From an aggregate to a brand network: a study of the brand portfolio at L’Oréal

Claude Chailan, International University of Monaco, Monaco

Abstract Our purpose is to contribute to the understanding of brand-portfolio management by examining the brand-portfolio strategies of a world-leading company. We started to work on a case study with L’Oréal. Our research focused on two questions: (1) what reasons lead L’Oréal to develop a brand-portfolio strategy?; (2) how can brand-portfolio management create a higher and stronger level of competitive advantage for this company? The results show that an aggregation of brands is not in itself a brand portfolio. The juxtaposition of brands is one of, but not the sole, element necessary for the development of a brand portfolio, which is a combination of a brand ensemble and key competences born out of organisational savoir-faire. By analysing the evolution of the L’Oréal brand portfolio, this work shows how the brand combination within a portfolio is a key factor for company development, growth, and risk management. It is a crucial phase to understand L’Oréal’s competitive advantage.

Keywords brand portfolio; brands; strategic marketing; L’Oréal

Introduction

Many firms are becoming increasingly concerned with the definition of the relationships between brands within the company as parts of a whole, and with the organisation of these connections within the framework of a brand network. This is due to the fact that, amongst the most relevant problems referring to brands, the majority of them relate to the management of a multi-brand system (Hill, Ettenson, & Tyson, 2005; João Louro & Vieira Cunha, 2001; Strebinger, 2004), because, when establishing the different sources of competitiveness of a company, one of the major questions is whether one or several brands should be used (Cravens, Piercy, & Prentice, 2000; He & Balmer, 2006). This question of the relationship between several brands within the same company surpasses traditional models of brand management and concentrates on the coexistence of powerful brands whose relations have to be regulated (Carlotti, Coe, & Perrey, 2004). Choosing the brand-portfolio strategy becomes the focal point for several companies, and many authors (Dawar, 2004; Laforêt & Saunders, 2007; Kapferer, 2000) emphasise that managing a brand portfolio is far more important than managing one individual brand. The brand
portfolio raises the question of the links between strategy and marketing. Strategic choices may become brand choices, choices of brand organisation, or choices about the kind of relationship the company wants between brands (Riezebos, 2003).

Our work tries to shed some factual light on the role of competences in the link between marketing and strategy through a study of a real situation of brand-portfolio construction and development. Our research goal is to contribute to the knowledge of the brand-portfolio field as a new, more complex, and longer-lasting source of competitive advantage.

This article reports on a study of practices at L’Oréal, one of the most recognised brand-portfolio managing companies.

From a brand to a brand portfolio

Since brands can be viewed as key value-creating resources and useful sources of sustained competitive advantage (Ponsonby-McCabe & Boyle, 2006) because they are company-specific, protected by law, and inimitable (Aaker, 1996; Barney, 1991; Teece, 2000; Urde, 1999), a key challenge facing contemporary strategic marketers is the ability to manage brand ensembles, because the brand-portfolio question ‘goes beyond issues of marketing’ (Pierce, Moukanas, & Wise, 2004). Dawar states (2004, p. 34) ‘brands are not superstars but members of a team’, while Lindsay Owen-Jones, L’Oréal’s former CEO, says: ‘We have a rather complete and balanced brand portfolio. The potential acquisitions will rather be companies which will supplement our portfolio on niches or which will supplement our international device’ (interview in Le Figaro newspaper, 21 February 2003).

The notion of portfolio management is not new in marketing, and academics have discussed the product portfolio (Bordley, 2003) and the customer portfolio (Dhar & Glazer, 2003; Johnson & Selnes, 2004). Ryals (2006) reminds us that the theory of portfolio management derives from the financial field, where the objective of investors is not profit maximisation, since profit maximisation might entail unacceptable levels of risk. In fact, modern portfolio theory holds that the aim of the investor is to maximise return and minimise risk (Brealey, 1983). But as stated by Hill et al. (2005), the processes for managing brand portfolios did not grow at the same pace as the creation and expansion of these portfolios, whereas ‘the real opportunity in brand portfolio is to make the entire range perform collectively in an optimal manner’. In particular, publications often present theoretical approaches and models, but effective brand-portfolio management requires that managers explicitly resolve the implications of brand-portfolio strategy on key issues, including the number of brands necessary in order to obtain balanced management, the impact of globalisation, and/or how best to organise the relationships between brands. The combination of brands within a portfolio is a key factor for development, growth, and risk management for many companies, and is a crucial phase to understand the companies’ strategies (Day, 1994; Sharma, 1999; Slater & Olson, 2001; Trinquecoste, 1999). As a consequence, a better understanding of some companies’ policies and practices in regards to their management of multi-brand systems can contribute to changing the focus of marketing to a superior, strategic decision-making level (Baldinger, 1990; Brown, 2005; Mattsson, Ramaseshan, & Carson, 2006).

