

Risk and Scenario Analysis of Cosmetics Business Recovery and Development in the Post-Covid-19 Pandemic Period- The Case of Estee Lauder

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ABSTRACT

The beauty industry has been severely affected by the covid-19 epidemic, and many studies have been conducted on the epidemic's impact on changes in consumer buying behavior for cosmetics. From the perspective of flexible risk management, this paper aims to discuss potential risks and scenarios for the cosmetics business in the beauty industry in the post-covid-19 epidemic phase. Estee lauder- a top cosmetics brand, is selected to analyze the business strategies and financial performance using value chain and ratio analysis from the risk perspective. There are four possible future scenarios and corresponding strategies based on scenario planning and external risks. The conclusion is that Estee Lauder faces operational risk, covid-19 risk, and the risk of customer preferences changing most. Moreover, there are various opportunities for Estee Lauder and other brands to transform and develop the cosmetics business through identifying potential risks and making scenario planning for long-term strategic decisions.

Keywords: Risk and Scenario, Cosmetics Business, Financial Analysis, Estee Lauder

1. INTRODUCTION

With the worldwide impact of the covid-19 pandemic, the beauty industry has been trapped at the bottom of the situation. There are many uncertain factors and risks in both external environments where top cosmetics brands operate. Multiple analysis of covid-19 influences on consumer behavior of makeup consumes this paper aims to take the top company in the beauty industry- Estee Lauder, to analyze the potential risk in the post-covid-19 phase based on current business and financial analysis of Estee Lauder and other competitors. Furthermore, use the scenario analysis tool to give some strategic suggestions to Estee Lauder that can flexibly control the risk, which also has implications for other companies and investors. From the risk perspective of financial analysis, the paper finds that Estee Lauder's most internal potential risk is operational risk. The external risk is the COVID-19 pandemic and customer preference. According to the two most significant external risks, four scenarios are constructed to simulate the possible strategies.

This paper is organized as follows. Section two is the PESTE scenario analysis of the whole beauty industry in the covid-19 phase. According to the external operation

environment, use value chain and differentiation strategy to analyze Estee Lauder's business strategies. Section four utilizes common-size analysis and analyzes financial performance from three risks aspects compared with Loreal and the average industry level. Based on the above two parts of elemental analysis, discuss the potential external and internal risks Estee lauder faces in the post-covid-19 epidemic period. Moreover, use scenario planning tools to simulate four possible scenarios to explore strategies that Estee Lauer's managers can consider. Finally, the conclusion is that there are also opportunities for Estee Lauder to develop the cosmetics business in the post-pandemic phase.

2. INDUSTRY ANALYSIS

The beauty industry has faced intense competition and innovation pressure during the pre and post COVID-19 pandemic. Many top cosmetics companies continually acquire valuable brands to maintain the market segment in the context of uncertainty and risk due to COVID-19 [9]. The Covid-19 pandemic has made it increasingly necessary to innovate, transform and adapt quickly to a phenomenon that keeps companies from collapsing, continues to grow, and captures new market potential

opportunities. PESTE is used as a primary scenario analysis tool to analyze the dynamic operational external environment in which the industry operates, identify opportunities, and mitigate risks. This dynamic analysis tool can help cosmetics companies to assess the industry environment trend they engage in and respond to the sudden change as soon as possible. So, it is vital to first analyze the industry dynamics for the various cosmetics players to make suitable strategic decisions under risk and uncertainty.

2.1. Political Factor Analysis

Each country's COVID-19 pandemic restriction policy differs, affecting the development of each industry to various degrees. For the beauty industry, the impact of the blockade policy is mainly in two aspects. Firstly, the closure or restriction of physical retail shops. Many shop centers will take measures to restrict the flow of customers and strictly require wearing masks, which makes customers unable to test the products and reduces the interaction experience. Secondly, travel sales channels are limited. Due to worldwide travel restrictions, the duty-free sales channel was forced to stagnate. However, governments' attitude towards the COVID-19 pandemic has gradually shifted from a severe lockdown to an objective approach in the post-epidemic phase. So overall, it is a positive trend for the beauty industry.

2.2. Economic Factor Analysis

The real worldwide economy is affected significantly by the COVID-19 pandemic, but there are both challenges and opportunities for the beauty industry. The challenge is the low power of customer purchase for multiple cosmetics products, especially high-priced ones, which is the leading cause of the many top companies' historically lower sales. However, with the rapid development of e-commerce and digital marketing, companies can take the opportunity to transform their strategies, such as flexibly using social media to advertise and promote products. Therefore, if companies can sensitively innovate and seize opportunities, avoiding the negative macroeconomic effect to the most considerable extent, they will receive dramatic growth in the post-epidemic phase.

