.

BIG BET ON WELLNESS: SHISEIDO'S JOURNEY TO SUSTAIN MARKET LEADERSHIP IN JAPAN

Sofie Meryem Yilmaz 56074

Work project carried out under the supervision of:

Afonso Almeida Costa

20/12/2023

Abstract

The group part covers the revitalization of the core business and growth acceleration of Shiseido, the leading company in Japan's beauty industry. Confronted with consequences of the pandemic and opportunities due to changing customer preferences and market dynamics, students analyze Shiseido’s situation with a comprehensive framework.

Keywords: Beauty Industry, Market Entry, Wellness Market, Japan, Growth Strategy

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

1 CASE

1.1 Introduction

On August 8, 2023, the first-half results presentation of Shiseido Company, Limited (Shiseido) had just been concluded, leaving an unsettling tension in the air. Shiseido's Chief Operations Officer, Kentaro Fujiwara, and Group CEO, Masahiko Uotani, requested the presence of Norio Tadakawa, Japan Region CEO, for a confidential conversation. After all other executive board members had left the room, Fujiwara raised his concerns about the challenges in Japan.

Fujiwara was appointed the new President and Chief Operations Officer (COO) at the beginning of January 2023. He had spent the last six months learning and deepening his understanding of the Japanese business through multiple sessions with colleagues and business partners.

For years, Japan had been the core market for Shiseido, with over 40% overall net sales share. But COVID-19 marked a turning point. From 2018 until 2022, overall net sales in Japan declined by more than 45%. Moreover, the excessive number of brands, no clear selection and focus on strategy, and complexity resulted in a slow market reaction. Thus, Shiseido "[…] cannot raise profit with [their] existing business model," Fujiwara exposed (Shiseido 2023c). "Facing the hard reality, we need to address issues and capture the opportunities to transform for the future leap forward" (Shiseido 2023d, 19). Fujiwara knew that the first step would be to revitalize the Japanese business, Shiseido's core market, and to capture future growth opportunities afterward, ensuring sustained market leadership in Japan.

In response to its corporate mission, '*Be a Global Winner with Our Heritage'* and evolving global trends towards well-being, Shiseido conducted an internal survey revealing that 74% of women perceive a connection between skin, body, and mind (Shiseido 2023e). In alignment with these insights, in September 2023, Shiseido published to launch its new brand, '*Shiseido Beauty Wellness,'* in February 2024 in the Japanese market. With the launch of its new brand, Shiseido would be taking its first step in entering the wellness business field in Japan.

Shiseido aimed to achieve its R&D vision to *'Be the Engine of Beauty Innovations'* in all business fields by 2030. Following the discussion on August 8 led by Fujiwara, Uotani, and Tadakawa, Fujiwara assigned his subordinate and his team to ensure consistent innovation in the emerging wellness business field. This strategic move was designed to secure and prolong Shiseido's market leadership in Japan over the long term.

1.2 The Beauty Industry

1.2.1 General Industry Overview

The worldwide beauty industry is typically categorized into five primary business sectors: skincare, haircare, color cosmetics known as make-up, fragrances, and toiletries. (McKinsey 2023). Among the five sectors, skincare is the largest, with a market size nearing $200 billion. A combination of factors led to substantial shifts in the industry, which was once a relatively uncomplicated business of enhancing people's appearance (McKinsey 2023).

In 2022, the beauty industry demonstrated remarkable economic prowess by amassing a staggering $430 billion in revenue and EBITDA margins up to 30%. Projections for the future were promising, with expectations that the beauty market would ascend to new heights, surging to an estimated value of $580 billion by 2027. This upward trajectory is characterized by a consistent annual growth rate of 6% until 2027 (Appendix 1), thereby outstripping the expansion rates observed in numerous other consumer-oriented sectors. The Asia-Pacific and North American regions collectively represented over 60% of the global cosmetics market. China and North America were anticipated to be the two largest beauty markets, reaching $96 billion and $114 billion by 2027 (McKinsey 2023).

Every year, new brands and products entered the market, which made the beauty industry highly dynamic. Brands constantly tried to outdo each other with the latest innovations. However, regulations by regional institutions such as the Food and Drug Administration (FDA) in the US and EU Cosmetic Products Regulation (CPR) in the European Union oversaw product ingredients, testing, and labeling (U.S. Food and Drug Administration 2022).

The top 10 market leaders represented approximately one-third of the cosmetics market (Peterson 2023) (Appendix 2). L'Oréal, the most prominent beauty player, generated $41.27 billion[1] in 2022, with a profit margin of 19.5% (L'Oréal 2023). The company had a portfolio of over 30 international brands, including Lancôme, Garnier, and La Roche-Posay. Despite notable beauty manufacturers, small players distinguished themselves by focusing on a specific customer segment, e.g., black beauty consumers or other niche products (McKinsey 2023).

Before the COVID-19 pandemic, nearly 85% of all beauty product purchases occurred in brick-and-mortar stores (Gestrell et al. 2020). In response to evolving consumer preferences and a consequence of COVID-19, a shift towards omnichannel shopping could be observed in the beauty industry. This approach aligned with the broader trend of diversifying distribution channels to appeal to the multifaceted preferences of consumers who sought a seamless and holistic shopping experience across both online and offline platforms. E-commerce sales in the beauty industry experienced nearly a fourfold increase from 2015 to 2022. Besides that, Artificial Intelligence (AI) and Augmented Reality (AR) were revolutionizing the beauty sector, leading to the widespread adoption of virtual try-on tools, personalized beauty advice, and online consultations. New technologies empowered beauty companies to efficiently test ingredients and develop innovative product formulas (GreyB 2023).

Moreover, China experienced slowing growth and heightened local competition, contrasting with growth opportunities in the Middle East and India. Furthermore, Gen Z was gaining influence in the industry by focusing on brand value, sustainability in terms of ingredients and packaging, and diversity. In general, beauty consumers became more conscious of the ingredients of their products and their sustainable procurement. Therefore, the demand for

[1] Converted from Euro to US dollars (conversion rate: 1€ = $1.0787)

reusable and refillable products was rising. Brands use recyclable materials like glass, aluminum, and bioplastics as single-use plastics decrease (GreyB 2023). Lastly, the wellness trend presented a $2 trillion opportunity, with new products gaining popularity (McKinsey 2023).

1.2.2 Japanese Beauty Market

The Japanese beauty market was worth $45.2 billion in 2022 (Nandi 2023). The skincare segment took precedence in Japan’s beauty market for both male and female consumers (Yano Research 2023). Despite regulatory challenges related to strict approval processes and regulations on ingredients, Japanese beauty products, known as *‘J-Beauty,’* had gained global acclaim for high quality and minimalist design, resonating with an international consumer base. The demand for beauty products in Japan was mainly driven by Japan’s rich skincare history and the strong emphasis on self-care. Recent trends underscored a shift towards comprehensive beauty routines, reflecting heightened interest in health, personal beauty, and increased skin health awareness among Japanese consumers. Moreover, sales of dermatological cosmetics increased, aligning with a growing trend toward mindful and wellness-oriented choices. Statista (2023) stated that Japanese consumers' most relevant purchase criteria included the lowest price, quality, and skin compatibility. Shiseido led the Japanese cosmetic market alongside other significant players like Kao Corporation, Kosé Corporation, Pola Orbis Holdings Inc., and Fancl Corporation. Internationally, Japanese beauty manufacturers, particularly Shiseido and Kao Corporation, held prestigious positions, showcasing Japan’s influence in the global cosmetics market (Kao Corporation 2023; Shiseido 2023b).

1.3 Shiseido’s Beauty Empire

1.3.1 The Global Business

Over 150 years ago, in 1872, Arinobu Fukuhara opened the doors of Japan’s first Western-style oriented pharmacy in Japan. The pharmacy was named *‘Shiseido’* and was established in the

Ginza district, known as one of Tokyo's most fashionable and trendy areas (Shiseido n.d.). By combining the best of Western science with Eastern traditions, aesthetics, and hospitality, Fukuhara aimed to revolutionize Japanese beauty and transcend boundaries.

In 1916 Shiseido established its first standalone cosmetics division, shifting its focus from pharmaceuticals to cosmetics. This strategic pivot allowed the company to produce premium, contemporary, and sophisticated cosmetic products. More than ten years later, in 1927, the incorporation took place, and Shiseido Co., Ltd. was launched. Shiseido products were distributed nationwide through a network of chain stores, turning the company into a hub for cosmetics and beauty expertise. In 1949, Shiseido stocks were listed on the Tokyo Stock Exchange. In 1957, Shiseido expanded its product presence beyond Japan for the first time. The company started in Taiwan and subsequently set up overseas sales subsidiaries. Selling products on an international level enabled Shiseido to communicate a sense of hospitality and Japanese beauty philosophy to the world (Shiseido n.d.).

The focal point of Shiseido's business operations was centered on cosmetics. In recent years, Shiseido's scope had been extended into sectors like restaurants and education/childcare services. The case and information below exclusively focus on the cosmetics business. In 2022, Shiseido maintained a workforce comprising over 39,000 employees and distributed its products globally in 120 countries through various retail partners. Specific brands, like Ulé, had exclusive retail agreements with Shiseido. Such agreements guaranteed that products from these brands are exclusively accessible for purchase through the designated retailer.

The company ensured top-tier quality and continuous innovation with 12 production facilities and six dedicated R&D centers. Especially in the areas of kansei research[2] and material science, Shiseido had established a position in the market over the years. Inventions, marketing

[2] Kansei in cosmetics goes beyond mere response to stimuli. It aligns with aesthetics, arts and culture, and consumer values and lifestyles to create new value that resonates with consumers on sensory (visual, olfactory, tactile), emotional, cognitive, and aesthetic levels (Shiseido 2022).

strategies, and product formulations were often protected, including the usage of, e.g., patents or copyrights (Shiseido n.d.). With net sales of $7.37 billion*[3] in 2022, Shiseido was ranked Japan's number one beauty manufacturer. China and Japan accounted for the most significant portions of the total share, representing 24.2% and 22.3%, respectively. The Travel Retail segment followed closely at 15.3%, the Americas at 12.9%, EMEA at 12%, and the Asia Pacific region at 6.4% (Shiseido 2023b).

Shiseido oversaw a diverse brand portfolio comprising 27 internally developed and acquired brands (Appendix 3). Certain brands enjoyed a multinational reach, while others primarily targeted local markets. For example, while Shiseido's skincare brand SHISEIDO is available in 88 countries/regions, its other brand, AUPRES, was developed exclusively for the Chinese market (Shiseido n.d.). Inspired by a *'Think Global, Act Local'* approach, decision-making and marketing activities were adapted to the local customer needs (Shiseido 2023b). The company categorized its brands into five predefined segments: prestige, premium, fragrances, inner beauty, and life quality (Appendix 4).

1.3.2 The Japanese Business

In 2023, Tadakawa outlined in an interview that "although the prolonged impact of COVID-19 has certainly made things difficult, the positioning of the Japan business has not changed and will continue to serve an important role going forward" (Shiseido 2023b, 68).

Traditionally, Japan had been the core business, with over 41% of net sales in 2018, but from 2018 to 2022, net sales decreased by more than 45% (Appendix 5). As Asia's most prominent beauty manufacturer with Japanese heritage, the Japanese business played a strategic role from a financial and value creation perspective, according to Tadakawa (Shiseido 2023b).

Financially, in 2019, Japan was responsible for 67% of overall operating profit (Shiseido 2021). Over the prior decades, its operating margin has constantly been between 10 and 20%

[3] All figures marked with an * have been converted from yen to US dollars (conversion rate: ¥1 = $0.0069)

(Appendix 6). In Japan, maintaining stable profits preceded pursuing rapid sales growth (Shiseido 2023b). Its stable profits were founded on a loyal customer base. 60-70% of Shiseido's Japanese businesses were from repeat customers (Shiseido 2023b).

Additionally, the Japanese business played an important role in terms of value creation. "[…] since Shiseido is a company with Japanese heritage, consumers around the world expect the high quality and value coming from Japan (Shiseido 2023b, 68). Shiseido's value creation lay in its commitment to high quality upheld by strict internal standards and the ability to create new values by bringing together different values such as East and West, art and science, etc., which had been Shiseido's uniqueness since its founding (Shiseido 2023).

1.4 Shiseido's Strategies over the Years

Since 2015, Shiseido had unveiled three corporate strategies (Appendix 7 & 8). Initially, VISION 2020 aimed to rebuild the business foundation (2015-17) and drive growth (2018-20) as the company experienced lower growth rates than the industry. Due to evolving industry dynamics and the impact of COVID-19, which significantly changed consumer demands and the retail landscape, Shiseido introduced WIN 2023, focusing on strengthening its identity as a skin beauty company and revitalizing the Japanese business. However, Shiseido lagged, especially in the Japanese market. Thus, in early 2023, the latest strategy, SHIFT 2025, was announced, emphasizing a shift from a defensive to an offensive strategy.

1.4.1 VISION 2020 – Rejuvenate Shiseido

"[I have] a strong sense of crisis when I consider Shiseido's current circumstances", said Masahiko Uotani, Shiseido's CEO, back in 2015 in an interview (Daneshkhu 2015, 1). Facing sluggish growth and profitability concerns, with sales increasing by only 0.2% annually over eight years until 2013, Shiseido struggled in contrast to the industry's global growth rate of over 4%. Recognizing the impact of insufficient investments and underutilization of strengths, such as R&D capabilities and global business deployment expertise, Uotani launched the VISION

2020 strategy in 2014, aiming to rejuvenate Shiseido for the next century (Shiseido 2021). The strategy unfolded in two phases: the first (2015-2017) focused on rebuilding the business foundation and addressing challenges in domestic and international operations. In the second phase (2018-2020), Shiseido maximized synergies, leveraged digital acceleration, and increased investments (Shiseido 2018). Embracing a *'Prestige First'* approach, the strategy heavily invested in skincare, makeup, and fragrance in higher price ranges. Strategic investments in R&D, supply chain, digital, and IT aimed to establish a foundation for Shiseido's sustainable growth. For example, in 2017, Shiseido introduced an innovative skincare system called *'Optune,'* combining digital technology with advanced skin science and beauty research. The system uses algorithms to meet skincare needs in real-time, combining skin data from a smartphone app with environmental data for personalized care (Shiseido 2017). The strategy's success was evident, with Shiseido surpassing its 2017 net sales target and achieving a $690.3 million* profit in 2018, two years ahead of the VISION 2020 target. By 2019, the company reached the operating margin target of 10% (Shiseido 2023b) (Appendix 10). However, Shiseido's difficulties in integrating the New York-based company Bare Escentuals (bareMinerals and Buxom), acquired for $1.9 billion in 2010, and the resulting write-down of $623 million in 2017, underlined the challenges of building a presence in the US market. As the acquisition occurred just before the final year of Shiseido's three-year business strategy, some investors perceived it as a tactic to achieve its financial targets (Inagaki 2021b; 2021a).

1.4.2 WIN 2023 – Build Back Better

In 2020, the spread of COVID-19 led to severe changes in the external business environment, and several management issues within Shiseido appeared. Net sales decreased by 18.6% to $6.36 billion*, and operating profit declined by 86.9% year on year to $103.5 million*, prompting the need for a change in the business model which was based on high fixed costs (Shiseido 2021). In response, Uotani formulated the new medium-term strategy, WIN 2023, in

February 2021, focusing on recovering Shiseido's business by 2023 and concentrating on profitability and cash flow over sales growth. WIN 2023 aimed to lay the foundation for Shiseido's 2030 Vision of becoming a *'Personal Beauty Wellness Company'* and the world's leading company in the skin beauty area. This strategy included three key initiatives: improving profitability, focusing on its origin (premium skin beauty), and rebuilding the business foundation by concentrating resources on marketing and digital transformation (Shiseido 2021). Shiseido aimed for a skincare sales ratio of 80% by 2023 (achieved 70% in 2022) (Shiseido 2021).

Additionally, WIN 2023 involved a strategic overhaul of the business portfolio. This included the divestiture of the Personal Care business for $1.5 billion and the transfer of prestige makeup brands such as bareMinerals and two other US cosmetic brands for $700 million. BareMinerals, Buxom, and Laura Mercier (acquired in 2016) were sold for two-thirds of the original price (Inagaki 2021b). Uotani mentioned in an interview that Shiseido planned to ramp up acquisitions in the U.S. and Europe and explore markets like India and Africa (Inagaki 2021a). Besides that, Shiseido also invested in digital transformation. In May 2021, Accenture and Shiseido established *'Shiseido Interactive Beauty,'* a joint venture to boost Shiseido's digital transformation under the *'WIN 2023'* strategy, focusing on advanced technologies for personalized customer experiences and digital marketing (Accenture 2021). In September 2022, they launched *'Beauty Key,'* a centralized membership service offering customized consulting services and enhancing digital communication capabilities. Shiseido also increased production capacity, elevated in-house production capabilities, and optimized production efficiency (Shiseido 2023b).

1.4.3 SHIFT 2025 and Beyond – SHIFT from Defense to Offense for New Growth

From 2020 onwards, Shiseido achieved some parts of the WIN 2023 strategy, such as the selection and concentration of brands and improved profitability in the Americas and EMEA regions. Nevertheless, several challenges remained. The delayed business growth recovery in Japan, Shiseido's most important market, and China forced Uotani to take further action. At the beginning of 2023, he stated in Shiseido's 2022 Annual Report: "We must also recognize that circumstances [in Japan and China] have changed – the impact of the pandemic has been prolonged compared to the U.S. and Europe, masks have become a normalized custom, and there has been a massive decline in inbound tourism. However, we are aware that there is no longer an excuse to blame these factors for the underperformance of our Japan business after three years" (Shiseido 2023b, 8). Furthermore, global inflation, sharp increases in material costs, and geopolitical tensions, such as the war in Ukraine or the political instability in China, forced Shiseido to act.

Considering these circumstances, Uotani updated the previous plan, *'WIN 2023 and beyond,'* and introduced the new strategy, *'SHIFT 2025 and beyond,'* 2023 focusing on growth (Rao 2023). Shiseido tried to move '*from Defense to Offense for New Growth.*' Brand divestitures and cost restructuring served as defensive measures. Conversely, the offensive strategy involved actively pursuing initiatives like introducing new brands and advancing growth linked to existing ones (Shiseido 2023b) (Appendix 7).

Uotani defined three focus areas of investments to achieve growth and become more profitable: Brands, Innovations, and People. Regarding brand development, Shiseido focused on localization by tailoring innovations to the different regions' cultural and behavioral customer demands. Shiseido's commitment to innovation went beyond R&D. The company introduced three state-of-the-art factories to improve product quality and increase efficiency.

SHIFT 2025 outlined individual strategic focus areas for each of Shiseido's regions. In Japan specifically, Shiseido wanted to invest in prestige and premium skin beauty and accelerate the establishment of a loyal user base. Shiseido's target in Japan was to attain a core operating profit surpassing $345.15 million* (Shiseido 2023b). However, during the presentation of the

Q2 results, Fujiwara acknowledged that Japan was not a high-growth market. In the past, the company faced constraints that blocked transformation and lacked strategic clarity and focus, resulting in a lagging market responsiveness. A fundamental shift in the business model was required to address this (Shiseido 2023d).

1.5 Shiseido's Entry into Wellness

Driven by Uotani's call out for a fundamental shift in the Japanese business model and Shiseido's aim to position itself as a *'Personal Beauty Wellness Company'* by 2030, Shiseido was cultivating new business opportunities (Shiseido 2023e). In the past, growth opportunities in the beauty industry lay in developing new products such as creams and make-up. However, a McKinsey report outlined that "a new definition of beauty is reshaping the market as consumers shift their objectives from aesthetic perfection to holistic wellbeing" (McKinsey 2023, 34). Hence, McKinsey (2023) emphasized that one of the most substantial opportunities for growth was in the wellness segment.

1.5.1 The Worldwide Wellness Market

From 2023 to 2027, the $1.5 trillion global wellness market was forecasted to grow at a CAGR of 5% to 10%. The U.S. was the largest wellness market, estimated at around $450 billion in 2022 (McKinsey 2023). This development was driven by consumers seeking to look and feel good. Hence, the potential for wellness-inspired beauty products was vast: Wellness-inspired products ranged from ingestible supplements to sleep aids or lotions. McKinsey (2023) pointed out that traditional beauty manufacturers could seize this opportunity by utilizing their expertise and consumer trust in existing skincare to introduce eye masks emphasizing tranquility and improved sleep.

Researchers indicated six key trends that would shape the wellness industries in the following years and influenced players in the sector (Callaghan et al. 2021) (Appendix 11). Global trends included consumers' growing preference for natural and clean products, personalization, and wellness and mental health services. Services are seen as an enhancement to products, not as a replacement (McKinsey 2023).

1.5.2 Wellness Industry in Japan

In 2023, Japan's wellness market was worth $303 billion and was the third largest after the U.S. and China (Whitby 2023). In Japan, other sectors, such as beauty services, mineral springs, and thermal bathing, contributed to the wellness industry. Japan stood out as a country where cultural identity significantly shapes the concept of wellness (Statista 2023b).

1.5.3 Shiseido's Entry into the Wellness Business

In September 2023, Shiseido announced its entry into the wellness market, joining other beauty manufacturers in embracing the wellness trend. The company launched its first wellness brand, *Shiseido Beauty Wellness* (SBW), in the Japanese market in early 2024 (Shiseido 2023e). SBW would develop products and services through strategic partnerships leveraging Shiseido's beauty expertise. TSUMURA & CO. and Kagome Co., Ltd displayed two exemplary co-creation partnerships promoting joint research and product development (Shiseido 2023e).

Shiseido acknowledged the interest in products and complementary services in recognizing the evolving landscape of the wellness industry and consumer preferences. While physical products remained essential to the wellness industry, services became increasingly important. In the discussion among the three executives, Tadakawa suggested that Shiseido could enter the wellness market by providing wellness treatments. Conversely, Uotani envisioned a more holistic approach to providing customers with a wellness experience through a wellness app.

<u>Option 1: Entering the wellness service game through wellness treatments</u>

In response to the rising demand for services related to wellness products, Tadakawa proposed an approach backed by industry insights (Callaghan et al. 2021). Tadakawa's vision considered wellness treatments aligning with the prevalent beauty culture in Japan. In 2023, 80.3% of Japanese women visited beauty salons frequently (Statista 2023b). With over 264 thousand beauty salons in 2021, Japan had more beauty salons than convenience stores (Statista 2023). The market size of beauty services in Japan, including beauty treatments and relaxation massages, was $4.98 billion* in 2022 (Statista, 2022).

Since Shiseido opened its first beauty salon in 1956 in Japan, Tadakawa considered using the established infrastructure that Shiseido already built. Shiseido had 29 beauty salons in Japan, offering hair and facial beauty treatments and nail care (Shiseido Beauty Salons n.d.). Utilizing existing beauty salons to introduce new wellness products and incorporate them into treatments could capitalize on current trends and address the rising customer interest in services (McKinsey 2023). Tadakawa observed that pursuing this option involved substantial investment. Adapting the existing infrastructure for wellness services required significant modifications, including facility changes and a comprehensive rebranding effort. As customers valued a unique, customized brand experience when testing new cosmetic products (Theopilus et al. 2021), Tadakawa believed that offering spa treatments would contribute to solid customer relations. Moreover, incorporating wellness products into the beauty salons allowed Shiseido to offer the products to an established customer base. It enabled an optimization of product bundling for more effective treatments.

Furthermore, he envisioned connecting wellness services with Japanese culture, anchored into Shiseido's DNA. Thus, he explored integrating Japan's established bathing culture with its new wellness product brand (Statista 2023b) by partnering with thermal spring facilities. From his perspective, partnerships could take various forms, such as product integration into guests' stays providing them with Shiseido's wellness products to enhance their overall experience. Furthermore, the envisioned co-branded wellness experiences encompassed exclusive spa treatments, beauty rituals, and wellness programs. These offerings seamlessly integrated Shiseido's skincare expertise with thermal springs' unique attributes, reflecting Tadakawa's vision for a distinctive wellness experience.