In fact, one way in which firms can achieve sustained competitive advantage is by managing value-creating resources like brands and brand portfolios more effectively than their competitors (Johnson & Selnes, 2004) by drawing on the company’s specific internal and inimitable capabilities.
Several strategic marketing models consider that company resources and competences should be the starting point for analysing competitive advantage (Day, 1994; Hunt & Morgan, 1997; Srivastava, Shervani, & Fahey, 1999). Recent empirical work has emphasised that any performance effects of cultural and information-processing components of market orientation are mediated by how a firm acts in response to these components, thereby highlighting again that their competitive value does not reside exclusively in resources per se, but flows from the exercise of a company’s capabilities when exploiting them (Golfetto & Mazursky, 2004; Hult, Ketchen, & Slater, 2005; Ketchen, Hult, & Slater, 2007; O’Driscoll, 2006). A recent review of empirical literature in management concludes that a company’s competitive position depends essentially on its organising context and on its valuable, rare, and inimitable capabilities and core competencies – rather than on its static resources (McGuinness, 2008; Newbert, 2007). Recent developments have substantially clarified the theoretical meaning of organisational capabilities (Helfat & Peteraf, 2003; Salvato, 2003; Winter, 2003; Zahra, Sapienza, & Davidsson, 2006) and have found persuasive evidence (Newbert, 2007) that it is capabilities and their underlying micro-processes (‘what firms do’), and not resources (‘what firms are’), that determine an organisation’s responsiveness, competitive advantage, adaptive change, and performance (McGuinness, 2008). This research advocates a micro-process-oriented approach, echoing similar calls (Johnson, Melin, & Whittington, 2003; McGuinness, 2008; Salvato, 2003) for an ‘activity-based’ view of marketing in the broader field of management. An activity-based view of marketing focuses on the detailed processes and practices that constitute the day-to-day activities of organisational life (Johnson et al., 2003).

In this context, in order to better understand the role of the brand portfolio in the construction of a company’s competitive advantage, we undertook a study of the nature and dynamics of brand-portfolio-related competences in the context of a cosmetics-industry company. The purpose of the research is to identify and examine empirically how this company built its brand portfolio, the way it manages it, and to what extent this brand portfolio represents a higher level of competitive advantage that is more difficult to understand and imitate. Our study concentrates on the knowledge of the process implemented in brand-portfolio development and on the analysis of the competences that should be created, utilised, or developed for this implementation.

**Methodology**

Because of the novelty of the subject, we chose an exploratory approach by means of a case study. The lack of empirical work on the brand-portfolio phenomenon was instrumental in the decision to use the case-study method, as well as the fact that case studies can be particularly useful for understanding marketing phenomena, thus involving an examination of their dynamics and evolution over time (He & Balmer, 2006; O’Driscoll, 2006).

We developed our research in the field of cosmetic products because it is clearly characterised by a strong brand presence and by an extremely developed practice of multi-brands policies. Within this product category, we studied the world leader, L’Oréal. The L’Oréal company was selected due to it being one of the most successful within its markets. L’Oréal is a leader due to the size of its sales turnover, its growth, and its financial results in the world of cosmetic products on a global scale, but also because of the exceptional longevity of its performance. Created in 1907, it
currently employs close to 61,000 people worldwide. The Managing Director of the
company, Mr. Jean-Paul Agon, asserts 15.6% of the world market share, and the company
is regularly accessible and communicative (press interviews with the chairman, annual
reports, and financial communications) on the conviction that their brands, linked to
their research and development capacity, are the principal vectors of their
development. The company is present on the whole of the activity spectrum in the
field of cosmetics with several brands (see Appendix A). It is strongly internationalised,
with 54.4% of its sales turnover coming from outside of Western Europe.

Finally, the experience of the researcher – an employee at L’Oréal from 1989 to
1998 – provided easy access to the field.

