

# CORPORATE BRAND MANAGEMENT AND REPUTATION

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## MASTER CASES

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### **Beauty and the Beast: The Acquisition of *The Body Shop* by *L'Oréal***

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## **Corporate Brand Management and Reputation: Master's Cases**

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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**Beauty and the Beast:**  
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**WRITTEN CASE**

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## **Beauty and the Beast: The Acquisition of *The Body Shop* by *L'Oréal***

It is early morning on a rainy day in 2006, and the senior brand manager at *L'Oréal* is on his way to the office. As he sits in the train taking him to Clichy, he skims through some newspaper headlines that comment on the recent acquisition of *The Body Shop* by *L'Oréal*: “Activists call Body Shop boycott”, “Did green goddess Anita Roddick sell out when she sold up to L'Oréal?”. He is already aware of the critique that is issued by both industry experts and animal rights activists. Thus, he is concerned about the two clashing brand identities of mother and daughter brand and the resulting loss of reputation for the newly acquired brand. As he steps into his office, he reflects about the current situation:

### **Industry Background**

The cosmetic industry is described as a lucrative, innovative and fast paced industry in which *L'Oréal*, *Procter & Gamble* and *Unilever* are the three biggest players. It is a vital part of the world economy in terms of its contribution to the global GDP. In 2006, the global cosmetics market grew by estimated 4,9 percent and the industry generated approximately \$230 billion in sales globally. However, over the last decade a change of consumer demands within the industry have been recognized. As such, consumers are increasingly concerned and aware of environmental issues and show growing interest in cosmetics products containing natural ingredients free of animal testing. Ethical consumption has been existing for centuries, and refers to considerations when choosing products and services with regards to animal welfare, labor standards and personal health concerns. However, the trend has increased considerably in the beginning of the 21<sup>st</sup> century. Therefore, a growing number of cosmetic brands try to attract consumers by promoting ethical and sustainable values and consumption.

## Company Background of L'Oréal

The story of *L'Oréal* begins in Paris, France, in 1909, when chemist Eugène Schueller, the founder of *L'Oréal*, develops one of the first formulas for hair dyes. With research and innovation in its DNA, the company that has started off selling the product to Parisian hairdressers has grown into one of the biggest brands worldwide. Over the years, several product launches, acquisitions and opening subsidiaries foster the growth and success of *L'Oréal*.

In 2006, *L'Oréal* owns 19 brands which are sold globally. The product brands are divided into different product categories, which vary in positioning, target customers as well as price level. Professional Products such as the private label *L'Oréal Professional* and *Kérastase* are professional, high class products which target hairdressers and beauty salons. Consumer Products like *L'Oréal Paris* or *Garnier* can be positioned as affordable products distributed on the mass market. *L'Oréal Luxe*, the premium-price luxury brands consolidates high-end, prestigious brands such as *Lancôme* and *Giorgio Armani Perfumes*. Lastly, Active Cosmetics targets health conscious consumers and dermo-cosmetics with brands such as *Vichy* and *La Roche-Posay*.

*L'Oréal's* approach to marketing communication resembles typical industry standards. This includes cooperations with models and celebrities to endorse products and whose appearance matches the current beauty ideal of a slim body type, perfect skin and a flawless appearance (see **Exhibit 1**). Marketing communication revolves around singular products and their features to beautify the consumers, rather than communicating the corporate values of the organisation. Back in 2006, *L'Oréal's* mission has been to develop beauty products that give customers “the right to be beautiful day after day”<sup>1</sup>. The company strives to fulfil this promise by focusing on their highly regarded core values revolving around:

- Safety
- Quality
- Efficacy
- Sincerity

As such, the cosmetics brand can be characterized as a value-driven company, aiming towards an approach that beauty is “fun, affordable, fulfilling, genuine and generous”<sup>2</sup>.