Option 2: Stepping into the wellness world with an encompassing wellness app

In contrast to the considerations of Tadakawa, Uotani considered entering the wellness market by launching a wellness app. He thought an app could improve the bond between the brand and its customers and achieve daily customer interaction, especially as the platform economy[4] was expected to drive more than 30% of global economic activity (Global Business Outlook 2023). Wellness apps became a popular self-help method, offering tools to reduce stress, prevent burnout, and improve sleep. The COVID-19 pandemic led to a steep increase in downloads and sales of wellness apps, with a CAGR (2019-2021) of 54.6% and over 1.2 billion installations of the top 100 apps in 2020. Despite a slowdown in growth, the outlook remained promising, with significant growth projected in the Asia-Pacific region until 2033. An estimated 10,000 to 20,000 mental well-being apps were on the market, many focusing on daily engagement and mindfulness (Wylie 2023).

The Japanese market for health and wellness apps was also set for a steep trajectory. Revenues were expected to reach $372.10 billion in 2023, with fitness apps leading at 56%, meditation apps at 13%, and nutrition apps at 31%. With a robust annual growth rate of 12.52% (CAGR 2023-2028), the market volume was expected to reach $671 billion by 2028 (Statista Market Insights 2023) (Appendix 12). Wellness apps on the market offered a wide range of features and services, such as sleep tracking, guided meditations, nutritional monitoring, and fitness programs to fully support users' pursuit of holistic well-being.

Uotani envisioned the Shiseido wellness app to include existing and new activities. Regarding the company's current initiatives, he intended to integrate the existing personal DNA skincare online service *'Optune'* and the *'Beauty Key'* membership service. In addition, Uotani sought to add new services and activities to the app to use it as a new communication channel. These included services and activities closely related to Shiseido's existing product range, such as

[4] The platform economy is a commerce trend towards digital models, where platforms enable diverse interactions and transactions (Global Business Outlook 2023).

guided spa treatments presented as videos featuring Shiseido products, skincare and wellness content, and virtual beauty advisor recommendations that could utilize AI. Moreover, Uotani supposed that the app could offer activities that, while not closely related to Shiseido's existing product range, align with the overarching vision of becoming *'A Personal Beauty Wellness Company by 2030.'* Concrete examples of these supplementary offerings included meditation sessions, sports and yoga workouts, and recipes for beauty-enhancing foods (Appendix 13).

In addition to the previous arguments, Uotani stressed that none of the other major beauty brands following the wellness trend offered such an app. Therefore, in his view, pursuing the app presented a valuable opportunity to differentiate Shiseido from other beauty brands in the wellness market.

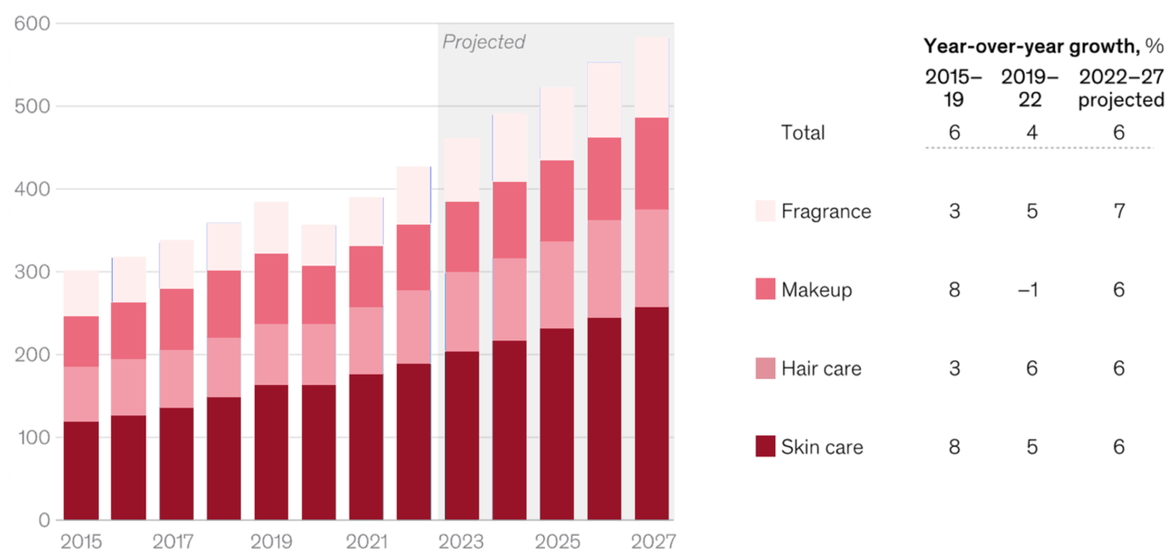
1.6 Navigating Opportunities

The discussion with Uotani during the first-half results presentation still echoed in Tadakawa's mind after returning to the hotel from the presentation. He thought of the statement in Shiseido's annual report: "Our organization in Japan is still seeking to respond to the market change while continuing to carry on the legacy from the past"(Shiseido 2023b). Fujiwara emphasized the need for a fundamental business change to address market shifts while preserving Shiseido's legacy. Tadakawa asked himself how to deal with the two outlined options to ensure a successful entry into the wellness market: What were the benefits and drawbacks of the two choices? Were the two options compatible? Could Shiseido strategically position itself to pursue each of them optimally, and if so, what approach should be taken? His current responsibility was to thoroughly evaluate the options and address the outlined questions to facilitate the decision-making process.

Appendix – Case

Appendix 1: Global Beauty Market Retail Sales by Product Category

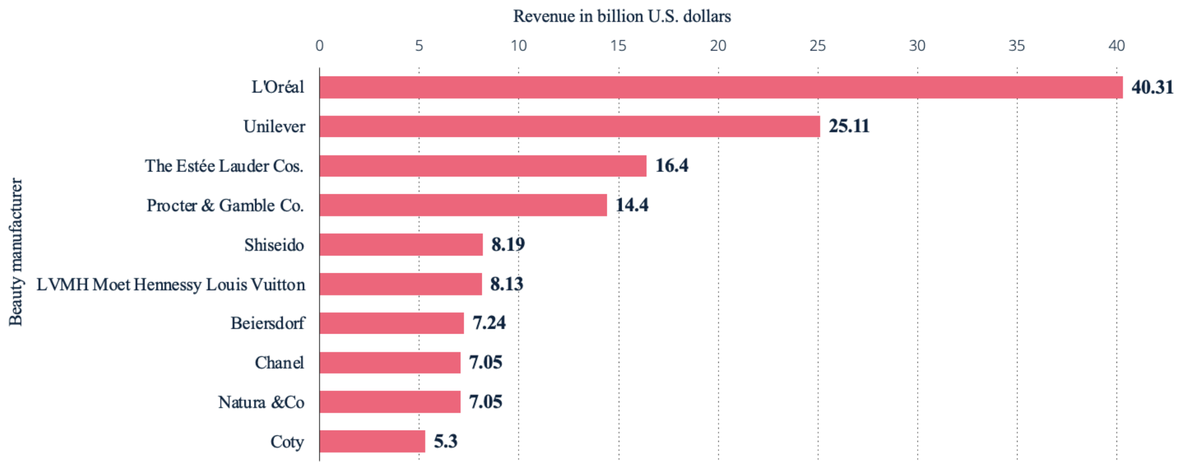
Global beauty market retail sales, by category, $ billion



Adapted from McKinsey (2023). The State of Fashion: Beauty Report.

Appendix 2: Leading Beauty Manufacturers Worldwide

Revenue of the leading 10 beauty manufacturers worldwide in 2022 , by category, $ billion



Adapted from Statista (2023a). Revenue of the leading 10 beauty manufacturers worldwide in 2022.

Appendix 3: Shiseido's Brand Portfolio

	Description	Brands
Prestige	High-end, **highly valuable cosmetics** are **marketed by beauty consultants** and **personal beauty partners** and may be found at **department shops** and specialist **cosmetics stores**.	SHISEIDO GINZA TOKYO, NARS, BAUM, DRUNK ELEPHANT, clé de peau BEAUTÉ, IPSA, THE GINZA, EFFECTIM, BENEFIQUE, ulé
Premium	**Mid-range cosmetics**, mostly found in **drugstores and general retail stores**, that customers choose for themselves. On demand, counseling specific to each market, brand, and sales channel is also offered.	ELIXIR, MAQuillAGE, AQUALABEL, ANESSA, d program, HAKU, SIDEKICK, REVITAL, AUPRES 欧珀莱, PRIOR
Fragrance	Luxury designer **fragrance**	narciso rodriguez, ISSEY MIYAKE, SERGE LUTENS, TORY BURCH BEAUTY
Inner Beauty	**Beauty beverages** and **supplements** that work to help people in attaining their own unique beauty and wellbeing throughout their lives by **enhancing skin health from the inside out**	The Collagen, INRYU
Life Quality Beauty	**Products and services** that significantly enhance the lives of **those with severe skin issues** brought on by heredity, accidents, illnesses, or medical procedures	PERFECT COVER SHISEIDO

Main Regions of Availability : • Japan • China • Asia Pacific • Americas • EMEA • Travel Retail

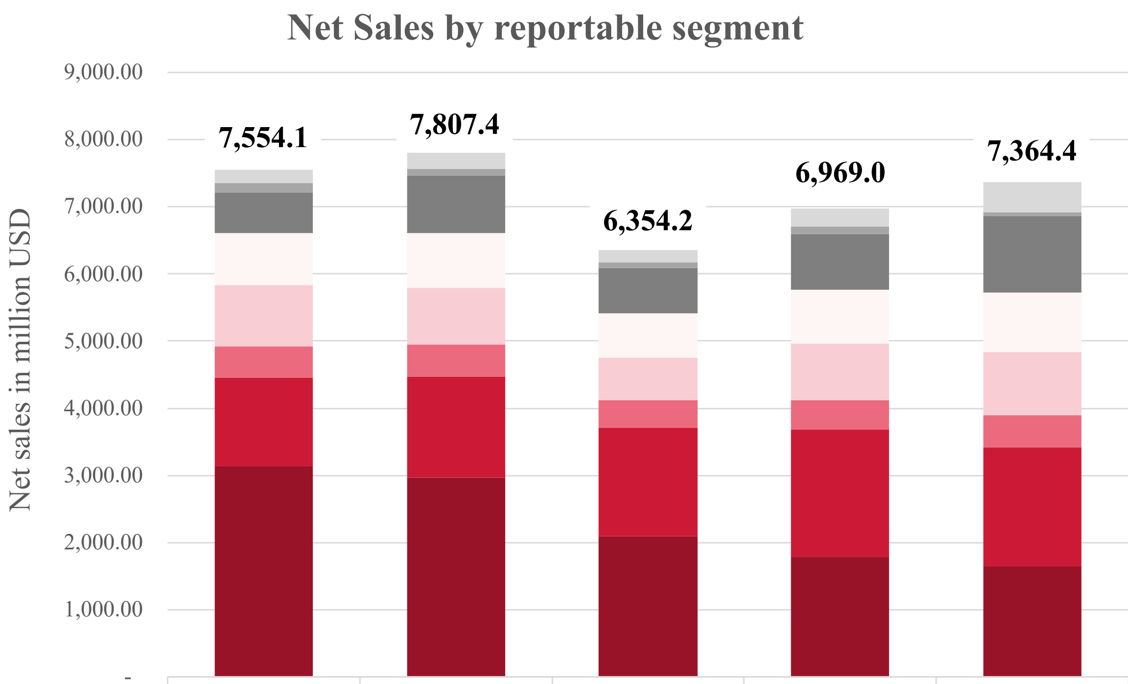
Case authors' own illustration. Adapted from Shiseido (2023b). Integrated Report 2022.

Appendix 4: Shiseido's Five Brand Segments

Segment	Brand Example	Description
Prestige	Shiseido, NARS	Luxury cosmetic products available at department stores and specialty cosmetic stores, primarily distributed through the expertise of beauty consultants. This business category accounted for 60% of net sales in 2022 and grew by 3% compared to 2021.
Premium	Elixir, Anessa	Mid-ranged cosmetics that consumers selected themselves, primarily resold in drugstores and general merchandise stores. Premium brands were not sold in EMEA. This business category accounted for 29% of net sales in 2022.
Fragrances	Issey Miyake, Narciso Rodriguez	Luxury designer brands licensed to the company. This business category accounted for 6% of net sales in 2022 and grew by 12% compared to 2021.
Inner Beauty	The Collagen, Inryu	Beauty drinks and supplements focused on enhancing the health of the skin from the inside, designed to assist individuals in achieving distinctive beauty and overall well-being throughout their lifetimes. These brands are exclusively offered in Japan, China, and Asia Pacific. This business category accounted for 5% of net sales in 2022. (determined under the category "Others" in Annual Report)
Life Quality	Life Quality Beauty	Brands dedicated to supporting and improving the quality of life of people with significant skin concerns due to genetics, accident, illness, or medical interventions. This business category accounted for 5% of net sales in 2022.

Case authors' own illustration. Adapted from Shiseido (2023b). Integrated Report 2022.

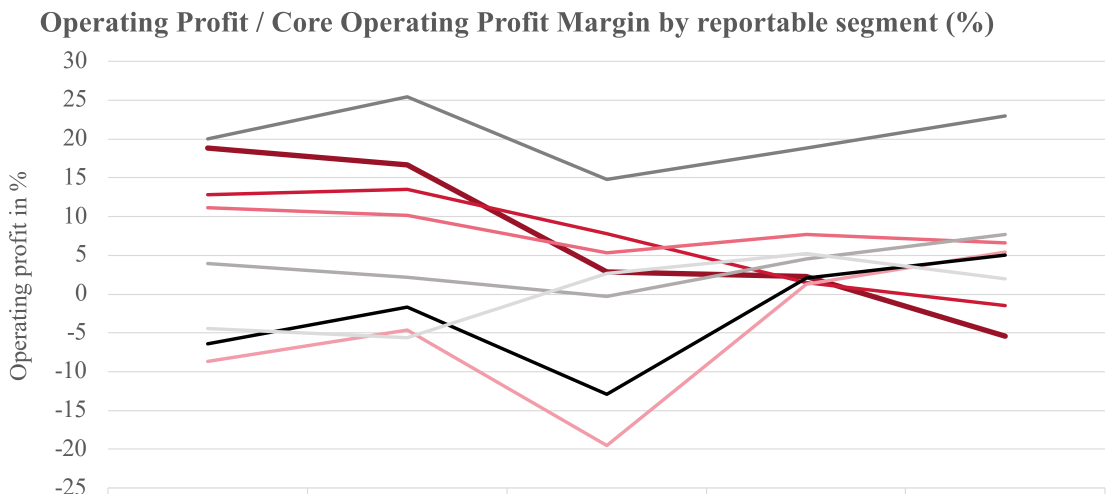
Appendix 5: Shiseido's Net Sales by Region (2018 – 2022)



	2018	2019	2020	2021	2022
Other	196.65	245.64	178.71	266.34	442.98
Professional	140.07	101.43	88.32	105.57	64.17
Travel Retail	604.44	847.32	679.65	832.14	1,129.53
EMEA	781.08	816.96	650.67	807.30	885.96
Americas	908.73	848.70	630.66	837.66	951.51
Asia Pacific	469.89	481.62	408.48	438.84	469.20
China	1,316.52	1,491.78	1,627.02	1,895.43	1,781.58
Japan	3,136.74	2,973.90	2,090.70	1,785.72	1,639.44

Case authors' own illustration. Adapted from Shiseido (2023b). Integrated Report 2022.

Appendix 6: Shiseido’s Operating Profit Margins by Region



	2018	2019	2020	2021	2022
Japan	18.8	16.7	2.9	2.3	-5.4
China	12.8	13.5	7.8	1.5	-1.5
Asia Pacific	11.1	10.2	5.3	7.7	6.6
Americas	-8.7	-4.6	-19.5	1.3	5.4
EMEA	-6.4	-1.7	-12.9	2.1	5
Travel Retail	20	25.4	14.8	18.8	23
Professional	3.9	2.2	-0.3	4.5	7.7
Other	-4.4	-5.6	2.7	5.2	2

Case authors’ own illustration. Adapted from (2023b). Integrated Report 2022.

Appendix 7: Expert Interview

This expert interview was conducted with Johannes Scheer (J.S.), Country General Manager of Germany and Austria at Shiseido. This interview aims to obtain more general insights related to Shiseido's strategy, its factors of differentiation, and its weaknesses. The interview has been conducted by the three case authors (C.A.).

C.A.: *Hello, Johannes, thank you for taking the time for this interview. In recent years, Shiseido has formulated three strategies – VISION 2020, WIN 2023, and SHIFT 2025 and beyond. What prompted the transition between these strategies, and is it typical for companies to undergo such strategic shifts within relatively short timeframes?*

J.S.: The WIN 2023 has been developed due to the influence of COVID-19. The strategy focused on structuring Shiseido's portfolio, and during this time, Shiseido decided to divest certain brands of its portfolio (e.g., Laura Mercier) which were dilutive to the group's profit targets to finance the growth of remaining brands. As the WIN 2023 strategy was developed during the pandemic, how long it would last was unpredictable. Initially, Shiseido imagined that 2020 would be mainly impacted by COVID-19, 2021 would be used to recover, and by 2023, Shiseido would return to its estimated target profitability. However, the pandemic took longer than expected and required adapting the targets.

Whenever a company places a year behind the strategy, a new strategy must be developed at the latest when the year is not current anymore. Due to COVID-19 and the high level of uncertainty, the relatively short cycles of the years (every three years) have been consciously selected.

Shiseido focuses on growth in the new strategy SHIFT 2025 and beyond. Hence, the current strategy is considered an offense strategy. Shiseido is currently trying to move from defense to offense.

C.A.: *What is explicitly meant by offense?*

J.S.: Defense emphasizes the fact that the strategy guaranteed the survival of Shiseido. The divest of brands and restructuring of cost structures have been defense activities. On the other hand, adopting an offensive strategy involves actively pursuing initiatives in various areas, such as introducing new brands and advancing growth aspirations linked to existing brands.
As part of the strategy, ambitious/ key brands (Shiseido, Narciso Rodriguez, Drunk Elephant) have been defined by Shiseido.

C.A.: *How does Shiseido differ from competitors such as L'Oréal?*

J.S.: Shiseido stands apart from its competitors across various dimensions, including profitability levels, market share, scale, regional footprint variations, diversity in brand portfolios, and the extent of digitalization. In 2022, L'Oréal boasted a substantial profit margin of 19.5%, significantly outpacing Shiseido's margin of 4.8%. Shiseido primarily gains its most significant revenue share within its home country, Japan, while L'Oréal's revenue is predominantly derived from the European market. The brand portfolios of Shiseido and L'Oréal exhibit notable distinctions. L'Oréal maintains a robust presence in the mass market, luxury, and dermatology sectors, whereas Shiseido has strategically divested from most mass-market brands, focusing instead on prestige and skincare segments. In terms of digitalization, L'Oréal, as a global beauty leader, has gained a competitive edge over Shiseido, which is evident in initiatives such as developing its direct-to-consumer (D2C) shops.

***C.A.:** Besides the factors you outlined above, how would you evaluate Shiseido's performance related to R&D activities?*

J.S.: The number of researchers related to Shiseido's revenue is extremely high compared to other companies and has increased in the last few years due to a newly established innovation center in Tokyo. Shiseido has been awarded with 31 awards by the International Federation of Societies of Cosmetic Chemists (IFSCC). Shiseido has received the highest number of awards. The IFSCC is an international organization of cosmetic researchers. The IFSCC index is used as an indicator to emphasize a company's skincare research achievements.

***C.A.:** Additionally to strengths, the topic of efficiency has been outlined by Shiseido as an area of improvement. Would you consider the lack of efficiency a significant challenge and weakness that Shiseido is currently addressing by setting up multiple initiatives?*

J.S.: On the one hand, compared to other beauty companies, Shiseido's profitability is way below the industry average. Hence, it is reasonable to conclude that efficiency in different areas needs to be improved. Therefore, Shiseido is introducing SAP Hana to manage its processes seamlessly, from procurement and manufacturing to financial operations. On the other hand, a market leader such as L'Oréal with higher profit margins continuously tries to improve their efficiency further.

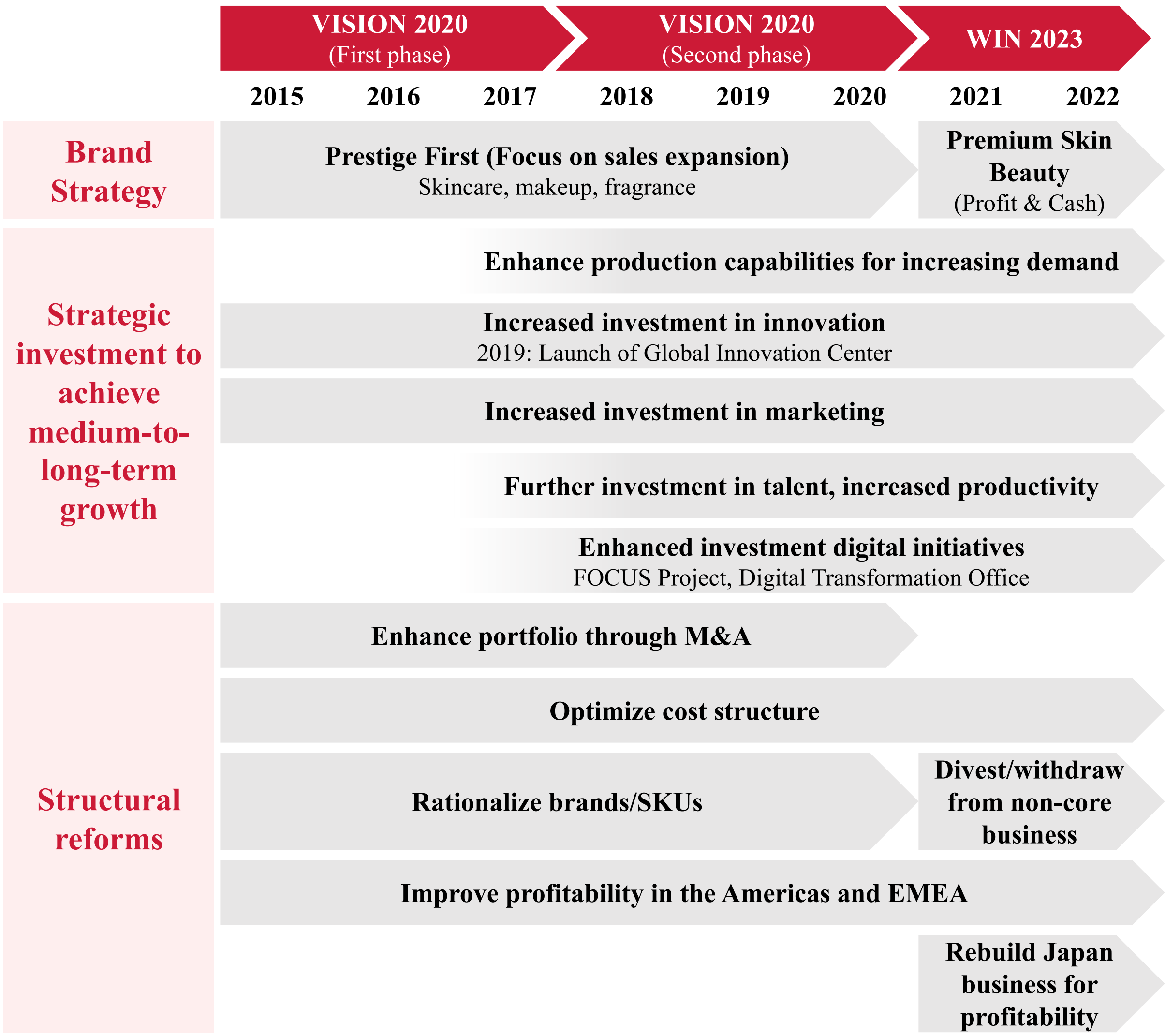
***C.A.:** Thank you for your time and the valuable insights about Shiseido. We highly appreciate your contribution to our thesis/case study.*

