

CASE STUDY
SUSTAINABLE GROWTH IN TIMES OF CRISIS: L'ORÉAL RUSSIA
 by Daniil Muravskii, Snezhana Muravskaia, Elena Romanova, and Valeria Kudinova

Antonio took the first glance at the auditorium: his PR and corporate relations teams were on positions, the microphone was waiting on the table, and the presentation slide said “Managing through crisis. Guest lecture with L'Oréal Russian general manager.” There seemed to be around seventy people in the room: some were seating and adjusting their headpiece translators, others a second ago engaged in their phone conversations – now were swiftly taking their places upon noticing Antonio come in. While unpacking his private clicker, which he brings with him to guest lectures at all times, he used the opportunity to study the audience: they were much more mature than the usual undergraduate crowd attending L'Oréal’s lectures and workshops – mostly executive management program participants. “The subsequent Q&A section could go either direction” – thought Antonio affirmatively nodding to the first latecomers wave at the doors, – “either no questions at all due to language barriers and concerns about the next scheduled engagements or the opposite – so many that there would be a virtual queue.” As it would turn out in two and a half hours later, when the moderator had to cut off the last question bearer due to the building shutting down for the night, this would be the second case, just as Antonio had hoped for.

Although L'Oréal has been a household brand name in Russia for many years, those not from the cosmetics industry often didn't realize that L'Oréal encompasses a wide range of product categories, and brands: some developed in-house, some co-branded or licensed, and others – acquired. Therefore, every public presentation, that of Antonio or otherwise, starts with an informative prelude, where the scope of the L'Oréal’s business in Russia is presented.

Introducing L’Oréal Russia

L’Oréal has been present in Russia since the 1990s. It is represented by 32 international brands (see Table 1) across 5 beauty categories (haircare, hair color, skincare, fragrances, makeup) in all distribution channels: the market for consumer goods, department stores, perfumeries, pharmacies, drugstores, beauty salons, travel retail outlets and branded retail outlets as well as e-commerce. In 2010, the first L’Oréal plant in Russia was opened. The plant with an area of 10 thousand square meters was located in the industrial region southwest of Moscow – Kaluga, and produced hair care products (shampoos, conditioners) and hair dyes of the L’Oréal Paris and Garnier brands. All of the products within these brand lines, which are sold in Russia (as well as several neighboring countries), are produced there.

Table 1. L’Oréal brand portfolio in the Russian market

Professional products	Consumer products	L’Oréal luxe	Active cosmetics
L’Oréal Professionnel; Redken; Matrix; Kérastase Carita	L’Oréal Paris; Garnier; Maybelline NY; NYX Professional Makeup; Essie.	Lancôme; Giorgio Armani Beauty; Yves Saint Laurent Beauté; Biotherm; Kiehl’s; Urban Decay; Ralph Lauren; Shu Uemura; Viktor&Rolf; Maison Margiela; Cacharel; Helena Rubinstein; Mugler; Azzaro; Atelier Cologne.	La Roche-Posay; Vichy; CeraVe; SkinCeuticals.

Source: Adopted from L’Oréal Russia official website

The company's mission is to offer women and men around the world the best beauty products. Each L'Oréal brand is an independent business. The economic success of the company depends on marketing, and in each country, the market is organized in its own way as the divisions retain their characteristics and remain original. French brands differ in spirit from Japanese and American, and even within the brand teams a special atmosphere and culture are often developed. The general rule for all is the same: each specialist should treat the business as their own. Therefore, units independently choose development paths and goods promotion methods. For example, when the management of the Garnier brand in Russia felt that the adaptation of European advertising did not work well in the Russian market, the team suggested launching a campaign with a local celebrity. The idea was successful and helped the brand increase profits (Inplacer).

L'Oréal produces cosmetics for everyone, without exception: for young buyers and people of age, for the wealthy and those who are inclined to save, for the advanced and unassuming. Although, in general, the L'Oréal's market is perceived as a whole, the company acknowledges that the market is developing, and new groups of buyers appear that require a special approach. Therefore, L'Oréal constantly works on the development of products for a wide variety (and sometimes very narrow) of consumer groups. For example, a line of anti-aging products for women over 65 years old has recently been released. Another example is the recent acquisition of the brands NYX Professional makeup, Urban Decay, and Kiehl's, whose target audience is millennials – the most dynamically growing group of consumers of cosmetics (Zhukova, 2017).

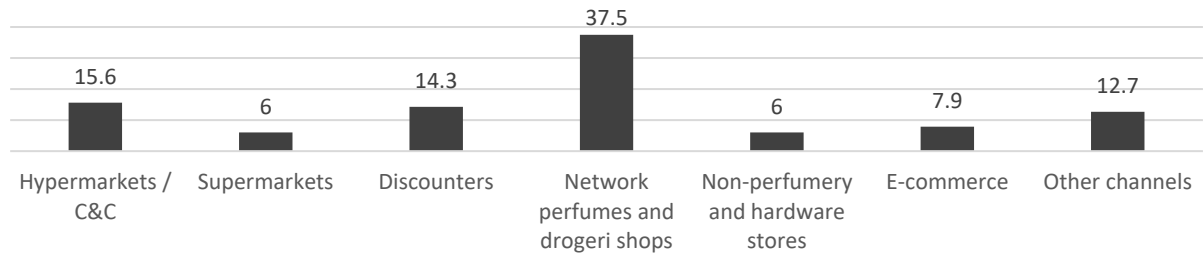
Antonio always liked to round up this part of the presentation by sharing insights on the unexpected peculiarities of Russian consumers:

“In Russia, sales of personal care products are at a higher level than in many European countries. Russians are very reverent about their appearance and pay special attention to it. In percentage terms, the use of many products in Russia significantly exceeds the figures in neighboring European markets. An interesting fact: Russians before all others began to use hair dye! And the sales of these products are higher than any other. Russians love new products, and readily accept them as their favorite. L'Oréal actively adapts some of the most popular products, taking into account the preferences of Russian cultural traditions and local specifics.” (Zhukova, 2017).

Even though during the last 5 years the income of Russians dropped by about 11%, this did not affect the frequency of beauty product consumption. At the same time, the average amount of purchase in cosmetics shops has decreased, and consumers started to pay more attention to discounts and engage in price benchmarking between online and offline channels of sales. To save time and money, women often prefer to perform beauty procedures at home. This leads to an increase in the popularity of products, which could be used for lifting, peeling, hair removal, and hair coloring at home. The popularity of express products with collagen, hyaluronic acid, and extracts of medicinal plants, which give a quick visible result, is also growing, i.e. eye patches, cream masks, and serums. Russian consumers' preferences are in general shifting in favor of organic cosmetics (beauty products with a natural composition), derma cosmetics (problem skincare), and cosmeceuticals (the recipe is close to medical standards). (Indiger, 2019)

Although, in general, the market dipped for 2019 both in value (-2.1%) and in units sold (-1.6%), online sales of cosmetics grew by 23% in sales value and units in comparison to the previous year. E-commerce now accounts for 8% of the market (see Figure 1). Online stores are pulling customers from such channels as network perfume, drogerie stores, non-chain perfumery, and hardware stores. The most common online shopper is considered to be mothers with young children, as well as those who are interested in brands that are not sold offline. Otherwise, Russians usually prefer to test the product before buying – check on the skin for decorative and care cosmetics, smell the aromas. Also, with an offline purchase, it is possible to consult with a sales consultant. (Ibid)

Figure 1. Relative popularity of sales channels for beauty products in Russia in 2009.



Source: Indiger (2019)

The financial crisis in Russia in 2014-2015

“A Crisis is like a virus: it appears in the system, spreads instantly, and infects everything around it.” – Antonio continued.

The financial crisis of 2014–2015 was the result of the loss of confidence in the Russian economy, which motivated investors to sell off their Russian assets, leading to a decline in the value of the Russian ruble. This was triggered by the fall in the price of oil in 2014 by nearly 50% and the international economic sanctions imposed on Russia following the annexation of Crimea and the Russian military intervention in Ukraine. The weakening of the ruble affected the increase of inflation to 12,91% by the end of 2015 (Statbureau) and, as a result, has contributed to a decrease in real disposable incomes of the population and cooling consumer demand (World Bank Group, 2015).

Antonio knew well that learning more on L’Oréal’s product portfolio and the history of the 2014-2015 crisis was not the primary goal of the listeners, who came to the lecture – they were there for the numbers: growth rates, prices, and sales indicators. Having the experience of heading several companies himself, Antonio believed that there was absolutely nothing wrong with this attitude: it is with numbers that you present and defend your strategies to your superiors, and interpretation of those numbers is what gives you the indication of your current place in the market. In L’Oréal, there has been long-lasting respect for "numbers": the budgets spent on market analytics are traditionally the highest across and beyond the industries, where the company operates. Antonio often regards this to be one of the company’s greatest strategic advantages. This is also the reason for the company in Russia being highly secretive concerning market and sales analytics.

Before the crisis, L’Oréal Russia held a market leader position (11% market share) and showcased overall stable growth except for the year 2011, which exhibited a significant drop in sales. In the company, they attributed this drop to the price increase, which happened in response to the 2007-2008 financial crisis under previous management. In early 2016, in response to the Russian ruble devaluation from 32,55 rubles per US dollar to 83,59, the cost of resources procurement increased by 80%-100%, which led to L’Oréal Russia immediately feeling the pressure on revenue.

The real salary indicator dropped by 9%, unemployment grew to 5,3%, production in Russia lost 9%. However, L’Oréal’s research showed that the main concern and source of distress for Russian consumers was not unemployment, but the price increase. For L’Oréal, this meant the reduction of the middle class by 15% which as the company empirically learned earlier has been comprising the #1 source for the company's growth in the past. The product categories which suffered the most were deodorants, hair dyes, skincare, and in particular cosmetic face masks, and sunblock products. It appeared that during the crisis Russians preferred to spend money on durable goods rather than keep savings. Consequently, in the first half of 2015, sales of cosmetics in pharmacies

decreased by 5% in rubles and 24% in volume, while the average retail price of cosmetics increased on average by 24% to 223 rubles (Gritsenko and Demidova, 2015). In the first quarter of 2016, the Nielsen Russian consumer confidence index fell to a record low in the history of observations - 63 points - against 72 points in the first quarter of 2015 (Gordeev, 2016).

