ASSESSING THE STRATEGY OF FIRMS THAT COMPETE GLOBALLY IN ALLIANCES IN THE COSMETICS INDUSTRY: THE CASE OF L’ORÉAL IN LATIN AMERICA

T. Diana L. van Aduard de Macedo-Soares*, Barbara Braga Lyra da Silva**

Abstract

The cosmetics industry, especially in Latin America, was hardly affected by the recent global recession. As consumer goods that do not require significant investments and offer well-being to their users, cosmetics tend to remain on consumers’ shopping lists, even during recessions. However, the increasingly competitive global scenario drives firms to sustain their efficiency by way of strategic alliances, so as to better meet their customers’ requirements. Even leading multinationals, such as L’Oréal, face challenges to maintain their competitiveness and have to reassess regularly their strategies. This article presents the results of research that sought to assess the adequateness of the strategy of L’Oréal Latin America, considering the opportunities and threats of the cosmetics industry, of the firm’s alliances and given the global competitive strategy of the L’Oréal Group. The results confirmed what had been verified in other sectors: global alliances create more opportunities than threats, and, in many cases, global relational opportunities, i.e. pertinent to global alliances, mitigate global non-relational threats. Latin America is a potential market for the strategic objective of L’Oréal to conquer one billion consumers and its transnational strategy ensures coherence of its products launched in this geographic region with its targeted consumer requirements. Its strategic alliances contribute to responding better to market demands and ensure a better exposure of the products launched. The study thus adds value to research on strategic management from a global relational perspective, by complementing findings of similar investigations into other sectors. From a business administration viewpoint, the case of L’Oréal offers insights on how strategic alliances can help sustain competitive advantage in firms that compete globally.

Keywords: Strategic Alliances, Global Strategy, Cosmetics Industry

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Introduction

The cosmetics industry in Latin America was hardly affected by the global economic recessions of the past few years. Cosmetics sales tend to remain stable even during times of crisis. An article in Valor Econômico (2010), Brazil’s leading financial newspaper, revealed that the beauty industry grew 15% in Brazil in 2009, showing that this market had remained practically immune to the 2008 economic crisis. Worldwide, results were weaker but still positive. As consumer goods that do not require significant investments and provide their users with well-being, cosmetics tend to remain on consumers’ shopping lists even during recessions. However, the increasingly competitive scenario in various sectors has made evident the volatility of the consumer market’s needs, driving firms to sustain their flexibility and efficiency by forging strategic alliances so as to better meet their customers’ requirements. Even leading multinationals in this sector, such as L’Oréal face challenges to maintain their competitiveness and have to regularly reassess their strategies.

The aim of the present article is to share the results of a study that analyzed the adequateness of L’Oréal Latin America’s strategy, considering the opportunities and threats faced by the cosmetics industry, of the firm’s alliances and the L’Oréal Group’s global competitive strategy. As well as seeking to draw lessons for L’Oréal itself and other firms in the sector from the adoption of a global
relational perspective, i.e. pertinent to global relationships such as alliances and the networks formed by these, the research attempted to contribute to strategic management theory regarding firms that compete globally in alliances.

L’Oréal is an important case because, despite its world leadership position in the cosmetics sector and presence in 130 countries, sustaining this advantage in an increasingly competitive global environment is not an easy task. This explains why it is always seeking out new markets either to undertake complementary activities or reinforce its global presence (Valor Econômico, 2010). This study concentrated on L’Oréal Latin America because of the region’s specific challenges such as the demand for products that are more in tune with local cultures. In addition, the L’Oréal Group’s strategic objective is to conquer one billion new consumers, especially among the middle classes of emerging markets (Cosmetics Business, 2011).

It should be noted that the L’Oréal Group’s activities are divided into four divisions: Consumer Products Division dealing with general use cosmetics that are sold in pharmacies, supermarkets and department stores (examples of brands: L’Oréal Paris, Garnier, Colorata and Maybelline New York); Professional Products Division with professional capillary products sold exclusively in hair salon chains (examples of brands: Kérastase, L’Oréal Professionnel, Matrix and Redken); Luxury Products Division, with premium products like perfumes, skin creams and make-up, sold in perfumeries, specialized stores and through e-commerce (examples of brands: Lancôme, Biotherm and perfumes like Ralph Lauren and Giorgio Armani); and the Active Cosmetics Division, with dermocosmetics sold in pharmacies that are strongly associated with dermatologists’ medical prescriptions (examples of brands: Vichy, La Roche-Posay and Innéov). The Group also commercializes The Body Shop products and Galderma dermatological products separately from the four product divisions.

