, Technological, Environmental, and Legal) serves as a strategic tool designed to assess the business environment in which a company operates and helps management teams in their strategic planning. It is also widely utilized by management consultants to assist clients in developing innovative products and market strategies. PESTEL analysis is a popular tool among the financial analyst community as the framework facilitates the financing and operational model's assumption (Peterdy, 2023).

Political

Germany operates as a representative democracy characterized by a dynamic political culture and active civil society involvement. Both legal frameworks and practical measures ensure the protection of political rights and civil freedoms. The country's democratic political structure is shaped by its history of totalitarianism, leading to constitutional safeguards designed to prevent any resurgence of the authoritarian model of governing. While Germany has maintained a satisfactory level of stability after the Second World War, there has been emerging political pressure in recent times due to an increased number of asylum seekers entering the country that led to the growing popularity of populist movements fueled by the right-wing political party (FREEDOM IN THE WORLD: Germany, 2023).

The conflict in Ukraine has triggered a significant shift in Germany's foreign policy, leading to higher defense expenditures. Chancellor Olaf Scholz's willingness to balance conflicting priorities within his domestic federal coalition has frequently left European partners dissatisfied.

Although the coalition is expected to maintain stability, internal difficulties are hard to ignore. The interruption of Russian gas imports and the implementation of stricter financial policies resulted in Germany experiencing an economic fall during the winter of 2022/23. Economic growth is predicted to be slow this year, but it is expected to strengthen during 2024 (Germany, 2023).

Economic

For the last couple of years, the global economy went through a tumultuous period shaped by geopolitical and economic events that led to macroeconomic volatility. The easing of pandemic restrictions created an impression of economic optimism, but the Russian-Ukrainian war disrupted the growth of the global economy. Subsequently, the time after the beginning of the war is characterized by the sharp degradation of the world's economic landscape, driven by the elevated level of inflation and the imbalance between demand and supply. Interest rates went up significantly as central banks tried to stop inflation and as a result, in the second half of 2022, the inflation slowed down. However, the overall financial situation became more difficult. The most affected by the war in Ukraine is the European area as the sanctions against Russia led to gas supplies to Europe being stopped. This triggered a dramatic rise in energy prices that subsequently increased inflation and the willingness of consumers not to spend on non-essential products and services. German economy suffered a major shock because of the Russian gas supply being cut as the country's industry is massively dependent on the gas imported from Russia. Alternatives to Russian gas were made available but at a higher price, resulting in further inflation (Beiersdorf, 2022, p.137).

Sociocultural

With a population exceeding 80 million, Germany houses a wide variety of religions, practices, and cultural heritages that contribute to its rich national identity. Germany's history has positioned it as a central figure in European intellectual, governance, and creativity evolution and played a pivotal role in cultivating a society based primarily on Christian principles with strong connections to literature, artistic expression, philosophical contemplation, logical reasoning, and an affection for beer and sausages. Punctuality holds significant importance for Germans, the population leaning towards being prudent, practical, and respecting personal privacy, displaying a strong bond to the laws and norms of society. Germany is considered an

advanced and emancipated society that holds one of the most progressive human rights policies. As a result of the progressive way of thinking, German society has begun to value the benefits associated with the multicultural community thus encouraging the government to ease the immigration restrictions. One of the key values of German citizens is the commitment to renewable sources of energy and environmental protection. Germany is one of the leading countries to fight climate change and create policies and technologies to protect nature (German Culture, 2023).

Technological

Germany actively supports domestic science and technology by actively providing resources to encourage the creation of both state-owned laboratories and privately funded research premises. The support is not limited just to domestic research but also to the European and worldwide areas by providing support in the forms of financing and human resources. The industrial sector plays a pivotal role in scientific development financing as the results from the research will contribute to the industry's progress. To create a social environment directed toward science and innovation, the educational system has been designed to offer a wide spectrum of science-based qualifications at the same time providing facilities like universities and colleges to facilitate the willingness of the population to learn and contribute to the technological emancipation of German society. As a result of the above-mentioned measures, Germany managed to create the strongest automotive industry in the world and be placed among the leaders in several industries like medicine, military technology, engineering, and design (PEST Analysis for Germany, 2015).