Appendix 8: Overview of Shiseido's Corporate Strategies

	VISION 2020 (First Phase) **Rebuild Our Business Foundation**	VISION 2020 (Second Phase) **New Strategy to Accelerate Growth**	WIN 2023 **Solidify Our Foundation as a Skin Beauty Company**
Brand Strategy	**Prestige First Strategy** • Select and concentrate on areas of global prestige, and strengthen our portfolio • Increase our investment in marketing and innovation • Multichannel deployment	**Accelerate Prestige First** • Expand selection and concentration of brands and businesses • Develop new areas of business and accelerate DX • Increase investment in innovation	**Focus on Skin Beauty** • Nurture brands and strengthen portfolio • Expand innovation through external collaborations • Develop the inner beauty category
Management and Organization	**Build a Global Management Model** • Establish a global matrix to integrate regions and brands, delegating responsibility and authority to the leader of each region for flexible decision making • Introduce Centers of Excellence[*1]	**Enhance Global Talent and Organizations** • Accelerate our PEOPLE FIRST strategy • Evolve our global management model • Advance ESG management	**Rebuild the Business Foundation** • Become a truly sustainability-focused company • Build a digital-driven business model and organization • Further diversify our talent and organization
Structural Reforms	**Build the Business Foundation** • Reform our cost structure • Transition to a digital business model • Diversify our organization and talent	**Build a Global Management Model** • Strengthen our production and supply systems • Improve profitability in the Americas and EMEA • Reduce the number of SKUs	**Improve Profitability** • Structural reforms (Scale to more than 200 billion yen) • Improve cost competitiveness and productivity

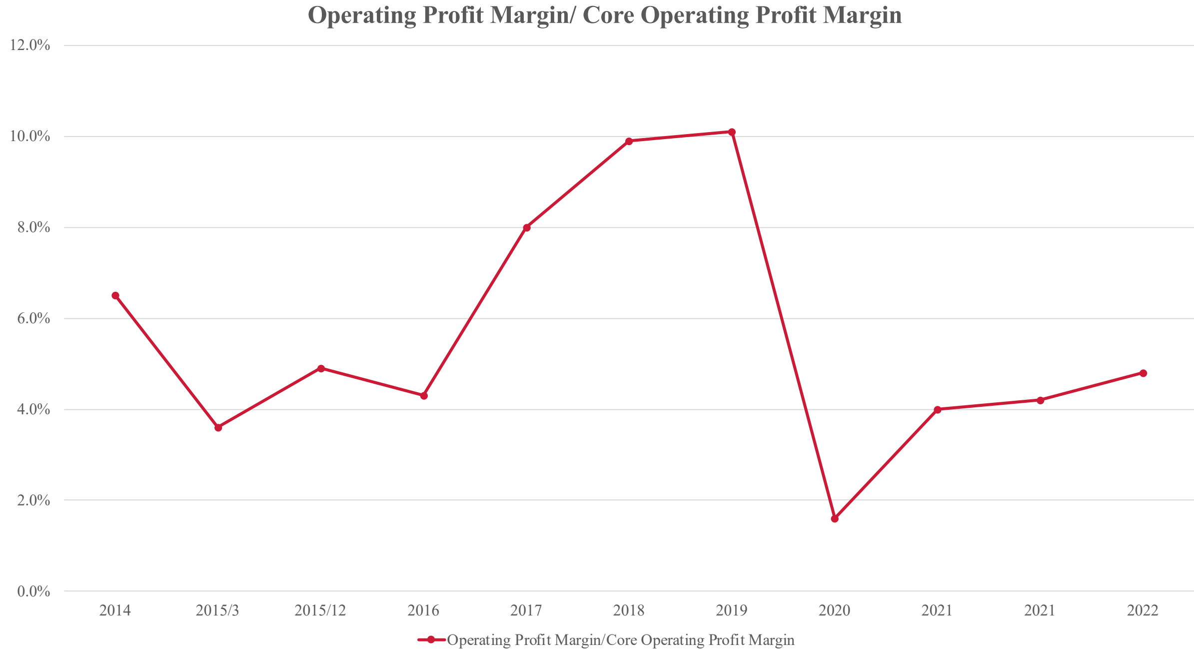
Derived from Shiseido (2023). Integrated Report 2022.

Appendix 9: Strategic Shifts in Shiseido's Corporate Strategies over Time



Case authors' own illustration. Adapted from Shiseido (2023). Integrated Report 2022.

Appendix 10: Development of Shiseido's Operating Profit Margin



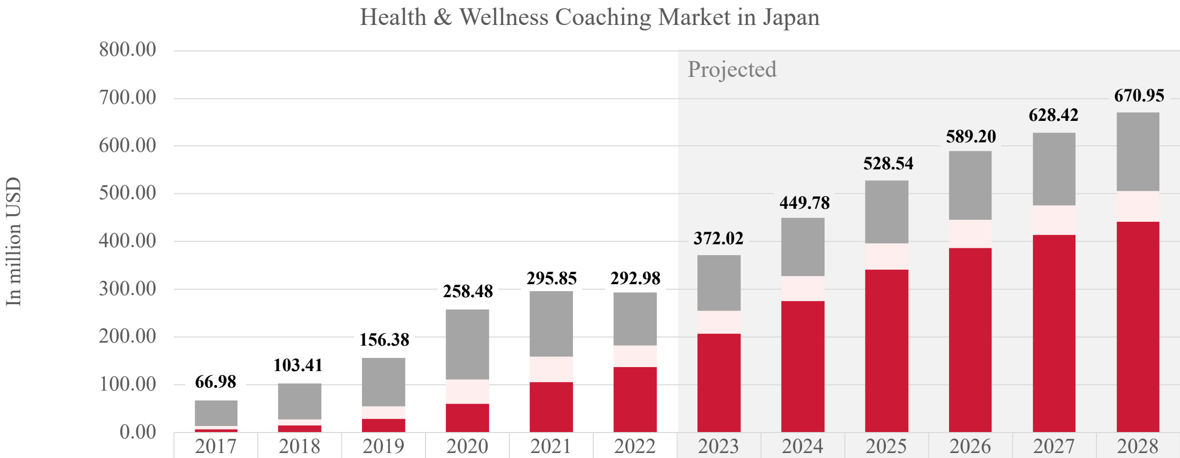
Case authors' own illustration. Adapted from Shiseido (2023b). Integrated Report 2022.

Appendix 11: Trends in the Wellness Industry

Trends	Description
Trend 1: Natural/clean products became more relevant	• Consumers are looking for natural/clean items in a variety of categories, including skincare, cosmetics, multivitamins, subscription food services, and sleep aids • The magnitude of the change is remarkable
Trend 2: More personalization	• Personalizing skincare, cosmetics, and other beauty goods to each customer's unique requirements and preferences is known as beauty product personalization • Entails considering elements including skin type, skin issues, and individual preferences like colour, texture, and scent • Consumer preference moving towards personalisation
Trend 3: The future is digital	• Over the next several years, the majority of consumer categories expect e-commerce to develop faster than conventional channels • Online wellness spending is most prevalent among Chinese consumers, followed by Japanese consumers and lagging behind those in Europe, the US, and Brazil
Trend 4: Importance of influencers	• Influencers are an important component of the wellness industry, and conventional businesses have to learn how to use them to engage with customers • In the US, Europe & Japan: 10-15% follow social media influencers and made a purchase based on that • In China & Brazil: 45-55% made a purchase driven by an influencer
Trend 5: The rise of services	• The wellness sector has seen a growth in services, with experiences becoming more and more accessible as offers • Customers are moving toward services that address their physical and emotional health requirements (such as personal trainers, nutritionists, and counseling services
Trend 6: Category lines continue to blur	• Finding the markets where customers are willing to allow these businesses to expand their brands is essential • The majority of customers say they don't want a single brand or product to assist them with every aspect of wellness, indicating that focused expansions are a better strategy for businesses

Case authors' own illustration. Adapted from McKinsey (2021). Feeling good: The future of the $1.5 trillion wellness market.

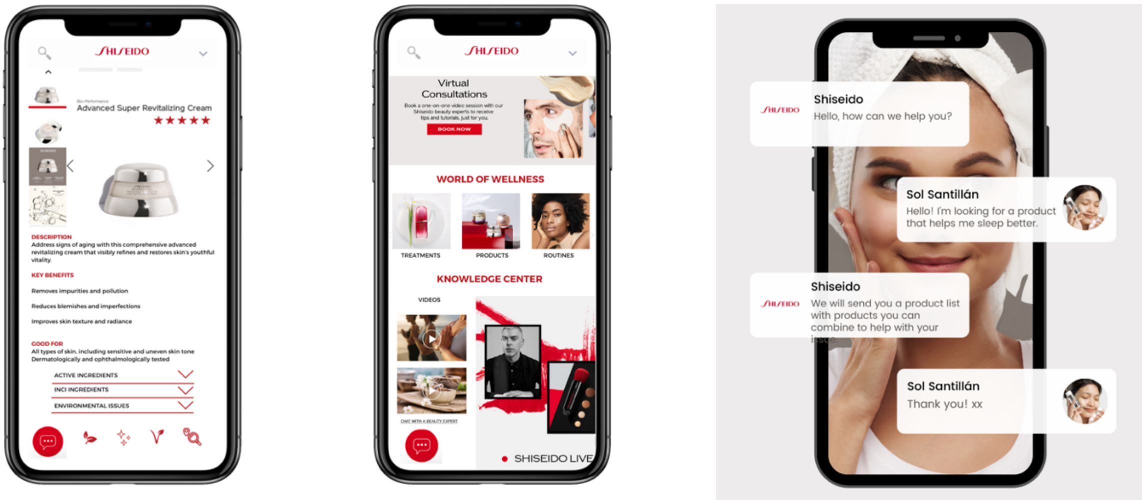
Appendix 12: Health & Wellness Coaching Market in Japan



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Nutrition Apps	53.28	75.08	101.80	147.00	136.90	110.80	116.60	122.20	131.70	142.80	152.50	165.30
Meditation Apps	5.97	13.47	25.69	50.50	52.75	45.48	48.82	51.28	55.54	59.20	61.32	64.65
Fitness Apps	7.73	14.86	28.89	60.98	106.20	136.70	206.60	276.30	341.30	387.20	414.60	441.00

Case authors' own illustration. Adapted from Statista Market Insights (2023). Health & Wellness Coaching.

Appendix 13: Shiseido Wellness App Mockup



Case authors' own illustration.

2 TEACHING NOTES

2.1 Case Synopsis

The Shiseido case presents the multifaceted problems of the largest cosmetics company in Japan, trying to revitalize its core business and accelerate growth to maintain market leadership in the future. The COVID-19 pandemic affected Shiseido and revealed significant challenges in its core business, the Japanese market. The case scene occurs immediately after Shiseido's first-half results presentation on August 8, 2023. In a confidential setting, COO Kentaro Fujiwara, CEO Masahiko Uotani, and Japan Region CEO Norio Tadakawa engage in a pivotal conversation. Students step into the role of Tadakawa, facing a complex and demanding situation within Shiseido's Japanese business.

Japan had been the core business for Shiseido, with over 40% of the overall net sales share. However, net sales declined from 2018 – 2022 by more than 45% (Shiseido 2023b). Fujiwara pointed out that profits cannot be raised with Shiseido's existing business model in Japan. Hence, the first step would be to revitalize Japanese business and afterward consider future growth opportunities to sustain market leadership in Japan. Recognizing the need for innovation, Shiseido unveiled plans to venture into the wellness sector, introducing the *'Shiseido Beauty Wellness'* brand in February 2024 (Shiseido 2023e). Fujiwara assigned Tadakawa to ensure consistent innovation in the emerging wellness field. In addition to wellness products, customers value complementary services in the evolving landscape of the wellness industry (Callaghan et al. 2021). Based on this, two possible service opportunities arose: Tadakawa suggested offering wellness treatments and using Shiseido's existing beauty salon infrastructure in Japan. In contrast, Uotani envisioned launching a wellness app that provides customers a complete wellness experience. Regardless of his tendency, Tadakawa needed to evaluate both options and investigate their benefits, drawbacks, and compatibility, ensuring an informed choice that met the expectations of Fujiwara and Uotani.

2.2 Target Audience

The case is suited for (corporate) strategy courses in master's in management and MBA programs. The focus is on strategic internal and external analysis and approaches to revitalize and accelerate growth in mature organizations and business model innovation. Students step into the role of Shiseido's executives, analyzing Shiseido's corporate strategies and assessing potential growth opportunities in Japan through an entry into the wellness market.

2.3 Teaching Objectives and Approach

The guiding questions outlined in Appendix 1 are designed to help students attain three main teaching objectives:

1. **Strategic Analysis**: During the case study analysis, students will apply different frameworks to examine Shiseido's internal capabilities and external environment. The assessment will include methods such as PESTE(L), Porter's Five Forces, Amit & Zott's Business Model Framework, the Business Model Canvas, and the concept of competitive advantage. Furthermore, a SWOT analysis will summarize the external and internal analysis to identify strategic actions tailored to Shiseido's specific circumstances.
2. **Growth Strategy Implementation**: Through the case study of Shiseido, students will learn and apply a three-phase strategy framework by Mozden (2022) for revitalizing and accelerating a company's growth. This approach includes understanding and stabilizing the core business (Phase One), accelerating growth and building a foundation for the future (Phase Two), and setting a path for future opportunities (Phase Three) (Mozden 2022).
3. **Business Model Innovation**: In the last part of the case study, students will get familiar with the concept of business model innovation. A matrix developed by BCG will guide students through four distinct approaches to business model innovation (BCG n.d.).

The teaching plan is structured into two phases. Initially, students are required to read and prepare the case. Following this, the case will be the subject of a 90-minute class discussion. A detailed description of the teaching plan and recommended times for each section can be found in Appendix 2.

2.4 Phase 1: Understanding and stabilizing the core business

The case and teaching notes are organized around Mozden's (2022) three-phase strategy framework to revitalize and accelerate Shiseido's growth (Appendix 3). The instructor should initially give the students a brief overview of the framework. Then, as each phase is introduced in the teaching notes, the instructor should provide a more detailed description of that phase.

In the initial phase of a revitalization effort, gaining a fresh understanding of Shiseido's core business and the company's value is critical in identifying areas needing development or transformation. This includes understanding the company's business model, identifying the company's core strengths, assessing past barriers to higher growth, and developing a strategy for leveraging that strength in the current market environment. Moreover, a company's management board need to recognize the necessity of transitioning from defensive to more offensive strategies. This shift is a core aspect of Mozden's (2022) framework and reflects Shiseido's strategic evolution from a defensive to an offensive approach, as emphasized in its latest strategic plan, *'SHIFT 2025.'* This parallel between the framework and Shiseido's strategy highlights the relevance and applicability of the framework to real-world scenarios and the case study. Shifting from a defensive to an offensive strategy involves exploring new product and market opportunities, aligning with the company's aim of becoming a *'Personal Beauty Wellness Company,'* and leveraging its strengths in the evolving market landscape. Thus, the first phase of the case analysis thoroughly analyzes Shiseido's external environment, internal capabilities, and limitations.

2.4.1 External Analysis

The instructor should address the first three questions for the first part of the class by applying the PESTE and Porter's Five Forces framework (2008). As both frameworks are widely recognized, and students should be familiar with their basic structure, students should prepare questions 1.1, 1.2, and 1.3 before the class in a self-study period. The discussion of the external analysis in class should be kept short and condensed to the most important insights, as the primary teaching objectives are taught later in class.

<u>Q 1.1 What main trends shape the beauty industry's future globally?</u>

We suggest the instructor presents a picture of current trends in the beauty industry to ensure a smooth transition into the discussion and then ask the question. The instructor should record and document selected student responses on a presentation slide or the board. The whole PESTE analysis should then be presented for review. This question allows students to reflect on the macroeconomic impact Shiseido faces due to dynamic factors in the beauty industry. By applying the PESTE framework (Appendix 4), students should be able to outline the following essential information:

The cosmetics industry faces significant influences from **political and regulatory factors**, with institutions like the FDA and EU Cosmetic Products Regulation overseeing product regulations. Political instability, particularly in regions like China, can impact growth opportunities for beauty companies. **Economically**, the sector is expected to grow at 6%, with skincare presenting a promising avenue. Global economic events, like the Ukraine conflict and rising inflation, unsettle consumers and challenge established businesses. **Socially**, Gen Z's emphasis on diversity and sustainability, coupled with a wellness trend, shapes product offerings. Niche products like black beauty gain prominence. **Technologically**, e-commerce and innovations like AI and AR disrupt the industry, offering virtual try-on tools and online consultations. **Environmentally**, reusable and eco-friendly packaging has gained popularity, emphasizing waste reduction with materials like glass and bioplastics.

Q 1.2 How does the Japanese beauty market differ from other beauty markets?

After analyzing the key factors and trends in the global beauty market through a PESTE, the instructor should narrow the focus to the Japanese industry as the case study focuses on Shiseido's Japanese business. Students should understand the factors differentiating the Japanese beauty market from other markets. The instructor should ask students to examine the unique characteristics of Japan in terms of consumer preferences, product categories, regulatory framework, and industry dynamics. The four key distinctions are outlined below:

In the Japanese beauty market, a sales increase of **dermatological cosmetics** reflects a growing trend toward wellness-focused and mindful consumer choices. **Skincare products** dominate this market, diverging from Western markets where makeup often holds precedence. Japanese consumers exhibit **strong brand loyalty**, particularly to homegrown brands like Shiseido and Kao Corporation, setting the market apart from those with more brand-agnostic consumers. The influence and **global reputation** of leading companies like Shiseido and Kao Corporation distinguish J-Beauty on the international stage.

Q 1.3 What are the competitive forces in the Japanese beauty industry?

This question prompts students to identify and evaluate the competitive forces within the Japanese beauty market. The Five Forces model analyses specific influences relevant to a given business scenario, employing an external viewpoint (Johnson, Scholes, and Whittington 2008a). Again, the instructor should record the key points from the discussion on Porter's five forces and present a summary of this analysis for joint discussion (Appendix 5). The question should direct students to consider the industry's attractiveness. Issues might arise in assessing the strengths of forces, particularly in categorizing them as high, low, or moderate. To address this, the instructor should allow subjective assessments if students substantiate their evaluations with compelling arguments. This approach fosters critical thinking and facilitates a more nuanced understanding of the strengths within the given context. The discussion in class should focus on the three crucial forces outlined below:

Bargaining Power of Buyers (Moderate): Consumers in the Japanese skincare industry focus on factors like price, quality, and skin compatibility. Buyers shape the market, especially as they drive wellness and skin health awareness preferences. However, established brands like Shiseido and Kao Corporation created lock-in effects by increasing personalization related to beauty preferences.

Threat of Substitutes (Moderate): The Japanese beauty market has shifted towards the wellness trend, indicating a moderate threat from substitute products or practices related to self-care. However, the reputation of *'J-Beauty'* and the trust in Japanese cosmetics may somewhat mitigate the threat of substitutes.

Rivalry Among Existing Competitors (High): The global beauty industry is highly fragmented and sees significant players in the prestige brand sector, like Shiseido, competing based on brand reputation and quality rather than price. In Japan, Shiseido, Kao Corporation, Kosé Corporation, Pola Orbis Holdings Inc., and Fancl Corporation compete intensely, adapting to changing consumer preferences and emerging trends in the dynamic market.

2.4.2 Internal Analysis

The upcoming lesson segment shifts the focus to Shiseido's internal environment. The internal analysis is structured to highlight the interconnections between strategy, activities, value creation, key resources/ capabilities, and competitive advantage, as outlined in Appendix 6.

The corporate strategy should align with the core competencies and resources of the company. As shown in Appendix 6, such core competencies are demonstrated in a company's activities, aiming to generate value and, ideally, establish a competitive advantage. Before delving into the analysis, the instructor should provide a brief overview of this framework to offer students a comprehensive understanding of the relationships between various concepts. This structured approach enhances students' insights into Shiseido's internal dynamics.

Q 2.1 What were the main drivers for Shiseido to adapt its business strategy from 2015 until 2023?

The instructor should ask this question to identify factors for Shiseido's strategy adjustments with the students. The question aims to help students understand the importance of adapting a company's strategy when the company experiences internal underperformance or external environmental changes. Students should be able to outline the underlying reasons for Shiseido's strategy adaptation:

- **Financial performance:** Shiseido's strategy evolution was substantially shaped by internal concerns about financial performance. The initial strategy, Vision 2020, was initiated due to concerns about sluggish sales growth and profitability issues, as Shiseido recorded lower growth figures than the industry. Later, the company recognized the need to concentrate on profitability and cash flow, leading to the introduction of WIN 2023. In addition, the strategy update through SHIFT 2025 was mainly driven by Shiseido's slow recovery and low profitability in Japan and China. In 2022, Shiseido had a profit margin of only 4.8%. In comparison, L'Oréal had a profit margin of 19.5% in the same year, underscoring Shiseido's ongoing profitability challenges.
- **Resource allocation and capabilities:** The efficient use of resources and improving organizational capabilities have played a key role in adapting Shiseido's strategies. The company identified issues related to insufficient investments in crucial areas like research and development (R&D), which limited its ability to leverage its strengths. As a response, Vision 2020 was introduced to optimize investments and rebuild the business foundation. Shiseido's commitment to enhancing resource allocation, restructuring the business portfolio through investments in prestige skincare (e.g., Ulé) and divestments of specific

brands, and strengthening digital capabilities remained central to the subsequent strategies, WIN 2023 and SHIFT 2025.

- **Consumer behavior and values**: Consumer preferences and values have experienced a significant shift, which had a major impact on Shiseido's strategy adaptations. A notable change occurred as consumers increasingly prioritized skincare, skin health, and personal beauty, reflecting the global trend toward health and wellness. In addition, the COVID-19 pandemic, where mask-wearing and remote working became part of everyday life, led to new demands on cosmetics. Shiseido responded by realigning its strategies as part of WIN 2023 and SHIFT 2025 to meet these changing consumer demands.
- **Macroeconomic challenges:** Global inflation, rising material costs, and geopolitical tensions are reasons for nearly all existing companies to adjust their strategy. While these drivers of change are rather unpredictable in their development and cannot be influenced by Shiseido, they must still be able to react and adapt to such external factors.

<u>Q 2.2 How has Shiseido's brand diversification strategy evolved, and what objectives and advantages are anticipated through these strategic shifts?</u>

After students have learned about the factors influencing Shiseido through various corporate strategies, we suggest that the instructor should pay attention to Shiseido's strategic shifts in portfolio management. This question is intended to help students understand the importance of building a solid foundation before pursuing growth, in line with the principles of phase 1 described in the three-phase strategy by Mozden (2022). Shiseido's strategic path is a practical example of this strategy as it reveals the need to stabilize the core business before pursuing broader growth objectives, such as entering new markets. The instructor asks this question to invite students to describe Shiseido's divestitures in their brands and recognize the shift from a broad to a more targeted focus. Initially, he/she should ask: "As we examine Shiseido's recent strategies, how has their approach to brand diversification transformed over time?" Students should provide descriptions of the strategic shifts as outlined below:

During the first strategy, **VISION 2020,** Shiseido's approach was characterized by a *'Prestige First'* approach, which included extensive investments in high-quality skincare, makeup, and fragrance products. While the strategy was focused on quality and exclusivity, it was not limited to a specific product category. Instead, the *'Prestige First'* approach was pursued for various cosmetics segments.

Later, as part of the **WIN 2023 strategy**, Shiseido conducted a wide-ranging review of its brand portfolio. This included significant structural reforms and changes to the brand portfolio. One notable initiative was divesting the Personal Care business and makeup brands, such as Laura Mercier and bareMinerals. In addition, Shiseido has set the goal of achieving an 80% share of sales in skin care by 2023, indicating a shift in focus to skin care products. Students may note Shiseido's questionable acquisition strategy, exemplified by the Bare Escentuals deal, and criticize the company's focus on financial targets. The instructor should highlight the potential for overconfidence bias in managerial decisions and underscore the importance of thorough acquisition evaluations for lasting success (Hammond, Keeney, and Raiffa 1998).

