

The Case Analysis of L'Oreal Corp. as Market Leader

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Abstract

Purpose

The purpose of this paper is to describe how one company built and sustained market leadership by implementing a market-oriented business strategy and focuses on the use of real financial data for financial ratio analysis.

With an historical approach, this case study examines L'Oreal's financial ratio analysis and industry analysis. The objective of this study is that to describe about the performance of the L'Oreal by using the ratio & industry analysis. Financial ratio analysis, trend analysis, common size analysis and DuPont analysis are applied for 9 years financial data of L'Oreal.

It discovered that the reason of L'Oreal as market leader in its industry diversified cosmetics products that have different characteristics. It is managing effectively and efficiently in their operations. It also discovered that strong short and long term solvency position, high profitability, highly loyal customer, broader network expansion and the highly innovative products are major factors of its success.

This case demonstrates the tricky situations of financial analysis of the L'Oreal and offers a practical example that can help companies reconsider how they differentiate themselves from competitors with respect to market conditions.

Introduction:

In 1907, a young French chemist Eugène Schueller, , developed an innovative hair-colour formula. He called this new hair dye, perfectly safe “Aurelióne” . L’Oréal began with this history. Eugène Schueller manufactured and formulated his own products, which he then sold to Parisian hairdressers. In 1909, Schueller registered his own company, the “Société Française de Teintures Inoffensives pour Cheveux”, the future L’Oréal. The two important principles that were put in the start of the company were innovation and research in the interests of beauty. In 1920, 3 chemists were employed by the small company. By 1950, the research teams had 100 members, and in 1984 the number reached 1,000, and now it reached nearly 3,000. In 1912, Eugène Schueller started to export his hair-colouring product to Holland, Italy and Austria. After few years, agents distributed these products to the Far East, USA, Russia and South America. Today, the L’Oréal Group is present worldwide through its subsidiaries and agents (Antičová,2013).

Literature Review**Segment analysis of L’Oreal corporation:**

The L’Oreal Group is French cosmetics Beauty Company founded in 1909 by Eugène Schueller. Its headquarter is in Clichy, Hauts-de-Seine in France. The French cosmetics giant L’Oréal exemplifies this global-local tension. L’Oreal is first cosmetics group worldwide. It is present in 130 countries and 127 international brands. Its 611 patents registered in 2012. It has five major brands L’Oreal Luxe, Consumer Professional Product Division, The Body Shop, Active Cosmetics Division and Product Division. **Luex Division** (Parfums et Beauté) Leading brands in this division are Helena Rubenstein, Lancôme, Cacharel, Biotherm, Guy Laroche, Paloma Picasso, Lanvin, Ralph Lauren, Giorgio and Armani. This division accounted for +16% growth in 2012. The **Consumer Division** (Produits Public) is made up of several companies, each of which marketed its own brands: L’Oréal Paris (Studio Line, Plénitude, Elnett, Elvive/Elsève/El’Vital), Maybelline New York and Jade, Laboratoires Garnier (Belle Color, Ultra Doux, Ambre Solaire, Neutrialia, Fructis), Gemey Paris (Gemey, Kookaï, Club Méditerranée, Naf Naf), LaScad (Dop, Narta, Fluoryl). This segment accounted for +7.1% growth in 2012 and +5.8% growth added by Haircare and Styling. The **Professional Division** (Coiffure) having 25% shares in the market and world leader in its segment. The leading brands in this division are L’Oréal Professionnel, Redken, Inné and Kérastase. This segment accounted +10.5% growth in 2012. The **Active Cosmetics Department** (Cosmétique Active) This division’s leading brands are Laboratoires Vichy, La Roche-Posay and Phas. This segment accounted for also +5.8% growth in 2012. The **Body Shop** segment accounted for +12.8% growth in 2012 (L’Oreal Annual Report, 2012). In 2010, L’Oréal is the world leader in hair colour, home perms and styling agent, with market shares of 35.1%, 12.9% and 17% respectively. In salon hair care products it ranked second, with a world market share of 13.6%. Market shares in shampoos is 8.4% and L’Oréal is on third-ranking company in the world with 8.2% shares in conditioners. Its position in 2-in-1 products was not as good, with a 5.2% market share, making it the fourth ranking company in terms of sales. L’Oreal revenues, net earnings and dividends are shown in **Table 1** from 2008 to 2012. L’Oreal’s revenues and net earnings shows increasing trend in the table shown below while dividend also increases from 1.44% to 2.30% from 2008 to 2012 (L’Oreal Annual Reports, 2012).

