Marketing Channels:

Cosmetic Industry Analysis
Competitive Environment – Make-up Industry Canada¹

Revlon
Sales Revenue (2008): $1.3 billion, Cosmetics: $831 million
Market Share: 14.4%

L’Oreal
Sales Revenue (2008): $25.7 billion Cosmetics: $4.9 billion
Market Share: 31.2%

Proctor & Gamble
Sales Revenue (2008): $79 billion Cosmetics: $18.8 billion
Market Share: 34%

Estee Lauder
Sales Revenue (2008): $7,910.8 million, Cosmetics: $3,000.4 million
Market Share: Unknown

Shoppers Drug Mart
Sales Revenue (2008): $9,422.9 million, Front end: $4,937 million
Market Share: Unknown

¹ Marketline.com
Cover Girl

Cover Girl is a brand of cosmetics owned and manufactured by the Proctor & Gamble Corporation (P&G). Proctor & Gamble is one of Canada’s largest producers of consumer goods, with products ranging from health and beauty to household cleaners. Cover Girl’s product line ranges from eye make-up to lipstick and nail polish.

Channel Structure

Cover Girl is manufactured in the US and is shipped via truck to P&G’s Canadian distribution centre, located in Brantford Ontario\(^2\) as well as a wholesaler located in Quebec that takes care of orders from independent retailers.

Market Segments Served

Cover Girl cosmetics serve all four major segments in the consumer make-up industry: Eye make-up, face make-up, lip make-up, and nail make-up.

Cover Girl make-up targets young teens to mid-twenties, smaller amounts of disposable income, and like to have the most popular colours, with their fun packaging, bold colours and catchy slogan “Easy-Breezy-Beautiful Cover Girl”.

\(^2\) Interview. Tracy Porter. Feb 8 2010.
**Physical Movement of Goods**

P&G uses an in house freight distribution, and ships all products via truck. All products from the Brantford distribution centre are moved via truck to retailers across Canada. Trucks are also used to distribute the products to the Quebec wholesaler, Medis.

**Warehousing**

P&G owns and operates their own warehousing/distribution centre, located in Brantford Ontario. This facility houses all of P&G’s products and is the main distribution centre for all of Canada. Cover Girl products are also warehoused at the manufacturing plant, located in Hunt Valley, MD.

**Selling Function to Retailers**

P&G sells directly to chain retailer head offices, as opposed to visiting each retail location and/or distribution centers. Large retailers such as Loblaws are given a team comprised of a sales representative, an analyst, a finance and a marketing member who are responsible for the account. Individual sales reps handle smaller accounts. Independent retailers are encouraged to buy through the wholesaler.

**Advertising Functions**

Cover Girl is advertised in one of two ways; directly by the manufacturer, or through store promotions done by retailers. In both cases the advertising is designed by Grey advertising, a New York based ad agency that handles the promotional campaign for Cover Girl.
Training of Retailers

P&G does not provide training to individual retailers. They rely on each retailer to independently train each employee of cosmetics departments. Not all retailers have cosmeticians on staff, and it is up to the consumer to choose which retail location to buy from, and whether or not they need assistance.

Customer Service for the End Consumer

If a consumer wishes to return merchandise, they must do so at the retail location where the item was purchased. It is at the discretion of each retailer to decide his or her return/exchange policy. P&G does not allocate any discounts for returned merchandise unless a defect is noted.

On all Cover Girl products, a 1-800 number can be found for complaints and or comments. This is a way for the end consumer to give their input/opinion on Cover Girl products.

Financing Offered to Retailer/End Customers

No direct financing is offered to retailers, but cash discounts are offered to all retailers, with terms 2/30, n 603.

Who Pays/Designs Consumer Promotions

P&G pays for all consumer promotions. Retailers are offered cash discounts based on the quantity they purchase and that money is allocated to consumer promotions, whether it be price point, flyers or in store signage.

It is up to the discretion of the retailer to choose the design of consumer promotions. P&G offers retailers access to all promotional photos, which may be used in the design of a promotion, but all promos must be approved by P&G.

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In store Merchandising

P&G’s merchandising team does in store merchandising. The team ensures that all stock keeping units are in proper place, and that aisle end displays are arranged in to achieve the most visual impact.

