Strategic Management Marketing and Enterprise

The Body Shop
Current Situation and Strategic Options

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Introduction

This report considers the strategic options available to the Body Shop and recommending the most appropriate as a way forward. It begins with a brief introduction to the Body Shop and a review of the external and internal environments of the Body Shop to provide context for the analysis that follows. Using the findings of the environmental analyses, different strategic options are identified using relevant academic models. Following a brief summary of the key points of the analysis, a single option is selected, evaluated using Johnson *et al*'s (2011) suitability, acceptability and feasibility criteria and justified as to why this option is the best for the Body Shop.

The Body Shop

Founded by Dame Anita Roddick in 1976 (Shearman, 2011, p.1), the Body Shop is now owned by L'Oreal, a French beauty and personal care company. The takeover took place in 2006 (Costello and Groves, 2006) and since then, L'Oreal have repositioned the Body Shop twice, firstly in 2008, with a refocusing on ethics to counter the potential impact of being taken over (Marketing, 2008), and secondly in 2011, when the focus was on customer relationship management, loyalty and an overhauled web site (Shearman, 2011, p.1). Since then, the Body Shop has become an international brand, setting its sights on India (Bhattacharya, 2011, p.22).

Environmental Analysis: Review

The external environment is currently in an extreme state of flux, as various economic crises in Europe and the USA threaten to cause a depression similar to that seen in the 1930s. As such, to provide an up-to-date context for the strategic option analysis, the macro, competitive and internal environments of the Body Shop will be reviewed.

<u>The Macro-Environment</u>

The macro-environment, defined by Worthington and Britton (2009, p.6) as "those macro-environmental ... influences on business which affect a wide variety of businesses and which can emanate not only from local and national sources but also from international and supranational developments" comprises the PESTEL checklist (Lynch, 2009, p.82) "which consists of the **P**olitical, **E**conomic, **S**ocio-cultural, **T**echnological, **E**nvironment and **L**egal aspects of the environment". In their list of factors, Worthington and Britton (2009, p.6) include ethics rather than environment. Combining both variants leads to the STEEPLE framework, which will be used here.

Figure One: STEEPLE Analysis: The Body Shop

(based on Lynch, 2009, p.82)

This analysis reveals several key issues for the Body Shop, as many of the current economic problems are hitting women harder than men, resulting in reduced disposable income and discretionary spending available for cosmetics and other personal care products.

The Competitive Environment

This is usually analysed using Porter's (1979) Five Forces of threat of new entrants, threat of substitutes, the bargaining power of buyers and suppliers and industry rivalry.