Environmental

Like numerous developed countries, Germany faces a tough issue of air pollution but unlike other Western nations, this problem has escalated over the past several years because of the increased utilization of coal as a source of electricity production. The use of coal as a fuel was increased due to the adoption of government policy to out-phase the country's nuclear power plants after the Fukushima nuclear disaster of 2011. After just 2 years, the policy resulted in air pollution levels rising to record levels that outpaced the 1980s record. Open-cast mining in eastern areas of Germany resulted in the degradation of water quality in rivers and lakes adding more concerns about the environmental situation of the region. Another environmental

concerning topic is the legal action against RWE, Germany's biggest energy provider that was initiated by BUND, a non-profit environment organization. The legal action's aim was to protect the Hambach Forest from being destroyed due to lignite mining extension to vast areas of the forest. As a response to address the environmental issues, the German government pledged to optimize the use of fossil fuels by increasing efficiency with a fewer amount of fuel. Another measure of the government is to gradually replace fossil fuels with renewable energy. According to the UN Framework for Climate Change, now Germany is considered one of the world leaders in terms of clean technologies. In 2017, 36% of the country's electricity demand was generated through clean energy technologies marking a significant increase from 6% back in 2016 (Smith, 2018).

Legal

Germany maintains an extensive legal and regulatory structure extending federal, state, and regional levels, providing a foundation for investment and business freedom. The country has adopted market-friendly regulations, creating a competitive product market. However, labor utilization is slowed by a substantial tax wedge, and attractiveness as a business investment destination is wiped out by high corporate taxes. In recent years, Germany has taken significant legal actions to address various challenges. In June 2021, a new law was introduced to enforce ethical supply chain practices, necessitating German companies to disclose any human rights or environmental violations committed by their suppliers. Responding to surging inflation rates, the government initiated reforms in taxation in August 2022 to assist households in managing rising costs. To reduce the impact of soaring energy prices, a substantial financial package of 66.7 billion dollars was unveiled in September 2022 to support households, followed by another commitment of 205.2 billion dollars to aid both businesses and households in managing escalating energy bills. This initiative involves subsidizing electricity and maintaining a lower VAT rate for gas until spring 2024. Germany's parliament granted approval to this initiative in October 2022, aimed at mitigating the energy crisis's effects through energy price caps and subsidies. However, the funding could be suspended in the event of emergencies (MarketLine, 2022, p.40).

Porter's Five Forces

Porter's Five Forces (Competitive Rivalry, Supplier Power, Buyer Power, Threat of Substitution, Threat of New Entry) framework is a strategic tool designed to recognize and assess five factors that influence a company's profitability within a specific industry. This model serves as a key component of strategic evaluation, helping companies to optimize their profitability (Alonso, 2023).

Competitive Rivalry

The competitive rivalry within Germany's skincare industry is intense taking into consideration its leading position in the European market in terms of revenue. This high level of competition is a result of the market's fragmentation, with both global giants and local players competing to gain more customers. Key players like L'Oreal SA, Procter & Gamble, Beiersdorf AG, Unilever PLC, and Shiseido Company contribute to the dynamic competition by deploying strategies that are targeting product range, packaging quality, and marketing campaigns, all aimed at gaining a competitive advantage. The strategic utilization of e-commerce channels for distribution not only enhances shopping convenience but also expands consumer reach across geographical boundaries. These approaches keep the market vibrant and competitive as companies continually look for consumer loyalty and market share (Mordor Intelligence, 2023).

