

Natura: Challenges for a Perfumed Internationalization

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Abstract

Natura has paved a successful path and developed a distinctive competitive positioning in the cosmetic, fragrance and toiletry industry in Brazil. Based on a direct sales model, the company has also expanded to Latin American countries. Its core values of environment responsibility and social accountability, coupled with the Amazon origin of the ingredients of its products, have helped the company build strong relations with its partners and produce sound economic returns to its shareholders. Now Natura wants to replicate the same success in Europe. After opening a flagship store in Paris, the company was disappointed at the unexpected small sales level. A new drive for the company's growth in Europe can now come from the recent acquisition of a majority stake in Australian firm Aesop, also specialized in beauty products. Still, Natura needs to decide about the best ways to successfully challenge well-entrenched incumbents in Europe. Which entry modes and sales models should it employ to achieve success? Which should be the first countries? How can Natura leverage Aesop's knowledge, brand recognition and distribution network in its favor? Which market positioning should Natura choose in order to build a strong position in Europe?

Keywords: Natura, internationalization, international business, foreign entry modes

Introductionⁱ

Natura (www.natura.com.br; online sales at www.natura.net) is a 100% Brazilian brand with sales in other five Latin American countries (Argentina, Chile, Colombia, Mexico and Peru) and in France, and innovation centers in Brazil, the USA and France. Leader in Brazil's cosmetic, fragrance, toiletry industry by means of a direct sales model, the beauty company has revolutionized the Latin American market through its innovative value proposal and differentiated corporate behavior. The company's first store was opened in 1970, in São Paulo, to sell products composed of plant-based active ingredients. It soon abandoned the physical store model and took up direct sales, based on an extensive network of independent sales consultants, which have paved the company's success in Brazil.

In the 90's, Natura initiated expansion to Latin American countries. Sales success in Latin America (with the operational break even recently reached in the region) has led Natura to expand its operations to the other side of the Atlantic Ocean, in France; however, sales in France have been disappointing. In 2013 Natura acquired a 65% stake in Australian firm Aesop (<http://www.aesop.com/au/>; <http://www.aesop.com/br/>), producer of premium cosmetics, in order to expand its operations in international markets. The challenge that Natura now faces is how to build a successful business model in Europe. Besides, it has to take measure to revert the trend in its share price, which has fallen about 30% in one year (July 2014-2015), despite expressive growth in net revenues, in particular from the company's international operations (Figure 1, which also includes the French operation and the recently acquired Aesop business).

Natura initiated operations in France in 2005, with a physical store, which a distinct commercial model from the direct sales model that the company employs in Brazil and other countries. Financial results have been somewhat disappointing, but the initiative is part of longer-term plan to enter new markets. However, the Senior Manager of Strategic Planning has several concerns to face and needs to make recommendation to the top management. The differences between Brazil (and other Latin American countries) have to be understood and dealt with (in order to explore opportunities or to diminish the impact of threats). She needs to

reflect upon the competitive positioning and the commercial model to adopt in France. The Senior Manager also has to devise ways by which to integrate the Aesop operations and leverage Natura's position in France and other European countries where Aesop competes, while not jeopardizing the essence that Natura has developed over time.

The cosmetics industry

The overall cosmetics industry encompasses six main categories (in decreasing order of revenues): skincare, haircare, make-up, perfumes, hygiene products and oral cosmetics. Brazil is the third largest market, after the US and Japan. The main players are large multinationals (e.g., L'Oréal, Beiersdorf, Estée Lauder, Unilever, Procter & Gamble, Johnson & Johnson, Avon, Shiseido), but a few formerly domestic firms have gained a relevant stake in the market. One of these companies is Natura, which was the 18th largest cosmetics firms by revenues (USD 3.16 billion) in 2014 (Statista, 2015).

Most of the sales in the industry are carried out via brand-operated kiosks in department stores or in special corners in multi-brand stores. However, a few firms (e.g., L'Occitane) also operated mono-brand stores and most of the firms now have online sales. A few firms (e.g., Avon and Natura) run extensive networks of direct sales with the help of independent sales consultants.

As reported by a business analyst of the cosmetic industry, interviewed for this case, the preferences for certain categories of cosmetics vary across geographic regions. While European women (and also men) value perfumes and body lotions, Asian women use little perfume (because the fragrance may be interpreted as an invasion of the third parties' space); likewise, in some African countries, a "perfumed" person may resemble a corpse (since some African peoples perfume the bodies of dead persons, so that they can be kept longer before they are buried). On the other hand, Asian women cater for skin care products, in particular because in some countries a tanned skin may resemble rural workers.

Natura's History, Values and Productive Structureⁱⁱ

Natura was founded in 1969, by Antônio Luiz Seabra in partnership with Jean Berjeaout. The company opened its first store in 1970, in São Paulo, and its production plant had fewer than 10 employees back then. A few years later, after trying several ways to distribute its products, the company started a success experience with door-to-door sales through its "consultants" (direct sales representatives). In 1976, Natura launched its first sales catalogue with detailed information on how to use the products. The catalogue became an important tool to help consultants serve their customers. At the beginning of the 80's the company experienced strong growth driven by geographical expansion within Brazil and the development of the product portfolio. As early as 1982, Natura started operations in Chile and in the 90's the company intensified its international expansion throughout Latin America. In 2004, Natura launched its IPO (initial public offering) in the Brazilian stock exchange, Bovespa, adhering to the *Novo Mercado* (New Market) – the highest level of corporate governance of Bovespa.

