35

L'Oréal Nederland B.V.: Product Introduction

Yolanda van der Zande, director of the Netherlands L'Oréal subsidiary, faced two tough decisions and was discussing them with Mike Rourke, her market manager for cosmetics and toiletries. "We have to decide whether to introduce the Synergie skin care line and Belle Couleur permanent hair colorants." Synergie had recently been successfully introduced in France, the home country for L'Oréal. Belle Couleur had been successfully marketed in France for two decades. Mr. Rourke responded:

> Yes and if we decide to go ahead with an introduction we'll also need to develop marketing programs for the product lines. Fortunately, we only need to think about marketing, since the products will still be manufactured in France.

Ms. van der Zande replied:

> Right, but remember, the marketing decisions on these lines are critical. Both of these lines are part of the Garnier family brand name. Currently Ambre Solaire (a sun-screen) is the only product we distribute with the Garnier name in the Netherlands. But headquarters would like us to introduce more Garnier product lines into our market over the next few years, and it's critical that our first product launches in this line be successful.

Mr. Rourke interjected, "But we already sell other brands of L'Oréal products in our market. If we introduce Garnier what will happen to them?"

After some more discussion, Ms. van der Zande suggested:

> Why don't you review what we know about the Dutch market. We've already done extensive marketing research on consumer reactions to Synergie and Belle Couleur. Why don't you look at it and get back to me with your recommendations in two weeks.

BACKGROUND

In 1992, the L'Oréal Group was the largest cosmetics manufacturer in the world. Headquartered in Paris, it had subsidiaries in over 100 countries. In 1992, its sales were $6.8 billion (a 12 percent increase over 1991) and net profits were 417 million dollars (a 14 percent increase). France contributed 24 percent of total worldwide sales, Europe (both western and eastern countries excluding France) provided 42 percent, and the United States and Canada together accounted for 20 percent. The rest of the world accounted for the remaining 14 percent. L'Oréal's European subsidiaries were in one of two groups. (1) major countries (England, France, Germany, and Italy) or (2) minor countries (the Netherlands and nine others).

The company believed that innovation was its critical success factor. It thus invested heavily in research and development and recovered its investment through global introductions of its new products. All research was centered in France. As finished products were developed, they were offered to subsidiaries around the world. Because brand life cycles for cosmetics could be very short, L'Oréal tried to introduce one or two new products per year in each of its worldwide markets. International subsidiaries could make go/no go decisions on products, but they generally did not have direct input into the R&D process. In established markets, such as the

This case was prepared by Frederick W. Langrehr, Valparaiso University, Lee Dahringer, Butler University, and Anne Stöcker. This was case written with the cooperation of management, solely for the purpose of stimulating student discussion. All events and individuals are real, but names have been disguised. We appreciate the help of J.B. Wilkinson and V.B. Langrehr on earlier drafts of this case.

Netherlands, any new product line introduction had to be financed by the current operations in that country.

L'Oréal marketed products under its own name as well as under a number of other individual and family brand names. For example, it marketed Anaïs Anaïs perfume, the high-end Lancôme line of cosmetics, and L'Oréal brand hair care products. In the 1970s, it acquired Laboratoires Garnier, and this group was one of L'Oréal's largest divisions. In France, with a population of about 60 million people, Garnier was a completely separate division, and its sales force competed against the L'Oréal division. In the Netherlands, however, the market was much smaller (about 15 million people), and Garnier and L'Oréal products would be marketed by the same sales force.

Dutch consumers had little, if any, awareness or knowledge of Garnier and had not formed a brand image. The Garnier sunscreen was a new product and few Dutch women knew of the brand. It was, therefore, very important that any new Garnier products launched in the Netherlands have a strong concept and high market potential. To accomplish this, the products needed to offer unique, desired, and identifiable differential advantages to Dutch consumers. Products without such an edge were at a competitive disadvantage, and would be likely not only to fail, but to create a negative association with the Garnier name, causing potential problems for future Garnier product introductions.