Data collection procedures

We chose non-directive key-informant interviews (Moorman & Miner, 1998). A key
informant was deemed to be any person who, because of his/her position, holds
privileged and reliable information. Fern (1982) and Miles and Huberman (2003)
highlight that individual interviews produce more ideas than group interviews in
terms of the number and quality of produced ideas, and that they are a good
technique when the purpose is to collect highly intangible and difficult-to-achieve
strategic data. We interviewed executives in charge of strategic planning, as well as
managers in charge of the implementation of brand policies. Using public
information, we selected, contacted, and interviewed executives with three
different concentrations of responsibility within the company (see Appendix B),
in order to collect data in various spheres:

- Strategic level: Vice-President and the highest executives in charge of strategy;
- Intermediate level: brand managers and marketing managers;
- Operational level: country or zone manager.

We made use of semi-structured interviews, using very open questions, in order to
allow the expert an open space to elaborate his/her own ideas. We obtained, tape-
recorded, and transcribed 15 different 60-to-105-minute-long interviews.

Analysis and coding methods

While collecting and analysing our data, we coded, summarised, identified the relevant
subjects, and clustered the data in coded blocks, in order to create a cognitive map and
achieve qualitative data reduction. This necessitated reading through the transcripts to
identify themes, clusters, or patterns and then coding them. Starting with the raw data,
intermediate tables were created, in order to create meaningful categories and groups.
We established a synthesis card for the first documents and interviews with a
codification matrix. With this as a basis, we built new questions covering the non-
considered or poorly considered subjects. In this process, some codes validly emerged,
whilst others were revealed as clearly inadequate. Then we established a terminology
list for preserving some coherence between our research project and the coding
matrix. On this first coding level, we identified nine key subjects. On the second
level, we coded more precisely inside each subject, with 52 codes.

To ensure that our identification of the actions was complete and unbiased, an
independent researcher was invited to codify our first four interviews in order to
improve their internal coherence and check the reliability of the groupings. The
intercoder’s reliability coefficient was found to be 89%, which is an acceptable level. Where differences of opinion were found, these were discussed between the coders and an agreement was reached about the meaning.

## Findings

### Analysis of the building process of brand-portfolio adoption at L’Oréal

An analysis of interviews shows that the construction of L’Oréal’s brand portfolio is above all the outcome of historical evolution based on cumulative experience, with certain ‘triggering’ events serving as catalysts. From the interviews, we identified three distinct phases that characterise the construction and development of L’Oréal’s brand portfolio. Each phase corresponds to a certain level of training, know-how, and organisational structure. Crucial events in the company’s history are identified as the triggering factors for each phase. The evolutionist dimension of brand-portfolio construction is spontaneously and systematically evoked; the portfolio is perceived as the result of an historical and ‘biological’ process. Informant 2 stated: ‘I think it boils down to biology: It’s not like some higher power says from the get-go, “Here is how I will build the world!”’, and Informant 7 observed: ‘There is a kind of evolution going along with a few mistakes, tentative steps, external phenomena and, when everything happens, there still are people who can conceptualise, model the thing and then make a variation on it’. Table 1 synthesises the three different phases of brand-portfolio development at L’Oréal.

During the brand-aggregation phase, the company’s choice is that of a development founded on the accumulation and multiplication of brands. This accumulation answers three major objectives: (a) to give the company ways to be present on several consumer segments, product categories, and countries, and to deal with the economic limits of the existing brands; (b) to be present in the different distribution circuits for cosmetic products, and to face up to the concentration of active parties in

### Table 1 L’Oréal’s brand portfolio development phases.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Triggering factors</th>
<th>Main objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase 1 1976–1984: Aggregation of brands</td>
<td>Further to a McKinsey analysis, creation in 1976 of world operational divisions, with different brands that are specific to each distribution network</td>
<td>To respond to segmentation needs and the limits of existing brands</td>
</tr>
<tr>
<td>Phase 2 1984–1996: Reduction and rationalisation of the number of brands</td>
<td>In 1984 buyout of Warner Cosmetics: Reflection on how to globalise national brands in a coordinated manner</td>
<td>To be present in all distribution circuits</td>
</tr>
<tr>
<td>Phase 3: Competitive conceptualisation</td>
<td>In 1996 buyout of the Maybelline and Redken brands. The portfolio becomes an evolving system, which structures the whole company strategy</td>
<td>To give rise to internal emulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To optimise profitability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To choose from amongst brands the ones that can be globalised</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To allocate innovations born out of research and development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To define strategic axes for long-term growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To organise the brands as a network of complementary brands</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To deal with complexity</td>
</tr>
</tbody>
</table>
this distribution; (c) to develop internal competition between Business Units. This phase is directly linked to the reorganisation of the group in 1976 that lead to the creation of different Strategic Business Units (SBUs), linked to different distribution circuits. This led these SBUs to create and buy out many brands in order to respond to the expectations of the different groups of consumers they are in charge of, to manage and carry out their own marketing policy, and to face up to the internal competition established by this new in-company organisation.