The name "Natura" comes from the presence of plant-based active ingredients in their products. The core values of the company emphasized making people feel good about themselves and caring for the natural environment (a clear similarity with the Body Shop, founded in 1976 in the UK and now partly owned by L'Oréal). Over the years, Natura has emphasized its commitment to social welfare and the preservation of the environment. The company has carried out several sustainable initiatives such as refillable packages, programs to help improve public education, partnerships with regional agricultural cooperatives,

elimination of tests in animals (and use of synthetic material for research and testing). The concern for consumers' well-being and for the natural environment has led Natura refrain from some beauty products such as hair dyes and nail polish (because of their inherent toxins). Besides, the company only launches a new product if its time for natural degradation in the nature is smaller than that of the product it aims to substitute. Natura sourcing practices promote the well-being of local communities of growers and preserve the environment.

Natura's "reason for being is to create and sell products and services that promote well-being/being well." Their stated vision is: "Natura, through its corporate conduct, through the quality relationships it establishes, and through its products and services, will be a globally significant brand, identified with the community of people committed to building a better world by means of a better relationship with themselves, with others, with the nature they are part of, with the whole." Natura aims to create value for society as a whole by generating integrated results in the social, economic and environmental dimensions; in other words, "the triple bottom line". The company believes that sustainable results are achieved through quality relationships; therefore, it keeps open channels of dialogue with all of its stakeholders. This mindset and behavior are expressed through Natura's business conduct, which aligns sustainable development, development of products and concepts that promote social welfare and fostering relationships with several stakeholders. The company takes several measures in order to reduce its water print (waste of water) and the emissions of greenhouse gases, improve its relationship with agro-extractive communities, and employ fair remuneration practices for their services and biodiversity assets.

Natura has five production plants, four in Cajamar – in the Brazilian state of São Paulo – and one in Benevides – in the Brazilian state of Pará. The company outsources part of its production from Brazilian and foreign producers. Natura has eight distribution centers in Brazil and five in its international operations. More than 61,000 orders are delivered to more than 5,500 Brazilian cities, of which 38% within 48 hours. Natura products are distributed through a network of 1.3 million consultants in Brazil and 400 thousand in other Latin American countries and also France. The firm employs 5,232 workers in Brazil, 1,359 in its international operations and 864 in the recently acquired Australian firm Aesop.

Natura has three centers of research and innovation in Brazil – in Cajamar, Benevides and Manaus– and two abroad – in the USA and in France.

Natura's Competitive Positioning

Natura sells premium mass-market cosmetics and personal care products (a portfolio of more than 700 products across eight categories: fragrances, make-up, skin treatment, sun creams, hair care, deodorants, soaps and shaving creams) to middle- and upper-class consumers. To develop its product portfolio (of about 1,300 products), Natura mobilizes professionals who are capable of integrating scientific knowledge with the sustainable use of Brazil's rich botanical biodiversity. Their products are not tested on animals and the company follows rigorous international safety standards. The company's management believes that these initiatives result in high-quality cosmetic products that can provide pleasure and well-being for the consumers, while preserving the natural environment. Natura encourages its consultants to try their products on themselves before selling them.

Table 1 presents Natura's main product lines/brands. The company's flagship brand, Ekos, employs fruits and roots from the Amazon rainforest and other Brazilian forests, usually harvested by small local producers and growers. By promoting economic use of these indigenous products, Natura prevents the use of these lands for practices that harm the environment, such as timber harvesting, mining, extensive cattle raising or farming.

Natura invests about 3% of its annual net revenues in R&D. The company was classified in position 75 among the most innovative growth companies in the world in 2014 (Forbes, 2015), and ranked eighth in 2011. Its recognition by Brazilian consumers as a producer of innovative, high quality, eco-friendly cosmetics is key to the success of Natura.

Natura's Senior Manager of Strategic Planning argues that when the Natura brands become known by the consumers, they (and the corresponding products) reach high levels of acceptance, which makes the brand image one of Natura's greatest competitive advantages.

Natura's Commercial Model

Natura soon chose the direct sales model. Its direct sales network has around 1.3 million consultants, who are not Natura's employees, but rather often have other occupations. Natura Consultants (NC) are mainly women, independent resellers, who purchase products directly from Natura and resell to their customers in the way that best suits them. Consultants are independent, in other words, there is no exclusive contract, employment entailment, nor minimum period of association with Natura. There is also the Natura Sales Advisors (NSA), who are also resellers as the NCs, and in addition, indicate new candidates to become NCs. They provide advice to a group of consultants about the sale cycle promotions and Natura's internal service channels. They are also autonomous workers, without employment entailment with Natura. In Brazil (and in some other countries in which Natura operates) in addition to the commercialization of products, the NSAs can form relationship groups through their indications and therefore be paid for it.

In 2011, Natura launched the Natura Magazine, a product catalog with suggested prices to consumers. Which also contains editorials and conceptual articles. This Magazine is an important marketing tool that transmits the company's beliefs and values, besides the concepts of each brand. Natura distributes 2 million copies in each sales cycle in Brazil and in its International Operations. Each commercial cycle is a period of approximately 21 days when Natura publishes a new Natura Magazine, featuring product launches and new promotions, besides offering meetings and training programs to its consultants. The order cycle is the process in which Natura makes its products reach buyers, and covers from order placement by the CNs until the product's delivery to the end consumer. CNs place the order (minimum sizes apply) throughout the internet or the telephone on Natura attending center (NAC), receive the products in their homes and they have 21 to 60 days to pay Natura. NCs have a credit limit that increases with the time that they work as consultants and with their history of payments.

According to the business analyst interviewed, "Why L'Oréal, the largest cosmetic company in the world, is not the largest in Brazil? Because they have the product, but do not have the channel. Brazil lacks department stores and specialized stores."

Natura has purposefully renounced to the physical store model because the store would somehow compete against the sales consultant. Founder Seabra is credited to have said that "the consultant is the center of the business."