Cover Girl Display at Shoppers Drug Mart – Stouffville, Ontario
**Estee Lauder: MAC Cosmetics**

M.A.C. Cosmetics was founded in 1984 as a line of high quality cosmetics for professionals. In 1994, the company was acquired by the multi billion dollar Estee Lauder Companies Inc.\(^4\) With this powerful backing, M.A.C has been able to limit and control the channels of distribution, while growing the business, in an effort to maintain their prestigious image.

**Channel Structure**

In Canada, M.A.C. Cosmetics uses a direct channel structure, choosing to distribute their products in three ways: online and phone sales, stand-alone stores, and retail kiosks in the Bay. The products are produced and warehoused in Estee Lauder owned factories across Canada, and then distributed directly to the retail locations by Canada Cartage. In the case of online and phone sales, the merchandise order is processed and shipped directly via Canada Post.

Market Segments Served

As mentioned, M.A.C. has maintained a prestigious image with their line of high quality products, targeting “fashion-conscious customers who prefer professional-grade makeup products and tools, following the credo; all ages, all races, all sexes”\(^5\).

Specifically, M.A.C. has maintained a focus on industry professionals (make-up artists) with their M.A.C. pro line, and offers a M.A.C. pro membership that allows artists exclusive access to their 300+ professional products.\(^6\)

As well, M.A.C. has targeted the high-end cosmetic user through their consumer quality line of products.

Physical Movement of Goods

M.A.C. Cosmetics uses the transport services of Canada Cartage to move merchandise from their company-operated factories directly to their stand-alone stores, and retail kiosks.

For online and phone sales, M.A.C. uses Canada Post standard shipping, or for an additional fee to the consumer, express post. These shipments are made from the same company factories, to the end consumer.\(^7\)

Warehousing

The Estee Lauder owned factories also act as their warehousing facilities. In the G.T.A. this is located at 201 Bentley Street, Markham, Ontario.\(^8\)

Selling Function to Retailers

All of M.A.C.’s distribution methods are sold directly through company owned operations, there is no selling function to the retailer.

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Advertising Functions

With the backing of Estee Lauder, M.A.C. has recently split their advertising between two major agencies; WPP Group’s Mindshare and Omnicom Group’s M2M. They have often collaborated with high profile photographers to design advertising campaigns used over a number of mediums including print, online, and out of home advertising campaigns.

M.A.C. uses high impact images featuring their current celebrity spokesperson (or fictional person in the case of hello kitty and Barbie) as the center focus. These ads can be found in women’s and fashion magazines such as Cosmopolitan, Elle, and Vogue, as well as on transit and shelter ads in the major urban areas.

As the majority of companies are doing, M.A.C. is utilizing online advertising. Their website allows consumers to view the product lines, information about upcoming events, and view images related to the newest advertising campaigns and spokespersons.

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They also have a presence on both Facebook and Twitter, including a separate site, www.macartiststweet.com that allows viewers to read all of M.A.C. artists’ tweets in one location.

Training of Retailers

M.A.C. insists on hiring individuals with background experience in the cosmetics industry. At the store level, staff members are trained makeup artists who are already familiar with and passionate about the brand. This enables them to be able to properly demonstrate and recommend products to the consumer. Upon hiring, M.A.C. ensures their associates have a thorough understanding of the full line of cosmetics, as well as training on basic retail functions and are able to provide insightful service. Through this very selective hiring process, M.A.C. is able to maintain their prestigious and professional image. ¹

Customer Service

Customer satisfaction is imperative to the success of M.A.C. Cosmetics. All merchandise that is new, or lightly used can be returned or exchanged within 30 days of purchase. However, returns cannot be made across channels, meaning products purchased in store cannot be returned online and vice versa. ⁴

M.A.C. has an extensive customer service section of their website including frequently asked questions, and direct contact with a makeup artist or customer service representative.

They also provide a customer service hotline at: 1-800-387-6707 ⁴

Financing Offered to Retailer/End Customers

There are no financing options available.
Who Pays/Designs Consumer Promotions

Consumer promotions are designed and paid for by M.A.C. with the direction of their advertising agencies. Promotions are designed around the key visions of the company as a fashion forward, fun and caring company.

