Track 14 - Special track: Teaching international business

Competitive session

Natura: Challenges for a perfumed internationalization

ABSTRACT

Natura has paved a successful path and developed a distinctive competitive positioning in the cosmetic, fragrance and toiletry industry in Brazil. Based on a direct sales model, the company has also expanded in Latin American countries. Its core values of environment responsibility and social accountability, coupled with the Amazon origin of the ingredients of its products, have helped the company build strong relations with its partners and produce sound economic returns to its shareholders. Now Natura wants to replicate the same success in Europe. After opening a flagship store on the Avenue des Champs-Élysées, in Paris, the company was disappointed at the unexpected small sales level. A new drive for the company's growth in Europe can now come from the recent acquisition of a majority stake in Australian firm Aesop, also specialized in beauty products. Still, Natura needs to decide about the best ways to successfully challenge well-entrenched incumbents in Europe. Which entry modes and sales models should it employ to have success? Which should be the first countries? Natura would be able to leverage Aesop's knowledge, brand recognition and distribution network in its favor? Which market positioning should Natura choose in order to build a strong position in Europe?

Natura: Challenges for a perfumed internationalization

INTRODUCTION

Natura (www.natura.net), a 100% Brazilian Brand, present in seven Latin American countries and France. Leader in Brazil's cosmetic, fragrance, toiletry and direct sales industry, the beauty company has revolutionized the Latin American market through its innovative value proposal and a differentiated corporate behavior .The company's first store was opened in 1970, in São Paulo to sell products with plant-based active ingredients in its composition. With differentiated products and distribution guided in direct sales through their "consultants", Natura started strong growth yet in the 1980s.

In the 1990s the Brazilian company decided to expand its market internationalizing to Latin American countries. Success in Latin America has led Natura to expand its operations to the other side of the Atlantic Ocean; however sales in European countries have not reached the same level as sales for its Latin American neighbors. In 2013 Natura made the acquisition of 65% of the Australian brand Aesop (http://www.aesop.com/au/; http://www.aesop.com/br/) in order to expand its operations in the international market. How can Natura enhance its sales in Europe to reach similar level as in Latin American countries?

This case study is based on the expansion of the Brazilian largest cosmetics company to Europe. The study has information of secondary data and primary data. Secondary data were collected from various sources, which include: the company's website (including investor relations area), market reports, other case studies about the company and other sources. Primary data was collected through a personal interview with an executive of Natura in Brazil. In order to maintain confidentiality, the interviewee's name will not be revealed.

HISTORY OF NATURA

The company was founded in 1969, by Luiz Seabra in partnership with Jean Berjeaout. According to the company's website the name "Natura" is due to the presence of plant-based active ingredients in their products. Its first store was opened in 1970, in São Paulo and its production plant had less than ten employees at this time. A few years later, after experiencing several ways to distribute their products, the company started to operate with door-to-door sales (successfully) through their “consultants” (direct sales representatives). In 1976, Natura launched its first sales catalogue with detailed information on how to use the products. The catalogue becomes an important resource for consultants in helping them serve their customers. At the beginning of 1980s the company starts a strong growth based on the regional expansion and on the product’s portfolio. Yet in 1982 started its operations in Chile and in 1990 intensified its international expansion growing gradually through the Latin America, operating in countries such as Argentina, Bolivia and Peru.

Over the years, Natura has emphasized its commitment to the preservation of the environment and social welfare, carrying out several sustainable initiatives such as the launch of refillable products, creating programs to help improve public education, partnerships with regional agricultural cooperatives, the elimination of tests with animals, using synthetic material for researches and tests. In 2004, Natura launched its IPO on the Brazilian stock exchange, Bovespa, adhering to the Novo Mercado (New Market) - the highest level of corporate governance of Bovespa.

Intending to use as a window for their products and as a source of learning on how to operate in the European market, Natura opened in 2005 a store in Paris. In the same year (2005) the company expanded its operations to Mexico and then to Venezuela and Colombia in 2006 and 2007 respectively. Recently, in 2013 Natura acquired 65% of the Australian brand Aesop (which has almost 20 years of existence, with presence in 11 countries in Asia,

Europe and North America), giving the company the opportunity to expand its international operations. Natura has the option to acquire the remaining 35% of Aesop in three years.

POSITIONING OF NATURA

Natura sells premium mass-market cosmetics and personal-care products to middle and upper-class consumers. Their reason for being and vision show the company's concern with sustainability and well-being:

Natura's reason for being

"Our reason for being is to create and sell products and services that promote well-being/being well."