2.3. Social Factor Analysis

Customer preference changed rapidly in the COVID-19 pandemic, and the social cosmetics beauty trend is more diversified and personalized. On the one hand, buyer behavior increasingly moves from offline to online, and they prefer to look at the comments on popular social media about various products before purchasing. A US market study suggests that online cosmetics sales have increased by almost 50% in the

post-epidemic year 2021, accounting for approximately 89% of beauty industry spending [3]. On the other hand, the dominant power of social beauty trends has gradually moved from brand to customer. For cosmetic companies, a specific trend affecting the high-end beauty market is 'disintermediation' in the wake of the epidemic [6]. Thus, Companies attempt to use e-commerce and social media to communicate directly with consumers.

2.4. Technology Factor Analysis

Mobile cosmetics shopping is becoming a popular trend with non-contact shopping increasingly, and it is expected to continue to gain momentum in the future. COVID-19 has accelerated a five-year push to transform retailers into digital marketing using AR and AI technology [5]. Customers in the cosmetics industry can experience various beauty products online to support purchase decisions. For example, brands can pre-set different skin types and colours online and target different products recommending AR trial makeup. So, with AR and AI technology growth, there is an even greater demand for speed of innovation in the post-pandemic phase.

2.5. Environment Factor Analysis

Due to the impact of COVID-19, remote home working and wearing a mask outside long-term is more and more general in daily life. Working at home makes people live a slower and healthier lifestyle; at the same time, they have paid more attention to facial health care. Changing lifestyle may be one factor in the high growth of skincare sales in Estee Lauder's annual report since the explode of COVID-19. As for wearing the mask for a long time, there is a concern or negative effect that some people's face skin is allergic and feel uncomfortable. The phenomenon reflects in the beauty industry is that the sales of skincare products are much more than cosmetics products, which suggests the customer demand during the COVID-19 pandemic period.

3. BUSINESS ANALYSIS

Estee Lauder is one of the top cosmetics organizations with a long history in the beauty industry, which has four main product lines, including skincare, makeup, haircare, and fragrance. A CAPM-based study of investment returns in the cosmetics industry has shown that Estee Lauder has the highest expected returns and is the most desirable beauty company to invest in [1]. Estée Lauder has been cultivating a large customer base and building a distinctive brand image by improving the service quality and continuing to launch innovative products. So it is worth investigating Estee Lauder's strategies and management from two aspects, the value chain, and the differentiation strategy.

3.1. Vaule Chain Analysis

3.1.1. Operations Activities

Estée Lauder's investment in research and development has kept it at the forefront of technology. One-third of the company's sales in a year is generated by sales of products developed in the previous three years [16]. It has research facilities and hundreds of scientists around the world.

3.1.2. Marketing & Sales Activities

Estée Lauder sells its products mainly through various sales channels designed to achieve results in line with its product image. These channels include offline and online such as high-end department stores, high-end perfume shops, professional hairdressing salons, duty-free shops in airports, and websites. There are some new strategies under the new retail and COVID-19 pandemic environment. Firstly, based on an interactive user experience, the pop-up beauty shop is a new way of promoting brands in the context of new retail [12]. The combination of online and offline does not require long-term leasing of shops, which reduces fixed costs such as leasing and facilitates the mitigation of business risks in the post-epidemic period. Secondly, Estee Lauder offers personalized virtual consulting online, recommending to consumers a selection of products they can purchase directly online.

3.1.3. Firm Infrastructure Activities

The Estée Lauder Group has grown by acquiring brands that make sense for the company. It applies its own criteria when acquiring new brands or companies. They must present a unique business opportunity and complement, rather than detract from, the company's existing brands. A multi-brand portfolio strategy that flexibly adapts to the market in the cosmetics industry can reduce the impact of the risk of environmental changes on a company's overall competitiveness [7]. So merger and acquisition strategy is Estee Lauder's significant growth method because this strategy has transformed into a multiple-portfolio brand strategy during the M&A process.

3.1.4. Human Resources Management Activities

Firstly, training and cultivating the potential managers and artists through various regional institutes and communication opportunities. For example, it has established the China Management Institute for leadership training [10]. Moreover, allowing makeup artists to train abroad and exchange with internationally renowned makeup artists. Secondly, publish a quarterly magazine within the company and invite beauty consultants or shop managers to be the cover girls and tell

their stories. Moreover, each year, each brand organizes a beauty consultant conference, and at the end of the year, the company organizes an annual meeting and travel activities for all staff.