THE DUTCH MARKET

In the late 1980s, 40 percent of the Dutch population (about the same percentage as in France) was under 23 years old. Consumers in this age group were the heaviest users of cosmetics and toiletries. However, like the rest of Europe, the Dutch population was aging and the fastest-growing population segments were the 25 or older groups.

Other demographic trends included the increasing number of Dutch women working outside of the home. The labor force participation rate of women in the Netherlands was 29 percent. This was much lower than the 50 percent or above in the United Kingdom or United States, but the number of women working outside the home was increasing faster in the Netherlands than it was in the United Kingdom or the United States. Dutch women were also delaying childbirth. As a result of these trends, women in the Netherlands were exhibiting greater self-confidence and independence; women had more disposable income and more of them were using it to buy cosmetics for use on a daily basis.

Despite their rising incomes, Dutch women still shopped for value, especially in cosmetics and toiletries. In the European Union (EU), the Netherlands ranked fourth in per capita income; but it was only sixth in per capita spending on cosmetics and toiletries. Thus, the Dutch per capita spending on personal care products was only 60 percent of the amount spent per capita in France or Germany. As a result of both a small population (13 million Dutch to 350 million EU residents) and lower per capita consumption, the Dutch market accounted for only 4 percent of total EU sales of cosmetics and toiletries.

SYNERGIE

Synergie was a line of facial skin care products consisting of moisturizing cream, antiaging day cream, antiwrinkle cream, cleansing milk, mask, and cleansing gel. It was made with natural ingredients, and its advertising slogan in France was "The alliance of science and nature to prolong the youth of your skin."

Skin Care Market

The skin care market was the second largest sector of the Dutch cosmetics and toiletries market. For the past five quarters, unit volume had been growing at an annual rate of 12 percent and dollar sales at a rate of 16 percent. This category consisted of hand creams, body lotions, all-purpose creams, and facial products. Products within this category were classified by price and product type. Skin care products produced by institutes such as Shisedo or Estée Lauder were targeted at the high end of the market. These lines were expensive and sold through personal service perfumeries that specialized in custom sales of cosmetics and toiletries. At the other end of the price scale were mass market products like Ponds, which were sold in drugstores and supermarkets. In the last couple of years, a number of companies, including L'Oréal, had begun to offer products in the mid-price range. For example, its Plénitude line was promoted as a high-quality, higher-price—but still mass market—product.

Skin care products could also be divided into care and cleansing products. Care products consisted of day and night creams; cleansing products were milks and tonics. The current trend in the industry was to stretch the lines by adding specific products targeted at skin types such as sensitive, greasy, or dry. An especially fast-growing category consisted of antiaging and antiwrinkling creams. Complementing this trend was the emphasis on scientific development and natural ingredients.

Almost 50 percent of the 5 million Dutch women between the ages of 15 and 65 used traditional skin care products. The newer specialized products had a much lower penetration, as shown in **Table 1**.

The sales breakdown by type of retailer for the mid- and lower-priced brands is shown in **Tables 2** and **3**.

TABLE 1
Usage of Skin Care Products by Dutch Women

Product	*Percentage of Women Using*
Day cream	46
Cleansers	40
Mask	30
Tonic	26
Antiaging cream	3

TABLE 2
Sales Breakdown for Skin Care Products in Supermarkets and Drugstores

Type of Store	*Unit Sales (%)*	*Dollar Sales (%)*
Supermarkets	18	11
Drugstores	82	89
	100	100

Competition

There were numerous competitors. Some product lines, such as Oil of Olaz (Oil of Olay in the United States) by Procter & Gamble and Plénitude by L'Oréal, were offered by large multinational companies; other brands, for example, Dr. vd Hoog and Rocher, were offered by regional companies. Some companies offered a complete line, while others, like Oil of Olaz, offered one or two products. **Exhibit 1** lists a few of the available lines along with the price ranges and positioning statements.