As opposed to a number of other Estee Lauder companies, M.A.C. does not provide the “free gift with purchase” incentive as research has found that it causes purchasing patterns to fluctuate based on the timing of the event, and is difficult to wean customers from once they are accustomed. Instead, M.A.C. focuses on releasing a new “look” of makeup every few weeks, in an effort to entice loyal consumers to expand their makeup collection. 107

One “freebie” M.A.C. does offer fairly frequently, is free shipping on orders online over 65 dollars. This has shown to be a valuable incentive to encourage online purchasing as well as to increase order sizes. 1

Like many other cosmetic companies, M.A.C. also offers free makeup sessions with their professionals at the retail locations.

Probably the most acknowledged promotional technique M.A.C. employs is through their M.A.C. Aids Fund, and the controversial celebrity spokespeople that are the face of it, and in turn the face of M.A.C. Some of the celebrities that have been involved include Pamela Anderson, RuPaul, Fergie, and most recently Cyndi Lauper and Lady Gaga. Promotion for the fund includes the release of a new Viva Glam lipstick colour chosen and modeled by the spokesperson of the moment. All sales of these lines of lipstick go directly to fund Aids research and relief. 114

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In store Merchandising

M.A.C. has a consistent image throughout all of their retail locations. Whether it is a booth, or bricks and mortar store, M.A.C. has a very clean uncluttered image, through the use of glass, and neutral (black and white) fixtures, allowing the bright colours of the makeup to be showcased affectionately. As well, every piece of makeup is accessible- with samplers on display for consumers to test themselves. ¹

Differences/Similarities with Cover Girl

Differences

- M.A.C. cosmetics are only available at M.A.C. retail locations
- M.A.C. is available for purchase online

Similarities

- Both companies use a distribution centre to facilitate logistics
Consumer Promotions

As M.A.C.’s promotional efforts are revamped approximately every two weeks, the following is a brief overview of the highlights from the last 12 months.

January/February 2010

Throughout the first months of 2010, M.A.C. released a new “spring forecast” every two weeks. These four colour collections – pink, coral, plum and amber – created excitement amongst loyal M.A.C. shoppers, as they anticipated what the new colour palettes would be. This promotion also included invitations to M.A.C. locations to receive advise on the perfect colour combination for the specific customer. 4

Winter 2009

In unison with New York Fashion Week, M.A.C. presented M.A.C. and Milk, a line of runway ready makeup that was launched at a blow out invitation only fashion show for M.A.C. fanatics. 4
Fall 2009

Cyndi Lauper and Lady Gaga announced as new faces of M.A.C. with the Viva Glam From Our Lips lipstick collection.

Spring 2009

The release of the Hello Kitty line was M.A.C.’s most successful colabortion effort to date, and one of their most successful launches overall. The collection sold out worldwide both in store, and online. ¹

**Trade Promotions**

There are no trade promotions since M.A.C. cosmetics are only available in M.A.C. stores.
**Shoppers Drug Mart: Quo Cosmetics**

The Quo Cosmetic line was introduced 1997\(^{12}\) as a Canadian made product by Shoppers Drug Mart. The Quo line represents colour, fashion and appeal to the Canadian consumer and Shoppers Drug Mart (SDM) will continue to promote this line as a top brand cosmetic without all the markups of the other imported brands.

**Channel Structure**

Shoppers Drug Mart has a direct channel structure for the Quo Cosmetics lines. The product lines are developed by an unknown manufacturer, and then shipped by transport trucks (Livingston International) to the SDM distribution centre operated by Matrix Logistics Services Ltd in Cornwall, Ontario.

![Channel Structure Diagram]

**Market Segments Served**

Quo cosmetics primarily serve the Canadian women’s market. They serve 3 of the Canadian make-up market segments.

- Eye make-up
- Face make-up
- Lip make-up

The target market for Quo cosmetics include woman, 18 to 50 years of age, with medium to high levels of disposal income looking to wear make-up that is light, fresh and easy to apply.

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Physical Movement of Goods

Shoppers Drug Mart uses transport trucks from Livingston International\(^{13}\) to move Quo cosmetics from warehousing/distributions plants to the retail store. In this case the retail store always refers to Shoppers Drug Mart.

