

EL Men
Molding Men, Creating Greatness.

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Letter to Newly Appointed CEO

Dear Fabrizio Freda,

As the newly appointed Chief Executive Officer of The Estee Lauder Companies, your words about Estee Lauder being a “growth company” resonated with the ideas my colleagues and I have for Estee Lauder’s future. Currently, Estee Lauder caters to the needs and wants of women, however before the market becomes oversaturated, Estee Lauder needs to adapt a new target market, men.

Estee Lauder can become the first to cross a new frontier and service men’s beauty needs, while solving financial difficulties for the company as well. According to our extensive research of Estee Lauder’s financials, we have come to the conclusion that their hair care and skin care sectors need to be revitalized. Annual reports have revealed that sales in the fragrance industry have been unstable and that hair care only makes up about five percent of Estee Lauder’s total annual sales.

Estee Lauder has the opportunity to open an all-male product store, featuring Estee Lauder brands and licenses, entitled EL Men. With this solution, Estee Lauder will be the first in the market to tap into an unreachable customer base. EL Men will have products and offerings that target millennial males in urban cities.

Estee Lauder has always been a trendsetter, since its creation in 1946, and today it has the opportunity to be on the cusp of a new innovation. Our report on EL Men comes equipped with a thorough consumer research report, marketing campaign, implementation logistics, and cost overview. We truly have something great in store for Estee Lauder.

Sincerely,
Bx Consulting Group

Firm Overview

Who are Estee Lauder's suppliers?

Estee Lauder is a leader within the cosmetic and beauty industries. Like other companies within the industry, Estee Lauder uses raw materials from a diverse group of manufacturers. These manufacturers supply Estee Lauder with inorganic chemicals, organic chemicals, and soap and cleaning compounds. According to IBISWorld 2011 Industry Report, the inorganic chemical manufacturing industry supplies companies such as Estee Lauder with various chemicals that are sourced “as inputs into makeup and other personal care items. Similarly, the organic chemical manufacturing industry is where “cosmetic and beauty product manufacturers source organic chemicals.” Lastly, the soap and cleaning compound manufacturing industry is where cleaning compounds are often “integrated into beauty products” (Panteva 11). According to Estee Lauder's 10-K, “the principal raw materials used in the manufacturing of [its] products are essential oils, alcohols, and specialty chemicals,” supplied by the aforementioned three industries. There are several suppliers of inputs for the cosmetic and beauty products industry who are all extremely similar in service. These suppliers are extremely important and have a good amount of bargaining power, as their goods are critical to the success of their buyers, namely, firms such as Estee Lauder (Prabhakar-Sood).

Who are Estee Lauder's buyers?

Like the products of its competitors, Estee Lauder products are bought both directly by customers, and also by various output locations. Vault's online profile of Estee Lauder states that they sell their products to over 690 single brand stores and 130 multi-brand retailers around the

world. According to their 2014 10-K report, Estee Lauder is largely reliant on high end department stores, offering their products at counters in Macy's, Nordstrom, Bloomingdales, Neiman Marcus, and Saks Fifth Avenue locations. Products are also available at multi-brand retailers such as Sephora, and Target. Freestanding retail stores sell specific Estee Lauder brands such as MAC and Aveda. High end perfumeries, pharmacies, and independently owned salons sell specialized products such as colognes and perfumes. Accompanying these various brick and mortar locations, Estee Lauder has a large online presence. Products are available on its own e-commerce site along with the online shops of various department stores. Products are also available through direct response television channels (Estee Lauder 10-K 2).

How does Estee Lauder make money? Where does Estee Lauder spend money?

Estee Lauder makes 42 percent of its revenue from skin care products, 40 percent of its revenue from makeup products, and 13 percent of its revenue from fragrance products (Estee Lauder Inc.). In addition, according to Yahoo! Finance, Estee Lauder has 44,000 employees that work to make the company financially successful. Estee Lauder spends 6.985 billion a year on selling, general, and administrative costs, and another 2.9 million on restructuring and other charges (EL Competitors).

To better understand how Estee Lauder makes money, it is important to look at another industry that it is a part of: the Toilet Preparation Manufacturing Industry. This particular industry encompasses 116 companies and grosses a yearly revenue of \$161,497,210,000 ("Toilet"). Due to the fact that there are over one hundred companies within this industry, competition between companies is stiff. Therefore, Estee Lauder is forced to spend a significant

amount of money on advertising. In the fiscal year 2015, Estee Lauder allocated \$2,771.5 million dollars towards advertising expenses in order to compete with their competitors (Estee). The cosmetic industry is constantly evolving and can be considered a fad industry.

What are one or two major industry changes that have affected Estee Lauder, its buyers, or its suppliers in recent years?

Looking towards the future, Estee Lauder must reassess its distribution channels. Historically, it has depended on larger department stores to bring in its customer base and overall revenue. This trend is one that other makeup brands such as Tarte, Smashbox, and Urban Decay have followed; they all sell within the Macy's department store, along with other department stores (Macy's).

According to an article of the 2012 publication of MarketLine's Company profile of Estee Lauder, the department store Macy's, "accounted for 11% of Estee Lauder's consolidated sales for FY2011 and 10% of its account receivables as of FY2011" (*Informa* 25). In a survey we did across campus of 40 makeup users we found that 36 of the 40 or 90% of the students surveyed use department stores and multibrand retail stores to buy their makeup. Unfortunately, many of these department stores that makeup users purchase the majority of their makeup from (ie. Macy's) are not as financially stable as they have been historically, mainly due to the rise in online shopping. Macy's stock alone has dropped a total of 19.95 points in the past 3 months ("Macy's"). Other department stores such as Kohl's, JC Penney, and Sears are also suffering in recent years. These statistics illustrate how Estee Lauder is influenced by the bargaining power of buyers, as "buyers' purchases are a significant portion of a supplier's annual revenues"

(Prabhakar-Sood). Therefore, when department stores begin losing customers, Estee Lauder begins losing customers, and revenue decreases. Estee Lauder must assess new ways of bringing their products to customers, such as the creation of an Estee Lauder all-male brick and mortar product store, in order to keep its market share in the cosmetic industry.

Financial Analysis

Horizontal Analysis – Balance Sheet

Estee Lauder has shown a steady growth in assets from 2013 to 2015. From 2013 to 2014, total assets grew by 15.3%, and from 2014 to 2015 the company's total assets grew by 4.7%. Likewise, the company has shown similar trends with its total liabilities. Total liabilities have increased from 2013 to 2015 (by 19.3% and 2014 to 2015 by 14.6%). This indicates that Estee Lauder is doing well in general. Estee Lauder has shown consistent growth in their company. Estee Lauder is improving overall.