The crisis management strategy

“Every crisis is unique” – Antonio firmly stated making sure that everybody was paying attention to what he was going to say, – “I would like to tell you about the decisions and actions, which were made at L'Oréal Russia in the context of particular consumer behavior, in a particular economic state. Therefore, it is impossible to confidently say that this strategy could be as successfully implemented in the context of other crisis.”

Based on prior experience of the company in Russia during the 2008-2009 crisis, L'Oréal Russia concluded that they shouldn't pursue competition benchmarking nor rely blindly on the industry prognoses during times of unpredictable economic turbulence. "Putting price increasing and cost-cutting as the imperative for crisis coping strategy in the cosmetics industry – is the kiss of death" – Antonio stated casting doubt on the general reaction to this type of economic situation. During the previous financial crisis, L'Oréal Russia increased prices on average by 20-25% in response to an equivalent increase in purchase costs. Although this kept the revenues stable for the short term, it backlashed harshly on the company's revenues in 2010. That strategy was in a lot of ways based on forecasts made during the crisis, which promised that the ruble would not fully recover from the economic situation, which didn't come true. Understanding that whatever the new crisis might bring, leaving the Russian market was not an option for L'Oréal, and the decision was made to come up with a strategy, which would be aimed at the long term, even if it leads to an unfavorable evaluation of the branch's performance by the headquarters in the short run.

During that period L'Oréal Russia followed 4 principles, which were determined by a path of trial and error:

1. Minimization of price increase

In response to the 2014-2015 crisis, L'Oréal Russia increased prices by just 12-14%, while main competitors trying to defend their revenues increased the price by 25-38%; the biggest price difference was for the mass market and salon segments, and the smallest – for the luxury segment, which is less price sensitive. The lower prices made the company's products more attractive to distributors and retailers, which then allowed to increase the presence of the mass-market products (e.g., Garnier, Maybelline NY) in more channels of distributions. "This was a risky decision to make", - commented Antonio, – "because if the price of a barrel would have decreased further for a longer period, the consequences of this decision might have been more drastic".

2. Sharp consumer marketing

“Crisis or no crisis – consumers will continue purchasing what they like.” – Antonio declared firmly. Relying on the “lipstick effect”, the company continued the planned new product introductions for 2015-2016, despite the pressure of the need to execute budget cuts. The “lipstick effect” referred to the phenomenon of rising beauty product sales during periods of financial distress as a response to women’s desire to appear more attractive and treat themselves with small purchases to deal with the economic and psychological stress. Consequently, in 2015, the Luxury 6 Oils shampoo by Elseve and Black Opium perfume by Yves Saint Laurent were introduced. Next year, the hair dye brand Excellence Crème was relaunched under a lower price with the use of a new local ambassador, the actress Ingeborga Dapkunaite. By 2019 this would be the most popular product in the category with a sales volume increase by more than 3 times. Urban Decay was introduced to the Russian market in 2016.

3. Flexibility through collaboration with value chain actors

Taking into consideration that crises tend to affect the whole business ecosystem, L'Oréal Russia believed that by engaging in renegotiations of previous deals with its value chain actors as opposed to switching to cheaper alternatives, it would be possible to minimize the negative impact of budget cuts, while strengthening existing long-term partnerships.

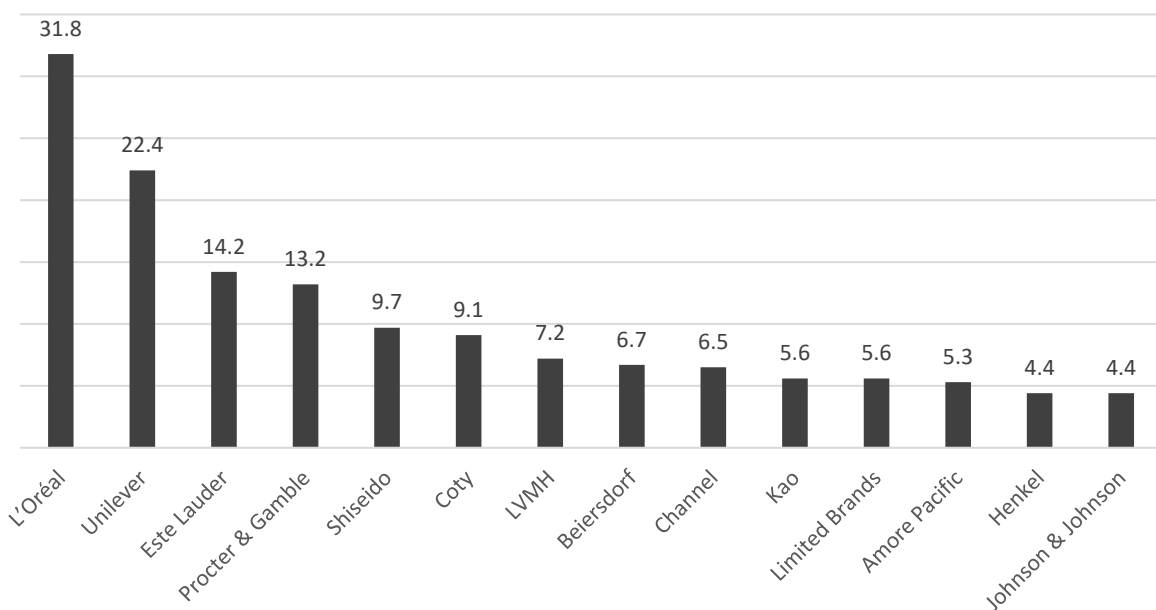
L'Oréal Russia had to cut media budgets by 12-22% during 2015-2016 as compared to 2014. However, the company being a major purchaser in of media on the Russian market managed to renegotiate the terms of partnership to account for the ruble denomination by moving to a monthly-contract system, instead of year-long contracts. Together with the media company, a product placement strategy was developed, which took advantage of the decline of demand for advertising in regional channels, leading for this media to become cheaper.

