

COMPETITIVENESS AND PERFORMANCE ON THE COSMETICS MARKET

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Most organizations are going through massive changes. Their customers are changing, their competition is changing, their customer's needs are changing and their resources availability is changing - the cosmetics companies are no different. Organizational survival and success depends on the ability of the managers to detect and adapt to critical changes in the environment, which may impact the company.

The paper has two main purposes. First to underline the importance performance measurement has in today's business and second to present a few key elements regarding the performance of the cosmetics sector in Romania. For this we have tried to answer the following question: Are the cosmetics companies competitive?

This paper is based on exploratory literature review of different approaches regarding organizational performances in organizations in general.

Despite the global economic crisis and the general slowdown of many markets, the Romanian beauty and personal care market continued to grow in 2009. Consumer awareness and product knowledge is growing rapidly and the development of retailing chains and their widening product offer have also helped to further the development of the beauty and personal care market.

The paper also presents the results of section three of an online survey conducted at 10 cosmetic companies from Romania. The results have shown that multinationals have both the economic and managerial power to succeed in obtaining their goals. Even though the sample of 72 respondents was rather small, we managed to conclude from the received answers that the majority of companies focus on economic and managerial performance rather than on social and ecological performance indicators.

This paper aimed to contribute to the literature review development in the field of performance management. The results of this study can be of use for managers from the analyzed domain or for other researchers in the economic field.

The authors have contributed to the originality of this paper, by presenting pertinent conclusions about the cosmetics market from Romania, resulted from the literature review and from an empirical study.

Key words: management, performance, cosmetics market, competition

JEL Code: M10, L25, L66

1. Introduction

It is amazing to look back at the different changes that management has gone through in the past 20 years. But even with all the so-called management trends that were supposed to "solve" all the problems of management, there are two things that have remained constant (Rieley 2006: 123)

- 1) Managing an organization to high performance is not easy.
- 2) There are a small number of organizations that are able to consistently demonstrate high performance over time.

The senior managers of companies that are able to sustain consistent performance growth over time seem to have a clear understanding that everything that has to do with organizational performance is interrelated, and being able to command an understanding of those relationship can be significant differentiator in business today.

The question that arises for most managers must be “*how can I improve performance in my business?*”

The paper offers an interesting perspective, both theoretical and practical, on overall organizational performance with special focus on economic, managerial, social and ecological performances, analyzing the cosmetics industry in Romania.

2. The concept of organizational performance

Organizational performance refers to the ability of the organization to achieve its objectives.

Management organization should be guided by one objective, for example maximizing the value of equity, or several objectives that may not necessarily involve maximizing actions. Examples of such objectives could be to maintain or increase employment, environmental protection, increase customer satisfaction, etc.

The question that arises is: “What measures should be oriented towards this type of objectives?” To answer this question it is necessary to have clear and measurable targets because:

- Assessing the individual and department is objective, this being based on individual contribution to overall goals.
- Having a clearly defined purpose, people are more motivated, focused efforts and resources are directed towards achieving the goal.
- Monitoring and evaluation is made easier and more equitable because the focus moves from the man on the result.
- Enabling more effective management control is to intervene only when the parameters set are not met.
- Allows a clearer communication and better understanding of management expectations.
- If you understand, at management level, that "you get what you measure" such a system becomes a way of empowerment of employees.
- Role ambiguity disappears. Everybody knows what to do, what results are expected and the resources available.
- A systematic approach to assess how it affects all of its components changes.
- Measuring performance against established standards allow early action when results are not expected.
- Move the focus on customer needs.
- Engaging in a cycle of continuous improvement is the basis of a performance.

2. Categories of organizational performance

Organizational performance can be divided in several categories: economic performance, managerial, social and environmental, technical and technological, financial, etc.

Economic performance is a consequence of the provision of an efficient management and aims to achieve at high levels, with targets, the results measurable by volume and efficiency indicators. The purpose is to obtain the lowest production cost for the best quality possible (as a combination of both). Economic performance aims to obtain the highest possible income (total income, turnover or net income - from the work). Economic performance and profitability is expressed best by the rate of return (the benefit of capital).

Managerial performance refers to adapting to the needs of the organization in general and not least, the cultural conditions (in particular the organization and operating area). Managerial performance is all about decision making. How and why decisions are made. How they are implemented and communicated. Managers need ongoing training in how to think differently to understand the challenges they and the organization face; how to influence employees, peers, as well as suppliers and customers to help the company successfully address these challenges.

Social performance refers to the customers' needs and their purchasing power by providing products / services of technically good at a reasonable price. The organization shall provide satisfactory wage jobs and a favorable climate within.

