

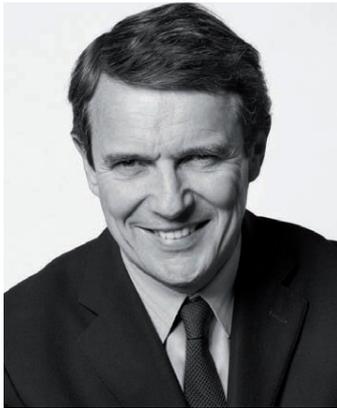
DIGITAL LEADERSHIP

An interview with

Marc Menesguen

Managing Director, Strategic Marketing for L'Oréal

Beauty and Digital: A Magical Match



Marc Menesguen

Managing Director,
Strategic Marketing for L'Oréal

Beauty and digital: A magical match

Marc Menesguen, Managing Director of Strategic Marketing for L'Oréal, explains how the digital revolution has impacted the organization and strategy of the global beauty products leader.

Capgemini Consulting: Has the rise of the digital phenomenon changed your customers' habits?

Digital transformation is one of the major drivers of change in today's world. I believe we are witnessing the start of a true revolution, given how the major players are powering forward – Google, Apple, Microsoft, Facebook... – and the speed at which digital tools are proliferating. There are expected to be 20 billion connected devices (telephones, tablets, game consoles, etc.) by 2015.

This revolution naturally has an impact on how our consumers relate to information and advertising, and thus to our brands. According to a study by the Forrester group, 7% of sales around the world today take place online, and almost 40% of off-line sales are influenced by internet research. So almost half of purchases in the world are already somehow digitally influenced.

This trend in any given country depends on its digital maturity. In the United States,

where the phenomenon first developed, the internet plays a very significant role today in purchasing decisions and in how we support our consumers. This is a little less the case in Europe, although things are advancing more quickly. And in the newer markets digital technology has a considerable impact. In China, internet penetration is already almost 30%. These changes are of fundamental importance to L'Oréal.

Capgemini Consulting: How does the company view this revolution?

Digital transformation represents an extraordinary opportunity to strengthen our current business model and become even better at being the world's number-one beauty group. In fact, beauty and digital are something of a magical match, because beauty is an emotion and the digital world multiplies the ways our brands can create an emotional-filled relationship with their customers.

Also, using our products isn't always self-evident, and digital tools allow us to help our consumers understand and use them better, and to offer them personalized, one-to-one service so we can increase the quality and perceived value of using our products.

Capgemini Consulting: Could you tell us more specifically what opportunities you see emerging with digital transformation?

First of all, digital transformation is a chance to strengthen our brands' images

by improving the efficiency of our communication and advertising.

Second, the internet is an amazing tool for supporting customers throughout a product's cycle of use, and for strengthening brand loyalty. The third advantage is one of sales. The internet makes it possible for brands to project themselves right into people's homes, and generate purchases and repeat purchases through online sales.

The final opportunity involves innovation. Research & Innovation is at the heart of the L'Oréal model, and digital transformation helps our researchers' work. For example, in the United States we have a social network of 250 women who test our cosmetic or facial care products, and give their feedback online. We examine their reactions and take them into account when designing new products. We have truly reached the stage of co-innovation!

Capgemini Consulting: How is L'Oréal reacting to take advantage of these opportunities?

Our Chairman and CEO, Jean-Paul Agon, named 2010 the «Digital Year» for L'Oréal. Succeeding in the digital revolution is a major strategic challenge for the company at the global level, along with winning one billion new consumers over the coming decade. The year 2010 was therefore one of intense effort, particularly for a crisis exit phase, with strategic policies impacting our 23 brands and all our countries.

This mobilization was expressed in a number of ways. First, we made sure we had the necessary expertise in-house. We formed a team of 300 people specialized in digital technologies, with the goal of providing digital expertise at every strategic point in the company, and we have a global digital manager to pilot this cross-functional network who reports to me directly. I would point out here that digital transformation doesn't only concern marketing; rather, we have digital managers in research, manufacturing, communication and in the sales functions.

“The digital world multiplies the ways our brands can create an emotional-filled relationship with their customers.”



We also launched a program to train 15,000 individuals in digital fluency in two years, including the company's managers.

Capgemini Consulting: Have you defined measurable objectives for your digital strategy?

We plan to double investment in digital media in 2011, from 5% to almost 10%. L'Oréal is the third largest advertiser in the world, so you can imagine the scope of this goal. More generally, I would note that we work using a test & learn approach: The real goal is to raise our digital IQ as a way to structurally reinforce our business model.