The sales formats adopted by Natura across different countries can be classified into four models: the mono-level model, the dual-level model, the multi-level model and the commercial model adopted with the Aesop brand as follows:

Mono-level model. Adopted in Argentina, this model features only one network of relationship between Natura and Natura consultants (NCs), with no formal employment contract with Natura.

Dual-level model. Besides the commercialization of products, the Natura Consultant Advisor (NCA) can form groups of relationships and, as a result, can be remunerated for that,

with no formal employment contract with Natura. This model is adopted in Brazil, Chile, Peru and Colombia.

Multi-level model. Adopted in Mexico, this model allows the consultants to climb up eight levels according to the attraction of new constituents for their own network, and also to the social environmental actions in their communities. In ascending order, the levels are: (1) CN, (2) CN Entrepreneur, (3) Natura Trainer 1, (4) Natura Trainer 2, (5) Natura Transformer 1, (6) Natura Transformer 2, (7) Natura Inspirer, and (8) Natura Associated. There is no formal employment relationship with Natura.

Model adopted with Aesop. Aesop operates several types of distribution channels: kiosks in department stores, signature stores (where buyers get into contact with the essence and history of the brand through a pleasant and unique experience), online sales, and some selected international commercial places (e.g., hotels, restaurants and airline companies).

Natura's Senior Manager of Strategic Planning argues that experimentation is important in the sales of cosmetics, but the Internet deprives the buyer of this opportunity.

Natura's Internationalization

Natura's international expansion began in the 80's and focused in Latin America because of the physical proximity and the cultural affinity. The first foreign country was Chile in 1982. The operations began with the opening of Jâmbar y Cia Ltda, for distribution in Chile. A year later, in 1983, Natura reached Miami (an American state with strong Latin influence) with the Numia brand. In 1987, Natura entered the Bolivian market via a partnership with a local distributor. In these first three attempts, Natura's internationalization did not achieve very good results, which led the company to withdraw from the US market. Specifically in the case of Chile, one of the problems lied in the dominant share of cosmetics sales through stores, with direct sales representing less than 20% of the total. Another important issue is that Chile features high employment rates and (relatively) high income – therefore, Chilean women are not so motivated to search for a complement of the income, as do Brazilian women. Over the years, with price revisions and high investment in communication, Natura managed to reverse this scenario. Furthermore, Natura partnered with a local company, Labsa, and founded Belleza Internacional S.A. in 1990. In 1993 the company bought the operation and Belleza Internacional became a wholly-owned subsidiary.

In 1994 Natura continued to expand in Latin America, specifically in Argentina and Peru. As in the Chile example, the company entered both countries with local distributors. By 2000, the operations in these three countries (including Chile) were fully controlled by Natura, with administration and distribution centers were built in each of them.

In 2005, having already acquired considerable international experience, Natura started operations in Mexico under its full control. In the same year the company expanded its international presence to Europe, with the adoption of a different model: a physical store in France. As a deliberate attempt to boost brand recognition, the opening of the Natura store in one of the most luxurious spaces in Paris (see Figures 2, 3 and 4) marked the entry of the Brazilian company in the challenging and competitive European market. The physical store was expected to foster learning about the tastes and preferences of local consumers. The store was set up to provide a sensory experience to customers, emphasizing the well-being (and being well) values of the brand and the respect for nature, biodiversity and social concerns.

In 2006 and 2007, respectively, Natura expanded into Venezuela and Colombia with full control of the operation. (However, the Venezuelan operation was closed in 2009 because of the institutional risks and state control over exchange rates and remittances.)

In Brazil and the other Latin American countries, Natura distributes its full product portfolio. In France, however, Natura decided to concentrate in differentiated products,

through its Ekos line based on natural ingredients of the Brazilian biodiversity, in order to lure the French consumer with an original Brazilian proposal.

Preferences and consumer attitudes of European consumers are different from those of their Latin Americans counterparts, as stated by Natura's Senior Manager of Strategic Planning: "[...] Natura has a team located in Argentina and since 2009 the company has been focusing heavily in research and development. The company also adapts its communication and the product portfolio, especially for perfumes and makeup, since there are differences in the tastes and preferences regarding European consumers."

The Senior Manager reported additional differences between the markets: "[...] something that is very different in Europe [more specifically in France] is that some ingredients are prohibited by law, so the portfolio ends up being more restricted. In the beginning, only the Ekos line was sold in France; then, we expanded into a few more [product lines], but not the whole portfolio. I would say that in Latin America, Natura sees preferences that are different with respect to the color palette; what means sophistication in some markets is different in others. For example, a package to be sophisticated in some markets has to be golden, has to shine, suggesting glamour. In some mature markets, [however,] simplicity also conveys sophistication [...]"

The priority attention dedicated to the Latin American Market was purposeful. The region was expected to (and in fact did) experience higher growth than mature markets and was more favorable to the direct sales model, with which Natura had grown accustomed. According to business online magazine PIB (2010), "In France, the share of this [the direct sales] model is only 3%; in the USA, around 10%. But in Latin America it reaches 35%." Besides, the cultural differences across Latin American countries are smaller than those between Brazil and other markets: "The Latin [person] is Latin. They are closer and like to talk," said Alessandro Carlucci, the CEO of Natura at the time (PIB, 2010).

In 2013, Natura acquired a 65% stake in the Australian cosmetics brand Aesop – which has almost 20 years of existence as is present in 15 countries across Asia (Japan, Singapore, Malaysia, South Korea, Taiwan, Hong Kong), Europe (France, Germany, Norway, Switzerland, Sweden and the UK), the USA, Australia and also Brazil (where they opened their first store in June 2015) –, giving the company the opportunity to expand its international operations. Natura has the option to acquire the remaining 35% of Aesop until 2016. At the end of 2014, Aesop had 98 stores (18 of which opened in that very year). Aesop has 126 products, especially for the face and body categories. As much as 5% of its sales are carried on online.

