

## OnLine Case 5.1

### The Body Shop

The Body Shop, which sources and retails (directly and through franchises) naturally inspired lotions and cosmetics, has been a highly successful business with a price to earnings ratio which stayed well above the retail sector average throughout the 1980s, before declining as a result of expansion and increased competition. Until 1999, The Body Shop also manufactured at least half of the products it sold.

The Body Shop was started in England in 1976 by Anita Roddick and her husband Gordon, as a means of supporting Anita and their two daughters while Gordon went to fulfill a dream, riding horseback across the Americas. Gordon helped Anita get a bank loan of £4000 to open the first shop – a family friend, Ian McGlinn also chipped in £4000 - and shortly afterwards, while Gordon was away, the first franchise was agreed. Stores have subsequently been opened in over 50 countries – there are now over 2000 stores – and The Body Shop was floated on the UK Stock Exchange in 1984. Well renowned for its environmental and ethical stance and strategies, The Body Shop has made an impact around the world. 'If you think you are too small to have an impact, try going to bed with a mosquito' (Anita Roddick).

Anita's motivation for starting the business she did was always *influenced* by her personal commitment to education and to the environment and social change. Through The Body Shop, her talent for entrepreneurship was channelled into a cause. It has, though, always been an interesting question as to whether Body Shop was started as a retail business with particular values or as a means of pursuing an ethical crusade.

The business and its financial success has been a vehicle to achieve other, more important, objectives. 'Profits are perceived as boring, but business as exciting'. The Body Shop's declared 'reason for being', 'dedicates the business to the pursuit of social and environmental change'. Anita Roddick was concerned to do something that was 'economically, socially and ecologically sustainable, meeting the needs of the present without compromising the future'. Her ideas were the outcome of her world travels. She had visited many developing countries, 'living native', and had seen how women used natural products efficaciously and effectively. She noticed how women in Tahiti rubbed their bodies with cocoa butter to produce soft, satin-like skin despite a hot climate. She realized that women in Morocco used mud to give their hair a silky sheen. She also saw Mexicans successfully treat burns with aloes, the slimy juice from cactus leaves. From these observations and experiences she conceptualized, and realized, her opportunity. She would use natural ingredients from around the world to produce a range of new products. People in villages were asked to supply her with the natural ingredients she needed – a form of community trade.

The Body Shop has always aroused enthusiasm, commitment and loyalty amongst those involved with it. 'The company must never let itself become anything other than a human enterprise'. Much of this has developed from the ethical beliefs and values of Anita and Gordon Roddick, which have become manifested in a variety of distinctive policies. Gordon oversaw many of the operational aspects of the business.

The Body Shop adopts an environmentally responsible approach, offering products in minimal or no packaging. Posters in the shops have been used to campaign, among other things, to save whales and to stop the burning of rain forests. Packaging is simple, yet the shops are characterized by strong and distinctive aromas. The packages, together with posters and shelf cards, provide comprehensive information about the products and their origins and ingredients. This has created a competitive advantage which rivals have at times found difficult to replicate.

The sales staff are knowledgeable, but they are not forceful and do not sell aggressively, generally offering advice only if it is requested. Marketing themes concern 'health and well-being rather than glamour, and reality rather than instant rejuvenation'. The Body Shop chose to avoid advertising for many years, preferring in-store information and word of mouth to

attempts at persuasion. More recently, and especially in the USA, informative advertising has been used. The Body Shop states that neither ingredients nor final products have been tested on animals. Despite the company's active stance on ethical issues, there have been accusations to the contrary, and The Body Shop was forced into litigation (which it won) in 1992. The business has always been controversial in some circles and attracted hostility. When the first shop opened local morticians were horrified at the name: The Body Shop!

Employees are provided with regular newsletters and training packages. Anita Roddick contributed regularly to the newsletters, which *concentrate* on The Body Shop campaigns and products. Employees are given time off during working hours, to do voluntary work in the community.

