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Sephora - US market

Sephora is owned by LVMH Möet Hennessy Louis Vuitton which is the world's leading luxury goods group. Sephora is a leader in global prestige retail and has earned its reputation as a beauty trailblazer with the company's expertise, innovation and entrepreneurial spirit. Founded in France in 1970 by Dominique Mandonnaud Sephora was a revolutionary beauty retail concept. It is defined by its unique, open-sell environment with an ever-increasing assortment of prestige products. Sephora has approximately 2,300 stores in 33 countries worldwide and opened its first U.S. store in New York's SoHo neighborhood in 1998. The Sephora Americas headquarters and Innovation Lab are located in San Francisco, with corporate offices in New York, Mexico City, Montreal, Toronto and São Paolo. Sephora USA Inc. operates its retail network on a stand-alone basis and does not offer franchise opportunities to anyone. Sephora.com was launched in the U.S. in 1999 and is the foremost prestige beauty site on the internet and is also Sephora's largest North American store where the clients can engage with an inclusive beauty community (Sephora, nd).

External analysis

Macro - PESTEL/PEST

Political: In the US, the Food & Drug Administration regulate cosmetic and beauty products under the authority of the FD&C Act and the FPLA. These acts specify laws within proper labelling of products as well as safety and ingredient during production to which cosmetic products have to adhere to (FDA, 2013).
The federal law of the US states that retailers are not required to accept returns and refunds unless the products is defective. It also includes regulations on online shopping and warranties (FindLaw, nd).
Economical: According to statista.com the US was the most valuable beauty and personal care market in the world in 2016. The US markets revenue reached 84.8 billion USD compared to the second place, China, who only reached 50.2 billion USD (Statista, nd).
Another statistic from statista.com shows that the annual household expenditure on cosmetics, perfumes and bath preparation products are as good as steady seen over the past 10 years with a slight increase (Statista, nd). The average median household income in the US in 2016 was the highest in the past decade, showing a steady increase in the income. It can also correlate to the slight increase in expenditure mention earlier.
Social: According to research done by The Harris Poll in 2016, the most popular way of purchasing beauty products was in-store, mainly big-box retail stores like Walmart and Costco. Online specialty beauty products stores were the most used online retail site. Millennials, the most dominating group on the market, are the biggest users of online retail sites, but do prefer big-box retail stores and pharmacies for cosmetic purchases (McCarthy, 2016). A current trend in the market is an increasing number of men wearing makeup (Jankowski, 2018). Another trend in the beauty market, is Asian beauty - focusing on Korean products. Furthermore, there is a tendency to buy more sustainable, natural and organic beauty products. A trend that has been around for a while now, is social influencers for example youtubers and bloggers using and presenting products.
Technological: The beauty market has a recurring development in related technology for example technologies to analyze skin tones, hair color, etc. (Bose, 2018)

Political / legal environment Stable government FDA regulations	 +3 (attractive to have a stable government) -1 (regulations limits firms possibilities)
Economic environment Income conditions Expenditure on beauty products	 +2 (increasing income on the US market) +3 (increase in expenditures = attractive market)
Social environment	

Online purchase behavior In store purchase behavior Developing market trends	+3 (Specialty beauty products bought mainly online) -2 (Mainly big-box in store purchases) +1 (constant renewal in the market creates possibilities, but also means the firm has to keep up to date with them)
Technological environment Innovative technology development	+2 (can provide customers with optimal experience)
Impact	**+15** **- 3**

Micro - Porter's 5 Forces

Threat of new entrants - medium
Since there are no actual requirement to enter the beauty retailer market, it is fairly easy to start up a company within this segment. In order to become a substantial player on the market, the entrants would need large capital as there are some well-established companies already (Statista, nd).

Bargaining power of buyers - high
The buyers have a high bargaining given the many options to purchase the products. The different brands provide the buyers with many different purchase channels - not only their own brand shops, but they also sell to other retailers both online and offline.

Threat of substitute products - low
There are not really any substitute products in the beauty retail industry. However, one can argue that e.g. having your eyebrows tattooed or getting eyelash extensions could be seen as substitutes as their need for beauty products hereby decreases.

Bargaining power of suppliers - medium
Looking generally at the beauty market, the suppliers have a high bargaining power as they have many options to distribute their products elsewhere. Looking specifically at Sephora, the suppliers bargaining power decreases slightly due to Sephora's position on the market. It is desirable for the suppliers to be a part of the Sephora brand.