RESEARCH METHODS AND THEORETICAL FRAMEWORK

The present research was essentially exploratory due to the small number of studies of strategic alliances in the cosmetics sector. It was decided to adopt the case-study method as the most appropriate in light of the research’s two-fold objective of performing an in-depth analysis of a contemporary phenomenon in its real context and of contributing to the relevant theory (Yin, 2010). The main criticism leveled at this method – that it does not allow a statistical generalization of the case-study data to other cases - did not apply, as this was not the research’s objective. The data was collected by means of documental investigation, a survey of the perceptions of L’Oréal Latin America executives (using a structured questionnaire) and interviews. It was then interpreted in accordance with the principle of data and method triangulation so as to assure the consistency of results and limit any possible biases.

The adequateness of L’Oréal Latin America’s strategy was assessed with the support of Macedo-Soares’ (2011) Global SNA - Strategic Network Analysis – Framework which was adapted to the objective of focusing at the level of the cosmetics industry. This framework includes a set of tools that permits a systemic, integrative and dynamic analysis of the strategic fit of firms that compete globally in alliances and other linkages (e.g. mergers and acquisitions). It considers all factors that are strategically significant in the case of this type of firm: in other words, not only organizational, structural and macro-environmental factors, but also relational and global ones. It is comprised of three components: i) methodology – series of steps for carrying out the strategic analysis; ii) reference lists of factors and their constructs in order to develop tools for collecting relevant data and interpret it; iii) a conceptual model to map the ego-net of the focal firm, constituted by the firm at issue and its main alliances and other linkages within its value-net. Brandenburger & Nalebuff (1996) define the latter as a network that includes all strategic actors – partners and non-partners – in the firm’s competitive arena, and its interdependencies, that contribute to the creation and capture of value that is significant for the focal firm’s competitive advantage.

The next part of this article presents the main results of the research following the steps of the Global SNA methodology. It begins by characterizing the firm’s strategy, using Mintzberg’s (1988) typology, which distinguishes between differentiation (through price, image/brand, support, quality or design/packaging) and non-differentiation. Based on Bartlett & Ghoshal (1998) and Harzing (2000), strategy is classified into three types: i) Global – the offering of standardized products/services in the world’s key markets, through integrated operations that follow global directives established by the parent company ii) Multi-domestic – the development of products/services to meet the needs of domestic markets; iii) Transnational – seeking both global efficiency and local responsiveness to the specific demands of markets in which they operate (Hitt, Ireland, Hoskisson, 2009). In keeping with Koza, Tallman and Attay (2011), the firm is assessed also in terms of being a Global Multi-business firm. The latter is similar to the Transnational one but in which certain firms incorporate different added value activities, divided into distinct businesses, and therefore should be considered multi-business.
Note that the theoretical references for carrying out the other steps of the Global SNA methodology are presented together with the research’s results.

**RESULTS**

**Characterization of strategy**

According to 84% of the respondents to the survey questionnaire, the L’Oréal Group pursues a strategy of differentiation by image or brand. Indeed, the name L’Oréal stands out in the world cosmetics market. However, one should highlight that many brands do not use the Group’s name and many people ignore their association with the Group, such as, for example, the Garnier, Lâncome and La Roche-Posay brands.

Most (73%) respondents also stated that the Group’s strategy was Transnational. In recent years, L’Oréal has been setting up hubs that concentrate product development, marketing and launch conception teams in different geographical regions, in order to optimize each region’s operations by better meeting the specific needs of its local markets. The hub concept is presently a reality at L’Oréal Latin America, whose headquarters are in Brazil, the region’s most important country. L’Oréal’s hub in Brazil has the Group’s fourth most important laboratory outside Europe, i.e., after the United States, Japan and China (Exame, 2009). The L’Oréal Group’s research and innovation officer made an important statement as to how the company intends to obtain one billion new consumers: “Our capacity to innovate for new markets is based on a deep knowledge of the habits and preference criteria of Chinese, Indian and Brazilian consumers...In order to achieve this we have created an International Consumer Studies and Insights Department. In addition, we have created specific expertise platforms – the Research & Innovation Hubs - that join all research activities” (interview published in L’Oréal Rapport Annuel 2010).

Even though only a small number of respondents to the questionnaire (15.4%) characterized L’Oréal as a Global Multibusiness Firm, the research classified the company in this category because, according to the follow-up interviews, it treats its product divisions like multi-businesses, thus permitting greater strategic diversification and differentiated global businesses.

