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THE AIRLINES BUSINESS IN TRAVEL RETAIL FOR GUERLAIN:

THE STEP BEYOND…

Soutenu par

Anne-Flore MAMAN

Promotion 2005

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Subject: The Airlines Business in Travel Retail for Guerlain: The Step Beyond…

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Key words: TR Sets; Business Segments; Marketing Mix; Airlines; Strategy

Study:

PRESENTATION:

In the highly competitive world of Fragrances and Cosmetics it has become more than ever crucial for Brands to build on a strong and internationally recognized Brand Image. In this vein, the Travel Retail Market turns out to be an incredible showcase.
Part of this Distribution Channel, the Airlines Business may be the next tool for high-end Brands to convey their message throughout the world. It is presently underused by Guerlain. Our purpose is thus to come up with strategic marketing recommendations in this specific Business, consistent with the Brand image and with its usual selling policies. Our vision is that the Company could be as successful in the Airlines Business as it is in the Travel Retail Worldwide one.

CONSTRAINTS:

Our main constraint was the lack of available information on the subject: if a lot of Brands capitalize a lot on their Travel Retail Business Units, usually no specific unit is dedicated to the Airlines Business. Thus, most of the Brands selling on board turn out to be more driven by the business than driving it. Gathering relevant and up to date information on this very sharp and so particular aspect of the Business was thus the most difficult part of our job.

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APPROACH:

Firstly, we analyze the Travel Retail Market itself, in several aspects: history, PEST analysis, state of the Market in 2005. Then, we define the Airlines Business through its main specificities: consumer behaviour, state of the Business in 2005, main Actors and SWOT Analysis.
Secondly, we present of the well-known Marketing Mix can be suited for the Airlines Business and this for all its components: Product, Place, Price and Promotion. We also introduce a new input to the Marketing Mix, which is of great importance in the Airlines Business: the People (The Crew).
Lastly, we try to strategically analyze the state of the Business for Guerlain in order to come up with a strategy of development proposal.
To gather as much relevant information as possible, we mainly use different tools:
- Benchmark softwares such as Generator (sales results) or myDRP (prices benchmark)
- Marketing Intelligence on the Internet to better understand the strategies of the competition and the products offered
- Information gathered from the Travel Retail Team members at Guerlain
- Part of the work to be completed during the Internship

CONCLUSION:

Our researches gave us the feeling that the key to success in the Business stands in a particularly clear and well-thought strategy, in terms of marketing development, communication, promotion, training of the people and implementation of special partnerships with some Airlines. Relationships among the different actors are also of great importance, given the restricted numbers of key players.
As Guerlain is concerned, we believe in its future success. The Brand should however try to be more aggressive in its strategy and develop a consistent Brand Image on a worldwide basis on the market. It should not only capitalize on its already successful axes, but try to come up with original proposals in terms of product offer or merchandising for example: “The right tools for the right strategies”.

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Make it simple. Make it memorable. Make it inviting to look at.

Leo BURNETT
Pioneer American Advertising Executive
(1891-1971)

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THANKS

As a preamble to this report, we would like to thank some people who supported us all along our internship at Guerlain.

First of all, we would like to warmly thank Mrs HERON Virginie, our Director of Project, for her patience, her availability, her explanations and her advice which were very precious for us.

We would then like to thank Mrs JOUBERT, Mrs CATHERINE-MERCIER, Mrs MOULIN and Miss BERROD for having cordially welcomed us in their team and having spent a part of their time with us.

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We also want to thank Mrs Barbara HAYERE from the Training Department for all the precious information she gave us for this report.

We lastly want to thank all the people who are members of the Travel Retail Department, in France, in Asia and in the United States, for their kindness and for having truly considered us as a full member of the Travel Retail 'family'.

As far as the teaching corps of ESSEC is concerned, we would like to thank our Tutor, Mr Cedomir NESTOROVIC and the secretary of our Master, Mrs Lysiane TOUSSAY, for having keeping in touch with us in spite of the time and space constraints.

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FOREWORD

At such an important time when the Luxury sector in all areas including Cosmetics and Fragrances is literally booming, making an internship at Guerlain, in its marketing operational area, represents a significant experience in our business formation.

Furthermore, this internship took place in a very specific department, the Travel Retail. This provides a tremendous opportunity of learning in terms of business relationships all across the world, especially the Asian and American Markets as I was concerned.

The reading of this report will take into account the whole of these questions, conjointly with the international strategic context studied in the Travel Retail Department of Guerlain.

Lastly, owing to the fact that our internship took place in the frame of the preparation of the 2007 and 2008 marketing plans, some notions or figures will be partly or imprecisely mentioned. Most of our data will be given for the 2005 year. Besides some of the product examples will be made on already existing or past products. This is a matter of classified material that the reader will easily understand.

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INTRODUCTION

Within the context of the Specialized Master's in Strategy and Management of International Business of the ESSEC Business School, we made a 6-lasting months internship in the French Company GUERLAIN, member of the LVMH Group, in Levallois, France.

Pierre François Pascal Guerlain has founded the company called after his name, in 1828. More than six hundred perfumes have been created by four generation of perfumers who have built an exceptional brand image. Certain creations, famous in the whole world, perpetuate this quest of beauty.

"Jicky", "L' Heure Bleue", "Shalimar", "Mitsouko", "Habit Rouge", "Vetiver", "Samsara", to name only a few of the company's creations, have known a considerable success. Their durability -"Shalimar", for example, still today a cult perfume, was launched in 1925- is the most remarkable in the universe of perfumery.

Today Guerlain is also known for its Skincare and Make up lines: "Issima", "Terracotta" and "Divinora".

The Guerlain Institutes, place of prestige where the know-how has reached an international renown, completes the activity of this brand totally dedicated to beauty. Guerlain closely controls its distribution and its brand image thanks to a network of stores in France which are exclusively dedicated to the sale of its products. Since its arrival in the LVMH Group in 1994, Guerlain has undertaken to develop the brand in a larger international perspective always with a will to protect the selectivity of its distribution.

The aim of this thesis is to present a specific aspect of the Travel Retail Business we had to work on all along our internship: the Airlines Business.

Still a marginal part of the Travel Retail Business in terms of sales, as GUERLAIN is concerned; studies conducted for the company enabled us to think that tremendous opportunities of development exist. Our objective is thus to demonstrate why we have

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come up with such a conviction and to show how a strategic marketing plan could be developed to take advantage of the ongoing good shape of the business.

After a brief presentation of the Travel Retail Market in terms of history and performances, we will introduce the Airlines Business (PART A). The objective of this part is to provide the reader with a clear picture of the Business in several areas: consumer behaviour, results, main actors and SWOT analysis. Then, we will present how a good use of the Marketing Mix can be profitable in the Airlines Business (PART B). Lastly, we will present the results of a strategic study of the Airlines Business for Guerlain (PART C). This will enable us to come up with a strategy proposal, not only in marketing terms but also in organisational terms within the Travel Retail team itself.

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PART A:

The Travel Retail Market and the Business of the Airlines: general overview

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PART 1: SHORT INTRODUCTION AND HISTORY

I. Definitions

"Duty-Free" literally means « free of charges ». It embodies airport retail, inflight sales and sales occurring on ferries. In other terms, the goods are imported and then sold to tourists at a price free of importation taxes. As a matter of example, for tourists buying in France or on French lines, it corresponds to an exoneration of the VAT (19.6%)

The "Tax Free" represents sales in shops around airports, border shops as well as harbour retailing areas. It also stands for the sales made for military or diplomatic purpose.

"Travel Retail" includes all kinds of sales targeting tourists, no matter whether they are tax free or Duty Free sales. Thus, the term "Travel Retail" is massively used by Firms to describe all the B2C transactions, which usually take place in international and free of charges areas, as well as in a few in-town shops.

II. From the Birth of Duty Free to the advent of Travel Retail

Duty-Free retailing is without any doubt a phenomenon of the second half of the twentieth century, since it is fully linked with the important growth in travel, particularly in air travelling. Today, it has become part of the travel experience and it can generate significant income for transport providers. The first airport duty-free shop was set up 1947 in Shannon and is the starting point of the business as we know it today. Nevertheless, its roots lie in the maritime, diplomatic, and military traditions.

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The first known example of duty-free concession is an English record dating back to 700AD under which King Ethereld of Mercia granted the Bishop of London exemption from custom duties on imported goods. Many years after, diplomats based in embassies, which were considered as foreign territories, and the military were entitled to sizeable allowance of duty- and tax-free goods. As large as the military and diplomatic trade, the supply of ships' stores thrived until the mid 60's, as duties could not be levied on goods consumed by ships crews outside national waters. A step forward was taken in the 19th century, establishing the practice of allowing travellers to enter a country without paying import duty on perishable goods carried for the journey.

Definitions of allowances for international travellers evolved as a uniform practice but not a right. Liquor, tobacco and fragrances have remained duty-free staples. Why these categories? In the 19th century, short journeys could take weeks, so the need to carry liquor and tobacco to lessen the effects of discomfort and counter boredom was understandable. The need of personal hygiene in the crowded spaces of small ships was probably the origin of today's comparatively high allowances for perfume, dutiable owing to their alcohol base.

In 1944, The International Civil Aviation Organisation at the Chicago Convention laid down the legal basis for international air travel in 96 articles. This Convention, agreed by 54 nations, extended the duty-free status of ships in international waters to international flights. It also provided for the creation of 'Customs free' airports: the first such airport opened in Shannon in 1947, followed by the opening of the world's first airport duty-free shop.

In 1954 the New York Convention Concerning Customs Facilities for Touring agreed by 84 nations, introduced several measures to facilitate the flow of travellers across international boundaries. It established the principle that Contracting States shall admit free of import duties and import taxes on articles imported for personal use. Article 3 stipulated the quantities of tobacco products, wines and spirits, perfume and toilet water that could be carried by a tourist, the standard allowance still accepted today.

Customs authorities complied by waiving duty on limited quantities of goods bought during the journey by arriving passengers, but most were opposed to allow ground shops to sell duty-free products to air travellers before they embarked. Airlines could sell inflight, as shops on ocean liners had done before, but the few airport outlets other than Shannon had to take orders on the landside and deliver goods in sealed bags to boarding passengers at the

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aircraft gangway, a practice still prevalent in the USA today. As inflight sales are concerned, the first movers in this business were Air France in 1955 followed very quickly by Lufthansa in 1960.

In 1961 there was further improvement when sales free of purchase-tax (the equivalent of today's VAT) were permitted but it was not until 1964 that there was general acceptance of duty-free shops selling gifts and tobacco as well as liquor.

Airport duty-free expanded very little until the end of the 1950s, and then gained momentum in the 1960s propelled by a combination of entrepreneurs and airport authorities who could see the commercial potential. By the 1970s, jet aircraft and reduced fares busted air travel, bringing about a sudden increase in passenger numbers which lead to build bigger terminals and shops. Besides, inflight sales also gained advantage from this growth in air travel.

With the disappearance of European boundaries in January 1993, the notion of "duty free" was expected to vanish within the European area. However, this was not immediately the case, since it would have had for direct consequence the decrease of half of the Travel Retail Global Turnover. Thus, the disappearance of duty free shops was postponed until 1999 when the European Economic Council confirmed their disappearance. Nowadays, to get in touch with actual duty free shops, you have to travel outside the Schengen area.

If 1999 was a bad time for the Duty Free Market, 2000 witnessed a return to normality. Now identified as "Travel Retail", this commercial channel lobbied the authorities to gain the status of Distribution Channel. Thanks to many strategic tools, distributors have reshaped their network with a focus on the international rather than the national.

Terrorist attacks in 2001 have been the starting point of new difficulties in terms of profitability, but a new trend in customers' behaviour has been identified: people keep travelling throughout the world, no matter what happens (at least on the long term).

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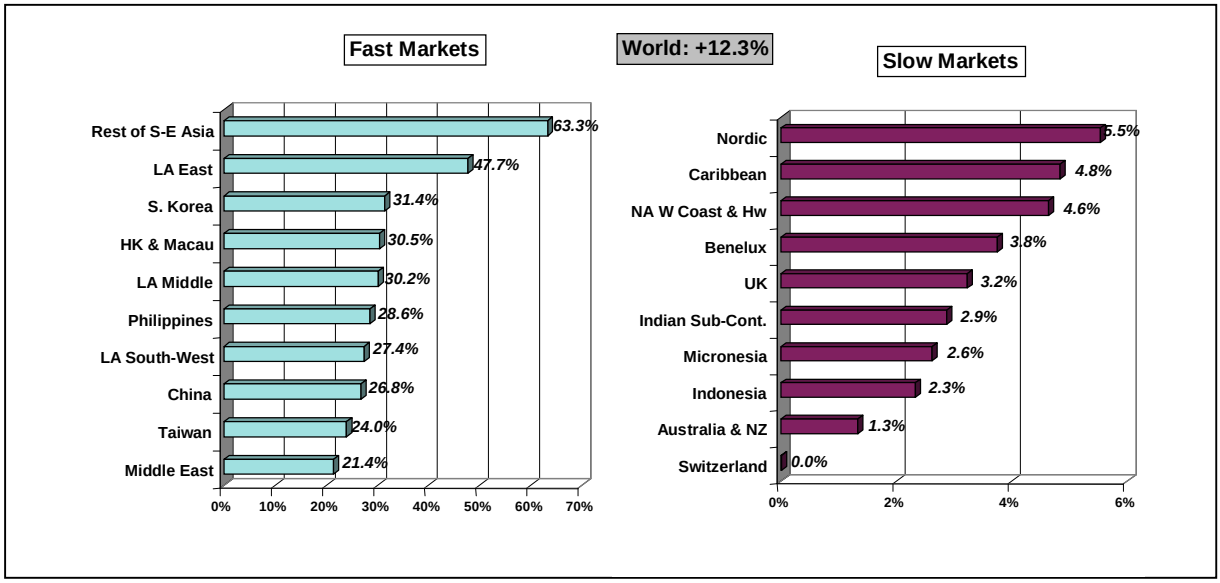
III. Travel Retail 2005 Key Results

1) *Highlights*

- In 2005, the Travel Retail market was representing 27 billion dollars with a yearly growth of 8%. Predictions for 2010 expect a total value of 40 billion dollars[1].
- After a year of recovery in 2004, came a year of consolidation in 2005 for Travel Retail.
- Beauty sales, which were previously trailing behind Alcohol and Tobacco, are now definitely leaving the previous champions behind. Actually, they are the mirrors of present ego-economic stakes: within two years, the market shares of Europe and North America lost 4.8% in favour of more dynamic areas, like Asia Pacific, Latin America or Rest of the World.

Exhibit A-I 1: Travel Retail Perfumery Market 2005 Ups & Downs



Source: Generation

- On a long term period, Fragrances and Cosmetics sales are more and more balanced (60/40 in 2005 vs 67/33 in 2000).

[1] Source : Generation Group Report

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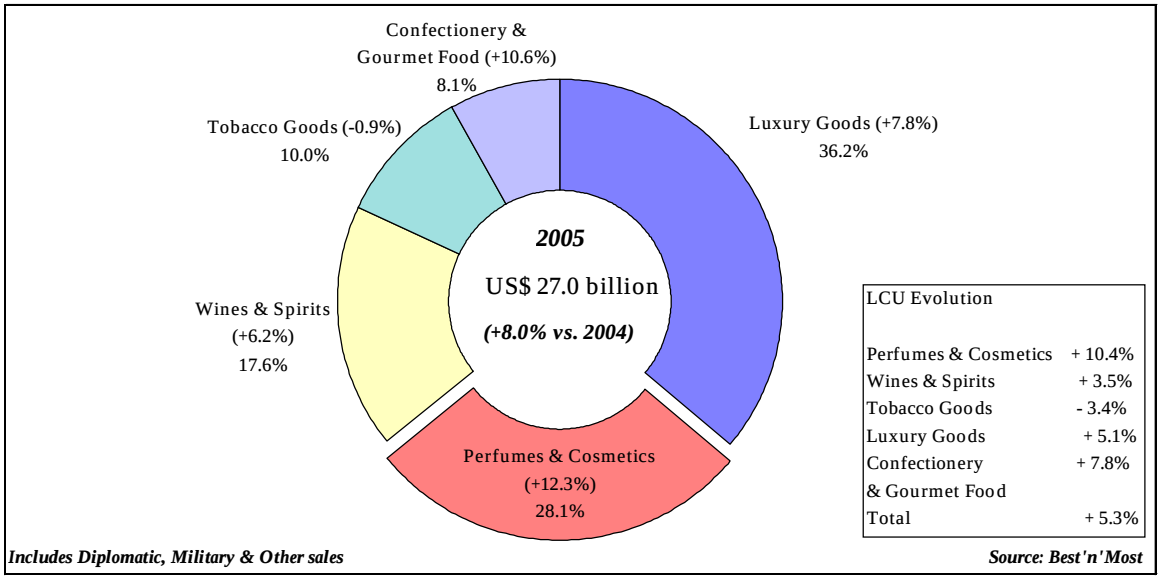
- Specific Travel Retail items are increasing and have found their room in all product categories: Fragrances 10.2%, Skincare 11.7%, and Make-Up 33.7%.

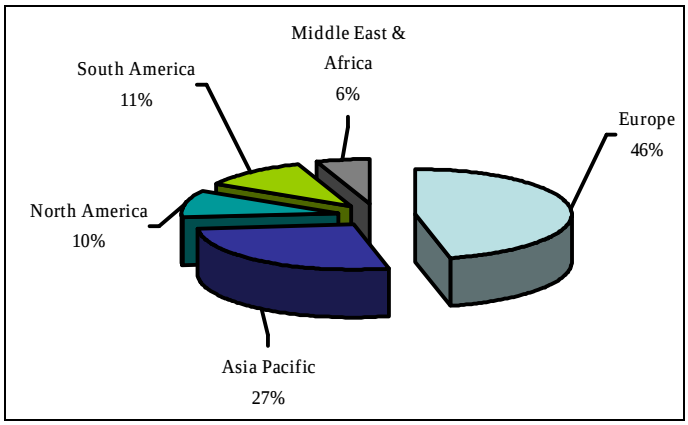
Exhibit A-I 2: Travel Retail Global Context



Source: Generation

2) *Market by area*

Exhibit A-I 3: Travel Perfumery Market 2005 by Area



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Territories part of the top 5 were the same in 2005 than in 2004, but the big winner was clearly South Korea, recording an exceptional growth of 31.4% and now second to the Expense of Nordic.

Exhibit A-I 4: Top 20 Territories by Category

	All Categories (+12,3%)			Fragrances (+9,0%)			Skin Care (+17,7%)			Make-Up (+17,7%)		
Rk	Country	Share	D	Country	Share	D	Country	Share	D	Country	Share	D
1	UK	9,8%	3,2%	UK	11,4%	-0,2%	South Korea	19,7%	44,5%	South Korea	16,8%	18,1%
2	South Korea	9,1%	31,4%	Nordic	7,4%	3,1%	Nordic	10,2%	6,6%	Japan	12,9%	13,3%
3	Nordic	8,0%	5,5%	Rest of Europe	6,4%	9,6%	Japan	7,0%	14,2%	UK	7,7%	18,3%
4	Rest of Europe	5,5%	8,4%	NAm Rest	5,3%	17,2%	UK	7,0%	7,6%	Nordic	7,2%	12,8%
5	Japan	4,9%	12,7%	Germany	5,2%	7,3%	HK & Macau	4,5%	42,6%	NAm W Coast & Hw	4,0%	3,5%
	Top 5	37,2%		*Top 5*	35,7%		*Top 5*	48,5%		*Top 5*	48,6%	
6	Germany	4,5%	8,5%	Middle East	4,9%	14,6%	Rest of Europe	4,5%	2,6%	HK & Macau	3,7%	35,7%
7	NA Rest of	4,0%	18,1%	France	4,7%	4,9%	Germany	3,9%	7,2%	Rest of Europe	3,6%	10,8%
8	Middle East	4,0%	21,4%	Caribbean	4,4%	3,8%	Taiwan	3,6%	34,1%	Taiwan	3,4%	30,2%
9	France	3,8%	7,2%	Spain	4,2%	9,7%	NAm W Coast & Hw	3,0%	2,7%	Middle East	3,3%	58,3%
10	Spain	3,3%	8,7%	NAm E & Central	3,8%	6,3%	Australia & NZ	2,5%	6,6%	Germany	3,1%	18,7%
	Top 10	56,8%		*Top 10*	57,7%		*Top 10*	65,8%		*Top 10*	65,7%	
11	NAm E & Central	3,2%	10,1%	Benelux	3,2%	1,8%	Benelux	2,4%	8,1%	France	2,7%	16,0%
12	Caribbean	3,1%	4,8%	LA North	2,9%	9,1%	Singapore	2,4%	10,9%	Eastern Europe	2,6%	24,8%
13	Benelux	2,8%	3,8%	South Korea	2,8%	26,8%	France	2,4%	12,7%	Singapore	2,4%	6,3%
14	Eastern Europe	2,6%	16,6%	Eastern Europe	2,8%	16,6%	NAm E & Central	2,4%	19,9%	NA Rest of	2,3%	34,3%
15	HK & Macau	2,6%	30,5%	LAm South-West	2,7%	24,7%	Spain	2,2%	10,3%	NA E & Central	1,9%	23,6%
	Top 15	71,0%		*Top 15*	72,2%		*Top 15*	77,5%		*Top 15*	77,7%	
16	NAm W Coast & Hw	2,5%	4,6%	Australia & NZ	2,6%	0,1%	Thailand	2,1%	17,6%	Micronesia	1,9%	0,3%
17	LAm North	2,4%	9,7%	LAm East	2,6%	46,0%	Eastern Europe	1,9%	8,8%	Lam North	1,8%	25,6%
18	Australia & NZ	2,4%	1,3%	Africa	2,4%	5,8%	Middle East	1,9%	33,8%	Australia & NZ	1,8%	-1,3%
19	LAm South-West	2,1%	27,4%	Greece	2,1%	3,3%	NAm Rest	1,8%	11,2%	Benelux	1,8%	9,0%
20	Singapore	2,0%	9,2%	LAm Middle	1,9%	35,2%	LAm North	1,7%	1,5%	Spain	1,7%	-1,4%
	Top 20	82,5%		*Top 20*	83,8%		*Top 20*	87,0%		*Top 20*	86,6%	

Source: Generation

As Fragrances and make-up are concerned, the market kept atomizing, whereas on the opposite Skin care concentrated to the benefit mostly of South Korea.