Informant 4 commented: 'For this target, our different brands allow us to tap into different purchasing powers within this population. And so it is intimately linked with distribution', and Informant 11 acknowledged that: 'Having numerous brands is an opportunity to cover different market segments, whether be via the nature of the product, or through the distribution circuits as it relates to us'.

Rationalisation phase 2 corresponds initially to a process of reducing the number of brands and then looking to organise the relationships between them. This phase corresponds to the realisation in the company of: (a) the fact that an excess of brands can weaken the company and that investments must be concentrated on a limited number of brands to face the challenges of profitable growth; (b) the necessity to choose brands within the context of globalisation and define the order in which the brands will be settled in the countries where L’Oréal is based; and (c) the advantages of a prudent dividing-up of innovative brands brought forth from research and development. Informant 3 commented: 'This is why if we have done anything intelligently in managing the brand portfolio, it’s that we have enormously reduced the number of brands, and so in the end we have concentrated our advertising support on significantly fewer brands than before'. During this phase, the company gets involved in an analytical process of each brand’s profitability, positioning, and potential. A frame is established to avoid overlapping targets and to organise the relationships between brands, with strictly defined criteria for selecting new brands, or to separate from existing brands. Informant 4 stated:

One of today’s big criteria when launching a product is to research what we call adding targets; the limit is linked to the point where we no longer add targets, but have destructive competition between brands within the same company. And the second limit is the economic limit in terms of efficiency and the risk of ultra-segmentation. We do everything possible to articulate this complementarily in all markets.

Phase 3 corresponds to the formalisation of a model based on the brand-portfolio management for developing the company. Within this advanced phase, the portfolio is seen as a distinctive strategic tool that (a) defines strategic axes and ensures the company’s long-term expansion, (b) defines the structure of relationships between brands at the heart of an organised network of complementary brands, and (c) permits the company to handle market complexity and the diversity of consumer needs and expectations. Informant 1 commented: ‘So all of this assumes the true construction of a brand edifice and not just an unstable juxtaposition of brands which may be numerous but similar’, and Informant 9 stated:

It’s extremely important to have the right proportion: don’t ever give in to the complexity. Meaning these systems must always be legible and intelligible for those inside the company – for the managers – in order for them to be truly manageable. It has to always be clear. As soon as it gets too complicated, then there’s a problem.
Key competences for managing L’Oréal’s brand portfolio

During the progression represented by these three phases, an internal learning process permitted L’Oréal to acquire or to develop specific competencies. Our research shows that, at L’Oréal, the brand portfolio is composed of a group of brands and key competencies built and accumulated through the experience of the company. Specific key competencies for operating an ensemble of brands have been built up, in order to make the most of an organised ensemble of brands. This savoir-faire is organised around three key competences presented in Table 2.

Brands radicalisation

This term is utilised by the company to qualify the ensemble of actions that lead to re-centring each brand on its savoir-faire, added value, and internal coherence: history, character traits, values, distinctive positioning. Brand multiplication makes it necessary to very distinctly position brands and clarify consumer perception of them. It succeeds in creating the addition of targets throughout the brand ensemble.

L’Oréal has developed strong brand radicalisation savoir-faire, based on (a) a respect of existing brands’ integrity, (b) the capacity to create and nourish strong brand identities, (c) the identification of opportunities for new brands at the heart of the portfolio, and (d) the power to integrate new brands, even smaller ones. This radicalisation allows each brand to emerge with its own DNA, or raison d’être, and also renders brands completely discriminatory from each other – thus maximising their capacity to complement each other and avoiding any overlap. Informant 4 commented: ‘There’s an obligation to advance, as well as an obligation to be clear in terms of territory, positioning, because it needs to be distinct. . . . The brand portfolio needs to be well built. There can’t be any brands that might clash or destroy one another’. Radicalisation brings about the research and selective integration of original and distinctive brands, even those smaller ones. This approach avoids spreading out resources, yet still provides flexibility for an internal brand-portfolio model. Informant 11 says: ‘Having several brands provides the opportunity to cover all the different market segments, whether it be the nature of the product or by the distribution circuit as it relates to us. But having too many can be a weakness’. A portfolio is also conceived as a compensation fund between brands, which allows for equalising and balancing out the results within the company