3.1.5. Technology Development Activities

Estée Lauder invests heavily in research and development and has a strong capacity for product innovation. The comprehensive global research and development organization contains fundamental research in biophysical sciences, product development, and customer evaluation [8]. Furthermore, it employs some 500 leading chemists, biologists, and Computerettes devoted to researching new products and online AR and AI technology. The AR technology is adapted to digital marketing trends and increases the online customer purchasing experience. Estee lauder's technology strategies are supportive activities for the crucial sales activities, which give the fundamental for the better marketing and sales situation.

3.2. Differentiation Strategy

Estée Lauder's primary product differentiation and product innovation strategy, with a high degree of product differentiation from other brands, is one of its strengths for growth. In the wake of the COVID-19 pandemic, Estee Lauder increasingly uses social media to establish its vivid brand image and promote unique products that are different from other competitors. A study finds that Facebook and Instagram have become practical viral marketing tools to identify the brand identity and increase interaction between brands and customers [2]. This shows the importance and effectiveness of social media in enhancing customer loyalty and increasing marketing resilience for Estee Lauder in the post-COVID-19 epidemic phase.

4. FINANCIAL ANALYSIS

Estee Lauder's financial performance is steady and robust before the COVID-19 pandemic, but there is an apparent fluctuation and decrease trend in the middle and post COVID-19 epidemic phase. There are various uncertain factors and risks in the internal and external environment, such as operational, credit, and COVID-19 long-term effects. So, the two tools are selected to analyze, including common-size analysis and ratio analysis from the risk perspective.

4.1. Common-size Analysis

There are two types of analysis, including horizontal analysis and vertical analysis. Firstly, Horizontal analysis observes the trend of a particular item on a company's financial statements over time [11], which indicates the dominant factors and trends in a company's financial

performance throughout the change. Vertical analysis observes the proportion of each item in the financial statements to total assets and total sales revenue [14], indicating the company's financial structure and comparing its financial performance with other competitors of different sizes.

4.1.1. Balance Sheet Analysis

The balance sheet is fundamental to a company's financial performance. This part analyses the total current assets, other assets, total assets, and total liabilities and equity. The Table1 has shown the common-size analysis of total current assets.

Table 1. Common-size analysis of other assets (in millions, USD)

| Items | 2019 | | 2020 | | 2021 | |
|---|------|--------|------|--------|------|--------|
| Cash and cash equivalents | 2987 | 41.42% | 5022 | 56.48% | 4958 | 50.76% |
| Accounts receivable, net | 1831 | 25.39% | 1194 | 13.43% | 1702 | 17.42% |
| Inventory and promotional merchandise | 2006 | 27.81% | 2062 | 23.19% | 2505 | 25.64% |
| Prepaid expenses and other current assets | 388 | 5.38% | 614 | 6.91% | 603 | 6.17% |
| Total current assets | 7212 | 100% | 8892 | 100% | 9768 | 100% |

As shown in Table1, cash and cash equivalents have a noticeable increase from 2019 to 2021, and the accounts receivable and Inventory and promotional merchandise have a steady trend that does not change much in the last

three years. The total current assets increase year by year, which may be the impact of COVID-19 that Estee Lauder needs to prepare more current assets to respond to the emergencies.

Table 2. Common-size analysis of other assets (in millions, USD)

| Items | 2019 | | 2020 | | 2021 | |
|---------------------------------------|------|--------|------|--------|-------|--------|
| Property, plant and equipment, net | 2068 | 34.79% | 2055 | 23.12% | 2280 | 18.68% |
| Operating leasing right-of-use assets | 0 | 0% | 2282 | 25.67% | 2190 | 17.95% |
| Goodwill | 1868 | 31.43% | 1401 | 15.76% | 2616 | 21.44% |
| Other intangible assets, net | 1203 | 20.24% | 2338 | 26.30% | 4095 | 33.56% |
| Other assets | 805 | 13.54% | 813 | 9.15% | 1022 | 8.37% |
| Total other assets | 5944 | 100% | 8889 | 100% | 12203 | 100% |

From Table 2, it can be observed that other intangible assets show a significant increase from 2019 to 2021, indicating that Estee Lauder is constantly developing new technologies and patents. Other assets have a relatively flat trend with minor fluctuations but an overall

upward trend. Total other assets have trended linearly up over the three years, indicating that Estée Lauder made strategic reserves pre- and post-epidemic to reduce the risk of business disruption.

