

Suggested answers

1. What have been L'Oréal's key success factors in China to date?

L'Oréal has had success in penetrating the Chinese cosmetic market due to several factors. First, L'Oréal's distribution strategy has enabled it to access the majority of the population, through mass-market retail outlets and various types of stores such as boutiques, flagship stores and more recently online. The wide portfolio of products as well as its variety of pricing strategies gives L'Oréal the ability to respond to the different needs and expectations of a wide variety of Chinese consumers. This is particularly necessary due to the fragmented nature of the Chinese market and its wide income disparities. Another key success factor is its localised strategy. L'Oréal used to offer standard products across the world but opted for a strategy of diversification in the case of the Chinese market. In order to support this it developed its own Chinese R&D facility in Shanghai. Finally, its expertise in marketing and strong investment in R&D, as well as its experience, allows L'Oréal to become one of the leaders in the marketing and distribution of cosmetics in China.

2. How do L'Oréal's distribution tactics enable it to target the men's skincare market in China?

Chinese men are more and more concerned with their appearance, in order to remain competitive in the workplace as well as with the female population. The male cosmetic sector is the most dynamic in the market and reached USD269.6 million in 2011. L'Oréal China has focused on the local market by establishing an R&D division in Shanghai to identify, develop and launch a wide range of products specifically designed for the Chinese consumer, across an ever-expanding range of distribution networks in order to reach as many customers as possible. The marketing communication strategy is based on an image of modernity and wellbeing, starring international and domestic celebrities. The distribution strategy has chosen to offer specific products only for the

Chinese market (localisation) and distributes them both online and through a wide variety of outlets.

3. Has L'Oréal adapted its distribution strategy?

The choice between adaptation and a standardised distribution strategy is based on the needs and expectations of costumers in any given country. Some countries need different distribution strategies and adaptation is necessary to penetrate that market. But the decision is based on a cost–benefit analysis of what the implications of adaptation or standardisation of distribution methods might be for revenue, profitability and market share. The adaptation of distribution methods is clearly more expensive, which is why companies have to analyse the market to ensure the correct mode of distribution. In the case of L'Oréal, the size and the growth of the market allow the company to invest in a localised distribution strategy that focuses on getting sales and distribution to consumers using a wide variety of distribution methods including mass-retail supermarkets, chemists, L'Oréal boutique stores for the more exclusive purchases, and in more recent times online shopping.

4. In a meeting with the CEO of L'Oréal China, you have been asked to outline the possible threats of selling its products online. Explain some of the issues that L'Oréal might be likely to encounter in online distribution.

First, there is the possibility of angering the members of the existing distribution channel with attendant loss of business, particularly the smaller retailers of L'Oréal's products. Second, there are few barriers to competitors entering the online cosmetic market; therefore it is possible that competitors may imitate L'Oréal's online marketing strategies, creating unnecessary competition. Finally, security issues must be managed so that consumers are confident with online sales and use of credit facilities in making the purchase.

5. Explain how and why distribution channels, such as those of L'Oréal China, are affected when the economic stage of development of a country such as China advances.

As an economy such as China advances, the distribution system begins to take the form of distribution in western markets such as those of Europe, the USA or Australia. The apparent reason for this change in structure is the decentralisation of the total marketing function. As an economy such as China's becomes more sophisticated it places increasingly complicated and sophisticated demands upon the marketing and distribution functions. These demands on companies such as L'Oréal to adjust their marketing and distribution strategies lead to a need to modify the existing distribution system so that they can meet the increased demands placed upon them by the emerging economy. L'Oréal has noted the rapid growth of the male cosmetic consumer segment in China. As this sector is becoming much larger and more diversified, this places new demands on the distribution system, which causes companies such as L'Oréal to modify in order to administer to the requirements of that segment. Another such modification is the recent introduction of online marketing to this sector in China.