U Market kept atomising, for Fragrances & Make-Up	***2004***		***2005***
Share of Top 5 Fragrance Territory	36,9%	->	35,7%
Share of Top 10 Fragrance Territory	59,2%	->	57,7%
Share of Top 20 Fragrance Territory	84,1%	->	83,8%
Share of Top 5 Make-Up Territory	50,0%	->	48,6%
Share of Top 10 Make-Up Territory	66,1%	->	65,7%
Share of Top 20 Make-Up Territory	87,4%	->	86,6%
Ü Skin Care on the opposite concentrates (to the benefit mostly of South Korea)			
Share of Top 5 Skin Care Territory	47,3%	->	48,5%
Share of Top 10 Skin Care Territory	64,9%	->	65,8%
Share of Top 20 Skin Care Territory	87,0%	->	87,0%

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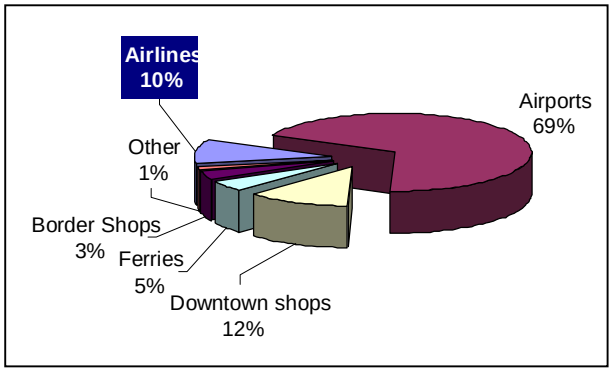
3) Channels

Exhibit A-I 5: Travel Retail 2005 Turnover, Channel Breakdown



Source: Generation

The Travel Retail market has been keeping concentrating on airport shops during the past few years, from 61% in 2000 to 70% in 2005.

Borders Shops and Free Zones recorded the best increase, thanks to a strong improvement all over Latin America, with particularly Latin America East (Brazil) almost doubling its sales.

The evolution of downtown shops sales was on par with the market average (+10%) and Airline share has been very slowly eroding from 10.3% in 2004 to 10.2% in 2005.

The only channel recording a negative evolution was the ferries. This was particularly true in Nordic countries, the United Kingdom and Germany.

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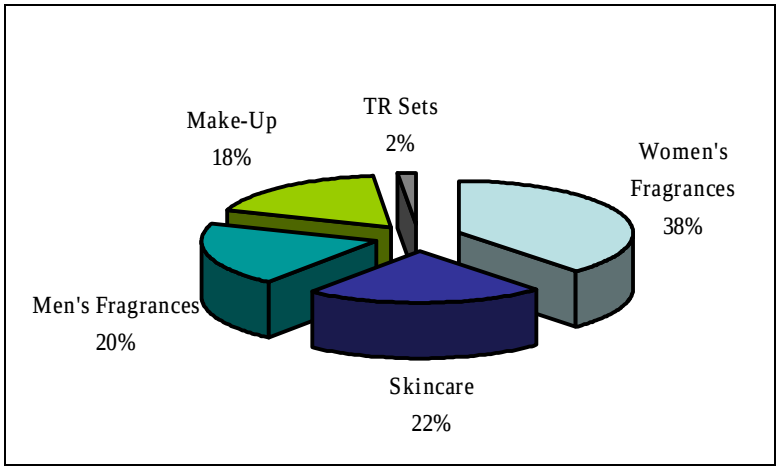
4) Categories

Exhibit A-I 6: Travel Retail 2005 Turnover Category Breakdown



As the breakdown by axis is concerned, one can easily note that Fragrances have been facing slow erosion to benefit of Cosmetics, decreasing from a 67% market share in 2000 to a 60 % market share in 2005. The Cosmetics market share has thus increased from 33% in 2000 to 40% in 2005. The level of Cosmetics sales stands now slightly above Women's Fragrances in sales.

Another interesting feature is the reinforcement by the Travel Retail of its specific offer range. Make up Sets share increased to 33.7% of total Make-Up sales while fragrances sets increased by 32% among Women Fragrances.

Exhibit A-I 7: Evolution of the Breakdown by Axis (TR Sets included in their respective categories)

	2003	2004	2005	2005 vs 2004 %
FRAGRANCES	344 974	420 683	459 354	9%
Weight in Airlines TO	64%	63%	62%	
SKINCARE	76 906	99 950	116 281	16%
Weight in Airlines TO	14%	15%	16%	
MAKE UP	115 762	145 259	160 808	11%
Weight in Airlines TO	22%	22%	22%	
TOTAL AXES	537 642	665 892	736 443	11%

Source: Generation

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5) Conclusion: A promising future

Generally speaking, the beauty sector in Travel Retail should have a bright future. However, the growth is not balanced geographically speaking, since as we have said, Asia is a literally booming market compared with some European markets.

The only dark spot in the picture is the growing importance of underground economy and of parallel markets which can be harmful for Brands, as sales results in Travel Retail are concerned.

IV. Overview of the Airlines Business

The Airlines Business is a promising business and is deeply connected to the shape of the Airlines Industries. In 2006, one can chose between 700 airlines to fly across the world. Among this number of airlines, 150 are considered as major ones and 124 offer inflight retail possibility.

Most of the major airlines come from the so-called EURAFME area, standing for Europe, Africa and Middle East.

When having a look at the evolution of passenger traffic, we can pinpoint several interesting features:

- The Airlines' capacity is on a growing trend, with Airlines better managing capacity and filling more sits on average

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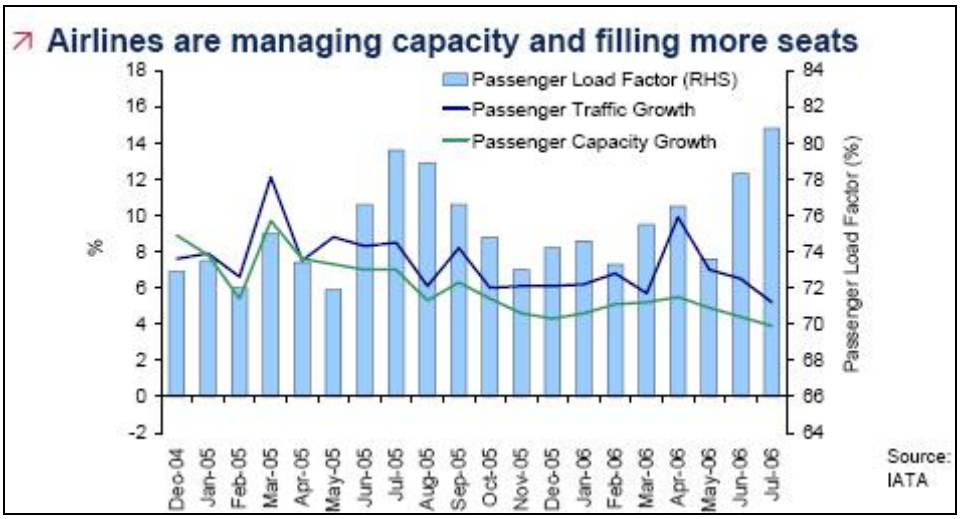
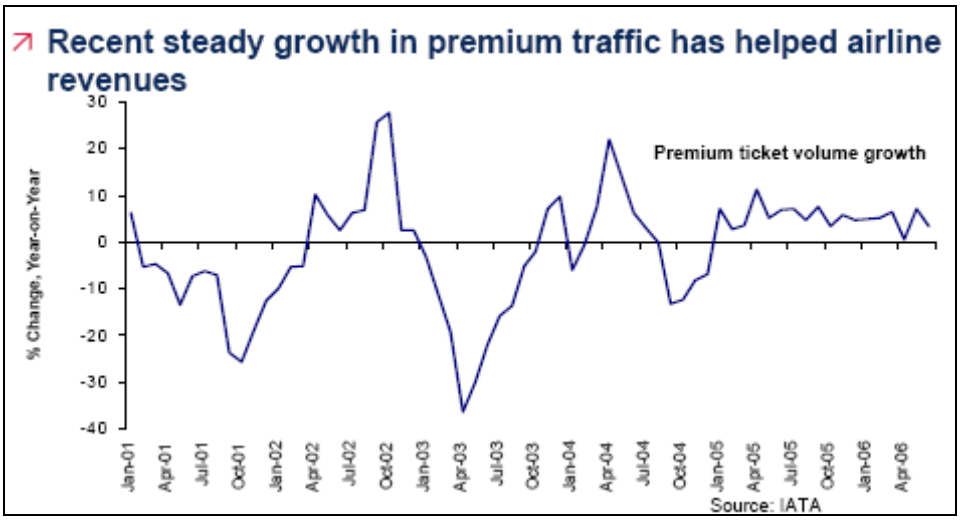
Exhibit A-I 8: Evolution of the Airlines' capacity



ð Premium traffic is consequently increasing

Exhibit A-I 9: Evolution of Premium Traffic



This second feature has its particular importance, since premium traffic (i.e. first or business class passengers) is a key source of revenue for the Airlines Business.

Premium traffic accounts for around 11% of total international traffic, with a higher share (14-15%) on the major long-haul routes. Premium traffic volumes are highly concentrated, with five route areas accounting for 72% of all premium traffic, though faster growth on

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smaller routes in the Middle East and Asia, combined with structural changes in Europe, have seen this level of concentration fall from 82% for the top 5 routes in 2000.

We will set our PEST and SWOT analyses (PART A-III & A-IV) the different factors which may have an impact on this traffic.

In 2005, the Airline Business was the third Travel Retail Channel, after the airport Business and the Downtown Shops Business. It was standing for 10% of the whole Travel Retail sales, and was growing at a rate of 11% (vs 12% for the whole Travel Retail Business).

However, even if the business is still growing, it has been having a slightly decreasing market share since 2003.

Exhibit A-I 10: Airlines Business Evolution in Turnover

	2003	2004	2005
Airlines WW TO (USD)	537 642	665 892	736 443
Yearly Growth		*24%*	*11%*
TR WW TO (USD)	5 169 218	6 453 377	7 248 132
Yearly Growth		*25%*	*12%*
Airlines Weight in TR WW TO	10,4%	10,3%	10,2%

Source: Generation

Similarly to the Travel Retail Market, products from the three axes (Fragrances, Make-up & Skincare), as well as TR sets and exclusives, can be listed on the Airlines. As we can see in Exhibit A-I 11, there is a clear predominance of the fragrances on a worldwide basis. However, the yearly growth does confirm that skincare and make-up products have a great opportunity of development in the Business, for they grow at a rate superior to the one of the Airlines Business. These results are made including TR Sets, so it can be an interesting strategy for a Brand to consider the development of more TR Sets in skincare products (a lot of TR Sets already exist for the Make-up axis).

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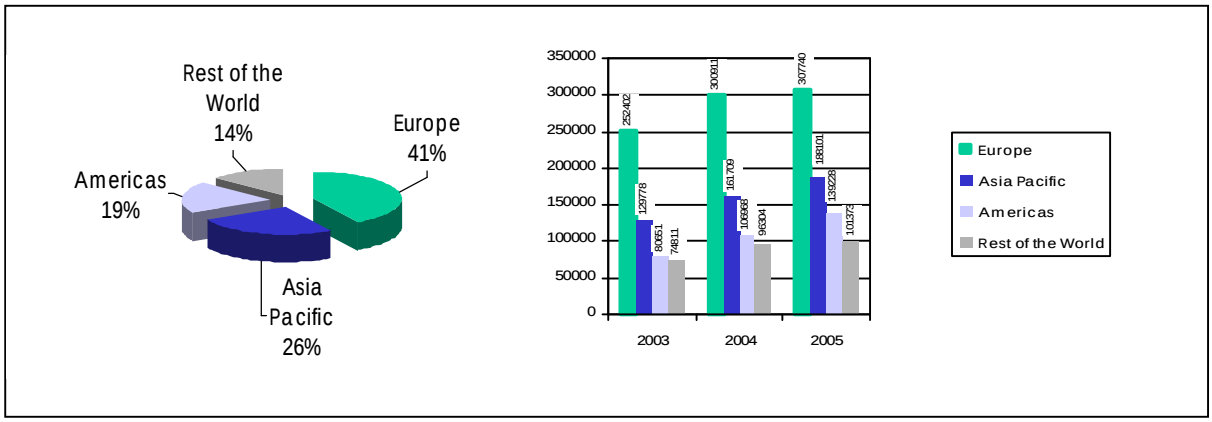
Exhibit A-I 11: 2003-2005 Airlines Turnover, evolution by axis

	2003	2004	2005	2005 vs 2004 %
FRAGRANCES	344 974	420 683	459 354	9%
Weight in Airlines TO	64%	63%	62%	
SKINCARE	76 906	99 950	116 281	16%
Weight in Airlines TO	14%	15%	16%	
MAKE UP	115 762	145 259	160 808	11%
Weight in Airlines TO	22%	22%	22%	
TOTAL AXES	**537 642**	**665 892**	**736 443**	**11%**

Source: Generation

The geographical picture of the business is the following:

Exhibit A-I 12: Airlines Business Turnover geographical breakdown and evolution



Source: Generation

Not surprisingly, Europe is the shooting star of the business. This is obviously linked to the number of airlines selling on board. However, the Asian Area is also quite strong and its evolution is more promising than Europe's one. Besides, as we will see in PART A-II (consumer behaviour), prices can usually be set at a higher level in Asia than in Europe, resulting in higher margin if not higher sales than on the European market. Thus Asia can be considered for now as the cash cow of the business.

The American market remains backward but is still developing. The main concern regarding this market is the lack of transparency on sell-out results from the Airlines. This shows the presence of a strong and powerful parallel market against which high-end Brands are fighting on a daily basis.

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PART II: THE MAIN ACTORS

I. Main Actors : Brands

When considering the Brands as actors of the Business, one can distinguish two features of great importance: the listing and the number of offered references.

1) The Listing

This refers to the number of items listed by the companies, all airlines and all references included. In other words, if L'Instant De Guerlain, EDT 75ml is listed on 20 Airlines, it will be counted 20 times.

Since 2003, LVMH kept being the first group by number of listings thanks to Dior, which had in 2005 the impressive 472 number of items listed in the main 104 Airlines (10% of the total listing).

Exhibit A-II 1: Top 10 listed Groups

	RANKINGS FOR :	Fragrances & Beauty	
BRANDS	FOCUS : FRAGRANCES & COSMETICS BRANDS	NB OF ITEMS LISTED ON 104 AIRLINES	%
1	DIOR	472	9,99%
2	LANCOME	370	7,83%
3	CHANEL	299	6,33%
4	E.LAUDER	226	4,78%
5	C.KLEIN	193	4,09%
6	YSL	183	3,87%
7	CLINIQUE	151	3,20%
8	KENZO	142	3,01%
9	ARMANI	138	2,92%
10	GIVENCHY	136	2,88%
11	GUERLAIN	124	2,62%
12	H.BOSS	122	2,58%

Source: DRP

Guerlain comes at the 11th position, with 124 items listed, which represents 2.60% of the total listing. It is important to note that this ranking was better than the 2004 one showing Guerlain at the 12th position.

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It can also be interesting to have a look at geographical breakdown of the numbers of listings:

⇒ Europe and Africa, with 58 main Airlines.

This region of the World is of great importance, since as we have seen in the Overview of the Airlines Business, sales in this area amount for almost 50% of the whole business sales.

Exhibit A-II 2: Top listed Brands for Europe and Africa

2005 's DISTRIBUTION RANKING ANALYSIS ON BOARD 58 EUROPEAN AIRLINES			AIRLINES ORIGIN EUROPE/AFRICA
	RANKINGS FOR :	Fragrances & Beauty	
BRANDS	FOCUS : FRAGRANCES & COSMETICS BRANDS	NB OF ITEMS LISTED ON 58 EUROPEAN	%
1	DIOR	237	9,66%
2	CHANEL	151	6,15%
3	LANCOME	148	6,03%
4	YSL	119	4,85%
5	C.KLEIN	108	4,40%
6	E.LAUDER	98	3,99%
7	GUERLAIN	86	3,50%
7	ARMANI	86	3,50%
9	H.BOSS	82	3,34%
9	GIVENCHY	82	3,34%
11	KENZO	79	3,22%
12	GUCCI	57	2,32%
13	E.ARDEN	53	2,16%
14	CLINIQUE	52	2,12%
15	DAVIDOFF	50	2,04%
16	JP.GAULTIER	46	1,87%
17	LACOSTE	45	1,83%
18	L'OREAL	43	1,75%
18	DOLCE & GABBANA	43	1,75%
20	CLARINS	42	1,71%
	MISCELLANEOUS	747	30,44%
	NUMBER OF LISTED ITEMS	2454	100,00%

Source: DRP

Not surprisingly, Dior stands at the 1st position with 237 listings (10% of the total listings). Guerlain has shown a great improvement in its ranking between 2004 and 2005, climbing from the 11Th position to the 7th one. The Brand was listing 86 items (3.50% of the total listings).

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⇒ Eustralasia, with 26 main Airlines.

Exhibit A-II 3: Top listed Brands for Eustralasia

2005 's DISTRIBUTION RANKING ANALYSIS ON BOARD 20 ASIAN AIRLINES			AIRLINES ORIGIN ASIA-PACIFIC
	RANKINGS FOR :	Fragrances & Beauty	
BRANDS	FOCUS : FRAGRANCES & COSMETICS BRANDS	NB OF ITEMS LISTED ON 20 ASIAN AIRLINES	%
1	DIOR	122	14,45%
2	LANCOME	103	12,20%
3	CHANEL	68	8,06%
4	E.LAUDER	58	6,87%
5	CLINIQUE	32	3,79%
6	BVLGARI	31	3,67%
7	YSL	26	3,08%
7	KENZO	26	3,08%
7	E.ARDEN	26	3,08%
10	BIOTHERM	20	2,37%
11	R.LAUREN	19	2,25%
11	L'OREAL	19	2,25%
11	GIVENCHY	19	2,25%
14	C.KLEIN	18	2,13%
15	GUERLAIN	15	1,78%
15	CLARINS	15	1,78%
15	ARMANI	15	1,78%
18	PBI	11	1,30%
18	D.KARAN	11	1,30%
20	LA PRAIRIE	10	1,18%
	MISCELLANEOUS	180	21,33%
	NUMBER OF LISTED ITEMS	844	100,00%

Source: DRP

Dior maintains its 1st ranking position with 122 items listed (14.50% of the total listings). Guerlain shows a decrease on that market, from the 10th ranking position to the 15th one, with only 15 items listed (1.78% of the total listings). It is even ranked after Calvin Klein or Biotherm which are one-axis Brands. One would thus expect them to have fewer items listed than a 3-axis Brand.

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⇒ Americas, with 13 main Airlines.

Exhibit A-II 4: Top listed Brands for Americas

2005 's DISTRIBUTION RANKING ANALYSIS ON BOARD 13 AMERICAN AIRLINES			AIRLINES ORIGIN AMERICAS
	RANKINGS FOR :	Fragrances & Beauty	
BRANDS	FOCUS : FRAGRANCES & COSMETICS BRANDS	NB OF ITEMS LISTED ON 13 AMERICAN	%
1	LANCOME	93	15,37%
2	CLINIQUE	49	8,10%
3	E.LAUDER	39	6,45%
3	CHANEL	39	6,45%
3	C.KLEIN	39	6,45%
6	R.LAUREN	36	5,95%
7	DIOR	34	5,62%
8	L'OREAL	28	4,63%
9	KENZO	19	3,14%
10	DAVIDOFF	18	2,98%
10	D.KARAN	18	2,98%
10	ARMANI	18	2,98%
13	JENNIFER LOPEZ	15	2,48%
14	GUCCI	14	2,31%
14	BVLGARI	14	2,31%
16	LA PRAIRIE	12	1,98%
16	GIVENCHY	12	1,98%
16	BURBERRY'S	12	1,98%
19	VERA WANG	11	1,82%
19	C.HERRERA	11	1,82%
	MISCELLANEOUS	74	12,23%
	NUMBER OF LISTED ITEMS	605	100,00%

Source: DRP

On this market, Lancôme is the first-ranked Brand by the number of listings, standing for more than 15% of the overall listings, twice more than its follower Clinique. One can note that Guerlain cannot be seen on this table. This is due to the fact that in 2005 the Brand was not listed on any Airlines in this geographical area.