Table.1

Condensed Statement of L'Oreal Financial Performance 2008 to 2012

Particulars	2008	2009	2010	2011	2012
Revenues	17,542	17473	19,496	20,343	22,463
Net Earnings	1,950	1,794	2,242	2,440	2,870
Dividends	1.44%	1.50%	1.80%	2.00%	2.30%

Note: 3 year financial statement from L'Oreal's annual report (2010), 1 year financial statement from L'Oreal's half year report june, (2012) and 1 yaer summary from L'Oreal's half year financia report june, (2013).

Industry Analysis:

The cosmetic market is huge. When think about cosmetics, than think about face creams and body soaps, make-up, hair care, but it can also be perfumes. L'Oreal lies in the cosmetics industry. L'Oreal is the cosmetic leader because of its worldwide presence, innovation and strategic acquisitions. It provide the portfolio of powerful brands for example Yves Saint Laurent regarding luxury brands, Lancôme, Garnier, l'Oréal Paris, Mixa regarding mass-market brands, L'Oreal Professional, La Roche Posay and Vichy, regarding dermocosmetic brands. The major competitors of L'Oreal in cosmetics industry are Unilever, P&G, Avon and Estee Lauder. The cosmetics industry is a fragmented sub-industry in the personal goods industry, dominated by a handful of companies that generate a substantial chunk of the industry's revenues (49%). L'Oreal ranked 25 in world's most powerful brand(Forbes Magazine, L'Oreal Group). L'Oreal, having 12% of the cosmetic industry's revenues and leads the market; followed by **Unilever's (UL)** Personal Care segment, which takes in 9%. The **Procter & Gamble** Company's (PG) Beauty segment takes third place, controlling 8% of the market; and **Estée Lauder** Companies Inc. (EL) and **Avon** Products, Inc. (AVP) round off the top five, each with a 4% share in the industry's overall revenues(Nancy Kross, 2012). The market share of L'Oreal over all in the industry is 51% in 2012. The reason of L'Oreal is the market leader is because it spends the most on R&D at 3.5% of its revenue. The second competitor in the industry is Unilever having 9% market share. The third competitor is P&G with 8% market share. Avon and Estee lauder having 4% market shares in 2012(L'Oreal Annual Report, 2012).

Methodology

The study is descriptive in nature. The purpose of this study is to describe the overall performance and growth of L'Oreal Paris and to analyze as a market leader. Quantitative data analysis techniques has been used to analyze the performance and growth of the company.

Sampling

The time duration for the secondary data is five years. The data collected between 2008-2012 to analyze the performance of L'Oreal Paris.

Data Collection Method and Data Collection

The longitudinal data collection technique has been used to collect the panel data over five-years. Since the purpose of the study is to analyze the performance and growth of company the data were collected from secondary sources. In this regard published annual reports has been used to collect the accounting information of the company.

Data Analysis

The data then analyzed using the ration analysis techniques. Financial ratios such as current ratio, quick ratio, liquidity ratio, inventory turnover ratio, asset turnover ratio, earning per share, debt to equity ratio etc used to analyze the data. Time series analysis, horizontal analysis and vertical analysis has been conducted to get the real picture of the scenario.

Financial ratio analysis:

Financial ratios for L'Oreal and cosmetics industry average are given below. If you look at the entire worldwide cosmetic industry, sales reach about \$170 Billion dollars a year. It's distributed pretty uniformly around the world with \$40 billion in the Americas, \$60 billion in Europe, \$60 billion in Australia & Asia, and another \$10 billion in Africa. The Western world spends a bit more per person but India and Asia are quickly catching up (Perry Romanowski, 2014).

Ratio analysis of L'Oreal as compared to cosmetics industry average shown below, if we note firstly at **liquid ratios** there is a slight difference in **current ratio** and also in **quick ratio** so the L'Oreal is less liquid then industry average as we can see both ratios i.e. current and quick ratio is lower than the industry average. L'Oreal **debt to equity** ratio is less than the average firm in industry which shows good credit policies and it's less leveraged than the average firm in the industry. L'Oreal **inventory turnover** is good and more than the average firm in the industry which means L'Oreal sales are good and inventory turnover is at strong potion. Company's **EPS** ratio is showing good position and a slight difference between industry average and company's own ratio, company is paying to its shareholders as on industry standards so it's the good sign for investors to invest in L'Oreal. Its **total asset turnover** is at average as industry average if we look at profitability ratios L'Oreal has good profitability as its **gross profit margin** as well as **net profit margin** is more than the industry average it means company sales are good and operations are cost effective. Its **returns on investment(ROI)** is higher than the average firm in the industry which shows good profitability position of the company and **return onequity(ROE)** is less than the industry average its mean they are not effectively generating income from their new investments.. The **return on assets (ROA)** showing that L'Oreal's management efficiency is increasing yearly. It is higher than the industry average. The ROA showing that management is more efficiently using its assets to generate additional earnings. The financial ratios of L'Oreal are shown in **Table 3** from 2004 to 2012. So if we look at liquidity ratios company is less liquid so it should reduce its liabilities and increase its current assets and in case of quick ratio company should look after its inventory account but this difference between company's and industry average ratios is slight and affordable. Secondly company's profitability ratios are showing good position as compared to industry Standards Company is earning good profits. **Table 2** showing the comparison of L'Oreal financials within cosmetics industry. In **Exhibit 1** graphical representation of ratios are shown.