Horizontal Analysis – Income Statement

Estee Lauder has had inconsistent income growth spanning from 2013 to 2015. It had a 1.7% decrease in net income from 2014 to 2015 after showing a 5.9% growth in net income from 2013 to 2014. In general, Estee Lauder is operating at a solid level, but could use improvement, especially in the operating income section, which fell at a rate of 12.1% from 2014 to 2015.

Horizontal Analysis – Cash Flow

Estee Lauder has shown consistent growth in operating cash flow at a relatively high rate (58.5% from 2013 to 2014, and 26.6% from 2014 to 2015). However, both investing cash flow

and financing cash flow have been decreasing from 2013 to 2015 and the discrepancy between operating cash flows and net income grew by about 200 million from 2014 to 2015. The largest adjustments to net income for Estee Lauder came from an increase in account payable and increases in inventory.

In 2014, Estee Lauder invested in GLAMGLOW to increase its skin care portfolio, and invested in Le Labo to help improve its struggling fragrance departments. These additions will most likely improve net income because they are quality products with a high success rate. Estee Lauder paid roughly 349.2 million dollars in dividends to stockholders in the year 2015, up from \$301 million in 2014, but down from \$419.2 million in 2013. It also paid small amounts to non-controlling interest holders for dividends.

Estee Lauder's growth has slowed down from 2014 to 2015. Although the company is by no means suffering, they should continue to find ways to increase their net income while maintaining a steady operating cash flow.

Vertical Analysis - Balance Sheet

Estee Lauder has experienced some declines within their balance sheet from 2014 to 2015. The cash flow has decreased by \$607.7 million dollars. Their Accounts Receivables have decreased \$204.8 million, their Inventory by \$78.2 million, and their equipment by \$356.7 million. Although Estee Lauder is experiencing declines, in comparison to competitors, they are performing in a satisfactory manner though should look at how they can increase assets and decrease liabilities.

Vertical Analysis: Income Statement

According to the vertical analysis of Estee Lauder's Income Statement, one can see that its net income has declined from \$1261.3 million in 2014 to \$807.7 million in 2015. Along with a decrease in net income, its selling, general and administrative expenses have been increasing every year. This year, sales revenue dropped to \$10,780.4 million after a large increase in sales revenue from 2013 to 2014. Cost of Goods Sold dropped in 2015 after an increase from 2013 to 2014. Estee Lauder has experienced an overall decrease in income and increase in expenses, therefore worsening financially over time. Estee Lauder must employ new ways to increase net income in order to combat this continual decline.

Ratio Analysis: Liquidity

Estee Lauder's current ratio and quick ratio decreased from 2014 to 2015. The current ratio is down by 11.1% in that time period, while the quick ratio was down by 13.7%. Estee Lauder does not have the liquid assets to pay off their debts within the next 12 months, nor can they meet their financial obligations with their respective most liquid assets. Estee Lauder's receivable turnover is also down by 1.9% showing that the firm has not been utilizing its assets in an optimal manner. Estee Lauder is turning over inventory. This indicated that products are selling and the company is not "sitting on" bad sellers. Overall, Estee Lauder needs to better manage its highly liquid assets in order to improve its woeful liquidity ratios.

Ratio Analysis – Profitability

Estee Lauder has been inconsistent in ratio improvement from 2013 to 2015. From 2014 to 2015, every single profitability ratio sharply declined and from 2013 to 2014, every single ratio decreased except for asset turnover and price-earnings.

The most concerning recognizable pattern within Estee Lauder's profitability ratios lies in the profit margin section. From 2014 to 2015 the profit margin decreased sharply to -8.01 %. This means that Estee Lauder is not running efficiently, and they are losing profit. It is inexcusable for Estee Lauder to show such sluggish numbers for profitability. Something needs to be done to increase profitability, specifically in three categories: return on stockholder's equity, profit margin, and return on assets. All three of those categories dropped from positive ratios to very negative ratios from 2014 to 2015. The outlook of Estee Lauder is not positive according to their profitability ratios.

Ratio Analysis: Efficiency

Estee Lauder's Account Payable Turnover in the prior year was 1.75 and in the current year it is 1.69. Estee Lauder has increased their Days Payable from 198.58 to 199.24. This indicates that Estee Lauder is paying their credit in a timely manner and that overall efficiency is experiencing a slight decrease.

Ratio Analysis: Solvency

Estee Lauder decreased their Current Ratio by -11.1% (from 2.35 to 2.09). Estee Lauder experienced a decrease in their Quick Ratio from, 1.46 to 1.26 from 2014 to 2015 or -13.7%.

Estee Lauder also experienced a decreased from the past year to the current year in Receivable Turnover by -1.9%, their Days Sales Outstanding by -16.2%, and the Day Sales In Inventory by 3.5%. Estee Lauder is having a hard time increasing their sales paid.

Financial Analysis Summary

Estee Lauder did experience decreases in many financial indicators during the prior year that need to be addressed but overall, the company is not performing poorly. Many of these decreases were due to the phenomenal year that Estee Lauder had in 2013 and 2014 mostly due to the success of their MAC cosmetic line. Although there are areas in which the company should look to improve, the company's main focus should be on increasing Net income and Profitability for the long term in years to come.

Identified Business Challenge

The first problem Estee Lauder is currently facing is that its fragrance department is unable to match the success that the makeup and skincare departments are experiencing. Estee Lauder sees fragrance only encompassing a small number of their total sales, in respect to that of its competitors. For Estee Lauder, fragrance has accounted for approximately 13% of net sales, while competitors such as Avon see fragrances aiding sales by about 25% (Estee Lauder Inc. 2, Avon Inc. 30). As of last fiscal year, no singular Estee Lauder product is showing promise, and the newer fragrance products that have decent sales are offset by struggling older products. (Estee Lauder Inc. 28). Fragrances are generally a repeat purchase, and Estee Lauder's lack of continual success for some fragrance products is troubling. The IPC's future will be negatively

impacted by its lack of success in the fragrance market, which in turn forces the company to be more dependent on other product categories success. Currently, with skin care accounting for approximately 43% of net sales and makeup accounting for approximately 38% of net sales, Estee Lauder can face difficulties if net sales in one of these two categories were to decline (Estee Lauder Inc. 2015 2). If the company could increase the percentage of net sales incurred in the fragrance category, they could have a more balanced market, better protected from a decline in another category.

Another area in which Estee Lauder has an opportunity for growth is the male market. While Estee Lauder offers a handful of products tailored to the needs of the male market, they lack a powerful presence in male grooming and beauty product industry. Globally, the male grooming market is valued around \$33 billion. Roughly 43% of all American men use various grooming and beauty products such as moisturizers, and facial cleansers (Segran). While skin care accounts for 43% of Estee Lauder net sales, these products are not marketed towards the male market, leaving them with a mostly female consumer base (Estee Lauder 10-K 2). Estee Lauder has an opportunity to target males, something that other companies in the beauty industry generally fail to do. With a global male population that is growing every day, the global need for male grooming and beauty products is also growing. Great potential for an increase in profit would arise if Estee Lauder could conquer this market.