The next section describes the results of the application of the second step of the Global SNA methodology adapted to the objectives of the research at issue in this article. It should be highlighted that the factors referred to in the second and third steps of this methodology are of the global traditional, i.e. global non-relational kind.

**Strategic implications of macro-environmental factors**

Using Austin’ (1990) constructs with some adaptations, the research identified the most important macro-environmental factors in the sector and analyzed their strategic implications for L’Oréal, as described below:

- **Political factors:** Instability of trade policies governing imports of different industrialized products between Argentina and various Latin American countries currently represents a real threat for L’Oréal (e.g. of aerosol deodorants from Argentina). Another policy factor that represents a threat for L’Oréal is constituted by sanitary registration requirements for some kinds of products because of the tedious bureaucracy involved. In the case of Brazil, for example, the National Sanitary Inspection Agency, requires all anti-age skin products and deodorants to be registered. In Mexico, the Cofepris (Federal Commission for Protection against Sanitary Risks) requires anti-dandruff shampoos to be registered because it classifies them as non-cosmetic medicine.

- **Economic factors:** Cosmetic product sales tend to remain stable even during economic recessions. This represents a real opportunity during recessions and a potential one when economic conditions are stable.

- **Socio-cultural factors:** The fact that the cosmetics market makes it possible to establish a close relationship with consumers, represents a real opportunity to launch products that are positively associated with the social and cultural reality of their target audience. However, they can also constitute a real threat if this positive association is not considered in the design of new products.

- **Demographic factors:** As most of the L’Oréal Group’s sales revenue derives from less than 15% of the world’s consuming population, there is a potential opportunity for conquering new consumers.

- **Environmental factors:** The world cosmetics industry is starting to make use of natural ingredients in its formulas as long as they come from sustainable sources. Thus, environmental factors were identified as an opportunity for firms to stand out in this market. It should be mentioned that the L’Oréal Group is already exploiting this opportunity and its sustainable attitude has been recognized on various occasions - deemed one of the world’s most sustainable companies by the “Global 100” survey and listed on the Dow Jones Sustainability Index (L’Oréal, 2010). The next section presents some results of the strategic analysis of the company, in accordance with the third step of the Global SNA methodology.
Strategic implications of the main global actors

Based on Porter’s (1980) typology of strategic actors/roles and his list of factors that determine the latter’s “force” in the competitive arena, as well as the complementor construct proposed by Brandenburger & Nalebuff (1996), the research identified the main strategic implications in terms of opportunities and threats constituted by the sector’s most significant global actors as they play their strategic roles in L’Oréal’s global value net, as described below.

In the consumer products category, final customers, due to their price sensitivity, were identified as a real threat to L’Oréal given that its products, even in this category, tend to be more expensive on account of their quality and brand identity. However, this threat was considered to open up an opportunity related to consumers who increasingly want products that offer many different benefits. Another potential consumer-associated threat was constituted by the low cost of changing to other cosmetics products. Despite their loyalty to company products, consumers could be attracted to competitors’ new launches or advertising. Moreover, in the era of blogs, Facebook, Twitter and others, a L’Oréal Group product can be criticized online at any time, justifiably or not. On the other hand, this contemporary digital reality also constitutes a real opportunity. The Group already has various websites for its different brands and in some cases Facebook profiles, seeking to interact with actual and potential consumers through different media.

As regards suppliers, the L’Oréal Group is highly demanding when analyzing potential suppliers who are only qualified after audits performed to ensure their quality. The time taken to qualify suppliers may have a negative effect on the company’s ability to react to competitors’ actions. Also, the high degree of dependence on suppliers was seen as a potential threat because it increases supplier bargaining power. Situations where L’Oréal is not one of a specific supplier’s most important customers represent a significant potential threat because, when demand is exceptionally high, the biggest customers tend to be prioritized. On the other hand, the fact that different product divisions buy from the same suppliers was viewed as an opportunity as it increases the company’s weight in suppliers’ order books while contributing to L’Oréal’s centrality in its relationship with these suppliers.