With the launch of **SHIFT 2025** at the beginning of 2023, Shiseido attempted to reposition its brand portfolio by focusing on innovation and localization. The company aimed to further tailor product innovations to customers' cultural and behavioral needs in different regions by developing new brands to meet regional preferences. Shiseido already offers brands with global reach, such as its skincare brand *Shiseido*, distributed in 88 countries/regions, and local brands like *Aupres*, tailored explicitly for the Chinese market. This strategic orientation reflects an intention to expand the brand portfolio to serve foreign markets better. Furthermore, SHIFT 2025 signals a strategic focus on personal wellness aligned with Shiseido's vision to become a *'Personal Wellness Beauty Company.'*

After explaining Shiseido's brand diversification strategies, the instructor's follow-up question should be: "What benefits or objectives do you think Shiseido aimed to realize through these strategic changes?" This will encourage students to identify and discuss the objectives that were achieved through Shiseido's different brand diversification approaches under the three strategies, as described below:

- **Optimized Brand Portfolio:** Shiseido intends to maximize its portfolio by focusing its resources on the most promising and profitable brands while divesting underperforming brands to create a more efficient and effective brand portfolio.
- **Better Market Alignment:** The company aims to match its brands to regional preferences and evolving consumer values. The objective was to increase brand relevance by tailoring offerings to specific market requirements.
- **Increased Profitability:** Shiseido's brand diversification strategies aim to improve overall profitability by ensuring that the portfolio brands are financially robust and contribute positively to the company's financial performance.
- **Improved Quality and Innovations:** Shiseido has invested heavily in R&D to drive innovation and improve product quality. This target focuses on the continuous improvement of the cosmetic products offered by the company.

Q 2.3 How does Shiseido's existing business model look like?

After analyzing Shiseido's strategy and its shifts, it is recommended that the instructor explains the interconnection between the corporate strategy and Shiseido's business model. The translation of the strategy into action takes place in the firm's business model (BM). According to Richardson (2008), the BM bridges the gap between the creation and execution of the strategy by explaining how the firm's operations cooperate in carrying out the plan. Before continuing with the internal analysis, a short recap of the BM theory by Amit and Zott (2020) is advised. Amit and Zott (2020) define the BM as the interdependent activities performed by a focal firm and its partners and the link mechanisms. Such activities transcend the focal firm and span its boundaries. Therefore, it is essential to analyze how the focal firm (Shiseido) is embedded in its ecology. The conceptualization of a business model as a dynamic activity system can be described by four dimensions: what, how, who, and why (Amit & Zott 2020).

After familiarizing themselves with and repeating the framework of the BM theory by Amit and Zott (2020), students should assess the complexity of Shiseido's current BM and how it creates a source of competitive advantage.

In the next step, students should apply the BM of Shiseido by considering the business development over the years. After students present their ideas, it is recommended that the instructor presents Appendix 7 to the students as a sample solution to point out points that the students have not discussed and to stimulate further discussion. Moreover, the illustration of the system underlines that the four dimensions are distinct, as demonstrated by the arrows (Appendix 7). If there is a lack of time, the instructor can divide the class into four groups (what, why, how, who).

If the instructor desires a more comprehensive exploration of the business model, the internal analysis related to the business model can be supplemented with the Business Model Canvas (BMC). In contrast to the four-dimension framework of Amit and Zott (2020), the BMC consists of nine different building blocks. Students are supposed to transfer their knowledge and match the dimensions to the nine different building blocks (Appendix 8). A free Word template can be provided by the instructor[5].

<u>Q 2.4 How does Shiseido create value, and does Shiseido currently generate a competitive advantage?</u>

To explore how Shiseido currently creates value, students will approach the analysis from two perspectives: a resource-based view and a business model perspective. To efficiently manage

[5] Online template: https://neoschronos.com/download/business-model-canvas/docx/

time, the instructor should divide the class into two groups, each focusing on one perspective. Each group will have five minutes for their analysis.

Group 1 - Resource-Based View: This group will identify Shiseido's key resources and capabilities, evaluating whether they contribute to a sustainable advantage using the VRIO framework. The analysis will assess if Shiseido's resources and capabilities are valuable, rare, costly to imitate, and create value for the organization.

Group 2 - Business Model Perspective: The second group will apply the NICE framework, introduced by Amit & Zott (2020), to Shiseido's outlined business model. Since many students may not be familiar with the NICE framework, the instructor will briefly explain it to Group 2. The analysis will focus on the Novelty, Lock-in, Complementarities, and Efficiency of Shiseido's business model, aiming to understand its potential for creating and capturing value.

Each team will present their findings to the class after the group analyses. After identifying and evaluating Shiseido's key resources and capabilities, Group 1 should outline that those four resources (R&D, Retail and Distribution Network, Brand Reputation, and Cultural Heritage) generate a sustainable competitive advantage based on a VRIO analysis (Appendix 9, 10). Group 2 should identify that three of the NICE value drivers are currently incorporated in Shiseido's business model and conclude that they lead toward a unique competitive advantage for Shiseido. Notably, efficiency is missing because Shiseido's cost and productivity efficiency have not been sufficient in the last few years, impacting Shiseido's profits, mainly in the Japanese business (Appendix 11). Therefore, the current SHIFT 2025 strategy addresses the lack of efficiency.

After the students' presentations, the instructor will provide a brief overview of the aspects outlined in Appendices 9,10,11 that might not have been thoroughly explored due to time constraints during the preparation. If not recognized by the student beforehand, the instructor should emphasize that these two perspectives complement each other, and the interplay between a firm's resources, capabilities, and chosen business model is pivotal for a holistic understanding of the overall value creation and the creation of competitive advantage.

To summarize the findings from the previous questions, the instructor should synthesize the key findings from the questions into a SWOT analysis. The previous questions involved understanding Shiseido's business model and strategy, recognizing core strengths, and evaluating past barriers to growth. Thus, the SWOT analysis summarizes key observations and serves as a conclusion to Phase 1 of Mozden's (2022) framework, as an understanding of Shiseido's core business and value was developed. We suggest that the instructor does not ask the students to conduct a SWOT analysis. Instead, the instructor should present the framework (Appendix 12) and emphasize its critical aspects, as detailed below.

Shiseido's essential strengths lie in its cutting-edge in-house R&D capabilities, fostering continuous innovation, and a rich heritage that cultivates strong brand loyalty, particularly in the Japanese market. Therefore, potential growth opportunities should build on the existing expertise and R&D capabilities and the established brand loyalty in the Japanese market. Major weaknesses depict the dependency on the Japanese market, accounting for 41% of net sales, and pose vulnerability amid declining sales. Moreover, financial challenges, reflected in the relatively low profit margins, add complexity. Externally, opportunities arise in the growing skincare sector driven by wellness trends, leveraging e-commerce advancements, and entering specific segments with clean beauty and niche products. Exploiting growth opportunities is essential for Shiseido due to threats in the dynamic environment of the beauty industry, primarily driven by intense rivalry and economic uncertainties impacting premium beauty spending. Technological disruptions could threaten Shiseido's position further.

As a transition to the market entry and strategic option section, the instructor should remind the students of Shiseido's vision for 2030 to become a '*Personal Beauty Wellness Company*' (Shiseido 2023). To achieve this vision, Shiseido published to launch its new brand, *Shiseido*

Beauty Wellness, in February 2024 in the Japanese market. Considering the strengths and opportunities outlined in the SWOT analysis, Shiseido is strategically well-positioned to harness its strengths and leverage its ecosystem to venture into the thriving wellness market.

2.5 Phase 2: Accelerating growth and building a foundation for the future

Having summarized Shiseido's strategic position in a SWOT analysis as part of Phase 1 of Mozden's (2022) framework, the instructor should explain Phase 2, as the subsequent part of the class discussion deals with Shiseido's entry into the wellness market. Following the stabilization of the core business, the second phase of revitalization involves the implementation of strategic initiatives to accelerate growth. These include marketing campaigns, capital increases, and product development. Public and investor campaigns are often launched to raise awareness of the company's new strategy and its potential impact on profitability and share value. In addition, introducing innovative initiatives helps identify high-growth markets where the company can gain a competitive advantage.

2.5.1 Market Entry

<u>Q 3.1 What are the potential benefits and challenges for Shiseido to enter the wellness market?</u>

Once the instructor has covered phase 2 of Mozden's framework, introducing a visual illustration of the wellness market could be an effective way to pivot the discussion. This would shift the conversation from a general analysis of Shiseido's strategic positioning to a more specific focus on the company's entry into the wellness market. The first question is about giving students a general overview of Shiseido's entry into the wellness market. Students should articulate the advantages and disadvantages of Shiseido entering the wellness market. There are several benefits for Shiseido in entering the Wellness market. Notably, **synergy effects** could be exploited between Shiseido's wellness products and its existing expertise related to its beauty products, primarily associated with skincare products. For instance, Shiseido could introduce wellness products that complement its skincare lines, offering a holistic approach to beauty and health. Moreover, Shiseido can benefit from the **steadily growing wellness market** as consumers increasingly prioritize health and well-being. Entering the market would enable Shiseido to benefit from the increased demand for wellness products and services.

Furthermore, entering the wellness market creates **opportunities for innovation and research**, opening insights into nutrition, fitness, and holistic well-being. This can drive innovation and help Shiseido stay at the forefront of the industry. Moreover, by leveraging its Japanese heritage and origin, the company can capitalize on its established brand reputation in the beauty industry.

Conversely, challenges encompass the competitive nature of the wellness market. The wellness market is **highly competitive**, with many established brands and new entrants vying for market share. Shiseido may confront tough competition and may struggle to establish a strong position.

<u>Q 3.2 Shiseido's COO intends to drive growth by aiming for a fundamental shift in the business model. Do you think the app or the spa treatments contribute to a fundamental change in the business model?</u>

For this question, the instructor should introduce the students to the concept of business model innovation based on a BCG matrix (Appendix 13) about four distinct approaches (BCG n.d.). It is recommended that the instructor first defines business model innovation to ensure a common understanding of the term across the class. The instructor should then explain the two axes of the BCG approach to business model innovation and illustrate the four approaches. Finally, the instructor should ask students to apply the framework to Shiseido's two service options for the company’s entry into the wellness market.

According to BCG, business model innovation is about improving advantage and value creation through simultaneous changes to a company's value proposition and operating model.

The concept of business model innovation, as outlined in the BCG matrix, is based on two key dimensions: impetus and focus. The impetus axis determines whether a company reacts defensively to an external threat, or proactively disrupts the status quo, and aspires for growth.

The focus axis determines where the most attractive opportunities for the company exist: in the core business, adjacent areas, or new markets. Combining both dimensions results in a matrix of four approaches (reinventor, adapter, maverick, and adventurer approach) to business model innovation. A detailed explanation of the four approaches is outlined in Appendix 14.

For a smooth transition, we recommend that the instructor shows a picture of Shiseido's COO and include the quote that it was "critical to implement fundamental business model changes" in the company's Japanese business (Shiseido 2023a). The instructor should ask the students: "Do you believe that the app or spa treatments represent a fundamental shift in the business model?" After some discussion and consideration of various student perspectives, the instructor should clarify that fundamental changes to a business model typically affect its core operations in contrast to peripheral or non-core areas. Such shifts involve significant changes to the value proposition and operating models that fundamentally transform how the company creates value. The instructor could inquire which of the four approaches aligns with Shiseido's foray into the wellness market. Shiseido's venture into the wellness sector aligns more with the 'adventurer' approach, characterized by aggressive expansion into the new (non-core) wellness sector market to pursue growth. The instructor should remind students of Shiseido's business model, according to Amit and Zott (2020), emphasizing that while there are minimal changes, the core of Shiseido's business model remains unchanged. Thus, both options, the wellness app and spa treatments, are new applications in Shiseido's business model that can help the company to succeed in the wellness market.

Q 3.3 What is Shiseido's most promising service option that optimally complements its Wellness product offering?

In this case section, students should compare both options with the help of appropriate categories. A SFA matrix (suitability, feasibility, acceptability) by Johnson and Scholes (2008) can be helpful to qualitatively evaluate whether Shiseido should move forward with the idea of the spa treatments and/or the wellness app. The instructor is advised to briefly introduce the SFA matrix framework to the students, focusing on the SFA comparison criteria outlined in Appendix 15 and 16. **Suitability** determines whether the strategic options are viable given Shiseido's external environment. **Feasibility** considers whether Shiseido has the resources and competencies to fulfill each strategic option (Johnson, Scholes, and Whittington 2008a). Lastly, **acceptability** considers the financial and stakeholder aspects of each strategic choice. A more detailed description and the criteria for the SFA matrix can be found in Appendix 15. The instructor should then continue dividing the class into two groups, each applying the criteria for one of the service options. After ten to fifteen minutes, the results should be discussed with the whole class. It is recommended that the instructor shows the SFA criteria to the students (Appendix 15).

The question focuses on the student's ability to formulate arguments based on relevant comparison categories when evaluating the two options, leading them to a well-reasoned conclusion (Appendix 17).

Suitability: Both the spa treatments and the wellness app strategically position Shiseido to capitalize on the current market dynamics. The spa treatments capitalize on the thriving market for beauty services and consumers' preference for unique experiences. On the other hand, the wellness app aligns with the increasing popularity of digital wellness solutions in Japan, which evolved primarily during COVID-19 and reflects the general trends in e-commerce and technology. In addition, Shiseido could generate a first-mover advantage through the wellness app.

Judgment: While both options seem attractive given Shiseido's external circumstances, the wellness app seems more future-oriented, exploiting more opportunities and allowing Shiseido to achieve a competitive advantage.

Feasibility: Regarding Shiseido's operational capabilities, spa treatments can utilize the existing infrastructure of Shiseido's beauty salons. However, this option likely requires further investments into new beauty salons and, at the same time, hiring more beauty consultants to adequately provide the service to customers. An organizational unit might already exist since the spa treatments are not entirely new to Shiseido. However, this unit would need to be extended for the partnerships with thermal spring facilities. Conversely, the wellness app leverages Shiseido's online tools and development expertise, which has partly been achieved through Shiseido's joint venture with Accenture. On the consumer side, Shiseido can look to provide digital solutions exemplified by offerings such as Optune and the Beauty Key membership service. These existing digital platforms demonstrate Shiseido's commitment to enhancing the customer experience and engagement. In addition, Shiseido has shown its expertise in app development, albeit primarily for internal purposes such as employee training. Shiseido could utilize and extend its digital capabilities to develop consumer-facing applications like the proposed wellness app. Alternatively, Shiseido could also partner with existing players in the wellness app market to develop the wellness app. However, implementing the wellness app likely requires establishing a new organizational unit within Shiseido. This is inevitable due to the innovative nature of the app and its unique requirements, which represent a significant divergence from Shiseido's existing business structures. Furthermore, while Shiseido requires an initial investment for app development, the expenditure can be phased over time as the app undergoes maintenance and incorporates new features.

Judgment: Shiseido is well-equipped for both opportunities, with the choice potentially depending on strategic priorities and long-term vision. The wellness app offers more significant potential for international expansion beyond Japan, aligning with Shiseido's overarching vision of becoming a "personal beauty wellness company" in the long term.

Acceptability: The first option carries a high financial risk due to the need for significant investment in infrastructure for spa treatments. While customers generate revenue through these treatments, the limited reach of Shiseido's customer base and the uncertainty of securing thermal springs as suppliers pose a challenge. The wellness app involves less financial risk as the initial investment is lower. Nevertheless, the revenue model remains uncertain as it depends on the willingness of customers to pay for a subscription app or accept a freemium model. Despite this uncertainty, the app's success could lead to widespread adoption among a diversified customer base, which aligns with Shiseido's global vision. A potential risk is that competitors could easily imitate the app's approach.

Judgement: Both the spa treatments and the wellness app present a mix of advantages and disadvantages in terms of acceptability. Although the wellness app is considered an uncertain revenue stream, it entails lower risk and is easier to scale internationally if Shiseido enters the wellness market in other countries.

To conclude the SFA evaluation, the wellness app reveals a more promising outlook for Shiseido, as it aligns with the rise of the platform economy and is easier to scale in the future. Considering Shiseido's limited resources for implementing the service options, the next question will focus on the wellness app.

<u>Q 3.4 How does the wellness app create a future competitive advantage for Shiseido in Japan through business model innovation?</u>

To conclude the analysis, students are encouraged to utilize their comprehension of Business Model Innovation and employ it in the context of the wellness app. Moreover, students should articulate how the benefits derived from Business Model Innovation will enable Shiseido to sustain its competitive advantage in the Japanese market. In assessing how the new Business Model amplifies value creation, the instructor can prompt students to consider the NICE framework, which has been used before. The instructor should remind students that efficiency is not a value driver of Shiseido's analyzed business model (Q 2.4). The potential for Business Model Innovation within the wellness app aligns with and builds upon the four key value drivers outlined in the NICE framework:

Novelty: Adding existing initiatives such as the Personal DNA skincare online service (Optune) to the wellness app adds a novel dimension. This integration combines personalized skincare with membership benefits in a single platform. Furthermore, introducing new services, such as guided spa treatments featuring Shiseido products, wellness content, and virtual beauty advisor recommendations using Artificial Intelligence (AI), contributes to the app's novelty.

Lock-in: The launch of the Wellness App would differentiate Shiseido from other leading competitors in the beauty and wellness market. In a successful implementation, such differentiation could create a lock-in effect, as customers may be more inclined to stick with Shiseido due to the app's unique offerings. Additionally, the variety of features, including meditation sessions, sports, and beauty-enhancing food recipes, can contribute to user retention by offering a comprehensive suite of services not easily replicated by competitors.

Complementarities: Integrating services such as Personal DNA skincare, Beauty Key membership, and new activities creates complementarities within the app. Users can access a range of skincare, wellness, and beauty services, providing a holistic experience.

Efficiency: The wellness app improves the bond between the brand and its customers, achieving daily customer interaction. Hence, the app could streamline and enhance customer engagement, contributing to efficiency. Additionally, operational efficiency is seamlessly integrated and achieved by consolidating existing services and introducing new ones.

2.6 Phase 3: Chart a Path Toward Future Opportunities

The final step of a comprehensive revitalization strategy focuses on the future and build on the growth achieved in the previous phase. This includes identifying new market opportunities that align with the company's core strengths, offer significant growth potential, and provide a first-mover advantage. Companies can maximize these opportunities by leveraging expertise and capitalizing on strengths. The instructor should explain the last phase of the model to the students and ask them the following closing question: "What potential next steps could Shiseido consider transforming into a "personal beauty wellness company" until 2030?" This concluding question is intended for brainstorming. We recommend utilizing a tool like Mentimeter to gather student ideas. The instructor will select two or three prominent ideas and students will briefly elaborate on their chosen concepts. Potential answer possibilities of the students could include ideas such as new (geographic) market entries with the Shiseido Beauty Wellness brand. Moreover, Shiseido could provide new product categories, such as home products like candles or home fragrances, to enhance customers' overall wellness experience. Launching or acquiring new natural wellness brands could also be a potential next step for Shiseido.

2.7 Additional Resources for Instructor Preparation

The teaching note also provides valuable references to prepare for the case session. If the theory was not discussed in earlier courses, we suggest reading the Business Model framework, according to Amit and Zott (2020), beforehand. We also recommend reading the interview with Shiseido's CEO of the Japanese region, Norio Tadakawa, in their Integrated Report 2022 on the challenges of the Japanese Business (Shiseido, 2023b). Moreover, the case authors prepared a tailored PowerPoint presentation for teaching purposes (Appendix 18).

2.8 Concluding Remarks

Both students and educators should acknowledge that the two options outlined are hypothetical constructs for the context of this case study. Due to a lack of concrete information regarding Shiseido's new wellness brand and entry into the wellness market, ‘real’ options considered by Shiseido's management could not be incorporated. Therefore, adjustments to the case study will be necessary when Shiseido enters the wellness market in February 2024. Specifically, the two options may have to be swapped for alternatives that better reflect the unfolding reality.

Appendix – Teaching Notes

Appendix 1: Guiding Questions

Section	Guiding Question	Teaching Purpose	Frameworks
1. External analysis	Q 1.1 What main trends shape the beauty industry's future globally?	Identify and analyze key trends shaping the global beauty industry to understand the external environment	PESTEL
	Q 1.2 How does the Japanese beauty market differ from other beauty markets?	Evaluate regional variations in the beauty market to encourage cultural awareness and the ability to analyze market distinctions	-
	Q 1.3 What are the competitive forces in the Japanese beauty industry?	Understand driving forces in Shiseido's main market, aiming to analyzing market attractiveness	Porter's five forces
2. Internal analysis	Q 2.1 What have been the main drivers to adapt Shiseido's business strategy?	Comprehension of factors driving Shiseido's business strategy to encourage strategic thinking	-
	Q 2.2 How has Shiseido's brand diversification strategy evolved over time, and what objectives and advantages are anticipated through these strategic shifts?	Assess evolvement of Shiseido's brand diversification strategy to develop insights into strategic decision-making & brand mgmt.	-
	Q 2.3 How does Shiseido's existing business model look like?	Analyze Shiseido's current business model to encourage an understanding of business structures and models	Amit & Zott Business Model; Business Model Canvas
	Q 2.4 How does Shiseido create value and does Shiseido currently generate a competitive advantage?	Understand how Shiseido achieves competitive advantage to critically think about competitive strengths	NICE framework, VRIO
3. Market entry	Q 3.1 What are the potential benefits and challenges for Shiseido to enter the wellness market?	Identify potential benefits and challenges for Shiseido in entering the wellness market to develop comprehension of market entry decisions	
	Q 3.2 Shiseido's COO intends to drive growth by aiming for them a fundamental shift in the business model. Do you think the app, or the spa treatments contribute to a fundamental change in the business model?	Mapping both options into a framework, aiming to understand different approaches to business model innovation	BCG approach to business model innovation
	Q 3.3 What is Shiseido's most promising service option that optimally complement their Wellness product offering?	Evaluate and assess service options to encourage strategic thinking and creativity	SFA matrix
	Q 3.4 How does the Wellness app create future competitive advantage for Shiseido in Japan through business model innovation?	Encourage in-depth analysis of innovation options	NICE framework
4. Outlook	What potential next steps could Shiseido consider transforming into a "personal beauty wellness company" until 2030?	Think strategically about Shiseido's future steps, aiming to develop creativity, forward thinking and long-term planning skills	-

Case authors' own illustration.

Appendix 2: Teaching Plan

Section		Content	Duration	
Preparation for case discussion	**Preparation**	The Instructor sends students the case at least one week before the class-discussion for self-study purposes.	75 min	
	1. External analysis	Additionally, instructor sends students questions Q 1.1, Q 1.2 and Q 1.3 so that students can prepare the external analysis for the case discussion in advance.		
In-class case discussion		Instructor presents agenda and asks opening question.	5 min	90 min (+15 min)
		Instructor briefly discusses results of **external analysis** with students.	10 min	
	2. Internal analysis	Instructor leads students through the **internal analysis** and introduces the Amit & Zott business model framework. Optional: Students (in groups) draft the Business Model Canvas. Afterwards (Q 2.4), the class is divided into two groups (VRIO & NICE framework) to analyse how Shiseido generates value.	20 min (+15 min)	
	Recapitulation	Instructor summarizes the results of the internal and external analysis by showing the **SWOT analysis.**	5 min	
	3. Market Entry	Instructor continues by guiding students through questions Q 3.1 and Q 3.2. The BCG **business model innovation** framework will be introduced.	20 min	
		The instructor briefly introduces the **SFA framework**. Then the class gets divided into two groups, each group analysing one of the two service options (spa treatments or wellness app) by applying the SFA framework (Q 3.3) . The results of the students' SFA analysis will be discussed in class.	20 min	
	4. Outlook	Instructor and students discuss how Shiseido can sustain competitive advantage with the one of the service options (Q 3.4). Learnings will be synthesized, and the discussion will be closed by the instructor with the closing question.	10 min	

Case authors' own illustration.