## Company Background of *The Body Shop*

In 1976, environmentalist Anita Roddick has established the ethical, high quality cosmetic brand *The Body Shop*. The first store has opened in Brighton, UK, in 1976 and soon after the launch the brand has become popular among both ethical and conventional consumers. The core values lay the foundation for all of *The Body Shop's* operations and consist of the following:

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<sup>1</sup> L'Oréal Group (2006). Annual Report 2006 [PDF] Available at: <http://www.loreal-finance.com/eng/annual-report-2006> [Accessed 23 February 2018]

<sup>2</sup> L'Oréal Group (2006). Annual Report 2006 [PDF] Available at: <http://www.loreal-finance.com/eng/annual-report-2006> [Accessed 23 February 2018]

- Against Animal Testing
- Support Community Fair Trade
- Defend Human Rights
- Activate Self Esteem
- Protect our Planet

The brand uses natural ingredients in its products while acting highly transparent to gain the trust from its stakeholders. The mission statement reflects this commitment and strives “to dedicate [...] business to the pursuit of social and environmental change.”<sup>3</sup> Their core values and mission are recurring themes within their marketing communication. Instead of pursuing industry standards, their advertisement can be interpreted as a form of rebellion against unattainable beauty standards and the promotion of their ethical and sustainable behavior (see **Exhibit 2**).

In the years to come, *The Body Shop* has started to grow rapidly, opening two franchises every month while simultaneously being involved in public activism. It has become the first commercial company to start a collaboration together with *Greenpeace*. With the strong vision and leadership from Roddick, several successful campaigns have been launched, catching public attention and reaching out to people worldwide. ‘Against Animal Testing’ has been one of the more prominent initiatives and has ultimately led to changes in the European law regarding cosmetics and animal testing. The customer base has been constantly growing due to high levels of trust, a good reputation and loyal customers that shared the same values as the company.

After Anita Roddick has decided to take *The Body Shop* public in 1984, she has realized the challenge of running a public company. Rapid growth and new shareholder demands for profit have made the CEO feel like losing control. Moreover, the strategic focus of the company has started to shift away from emphasizing sustainable practices towards a more profit-oriented approach. Consequently, Anita Roddick has felt that she was not able to handle the increasing pressure and started searching for potential buyers.

## The Acquisition

*The Body Shop* has faced difficulties to find suitable buyers. This has mostly been due to its franchisee and the ownership of brick-and-mortar stores, a rare occurrence for most brands within the cosmetics industry. However, in 2006 the French cosmetic giant *L’Oréal* has approached *The Body Shop* with an offer. Before *L’Oréal’s* takeover, Roddick has made arrangements to ensure that the ethical principles would still be respected.

The acquisition has provided opportunities for both sides: On the one hand, *The Body Shop* has seen the acquisition as an opportunity to gain access to *L’Oréal’s* well established supply chain as well as satisfying shareholder demands for profit. On the other hand, for *L’Oréal*, adding a brand with a unique identity and sustainable business model to its portfolio has facilitated the entrance into a rapidly growing niche

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<sup>3</sup> The Body Shop (2017). About Us. Available Online: <http://www.thebodyshop.co.nz/AboutUs/DameAnitaRoddick> [Accessed 23 February 2018]

market of environmentally conscious consumption. As stated above, consumers have become increasingly concerned about environmental, ethical and social issues resulting in a new demand for sustainable cosmetics products. The acquisition has been a great opportunity for *L'Oréal* to gain access to the profits from the new emergent market. Ultimately, the deal has been made for \$1.2 billion, *The Body Shop* has been delisted from the London Stock Exchange and has become a part of the French cosmetic brand in 2006.

## The Situation after the Acquisition

The acquisition now causes plenty of negative media attention and public criticism. Press coverage revolves around the different corporate identities, the conflicting philosophies and the clashing corporate values. The public, especially social activists, industry experts and ethically minded consumers are thus concerned about the future of *The Body Shop*. This is especially since *L'Oréal's* activities in animal testing lead to a direct conflict with *The Body Shop's* core values. Moreover, the former being partially owned by *Nestlé*, one of the most criticized companies in the world, does not improve the situation.