As regards competitors, at the global level, the L’Oréal Group is constantly competing with multinational groups like Unilever (owner, amongst others, of the Seda, Dove and Rexona brands), Procter & Gamble (Pantene, Olay, Well, Gillete and others) and LVMH (Louis Vuitton Möet Hennessy, owner of the luxury brands Dior, Kenzo, Givenchy and others), that represent a constant real threat due to their size and worldwide recognition. Additionally, local cosmetics firms in various Latin American countries have adopted an initial strategy of conquering consumers in low income markets, but are already showing that they are capable of also competing with premium products. Examples of local cosmetics firms in Brazil are Niely, Embelleze and the Hypermarcas Group (with the Monange, Risco and Biocolor brands, amongst others). In Mexico an example of a local competitor is Genomma Labs, owner, amongst others, of the Tio Nacho, Asepxia and Teatrical brands. Another negative strategic implication of this fierce rivalry in the consumer cosmetics segment is constituted by the popular door-to-door sales model which, in Latin America, is exploited mainly by Natura and Avon. At the same time, this competitor diversity was considered a real opportunity because of L’Oréal’s capability of differentiating its products by using innovative formulas, attractive packaging or advertising that is creative and resonates with target audiences.

In the consumer cosmetics industry, mainly in the case of shampoos and conditioners, new entrants were identified as a real threat for L’Oréal because of the low barrier to entry and the large number of new entrants. As to substitutes, beauty salons were classified as possible buyers of some cosmetic products such as nail varnishes and hair treatment products, in the consumer products segment, constituting a real threat to L’Oréal’s Consumer Products Division, as they may reduce sales of certain products in pharmacies and supermarkets.

Finally, in the case of complementors, the research identified a real opportunity for the development of new cosmetic products, by joining the competencies of different industries. Examples of complementors identified were dermatologists. Sales of dermocosmetic products in Brazil are strongly influenced by dermatologists’ medical prescriptions and these professionals, for their part, guarantee the loyalty of their customers by indicating effective products. Another example of complementors for the commercialization of L’Oréal products are fashion brands like Giorgio Armani, Ralph Lauren and Diesel. These brands’ recognition in the fashion market has the effect of complementing the L’Oréal Group’s expertise in the production of perfumes, which enhances the sales potential of perfumes produced by the Group under the name of fashion brands.

In the next section, the research begins to present the results pertinent to the steps of the Global SNA methodology in which the analysis was conducted from a relational perspective.
Strategic alliances and the L’Oréal Group’s ego-net

According to the employees of L’Oréal Latin America, the L’Oréal Group’s main partners were its suppliers and customers, and to some extent its complementors. Although government entities were also mentioned as being partners, alliances or other linkages with these were not explicitly mentioned.

Among the factors that motivated the establishment of alliances by the L’Oréal Group, the most cited were sharing of resources and complementary competencies, reduction in the costs of entry to new markets/ segments, economies of scale, access to information capital provided by new relationships and learning with partners.

Based on the replies to the questionnaire and interviewee opinions regarding the characteristics of alliances and other linkages/ties, the research mapped L’Oréal Group’s ego-net, as shown in Figure 1.

Figure 1. Ego-Net of the L’Oréal Group

It should be highlighted that Figure 1 depicts only the main types of alliances and other linkages/ties with each actor. As in the case of the Global SNA model, arrow colors and formats, as well as the thickness of lines, reflect alliance characteristics (one-way arrow – opportunistic tie; two-way arrow - collaborative; lesser or greater thickness indicates lesser or greater tie strength). The size of the blocks representing the actors is proportional to their strategic importance for the L’Oréal Group. The actors with the strongest and most independent alliances in relation to the L’Oréal Group are its suppliers, especially those alliances involving the supply of inputs and services. Joint development and co-productions are also important examples of alliances with suppliers. L’Oréal also engages in joint product development and co-productions with complementors but these linkages are much weaker than those with suppliers. Joint R&D projects also constitute an important element of L’Oréal’s relations with its complementors. Customers are strategic partners of the L’Oréal Group mainly in joint commercialization and marketing projects and in promotion and advertising. Although the research identified other types of alliances/linkages between the L’Oréal Group and its customers, it was decided to represent only the most significant ones. The linkages with competitors represented in the figure correspond to acquisitions made by the L’Oréal
Group over the years, as most of them involved competing firms. As the ego-net is represented in the model within the firm’s value-net, the figure also includes government entities, even though their linkages with the L’Oréal Group cannot be characterized as strategic alliances.

