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The Regional Sales of Multinationals in the World Cosmetics Industry

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The Regional Sales of Multinationals in the World Cosmetics Industry

Abstract

This paper analyzes the regional characteristics and strategies of multinational enterprises (MNEs) in the world cosmetics and toiletries industry, based on the new work by Rugman on regional strategy. We test the proposition that MNEs may asymmetrically develop their upstream and downstream firm specific advantages (FSAs). We find that the upstream activities of the MNEs in cosmetics are home region based but that downstream activities are less so. Further, the asymmetry of FSAs in the world cosmetics industry is mainly due to the atypical Asian entry strategies of North American and West European cosmetics MNEs. Two case studies confirm how variations in FSAs can affect regional strategy.

Keywords: regionalism, regional strategy, cosmetics industry, firm specific advantage, Avon, Gucci

Introduction

In a previous article in this journal, Rugman and Collinson (2004) examined the international activity of the world's largest automobile companies. They reported that these so-called global firms in fact are all operating on a regional basis, with an average of 80 percent of their sales within their home region. In this paper this regional lens is applied to the world cosmetics industry. Two advances are introduced. First, as well as the sales of these firms, their assets will be considered. Second, the presence and performance of world cosmetics firms is examined in a regional context for the first time.

Rugman (2000, 2005) and Rugman and Verbeke (2004) show that the largest multinational enterprises (MNEs) utilize not a global strategy but a home region-based strategy as they go into foreign markets. Several related studies have examined the regional characteristics of MNEs at the industry level: the automotive sector (Rugman and Collinson, 2004); the retail sector (Rugman and Girod, 2003). There are also several studies at region/country level: Europe (Rugman and Collinson, 2005); Japan (Rugman and Collinson, 2006). Some earlier work also implicitly discusses regional strategy. In particular, Johansson and Vahlne (1977) show that firms select geographically and culturally similar markets to overcome the liability of foreignness. Davidson (1983) suggests that similarities in supply, demand, and uncertainty encourage foreign entry. Ohmae (1985) notes that MNEs can take advantage of customer similarities among nations, and he was the first to define broad regions in the triad space: North America; Western Europe; and Japan.

Schlie and Yip (2005) suggest that regionalization and regional strategy could evolve as a better solution than their global counterparts because MNEs confront two pressures: total globalization barriers and competitive regionalization advantages. After analyzing the world automotive industry, they further argue that regional strategies could be associated with a more rather than less advanced stage in the evolution of firm's global strategy. We do not believe this; there are many large MNEs (LMNEs) reporting a regional strategy but they clearly do not ever have a global strategy. However, to better test this it is necessary to move on from looking at sales data and also consider assets, as we do here. Rugman (2005) in fact already examined the downstream activity (sales) of LMNEs. Here we extend this work with a comparative analysis of the upstream (assets) and downstream (sales) firm specific advantages (FSAs) of subsidiary business units. Moreover, this study analyzes not only LMNEs but also smaller MNEs in the cosmetics and toiletries (henceforth cosmetics) industry and compares their international strategies. We find that the development of upstream activities in small cosmetics MNEs lags behind the growth of downstream activities, compared to larger cosmetics MNEs. This asymmetry comes from North American and West European MNEs' entry strategy in the Asian market. By comparing upstream and downstream FSAs in the regional context, we also study and compare the strategies of Avon and Gucci.

We proceed as follows. In the next section, we describe the data and review background information about the world cosmetics industry. After examining the regional characteristics of the cosmetics industry and the asymmetry between upstream FSAs and downstream FSAs, we review two cases of internationalization strategy. We conclude with a discussion of the contribution and managerial implication of this study.

The World Cosmetics Industry

In this paper, we focus on the regional sales and localized operation (assets) of the world's largest 100 cosmetics companies for 2003. The list of the world's largest 100 cosmetics companies and its cosmetics sales come from the Woman's Wear Daily (WWD) magazine, and the list is reported in Appendix A.[1] France based L'Oréal had sales of 15.5 billion US dollars worldwide in 2003, and Proctor and Gamble, Unilever, Shiseido, and Estée Lauder were next, while Perricone MD is the smallest firm with sales of 52 million US dollars worldwide in 2003. The world cosmetics market is oligopolized by a few large companies; the largest company, L'Oréal, is about 300 times bigger than the 100th largest company, Perricone MD.

Table 1 reports the number and average sales of firms by nationality and by home region. The cosmetics industry is regionally based, and firms based in North America and in West Europe account

[1] WWD annually reports on the largest 100 cosmetics companies based on sales.

for approximately 86% of sales: 43% for each region. Firms based in Japan and South Korea also have substantial market share at 14%.[2] West European cosmetics companies have the largest portion, 50%, in terms of number, but their average sales are the smallest, 960 million US dollars. Firms in the largest five countries (USA, UK, France, Germany and Japan) make up 93 % of sales. Except for eight Brazilian, Russian, and South Korean companies all firms have their headquarters in developed countries. Based on Euromonitor's (2003) estimation of world market size, the largest 100 companies make up 60 % of the world market.