The Body Shop was initially able to integrate manufacturing and retailing effectively and was efficient and operationally strong. Fresh supplies could be delivered to its UK stores with a 24-hour lead time. These strategies, policies and beliefs generated substantial growth and profits in the 1980s. In the year ended 28 February 1991 turnover exceeded £100 million with trading profits of some £22 million. When these results were announced the UK share price exceeded 350 pence. Between 1984 and 1991, against the Financial Times All Share index of 100, The Body Shop shares rose from an index figure of 100 to 5500. However, by mid-1995 the share price had fallen to 150 pence. Profits had fallen; new professional senior managers had been brought in to add strength. One dilemma concerned whether the culture and quirky management style was still wholly appropriate as The Body Shop became a much bigger international business. Global scale brings global competition. As the business grew it lost some of its entrepreneurial spirit.

In addition, The Body Shop had attracted more and more competition. Leading UK retailers such as Boots, Marks and Spencer and Sainsbury's introduced natural ingredients in their own-label ranges; further competition arrived in the form of the US Bath and Body Works chain, whose early trial stores in the UK were a joint venture with Next. Bath and Body Works is renowned as a fast-moving organization, quick to innovate new ideas – and aggressive at advertising and promotion. Among its responses in the UK, The Body Shop began trials of a party plan operation. The first Values Report was published by The Body Shop in 1995 and detailed independently verified information relating to the company's social and ethical performance.

In October 1995 The Body Shop announced its intention to re-privatize the company by buying back shares. The shares would then be placed in a charitable trust, which would be able to make donations to humanitarian and environmental causes. The plan was abandoned in March 1996 because The Body Shop would have had to borrow heavily to finance the plan. In 1998, Anita joined Gordon as a co-chairman and a new chief executive (Patrick Gournay) was recruited from outside the company. The loss-making US business was separated out and a joint venture agreement was established; a non-executive director injected \$1 million in exchange for an option to acquire 49% of the US business. In 1999 The Body Shop withdrew from manufacturing and established a strong supply network instead, enabling it to concentrate on the retail end of the business.

Profits grew steadily throughout the 1990s, reaching almost £40 million in 1998. However, by 2001/2 they had fallen to £13 million and disappointed shareholders wanted changes. Gournay was dismissed; the Roddicks stepped down from their co-chairman role, although Anita was retained as a creative consultant. The US joint venture partner was bought out. Takeover rumours came and went. The new chief executive, Peter Saunders, proclaimed that his strategic priorities were new products (for new customers) and tighter cost controls.

Simply, the 'green market' for cosmetics had changed as it had grown, albeit that that growth had been prompted by the success of The Body Shop. Competitors such as Aveda had seized the premium end of the market; at the same time the leading supermarket chains had taken sales of lower price items. The Body Shop had lost something of its distinctive edge.

In 2005 the business achieved pre tax profits of £35 million from sales of £420 million. There were 7000 employees.

During the following year the company was sold to French cosmetics group, L'Oreal, for £650 million. It is very difficult to miss seeing L'Oreal advertising on commercial television, where celebrities such as Scarlett Johansson, Penelope Cruz and Andie MacDowell all declare 'Because You're Worth It!' It is a very different approach to advertising from that of The Body Shop. Interestingly L'Oreal has only limited experience of retailing. The Roddicks earned roughly £130 million from the sale of their shares in The Body Shop. Ian McGlinn, the first investor who had retained some 23%, pocketed £150 million – a handsome return for his initial £4000.

L'Oreal declared that it intended to increase the international presence of The Body Shop even further. India was an early target, followed by China. There would be a strong emphasis on research and development, but not involving any animal testing, which L'Oreal itself had avoided since 1989.

(Dame) Anita Roddick died in September 2007.

The Body Shop has always been an idiosyncratic, unusual and high-profile business; Anita Roddick, like Richard Branson, was an entrepreneur who made a very individual contribution. It was never easy and it required courage in the face of criticism, hostility and setback.

### **Questions:**

Early on the question was posed: Was The Body Shop started as a retail business with particular values or as a means of pursuing an ethical crusade? What do you think?

How different do you believe it would feel to work for The Body Shop as distinct from a retailer without the same manifest commitment to environmental and ethical issues?

In what ways might this commitment prove disadvantageous?

*To answer these questions you are encouraged to visit a Body Shop and other rival stores and consider the culture against the framework presented in Figure 7.7.*

What do you think The Body Shop should do next? Is there a future without Anita Roddick? Is this regard examine what happened to Laura Ashley as a business post the unexpected death of its founder.

*The Body Shop* <http://www.bodyshop.com>