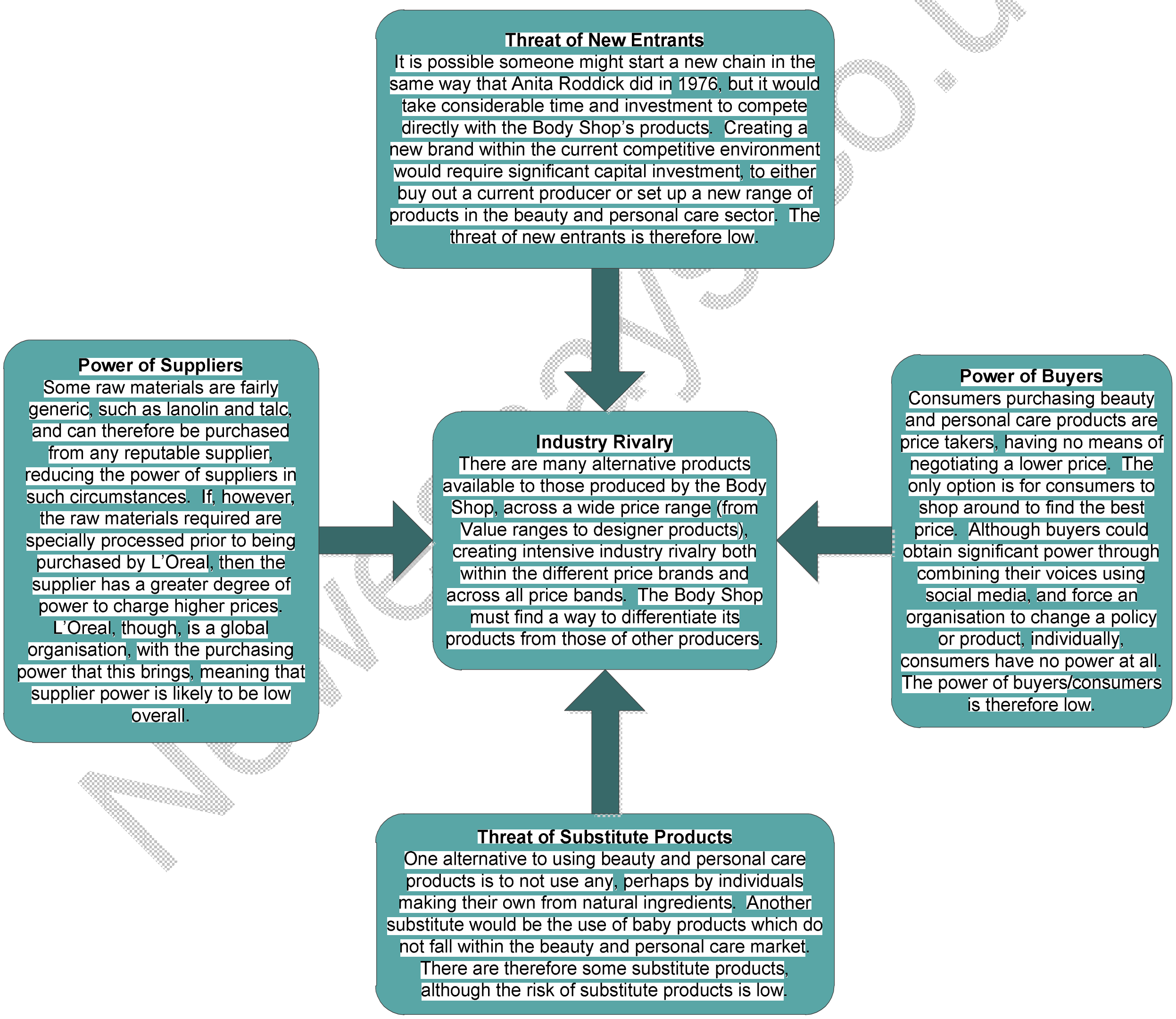


Figure Two: Five Forces' Analysis: The Body Shop

(based on Porter, 1979, p.141)

The key points of this analysis are that L’Oreal, and by extension, Body Shop, have significant purchasing power and provide products across a range of price points. However, the amount of competition for a diminishing amount of disposable, discretionary funds is increasing, with both national/manufacturers’ and store/private brands (see Kotler and Armstrong, 2012, p.270) available to the consumer. Again, this points to a need for clear differentiation for Body Shop products.

<u>Body Shop: Resources and Capabilities</u>

Organisations have both resources and capabilities. Barney (1995, p.50) defines a firm’s resources and capabilities as “all of the financial, physical, human and organisational assets used by a firm to develop, manufacture, and deliver products or services to its customers”. Identifying the Body Shop’s resources and capabilities will enable its strengths and weaknesses to be compared to the opportunities and threats within the external environment.

Resource	Definition*	Body Shop
Financial	Debt, equity, retained earnings and so forth	Significant underlying resources from L'Oreal, minimising need to borrow excessively. Impossible to ascertain the amounts of debt, equity and so forth associated specifically with Body Shop.
Physical	Machines, manufacturing facilities and buildings ... used in ... operations	Again, L'Oreal have significant amounts of fixed assets to support their operations, including the network of Body Shop outlets.
Human	The experience, knowledge, judgment, risk taking propensity and wisdom of individuals	The human resource of Body Shop was retained as part of the L'Oreal takeover, resulting in the ability to combine the knowledge and expertise of Body Shop personnel with that of L'Oreal. This has resulted in Body Shop's operations becoming more sophisticated (Alarcon, 2008, p.19)
Organisational	History, relationships, trust, and organisational culture ... formal reporting structure, explicit management control systems and compensation policies	One of the major risks associated with the takeover of Body Shop by L'Oreal was the possible loss of customers as they perceived that Body Shop had abandoned its ethical principles. This was countered when L'Oreal's first Body Shop campaign focused on Body Shop's ethical stance. There is still the danger that Body Shop is swallowed up in L'Oreal's pursuit of profit. Currently, the Body Shop still has its own reporting structures and control systems, rather than L'Oreal imposing their own.