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⇒ Middle East, with 19 main Airlines

Exhibit A-II 5: Top listed Brands for Middle East

2005 's DISTRIBUTION RANKING ANALYSIS ON BOARD 20 ASIAN AIRLINES			AIRLINES ORIGIN ASIA-PACIFIC
	RANKINGS FOR :	Fragrances & Beauty	
BRANDS	FOCUS : FRAGRANCES & COSMETICS BRANDS	NB OF ITEMS LISTED ON 20 ASIAN AIRLINES	%
1	DIOR	122	14,45%
2	LANCOME	103	12,20%
3	CHANEL	68	8,06%
4	E.LAUDER	58	6,87%
5	CLINIQUE	32	3,79%
6	BVLGARI	31	3,67%
7	YSL	26	3,08%
7	KENZO	26	3,08%
7	E.ARDEN	26	3,08%
10	BIOTHERM	20	2,37%
11	R.LAUREN	19	2,25%
11	L'OREAL	19	2,25%
11	GIVENCHY	19	2,25%
14	C.KLEIN	18	2,13%
15	GUERLAIN	15	1,78%
15	CLARINS	15	1,78%
15	ARMANI	15	1,78%
18	PBI	11	1,30%
18	D.KARAN	11	1,30%
20	LA PRAIRIE	10	1,18%
	MISCELLANEOUS	180	21,33%
	NUMBER OF LISTED ITEMS	844	100,00%

Source: DRP

As for the other regions (with the exception of Americas), Dior is ranked 1st with 79 items listed (9.60% of total listings).

Guerlain has made a drastic cut in its number of listings in this region between 2004 and 2005, going from the 5th position in 2004 to the 11th one in 2005. Last year, it was listing 23 items, amounting for 2.80% of the total listings.

Conclusions: Guerlain worldwide 11th position is in great part due to its good ranking in the European and African regions. The Brand has thus several options to increase its number of listings: either capitalize on the good ranking in Europe and Africa, or try to increase its listings in the other regions of the world, either by increasing the number of offered products or by increasing the number of Airlines as Business partners.

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When considering listings, it is also interesting to have a glance at the top 10 listed products:

Exhibit A-II 6: Top 10 listed products

Top Ten 2005	Group	Nb of Listings	% Listings	Ranking 2005	Ranking 2004	Ranking 2003	Ranking 2002	Ranking 2001	Ranking 2000
1	CHANEL N°5	65	1,38%	1	1	3	3	2	3
2	CHANEL CHANCE	57	1,21%	2	6	10	N/A	N/A	N/A
3	CHANEL COCO MADEMOISELLE	52	1,10%	3	9	5	7	N/A	N/A
3	KENZO FLOWER BY KENZO	52	1,10%	3	3	1	2	3	N/A
5	LANCOME JUICY TUBES TRIO	49	1,04%	5	5	29	N/A	N/A	N/A
6	DIOR PURE POISON NEW	45	0,95%	6	N/A	N/A	N/A	N/A	N/A
6	CHANEL ALLURE POUR HOMME SPORT	45	0,95%	6	6	N/A	N/A	N/A	N/A
6	CALVIN KLEIN CK ONE	45	0,95%	6	14	N/A	N/A	N/A	N/A
9	DIOR LES PARFUMS DE DIOR MINIATURES	42	0,89%	9	11	17	N/A	N/A	N/A
10	YSL TOUCHE ECLAT / RADIANT TOUCH	41	0,87%	10	17	N/A	N/A	N/A	N/A
10	DIOR J'ADORE	41	0,87%	10	3	2	1	1	1
10	DONNA KARAN BE DELICIOUS NEW	41	0,87%	10	N/A	N/A	N/A	N/A	N/A

Source: DRP

As one can see, there is a strong presence of Chanel with well-known and well-established products/franchises. We can also point out that among the Top 10 listed products (in fact 12, with ex-aequo products), ten are fragrances and two are make-up products. No skincare products can be found in the Top 10.

Two products with the label NEW are listed in the Top 10. However, a quick look at the products which were kicked out between 2004 and 2005 shows that these two products are likely to be out of the Top 10 in 2006.

Products kicked out between 2004 & 2005:

- E.LAUDER BEYOND PARADISE (ranked 2nd)
- R.LAUREN POLO BLUE (ranked 6th)
- ARAMIS LIFE (ranked 8th)
- DAVIDOFF COOL WATER POUR HOMME (ranked 10th)

What is also surprising is that Dior, which was always in the 1st position for the number of listings, only shows its first product at the 6th position. If we have a closer look at the top listed products by axis (see Appendix A-1), we can make the following comments:

⇒ Fragrances : - High presence of Chanel

- Most listed Fragrance = Chanel N° 5

- No Guerlain Product in the Top 20.

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⇒ Skincare : - High presence of Lancôme

- Most listed Product = Estée Lauder Perfectionist Correcting Serum
- No Guerlain Product in the Top 18.

⇒ Make-up : - 2 leaders : Lancôme (108 Listings) & Dior (93 Listings)

- Most listed product = Lancôme Juicy Tubes Trio
- No Guerlain Product in the Top 19.

2) Number of offered references

In 2005, Dior and Lancôme were offering a quite similar number of references with respectively 113 and 119 references. They are the two most successful Brands in terms of sales. We can reach the conclusion that these two Brands have chosen to use a strategy of novelty, literally flooding the market with new products.

On the opposite, Chanel is showing a completely different strategy. The Brand, which is ranked 3rd in terms of sales, is offering "only" 30 references (the smallest number of references among the top 10 Brands). Its strategy is clearly to capitalize on deeply rooted franchises such as Chanel N°5. It has more a strategy of the Brand.

Guerlain, which is at the 11th position, offers 54 references, the usual average number of references offered by Brands.

A split of the offer by axis is provided in Appendix A-3.

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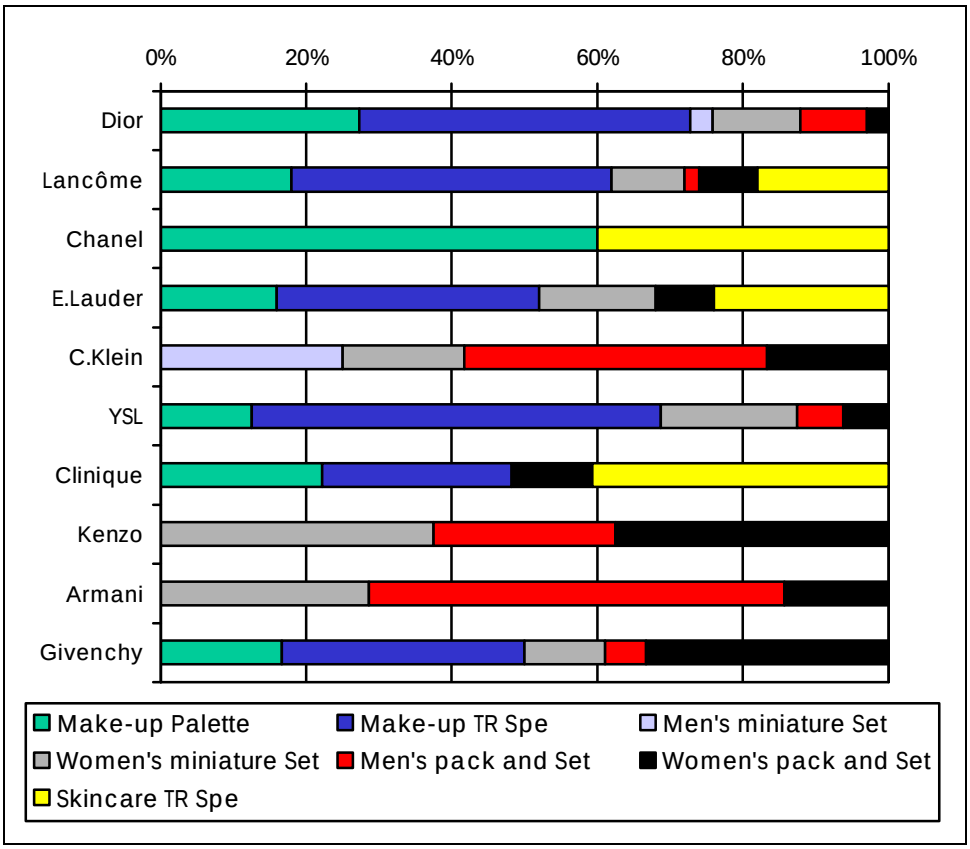
Exhibit A-II 7: Split of the TR Set offer



Source: DRP

It is important to note that Lancôme is highly capitalizing on TR sets, and Dior on Fragrances and TR Sets. Some successful Brands such as Calvin Klein are one-axis Brands.

As Guerlain in concerned, it has a balanced offer of fragrances, TR sets and make-up products, but offers hardly any skincare products.

3) Brand Results

Exhibit A-II 8 displays the Top 10 groups in 2005 according to their sales, and their evolution versus 2004.

As one can see, most of these groups show a positive evolution, except Chanel and Procter and Gamble which still remain at respectively the 5th and 6th positions.

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LVMH is second on the list with a yearly growth of 15.1 %, which is superior to the 11% yearly growth of the total Airlines Business.

Exhibit A-II 8: Top Companies and evolution vs 2004

1.	L'OREAL GROUP	+ 15.9 %
2.	LVMH	+ 15.1 %
3.	ESTEE LAUDER COMPANIES	+ 14.4 %
4.	COTY	+ 5.4 %
5.	CHANEL GROUP	- 2.7 %
6.	PROCTER & GAMBLE	- 10.9 %
7.	SHISEIDO (-1)	+ 19.3 %
8.	YSL BEAUTE (+1)	+ 14.9 %
9.	BULGARI PARFUMS	+ 3.8 %
10.	ELIZABETH ARDEN	+ 8.2 %

Source: Generation

It is also interesting to have a closer look at the region leaders. As we have already said, Europe is the most important region in terms of sales (41.79% of total sales). Lancôme is the leader and Dior its main competitor. We have previously shown that these two companies were heavily relying on a strategy based on novelties. This looks like a successful strategy, at least on the European Market.

We get a similar picture on the Asian market, which is to be seriously taken into consideration owing to its steady growth.

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Exhibit A-II 9: Region Leaders

• Asia Pacific		25.54 % of Total Airlines Market
1.	Dior	4.64 %
2.	Lancôme	4.57 %
	Guerlain	0.23 %
• Europe		41.79 % of Total Airlines Market
1.	Lancôme	3.72 %
2.	Dior	3.34 %
	Guerlain	0.53 %
• Americas		18.91 % of Total Airlines Market
1.	Lancôme	3.03 %
2.	Givenchy	1.20 %
	Guerlain	0 %
• Rest of the World		13.77 % of Total Airlines Market
1.	Dior	1.86 %
2.	Chanel	1.25 %
	Guerlain	0.21 %

Source: Generation

We will give a precise analysis of Guerlain results later in PART C. We can already say that, given the small percentage it represents on total sales, it will necessarily be considered as a follower or maybe as a challenger but not as a leader on the Market.

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II. Main actors: the Airlines

In 2005, 124 Airlines were offering the opportunity to buy onboard duty-free products. The geographical origin of these Airlines shows the dominant position on the Market of the European Airlines: 58 main Airlines for the EURAFME area, 26 for EUSTRALASIA, 13 for AMERICAS and 19 for MIDDLE-EAST. The last 8 Airlines are minor ones not taken into account in our report.

Appendix A-3 is providing a list of all the main Airlines, including their "fare" characteristics, though for 2006 and not 2005. It is interesting to note that inflight retail is not only done on regular and charter airlines, but on new generation low-cost airlines as well. Actually, these last usually consider inflight retailing (duty-free sales and food/beverages sales) as an entire part of their business: these sales are an important source of income for them.

A reader survey conducted in 2005 by the Business Traveller UK magazine[2] showed the top three Airlines elected by the consumers as being British Airways (1st), Singapore Airlines (2nd) and Virgin Atlantic (3rd).

It also provided a ranking of the Airlines according to their geographical origin:

- Best Asian Airlines

  1st: Singapore Airlines

  2nd: Cathay Pacific

  3rd: Thai Airways

- Best Middle Eastern Airlines

  1st: Emirates

  2nd: Gulf Air

  3rd: Qatar Airways

[2] Source : The Moodie Report

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- Best Eastern European Airlines

  1st: LOT Polish Airlines

  2nd: CSA Czech Airways

  3rd: Malev Hungarian Airlines

- Nest North-American Airlines

  1st: American Airlines

  2nd: United Airlines

  3rd: Continental Airlines

Unfortunately, no ranking was provided for Western European Airlines. A detailed file of the rankings including other features is provided in Appendix A-4.

We will see later in PART B that these consumer preferences can often be explained by various strategies implemented by the Airlines, in terms of promotion, training of the crew and choice of the product offer.

As financial results are concerned, we were only able to get information for the year 2004:

Exhibit A-II 10: Duty & Tax-free sales: the world's top 20 airlines 2004

	Type	Country
>US$ 100m		
1 Korean Air	Scheduled	S Korea
2 British Airways	Scheduled	UK
>US$ 80m		
3 MyTravel	Charter	Denmark
4 Japan Airlines	Scheduled	Japan
>US$ 50m		
5 All Nippon	Scheduled	Japan
6 Britannia	Charter	UK
> US$ 40m		
7 First Choice	Charter	UK
> US$ 30m		
8 MyTravel	Charter	UK
9 Air France	Scheduled	France
10 Asiana	Scheduled	S Korea
>US$ 30m		
11 Ryanair	Scheduled	Ireland
12 United Airways	Scheduled	USA
13 Britannia Nordic	Charter	Sweden
14 Northwest	Scheduled	USA
15 China Airlines	Scheduled	China
16 LTU	Charter	Germany
US$ 20m		
17 Virgin Atlantic	Scheduled	UK
18 Lufthansa	Scheduled	Germany
19 Delta Airlines	Scheduled	USA
20 Condor	Charter	Germany

Source: Generation

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Not surprisingly, the leader is an Asian Airline, closely followed by British Airways. The first American Airline stands at the 12th position (United Airways). Even if these results give us an idea of the Market, we cannot really rely on them presently, for they are 3 years old and the Airlines Business is moving really fast (especially in Asia).

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III. Who is the final Consumer?

In such a reactive Market, it is key to know the final consumer and to fully understand his consuming behaviour. As the Travel Retail Market is concerned, the consuming behaviour will be highly dependant on the nationality of the consumer. Thus the Marketing mix implemented may differ according to the route of the Airlines or its country of departure/arrival. As previously seen, most of the sales in the Airlines Business are made in Europe and in Asia, where the main consumers are Japanese. We will focus our consumers' presentation on these two profiles.

1) The European Consumer

A usual rule in Travel Retail is to consider the European traveller as the most sophisticated and mature target, in terms of purchasing process. Almost half of these travellers do it on a regular basis. They are moving around in a well developed environment, are price sensitive and conscious of Brand Power. For them, Travel Retail in Airlines has been being developed along with tourism.

We can distinguish four different standard profiles:

- The Consumer in a rush, who considers Airports' duty free shops as part of a mall. He does not want to loose time and thus may be willing to buy inflight, since it is during the flight that he has to "kill time". He usually tends to buy products he could buy next to his home and thus is interested in basic products (alcohol, fragrances, tobacco…). King of the 'useful buying', he does not burden himself with surplus.
- The Hedonist Consumer, who tends to travel for pleasure (roughly one third of the travellers). For this type of consumer, the purchasing process is connected with the wish to treat himself. Even if he has a limited budget, he will try by any means to celebrate his travel with a purchase, often impulse buying.

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- The Reluctant Consumer, who tends to avoid duty free shopping and only considers it if somebody travelling with him makes him get in the shop or open the inflight magazine. He is usually a man and only travels for pleasure. Only one third of his purchases are impulsive or motivated by his spouse.
- The Addicted Consumer, for who shopping has become a sport. Highly attracted by high-end Brands and products, he only buys products he would not find in another distribution channel. He is usually a 40 years old woman, with rather high purchasing power and travels for pleasure.

As one can see, we are facing a large panel of profiles on the European Market. Thus it is hard to list precisely the expectations of these consumers. The only key and common feature is seduction of the consumer. In terms of products, this means innovation, regular new offers as well as a particularly well designed package.

To sum up, here is the description of the Core Market of Travel Retail (and thus of the Airlines Business): the "Frequent Flyers" who amounts for 10 millions in Europe[3].

- Age: 63 % are between 35 and 54 years old
- Sex: 82 % are males
- Average income: 79 700 euros (62 % have an income above 75 000 euros as couple and 40 % earn more than this on their own)
- Socio-economics Group: executives, learned professions, CEOs
- Principal Features: 56 % prefer buying well-known Brands, 84 % are ready to pay more for good quality, 26 % think that advertisement has an influence in their decision making process

European Culture and consumer Behaviour

The usual family in Europe is a mononuclear one. Thus people will be more incline to make presents to their immediate family and to themselves. Besides, the amount spent on buying a present for one person may be quite important, since the global number of presents is usually limited and not that important.

[3] Source: Ipsos, 2005 study

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European countries have mostly low context cultures, with the following features:

- Words carry explicit message. Thus, in their communication plan towards the Europeans, the Brands will have to choose carefully the "selling phase" displayed with the product, for instance on the visual or in the inflight magazine.
- Contracts do not regard character of individual. This does not have a particular impact on the consumer behaviour

European Key cultural Values

To better understand the expectations of our potential consumers, we have to study and introduce their cultural features. This will be done though the use of Geert Hofstede's well known survey (See Appendix A-5).

According to this survey, European countries are highly individualistic. Thus, people are more interested in making purchases as self-gifts rather than buying presents for their family or their friends. The decision making process will be made by the European consumer according to the judgement he or she makes as to what is appropriate and the individual rewards that will accrue.

The second interesting feature in terms of consuming behaviour is the fact that European cultures show middle to high degrees in Power Distance and Uncertainty Avoidance. Power Distance is understood as the dimension that indicates the extent to which members of a society can and do accept that Power in institutions and organizations is distributed unequally. With a middle to high score in this dimension, European consumers will be more incline to make use of a calculative trust formation process in their decision making process.

The Uncertainty Avoidance dimension depicts the degree of uncertainty or ambiguity that a particular community finds tolerable. A high score in this dimension shows that the European consumer will usually be reluctant to change (=> impact on the Product component of the Marketing Mix), will believe in strong relationships (=> impact on the People & Promotion components of the Marketing Mix) and rely on expertise.

We are going to see in next part that this differs quite a lot from the Asian cultures and thus that European and Asian consumers have to be targeted as really two different Markets.

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2) *The Japanese Consumer*

The Japanese Consumer is considered as the reference consumer as the Asian Travel Retail is concerned. According to Duty Free Shoppers' records[4], 65 % of recorded sales in their shops in 2003 were made by Japanese travellers. Cultural differences have to be carefully taken into account when analysing the consuming behaviour of Asian people.

55 % of the Japanese who travelled for non-professional reasons in 2002 have spent more than 385 euros per capita in Travel Retail. On the opposite, 70 % of those who travelled for business purposes have spent less than 385 euros per capita, and 23 % among them did not spend anything at all owing to lack of time. This is an interesting feature for the Airlines Business, since once again it is the only time when these Business People find themselves with time to kill[5].

Among the Japanese who travel for pleasure and tourism, two segments of consumers with high purchasing power, luxurious tastes and demanding of cosmetics can be identified:

- The Hanger-on Single Women, as called by the Japanese papers, who still live at their parents' home, even though they earn properly their life. They amount for roughly 8 % of the Japanese population and spend around 400 000 JPY (3 500 euros) yearly in cosmetics (almost 10 % of their annual income)[6]. These women, aged between 25 and 34, are fashion addicts, only buying high-end and famous Branded products. 29 % of them women buy their fragrances in duty free shops and are particularly fond of TR Sets and TR Exclusives. This particular target Market is expected to boom in the coming years, thanks to the westernalisation process occurring right now in Asia. Thus, it can bee in the interest of Brands to capitalise on their Brand Image and to adapt their offer to this target Market's tastes and expectations.

[4] Source : www.dfsgalleria.com
[5] Source : JTM/TFWA Japanese Traveller Survey, 2002
[6] Source : Missions Economiques, 2003

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- The Elderly, who amounts for almost 24 millions of people and are expected to be 35 million in 2025[7]. They are spending the equivalent of 18.7 billions of Euros on a yearly basis. This target Market is keen of package tours and considers duty free shopping as a fully integrated part of its travelling experience. It can be divided in two parts, both with high potential, from the Brands' point of view. On one hand, the "Masters" (50-59 years old), namely the DINKs (Double Income No Kids), who have reached the "Indian Summer" of their life. Still in good shape, having got rid of their loans, they are willing to realise everything they've been dreaming of and to live for their personal satisfaction. Thus, they are usually considered as a first choice target Market, especially in Cosmetics and consequently in Travel Retail. On the other hand one can identify the "Liberated" (60-74 years old) who are liberated from their working obligations. They are at the starting point of a new life, without any imposed schedules and constraints. They are willing to treat their grand-children more than themselves, but at the same time they are very demanding, especially as the quality of the products is concerned. This can have a positive impact on Travel Retail sales, especially for Brands like Guerlain which has a very good quality image. They are also a very important target Market for Skincare products as the anti-ageing franchises are concerned.