Table 3. Common-size analysis of total assets (in millions, USD)

| Items | 2019 | | 2020 | | 2021 | |
|----------------------|------|--------|------|--------|------|--------|
| Total current assets | 7212 | 54.82% | 8892 | 50.01% | 9768 | 44.46% |

| | | | | | | |
|--------------------|-------|--------|-------|--------|-------|--------|
| Total other assets | 5944 | 45.18% | 8889 | 49.99% | 12203 | 55.54% |
| Total assets | 13156 | 100% | 17781 | 100% | 21971 | 100% |

Based on Table 3, it can be seen that total assets have been increasing for three consecutive years, indicating that Estee Lauder is on the rise as it continues to expand.

This trend corresponds to the M&A strategy (multiple brand-portfolio strategies) in the COVID-19 period.

Table 4. Common-size analysis of liabilities and equity (in millions, USD)

| Items | 2019 | | 2020 | | 2021 | |
|---|-------|--------|-------|--------|-------|--------|
| Total current liabilities | 4605 | 35.00% | 5179 | 29.13% | 5298 | 24.11% |
| Total noncurrent liabilities | 4140 | 31.47% | 8640 | 48.59% | 9725 | 44.26% |
| Redeemable Noncontrolling Interest | 0 | 0.00% | 0 | 0.00% | 857 | 3.90% |
| Total equity | 4411 | 35.53% | 3962 | 22.28% | 6091 | 27.72% |
| Total liabilities redeemable noncontrolling interest and equity | 13156 | 100% | 17781 | 100% | 21971 | 100% |

Current debt in the total current liabilities is much lower in 2021 than in the previous two years, indicating that Estee Lauder was in a poor financial position during the epidemic. As the epidemic has improved, the financial position has improved, and borrowing has decreased. However, the long-term debt the total non-current liabilities has risen for three consecutive years, which corresponds to Estee Lauder's strategy of constantly acquiring other brands and expanding globally to improve its competitiveness.

4.1.2. Income Statement Analysis

The income statement reflects the company's daily income sources and expense structure and provides a visual analysis of the company's profitability. This part analyses the total revenue, total cost and expense, and the whole of the income statement. The table 1.9 has shown the horizontal analysis of total revenue.

Table 5. Common-size analysis of total revenue (in millions, USD)

| Items | 2019 | | 2020 | | 2021 | |
|-------------------------------------|-------|---------|-------|---------|-------|---------|
| Net sales | 14863 | 99.14% | 14294 | 95.94% | 16215 | 94.75% |
| Interest and investment income, net | 58 | 0.39% | 48 | 0.32% | 51 | 0.30% |
| Other income, net | 71 | 0.47% | 557 | 3.74% | 847 | 4.95% |
| Total revenue | 14992 | 100.00% | 14899 | 100.00% | 17113 | 100.00% |

From the common-size analysis of Estee Lauder's total revenue, the primary revenue is from product sales, and the net sales in 2021 have an apparent increase than 2019 and 2020. That results from the negative impact of

COVID-19 that the power of customer purchasing and demand for cosmetics is low. However, as the situation improves, the net sales in 2021 have a rebound trend in the post-epidemic period.

Table 6. Common-size analysis of total cost and expense (in millions, USD)

| Items | 2019 | | 2020 | | 2021 | |
|---|-------|---------|-------|---------|-------|---------|
| Cost of sales | 3,387 | 26.70% | 3,552 | 25.64% | 3834 | 27.82% |
| Selling, general and administrative | 8,857 | 69.82% | 8,637 | 62.35% | 9,371 | 67.99% |
| Restructuring and other charges | 216 | 1.70% | 73 | 0.53% | 204 | 1.48% |
| Goodwill impairment | 68 | 0.54% | 812 | 5.86% | 54 | 0.39% |
| Impairments of other intangible and long-lived assets | 22 | 0.17% | 614 | 4.43% | 134 | 0.97% |
| Interest expense | 133 | 1.05% | 161 | 1.16% | 173 | 1.26% |
| Other components of periodic benefit cost | 2 | 0.02% | 4 | 0.03% | 12 | 0.09% |
| Total cost and expense | 12685 | 100.00% | 13853 | 100.00% | 13782 | 100.00% |

The various cost categories did not change much during the covid-19 period, showing a stable trend. The highest share of total costs and expenses was in selling and administrative expenses, typical for cosmetic companies, suggesting an even greater need for increased marketing investment in advertising to increase sales

during the epidemic. Moreover, the impairment of goodwill and intangible assets recorded in 2020 was significant, indicating that the market value of brands acquired and intangible assets owned by Estée Lauder depreciated in 2020.