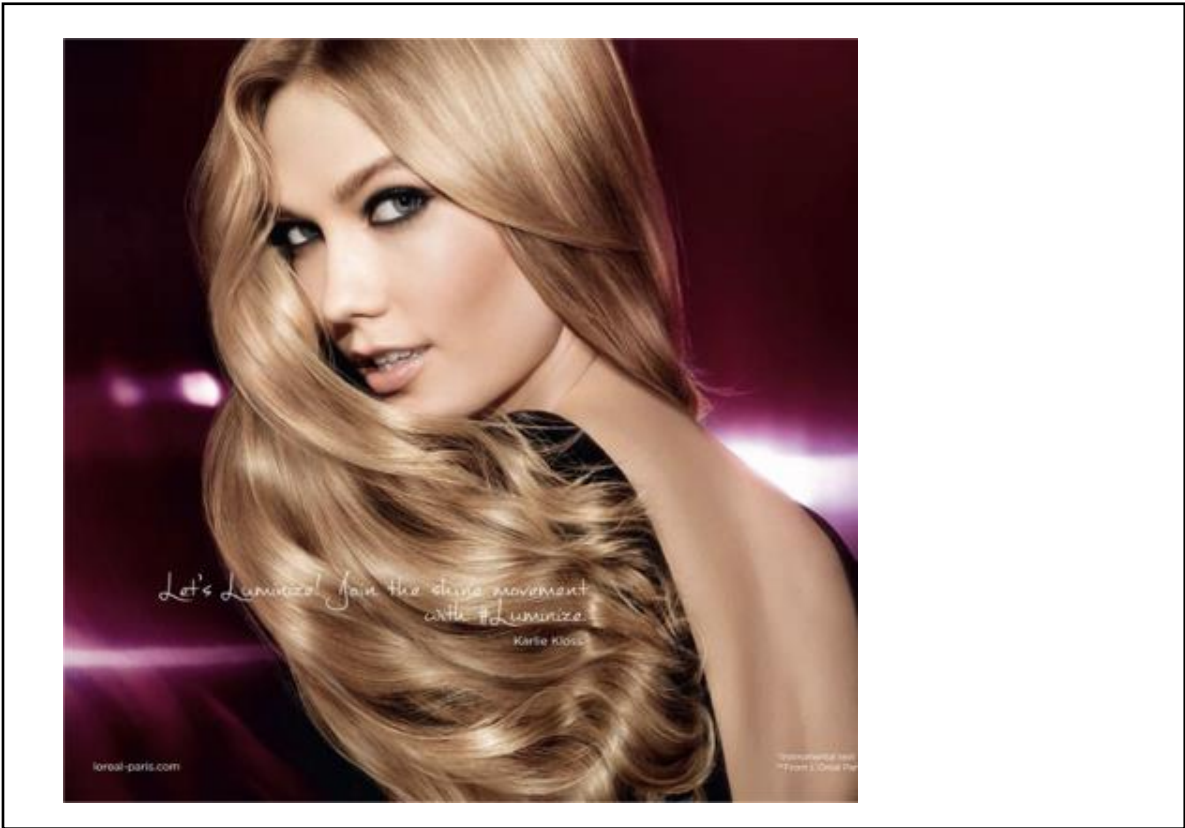
Even though Anita Roddick does not consider the sale as a 'sellout' but rather as a chance to change the industry from the inside, the public is feeling betrayed by the management's decision to sell *The Body Shop*. As a result, the cosmetics group is currently facing a financial downfall through boycotts of *The Body Shop* and thus impacts on sales and customer loyalty, as well as reputational issues. According to the daily issued BrandIndex, the brand's 'buzz' rating has dropped 10 points after the acquisition, 'general public impression' and 'satisfaction' have also fallen drastically. These developments lead to the question how *L'Oréal* should address this issue.

The brand manager of *L'Oréal* approaches you with three potential strategies in order to maintain the strong corporate reputation of *The Body Shop* despite the criticized acquisition. The strategies are:

- Strategy 1:  
Placement of *The Body Shop* as an independent business unit within *L'Oréal*
- Strategy 2:  
Changing *L'Oréal's* core values and adjusting their mission statement to become more appealing to conscious consumers
- Strategy 3:  
Alignment of *The Body Shop's* marketing communication with *L'Oréal's*

**Taking the role of *L'Oréal's* Executive Team, how would you evaluate each strategy and why?**

**Exhibit 1** Example of L'Oréal's Marketing Communication



**Exhibit 2** Example of The Body Shop's Marketing Communication