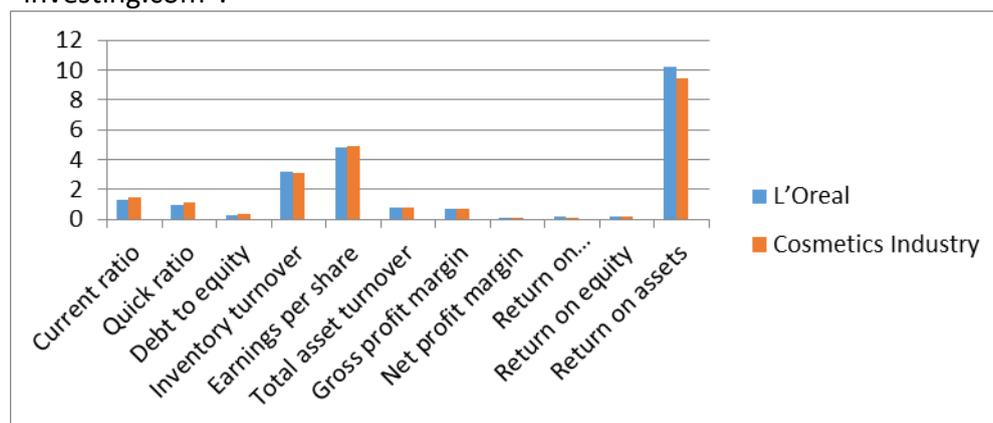
Table.2

L'Oreal's financial ratio comparison to industry average for the year 2012

	L'Oreal	Cosmetics Industry
Current ratio	1.29	1.46
Quick ratio	0.96	1.12
Debt to equity	0.30	0.37
Inventory turnover	3.22	3.13

Earnings per share	4.79	4.93
Total asset turnover	0.80	0.80
Gross profit margin	70.67%	70.53%
Net profit margin	12.77%	11.91%
Return on investment	14.83%	12.55%
Return on equity	13.71%	14.65%
Return on assets	9.71%	9.40

Note. Data for financial ratio comparison with industry from "Morning star", (n. d.) & from "investing.com".



(Figure 1 Graphical comparison of L'Oreal financials with Industry)

Table.3

Time series analysis of L'Oreal financial ratios

Year	Current Ratio	Quick Asset Ratio	Debt Equity Ratio	Inventory Turnover	Earnings Per Share	Gross Profit Margin	Net Profit Margin	Return on investment	Return on Equity	Return on Assets	Interest Coverage Ratio	Total assets turnover
2012	1.29	0.96	0.30	3.22	4.79	70.67	12.77	14.83	13.71	9.71	-	0.80
2011	1.08	0.79	0.40	3.03	4.11	71.23	11.99	13.84	13.83	9.08	-	0.80
2010	1.06	0.78	0.44	3.47	3.82	70.78	11.49	13.69	15.08	9.32	72.96	0.82

2009	1.10	0.82	0.39	3.32	3.07	70.45	10.27	11.16	13.19	7.70	27.8	0.76
2008	0.88	0.66	0.63	3.29	3.31	70.42	11.12	12.34	16.87	8.51	16.11	0.76
2007	1.11	0.83	0.41	3.35	4.42	71.04	15.57	15.57	19.50	11.45	21.16	0.71
2006	0.83	0.62	0.46	3.43	3.36	71.06	13.05	11.88	14.10	8.32	23.23	0.65
2005	0.76	0.58	0.46	3.64	3.13	70.08	13.57	13.08	13.46	8.26	38.29	0.69
2004	0.87	0.66	0.45	2.32	6.13	82.07	29.12	39.51	13.26	19.48	21.90	0.88

Note. Data for calculation of financial ratios from L'Oreal Company's Annual Reports (2004-2012).

Dupont System of Financial Analysis:

Dupont System focuses on three critical financial elements of the business capital structure, operating management and management of assets. It measures the firm potential growth and profitability.