Natura's vision

"Natura, through its corporate conduct, through the quality relationships it establishes, and through its products and services, will be a globally significant brand, identified with the community of people committed to building a better world by means of a better relationship with themselves, with others, with the nature they are part of, with the whole."

Natura aims to create value for society as a whole by generating integrated results in the social, economic and environmental dimensions, in other words, "the triple bottom line". The company believes that sustainable results are achieved through quality relationships, and because that maintain open channels of dialogue with all of its stakeholders. This mindset and behavior are expressed through Natura's business behavior, which aligns the promotion of sustainable development, the creation of products and concepts that promote social welfare, in addition to the strong connection that Natura has with its network of relationships. The

company seeks significantly to reduce emissions of greenhouse effect gases, creating new paradigms in relation to agro-extractive communities and fair remuneration for their services and biodiversity assets, also articulating new actions to the Amazon region development, among many other initiatives, focusing on principles of sustainability.

To develop its product portfolio Natura mobilize a network of people who are capable of integrating scientific knowledge with the sustainable use of Brazil's rich botanical biodiversity. Their products are not tested on animals and the company follows rigorous international safety standards. The company's management believes that these initiatives result in high-quality cosmetic products that can provide pleasure and well-being.

Natura encourages its consultants to use and try their products before selling them and to promote high quality relationships between their consultants and consumers.

NATURA'SCOMMERCIAL MODEL

Natura chose operating through the direct sales model to sell and distribute its products with Natura's brand. Its direct sales network has over 1.6 million consultants. Natura Consultants (NC) are mainly women, independent resellers, who purchase products directly from Natura and resell to their customers in the way that suits them. Consultants are independent, in other words, there is no exclusive contract, employment entailment, nor minimum period of association with Natura. There is also the Natura Sales Advisor (NSA), they are also resellers as the NCs, and beyond that, they indicate new candidates to become NCs. They give advice to a group of consultants about the cycle's promotions and Natura's internal service channels. They are also autonomous workers, without employment entailment with Natura. In Brazil (and in some other countries in which Natura operates) in addition to the commercialization of products, the NSAs can form relationship groups through their indications and therefore be paid for it.

In 2011, Natura launched the Natura Magazine, which is the catalog that contains its portfolio of products, as well as the suggested price to consumer's sale. In addition to the product catalogue, the magazine also contains editorials and conceptual articles. It's an important marketing tool that also transmits the company believes and values, besides the concepts of each sub brand. Natura distributes 2 million copies in each sales cycle in Brazil and in the International Operations. Each commercial cycle is a period of approximately 21 days when Natura publishes a new Natura Magazine (catalog), offering new promotions, products' launch, besides offering meetings and trainings to its consultants. The order cycle is the process in which Natura makes their products reach their buyers, involves since the moment when CNs places the order until the product's delivery to the end consumer. The CNs, respecting the minimum order, place the order throughout the internet or telephone on the Natura attending center (NAC), receive the products at their home and they have 21 to 60 days to pay for those. The consultants have a limit of credit that grows according to the time that they work as consultants, and with their historical payments.

NATURA'S INTERNATIONALIZATION

Natura's international expansion began in the 1980s, through Latin America. The first foreign country in which the company operated was Chile in 1982.The proximity (physical) and the cultural compatibility were decisive to prioritize the first steps in Latin America. The operations began with the opening of Jâmbar y Cia Ltda, the company responsible for distributing the products in Chile. A year later, in 1983, Natura reaches Miami in the United States with the Numia brand. In 1987, the company registered another internationalization movement in Latin America, when entering the Bolivian market through a partnership with a local distributor. In these first three attempts Natura's internationalization did not get very good results, withdrawing from the US market and having poor performance in the other

countries. Specifically in the case of Chile, one of the problems faced in the country lies in the dominant share of cosmetics sales through stores. Less than 20% of sales was through direct sales in this market. Another important issue is that Chile is a country with high rates of employment and high income, not stimulating the complement of the income of Chilean women, as in Brazil. Over the years, with price repositioning and high investment in communication, Natura managed to reverse this scenario. Furthermore, Natura has partnered with a local company, Labsa, creating Belleza Internacional S.A. in 1990. In 1993 the company bought the operation and Belleza Internacional became a subsidiary, 100% controlled by Natura.