In 2010, Natura's CEO, Alessandro Carlucci (who left the position in 2014), gave an interview to the business online magazine *PIB* in which he stated that Natura had no short-term plans to build manufacturing facilities in the foreign countries where it had sales, but the company would rather outsource production to local firms; in fact, "[...] our model was to export the full package. It made no sense to make specific products a region because the size of the market would not justify it" (Greco, 2010). As each foreign market grew larger, it would be necessary to know the customers more in order to cater better to their needs. Another reason to use local producers is to reduce cost (transportation, and the high tax burden and interest rates that characterize the Brazilian business environment) and the consequences of volatility in exchange rates. Furthermore, producing closer to the consumption means less emission of carbon dioxide (in the transportation), which is an important argument for a company that takes environment protection as one of its pillars (Greco, 2010).

The Aesop Business

Aesop was established in Melbourne in 1987 and specialized in skin, hair and body care products made of plant-based and laboratory-made ingredients, to be commercially sold only after a proven record of safety and efficacy. The company is headquartered in Melbourne and has offices and stores across the world (e.g., New York, London, Paris, Tokyo and Hong Kong).

According to the company's website, "Aesop has maintained a fiercely independent approach to product research and development from the outset. Our team of skilled chemical scientists work[s] out of our Head Office in a utilitarian, custom-built laboratory – conceptualising product ideas, researching blends, and creating prototypes. We source our ingredients from the most reputable suppliers across the globe, then marry cutting-edge technology with long-established scientific practices and principles to craft formulations of exceptional quality" (Aesop, 2015a).

The company's website also informs that, along its history, Aesop has established its stores "by means of immersion in unfamiliar landscapes, investigation of local materials, engagement with local culture and history, and of course development of fertile new relationships. The desire to embrace differences and nurture such affinities is intrinsic to our thinking and way of being" (Aesop, 2015b).

According to the Natura's Senior Manager of Strategic Planning, the acquisition of Aesop was motivated by the alignment (of organizational culture and values) between the two companies: "At Natura, decision-making regarding acquisitions takes much into account whether the culture of the company [to be acquired] has a very strong alignment with Natura, both in terms of essence of the company and of the product portfolio. This way, Natura has a fast learning process with this acquisition. The acquisition of Aesop brings learning and access to the markets in which Aesop is already established."

Although Natura's Senior Manager believes that the companies are closely aligned in terms of culture and values, they still keep independent management teams. The business analyst interviewed, however, believes that there would be a closer alignment with L'Occitane (a French company) because it works around "the concept of natural products and and [also] has global presence and is an independent company [; whereas...] L'Oréal has its own line of natural products – The Body Shop belongs to L'Oréal."

Natura's Main Competitors

Because Natura operates in several geographies, it faces different competitors, across countries and product lines. In general, the main competitors of Natura in Brazil are: Avon, O Boticário (a Brazilian manufacturer), L'Oréal, P&G and Unilever. In terms of Latin America, Belcorp (a Peruvian company that is the third largest in terms of direct sales of cosmetics in Latin America, *cf.* Belcorp, 2015) and Colgate can be added to that list of Natura's competitors. Figure 5 shows Natura's main competitors by product line. Figure 6 shows the growth of Natura and its main competitors in Brazil and in Latin America, from 2008 to 2013. Figure 7 presents Natura's sales and shares in the consumer fragrance and toiletry industry.

According to the business analyst interviewed, O Boticário has moved beyond its well-established network of mono-brand physical stores in Brazil and has also adopted the direct sales model. The company has about 400 thousand direct sales consultants, several of which had been (or still are) Natura's consultants.

As it expands into Europe, Natura now competes against the major players in the world's cosmetics industry, as stated by the Senior Manager of Strategic Planning: "The competition out there is much higher than in Latin America, especially in the United States and France. The whole Europe is the cradle, it is the home of the headquarters of these large multinationals, it is where the big launches happen, [where one can find] the most modern in

terms of cosmetics. That's where I think Natura understands the difference, not only in consumer preferences, but in the repertoire of those consumers who are more sophisticated, more demanding – and [Natura] has a basis for comparison of products offered, much higher."

Natura was the only Brazilian company among the fifty brands of the world's most valuable cosmetics in 2014. According to the survey conducted by the Brand Finance (2015) site, Natura appears in 17th place in the ranking, valued at 2.465 billion dollars (see Table 2). Out of the 10 top brands in the ranking, nine belong to six major world players: Avon, Estée Lauder, Johnson & Johnson, L'Oréal, P&G and Unilever (see Table 3).

The Company's Challenge

The process of Natura's expansion in Latin America is a relevant case of successful internationalization, at least in terms of brand awareness and acceptance and, more recently, also in terms of profitability. After expanding to the Latin American neighbors, the Brazilian company landed in Europe, with a store in Paris and, later on, the acquisition of a majority stake in Aesop – an Australian firm with a relevant business in Europe. Nevertheless, cultural differences between Brazil and the vast majority of European countries are higher when compared to Latin American countries. Data related to the consumer fragrances and toiletries industry published on the Natura Day Report of 2014 (Natura S/A, 2014) indicates that the company has not been able to repeat in France the same performance experienced in Latin America. In 2005, Natura even considered – and ran a focus group research – the possibility of expansion into Russia, but decided not to enter (Jones & Pinho, 2007). Along its history of internationalization in Latin America, several times Natura faced performance problems when it did not adopt the direct sales model. Natura's presence in Europe is still relatively recent and no final decision has been reached about the proper commercial model and market positioning. Learning related to the tastes and attitudes of demanding European consumers through a "concept store" in France looks promising, but it is just the starting point. The acquisition of Aesop brings several opportunities and challenges.