<table>
<thead>
<tr>
<th>Key competences</th>
<th>Principal characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brains radicalisation</td>
<td>1. Maximum differentiation for adding targets (distribution, needs, price)</td>
</tr>
<tr>
<td></td>
<td>2. Integration of very original brands (ex: The Body Shop, Shu Uemura)</td>
</tr>
<tr>
<td>Brains network arbitration</td>
<td>1. The portfolio is conceived as a dynamic network of complementary brands with critical</td>
</tr>
<tr>
<td></td>
<td>thresholds (turnover, market share, future profitability)</td>
</tr>
<tr>
<td></td>
<td>2. Brands that can be made available within different divisions of the company (hair</td>
</tr>
<tr>
<td></td>
<td>care, skin care, make-up, hair colour)</td>
</tr>
<tr>
<td></td>
<td>3. Balancing fund between brands</td>
</tr>
<tr>
<td>Brains expansion matrix</td>
<td>1. A model for development that is based on three dimensions:</td>
</tr>
<tr>
<td></td>
<td>segments of consumers, product categories, distribution networks</td>
</tr>
<tr>
<td></td>
<td>2. Attribution of innovation</td>
</tr>
<tr>
<td></td>
<td>3. Globalisation and capture of new markets</td>
</tr>
</tbody>
</table>
itself. The brand portfolio functions like a clearing house, and has as an objective to ensure harmonious growth without a hitch for the whole company. Informant 1 stated: ‘The interest of a brand portfolio is that it adds a bit of flexibility into the game and gives you a way to adjust to the playing field’.

Brands network arbitration

At L’Oréal, the brand portfolio is conceived as a network of brands in a dynamic equilibrium between incoming (ex: PureOlogy, Kiehl’s) and outgoing brands (ex: Phas, Gemey), with strong flagship brands releasing important financial resources. Three balancing criteria have been established: (a) mature brands (ex: Lancôme)/brands in development (ex: Skinceuticals); (b) highly profitable brands/in investment-stage brands; (c) already largely international brands/potentially international brands. Among the 25 brands in the L’Oréal group, there are well-established stars (Giorgio Armani, Redken), rising stars (La Roche-Posay, Kiehl’s), and potential stars (Innéov, Matrix). Informant 3 observed:

So we speak in terms of the network – I mean there are no central brands anymore. We went past that stage. There used to be some order but today it is a seemingly creative disorder. But what matters most is the power of the network, to cover it all, to go back and forth from one to the other,

and Informant 6 declared:

On one hand, the limitation is that an abundance of brands is a source of inefficiency. I think we were among the first to realise it and to permanently clean our catalogue, to suppress, merge, and make disappear the brands that did not possess any global potential – whereas we did maintain and strengthen the few big brands that did possess it.

The research shows that there is no formal arbitration committee or process between brands, in terms of product launches for example. The central idea is that the choices should happen all by themselves, and there is a natural arbitration linked to the very strong brand identities, because each one has a different personality. In fact, arbitrations happen on two strategic aspects of the brand network: the definition of the extremities of brand territories, and the definition of technological furrows attributed to each brand. Concerning the R&D, L’Oréal uses the term technological furrows to define the type of innovation that must be put at the forefront for each brand, and which belongs to the brand. The company considers that exploitation of innovation is absolutely key to managing a brand portfolio, and the attribution of technological furrows is totally the responsibility of top management. Informant 12 commented:

The third element, which is for me the most important, is the brand territory and the technological utilisation projects . . . but the marrow of the issue is still the projects and the technological furrows of each brand. Each brand has a very precise furrow, which means that others can’t encroach on it.

Brands expansion matrix

L’Oréal has achieved a very high level of modelisation for its brand portfolio. The company has designed a model of development to define the path and order of launches in new segments, or new product categories or new countries. This model
considers four dimensions: segments of consumers, product categories, distribution networks, and countries.

The mission of this model is four-fold. First, to put the company’s growth into a long-term context based upon the brand portfolio. Second, this matrix is prospective and dynamic by nature, because it allows for the identification of potential markets where companies could get a foothold. A brand portfolio is therefore an evolving system that can identify future potential and what’s missing in the company’s brand-development strategy (ex: the natural cosmetics market that the L’Oréal group had been absent from and where they had just, within a few months, taken over two brands – the Body Shop and SanoFlore). Third, the matrix defines reproducibility from countries that are the most advanced in the process to the others, and in particular allows for defining the order brands will be launched in the countries where the group is based. Informant 8 states: ‘Here you have it, a multi-layered strategy – then after we’ll find the way for them to overlap so as to stabilise themselves and become more solid’, while informant 4 commented: ‘At L’Oréal, we became conscious very early of the fact that the only brands that were worthwhile for us were the global ones or those which had potential – that is to say history, roots, and the internal force to become international’. Lastly, brand portfolios permit shared research costs as well as the optimisation of market entry for technological innovations, which can be made available in very different ways by very different brands. Informant 12 declared:

There is a notion of optimisation of the industrial platform, and there’s also an optimisation of the research platform. There’s a leverage caused by research which is very costly, especially for innovation of beauty-care products and treatments. So this leverage of research as competitive advantage combined with the power of multibrands is able to take hold in very, very significant industries like the world of high-end cosmetics.