L'Oreal Dupont analysis shows that, L'Oreal ROE 13.72% slightly less than the Industry average 14.62%. But as compared to previous years its ROE is increasing which shows that management is effectively creating the value for its shareholders. That's why L'Oreal having competitive edge over its competitors. **Net Profit Margin** and **Assets turnover** is increasing. Company has efficiently using its assets because its Assets Turnover ratio 0.76 is equal to the **Industry average** 0.76. They are using assets wisely to generate more sales, well inventory management and more production capacity. L'Oreal **Net Profit Margin** is 12.77% more than the **Industry average** 11.91% which mean they are control their cost. It makes L'Oreal more attractive for investors in Cosmetics Industry. However L'Oreal **Equity Multiplier** is decreased to 1.41 from 1.98. It shows that a good portion of returns are coming from organic sales or effective management, not artificial leveraging. Their management effectively managed the debt and inventory system which result in increasing ROE, this result in increasing their market shares. They are making strategies to sustain their position as market leader through acquisitions, innovation and research and development. L'Oreal ROI 9.72% less than the Industry average 12.52%. This because of increase in the variable expenses e.g Research & development. They are working on the new product development that will value in the market place (Jae Jun, 2014). Table 4 showing the ROI and ROA percentage from 2004 to 2012.

$$ROA = NPM * AT$$

$$ROE = NPM * TAT * A/E = ROA * A/E$$

Table 4

	2012	2011	2010	2009	2008	2007	2006	2005	2004
ROA	9.71	9.08	9.32	7.70	8.51	11.45	8.32	8.26	19.48
ROE	13.71	13.83	15.1	13.19	16.87	19.50	14.1	13.46	13.26

Table.5

DuPont system analysis of L'Oreal

	L'Oreal	Cosmetics Industry
ROE(Return on Equity)	13.72%	14.62%
=	=	=
NPM(Net Profit Margin)	12.73%	11.91%
*	*	*
TAT(Total Assets Turnover)	0.76	0.76
*	*	*
A/E(assets/Equity)	1.41	2.06
ROI (Return on Investment)	9.71	9.05
=	=	=
NPM (Net Profit Margin)	12.73%	11.91%
X	X	X
TAT (Total Asset Turnover)	0.76	0.76

Note. Data for DuPont system analysis from L'Oreal's annual report, (2012)

Short Term Liquidity Management:

The cosmetics industry's average quick ratio is 1.12 and current ratio is 1.46, so L'Oreal's quick ratio 0.96 and current ratio 1.29 and if we compare it with industry average the current ratio of L'Oreal is more than one and near to industry average which shows sound liquidity position of the company, whereas quick ratio is less than one and company should improve its liquid ratio to strengthen its liquidity position. At one hand company's quick ratio as in the below **table 6** show an increasing trend since 2008 to 2012 but it is still less than one and as well as less from industry average, the reason is that the company's inventories are increasing over years. But on the other hand instead of all of this liquidity position is not so worse its favorable to company.

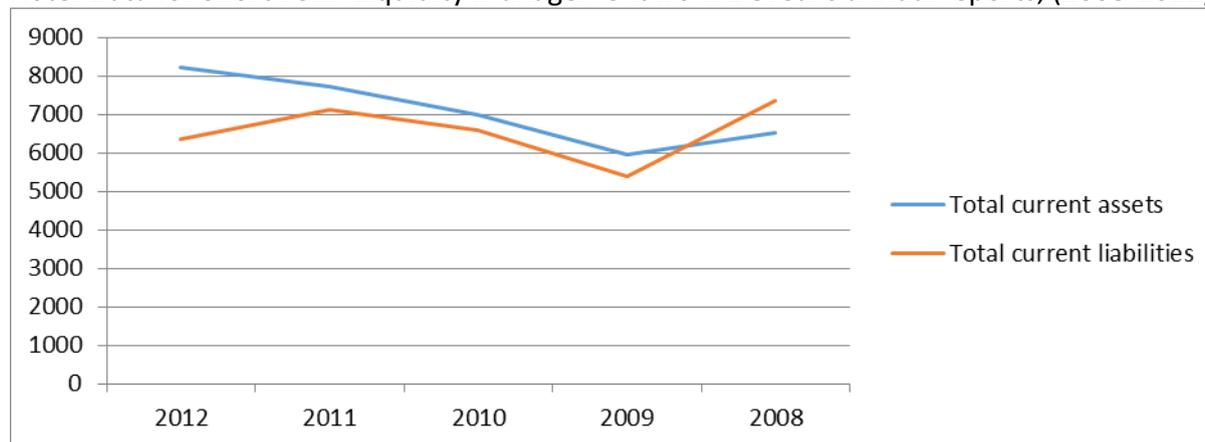
This sound liquidity position is important to the debt investors of the L'Oreal as it shows the company's current position. As in the case of L'Oreal there are significant improvements in liquidity position since 2008 and 2012. Some of this improvement in liquidity position of the company comes from the decrease in overall current liabilities and we can also see in **table 6** below the value of networking capital in 2008 was a negative balance while in 2012 company improve its networking capital to a great extent which was a significant factor which improve company's liquidity position over years. There is also an increase in cash and cash equivalent which also better the short term liquidity position. So company's networking capital is in good position to pay its daily expenses.