Table 1 is approximately here

We divide the largest 100 cosmetics companies into LMNEs and small MNEs (SMNEs) based on their sales in 2003. Sales of LMNEs are at least $1 billion in 2003, while those of SMNE are less than $1 billion. In this way 34 companies are categorized as LMNEs among cosmetics companies, while 66 companies are categorized as SMNEs. Among the 34 LMNEs, 27 firms (such as L'Oréal, Shiseido, Estée Lauder, Avon) sold more than $1 billion of cosmetics products around the world, while seven companies (such as Gucci, Gillette, Liz Claiborne) sold more than $1 billion by including other product categories.[3] Using the list from WWD, we collect geographic sales data from the annual reports, World Scope, and COMPUSTAT. The geographic dispersion of sales data is available for 43 MNEs while the geographic dispersion of assets is available for 32 MNEs. Eleven MNEs only report their sales data in annual reports. Data availability is higher for LMNE than for SMNE; see Table 2.

Table 2 is approximately here

The Regional Nature of Multinational Enterprises in Cosmetics

[2] We compare the sales from WWD and firms' annual reports if both are available. The values are almost identical in either source excluding a few possible rounding errors.
[3] Proctor and Gamble acquired Gillette in 2005.

Current studies show that world economic activities are realized in the home regions of North America, Europe, and Japan/Asia (Rugman, 2000 and 2005; Rugman and Verbeke 2004). Among Rugman's 380 MNEs, six MNEs are included in the world largest 100 cosmetics companies. These MNEs are categorized as one global MNE (LVMH), two bi-regional MNEs (L'Oréal, Unilever), and three home-region oriented MNEs (Henkel, Sara Lee, Proctor and Gamble).

Does the cosmetics industry use a global strategy? Previous work finds that brand is important (Steenkamp, Batra and Alden, 2003), and that maintaining the brand name needs a higher degree of control because of the free-riding problem (Anderson and Gatignon, 1986). Burt et al. (2005) explain that the beauty industry has two characteristics: high regulation and high consumer's trust, which is built around well established world wide manufacturing brands. Davidson (1983) finds that scale economies can be achieved in supplying similar markets because existing resources such as brand names, packaging, product design, and pricing strategies can be readily transferred to similar markets. Managers will also prefer similar markets in order to minimize unexpected response to an established marketing mix. Brand equity can be achieved by a marketing mix such as place and promotion after penetrating the market. In general the cosmetics industry would be a home-region oriented industry to maximize FSAs (scale economies) and LSAs (market similarities).

Seventy percent of sales occur in the home region, and SMNEs rely more on home-region sales than LMNEs. The value is very close with the intra-regional sales of the largest 500 companies, 71.9%. Using Rugman's classification (2004, 2005) of regional multinationals based on intra- and inter-regional sales, we classified cosmetics MNEs; see Table 3.[4] Approximately 80% of MNEs are categorized as home-region oriented in the sense of geographic dispersion of sales. Only 16% of MNEs actively participate in at least one foreign triad market. The evidence is more obvious when we use the geographic dispersion of assets data. All 32 cosmetics MNEs invest more than 50% of assets in their home region except Unilever, and the average of their intra-region assets is 84%. In particular

[4] The definitions of classification are: home region (>50% of sales in the home region); bi-regional (<50% of sales in the home region but >20% in another region); host region (>50% of sales in another region of the triad); and global (<50% of sales in the home region and >20% in each region of the triad). We report categories of all cosmetics MNEs whose data are available in Appendix A.

SMNEs invest an average of 92.6% assets in the home region, and all of them are categorized as home-region oriented MNEs in the sense of geographic dispersion of assets.

Table 3 is approximately here

Rugman (2005) develops the regional matrix based on the basic matrix of CSA and FSA. On the horizontal axis of the regional matrix is shown the regional or global reach of FSAs of a firm, and on the vertical axis of the regional is shown the regional or global scope of the locational advantages of a firm. In Figure 1, we arrange the results of 43 cosmetics MNEs on the regional matrix. Among the world's largest cosmetics MNEs, four (LVMH, Gucci, L'Oréal and Richemont SA) stand out as being the most global (quadrant 3) in terms of generating their revenue across the three triads of North America, Europe, and Asia-Pacific. All are well known high-end cosmetics companies located in Europe, and L'Oréal is solely a cosmetics company.[5] High brand recognition and world standard products make them use global strategy. Three firms (Unilever, Bulgari, and Inter Parfums) are positioned in bi-regional of quadrant 4. Even though total sales of Bulgari and Inter Parfums are less than $1 billion (855 million and 186 million respectively) they have a significant presence in two triads. All three firms are also Europe based firms. The main brand of Bulgari and Inter Parfums are BVLGARI and Burberry; they also have strong brand equity. All Asian and North American firms are categorized in home-oriented and host-oriented MNEs (quadrant 2).