** Barney, 1995, p.50*

Table One: Resources and Capabilities Analysis: Body Shop

(based on Barney, 1995, p.50)

An alternative means of analysing Body Shop's resources and capabilities is proposed by Grant (2010, p.146):

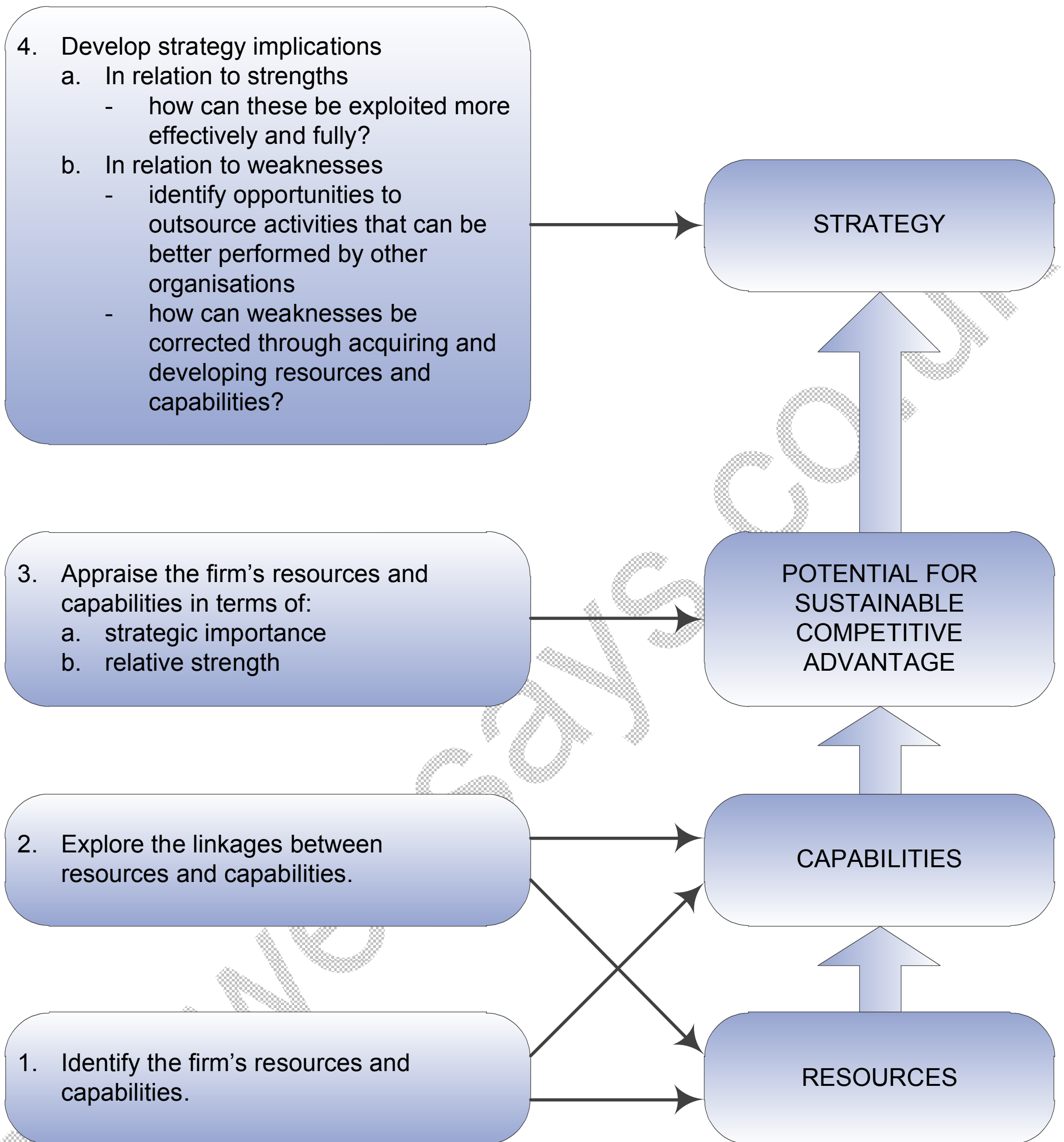
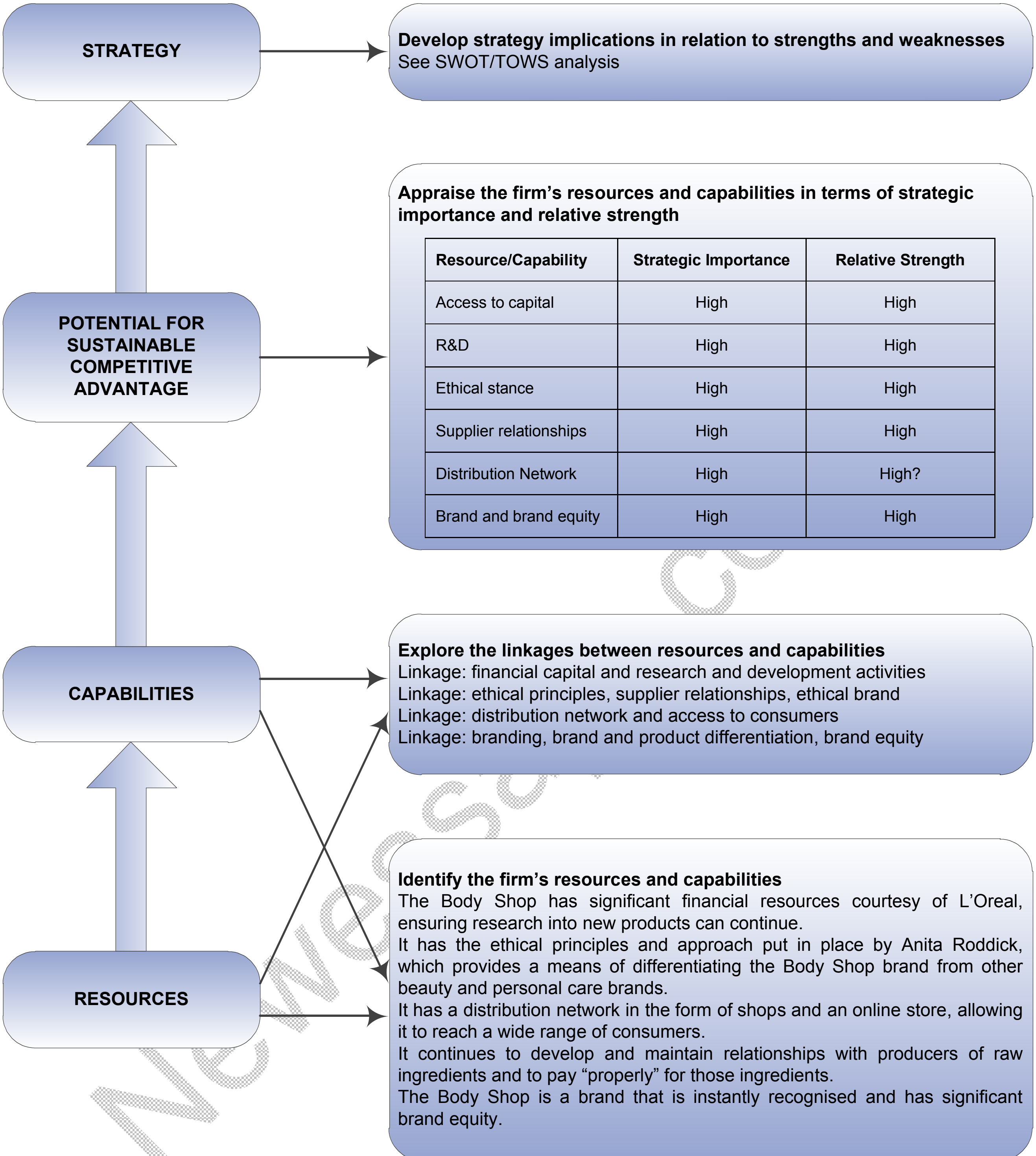