In 1994 Natura continues to expand in Latin America, beginning to operate in Argentina and Peru. As in Chile example, the company entered in both countries through local distributors. In 2000, the operations in these three countries (including Chile) were fully controlled by Natura, with administration and distribution centers installed in each of the three.

In 2005, having already acquired considerable international experience, Natura started operations in Mexico under its full control. In the same year the company expanded its international presence to Europe, with the adoption of a different model, through a store in France. Waiting generate brand recognition, still poorly known in the country, the opening of the Natura shop in one of the best and most luxurious spaces of Paris marks the entrance of the Brazilian company in the demanding and competitive consumer cosmetics market. In this way, Natura also expected research and learn more about the tastes and preferences of local consumers. The store was set up to provide a sensory experience to customers; emphasizing the well-being (and being well) values brand and the respect to nature and biodiversity. The store also has the presence of consultants on the store, with purpose of developing a close

relationship with customers. In 2007, Natura increased its operations in Latin America beginning its operations in Colombia, with full control of the operation.

With the purchase of Aesop in 2013 Natura can enlarge (immediately) its international operations to countries that the Australian brand already operates, such as: China, South Korea, United States, England, Japan, Malaysia, Singapore and Switzerland.

NATURA'S MAIN COMPETITORS

Because it operates in several countries Natura faces different competitors. Natura's competitors vary by country and product line.

In general, the main competitors of Natura in Brazil are: Avon, O Boticário, L'Oréal, P&G and Unilever. In terms of Latin America, in addition to competitors operating in Brazil can be included: Belcorp and Colgate. The Appendix 2 shows the growth of Natura and its main competitors in Brazil and in Latin America, from 2008 to 2013. With Natura going to Europe, the Brazilian company will compete with the major players in the world's cosmetics industry, as stated by the executive interviewed:

> **Interviewer:** "The competition in Europe is higher than in Latin America?"
>
> **Interviewee:** "Much bigger; United States and France especially. The whole Europe is the cradle [Ground Zero], is where the headquarters of these large multinationals, is where the big launches happen. What really is most modern in terms of cosmetics. That's where I think Natura understands the difference, not only in consumer preference, but in the repertoire of those consumers who are more sophisticated, more demanding, and has a basis for comparison of products offered, much higher. "

Natura is the only Brazilian company among the fifty brands of the world's most valuable cosmetics in 2014. According to the survey conducted by the Brand Finance site, Natura appears in 17th place in the ranking, valued at 2,465 billion dollars. In the year 2013, the company was in 21st place, with its value estimated at 1,849 billion dollars. Brand Finance Top 50 Cosmetics Brands is a ranking of the most valuable Cosmetics Brands in the World. Each brand has been assigned a brand rating based on a benchmark study of the strength, risk and future potential of a brand relative to its competitor set, as well as a Brand Value: a summary measure of the financial strength of the brand. Appendix 6 has a table with the Brand Finance Top 20 Cosmetics Brands 2014 (to see the full ranking access – http://brandirectory.com/league_tables/table/cosmetics-50-2014)

Of the 10 brands in the ranking, nine belong to six major players in the world: Avon, Estee Lauder, Johnson & Johnson, L'Oréal, P&G and Unilever. Appendix 7 contains a table with information about these players.

NATURA'S PRODUCTS PORTFOLIO

Natura brand has about 1,300 products, organized into 31 sub-brands and 10 categories. Aesop has 126 products, especially for the face and body categories. In Brazil and other Latin American countries where it operates, Natura sells all its product portfolio. The main product lines commercialized by Natura can be seen in Appendix 1. In Europe, more specifically in France, Natura decided to invest in differentiated products, through its Ekos line, based on natural assets of the Brazilian biodiversity, in order to win the French consumer with an original Brazilian proposal.

According to the executive interviewed, preferences and consumer attitudes of European cosmetics are different on Latin Americans consumers:

> **Interviewee:** "[...] Natura has a team located in Argentina and since 2009 has been focusing heavily in research and development. Also focusing on developing all communication and even differentiated product portfolio, especially for perfumes and makeup, which really have difference in the tastes and preferences of the European consumers. "

The interviewee also revealed that differences between Latin America and Europe vary from consumer preferences related to product characteristics, to differences in the legislation:

> **Interviewee:** "[...] something that is very different in the case of Europe [more specifically in France] is that some ingredients are prohibited by law, so the portfolio ends up being more restricted. Earlier, in France only Ekos line was sold, then expanding to a few more, but is not the whole portfolio. I would say that in Latin America, Natura sees preferences that are different with respect to color palette; what means sophistication in some markets is different in others. For example, a package to be sophisticated in some markets have to be golden, have to shine, more things that lead to glamor. In other mature markets, simplicity also conveys sophistication [...]"