It is important to note the existence of quadrant 1; the firms in this quadrant cannot develop the complementary FSAs with a global reach that are required to exploit the global scope of their locational advantages. While the environment of international business is becoming more global, it is very difficult for firms to transfer their successful regional FSAs into global FSAs (Rugman, 2005). Avon Company is located solely in quadrant 1.

Figure 1 is approximately here

[5] LVMH(Moët Hennessy Louis Vuitton) group retails Christian Dior, Guerlain, Kenzo, etc. Gucci group retails Yves Saint Laurent, etc. Richemont SA retails jewelry and watches such as Baume and Mercier, Cartier, Piaget, Dunhill, etc, and also retails perfumes for those brands.

The Downstream and Upstream Paths of Geographic Dispersion

Rugman and Verbeke (2004) suggest that an asymmetry may exist between the MNE's downstream and upstream FSAs. The average sales of Rugman's 380 companies was $29.2 billion in 2001, and the average sales of our sample is $5.8 billion in 2003.[6] When we count only cosmetics sales of companies, the average sales is $2.0 billion. The size of these cosmetics companies is much smaller than that of the largest 500 companies.

Anderson and Gatignon (1986) suggest that starting from low-control modes, a firm is advised to exert more control for valuable brand names. Johansson and Vahne (1977) point out that firms typically start exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in the host country. Therefore SMNEs utilize FSAs available to achieve a broad geographic distribution of sales and then focus on FSAs to achieve sourcing and production for economies of scales. From the organizational capability perspective, MNEs change to high investment mode after reducing risk through attaining market information and achieving high brand recognition in the host market. However, it does not mean that the largest 500 MNEs show the same pattern as cosmetics MNEs. The largest 500 MNEs enjoy a high capability in exploiting upstream activities compared to downstream activities. The largest MNEs that have extensive international experience can exploit their FSAs of production and sourcing in the host market more efficiently than SMNEs.

Rugman (2005) defines downstream and upstream FSAs. Downstream FSAs, or customer end FSAs, refer to knowledge strengths deployed in activities with a direct interface with the customers; they are required to achieve successful market penetration. In contrast, upstream FSAs are deployed in activities that lack this direct interface but are critical to creating an efficient internal production system. He further suggests and presents a re-conceptualization of Bartlett and Ghoshal's (1998)

[6] 49 companies' information is available for total sales in their annual reports and for cosmetics segments sales in either annual reports or WWD.

framework on “generic roles of national organizations” in the MNE. We apply our data to this framework and present it in Figure 2.

Figure 2 is approximately here

The cosmetics MNEs’ strength of geographic scope upstream FSAs lags behind their downstream FSAs except for Avon. The dotted line is the old perspective of symmetric upstream and downstream FSAs, and the solid line is the trend line of cosmetics MNEs; see Figure 3. These findings contradict the hypothetical expansion path of the largest 500 companies in Rugman and Verbeke (2004), but they note that the exploitations of upstream and downstream FSAs are different with regard to firm specific and industry specific characteristics. The size of the MNEs in our sample is much smaller than that of the largest 500 companies, and as noted earlier the cosmetics industry has unique characteristics. When we consider the size of the MNEs in the sample, we may expect that the development of upstream FSAs is faster than that of downstream FSAs for the largest 500 companies.

Figure 3 is approximately here

North American and European cosmetics MNEs’ sales in their home region are approximately 60%, and their sales in the two foreign triads are around 20% each on average. Asian cosmetics MNEs are more home region oriented; their sales are more than 90% in the home region and are less than 5% each of the two foreign triads (see Panel A in Table 4). However, we cannot find any preference of downstream activities between the two foreign triads. Each market is equally important in developing downstream FSAs. However, we observe the asymmetric preference of developing upstream FSAs in foreign regions. Panel B in Table 4 shows that European cosmetics MNEs invest 20% of assets in the North American market, and North American cosmetics MNEs invest 30% of assets in the European market. Both North American and European cosmetics MNEs invest less than 10% of their assets in the Asian market. Asian cosmetics MNEs invest more than 5% in each foreign triad, which is slightly higher than their sales in each region.

North American and European MNEs'(FDI) foreign direct investment in the Asian region is market seeking FDI, whereas their FDI in the other regions of the triad is well balanced among the market seeking, resource seeking, and strategic asset seeking motives for FDI, in terms of Dunning (1993). Even though cosmetics MNEs from the West have a substantial portion of sales in the Asian market, they do not actively exploit upstream FSAs in the market. The world's leading MNEs have increased their production capabilities in fast-growing parts of developing countries (Nolan and Zhang, 200), but the leading cosmetics MNEs have not yet participated in this trend. The evidence of this section makes us conclude that an asymmetry between upstream and downstream FSAs in the world cosmetics industry exists for the Asian strategy of North American and European cosmetics MNEs. North American and European cosmetics MNEs need to develop upstream FSAs in the Asian market.