L'Oreal's sales increasing considerably over periods which increase the cash and cash equivalent account. Due to increase in sales company's liquidity position is getting better and it has a significant amount of current assets to pay off its current liabilities. So if we see in the **table 6** below company's overall current assets are increasing while overall current liabilities are decreasing which shows an inverse relation between these two accounts and having positive impact on company's short term liquidity position.

Table.6
short term liquidity management of L'Oreal

	2012	2011	2010	2009	2008
Inventories	2,033.8	2,052.1	1,810.1	1,476.7	1,635.5
Trade accounts receivable	3,208.8	2,996.2	2,685.3	2,443.3	2,694.6
Other current assets	1,006.6	904.1	846.0	732.8	985.8
Current tax assets	137.2	118.0	104.5	115.2	133.6
Cash and cash equivalents	1,823.2	1,652.2	1,550.4	1,173.1	1,077.1
Total current assets	8,209.6	7,722.6	6,996.3	5,941.1	6,526.5
Trade accounts payable	3,318.0	3,247.7	3,153.5	2,603.1	2,656.6
Provisions for liabilities and charges	552.3	500.7	536.9	510.0	431.1
Other current liabilities	2,141.1	2,066.7	1,958.1	1,750.5	1,848.4
Income tax	157.0	224.0	166.6	133.2	159.7
Current borrowings and debt	201.1	1,090.8	767.0	389.7	2,270.6
Total current liabilities	6,369.5	7,129.9	6,582.1	5,386.5	7,366.4
Quick Ratio	0.96	0.79	0.78	0.82	0.66
Current Ratio	1.29	1.08	1.06	1.10	0.88
Net Working Capital	1,840.10	592.70	414.20	554.60	-839.90

Note. Data for Short Term Liquidity Management from L'Oreal's annual reports, (2008-2012).



(Figure 2 Graphical representation of short term liquidity management)

Horizontal Analysis

In Horizontal Analysis of L'Oreal, current assets went up through 2008 to 2012 & the current liabilities costs went down, however stockholders equity went up as in 2009 17.60% and in 2012 18.64%. This analysis representing that overall the company has more assets & expenses, so the likelihoods of profit are not so high. The short term liquidity shows that in current assets there is a significant percent change in the current asset, meanwhile in current

liabilities the change was very wide, it was 10.66% in 2012 and in 2009 it was 26.87% so we can see here a wider change in current liabilities over years. This shows that the liquidity position is improving year by year. In debt percent change was declining while in total change is more in the more current years and L'Oreal is equity based company so its debt is less and equity is more. Since the stockholders value went up this implies that there is increase in sales and as well as there is a significant R&D and innovation due to which stakeholders equity went up. Since the cosmetics industry is in the recession and there is decrease in sales especially in North America while L'Oreal maintains its position through entering in new markets and focusing on its core businesses. (wikinvest.com)

L'Oreal Vertical Analysis

Purpose:

Vertical analysis is also known as common size analysis. The name "vertical" describes the process of setting each number as a percent of net sales on the income statement, and of either total assets or total liabilities on the balance sheet. This makes a company's financial statements easily comparable to any other company, and also makes changes or trends over time in one company's financial history easier to spot (Ready Ratios).

Interpretation of Balance Sheet:

Analysis shows %age proportion of balance sheet items to the total assets. It shows L'Oreal increasing trend from 2008 to 2012 in Cash (4.70% to 6.17%) because of the equity finance and company is timely paying its short term liabilities. There is increasing trend in noncurrent assets; this is because of their effective operational capabilities to meet the expected increase in demand. There is increasing trend from 2008 to 2012 in equity (50.47% to 71%). On the other side there is decreasing trend from 2008 to 2012 in Current Liabilities (32% to 21.56%). This because of company more relies on its own investments.