NATURA'S STRUCTURE

Natura products are distributed through a network of 1.3 million consultants in Brazil and 400,000 in other countries of Latin America and France. The Aesop has 98 stores (14 countries) and is present in department stores and 5% of its sales are made online.

Natura has five production plants, four in Cajamar – in the Brazilian state of São Paulo (SP) – and one in Benevides – in the Brazilian state of Pará (PA). The company also has

outsourcing productions in Brazil and in other countries. Natura has eight distribution centers in Brazil and five in its international operations. More than 61,000 orders are separated and delivered to more than 5,500 Brazilian cities, of which 38% within 48 hours. In all there are six distribution centers for the Natura Network delivery. There are 5,232 employees in Brazil, 1,359 in international operations and 864 in Aesop.

Natura has three centers of research and innovation in Cajamar (SP), Benevides (PA) and Manaus– in the Brazilian state of Amazonas – (AM) and an innovation hub in New York (USA).

SALES FORMATS ADOPTED BY NATURA

The sales formats adopted by Natura in different countries can be classified into four models: the monolevel model, the bi-level model, the multilevel model and the commercial model adopted with the Aesop brand as follows:

Monolevel model

Adopted in Argentina, in this model here's only one network of relationship between Natura and Natura consultants (NCs).

Bi-level model

Besides the commercialization of products, the Natura Consultant Advisor (NCA) can form groups of relationships through their indication and, consequently, they can be remunerated for that; without an employment entailment with Natura. This model is adopted in Brazil, Chile, Peru and Colombia.

Multilevel model

Adopted in Mexico, This model allows the consultants to rise through eight levels according to the attraction of new constituents for their own network, and also to the social environmental actions in their communities. In ascending order, the levels are: (1) CN, (2) CN

Entrepreneur, (3) Natura Trainer 1, (4) Natura Trainer 2, (5) Natura Transformer 1, (6) Natura Transformer 2, (7) Natura Inspirer and (8) Natura Associated. There is no employment entailment with Natura.

Model adopted with Aesop

Aesop operates in Australia (its original country), and also in countries in Asia, North America and Europe. Attending different countries, Aesop adopts some distribution channels:

Signature stores: places where consumers can acquire products, besides having contact with the essence and history of the brand through a pleasant and unique experience.

Department Stores

Online: Aesop.com

Selected International establishments: hotels, restaurants and flight companies.

THE COMPANY'S CHALLENGE

The process of Natura's expansion in Latin America is a relevant case of successful internationalization. After expanding to the South American neighbors, the Brazilian company landed in Europe, with a store in Paris and, later on, the acquisition of a majority stake in Aesop. Nevertheless, cultural differences between Brazil and the vast majority of European countries are higher when compared to Latin American countries. Data related to Consumer Fragrances and Toiletries industry published on the Natura Day Report of 2014 (Natura S/A, 2014) suggest that the company has not been able to repeat, in European countries the same performance experienced in Latin America (see Appendix 5). In 2005, Natura has even studied - through a focus group research - the possibility of expansion to Russia but decided not to enter (see Jones & Pinho, 2007). Along its history of internationalization in Latin America, several times Natura faced performance problems when did not adopt the direct sales model. Natura's presence in Europe is still relatively recent and

no final decision has been reached about the proper commercial model and market positioning. Learning related to the tastes and attitudes of demanding European consumers through a "concept store" in France looks promising, but it is just the starting point.

How should Natura deal with the relevant differences between the Latin American and the European cosmetics markets? What would be the most appropriate entry mode and sales model into new countries in Europe? What market positioning should Natura adopt for its product portfolio and image? Should the company insist on strengthening its much-valued concepts of sustainability and “well being well” and its Brazilian-based product origin or should the company adapt its offer to satisfy other preferences and expectations of its potential new clients?

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APPENDIX 1 – PRODUCT PORTFOLIO

Table 1 – Natura's main product line – Natura's web site, http://www.natura.net (accessed april 21, 2015).