**Strategic implications of the L’Oréal Group’s alliances**

The identification of the relational characteristics of the L’Oréal Group’s global ego-net and the analysis of their strategic implications at the cosmetics industry level, in terms of opportunities or threats, were carried out with the help of the Global SNA Framework’s reference lists pertinent to relational factors. In keeping with Galaskiewicz and Zaheer (2000), these lists contemplated key alliance/linkage network dimensions — network structure, global network members and network linkage/tie modality. Gulati, Nohria and Zaheer (2000), that based themselves on their own empirical investigations as well as other scholars, provided additional characteristics for these three dimensions and showed how they have strategic implications, creating opportunities and threats at industry level. Besides the above mentioned authors, several others contributed significantly to these reference lists, notably, Bartlett & Ghoshal, (1998), Garcia-Canal et al. (2002), Garcia-Canal & Sanchez Lorda (2007), Goerzen (2005), Johanson & Vahlne (2003, 2009), Kale, Singh and Perlmutter (2000), Knoke (2001), Lavie (2007), Lavie & Rosenkopf (2006), Oscar & Eisenhardt (2009), Prahalad & Doz (1987), Uzzi (1997) and Vapola; Paukku; Gabrielsson (2010).

Table 1, 2, and 3 present the results of this analysis that corresponded to one more step in the Global SNA methodology.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Constructs</th>
<th>Alliance Network Structure</th>
<th>Industry Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Density</td>
<td>High with customers and suppliers</td>
<td>- Ease of access to informational and technological resources of important global partners.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Average with complementors</td>
<td>{- Risk of sharing confidential information with common suppliers and customers.}</td>
</tr>
<tr>
<td>Scope</td>
<td>Wide-ranging and global with customers and suppliers</td>
<td>- Opportunities for global partnerships that tend to enhance the importance and strength of the partnership for both global actors.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wide-ranging and local with complementors</td>
<td>- Agility in the replication of work in other geographical areas.</td>
<td></td>
</tr>
<tr>
<td>Position and Centrality in the Network</td>
<td>Central with customers and supplier.</td>
<td>- High centrality permits more access to key information and resources.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intermediate with complementors.</td>
<td>- Intense competition in the industry because the centrality of competitors is also known.</td>
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</table>

The research revealed that the structure of the L’Oréal Group’s network of alliances with customers and suppliers is different from its alliances with complementors. In the former case, the evidence from the survey was of high density, wide and global scope and of L’Oréal centrality, thus constituting more opportunities than threats (see Table 1). In the case of alliances with complementors, on the other hand, the survey’s results indicated average alliance density, wide but local scope and L’Oréal occupying an intermediate position in the network. On the whole, the research revealed that as yet few complementors participated in alliances with the L’Oréal Group.

The analysis of the members of the L’Oréal Group’s global network also evidenced a predominance of opportunities for L’Oréal and the industry as a whole, based on the exchange of information and knowledge between strong and globally experienced partners (see Table 2). The threat identified in this sphere refers to the risk that the focal firm’s stringent requirements for establishing alliances may hamper their realization.
Table 2. Members of L’Oréal’s Global Network

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Constructs</th>
<th>Values (Result)</th>
<th>Industry Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Network Members</td>
<td>Identity/Status of global firm</td>
<td>- Strong and successful (world leader in cosmetics).</td>
<td>- Tendency for good overall industry performance. - Risk of excessive demands by the focal firm in partnerships, due to its industry leadership position.</td>
</tr>
<tr>
<td></td>
<td>Identity/Status of partner</td>
<td>- Rich in distinct resources; global customers and suppliers and local complementors.</td>
<td>- Opportunity for access to distinctive resources from partners with global experience.</td>
</tr>
<tr>
<td></td>
<td>Ease of access to and volume of partner resources</td>
<td>- Abundant and average with customers. - Abundant and easy with suppliers. - Satisfactory and easy with complementors.</td>
<td>- Opportunity for the development of more enduring relations and innovations.</td>
</tr>
<tr>
<td></td>
<td>Complementarity of global partner resources</td>
<td>- High complementarity with customers, suppliers and complementors.</td>
<td>- Positive exchanges for both sides of the partnership.</td>
</tr>
</tbody>
</table>

Table 3. Modality of the L’Oréal Group’s Global Network Linkages/Ties

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Constructs</th>
<th>Values (Result)</th>
<th>Industry Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Linkage/Tie Modality</td>
<td>Strength of Connections</td>
<td>- Strong</td>
<td>- Opportunity for greater industry productivity. - Risk of locking firms into unproductive relationships.</td>
</tr>
<tr>
<td>Nature of Ties</td>
<td>Collaborative.</td>
<td>- Explorative with customers and complementors. - Exploitative with suppliers.</td>
<td>- Explorative partnerships explore new opportunities and create an environment that favors innovation. - Exploitative partnerships can hinder or impede innovations.</td>
</tr>
</tbody>
</table>

In the analysis of the linkage/tie modality the research also identified significant opportunities, revealed by L’Oréal’s strong and collaborative connections with its main partners which tend to create opportunities for long-term and productive actions for the cosmetics industry.