Rivalry among existing competitors - high
On the beauty retailer market, we have distinguish between primary and secondary competitors to Sephora. Their primary competitors are other high-end beauty retailers and the secondary are the big-box retails, drugstores and pharmacies. Due to the high number of brands and retail channels, one can conclude that the rivalry is high.

Due to the lack of data on market of the beauty products retailer on the US market, a HHI has not been calculated.

External Factor Evaluation

	Industry Importance	Rating 1-4	Weighted score	Reasons
Opportunities Increasing household expenditure on cosmetics and perfumes	0.13	3	0.39	Shows that it is a growing market Important to maintain presence

Specialty beauty stores dominating online	0.15	4	0.60	online
Millennials are the biggest users of online retailers	0.16	3	0.48	Also, main target group so important coherence
Market trends: Asian beauty, organic/natural, men's cosmetic, and social influencers	0.10	2	0.20	Important to know new trends to keep up with competitors
Threats				
Big-box store purchases most popular	0.13	2	0.26	Important for the market given it is a big player on the market
Low entry barriers to the market	0.10	2	0.20	Need to be aware of new entrants
High number of current players on the market	0.18	3	0.54	Keep track of competitors and their actions
Threat of tattooing eyebrows and eyelash extensions	0.05	1	0.05	Could be an up and coming trend to be aware of
Total weighted score	**100%**		**2.72**	**= Average response**

Internal analysis

It has not been easy to find data to base the internal analysis on, however a mixture of Sephora's own website and external sites has provided the foundation for the following analysis.

The resource-based view

Physical resources

The Sephora shop is spread over several different platforms - physical, website and app to provide the customer with a smooth experience. The physical store layouts are designed to showcase brands encourage group shopping and provide self-explanatory shelves with testable products. They offer different technical technologies to enrich the customers with a personalized experience. However, Sephora do not have as many stores around the US like many other pharmacies or drugstores.

Sephora also runs their own innovation lab to develop new beauty technologies. This has provided them with unique technology like their Color IQ pigmentation analyzer.

Questions: Yes, Yes, Yes = Strength and sustainable distinctive competence = Sustained competitive advantage.

Human resources

In the North America, Sephora has more than 11,000 employees.

Sephora offers high quality training for their employees through their own Sephora University. Here the employees are educated in customer experience, products, etc. This way employees are familiar with all products to provide the customers with the best experience and results. However, it is a time-consuming initiative, that requires constant updating as products change. It is also difficult to find quality personnel on a short notice as they would have to do the training.

The company also offer discounts for the employees.

Questions: No = Weakness = Competitive advantage

Organizational resources

Sephora has also established partnership with different companies, for example JC Penny (in-store collaboration) and Pantene (technology development).

Sephora has exclusivity rights to some products from different brands. (Schiffer, 2018)

Questions: Yes, Yes, No = Strength and distinctive competence = Temporary Competitive Advantage

Internal audit

Management
Sephora is owned by LVMH (Louis Vuitton, Moët Henessy) a French multinational luxury goods conglomerate operating all over the world. Can rely on them for capital and support.
Marketing
Sephora has a membership club with exclusive deals for members - the more you buy, the more exclusive a member you become.
For market research, they have their technical sources like their website and loyalty program for buying habit tracking.
Financial/accounting
As Sephora is a part of LVMH, there are no public financial records for specifically Sephora. However, in the financial record of LVMH from 2017 it is mentioned that Sephora continues to have a double-digit growth in revenue and profit and gained market shares (LVMH, 2018).
Production/operations
Sephora offers the customers an interactive shopping experience through their technological advances. They also focus on providing each customer an experience fitted to their needs.
Through the website, Sephora offers 48 hours domestic shipping in the US. However, according to various review sites, there has been several problems and delays with this shipping system.

Internal Factor Evaluation

	Weight	Rating 1-4	Weighted score	Reasons
Internal strengths				
Highly educated staff	0.17	4	0.68	Important for their brand and customer experience (x5)
Innovative and unique technology	0.12	3	0.36	
Shop accessible across multiple platforms	0.14	4	0.56	
Self-service store layout	0.09	3	0.27	Reach new segments
Personalised shopping experience	0.08	3	0.24	Important for brand recognition
Partnerships (JC Penny, Pantene)	0.05	3	0.15	
Keeping appearance uniform	0.05	3	0.15	More possibilities to evolve
Financial stability	0.07	3	0.21	
Internal weaknesses				
Keeping appearance uniform	0.05	3	0.15	Important for brand recognition
Delays in deliveries	0.10	1	0.10	Hurts the brand and shopping experience
Constant change in and training employees	0.08	2	0.16	Waste of time and resources
Total weighted score	**100%**		**3.03**	**= minor strength**

Strategy picking tools

Due to limited information on market share and market growth, the BCG Matrix would have been mainly based on conjecture and far-fetched analyses. The SWOT matrix, Space matrix and Grand strategy matrix are based on data found and information extracted from the analyses.