Proposal for an interpretative model

The research shows that the juxtaposition of brands is one of, but not the sole, elements necessary for the development of a brand portfolio. At L’Oréal, a brand portfolio is a combination of a brand ensemble and key competencies born out of the company’s organisational savoir-faire. These competencies have been built up over time and are difficult to understand from the outside. The results presented above lead us to propose an interpretative model connecting the results born out of our research. This model highlights:

- Construction of a brand portfolio in phases, and the major role of company history and its accumulation of experience;
- The acquisition process of specific knowledge, savoir-faire, and competencies by the company during this evolution;
- The link between lasting sustainable competitive advantage and a brand portfolio.

Figure 1 illustrates this interpretative model.

Various factors pushed the company to have numerous brands, in order to, as appropriately as possible, meet the ‘external’ needs expressed by consumers (Varadarajan, DeFanti, & Busch, 2006), assure its expansion in existing product categories, as well as in new ones, and address the risk of being a single-brand company. This first trend led L’Oréal into buying or launching more brands, in
In order to enter new markets and different segments. In the second step, the company limited its number of brands, in order to avoid spreading investments thin and to be in a better position to face international competition, rationalise internal operations, and increase its profitability. These ‘internal’ needs led to a rationalisation process in order to increase economic performance (Barwise & Robertson, 1992), thus focusing on a more limited number of brands.

As a result, L’Oréal empirically developed and then formalised a unique model, founded on the association of competences born out of its own learning process and from its history with a group of brands that are complementary between themselves.

At L’Oréal, a brand portfolio is a strategic-level tool that surpasses the contradictory pattern between ‘internal’ and ‘external’ needs. The brand portfolio can bring together differing needs and reconcile those needs over the long term. Its dynamic dimension allows for sales and profits development from methodically eliminating brands or by integrating new ones (Kumar, 2003). As such, the brand relationship is not just hierarchical and static but dynamic and evolving. Thus this ensures that the organisation of brands is being viewed and managed just as proactively as other assets (Petromilli & Morrison, 2002). The brand portfolio lets L’Oréal achieve a coherent management of brand ensembles, and allows the company to have not just a superior market impact but clarity in its product offers, synergies, which also creates a lever effect (Aaker & Joachimsthaler, 2000). Thus the company can permanently achieve a level of performance higher than that of its competitors.
Discussion and perspectives

The research suggests three important considerations about brand-portfolio-related management. The first lesson from our research supports the suggestion of a path dependency in the transformation of a brand portfolio into a sustainable and durable competitive advantage. Our study also brings to light the fact that the brand portfolio model is difficult to copy due to its idiosyncratic nature and because it is a powerful generator of causal ambiguity. Moreover, our analysis suggests that a brand-portfolio-building and evolution model is a permanent combination of a brand network and organisational competences, which makes it more difficult to imitate.

(a) The phases identified in the creation and implementation process for brand portfolios follow one upon the other with time, and competences are only acquired over the duration, phase after phase, which is characteristic of path dependency. The notion of path dependency (Dierickx & Cool, 1989; Teece, Pisano, & Shuen, 1997) affirms that the history of a company influences its future, and that time remains a primordial variable, one that is impossible to eradicate through supplementary financial investments. In this sense, our interpretive model reflects the strong evolutionist character of L’Oréal’s strategic brand-portfolio-based approach, because the creation of necessary competences for a strategic unfurling of brand ensembles comes from the accumulation of experiences arising from company history. This strategy seems hardly imitable because it is founded on company-specific history and know-how acquired over the course of time, and, as stated by O’Driscoll (2006), a marketing-related competence constructed within the company takes time, but once it is done, imitation by competitors becomes difficult because ‘history matters’ (Teece et al., 1997).