Supplier Power

The German cosmetic industry stands as the second-largest potential market for skincare raw ingredients suppliers thus the supplier power is low as the market is attractive and can replace any of the existing suppliers. The industry is heavily importing various components like vegetable oils, essential oils, and plant extracts, which are subsequently used by manufacturers not only in Germany but also across Europe. Notably, a significant portion of Germany's imports, around 59%, comes from within Europe, indicating a robust intra-European supply network. The remaining gap creates an opportunity for suppliers from outside Europe to tap into the German market and fulfill or replace some of the existing imports. With a strong emphasis on organic-certified ingredients, German businesses show a keen interest in these types of supplies. It is essential for suppliers, particularly those offering certified organic vegetable oils, to explore collaborations with German importers and distributors as part of their strategic approach to entering the market. This dynamic emphasizes the significance of both European

and non-European suppliers in catering to the preferences of the German skincare industry, which leans towards sustainable and organic choices (CBI Ministry of Foreign Affairs, 2023).

Buyer Power

The beauty sector operates in a highly competitive environment, presenting consumers with multiple choices. Within this context, customers have the flexibility to switch to alternative brands if their expectations regarding products or pricing are not fulfilled. Customers tend to be sensitive to pricing, given the availability of similar products across various brands, placing manufacturers under pressure to elaborate a competitive pricing and product strategy that cultivates customer loyalty. Companies must innovate products that stand out from rival offerings creating distinctiveness and exclusivity that attract potential buyers. Germany's skincare industry is not an exception from all the above mentioned demonstrating that the buyer power inside the market is high (What are the Porter's Five Forces of the Estee Lauder Companies Inc., 2023).

Threat of Substitution

As discussed previously, Germany's skincare industry is highly competitive with numerous players therefore there is a high threat of substitutes. Customers have an extensive range of equivalent products from different companies and can easily change their preferences if the products lack quality or are priced higher than other comparable products. Thus, it is essential for companies in the skincare market to chase innovation and development (Mordor Intelligence, 2023).

Threat of New Entry

The threat of new entry into the skincare industry in Germany is low taking into consideration the substantial cost associated with entering the market as developing new and competitive skincare products requires substantial financial resources for research and manufacturing. Small and medium enterprises often lack the necessary funding and expertise to effectively engage and compete in this market that is already captured by the industry giants such as L'Oreal S.A., Procter & Gamble, Beiersdorf AG, Unilever plc, and Shiseido Company Limited. These big companies established their dominance and ensured the loyalty of the customers, creating a lot of barriers to the new entrants (UK Essays, 2021).

SWOT analysis

The SWOT (strengths, weaknesses, opportunities, and threats) analysis is a structured framework designed to assess a company's competitive standing and serves as a tool for the creation of strategic plans. This analysis evaluates both internal and external factors, considering both present conditions and prospects. The purpose of conducting a SWOT analysis is to facilitate an objective examination of an organization's strengths, weaknesses, opportunities, and threats, considering the industry landscape. The analysis requires avoiding preconceived beliefs and concentrating on practical situations serving as a directional reference rather than a rigid set of instructions for companies (Kenton, 2023).

Strengths

Beiersdorf AG has proven a consistent willingness to innovate and dedication to addressing evolving consumer preferences. This innovative-oriented strategy positions the company ahead in a highly competitive market. Another key factor of Beiersdorf AG's success lies in its strong brand recognition within the skincare industry, allowing it to create a strong brand identity. The brand identity creates the opportunity to add value to the company's products and propels Beiersdorf AG forward, attracting consumers seeking reliable products. Beyond products, Beiersdorf AG's success is influenced by its effective talent management and skill development initiatives. In a highly competitive industry, a skilled workforce translates to high-quality products, adaptable management, and innovation. The company's extensive network of dealers and associates across continents supports its wide geographic presence. This network ensures efficient customer service and adaptability, proving Beiersdorf AG's commitment to reaching customers globally (EMBA PRO, 2022).