Lastly, Estee Lauder needs to stop relying heavily on other outlet stores to sell their products. Historically, Estee Lauder's means of distribution for their products have been limited, leading them to heavily rely on department stores as a main outlet for their goods and services. As the popularity and financial success of department stores have been decreasing, Estee Lauder

is consequently impacted by this decline in potential customers. According to the 2012 publication of MarketLine's Company profile of Estee Lauder, the department store Macy's "accounted for 11% of Estee Lauder's consolidated sales for FY2011 and 10% of its account receivables as of FY2011" (*Informa* 25). These statistics illustrate how dependent Estee Lauder is on the sales from department stores. However department stores such as Macy's are rapidly declining in profit. In the past two months, Macy's stock has dropped a total of 19.95 points ("Macy's"). As Macy's net worth decreases, their customer base diminishes, and thus Estee Lauder loses customers as well. The future of Estee Lauder would be negatively impacted if this challenge is not addressed due to their inability to re-allocate their products if department stores continue their downward financial spiral. As stated previously, the single department store Macy's accounted for 11% of the entire Estee Lauder companies sales in 2011. As the reliability of such department stores continues to decrease, it is crucial for Estee Lauder to find other means of outlets that could account for this 11% of sales.

Estee Lauder is clearly facing multiple problems, but these problems are not completely independent of each other. Specifically, Estee Lauder could solve the problems of a lack of sales in the male market and their dependency on Macy's by creating stores of their own. These independent stores will cater specifically to men, thus bolstering sales to the male consumer market and decreasing Estee Lauder's reliance on department stores.

The partial separation from department stores such as Macy's will help Estee Lauder become more dependent on their own products, rather than the success of those department stores. Although having a contract with Macy's helps cut costs, it makes Estee Lauder's success rely on Macy's success. As stated earlier, Macy's stock has steadily dropped 19 points since July

16th, 2015 (“Macy’s”). The best way to combat the failure of Macy’s is to have Estee Lauder branded stores. These stores will sell Estee Lauder products that are made specifically for men (Aramis, Tom Ford, Tommy Hilfiger etc.).

The success of the Estee Lauder stores will rely on two key factors: location and product availability. First of all, the stores will be built in a place where they have the highest chance to succeed. After cross referencing the most fashion forward cities and the most millennial heavy cities, it is apparent that Estee Lauder’s first two stores for men should be located in New York City and San Francisco (Fashion Up). The other key to success would be the type of products that are sold in Estee Lauder stores. Once the stores are established in those two cities it is essential for them to make the stores as male friendly as possible. A study conducted by the Bureau of Labor statistics concluded that men spend on average 13 minutes less a day shopping than women. That amounts to 80 hours less spent shopping a year per man (Vargas). Estee Lauder needs to ensure their store is easy to navigate so men can get in, get what they want, and get out as quickly as possible. Having an organized store will attract many new male customers.

The probability of success with creating an Estee Lauder store is moderately high. Estee Lauder already has a loyal customer base established. According to Forbes, as of 2014 Estee Lauder is one of the top 100 “Loyalty Leader” companies. From 2013 to 2014, Estee Lauder moved up 32 places in the Loyalty Leaders list (Passikoff). The company clearly has brand loyal consumers who would be willing to shop at Estee Lauder retail locations. The biggest problem with this solution is creating new stores would cost Estee Lauder a significant amount of money between buying land, building stores, shipping and handling costs, new employees, and advertising costs. However, Estee Lauder can afford this kind of overhaul, since they hold a

market cap of 32 billion dollars (Estee Lauder 10K-2). Once the money is invested into Estee Lauder stores, there is a good chance of success based on the fact that Estee Lauder is a well-established company with a loyal customer base that is only growing. No other male beauty companies give men the convenient shopping experience they desire. If Estee Lauder creates innovative stores that give men the easy shopping experience they are looking for, the company will see a tremendous increase in profit.

Market Analysis

Estimated Total Market Size and Market Share

In 2014 the Global Cosmetic Market reached a market size of 460 billion dollars, a number that is only expected to continue increasing. It is predicted that by 2020, the market size will increase at a 6.4% growth rate and reach 675 billion dollars (Wood). According to Forbes, L'Oreal placed first in the list of the Largest Global Cosmetic Companies, with a 6.5% hold on the entire market share. Estee Lauder placed fourth on this list with 2.38% of the entire market share (Loeb). These comparisons are illustrated in the pie chart shown in Appendix E. These relatively low market share percentages illustrate the fact that the Global Cosmetic Market is an industry with incredible growth potential. It is not a monopolistic industry, meaning that no one company holds a large portion of the market revenue. This is beneficial for Estee Lauder because they can surpass other companies in terms of revenue relatively easily.

Market Segmentation and Targeting

Market Segments that Estee Lauder currently targets:

“Young Adult Females”

Women in their late teens to mid-twenties; urban individuals who place importance on their appearance and the overall care of their skin. Brands such as M.A.C. and Bobbi Brown will cater to their needs.

“Middle Aged Business Women”

Females in their late thirties to mid-fifties; working women who dress up for work every day. They desire the highest quality cosmetics to complement their formal attire. Brands such as Estee Lauder and La Mer will cater to the more mature skin of this segment.

“Young Adult Men”

Males in their late teens to mid-twenties; men entering the corporate workplace who want to add tasteful fragrances to their everyday attire. Estee Lauder licenses such as Michael Kors, Tom Ford, and Tommy Hilfiger will cater to this segment’s needs.

Our team plans to pursue the “young adult men” segment of Estee Lauder’s market as part of our proposal for the challenge. Our reasoning for this is that younger men are typically beginning to establish themselves in the workplace, and are beginning to establish themselves financially as well. These men have enough disposable income to purchase high quality personal grooming care products such as fragrances, haircare, and skincare products. Most middle aged men tend to have already established their fragrance or product of choice, and they rarely stray from their preferred brand. By targeting the younger men, however, Estee Lauder will be sure to bring in business, as these men are just landing their first corporate jobs, and will not only need appropriate fragrances for work, but will also look into purchasing high quality skin and haircare products to upkeep their clean cut presence. Because they are younger, they will likely be trying

out several different products until they find the perfect one, once found, this will become a repeat purchase for years to come. We feel that these men will utilize an all-male Estee Lauder brick and mortar store, especially if this store is conveniently placed within high traffic shopping areas. We are looking to revamp Estee Lauder's image and maximize its financial potential by targeting a segment of the market that a brand such as Estee Lauder typically leaves untouched. We want people to think of both women's needs *and* men's needs when they hear the name Estee Lauder.