Have learned not to trust forecasts too much, the company engaged in monthly negotiations about media, employees, and budgeting. As a result, most of the required budget cuts were made by renegotiating existing contracts for real estate, finished goods warehouses, and automobile leasing services. Additionally, a strict credit discipline had to be implemented, even for the bigger clients. This resulted in an 80% reduction of payment overdue. "It's better to lose a client, than increase credit risks". – Antonio elaborated – "If you are successful, they are successful".

4. Localization

To avoid the need for restructuring, it was decided to cut a significant number of expatriates working in L'Oréal Russia, which are traditionally very expensive for the company to keep due to local employment laws. This was also used as an opportunity to hire new high-caliber Russian managers. "The best companies are those who hire the best managers. If you cut the salary, you can lose." – Antonio commented. To save costs, the local production of store display furniture for makeup was started replacing the usage of international suppliers. Most importantly, in 2015 the company invested 38 million euros to double the capacity of production despite the market drop by significantly expanding the Vorsino plant. "We wanted to show that we trust the country and we are here for the long term" – Antonio explained.

Figure 2. Top Beauty industry players in 2019 (sales in billion US\$)



Source: WWD Beauty ranking (2019)

Overall, the strategy led to significant growth in the mass market: by 7% in the first year and 15% – for the second. The market shares also grew for the other segments of the market. After about half a year, the competitors also started to decrease their prices. Additionally, the company's turnover after the crisis decreased by more than two times. In 2019, L'Oréal Russia remains a market leader in Russia with a high margin from competitors (see Figure 2).

Sharing Beauty with All

After this type of presentations, Antonio usually could not keep from feeling a little bit sad – what he wanted to discuss even more than sales, was how much the company tries to give back to the community. He understood that for the majority of companies it would be hard to imagine the amount of emphasis put by the L'Oréal Group on ensuring sustainable development across the many markets it serves. This is mostly due to the low priority, which Russian citizens generally give to ecological issues. Although research shows that the share of the population, which worries about the environmental state in Russia (35-40%) has grown by more than twice since the early nineties, it is still relatively low in comparison to other global markets. Most Russians don't engage in any environmental behavior apart from basic energy-saving practices.

It would not be an exaggeration to say that preserving the environment is a priority for the L'Oréal Group. It always cared about reducing the damage done to the environment, but now this area has become a priority without which modern production is considered impossible (Zhukova, 2017). In fact, Antonio often says that in L'Oréal Russia, they do not so often discuss issues of profit and new products as much as – how to improve the environmental development of the company. These discussions take place on weekly bases, either through live meetings, email correspondence, or phone conversations with Katerina from the head office in Paris, the chief corporate responsibility officer at L'Oréal.

The company's commitment to sustainable development up to the year 2020 is manifested in the “Sharing Beauty with All” program, which was launched in 2013. It covers all related issues, from product conception to distribution, including the manufacturing process and the supply of ingredients (see Table 2).