The Dutch market was especially competitive for new brands like Oil of Olaz and Plénitude. The rule of thumb in the industry was that share of voice for a brand (the percent of total industry advertising spent by the company) should be about the same as its market share. Thus, a company with 10 percent market share should have had advertising expenditures around 10 percent of total industry advertising expenditures. However, there were deviations from this rule. Ponds, an established and well-known company with loyal customers,

TABLE 3
Sales Breakdown for Skin Care Products by Type of Drugstore

Type of Store	*Unit Sales (%)*	*Dollar Sales (%)*
Chains	57	37
Large independent	31	39
Small independent	12	24
	100	100

EXHIBIT 1
Competitive Product Lines of Cosmetics

	*Price Range (Guilders)**	*Positioning*
Lower end		
Nivea Visage †	9.50–11.50	Mild, modest price, complete line
Ponds	5.95–12.95	Anti-wrinkle
Middle		
Dr. vd Hoog	10–11.95	Sober, nonglamorous, no illusions, but real help, natural, efficient, relatively inexpensive
Oil of Olaz (Procter & Gamble)	12 (day cream only)	Moisturizing, antiaging
Plénitude (L'Oréal)	10.95–19.95	Delay the signs of aging
Synergie	11.95–21.95	The alliance of science and nature to prolong the youth of your skin
Upper End		
Yves Rocher	10–26.95	Different products for different skins, natural ingredients
Ellen Betrix (Estée Lauder)	12.95–43.50	Institute line with reasonable prices, luxury products at nonluxury prices

* One dollar = 1.8 guilders; one British pound = 2.8 guilders; 1 deutschmark = 1.1 guilders.

† Although Nivea Visage had a similar price range to Dr. vd Hoog, consumer perceived Nivea as a lower-end product.

had about 9 percent share of the market (units) but only accounted for about 2.5 percent of total industry ad expenditures. Alternatively, new brands like Oil of Olaz (10 percent market share, 26 percent share of voice) and Plénitude (5 percent market share, 13 percent share of voice), spent much more. The higher ad spending for these brands was necessary to develop brand awareness and, ideally, brand preference.

Any innovative products or new product variations in a line could be quickly copied. Retailers could develop and introduce their own private labels in 4 months; manufacturers could develop a competing product and advertising campaign in 6 months. Manufacturers looked for new product ideas in other countries and then transferred the product concept or positioning strategy across national borders. They also monitored competitors' test markets. Since a test market typically lasted 9 months, a competitor could introduce a product before a test market was completed.

Consumer Behavior

Consumers tended to be loyal to their current brands. This loyalty resulted from the possible allergic reaction to a new product. Also, facial care products were heavily advertised and sold on the basis of brand image. Thus, users linked self-concept with a brand image, and this increased the resistance to switching. While all consumers had some loyalty, the strength of this attachment to a brand increased with the age of the user. Finally, establishing a new brand was especially difficult since Dutch women typically purchased facial creams only once or twice a year. Dutch women were showing an increasing interest in products with "natural" ingredients, but they were not as familiar as the French with technical product descriptions and terms.

Market Research Information

Earlier, Mike Rourke had directed his internal research department to conduct some concept and use tests for the Synergie products. The researchers had sampled 200 women between the ages of 18 and 55 who used skin care products three or more times per week. They sampled 55 Plénitude users, 65 Dr. vd Hoog users, and 80 users of other brands.

The participants reacted positively to Synergie concept boards containing the positioning statement and the terminology associated with the total product line. On a 7-point scale with 7 being the most positive, the mean score for the Synergie line for all the women in the sample was 4.94. The evaluations of the women who used the competing brands, Plénitude and Dr. vd Hoog, were similar, at 4.97 and 4.88, respectively.

The researchers then conducted an in-depth analysis of two major products in the line, antiaging day cream and the moisturizing cream. Participants reported their buying intentions after they tried the Synergie product once and again after they used it for a week. Some participants were told the price and others did not know the price. The results of this analysis are shown in **Exhibit 2**.

BELLE COULEUR

Belle Couleur was a line of permanent hair coloring products. It had been sold in France for about two decades and was the market leader. In France the line had 22 shades, comprising mostly natural shades and a few strong red or very bright, light shades. It was positioned as reliably providing natural colors with the advertising line "natural colors, covers all gray."