As to the nature of ties according to Lavie & Rosenkopf’s (2006) characterization of alliances in terms of being explorative or exploitative, most L’Oréal Group alliances with customers and complementors were found to be explorative in that they aimed at generating knowledge by developing new competencies jointly with new partners and in which partners had attributes that differed from those of previous ones, thus promoting joint discoveries and creating a favorable environment for innovation. On the other hand, most alliances with suppliers were considered exploitative in that they were designed to lever knowledge with recurrent partners and in which partners had attributes that were similar to those of previous ones. This characterization corresponded to the results of the questionnaire in which most respondents classified L’Oréal’s alliances with its suppliers as exploitative. The latter could have been viewed as a threat by reducing the possibility of generating innovations by way of the alliance. However, the research discovered that, in practice, some innovations were in fact produced in the context of the L’Oréal Group’s relations with its suppliers.

The next section presents results regarding L’Oréal’s performance, a critical factor for the analysis of L’Oréal Latin America’s strategy and thus the object of yet another step in the Global SNA methodology.

The performance of the L’Oréal Group

The L’Oréal Group’s 2010 annual report showed that the company maintained its world cosmetics leadership position of 2010 with consolidated annual sales revenues of approximately 19.5 billion Euros, 11.5% greater than revenues generated in 2009. An analysis of the 2010 results from a geographical region perspective shows that Latin American countries accounted for 11.5% of total revenues, with Brazil being the largest contributor.
America accounted for 8.4% of Group cosmetic product sales (1.518 billion Euros), a 17.5% growth over 2009, the highest of all the Group’s geographical regions and greater than the growth of the overall market during this same period. From a Product Division perspective, the Consumer Product Division - CPD recorded a 5% growth in sales in relation to global Consumer Product growth between 2009 and 2010. However, when focusing the analysis on CPD sales in new markets (Latin America, Asia, the Pacific region, Eastern Europe, Africa and the Middle East), the growth rate was 10.7%. Note that three of the L’Oréal Consumer Products Division’s six strongest countries are emerging countries: Brazil, China and Russia.

The next part of this article first of all performs a general assessment of L’Oréal Latin America’s strategic fit and then compares the results that are relevant for global relational analysis with those revealed by non-relational analysis (so-called global traditional analysis – steps 2 and 3 – i.e. a global analysis that does not take relationships such as alliances into account).

DISCUSSION

Assessment of the adequateness of L’Oréal Latin America’s strategy

Latin America constitutes an attractive potential market that can contribute to L’Oréal Group’s strategic objective of conquering a billion new consumers and its transnational strategy enables it to launch products in this geographical region that are increasingly coherent with the specific requirements of the regional target audience. The research evidenced, moreover, that the strategic alliances with customers and suppliers were aligned with this strategy by enabling the company to react more effectively to the market’s specific demands and achieve a better exposure of the products launched for the target audience. It also revealed that the L’Oréal Group’s global presence contributes to the formation of more solid alliances with global actors that are seeking to expand their operations, and also to the identification of synergies between different markets around the world.

In sum, the results of the research strongly suggested that L’Oréal Latin America’s strategy was adequate to the global context in which the L’Oréal Group operated, considering the strategic implications of its alliances, the actors that comprised this context and the macroeconomic factors that characterized it.

The global relational perspective was fundamental for achieving this strategic assessment. It also illustrated the importance of the Global SNA Framework, which encompasses both traditional and relational global dimensions, for strategic analyses of firms that compete globally in alliances and other strategically significant linkages. In the next section, the research seeks to evidence this point.

Comparison of analyses from global traditional and global relational perspectives

The following section analyzes the strategic implications shown in Table 4 from both the global traditional and the global relational perspectives and infers the resulting implications if the results of both were considered.

The real threats numbered 1 and 2 in the traditional analysis refer essentially to policy issues inherent to the production and commercialization of cosmetics products in different countries of the world that could be mitigated by alliances with government entities such as, for example, commercial treaties between countries. As the research was unable to identify concrete cases of this type of alliance, it maintained the real threat identified in the traditional analysis as the final implication, though considering that there was a potential relational opportunity.