Table 2. Commitments of L'Oréal Group for 2020

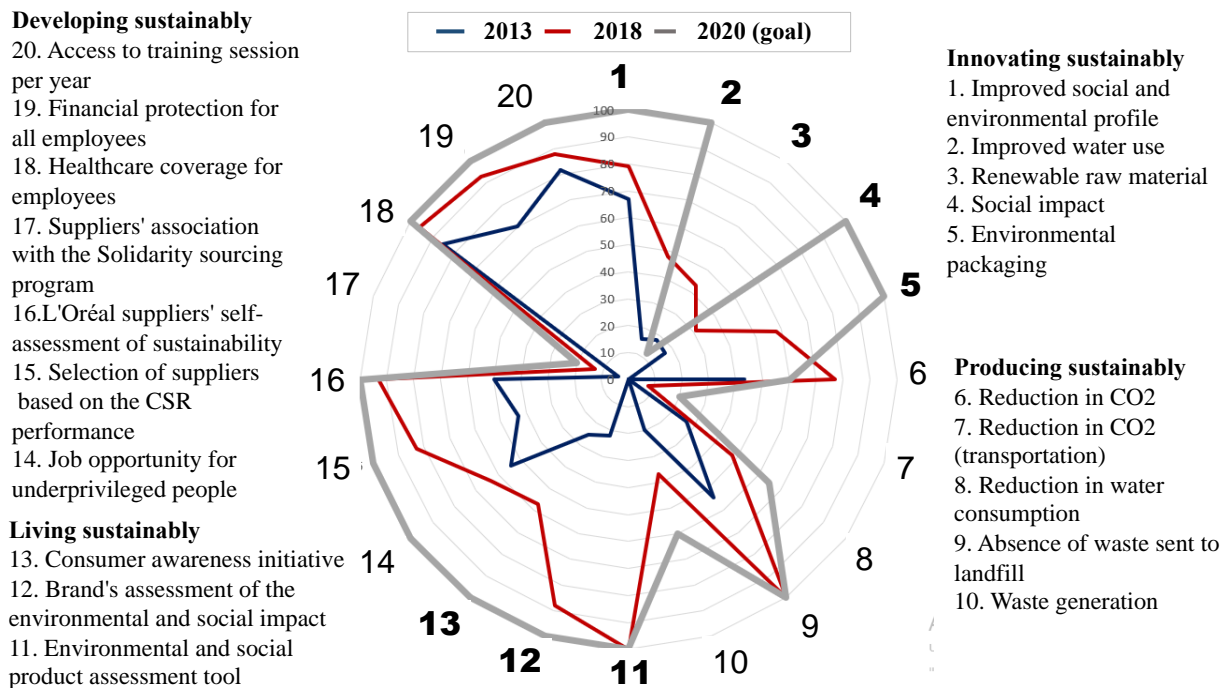
Goals category	Goals	2020 program aim
Sustainable innovation	1) Improved social and environmental profile 2) Improved water use 3) Renewable raw material 4) Social impact 5) Environmental packaging	100% of products have an environmental or social benefit.
Sustainable production	6) Reduction in CO2 7) Reduction in CO2 (transportation) 8) Reduction in water consumption 9) Absence of waste sent to landfill 10) Waste generation	-60% environmental footprint from a 2005 baseline: <ul style="list-style-type: none"> • -60% CO2 emissions • -60% Water consumption • -60% Waste consumption
Sustainable consumption	11) Environmental and social product assessment tool 12) Brand's assessment of the environmental and social impact 13) Consumer awareness initiative	We will empower every L'Oréal consumer to make sustainable consumption choices.

Living sustainably	14) Job opportunity for people from underprivileged communities 15) Selection of suppliers on the basis of the CSR performance 16) L'Oréal suppliers' self-assessment of sustainability 17) Suppliers' association with the Solidarity sourcing program 18) Healthcare coverage for employees 19) Financial protection for all employees 20) Access to training session per year	<ul style="list-style-type: none"> • L'Oréal employees will have access to health care, social protection & training, wherever they are in the world; • 100% of our strategic suppliers will be participating in our supplier sustainability program; • 100,000 people from underprivileged communities will access to work
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Source: Adopted from Sharing beauty with all. 2018 progress report

Each year, the L'Oréal Group publishes updated indicators related to the progress of the program (see Figure 3 for the latest report visualization). Most of the respective initiatives conducted in L'Oréal Russia are connected with the Vorsino plant expansion. Strict compliance with international quality standards at the L'Oréal in Vorsino plant allowed to manufacture products that have the same characteristics and meet the same ecological requirements as those that are produced at other L'Oréal group plants. Environmental Integrity, Social Equity, and Economic Prosperity make up the important concept of 'Triple Bottom Line' that guides the government of L'Oréal Vorsino plant. The range of ongoing sustainable measures taken by L'Oréal Russia categorized by the direction of impact on the company's sustainable development strategy is available in Appendix A.

Figure 3. "Sharing beauty with all" program realization progress



Source: Adopted from Sharing beauty with all. 2018 progress report

L'Oréal group represents a market leader with ambitious aspirations and a serious approach to sustainable development, which has been widely recognized internationally (L'Oréal Russia official website, 2018). The company is ready to invest heavily in new technologies supporting efficient consumption. About 3,5% of revenues are further invested in R&D. This resulted in the

launch of new product lines made from natural ingredients. An example of such a line is Botanic Therapy.

“For us, this is not a project” – Antonio commented as L’Oréal Russia’s received the “Eco-Corporation of the Year of Ecology” award in 2019. – “Environmental responsibility or, as we call it – sustainable development is the main principle according to which L’Oréal conducts business” (Zhukova, 2017).

The COVID-19 crisis

In his car on the way home after the guest lecture, Antonio decided to check the latest news around the COVID-19 situation. It was the 27 of February: no infection cases in Russia. Next, he would look up France, the location of the company’s headquarters: 38 cases, double from the day before. He then learned that Italy had 650 new cases of sickness, which indicated a 46% increase from the previous day – not yet alarming, but rather unsettling. Italy was his home country, and he had a family living there. He automatically checked his flight schedule in the calendar: next week, on the 5th of March, Antonio had plans to visit Novosibirsk with a similar guest lecture. Just in case the virus gets to Russia by that time, he made a memo suggesting for the next university visit to probably give up the opening line of the lecture comparing the crisis to a virus to avoid triggering COVID-19 related associations. However, this lecture was meant to be postponed to 2021.