Table 7. Horizontal analysis of net income (in millions, USD)

| Items | 2019 | 2020 | 2021 |
|------------------------|-------|-------|-------|
| Total revenues | 14992 | 14899 | 17113 |
| Total cost and expense | 12685 | 13853 | 13782 |
| Income taxes | 513 | 350 | 456 |
| Net income | 1794 | 696 | 2875 |

Net income has increased from 696 in 2020 to 2875 in 2021, good performance and trend. The lowest net income in 2020 is mainly attributable to the COVID-19 pandemic, where sales declined, and supply chain disruptions led to a significant increase in operating costs. The operating expense is the largest in 2020 among the last three years. Overall, there are many opportunities to develop and recover the cosmetics business in the post-pandemic period.

4.2. Ratio Analysis from the Risk Perspective

Cosmetics companies faced many uncertain factors and risks during the covid-19 epidemic as revealed in their annual financial reports, which ostensibly led to poor sales in the cosmetics business and actually

reflected weak financial performance. Financial ratios can be analyzed from different perspectives. According to the Risk, Profitability Analysis Strategy for US companies report, the indicators available from a risk perspective include current ratio, quick ratio, beta efficiency, and TD/TA [13]. So, analyzing financial ratios from a risk perspective could be efficient and appropriate based on many uncertainties that exist in the current covid-19 phase.

4.2.1. Operational Risk

Three financial ratios can measure operational risk, including operating margin, operational, and ROE. Furthermore, compare Estée Lauder with its biggest

competitor L’Oréal to view the efficiency of Estée Lauder’s operations during the covid-19 pandemic.

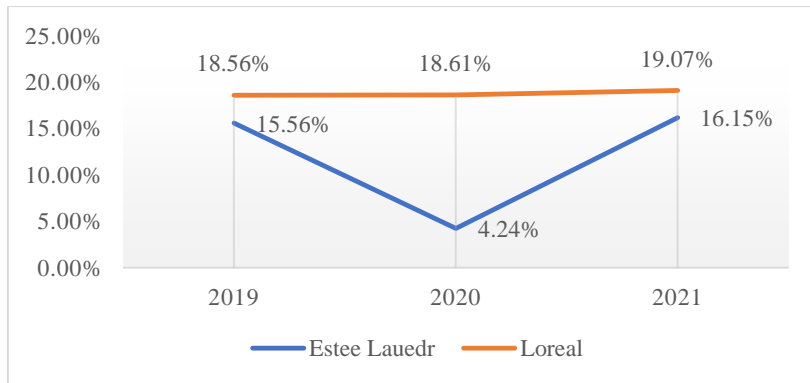


Figure 1 Operating Margin

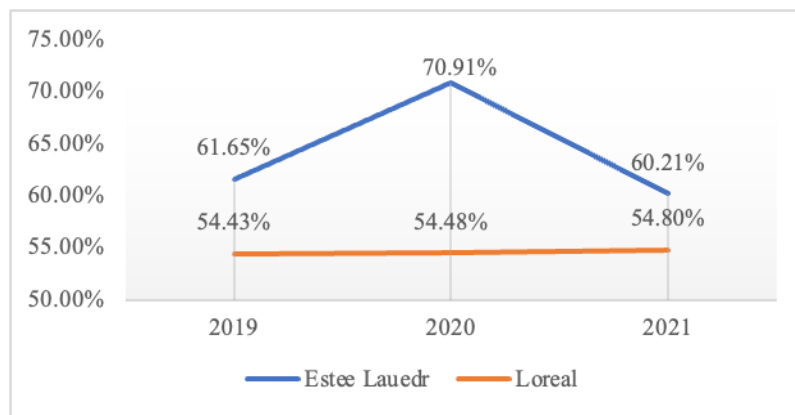


Figure 2 Operating Ratio

The operating margin measures the efficiency of a company's operations. A higher ratio indicates that the company's product sales provide more operating profit, using resources more wisely and more profitably. As shown in Figure 1, Estée Lauder's operating efficiency was lower than L’Oréal's throughout the covid-19 epidemic, and Estée Lauder experienced the lowest operating margin in 2020. The overall trend for L’Oréal's operations is solid, with little impact from the epidemic and high operating efficiency. Estée Lauder, on the other

hand, has experienced greater operational volatility, with a significant negative impact from the epidemic and high overall operational risk in the post-epidemic phase. The operating ratio measures the contribution of a company's operating expenses to revenue, and a lower ratio indicates that the company's management and allocation of operating expenses are more effective. As shown in Figure 2, Estée Lauder's operating ratio was higher than L’Oréal's for three consecutive years overall and reached a high level in 2020 when the epidemic was severe.