Appendix 3: Overall Teaching Note Structure

Phase 1

Understand & Stabilize

External Analysis

- PESTE(L) Analysis
- Porter's 5 Forces
- ➢ Resulting in **O**pportunities & **T**hreats

Internal Analysis

- Business Strategy
- Business Model (Amit & Zott; Business Model Canvas)
- Competitive Advantage (NICE framework, VRIO)
- ➢ Resulting in **S**trengths & **W**eaknesses

Phase 2

Accelerate Growth & Lay Foundation for Future Growth

- Understanding potential market for growth opportunities (Wellness market)
- Understanding difference between fundamental business model change and business model innovation (BCG Approach - Business Model Innovation)
- Evaluation of strategic options (SFA framework)
- Exploring the path to future competitive edge: Evaluating the impact of strategic choice (NICE framework)

Phase 3

Chart a Path towards Future Opportunities

- Exploring how Shiseido can achieve their vision

Case authors' own illustration.

Appendix 4: PESTE Analysis

Political & Regulatory	• **Stringent regulations:** Different institutions are responsible for overseeing product ingredients, testing, and labeling, such as the FDA in the US and the EU Cosmetic Products Regulation in the European Union. • **Political instability and government policies** (e.g. in China) can significantly influence growth opportunities for beauty companies
Economic	• **CAGR:** Beauty industry is growing with an expected growth rate of 6% • **Skincare sector:** growing opportunity for brands in the future • **Macroeconomic events:** e.g. conflict in Ukraine had an impact on global economic stability and affected the state of the beauty sector • **Economic factors:** increase in inflation challenge the resilience of well-established businesses. • **New growth opportunities:** New strategic options in India and Middle East for beauty companies
Social	• **Influence of Gen Z:** Gen Z's emphasis on diversity, sustainability, and brand value drives changes in product offerings and marketing strategies • **Rise of wellness:** Consumers are increasingly focused on maintaining overall health and well-being. There is a rising interest in clean beauty and wellness since consumers became more conscious of health and wellness during the pandemic. • **New niche products** e.g. black beauty
Technological	• **Growth in e-commerce**: Important sales channel for cosmetic companies • **New technologies:** E.g. artificial intelligence (AI) and augmented reality (AR) are disrupting the beauty industry as virtual try-on tools, customized cosmetic advice, and online consultations have grown more common. • **Beauty tech:** Technologies enable beauty companies to test their ingredients and new product formulas more extensively before investing in costly trials
Environmental	• **Reusable and environmentally friendly packaging:** Consumers become more conscious about waste reduction and brands embrace recyclable materials like glass, aluminum, and bioplastics as single-use plastics decrease

Case authors' own illustration.

Appendix 5: Porter's Five Forces Analysis

THREAT OF NEW ENTRANTS
= LOW TO MODERATE

- Regulations involve strict approval processes - barrier to entry for new players
- Established brands like Shiseido and Kao Corporation have brand loyalty and expertise, challenging for newcomers to compete effectively.
- Niche brands targeting specific consumer trends or segments can still find opportunities

POWER OF SUPPLIERS
= LOW TO MODERATE

- Skincare industry relies on various suppliers, including raw material providers
- Unlikely that suppliers have significant power since there are often multiple sources for essential ingredients, reducing the dependency on specific suppliers

EXISTING RIVALRY
= HIGH

- Global beauty industry relatively fragmented with a few major players (top 10 = 1/3 market share)
- Prestige brand sector (Shiseido's focus) competes on factors other than price
- Intense competition due to high brand loyalty, dynamic market, changing consumer preferences, and emerging trends

POWER OF BUYERS
= MODERATE

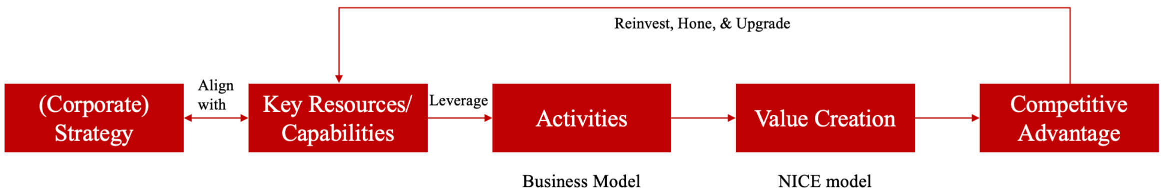
- Japanese skincare consumers focus on price, quality, and skin compatibility
- Buyers have some influence in shaping the market especially when it comes to shifting consumer preferences towards wellness & skin health awareness
- Brands with strong reputation create lock-in effects by increasing level of product personalization

THREAT OF SUBSTITUTES
= MODERATE

- Japanese beauty market has shifted towards trend of wellness, indicating a moderate threat from substitute products or practices related to self-care.
- Reputation of "J-Beauty" and the trust in Japanese cosmetics may mitigate the threat of substitutes to some extent

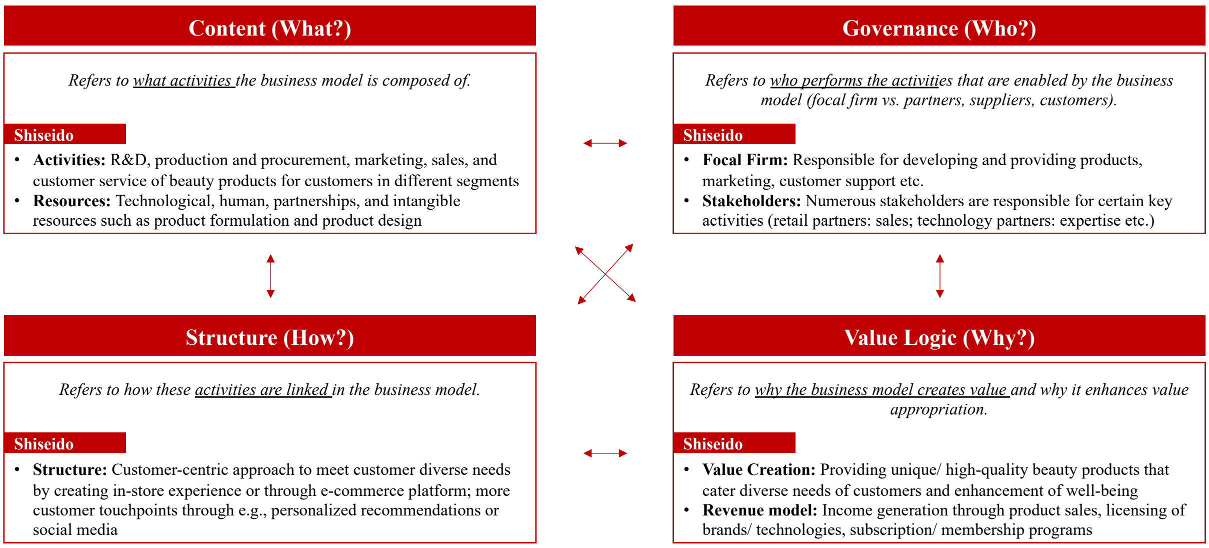
Case authors' own Illustration.

Appendix 6: Internal Analysis Framework



Case authors' own illustration. Adapted from Rothaermel, F. (2019). Strategic Management.

Appendix 7: Shiseido's Business Model (Amit & Zott)



Case authors' own illustration.

Appendix 8: Business Model Canvas for Shiseido

KEY PARTNERS (Who)

Retail partners/ distributers
- Department stores
- Beauty Retailers
- Pharmacies & Drugstores
- Online Retailers
- Shiseido Stores
- Travel Retail

Technology and research partners

Influencers & brand ambassadors

Suppliers

KEY ACTIVITIES (What)

R&D of new products
Production & Procurement
Marketing
Sales
Customer Support

KEY RESOURCES (What)

Physical Capital
Six R&D facilities, twelve production plants
Human Capital
39k highly skilled employees
Organizational Capital
Distribution network, brand reputation, financial capital

VALUE PROPOSITION (Why)

Consumers: Provides technologically, high-quality beauty products by incorporating traditional values and philosophies into its products, offering personalized beauty solutions for diverse skin types and individual preferences

Stakeholders (retail partners, suppliers): Offering products from a globally recognized brand, long-term relationships, stable business environment

CUSTOMER RELATIONS (How)

Personalized customer service in stores or online
Customer Loyalty Programs
Social Media Engagement
Product Education

CHANNELS (How)

Retail Stores
E-com Platforms
Professional Beauty Salons and Spas
Social Media and Influencer Marketing

CUSTOMER SEGMENTS (Who)

Individual Consumers
Offering wide range of high-end and mid-priced skincare, make-up products as well as luxury fragrances for men and women
Professionals in Beauty Industry
Selling products to make-up artists or other professionals in beauty industry
Retailers and Wholesalers
Supplying products to department stores, drugstores, beauty stores etc.

COST STRUCTURE (Why)

Manufacturing Expenses
Expenses related to raw materials, manufacturing, and packaging
Business Expenses
R&D investments, sales and marketing, administrative expenses (e.g., salaries)
Retail Expenses
Maintaining and operating retail stores

REVENUE STREAMS (Why)

Product Sales
Licensing of Brands and Technologies
Licensing agreements with brands such as Issey Miyake, Narciso Rodriguez
Subscription Services and Membership Programs
E.g., ”Optune” a personalized skin care system offered as subscription service

Case authors' own illustration.

Appendix 9: Current Key Resources and Capability Overview Shiseido

Area	Key Resources and Capabilities
Research & Development	- Six globally distributed innovation centres, with a focus on kansei research and material science - Proprietary formulations and patents in cosmetic areas, including skincare, sun care, base makeup - Shiseido currently invests and will continue to invest around 3% of its net sales into R&D
Product Diversification & Brand Portfolio	- Diverse range of beauty products across categories (skincare, makeup, sun care, fragrances) - Diverse brands in different price segments (prestige as well as premium) - Strategic brand portfolio management, including the divestiture of the Personal Care business and the transfer of prestige makeup brands such as Laura Mercier
Manufacturing Plants & Supply Chain Expertise	- Eleven manufacturing plants around the world to produce beauty and skincare products efficiently and at scale. This includes the technology and processes involved in manufacturing cosmetics to meet quality standards
Retail and Distribution Network	- Shiseido's distribution channels, including partnerships with retailers and online platforms, vary across countries - With the established network, Shiseido is able to reach a broad and diverse consumer base
Brand Reputation & Intellectual Property	- Shiseido has been established over 150 years ago and developed over the years toward a well-established and globally recognized brand - Shiseido's brand reputation influenced consumer trust and loyalty; 60-70% are repeating customers - To protect their portfolio, Shiseido invests in intellectual property to protect their technologies (e.g., in terms of ingredient sourcing) and product formulations
Cultural Japanese Heritage	- Shiseido's rich cultural heritage, dating back to 1872, is a foundational resource. The capability to seamlessly blend Eastern aesthetics with Western science is a distinctive competency, allowing Shiseido to offer a unique cultural approach to beauty. - Shiseido blends cutting-edge skincare technologies with timeless Eastern wisdom, incorporating natural ingredients and holistic approaches from traditional beauty traditions.

Case authors' own illustration.

Appendix 10: Assessment of Shiseido's Key Resources & Capabilities as Source of Sustainable Competitive Advantage

Key Resources & Capabilities (1/2)	Valuable?	Rare?
Research & Development	**Yes:** Shiseido's R&D investments, global innovation centers, and focus on kansei research contribute significantly to product innovation, creating unique and valuable offerings.	**Yes:** The global focus on kansei research and material science is a rare capability, differentiating Shiseido in the market. None of the big players, such as L'Oréal or Estée Lauder, uses kansei engineering.
Product Diversification & Brand Portfolio	**Yes:** Shiseido offers diverse beauty products (skincare, makeup, fragrances), and its strategic brand portfolio (27 brands) management adds significant value to its market position.	**No:** Other prominent beauty players also offer a broad range of products; smaller competitors often offer a reduced portfolio of brands
Manufacturing Plants & Supply Chain Expertise	**Yes:** The 11 global manufacturing plants and supply chain expertise contribute to efficient and scalable production, creating value.	**No:** While having global manufacturing plants is valuable, it is not considered entirely rare, as other significant players in the beauty industry also have global manufacturing capabilities.
Retail and Distribution Network	**Yes:** Shiseido's value lies in efficiently delivering diverse beauty products globally. Its widespread distribution network enhances brand accessibility, increasing customer reach and satisfaction.	**Yes:** The company's strategic approach to forming unique partnerships (for some companies, exclusive retail partnerships) and tailoring distribution channels to specific markets sets it apart. Not all competitors can replicate this network due to missing market share.
Brand Reputation	**Yes:** Shiseido is known among customers for its premium and high-quality products and has established a strong brand reputation, leading to consumer	**Yes:** Establishing a strong brand is common, but achieving a well-established reputation is rare. Shiseido's long history and the unique blend of Eastern aesthetics with Western science make

	perceptions, trust, and loyalty.	its brand distinctive and rare in the beauty and skincare industry.
Cultural Heritage	**Yes:** Shiseido's rich cultural heritage, blending Eastern and Western elements, contributes to a unique approach to beauty.	**Yes:** A cultural heritage of over 150 years is a rare and distinctive feature in the beauty and skincare industry. Most competitors do not have such a long and rich history.

Key Resources & Capabilities (2/2)	Costly to imitate?	Organized to capture value?	Outcome
Research & Development	**Yes:** Although competitors can invest in R&D, replicating Shiseido's specific focus on kansei research and material science is challenging.	**Yes:** Shiseido's consistent investment in R&D demonstrates strong organizational commitment.	**Sustainable Competitive Advantage**
Product Diversification & Brand Portfolio	-	-	**Competitive Parity**
Manufacturing Plants & Supply Chain Expertise	-	-	**Competitive Parity**
Retail and Distribution Network	**Yes:** Establishing comparable relationships and ensuring a seamless global distribution network demands significant time, resources, and industry insight.	**Yes:** Shiseido is consistently expanding its retail network in new regions and, at the same time, strengthening its presence in existing markets.	**Sustainable Competitive Advantage**
Brand Reputation	**Yes:** Shiseido's brand reputation, rooted in a curated blend of tradition and innovation, is costly for competitors to imitate. Moreover, replicating Shiseido's products involves overcoming legal barriers and developing comparable innovations.	**Yes:** Shiseido maintains organizational structures that support the appointment of brand managers in each region to ensure targeted and localized brand oversight	**Sustainable Competitive Advantage**

Cultural Heritage	**Yes:** Replicating Shiseido's blend of Eastern aesthetics with Western science requires a nuanced understanding of both cultural elements. Integrating these elements seamlessly into the brand's identity and activities poses a significant challenge for competitors	**Yes:** Shiseido integrates Eastern aesthetics with Western science in various business activities (e.g., marketing, product development, etc.), reflecting strong organizational capabilities in understanding, respecting, and incorporating cultural nuances.	**Sustainable Competitive Advantage**

Case authors' own illustration.

Appendix 11: Determining Value Drivers (NICE) of Shiseido's Business Model

Value Driver	Description
Novelty	**Definition:** The level of business model innovation that the activity system embodies is captured by novelty. **Shiseido:** Over the last few years, Shiseido has incorporated innovative approaches, such as embracing digital technologies and innovation in product development. In 2022, Shiseido introduced an artificial intelligence makeup advisor that combines personalized recommendations with virtual try-on technology (Douglass 2022).
Lock-in	**Definition:** Lock-in effects include business model activities that create switching costs or incentives for participants to stay within the activity system. **Shiseido:** Shiseido offers customized solutions that consider the individual skincare needs of customers. Shiseido's personalized skincare system "Optune" provides just one concrete example. The level of personalization related to customers' skin preferences creates lock-in effects and underlines that 60-70% of customers are repeat customers (Shiseido 2023b). Shiseido's brand loyalty creates a lock-in effect, as customer trust in Shiseido is high due to its quality and effectiveness.
Complementarities	**Definition:** Complementarities refer to the value-increasing effects of the interconnectivity among different activities. **Shiseido:** Shiseido offers a wide range of compatible products that work well together. This encourages customers to purchase multiple products from one of Shiseido's product lines or across product lines to maximize the impact of the products. Customers buy, for instance, their whole skincare routine from Shiseido, including eye cream, uplifting and firming cream, and night cream.
Efficiency (currently **not** a value driver of Shiseido's business model)	**Definition:** Efficiency describes the savings related to, e.g., costs or operations achieved by the activity system's interconnections. **Shiseido** Efficiency cannot be considered a primary value driver of Shiseido's business model. The missing cost and productivity efficiency have been one of the main drivers for Shiseido's decreasing profitability (Shiseido 2023b).

Case authors' own illustration.

Appendix 12: SWOT Analysis

SWOT Analysis

INTERNAL

STRENGTHS

- **In-house R&D Expertise for Differentiation:** Shiseido's continuous innovation is driven by its strong in-house R&D capabilities.
- **Rich Heritage Fostering Brand Loyalty:** The company's longstanding history and established brand identity contribute to a loyal customer base, particularly in the Japanese market.
- **Diverse Brand Portfolio Catering to Varied Markets:** Shiseido strategically manages a diverse brand portfolio, effectively targeting different market segments globally.
- **Global Presence and Innovation Network:** The company's adaptable global presence, coupled with a network of distribution and innovation centres worldwide, enables it to meet diverse market needs.

WEAKNESSES

- **Japanese Market Dependency and Sales Decline:** Shiseido's heavy reliance on the Japanese market (41% of net sales) exposes vulnerability, compounded by declining sales in recent years.
- **Financial Capital Structure Impacting Profit Margins:** The company faces challenges with its financial capital structure, resulting in relatively low profit margins.

EXTERNAL

OPPORTUNITIES

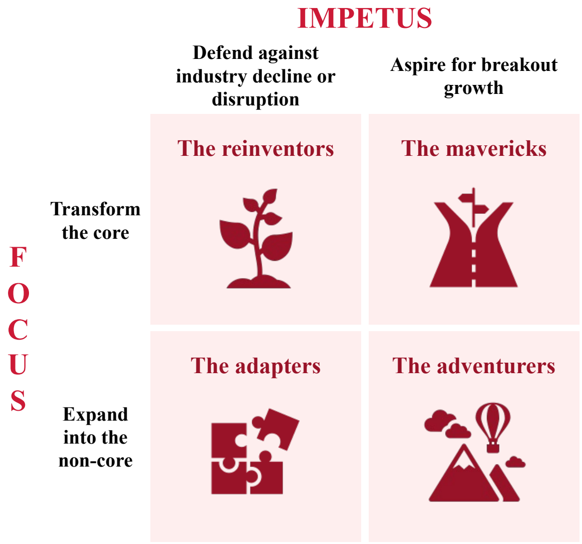
- **Skincare Sector Growth Driven by Wellness Trend:** The rising interest in wellness and holistic beauty routines presents significant growth opportunities in the skincare sector.
- **Leveraging E-commerce Advancements:** Shiseido can capitalize on e-commerce advancements, utilizing technologies like AI and AR for virtual try-ons and online consultations.
- **Clean Beauty and Niche Products in Specific Segments:** The increasing interest in clean beauty and niche products offers Shiseido opportunities to enter specific customer segments.

THREATS

- **Intense Competition and Potential Disruption:** Shiseido faces threats from an intensely competitive landscape, with the potential for beauty disruption.
- **Economic Uncertainties: Economic uncertainties due to** market volatility and geopolitical tensions, impacting consumer spending on premium beauty products.
- **Adapting to Rapidly Shifting Consumer Preferences:** Shiseido must continuously adapt to stay aligned with rapidly evolving consumer trends, especially among younger generations.

Case authors' own illustration.

Appendix 13: BCG Approach to Business Model Innovation



Case authors' own illustration. Adapted from BCG (n.d.). Business Model Innovation delivers competitive advantage.

Appendix 14: Four Approaches of Business Model Innovation based on BCG Approach

Reinventor approach	This is used in response to fundamental challenges in the industry, such as commoditization or regulatory changes. Companies pursue this strategy when the business model exacerbates, or growth trajectories are uncertain. The target is redefining their customer value proposition and restructuring their operations to present a superior offering.
Adapter approach	This is applied when the existing core business cannot withstand significant disruption, even if it is transformed. Adapters explore neighboring markets or business areas and try to discover a thriving ‘new core’ by investing in innovation.
Maverick approach	This is used when there is the opportunity to change the current core business into a potentially more successful business model. Mavericks leverages its core strengths to transform its industry and establish new standards, aiming for growth.
Adventurer approach	This is characterized by bold expansion into new or adjacent territories. This approach demands a profound understanding of the company's competitive advantage, with strategic bets on innovative applications to thrive in new, unfamiliar markets.

Case authors' own illustration. Adapted from BCG (n.d.). Business Model Innovation delivers competitive advantage.

Appendix 15: SFA Evaluation Criteria

Suitability	Exploit opportunities
	Avoid threats
Feasibility	Operational capabilities
	Financial capabilities
	Organizational capabilities
Acceptability	Financial (Risk & Return)
	Stakeholder reactions

Case authors' own illustration.

Appendix 16: Explanation of SFA framework

Suitability	• Determines whether the strategic options are viable given Shiseido's external environment • The chosen strategy should exploit opportunities and avoid or overcome threats • A qualitative evaluation of each strategic choice is necessary.
Feasibility	• Considers whether a company has the resources and competencies to fulfill each strategic option (Johnson et al., 2008) • The 6M model (Manpower, Money, Machinery, Material, Markets, and Makeup) is a helpful framework for assessing Shiseido's internal capabilities • Often only a few factors of the 6M model are relevant or easily assessable with the limited information provided (Wu, 2010) • Feasibility examines Shiseido's ability to fulfill the options profitably by reviewing the company's operational, financial, and organizational capabilities
Acceptability	• Considers the financial and stakeholder aspects of each strategic choice • The financial element comprises the return, i.e., the benefit that stakeholders expect from a strategy (e.g., by calculating a net present value), and the risk, which comprises the probability and consequences of failure of the strategy (e.g., through a sensitivity analysis) • Conducting detailed financial calculations is complex as no adequate information is available in the case study • The stakeholder aspect analyses probable reactions and to which extent each strategic option meets the stakeholders' expectations (Johnson et al., 2008)

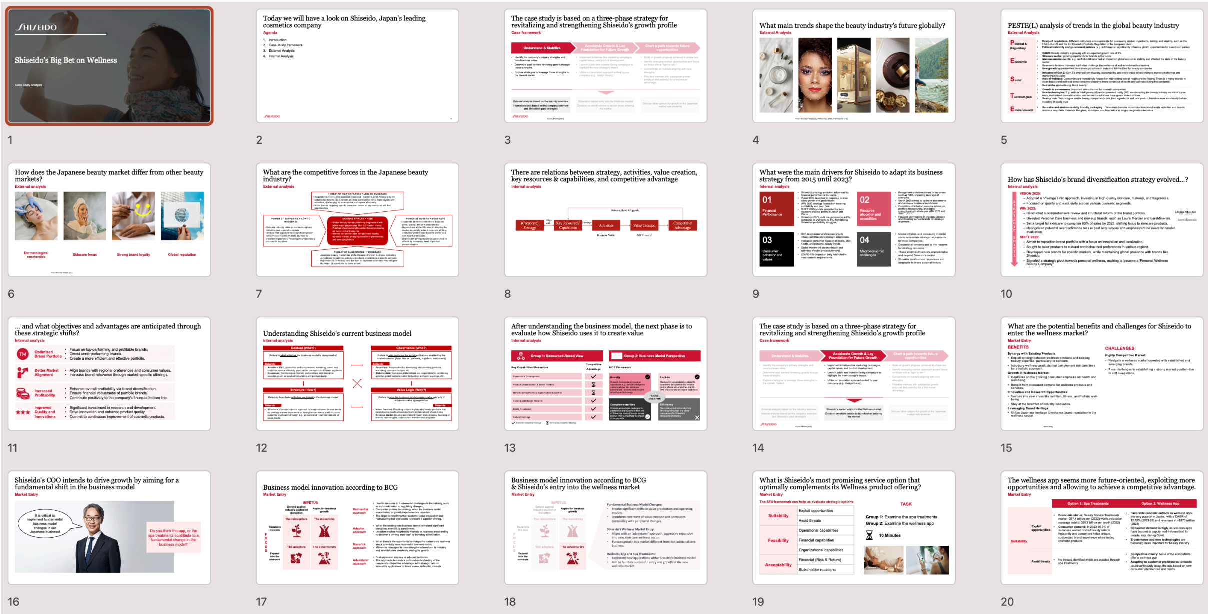
Case authors' own illustration. Adapted from Johnson et al. (2008) and Wu (2010).