Product Line	Caracteristics
CHRONOS natura	NATURA CHRONOS offers a full range of options for facial skin treatment, developed for women over 30 years. The line says the beauty of women at all stages of their lives and aligns technology for skin treatment with the rejection of stereotypes about beauty. This line includes a variety of cleaning products hydration and toning the skin, and anti-aging products, broken down into categories for women 30 to 45, 45 to 60 and 60 years or more.
natura EKOS	NATURA EKOS is a product line that encompasses perfumery, toiletries and ambiance, uses funds from rich Brazilian biodiversity. With this line the company seeks to raise awareness of the richness of Brazil's environmental heritage and get natural ingredients in a sustainable manner in order to preserve this heritage for future generations and encourage the development and the quality of life in communities that cultivate or extract these ingredients . In line with the concept of sustainability, EKOS line of products are biodegradable and use glasses and packaging that contains recycled material and refills that in addition to reducing the environmental impact, increase the competitiveness of the company, offering economy and packaging use. NATURA EKOS covers most of the market segments, including soaps, shampoos, conditioners, moisturizers and perfumes.
natura tododia	NATURA TODODIA offers a wide variety of products designed for daily use in various segments. This line follows a global trend in the cosmetic use of natural ingredients such as milk, sugar and honey.
AMÓ	NATURA AMÓ is a product line of fragrances, massage oil, soap and deodorant, inspired in love with gestures that enchant, seduce and surprise. Their fragrances, colors and textures stimulate touch, encounter and intimacy and are invitations to put love on the move.
natura mamãe e bebê	NATURA MAMÃE E BEBÊis a product line of personal care products that was specially developed to affirm the value of the link between mother and child that begins in pregnancy, including on the importance of this relationship in personality formation and contribution to happiness. The ingredients, textures, fragrances, colors, shapes and functions of these products are designed to evoke the tenderness of the mother's care for her child. The line consists of products for babies and pregnant women.

natura HOMEM	NATURA HOMEM is a complete line specifically designed for the male audience, which includes fragrances, products for routine beard care, face and body.
KAIAK	NATURA KAIAK is one line of men's products refreshing and relaxing fragrances for those who enjoy jogging outdoors.
natura una	NATURA UNA is a full line of makeup that awakens the senses and pleasure, combining performance, technology and natural ingredients, in a unique way. Different textures and sensory pleasure. Personality in an exclusive color palette. And formulas that in addition to portray the beauty, help skin care. A line with attention to every detail. Everything to make the amazing makeup and face even more radiant and luminous. The line is so complete that also offers products for pre-makeup, which standardize the skin and ensure the establishment, as well as designed brushes for applications.
sou	NATURA SOU is a line that invites you to consume in a new way, combining the individual enjoy life on the planet. These products are developed for body and hair from an intelligent process that reduces materials to generate less waste, less waste and less environmental impact. Because for AM, the essential thing is what's inside: formulas that offer maximum quality, very pleased sensory and delicious fragrance. Their packaging have a smart design that uses less raw material and takes every drop of each product.