Warehousing

All Shoppers Drug Mart products including Quo cosmetics are shipped to the same warehousing center in Cornwall, Ontario. This warehousing facility was previously located in Brampton but has been relocated because of Cornwall's reputation as the leading location for supply chain operations.\(^{14}\)

Selling Function to Retailers

Since Quo cosmetics is a brand of Shoppers Drug Mart and is only carried in this particular retail store, there is no selling function to the retailers.

Advertising Functions

Shoppers Drug Mart has their own marketing and brand management team to reach their partners and end customers. The company develops their own brand image and brand awareness to reach their target market. Developers of Quo cosmetics utilize the brands Canadian heritage for advertising. Emphasis is created on the exclusivity of brand, made available only through SDM.

The Quo cosmetic line can be seen used in many Canadian magazines such as Glow, LouLou, ELLE and other fashion magazines.

\(^{13}\) Shoppers Drug Mart: Information from Answers.com." Answers.com: Wiki Q&A combined with free online dictionary, thesaurus, and encyclopedias. Web. 17 Feb.

Training of Retailers

With over 1,100 retail staff coast to coast in Canada, Shoppers Drug Mart train their staff by educating them on the core brands exclusive to SDM, such as Quo, Life, and Nativa Organics15. Staff must know the history of each brand to be able to share the message with the end consumer. Throughout the training process SDM provides a friendly and dynamic atmosphere and in-depth educational support.

Company newsletters and print materials are created for store managers and department heads to explain new product launches and in store brand promotions.

Customer Service – End Customer

Shoppers Drug Mart strives to create 100% customer satisfaction for all its shoppers. Customer service for the end customer is available at each Shoppers Drug Mart location. At the retail locations, customers can return or exchange an unopened product, with a copy of the receipt. Returns and exchanges can be processed within 30 days of purchase. If a customer has lost their receipt an exchange can be made for the identical product or of a product with equal or lesser value.

Complaints can be made through the Shoppers Drug Mart hotline 1-800-SHOPPER.

Financing Offered to Retailer/End Customers

Shoppers Drug Mart does not offer any type of financing to end customers.

Who Pays/Designs Consumer Promotions

Consumer promotions of SDM bands are created and paid for by Shoppers Drug Mart. The promotions process is put together by a team of professionals, devoted to creating meaningful and helpful messages to the consumer. SDM has created and employed a variety of strategies to promote its core brand offerings. Some include:

- In-store sampling
- In-store display contests
- Shoppers Optimum Loyalty card

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In store Merchandising

Quo cosmetics do not appear to have any special treatment for being a SDM exclusive brand when it comes to in store merchandising. Quo is situated on the display wall in-between the higher end cosmetic lines and has its own in store stand.

Quo Display at Shoppers Drug Mart – Stouffville, Ontario

Differences/Similarities with Cover Girl

Differences

- Quo cosmetics is only available at one retail location (SDM), where Cover Girl is available at a variety of locations
- Quo cosmetics are only available in Canada

Similarities

- Both companies use distribution centre's to distribute their products
- Both companies have manufacturing plants in the United States.
Consumer Promotions

Quo Cosmetics – 15x the Optimum Points

November 2009

“Here is a great Christmas gift idea for all those lovely Canadian women on your list and you get tons of Optimum Points at the same time! Visit your local Shoppers Drug Mart and buy $30 or more of Quo Cosmetics and receive 15 X’s the Optimum Points from Nov 28 thru Dec 25.”

Trade Promotions

There are no trade promotions since Quo is a SDM exclusive brand.

16 "Quo cosmetics." CoolCanucks Canadian Coupons, Contests, Deals and Freebies. Web. 17 Feb. 2010
L’Oreal's Target Market

L'Oreal targets a wide variety of segments due to their extensive and diverse line of products. Each product category solely dedicates its efforts to their target market. For example, each has different promotional efforts, advertising campaigns, etc. L'Oreal's target ranges from professionals, to all types of women, including health conscious, elegant, and urban-style. Since this project is focused specifically on the cosmetics industry, the only target described will be Maybelline’s.

Maybelline’s target market is divided into two main groups:

1) "Youngsters": aged 16-25, this is considered Maybelline's core target audience. They are teenagers and young women looking for trendy and cool make-up that they can feel identified with.