Cash: 6.17%

Non Current Assets: 27%

Current Liabilities: 21.56%

Equity: 71%

Interpretation of Income Statement:

Analysis shows from 2008 to 2012 there is increasing trend in the operating profit (14.64% to 16%). It means that there is decrease in General and Administrative expenses and depreciation. There is increasing trend from 2008 to 2012 in the Net Profit (11% to 13%). It because management is efficiently handles the expenses.

Gross Profit: 71%

Operating Profit: 16%

Net Profit: 13%

Capital structure & Debt Structure:

It is worthwhile to look at the Debt structure of the company because it tells about the equity and debt proportion in the company. In the case of L'Oreal on the base of Book Value of the Debt/Equity ratio, company 1.70%. It uses little debt in its capital structure and it is less than the industry average 2.49%. So there is less risk in the business and company is also saving from higher interest rates. L'Oreal long term debt to equity ratio is 0.41 % less than the

industry average 0.79%. It's that there is less risk for investor as company more rely on its own investments.

A company's capitalization describes the composition of a company's permanent or long-term capital, which consists of a combination of debt and equity. A healthy proportion of equity capital, as opposed to debt capital, in a company's capital structure is an indication of financial fitness.

In **Exhibit 2 Figure 7** shows Graphical Representation of capital and debt structure.

Table.7

DebtstructureofL'Oreal

Year	long term debt	short term debt
2012	46.9	201.1
2011	57.5	1,090.80
2010	824.3	767
2009	2,741.60	389.7
2008	2,506.60	2,270.60
2007	2,583.00	876.8
2006	1,892.40	2,218.00
2005	428.2	2,452.10
2004	713	1,431.20

Profitability:

Profitability shows the company's performance and efficiency. The Gross profit margin of L'Oreal is 71.27% slightly more as compared to the industry average 70.82%. Operating Profit is 16.28% more than industry average 16.14%. The Net Profit Margin of L'Oreal is 12.89% more than the industry average 12.74%. L'Oreal shows good profitability I its industry which shows that they are effectively using their resources. In **Exhibit 2 Figure 8** shows graphical representation of profitability.

Table.8

Profitability

Year	Net sales	Gross profit	Net profit
2012	22,462.70	15,875.00	2,870.40
2011	20,343.10	14,491.60	2,440.90
2010	19,495.80	13,799.30	2,242.00
2009	17,472.60	12,311.00	1,794.90
2008	17,541.80	12,354.60	1,950.90
2007	17,062.60	12,121.60	2,657.50
2006	15,790.10	11,221.00	2,062.10
2005	14,532.50	10,185.20	1,973.20
2004	13,641.30	9,540.20	3,972.80

Efficiency Structure:

L'Oreal Inventory Turnover ratio and Total Assets Turnover is 3.22 and 0.80. as compared to industry average L'Oreal inventory turnover ratio is more than industry average however the assets turnover ratio is same as the industry. Industry Inventory Turnover and Assets Turnover

is 3.13 and 0.80 respectively. It means company efficiently turning its inventory into sales which less their operating cost and they well managed their liabilities. L'Oreal well managed their assets as compared to industry which increase their profitability. **Table 9** showing the CGS and indirect expenses from 2004 to 2012. In **Exhibit 2 Figure 9** shows graphical representation of efficiency structure.

Table.9
Efficiency structure

Year	Cost of goods sold	Indirect expenses
2012	6,587.70	12,177.70
2011	5,851.50	11,199.00
2010	5,696.50	10,742.40
2009	5,161.60	9,733.40
2008	5,187.20	9,630.00
2007	4,941.0	9,304.80
2006	4,569.1	8,624.90
2005	4,347.3	7,872.70
2004	4,101.1	7,487.80

Operating Management:

L'Oreal Return on Equity, Assets and Investment ratios are 14.87%, 10.17% and 14.83% respectively. L'Oreal operating position is stable in the industry. The company performance and management is getting better day by day. Although there is recession in the overall Cosmetics Industry. But due to Innovation, Research & Development and effective management L'Oreal sustain its position as market leader. They are doing more acquisitions for the expansion of their business. Table 10 showing total equity and total liability from 2004 to 2012. In **Exhibit 2 Figure 10** shows graphical representation of operating management.