Positioning of the Company/Product

In order to properly position this store, we must first analyze the difference between the male and female shoppers in this category. Where women tend to do more "Window Shopping," men tend to go into a purchase knowing what product they want and are less inclined to shop around. Also since men tend to know what they want going into a fashion purchase and do less trying on and shopping around, prices must be competitive with the market (Lewis). What will truly separate this store from other men fashion stores is its wide variety of products as it would be a one-stop shop for men's fashion needs. This will allow men "to get in, get what they need, and get out fast" (Lewis).

Product:

This store will hold a variety of men's care products that come from the plethora of Estee Lauder Companies and its respective licenses. This will give men an extraordinarily wide variety of products to choose from and make it easy for men to find all the products that they are looking for quickly and efficiently.

Price:

We are able to price our products slightly higher than average as our target market does not shop around as much as traditional buyers of beauty products. Our store will charge a 3% markup on all products as we are providing shoppers with a convenient “one stop shop” for all of their personal grooming needs. Since we offer such a wide variety of products and brands charging this slight markup will not turn away customers because of our convenient store model. As long as buyers are not surprised by prices and list prices are on par with market list prices, men will have no problem buying from these stores. However, competitor prices must be kept in mind as the buyer will know what they want upon entrance and will know if the price point is at par with the expected price of the product.

Place:

These stores will need to be placed in areas that men’s fashion is more prevalent. This will be in mostly urban centers. We will focus our interests specifically on the New York Metropolitan area, and San Francisco, as these are three of the more fashion forward cities in the United States (Fashionup editors). These are also centers where our target market of younger males tends to be most concentrated.

Promotion:

As our target market attacks a young adult segment of the market, we will use social media, online advertisements, and traditional advertisements to reach our market. This market uses social media, YouTube, and other online outlets intensely. The most important thing is that our market understands that such a store exists so we will market it as a convenient and one stop shop for men’s products.

Current Marketing Mix

In order for Estee Lauder to run efficiently and bring in maximum profit, the company must have an optimal marketing mix. The firm must have a logical system in place to make sure that their product placement, price, availability, and advertising are all up to par. Their current marketing mix is as follows:

Product:

Estee Lauder contains over 30 brands and licenses that sell a wide variety of beauty products including (but not limited to) makeup, skin care, cologne, and much more. They separate their brands instead of labeling all of their products as Estee Lauder products. For example, Estee Lauder sells Tom Ford cologne and MAC cosmetics, but those products do not say Estee Lauder anywhere on them. The majority of their products are high end skin treatment products or high end makeup. Their cologne and perfume licenses also tend to be high end.

Price:

Since Estee Lauder owns a number of highly successful brands and licenses, the price of their products ranges. However, since most of their product lines are high quality, most of their products are still relatively expensive. Their skin care products range from around \$50 for a small bottle of skin cream, to \$120 for a similar sized bottle of anti-wrinkle cream. For makeup, Estee Lauder makeup tends to be more expensive than their brand's makeup. For example, Estee Lauder foundation usually costs \$40 or more, while MAC foundation costs \$20-\$30. As for men's fragrances, the prices vary more severely. Tommy Hilfiger cologne is reasonably priced at \$40-\$60 dollars for a bottle of cologne. Tom Ford, on the other hand, has a much more expensive line of quality colognes that range from \$80 for their Black Orchid EDP line, to \$535 dollars for

an 8.4-ounce bottle of their Shanghai Lily collection. Overall, Estee Lauder sells expensive, high-end products.

Place:

Estee Lauder brands are available through a wide variety of resources. Their products are placed in multiple department stores across America and the rest of the world. The department store that accounts for the highest volume of sales for Estee Lauder is Macy's, which accounts for 11 percent of Estee Lauder's overall sales. Some of Estee Lauder's brands such as MAC have their own self-named retail stores. All of Estee Lauder's brands (including Estee Lauder itself) have an online store where customers can purchase any item they would like and have it shipped directly to their doorstep.

Promotion:

Estee Lauder promotes their brands through their department stores. For example, they have sections in Macy's that specifically sell Estee Lauder products, and are advertised with a sign above them that reads "Estee Lauder." However, the company does not only use brand recognition to sell more of their products. They always have a sale or promotion happening on their online website. On the Estee Lauder website, the first thing an online customer sees is "FREE GIFT" in all capital letters. The promotion Estee Lauder is using is that any customer that makes a \$45 purchase or more gets a free item that they can add to their cart. In addition, anyone that searches the phrase "Estee Lauder promotions" is referenced to a number of hyperlinks that have offer codes saving customers plenty of money on online purchases. In addition to having exclusive online deals on their website, Estee Lauder also has a "best-sellers" section on their home page. This drives customers to shop under that section because their minds

immediately assume that the products must be quality if they are “best-sellers”. In general, most of Estee Lauder’s promotion is done online and in store.

Recommended Response

Response One

There are some business practices that are trademark to the Estee Lauder brand that can be carried over to capturing more of their target male market. Most of these practices should be carried out through the Estee Lauder website, to increase their online presence as well. Online services and mobile applications are becoming more and more relevant when it comes to purchasing any type of consumer product. Having a modern, visually appealing website, and social media accounts would win over the younger generation of consumers looking to make quick online purchases. However, as a large majority of Estee Lauder products are makeup, many consumers may find these products difficult to purchase online. Recreating their online image comes at a high price, and while it could win over some younger generation shoppers, not all consumers prefer to purchase these types of goods online.

Response Two

Estee Lauder needs to extend their online presence to an app as well. There is space within the beauty industry for apps that can encourage consumers to make a purchase. Estee Lauder has the room to develop an application that will scan the type of skin the consumer has and create a list of recommendations of potential new product for the user. Developing this type of skin identifying software will allow Estee Lauder consumers to feel comfortable making makeup purchases online. With this new software, online sales could potentially skyrocket.

However, developing this type of software could come at a great cost. Consumers would also have to be willing to pay for this app as its services would most likely not be free.

Response Three

As a team we have decided that the best solution to combat Estee Lauder's lack of a strong presence in the male beauty industry would be to have Estee Lauder stores designed specifically with men in mind. These stores will carry male Estee Lauder products from all of their most successful brands, including Michael Kors, Tom Ford, and Tommy Hilfiger. Having an entirely male product store allows Estee Lauder to combat the male market head on. Currently there is no one-stop shop where all men can go to purchase all of the personal grooming products this store, dubbed EL Men, will carry. EL Men will be a pioneer, changing the way men think about personal grooming products and how they purchase them altogether. The biggest threat facing EL Men would be potential costs of running a store of its kind. Building the first two locations in New York and San Francisco comes at a great cost, but the benefits and potential opportunity for growth greatly outweigh potential costs of building and running a retail store.