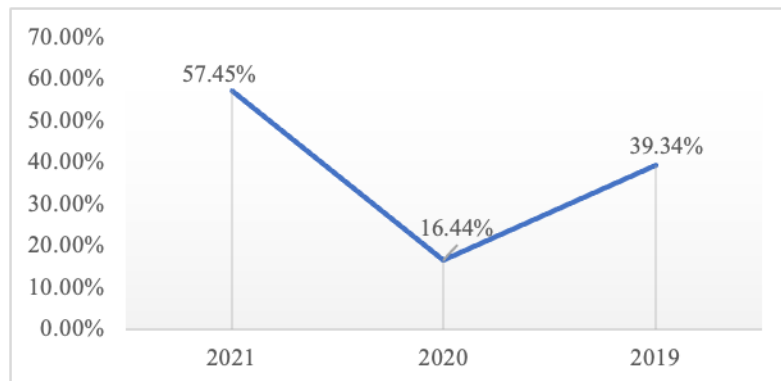


Figure 3 Estée Lauder’s ROE

ROE is highest in 2021(57.45%) and lowest in 2020 (16.44%) due to the dire economic conditions and uncertainty and volatility in 2020. In mid-2021, Estée Lauder turned this situation around by vigorously promoting and adjusting its strategy to keep up with consumer preferences and sell through multiple online and offline channels.

4.2.2. Liquidity Risk

Three financial ratios can measure liquidity risk, including current ratio, quick ratio, and cash turnover period. This section examines Estée Lauder's liquidity risk by comparing it to L'Oréal and the average industry level.

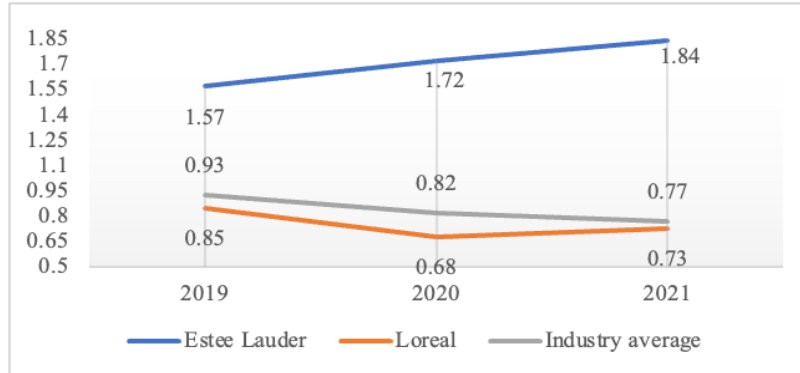


Figure 4 Current Ratio

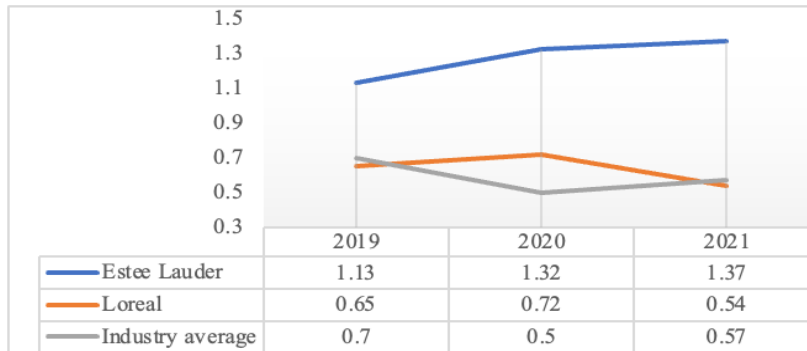


Figure 5 Quick Ratio

The current ratio and quick ratio are financial indicators that reflect the short-term solvency of a company. If the ratio is below the standard value, it indicates that the company has insufficient short-term solvency and liquidity. Here the industry average is used to benchmark the liquidity of Estée Lauder and L'Oréal. As can be seen from Figures 4-5, Estée Lauder's current

ratio and quick ratio are both higher than L'Oréal and the industry average. That indicates that it has sufficient liquid assets to repay its liabilities in the short term and is not prone to financial difficulties or even bankruptcy during the covid-19 pandemic. Overall, the solvency has been solid for three consecutive years, so liquidity risk is low in the post-pandemic phase.

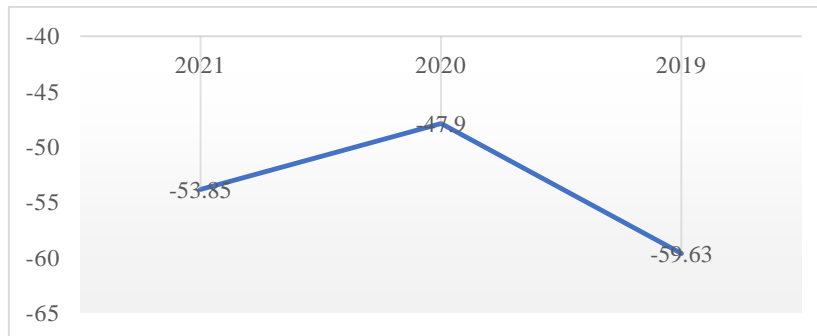


Figure 6 Estée Lauder's cash turnover period

Estée Lauder's cash turnover cycle is less than 0, suggesting a good cash flow position and strong bargaining power within the supply chain. That allows it

to have surplus funds to invest in technology and new product development, which helps it continuously improve its ability to innovate, market new products, and

remain competitive. It also reduces the impact of macro uncertainties on Estée Lauder's financial position during the crisis and post- epidemic period.