Asian Culture and consumer Behaviour

In most Asian cultures, the social structure is extended families. This has a particular impact on the purchasing habits, since it can mean that Asian people buy large quantities, planning to offer them. It is especially important when comes the time of the New Year or Family gathering Events (Weddings...).

Asian Countries have High Contest cultures, with the following features:

- Words convey part of meaning => Brands will have to pay particular attention to visuals and colour codes on their products and make them being sold with poise and success.

[7] Source : Missions Economiques, 2003

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- Background, associations and values are highly important => the Asian customer will often rely on either the word-of-mouth or on the good reputation of a Brand to decide to make a purchase or not.
- Contracts based on relationships, less paperwork, which does not have a particular impact on the consumer behaviour.

Now we can have a closer look at Asian Cultures, using Hofstede's most impacting dimensions (see Appendix A-5):

- Collectivism: Asian culture are collectivist, meaning that people view themselves as members of groups and collectives, prefer group activities (they usually travel in groups) and expect decisions (including purchase decision) to be made on a consensus or consultative basis, where the effects of the decision on everyone are taken into account. Thus, when choosing to buy a product, Asian customers will heavily rely on word of mouth. If the product is a best seller, there is no doubt that they will buy it straight away.
- Power Distance & Uncertainty Avoidance: Depending on the Asian country considered. Thus it is hard to develop a specific strategy towards all Asian customers at the same time. The Brands and the Airlines will rather have to capitalize on the collectivist feature described above.

To sum up, Japanese Consumers, and by extension Asian Consumers, are very selective in their choices and thus very demanding in terms of quality and offer. They are also highly sensitive to the display and the packaging/package of the products. They are deeply attracted by novelties, exclusive products which should be Branded by a high-end Brand, as a testimony of their professional and financial success but also as a sign of group belonging. Japanese people like TR Sets for the sole purpose of making presents once back in their country.

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3) General Consumer Behaviour towards the Airlines Business

During the past years, there has been a shift concerning the Airlines Business's consumer, from an elective target market, accustomed to spend a lot of money in cosmetics, to a mass market, used to buy Fast Moving Consumer Goods as well as high-end branded products. Besides, if the standard traveller 10 years ago was typically seen as a wealthy western man, one is facing a far more complex picture nowadays, wit a panel of travellers, male and female coming from all over the world and travelling for various reasons and no more for the sole purpose of business. Travel Retail has thus become part of the market demand: travellers expect Travel Retail as part of their travel experience. And this is even truer as the Airlines Business is concerned.

When asking to customers the reason why they are buying on-board, the two first reasons they give are the last minute purchases of gifts they have forgotten/did not have time to do before, and the attractive price of branded products. Thus, brands will have to take into account these two features in their pricing policy, in their product development, and in their communication plan.

A general requirement of the customers in the Airlines Business is the wish to buy a wider range of duty free products all of which require specialist buyers for Airlines. This wish is particularly uneasy to satisfy, since in a plane the storage concern can not be avoided. We will see later on that pre-ordering and post-delivering are two strategies implemented by the Airlines to meet this new requirement.

A new demand has been developing during the past years: the demand of nomad products, which are particularly interesting for the Airlines Business, given their small size. The brands have been using this new demand, offering a lot of TR sets and miniatures not only in the skincare and fragrances axes but in the make-up as well (palettes, mini nail lacquers,...). Usually, those TR sets are offered at attractive prices, at the same time. The objective is to favour "pleasure buying".

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Another common theme in the customer behaviour is the “Instant Gratification” expected for all cosmetics products, no matter the channel of distribution. Consumers want new and they want results instantly. They seem to be less brand-loyal and will jump from brand to brand without any hesitation. Brands are addressing this by increasing their level of launches and changing their line-up and skus.

As a conclusion, we can say that there is not a typical customer for the Airlines Business, but rather several typologies of consumers, who can be found on the European market as well as on the Asian Market.

A great part of the target market is Business Travellers (men and women) who make “purchases of guilt” to be forgiven by their children and spouse/husband for their absence. Another part of the market is looking for the “purchase of discovery”, the purchase of self-treat, extravagant products they would not find at home, or simply widgets.

This large panel of reasons of purchasing shows great opportunities of development for Brands and Airlines, especially as the product offer is concerned.

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PART III: PEST ANALYSIS FOR TRAVEL RETAIL

I. Political and Legal

As we have seen recently with the terrorist events in London in August 2006, political decisions can have a major impact on the Travel Retail Business. In that particular case, the most important risk for Travel Retail was that a political decision-maker chose the most spectacular and easiest way to end out the crisis, namely the banning of all sales of liquid, creams and gels on all flights and in all circumstances.
Here is a list of titles which could be found in the news during the days following the break out of the crisis concerning its impact on the Travel Retail Business:

"Fragrance, liquor, perfumes and cosmetics dip by 7% at Singapore Changi... The Nuance Group North America decision records a 75% decline in sales at Canadian airports and call for compensation... Estée Lauder shares fall 6% since new security measures imposed... global duty free sales fall by up 15%..."

Other politico-legally impacting on the Travel Retail Business are trade regulations present in some areas of the world. For instance, Duty free retail has been forbidden in-between European States, which has not only meant potential losses for the Travel Retail Market but also the complete rethink of the geography of the airports in order to allow in-transit non European passengers to purchase duty-free products.

The government stability has also an influence on the Travel Retail Market. In case of threat of a political crisis, usually the travel rate towards country decreases dramatically with an immediate impact on sales in Travel Retail.

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The main politico-economical actors, as the Travel Retail is concerned are listed below:

National Authorities in EU Member States

- Airport Operators
- Carriers operating under local approval
- May implement measures more stringent than prescribed by EU

EU Commission

- EU Member States
- Cannot influence TSA decision
- Do not accept US (TSA) standards

TSA (Transportation Security Administration – USA)

- US Carriers
- Carriers flying to USA
- Rules may be different form those made by EU
- Do not accept EU standards

Legal Status

The legal basis for international air travel was laid down in the 96 articles drawn up by the International Civil Aviation Organisation at the Chicago Convention of 1944. This Convention, agreed by fifty-four nations, extended the duty-free status of ships in international waters to include aircrafts on international flights. The Convention also provided for the creation of 'Customs free' airports to service these airports. The concept of 'allowances' dates from the 1954 New York Convention on International Travel (Convention Concerning Customs Facilities for Touring) agreed by 84 nations, which introduced several measures to facilitate the flow of travellers across international boundaries. It first established the principle that Contracting States shall admit free of import duties and import taxes, articles imported by a tourist for his personal use. Article 3 stipulated the quantities of tobacco products, wines and spirits, perfume and toilet water that could be carried by a

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tourist, the standard allowance still accepted today (except for wines and spirits which was originally set at one bottle of wine and one quarter litre of spirits).

Legislation on Cosmetics and Fragrances

In terms of legal restrictions, it is obvious that the fragrances and cosmetics businesses have to follow strict regulations, especially in terms of testing and indication of the product components on the packaging or whatsoever. We will focus on the European Legislation only.

The cosmetic activity is regulated by a European directive adopted in 1976. But, in order to keep with market evolution, this directive is completed with amendments. The 7th amendment was published in March 2003 for an implementation between September 2004 and March 2005 within every 25 countries of Europe. Guerlain has decided to be ready at a European level for January 2005.

Here are the main points of the legislation:

- ***Animal Testing*** : animal testing is unlawful (ingredients or final formula)
- ***Expiry date*** : it must be indicated if the shelf life of the product is lower than 30 months (in normal and predictable conditions of storage and use)
- ***Product shelf life***: some products clearly mention an expiry date. This does not mean that products with a life expectancy longer than 30 months do not have a limited shelf life.
- ***Period of time After Opening***: The PAO is the period of time after opening for which Guerlain guarantees the cosmetic properties of the product and for which it can be used without any harm for the consumer. The PAO is indicated by a pictogram (open-jar symbol) mentioning a figure followed by the letter M, which means the period time in months.

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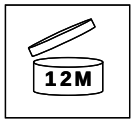

This pictogram appears on the packaging and on the container. From March 2005, all the products concerned by a PAO will mention this pictogram. Appendix A-6 displays a list of products concerned by PAO.

- ***Mentioning Ingredients***: Since 1997, ingredients must appear on the packaging in a standard way: the INCI nomenclature (International Nomenclature for Cosmetic Ingredients). Ingredients appear in a decreasing order of importance and Perfumery ingredients are designated by the term « perfume » or « aroma ». It brings benefits for the consumers as Transparency and information before purchase. With the 7th Amendment, this designation concerning perfumery ingredients must be detailed and must name the ingredient(s) from the 26 list, considered to be allergenic. These 26 components must appear clearly in the ingredients list if their concentration exceeds 0.01% in rinse-off products and 0.001% in non rinse-off products. Appendix A-7 displays the list of these components.
- ***Labelling:*** specific warning on one ingredient which must be clearly mentioned. For example: “contains Oxybenzone”.
- ***Other pictograms and warnings***: precautionary measures and security warnings can appear on products and on packaging (they must be translated in every EEC language).

- ***The cosmetovigilance***: the notion has been legislated at a European level since 1995. Undesirable effects registered by a Brand must appear in the Product Information File (PIF), which is an official document. For every product, it contains the following elements:

  - Qualitative and quantitative manufacturing formulas.
  - The INCI formula.
  - Manufacturing process.
  - The stability of the product isolated and in its packaging
  (--> shelf-life and PAO).

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- Control specifications and methods on the finished product.
- Evaluation of tolerance file (perfume included).
- Efficiency tests and relevant document.
- Intolerance files with definite imputability.

This file must be available at Public or Authorities request.

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II. Economic Factors

The geopolitical instability during the past years has been having heavy consequences on the global economy as well as on the air sector. 09-11 made the weakest airline bankrupt and set a dreadful commercial picture for others ones. As a matter of example, we can quote the bankrupt in Europe of Sabena, Air Libretto and Air Littoral. In the United States, United Airlines faced a financial crisis such as never seen before.

The immediate consequence in Travel Retail was the collapse of the Airline Business. However, the economic environment has been improving since then and Business travelling has been taking a new positive growth.

Most of the operators are optimistic. They rely on the predictions made by several organisms specialised in tourism: the ICAO (International Civil Aviation Organisation) and the WTO (World Tourism Organisation). They expect a booming of travels within the net few years, reaching the impressive number of 1.6 billion international arrivals by 2020. Indeed, in 2005 international tourism has increased by 5-6% (+15% for America / +2-3% for Europe)[8].

Considering the promising future for the international flow of travellers, commercial opportunities truly exist. The challenge for all actors from travel retail is to "catch" these millions of passengers in transit. In other words, they have to manage to increase the number of passengers getting into the Airport shops.

"For now, only 40% of the travellers in transit in our terminals come to a stop in these shops. We want to increase this rate up to 50 or even 60%" explains Alain Falque, ex-Director for Strategy and Commercial policy for ADP Airports.

Business Life Cycle

We can hereby tell a bit more about the period of Business life cycle in which the Travel Retail stands now.

When looking at the market, we can note the following features:

- Growing number of adopters of the service and growing selectivity of the purchase

[8] Source : Generation Group Report

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- Still entries of competitors
- Fight for share
- Many competitors
- More and more differentiated products

Thus, there is high probability that the Travel Retail Business stands in-between the so-called "growth" and "shake out" stages of the Business Life Cycle.

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III. Social

In a more and more demanding society, men and women are looking for “well-being”. Anxious to fulfil themselves, they use several methods to cultivate their physical well-being as well as their mental one. Fragrances, Make-up and skincare products enable them to feed up this need of taking care of themselves. An immediate illustration of this phenomenon is the worship of eternal youth which has been giving tremendous opportunities to cosmetic Brands in terms of offering anti-ageing products.

The new fragrances consumer is always seeking for new olfactive experiences. Thus Brands are introducing new gestures to please this new “polysensorial consumer”. This trend has already been highly developed in the fast moving consumer goods market.

The meaning of colours can also have great impact on sales, as well as disastrous effects. And this is hard to manage for a Brand, especially because in Asia colour codes can differ from in between two countries (see Appendix A-8). These colour codes are an obvious part of the decision making process in the consumer behaviour.

Another interesting social evolution has been the regular increase of the purchasing power of some consumers. This has obviously an impact on the high-end brands. But what is even more important is that this part of the population is travelling more and more and thus more and more incline to purchase products in duty-free shops and/or in airplanes. This evolution goes along with the increase of unmarried people, who spend a lot of money to take care of their physical appearance, and of married couples who do not have any child. These last ones tend to spend a lot of money for their exclusive personal well-being. Besides, with now almost every women working, families now live with two wages, which means a greater purchasing power enabling families to travel more and spend more money on well-being goods (including fragrances and cosmetics).

There has been a change in people’s lifestyles: most men and women are moving in a daily basis and are asking for small sized products. This way, women can put easily their make-up

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in their car and men can carry with them skincare products in their fitness club. And this is without mentioning the business people community who usually travels with very few luggage in order to avoid registration queues. They are very incline to purchase nomad products at the airport and on board.

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IV. Technological

Innovation is key in the world of cosmetics and fragrances. Brands have been literally racing to develop new textures, products, scents...to meet the requirements of new hedonist consumers. It is also of great importance in the Travel Retail Business: brands use this process to take part to the "race to market shares". It is mainly used in marketing through the development of new packages, new concepts of TR sets, new communication methods and new strategies towards the operators. Merchandising innovation is also important given the usually small display space in Travel Retail: visual impact is primordial to catch the eye of new consumers.

The rates of obsolescence in fragrances and cosmetics are very high due to different reasons. As fragrances are concern, there is such an important competition that it is very hard for a new fragrance to survive. Actually, between 300 and 500 feminine fragrances are launched every year. Usually only 5 to 8 of these fragrances last more than 2 years. When it comes to male fragrances, 15 out of 200 launched fragrances will last more than 2 years.
As cosmetics are concerned, we have seen that consumers' expectations are very high and moving rapidly. Thus, once again innovation is key and some "star products" can get obsolete very quickly. It is important for Brands to adapt themselves to the rhythm of obsolescence due to consumer expectations' changes but also to competitors' new offering and new development of technology (new formula, new gesture, new texture...). On the Cosmetics Market, there is a tremendous First Mover Advantage.

In the Airline Business, a recent innovation in the payment method has also been a vector to its potential development: the introduction of the Chip and Pin technology. Without it, crew were experiencing a high level of rejected credit card payments, which prevented sales. By being online, Airlines are benefiting from the enhanced security from Chip and Pin. Actually, if one is not EMV (Europay Mastercard Visa Integrated Chip Card Standard) compliant, he might not be able to accept credit cards in the foreseeable future. EMV is a system where when one is offline, there are a lot of checks. Thus, the new global use of this technology should decrease the rate of rejected credit cards and easier the job of the crew.

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PART IV: SWOT ANALYSIS FOR THE AIRLINES BUSINESS

I. Strengths

The Airline Business has several internal strengths one can capitalize on / take advantage of to develop & strengthen its Business.

⇒ Captive customer. As the customer is concerned, once he has sat down in the airplane, he has nothing else to do than open an inflight magazine (especially during the take off, owing to the banning of opening the table in front of him). Thus, with an effective communication plan, you simply have the customer A VOTRE MERCI

⇒ Segmented Market. On certain routes, the type of customers in terms of nationality, purchasing power, purchase of the trips is uniform. This enables to easier the choice of the listing of the products. Some Brands (e.g. Dior) already take advantage of this, offering different listings and TR specifics (even Airline specific) products depending on the Airline and for its routes.

⇒ Controlled offer. The fact that the product offer is very limits on the Airlines' listings can be a strength and a weakness at the same time One consider it as a strength since if a product has been carefully well chosen and is a success in terms of sales, it will generate higher ROS than in regular Business and will also get a higher visibility in the consumer's minds.

⇒ A newness Market. This has a direct consequence, which is the fact that the Airline Business can be used as a test Market. It also reveals the Business as a really dynamic one, which gives tremendous hopes in its future growth in the coming years.

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⇒ A less competitive Market. This is due to selected offer. Usually, the Brands won't list similar products. This is due to the two types of strategies used by companies when listing products: they can either play the card of the novelty, keeping launching new products (especially TR sets which are by definition so special to the Brand that they usually don't have any direct competitor) or capitalizing on their best products =- which are usually innovative or well known products with no direct competition as well (e.g. N°5 by Chanel / Meteorites by Guerlain…)

II. Weaknesses

At the same time, the Airlines Business shows several weaknesses which are often directly connected with its strengths:

⇒ Controlled offer. This can be seen as a weakness, since if one of the few products you have selected to be listed in an Airline is a failure, you face high losses plus you loose in credibility from the Airline's point of view.

⇒ The storage issue on an airplane has for direct consequence a usually small panel of choice. Thus, if the consumer does not find what he expects, he will directly look for the equivalent product in the competitors' offers rather that buying a similar one by the first Brand. Besides, this can make Airlines refuse to list some large products, such as the Orchidée Impériale Cream by Guerlain.

⇒ By definition, the Airlines Business represents the sales onboard. Thus, the Business is highly dependant on the good shape of the Airline industry, which can easily be worsened by external events (see part THREATS).

⇒ As we have seen in the previous part, there is a high level of centralization of the Airlines actors, which has for direct consequence the fact that Brands are completely

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dependant on the goodwill of a few Airlines to get a good/bad reputation as a supplier in the Business.

⇒ The Business, depending on the routes, shows a dependency on local events and seasonality. As a matter of example, we can quote the return to the school term, the completion of financial years, the period of the year when people take their holydays, the Football world cup and so on…

⇒ A weakness specific to short haul routes. On these routes, passengers do not value the service; there is only so few product to be pushed on board when one is in the air for just 30 minutes.

⇒ Short listing period. Depending on the Airline, you have to refresh your listing on a regular time basis ranging from 1 to 6 months. This as for direct consequence that you can't see results for a new products on the middle and on the long terms. Besides it cannot be recommended to offer the exact same listing, for there is great risk to get an old-fashioned Brand image resistant to change.

⇒ Difficulties to express the Brand strategy. With a so small and so limited assortment, it is hard for companies to capitalize in the long term on their usual Brand Strategy. However, one can easily tell what the immediate strategy of a Brand as the Airline Business is concerned is: strategy of novelty, strategy of the Brand (capitalization on star products/franchises)...

⇒ For technical and security reasons, the level of purchase is limited on board. This can have a direct impact on the average amount of the average purchasing basket, and can make Airlines refuse the listing of some very expensive products, such as Guerlain Orchidée Impériale Cream.

⇒ The lack of visibility in terms of profitability makes it difficult to measure the rate of return on heavy investment, which the activity would demand. Thus, the inflight

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retail is not always considered as an important source of income by some Airlines, which does not show any commercial dynamism for the Business.

This has also a direct impact on the crew, who are rarely motivated to sell products on-board, as they do not consider this as a part of their job.

III. Opportunities

⇒ On a socio-demographic point of view, the booming of the Asian Market is a strong opportunity of development for the Business especially when taking into account the fact that Asian people are less price sensitive and tend to buy more expensive products in more numerous ways than for instance their European counterparts.

Actually, travel and tourism arrivals across the Asia Pacific Region rose by +4.5% in the first quarter of 2006, compared to the first quarter of 2005, according to the comprehensive and comparative listing of Asia Pacific destination performance released by Pacific Asia Travel Association (PATA). That translates into nearly 3.5 million more arrivals for Asia Pacific destinations year-on-year.

⇒ The Airlines actors' centralization we have previously exposed as a weakness can also become an opportunity: if you manage to get you a good reputation, there is high potential that this will be the case on the whole Market.

⇒ Brands can develop special partnerships and animations with the Airlines. This can go from the development of exclusive products to special rewards for the crew, including gifts with purchase for the customers. We will develop this in PART B-V.

⇒ The shorter listing period makes it easier to switch products in case one is not enough successful, without any major impact, especially as the Brand image is concerned.

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⇒ The Brands can take great advantage of the development of the use if new technologies, such as the pre presentation of the products on the Airlines websites, or even the pre selling option, which is sometimes offered by some Airlines (many Asian ones). This will be further presented in PART B-V.

⇒ A tremendous opportunity of development in the coming years to be taken into account is the coming in use of new generation airplanes, such as the Airbus A380, which will include a real shopping area inside the plane. Philippe Jarry, vice president of the Marketing development at Airbus industry, was saying: "***The challenge was to come up with a list of all potential service allowing the valorisation of the air travelling, from the passenger point of view. Airbus was thinking about setting up new service offer such as hairdresser, a fitness room, a kindergarten, and small shopping areas***".

Exhibit A-IV 1: The new shopping area in the Airbus A380

Source: Airbus Industry

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IV. Threats

Some external events / features of the Market can be a threat to the Airline Business:

⇒ As the Airlines companies are concerned, on board duty-free entail numerous services and generate important hidden costs: financial costs and stock holding risks, shrinkage, financial accounting costs and stock control and security…

⇒ International disease which make people afraid of travelling and thus lowers the inflight sales.

⇒ Climatic events, such as Hurricanes, Earthquakes, which have a direct impact on the air traffic.

