

Analysis of the Bankruptcy of L'OCCITANE

Xu Weiwei¹

¹*The Barstow School - Ningbo campus, China, 315000*
 Author's Email: xuweiwei@hanvos-kent.com

ABSTRACT

The financial bankruptcy of leading global beauty giant L'OCCITANE has aroused widespread attention worldwide with major impacts on the financial decline of the brand and the brand filing bankruptcy. The underlying factors point to fiscal management and varying trends in the beauty world. This is the central reasoning behind the bankruptcy of the brand around the world. The impact of Covid-19 in the bankruptcy is another central factor. This paper aims to explore the key factors that contributed to the bankruptcy of the beauty giant and the contributing factors that led to the eventual Chapter 11 filing. This paper provides statistical insight into the closure of the firm and presents a holistic insight into the contributing factors to the bankruptcy of the company.

Keywords: *L'Occitane, Bankruptcy, Management.*

1. INTRODUCTION

With the transition in global financial conditions and trends, the impact on conventional financial companies requires extensive evaluation. The variation in the conditions and the factors that contribute to the financial deterioration of the companies are all central to the culmination of the company's condition. As a leading global beauty brand, the landscape of L'Occitane and its subsequent filing for bankruptcy offers a broad outlook into the conditions in the conventional retail business. The company had been struggling with debt prior to being impacted by the elements of Covid-19 on conventional retail businesses stemming from the imposed movement limitations.

The basis of topic selection is the exploration of the factors playing into the impact on the retail world and exploring the social elements being changed by the economic dynamics explored in the case of L'Occitane. The primary focus of this study is the exploration of the specific factors that contributed to the bankruptcy of the brand while reviewing the academic perspective on the retail sector amidst the ongoing Covid-19 pandemic [1].

As a company with a hybrid digital and physical sales strategy, elements of the L'Occitane strategy can provide comprehensive insight into the financial landscape of the company and the broader state of the global beauty retail segment. The consideration of the consumer shift towards digital shopping and online purchasing has been a significant aspect for the company with the requirement

of an academic evaluation of digital shifts for the company across different retail segments.

2. LITERATURE REVIEW

The evaluation of existing academic sources on the bankruptcy of fiscal organizations presents a wide variety of reasons contributing to the decline of companies throughout different key spaces. Within the beauty space, the financial transition from the conventional business model has been marked by the declaration of bankruptcy by L'Occitane. The evaluation of academic sources points towards increasing trends of financial changes stemming from the Covid-19 pandemic in the business management structure of leading global brands.

Estimates regarding the magnitude of the global beauty industry point to a scale exceeding \$500 Billion prior to the Covid-19 pandemic. This scale is inclusive of the cosmetic, hair-care, and personal care industries. The beauty industry has been conventionally based around the brick-and-mortar model with digital sales slowly emerging as a replacement to the conventional model. However, with the development of improved tools, the digital landscape has rapidly replaced the conventional industrial directions thanks to the involvement of digital influencers and increasing digital usage trends with users leaning towards technological solutions to support their purchasing decisions. Figure 1 shows that the annual net sales of L'Occitane brand in Provence from 2016 to 2020 show an upward trend.