2) "Office and professional women": this target is between the ages 25 to 35, and usually is looking for that younger look. They also have to wear make-up constantly, so they find it for a cheaper price.
Market Segments served

L’Oreal Canada serves three different business segments: cosmetics, the Body Shop and dermatology. The cosmetics segment is then divided into four operating segments; 1) Consumers, 2) Luxury, 3) Professional and 4) Active Cosmetic products. Note: Focus will be made on the cosmetics segment of this company.

1) Consumer Products

53% of the company’s sales are attributed to this division through the mass retailing channels. This segment includes hair care, skin care, make-up and perfume products.

2) Luxury Products

25% of the company’s sales are attributed to Luxury Products division. These products are sold in select retail outlets. The luxury product segment is comprised of skincare, make-up and fragrance products.

3) Professional Products

This product division is offered exclusively in hair salons, and make up 13% of sales at L’Oreal Canada. These professionals use and/or sell these products within their hair salons. The segment’s key focus is to service the greatest number of hair salons worldwide.

4) Active Cosmetics

The Active Cosmetics division accounts for 9% of sales, with products from this division sold primarily in pharmacies and specialty stores.
Physical Movement of Goods

L’Oreal relies on SDV Logistics Inc. to move products to the retail outlet for purchase by the end consumer. SDV Logistics Inc is a Montreal based freight company that specializes in transportation and handling of cargoes. Depending on the destination of the order, products will be shipped via train or transport truck.

Distribution Centre / Warehousing

L’Oréal Canada operates both its manufacturing plant and distribution centre in Montreal, Quebec. The Hickmore plant specializes in the manufacturing of hair-colour products, producing 135 million units/year. The Hickmore plant exports nearly 90% of the 135 million units produced in Montreal to 39 other Group Subsidiaries throughout Canada17.

Centrex, being the newest distribution centre to the L’Oreal family, is approximately 300,000 square feet and manages more than 600,000 orders/year, making it one of the most efficient distribution centers in the world.

Selling Function to Retailers

L’Oreal sells directly to their retailer’s head offices. They have intensive distribution throughout Canada, and deal with major retailers such as Wal-Mart, Loblaws, and Shoppers Drug Mart.

Advertising Functions

L’Oreal pays for their POS, display material, and TV ads but they are designed by YUL-Lab ad agency. YUL-Lab allows company to optimize their marketing efforts. L’Oreal Canada used YUL-Lab to test their new media mixes, new tools for a campaign and completed pilot project all at a low cost. Many L’Oreal products including Maybelline New York use the image of a beautiful woman wearing the make-up product. This method of advertising attracts many consumers because they want to achieve the same level of beauty with what the woman looks like in the advertisement.

Training Programs

L’Oreal does not offer training programs for retailers that specifically sell cosmetics. While most of these retailers have trained staff in the cosmetology field. However, L’Oreal is known for their prestigious training programs offered to hair care and make-up professionals.

For Professionals\textsuperscript{18}

- Every year, almost 9,000 people such as stylists, hairdressers and cosmeticians follow the various training programs offered by L’Oreal Canada.
- The training programs allow professionals to provide their customers with informative, relevant information.

**Customer Service for the End Consumer**

End consumers of Maybelline New York can pose questions, comments and complaints by contacting a Maybelline New York Specialist at the company’s Consumer Care Centre. A specialist can be reached by calling 1-888- 462-9235 between 9:00 a.m. and 5:00 p.m. EST (Eastern Standard Time), Monday to Friday, closed weekends and holidays. Returns and exchanges depend on the policies of the retail outlet.

**Financing to Retailers**

L’Oreal Canada offers cash discounts to retailers who sell their products. These discounts are made confidential and private.

**Who Designs/Pays for Consumer Promotions**

L’Oreal pays for Maybelline New York promotion that are specific to L’Oreal. Retailers who carry Maybelline New York products have the option to create promotion that they deem necessary. The design and development of Maybelline consumer promotions is based on an idea/vision by L’Oreal and then implemented by each retailer.

\textsuperscript{18} http://www.lorealnews.ca/general/l%E2%80%99oreal-canada-at-a-glance/
In store Merchandising

L’Oreal merchandising team controls in-store merchandising of Maybelline New York products. Maybelline New York is carefully positioned in retail outlets to show off its product assortment compared to the competition.