Table 4 is approximately here

Two Cases: Avon and Gucci

As explained in the earlier section, cosmetics MNEs develop more downstream FSAs than upstream FSAs in the foreign region. Schlie and Yip (2005) argue that the globalization (internationalization) process inevitably leads to different patterns of development in various countries or regions of the world, or varying degrees of globalization, which in turn give rise to distinct regionalization trends. By carefully looking at Figure 2 we find two special cases of internationalization strategy in the world's largest cosmetics MNEs. Avon used a different internationalization strategy from the general cosmetics MNEs. Gucci shows higher asymmetry than other large cosmetics MNEs. Avon and Gucci are well-known MNEs over the world. *Business Week* (http://bwnt.businessweek.com/brand/2003/index.asp) ranked brand values for Gucci and Avon as 53rd and 57th respectively for 2003[7]. In this section we explain why two similar MNEs develop different internationalization strategies.

[7] Only Gillette, LVMH and L'Oréal have higher brand values than Avon and Gucci in the cosmetics industry.

Avon: The myth of globalization

Avon, the world's largest direct sales cosmetics company, is positioned in quadrant 1 in Figure 1. Avon is categorized as a home-oriented MNE, but it has 48% of assets (geographic scope of locational FSA) and 36% of sales (geographic reach of FSAs) in foreign regions. Avon can be categorized as quasi bi-regional in assets and home oriented in sales. Figure 2 shows that Avon's geographic dispersion of upstream FSAs is spread over two triad regions, while its geographic dispersion of downstream FSAs is developed in only one triad.

Even though Avon made more than 60% of sales and profits in its home region (North America), it actively exploits upstream FSAs in two foreign regions. After starting its business in New York in 1886, Avon aggressively expanded its geographic sales channels; see Table 5. Avon established its first cross-border presence in Canada in 1914, and expanded its business into Puerto Rico and Venezuela in 1954 and Mexico in 1958, etc. The first business in a foreign triad was in the United Kingdom and Germany in 1959, and it also expanded its business in Europe: Italy, Spain, and France in 1966. The Asian-Pacific region was its last destination among three triads; it entered the Australian and Japanese markets in 1963 and in 1969 respectively. Currently, Avon does business in more than 120 countries and has continued its geographic expansion. Avon has entered 34 new markets since 1990.

Anderson and Gatignon (1986) find that a higher degree of control is more efficient for technically sophisticated products and process, which tend to have higher proprietary content than unsophisticated products. Direct sales methods require high tacit knowledge and local responsiveness, and the local responsiveness is harder to exploit than sourcing or production advantages. As a direct sales company, Avon needs to exploit downstream FSAs and local responsiveness, but it could not attain a comparative advantage in downstream FSAs. Thus Avon exploits upstream FSAs as a supplement to its lack of downstream FSAs in host regions.

Table 5 is approximately here

Gucci: from global to regional

Gucci was founded in Italy in 1921. Gucci opened its first international store in New York in 1953, and in 1961 opened its London store, the first European store outside Italy.[8] With this early expansion into the foreign triad region its sales are quite balanced over the triad regions. Gucci's regional sales in Asia are higher than its regional sales in Europe and America before 2000. Not only Gucci but also other European luxury goods retailers (LVMH and Richemont S.A.) also have 29% and 37% of sales in the Asian region.[9] Compared to geographic dispersion of sales, Gucci's assets are concentrated in the home region. Gucci has invested more than 70% of assets in the home region. As one of the most famous luxury goods retailers, Gucci's comparative advantage comes from the standardized, high quality products and the strong relationship with its supply channel. Therefore Gucci has maintained its upstream FSAs in the home region.

However, Gucci has recently changed its international strategy. Gucci's home region sales in 2003 are almost double of that in 1996, and its geographic dispersion of assets is highly focused on the home region; see Table 6. Steenkamp, Batra and Alden (2003) show that Korean and US consumers have almost the same awareness of global brands. Therefore we can expect that global luxury brands will have no additional difficulties in penetrating the Asian market compared with the North American market. But big changes happened during 1999-2001. Gucci acquired several European based luxury goods firms during this period. Moreover, in 1999 it made a strategic alliance with a large French based retailer, Pinault-Printemps-Redoute S.A. Through this acquisition and alliance Gucci increased the ratio of its home region sales and assets. Now Gucci has a home regional strategy based on a strategic resource seeking international strategy. However, Gucci still needs to achieve a balance between upstream and downstream FSAs both in the home region and in the foreign regions.

Table 6 is approximately here

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[8] It opened the first Asian store in Japan in 1972.
[9] Data of regional assets for LVMH and Richemont S.A.are unavailable.

Conclusions

In this study, we have analyzed the asymmetry between upstream and downstream firm specific advantages (FSAs) as well as the regional characteristics of multinationals. Evidence from the largest one hundred cosmetics companies, in general, supports the regional nature of MNEs (Rugman and Verbeke, 2004). Cosmetics MNEs are home region oriented both in the geographic scope of upstream FSAs and of downstream FSAs. However, they develop a world distribution of sales across downstream activities more efficiently than for geographic upstream FSAs such as those derived from supply chain sourcing and production. In general, we find no evidence of a global supply chain for cosmetics MNEs; it is regional. The development of upstream activities in small cosmetics MNEs lags behind the growth of downstream activities, compared to larger cosmetics MNEs.