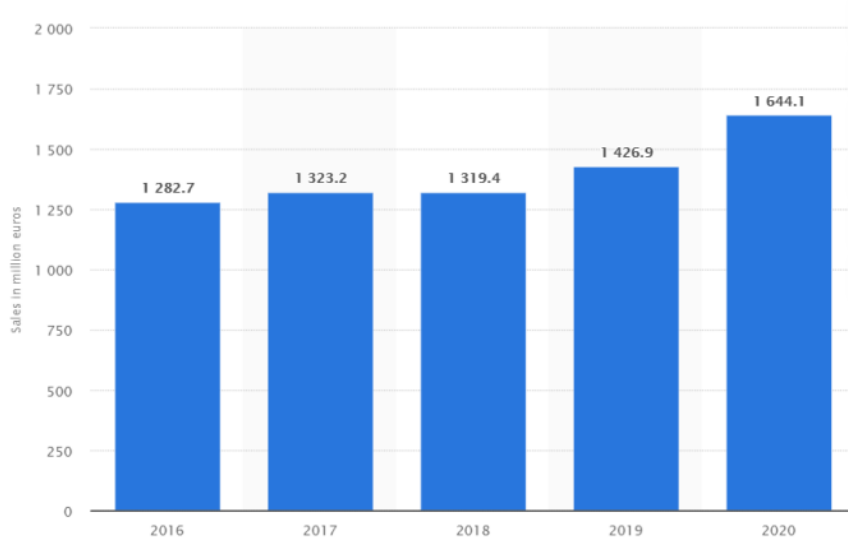


Figure 1 Net sales of L'Occitane en Provence worldwide from 2016 to 2020

The evaluation of the Covid-19 impact on the beauty industry in Australia presented a reflection of a rapidly closing industry according to the research[4]. Based on the evaluation of the reflective opinions of the 216 participants within the study, the questions were focused on the impacts of Covid-19 on beauty services as a mechanism of stress relief and confidence improvement. The results of the study pointed toward a wider decrease within Australia regarding appearance-focused behaviors. This behavior was also reflective of the inherent concerns present within individuals concerns with the closure of beauty services. A linked aspect within the study with connections to the Covid-19 phenomenon was identified to be the break from social appearance pressures dictated in conventional settings.

Impacts of the pandemic have been equally persistent across other sectors with leading global brands including Godiva announcing the closure of their physical outlets. The shift has been commuted as a central part of the transition in the primary strategy for the brand shifting away from the retail aspect of the business to move towards a more digitalized business plan. The plans have been followed along with leading clothing and accessory brands including the American Eagle outlets to mitigate the damages stemming from closed stores around the world. The impacts have led to a direct decline in quarterly sales around the world with the imposition of physically restrictive lockdowns and other policy decisions being implemented to curb the spread of the virus [5].

A central aspect of the identified tolls on L'Occitane has been reflected in the form of the increasing external debt on the company. The closure of the physical stores of the company was associated with an internal increase

in the required financial input into the stores. The company has to shift away from conventional stores towards adaptive models involving digital sales.

The trend of digital sales replacing retail-based models has been a major development[6]. The exploration of the research focused on the evolving direction of digital retail with the requirement of establishing meaningful customer relationships in the digital age to carry forward the conventional connections. The evaluation of the customer relationship model with the integration of digital avenues pointed towards the technological developments being central to mapping the social nature of relationships. With over 29 self-care and beauty retailers filing for bankruptcy in 2021, the common reason identified was unpaid rents and store closures stemming from the Covid-19 pandemic and the enacted requirements for companies to limit their business operations during the pandemic.

The pandemic resulted in the reduction of working hours, limited the fulfillment capacity, and enforced temporary closures to impact the profitability and revenue of retail chains[7]. The leases of the L'Occitane in the US alone were identified to be more than \$30 million per year. However, despite the impact stemming from the pandemic, the investor sentiment into the brand prospects revealed transition instead of a permanent closure of services with investors expressing confidence in the company's digital initiatives to move towards viable E-Commerce avenues and to minimize the liabilities and costs associated to the maintenance of conventional sales. The reflection of the confidence was visible through the increase in the share price of the company reflecting an increase of over 16% within the year, as shown in figure 3.

