

## L'Oréal

### Foster a “cow and calf” culture

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CHEMIST EUGENE SCHUELLER INVENTED A FORMULA FOR synthetic hair dye in 1907 in the bedroom of his Paris flat at the request of a hairdresser who knew how many women were desperate to be blonde without causing injury to their scalps. Schueller used hydrogen peroxide in his product and called it Aureole (“halo” in French). After two years of further experiments, he left his day job as a chemist and established the French Harmless Hair Coloring Co. with 800 French francs (\$210). In 1911, he renamed the company L'Oréal. The following year, his products began to sell around Europe, and through agents and consignments L'Oréal started to make sales in the United States, South America, Russia, and Asia. By 1920, demand was so strong Schueller had three chemists working for him. Today, the \$51 billion company has more than 2,800 scientists registering more than 500 patents each year. L'Oréal had annual sales of \$17 billion in 2004 and its products are now sold in 130 countries.

The company has only had four leaders since its inception in 1911 and has a reputation for its aversion to debt, to external advisers, investment banks, and lawyers. The L'Oréal coffers have grown considerably since the appointment in 1988 of Welshman Sir Lindsay Owen-Jones as group chief executive and chairman. He has overseen two decades of double-digit growth.

Owen-Jones has fostered what he calls a “cow and calf” culture at L'Oréal. By that he means the company has to invest in not-yet-profitable ventures, to take controlled risk and invest in research and development, and to ensure profits in the future. “A herd only

exists in the long term if it is producing calves and only a small proportion of the herd actually produces the milk. And instead of letting the accountants whittle down the herd to only the part that makes all the money, you have to be constantly investing long term in things that don't already do that." To prove Owen-Jones' point, fourteen of L'Oréal's twenty brands account for 92 percent of sales.

Owen-Jones pushed L'Oréal's expansion in the United States and Asia and into the lucrative ethnic beauty sector. The L'Oréal portfolio now includes Lancôme, Maybelline New York, Redken, Helena Rubinstein, Ralph Lauren, and Giorgio Armani Perfumes. More than 50 percent of its annual sales are made outside Europe, where L'Oréal is looking for growth, particularly in China and Japan.

The company's scientists are busy trying to develop products such as anti-aging pills, shampoos to stop hair from going gray, and others to promote hair growth. This tradition of innovation is combined with an aggressive sales and marketing strategy (it spends an estimated 30 percent of its revenue on advertising) to retain and increase its slice of the global beauty industry, currently growing at an estimated 5 percent per annum. Owen-Jones says "running L'Oréal is like steering a tanker as if it were a speedboat." In 2006 he plans to pass on the chief executive role to Jean-Paul Agon.

Schueller died in 1957. His only child, Liliane Bettencourt, inherited the majority of his estate, and today the intensely private Madame Bettencourt is officially the richest woman in the world.

Now in her eighties, she has an estimated fortune of \$17.2 billion with the largest stake in the L'Oréal empire (more than 25 percent). She keeps a low profile and has had to weather the scandal of her father being linked with extreme right-wing groups. (These alliances are seen by Liliane as errors of youth.) Bettencourt has only one child, a daughter, Françoise, who also sits on the L'Oréal board.

Bettencourt's family owns the majority stake in the business, followed closely by Nestlé with 26.4 percent. For thirty years the two interests had a holding company that controlled L'Oréal, but recently that has been dissolved. A new arrangement allows Nestlé the first rights to buy the company if the Bettencourts decide to sell. Both have agreed to keep their shares for five years, and neither party will increase their stake while Liliane Bettencourt is alive.

## NOTES

- “**Cow and calf . . .**” Nisse, Jason. “The Lowdown: The Science That Means L'Oréal's Success Is More Than Skin Deep,” *Independent on Sunday*, 6.15.03, p. 5.
- “**Running L'Oréal . . .**” Nisse, Jason. “The Lowdown: The Science That Means L'Oréal's Success Is More Than Skin Deep,” *Independent on Sunday*, 6.15.03, p. 5.

## REFERENCES

*The Australian, BusinessWeek, CNN, Daily Deal, The Economist, Financial Times, Forbes, The Guardian, Hoover's Company Capsule, The Independent, Sunday Express, Le Figaro, Management Today, New York Times, The Observer, San-Antonio Express-News, Scripps Howard News Service, The Times*

# BlackBerry

## A strange fruit indeed

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**T**HE BLACKBERRY IS SUCH A STRAIGHTFORWARD DEVICE IT'S incredible somebody didn't think of it sooner. An inexpensive little gadget the size of a personal organizer, it allows you to access your email anywhere, and send new emails using the clever little thumb-operated keyboard on the front. It's always connected to the network, so new emails arrive as effortlessly as they would on your office computer. Its simplicity is the key: you can