Target Market Analysis

The United States Millennial consumer market is a prominent force in the consumer market as a whole. The Millennial market (those between the ages of 16-34) currently living in the United States "account for an estimated \$1.3 trillion in direct annual spending" (Barton), a statistic that stresses the importance of their backing power behind a brand or product. Research has shown that by the year 2030, American millennials will "likely outnumber baby boomers 78

million to 56 million-and they are forming lifelong shopping preferences and habits now” (Barton). In order to successfully cater to the needs, wants, and expectations of the Millennial consumer market, EL Men must research the behaviors and attitudes of this market segment.

A study conducted by the Boston Consulting Group surveyed 4,000 millennials in the United States to identify how behaviors and attitudes of millennials differ from non-millennials. The study was able to determine which consumer characteristics were specifically unique to millennials. A key point that was addressed following the study was the importance millennials place on technology. millennials having grown up around evolving technology their entire lives, and are very quick to adopt new forms of technologies. It was reported that “more U.S. millennials than non-millennials reported using MP3 players (72 percent versus 44 percent)...and smartphones (59 percent versus 33), while more non-millennials reported using desktop computers at home (80 percent versus 63 percent) and basic cell phones (66 percent versus 46 percent)” (Egan). These figures emphasize how crucial it is for Estee Lauder to appeal to the Millennial market using means of technology.

Another point that the Boston Consulting Group study illustrated was that the Millennial market values speed, efficiency, and convenience in their purchasing transactions. Statistics supporting this notion are that “millennials shop for groceries at convenience stores twice as often as non-millennials”, and that they use “fast-casual restaurants more often than non-millennials (81 percent versus 71 percent)” (Egan). This emphasis on demanding goods with efficiency and convenience is imperative for companies attempting to appeal to the Millennial market to recognize in order to obtain their attention and sales. The concept alone of the Estee

Lauder Men Store would be appealing to the Millennial market because it places all high-quality male grooming products in one place, thus appealing to the convenience aspect.

According to the Heidi Cohen Actionable Marketing Guide, it was reported that 62 percent of millennials prefer urban environments over rural environments. This factor holds important as Bx Consulting searches for the ideal locations for the first EL Men stores. Bx Consulting group cross-referenced several different categories in order to discover a list of the most appealing cities for millennials in which to create the first EL Men stores. First we observed the list for the “Top Ten Millennial Markets by Concentration”, where cities such as Austin, TX, Los Angeles, CA, Washington, DC, and San Francisco, CA topped the list (Cohen). We next examined the list for the “Top Ten Millennial Markets by Affluence”, seeing as EL Men will be carrying high-end products. Cities prominent on this list include again Washington DC and San Francisco, CA, and also Boston, MA, New York, NY, and Denver, CO (Cohen). Lastly we compiled a list of the top five fashion forward cities in America since we aim to sell high-end luxury products. This list was composed of cities such as New York, NY, Nashville, TN, and San Francisco, CA (“The Top”). After cross-referencing these three lists it was concluded that the first two EL Men stores would reap the most financial success if they were placed in New York City and San Francisco, CA. These two cities are highly concentrated in millennials, are home to affluent millennials, and are known to be fashion-forward cities.

Operations Schedule

In order for EL Men to be a success, the roll out needs to be planned carefully. There should be two EL Men Stores, placed in San Francisco and New York City. The visual

storefronts of these first two locations can be seen in Appendix C. These cities were chosen because it was researched that these have a high population of millennials, our target market, as well as fashion forward consumers. There are numerous prospective properties within these areas however, of them it was researched that Estee Lauder should choose a property in New York, located at 510-514 5th Ave, New York, New York, priced at \$18 million to purchase (Property Shark). Within San Francisco, the primary real estate is located on 459 Geary Street, San Francisco, CA, priced at \$31,893 per month (459 Geary...). These properties were specifically chosen because they are part of a thriving community. Consumerism is high in these parts of the city and our target market consumer would shop here as well. Although the price may seem high, it is all a part of the image that Estee Lauder, or EL Men will portraying. EL Men will be a high-end, male grooming product store. As such, the locations of the stores need to be where their competitors are placed. And although there are not any direct competitors to EL Men, Armani, Bergdorf Goodman, Dolce and Gabbana, and Gucci all have stores within these neighborhoods, and they all sell men's products. EL Men should be among not only their competitors, but their peers. Real Estate like this will elevate consumer's perception of the quality and thus the value that EL Men can bring them.

These properties should be purchased immediately, and the renovation should last about six months (Murray). The insides of the property need to be torn down and the layout of EL Men needs to be created. Also within this six month time frame, the logistics of opening another retail store can be handled. Estee Lauder is familiar with opening new makeup bars around larger retailers, however, opening a retail store takes more time with logistics. Setting up the store's phone number, store front, in taking inventory, and hiring management should be completed

within this time frame. The total cost for the stores should equate to just over \$22 million for the first year.

Once the physical store is set with its physical inventory, Human Resources needs to begin the hiring process for sales associates for EL Men. Candidates for employment should be familiar with the retail environment and should be able to embody the image of EL Men when they communicate to customers; an image of confidence and grace. During this process the marketing schedule should begin, introducing the product concept to the public. The marketing roll-out needs to be aggressive and target our consumer profile. Advertisement for the unveiling of the stores should run for approximately three months. The store should have its grand opening in September of 2016; EL Men needs to be introduced prior to the holiday season, to allow consumers to recognize the brand during those time periods. At this time, the designated spokespeople should begin to promote through the store via print advertising, social media, and television appearances.

Media Schedule

Estee Lauder has been endowed with a marketing budget of \$355 million dollars. This budget is imperative to funding the detailed media schedule. The schedule will run on a pulsing method, meaning Estee Lauder will use moderate budgeting for marketing all year around but will narrow in during peak months and expand marketing efforts (Media Types). For EL Men, we have determined that the peak months will include, November, December, January, and then June-August. These months were accounted for on the basis of high consumption due to the holiday season and the summer months when cologne is purchased more often.