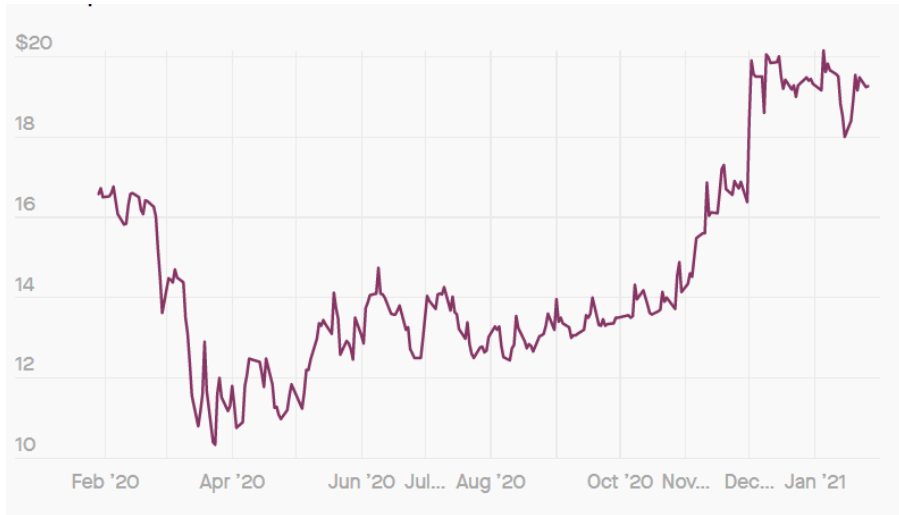


Figure 2 Share price for L'Occitane International

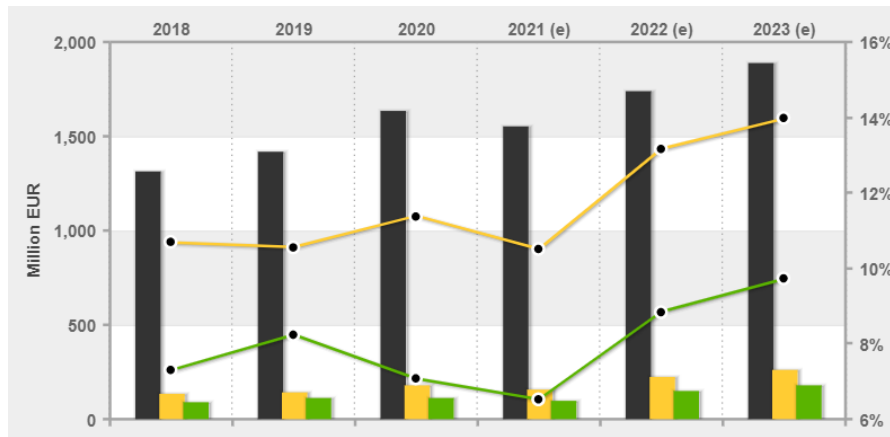


Figure 3 Income Statement Evolution

3. BACKGROUND OF THE COMPANY

The primary directive of the exploration of the causes behind the bankruptcy of the company is centered around the large traction of the company with its global directives and the far-reaching consequences of the improved understanding of the reasons behind the bankruptcy filing of the company. The exploration of the context of the company and its financial history is central to the evaluation to extenuate the learning elements to other companies in the space.

The company's filing of Chapter 11 bankruptcy in the United States emerged as a major shock to the global beauty industry with the declaration of the decline of the brick-and-mortar sales model being identified as the primary reason for the decline in the company's sales. The revenue drops for the company increasing to over 56% on a yearly basis is a significant declaration of the lack of effectiveness in the company's current model. Despite the company indicating public cash flow solvency throughout its public declarations, the elements of the bankruptcy and the primary reasons need to be

explored to have proper insight into the existing condition of the company and the direction of its future moving forward. As a company with boutiques across 90 countries, the impacts of the current bankruptcy declaration will extend into a global phenomenon with expansive consequences [2].

4. PRIMARY REASONS BEHIND BANKRUPTCY

4.1. Impact of Covid-19 on Company Operations

Throughout the Covid-19 pandemic, businesses have been extensively impacted by the limitations and social changes resulting from the enforcement of the pandemic. From the social transformations to the broader changes in the entrepreneurial landscape, the impact is not purely limited to the medical toll exerted by the virus. Based on the aspects of the Covid-19 pandemic, the impact on the L'OCCITANE has been extensively documented stemming from the physical branches of the company shutting down throughout the United States. Based on the available insight through the fiscal elements shared by

the company, it is evident that the impact resulting from the Covid-19 limitations and the embedded costs have played a major role in impacting the company's direction moving forward [3]. The limitations from Covid-19 have forced the company to consider restructuring in its broader management directives and adopt a strategy that is compatible with the requirements of the new digital age. The impact of the Covid-19 played a central role in the propagation of the bankruptcy of the company and accentuated the losses of the company stemming from the employee costs and increase in debt overtime resulting from the lack of physical revenue and inherent costs.

