Russian cosmetics and perfumery industry's analysis & Strategy paradoxes of 'Kalina' OJSC

Project is realised within Master's degree programme « Strategic Management and Corporate Governance » by

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Context

1 – Introduction

2 – Business environment: World & Russian market

3 – Corporate strategies in the cosmetics & perfumery manufacturing

4 – OJSC “KALINA”

5 – Strategy Paradoxes to Create Competitive Advantage

6 – Conclusion

Introduction

- First archeological evidence of cosmetic usage is found in Ancient Egypt, Ancient Greeks & Romans also used cosmetics containing mercury and lead;
- in the 1800s, make-up was used primarily by prostitutes;

  Queen Victoria publicly declared: "Makeup improper, vulgar, and acceptable for use by actors, only."

  Adolf Hitler told women that face painting was for clowns and not for the women of the Master Race.

- by the middle of the 20th century, cosmetics were in widespread use in nearly all societies around the world.
- of the major firms, the oldest & the largest is L'Oreal, which was founded in 1909 in Paris.

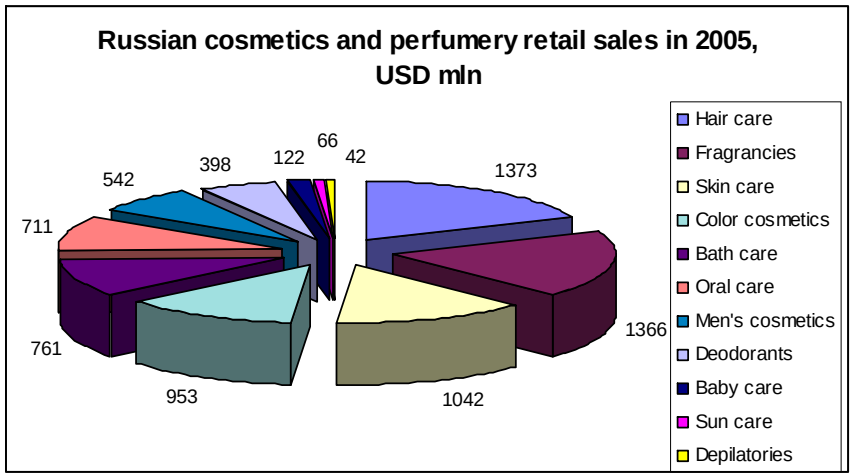
Business environment

- International companies control more than 50% of the market;
- Fierce competition between producers of perfumes and cosmetics, multinational companies expansion;
- More than 30% belong to 8 international companies: Procter & Gamble, L'Oreal Group, Biersdorf, Colgate-Palmolive, Unilever Group, Schwarzkopf & Henkel Cometics, Oriflame, Avon and Gillette;
- Personal care markets quantified by occasion and spending: fragrances, make-up, haircare, oral hygiene, personal hygiene and skincare;
- High product's differentiation

Russian market

- As of 2006 the turnover of the Russian cosmetic market was estimated at approximately $ 7.9 bln;
- Market growth is 12-13% per year (by the end of 2009 will reach $15 bln, by 2010 full saturation of market expected) due to:
  - *spread of cosmetic chains to regional markets;*
  - *growing level of consumption thanks to increasing of average income per individual ;*
  - *the solvent generation becomes older and starts to spend more on anti-age cosmetics;*
  - *new field for producers - ethnic cosmetics*.*
- The major Russian producers are: Kalina, Nevskaya cosmetics, Svoboda, Linda, Arnest, Vesna, Novaya Zarya, Mezoplast, Rokolor and Faberlic, Krasnaya Liniya;
- Short-term production cycle of goods, need for innovation in packaging, in composition every 2 years ;
- More transnational companies open in Russia own manufactures is allows to lower cost prices & to truncate logistical 'shoulder';
- Products are soled both directly to dealers and to independent distributor who resell it to the retail enterprises, direct sales also exist (Faberlic, Oriflame, Avon for example), as well as through drugstores and salons of beauty.