Media Schedule should begin a year before the new stores are unveiled. The amount of concentrated advertisement should increase as the stores come closer to fruition. The media schedule should be introduced with a press release through Estee Lauder and as well as statements released through the press and print outlets. Simultaneously, the social media marketing needs to begin. At this point, Estee Lauder's three main platforms, Facebook, Instagram, and Twitter need to have posts that indicate that not only a new men's store is being introduced, but that the idea of men's grooming will be changed based on the roll-out of EL Men. Visuals of these social media platforms can be seen in Appendix D. All points of social media, and even the press releases, should carry sound-bites that ingrain into the minds of the consumer that a revolution is being created. Among the sound bites, some phrase examples are: "beauty for all", "one-stop shop", "luxury, for men" and other phrases should be woven into any communication about EL Men. At the introductory phase of the EL Men, the spokespeople should also begin to post on social media, alluding to EL Men. The spokespeople should build up the excitement of EL Men, not oversaturate it. Six months before the stores unveil, the transit ads, billboards, and print advertising should begin to air (See Appendix E). The transit ads should cover train lines that go into populous parts of both cities, so the target consumers will have maximum exposure to them. The same idea lends itself to placing the billboard; everyone needs to know that EL Men exists. Ideal locations include Time Square, Chelsea, Castro, and Marina. This will cost approximately \$12,748,000. There needs to be an aggressive marketing campaign to inform consumers of EL Men's introduction, and to lay the groundwork to capture a large market share. A week before the stores have their grand openings, our spokespeople and the spokespeople of Estee Lauder Brands Co. should be advertising our products and brand all

over social media. Every social media platform will be bustling with excitement over the opening of these stores. Once the stores open, EL Men should take consumer generated feedback and use it to market the image of the store; caution is advised with this method as the feedback needs to be properly filtered. Once it is clear how much market place shares EL Men will capture, their marketing strategy should be reevaluated and built upon at that point.

The Cosmetics Company Store as Competition

The Cosmetics Company Store is a series of outlet stores located all over the United States. It is owned by Estee Lauder and carries a selection of its products, along with a variety of products from other brands. According to one “BlogHer” blogger, the Cosmetics Company Store is the place where Estee Lauder “unload[s] special limited edition sets, gifts-with-purchase sets, duty-free sets, holiday blockbuster kits, and fragrance sets,” with discounts ranging anywhere from 20% to 80%. Although they have some solid discounts, the Cosmetics Company Store does not have usual sales or promotions; they also do not participate in outlet mall’s coupon programs, such as the Tanger outlets, one Yelp review says.

The difference between an outlet store, such as the Cosmetics Company Store, and EL Men, is the fact that EL Men will be selling only those products that are designed for men. Instead of selling makeup like MAC and Bobbi Brown, EL Men will sell only men’s fragrances, men’s hair care products, and men’s skin care products. In addition, EL Men will not discount its products as deeply as the Cosmetics Company Store does, in order to maintain the up-scale image of Estee Lauder’s brand. Rather, EL Men’s sales price will be marked up just a bit from retail price, to ensure not only that it will be making a profit, but also that consumers will be willing to spend

what they deem to be an acceptable amount of money on the products offered. EL Men will soon be every Millennial man's one-stop-shop for all of his grooming needs.

Conclusion

Estee Lauder has always had a strong presence in the women's cosmetic industry. However, as evident, it is time for Estee Lauder to move on to the rest of the population. Our target consumer profile was built precariously, with a great deal of rationale. Millennials have one of the largest purchasing powers amongst the different consumer groups. They prefer urban environments over rural environments and truly value efficiency. All of these characteristics are embodied with EL Men, a sleek, luxurious, retail store with products targeted to young men.

EL Men will be successful, however its success is contingent on the details of this plan. Marketing for EL Men must be widespread, in terms of depth and bandwidth. Social media can be oversaturated with many different ads and commercials, trying to catch consumer's attention. To avoid this internet traffic, EL Men needs to utilize all of the resources at hand, their spokespeople, app, and website.

Once consumers are familiar with EL Men, we are sure that a profit will be broken within a year. Within this year, any failure EL Men has, with its marketing, consumer reactions, logistics, will be studied. Since EL Men is a pilot project, any kinks found will be discovered and then used to make EL Men even better. The process of designing and opening a new brand can be costly, but it is an investment in sustaining Estee Lauder's presence in the market place.

Estee Lauder has continuously set trends for the cosmetic and toiletries industry. They will continue to do so in a way that will revolutionize the marketplace. There is nothing else like EL Men on the market and it will be difficult to imitate with the number of licenses that Estee Lauder currently carries. The newly renovated website and the mobile application will help draw consumers towards EL Men and essentially, Estee Lauder. Estee Lauder will dominate the market, for women and men.

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Appendices

Appendix A Financial Analysis Estee Lauder

Estee Lauder Horizontal Analysis

Balance Sheet					
(All Values in Millions of Dollars)	2013	2014	2015	% Change 2013 to 2015	% Change 2014 to 2015
Current Assets	4,297.2	4,825.2	4,468.5	4.0%	-7.4%
Noncurrent Assets	2,848.0	3,043.6	3,770.7	32.4%	23.9%
Total Assets	7,145.2	7,868.8	8,239.2	15.3%	4.7%
Current Liabilities	1,934.6	2,056.7	2,135.6	10.4%	3.8%
Noncurrent Liabilities	1,908.7	1,942.7	2,449.3	28.3%	26.1%
Total Liabilities	3,843.3	3,999.4	4,584.9	19.3%	14.6%
Total Stockholders Equity	3,301.9	3,869.4	3,654.3	10.7%	-5.6%

Income Statement					
(All Values in Millions of Dollars)	2013	2014	2015	% Change 2013 to 2015	% Change 2014 to 2015
Net Sales	10,181.7	10,968.8	10,780.4	5.9%	-1.7%
Gross Profit	8,155.8	8,810.6	8,679.8	6.4%	-1.5%
Operating Income	1,526.0	1,827.6	1,606.3	5.3%	-12.1%
Net Income	1,075.2	1,261.3	807.7	-24.9%	-36.0%