However, as stated by the business analyst interviewed, "everywhere in the world you sell cosmetics through department stores, not stand-alone stores [...] because one of the greatest challenges of the stand-alone store is the cost."

The Senior Manager of Strategic Planning has a lot of questions that demand her attention:

- How should Natura deal with the relevant differences between the Latin American and the European cosmetics markets? The Senior Manager knows that several aspects of the macro-environment need to be considered, for example, culture, socio-demographics, legislation, consumer preferences, and economy.
- What market positioning should Natura adopt for its product portfolio and image? Should the company insist on strengthening its much-valued concepts of sustainability and "well being well" and its Brazilian-based product origin or should the company adapt its offer to satisfy other preferences and expectations of the potential new clients? Should Natura emphasize its Brazilianness and its socio-environment concerns and nature-based products or should it fight head-to-head with established competitors by stressing product quality and results?
- What would be the most appropriate operation mode and sales model in France and then in new countries in Europe? For example, direct sales or physical store sales? If physical stores, should they be stand-alone shops or kiosks in department stores or corners in multi-brand stores?
- Will the acquisition of Aesop enable Natura to leverage its international expansion? What advantages (and disadvantages) does Aesop bring to Natura's business?

ⁱ Except for the literal citations of interview passages, all other parts of this text are based on the authors' assessment of the industry and of the firm and reflect the views of the authors of this teaching case; as such they may not necessarily represent the opinions of Natura's management.

ⁱⁱ Information about Natura's values was obtained from the company's website.

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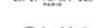























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Table 1 – Natura's main product lines

Product Line	Characteristics
	NATURA CHRONOS offers a full range of options for facial skin treatment, developed for women over 30 years. The line says the beauty of women at all stages of their lives and aligns technology for skin treatment with the rejection of stereotypes about beauty. This line includes a variety of cleaning products hydration and toning the skin, and anti-aging products, broken down into categories for women 30 to 45, 45 to 60 and 60 years or more.
	NATURA EKOS is a product line that encompasses perfumery, toiletries and ambiance, uses funds from rich Brazilian biodiversity. With this line the company seeks to raise awareness of the richness of Brazil's environmental heritage and get natural ingredients in a sustainable manner in order to preserve this heritage for future generations and encourage the development and the quality of life in communities that cultivate or extract these ingredients. In line with the concept of sustainability, EKOS line of products are biodegradable and use glasses and packaging that contains recycled material and refills that in addition to reducing the environmental impact, increase the competitiveness of the company, offering economy and packaging use. NATURA EKOS covers most of the market segments, including soaps, shampoos, conditioners, moisturizers and perfumes.
	NATURA TODODIA offers a wide variety of products designed for daily use in various segments. This line follows a global trend in the cosmetic use of natural ingredients such as milk, sugar and honey.
	NATURA AMÓ is a product line of fragrances, massage oil, soap and deodorant, inspired in love with gestures that enchant, seduce and surprise. Their fragrances, colors and textures stimulate touch, encounter and intimacy and are invitations to put love on the move.
	NATURA MAMÃE E BEBÊ is a product line of personal care products that was specially developed to affirm the value of the link between mother and child that begins in pregnancy, including on the importance of this relationship in personality formation and contribution to happiness. The ingredients, textures, fragrances, colors, shapes and functions of these products are designed to evoke the tenderness of the mother's care for her child. The line consists of products for babies and pregnant women.
	NATURA HOMEM is a complete line specifically designed for the male audience, which includes fragrances, products for routine beard care, face and body.
	NATURA KAIKAI is one line of men's products refreshing and relaxing fragrances for those who enjoy jogging outdoors.
	NATURA UNA is a full line of makeup that awakens the senses and pleasure, combining performance, technology and natural ingredients, in a unique way. Different textures and sensory pleasure. Personality in an exclusive color palette. And formulas that in addition to portray the beauty, help skin care. A line with attention to every detail. Everything to make the amazing makeup and face even more radiant and luminous. The line is so complete that also offers products for pre-makeup, which standardize the skin and ensure the establishment, as well as designed brushes for applications.
	NATURA SOU is a line that invites you to consume in a new way, combining the individual enjoy life on the planet. These products are developed for body and hair from an intelligent process that reduces materials to generate less waste, less waste and less environmental impact. Because for AM, the essential thing is what is inside: formulas that offer maximum quality, very pleased sensory and delicious fragrance. Their packaging have a smart design that uses less raw material and takes every drop of each product.

Source: Natura's web site, <http://www.natura.net> (access: April 21, 2015)

Table 2 – Brand Finance Top 20 Cosmetics Brands 2014.

BrandFinance Top 20 Cosmetics Brands 2014								
Rank		Logo	Brands	Country	Brand Value (USD \$ Millions)		Brand Rating	
2014	2013				2014	2013	2014	2013
1	2		L'Oréal		10,766	8,696	AAA+	AAA-
2	6		Avon		6,384	5,169	AA	AA-
3	11		Pantene		6,163	5,974	AA+	AA
4	4		Nivea		6,079	5,843	AA+	AA+
5	7		Dove		5,885	4,242	AAA-	AA
6	15		Garnier		4,809	2,632	AAA	AAA-
7	9		Estée Lauder		4,589	3,87	AA+	AA+
8	5		Lancôme		4,088	5,508	AAA	AA+
9	1		Olay		4,083	3,955	AA+	AA+
10	23		Johnson's		3,603	1,513	AAA	AA+
11	12		Christian Dior		3,329	2,952	AAA-	-
12	11		Head & Shoulders		2,953	3,138	AA-	AA-
13	13		Chanel		4,509	2,813	AAA	AAA
14	17		Maybelline		2,921	2,398	AAA	AAA-
15	18		Clarins		2,602	2,375	AAA-	AA+
16	19		Shiseido		2,507	2,203	AA	AA+
17	21		Natura		2,465	1,849	AA+	AA+
18	2		Neutrogena		2,313	2,127	AAA-	AA+
19	25		M.A.C.		1,639	1,382	AAA-	AAA-
20	22		L'Occitane		1,57	1,698	AA+	AA-

Source: Adapted from Brand Finance Top 50 Cosmetics Brands| 2014.