Russian market: sales breakdown by products and channel of distribution



Sale breakdown by channels of distribution:

- Specilized chains (Arbat-Prestige, L'Etoile, Ile de Beaute, Sephora, Douglas – Rivoli (24,1%))
- Direct sales (21,5%)
- Retail chains (8,3%)
- Drugstore format (2,9%)
- Open market (14,6%)
- Salons of beauty
- On-line

Tendencies and perspectives : future development

Globalization of perfumery and cosmetics industry;

Accent for the natural products in the composition of goods;

Protection of intellectual property rights for radically new products, components or receipts;

Revelation of new niches (ethnic cosmetics as an example) and implementation of innovations;

Aggressive strategy policy of Multinationals & acquisitions of small cosmetic businesses as outcome in local markets

Strategic genotype of Russian corporations

Theoretical concepts & paradoxes in Strategic Management

Strategic thinking	Logic	Creativity
Strategy formation	Intended course of action	Realized course of action
Strategic changes	Revolutionary	Evolutionary
Competitive strategy	Market	Resources
Corporate strategy	Quick reaction	Synergy
Network level strategy	Competition	Cooperation
Strategy context	Complying	Choice
Organizational context	Control	Chaos
International context	Globalization	Localization
Organizational purpose	Shareholder value	Value of all stakeholders

Corporate strategies in the cosmetics and perfumery market

Strategies

- Geographic expansion of Russian make-up producers (Faberlic has its distribution networks in CIS & Europe as well as Kalina operates in European markets)
- Relationship with leading International laboratories (Faberlic with Uniqema, Gattefosse, ISP, Pentapharm, Silab, Sederma, Symrise, Croda)
- M&A (Kalina acquired a controlling stake of the German cosmetics manufacturer Dr. Scheller Cosmetics AG)
- New products and technologies (collagen)
- Russian producers vs Multinational corporations (Multinationals has aggressive strategy towards the emerging markets and
- Searching for new particular niches as the strategy of survival
- Innovations (low-cost innovations through the research of customers preferences*)
- Preservation of market share by "Raising" of brand and growth of advertising budgets and increase of customer's loyalty (Kalina, for example)

Russian cosmetics and perfumes industry's profile

Rational thinking →	Creative thinking
Planning	Incrementalizm
Fast change ←	Constantly changes
Reacting to external events	Proactively shaping the business
Set of businesses →	Core competencies
Discreted organization	Integrated organization
Industry's evolution	Industry's creation
Organizational leadership	Organizational dynamics
Global convergence	International diversity
Shareholder value →	Stakeholder value

OJSC “KALINA”

- is one of the largest manufacturers of perfumes and cosmetic products in Russia.
- the range of goods has more than 300 products and includes perfumes, cosmetics for face and body, shampoos, conditioners, masks for hair, makeup, toothpastes, soap, washing powders and household chemical goods.
- the most famous brands include:
  cosmetic series “Black Pearls”, “Clean Line”, “MIA”, “Little Fairy”, “100 recipes of beauty”,“Velvet hands”, toothpastes “32 Norma” and “Forest Balsam”, perfume “Angelika Varum”, etc.

Concern’s sales steadily increase.

Index	*2005*	*2006*	*% of growth*
Sales	*6,339,138*	*7,165,884*	*13 %*
Gross profit	*2,975,240*	*3,486,880*	*17 %*

- The main share in the sales is taken by the skin care products (46.72 %), oral care products (12.69 %) and hair care products (13.44 %)
- Company has the widest distribution network, which includes all regions of Russia and CIS, its own research and production center whose experts develop new products and technologies also
- Shares OJSC Concern “KALINA” are listed on the stock exchanges RTS and MICEX

OJSC “KALINA”

– The key factors of the company’s competitivness.

- Geographic expansion (moving into the international markets) is based upon acquisition and establishing new brands*;
- Strategy of discount pricing;
- Strategy of expanding the market share at the expanse of increasing customers demand in the current markets as well as at the expanse of entering new market segments**;
- Position as an effective manufacturer, especially in the sphere of purchases of package and raw materials as well as concerning expenses for advertising and marketing;
- Excessive tension of managerial, production and financial resources

* Kalina International SA (Switzerland, a new subsidiary was established to manage the process of integration with Dr. Scheller Cosmetics AG and fulfill company’s strategic plans of M&A in Europe), as of August 2007 it owns a controlling stake of the German cosmetics manufacturer Dr. Scheller Cosmetics AG.