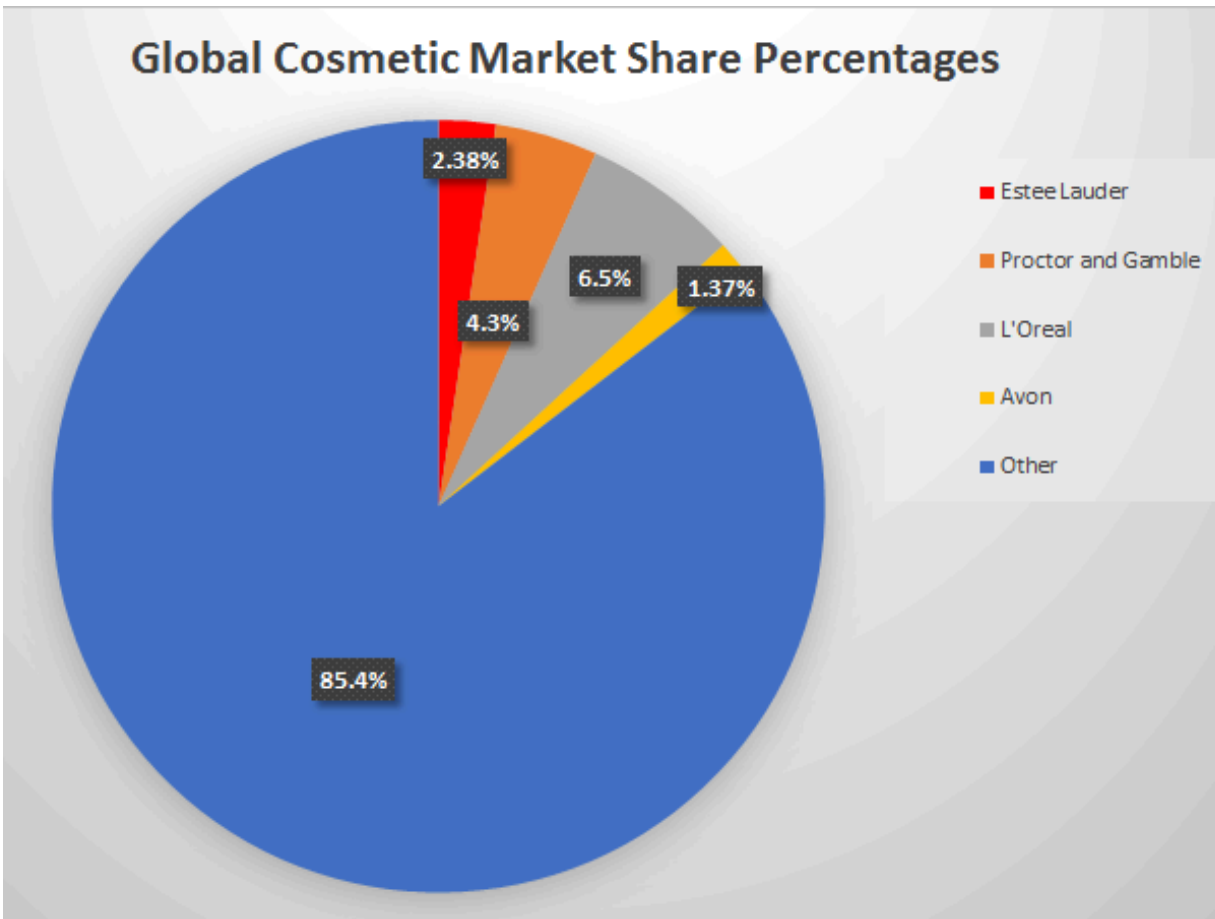
Cash Flow Statement					
(All Values in Millions of Dollars)	2013	2014	2015	% Change 2013 to 2015	% Change 2014 to 2015
Operating Cash Flows	1,226.3	1,535.2	1,943.3	58.5%	26.6%
Investing Cash Flows	(465.5)	(511.6)	(1,616.2)	247.2%	215.9%
Financing Cash Flows	(611.5)	(856.9)	(894.8)	46.3%	4.4%

Estee Lauder Vertical Analysis

Balance Sheet						
(All Values in Millions of Dollars)	2015	% of Total	2014	% of Total	2013	% of Total
Cash & Cash Equivalents	1,021.4	12.4%	1,629.1	20.7%	1,495.7	20.9%
Accounts Recieveable	1,174.5	14.3%	1,379.3	17.5%	1,171.7	16.4%
Inventory	1,215.8	14.8%	1,294.0	16.4%	1,113.9	15.6%
Total Current Assets	4,468.5	54.2%	4,825.2	61.3%	4,297.2	60.1%
Propery, Plant, & Equipment	1,490.2	18.1%	1,502.6	19.1%	1,350.7	18.9%
Intangible Assets	1,471.4	17.9%	1,050.5	13.4%	1,051.1	14.7%
Total Assets	8,239.2	100.0%	7,868.8	100.0%	7,145.2	100.0%
Accounts Payable	635.4	7.7%	524.5	6.7%	481.7	6.7%
Total Current Liabilities	2,135.6	25.9%	2,056.7	26.1%	1,934.6	27.1%
Stockholders Equity	3,654.3	44.4%	3,869.4	49.2%	3,301.9	46.2%
Total Liabilities and Stockholders Equity	8,239.2	100.0%	7,868.8	100.0%	7,145.2	100.0%

Income Statement						
(All Values in Millions of Dollars)	2015	% of Total	2014	% of Total	2013	% of Total
Sales (Revenue)	10,780.4	100.0%	10,968.8	100.0%	10,181.7	100.0%
Cost of Goods Sold	2,100.6	19.5%	2,158.2	19.7%	2,025.9	19.9%
Selling, General, and Administrative	7,073.5	65.6%	6,985.9	63.7%	6,597.0	64.8%
Operating Income	1,606.3	14.9%	1,827.6	16.7%	1,526.0	15.0%
Net Income	807.7	7.5%	1,261.3	11.5%	1,075.2	10.6%
Dividends per Share	0.92	0.009%	0.78	0.007%	1.08	0.011%