Appendix 17: SFA Analysis

		Option 1: Spa Treatments	Option 2: Wellness App
Suitability	**Exploit opportunities**	• **Economic status:** Beauty Service Treatments market 397.1 billion yen (2022) worth; relaxation massage market 325.7 billion yen worth (2022) • **Consumer demand:** In 2023 80.3% of Japanese women visited beauty salons frequently and consumers value unique, customized brand experience when testing cosmetic products	• **Favorable conomic outlook** as wellness apps are very popular in Japan, with a CAGR of 12.52% (2023-28) and revenues at >$370 million (2023) • **Consumer demand is high,** as wellness apps have become a popular self-help method for people, esp. during Covid • **E-commerce and new technologies** are becoming more important for beauty industry
	Avoid threats	• No threats identified which are avoided through spa treatments	• **Competitive rivalry:** None of the competitors offer a wellness app • **Adapting to customer preferences**: Shiseido could continously adapt the app based on new consumer preferences and trends
Feasibility	**Operational capabilities**	• Shiseido already has an **available infrastructure** of 29 beauty salons • Shiseido probably **needs to hire more beauty consultants** to adequately fulfill the service	• Shiseido **offers different online tools** (e.g. Optune) for customers and has **developed apps** for staff for training purposes • Shiseido **steadily invested in personell with digital capabilities**, which can be utilized for a wellness ap
	Financial capabilities	• **Significant investment** into the beauty salon infrastructure required, cost of maintanance	• **Investment in app development** and maintanance costs
	Organizational capabilities	• **No new organizational unit** required	• **New organizational unit** required for app development (e.g. in Marketing)
Acceptability	**Financial (Risk & Return)**	• **High risk** due to higher investment in infrastructure • Customers are charged for wellness treatments and hence these are a **source of revenue (return)**	• **Low risk** as initial investments are lower and the app can be developed over time • Uncertain if customers would pay for a subscription app model. If successful, a freemium model is an option. Otherwise, **no direct revenue,** with potential sales boost through in-app promotions
	Stakeholder reactions	• Only a **limited number of customers** are reached through the service • Uncertain if **thermal spring facilities (suppliers)** would partner with Shiseido • **Harder for competitors** to follow Shiseido's idea	• A **large number of customers can be reached**. The app could eventually, be scaled to other countries in line with Shiseido's vision to become a personal beauty wellness company • Competitors could easily follow Shiseido's idea

Case authors' own illustration.

Appendix 18: Snippet PowerPoint Presentation for Teaching Purpose



Case authors' own illustration. Download link:

https://www.dropbox.com/scl/fi/buxg3bb5nxlxzotkg5prj/20231219_Teaching-Slides_Shiseido.pptx?rlkey=vqf8ps17r4savjz0u42obixzc&dl=0

3 References (Case and Teaching Notes)

Accenture. 2021. "Accenture and Shiseido Establish Joint Venture to Accelerate Shiseido's Digital Transformation." https://newsroom.accenture.com/news/2021/accenture-and-shiseido-establish-joint-venture-to-accelerate-shiseidos-digital-transformation.

Amit, Raphael, and Christoph Zott. 2020. *Business Model Innovation Strategy Transformational Concepts and Tools for Entrepreneurial Leaders*. 1st ed. Widley. https://www.perlego.com/book/1812791/business-model-innovation-strategy-transformational-concepts-and-tools-for-entrepreneurial-leaders-pdf.

BCG. n.d. "Business Model Innovation Delivers Competitive Advantage." Accessed November 18, 2023. https://www.bcg.com/capabilities/innovation-strategy-delivery/business-model-innovation.

Callaghan, Shaun, Martin Lösch, Anna Pione, and Warren Teichner. 2021. "Feeling Good: The Future of the $1.5 Trillion Wellness Market." McKinsey. April 21, 2021. https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/feeling-good-the-future-of-the-1-5-trillion-wellness-market.

Daneshkhu, Scheherazade. 2015. "Masahiko Uotani, Shiseido CEO: From Coke to Cosmetics." *Financial Times*, January 15, 2015. https://www.ft.com/content/bd7b83f2-9296-11e4-a1fd-00144feabdc0.

Douglass, Rachel. 2022. "Shiseido Debuts AI Makeup Advisor in Collaboration with Revieve." Fashion United. April 7, 2022.

Gestrell, Emily, Sophie Marchessou, Jennifer Schmidt, and Emma Spagnuolo. 2020. "How COVID-19 Is Changing the World of Beauty." McKinsey. May 5, 2020. https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/how-covid-19-is-changing-the-world-of-beauty.

Global Business Outlook. 2023. "Rise of the Platform Economy," 2023. https://www.globalbusinessoutlook.com/magazine/economy-magazine/rise-of-the-platform-economy/#:~:text=The%20platform%20economy%20refers%20to,and%20buy%20and%20sell%20goods.

GreyB. 2023. "Cosmetics Industry Trends 2024 ." LinkedIn. 2023. https://www.linkedin.com/pulse/cosmetics-industry-trends-2024-greyb-2tg4f/.

Hammond, John S., Ralph L. Keeney, and Howard Raiffa. 1998. "The Hidden Traps in Decision Making." *Harvard Business Review*. https://hbr.org/1998/09/the-hidden-traps-in-decision-making-2.

Inagaki, Kana. 2021a. "Cosmetics Group Shiseido Hunts Acquisitions: Personal &household Goods," 2021. https://www.proquest.com/newspapers/cosmetics-group-shiseido-hunts-acquisitions/docview/2597945604/se-2?accountid=14570.

———. 2021b. "Deep Cleanse Shiseido Shifts Trio of Make-up Brands for $700m as US Push Loses Its Shine." https://www.proquest.com/newspapers/deep-cleanse-shiseido-shifts-trio-make-up- brands/docview/2576391916/se-2?accountid=14570.

Johnson, Gerry, Kevin Scholes, and Richard Whittington. 2008a. *Exploring Corporate Strategy*.

Kao Corporation. 2023. "Integrated Report 2022." https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/reports-fy2023e-all-001_01.pdf.

L'oréal. 2023. "Strong Sales Growth, Another Year of Outperformance in All Divisions and All Zones." February 9, 2023. https://www.loreal-finance.com/eng/news-release/2022-annual-results.

McKinsey. 2023. "The State of Fashion: Beauty." https://www.mckinsey.com/industries/retail/our-insights/the-beauty-market-in-2023-a-special-state-of-fashion-report#/.

McKinsey& Company. 2021. "Feeling Good: The Future of the $1.5 Trillion Wellness Market." 2021. https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/feeling-good-the-future-of-the-1-5-trillion-wellness-market.

Mozden, Joe. 2022. "A Three-Phase Strategy For Revitalizing And Accelerating Growth." https://www.forbes.com/sites/forbesbusinesscouncil/2022/06/02/a-three-phase-strategy-for-revitalizing-and-accelerating-growth/?sh=4376d33a731b.

Nandi, Pradeep. 2023. "Japan Beauty Report." https://www.marketresearchfuture.com/reports/japan-beauty-market-12573.

Peterson, Coby. 2023. "How Competitive Is the Beauty and Cosmetics Industry." True Finance. April 21, 2023. https://www.thetruefinance.com/how-competitive-is-the-beauty-and-cosmetics-industry/.

Porter, Michael E. 2008. "The Five Competitive Forces That Shape Strategy." *Harvard Business Review* 86 (1). https://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy.

Rao, Priya. 2023. "Shiseido's Announces New Growth Strategy, Sees Fiscal Year Profits Fall." Business of Fashion. February 10, 2023. https://www.businessoffashion.com/news/beauty/shiseidos-announces-new-growth-strategy-sees-fiscal-year-profits-fall/.

Rothaermel, Frank T. 2019. *Strategic Management*. 4th ed. New York: McGraw-Hill Education.

Shiseido. 2017. "Shiseido Releases a New IoT*1 Skincare System, 'Optune,' That Delivers Personalized Skincare." 2017. https://corp.shiseido.com/en/news/detail.html?n=00000000002331.

———. 2018. "Shiseido Develops the 'New Three-Year Plan' (2018-2020)." 2018. https://corp.shiseido.com/en/ir/pdf/ir20180305_481.pdf.

———. 2021. "Integrated Report 2020." https://corp.shiseido.com/report/en/2020/.

———. 2022. "Integrated Report 2021." https://corp.shiseido.com/report/en/2021/pdf/shiseido_integrated_report_2021_en.pdf.

———. 2023a. "2023 First Half Results (January-June)." https://corp.shiseido.com/en/ir/pdf/ir20230808_978.pdf.

———. 2023b. "Integrated Report 2022." https://corp.shiseido.com/report/en/2022/pdf/report-en.pdf.

———. 2023c. "2023 First Half Results Presentation." August 8, 2023. https://corp.shiseido.com/en/ir/pdf/ir20230808_978.pdf.

———. 2023d. "2023 First Half Results Presentation." August 8, 2023. https://corp.shiseido.com/en/ir/pdf/ir20230808_978.pdf.

———. 2023e. "Shiseido Launches Full-Scale Operation of Inner Beauty Business as First Step into Wellness Business Field." September 2023. https://corp.shiseido.com/en/newsimg/3689_q9x61_en.pdf.

———. n.d. "Corporate Website." Accessed November 18, 2023a. https://corp.shiseido.com/en/.

———. n.d. "Corporate Website." Accessed November 18, 2023b. https://corp.shiseido.com/en/.

———. n.d. "Protection of Intellectual Properties." https://corp.shiseido.com/en/sustainability/compliance/intellectual.html.

Shiseido Beauty Salons. n.d. "Corporate Website Shiseido Beauty Salons." Accessed November 26, 2023. https://salon.shiseido.co.jp/esthetics/menu01/.

Statista. 2022. "Market Size of Beauty Services in Japan in 2022, by Type." Statista. 2022. https://www-statista-com.eu1.proxy.openathens.net/statistics/1223946/japan-market-size-beauty-services-by-type/.

———. 2023a. "Revenue of the Leading 10 Beauty Manufacturers Worldwide in 2022." Statista. 2023. https://www.statista.com/statistics/243871/revenue-of-the-leading-10-beauty-manufacturers-worldwide/.

———. 2023b. "Wellness in Japan - Statistics & Facts." Statista. April 6, 2023.

https://www.statista.com/topics/7706/wellness-in-japan/#topicOverview.
Statista Market Insights. 2023. “Health & Wellness Coaching.” 2023. https://www-statista-com.eu1.proxy.openathens.net/outlook/dmo/digital-health/digital-fitness-well-being/health-wellness-coaching/japan#global-comparison.
Theopilus, Yansen, Thedy Yogasara, Clara Theresia, and Dessy Ardine. 2021. “Customer Experience Analysis of Cosmetics Retail Store on Millennial Women.” *Engineering Management in Production and Services* 13 (2): 29–45. https://intapi.sciendo.com/pdf/10.2478/emj-2021-0010.
U.S. Food and Drug Administration. 2022. “Cosmetic Products.” February 25, 2022. https://www.fda.gov/cosmetics/cosmetic-products-ingredients/cosmetic-products.
Whitby, Megan. 2023. “Japan Named World’s Third Biggest Wellness Economy, Worth US$303 Billion.” *Spa Business*, September 8, 2023. https://www.spabusiness.com/wellness-news/Japan-named-worlds-third-biggest-wellness-economy-worth-US303-billion/351798.
Wu, Thomas. 2010. “Strategic Choice - Johnson and Scholes Suitability, Feasibility and Acceptability Model.” https://tolobranca.nl/wp-content/uploads/2020/07/SFA-Matrix-learning_strategic_choice.pdf.
Wylie, Louise. 2023. “Wellness App Revenue and Usage Statistics (2023).” 2023. https://www.businessofapps.com/data/wellness-app-market/.

ADDRESSING SUSTAINABILITY CHALLENGES IN THE BEAUTY INDUSTRY: THE CASE OF SHISEIDO

Sofie Meryem Yilmaz - 56074

Work project carried out under the supervision of:

Professor Afonso Almeida Costa

20/12/2023

ABSTRACT

The third individual part analyzes sustainability challenges in the beauty industry using the triple bottom line framework, focusing on social, environmental, and economic dimensions. The analysis will examine how the brand Shiseido is tackling these challenges.

KEYWORDS

Beauty Industry, Sustainability, Triple Bottom Line, Challenges

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

Introduction

The beauty industry is known for its rapid expansion. However, it is gradually rebounding after facing several challenging years due to the pandemic. Recent data projects that the global beauty market anticipates to reach approximately $580 billion by 2027, growing by a projected 6% yearly (McKinsey 2023). However, the lessons from the past few years underscored the importance of adaptability for businesses striving to stay pertinent (Parkikinen 2023). Cruelty-free, ethically sourced, and environmentally conscientious products are gaining popularity (GreyB 2023). Beauty companies must acknowledge and respond to these challenges and adopt sustainability models. Therefore, I developed the following research objective: "*Addressing Sustainability Challenges in the Beauty Industry – The Case of Shiseido*". To analyze the research objective, a literature review on sustainability in the beauty industry will be conducted. Next, the triple bottom line theory is introduced and sustainability challenges are identified based on the framework. The analysis then focuses on Shiseido's approach to addressing these challenges and areas of improvement. The conclusion addresses the limitations of the analysis and provides recommendations for future research.

3.1 Literature Review: Sustainability within the Beauty Industry

Growing sustainability awareness drives consumers to adopt more responsible and eco-friendly shopping habits, influenced by media and consumer groups advocating for recyclable and sustainable packaging (Siapartners 2023). The 2021 Global Sustainability Study shows that 35% of global consumers prefer investing in sustainable goods or services (Simon Kucher &Partners 2021). This paradigm shift in consumer preferences has led beauty brands to declare sustainability goals, including reducing reliance on single-use plastics, introducing recyclable and reusable packaging, and improving product transparency (Sangal 2023). The L'Oréal Sustainable Consumption Initiative 2017 revealed that 92% of customers favor companies that prioritize the environment and human welfare (Siapartners 2023).

3.2 Theoretical Framework

3.2.1 Theory of the Triple Bottom Line

The theory of the triple bottom line (TBL) was first mentioned by John Elkington in 1994 (Żak 2015). Following the TBL framework, businesses are advised to assess their financial performance and social and environmental impacts, diverging from a sole focus on profitability (Miller 2020). The framework emphasizes assessing sustainability performance across social, environmental, and economic dimensions (Elkington 1998) also represented by the "three Ps" of people, planet, and profit (Żak 2015) (Appendix 1). By integrating sustainable practices in areas such as supply chains, partnerships, and renewable energy adoption, companies can positively contribute to the environment and society while ensuring profitability (Miller 2020). However, there is no universal standard for measuring the TBL as it varies from company to company (Fernandes 2023). The social bottom line of the TBL is associated with an organization's commitment to positively impacting society (Miller 2020), counting the measures of **equality and diversity, improving labor standards, health and safety, and the well-being of the community** (Braccini and Margherita 2018) (Appendix 2). The people pillar is a way for companies to build successful relationships with society. Thus, companies must serve their stakeholders, including customers, employees, and the community (Księżak and Fischbach 2018), which centers on corporate social responsibility (CSR) referring to organizations' commitment to meeting their stakeholders' demands and stakeholders' pledge to hold organizations accountable (UW EXTENDED CAMPUS 2022). The planet pillar, also known as the environmental bottom line (Miller 2020), encompasses measures such as **renewable resources, emissions, waste, biodiversity,** and **preservation of air, water, and land** (Braccini and Margherita 2018) (Appendix 2). Thirdly, the economic bottom line determines the company's financial return to its shareholders (Miller 2020). The measurements for the profit pillar encompass **profitability, business stability** and **financial resilience**

(Braccini and Margherita 2018) (Appendix 2). Adopting the TBL can benefit businesses through increased revenue, lower costs, and improved employee productivity. It also reduces operational and strategic risks, revealing performance areas and improvement opportunities. However, some businesses hesitate due to the framework's implications beyond customer service and product manufacturing (Willard 2012). Critics argue that lack of a standardized measure for social and environmental aspects of the business poses a substantial threat. Nevertheless, the literature progressively recognizes TBL as a model for sustainable business practices rather than just a performance measurement tool (Scispace n.d).

3.2.2 Sustainability Challenges in the Beauty Industry

To identify key sustainability challenges for beauty companies, I will apply the TBL framework and, based on that, categorize the challenges as social, environmental, and economic. Regarding the social bottom line, challenges in the dimensions **equality and diversity** and **wellbeing of the community** will be identified and followed by environmental dimensions of **emission, waste, preservation of water, air and land, renewable resources,** and **biodiversity.** For the economic bottom line dimensions such as **financial resilience, long-term viability and business stability** will be considered (Appendix 2).

3.2.2.1 Social Challenges

One challenge in the dimension of **equality and diversity** is the *lack of diversity* due to the perceived underrepresentation of people of color in an industry that is predominantly led by white women. This issue has led to a substantial sense of marginalization within this demographic, and thus, beauty brands are expected to address this issue (Watkins 2022). Additionally, beauty brands frequently face accusations of '*woke washing',* a term used to describe business practices that falsely portray social consciousness and lack real substance (Howard 2021). Consumers are increasingly drawn to companies prioritizing CSR over the current practice of emphasizing brand purpose (Pauley 2022). Furthermore, beauty brands are criticized for not contributing enough to the dimension of **well-being of the community** (Braccini and Margherita 2018)**.** The industry's emphasis on celebrity and model imagery has drawn criticism for its negative impact on women's self-esteem (Watkins 2022).

3.2.2.2 Environmental Challenges

Addressing the dimension **emission**, companies are expected to *reduce emissions and minimize their environmental impact.* Production, distribution, and utilization of beauty products contribute significantly to climate change through greenhouse gas emissions (Foster and Retallack 2023). However, none of the top ten global personal care and beauty brands by revenue (Appendix 3) have publicly committed to achieving net-zero emissions. Efforts to address consumer-use emissions were also found to be restricted (Shoaib 2023). Concerning **waste**, companies must address the increasing need for environmentally friendly and sustainable packaging materials involving creating *take-back programs to facilitate and promote packaging recycling* and provide *refillable products* (Siapartners 2023). According to Vantage Market Research, the beauty industry utilizes approximately 67% of plastic packaging volume, making it the fourth largest producer (Sangal 2023). Moreover, **preservation of water, air and land** is a challenge in the beauty industry since the rising demand for natural oils in cosmetic products has led to extensive cultivation, causing *deforestation and soil/water contamination from fertilizers and pesticides* (Gutierrez 2023). Notably, 70% of beauty or personal care products contain at least one derivative of palm oil (Slater 2021). In the category of **renewable resources**, companies face the challenge to create and promote more natural products as consumer preference shifts toward using natural components in beauty products. Thus, firms are reformulating their products with natural alternatives, replacing synthetic ingredients (Siapartners 2023). In terms of **biodiversity** beauty companies need to address the ethical issue of animal testing, which certain brands still conduct. This practice, involving animals in toxicity and skin or eye irritation tests, is widely criticized for its cruelty (Mingyi 2021).

3.2.2.3 Economic Challenges

Investing in a circular economy (CE) (Appendix 4) presents a significant challenge for the beauty industry. The CE concept centers on reusing, recycling, and repurposing goods and resources, potentially ensure long-term viability of beauty firms (GreyB 2023). *Economic instability* creates another challenge for companies' **business stability** and **financial resilience**, affecting supply chains, interest rates, and inflation (Breuer 2022). Moreover, *mergers and acquisitions (M&A) expect to slow down* in the beauty industry, prompting companies to seek alternative sources of finance for sustained operations and growth in the face of market challenges. The evolving industry landscape necessitates a shift in financial strategies to adapt to changing M&A dynamics (Collins 2022).

3.3 The Case of Shiseido: Practices in Addressing Sustainability Challenges

Shiseido is a renowned Japanese corporation founded by Yushin Fukuhara in 1872. It is one of the oldest cosmetics companies in the world, comprising 27 brands (Shiseido 2023) (Appendix 5). To establish a sustainable future, Shiseido devised six strategic actions that target the environmental (strategic actions 1-3) and social pillars (strategic actions 4-6) (Appendix 6). Nevertheless, no strategic actions were specified for the economic pillar (Shiseido 2022a). In the following it will be analyzed how Shiseido is adressing the challenges identified above (Appendix 7).

3.3.1 Social Practices

About the social bottom line, Shiseido's strategic actions include (4)"Advancing Gender Equality", (5)"Empowering People Through Beauty's Power", and (6) "Promoting Respect for Human Rights". Regarding **equality and diversity** challenges Shiseido actively responds to criticism regarding the ***lack of diversity*** in campaigns and marketing activities by featuring a diverse set of brand ambassadors (Shiseido 2020). Shiseido recently appointed its first Indian ambassador, Bollywood star Tamannaah Bhatia (Pauley 2023). Aligned with strategic action (5), Shiseido addresses diversity challenges through a global mission to combat unconscious beauty biases (UBBs). This initiative challenges stereotypes, reflecting Shiseido's commitment to fostering a society without limitations based on gender, age, or nationality. As part of this commitment, the brand launched the SEE, SAY, DO project in September 2022, to create a society in which everyone can be themselves (Shiseido 2022a, 59). While Shiseido has launched the project, they have not shared any specific actions, leading to doubts about the efficacy of their endeavors in addressing this issue.

Shiseido effectively tackles the challenge of woke-washing by going beyond symbolic gestures like Women's Day social media posts (Appendix 8). They integrate gender equality into strategic action (4) and promote initiatives to close the Gender Gap and empower women (Appendix 9). This commitment extends beyond marketing campaigns to concrete actions, such as supporting female education and fostering diversity and inclusion within the company. Strategic action (5) also contributes to **well-being of the community** and the criticism of ***negative effects on women's self-esteem*** influenced by beauty companies. Nevertheless, they do not address this aspect directly. Besides, Shiseido's target is to reach 1 million people by 2030 with its initiatives within this strategic action (Appendix 10). However, Shiseido's current initiatives focus solely on individuals with cancer, serious skin concerns, and older adults without addressing the broader population. There is a need for further clarification on Shiseido's specific goals with this target.