⇒ Terrorism is a tremendous threat. This was clear after 9-11, with the Airline industry in deep recession, but it has also become a threat this year with the banning of the products on board. However, the sale of these liquid products was still being permitted on board, so the London terrorist events have been more harmful for the airport duty free Business than for the Airlines Business.

⇒ Oil cost, which has a straight consequence on the fare of the ticket and thus in the number of passengers flying as well as on the frequency of their trips.

⇒ Lower service from the crew than in usual Travel Retail Business or than on the Local Market. Thus, Brands loose in credibility and can often rely on the goodwill of the passengers to have a look at the inflight magazine.

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PART B:

OPPORTUNITIES OF DEVELOPMENT IN THE MARKETING MIX

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PART I: OVERVIEW

The objective of this part is to present the specificities of the Marketing Mix to be developed for the Airlines Business. However, as we will see, in many cases the specificity will be done for the Travel Retail Market and not solely the Airlines Business. This is partly due to the fact that Brands are not that willing to invest heavily in the Business, which would be the case in developing specific products for instance.

We will go through the 4 Ps of the Mix (Product, Place, Price & Promotion) and we will also present a 5th P (People), since we think that in the Airlines Business, motivating and well-using the sales people can have big impact on sales.

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PART II: PRODUCT POLICY

If one can often witness an adaptation of the products to the Travel Retail market, it is not necessarily the case as the Airlines Business is concerned. Besides, on this market, it is hard to develop close customerisation.

I. Product Life Cycle

Guerlain has a tremendous strength, since it has successful and historical franchises with almost "endless" life cycles.

This is the case for the Terracotta (Western countries since 1984) & the Meteorites (Asian countries since 1984) franchises. All along the years, Guerlain has chosen to capitalize on those franchises and thus implemented specific strategies to extend their Life Cycle.
We will use the Terracotta franchise as an example. To extend the Product Life Cycle of this franchise, Guerlain regularly faces two options:

- Market modification

The market can be modified in several ways. For instance, through the implementation of Summer Collections each year, Guerlain managed to increase the frequency of use by present customers who may do anything to buy these collector items.
Guerlain has also managed to attract new customers through the launch of specific and well-targeted products, such as the Terracotta for Men or the Terracotta Light Powders which can even suit to light-colour skinned people.
The market modification has also been done with the finding of new uses for the Terracotta products. In this vein, Guerlain came up with the Terracotta for the body or the Terracotta Kôhl.

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- Product modification

Another strategy to extend the Life Cycle can be to modify the existing products, through the change of the product quality or of the packaging. This has been highly used by Guerlain in the history of its TR Sets for the Terracotta franchise. Appendix B-1 shows the history of the Terracotta TR Sets for the past two years and for 2007. As one can notice, the Brand offers two types of sets. One is capitalizing on the Best Sellers of the franchise (the Duo/Trio Sets) and the other one is using a different packaging (the trio mini Terracotta or the Palette). Those TR Sets are always offered in the Airlines' listings, for they contribute to the Brand image while usually generating high level of sales.

Thus, to propel its Terracotta franchise backward into the lucrative growth phase of its life cycle, Guerlain mostly use a strategy of reverse positioning: stripping away attributes consumers expect in a mature product, and adding some surprising new ones.

More generally speaking, and considering all the winning franchises of the Brand (including fragrances and skincare products), the extension of the Life Cycle is enabled by the use of:

- "One-shot" collections. They are rarely listed in the airlines assortment. This is due to stock constraints and the fact that some listings last a length of time longer than the one-shot collection
- The innovative products (e.g. the coming Purse Spray for the winning fragrances franchises Insolence, L'Instant de Guerlain and Shalimar) which make Guerlain stay one step beyond its competitors on this type of products.

The Brand is capitalising on its best-selling franchises through the development of Sets which differ from year to year with the sole purpose of seducing the customers and giving them the feeling that they are offered exclusive products on well-known and highly recommended franchises.

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II. Innovation and adoption rhythm

We have presented the importance of innovation in a highly competitive market, but even when capitalising on a successful franchise, Guerlain has to take into account the influence of the characteristics of the product on the adoption rhythm. This is particularly important for the TR sets listed on Airlines, since owing to the small number of products listed by Guerlain, new products cannot fail to attract consumers (or they will be quickly unlisted by airlines)

Here are the main characteristics of the product Guerlain should pay attention to:

- The relative advantage of the innovation
- The compatibility of the innovation
- The complexity off the innovation
- The possibility of the innovation
- The possibility to split the innovation
- The innovation can be communicated

III. Product component model

We are now going to analyse the different components which are developed by Guerlain and its competitors to attract the consumers. Some characteristics of the products can be specifically designed for the Travel Retail Market, especially as the TR Sets are concerned. It is however rare to find a specific development towards the Airlines Business, generally speaking.

The graph below shows what is commonly defined as the Product Component Model. We will describe each part more specifically afterwards.

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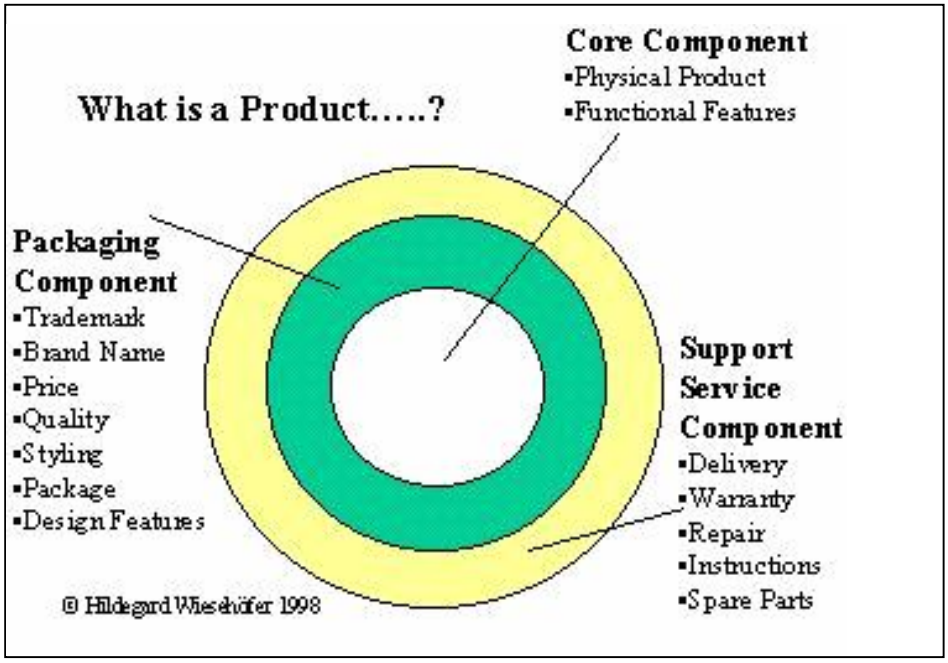
Exhibit B-II 1: Product Component Model



1) Core component

- <u>Physical product</u>

The ingredients which are used by Guerlain in its product are highly important, in fragrances as well as in cosmetics.

Fragrances

Guerlain Fragrances are made out of 80% natural ingredients and 20% artificial ones. They can be divided in 5 categories depending on the percentage of alcohol and concentrate used in the "juice":

- Extract: 20-40% of concentrate diluted in a 90° alcohol. It can last up to 8 hours.
- EDP: 7-30% of concentrate diluted in an 80° alcohol. It can last up to 6 hours.
- EDT: 3-20% of concentrate diluted in a 60° alcohol. It can last up to 3 hours.
- Eau Fraîche: 7% of concentrate diluted in a 60° alcohol.

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- Cologne: 4% of concentrate diluted in a 60° alcohol.

Guerlain perfumes are unique because their autograph is inimitable. This "stamp" is a unique olfactory harmony called "Guerlinade". It is unique to Guerlain perfumers and jealously guarded by them. They include bergamot, the tonka bean and vanilla among others. This Guerlinade is obviously a core competency of Guerlain, which can capitalize on it. It is the kind of core component of a product which will make people say "I am Guerlain", when speaking about their fragrances preferences.

To create perfumes that defy time and fashion, you have to invest in high quality raw materials. As we have previously said, Jean Paul Guerlain, like his ancestors, gives preferences to natural essences considering synthetic products as a complement. He travels the world in search of raw materials to compose his perfumes.

"Going on the site, checking, choosing the raw materials that make up our perfumes are […] the only way to perpetuate the Guerlain tradition and quality. I buy my bergamot in Reggio di Calabria, my Ylang Ylang in plantations on the island of Mayotte, my jasmine and Santal in India…"

Jean Paul Guerlain

Skincare

By history, the skincare axis has always offered high-end products with very efficient formulae and ingredients. Actually, the first skincare product created by Guerlain in 1904 was product developed specifically for a customer: "Secret de Bonne Femme".

Appendix B-2 lists some ingredients used in the products. They all result from long research processes and contribute to the Brand image of Guerlain. This is especially the case of to Franchises: Issima and more recently Orchidée Impériale, which are unique and can be seen as core competencies for Guerlain.

Make-up

Apart from their core components (see below the few given examples), all Guerlain Make-up products come with additional features which reinforce the uniqueness of the Brand and which can clearly be considered as specific core competencies:

- All foundation products have an SPF index protection
- All powders for the face are perfumed with various Guerlain Fragrances.

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- All Kiss Kiss lipsticks are subtly scented with a trail of violet, red fruit and a pinch of vanilla. They also have a good taste.

Some examples of the components used in the Make-up products:

- The Fleur de Teint foundation is made out of pure Rose Centifolia extracts, which have regenerating, energising and softening properties.
- The purpose of the Kiss Kiss project was to come up with soft, supple, smooth and shiny for hours' results on the lips. This is enabled through the use of specific ingredients, gathered under the name of Cream Soft Complex. Moisturizing oils and VitE can also be found in the product.

- <u>"Equipment" of the product</u>

This is of great importance in the Travel Retail Market and thus in the Airlines Business, especially when it comes to TR Sets. Guerlain usually adds some accessories to the basic products in the TR sets.

Here are below some examples from the 2006 TR sets offer:

- Fragrances: Cherry Blossom mini spray collection, which comes with a pouch to carry with you the sprays, whenever and wherever you want.

- Make-up : Meteorites miniature collection, which comes along with a mini brush (the must-have when you travel, especially in a plane)

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- Skincare: Success Model Ultra firming program, which offers products in a beauty pouch to put the products inside and take them in the plane, at the office….

- Design features:

Size

Usually, two types of products are listed by the Airlines, when considering the size of the product. : regular-sized products and miniatures. Please note that we will focus on the size of the packaging later.

In consumers' mind size does matter a lot: a small-size product can be perceived as a highly qualitative product. This is the case for some regularly small-sized products such as eye care or perfume Extracts.

When brands develop products especially for Travel Retail with a smaller size than usual (often called the « travel size »), they usually put several products together to make kits. This gives the certainty to the consumer that he has spent some money on a real product and not on buying a sample.

Shape

The shape of the product is of great importance in the Fragrances and Cosmetics world, but not specific to Travel Retail. Usually, it should be consistent with the brand image, easily remembered by customers and if possible as innovative as the product itself. Guerlain attaches importance to the shape of the products (Insolence, Kiss Kiss, Orchidée Impériale), since it conveys a feeling of luxury and reassures the consumer in terms of quality. For instance, the "click" which can be heard when closing a Guerlain lipstick makes women think that they can put it in their handbag without any fear of spreading of the product inside it.

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- Functional features :

Two functional features are of interest as Guerlain is concerned: the performance of the products and the existence of refillable products in the TR Sets offer.

Guerlain is already well-known for its product-quality. However, we will study later how important it is to communicate about the efficiency of the product in the inflight magazine, or on the website of the airline in order to push the sales in a highly competitive market.

Some other brands have chosen to communicate also on the packaging of the product, to explain its benefits. This is even truer as the TR Sets are concerned. However, this cannot have any effect on the inflight sales, for the products are (up to now) not displayed in a real space. This may be completely modified with the introduction on the Market of the new generation airplanes and their real inside shop. Thus, Guerlain may have to consider the use of this strategy in the coming years.

2) Physical Attributes:

The packaging of the products which are sold inflight has to present two important features. It should be small for stocking reasons, and resistant, owing to the transport condition in Airplanes which can easily damage the packaging. It can easily get dirty and scratch very quickly in the trays resulting in a non qualitative image for the Brand.

Guerlain is taking great concern of the quality of both primary and secondary packages, since it is the first perception of the Brand Image the consumer will get. Thus, they should be consistent with Guerlain High positioning and highly qualitative products.

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Here are some pictures of the luxurious primary packages developed by Guerlain, even for TR Sets:

Most of the time, the secondary package consists in a folding box which can be made from various materials:

- Transparent boxes allow seeing the product and have significant impact; but they are expensive and get easily dirty. Usually Guerlain does not use such folding boxes.

- Carton boxes remain clear but need a very impactful visual. They are the type of boxes used by Guerlain exclusively. We will see later how Guerlain managed to catch the eye of the customer on its TR Sets with a qualitative packshot on the folding box.

- Hybrid carton/plastic can be very cheap looking if not well done. This type of box is not used by Guerlain.

Size

As we have previously said, the size of the box matters a lot to convince an Airline to list a product: small but better is the trend.

Colour code and graphic elements

The colour code and graphic elements on the packaging are also of great importance, especially in two kinds of market: the Airports Business, for people usually make quick purchases and tend to catch what they usually buy; and the Asian Market, a booming sector in the Airline Business, which is a low context culture.

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This code enables several things including setting visibility. Besides, using a specific colour or graphic element for TR Sets helps to present a sub-brand as an exclusive product versus the local market.

Guerlain has presently used a colour code for the Meteorites and the Terracotta products, including the TR Sets. As the graphic elements are concerned, we can quote the Aqua Allegoria Franchise: all the packages of this franchise are identical and the packaging quite similar.

The New Graphic Chart

To increase its visibility and give an even clearer image of the TR Sets, Guerlain has been developing a new graphic chart for TR sets, to be implemented in 2007.

Text and pictures

As part of the packaging we also have to say a word about the text and the pictures printed on the packaging, especially for TR sets.

The picture of the product on the folding box is not really important in Airline Business, since people make their choice from the inflight magazine. However, it is highly important in the rest of the TR market. It should be impactful and identical to reality, not to deceive customers (an important consideration in the luxury market).

The text on the box is usually short: people do not take time to read in detail what is written. What does matter is the use of the « travel retail exclusive » claim in the name of the product itself. As one knows, a claim is a trademark for exclusivity and sets a distinction between the product of local market and the special opportunity to buy in the Airplane.

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Guerlain has used such a strategy of product differentiation for some of his TR sets, for instance with “Issima blue voyage” or “Meteorites Mythic Travelling kit”.

3) Services attributes

We can split the service attributes according to the moment when they occur: before, while or after the sale.

Services attributes before selling in the TR business mainly consist in the various means offered to people to gather information on the product. This is done through a communication plan - see PART B-V -, and a specific merchandising used to attracts potential customers (including testers, leaflets ...)

While selling, the influence that salespeople may have on consumers’ choices is to be seriously taken into account especially in the Airlines Business. This is why we have chosen to dedicate a whole part of our report to them (see PART B-VI).

After selling services attributes have become a “must-be” for any companies and Brands.
As Guerlain is concerned, we can list several after-selling services:

- Delivery: some airlines (British Airways) offer the possibility to their customers to be delivered directly at home.
- Warranty: there is no official warranty for Guerlain products but rather a moral warranty. In fact, all damaged items or not qualitative ones for any reason are bought back by Guerlain. A dedicated team in the headquarters is in charge of analysing what went wrong and in case can alert the marketing development on quality concerns.
- Spare parts: one can buy refills for refillable products in every Point Of Sales, on the ground though. Inflight, where no refills are offered, people can buy sets already including the refill (e.g. The Meteorites Deluxe Compact Powder Set).

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- Instructions: a leaflet is always included in the folding box, to give instruction on how to use the product. This is particularly useful for skincare and make-up products. This instruction leaflet is to be present in products sold inflight, for there is no beauty advisor on board.

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PART III: PLACE & ASSORTMENT POLICY

I. Customer Catchment's area and target market

This feature of a traditional distribution channel is predefined in the Airlines Business: the Area corresponds to the network of routes the company is offering to its customers. Thus, the target market will be highly dependent on the very nature of the route, (short haul, long haul), the countries or departure and arrival, as well as the frequency of the light which can give an indication on the type of consumers on board (nationality, travel purpose -tourism, business people- ...)

II. The assortment

In the Airlines business, the assortment is a key point, especially because it is usually a mid- or long-lasting assortment with high and limited visibility. One does not want to list one product out of five which would generate hardly any sales.

Some Assortment Strategies

Different assortment strategies can be used and are indeed being used by the Brands. Here are the two most important strategies used in the Airlines Business:

- "Offensive": Guerlain

  The assortment will be narrow but deep. This will enable the Brand to get an image of competence and position it as a specialist on the Market. The level of price going with it can be high or low, depending on the Market. In the case of Guerlain, prices are set at a high level. The attraction is usually high for this kind of assortment.

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- “Seduction”: Christian Dior

The assortment will be large and deep. It conveys the Brand an image of variety of choices and prices. The attraction is usually very high for this type of assortment.

Depending on which assortment strategy the Brand has chosen, its position will be more or less risky. In the case of an “Offensive” strategy, the assortment being narrow, the Brand has to be very careful about the potential success/failure of the chosen products. It is less risky in the “Seduction” strategy, for the potential failure of an item should be easily compensated by the sales of the other ones.

Case Study: listing proposal for Aeroflot

The purpose of this part is to briefly present how a commercial will “sell” to the Airlines Marketing Team an offer for Guerlain listing. Usually, the presentation will begin with a short recap of the Brand strategy for the on-going year and of the history of priorities for Guerlain (overall and by axis). For Instance, in 2007, the priorities are the followings:

- Fragrances: Insolence & IDG Franchise
- Skincare: Orchidée Impériale & Super Aqua
- Make-up: Kiss Kiss Lips & Gloss & TR Exclusives & Sets

Then the assortment proposal by axis is displayed. For each product offered, usually the commercial has brought with him a sampler/tester/definitive product or mock up in order to better convince the people he is speaking to. For each product, the following information is also provided (see Appendix B-3 for an example):

- Launch date (if new product)
- Marketing file of the product (see Appendix B-3 for example)
- The dimensions of the product, which is of great importance in the Airlines Business, as previously mentioned
- The Onboard Retail price
- Any other relevant information for the Airline’s negotiators

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To come up with the assortment, a short study has usually been conducted by the Operational Marketing Team. The idea is first to present the sell-in figures for the geographical area the Airline belongs to (in our case study, TR EUROPE) and from this find out the current best franchises. Then it can be interesting to study the sell-in results of the local market as well (here RUSSIA), in order to find out some trends, especially in make-up if you want to list new colours/textures for instance. Lastly, a recap of the sell-out figures for the TR area can be interesting to be shown too.
As ongoing selling of already listed products is concerned, a good selling argument can be to show sell-out figures for this product and for this Airline.

Usually, Guerlain also tries to make a layout proposal of the assortment in the inflight magazine during the same meeting as the assortment proposal one. It is a powerful visual argument towards the Marketing Team of the Airline (see Appendix B-4 for an example of layout proposal for Qantas).

At the end of the presentation, if the commercial finds it useful, he can choose to make a short teasing of the coming new events/products for the rest of the year/following year.

III. Service and atmosphere.

When it comes to services, we have to differentiate services offered by the Brand to the Airline from those offered to the final consumers. Usually, in the Airlines Business, services offered to the final consumer by the Brand are limited to the information provided on the products in the inflight magazine or on the website of the Airline.
As the services towards the Airlines are concerned, Brands usually offer pre-purchase and post-purchase services.
Pre-Purchase services include information and advice towards the decision makers (lab samples, TFWA ...) and towards the crew (information leaflets, training sessions…).
Post-purchase services include delivery of the products, return of faulty products, personalisation of the offer, of the packshot...

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The atmosphere lies in the nature of the relationship between the Brand and the Airline and who is really the decision maker. For instance, a Brand like Dior is very powerful in the Business and must have a high power of negotiation with the Airlines, whereas a Brand like L'Occitane must be in a completely reverse position towards the Airlines which does not mean though that the atmosphere of the relationship is unpleasant.

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PART IV: PRICING POLICY

China Airline's motto 'Always cheaper than on the ground' shows how important the pricing strategy is in the Airlines Business. The strategy will obviously depend on several features including the usual price-positioning of the Brand (high-end vs low-end products), the type of products being offered (make-up vs fragrances…) and of the geographical origin of the Airline. As Guerlain is concerned, the prices defined for the Airlines are done on the basis of the Area Travel Retail prices, with the sole characteristics of being round numbers.

Usually, the basic principle when setting up Travel Retail prices is the saving of the VAT. As Guerlain is concerned, a global pricing policy has been implemented, as it is also the case for its main competitors. Thus, the Travel Retail price is defined by the following:

TR Price = Local Market Price – 20%

The Local Market Price is usually the price of the products in the country where the downtown shop/airport is located. However, there are some exceptions. For instance, as TR prices in Hawaii are concerned, they are based on Japan Local Market Prices, for the main consumers in the Airport are Japanese and not American people. Thus, the saving should be done targeting them.
When rounding the prices for the Airlines, the policy is to get to the inferior round number, which gives an even more important saving for the consumer. The reason to this is actually very simple: Airlines do not want to give back cash when selling on board. This may change with the development of exclusive credit card payment policy.