We have chosen specific units within the group to play a pioneering role. Their job is to prepare the ground and assemble the skills needed, and then transmit them to the other units. In e-business, for example, the luxury products divisions in the United States and Korea are leading the charge, so they have gained a head start with 6% and 12% of their sales online, respectively. Japan, on the other hand, is responsible for developing m-commerce, sales via mobile phones. And within Europe, the United Kingdom is coming off the starting block first.

Capgemini Consulting: Marketing is key to L'Oréal's business model. Has the traditional marketing mix been transformed by the emergence of digital tools?

Of course. The difference between the traditional model and the new one that is emerging, is a difference between positioning and movement. Today it's not enough to think about brand positioning.

“The real goal is to raise our digital IQ as a way to structurally reinforce our business model.”

“We plan to double investment in digital media in 2011, from 5% to almost 10%.”

Digital transformation allows brands to interact directly with their customers. This communication requires an agility from the brands as well as an ability to remain in motion and adapt continuously. It's a challenge, but also an extraordinary opportunity. In the new marketing that is developing, the consumer is even more central to our strategy. Whereas in the mass media model, typically centered on television, everyone received the same message, with digital media we can design much more targeted marketing.

I think this trend will become even more marked in the future with the rise of mobile devices, which will become an increasingly important interface between brands and consumers. With geolocation, for example, we can target messages more precisely and adjust to customers whether they are out shopping or at home.

Capgemini Consulting: Does digital transformation increase the complexity of managing your brands?

L'Oréal is historically a company of innovation and conquest, so our teams are excited by this new challenge. That said, like any major change, digital transformation brings with it questions and risks, two of which come to mind.

The first is the risk of a fragmented image and loss of brand equity, in the sense that multiple points of contact with a brand can lead to divergences between the global and the local. There is also a risk of insufficient return on investment, of our economic resources being spread thin.

We are prepared to respond to these

risks with a matrix structure for our 23 global brands and the large regions that pilot business in the different countries. Each brand develops its own digital strategy with clear priorities and guidelines. They deploy integrated marketing campaigns to ensure that the brand receives the same expression no matter what the point of contact.

As for monitoring economic efficiency, it has been strengthened with the creation of the Strategic Marketing division that I run. This organization is meant to support the markets in identifying best practices, and those that are less effective. We work on aligning key performance indicators for digital campaigns worldwide, which allows us to measure the effectiveness of our digital initiatives and organize reporting of experiences and sharing of best practices.

Capgemini Consulting: Has the way you advertise changed?

Whether on - or off-line, let's not forget that the main success factor for a campaign is its creativity. Digital channels allow greater proximity and interactivity, but in the end customers want the same thing: They want to be surprised, seduced, drawn in by a great story. Digital transformation lets ad writers tell even more fabulous stories to reinforce our brands.

“The difference between the traditional model and the new one that is emerging, is a difference between positioning and movement.”



Capgemini Consulting: Do social networks accentuate the risks of a negative reputation?

The internet has held risks for reputations even before the emergence of social networks. This risk is real, whether we like it or not, and we are very attentive to it. We are part of the conversation, interacting ourselves on the internet around everything that is said. This has been part of our company strategy for several years already.

Capgemini Consulting: How is your digital strategy expressed in other functions?

WIn Research & Innovation, our strategy has always been based on proximity to our consumers around the world, with more than 3,400 researchers working at 18 research centers in 12 countries. Digital technology allows us to achieve even greater proximity, practically entering consumers' homes and, thanks to imaging technology, we can get «inside their skin.»

Sales functions, for their part, need to integrate e-distribution techniques. For example, we are testing on-line promotions. We're also taking part in a very interesting experiment launched by Carrefour Planet, an interactive makeup counter where women can apply virtual makeup. This is a significant aid in choosing and buying cosmetics.

In Human Resources, last year we developed "Reveal", a recruiting website that takes the form of a business game (www.reveal-thegame.com).

The applicant enters L'Oréal as a virtual trainee, takes part in the activities he or she is interested in – product innovation, marketing, production –and receives a grade. Last year 61,000 people participated from 160 different countries. A staggering 72% of them came from emerging markets, which shows how digital transformation largely coincides with the geographic shift that is underway. We recruited 120 people in 20 countries with this game.

I could give you similar details for Manufacturing, Corporate Communications, and all the group's functions. The digital revolution truly impacts every area of the company.

Capgemini Consulting: Is the impact of the same scope for every division?

The impact is strong everywhere, but is expressed differently depending on the business. Each division and each brand develops its own digital strategy based on its specific characteristics.

The Luxury division sees digital tools as an opportunity to create an image with incredible global consistency, but also as a way to improve personalized service and a path to increasing business through e-business tools. To date, this division has made the greatest strides in implementing online sales.

For the Consumer Products division, the primary challenge is to optimize advertising impact.

Digital tools help generate more relevant, targeted messages with more content.