3.3.2 Environmental Practices

For environmental practices, Shiseido focuses on three strategic actions: (1) "Reducing Our Environmental Footprint", (2) "Developing Sustainable Products", and (3) "Sustainable and responsible procurement". The company actively addresses the challenge of ***minimizing***

emissions and reducing environmental impact through strategic action (1) aiming to achieve carbon neutrality by 2026 and targeting a 46.2% reduction in scope 1&2 CO_2 emissions[6] and a 55% reduction in scope 3 emissions [7]by 2030. For that, Shiseido announced it would disclose the results in 2024. From 2018 to 2022, Shiseido demonstrated a reduction in CO_2 emissions from 81,000t to 46,439t. Regarding emissions resulting from land use changes, the data indicates that in 2022, emissions will surpass 2021 levels at 458,000 tons and an increase in upstream transportation and distribution emissions as well as waste generated in operations (Appendix 11). The report demonstrates an increase in NOx emissions[8] from 24 to 31 tons. Nevertheless, Shiseido has implemented various initiatives to minimize emissions (Appendix 12). Furthermore, the company addresses the challenge of **waste reduction** and creating ***environmentally friendly and sustainable packaging materials*** with their strategic action (2) (Appendix 13). Their packaging goals for sale include achieving 100% sustainable packaging by 2025. As of 2022, 64% of its packaging is already sustainable (Appendix 13). Regarding ***take-back programs***, Shiseido aims to create a circular model. To support recycling, they collect used cosmetics packaging in-store and work with various parties, including customers and waste collection companies. Their skincare brand *IPSA* runs regional recycling programs, collecting around 63,000 containers in China and 22,000 in Taiwan in 2022. In Japan, collaboration with AEON stores and TerraCycle Japan led to collecting approximately 30,000 used containers. Following their 5R policy (Appendix 14), Shiseido offers ***refillable packaging*** in more than 770 stock-keeping units across their 30 brands. Since 2023, Shiseido has been using *LiquiForm* technology, which is a new packaging technology (Appendix 15). Refillable cosmetic packaging produced with *LiquiForm* can reduce plastic consumption per package by approximately 70%. A noteworthy accomplishment was the sale of refill products in 2021,

[6] Scope 1 - direct emissions of the company; Scope 2 - indirect emissions from purchased energy (Shiseido 2022a)
[7] Scope 3 - indirect emissions within the value chain (Shiseido 2022a)
[8] NOx pollution is released by cars, trucks, and different types of off-road vehicles (EPA 2023)

which resulted in the reduction of approximately 4,200 tons of CO2 emissions. This achievement aligns with strategic action (3), reflecting Shiseido's commitment to minimizing waste adopting practices that prioritize sustainability and responsible sourcing throughout its procurement processes. Nevertheless, besides their actions reducing waste, Shiseido doesn't provide data about hazardous waste disposal in their report. Shiseido addresses the challenge o**f renewable resources** by disclosing their corporate policy on ingredient sourcing and creating brands with robust environmental, social, and ethical profiles, for instance, their brands Drunk Elephant and BAUM. Drunk Elephant, a top clean beauty brand, is globally recognized for sustainable sourcing, appealing to Millennials and Generation Z. BAUM prioritizes environmental conservation with eco-friendly materials like upcycled wood. Also, Shiseido's brand Ulé skincare, introduced in 2022, emphasizes plant-derived ingredients and responsible sourcing, and is manufactured in France for reduced environmental impact. Ulé received the Young and Sustainable Brand Prize at the "Prix d'Excellence Marie-Claire" 2023 beauty awards in France, highlighting its commitment to sustainability and the environment. With strategic action (3) Shiseido aims to encounter the challenge of **preserving water, air and land**. The brand is committed to sustainable palm oil sourcing. Since 2010, they have been members of RSPO[9], purchasing RSPO certificate credits for 100% of palm oil-derived raw materials since 2018. Their goal is to achieve 100% sustainable palm oil in products by 2026, and by 2022, Shiseido successfully replaced 36% of palm oil-derived materials with certified palm oil. All their factories are now RSPO Supply Chain certified. Moreover, Shiseido also aims to use 100% sustainable paper by 2023 where they achieved a 97% shift in 2022. Regarding the TBL dimension of **biodiversity and the issue of animal testing**, Shiseido claims

---

[9] Roundtable on Sustainable Palm Oil (RSPO) - international non-profit organization.

to be opposed to such testing. However, their subsidiary, NARS, still performs animal testing in China (Mingyi 2021). According to PETA (2023), Shiseido also conducts animal testing. Nevertheless, their brand, Drunk Elephant, asserts not engaging in animal testing (Peta 2023).

3.3.3 Economic Practices

In their Sustainability Report, Shiseido states that they "will not disclose strategic actions related to governance materiality" (Shiseido 2022a). Shiseido prioritizes long-term viability by implementing transparent, fair, and efficient corporate governance. They engage with stakeholders to optimize corporate and shareholder value, promoting dialogues with employees, consumers, partners, shareholders, and society. The company is transparent about its Corporate Governance System to fulfill social responsibility (Appendix 16). Moreover, the brand invests in technologies and business models to reduce ***environmental impact and realize a circular economy*** (Appendix 17). For instance, Shiseido collaborates with SEKISUI CHEMICAL CO., LTD. and Sumitomo Chemical Co., Ltd. In order to establish a circular economy for plastic cosmetics containers, the collection and recycling process should be streamlined without the need for material separation. This cross-sectoral alliance aims to lead the way in sustainable practices, encouraging other industries and companies to build a circular economy for plastic resources in the cosmetics sector (Shiseido 2023a)(Appendix 18). Additionally, they launched an initiative of a Circular Model Project, "BeauRing", for Plastic Cosmetic Containers together with POLA ORBIS HOLDINGS (Shiseido 2023b). In terms of **financial resilience and business stability, the economic instability affected** Shiseido. They experienced its most significant drop in 16 years as the Japanese cosmetics company lowered its annual profit outlook due to weakened demand from Chinese consumers, influenced by concerns following the release of treated radioactive wastewater at Fukushima in August. Shiseido revised its projection for core operating profit by 42% to $231 million*[10] for the fiscal year ending on

[10] All figures marked with * are converted from Yen to US Dollar (¥1=$0.0069)

December 31, 2023 (Matsuyama 2023). Additionally, Shiseido has revised its revenue forecast downward by 2% to $6.76 billion*. Reflecting the impact of these challenges, Shiseido witnessed a 28% decline in operating profit, totaling $178.02 million*, in the first nine months ending on September 30, 2023, compared to the previous year. During the same period, revenue experienced a 5.3% decline, amounting to $4.98 billion*. Notably, sales in China and the travel retail market recorded approximately a 10% decrease in the third quarter (Cosmetics Business 2023). Moreover, Net Sales for brands such as Shiseido, IPSA, ELIXIR, and Drunk Elephant declined (Appendix 19). Addressing the challenge of diminishing M&A, Shiseido prioritizes four global brands, SHISEIDO, Clé de Peau Beauté, NARS, and Drunk Elephant, for significant investment worldwide. In Asia, they intend to focus on the brands ELIXIR and ANESSA. Shiseido plans to boost its fragrance business, emphasizing diverse consumer values and regional distinctions. They aim to strengthen locally-driven value creation, as seen in BAUM and Ulé. The company targets growth in men's makeup and skincare markets, increasing marketing investments by over $690 million from 2023 to 2025. Shiseido remains open to various investment opportunities, including mergers, acquisitions, and corporate venture capital, for expanding into new business areas (Shiseido 2022, 73) (Appendix 19)**.** Despite the "positive indications" observed in the initial quarter, the cosmetics company remains mindful of the ongoing "uncertainty" arising from the Ukraine conflict and rising prices (AFP 2023)**.**

3.3.4 Results and Recommendations

Shiseido integrates several practices aligning with the TBL and its sustainability challenges. However, as with any organization, there are areas where the company excels and others that present opportunities for improvement. Within the social bottom line, Shiseido stands out as a high performer in gender equality, implementing multiple initiatives and integrating strategic actions to advance gender equality. However, an area of improvement lies in the dimension of community well-being. Shiseido's current focus on specific groups like individuals with cancer and severe skin concerns may limit the impact on the general population. The company could benefit from expanding its initiatives to address broader community well-being issues and providing more apparent objectives for its targets, similar to practices observed in companies like Estee Lauder (Appendix 20). Furthermore, there is room for improvement in clarifying and incorporating Strategic Action 6, "Promoting Respect for Human Rights," into Shiseido's medium to long-term targets. Addressing the environmental bottom line, Shiseido has made notable progress in reducing its environmental footprint. The commitment to achieving carbon neutrality by 2026, with substantial reductions in CO2 emissions, demonstrates a solid dedication to environmental sustainability. The focus on sustainable packaging, the implementation of the 5R policy, and the emphasis on refillable products showcase Shiseido's commitment to minimizing waste. However, there are opportunities for enhancement. Refill products and take-back programs should be explicitly highlighted in sustainable procurement targets, and Shiseido could benefit from extending these successful initiatives beyond Japan, China, and Taiwan. While Shiseido has been transparent in addressing criticisms and actively responds to challenges, the company faces environmental concerns such as higher emissions from land usage and the persistent issue of animal testing, which may negatively impact its brand reputation. In terms of preserving the environment and the issue of palm oil, L'Oréal, for instance, established a Sustainable Palm Index to evaluate suppliers based on their supply chains, sourcing methods, and adherence to the brand's Zero Deforestation policy (Young 2021). Besides, Shiseido's competitors L'Oréal, The Estee Lauder Companies Inc., and Unilever participated in WWF's Palm Oil Buyers Scorecard and ranked positively (WWF 2021). Addressing this issue and ensuring a consistent and unequivocal stance against animal testing is crucial for maintaining credibility and meeting consumer expectations. For the economic bottom line, challenges arise from external factors, such as the fallout from the release of treated water from the Fukushima nuclear plant, leading to a decline in Shiseido's shares.

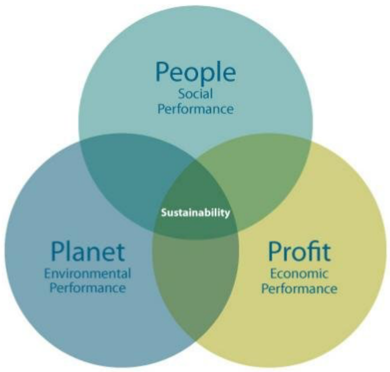
This reflects the vulnerability of Japanese companies reliant on consumer demand in China and highlights the importance of robust risk management strategies in the face of geopolitical and environmental uncertainties. In conclusion, Shiseido's dedication to the triple bottom line is positive, but there is still room for improvement, particularly in expanding social initiatives, refining environmental goals, and effectively addressing economic challenges. By addressing these matters, Shiseido can reinforce its standing as a socially and environmentally responsible enterprise, ensuring its long-term profitability. However, it is essential to note that the rapidly changing external factors that beauty companies face can lead to a shift in challenges and priorities.

3.4 Limitations of Analysis and Future Research Recommendations

While the analysis provides insights into how Shiseido addresses sustainability challenges, it has limitations. The beauty industry and Shiseido’s business environment are dynamic and subject to changes in consumer preferences, regulatory policies, and economic conditions. Therefore, the results of this paper may be time-sensitive and may not fully capture future developments. Additionally, the analysis cannot cover all aspects in depth due to space limitations. Therefore, it is suggested that future research should collect primary data, either qualitative or quantitative.

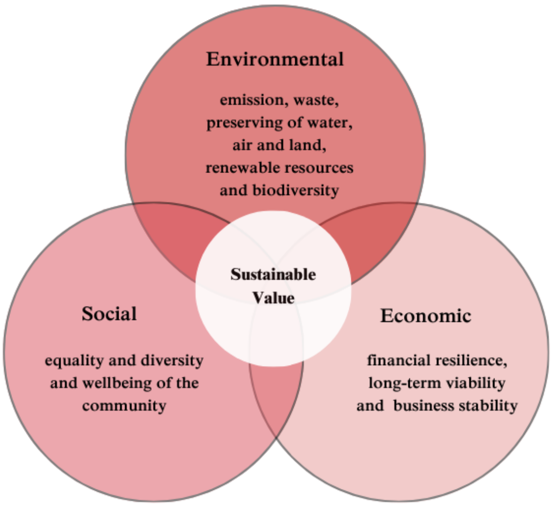
Appendix

Appendix 1: The 3 Pillars



Adapted from Księżak and Fischbach (2018). Triple Bottom Line: The Pillars of CSR.

Appendix 2: The Theory of the TBL and its Dimensions



Author's own illustration. Adapted from Braccini and Margherita (2018). Exploring Organizational Sustainability of Industry 4.0 under the Triple Bottom Line: The Case of a Manufacturing Company.

Appendix 3: Largest Beauty and Personal Care manufacturers by Global Revenue in 2020

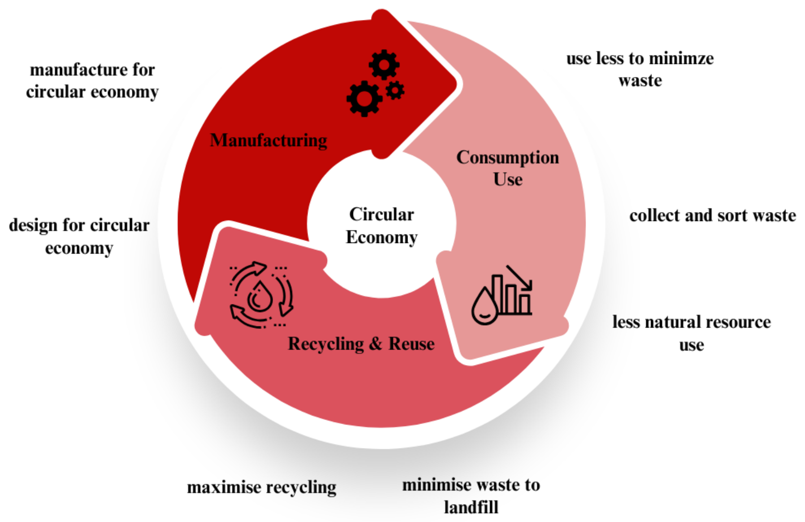
This report assesses a sample of ten of the biggest beauty and personal care manufacturers by global revenue (2020)[16] to generate an overview of the credibility of the sector's current Net Zero commitments.

Companies assessed and global market revenue (2020)

1. L'Oréal - $33.93bn
2. Unilever - $25.38bn
3. P&G - $19.41bn
4. Estée Lauder - $14.29bn
5. Shiseido - $8.73bn
6. Beiersdorf - $6.91bn
7. LVMH - $6.36bn
8. Kao - $5.17bn
9. Coty - $4.71bn
10. Johnson & Johnson - $4.45bn

Adapted from Shoaib (2023). Is beauty overlooking its biggest sustainability challenge.

Appendix 4: Circular Economy



Author's own illustration. Adapted from Fortna (2023). Concept for the introduction of a circular economy.

Appendix 5: Shiseido's Brand Portfolio

	Description	Brands
Prestige	High-end, highly valuable cosmetics are marketed by beauty consultants and personal beauty partners and may be found at department shops and specialist cosmetics stores.	SHISEIDO GINZA TOKYO, NARS, DRUNK ELEPHANT, clé de peau BEAUTÉ, IPSA, BAUM, THE GINZA, EFFECTIM, BENEFIQUE, ulé
Premium	Mid-range cosmetics, mostly found in drugstores and general retail stores, that customers choose for themselves. On demand, counseling specific to each market, brand, and sales channel is also offered.	ELIXIR, ANESSA, MAQuillAGE, d program, HAKU, AQUALABEL, SIDEKICK, REVITAL, AUPRES 欧珀莱, PRIOR
Fragrance	Luxury designer fragrance	narciso rodriguez, ISSEY MIYAKE, SERGE LUTENS, TORY BURCH BEAUTY
Inner Beauty	Beauty beverages and supplements that work to help people in attaining their own unique beauty and wellbeing throughout their lives by enhancing skin health from the inside out	The Collagen, INRYU
Life Quality Beauty	Products and services that significantly enhance the lives of those with severe skin issues brought on by heredity, accidents, illnesses, or medical procedures	PERFECT COVER SHISEIDO

Main Regions of Availability : • Japan • China • Asia Pacific • Americas • EMEA • Travel Retail

Authors' own illustration. Adapted from Shiseido (2023b). Integrated Report 2022.

Appendix 6: Shiseido's Strategic Actions

Material Issues	Strategic Action	Corresponding SDGs
• Climate change • Development of eco-friendly formulas • Sustainable packaging • Deforestation • Responsible procurement • Waste reduction • Water usage	1. Reducing our Environmental Footprint	6, 11, 12, 13, 14
	2. Developing Sustainable Products	3, 9, 12, 13
	3. Promoting Sustainable and Responsible Procurement	8, 12, 15
• Diversity and inclusion • Quality of life • Professional development • Occupational health and safety • Respect for human rights	4. Advancing Gender Equality	5, 10
	5. Empowering People Through the Power of Beauty	3, 5, 10
	6. Promoting Respect for Human Rights	8, 10
• Strengthening of governance and accountability • Fair business transactions • Quality assurance • Responsible marketing and advertising • Information security and privacy • Art and heritage	• We are committed to maintaining and improving the transparency, fairness, and speed of management initiatives by enhancing corporate governance as well as maximizing corporate and shareholder value over the medium term through dialogue with all stakeholders—consumers, employees, shareholders, the environment, and society at large—to fulfill our responsibilities as a public entity and optimize value distribution to each stakeholder.*4 • We promote activities in art and heritage through our corporate culture that generates social value and shares a uniquely Japanese aesthetic with the world.	

*4 We will not disclose strategic actions related to governance materiality.

Adapted from Shiseido (2022a). Sustainability Report 2022.

Appendix 7: Strategic Actions Addressing the Challenges

TBL Dimension	Challenge	Strategic Action
Equality & Diversity	*the lack of diversity*	*(5)" Empowering People Through the Power of Beauty"* *(4)"Advancing Gender Equality"*
	wokewashing	*(6) "Promoting Respect for Human Rights"* (not mentioned in their targets)
Wellbeing of the community	*negatively impacting women's self-esteem*	*Strategic Action (5) "Empowering People Through the Power of Beauty "*
Emissions	*reduce emissions and minimize the impact on the environment*	*(1) "Reducing Our Environmental Footprint"*
Waste	*Take-back programs*	*(1) "Reducing Our Environmental Footprint" (2) "Developing Sustainable Products"*
	Sustainable packaging	*(1) "Reducing Our Environmental Footprint" (2) "Developing Sustainable Products"*
	Refillable products	*(1) "Reducing Our Environmental Footprint" (2) "Developing Sustainable Products"*
Preserving of water, air, land	*Natural oil & palm oil*	*(1) "Reducing Our Environmental Footprint"*
Renewable resources	*developing and market more natural goods*	*(3) "Sustainable and responsible procurement".*
Biodiversity	*Animal testing*	*(3) "Sustainable and responsible procurement".*
Long-term Viability	*Investing in circular economy (CE)* *Economic instability* *Diminishing M&A*	-
financial resilience		-
business stability		-

Authors' own illustration.

Appendix 8: Women’s Day Post @Shiseido on Instagram

Adapted from Shiseido (2023c). Instagram Post for Women's Day.

Appendix 9: Social Initiatives Shiseido

TBL Dimension	Challenge	Shiseido's Initiatives
Equality & Diversity	*the lack of diversity*	Shiseido D&I Lab 2023: explore ways to leverage the power of diversity research the process by which the empowerment of diverse human resources facilitates innovation
		Launch Of an Interactive Website and the SEE, SAY, DO Program for Corporations/Organizations: Shiseido launched a global project to dispel prejudices and stereotypes that impede people's achievement of their desired beauty, that is, unconscious beauty biases (UBBs)
	wokewashing	The objective of 30% Club Japan is to enhance the representation of women on the boards of Japanese companies, striving to increase their proportion.
		Empowering Women through Collaboration with Local Governments: Shiseido Japan Co., Ltd., and Hiroshima Prefecture entered into an agreement on promoting the empowerment of women
		Childcare Support:childcare facilities at companies in Kanagawa Prefecture and Shizuoka Prefecture (2 facilities in Shizuoka and 1 facility in Kanagawa
		Supporting Female Researchers in Natural Sciences • proportion of female researchers in Japan is low compared to Western nations, remaining at roughly 17.5% • since 2007: The Shiseido Female Researcher Science Grant" awarded research grants to 10 female researchers
		Activities through Sports Strong, Fast, Beautiful— the motto of the Shiseido Running Club
		"The Shiseido Ladies Open" aspiring to achieve Active Beauty
		Clé de Peau Beauté: Supporting Education for Girls Clé de Peau Beauté and UNICEF entered a global partnership in 2019
		Shiseido Travel Retail: Supporting Marginalized Women and Girls in Cambodia
		International Women's Day: Shiseido Global Action

		Support for the Independence and Higher Education of Children who Live at Childcare Facilities or with Foster Parents
		female leader development program called NEXT LEADERSHIP SESSIONS for WOMEN
Wellbeing of the community	*negatively impacting women's self-esteem*	Launch Of an Interactive Website and the SEE, SAY, DO Program for Corporations/Organizations Shiseido launched a global project to dispel prejudices and stereotypes that impede people's achievement of their desired beauty, that is, unconscious beauty biases (UBBs)

Adapted from Shiseido (2022a; 2023). Sustainability Report 2022; Diversity, Inclusion and the Empowerment of Women at Shiseido.

Appendix 10: Targets & Results of Social Strategic Actions

Strategic Action	D&I	Targets		Target Year	2022 Results
4. Advancing Gender Equality	In Shiseido	• Ratio of female leaders at all levels in Japan	50%	2030	Directors and A&SB Members 40.0%*12 Executive Officers 35.3%*13 Managers in Japan 37.6%*14
	In society	• Empower women at workplaces in Japan • Support education and financial independence for socially vulnerable women worldwide	One million people (to reach directly)	2030	Related indicators are posted on **the Sustainability page of our corporate website**
5. Empowering People Through the Power of Beauty	In society	• Cultivating Self-Efficacy Through the Power of Beauty • Challenging the Unconscious Biases and Prejudices That Limit Individual Beauty	One million people (to reach directly)	2030	

Adapted from Shiseido (2022a, 10). Sustainability Report 2022.

Appendix 11: Data of Shiseido's Emissions

CO_2

Scope 1,2*1 (t)

	2018	2019	2020	2021	2022
Total	81,249●	78,750●	72,458●	65,481●	46,439●*3
Coverage(%)*2	96.1	96.8	100.0	100.0	100.0
Scope1	27,632●	27,036●	25,968●	28,744●	23,912●
Coverage(%)*2	94.0	95.0	100.0	100.0	100.0
Scope2	53,617●	51,714●	46,490●	36,737●	22,527●
Coverage(%)*2	97.3	98.0	100.0	100.0	100.0

*1 The performance data was calculated based on the GHG Protocol. Scope 2 was based on the market-based method.
*2 At all sites.
*3 Total emissions after the deduction of carbon credits (for 3,516 t) is 42,923 t

Scope 3*4 (t)

		2019	2020	2021	2022
Total		2,770,000	2,540,000	1,520,000	1,510,000
Category 1 Purchased goods and services	Emissions from other than land-use change	644,000●	528,000●	606,000●	473,000●
	Emissions from land-use change	—	—	347,000●*5	458,000●
Category 2 Capital goods		231,000	246,000	225,000●	150,000●
Category 3 Fuel and energy related activities		15,600	13,200	12,600	9,500
Category 4 Upstream transportation and distribution		110,000	85,400	51,600●	67,500●
Category 5 Waste generated in operations		20,700	33,000	15,100●	15,500●
Category 6 Business travel		14,700	1,600	900	2,400
Category 7 Employee commuting		5,200	6,200	8,500	7,500
Category 8 Upstream leased assets		0	0	0	0

Adapted from Shiseido (2022a, 74). Sustainability Report 2022.

Appendix 12: Environmental Initiatives of Shiseido

TBL dimension	Challenge	Shiseido's Initiatives
Emissions	*reduce emissions and minimize the impact on the environment*	Increasing the Use of Renewable Energy • In office spaces, the transition to renewable electricity involves converting 100% of the power supply in our Shiodome and Ginza headquarter offices. • Currently, renewable electricity constitutes 75% of the total power consumption within the Shiseido Group. • The installation of solar panels is part of this initiative. • Shiseido is actively participating in the RE100 global initiative, uniting businesses dedicated to utilizing 100% renewable electricity in their operations.
		Improving Energy Efficiency • Implemented Energy Management Systems for monitoring energy consumption and CO_2 emissions from equipment utilizing electricity, steam, or compressed air. • At the Osaka Ibaraki factory and adjacent West Japan Distribution Center, aimed to achieve a roughly 30% reduction in CO_2 emissions resulting from facility operations.
		Procurement of Raw Materials • Shiseido participated in the CDP Supply Chain Program • monitor suppliers' CO_2 emissions and engage with them to reduce emissions
		Reducing CO_2 Emissions During Transportation • optimize transportation routes and improve loading efficiency • trial of electric truck: expected to reduce CO_2 emissions by 1 ton per year
Waste	*Take-back programs*	• In-store Collection and Recycling

		• Brands: IPSA - operates a recycling program at a country and area to reduce its environmental impact and promote environmental awareness among consumers
	Sustainable packaging	• LiquiForm® technology: the new packaging technology was developed chiefly by Amcor. Shiseido worked with Yoshino Kogyosho, a company that has put the technology to use, to jointly develop cosmetic packaging. • 2022: Shiseido China collaborated with China's Ministry of Ecology and Environment (MEE) and the Alibaba Group to publish China's first white paper on refillable beauty products • Brands with recyclable packaging: SHISEIDO and Clé de Peau Beauté, tube packaging for SIDEKICK
	Refillable products	• refillable packaging for more than 770 stock keeping units (SKUs) within 30 brands globally
Preserving of water, air, land	*Natural oil & palm oil*	• Procuring Sustainable Raw Materials • Until 2026: 100% sustainable palmoil • joined the Roundtable on Sustainable Palm Oil (RSPO), an international non-profit organization • In 2022 Shiseido replaced 36% of palm oil-derived raw materials - palm oil equivalent, weight basis - with certified palm oil of their factories are now RSPO certified • part of the Japan Sustainable Palm Oil Network (JaSPON) and the palm oil working group of the Consumer Goods Forum
Renewable resources	*developing and market more natural goods*	• Development of a Cosmetics Ingredient Utilizing Protein Fiber and Formulation into Products • A cosmetics ingredient was developed through the utilization of Brewed ProteinTM, a biodegradable fiber.