APPENDIX 2 – NATURA'S MARKET SHARE

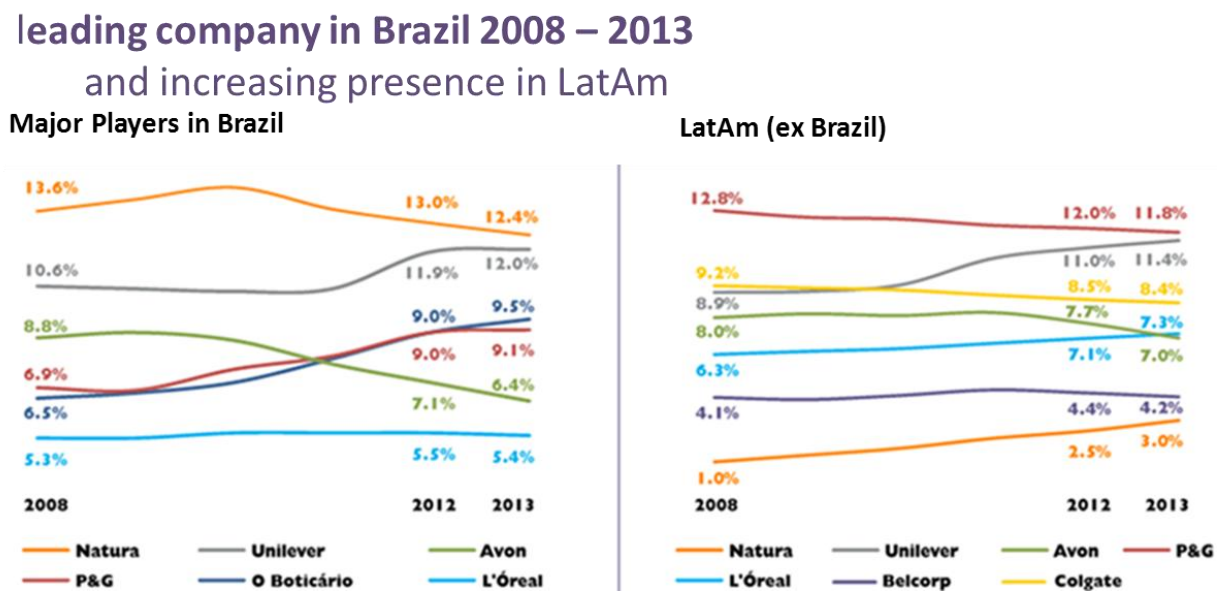

Figure 1 – Natura's market share – Natura's web site, http://www.natura.net (accessed april 21, 2015).

APPENDIX 3 – NATURA'S COMPETITORS BY PRODUCT LINE

	Key Brands	Main Competitors	
Children Care	natura natura mamãe e bebê	Johnson & Johnson	Procter and Gamble
Anti - Wrinkles	CHRONOS natura	Avon	NIVEA
Body	natura Tododia, natura EKOS, CHRONOS natura, SOU	Hypermarcas	NIVEA
Facial Make Up	natura aquarela, natura una, natura faces	Avon	O Boticário
Men's grooming	natura HOMEM, SRN	Procter and Gamble	Unilever
Hair	natura EKOS, natura vitaplant, SOU	L'Oreal	Unilever
Sunscreen	natura fotoequilíbrio	Johnson & Johnson	NIVEA
Deodorant	natura HOMEM, natura Tododia, natura EKOS	Unilever	Avon
Fragrances	AMÓ, KAIAK, SRN, natura Humor	O Boticário	Avon
Oils	natura EKOS, natura sêve	Colgate	Unilever
Soaps	natura EKOS, natura Tododia, SOU	Unilever	Bertin

Figure 2 – Natura's competitors by product line – Natura's web site, http://www.natura.net (accessed april 21, 2015).

APPENDIX 4 – NATURA BOUTIQUE IN PARIS

Figure 3 – Natura store in Paris – Vogue Magazine's web site, http://www.vogue.com/magazine (assessed april 15, 2015).

Figure 4 – Products at Natura store in Paris – Natura's French web site, https://www.naturabrasil.fr/fr (accessed april 15, 2015).

Figure 5 – Natura store in Paris inside – Natura's French web site, https://www.naturabrasil.fr/fr (accessed april 15, 2015).

APENDIX 5 – NATURA'S CONSUMER FRANGRANCE AND TOILETRIE

DIRECT SALES SHARE IN THE CF&T MARKET

Region	Direct Sales (%)
Latin America	**25.9%**
Brazil	**26.3%**
Argentina	**21.2%**
Chile	**17.3%**
Colombia	**31.9%**
Mexico	**23.7%**
Peru	**35.9%**
Eastern Europe	15.6%
Asia Pacific	9.9%
Australasia	7.6%
North America	6.0%
Western Europe	3.8%
Africa / Middle East	4.2%

SIZE OF CF&T MARKET (in US$ billion, Fixed FX)

Countries	2013	CAGR % '08 - '13
United States	73	2.0%
China	44	10.4%
Brazil	**43**	**13.8%**
Mexico	**11**	**6.7%**
Argentina, Chile, Colombia and Peru	**15**	**12.9%**
Countries in which Natura operates'	**69**	**12.3%**
World	**454**	**5.0%**

Figure 3 – Natura's consumer frangrance and toiletrie – Natura's web site, http://www.natura.net (accessed april 21, 2015).

APPENDIX 6 – BRANDFINANCE TOP 20 COSMETICS BRANDS| 2014

Table 2 – Brand Finance Top 20 Cosmetics Brands 2014.