Table 3 – Key world players in the cosmetics industry.

Company	Details
	<p>L'Oréal is a French cosmetics company headquartered in France. The company manufactures skin care, hair care and makeup products for regular customers, as well as professionals. Founded in 1909, the company has since expanded its portfolio to include some of the world's most famous brands, including Lancome, Giorgio Armani, Urban Decay, L'Oréal Paris and Maybelline New York.</p>
	<p>Unilever is a large beauty goods maker. It generated annual revenues of \$67.4 billion in 2013, of which \$24.8 billion was generated from its Personal Care segment. The Anglo-Dutch multinational operates its Personal Care businesses under various brands, including Pond's, Dove, Lux, Tony&Guy, Sunsilk, St. Ives and Axe.</p>
	<p>The Procter and Gamble Company, popularly known as P&G, is the largest name in the Household and Personal Goods Industry. The company has five business segments, of which the Beauty segment contributes 24% of its revenues. P&G offers various personal care brands, such as Max Factor, Herbal Essences, Wella, CoverGirl, Olay, Pantene and Head & Shoulders.</p>
	<p>Avon Products Inc. is the largest direct-selling cosmetics company. It employs more than six million independent representatives globally, who sell beauty care products for the company from door to door. The company generates 70% of its revenues from its Beauty Care division, which includes brands like ANEW, Avon Color Trend, Luxe, Outspoken, Forever, and Liz Earle.</p>
	<p>Estee Lauder Companies, established in 1946 by Joseph Lauder and his wife Estee Lauder, is a leading retailer of cosmetics, generating revenues of over \$10 billion annually. The company, known for its innovative skin care products and high-touch customer service, has a presence in over 150 countries. It is known for its homonym Estee Lauder brand, and the MAC, Clinique, Smash Box, and Origins brands.</p>
	<p>Johnson & Johnson is an American multinational manufacturer of medical devices, pharmaceutical and consumer packaged goods, founded in 1886. The corporation includes some 250 subsidiary companies with operations in over 57 countries and products sold in over 175 countries. Johnson & Johnson defines itself as a health-focused company, and this strongly informs its beauty and personal care offer. The company benefits from a broad geographic spread, and has developed a strong base for development in key growth categories in major emerging markets. Johnson's baby remains the leading brand for the company but its skin care brands continue to be strong in acne treatments and cleansers in the US (J&J's biggest market). Johnson & Johnson owns: Neutrogena, Aveeno, Clean & Clear, RoC, Rogaine, Lubriderm, Purpose, and Ambi.</p>

Figure 1 – Natura’s Net Revenues (domestic and foreign markets)

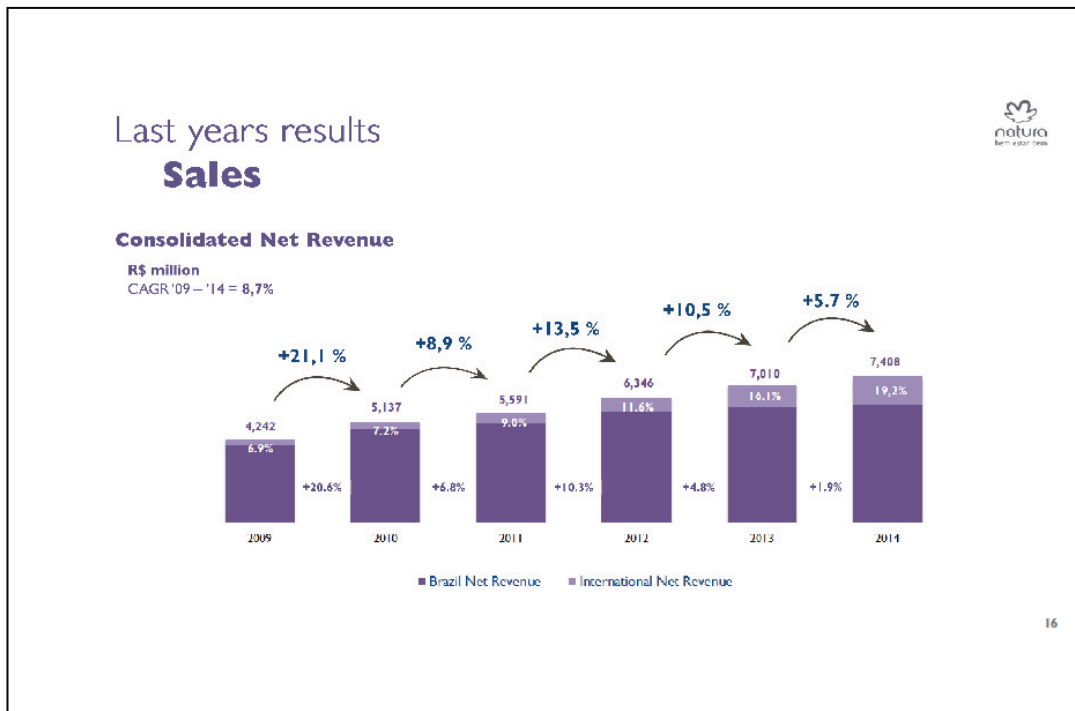


Figure 2 – Natura store in Paris



Source: Vogue Magazine’s web site, <http://www.vogue.com/magazine> (access: April 15, 2015).