Table.10
operating management

Year	Total equity	Total liability
2012	20,925.50	29,530.90
2011	17,637.50	26,857.60
2010	14,865.80	24,044.50
2009	13,598.30	23,291.50
2008	11,562.50	22,906.90
2007	13,621.80	23,200.30
2006	14,624.20	24,783.00
2005	14,657.20	23,886.10
2004	11,825.40	20,385.20

Discussion:

From the above analysis relating to company's financials it is proved that company is doing well as years are passing and in order to meet its position as market leader so in this regard company is trying well to meet industry standards in all terms and businesses. As we can see in company's ratio analysis for the year 2012 with regard to industry trends we can see that

company's liquidity position is good and there is a little difference between company's and industry ratios. But if we see horizontal trend in the **table 3** above companies current and quick ratios are increasing as years are passing. Profitability ratios of L'Oreal are showing very good profitability position as we can see that gross profit margin of the company is more than the industry average which shows that company is managing its cost of sales and direct expenses well, there is slight difference in net profit margin of L'Oreal from industry average which shows that company should manage its indirect expenses so that cost can be decreased and profit can be increased. L'Oreal debt to equity ratio is less than the industry average it shows good credit policies are used by the firms and there is less use of debt in the firm and it is less leveraged than the average firm in the industry. Inventory turnover ratio of the company is more than the industry average which showing increase in sales. Earnings per share ratio are less than the average of the industry but this difference is slight so company is also paying its shareholders a good amount per year. Company's total assets turnover ratio is according to industry average. As we can see that company's return on equity and return on investment both are more than the average firm in the industry which shows that company investment policies are going well due to which its return on equity and investment is increasing. So we can conclude that company's overall position is going well but if one division is not going well the other division fulfills its deficiency as the company is operating in diversified portfolio and have overall five divisions if we see the table of L'Oreal financial ratios there are increasing trend in current ratio, quick ratio, EPS and mix trend in inventory turnover but there is decreasing trend in net profit ratio, gross profit margin and return on investment and equity but still company's all these ratios are meeting the average of industry so there is no need of worry.

Conclusion:

In current research, researchers take L'Oreal a cosmetics company to analyze its financial statements. A company which is operating in diverse businesses it is difficult to analyze its financials. L'Oreal is operating in five divisions i.e. Luex Division, consumer division, professional division, active cosmetics division and body shop. All of these branches contribute to the business efficiency and effectiveness but the major branch contributing to its sales and profits is that division or branch is consumer products division. In this paper we can conclude that L'Oreal financial position is increasing every year and it is meeting industry standards we can see that company is lying in mix trend for some ratios, increasing or decreasing for others. But still all of these trends company is showing good financial position as compared to industry average which means L'Oreal is operating well and mostly on the above average from many firms in this industry.

Recommendations:

L'Oreal decision making process is decentralized which is not the right selection of the company for decision making style so we recommend that the company should review its decision making style and should alter it to centralized or in another decision making style. Decentralized decision making style can be good for any company but companies operating in diversified businesses this style may be extremely difficult to control. Secondly company is mostly relying on third party retailers which do not give the chance to company to control its sales 100% so company should try to have its own outlets so that sales can be controlled and managed well (Dora Markuz). Thirdly the manager should review reports and work done by employees on daily basis so that performance of employees can review and feedback can give

on the basis of day to day performance. Fourthly the company should focus on its customer services so that communication can be improved within and outside the company. L’Oreal already is in diversified business but we recommend that it should enter in market development and should enter its business in the countries like Saudi Arabia and Thailand. Finally company should its marketing strategies and focus on media channels rather than just focusing on online contents.If the country use these recommendations then company can avail more opportunities to improve its business performance.

Exhibit 1:Time series Analysis of L’Oreal’s Financial Ratios

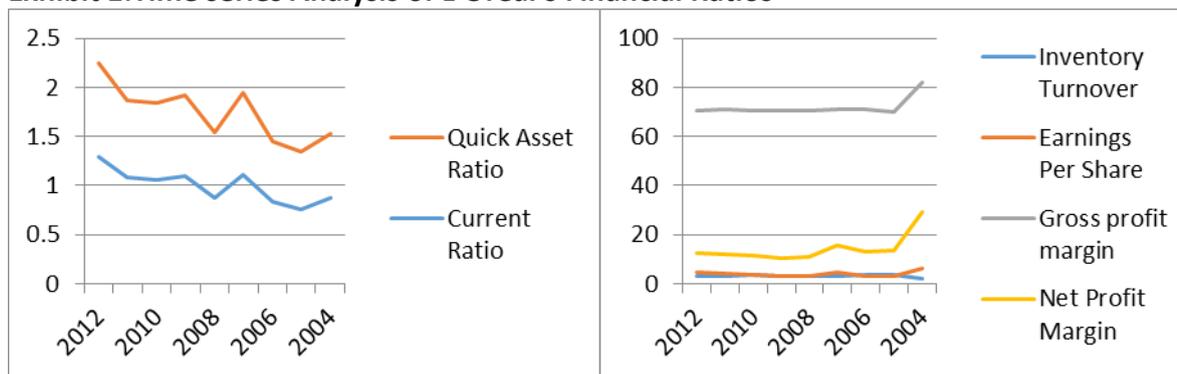


Figure 3: (Liquidity ratio)