In the Professional Products division, we have an extraordinary chance to enhance our relationships with our global network of hair stylists. For example, Redken, in the United States, designed a strategy for animating its network on Facebook, with highly targeted distribution of samples and excellent return on investment.

“Digital transformation lets ad writers tell even more fabulous stories to reinforce our brands.”

In the Active Cosmetics division, Vichy has developed a completely novel website for online skin diagnosis (www.vichyconsult.fr), only made possible by the internet.

Finally, the Body Shop, which is both a global brand and a network of stores, has expanded its online service and sales possibilities with the internet.

Capgemini Consulting: Does this direct channel between the brand and consumers bring your relationships with your distributors into question?

No, not really. For one thing, e-commerce is still a fairly marginal phenomenon. Our division that has advanced the farthest in this area, the Luxury Products division, generates 6% of its sales in the United States online. Where direct contact with our customers through e-commerce offers the greatest value, is in terms of marketing, and assessing the effectiveness of our strategies. This higher awareness also benefits our off-line business, and thus our distributor partners. The brands with the best online performance are also those that sell best in stores, such as Kiehl's.

Capgemini Consulting: What are the main successes of your digital strategy?

Lancôme had a number of digital successes in 2010, both in support of product launches and through a very impactful collaboration with Michelle Phan, a video blogger in the United States. She is a huge fan of Lancôme, and became the brand's online beauty advisor. Every month she posts a video with advice that is seen by more than a million viewers. They are so successful that five of the ten top make-up videos on YouTube are hers!

Lancôme has a similar approach in China, with a social network called Rose Beauty. With 500,000 fans and more than two million posts per year, the website is an excellent lever for Lancôme, which I remind you is the top luxury brand in China.



In the Consumer Products division we launched Instant Beauty, a mobile phone application that lets customers scan a product's bar code in the store and get complete information about the product and how to use it. For Maybelline, we are also currently testing iAD, a new generation of advertising for iPhone. In particular, it allows very precise targeting, and raises visibility in the Apple universe, which aligns with the brand's "hip" character. Especially since Apple has listed us among their best apps!

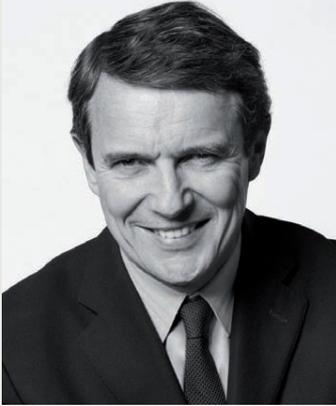
Capgemini Consulting: What lessons do you draw from your failures?

We haven't experienced any real failures, as every experience contributes to our digital learning. However, we have noticed some dispersion and fragmentation effects in past years, with local initiatives that may have been very interesting, but were not entirely in sync with the brand values. This led us to strengthen the brands' strategic priorities and develop integrated campaigns. The main lesson from these experiences is the need for consistency of off-line and online strategies: Our strength lies in a comprehensive vision, and mistakes mainly come from a lack of consistency.

Capgemini Consulting: What are the reactions to this transformation within the company?

It's a challenge for all of us. We can legitimately characterize this as a cultural revolution. But the pioneering spirit is a value that has been shared by all L'Oréal employees for decades. Don't forget that Lancôme was the first luxury cosmetic brand to launch a website, in 1999! One year later, we were again the first luxury brand to launch an e-commerce website in the United States! Today, digital transformation is an exciting challenge that involves all of our 66,000 employees around the world.





Marc Menesguen

Managing Director,
Strategic Marketing for L'Oréal

Marc Menesguen has been Managing Director Strategic Marketing Department at L'Oréal since January 2011 and is also a Member of the Company's Management Committee. He previously served as a President of Luxury Products of the Company for six years. Since joining L'Oréal, as a Product Manager, in 1985, he held various marketing and leadership positions while being instrumental in developing the L'Oréal brand on domestic as well as international markets.

Capgemini Consulting

Capgemini Consulting is the global strategy and transformation consulting organization of the Capgemini Group, specializing in advising and supporting enterprises in significant transformation, from innovative strategy to execution and with an unstinting focus on results. With the new digital economy creating significant disruptions and opportunities, our global team of over 3,600 talented individuals work with leading companies and governments to master Digital Transformation, drawing on our understanding of the digital economy and our leadership in business transformation and organizational change.

Find out more at:
<http://www.capgemini-consulting.com/>

Rightshore® is a trademark belonging to Capgemini



About Capgemini

With around 120,000 people in 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2011 global revenues of EUR 9.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Learn more about us
at www.capgemini.com.

Contacts Didier Bonnet, didier.bonnet@capgemini.com