Figure 3 – Products at Natura store in Paris



Source: Natura's French web site, <https://www.naturabrasil.fr/fr> (access: April 15, 2015).

Figure 4 – Inside of Natura's store in Paris



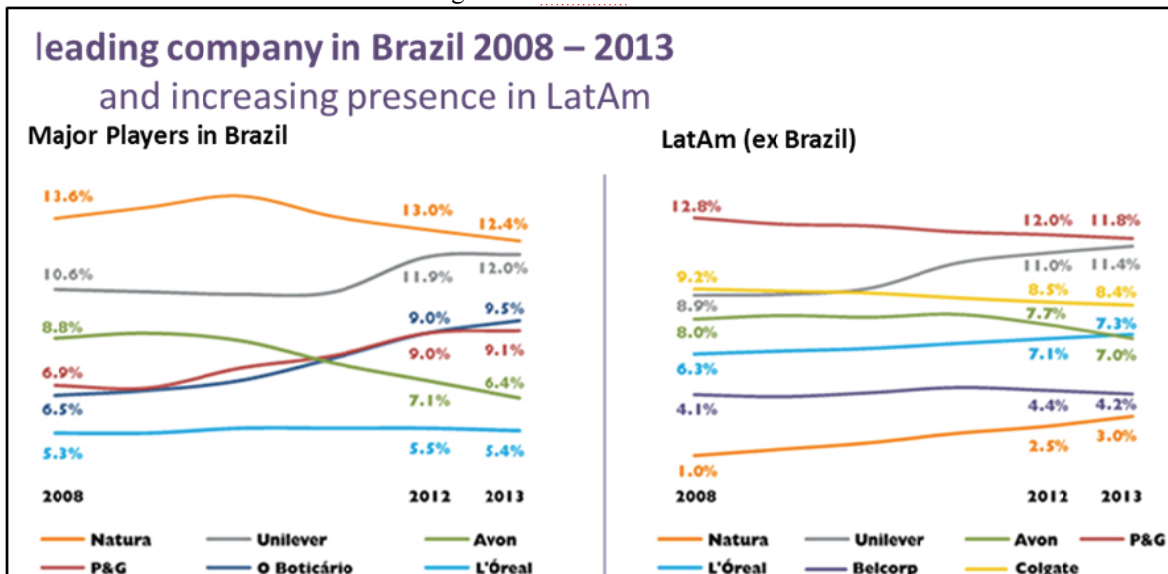
Source: Natura's French web site, <https://www.naturabrasil.fr/fr> (access: April 15, 2015).

Figure 5 – Natura’s competitors by product line

	Key Brands	Main Competitors
Children Care		Johnson & Johnson Procter and Gamble
Anti - Wrinkles		Avon NIVEA
Body		Hypermarcas NIVEA
Facial Make Up		Avon O Boticário
Men's grooming		Procter and Gamble Unilever
Hair		L’Oreal Unilever
Sunscreen		Johnson & Johnson NIVEA
Deodorant		Unilever Avon
Fragrances		O Boticário Avon
Oils		Colgate Unilever
Soaps		Unilever Bertin

Source: Natura’s web site, <http://www.natura.net> (access: April 21, 2015).

Figure 6 – Natura’s market share






Source: Natura’s website, <http://www.natura.net> (access: April 21, 2015).

Figure 7 – Natura’s sales and shares in the consumer fragrance and toiletry industry

**DIRECT SALES SHARE
IN THE CF&T MARKET**

Region	Direct Sales (%)
Latin America	25.9%
Brazil	26.3%
Argentina	21.2%
Chile	17.3%
Colombia	31.9%
Mexico	23.7%
Peru	35.9%
Eastern Europe	15.6%
Asia Pacific	9.9%
Australasia	7.6%
North America	6.0%
Western Europe	3.8%
Africa / Middle East	4.2%

**SIZE OF CF&T MARKET
(in US\$ billion, Fixed FX)**

Countries	2013	CAGR % '08 - '13
United States	73	2.0%
China	44	10.4%
 Brazil	43	13.8%
 Mexico	11	6.7%
 Argentina, Chile, Colombia and Peru	15	12.9%
Countries in which Natura operates¹	69	12.3%
World	454	5.0%

Source: Natura’s web site, <http://www.natura.net> (access: April 21, 2015).

TEACHING NOTES

These teaching notes – in particular, the analyses and responses to the suggested questions – reflect the views of the authors of this teaching case and may not necessarily represent the opinions of Natura's management.

Summary

This teaching case discusses the expansion of Natura – the largest cosmetics company in Brazil – into Europe, in particular, France. The study brings data from secondary sources (such as the company's website (including the investor relations area), market reports, other published teaching cases or articles on the firm) and primary data from interviews with top managers of the firm, in particular the Senior Manager of Strategic Planning (who also consulted with the Marketing Manager of International Operations. An interview with a business analyst that has been following Natura for year helped bring an independent look into the prospects of the Natura's business and expansion. For confidentiality purposes, the interviewee's names will not be revealed.

Learning objectives

This teaching case can be used in courses that address international business and/or market positioning. The following challenges are highlighted:

- impact of macro-environmental country differences, specially cultural differences between countries;
- advantages and risks of adaptation of competitive positioning and competitive offerings, including the emphasis (or not) on the country image associated with the brand;
- advantages and disadvantages of different foreign operation modes and commercial models.

Suggested issues for discussion and suggestions for analysis

What follows are mere suggestions of possible paths for analysis.