EXHIBIT 2
Buying Intentions for Synergie Products

	All Participants	*Plénitude Users*	*Dr. vd Hoog Users*	*Other Brand Users*
		Price Not Known		
Antiaging daycream				
After trial	5.37*	5.63	5.00	5.42
After use	5.26	5.55	5.08	5.17
Moisturizing Cream				
After trial	5.34	5.60	5.38	5.11
After use	5.51	5.74	5.56	5.22
		Price Known		
Antiaging daycream				
After trial	3.75	4.13	3.82	3.44
After use	3.60	3.76	3.54	3.54
Certainly buy†	24%	21%	23%	27%
Moisturizing				
After trial	4.08	4.36	4.17	3.77
After use	4.06	4.26	4.13	3.78
Certainly buy	39%	52%	38%	30%

* Seven-point scale with 7 being most likely to buy.

† Response to a separate question asking certainty of buying with certainty buy as the highest choice.

Hair Coloring Market

There were two types of hair coloring: semipermanent and permanent. Semipermanent colors washed out after five or six shampooings. Permanent colors only disappeared as the hair grew out from the roots. Nearly three-quarters (73 percent) of Dutch women who colored their hair used a permanent colorant. Over the past 4 years, however, the trend had been to semipermanent colorants, with an increase from 12 percent to 27 percent of the market. Growth in unit volume during those years for both types of colorant had been about 15 percent per annum. The majority of unit sales in the category were in chain drugstores (37 percent) with 40 percent equally split between large and small independent drugstores. Food retailers accounted for the remaining 3 percent.

TABLE 4
Major Brands of Hair Colorant

	Market Shares %		
	1987	*1988*	*1989*
Upper End (14.95 guilders)			
Recital (L'Oréal Brand)	35	34	33
Guhl	9	12	14
Belle Couleur (12.95 guilders)	—	—	—
Lower-priced (9.95 guilders)			
Andrelon	12	14	17
Poly Couleur	24	23	21
Others	20	17	15
Total	100	100	100

Competition

In the Netherlands, 4 out of 10 total brands accounted for 80 percent of the sales of permanent hair colorants, compared to 2 brands in France. **Table 4** gives the market share of the leading permanent color brands in the period 1987–1989. Interestingly, none of them had a clear advertising positioning statement describing customer benefits. By default, then, Belle Couleur could be positioned as "covering gray with natural colors."

Hair salons were indirect competitors in the hair coloring market. The percentage of women who had a hair stylist color their hair was not known, nor were the trends in usage of this method known. It was projected that as more women worked outside the home, home coloring would probably increase because it was more convenient.

L'Oréal's current market entry (Recital) was the leading seller, although its share was declining. Guhl's and Andrelon's increases in shares between 1986 and 1989 reflected the general trend to using warmer shades, and these two brands were perceived as giving quality red tones. In the late 1980s, Guhl had changed its distribution strategy, and started selling the brand through drug chains. In 1987, less than 1 percent of sales were through drug outlets; in the first quarter of 1990, drug-outlet sales had reached nearly 12 percent. Guhl had also become more aggressive in its marketing through large independents, with its share in these outlets climbing from 16 to 24 percent over the same period. Both the increasing shares of the smaller brands and the decreasing shares of the leaders sparked a 60 percent increase in advertising in 1989 for all brands of hair coloring.

Consumer Behavior

Consumers perceived permanent hair color as a technical product and believed its use was very risky. As a result, users had a strong brand loyalty and avoided impulse purchasing. When considering a new brand, both first-time users and current users carefully read package information and asked store personnel for advice.

Traditionally, hair colorants had been used primarily to cover gray hair. Recently, however, coloring hair had become more of a fashion statement. This partially accounted for the increased popularity of semipermanent hair coloring. In one study, the most frequently cited reason (33 percent) for coloring hair was to achieve warm/red tones; another 17 percent reported wanting to lighten their hair color, and covering gray was cited by 29 percent. It was likely that the trend to use colorants more for fashion and less for covering gray reflected the increase in hair coloring by consumers less than 33 years old. In 1989, 46 percent of Dutch women (up from 27 percent in 1986) colored their hair with either semipermanent or permanent hair colorants. **Table 5** contains a breakdown of usage by age of user.