As the TR Sets are concerned, there is an additional saving compared with the classic products. The objective for Guerlain when offering TR Sets is to increase the average purchasing basket, so the pricing policy is more and more going to a "no saving" policy.

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The price on the Airlines, as the price in the other Travel Retail distribution channels cannot be imposed by Brands. However, it is strongly suggested and usually more respected by the Airlines than by the other operators.

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PART V: PROMOTION POLICY

I) Use of the Media

On board, customers have some time to choose what they would like to buy. However, the offer is not large enough to enable them to compare the products with one another. Thus, they are often tempted to purchase items that have been advertised in magazines and periodicals. This shows how a good use of the Media can be really impactful on sales.

1) The Inflight Magazine

It can be a powerful tool: most people read it, for they have time to kill while flying. Some Airlines have well understood this, and have invested a lot in it. They have even tried to turn it from a 'formal' catalogue into a true 'lifestyle magazine' with fashion tips and pictures. Thus, the display of the products sold on board becomes a real part of a fashion experience and shopping.

We are now going to present two different inflight magazines, one from Australia and one from Korea. Actually, it has been noticed that Asian Airlines were more incline to boost the Airlines Business and thus pay particular attention to both their inflight magazine and their website. This is not at all the case in Europe which is beginning to follow the trend though.

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ð Qantas: ***In Sky Shopping***

National carrier Qantas' inflight brochure is notable for conveying three key messages: newness, luxury and value.

Entitled ***In Sky Shopping***, the brochure covers a period of 4 months. The main content page is entitled 'Shopping is easy' and to ensure that is the case the main sections are annotated by conceptual as well as product description. For example 'Pamper' denotes fragrances, skincare and cosmetics; 'Cheers' is liquor and 'Connect' is electronics. Four "simple steps" to buy onboard are listed (in English and Japanese) on this page. Then, a page highlights some of the "New on board" items with a picture, price (in Australian Dollars) and page reference. Elsewhere in the publication a "New on board" banner is imposed by the product listing whenever a recent introduction is featured.

Also interesting is an "Easy Price Guide" which segments all items by price band (A$0-50; A$55-100; A$105-200; A$205-400; A$405-700), again with the consumer-friendly page reference.

Usually, around 16 pages (including full page ads) are dedicated to fragrances, reflecting the strength of the category in Australia. Cosmetics attracts around 10 pages of listings (in the last number, including an ad for Guerlain Bronzing Essentials Terracotta) featuring several new items, several exclusives (Jurlique, Bloom) and multiple-purchase price offers (Clarins) or gifts with purchase (Revlon, Bloom).

The brochure closes with Customer Service information and a 28 day 'money back guarantee' and information on Qantas Frequent Flyer points from buying inflight. It concludes with a short summary of liquor and fragrance allowances for main Qantas destinations.

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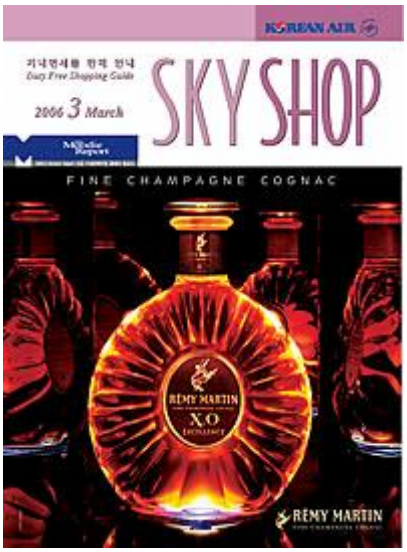
ð Korean Air: ***Sky Shop***



Korean Air is the most successful inflight retailer, generating sales of around US$150 million in 2005.

The inflight magazine is usually around 150 pages long and is a monthly publication. It features several pages of new items at the front (a nice touch compared with the more traditional and staid 'new' banner imposed on standard pages), followed by a one page 'Trend Report' and some pages of pre-order only items. Then follow pages of route-specific items, for the Korea-Japan and Korea-China routes.

The rest of the publication is characterized by typically high Korean Air production. It includes several sections: Spirits and Wine, Cosmetics, Fragrances, Pearls, Gifts, For Kids & Cigars and Cigarettes. The Cosmetics section is usually around 60 pages-long (including advertising). This category is by common acclaim among Korean retailers "on fire" here among Korean Women. The Fragrances section is usually around 10 pages – long.

Given the importance of the inflight magazine in the Airlines Business, it is highly important for Brands to work on what kind of information will be presented in the magazines. This includes a qualitative packshot specific to the Airlines (with the folding box), a claim and a short description of the product, an indication of the price (and if possible of the saving)… Guerlain always try to make several proposals of layout to the Airlines, in order to find out the best way to display the products in the most original and luxurious way.

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2) *The Airlines' websites*

All Airlines now have a website on which customers can plan their travel, buy their tickets and find relevant information on any matter they can have. Some Airlines also use their website to show online the inflight retail catalogue. Some of them have even developed a system of "on-line ordering". We are going to present some examples of these websites and then try to reach a conclusion on how this could be used by the Brands and by Guerlain in particular.

- United Airlines

United Airlines operates more than 3,700 flights a day to more than 210 US domestic and international destinations. We wanted to review the carrier's duty free shopping website but we had trouble finding it. That's because it's buried some four clicks away from the united.com home page. But once you get there, it's worth the hunt.

Style: Blue, black and white is the trio of colours on the United Airlines Website. Although the site does not boast cutting-edge design, it holds its own with simple, sharp contrasts and likeable layout.

Content and usability: The homepage features, in bold text, a four-step guide to enjoying the perks of inflight shopping: look ("Browse through the Duty Free catalogue; sit back, enjoy your flight and save money while you shop duty free"); listen ("Your flight attendant will make an announcement when in-flight shopping begins"); shop; enjoy.

Although there is no online pre-order system, the airline heartily embraces the concept of duty free shopping and this is evident throughout the site.

The homepage loudly displays promotions, brand names such as Givenchy, Gucci and Dior, some appealing perfume adverts and the current inflight brochure cover. Bold

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headings such as 'Buy Duty Free and Save' and 'Price Guarantee' really catch the shopper's eye.

The product menu sits clearly on the left-hand side to draw in shoppers. Even if it's not the first noticeable element of the site due to its minuscule type size, it's still an obvious feature.

Each product is listed vertically with a small picture and price in US dollars. Clicking on the picture gives you an enlarged image and brief description. You're told how many items are included in the list. Each category consists of a maximum of 24 items each.

A search engine is also available with a note underneath: "Search by brands like GIVENCHY, GUCCI, DIOR".

The homepage is also home to Duty Free Allowances (given for 25 countries with brief guidelines/restrictions), Payment Options and About Duty Free.

Navigation is easy due to a good layout and simple structure.

ð Lufthansa: ***WorldShop***

Founded in 1926, Lufthansa is now Germany's largest airline and Europe's second-biggest. The airline is a founding member of Star Alliance, the world's leading airline alliance.

Style: The website features a sharp blue and white image interspersed with a variety of compatible colours and images. Welcoming in appearance, it is versatile, eye-catching and pleasing.

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Content and usability: Kicking off with its dual menu –one product-related, the other miscellaneous – the home page offers a selection of promotions, special offers and a host of other attractive choices. Shops and outlets, catalogue request, extended search, My WorldShop, newsletter, view cart, contact and help make up the miscellaneous menu at the top of the page.

Extended search works on a keyword basis. It enables the customer to be more precise with his quest, and even allows him to enter the amount he is willing to spend on an item (in Euros).

The product menu is a comprehensive one with nine categories. Each consists of several sub-categories in a drop-down menu. Items are displayed with an enlarged thumbnail picture, description, 'add to cart' option and price in Euros. Items are also given their value in air miles.

All menus stay rooted throughout so navigation is simple despite the comprehensive nature of the site.

'Offer of the month' and 'WorldShop Top Sellers' (6 items) are also found on the home page as well as a variety of competitions with a range of prizes to be won. A shopper can also browse the latest catalogue online and order products directly by submitting an order form.

As we have seen in the two above examples, what matters a lot when a Brand is displayed on a website are the followings: qualitative picture, attractive price, promotion or special partnership with the Airline, newness of the product. These are the elements any Brand, including Guerlain, should take into consideration when listing products. One must not forget that if the inflight magazine targets only the customers of the Airlines, the website can be browse anytime by anybody and thus present a high visibility index. It is "free" advertisement for the Brands, since usually the cost of displaying the products online is endorsed by the Airlines (it is also their 'making-money' tool).

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3) *On Board Promotion*

On a lot of routes, now each passenger is equipped with a personal screen on which he can choose to watch a movie, listen to music and so on. Now this new device can be used by the Brands to increase their sales in various ways:

- Pay for the display of a TV-ad for one of their product. As an example, the TV-Ad for Guerlain new fragrance Insolence is being shown on all Qantas flights.
- Use advertisement opportunities which are sometimes offered by the Airlines, such as the display of ads just before the beginning of a film a customer as selected to be watched.
- Use the opportunity made by the development of the Purchase Channel which is already being used on Cathay Pacific and Malaysia Airlines flights. This has tremendous potential in terms of promotional support and enlargement of the existing offer.

II) The shopping experience

1) *Pre-order & mail facility*

Some Airlines offer pre-order facilities on their website. The customer only has to print out an order form and send it by mail. He will be automatically delivered during the flight. He can even pay online before getting on board, if he wishes.

This pre-order facility can be found on the following Airlines (non exhaustive list): Cathay Pacific; Singapore Airlines; China Airlines (but the list of pre-order rules and regulations dominates on the website, which can deter new customers from buying online); Korean Air; China Southern Airlines; Turkish Airlines; Virgin Atlantic Airways; SAS; LanChile Airlines… China Airline is trying to push the sales through this pre-order system: passengers who pre-order receive a 5% discount. Among the main Airlines which do not offer the pre-order facility, we can find British Airways, United Airlines or Qantas.

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Some Airlines have chosen to offer only a wish-list function. The customer can select on the website the items he may want to purchase on board, print out the list and give it to the crew at the beginning of the flight. He will be delivered and asked for payment at the same time during the flight. This strategy is being used by Qantas and Air France.

British Airways and Singapore Airlines offer another option which can be quite interesting for the customer: the mail order draw. The customer can select, either on the website or in the inflight magazine the items he wants to buy and make them being delivered at home after his flight. This can enable Brands to dare offering not travel-sized products (e.g. Orchidée Impériale Cream by Guerlain). United Airlines is even offering the opportunity to buy goods from several suppliers through its SkyMall Service. Actually, customers can place an order on board for items usually sold by mail in the United States and they will be delivered at home a few days later.

2) Rewards and Frequent Flyer programs

Most of the Airlines which have a Frequency Points Program try to use it in a way or another for the onboard retail. Here are a few examples:

- China Airlines: all Dynasty Members who purchase over USD$100 duty free merchandise per flight and have 8,000 usable miles in their account can save USD$5 by redeeming 2,000 usable miles from their accounts.
- Lufthansa: items are given their value in Euros and in air miles, which is a useful system because a shopper can buy goods with Euros, air miles or a combination of the two.
- Qantas: As a Qantas Frequent Flyer, duty free can be doubly rewarding. When purchasing inflight from this In Sky Shopping duty free shopping guide, customers enjoy competitive prices, plus they can earn one Frequent Flyer point for every Australian dollar (or equivalent) spent.
- Air France: for any purchase made on long-haul routes from Paris, you get a discount ticket to be used on board during the return flight.

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- Gulf Air: spending over a certain amount entitles members to earn frequent flyer miles. Moreover, all customers who spend over US$100 win a lucky draw voucher for the weekly draw. The current prize is a Hot Diamonds pendant and earring set.
- Air Canada: On its website, Air Canada promises to give away Airmiles for spending a certain amount. It declares: “Shopping on board can also earn you Aeroplan Miles!" Collect 250 Aeroplan Miles when you spend C$100–$199, and 500 Aeroplan Miles when you spend C$200 or more. This offer is valid on Air Canada operated flights only.” This seems a prime opportunity to entice travellers to spend while they’re online.

3) Communication message

Most of the Airlines tend to focus on price advantages compare to classic retail on ground: price is always a good tool to catch customers’ attention:

- Qantas puts an emphasis on the duty free price vs the RRP (Regular Retail Price) price and offers a price-index guide
- United Airlines uses several claims such as ‘Buy Duty Free and Save ‘ or ‘Price Guarantee’
- Gulf Air uses the claim ‘Priceless Duty Free’
- Philippine Airlines focuses on value for money and attractive pricing. This is reflected in the products showcased in the airline’s inflight sales magazine, Fiesta Boutique: no product exceeds the US$120 mark.

This focus on price advantage can also be seen through the systematic presence of a ‘Promotion’ section in the inflight brochures or on the websites.

United Airlines also tries to capitalize on the celebrity of some brand names as we have presented before, and other Asian Airlines offer a ‘Must Have’ section which suits with the current trend in Asia for Men and Women to be fashion victims.

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PART VI: PEOPLE POLICY

The driving force behind any inflight sales initiative is undoubtedly the onboard crew. Creating the right motivational mix for them is paramount. An appropriate programme can definitely push sales forward. It is also important to get the men from the crew to participate too, not just the women. They need to be given targets, which can make all the difference.

Besides, to help the crew to be confident and thus sell more, they need to be fed up with the appropriate ammunition, meaning that they need to know the products they are selling. To achieve this, understandable information expressed in their own words has to be provided by the Brands.

In terms of incentives, it is also very important to incentives the cabin service managers, as very often it is the cabin services base managers who are driving crew incentive participation.

However, it can be useless to develop a generic strategy towards every Airline. Actually, each crew has different perceptions of what motivation is, depending on its nationality, split among men and women, route on which it operates (long-haul or short-haul) as well as its basic salary. Therefore, a winning strategy can only be set up with a lot of feedback from the crew itself.

A lot of sales and marketing directors from major inflight operators agree on the point that the big challenge they face is getting suppliers to take part in the incentives. Actually, the Brands are usually looking for a return with this kind of investments and this is hard to assess. Incentives and promotions do not always figure high on the agenda, as it is more about listings.

However, strategy towards the crew should be considered with the highest interest by the Brands: usually, when a Brand manages to get the crew on its side, half of the marketing is done to push sales which can only be a real success.

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Some examples of strategies implemented to motivate the crew.

- Virgin

A handbag-sized magazine entitled ***Crew Therapy*** is given to each member of the crew. It is run by Tourvest and published with every new product range. It gives the crew details of what incentives are available each month and the top 20 (best-selling crew members) are rewarded with commission. They usually have six or seven products targeted each month. Details on how much commission is available is clearly shown on the cart too.

Another area Virgin is focusing on is a series of crew forums, organised with Tourvest and the cabin crew services. It gives the company a good feedback on how the crew is feeling.

As its Long-Term strategy is concerned, Virgin wants to look at how crew are incentivised individually and how that is communicated with cabin services. It has set up the forums as the first step to achieve this goal.

- Alpha Inflight Retail

They use incentives towards the crew members, and try to give them support through product knowledge guides and training. Incentives they have run include organised trips to New York City to visit Estée Lauder. They also have product-related incentives every quarter. To do this, they select a number of suppliers who fund and sponsor certain promotions that are linked to the sale of their product.

However, according to Max Williams (sales and marketing director), what really makes crew tick is money and they have been looking at cash bonus commission recently.

Another initiative they have looked at is a scheme whereby if the crew sells everything out of the bar, they get to keep the cash value of all the products in it.

"This may seem radical but makes it a very tangible and very visible way for the crew to sell"

Max Williams[9].

[9] Source : *Frontier Magazine*, oct 2005

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ð Thomsonfly

To provide information on the products to the crew, Thomsonfly has created a glossy pocket-sized magazine ***Aim***, which is filled with bit-sized hints and tips on how to sell, as well as details on forthcoming incentives. Published four times a year to coincide with Thomsonfly's latest ***Skystore*** magazine inflight product offer, ***Aim*** also features two high-profile incentives each month for top-selling cabin crew, one focused on fragrance and another smaller one associated with a product from another sector. Prizes are provided by the suppliers and range from a patio heater or toaster and kettle set to a new bag.

Crew members are encouraged to fill in special incentive cards each month, which are sent back and verified by the head office.

The results speak for themselves. When a product has been subject to the scheme, month-on-month sales have increased by between 100-300%, and any additional sales generated have proved to be incremental, rather than just brand swapping between suppliers.

Case Study: Guerlain and the Air France Crew

Guerlain is trying to be as efficient as possible in its training towards the Air France crew. However, for now, the Airline does not really value the onboard sales as part of the crew's job.

Twice a year, a responsible from the Inflight Service comes at training sessions organised by Guerlain. She/He is presented the new products and their benefits, as well as the sales arguments to be used in the selling process.

Then during a Showroom set up by Aélia, the 'Inflight Boutique' Showroom, this training person comes and gives the opportunity to every member of the crew to get knowledge about the Guerlain products which will be listed on board. This is including the pilots… The training session lasts about 5 to 10 minutes and is organised in a casual way, around a cup of coffee and in a couch. The presentation of the products is designed to be as attractive as possible, for example through a 'test' which tells what kind of woman one is and thus which Kiss Kiss she should wear. The crew is also able to see and try the products. They can eventually be given a sample of the products. Usually, at the end of the session, the crew is being distributed a quiz to fill in. If given back with correct

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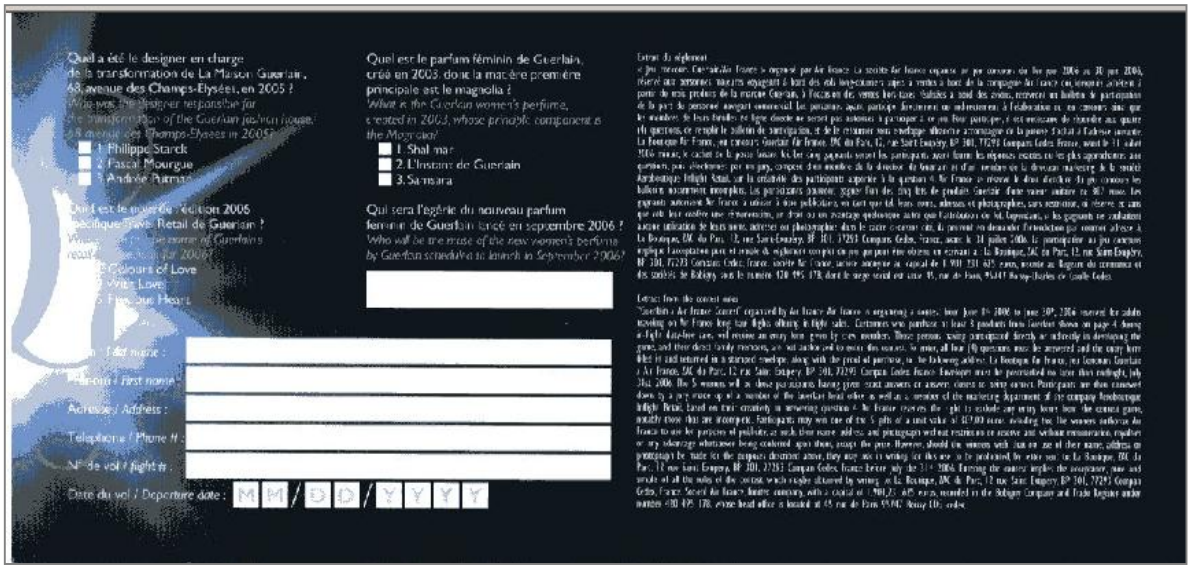
answers, it enables them to participate to a raffle. The prize is usually a basket full of Guerlain products. See Appendix B-5 for an example of a Scratch and Win Contest.

The crew is also being distributed on a regular basis a newsletter, to keep them informed.



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PART I: OVERVIEW

The purpose of this part is to propose a strategy for the Business Unit of Guerlain we've been presenting all along the report: the Airlines Business in the Travel Retail Department.

Apart from this overview and a short conclusion, there are several sections in this Part, each taking a particular question or topics that will together make up the total picture of Business Unit Strategy.

Please, note that all the figures this study will be based on are 2005 and previous historical figures.

1. Vision

Our strategic intent is to be as successful in the Airlines Business as we are in the whole Travel Retail Market. Thus, we want to figure at the same ranking position as the Turnover is concerned for both Businesses.

2. Mission

Our mission is to be innovative and full of dynamism as the Airlines Business is concerned.

3. Objective

Our objective is to get a larger Market share in the Airlines Business, actually the same Market share as we have in the whole Travel Retail Market.

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PART II: IDENTIFICATION OF THE BUSINESS SEGMENTS

Within the total TR Airlines Business Unit, there are a lot of Business Segments. This is a key interrogation in the process of developing a strategy, since the world of Business follows the 80/20 Rule. Thus, 80 per cent of the profits of the Airlines Business Activity are likely to come from 20 per cent of the offered products. But before being able to use this rule, we need to define the Business segments (the purpose of this part) and what the true profitability of each is (covered in the following section).