Figure Three: A Framework for Analysing Resources and Capabilities (Grant, 2010, p.146)

Applying this to the Body Shop produces the following result:



Develop strategy implications in relation to strengths and weaknesses
See SWOT/TOWS analysis

Appraise the firm's resources and capabilities in terms of strategic importance and relative strength

Resource/Capability	Strategic Importance	Relative Strength
Access to capital	High	High
R&D	High	High
Ethical stance	High	High
Supplier relationships	High	High
Distribution Network	High	High?
Brand and brand equity	High	High

Explore the linkages between resources and capabilities
Linkage: financial capital and research and development activities
Linkage: ethical principles, supplier relationships, ethical brand
Linkage: distribution network and access to consumers
Linkage: branding, brand and product differentiation, brand equity

Identify the firm's resources and capabilities
The Body Shop has significant financial resources courtesy of L'Oreal, ensuring research into new products can continue.
It has the ethical principles and approach put in place by Anita Roddick, which provides a means of differentiating the Body Shop brand from other beauty and personal care brands.
It has a distribution network in the form of shops and an online store, allowing it to reach a wide range of consumers.
It continues to develop and maintain relationships with producers of raw ingredients and to pay "properly" for those ingredients.
The Body Shop is a brand that is instantly recognised and has significant brand equity.

Figure Four: Resources and Capabilities Analysis: Body Shop

(based on Grant, 2010, p.146)

On this basis, it appears that the Body Shop is in a position to withstand some of the economic problems affecting the UK. However, its main problem is differentiating itself and its products from those of competitors without compromising on the high ethical standards underpinning its reputation or the brand equity associated with the Body Shop.

Strategic Options Available to The Body Shop

There are several tools that can be used to generate strategic options for the Body Shop. This report uses the SWOT/TOWS matrix, Ansoff's Matrix and brand development tools.

<u>SWOT/TOWS Matrix</u>

A SWOT matrix identifies the internal strengths and weaknesses of an organisation and compares them to the opportunities and threats available in the external environment (Barney, 1995, p.49). Johnson *et al* (2011, p.108) take this a step further by combining the strengths, opportunities, weaknesses and threats to generate strategic options. Applying the TOWS matrix to the Body Shop produces the following:

	STRENGTHS	**WEAKNESSES**
	Company reputation and significant brand equity Ethical stance built up and maintained over the lifetime of the Body Shop Part of L'Oreal group, providing financial stability and access to capital to continue research and development into new products Distribution network in place together with online sales outlet	Ethical reputation potentially at risk due to L'Oreal takeover (tainted by association) Potential for L'Oreal to rebrand the Body Shop and make it part of an existing L'Oreal brand to cut costs Body Shop products perceived as expensive
OPPORTUNITIES Overseas expansion e.g. continued expansion into India, expansion into different developing nations Use of online channel to reach new overseas markets at less cost than establishing a physical distribution network Possible partnerships with distributors in target countries Extending the brand into different areas of beauty and personal care	**S/O Strategies** Use of the company's reputation and ethical principles to differentiate products offered overseas (either physical distribution or via the internet), creating a unique selling point for the company Company's reputation can also be used to negotiate partnerships with distributors overseas, although care would need to be taken that the partner could not destroy that reputation R&D to identify new products	**O/W Strategies** Focus on creating and sustaining the Body Shop brand and its associated ethical principles, ensuring clear water between L'Oreal's other brands and the Body Shop brand, making integration impossible (although this is likely to be difficult as L'Oreal hold the purse strings) If it proves to be impossible to keep the Body Shop separate from L'Oreal, consider a management buyout
THREATS Intense competition across all areas of beauty and personal care sector Expansion into new markets overseas might fail if residents in those countries make their own products or do without, resulting in costly failure Europe experiencing significant economic problems with countries such as Spain, Greece, Ireland and Italy facing financial crisis Potential for world depression	**T/O Strategies** Persistent reinforcement of the Body Shop brand and ethical principles to differentiate products from those of competitors Research different potential markets overseas to provide balance in the product portfolio and counter problems in Europe and the USA Potential for sale of the retail shop network with all sales going through online channel, although this assumes everyone has access to the internet, which is not the case	**T/W Strategies** L'Oreal might sell the Body Shop chain if it does not generate sufficient profits and cannot be absorbed into other brands within their portfolio Potential for a cost reduction strategy to win new customers and maintain revenues during the economic crisis, following which prices can then be gradually increased to "normal" levels