Hair coloring was almost exclusively purchased in drugstores; only 3 percent of sales were through supermarkets. The percentage of sales for drug outlets was: chains, 58 percent; large independents, 22 percent; and small independents, 20 percent.

Market Research

As with Synergie, Mr. Rourke also had the L'Oréal market researchers contact consumers about their reactions to Belle Couleur. Four hundred and twelve Dutch women between the ages of 25 and 64 who had used haircolorant in the past 4 months were part of a concept test, and 265 of these women participated in a use test. A little over 25 percent of the participants colored their hair every 6 weeks or more often while another 47 percent did it every 2 to 3 months. (The average French user colored her hair every 3 weeks.) Nearly 60 percent used hair color to cover gray, while the remainder did it for other reasons.

TABLE 5
Hair Coloring by Age (%)

	1986	*1989*
Less than 25 years	35	50
25–34	24	54
35–49	32	55
50–64	24	33
65 and over	15	19

After being introduced to the concept and shown some sample ads, participants were asked their buying intentions. The question was asked three times—before and after the price was given and after Belle Couleur was used. The results are shown in **Exhibit 3**.

In most product concept tests (as with the Synergie line) buying intentions *declined* once the price was revealed. For Belle Couleur, buying intentions increased after the price was given, but decreased after actual use. As the exhibit shows, the percentage of participants who would probably or certainly *not* buy the product after using it increased from 13 to 32 percent. In **Exhibit 4**, only participants who gave negative after-use evaluations of Belle Couleur are included, and they are grouped according to the brands they were using at the time.

To try to determine why some users didn't like the product, the dissatisfied women were asked to state why they disliked Belle Couleur. The results are shown in **Table 6**.

Many of the women thought that their hair was too dark after using Belle Couleur, and said it "didn't cover gray." Those who thought the Couleur was different from expected were primarily using the blond and chestnut brown shades of colorant. This was expected, since in France Belle Couleur was formulated to give a classical, con-

EXHIBIT 3
Buying Intentions

	Price Unaware	*Price Aware*	*After Use*
Certainly buy (5)	18%	26%	29%
Probably buy (4)	60	57	30
Don't know (3)	12	5	9
Probably not (2)	7	7	11
Certainly not (1)	3	6	21
Total	100%	100%	100%
Mean score	3.85	3.92	3.35

EXHIBIT 4
Purchase Intentions and Evaluation of Belle Couleur by Brand Currently Used

		Brand Currently Used			
	Total Sample	*Andrelon*	*Poly Couleur*	*Guhl*	*Recital (L'Oréal)*
After-use purchase intentions of Belle Couleur					
Probably not (2)	11%	12%	12%	14%	5%
Certainly not (1)	21	24	29	20	5
	32%	36%	41%	34%	10%
Overall mean score	3.35	3.4	3.1	3.4	3.95
Evaluation of final color of Belle Couleur					
Very good (1)	25%	24%	31%	22%	35%
Good (2)	43	40	31	44	49
Neither good or bad (3)	10	10	14	6	8
Bad (4)	12	14	5	18	8
Very Bad (5)	9	12	19	10	—
Mean	2.37	2.5	2.5	2.5	1.89
Comparison to expectations					
Much better (1)	11%	12%	14%	14%	14%
Better (2)	26	12	21	24	38
The same (3)	29	38	26	28	32
Worse (4)	19	24	19	18	11
Much worse (5)	15	14	19	16	5
Mean	3.0	3.17	3.07	2.98	2.57
Compared with own brand	*				
Much better (1)		17%	17%	24%	14%
Better (2)		21	19	24	32
The same (3)		21	31	14	30
Worse (4)		21	12	16	16
Much worse (5)		19	21	22	8
Mean		3.05	3.02	2.88	2.73

servative dark blond color without extra reflections or lightening effects and the product had not been modified for the Dutch test. The competing Dutch-manufactured hair colorant competitors, on the other hand, were formulated to give stronger lightening effects. Thus, some of the negative evaluations of Belle Couleur were due to the fact that Dutch women tended toward naturally lighter hair colors and the French toward darker shades.