First of all, let's recall that different segments may be defined by any of the following:

- different product or services
- different customers receiving the same product or service
- different regions receiving the same product, where the cost to serve the different geographical area is different
- different versions or variants of the same product, distinguished by the degree of value added, quality or personal service involved

According to the pre-quoted list of definitions for a Business Segment, we've come up with the following Potential Business Segments (BS) as the TR Airlines of Guerlain is concerned: the Make-up BS, the Skincare BS, the Feminine Fragrances BS, the Masculine Fragrances BS and the TR Sets and Airlines Exclusives BS. The only interrogation coming out from these potential BS is: Should we really consider the Masculine Fragrances and the Feminine Fragrances as two separate BS, or is it only one single Fragrances BS?
To know if we should think of them as separate Business Segments, we have conducted the Segmentation Mincer Test, proposed by Richard KOCH (see Appendix C-1).

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Exhibit C-II 1: Feminine Fragrances versus Masculine Fragrances

	Answer	Score
1. Are the competitors in the Feminine and Masculine Fragrances segments the same?	No	+ 30
2. Are the Relative Market Shares (RMS) of the competitors the same for the Feminine and the Masculine Fragrances?	Yes	- 50
3. Are the customers the same?	No	+ 20
4. Are the customers' purchase criteria roughly the same?	Yes	- 30
5. Are the two segments substitutes for each other (i.e. would a customer sometimes buy a Feminine Fragrance and sometimes a Masculine Fragrance)?	Yes	- 10
6. Are the prices roughly the same for similar products?	No	+ 20
7. Is Guerlain's profitability in the two segments similar?	Yes	- 40
8. Do the two segments have the same capital intensity?	No	+ 10
9. Are the cost structures similar?	No	+ 10
10. Do the two segments share at least half their costs?	Yes	- 30
11. Are there barriers stopping one firm or the other from competing as effectively in one segment as in the other?	No	- 20
12. Can you gain economic advantage by competing in just one segment?	Yes	+ 30
Total Score		- 60

According to Richard KOCH, since the result is a negative number, Feminine and Masculine Fragrances are currently the same Business segment and should be lumped together, at least initially, in developing their strategy. Even if this is at first glance contrary to first impression, we will take this result for granted.

Thus, here is a list of the 4 Business Segments we will deal with in the rest of this part:

- Make-up BS
- Skincare BS
- Fragrances BS
- TR Sets & Airlines Exclusives BS

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PART III: THE GUERLAIN RESULTS

Now that we have defined the TR Airlines Business by its real Business Segments, we have to come up with which of these segments generate most of the profits for Guerlain, both in terms of absolute amount of money and in terms of profitability.

The Airlines Business was representing 3% of total Travel Retail Business for Guerlain in 2005. Thus, there is obviously a high growth potential for the Brand. Guerlain is doing most of its sales in the Airports (71%) and in the Downtown shops (12%). Appendix C-2 is showing the Channel Breakdown.

What is more interesting to look at is the Airlines Business evolution since 2003.

Exhibit C-III 1: Airlines evolution in Guerlain TR WW Turnover

	2003	2004	2005
Airlines WW TO (USD)	10 567	7 799	7 185
Yearly Growth		*-26%*	*-8%*
TR WW TO (USD)	112 729	160 554	191 670
Yearly Growth		*42%*	*19%*
Airlines Weight in TR WW TO	9,4%	4,9%	3,7%

Source: Generation

As one can see in the above chart, there has been a big decrease in the Airlines Business turnover, but the slope of this decreasing is tending to decrease. This may be seen as a good sign of recovery. Unfortunately, we do not have yet the 2006 results, to see if the strategy implemented in 2006 was successful or not.

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Exhibit C-III 2: 2003-2005 Airlines Turnover, axis breakdown evolution

	2003	2004	2005	2005 vs 2004 %
FRAGRANCES	3 424	3 707	3 309	-11%
Weight in Airlines TO	32%	48%	46%	
SKINCARE	2 194	808	473	-41%
Weight in Airlines TO	21%	10%	7%	
MAKE UP	4 979	3 285	3 404	4%
Weight in Airlines TO	47%	42%	47%	
TOTAL AXES	**10 597**	**7 800**	**7 186**	**-8%**

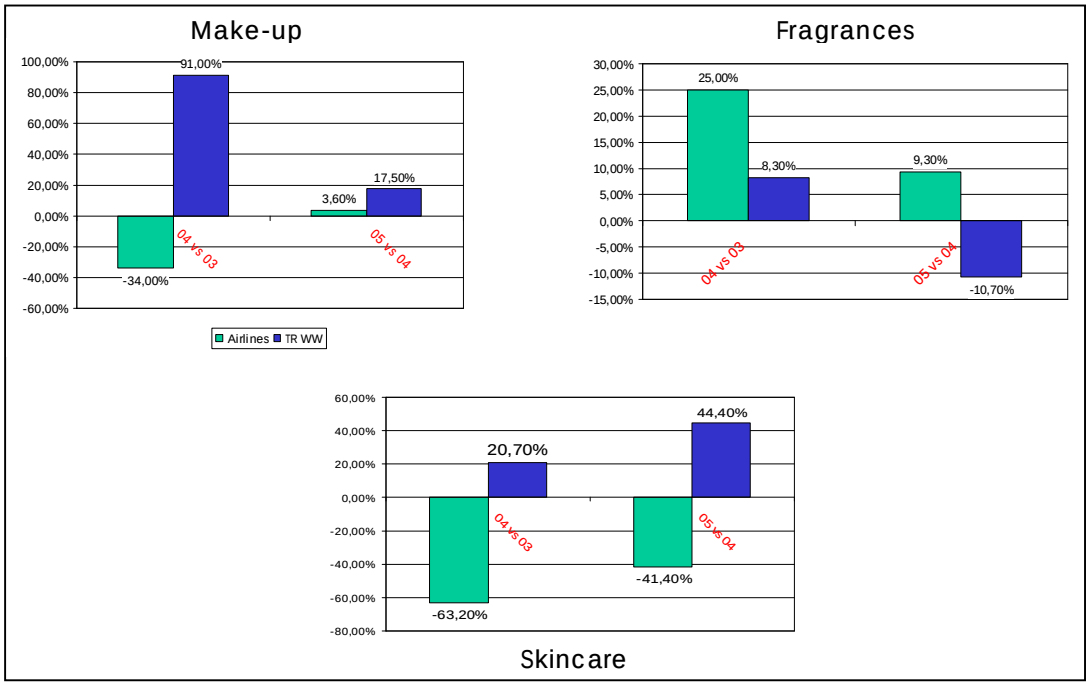
Source: Generation

The axis breakdown evolution shows the following trends:

- Since 2003, Fragrances and Skincare products have been loosing of their weight in the Airlines Business Turnover.
- The big looser is the Skincare axis with a 41% decrease. This must be responsible of the relatively bad result of the overall Business.
- Make-up has been gaining weight (+4 %).

This axis evolution has been occurring on a reverse trend versus the Travel Retail Worldwide one. Exhibit C-III 3 displays a comparison of the evolutions.

Exhibit C-III 3: 2003-2005 Airlines Turnover vs TR WW Turnover, axis breakdown evolution



Source: Generation

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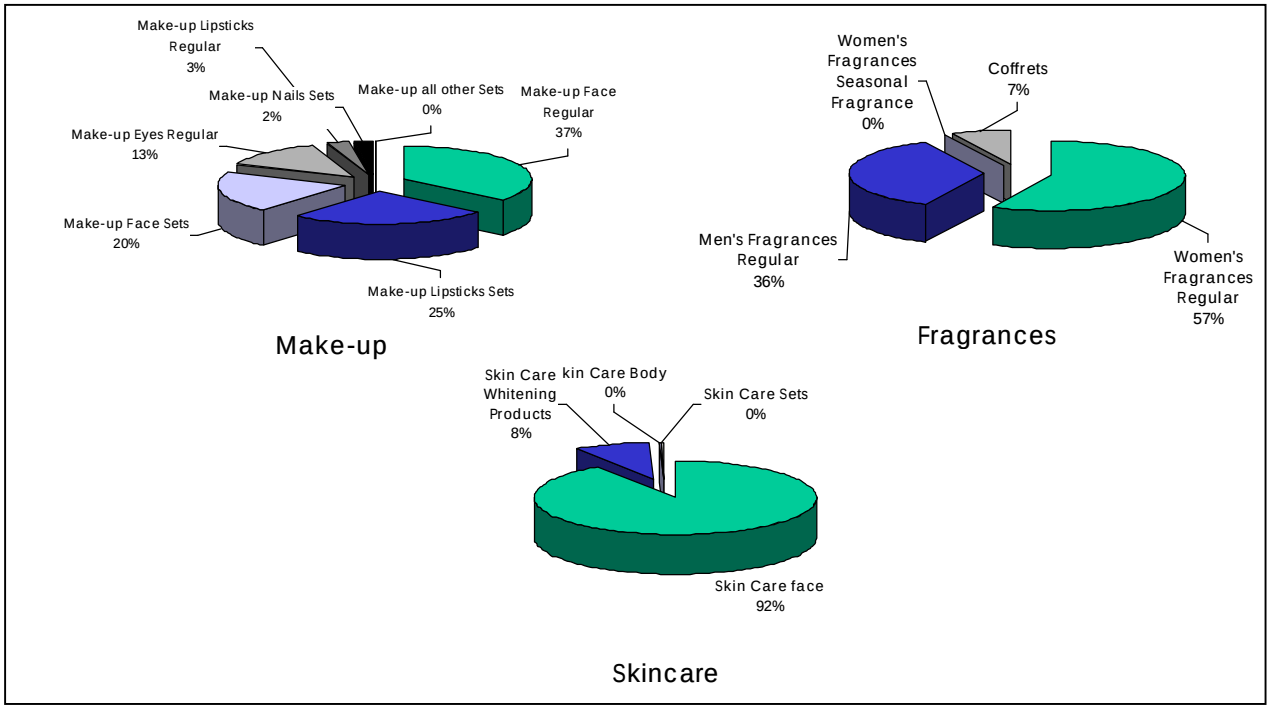
As we can see, there was a surprising shift in the 2005-2004 evolution comparing with the 2004-2003 evolution. Make-up has recovered a lot, but not enough to overcome the bad performance of Skincare and the decrease of fragrances.

Actually, further investigations have proved that the Make-up face segment alone was representing in 2005 17% of the total Airlines Turnover. This may be linked to the development of the Asian market and its attraction for any Meteorites Products and Sets.

Concerning the Business Units previously identified, we can provide the following breakdown as their weight in the total turnover is concerned:

Exhibit C-III 4: 2005 Airlines Turnover, Category Breakdown



Source: Generation

We can make the following comments:

- Make-up: Make-up Face is the big winner and lipsticks the strong followers the Brand could capitalize on, especially for its TR Sets. Besides, it is easier to come up with a TR Set with lipsticks (duo-trio/Best shades…) than with face products, the exception being the Terracotta and the Meteorites Franchises.

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- Fragrances: TR Sets do not do really well. The Brand should keep capitalizing on its Best Sellers and Brand Image Fragrances. It is interesting to note that the weight of Men fragrances is quite important, almost equal to the one of the Women fragrances
- Skincare: Sets are inexistent; Whitening products have a small but consequent weight.

As the listing in 2005 was concerned, Guerlain was listed on 52 main Airlines, mostly European ones have we have previously said. No American Airline was selling any Guerlain product. This was modified in 2006 and might have had a big impact on the sales figures. Appendix C-3 gives the whole list of the Airlines listing for Guerlain.

As a conclusion, we can say that the most promising Business Segment seems to be the make-up one, with a rather high potential of development in terms of TR Sets. The Brand should also pay particular attention to its Fragrance Business Segment, for it is still strong but on a decreasing trend. A winning strategy has to be found for the Skincare Business Segment, for it is presently dragging forward the Airlines Business Turnover for the moment. The introduction of new products in 2007 and the winning franchise Orchidée Impériale (new in 2006) should obviously be the one to capitalize on. We do not really believe in the success of Skincare TR Sets, especially because it is hard to make qualitative, expensive and small ones.

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PART IV: HOW GOOD GUERLAIN IS IN ITS COMPETITIVE POSITIONS

For each of the previously defined Business segments, we now want to find out how strong they are in competitive terms.

First of all, let's assess the Business's Relative Market Share (RMS) in the segment and then tentatively classify Guerlain segment position portfolio, using the rule of thumb (see Appendix C-4).

Exhibit C-IV 1: Definition of the segment RMS

Segment	Guerlain Sales (kUSD)	Largest competitor	His Sales (kUSD)	Guerlain RMS
Make-up	1,774	YSL	10,885	0.16x
Skincare	472	Lancôme	20,313	0.023x
Fragrances	3,072	Chanel	44,773	0.069x
TR Sets & Airlines exclusives	1,867	Lancôme	51,675	0.036x

Source: ORION

According to the rule of thumb, all BS are in a weak position and should be considered as marginal players on the Market. However, this result has to be tempered by the fact that for each of the BS, there is usually one strong leader with very high sales (and thus a small RMS for Guerlain). But the following competitors' sales usually decrease very quickly.

We will thus consider that the main competitors for Guerlain in each of the segments are not necessarily the strong and almost unreachable leader, but one of the following competitors. As presented in the introduction, our aim is to be ranked at the same place as we are in the whole Travel Retail Business. Therefore, our competitors won't be the same, depending on

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the BS took into account. Appendix C-5 provides the TR Worldwide ranking for each of the previously identified BS. Appendix C-6 provides the TR Airlines Business ranking for each of the previously identified BS.

We come up with the following Business landscape:

- Make-up BS: Guerlain is ranked 7th for both Airlines and whole Travel Retail Markets. Thus, we are not willing to develop a particular strategy for this segment, at least for now. The study for this BS will therefore end-up here.
- Skincare BS: Guerlain is ranked 10th on the TRWW Market and 16th on the Airlines Market. The strategic objective is to catch this 10th position on the Airlines Market as well. The main competitor is thus identified as being Lancaster.
- Fragrances BS: Guerlain is in 19th position on the TRWW Market and in 26th position on the Airlines Market. Thus, the main competitor to reach the 19th rank on the Airlines Market is Thierry Mugler.
- TR Sets and TR Exclusives BS: Guerlain is ranked 6th on the TRWW Market and 11th on the Airlines Market. For the same reasons as above, its main competitor is then L'Oréal Paris.

We are now able to apply the rule of thumb to a more precise and relevant picture of our direct competitors.

Exhibit C-IV 2: Adapted segment RMS

Segment	Guerlain Sales (kUSD)	Most relevant competitor	His sales (kUSD)	Guerlain adapted RMS
Skincare	472	Lancaster	1,871	0.30x
Fragrances	3,072	Thierry Mugler	4,598	0.70x
TR Sets & TR Exclusives	1,867	L'Oréal Paris	5,234	0.40x

Source: ORION

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The rule of thumb allows us to assess the strength of Guerlain segment positions:

Exhibit C-IV 3: Strength of Guerlain Segment Positions

Segment category	Segments	Total % of Guerlain Sales for the Airlines Market
Dominance	Make-up	20 %
Clear Leadership	None	0
Narrow Leadership	None	0
Strong Follower	Fragrances	40 %
Follower	Skincare TR Sets & TR Exclusives	10 % 30 %

Source: ORION

Before coming to any judgment on this segment position portfolio, we want to look at the trend in RMS. This requires going through the estimates of RMS again, but this time for the position in RMS as it was two years before, in 2003. The point is to assess whether since then Guerlain has gained or lost in terms of Relative Market Share. Results for Guerlain segments are shown in Exhibit C-IV 4.

Exhibit C-IV 4: Trend in RMS of Guerlain

Gaining Share	Holding Share	Loosing Share
None	Fragrances	Skincare TR Sets and TR Exclusives Make-up
0 % of sales	40 % of Sales	60 % of Sales

Source: ORION

This looks like a deteriorating picture. But before jumping to any conclusion, we have to build the GROWTH/GROWTH MATRIX (Illustration), which compares the growth in the Airlines Market to the growth in Guerlain Airlines Business with a superimposition of

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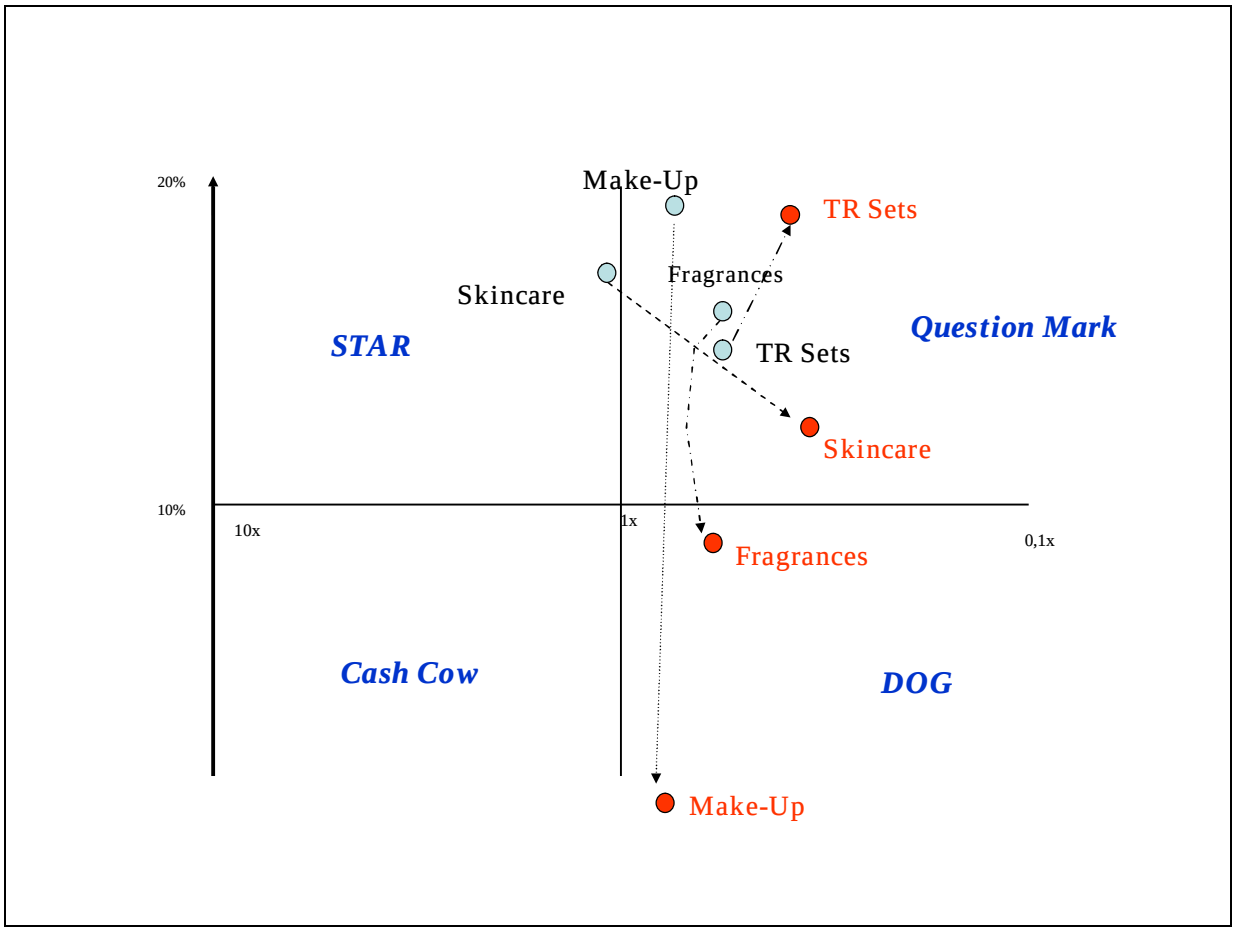
bubbles representing Guerlain BS for Travel Retail. We will only consider the relevant BS, namely the Skincare BS, the Fragrances BS and the TR Sets & TR Exclusives BS.

Exhibit C-IV 5: Guerlain Growth/growth matrix



Conclusion: Guerlain is always growing slower than the market or decreasing faster, except for the make-up Business between 2005 and 2004. Thus, there may be a development opportunity in this segment. It is also interesting to note that the only Business with a positive growth for Guerlain between 2004 and 2005 is the TR sets and TR exclusives Business. Thus, it appears as a promising Business for Guerlain.

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PART V: WHAT SKILLS AND CAPABILITIES UNDERPIN THE SUCCESS

Competitive positions should not be thought of independently of the skills and capabilities that make them possible.

What is key in the Airlines Business, no matter the Business Segment or the Brand, is to stand as an International Brand in the consumers' minds. This has been a big concern during the past years, for the Brand was well-known in France, a little less in Europe and with everything to be done in Asia and in Americas. Since a few years, Guerlain has been endorsing this international status through several strategies including the launch of international Franchises which have become Best Sellers (Kiss Kiss, Orchidée Impériale) and more recently the use of an Egeria to represent the new Fragrance Insolence.

It is also important for the Brand to have an International Strategy targeting, if possible, several age segments. This is also something Guerlain has been working on with success during the past years and is still improving on a yearly basis.

Core Competencies

- Make-up Business Unit

As the single make-up products are concerned, Guerlain is capitalizing on its Best Sellers: Kiss Kiss (International Best Seller), Terracotta and Meteorites (Local Best Sellers).