(b) Brand-portfolio management at L’Oréal is enmeshed in an internal ensemble of competences that offers protection from competitor replication because it creates an intangible, tacit barrier, providing a formidable system of defence based on causal ambiguity (Orton & Weick, 1990; Weick, 1976). Causal ambiguity refers to the uncertainty pertaining to reasons for performance differences between companies. It hinders potential imitators from knowing not only what to imitate but how to do it (Reed & DeFilippi, 1990). The study shows that L’Oréal’s brand portfolio generates a powerful causal ambiguity because it is something that is: (1) complex, as it is composed of both simple elements (the brands) and also the process and methods to implement it (internal organisation necessary to make the most of a brand ensemble); (2) specific to the company, being made up of brands that are by definition inimitable and associated with internally built competences; and (3) tacit, because even if its existence is clearly formulated, its internal functioning mode is not.

At L’Oréal, a strong causal ambiguity connects competitive advantage and brand portfolio, because in the brand portfolio competitive conceptualisation stage, it becomes impossible to determine if the portfolio is in and of itself a source of competitive advantage, or if the results it generates (for example, harmonious growth, market presence, acceleration of globalisation) are not themselves the origin of a brand portfolio. This indeterminability concurs with Hunt and Morgan (1997) who identify this ambiguity as a key characteristic, since it is impossible for competitors to try to copy it because they do not know what to copy, nor how. Should they try and amass the same amount of brands, with the same characteristics, in the same product categories? Or rather, should they try to replicate the internal organisation of the targeted competitor? Or both? Or should they try and recruit brand managers from the competitor? But will it be enough to obtain managerial skills
and strategic organisation in order to create an equivalent brand-portfolio model? Our research shows that these questions do not have a general answer, and, as such, competitive advantage generated by a brand portfolio is more difficult to comprehend and copy. It creates a strong entry barrier to competitors, and the difficulties in implementing and executing it represent a lasting and sustainable competitive advantage for L’Oréal.

(c) We also noted that the development of co-specialised assets makes them more difficult to imitate because they are not as common (Peteraf, 1993). This is even truer when an asset is the consequence of path dependency, because this slows down the competition’s ability to copy this second resource. In this manner, the juxtaposition of (1) a brand ensemble and (2) a model of internal organisation based on specific competences, difficult to identify, and originating from company history so as to make the most of the portfolio allows L’Oréal to generate a long-lasting and sustainable competitive advantage. This combination incorporates the salient role of managerial leadership (Salvato, 2003), where sustainable advantage must lie in micro-assets that are hard to discern and awkward to trade (Johnson et al., 2003). Our analysis converges with numerous studies showing that companies who build their strategy upon path dependency, causal ambiguity, social complexity, and intangible assets outperform those who base their strategy on tangible assets (Barney, 2001).

The reality that emerges is that L’Oréal’s brand-portfolio strategy makes replication by a competitor very difficult, due to the indeterminability of the causes and effects, and also because it takes a long period of time to build the relevant competencies.

Conclusion

Our exploratory study, founded on a series of interviews with some of L’Oréal’s principal leaders, analyses the way in which L’Oréal developed its brand portfolio and authenticates the existence of a link between brand portfolio and sustainable competitive advantage.

Three characteristic stages of the creation of the brand portfolio at L’Oréal have been identified: (a) aggregation of brands over time, (b) the rationalisation of this set of brands, and finally (c) the competitive conceptualisation of a development model founded on the brand portfolio. This process led to the development of key competencies issued from company history and experience. A brand portfolio must be considered as the combination of these competencies, along with the set of brands owned by the company. The portfolio adds flexibility and adapts to the playing field by acting as a balancing fund whose objective is to insure harmonious and fluid growth of the company ensemble thanks to the obligatorily highly radicalised and complementary positions of the brands between themselves.

The research reported here was carried out through the lens of competence theory and the role of competencies in creating a sustainable competitive advantage. The contribution of this study is to use developments in the resource-based view of a company to construct a conceptual framework that suggests how a company can transform a set of brands into a specific marketing tool that is difficult to copy and comprehend. It is argued that competence theory has much to offer the marketing discipline, and our analysis reinforces the understanding of the role of competences in marketing by showing the shift of competitive advantage from the brand level towards that of the brand portfolio and ‘brand teams’ (Aaker & Joachimsthaler, 2000).
Whereas many authors (Joao Louro & Vieira Cunha, 2001; Mattsson et al., 2006) are increasingly stating how brand management is a source of an inimitable competitive advantage and call for developing models for organisational brand strategies, our research widens the field of the brands analysis to its strategic dimension (Baldinger, 1990; Barwise & Robertson, 1992; Kapferer, 2000; Petromilli & Morrison, 2002; Riezebos, 2003).