SWOT Matrix

	STRENGTHS – S S1. Highly educated staff S2. Innovative and unique technology S3. Shop accessible across multiple platforms S4. Self-service store layout S5. Personalized shopping experience S6. Partnerships (JC Penny, Pantene) S7. Keeping appearance uniform S8. Financial stability	**WEAKNESSES – W** W1. Keeping appearance uniform W2. Delays in deliveries W3. Constant change in and training employees
OPPORTUNITIES – O O1. Increasing household expenditure on cosmetics and perfumes O2. Specialty beauty stores dominating online O3. Millennials are the biggest users of online retailers O4. Market trends: Asian beauty, organic/natural, men's cosmetic and social influencers	**SO STRATEGIES** Exploit growing trend of men's beauty (S6, S8, O1, O4) Create student week promotions (S3, S5, O3)	**WO STRATEGIES** Specialize training to employees to have expertise in one area (W3, O4) Improve deliveries to keep customers (W2, O2)
THREATS –T 1. Big-box store purchases most popular 2. Low entry barriers to the market 3. High number of current players on the market 4.Threat of tattooing eyebrows and eyelash extensions	**ST STRATEGIES** Offer special discounts on eyebrow and eyelash products (S8, T4) More marketing initiatives (T2, T3, S8)	**WT STRATEGIES** Provide expertise personnel to attract more customers (W3, T1) Train expertise personnel in eyelash extensions (W3, T4)

Suggested strategies based on SWOT Matrix		
Concentric diversification	Concentric diversification	Horizontal diversification
Exploit growing trend of men's beauty	Offer eyelash extensions	Establish own delivery services

SPACE Matrix

The information used in the space matrix is based on the internal and external analysis from above.
FS of the company in comparison to competitors

- LVMH capital (4.0), Sephora's double-digit growth in revenue and profit (3.0)
  Avg. = (4+3)/2 = +3.5

CA of the company in comparison to competitors
- Market share (-2.0), product quality (-1.0), shopping experience (-1.0), product range (?)
  Avg. = (-2+-1+-1)/3 = -1.33

ES of industry in comparison to other industries
- Techn. Development (-2.0), political change (-2.0), changing market trends (-3.0)
  Avg. = (-2+-2+-3)/3 = -2.33

IS of industry in comparison to other industries
- Growth potential (5.0), entry barriers (2.0), customer power (3.0), substitutes (6.0)
  Avg. = (5+2+3+6)/4 = +4.0

FS (+3.5) + ES (-2.33) = 1.17
CA (-1.33) + IS (+4.0) = 2.67
= Aggressive

Suggested strategies based on SPACE Matrix		
Concentric diversification	Product development	Horizontal diversification
Extend to male beauty market	Adding more brands of products to the selection	Establish own delivery services

Grand Strategy Matrix

Given Sephora's continuing growth and their strong competitive market position, Sephora should be placed in quadrant 1. See model in appendix 1.

Suggested strategies based on Grand Strategy Matrix		
Market development	Product development	Concentric diversification
Sephora has the potential to develop into new regions in the US and is a successful organization. They also have the needed capital and human resources to expand operations.	Sephora can improve services and products and hereby increase sales in their current market. Competitors also offer quality products at a similar price.	It is possible for Sephora to diversify whilst still keeping a relation to the core and also add new and related products and services. Here it is possible especially if focusing on the up and coming market for male beauty. It could also complement the sales of current products and services.

Conclusion

Based on the conducted analysis in this assignment, the suggested strategy for Sephora is concentric diversification. As the three strategy picking tools all lead to this result, it seems to be the most relevant strategy. A specific action Sephora could take is diversificate in to the male beauty market. With a growing trend for men to use products it seems like the perfect direction for Sephora as they are already a leading player on the female beauty market.

We see the demand for male beauty products through the increasing trends, there is however a lack of specified products/marketing towards this target group. This indicates that the performance impact would be highly positive for Sephora.

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Appendix 1