Biodiversity	*Animal testing*	• In February 2023 - participation in the recently initiated International Collaboration on Cosmetics Safety (ICCS) had been undertaken – 23 cosmetic brands are part of it

Authors' own illustration.

Appendix 13: Medium-to Long-term Targets and Results Environment

Medium- to Long-term Targets and Results

Strategic Action	Environment	Targets		Target Year	2022 Results
1. Reducing our environmental footprint	CO_2 Emissions	Carbon neutral[*6]		2026	45% (compared with 2019)
		CO_2 emission reduction (SBTi, Scope 1+2)	46.2%[*6]	2030	Plan to disclose in 2024
		CO_2 emission reduction (SBTi, Scope 3)	55%[*7]	2030	
	Water	Water consumption reduction	40%[*8]	2026	37% (compared with 2014)
2. Developing sustainable products	Packaging	Sustainable packaging	100%[*9]	2025	64%
3. Sustainable and responsible procurement	Palm Oil	Sustainable palm oil	100%[*10]	2026	36% (palm oil equivalent basis)
	Paper	Sustainable paper	100%[*11]	2023	97% (paper weight basis)

*6 At all our sites (compared to 2019)
*7 Throughout our value chain, excluding Shiseido sites (compared to 2019)
*8 For all our sites, intensity per sales, compared with 2014.
*9 For sale of products with plastic packaging.
*10 Physical supply chain models, identity preserved, segregated, and/or mass balance.
*11 Such as certified paper and recycled paper.

Adapted from Shiseido (2022a). Sustainability Report 2022.

Appendix 14: 5R model

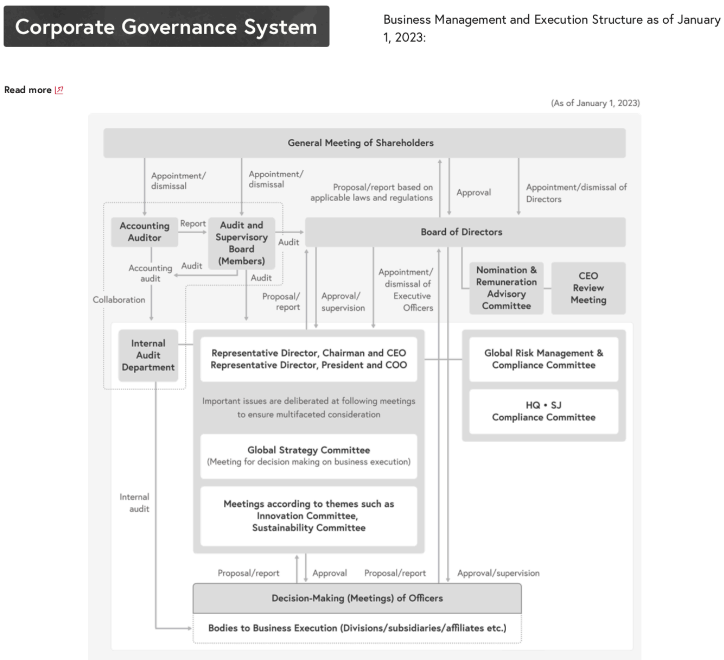
Shiseido's own packaging development policy *Shiseido's 5Rs : respect, reduce, reuse, recycle, and replace.* (Shiseido 2022a)

Adapted from Shiseido (2022a). Sustainability Report 2022.

Appendix 15: LiquiForm® Packaging Technology

Adapted from Shiseido (2022a). Sustainability Report 2022.

Appendix 16: Corporate Governance System



Adapted from Shiseido (2022a, 67). Sustainability Report 2022.

Appendix 17: Economic Initiatives

TBL dimension	Challenge	Shiseido's Initiatives
LT Viability, Financial resilience & Business stability	*Investing in circular economy (CE)*	Collaborating to Build a Circular Economy for Plastic Cosmetics Containers Shiseido launched an initiative in 2022 in collaboration with SEKISUI CHEMICAL CO., LTD. and Sumitomo Chemical Co., Ltd. The initiative involves creating a circular economy in which plastic cosmetics containers are collected and recycled without separating the materials
		BeauRing" Circular Model Project for Plastic Cosmetics Containers circular model project to collect and recycle plastic containers into new ones for reuse *POLA* brand of POLA ORBIS HOLDINGS INC. joined in the project
		R Plus Japan Ltd Shiseido invested in R Plus Japan in 2022 and engaged in recycling used plastics
	Economic instability	Shiseido prioritizes four global brands *SHISEIDO, Clé de Peau Beauté, NARS*, and *Drunk Elephan*t for significant investment worldwide. In Asia, they intend to focus on the brands ELIXIR and ANESSA men's makeup and skincare markets, increasing marketing investments by over ¥100 billion from 2023 to 2025
	Diminishing M&A	

Authors' own illustration.

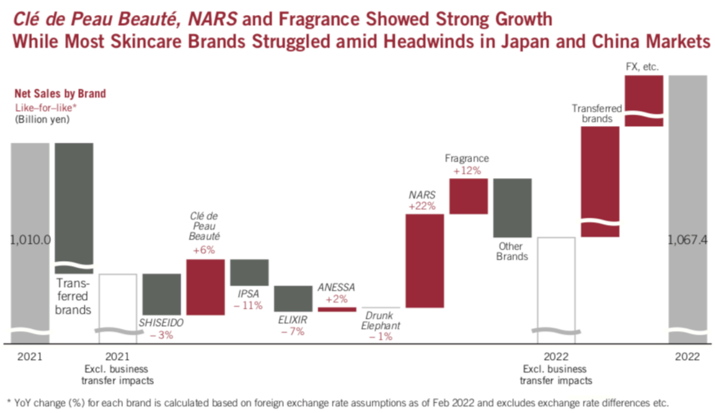
Appendix 18: Circular Economy – Collaborations to Build a Circular Economy for Plastic Cosmetics Containers

Adapted from Shiseido (2023a). Developing Sustainable Products.

Appendix 19: Net Sales of Shiseido

NET SALES

Net sales increased 5.7% year on year to ¥1,067.4 billion ($8,093.4 million) on reported figures, down 3.9% year on year on an FX-neutral basis, or up 0.9% year on year on a like-for-like basis, which excludes the impacts of foreign exchange translation and business transfers. The result primarily reflected the recovery in the EMEA, Americas, and Travel Retail Business, despite the continuing uncertain situation in China caused by the COVID-19 pandemic.



Adapted from Shiseido (2022). Integrated Report 2022.

Appendix 20: Estee Lauder's Initiatives

COMMITMENT		FY23 PROGRESS[1,2]	STATUS
RACIAL EQUITY			
Listening and Learning	We are committed to fostering a stronger internal culture of advocacy and inclusion to help employees share their voices, be heard, and collectively affect change.	In fiscal 2023, we launched a new self-paced digital version of the Unconscious Bias training workshop in 14 languages. In addition, we hosted multiple live sessions of Unconscious Bias training. Held employee listening sessions hosted by the Equity and Engagement Center of Excellence.	
Talent and Opportunity	We are working to ensure we are providing more equitable access to professional development and advancement for our Black employees in the United States and hold ourselves accountable for creating a workforce that is more representative and responsive to people of all backgrounds.	U.S. Census Data for Black population was 13.6% as of 2020. In fiscal 2023, 18.2% of our U.S. new hires were Black. Black representation at the Director and above level in the United States was 5.0% in fiscal 2023. 31.5% of From Every Chair Program participants from the first and second cohort received promotions since its launch in fiscal 2021. Continued to strengthen recruiting network to include a wide cross-section of colleges and universities, including Historically Black Colleges and Universities (HBCUs).	
Representation	We are working to ensure that the end-to-end creative process accurately and consistently represents the Black experience, engages Black professionals, and that our products meet the needs of our Black consumers.	Continued to build Creative Agency roster with Certified Black Owned Agencies. Clinique EBCI "See Me" and M·A·C "Perfect Your Pout" campaigns, both developed by Latino-owned Gates Creative, are finalists for 2023 Ogilvy awards. Supported Brands in the development of 360 Degree Action Plans that deliver relevant content to drive strong consumer engagement.	
Suppliers	We commit to at least double the amount we spend with Black-owned businesses over the next three years.	We spent $44 million with Black-owned businesses in fiscal 2023—a 120% increase from the baseline fiscal 2020 spend of $20 million.	
Investing in Change	We seek to meaningfully support external organizations and nonprofits advancing racial and social justice and addressing disparities.	We have successfully surpassed our 2020 pledge to invest $10 million over a three-year period[4].	

EMPLOYEE ENGAGEMENT					
Employee Safety	We will drive safety to continue decreasing the total incident rate[11] to ensure continued world class-leading levels, with a goal of 0.15 by 2025.	0.20	0.15	Globally, ELC had a total incident rate of 0.20 in fiscal 2023, which is unchanged from the rate reported in fiscal 2022. We continue to take steps to identify and eliminate risk across our operations and engage our employees.	
Employee Volunteerism & Giving	By 2025, we will engage and mobilize employees to contribute a total of $25 million, by completing actions such as donating or volunteering, to nonprofits through ELC's social impact and sustainability engagement program, since its launch in 2015.	$20.8 million[12,13]	$25 million	We continued to make progress towards our 2025 target through a portfolio of employee engagement initiatives.	

TARGET MET ON TRACK

COMMITMENT		FY23 PROGRESS[1,2]	STATUS
GENDER EQUITY			
Opportunity	Achieve global pay equity[3] by 2023.	In fiscal 2023, women earned 99.2% of what comparably positioned men earned globally for employees across R&D, Supply Chain (including Manufacturing and Distribution), other Corporate Functions, Brands, and Regions (except for point-of-sale and non-discretionary pay populations).	
	Increase spend with women-owned businesses to $150 million (per fiscal year) by fiscal 2025.	Spent $162 million with women-owned businesses in fiscal 2023—exceeding our goal of increasing women-owned business spend to $150 million by fiscal 2025.	
Leadership	Achieve gender parity for women in senior leadership positions (SVP+) globally by 2025.	46% of Global SVP positions and above are held by women.	
	Expand leadership development programs.	We graduated three cohorts of the Open Doors Women's Leadership Intensive. We held 10 Open Doors Collab programs led by brands, regions, functions, and ERGs. We broadened the reach of the Open Doors Course Collection to include more than 3,000 employees. For more information on Open Doors, see pp. 18, 48, 56.	
Health and Education	Sustain position as #1 global corporate donor to the Breast Cancer Research Foundation® (BCRF).	ELC continues to be the largest corporate donor to BCRF, funding research grants worldwide. In fiscal 2023, the ELC Charitable Foundation (ELCCF) made a $15 million commitment over five years that will fund a new BCRF research initiative. As of June 30, 2023, $3 million has been funded for this study. For more information, see pp. 24, 51, 56.	
	Launch and expand select philanthropic partnerships in health and education.	ELC continues to support Co-Impact's Gender Fund with a multi-year commitment of $15 million over five years through ELCCF. The Gender Fund has awarded more than 40 grants to predominantly women-led local organizations across Africa, Asia, and Latin America. ELC continues to work in collaboration with National Youth Poet Laureate Amanda Gorman, on WRITING CHANGE, a three-year, $3 million initiative to support grassroots organizations dedicated to advancing literacy as a pathway to equality, access, and social change, through the power of young voices. ELC has awarded grants to the American Library Association, We Need Diverse Books, Girls Write Now, WriteGirl, and MIGIZI.	

COMMITMENT		FY23 PROGRESS[1,2]	STATUS
GENDER EQUITY			
Opportunity	Achieve global pay equity[3] by 2023.	In fiscal 2023, women earned 99.2% of what comparably positioned men earned globally for employees across R&D, Supply Chain (including Manufacturing and Distribution), other Corporate Functions, Brands, and Regions (except for point-of-sale and non-discretionary pay populations).	
	Increase spend with women-owned businesses to $150 million (per fiscal year) by fiscal 2025.	Spent $162 million with women-owned businesses in fiscal 2023—exceeding our goal of increasing women-owned business spend to $150 million by fiscal 2025.	
Leadership	Achieve gender parity for women in senior leadership positions (SVP+) globally by 2025.	46% of Global SVP positions and above are held by women.	
	Expand leadership development programs.	We graduated three cohorts of the Open Doors Women's Leadership Intensive. We held 10 Open Doors Collab programs led by brands, regions, functions, and ERGs. We broadened the reach of the Open Doors Course Collection to include more than 3,000 employees. For more information on Open Doors, see pp. 18, 48, 56.	
Health and Education	Sustain position as #1 global corporate donor to the Breast Cancer Research Foundation® (BCRF).	ELC continues to be the largest corporate donor to BCRF, funding research grants worldwide. In fiscal 2023, the ELC Charitable Foundation (ELCCF) made a $15 million commitment over five years that will fund a new BCRF research initiative. As of June 30, 2023, $3 million has been funded for this study. For more information, see pp. 24, 51, 56.	
	Launch and expand select philanthropic partnerships in health and education.	ELC continues to support Co-Impact's Gender Fund with a multi-year commitment of $15 million over five years through ELCCF. The Gender Fund has awarded more than 40 grants to predominantly women-led local organizations across Africa, Asia, and Latin America. ELC continues to work in collaboration with National Youth Poet Laureate Amanda Gorman, on WRITING CHANGE, a three-year, $3 million initiative to support grassroots organizations dedicated to advancing literacy as a pathway to equality, access, and social change, through the power of young voices. ELC has awarded grants to the American Library Association, We Need Diverse Books, Girls Write Now, WriteGirl, and MIGIZI.	

Adapted from Estée Lauder (2023). Our fiscal 2023 social impact & sustainability report.

References

AFP. 2023. ""Shiseido: net profit doubles in Q1 but forecast unchanged"." *Fashion Network.* Accessed December 6, 2023. https://ww.fashionnetwork.com/news/Shiseido-net-profit-doubles-in-q1-but-forecast-unchanged,1516265.html.

Braccini, A., and E Margherita. 2018. *Exploring Organizational Sustainability of Industry 4.0 under the Triple Bottom Line: The Case of a Manufacturing Company.* Vol. 1. 11 vols. Sustainability.

Breuer, Sydnee. 2022. "THE IMPACT OF ECONOMIC INSTABILITY ON BEAUTY." *Beauty Matter.* Accessed December 10, 2023. https://beautymatter.com/articles/the-impact-of-economic-instability-on-beauty.

Collins, Allison. 2022. "Will Macro Economic Turmoil Finally Burst Beauty M&A's Bubble? ." *WWD.* Accessed December 10, 2023. https://wwd.com/beauty-industry-news/beauty-features/beauty-mergers-acquisitions-economy-inflation-1235190832/.

Cosmetics Business. 2023. "Shiseido slashes 2023 profit forecast due to slower demand in China." *Cosmetics Business.* Accessed December 7, 2023. https://www.cosmeticsbusiness.com/shiseido-slashes-2023-profit-forecast.

Culliney, Kacey. 2022. "Weak 2022 economic climate 'creating conflict' for sustainable beauty." *Cosmetics Design.* Accessed December 10, 2023. https://www.cosmeticsdesign-europe.com/Article/2022/10/31/Sustainable-beauty-challenges-tough-amidst-2022-economic-crisis-says-Ecovia-Intelligence?utm_source=copyright&utm_medium=OnSite&utm_campaign=copyright .

Elkington, J. 1998. *Accounting For The Triple Bottom Line.* Vol. 2. 3 vols. Measuring Business Excellence.

EPA. 2023. "Nitrogen Oxides (NOx) Control Regulations." *Unted States Environmental Protection Agency.* Accessed December 10, 2023. https://www3.epa.gov/region1/airquality/nox.html#main-content.

Estée Lauder Company. 2023. *OUR FISCAL 2023 SOCIAL IMPACT & SUSTAINABILITY REPORT.* Sustainability Report, The Estée Lauder Companies Inc.

Fernandes, Paula. 2023. "What Is the Triple Bottom Line?" *Business.* Accessed December 10, 2023. https://www.business.com/articles/triple-bottom-line-defined/.

Fortna. 2023. "Konzept zur Einführung einer Kreislaufwirtschaft (Concept for the introduction of a circular economy)." *Fortna.* Accessed December 15, 2023. https://www.fortna.com/de/insights-resources/adopting-a-circular-economy-approach/.

Foster, Nina, and Simon Retallack. 2023. *Greenhouse gloss Is the beauty industry's commitment to tackling climate change more than skin deep?* Carbon Trust.

GreyB. 2023. *Cosmetics Industry Trends 2024 Linked In.* Accessed December 10, 2023. https://www.linkedin.com/pulse/cosmetics-industry-trends-2024-greyb-2tg4f/.

Gutierrez, Lukas. 2023. "Beauty at What Cost? The Environmental Impact of Cosmetic Ingredients and Materials." *Sustainable Earth.* Accessed December 10, 2023. https://sustainable-earth.org/cosmetic-ingredients/#:~:text=According%20to%20the%20social%20justice,ultimately%20end%20up%20in%20landfills.

Howard, Vern. 2021. "Woke-Washing, The Glass Cliff And The Need For A Better Answer In Diversity Leadership." *Forbes.* Accessed December 6, 2023. https://www.forbes.com/sites/forbestechcouncil/2021/06/15/woke-washing-the-glass-cliff-and-the-need-for-a-better-answer-in-diversity-leadership/?sh=124f07e15ea0.

Księżak, P, and B Fischbach. 2018. "Triple Bottom Line: The Pillars of CSR." *Journal of Corporate Responsibility and Leadership* (Journal of Corporate Responsibility and Leadership) 4 (3): 95.

Matsuyama. 2023. *BNN Bloomberg.* Accessed December 6, 2023. https://www.bnnbloomberg.ca/shiseido-posts-biggest-drop-in-12-years-after-cutting-forecast-1.1997624.

McKinsey. 2023. *The beauty market in 2023: A special State of Fashion report.* McKinsey& Company.

Miller, Kelsey. 2020. "THE TRIPLE BOTTOM LINE: WHAT IT IS & WHY IT'S IMPORTANT." *Harvard Business School Online.* Accessed December 10, 2023. https://online.hbs.edu/blog/post/what-is-the-triple-bottom-line.

Mingyi, Chew. 2021. "The Triple bottom line (3P) in the beauty industry." *UCSI College.* Accessed December 10, 2023. https://www.ucsicollege.edu.my/the-triple-bottom-line-3p-the-beauty-industry.

Parkikinen. 2023. *3 Challenges Holding Back The Business Of Beauty.* Accessed December 10, 2023. https://www.forbes.com/sites/forbestechcouncil/2023/02/16/3-challenges-holding-back-the-business-of-beauty/?sh=4ee3f68f2d95.

Pauley, Amanda. 2022. "Debate: are too many brands in the beauty industry woke-washing?" *Professional Beauty.* Accessed December 10, 2023. https://professionalbeauty.co.uk/site/newsdetails/are-too-many-beauty-brands-woke-washing.

Pauley, Amanda. 2023. "Shiseido signs Bollywood star Tamannaah Bhatia as first Indian ambassador." *Cosmetics Business.* Accessed December 7, 2023. https://cosmeticsbusiness.com/shiseido-signs-bollywood-star-tamannaah-bhatia-as-first.

Peta. 2023. Accessed December 7, 2023. https://tierversuchsfrei.peta-approved.de/firmen-die-nicht-an-tieren-testen/page/6/.

Sangal, Aditi. 2023. "The $500 billion beauty industry's 'green' ambitions are a patchwork at best. And they're falling short." *CNN Style.* Accessed December 10, 2023. https://edition.cnn.com/style/article/beauty-skincare-climate/index.html.

Scispace. n.d. "What are the main criticisms of Triple Bottom Line (TBL) theory?" *typeset.* Accessed December 14, 2023. https://typeset.io/questions/what-are-the-main-criticisms-of-triple-bottom-line-tbl-1pzqdrnvlj#:~:text=The%20main%20criticisms%20of%20Triple%20Bottom%20Line%20(TBL)%20theory%20are,based%20on%20a%20real%20concept.

Shiseido. 2020. "SHISEIDO Global Campaign "With One Another. Without Limits. Our Future Is Beautiful."." *Shiseido.* Accessed December 7, 2023. https://corp.shiseido.com/en/news/detail.html?n=00000000002924.

Shiseido. 2022. *Integrated Report 2022.* Shiseido.

Shiseido. 2022a. *Sustainability Report 2022.* Shiseido. Accessed November 26, 2023. https://corp.shiseido.com/sustainabilityreport/en/2022/.

Shiseido. 2023. "Diversity, Inclusion and the Empowerment of Women at Shiseido." *Shiseido.* Accessed November 26, 2023. https://corp.shiseido.com/en/sustainability/society/gender-equality3/.

Shiseido. 2023a. "Developing Sustainable Products." *Shiseido.* Accessed December 6, 2023. https://corp.shiseido.com/en/sustainability/env/action3.html.

Shiseido. 2023b. "Shiseido Starts Pilot Test of Circular Model Project "BeauRing" for Plastic Cosmetics Containers." *Shiseido.* Accessed December 6, 2023. https://corp.shiseido.com/en/news/detail.html?n=00000000003558&rt_pr=trm68.

Shiseido. 2023c. *Instagram Post for Women's Day.* Accessed 2023. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwj0_5e204WDAxUhTqQEHaJGASkQFnoECBIQAQ&url=https%3A%2F%2Fwww.instagram.com%2Fp%2FCMLcgA9LM2c%2F%3Fhl%3Dde&usg=AOvVaw1J2C27angt0DC9d8iQa-vI&opi=89978449.

Shoaib. 2023. *Vogue Business .* Accessed November 26, 2023. https://www.voguebusiness.com/sustainability/is-beauty-overlooking-its-biggest-sustainability-challenge?

Siapartners. 2023. *CSR in the cosmetics sector: what are the key strategic trends?* Accessed December 10, 2023. https://www.sia-partners.com/en/insights/publications/csr-cosmetics-sector-what-are-key-strategic-trends.

Simon Kucher &Partners, Strategy & Marketing Consulting. 2021. *Global Sustainability Study 2021 – Consumers are key players for a sustainable future.* Simon Kucher & Partners.

Slater, Ruth. 2021. "Sustainable Beauty Coalition: Palm Oil." *British Beauty Council.* Accessed December 12, 2023. https://britishbeautycouncil.com/sustainable-beauty-coalition-palm-oil/.

UW EXTENDED CAMPUS. 2022. "Triple Bottom Line – What is the Triple Bottom Line?" *University of Wisconsin.* Accessed December 10, 2023. https://uwex.wisconsin.edu/stories-news/triple-bottom-line/.

Watkins, Dasjanee. 2022. "The Social Issues of the Beauty Industry." *The Garnette Report.* Accessed December 10, 2023. https://thegarnettereport.com/beauty/the-social-issues-of-the-beauty-industry/.

Willard, Bob. 2012. *The new sustainability advantage seven business case benefits of a triple bottom line.* New Society Publishers.

WWF. 2021. "227 PALM OIL BUYERS ASSESSED IN 2021." *WWF Palm Oil Scorecard.* Accessed 12 12, 2023. https://palmoilscorecard.panda.org/#/home.

Young, Olivia. 2021. "Palm Oil in Cosmetics: Environmental Impact and Sustainability Concerns." *Treehugger.* Accessed 12 12, 2023. https://www.treehugger.com/palm-oil-cosmetics-5206444#citation-15.

Żak, A. 2015. *Triple bottom line concept in theory and practice. DOI: 10.156.*