The Covid-19 impact for the company has also been associated with transformed consumer behaviors with users preferring to move towards online shopping options for their preferred goods. This change in trends has led to a major shift towards digital options making it important for L'OCCITANCE to reconsider its conventional approach towards the beauty sales process and shift towards the digital model of sales to adapt to new consumer trends and purchasing patterns. The shift towards digital outlets has been identified by the company as a major part of its transitional approach.

Another element of the impact of the company has been centered around the impact on the company's employee management strategies. The shift towards remote working aspects has made it a viable possibility for the company to reconsider its conventional approach and adopt a hybrid model with the combination of conventional physical working options and modern remote working configurations. The adaptation required with the new model and employee behavior is all reflections of the Covid-19 impact on the company which played a factor in the financial condition of the company deteriorating to its current level. The employee management statistics for the company point towards over 40 employees being terminated from the company as a result of the store closures.

4.2. Role of Debt in Bankruptcy

Based on the expressions conveyed by the company to its primary investors, the debt acting on the company was continuously increasing stemming from the lack of external revenues and the drop in profits. Debt has been a major part of the company's revamped strategy focused to shift away from conventional models with high embedded costs and management structures to move towards scalable digital models to ensure minimum debt and external reliance.

The company cashflow's struggle was centered around unpaid rent increasing up to \$15 million and lease obligations with physical locations acting as a major aspect of enhancing debt. With physical sales contributing to over 14% of the company's net sales

within 2020, the consumer shift of moving away from the conventional model was explored to have a major impact on the company sales with sales decreasing 9.2% during the nine-month period where the company experienced an E-Commerce sales growth of over 79%. The existing retail locations across the US also witnessed a sales drop of over 16%. The drop in sales and the payments pertaining to the leases were connected to the transition required by the company to maintain long-term sustainability and shift away from its existing physical model exerting costs on the company's cashflow and management.

5. CONCLUSION

Based on the evaluation of the contributing factors to the Bankruptcy of L'Occitane, it is clear that Covid-19 emerges as the primary factor that led to a major transition in the company's business model and accentuated the losses of the company. However, it is important to realize the financial realities for the company significantly emerging in the form of the revenue and debt elements of the company that contributed to the decline of the company's traction and led to a broader decline in company sales.

The decision-making to move towards bankruptcy in liaison with the new digital approach declared by the company presents an insight into a potentially worthwhile transition from the company to adapt to the changing consumer trends of the modern age. Concerns exist in the form of trends that present permanently changing customer reflections as a significant part of the beauty industry. Factoring in the Chapter 11 filings of similar brands in the space, it is evident that there is a major shift in the management of the beauty industry with a requirement for L'Occitane to adapt to the incoming changes in the market [8].

The future direction for the company reflects changing dynamics in the global beauty industry with the increasing role of online and digital sales and shifting consumer preferences. The debt and liabilities of the company also require a broader restructuring to ensure that losses are not further accentuated and workarounds with owners of conventional brick and mortar setups are achieved. Another significant aspect of the equation has emerged in the form of unemployment resulting from the company's decision to declare bankruptcy and shift from its conventional business model. The company's employee fillings have pointed towards a rapidly expanding base of unemployed individuals resulting from the company's decision. The steps moving forward for the company must be accommodating of the well-being of the employees and their security at a broader level to have the right impact. In terms of further exploratory evaluation in the case of the company's future, evaluation and analysis is required based on the decisions taken by the company in the future.

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