1. How should Natura deal with the relevant differences between the Latin American and the European cosmetics markets?

The Brazilian cosmetics market has higher similarity with other Latin American market than with European markets. In terms of economic aspects, there are large discrepancies between wages, credit availability, and inflation. The higher per capital income in Europe may affect favorably the prices consumers might be willing to pay; on the other hand, it may make it more difficult for Natura to find enough people who would be willing to work as free lancers under the direct sales model – thus leading the company to consider other commercial models with which it has little experience yet. The geographical environment in Europe is favorable in terms of logistics, because the distance between cities and countries is lower there than among Latin American countries, facilitating the operation of distribution centers. However, Natura's products are based on the Brazilian biodiversity, which complicates the transport of raw materials and the setting up of production facilities in Europe. Currently, most Natura products are produced in Brazil and some are outsourced to local producers in a

few other Latin American countries. In the political and legal perspective, there are differences in labor laws, which can restrain the use of the direct sales model.

In addition, competition in the European market is high, especially in France, where there are major competitors already established with strong brands. Students can conduct an analysis based on Michael Porter's Five Forces Model (Porter, 2008) in order to understand the differences in the competitive dynamics of the cosmetics industry between Latin America and Europe, and to suggest initiatives that the company could take, so that it could build a better position vis-à-vis the industry forces. In addition, instead of fighting head-to-head with entrenched incumbents, Natura can try to develop a clearly distinct (and unchallenged) position, that is, a "Blue Ocean" strategy (cf. Kim and Mauborgne, 2005), by emphasizing its distinctive products origin and corporate attributes.

2. What market positioning should Natura adopt for its product portfolio and image? Should the company insist on strengthening its much-valued concepts of sustainability and "well being well" and its Brazilian-based product origin or should the company adapt its offer to satisfy other preferences and expectations of its potential new clients?

The Natura brand is appreciated for its sustainability values (including concern and responsibility not only for the environment, but also for the local communities) and "well being well" philosophy. Its products made from ingredients from the Brazilian biodiversity differentiate it from its competitors'. According to the executive interviewed for this study, when the brand is known by consumers, Natura has high levels of acceptance, which makes the brand image one of its greatest competitive advantages. Therefore, keeping and emphasizing its current brand image and product portfolio can help Natura build a unique positioning in Europe – setting it apart from the strong competitors that dominate the continent. After all, Natura's concern for environment protection, social welfare, use of natural ingredients and fair trade practices would be much welcome by European consumers – in particular, the best-off, who may be willing to pay a premium price for these attributes. Adopting a global positioning seems to be a good bet. However, in a mature and high-competition market, Natura will have to spend heavily in order to increase the awareness about the brand and its attributes.

Students can be encouraged to evaluate the company resources (tangible and intangible) based on the VRIO framework (Barney, 1996) and identify the benefits generated by these resources (for example: temporary versus sustainable competitive advantages).

3. What would be the most appropriate operation mode and sales model in France and then in new countries in Europe?

Natura prefers to have full control over the distribution system. By acquiring 65% of Aesop, with the right to acquire the remaining 35% in three years, Natura shall boost the expansion of its international operations into new markets, ensuring the control of operations and securing learning opportunities.

Natura's products are recognized by its plant-based active ingredients. To develop its product portfolio, Natura mobilizes experts who are capable of integrating scientific knowledge with the sustainable use of Brazil's rich botanical biodiversity. Both the inputs and the knowledge and skills that Natura has developed over the years are strategic for the company, which suggests the need for greater control over purchasing, P&D and manufacturing operations as well as the need for direct contact with suppliers, local communities and the public sector.

However, the distribution itself can benefit from partnering with other players, although care should be exercised on keeping the (free-lance) sales force motivated and active.

Therefore, while manufacturing and P&D facilities shall remain in Brazil and be kept wholly-owned, Natura can discuss whether the packaging operations can be located closer to the consumer markets and can be run in partnership with Aesop facilities – as can stores (in case the company decides to open more of them). Marketing decisions may also be moved to Europe, but the headquarters shall have a final word on the values and the positioning to be communicated.

The students can evaluate the characteristics and the advantages and disadvantages of the main foreign entry modes (see Cavusgil, Knight, Riesenberger, Rammal & Rose, 2014). They can be encouraged to discuss the advantages and disadvantages of two commercial models in France: direct sales vs. physical stores models. Regarding physical stores, they can compare stand-alone mono-brand (wholly-owned or franchised) stores vs. the store-in-store concept. Online sales should also be discussed.

4. Will the acquisition of Aesop enable Natura to leverage its international expansion? What advantages (and disadvantages) does Aesop bring to Natura's business?

The acquisition of Australian company Aesop, also a manufacturer of cosmetics with botanical ingredients, gives Natura know-how to explore different forms of sales, enabling Natura to operate in countries where direct sales – a key strength of Natura's current commercial model – is not part of the consumers' culture. While Natura has one single (concept) store in Paris – whose main objective is not to sell products, but rather to leverage awareness for the brand and promote learning about the consumers' preferences –, Aesop operates about one hundred stores in 15 different countries.

Although the two companies have affinities, they are different in management. Such diversity may provide the exchange of experiences and foster learning. According to the executive interviewed, the "synergy" between Natura and Aesop opens the way to accelerated learning. However, that diversity – if not properly understood and managed – may lead to conflicts in decisions about competitive positioning, sales models and human resources management.

Students can be asked to conduct a SWOT analysis to identify strengths and weaknesses, as well as opportunities and threats of Natura prior to the acquisition of Aesop. Then students could conduct a second SWOT analysis to identify the strengths and weaknesses and opportunities and threats, this time considering the acquisition of Aesop. Thus the two analyses could be compared in order to evaluate if this union would: (1) leverage the strengths; (2) reduce weaknesses, (3) mitigate risks and/or (4) provide new opportunities for Natura.

Suggestions for Future Studies

Please note that the focus of this case is limited to Natura's expansion to France. However the remaining European markets as well as the USA market, given their size and growth rate, are very important for Natura's growth plans important and should be the subject of future studies.

References to the Teaching Notes

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