Threats 3 and 4, on the other hand, refer to socio-cultural factors related to consumers and the large amount of information they currently obtain through digital media. The real opportunity identified for mitigating these threats is constituted by the potential for establishing close contacts with customers in the digital media, a growing trend in the world consumer goods market. The research verified that the L’Oréal Group has websites for its various brands and has been investing in Facebook pages with promotional actions for connected consumers. Some brands organize meetings with bloggers and journalists to divulge product launches.

Threats 5 and 6 are related to consumer price sensitivity, especially in the case of consumer products, and to the low cost involved in changing cosmetic products. These threats are being neutralized by the development of products at the company’s Latin America hub. As well as enabling products to be developed specifically for the region’s consumers with a lower price tag, the hub facilitates the organization of regional industry and the formation of alliances mainly with suppliers, thus constituting a real relational opportunity. The Latin America Procurement team possesses an overall view of the region’s different countries’ needs and is in contact with other regions’ procurement teams, thus enabling alliances to be expanded in order to obtain supplies from countries in other geographical regions. Drawing on the concepts developed by Johanson & Vahle (2003, 2009), the business relations engendered by development hubs offer potential for learning and
trust building and the development of new relationships that can open the way to new markets.

Table 4. Comparison of results using global relational and global traditional analysis

<table>
<thead>
<tr>
<th>Global Traditional Analysis</th>
<th>Global Relational Analysis</th>
<th>Resulting Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Real Threat: Product imports depend on stable foreign trade policies on the part of exporting and importing countries.</td>
<td>Potential Opportunity: Alliances with government entities that may facilitate bureaucratic processes.</td>
<td>Real Threat</td>
</tr>
<tr>
<td>2 Real Threat: Time needed for sanitary registration of cosmetics products may delay product launches.</td>
<td>Real Opportunity: Establishment of alliances with opinion-forming customers or groups (e.g. bloggers who evaluate cosmetics products) in order to understand target audiences better.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>3 Real Threat: When socio-cultural factors are not taken into account in the development of new products.</td>
<td>Real Opportunity: Establishment of alliances with opinion-forming customers or groups (e.g. bloggers who evaluate cosmetics products) in order to understand target audiences better.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>4 Potential Threat: High level of consumer information which is increasing due to digital media.</td>
<td>Real Opportunity: Establishment of alliances with opinion-forming customers or groups (e.g. bloggers who evaluate cosmetics products) in order to understand target audiences better.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>5 Real Threat: Consumer price sensitivity.</td>
<td>Real Opportunity: Development of products with lower price tags by establishing regional development hubs and global partnerships.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>6 Potential Threat: Consumers’ low cost of changing to other products.</td>
<td>Real Opportunity: Establishment of long-term alliances with suppliers to ensure the product quality and safety and socially responsible behavior required by L’Oréal.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>7 Potential Threat: Lack of agility in the selection of suppliers due to the L’Oréal Group’s stringent qualification requirements.</td>
<td>Real Opportunity: Establishment of long-term alliances with suppliers to ensure the product quality and safety and socially responsible behavior required by L’Oréal.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>8 Real Threat: High degree of dependence on certain suppliers.</td>
<td>Real Opportunity: Diversification of alliances with suppliers and the possibility of being supplied by other geographical regions.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>9 Real Threat: Market diversification through door-to-door sales which is not exploited by L’Oréal.</td>
<td>Potential Opportunity: Establishment of alliances to exploit the door-to-door market.</td>
<td>Potential Opportunity</td>
</tr>
<tr>
<td>10 Real Threat: Fierce competition in the industry at global and local levels.</td>
<td>Real Opportunity: Hub for the development of products aimed at specific treating opportunities for new regional and global alliances.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>11 Real Threat: Low barriers to entry in terms of industry costs and complexity.</td>
<td>Real Opportunity: Hub for the development of products aimed at specific treating opportunities for new regional and global alliances.</td>
<td>Real Opportunity</td>
</tr>
<tr>
<td>12 Potential opportunity: Most of the L’Oréal Group’s sales revenues are obtained from less than 15% of the world’s consuming population from the less than 15% of the world’s population that consumes its products B10</td>
<td>Potential Opportunity: Establishment of new alliances with diverse industries, such as the food or service industries, in order to increase the number of new launches.</td>
<td>Potential Opportunity</td>
</tr>
<tr>
<td>13 Potential Opportunity: Possibility for exploiting competency complementarities with other industries for the development of innovative products.</td>
<td>Potential Opportunity: Establishment of new alliances with diverse industries, such as the food or service industries, in order to increase the number of new launches.</td>
<td>Potential Opportunity</td>
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</tbody>
</table>