BrandFinance Top 20 Cosmetics Brands 2014								
Rank			Brands		Brand Value (USD $ Millions)		Brand Rating	
2014	2013	Logo	Name	Country	2014	2013	2014	2013
1	2	L'ORÉAL	L'Oréal		10,766	8,696	AAA+	AAA-
2	6	AVON	Avon		6,384	5,169	AA	AA-
3	11	PANTENE	Pantene		6,163	5,974	AA+	AA
4	4	NIVEA	Nivea		6,079	5,843	AA+	AA+
5	7	Dove	Dove		5,885	4,242	AAA-	AA
6	15	GARNIER	Garnier		4,809	2,632	AAA	AAA-
7	9	ESTÉE LAUDER	Estée Lauder		4,589	3,87	AA+	AA+
8	5	LANCÔME	Lancôme		4,088	5,508	AAA	AA+
9	1	OLAY	Olay		4,083	3,955	AA+	AA+
10	23	Johnson's	Johnson's		3,603	1,513	AAA	AA+
11	12	ChristianDior	Christian Dior		3,329	2,952	AAA-	-
12	11	head & shoulders	Head & Shoulders		2,953	3,138	AA-	AA-
13	13	CHANEL	Chanel		4,509	2,813	AAA	AAA
14	17	MAYBELLINE	Maybelline		2,921	2,398	AAA	AAA-
15	18	CLARINS	Clarins		2,602	2,375	AAA-	AA+
16	19	SHISEIDO	Shiseido		2,507	2,203	AA	AA+
17	21	natura	Natura		2,465	1,849	AA+	AA+
18	2	Neutrogena	Neutrogena		2,313	2,127	AAA-	AA+
19	25	MAC	M.A.C.		1,639	1,382	AAA-	AAA-
20	22	L'OCCITANE	L'Occitane		1,57	1,698	AA+	AA-

Source: Adapted from Brand Finance Top 50 Cosmetics Brands| 2014.

APPENDIX 7 – KEY WORLD PLAYERS IN THE COSMETICS INDUSTRY

Table 3 – Key world players in the cosmetics industry.

Company	Information
L'ORÉAL	L'Oréal is a French cosmetics company headquartered in France. The company manufactures skin care, hair care and makeup products for regular customers, as well as professionals. Founded in 1909, the company has since expanded its portfolio to include some of the world's most famous brands, including Lancome, Giorgio Armani, Urban Decay, L'Oréal Paris and Maybelline New York.

Unilever	Unilever is a larges beauty goods maker. It generated annual revenues of $67.4 billion in 2013, of which $24.8 billion was generated from its Personal Care segment. The Anglo-Dutch multinational operates its Personal Care businesses under various brands, including Pond's, Dove, Lux, Tony&Guy, Sunsilk, St. Ives and Axe.
P&G Procter & Gamble	The Proctor and Gamble Company, popularly known as P&G, is the largest name in the Household and Personal Goods Industry. The company has five business segments, of which the Beauty segment contributes 24% of its revenues. P&G offers various personal care brands, such as Max Factor, Herbal Essences, Wella, CoverGirl, Olay, Pantene and Head & Shoulders.
AVON	Avon Products Inc. is the largest direct-selling cosmetics company. It employs more than six million independent representatives globally, who sell beauty care products for the company from door to door. The company generates 70% of its revenues from its Beauty Care division, which includes brands like ANEW, Avon Color Trend, Luxe, Outspoken, Forever, and Liz Earle.
ESTĒE LAUDER	Estee Lauder Companies, established in 1946 by Joseph Lauder and his wife Estee Lauder, is a leading retailer of cosmetics, generating revenues of over $10 billion annually. The company, known for its innovative skin care products and high-touch customer service, has a presence in over 150 countries. It is known for its homonym Estee Lauder brand, and the MAC, Clinique, Smash Box, and Origins brands.
Johnson & Johnson	Johnson & Johnson is an American multinational medical devices, pharmaceutical and consumer packaged goods manufacturer founded in 1886. The corporation includes some 250 subsidiary companies with operations in over 57 countries and products sold in over 175 countries. Johnson & Johnson defines itself as a health-focused company, and this strongly informs its beauty and personal care offer. The company benefits from a broad geographic spread, and has developed a strong base for development in key growth categories in major emerging markets. Johnson's baby remains the leading brand for the company but its skin care brands continue to be strong in acne treatments and cleansers in the US (J&J's biggest market). Johnson & Johnson owns: Neutrogena, Aveeno, Clean & Clear, RoC, Rogaine, Lubriderm, Purpose, and Ambi.

APPENDIX 8 – TEACHING NOTES

Learning objectives

This teaching case can be used in courses that address international business and/or market positioning. The following challenges are highlighted:

- impact of macro-environmental country differences, specially cultural differences between countries;
- advantages and disadvantages of different foreign entry modes;
- advantages and risks of adaptation of competitive positioning and competitive offerings;
- advantages and disadvantages of the country image associated with the brand.

