

CHAPTER II

COMPARATIVE ANALYSIS OF THE BODY SHOP

According to Michael Porter (1980), competitive advantage can be defined as a combination of multiple resources and competences that differentiate a company with other competitors in the marketplace. Successful competitive advantage can lead a company to generate more sales, attract more customers, and increase brand loyalty (Twin, 2021). An American professor, James Barney (1991), stated that VRIO framework analysis is the best way to uncover “sustained competitive advantage” by measuring the capabilities and resources owned by a company. Therefore, it is essential for The Body Shop to analyze its resources and competences in order to support its long-term competitive advantages.

In VRIO analysis, Value refers to the ability of The Body Shop to provide valuable resources and competences. It is very clear that The Body Shop has a powerful brand value as an eco-friendly business leader. It offers natural and sustainable products that distinguish it from other beauty retailers. The company chooses its raw materials carefully and only uses environmentally friendly materials to avoid waste that is harmful to the environment. Additionally, The Body Shop also provides packaging made from organic materials and recycled plastics. According to Stagia (2020), based on a global survey of 4,487 female internet users aged between 16-64, almost half of them (43%) would pay more for eco-friendly packaging. Around two thirds (67%) have mindsets that packaging should not harmful to the environment, and 56% would pay higher price for organic and natural products. The data showed that consumers are becoming more aware of the ethical and environmental concerns. Due to this fact, The Body Shop launched a strategy to become “*The World’s Most Ethical and Truly Sustainable Global Business*” on its 40th anniversary. One of the company’s first steps was to innovate its packaging by eliminating oil-based plastics and increase the amount of recycled materials (The Body Shop, 2020). Based on Cosmetify Index (2020), The Body Shop ranked first

as the world's most popular beauty brand. The company is being most favored brand in 31 different countries around the world.



Figure 2: Most popular beauty brands by country in 2020. Source: Cosmetify (2020)

This is proven that the brand value of The Body Shop is a strong long-term competitive advantage because it can increase customers loyalty and gain positive recognition from public.

R or Rarity is the capabilities owned by The Body Shop which are rare and hard to find in the beauty industry. In 2020, Natalie Brewster (The Body Shop's global creative operations director) stated, *"We aren't just a beauty retailer, we've got ethics behind that, our activism is our foundational pillar."* From the statement, it obviously shows that the core competence of the company lies on its ethical behavior. The Body Shop is claimed as one of the first cosmetic brands to prohibit testing on animals, and also the first company to introduce Fair Trade to the beauty industry. According to The Body Shop (2020), the company launched Community Fair Trade in 1987 and the program is still going strong over the years. It aims to help the suppliers achieving market access and to invest in social responsibility and

environmental sustainability. In addition, The Body Shop has certified cruelty free by Cruelty Free International in 1989, which is one of the most reliable certifications a brand can get (Vegan Life, 2018). The Body Shop is also the first international cosmetic brand to campaign for the elimination of animal testing in the beauty industry. So far, the company has launched four global “Forever Against Animal Testing” campaigns in 1998, 2003, 2009, 2013 and 2017. Together with Cruelty Free International, The Body Shop successfully reached 8.3 million petition signatures against cosmetic animal testing in 2018 (The Body Shop, 2020).



Figure 3: The Body Shop’s “Forever Against Animal Testing” campaigns from 1998-2017. Source: The Body Shop (2020)

It is not impossible for other beauty retailers to imitate The Body Shop’s powerful ethical behavior. However, it would be a big challenge for them because it requires a strong commitment and consistency to make it happen. This makes The Body Shop’s ethical behavior rare and hard to find in the beauty industry.

In VRIO analysis, I or inimitability refers to the resources owned by The Body Shop which are expensive and hard for others beauty retailers to imitate. The company inimitable value lies on its technological capability. According to Madeleine Cuff (2017), The Body Shop opened a new green beauty lab in East Croydon, London in November 2017. With more than £1 million facilities, the lab is designed to optimize the performance between the chemists and the marketers by

bringing them closer during the product development process (The Body Shop, 2020). Furthermore, the advanced technology of the new green lab enables the product development team to create new cosmetic formulations and innovations in order to increase its quality and sustainability. This technological capability of The Body Shop requires an enormous cost and high-skilled human resource, which is difficult for other competitors to imitate.

Lastly, O stands for organizational support within The Body Shop. The main goal of the company is to create a fairer, more beautiful world. In order to support this goal, The Body Shop has successfully organized its culture, process, and structure to be aligned with its purpose and sustainable value. The internal support is also needed to optimize the valuable, rare, and imitable resources of the company.

Based on the result of the company's VRIO analysis, it can be concluded that The Body Shop has powerful long-term competitive advantages because the brand's resources are valuable, rare, inimitable and well-organized. However, more and more newcomers are entering the cosmetic industry and this situation will lead to more intense competition. To understand the level of competition within the beauty industry, The Body Shop needs to identify its competition intensity, attractiveness and profitability using Porter's 5 Forces business analysis model.

Michael Porter (1979) stated that Porter's 5 Forces analytical model can help businesses to understand the forces that shape competition within industry and to create suitable strategies in the market environment. In the case of beauty industry, the intensity of competitive rivalry is high due to a large number of organizations with different core values and sizes competing in this business sector. Lush and Yves Rocher are the prominent examples of cosmetic companies that provide the same sustainable value as The Body Shop. Both competitors also have strong brand images and competitive advantages. Nevertheless, The Body Shop still seems to be the leader in terms of number of link searched by internet users. According to Cozmiuc (2020), The Body Shop's official website link reached 4.3 million times visit in December 2020. While Lush and Yves Rocher reached 479.836 and 293.824 visit.