4.2.3. Credit Risk

Two financial ratios can measure credit risk, including days receivable outstanding and debt to income ratio. This section examines Estée Lauder's credit risk by comparing it to L'Oréal and the average industry level.

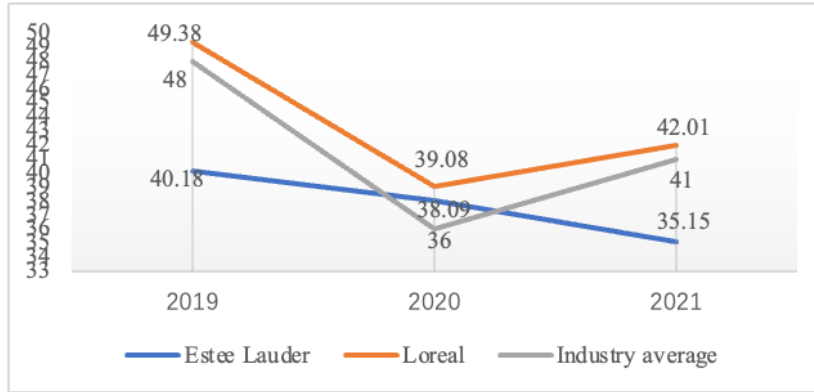


Figure 7 Days receivable outstanding

Days receivable outstanding is a measure of the time it takes for a company to recover from sales to obtain customer payment. The shorter the turnover days, the better, indicating that the company uses its liquidity more efficiently. From Figure 7, Estée Lauder has a shorter period to recover payment for sales during the covid-19 pandemic than both the industry average and L'Oréal,

suggesting that Estée Lauder utilizes its liquidity more efficiently and pays back quickly. That also validates the higher current and quick ratios of Estée Lauder in the previous section, which indicates a better ability to manage short-term liquid assets internally and lower credit risk in the post-pandemic phase.

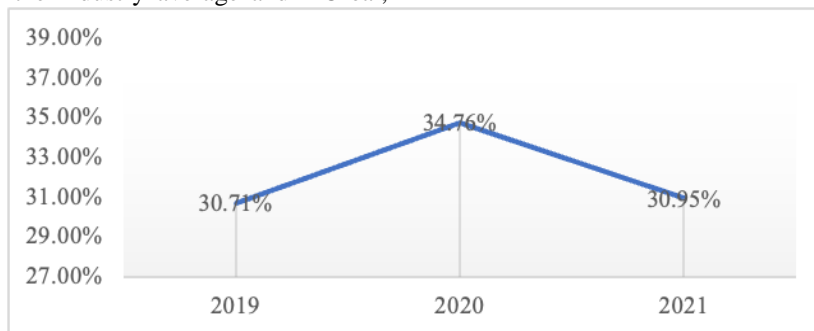


Figure 8 Estée lauder's debt to income

The debt-to-income ratio measures a company's ability to repay its debts on time over a given period and the risk of default. According to a report on default risk, the threshold value of the debt-to-income ratio is 40%, below which the default rate for customers is within manageable limits [15]. As shown in Figure 8, Estée Lauder's ratio has been below 40% for the last three years, only rising to around 35% in 2020 due to the covid-19 pandemic. However, overall, the risk of default for Estée Lauder is low in the post-epidemic period.

during the epidemic period, and there are risks and opportunities for Estée Lauder. During the epidemic period, Estée Lauder's operations had advantages that other beauty companies can learn from and some apparent risks and areas for improvement. This section will continue to explore the potential risks for Estée Lauder and possible appropriate strategies for the future in the context of scenario analysis.