Weaknesses

One of Beiersdorf AG's concerns is the declining market share despite increasing revenues. The skincare industry grows at a faster rate than the company, therefore the company must carefully analyze sector trends to drive future growth, by exploring new market segments or innovating to regain market share. Another weak spot of the company is the increasing turnover of employees at lower levels, especially in the context of the global crisis and inflation. This increase can lead to higher operational costs and the overall stability of the company. Moreover, limited investments in customer-oriented services could give competitors an advantage.

Beiersdorf AG should prioritize investments in research and development, especially in customer service-oriented applications, to enhance customer experiences and maintain a competitive edge (EMBA PRO, 2022).

Opportunities

Amid challenges, a positive outlook is expected for the upcoming year. This optimism is generated by the company's strategic plan which includes increased digital investments and a robust portfolio of everyday products. The company aims to outpace market growth this year in the skincare segment using a solid financial foundation and dedicated workforce to help the company to seize future opportunities. Research and development efforts yield consumer-focused innovations, supported by targeted marketing initiatives that induce consumer confidence (Beiersdorf, 2022, p.166).

Threats

The major threats are marked by the influence of Ukraine conflict and the global COVID-19 pandemic, creating economic disruption and instability in all segments of the industry. These factors emerge as the central elements when assessing operational risks, introducing volatility to the equation. Material price hikes, coupled with their unpredictable trajectory, stand as a formidable obstacle to our margins and overall profitability. Operational threats exist from legal and tax proceedings, including tax audits. These risks are prudently evaluated by internal and external experts to the best extent possible, yet the uncertainty in predicting legal dispute outcomes remains a significant challenge (Beiersdorf, 2022, pp. 160-162).

Ansoff Matrix

The Ansoff Matrix, also known as the Product/Market Expansion Grid, is a strategic framework designed to assist management teams and analysts in the formulation and assessment of growth strategies. This tool facilitates stakeholders to understand the varying degrees of risk associated with distinct growth approaches (Peterdy, 2022).

Formulating the business strategies incorporates identifying potential businesses and products that a company should consider in its future. To enhance competitiveness, companies require avenues for expansion. The main aim should be the management of 'profitable growth' and the

primary responsibility for achieving such an expansion lies with the marketing function. Marketing is tasked with recognizing, evaluating, and selecting market prospects through the application of tools like the Ansoff Matrix (Kotler, et al., 2020, p.45).

Market Penetration

As discussed above in PESTEL Analysis, the world's economy faces uncertainty and inflation, with many countries in recession. Considering these facts, one of the best strategies for Beiersdorf is to be directed toward competitive pricing to increase sales within existing markets. To achieve this target the company will reduce operational costs and will invest in the marketing sector to increase communication with the consumers and to encourage increased product consumption. Strategic partnerships with big retailers will allow the product to be accessed by a wider consumer base, increasing sales, and subsequently enhancing production, which will generate more revenue. Investing in e-markets and digital development will increase the capacity to reach a broader customer base (Harvey, 2020).

Market Development

Expansion into emerging markets is another option to consider. North and South America is an appropriate option as the area is located further away from the war zone that inflicts economic instability. Investments in research and development in these areas will create a better understanding of the market trends and segments and by actively marketing the products, the company will create a better awareness of its product identity that will generate increased sales (Harvey, 2020).

Product Development

Product development is a constant target to adopt to remain competitive in the market. All aspects of the market research must mirror the development outcome to mirror the customer's demand and needs. As the economic grip is more prominent, the development of new products with a price-sensitive approach will be much welcomed as this will target middle and low-income customers that are most affected by the current economic situation and will create a good consumer base for the future (Harvey, 2020).

Diversification

Given the uncertainty the world's economy faces now, one option is to explore new business ideas through partnerships with companies from the same business segment or close to it. Researching and developing in partnership will create innovative ideas, diversify the product and the consumer base, and create a strong path for future collaborations and sales (Harvey, 2020).

Conclusion

In conclusion, using these analytic tools has given us a full understanding of the macro, micro, and internal environment of Beiersdorf AG. By using its strengths, improving weaknesses, grabbing opportunities, and handling threats, the company can grow steadily and be competitive. In the fast-changing business world, being flexible and innovative is the key to success.