Potential threat 7 refers to the lack of agility in the definition of suppliers due to the L’Oréal Group’s stringent requirements for validating a supply contract, a group security measure to avoid other threats arising from relationships with suppliers, constituted, for example, by issues related to business social responsibility. The real opportunity identified by the research that neutralizes this threat lies in establishing long-term alliances with suppliers to ensure compliance with L’Oréal Group requirements. This opportunity, however, can turn into a real threat 8, because of L’Oréal’s dependence on specific suppliers. On the other hand, this threat can be mitigated by the real opportunity constituted by supplier diversification, not just in the sense of seeking different partner firms but also firms that operate in different geographical areas.

Real threat number 9 comes from the modality of door-to-door sales in the cosmetics sector, which is widely used in Latin America and is not exploited by L’Oréal. An evident potential opportunity would be provided by L’Oréal’s entry into this market which could be engineered by forming alliances with specialized direct sale associations. When this research was concluded the company still expressed its lack of interest in exploiting this niche. Even so, the research considered that the final implication could be a potential opportunity.

Threats 10 and 11 brought about by fierce competition in the cosmetics industry and low barriers to entry, were considered in the light of potential opportunity 12 (low number of L’Oréal Group consumers as a proportion of the world population), given the real opportunity of
conquering new markets. The development hubs of the Latin America Zone and other geographical regions are designed to meet the needs of specific markets, aiming their product launches at local target audiences, besides creating opportunities for stronger alliances with suppliers and customers due to the fact that they group the needs of the region’s different countries. Thus, they are considered to be capable of neutralizing the threats posed by increasing competition and the industry’s low barriers to entry and as drivers of the potential opportunity of conquering additional consumers. Thus, in the case of the food and service industries, greater emphasis was considered to be a real opportunity.

Finally, the research identified potential opportunities (13) to develop innovative products and increase the rate of new product launches by exploiting competency complementarity between the L’Oréal Group and its complementors, especially through strategic alliances with these complementors in diverse industries, such as the food or service industry.

**Conclusion**

Even though the research showed that L’Oréal Latin America’s strategy was adequate in terms of its global context, in the light of the strategic implications of its alliances and other linkages at the cosmetics industry level, there appears to be room for taking better advantage of some potential opportunities identified but still not exploited by the L’Oréal Group.

This is especially so in the case of alliances with government entities and complementors. Potential opportunities identified by the research for alliances with government entities referred mainly to the reduction of bureaucratic difficulties inherent to the activities of global companies, such as those involving imports of products or components. As to alliances with complementors, greater emphasis should be given by the company to developing more of this type of alliance that, as we saw, is especially useful for promoting innovation.

Indeed, it is very important for the L’Oréal Group to become more aware of the potential opportunities offered by the formation of strategic alliances. Though L’Oréal is currently able to sustain its position, the market’s increasing dynamism poses a series of challenges for all competitors in this sector that strategic alliances may help confront, especially when they contribute to being innovative.

One of the most important results of this research at L’Oréal was to verify a fact evidenced in other sectors (e.g. telecommunications, see Macedo-Soares & Mendonça, 2010): global alliances create more opportunities than threats, and in many cases, relational global opportunities, that is, pertinent to global alliances and other significant linkages, serve to mitigate and even neutralize non-relational global threats. Another important result was to provide new information by illustrating this fact with examples that are specific to a company in the cosmetics sector that competes globally in alliances.

Thus, one may conclude that the research presented in this article fulfilled in greater part its two-fold aim of i) providing lessons for firms in the cosmetics industry by means of an analysis of the adequateness of the company’s strategy and ii) contributing to investigations into strategic management, from a relational perspective, in the case of companies that compete globally.

The application of the Global SNA Framework to the case of L’Oréal Latin America, in light of the L’Oréal Group’s global strategy, illustrated how the inclusion of the global relational perspective in the strategic analysis process provides relevant insights that ensure more complete strategic analysis and, consequently, also more accurate strategic decision-making in the case of a global firm involved in alliances. Thus, the research confirmed how important it is for these firms to consider this perspective in their strategic management. The article also made a theoretical contribution by verifying the usefulness of the tools and constructs developed to undertake such a more complete strategic analysis.

It is recommended that new studies be conducted of global firms that take part in alliances in this and other sectors, replicating the application of the analytical framework used, in order not only to refine and consolidate it further, but also to provide additional relevant lessons for managers of firms faced with the challenge of competing in an increasingly complex global context.

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