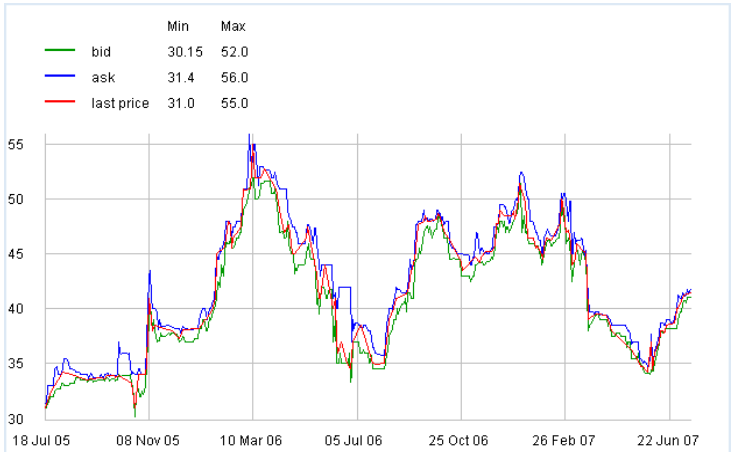
** Kalina plans to launch the beauty centers chain under the brand name “Dr. Scheller Beauty Center”.

OJSC “KALINA”

Concern ‘Kalina’ share in the Russian markets as of end of 2006

Source: ACNielsen November-December (item share) 2006 (color cosmetics data relates Moscow and Moscow region only), expert evaluation of brand managers of OJSC Concern "Kalina".

Stock price development, USD per share

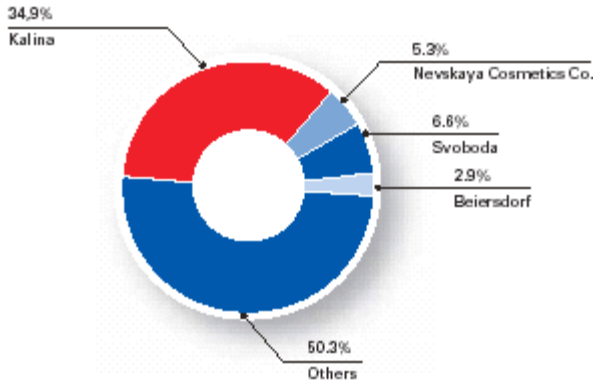


Rating:

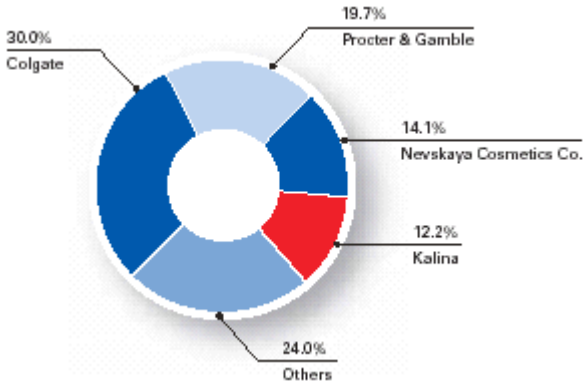
According to Standard & Poor’s Kalina’s long-term corporate credit rating is “ruA-”, which is characterized by REASONABLY HIGH capacity to duly and timely service its debt in comparison to other lower-rated Russian obligors.