Not a long time after, on the 9th of March, Antonio held a staff meeting to discuss the likely consequences of oil prices drop due to the failure of negotiations in Vienna, which happened that weekend. The OPEC member countries tried to negotiate additional production reduction by 1.5 million barrels per day, of which 0.5 million should be borne by Russia and other countries not included in the cartel, which led to Russia exiting the treaty (Kalyukov, 2020). By most indicators, this situation reminded him of the 2014-2015 crisis in Russia. The prospective did not look pleasant, but as it seemed at the moment – nothing the company haven’t gone through already before.

Several hours before the meeting he got a call from the head office in Paris. “The COVID-19 situation is getting worse. They say that the World Health Organization is going to announce a pandemic.” – said Katerina on the other line. Based on the China scenario, one could expect borders lockdown, the imposing of self-isolation, a transition to a remote form of working, and even the temporary discontinuation of operations, such as distribution, retail, and production. It became obvious to Antonio that today’s meeting agenda has to be extensively modified. He postponed the meeting to the next day and asked the analytical department to pull some numbers reflecting ongoing economic trends and prognoses estimates, the financial and production department – to calculate the consequences of the temporary shutdown of the plant, and the marketing department – to analyze the media for reactions to the COVID-19 situation and consider the impact on the company’s image.

The analytical department has sent the requested information (see Table 3). To their mind, like in the 2008 recession, the pandemic was going to cause a financial shock that would hurt consumer sentiment and demand. However, unlike in 2008, the COVID-19 pandemic was likely to add uncertainty in the market about the crisis, prolonged store closures, and disruptions to manufacturing. The financial consequences of shutting down the plant in correlation with potential international distributional problems and the dropping oil prices would be harsh. The situation was not just putting in jeopardy the payback of expenses on the performed plant renovation, which according to the plan should have happened that year, but was also threatening the success of achieving the highly sought sustainability program goals due in 2020.

Table 3. Market statistics

Year	Unemployment rate, %	Consumer Confidence Index	Ease of Doing Business in Russia Index	GDP growth, %
2013	5,5	-11	92	1,8
2014	5,2	-18	54	0,7
2015	5,6	-26	36	-2,31
2016	5,5	-18	40	0,33
2017	5,2	-14	35	1,6
2018	4,8	-8	31	2,3
2019	4,4	-15	28	1,3
2020*	5,8–13,5	-39	32	-5,5
2021*	5,4	n.a.	n.a.	3,5

* – forecast; n.a. – forecast is not available.

Source: Adopted from Trading economics; World Bank Group (2019); International Monetary Fund (2020); HSE (2016); Ageeva (2020) and Karnova (2020)

Upon discussing the situation with the headquarters, there appeared to be only one option to both continue working towards the program goals achievement and keep the plant from shutting down by producing first aid essential product was to start making gel-sanitizers, which were a subject of a supply shortage. In response, the production department representative expressed concerns regarding the long period it takes to get approval for a new product, especially that containing alcohol, and the extensive expenses on plant product lines repurposing. “Would COVID-19 even still be an issue by that time?” – wondered the Head of production. The marketing department elaborated on the proposal by expressing concern about publicity considering that the company is trying to capitalize on a social disaster, the fact that the main competitors are likely to also start the production of sanitizers, and that the associations with the product category don’t feat any of the brands in the portfolio. “Perhaps we could give away the sanitizers as social aid?” – someone suggested.

“Maybe, just like last time, this crisis could be used to boost our progress in achieving the sustainable goals for 2020?” – Antonio contemplated.

ADDITIONAL MATERIALS

The additional materials include short video clips explaining the essential information a student would have to know about the economic crisis and the effect of pandemics to fully comprehend the case materials. It is recommended to acquaint the students with the video in case they are new to the fields of management and economics.

1. One Minute Economics (2020), “*Financial crisis VS Economic crisis explained*”, available at 2020, <https://youtu.be/cTSFz6VA3P8> (accessed 7 June 2020)
2. One Minute Economics (2020), “*Will the 2020 Economic Crisis Turn into a Great or Greater Depression?*”, available at <https://youtu.be/F1p91HptySA> (accessed 7 June 2020)
3. One Minute Economics (2020), “*Pandemics and Complex Global Supply Chains: Supply Chain Complexity*”, available at <https://youtu.be/fmKgFfyi5wY> (accessed 7 June 2020)
4. Udacity (2015), “*Associative network - Intro to Psychology*”, available at <https://www.youtube.com/watch?v=KyzSUMIdCiM> (accessed 7 June 2020)

SUGGESTED CORE READINGS

- Bom, S., Jorge, J., Ribeiro, H. M., & Marto, J. (2019). A step forward on sustainability in the cosmetics industry: a review. *Journal of cleaner production*, 255, 270-290.
- Hill, S.E., Rodeheffer, C.D., Griskevicius, V., Durante, K., and White, A.E., 2012. Boosting beauty in an economic decline: mating, spending, and the lipstick effect. *Journal of personality and social psychology*, 103(2), p.275.
<http://personal.tcu.edu/sehill/LipstickEffectMS20March2012.pdf>
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EXHIBITS

EXHIBIT TN-1: [THE “LIPSTICK EFFECT” OVERVIEW]

The effect, coined in 2008 by the head of the cosmetic group Estée Lauder, Leonard Lauder, as the “lipstick effect” is referred to as a phenomenon describing rising beauty product sales during periods of financial distress.