References

Alonso, T. (2023) 'Porter's Five Forces: The Definitive Overview', 13th of July. Available at: <https://www.cascade.app/blog/porters-5-forces> (Accessed: 20.08.2023).

Beiersdorf (2022) Beiersdorf Annual Report 2022. Available at: https://www.annualreports.com/HostedData/AnnualReports/PDF/beiersdorf_2022.pdf (Accessed: 19.08.2023).

CBI Ministry of Foreign Affairs (2023) What is the demand for natural ingredients for cosmetics on the European market?. Available at: <https://www.cbi.eu/market-information/natural-ingredients-cosmetics/what-demand> (Accessed: 21.08.2023).

EMBA PRO (2022) Beiersdorf AG SWOT Analysis / SWOT Matrix. Available at: <https://embapro.com/frontpage/swotcoanalysis/17743-beiersdorf-ag> (Accessed: 22.08.2023).

FREEDOM IN THE WORLD 2023: Germany (2023) Available at: <https://freedomhouse.org/country/germany/freedom-world/2023> (Accessed: 20.08.2023).

German Culture (2023) Available at: <https://www.expatrio.com/living-germany/german-culture> (Accessed: 20.08.2023).

Germany (2023) Available at: <https://country.eiu.com/germany> (Accessed: 20.08.2023).

Harvey, M. (2020) 'Ansoff Matrix Of Nivea', essay48, 1st of September. Available at: <https://www.essay48.com/13796-Nivea-Ansoff-Matrix> (Accessed: 23.08.2023).

Kenton, W. (2023) 'SWOT Analysis: How To With Table and Example', Investopedia, 19th of June. Available at: <https://www.investopedia.com/terms/s/swot.asp> (Accessed: 18.08.2023).

Kotler, P., et al. (2020) Principles of marketing. Available at: <https://ebookcentral.proquest.com/lib/trinity/reader.action?docID=5978379> (Accessed: 20.08.2023).

MarketLine (2022) Germany In-depth PESTLE insights. Available at: <https://www.studeersnel.nl/nl/document/nhl-stenden-hogeschool/international-business/country-analysis-report-germany-in-depth-pestle-insights-25957/52126793> (Accessed: 21.08.2023).

Mordor Intelligence (2023) GERMAN PROFESSIONAL SKIN CARE PRODUCTS MARKET SIZE & SHARE ANALYSIS - GROWTH TRENDS & FORECASTS. Available at:

<https://www.mordorintelligence.com/industry-reports/germany-skincare-product-market>
(Accessed: 21.08.2023).

PEST Analysis for Germany (2015) Available at: <https://pestleanalysis.com/pest-analysis-for-germany/> (Accessed: 20.08.2023).

Peterdy, K. (2022) 'Ansoff Matrix', Corporate Finance Institute, 8th of May. Available at: <https://corporatefinanceinstitute.com/resources/management/ansoff-matrix/> (Accessed: 20.08.2023).

Peterdy, K. (2023) 'PESTEL Analysis', Corporate Finance Institute, 10th of May. Available at: <https://corporatefinanceinstitute.com/resources/management/pestel-analysis/> (Accessed: 19.08.2023).

Smith, B. (2018) Germany: Environmental Issues, Policies and Clean Technology. Available at: <https://www.azocleantech.com/article.aspx?ArticleID=549> (Accessed: 20.08.2023).

UK Essays (2021) Porters 5 Forces Analysis of the Cosmetics industry. Available at: <https://www.ukessays.com/essays/marketing/cosmetic-industry-porters-five-forces-analysis-marketing-essay.php#citethis> (Accessed: 21.08.2023).

What are the Porter's Five Forces of the Estee Lauder Companies Inc. (2023) Available at: <https://dcf.fm/blogs/blog/el-porters-five-forces-analysis> (Accessed: 21.08.2023).