Figure 4: (Profitability and activity ratios)

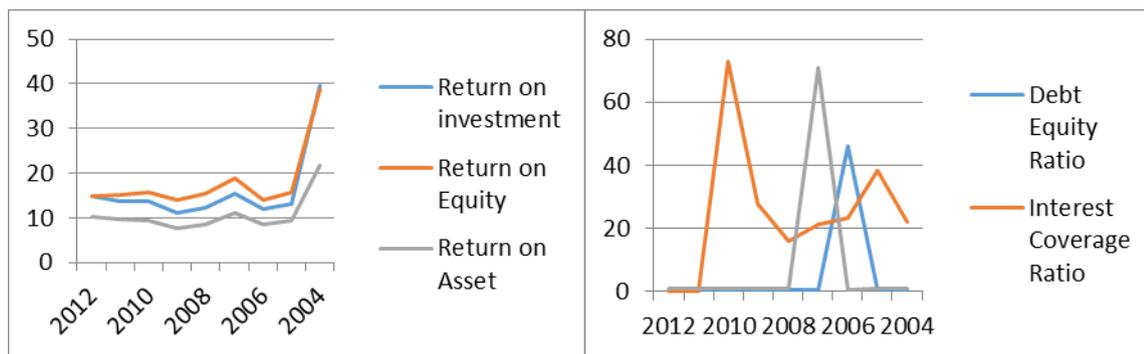


Figure 5: (Return on investment, equity & assets) and debt structure:Profitability:

Figure 6: (Debt ratios)

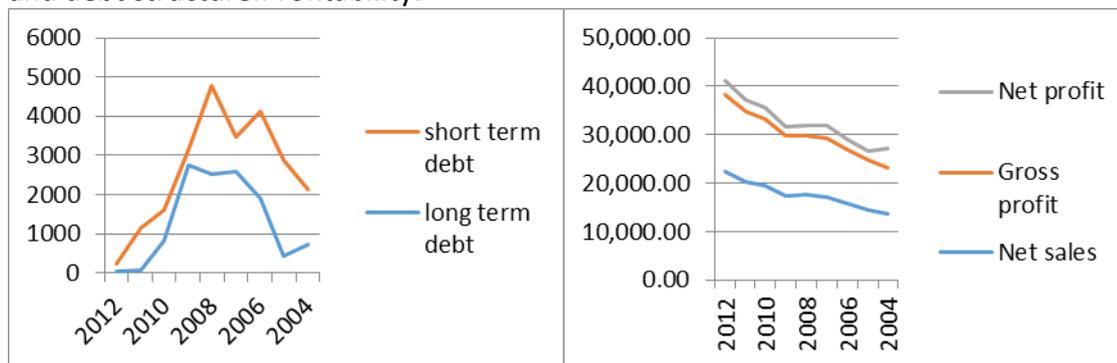


Figure 7 (short term and long term debt) Figure 8 (Net sales, Gross Profit, Net sales)

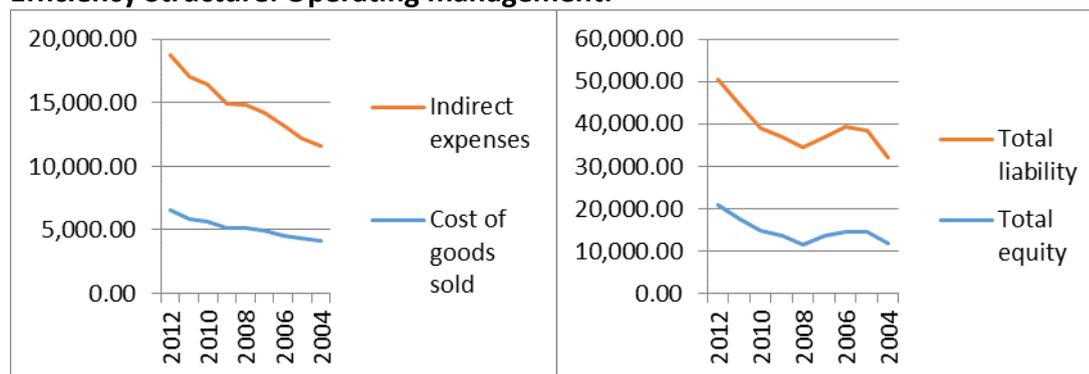
Efficiency Structure: Operating management:

Figure 9 (Cost of sales & Indirect exp.) Figure 10 (Total liability & Total equity)

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