TABLE 6
Reasons for Negative Evaluations of Belle Couleur by Brand Currently Used

	Brand Currently Used				
	Total Sample	*Andrelon*	*Poly Couleur*	*Guhl*	*Recital (L'Oréal)*
Hair got dark/darker instead of lighter	13%	14%	17%	14%	5%
Irritates skin	8	10	7	2	11
Ammonia smell	5	7	—	2	—
Didn't cover gray	5	12	2	4	3
Color not beautiful	5	7	5	6	3
Color different from expected	5	5	10	4	3

Note: Some of the cell sizes are very small and caution should be used when comparing entries of less than 10 percent.

ROLE OF DISTRIBUTORS

Distributors' acceptance of the two product lines was critical for L'Oréal's successful launch of both Synergie and Belle Couleur. At one time, manufacturers had more control in the channel of distribution than retailers. Retailers, however, had been gaining power as a result of the increasing size of retailers, the development of chains with their central buying offices, and the proliferation of new brands with little differentiation from brands currently on the market. Retailers had also increasingly been offering their own private-label products, since they earned a higher percentage profit margin on their own brands.

Following are the criteria, listed in order of importance (3 being "most important"), that retailers used to evaluate new products.

1.	Evidence of consumer acceptance	2.5
2.	Manufacturer advertising and promotion	2.2
3.	Introductory monetary allowances	2.0
4.	Rationale for product development	1.9
5.	Merchandising recommendations	1.8

L'Oréal's own goal for developing new products was to introduce only those products that had a differential advantage with evidence of consumer acceptance. It did not want to gain distribution with excessive reliance oil trade deals or higher than normal retail gross margins. L'Oréal also wanted to have its Garnier product lines extensively distributed in as many different types of retailers and outlets as possible. This approach to new product introduction had been effective for L'Oréal, and it currently had a positive image with Dutch retailers. L'Oréal was perceived as offering high-quality, innovative products supported with good in-store merchandising.

For L'Oréal's current products, 35 percent of sales came from independent drugstores, 40 percent from drug chains, and 25 percent from food stores. For all manufacturers, drug chains and supermarkets were increasing in importance. These Stores required a brand with high customer awareness and some brand preference. The brands needed to be presold since, unlike independent drugstores, there was no sales assistance.

Introducing a line of products, rather than just a product or two, resulted in a greater need for retail shelf space. Although the number of new products and brands competing for retail shelf space frequently appeared unlimited, the space itself was a limited resource. With Belle Couleur, L'Oréal had already addressed this issue by reducing the number of Belle Couleur colorants it planned to offer in the Netherlands. Although 22 shades were available in France, L'Oréal reduced tile line to 15 variations for the Netherlands. As a result, 1.5 meters (about 5 linear feet) of retail shelf space were needed to display the 15 shades of Belle Couleur. Synergie required about half of this shelf space.

DECISION TIME

After reviewing the information on the market research of the two product lines, Ms. van der Zande summarized the situation. L'Oréal Netherlands could leverage its advertising of the Garnier name by promoting two lines at once. Consumers would hear and see the Garnier name twice, not just once. As a result, Dutch consumers might see Garnier as a major supplier of cosmetics and toiletries. However, she was concerned about the selling effort that would be needed to sell the L'Oréal brands that were already in the Dutch market and at the same time introduce not just one, but two, new brand name product *lines*. The Dutch L'Oréal sales force would have to handle both family brands, since the much lower market potential of the Netherlands market could not support a separate Garnier sales force, as in France. She was also concerned about retailer reaction to a sales pitch for two product lines.

Ms. van der Zande reflected that she was facing three decision areas. First, she had to decide if she should introduce one or both product lines, and she had to make this decision knowing that L'Oréal would not reformulate the products just for the Dutch market. Second, if she decided to introduce either one or both of the product lines, she needed to develop a marketing program. This meant she had to make decisions on the promotion of the product line(s) to both retailers and consumers, as well as the pricing and distribution of the line(s). Third, given that the Garnier product introductions might negatively impact the sales of her current product lines, she needed tactical marketing plans for those products.