The technical performance refers to the efficient use of available resources in the organization and is measured primarily by productivity. Increased technical performance is influenced by increased productivity and a better organization of production.

In conclusion, increased organizational performance can be achieved by increasing the efficiency and effectiveness.

3. Cosmetics market study

An overview of the broad cosmetics industry made by Global Insight, in the EU, Japan, China, and the U.S. reveals that Europe's market size is almost as large as the U.S. and Japan combined, due to its large population.

Data revealed by Euromonitor International showed (Table no. 1) that U.S. cosmetics market was €38.2 billion, while Japan's was €23.7 billion and China's €8.2 billion. The total EU 27 cosmetics market was valued at €63.5 billion. Among the EU countries, Germany has the largest cosmetics market, valued at €11.7 billion, followed by France (€10.4 billion), the U.K. (€10 billion), Italy (€8.8 billion), and Spain (€7.4 billion).

Table 1: Market Sizes - Historic - Retail Value RSP - Current Prices

Categories	Zone	2004	2005	2006	2007	2008	2009
Beauty and Personal Care - US\$ mn - Year-on-Year Exchange Rates	Eastern Europe	14902.5	17387.2	19986.1	24080.5	28192.4	22935.7
Beauty and Personal Care - RON mn	Romania	2105.1	2480.7	2863.1	3192.2	3536.7	3737.1

Source: Euromonitor International

As could be expected in a vast region with different tradition and cultures such as the EU, unique trends in buying patterns may be found in particular countries, as well as some common trends across the board.

From country to country, spending on cosmetics varies by product. The French primarily purchase skin care products while Germans and the British spend mostly on toiletries. The Nordic countries, Finland, Norway, and Sweden spend a much lower share of their consumption basket on fragrances, compared to the EU average, while Spain and Portugal spend lower-than-average shares on decorative cosmetics.

3.1 Nature of competition

Currently, large cosmetic corporations combine to control over half of the cosmetics market. The tables below lists each of the top 10 companies in 2001-2009 and their respective shares of the global cosmetics market (retail sales value).

Table 2: Company Shares (by Global Brand Owner) - Retail Value RSP - %

Companies	2001	2002	2003	2004	2005	2006	2007	2008	2009
Procter & Gamble Co, The	7.3	7.3	8.4	8.4	12.1	12.1	12.1	11.9	11.7
L'Oréal Groupe	8.4	8.8	9.3	9.5	9.5	10	10.2	10.4	10.1
Unilever Group	7.3	7.2	7.2	7.1	6.7	6.6	6.7	6.6	6.8
Colgate-Palmolive Co	3.8	3.7	3.6	3.6	3.7	3.7	3.7	3.7	3.6
Avon Products Inc	2.9	2.9	2.9	3.1	3.2	3.2	3.3	3.3	3.4
Beiersdorf AG	2.4	2.6	2.8	2.9	2.9	3	3.2	3.3	3.3
Estée Lauder Cos Inc	3.8	3.7	3.7	3.6	3.5	3.4	3.3	3.2	3.1
Johnson & Johnson Inc	2.1	2.2	2.2	2.2	2.2	2.9	2.9	2.9	2.9
Shiseido Co Ltd	2.8	2.7	2.7	2.7	2.6	2.4	2.3	2.3	2.5
Kao Corp	1.6	1.5	1.5	1.5	1.5	2.3	2.1	2.1	2.2

Source: Euromonitor International

Holding a position as one of the top 10 manufacturers is enviable, however, these companies understand that they must constantly reconsider and re-evaluate their market positions by listening to the demands of their customers, gaining footholds in new markets, and evaluating their organizational structures. These large multinational firms are finding themselves facing stiff competition from other popular brands. Other cosmetics companies are pushing ahead, trying to gain their own place in the market, and have largely been successful in developing their own name.

The industry's key players pursued a strong acquisition strategy in recent years. The purpose of this strategy was to introduce new business lines, streamline production, and expand the types of products under company control. Over the next few years, the success of these acquisitions will have to be evaluated as the relentless demand for the consumer's loyalty will surely continue.

The great majority of the products sold in Romania are produced and distributed by multinational chains, such as L'Oréal or Beiersdorf as shown in table no 3. The economic crisis of the last two years of the review period helped local producers be noticed on the market, as they offer cheaper products characterized by a good price/quality ratio. Local company, Farmec took over smaller local producers and their brands and expanded its market share, but still remained behind the multinationals. Although company advertising budgets decreased in 2009, the sums invested by multinationals in media advertising increased the visibility of their products and made an important difference in their sales levels.