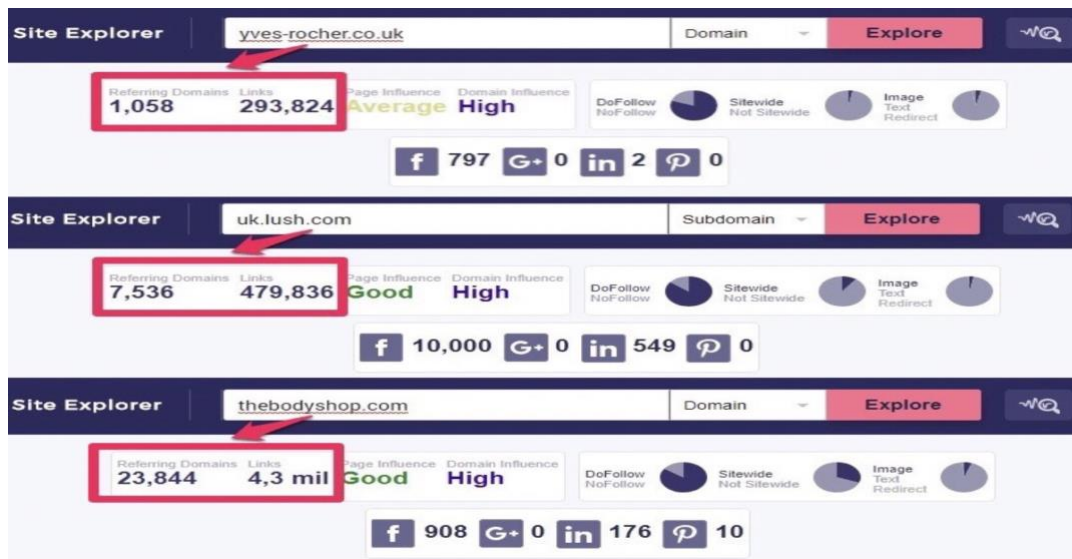


Figure 4: The Body Shop, Lush and Yves Rocher’s numbers of link visit in December 2020. Source: Cozmiuc (2020)

Although The Body Shop reached higher online customers engagement, it is still crucial for the company to remain aggressive and competitive by offering better innovations in terms of ethical behaviour and eco-friendly business. To deal with this situation, the company usually creates numerous positive campaigns every time it launches new products such as “Rise Up with Self-Love” and “Global Shea Alliances Award” (The Body Shop, 2020). These positive campaigns would attract more customers to purchase its beauty products. On the other hands, L’Oreal, Revlon and Maybelinne are competitors that provide non-organic beauty products with lower prices. However, these beauty brands are less sustainable compared to The Body Shop. They specifically market their products to customers who are less concerned about social responsibility and environmental sustainability. In other words, The Body Shop has different target market with L’Oreal, Revlon and Maybelinne.

The Body Shop’s power is also influenced by the moderate force of newcomers into its market. Nowadays, more than 50% of women tend to purchase

organic-labelled cosmetics with natural ingredients. This makes the annual rate of natural cosmetics market increased up to 8% in 2020 (Goljic, 2020). Due to the increasing demand of organic cosmetics, there are more new entrants that try to provide beauty products using natural ingredients like Necessaire and N'Pure. These new brands offer organic products that are more affordable than The Body Shop. Even though both of them are not as sustainable as The Body Shop, these new entrants can effectively attract customers who are interested in organic beauty products with lower prices. However, entering beauty industry is not an easy thing to do. Most companies would face various high entry barriers such as strong competitors and high initial investment (Hristova, 2019).

With a high number of competitors, The Body Shop also faces high threat of substitutes. In the beauty market, there are a big number of brands offering similar value and products as The Body Shop such as Lush, Yves Rocher, Weleda, Love Beauty & Planet, etc. Due to this situation, consumers can have a greater chance and more options to shop in other places. To remain competitive, The Body Shop offers some exclusive products with specific ingredients that cannot be found in other cosmetic retailers such as “Brazilian Cupuaçu Scrub” and “Indian Night Jasmine Body Cream” (The Body Shop, 2020).

In terms of suppliers, The Body Shop effectively utilizes its fair trade program to cooperate with thousands of local producers, farmers, and artisans across the world (The Body Shop, 2020). This makes the bargaining power of Supplier in the company low. Through the fair trade program, the local suppliers tend to have a strong sense of loyalty towards The Body Shop and they also have limited funds to switch to other firms. Therefore, The Body Shop remains dominant.

Lastly, the bargaining power of buyers in the Body Shop is high. Intense competition in the market allows the buyers to purchase similar products from other beauty retailers. Most consumers prefer to buy high quality products with lower prices (Shirai, 2015). This reason would lead them to find a variety of other competitors that offer same value of products with lower prices. Due to a high amount of substitutes, The Body Shop forced by customers to reduce the cost of its

beauty products. Therefore, the company offers discount codes and membership cards so the customers can purchase certain products with lower prices.

In conclusion, The Body Shop operates in the industry where the competition intensity is considered high. There is also a moderate force of new entrants that would lead to a higher threat of substitutes. These substitute brands allow consumers to have more options to shop in other beauty retailers aside from The Body Shop. Luckily, the company has a strong source of suppliers. This helps The Body Shop to produce high quality products with selected and specific natural ingredients to distinguish itself from other competitors.