We further investigate that the asymmetry of the world cosmetics industry comes from the entry strategy of North American and European based cosmetics MNEs in the Asian market. Both North American and European cosmetics MNEs actively exploit downstream FSAs in the Asian region (not upstream FSAs). They balance the two FSAs in the other triad regions. Two interesting case studies arise in the real world cosmetics sector. Avon develops upstream FSAs more than downstream FSAs in foreign triads, while Gucci is concentrating on developing downstream FSAs in foreign triads. These two MNEs have to balance upstream FSAs and downstream FSAs in foreign regions as well as in their home region of the triad.

An MNE may develop an internationalization strategy to reach maximum efficiency and profits based on its capability of utilizing upstream and downstream FSAs. Differences in country specific advantages and firm specific advantage affect an MNE’s strategic choice in the market. However MNEs should balance upstream and downstream FSAs. They cannot obtain sustainable competitive advantage when they focus only on what they do well. Asian countries should provide favorable investment conditions to attract foreign direct investment from the MNEs. Otherwise, the Asian region will not be an area where MNEs want to invest.

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Table 1 The World's Largest 100 Cosmetics Companies

Region	*Home Country*	*Number of Firms*	*Total Global Sales*	*Average Global Sales*
America	United State	35	46,753 (42.56 %)	1,336
	Canada	1	59 (0.05%)	59
	Brazil	1	147 (0.13%)	147
	Sub Total	37	46,959 (42.75%)	1,269
Europe	France	16	25,082 (22.83%)	1,567
	Italy	10	1,843 (1.51%)	166
	Germany	9	6,599 (6.01%)	733
	United Kingdom	4	10,835 (9.86%)	2,709
	Switzerland	3	352 (0.32%)	117
	Spain	2	1,440 (1.31%)	720
	Russia	2	181 (0.16%)	91
	Netherlands	1	696 (0.63%)	696
	Ireland	1	206 (0.19%)	206
	Sweden	1	738 (0.67%)	738
	Sub Total	50	47,977 (43.67%)	960
Asia	Japan	8	13,051 (11.88%)	1,631
	South Korea	5	1,870 (1.70%)	374
	Sub Total	13	14,921 (13.58%)	1,148
Total		100	109,857 (100.00%)	1,098

Source: Woman's Wear Daily 2003, Millions of US $. Unilever is counted as a UK firm.

Table 2 Large and Small Cosmetics Firms

	Definition	*Number of firms*	*Data for Geographic Dispersion*	
			Sales	*Assets*
LMNE	*Sales are at least 1 billion*	33	25	21
SMNE	*Sales are less than 1 billion*	67	18	11
Total		100	43	32

Sources: Geographic dispersion data for sales and assets come from annual reports, World Scope, and COMPUSTAT. Data of four companies, P&G, KAO, Pierre Fabre, Noevir, are unavailable for 2003, so 2004 data are used in these cases.

Table 3 The Largest 100 Cosmetics Companies and their Intra-regional Sales

Panel 1. Entire World Largest 100 Cosmetics companies

Type of MNE	*No.of MNEs*	*% of 43*	*Sales Intra-region Sales*	*No.of MNEs*	*% of 32*	*Operation (Asset) Intra-region Assets*
Global	4	9.3%	44.3%	1*	3.1%	53.0%
Bi-Regional	3	7.0%	48.4%	2*	6.3%	50.8%
Host-Region Oriented	2	4.7%	24.5%	0	0.0%	-
Home-Region Oriented	34	79.0%	78.0%	29	90.6%	84.0%
Sub-Total	43	100.0%	70.3%	32	100.0%	80.8%
Insufficient Data	6	na	na	17	na	na
No Data	51	na	na	51	na	na
Total	100			100		

Panel 2. Large Multinational Enterprises (sales greater than 1 billion US $)

Type of MNE	*No.of MNEs*	*% of 25*	*Sales Intra-region Sales*	*No.of MNEs*	*% of 21*	*Operation (Asset) Intra-region Assets*
Global	4*	16.0%	44.3%	1*	4.8%	53.0%
Bi-Regional	1	4.0%	50.3%	2*	9.5%	50.7%
Host-Region Oriented	1	4.0%	33.0%	0	0.0%	-
Home-Region Oriented	19	76.0%	73.4%	18	85.7%	78.5%
Sub-Total	25	100.0%	66.2%	21	100.0%	74.6%
Insufficient Data	3	na	na	7	na	na
No Data	5	na	na	5	na	na
Total	33			33		

Panel 3. Small Multinational Enterprises (sales less than 1 billion US $)

Type of MNE	*No.of MNEs*	*% of 18*	Sales *Intra-region Sales*	*No.of MNEs*	*% of 11*	Operation (Asset) *Intra-region Assets*
Global	0	0.0%	-	0	0.0%	-
Bi-Regional	2	11.1%	47.5%	0	0.0%	-
Host-Region Oriented	1	5.6%	16.0%	0	0.0%	-
Home-Region Oriented	15	83.3%	84.0%	11	100.0%	92.6%
Sub-Total	18	100.0%	76.1%	11	100.0%	92.6%
Insufficient Data	3	na	na	10	na	na
No Data	46	na	na	46	na	na
Total	67			67		

Source: see sources in Table 2.