The reduced financial resources and the increased uncertainty regarding the future determine a serious decrease both in both major purchases (e.g., automobiles, homes, furniture, electronics) and in basic purchases (e.g., groceries)¹. However, examining real-world data over the last 20 years, researchers found that higher unemployment was associated with increased spending on appearance-related products such as cosmetics and clothing (Hill et al., 2012). Evidence was detected for the significant rise of lipstick sales through four recessions from 1973 to 2001. For the Great Recession from 2007 to 2009 the same effect was found for eye makeup². The demand for beauty products soared short after the 9/11 attacks in the US. A long stagnation in the Japanese economy since 1997 led to a 10 percent rise in spending on accessories. Sales figures from the L’Oréal group revealed that during 2008, a year when the rest of the economy suffered record declines in sales, the company experienced sales growth of 5.3%³.

The lipstick effect is considered to be driven by two important determinants: the mood-enhancing and the desire to achieve financial security through attractiveness. The first describes the fact that cash-strapped consumers make more frequent purchases of small treats and luxury items despite experiencing a money shortage. During difficult times consumers don’t stop shopping, but rather switch to cheaper goods, with which consumers can treat themselves. Especially in the women's case, shopping is perceived as a relaxing or leisure activity being helpful to overcome the identity problems⁴. Therefore, through hedonic consumption, the consumer tries to feel better.

According to the second “lipstick effect” determinant, during times of economic recession, the heightened economic concern translates into an increased desire to use appearance-enhancing items to both attract romantic partners and create a favorable impression of themselves in the workplace, as both strategies can help become secure financially. It is theorized that since the supply of financially stable partners falls during recessions, the price that women are willing to pay for their attention spikes. This was confirmed by a series of psychology experiments⁴ which determined that thinking about the recession made young, unmarried women more concerned with

¹ Euromonitor International (2012). “*Consumer buying behavior in the recession: global online Survey*”, available at <http://www.euromonitor.com/consumer-buying-behaviour-inthe-recession-global-online-survey/report> at 12th September 2012 (accessed 7 June 2020)

² Brown, R. (2020). “*Will The Lipstick Effect Hold During This Economic Downturn?*”, Beauty independent, available at <https://www.beautyindependent.com/will-the-lipstick-effect-hold-during-this-economic-downturn/> (accessed 7 June 2020)

³ Elliott, L. (2008). “*Into the red: 'lipstick effect' reveals the true face of the recession*”, The Guardian, available at <https://www.theguardian.com/business/2008/dec/22/recession-cosmetics-lipstick> (accessed 7 June 2020)

⁴ Manchanda, R. (2012). “*A comparative study of compulsive buying behavior between working and non-working women*”, Pragmaan: Journal of Management, 10(1), pp.1-9.

looking attractive and want to buy beauty products (especially luxury beauty products)⁵. When the recession was on women's minds, advertising for beauty products was more effective when it emphasized attracting men. It was also found that women with high economic concern elect to improve their professional appearance more frequently than their romantic attractiveness, which suggests that their motivation to obtain resources through a job dominates their motivation to obtain resources through a partner⁶.

However, the effect is often considered by many economists as unreliable. The “lipstick effect” rarely works for the whole beauty industry at once as it is attributed to different beauty product categories (e.g. skincare, nail polish, eye makeup, lipstick) depending on which of them showcases growth at the studied period. Moreover, there is evidence to that lipstick sales had grown both in recession and in prosperity periods, which makes it hard to establish a clear correlation between periods of financial distress and the increased sales of beauty products⁷.

⁵ Hill, S.E., Rodeheffer, C.D., Griskevicius, V., Durante, K. and White, A.E. (2012), “*Boosting beauty in an economic decline: mating, spending, and the lipstick effect*”, *Journal of personality and social psychology*, 103(2), p.275.

⁶ Netchaeva, E., & Rees, M. (2016), “*Strategically stunning: The professional motivations behind the lipstick effect*”, *Psychological Science*, 27(8), p.1157-1168.

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Appendices

Appendix A. Sustainable initiatives related to the Vorsino plant by L'Oréal Russia