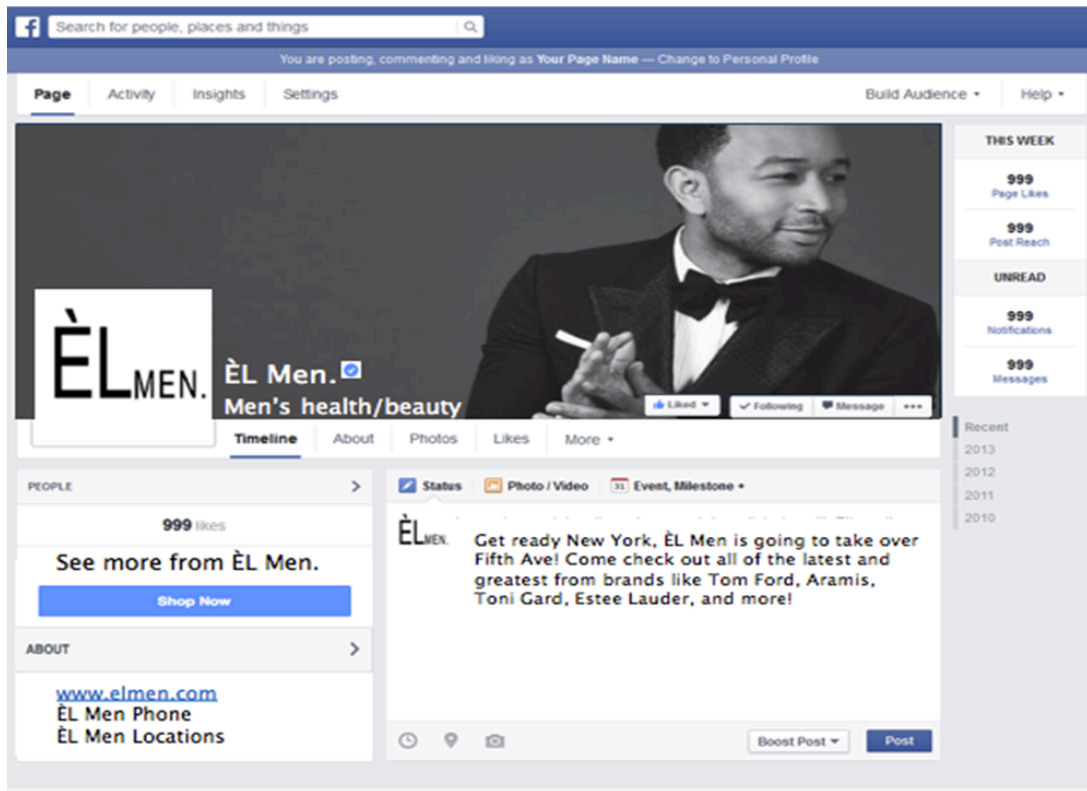
Appendix B

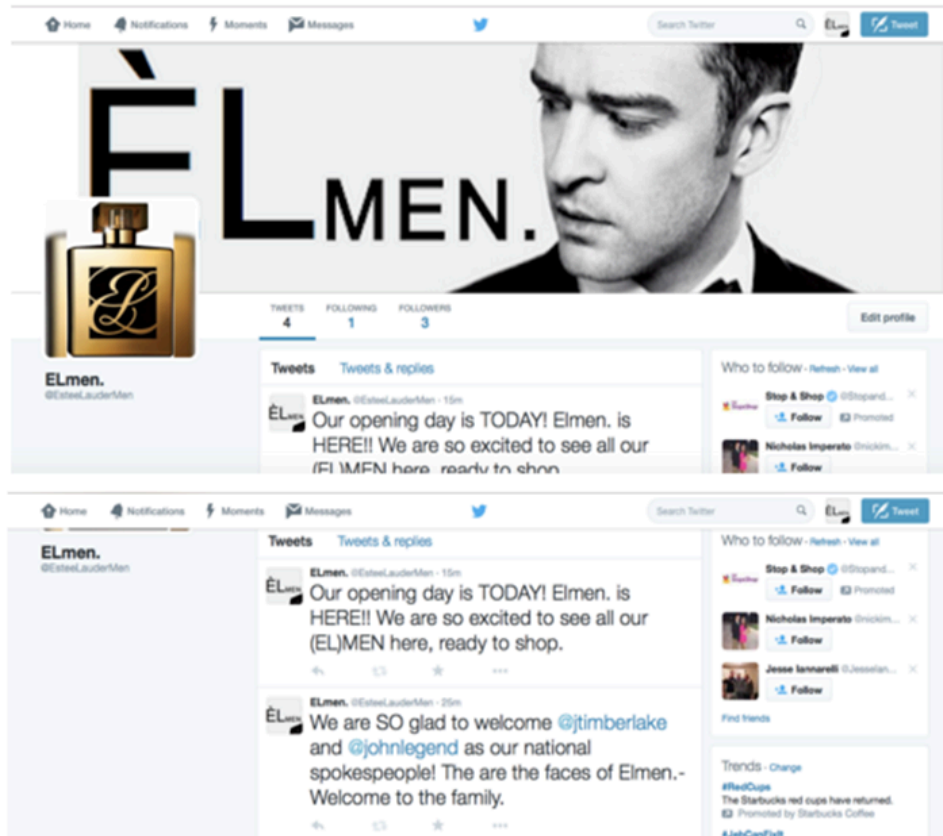


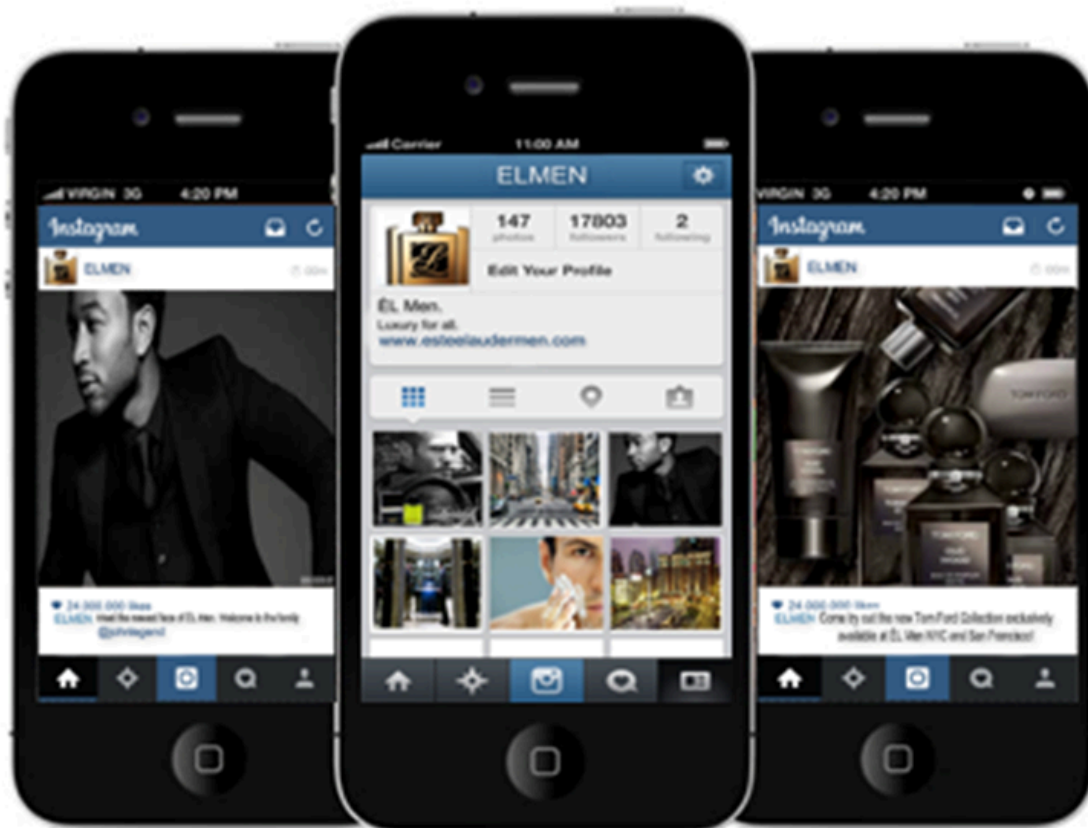
Appendix C



Appendix D







Appendix E