Notes: * indicates that a quasi global and a quasi bi-regional MNE are included for each corresponding category. Quasi global MNE means that two host regions have more than 20 per cent of sales (assets) for each foreign region, but home region sales (assets) is slightly more than 50 per cent. L'Oréal's geographic dispersion of sales consists of 52%, 28% and 20% for Europe, America and Asia respectively, and it is categorized as quasi global MNE in the sense of sales. Quasi bi-regional MNE means that only a host region has more than 20 per cent of sales (assets), but home region sales (assets) is slightly more than 50 per cent. Avon's geographic dispersion of assets consists of 32%, 51% and 17% for Europe, America and Asia respectively, and it is categorized as quasi bi-regional MNE in the sense of assets.

Table 4 Geographic Dispersion of Sales and Assets by Home Region

Panel A. Geographic Dispersion of Sales

	Triad Region		
Home Region	*Americas*	*Asia*	*Europe*
Americas	58.80 %	17.63 %	23.57 %
Asia	3.46 %	92.42 %	4.12 %
Europe	21.32 %	17.19 %	61.49 %
Total	30.18 %	30.77 %	39.05 %

Panel B. Geographic Dispersion of Assets

	Triad Region		
Home Region	*Americas*	*Asia*	*Europe*
Americas	70.37 %	8.86 %	20.77 %
Asia	6.25 %	87.05 %	6.70 %
Europe	29.64 %	5.12 %	65.24 %
Total	35.43 %	23.35 %	41.12 %

Source: see sources in Table 2.

Table 5 Regional Activities of Avon

Avon *(2003)*	*Sales*	*Operating Profits*	*Total Assets*	*Capital Expenditures*
Americas	0.6264	0.6390	0.5123	0.5956
Europe	0.2373	0.2407	0.3185	0.3131
Asia	0.1363	0.1203	0.1692	0.0913
Category	***Home-Region***	*Home-Region*	***Quasi bi-regional***	*Quasi bi-regional*

Source: Annual report 2003.

Table 6 Regional Sales and Assets of Gucci

	Sales			Assets		
Year	Americas	Asia	Europe	Americas	Asia	Europe
1996	0.33	0.45	0.22	0.17	0.15	0.68
1997	0.30	0.45	0.25	0.18	0.14	0.68
1998	0.29	0.41	0.30	0.16	0.17	0.67
1999	0.29	0.40	0.31	0.07	0.07	0.86
2000	0.25	0.33	0.42	0.09	0.07	0.84
2001	0.22	0.35	0.43	0.10	0.07	0.83
2002	0.22	0.34	0.44	0.11	0.07	0.82
2003	0.22	0.33	0.45	0.10	0.09	0.81

Figure 1 The Regional Matrix and Cosmetics MNEs

Geographic Reach of FSAs *Geographic Scope of Locational FSAs*	*Regional*	*Global*
Global	1 **"Myth of Globalization"** Avon (*L*)	3 ***Global (4/43)*** LVMH (*L*) Gucci (*L*) L'Oréal* (*L*) Richemont SA (*L*)
Regional	2 ***Home-Oriented (34/43)*** Estée Lauder (*L*), Shiseido (*L*) Elizabeth Arden (*S*), etc ***Host-Oriented (2/43)*** Coty (*L*) Nu-Skin (*S*)	4 ***Bi-Regional (3/43)*** Unilever (*L*) Bulgari (*S*) Inter Parfums (*S*)

Sources: see sources in Table 2.
Notes: * indicates Quasi-Global MNE; see note in Table 3.