Suggested issues for discussion and suggestions for analysis

What follows are mere suggestions of possible paths for analysis.

1. How should Natura deal with the relevant differences between the Latin American and the European cosmetics markets?

The Brazilian cosmetics market has higher similarity with other Latin American market than with European markets. In terms of economic aspects, there are large discrepancies between wages, credit availability, and inflation. The higher per capital income in Europe may affect the prices consumers might be willing to pay; also, it may make it more difficult for Natura to find enough people who would be willing to work as free lancers under the direct sales model. The geographical environment in Europe is favorable in terms of logistics, because the distance between cities and countries is lower there than among Latin American countries, facilitating the operation of distribution centers. However, Natura's products are based on the Brazilian biodiversity, which complicates the transport of raw materials and the setting up of production facilities in Europe. Currently, all Natura products are produced in Brazil and in a few other Latin American countries. In the political and legal perspective, there are differences in labor laws, which can restrain the use of the direct sales model.

In addition, competition in the European market is high, especially in France, where there are major competitors already established with strong brands. Students can conduct an analysis based on Michael Porter's Five Forces Model (Porter, 2008) in order to understand the differences in the competitive dynamics of the cosmetics industry between Latin America and Europe, and to suggest initiative that the company could take, so that it could build a better position *vis-à-vis* the industry forces. In addition, instead of fighting head-to-head with entrenched incumbents, Natura can try to develop a clearly distinct (and unchallenged) position, that is, a "Blue Ocean" strategy (*cf.* Kim and Mauborgne, 2005), by emphasizing its distinctive products origin and corporate attributes.

2. What would be the most appropriate entry mode and sales model into new countries in Europe?

Natura prefers to have full control over the distribution system, the only exception being Bolivia, where the company has an export agreement with a local distributor. By acquiring 65% of Aesop, with possibility of acquiring another 35% in 3 years, Natura shall boost the expansion of its international operations into new markets, ensuring the control of operations and providing learning opportunities.

Natura's products are recognized by its plant-based active ingredients. To develop its product portfolio, Natura mobilizes experts who are capable of integrating scientific knowledge with the sustainable use of Brazil's rich botanical biodiversity. Both the inputs and the knowledge and skills that Natura has developed over the years are strategic for the company, which suggests the need for greater control over purchasing, P&D and manufacturing operations as well as the need for direct contact with suppliers, local communities and the public sector.

However, the distribution itself can benefit from partnering with other players, although care should be exercised on keeping the (free-lance) sales force motivated and active.

Therefore, while manufacturing and P&D facilities shall remain in Brazil and be kept wholly-owned, Natura can discuss whether the packaging operations can be located closer to the consumer markets and can be run in partnership with Aesop facilities – as can stores (in case the company decides to open more of them). Marketing decisions may also be moved to Europe, but the headquarters shall have a final word on the values and the positioning to be communicated.

The students can evaluate the characteristics and the advantages and disadvantages of the main modes of entry of overseas companies (see Cavusgil, Knight, Riesenberger, Rammal & Rose, 2014).

3. What market positioning should Natura adopt for its product portfolio and image? Should the company insist on strengthening its much-valued concepts of sustainability and "well being well" and its Brazilian-based product origin or should the company adapt its offer to satisfy other preferences and expectations of its potential new clients?

The Natura brand is appreciated for its sustainability values (including care and responsibility not only for the envenoming, but also for the local communities) and "well being well" philosophy. Its products made from ingredients from the Brazilian biodiversity differentiate it from its competitors'. According to the executive interviewed for this study, when the brand is known by consumers, Natura has high levels of acceptance, which makes the brand image one of its greatest competitive advantages. Therefore, keeping and emphasizing its current brand image and product portfolio can help Natura build a unique positioning in Europe – setting it apart from the strong competitors that dominate the continent. After all, Natura's concern for environment protection, social welfare, use of

natural ingredients and fair trade practices would be much welcome by European consumers – in particular, the most well-off, who may be willing to pay a premium price for these attributes. Adopting a global positioning seems to be a good bet. However, in a mature and high-competition market, Natura will have to spend heavily in order to increase the awareness about the brand.

Students can be encouraged to evaluate the company resources (tangible and intangible) based on the VRIO framework (Barney, 1996) and identify the benefits generated by these resources (for example: temporary versus sustainable competitive advantages).

For Future Studies

Please note that this case object of study is limited to Natura's expansion to Europe, however the American market (USA) for its size and its growth rate proves to be extremely important and it should be the subject for future studies.

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