Kalina's market share of major players in different sectors

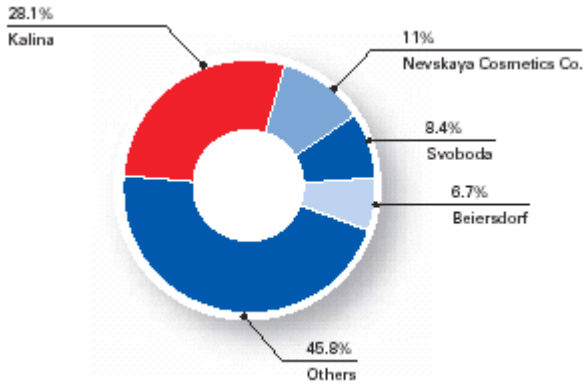
Face care market



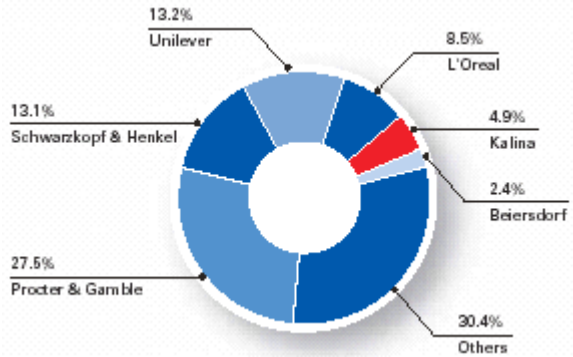
Oral healthcare market



Body care market



Hair care market



Source: AC Nielsen, 2005

Company's profile (1)

Rational thinking / Creative thinking	Making decisions by top-managers rationally; Strong financial management : disposal of non-specialized assets (sales of manufactures in Omsk & packaging company "NovoPlast" in Saint –Petersburg)
Planning / Incrementalizm	Efficient planning of the geographical expansion into the European markets (acquisition with the German cosmetics manufacturer Dr. Scheller Cosmetics AG and transfer of the production capacities in Yekaterinburg in order to decrease the cost price); exportation to CIS and Europe due to the German distribution channel; Strong risk management
Fast change / Constantly changes	Continuous improving of products to the customers demand; Tries to be revolutionary organization as the company has its own research center in Yekaterinburg which put on the market 80 novelties (acquire right skill / right cost resources to drive the innovations)
Reacting to external events / Proactively shaping the business	Adaptation to the market & customers demands; Market position: low-price product & high quality as well as international products; Diversification of supplies in order of being independant from them*
Set of businesses / Core competencies	Optimization of cash flows (long term loans from banks); Capitals allocation between the strategic business units (Accent to the development of strong brand); company operates on the mass consumer goods Authoritative recourse bases on the retaliation with EBRD which bought 30%

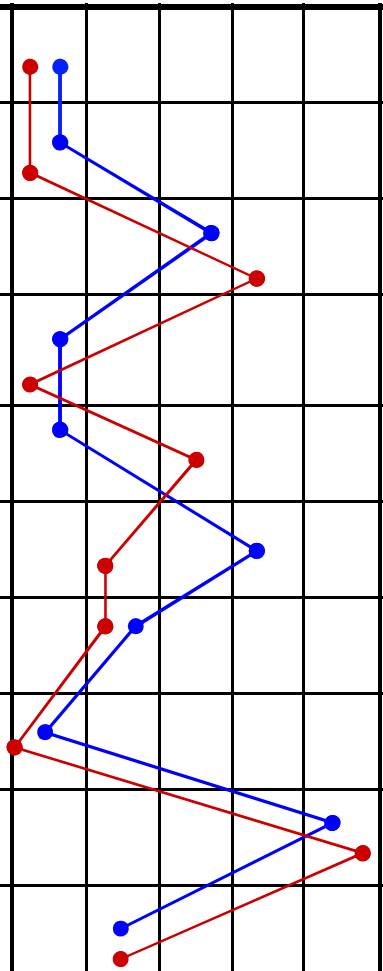
Company's profile (2)

Discreted **organization / Integrated organization**	The business of the company based on the strong distribution channels There is no boundaries of this chains "Competition through competition" Interactions between the intragroup companies
Industry's evolution / Industry's creation	Compliance to the market demands is the firms success The company follows the "market's rules" of the game Industry changes depend on the customers' preferences
Organizational leadership / Organizational dynamics	Company distributes almost 99% of its production through 207 independent dealers operating all over Russia and CIS. None of dealers take more than 3% of total sales. Leader manages the market rules and behaviour of players
Global convergence / **International diversity**	Localization through the globalization Preservation of wide variety of different products Variable organization's structure (global chain)
Shareholder value / Stakeholder value	Key successful performance factors are the financial results of the company: profitability margins, growth of market share price, increase of revenues Relationship with customers as an instrument of making profits

Comparison of company's & industry's profiles

Industry's position

Company's position

Rational thinking		Creative thinking
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Thank you for your attention!