5. DISCUSSION

Based on the above analysis of the external operating environment of the beauty industry, Estée Lauder's business strategy analysis, and financial analysis, it is found that the beauty industry faced many uncertainties

5.1. Potential Risks

Estée Lauder is exposed to potential risks in two categories: inherent and external risks. According to the financial ratios analysis from a risk perspective in section 4.2, Estée Lauder's most significant risk among the three types of risk arises from operational risk. That may be due to internal operational efficiency and management

problems, with operating ratios 6-10% higher than its competitor L'Oréal. However, the composition of total expenses in the common-size analysis shows that advertising and marketing expenses account for the largest share. However, this expense does not contribute significantly to revenue. Estée Lauder's advertising is not as precise as L'Oréal's and is not as well classified for target customers as L'Oréal's. Estée Lauder has not studied online digital marketing techniques sufficiently during the epidemic period. One social media study found that the fixed and sunk costs of digital marketing were much lower than traditional marketing channels. Much of the internal operational risk is related to marketing & sales, a critical activity in Estée Lauder's value chain, so it is essential to upgrade marketing strategies in the post-epidemic period while increasing research and development into new products and technologies.

The external risks facing Estée Lauder are mainly covid-19 risk and the risk of rapidly changing consumer preferences. Surveys show that women are increasingly accepting of going without makeup daily and seeking natural beauty, which could have a long-term effect on customer preferences in the cosmetics industry [2]. The covid-19 pandemic has changed people's lifestyles and skincare and makeup habits to a certain extent. That has negatively impacted aesthetic trends and cosmetics product development direction. Data from questionnaires on the frequency of consumer purchases before and after the epidemic shows that demand for cosmetics has primarily returned to pre-epidemic levels after the epidemic [4].

Nevertheless, among the motivations for purchase, convenience accounts for the highest percentage over factors such as brand choice and price, indicating that customer loyalty to brands may be reduced. That suggests an opportunity and uptrend that demand for cosmetics is rising in the post-covid-19 epidemic. The strategy of large brand owners like Estee Lauder that rely on customer loyalty to market their products will have to follow a shift in consumer purchasing behavior. Therefore, Estée Lauder's short-term risk in the post-covid-19 pandemic period is not high. However, in the long term, to maintain market share and position in the cosmetics sector, it can use scenario analysis to adjust its competitive strategies.

5.2. Scenario Analysis Strategies

Scenario planning is an analytical tool that allows companies to identify risks and then simulate possible future scenarios to make flexible strategic decisions. When the external operating environment of an industry is highly uncertain, and a company is at a turning point of transformation and innovation [13], scenario planning is a practical risk decision-making tool for managers to consider. According to the external potential risk analysis

in the previous section, the two factors that have the most significant impact on Estee Lauder are covid-19 and customer purchase preference (buyer behaviour).

Firstly, the trends for these two factors can be classified. The variant of covid-19 potentially being more 'severe' or having an 'improvement' and consumer purchase preference being divided into 'online ' and 'offline.' Secondly, there are four possible scenarios based on risk factor trend factors. Estée Lauder can plan a strategy for each scenario accordingly. The first scenario is that when the epidemic situation improves and consumers prefer to shop online, three strategies can be considered, including strengthening cooperation with airport online malls, giving discounts to offline pick-up customers, and expanding social media precision marketing. The second scenario is that the covid-19 pandemic has become more severe than before, and most customers want to purchase online. In that case, Estee lauder could develop a multi-channel online shopping platform and provide online customized beauty services with AR makeup technology.

However, there are two scenarios in that customers prefer to buy cosmetic products offline, such as buying in the pop-up stores to receive a more fantastic shopping experience regardless of the situation of the epidemic. On the one hand, when the pandemic gets better, Estee lauder can restore physical shop operations equipped with beauty artists and offer personalized services in the shop. On the other hand, if the epidemic turns worse than nowadays, online and offline sales need to be focused on, which means it is more critical to carefully follow the customers' preferences with the cosmetics trend in the industry. Therefore, the senior managers of Estee Lauder could use the scenario analysis tool to assess potential risks and make strategic decisions flexibly. It is also possible to adapt the strategy to changing circumstances.

6. CONCLUSION

In conclusion, Estee Lauder has both risks and opportunities in the post-COVID-19 pandemic for the main cosmetics business operation. According to the business and financial analysis, this paper finds that Estee Lauder's potential internal risk is operational risk, and external risks are COVID-19 and customer preference. There are four possible future scenarios based on the simulation of two external risks using a scenario planning tool and some strategies suggestions for Estee Lauder's managers. Covid-19 has many negative impacts on the beauty industry, especially the cosmetics business for multiple top organizations. However, uncertainties and risks including covid-19 can also be seen as an opportunity to transform and innovate the business strategies following the change in customer preference and external operating environments. Therefore, this paper attempts to provide some inspirations for cosmetic brands to resume and develop their cosmetic business in

the post-COVID-19 phase. Furthermore, it is worthwhile for cosmetics organizations to consider the more concrete risks and possible scenarios with the environment changing in the future to make long-term strategic decisions.

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