Figure Five: TOWS Matrix: Body Shop

(based on Johnson *et al*, 2011, p.108)

Much appears to depend on how long the current economic difficulties last, and how great an impact they will have on different markets and consumers' disposable income. L'Oreal have several options, from retaining and developing the Body Shop brand, to selling it if it fails to make sufficient profits relative to the investment made in purchasing the company.

Ansoff's Matrix

Ansoff's Matrix is also known as the market options matrix (Lynch, 2009, p.313) and is designed to identify "the product and market options available to the organisation, including the possibility of withdrawal and movement into unrelated markets". It is represented diagrammatically as follows:

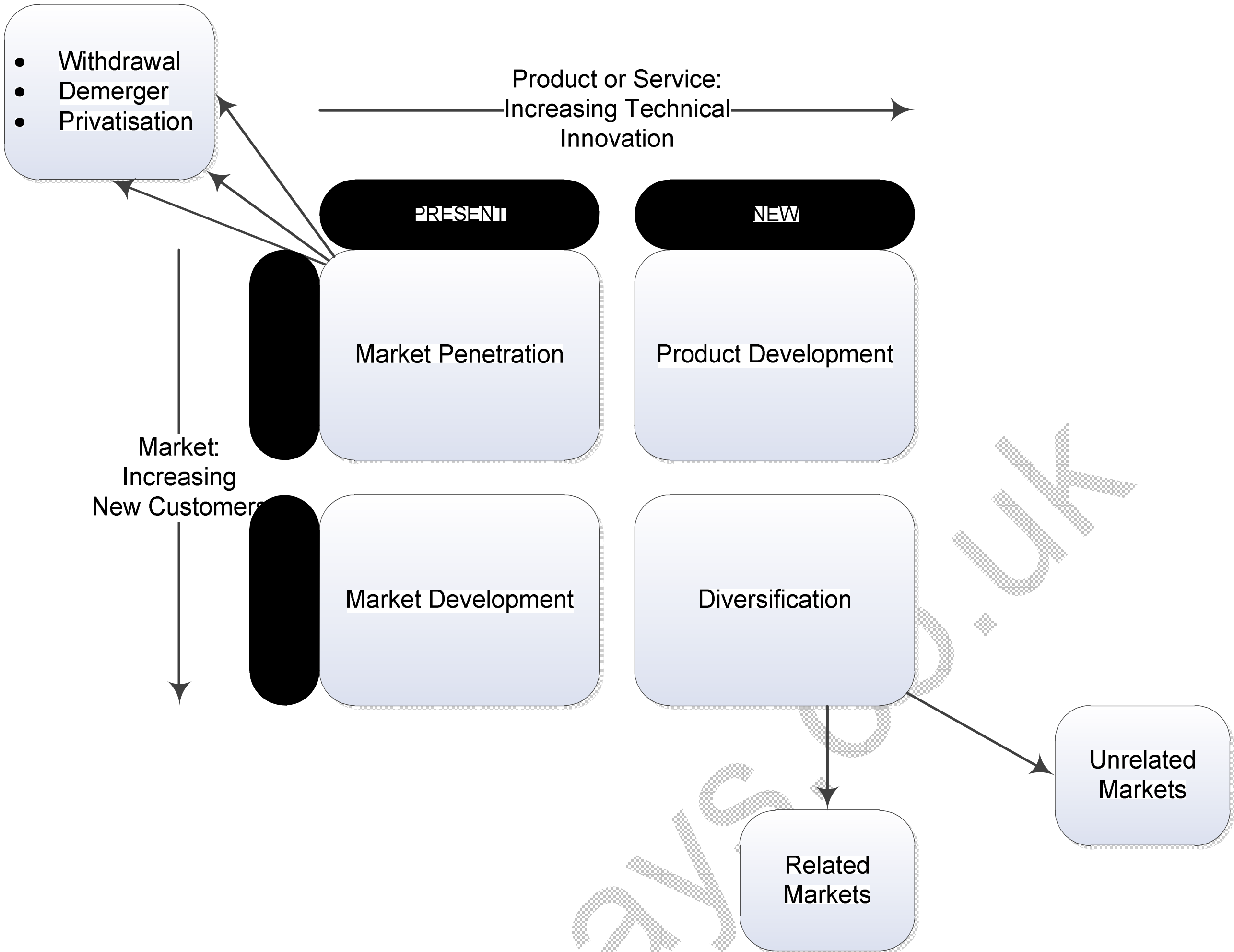


Figure Six: The Market Options Matrix

(Lynch, 2009, p.314)

Some of the options here relate to options already identified within the TOWS matrix. The safest option for an organisations to target existing markets with existing products (market penetration), while the riskiest option is to develop new products and introduce them into new markets (diversification). Given the current economic climate, Body Shop would do well to play safe and focus on its existing products, introducing them into new markets (market development), whether those markets are domestic or foreign. Developing new products to introduce into existing markets (product development) is also another relatively safe option.

Brand Strategies

One of the Body Shop's most precious assets is its brand. A brand is "a name, term, sign, symbol, design, or a combination of these, that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors" (Kotler and Armstrong, 2012, p.255). Over the years, the company has developed significant brand equity, which is "the differential effect that knowing the brand name has on customer response to the product or its marketing" (Kotler and Armstrong, 2012, p.267). There are specific decisions associated with developing brands:

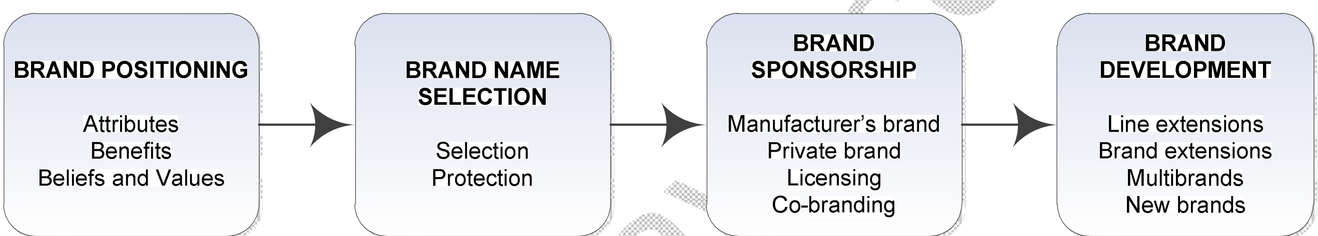


Figure Seven: Major Brand Strategy Decisions
(Kotler and Armstrong, 2012, p.268)

In the case of the Body Shop, the area of brand development would appear to have the greatest potential, which offers four alternatives:

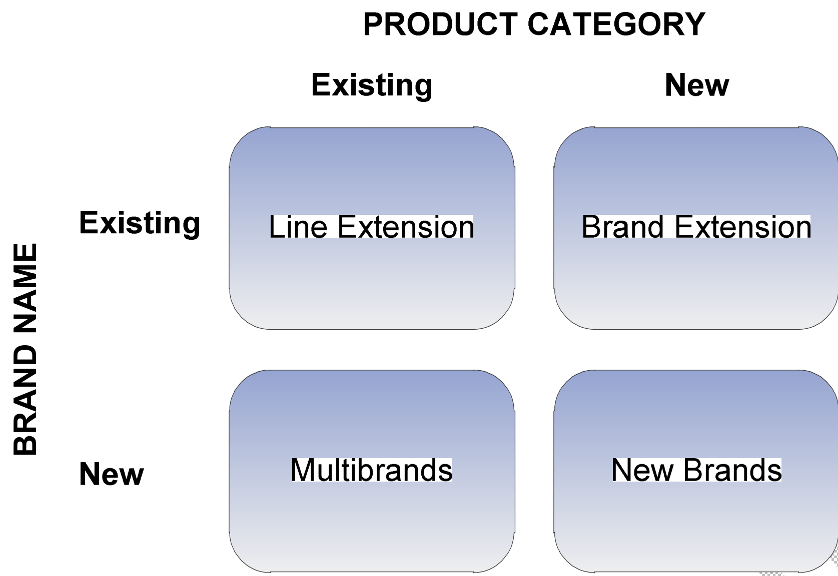


Figure Eight: Brand Development Strategies

(Kotler and Armstrong, 2012, p.274)

The two most useful strategies here are line extension, which is "extending an existing brand name to new forms, colours, sizes, ingredients, or flavours of an existing product category" (Kotler and Armstrong, 2012, p.274), and brand extension, which is "extending an existing brand name to new product categories" (Kotler and Armstrong, 2012, p.274).

Conclusion

Although it would appear that the Body Shop has many options, when the environmental context is considered, the number of options is actually very few. The Body Shop must protect its brand and reputation, as these are central to its success. If at any point something should happen that tarnishes the brand, it will take a great deal of work to recover the brand, if indeed it can be recovered. On that basis, some of the more risky strategies are ruled out, as the potential for damaging the brand is too great.

Recommendation

The recommendation of this report is for the Body Shop to conduct market research in those developing markets that offer the greatest opportunity for profitable group in the medium to long term. This falls within the market development option of Ansoff's matrix and is supported by the organisation's strengths as identified through the resources and capabilities analysis and the TOWS matrix. The domestic market must not be ignored, but assessed with a view to potentially reducing prices for a short while, until the economic situation settles, when prices can be gradually raised to what would be considered normal levels.

Assessing this recommendation against Johnson *et al*'s criteria of suitability, acceptability and feasibility demonstrates that it meets all three criteria:

Criterion	Definition	Body Shop Proposed Strategy
Suitability	"Assessing which proposed strategies address the key opportunities and constraints an organisation faces"[1]	Key Opportunities: Developing overseas markets in both developed and developing nations Maintaining existing sales levels in current markets Attracting customers who are trading down Key Constraints: Current UK, European and global economy in constant state of flux Protection of the Body Shop brand and reputation Reduction in disposable incomes and discretionary spending power

[1] Johnson *et al*, 2011, p.364

Acceptability	"Whether the expected performance outcomes of a proposed strategy meet the expectations of stakeholders"[2]	L'Oreal – owner of Body Shop, seeking profitable growth. Overseas expansion allows growth of turnover and profits to counter the sales stagnation in the UK and Europe Consumers – looking for value for money especially in the current economic climate, wanting to purchase ethically and support organisations that take their environmental responsibilities seriously
Feasibility	"Whether a strategy could work in practice"[3]	Body Shop has already begun expansion into the developed and developing world, which provides experience in the best ways to achieve this and avoids costly mistakes. Research still needs to be conducted to ensure entry into new countries and markets is achieved in the best possible manner, protecting and enhancing the brand while generating profits.

Table Two: Strategy Evaluation: Body Shop

(based on Johnson *et al*, 2011, pp.364-386

The proposed strategy is grounded in the existing experience of both the Body Shop and L'Oreal, and aims to provide a balance to the Body Shop's product and market portfolio. It should prove successful within the context in which the Body Shop currently operates.

[2] Johnson *et al*, 2011, p.371
[3] Johnson *et al*, 2011, p.383

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