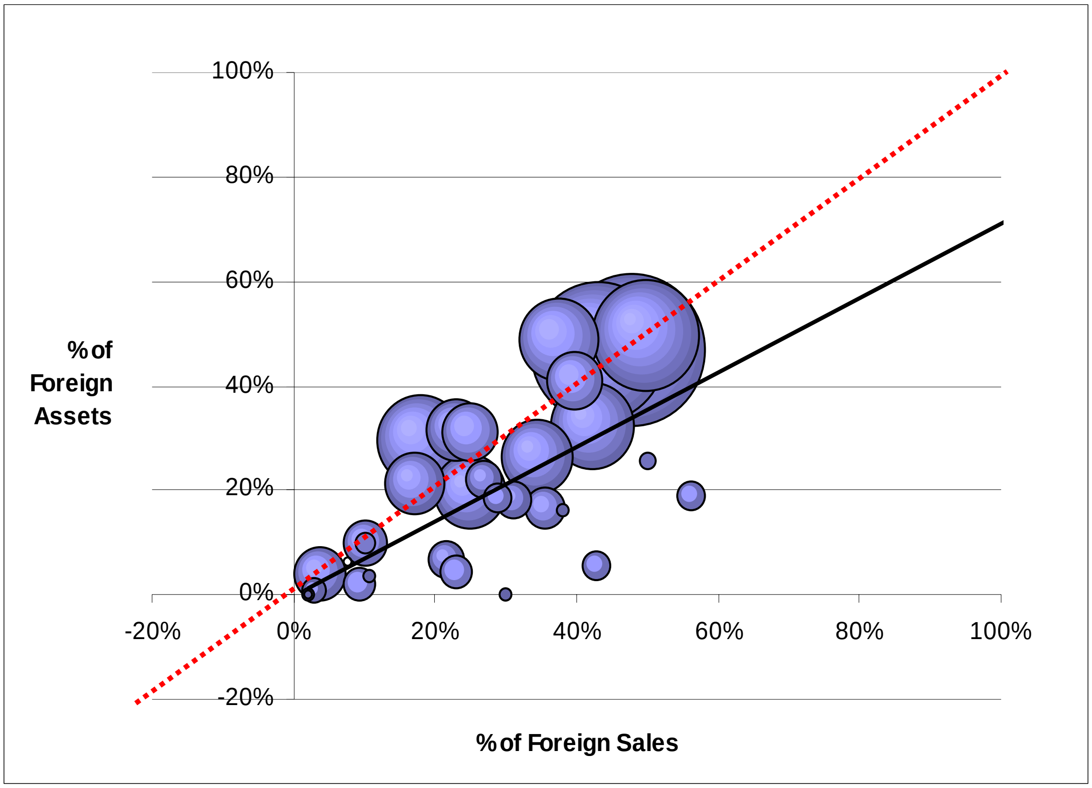
Avon is categorized as a home-oriented MNE, but it has 48% of assets (geographic scope of locational FSA) in foreign region and 36% of sales (geographic reach of FSAs) in foreign region. Avon can be categorized as a quasi bi-regional in asset and a home-oriented in sales.

Figure 2 Generic Roles of Strategic Business Units (SBUs) in Cosmetics MNEs

		Geographic Scope of SBU FSAs			
		1 country	*1 triad region*	*2 triad regions*	*All triad regions*
FSAs Type	*Down-stream FSAs*	NA	***21/38 (55%)*** Shiseido, Elizabeth Arden, Kao, **Avon** Etc.	***13/38 (34%)*** Unilever, Estée Lauder, Avon, Inter Parfums**,** Etc.	***4/38 (11%)*** **Gucci** L'Oréal Etc.
	Upstream FSAs	NA	***20/30 (67%)*** **Gucci**, Shiseido, Elizabeth Arden, Kao Etc.	***9/30 (30%)*** Unilever, Estée Lauder, **Avon**, Inter Parfums Etc.	***1/30 (3%)*** L'Oréal

Sources: see sources in Table 2.
Note. Number of geographic scope is counted when sales in the region are larger than 20 % of total sales.

Figure 3 Asymmetric Path of Geographic Distribution



Source: see sources in Table2.

Appendix List of Largest 100 Cosmetics Companies and their Home-region Sales and Assets

Company	*Home Country*	*Home Region*	*Sales in million US$*	*Sales* *% intra regional*	*Sales* *Category*	*Assets* *% intra regional*	*Assets* *Category*
L'Oreal Group	France	Europe	15,500	52.1	D(Q)	53.0	D(Q)
P&G	USA	America	13,000	57.0	A	53.6	A
Unilever PLC	GB	Europe	8,070	50.3	C	50.3	C
Shiseido CO.LTD	Japan	Asia	5,270	82.1	A	70.3	A
Estee Lauder Cosmetics Inc.	USA	America	5,100	57.7	A	67.8	A
Avon Products Inc.	USA	America	4,490	62.6	A	51.2	C(Q)
Beiersdorf AG	Germany	Europe	3,790	75.1	A	80.1	A
Johnson & Johnson	USA	America	3,750	65.7	A	73.8	A
Alberto Culver Co.	USA	America	2,750	77.1*	A	68.6*	A
Kao Corp.	Japan	Asia	2,750	82.8	A	78.7	A
Limited Brands	US	America	2,600	na		na	
LVMH Louis Vuitton	France	Europe	2,470	38.0	D	na	
Chanel	France	Europe	2,240	na		na	
Colgate Palmolive	US	America	2,200	60.2	A	59.0	A
Henkel KGAA	Germany	Europe	2,140	75.0	A	68.9	A
The Boots Company PLC	GB	Europe	2,030	96.4*	A	96.0*	A
Mary Kay Inc.	USA	America	1,800	na		na	
Alticor Inc.	USA	America	1,800	na		na	
Yves Rocher	France	Europe	1,720	na		na	
Coty Inc.	USA	America	1,700	33.0	B	na	
Kanebo	Japan	Asia	1,680	na		na	
Kose Corp.	Japan	Asia	1,440	90.0*	A	90.0*	A
Revlon Inc.	USA	America	1,300	64.4*	A	83.3*	A
Amorepacific Corp.	Korea	Asia	1,090	na		na	
Sara Lee Corp.	US	America	1,080	68.8	A	81.7	A
Group Clarins	France	Europe	1,000	78.4	A	93.1	A
Puig Beauty and Fashion	Spain	Europe	990	73.0	A	77.8	A
Pola Cosmetics Inc.	Japan	Asia	881	na		na	
Gillette Co.	US	America	864	na		na	
Elizabeth Arden Inc.	USA	America	814	77.0	A	95.5	A
Oriflame Cosmetics	Sweden	Europe	738	90.8	A	98.2	A
Gucci Group (PPR)	Netherlands	Europe	696	43.8	D	81.1	A
Group Pierre Fabre	France	Europe	687	57.3*	A	94.4*	A
The Body Shop	GB	Europe	623	71.1	A	81.3	A
Nippon Menard Cosmetics	Japan	Asia	570	na		na	
Euroitalia Group	Italy	Europe	504	na		na	
LG Household and Health	Korea	Asia	495	97.2	A	99.2	A
Nu Skin Enterprises Inc.	USA	America	476	16.0	B	na	
Colomer Beauty and Prof.	Spain	Europe	450	na		na	
Clayton Dubilier and Rice	US	America	400	na		na	
Sisley	France	Europe	373	na		na	
Noevir Co. LTD	Japan	Asia	355	90.0*	A	90.0*	A
Markwins International	US	America	325	na		na	
DEL Laboratories	US	America	310	95.0*	A	na	
Tigi	USA	America	250	na		na	
IWP	Ireland	Europe	206	86.9*	A	na	
Liz Claiborne	US	America	200	77.9*	A	na	
Inter Parfums	GB	Europe	186	50.0	C	74.2	A
Kelemata Group	France	Europe	181	na		na	
L'occitane	France	Europe	175	na		na	
Mirato SPA	Italy	Europe	175	90.5	A	na	
Guaber Group	Italy	Europe	170	na		na	
Ales Group	France	Europe	170	62.0	A	83.8	A
Johnson Publishing	US	America	170	na		na	