The situation is not likely to change in the first few years of the forecast period, given that the multinationals have the ability to adjust rapidly and efficiently to the changing requirements of the market, unlike their Romanian counterparts. The strongest Romanian player on the beauty and personal care market is Farmec. However, even with its latest investments in new production technologies and in promotional activities, it cannot overthrow the established hierarchy.

This does not mean the demise of Romanian manufacturers, but rather new development trends. These trends will take the form of mergers or takeovers as well as reorientation towards export and more easily accessible markets. Players will also have to adjust to those requirements which do not demand a huge financial investment but which can bring considerable benefits.

Tabel 3: Company Shares (by Global Brand Owner) - Retail Value RSP - %

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Beauty and Personal Care Romania									
Avon Products Inc	7.2	11	13.2	15	15.2	14.1	13.3	12.7	12.3
Procter & Gamble Co, The	6.5	6.7	8.1	8.3	10.2	9.8	10.5	10.4	10.5
L'Oréal Groupe	4.1	4.5	5.2	6.1	6.6	7.6	8.1	8.5	8.7
Beiersdorf AG	4.5	5	5.9	6.5	7	7.8	8.1	8.1	8.3
Unilever Group	6	5.6	5.2	5.1	5	5.1	5	4.8	4.9
Colgate-Palmolive Co	7.9	7.5	6.8	5.9	5.3	5	4.8	4.7	4.7
Oriflame Cosmetics SA	4.4	5	5.8	6.4	4.6	5	4.7	5	3.9
Henkel AG & Co KGaA	5.8	5.5	4.8	4.1	3.8	3.7	3.7	3.6	3.7
Coty Inc	3.2	3.2	3	2.9	3.2	3.5	3.5	3.4	3.4
Sarantis SA, Group	2.1	2	2	2	2.9	2.9	2.8	3.2	3.3
Farmec SA	4.5	4.2	3.9	3.6	3.3	3.2	3.1	3.2	3.2

Source: Euromonitor International

4. Organizational performance in the cosmetics industry

In order to determine what are the best performance indicators used in the cosmetics companies the authors developed a questionnaire (Grigore, 2010), which was applied on 10 cosmetics companies from Romania: Procter & Gamble, L'Oreal, Avon, Oriflame, Farmec, Beiersdorf, Unilever, Colgate-Palmolive, Elmi Prodfarm LLC and Genmar Cosmetics. The results presented in this paper are part of a bigger on-going research. For the main research, we built a questionnaire aimed at identifying specific management practices inside Romanian organizations with special emphasis on those which have as main activity the production and sale of cosmetics. About 90% of the participants who answered the questionnaire were mostly mid-level and low-level managers. The questionnaire consisted of 40 questions grouped into ten sections. Section three had as purpose identifying key elements for strategies and organizational performances.

The existence of a development strategy revealed that the organization have inclination for strategic planning. Because of the trend towards long-term policy actions and financial projections made trimistrial, strategy helps establish a unified direction for the organization in terms of its operational goals and provides the basis for allocating resources to guide the organization towards achieving these objectives. In this respect, the development objectives of an organization implement a set of performance indicators. 70% of respondents working in the organization, acknowledged the existence of a development strategy, among them a similar percentage saying that the strategy has objectives related to organizational performance.

In an attempt to define the concept of performance we noticed that, in spite of uses, it becomes a multivocal word. Many of the respondents defined the performance thinking how it can be measured. In general knowledge, organizational performance measurement is seen as a further evaluation of the results. Therefore we came to one conclusion, performance has to be measured, for example it can be described by a set of indicators with a degree of complexity more or less elevated. Particular emphasis is given to economic and management performance indicators, over 50% of respondents stating they use a measurement system for these types of indicators.

The variety of indicators for performance measurement shows that they differ depending on the information received by managers are on each hierarchical level and depending on their interests. Thus, higher level managers are focused on their company's overall performance and mid-level managers perceive performance and lower profitability through the department or team working. The respondents gave some examples of organizational performance used in their organization: profit, productivity, revenue, reducing the amount of non-compliant products manufactured from 3% to 2%, reducing the time spent honoring orders from 30 days to 20 days, indicators measuring the number of products/services sold in a period, the number of customers attracted, gross margin, carbon footprint, etc

5. Conclusions

A number of EU countries have developed a large trade surplus and a significant comparative advantage in cosmetics products. This is clear evidence that cosmetics manufacturers in these countries have, over the years, identified the most important consumer trends and have responded with new product offerings that have been successful. These companies have accomplished this task in both domestic and export markets. In the process, these companies have successfully developed strong brand recognition in a highly competitive and dynamic market place.

In conclusion, based on the results presented in this paper, we believe that most of the multinational have managed to be competitive on the Romanian market.

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