Initiatives	Description	United Nations sustainable development goals*	Goals according to the L'Oréal sustainability commitment
Dry manufacture	The plant expansion helps reducing water consumption by 79%. Industrial wastewater treatment is implemented. The plant uses water only for sanitary purposes and for production. All water used for cleaning equipment and secondary needs is recycled and returns to the cycle in the amount of 95 %.	6, 12, 13	Producing sustainably (7)
Solar power plant implementation	Solar power is used at the plant, which generates 10% of the energy consumed by the Vorsino plant on average, per year. The power plant is composed of 1476 panels on the area of approximately 7 thousand m ² .	3, 6, 13, 14, 15	Innovating sustainably (1,3)
Energy-efficient building construction	The plant's construction methods were recognized by the American Green Building Council. It received the LEED V4 Platinum level, which is the highest level of ecological assessment confirming the application of the most efficient and environmentally friendly design and construction methods.	3, 6, 13, 14, 15	Innovating sustainably (1)
Use of recycled plastic in packaging products	The company integrates recycled materials within the plastic components of product packaging. Development of packaging size and weight optimization technology aimed at saving resources.	3, 6, 13, 14, 15	Innovating sustainably (5)
Waste recycling	The plant recycles about 47,4% of the waste generated by the production process.	6, 7, 12, 13	Producing sustainably (10)
CO ₂ emissions reduction	Carbon dioxide sensors were installed.	6, 7, 12, 13	Producing sustainably (6)
Waste sent to landfill	The plant attained and maintains zero waste to landfill performance.	6, 7, 12, 13	Producing sustainably (9)
Air quality control	Air purifiers contribute to the air cleaning at the plant.	3, 6, 13, 14, 15	Innovating sustainably (3)
Renewable raw material	Raw materials are derived from renewable sources, largely of plant origin.	3, 6, 13, 14, 15	Innovating sustainably (3)
Waste sorting	Sorting of waste at the plant is organized, and all the generated waste is being processed. During construction, the waste was also sorted and sent for recycling.	6, 7, 12, 13	Producing sustainably (9, 10)

Animal welfare	The plant does not test any product or ingredient on animals and furthers technological breakthroughs to disseminate alternative methods of product testing. L'Oréal reproduces human skin models in laboratories to carry out in vitro product safety assessments.	3, 6, 13, 14, 15	Innovating sustainably
Biodiversity and deforestation	As part of its commitment to "zero deforestation", the company implements action plans to ensure a sustainable supply of soy oil, palm oil and wood-fiber based products (cardboard and paper for packaging) so that none of its products are associated with deforestation.	1, 3, 5, 8, 10	Developing sustainably
SPOT technology application	The customer awareness of the products' ecological benefits increases due to the application of the SPOT technology. The tool is now completely integrated into the design and launch process for new products and allows to quantify the impact reduction across every aspect of the product.	3, 12	Living sustainably (11)
L'Oréal suppliers' self-assessment of sustainability	Strategic suppliers assess their sustainability policy with the plant's aid.	1, 3, 5, 8, 10	Developing sustainably (16)
Job opportunity/local employment promotion	Expansion of the L'Oréal plant at industrial park Vorsino also improves the Kaluga Region's employment level. The plant is continuing to hire local specialists and offer job opportunities to underprivileged people.	1, 3, 5, 8, 10	Developing sustainably (14)
Natural lighting	The glazing of the plant building considers the number of transmitted and reflected rays, which helps to cut heating costs and promote natural lighting.	3, 6, 13, 14, 15	Innovating sustainably (3)
Reduced energy consumption at the plant	The expansion project reduced energy consumption by 46 percent.	3, 6, 7, 12, 13, 14, 15	Innovating sustainably (1,3), Producing sustainably (6)
Responsible marketing and transparency of communication	The plant pursues the goal of informing its customers about ecological initiatives and enhancing employees' involvement.	3, 12	Living sustainably
Creating a comfortable positive natural work environment	It includes green space for employees (pedestrian zone, mini garden with plants, sports ground, mini-golf) and stress reduction rooms.	1, 3, 5, 8, 10	Developing sustainably (18)
Establishment of the L'Oréal Academy to train beauty salon professionals	The plant supports the initiative to enhance professional education. It offers training sessions for specialists from beauty salons across the country. There are also free of charge online courses, intended for hairdressers, stylists, and salon directors.	3, 12	Living sustainably (12)

Social audit policy	The L'Oréal's suppliers adhere to the main International Labor Organization conventions and local legislation, especially with regard to level of wages, working hours and occupational health and safety. Social audits are often conducted at all stages of the supply chain.	1, 3, 5, 8, 10	Developing sustainably (16)
Charitable assistance to schools, veterans' homes, orphanages, disabled persons, people at risk categories	The activities of the Vorsino plant have received many awards: victory in the competition "Eco Corporation of the Year - 2017", 3rd place in the category "Green Offices of Russia", "The largest investor - 2017" in the Kaluga region, etc.	1, 3, 4, 5, 10, 12	Conducting corporate philanthropy actions; Living sustainably
Citizen day activity	Citizen day is a day of solidarity and mobilization for employees who can participate in volunteer activities in such areas as combating exclusion, backing up intergenerational solidarity, helping people with disabilities, improving the environment, and providing employment assistance.	5, 10	Promoting diversity and inclusion

* United Nations sustainable development goals: #1 – No Poverty; #2 – Zero Hunger; #3 – Good Health and Well-being; #4 – Quality Education; #5 – Gender Equality; #6 – Clean Water and Sanitation; #7 – Affordable and Clean Energy; #8 – Decent Work and Economic Growth; #9 – Industry, Innovation, and Infrastructure; #10 – Reduced Inequality; #11 – Sustainable Cities and Communities; #12 – Responsible Consumption and Production; #13 – Climate Action; #14 – Life Below Water; #15 – Life on Land; #16 – Peace and Justice Strong Institutions; #17 – Partnerships to achieve the Goal.

Source: Adopted from L'Oréal Russia official website and Sharing beauty with all. 2018 progress report