Differences/Similarities with Cover Girl

Differences

• L’Oreal outsources many packaging and manufacturing functions

Similarities

• Use of Truck distribution
• Distributed to the same retail locations as CoverGirl
• Both have Canadian distribution centres

Outsourced Suppliers\(^{19}\)

Alongside the internal production of L’Oreal products, the Group collaborates with a broad range of subcontractor companies, such as:

• Packaging or finishing finished products
• Manufacturing specific finished products (soaps, pencils, cloths, etc.)
• Logistics

\(^{19}\) www.loreal.com
Consumer Promotions

Maybelline promotions are revamped approximately every 20 days. The following are some examples of their latest promotional efforts.

Spring 2009

The first ad in particular encourages the use of the website for online purchasing. Maybelline’s slogan “Maybe she’s born with it, maybe it’s Maybelline” is always part of their promotional strategy and shown in all consumer promotions.

Summer 2009

Maybelline started “The broadroom” which are webisodes featuring a group of women in the workplace, addressing everything from breast feeding to rocky relationships to tyrannous male bosses20. These women use Maybelline’s new lipstick color sensational, and has a link to Maybelline’s website for purchase.

20 http://www.more.com/2049/8101-the-broadroom
Maybelline also launched a “buy one get second 50% off” promotion to encourage purchase.

**Spring/Summer 2010**

This is the latest consumer promotion by Maybelline.
**External Environments**

**Social Trends**

The cosmetics industry, comparable to the fashion industry is constantly changing. Companies have to predict and analyze new trends on a constant basis and create a competitive edge with innovation. Some of the newest social trends in the cosmetics industry are enhancing the natural beauty of the face with mineral make-up and the use of organic products, which is a growing trend in other industries.

We have been advocating for natural beauty for centuries and make-up companies have heard the request. Make-up formulas have been created to enhance a woman’s natural beauty with the use of mineral make-up to provide a smooth, soft and lightweight finish.

In what companies call the “new century,” consumers have more control over the market and want to know more about the products they are buying. A popular trend is the use of organic products these product are all natural, hypo-allergenic gentle to the skin. The trend of organic product, that first started the in the food industry is making its way in many industries across North America.

Canada has become a very culturally diverse country, and with that comes a larger variation of trends in the make-up industry. From demands of when make-up is needed, to the colours that influence a line, to what age group to target, make-up producers in Canada face a variety of challenges, or as some see it, opportunities, when it comes to marketing their products.

**Economic Trends**

According to economists, Canada’s economy is emerging from a recession, and is showing signs of growth. An economy only grows if the people are spending, and this means that the make-up industry will have to fight for more share of wallet. This is encouraging to all consumer good producers.

**Regulatory Trends**

In North America, legislators have been discussing the implementation of listing product ingredients on cosmetics. This would have a large impact on all cosmetic producers. They would need to adapt to Canada’s language laws, and since many producers have a “North American Strategy”, all products would have French and English ingredient lists. This can be difficult to achieve on a tiny lipstick label, and would require major changes in manufacturing production lines.

**Competitive trends**

The Cosmetics industry has become flooded with competition, and is now threatening each company’s market share and profitability. In the low to mid-end cosmetics, price is a large influencer when it comes to customer purchase decisions,
and this has caused a lot of companies to lower their prices, meaning lower profit margins and a potential loss of market share. It is a threat to the whole industry.

Another large trend is the “one-up” trend, where the competitors are always trying to outdo the competition with the longest lash mascara, or the longest lasting lipstick. Because make-up companies are always launching new line extensions to outdo the competition, many of their existing products become outdated and have a very short life span, making it difficult for a product to become profitable.

Technological Trends

Lip plumping technology is now at the forefront of the make-up industry, with many manufacturers’ offering lipsticks with so called “collagen enhancers”. This used to be a procedure reserved to the plastic surgeons, but now women can plump their lips in a matter of minutes. It is now a race to see how fast the industry’s major players can take this technology from the drawing board to the retail shelves.

Another technological advancement is that of colour match technology. Foundation, or face make-up can now be sold as a white cream that has the ability to identify and mimic a person's natural skin tone. Goodbye to dark faces and light necks, make-up wearers will be more then pleased with this advancement.
Works Cited


Telephone Interview, Tracy Porter, Seneca College Professor, February 6, 2010.