Company	Home Country	Home Region	Sales in million US$	% intra regional	Sales Category	% intra regional	Assets Category
Eugene Perma	France	Europe	168	na		na	
Coreana	Korea	Asia	159	97.9*	A	100.0*	A
Diana De Shilva	Italy	Europe	158	na		na	
Bulgari Parfums	Swiss	Europe	155	45.0	C	na	
Combie INC.	US	America	154	na		na	
Micys (pupa)	Italy	Europe	149	na		na	
Maxim Marken	Germany	Europe	147	na		na	
O Boticario	Brazil	America	147	na		na	
Schering-Plough	US	America	146	na		na	
Von Berg Cosmetics	US	America	137	na		na	
Laboratoires Sarbec	France	Europe	130	70.0*	A	100.0	A
Kalina	Russia	Europe	126	na		na	
Deborah Group	Italy	Europe	125	na		na	
Maurer + Wirtz	Germany	Europe	122	na		na	
Playtex Products	US	America	119	89.2*	A	96.5*	A
Parfums de Coeur	US	America	118	na		na	
Diamond Products	US	America	113	na		na	
Lush LTD.	UK	Europe	112	na		na	
Versace Profumi	Italy	Europe	110	na		na	
Sony Culture Ent.	Japan	Asia	105	na		na	
Paglieri Profumi	Italy	Europe	102	na		na	
Weleda AG	Swiss	Europe	102	na		na	
Doctor Babor	Germany	Europe	101	na		na	
MD Beauty	US	America	100	na		na	
Financiere Richemont SA	Swiss	Europe	95	43.2	D	na	
Collistar	Italy	Europe	93	na		na	
Tupperware	US	America	91	92.3	A	93.8	A
Marbert	Germany	Europe	84	79.1*	A	na	
Parlux Fragrance	USA	America	81	64.8*	A	na	
Jacques Bogart	France	Europe	80	na		na	
Tanning Research	US	America	79	na		na	
Artdeco	Germany	Europe	78	na		na	
Weruska & Joel SRL	Italy	Europe	76	na		na	
Fribad	Germany	Europe	74	na		na	
Hankook	Korea	Asia	72	98.0*	A	100.0*	A
Guinot Group	France	Europe	71	na		na	
Murad	US	America	67	na		na	
Mana Products	US	America	65	na		na	
Alcina Kosmetik	Germany	Europe	63	na		na	
Hermes	France	Europe	61	na		na	
Riviera Concepts	Canada	America	59	na		na	
Parfume Parlour	France	Europe	56	na		na	
Russkaya Kosmetika	Russia	Europe	55	na		na	
Charmzone	Korea	Asia	54	na		na	
Crabtree and Evelyn	US	America	52	na		na	
Perricone MD	US	America	52	na		na	

Source: see sources in Table 2.
Notes:
a. Sales are total cosmetics sales in 2003 from WWD.
b. A, B, C, and D represent Home-region oriented, Host-region oriented, Bi-regional, and Global multinationals respectively.
b.* indicates portion of Home-country sales (assets) respect to total sales (assets).
d. (Q) indicates Quasi-; see notes in table 4.

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