Since, in the particular field of marketing, critics highlight the acknowledged lack of information about the nature and development of marketing capabilities (Vorhies & Morgan, 2005), a contribution of this paper is to argue in favour of future research that is more micro-process oriented than currently is typical. But although our approach offers solid and internally valid evidence of brand-portfolio management, it has several limitations. Further research might examine more companies to look for more externally valid results. Other approaches could develop a more general framework on the advantages and consequences of a brand portfolio by examining, for example, the role of culture, structure, or company size as catalysts or impediments for brand-portfolio management. Lastly, it would be valuable to examine the impact of product category on long-term portfolio policies, for example with comparative studies with other industries, or by comparing companies with a portfolio with companies without.

References


### Appendix A. L’Oréal key figures

**Turnover 2007**
17063 million Euros

**Profit**
2039 million Euros

**Turnover by region**
Western Europe: 45.6%
North America: 25.2%
Rest of the world: 29.2%

L’Oréal business units and their international brands

<table>
<thead>
<tr>
<th>Fast moving consumers goods</th>
<th>Professional products</th>
<th>Luxury products</th>
<th>Active cosmetics</th>
<th>The Body Shop</th>
</tr>
</thead>
<tbody>
<tr>
<td>L’Oréal Paris</td>
<td>L’Oréal</td>
<td>Lancôme</td>
<td>Vichy</td>
<td>The Body Shop</td>
</tr>
<tr>
<td>Garnier</td>
<td>Professional Kerastase</td>
<td>Biotherm</td>
<td>La Roche-Posay</td>
<td></td>
</tr>
<tr>
<td>Maybelline NY</td>
<td>Redken</td>
<td>Helena Rubinstein</td>
<td>Innéov</td>
<td></td>
</tr>
<tr>
<td>Softsheen</td>
<td>Matrix</td>
<td>Kiehl’s</td>
<td>Skinceuticals</td>
<td></td>
</tr>
<tr>
<td>Carson</td>
<td>Mizani</td>
<td>shu uemura</td>
<td>Sanoflore</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Giorgio Armani</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ralph Lauren</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cacharel</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Viktor &amp; Rolf</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Diesel</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 25 brands represent 93% of total turnover.
Appendix B. Interviewees

Level 1

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>BD</td>
<td>Vice-President</td>
</tr>
<tr>
<td>NR</td>
<td>Assistant Managing Director Hair Care Division</td>
</tr>
<tr>
<td>LA</td>
<td>The group’s General Secretary</td>
</tr>
<tr>
<td>JC</td>
<td>Garnier International Director</td>
</tr>
<tr>
<td>NH</td>
<td>L’Oréal International Director</td>
</tr>
<tr>
<td>GL</td>
<td>Lancôme Assistant Managing Director</td>
</tr>
</tbody>
</table>

Level 2

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>JG</td>
<td>Latin America Professional Goods Managing Director</td>
</tr>
<tr>
<td>AE</td>
<td>Asia and Pacific Managing Director</td>
</tr>
<tr>
<td>MG</td>
<td>France Luxury Goods Managing Director</td>
</tr>
<tr>
<td>MP</td>
<td>France Professional Goods Managing Director</td>
</tr>
<tr>
<td>CR</td>
<td>France Hair Care Managing Director</td>
</tr>
</tbody>
</table>

Level 3

<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>JB</td>
<td>Latin America Managing Director</td>
</tr>
<tr>
<td>TH</td>
<td>Middle East Managing Director</td>
</tr>
<tr>
<td>PL</td>
<td>Eastern Europe Assistant Managing Director</td>
</tr>
<tr>
<td>JR</td>
<td>Asia Public Goods Managing Director</td>
</tr>
</tbody>
</table>

About the author

Dr. Claude Chailan is Professor of Marketing at IUM, International University of Monaco, Monaco. He is a guest lecturer in several foreign Business Schools (ESAN in Lima, ESA in Beirut, CFVG in Hanoi, ITESM in Mexico) and French universities. Prior to joining academia, Claude Chailan held high-level positions in international management, including senior positions at Dannon, Sara Lee, and L’Oréal. His research is centred on the links between strategy and marketing, and includes brand management, marketing of innovation, and intercultural management.

Corresponding author: Dr. Claude Chailan, International University of Monaco, Avenue Albert II, 98000 Monaco, Principality of Monaco.

T: +377 97 986 983
E: cchailan@monaco.edu
Copyright of Journal of Marketing Management is the property of Routledge and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.