- Skincare Business Unit

As we have said, Guerlain was particularly counter-performing in skincare up to 2006. The 2007 offer will capitalize on Star Products of the Brand, such as Orchidée Impériale, the SuperAqua Franchise and its new range of products, the new products in the Whitening Specific products…

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- Fragrances Business Unit

Guerlain has managed to show a unique strategy not relying on novelties and TR specific fragrances. Basic fragrances are listed, especially on European and American Airlines. The danger with this strategy is that once the basic fragrance has been "exploited", it is hard to keep it in the listings.

- TR Sets Business Unit

The TR Sets have been capitalizing on the pillars of the Brand. 2007 will show true product innovations which won't be only a gathering of existing products. The sets will really be designed on purpose. Besides, as we have presented in the previous part, a packaging innovation is also ongoing and this is unique to Guerlain as well.

What do customers value

In the make-up Business Unit, customers value the fact that Guerlain is offering its products with a regional strategy (Meteorites Franchise for Asia, Terracotta for Europe…). This is a highly differentiated strategy.

In the Skincare Business Segment, the customers value the high quality of the Guerlain products. They also appreciate the efforts which can be made by the Brand to come up with Airlines Specific Sizes/products such as the SuperAqua Serum 15 ml which was developed for British Airways in the past.

In the Fragrances Business Segment, customers value novelties (which is not part of the Guerlain strategy) and Star Fragrances. They are always expecting added value (price or gift…)

In the TR Sets Business Segment, customers value the fact that Guerlain is selling Best Sellers at attractive prices (for instance the price of the Deluxe Compact Meteorites Set is the same as the price for the sole compact powder on the French Local Market).

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How rare are the core competencies

Actually, as Guerlain is concerned, this will depend on the Market.

As the European Market is concerned, the Brand is well known and valued for its 'DNA': values of the Brand, its history, the magic it conveys and so on. These are obviously irreplaceable and inimitable core competencies.

In Asia, the position of Guerlain is more risky. If the Brand is considered as a qualitative Brand in make-up and skincare products, it is still considered as a new comer on the market. Thus Guerlain will rely on other core competencies such as its sense of innovation, its qualitative packaging, its good use of media and communication. And those competencies can be more easily imitated by existing or new competitors.

In Americas, the Brand is still too unknown to be able to capitalize on any core competencies. Everything is to be done. This might change with the listing of Insolence on some American Airlines.

What could be improved by the Brand

- Make-up Business Unit

  It would be a better strategy for the Brand to manage to capitalize at the same time on International Best Sellers and Regional Ones rather than only on Regional Best Sellers (which is currently most of the time the case). The ideal listing would be: one Kiss Kiss product (a Set), one Compact foundation (new generation of compact foundations coming in 2007) and one regional specific product (from the Terracotta or the Meteorites Franchise).

  The make-up Palette launched in 2007 can also be a good opportunity for the Brand.

- Skincare Business Unit

  Guerlain should develop Sets based on Best Sellers (Orchidée Impériale, SuperAqua) and with smaller size than the already existing Sets.

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- Fragrances Business Unit

The Brand has to come up with a strategy to manage to keep a Local Market Best Seller listed on the Airlines, even if not a recent fragrance (ex: Shalimar).

The common feature among all Guerlain core competencies is the capitalization on the Best Sellers of the Brand, with the punctually add of original products to keep the Business dynamic. This means a clear and well developed marketing strategy in terms of use of media, general communication and new product development (miniatures).

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PART VI: IS THIS A GOOD INDUSTRY TO BE IN

Now that we have analyzed the competitive position and the competencies that underpin it, we have to have a closer look at the attractiveness of the Business. We have already presented in PART A the state of the Airlines Business with its main characteristics. We have reached the conclusion that the Business was indeed promising, especially on Asian routes. The previous part has shown us that Guerlain had potential development in the Business, only if a specific and appropriate strategy was developed. This is even clearer when we have a look at the competition: many Brands with very different strategies are on the market, but the most successful ones have a strategy clearly specific towards the Airlines Business.

Thus, it is of great importance to assess the attractiveness of the Business: if Guerlain is to reinforce its marketing in the Business, it has to be sure it worth the efforts.

The best empirical measure of industry attractiveness is the return on capital for the industry, weighted by sales. Not everyone has to earn a high return, but the players supplying the bulk of the Market should have a high average, well above the cost of capital. In the Airlines Business in 2005, the 3 leaders were the followings[10]:

1st: Lancôme with 88,313,000 USD of sales

2nd: Dior with 82,083,000 USD of sales

3rd: Chanel with 54,978,000 USD of sales

Unfortunately, we were not able to come up with the capital invested. However, we know that for these three Brands, specific and numerous marketing units are devoted to the Travel Retail, some of them working specifically for the Airlines Business. Besides, they are well-known for making money in the Business. Thus, we will assume that they have a rather high ROCE for the Business. We will set it at an average of 30.

The trend in ROCE is also important. Appendix C-7 displays the trend in sales for the three leaders quoted above. Actually, sales have been booming for them since 2003. Even if the

[10] Source : Generation

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manufacturing, listing and communication costs must have also increased, our guess is that the trend in ROCE is a rising one.

We now have to take into consideration the Barriers to entry:

- ***Branding***. To be a success in the Airlines Business, a product must have either a Branding feature or be cheap. Branding consists in making a product synonymous with superior and consistent quality. And this can take several years to be achieved.
- ***Locking up distribution channels***. A new comer on the market may have difficulties to be listed by Airlines which prefer capitalizing on their ongoing commercial relationships with already successful partners. Thus, for some Brands it may be difficult or impossible to get their product to the ultimate consumer through this distribution channel.
- ***Expertise***. Knowing how best to do something that is important to customers in the Airlines Business is an under-rated barrier. The core competencies of each Brand are at stake in the Business and often the most successful Brands will have inimitable core competencies (including the ability to sell at very attractive prices meaning low cost and big Backing Corporation behind).
- ***Proprietary expertise/Patent***. This is not specific to the Airlines Business, but rather to the Cosmetics and Fragrances World.
- ***Lowest cost producer***.
- ***Competitive response***. The Airlines Business is such a small business that it is highly competitive. Brands are ready to react very quickly in case they are threatened by new entrants or new strategies of their competitors.

Market growth is also an important feature. As we have said, the Market is growing and showing great opportunities in the next years.

We can now go through the ***Industry Attractiveness Checklist*** established by Richard KOCH (see Appendix C-8):

- ð ROCE over the past 5 years: 30 30 points
- ð Trend in ROCE: rising 10 points
- ð Barriers to entry: fairly high barriers7 points

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- Best estimate of the next five years' average annual market growth: over 10% 10 points
- Current balance between customer demand and total industry capacity: supply is in line with demand, or lower than demand no point
- Threat from substituting products, services or technologies: none no point
- Relative bargaining power of the industry's suppliers: the suppliers are slightly less powerful than the industry 7 points
- Relative bargaining power of the industry's customers: the industry is more concentrated than the customers and has more collective bargaining power because there are few suppliers and little choice 20 points

TOTAL: 84 points

According to Richard KOCH, the industry is unusually attractive. Thus investing in it worth it, even for a small actor like Guerlain.

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PART VII: ABOUT THE COMPETITORS

All along our report, we have analyzed specific features of the competition, in terms of listing policy, product development policy, communication policy and marketing management policy. We have reached the conclusion that some of the keys to succeed in the Airlines Business were the following:

- Attractive prices or products with added value vs high prices products with high perceived quality
- New products vs Best Historical Sellers
- Lots of listed products vs more selective offer
- Several Axis offer vs One-Axis offer
- Gifts with purchase, promotion vs no promotion policy

As we have previously said we face very different strategies which can be all successful. However, there are some common features, among them:

- qualitative communication and good use of the media
- well-targeted offer
- innovation to keep a dynamic image (in terms of offering, package, communication, promotion…)
- good relationship with the Airlines
- international policy
- clear and well defined strategy, specifically developed for the Airlines Business

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PART VIII: RAISING LONG-TERM PROFITS

We now have to come up with a conclusion concerning the strategy we think Guerlain should follow in the Airlines Business in the next years, in order to raise long-term profits. To do so, Guerlain would have three different options: taking actions to increase market share in existing segments, recompeting or entering new segments. As we know, Guerlain is already present in all segments available in the Business. Besides, recompeting is not a strategy we would advise the Brand to develop, for it can be a terrifically powerful weapon but may not be appropriate for a particular firm. We believe that this is the case for Guerlain.

Strategy to be used: Actions to increase market share in existing segments

Guerlain should aim at increasing market shares in all the Business Segments previously studied:

- all the segments are attractive from a global point of view
- some segments, even if not attractive for some markets may be crucial for others (e.g. the Fragrances Business Segment)
- each segment is part of Guerlain Brand Image. The Brand is well-known for its Fragrances and more recently make-up. The Skincare axis is booming on local markets so there is high probability that inflight sales in this area can increase too

A good strategy for Guerlain, given the Core competencies of the Brand previously mentioned could be to build in extra feature, value, service and quality through:

⇒ International policy for the Make-up Axis, capitalizing on Best Sellers and Regional successes

⇒ Development of New TR Sets for the Skincare axis. These TR Sets should well target the final consumer according to the geographical origin…

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- ⇒ Specific policies for Fragrances, according to the Routes (Local Market Best Sellers). No TR Sets (except for Asian Routes, given the consumer behaviour described in PART A)
- ⇒ Innovation in all areas: marketing, communication, product development (like the new make-up palette), merchandising
- ⇒ Improvement of the marketing mix, more generally speaking

We also believe that Guerlain should be more aggressive in its strategy, in trying to be listed on more Airlines than it is. We believe in a sharp and really well targeted offer and at the same time in global market coverage.

To achieve this, it is obvious that regular analysis of the results, benchmarking, market analysis and communication with other Guerlain departments such as the Development Marketing Department or the Promotion Department, not forgetting the Artistic Department should be conducted within the Operational Marketing Team.

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CONCLUSION

Throughout this report, we have tried to demonstrate how promising the Airlines Business was for global Brands such as Guerlain. There will be tremendous opportunities of development in the next years, in part due to the development of new technologies. It is thus highly recommended for Guerlain to work right now for its future, for later may be too late.

The Airlines Business appeared to be a very specific Chanel of Distribution with a specific consuming behaviour, specific actors with original expectations and a large panel of different, when not opposed, winning strategies.

The key to success stands in a particularly clear and well-thought strategy, in terms of marketing development, communication, promotion, training of the people and implementation of special partnerships with some Airlines. Relationships among the different actors are also of great importance, given the restricted numbers of key players.

As Guerlain is concerned, we believe in its future success. The Brand should however try to be more aggressive in its strategy and develop a consistent Brand Image on a worldwide basis on the market. It should not only capitalize on its already successful axes, but try to come up with original proposals in terms of product offer or merchandising for example: “The right tools for the right strategies”. 2007 may be the starting point of this new success, with the introduction on the market of the new Make-up palette, a product we do really believe in.

Obviously, to manage to be successful in the Business, a real Business Unit should be in charge of developing strategies, analyzing the market, following up business relations with the Airlines and doing benchmark on a daily basis. This may be the next step on the road to success for Guerlain…

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APPENDIXES

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APPENDIX A-1:

Top listed products

Source: DRP

Ø Top listed products for Fragrances

	RANKINGS FOR :	Women's & Men's Fragrances	
LINES	FOCUS : FRAGRANCES & COSMETICS LINES	NB OF ITEMS LISTED ON 104 AIRLINES	%
1	CHANEL N5	65	2,04%
2	CHANEL CHANCE	57	1,79%
3	KENZO FLOWER BY KENZO	52	1,64%
3	CHANEL COCO MADEMOISELLE	52	1,64%
5	DIOR PURE POISON	45	1,42%
5	CHANEL ALLURE POUR HOMME SPORT	45	1,42%
5	C.KLEIN CK ONE	45	1,42%
8	DIOR LES PARFUMS DE DIOR	42	1,32%
9	DONNA KARAN BE DELICIOUS WOMAN	41	1,29%
9	DIOR J'ADORE	41	1,29%
11	GUCCI ENVY ME	39	1,23%
12	YSL CINEMA	37	1,16%
12	GUCCI EAU DE PARFUM II	37	1,16%
12	E.LAUDER BEYOND PARADISE WOMAN	37	1,16%
15	C.KLEIN ETERNITY MOMENT	36	1,13%
16	LACOSTE TOUCH OF PINK	34	1,07%
16	DAVIDOFF COOL WATER MAN	34	1,07%
18	H.BOSS BOSS SOUL	32	1,01%
18	BVLGARI AQUA POUR HOMME	32	1,01%
20	JP.GAULTIER LE MALE	29	0,91%
	MISCELLANEOUS	2348	73,84%
	NUMBER OF LISTED ITEMS	3180	100,00%

Ø Top listed products for Skincare

	RANKINGS FOR :	Skin Care, Body Care , Sun Care	
LINES	FOCUS : FRAGRANCES & COSMETICS LINES	NB OF ITEMS LISTED ON 104 AIRLINES	%
1	E.LAUDER PERFECTIONIST CORRECTING SERUM FOR	19	2,74%
2	LANCOME RESOLUTION VISAGE	16	2,31%
3	LANCOME STAR BRONZER PINCEAU MAGIC	14	2,02%
3	KENZOKI VITAL-ICE CREAM	14	2,02%
5	LANCOME AQUA FUSION	13	1,87%
5	LANCOME ABSOLUE CREME	13	1,87%
7	E.ARDEN 8 HOUR CREAM SKIN PROTECTANT	12	1,73%
8	E.LAUDER FUTURE PERFECT ANTI-WRINKLE	11	1,59%
9	ULTRASUN PROTECTION 20	10	1,44%
9	LANCASTER AFTERSUN TAN MAXIMIZER	10	1,44%
9	E.LAUDER DAYWEARPLUS CREME / LOTION SPF 15	10	1,44%
12	MOLTON BROWN RECOVER EYES FIRMLIFT	9	1,30%
12	MOLTON BROWN LIPS BOOSTER	9	1,30%
12	LANCOME PRIMORDIALE OPTIMUM CREME	9	1,30%
15	DIOR SNOW X2 INTENSIVE XHITENING GEL ESSENCE	8	1,15%
15	DIOR CAPTURE R60/80 CREME ULTIMATE WRINKLE	8	1,15%
15	ALOE VERA GEL	8	1,15%
18	LANCOME UV EXPERT	7	1,01%
18	CLINIQUE SUPERDEFENSE TRIPLE ACTION	7	1,01%
18	CLINIQUE GREAT MOISTURE GREAT SKIN SET	7	1,01%
	MISCELLANEOUS	480	69,16%
	NUMBER OF LISTED ITEMS	694	100,00%

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Ø Top listed products for Make-up

RANKINGS FOR :		Make Up	
LINES	FOCUS : FRAGRANCES & COSMETICS LINES	NB OF ITEMS LISTED ON 104 AIRLINES	%
1	LANCOME JUICY TUBES TRIO	49	5,76%
2	YSL TOUCHE ECLAT RADIANT TOUCH	41	4,82%
3	LANCOME ATTRACTION COULEUR Palette	38	4,47%
4	DIOR COLLECTION COULEURS	28	3,29%
5	CLINIQUE SHIMMER CITY lip gloss set	21	2,47%
6	DIOR LIP GLOSS WINNERS	20	2,35%
7	CHANEL AQUALUMIERES Palette	19	2,24%
8	DIOR ADDICT LIPSTICK TRIO	17	2,00%
9	DIOR MANICURE EXPRESS	15	1,76%
10	GIVENCHY LE MAKE UP BEAUTY PALETTE	13	1,53%
10	DIOR ADDICT NAIL WINNERS	13	1,53%
10	CLINIQUE GLOBAL GLAMOUR Palette	13	1,53%
13	L'OREAL GLAM SHINE LIP TRIO	12	1,41%
13	L'OREAL COLOR RICHE LIPSTICK X3	12	1,41%
15	YSL MASCARA LUXURIOUS	11	1,29%
15	LANCOME TRAVEL EYES	11	1,29%
17	L'OREAL DOUBLE EXTENSION MASCARA DUO	10	1,18%
17	LANCOME HYPNOSE MASCARA	10	1,18%
19	REVLON MOISTURESTAY LIPCOLOR COLLECTION	9	1,06%
19	L'OREAL ESSENTIAL COLORS MAKE UP Palette	9	1,06%
	MISCELLANEOUS	479	56,35%
NUMBER OF LISTED ITEMS		850	100,00%

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APPENDIX A-2:
Split of the offer by Axis

Source: DRP

	FRAGRANCES	MAKE-UP	SKINCARE	TR SETS & SPE TR
DIOR	37.2 % (42)	9.7 % (11)	23.9 % (27)	29.2 % (33)
LANCOME	15.1 % (18)	10.9 % (13)	32 % (38)	42 % (50)
CHANEL	70 % (21)	3.3 % (1)	10 % (3)	16.7 % (5)
E.LAUDER	22.4 % (15)	3 % (2)	37.3 % (25)	37.3 % (25)
C.KLEIN	77.4 % (41)	0 % (0)	0 % (0)	22.6 % (12)
YSL	60 % (34)	12 % (7)	0 % (0)	28 % (16)
CLINIQUE	11.5 % (7)	1.6 % (1)	42.6 % (26)	44.3 % (27)
KENZO	65.9 % (29)	0 % (0)	15.9 % (7)	18.2 % (8)
ARMANI	84.8 % (39)	0 % (0)	0 % (0)	15.2 % (7)
GIVENCHY	50 % (20)	2.5 % (1)	2.5 % (1)	45 % (18)
GUERLAIN	33.3 % (18)	31.5 % (17)	1.9 % (1)	33.3 % (18)

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APPENDIX A-3:
Main Airlines selling on board

Source: DRP

Airline	Country	Type	Distribution	Currency	Nb of Items
AEGEAN AIRLINES	Greece	Scheduled	Inflight	EUR	76
AER LINGUS	Ireland	Scheduled	Inflight	EUR	27
AEROFLOT	Russia	Scheduled	Inflight	EUR	51
AERO MEXICO	Mexico	Scheduled	Inflight	USD	46
AEROSVIT	Ukraine	Scheduled	Inflight	USD	9
AIR ASIA	Malaysia	Scheduled	Inflight	USD	12
AIR BERLIN	Germany	Low Cost	Inflight	EUR	6
AIR CANADA	Canada	Scheduled	Inflight	CAD	40
AIR EUROPA	Spain	Scheduled	Inflight	EUR	94
AIR FINLAND	FINLAND	Charter	Pre Order	EUR	296
AIR FRANCE	France	Scheduled	Inflight	EUR	69
AIR JAMAICA	Usa	Scheduled	Inflight	USD	47
AIR MACAU	Macau	Scheduled	Inflight	USD	45
AIR MAURITIUS	Mauritius	Scheduled	Inflight	USD	41
AIR NIUGINI	New Guinea	Scheduled	Inflight	USD	11
AIR PACIFIC	Fiji	Scheduled	Inflight	FJD	20
AIR SEYCHELLES	Seychelles	Scheduled	Inflight	EUR	63
AIR TRANSAT	Canada	Low Cost	Inflight	CAD	34
AIR ZIMBABWE	Zimbabwe	Scheduled	Inflight	USD	6
ALITALIA	Italy	Scheduled	Inflight	EUR	53
AMERICAN AIRLINES	Usa	Scheduled	Inflight	USD	53
ANA	Japan	Scheduled	Inflight	JPY	43
ASIANA AIRLINES	South Korea	Scheduled	Inflight	USD	63
ATLANTIC AIRWAYS	United Kingdom	Scheduled	Inflight	DKK	40
ATLAS BLUE.COM	France	Low Cost	Inflight	EUR	43
AUSTRALIAN AIRLINES	Australia	Scheduled	Inflight	AUD	12
AUSTRIAN AIRLINES	Austria	Scheduled	Inflight	EUR	35
AVIANCA	Colombia	Scheduled	Inflight	USD	50
BIMAN AIRLINES	Bangladesh	Scheduled	Inflight	USD	15
BMI	United Kingdom	Low Cost	Inflight	GBP	35
BRAATHENS Inflight	Norway	Low Cost	Inflight	EUR	305
BRITANNIA SWEDEN Pre Order	Sweden	Low Cost	Pre Order	SEK	234
BRITANNIA UK Pre Order	United Kingdom	Low Cost	Pre Order	GBP	61
BRITISH AIRWAYS LONG HAUL	United Kingdom	Scheduled	Inflight	GBP	53
BRITISH AIRWAYS SHORT HAUL	United Kingdom	Scheduled	Inflight	GBP	49
CATHAY PACIFIC	Hong Kong	Scheduled	Inflight	USD	83
CHINA AIRLINES	Taiwan	Scheduled	Inflight	USD	83

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CHINA EASTERN	China	Scheduled	Inflight	USD	68
CHINA SOUTHERN	China	Scheduled	Inflight	USD	24
CONTINENTAL AIRLINES	Usa	Scheduled	Inflight	USD	51
CORSAIR	France	Scheduled	Inflight	EUR	75
CROATIA AIRLINES	Croatia	Scheduled	Inflight	EUR	51
CSA	Czech Republic	Scheduled	Inflight	EUR	12
CYPRUS AIRWAYS	Cyprus	Scheduled	Inflight	CYP	48
DELTA AIRLINES	Usa	Scheduled	Inflight	USD	60
DRAGONAIR	Hong Kong	Scheduled	Inflight	USD	42
EASYJET	United Kingdom	Scheduled	Inflight	EUR	47
EDELWEISS AIRLINES	Switzerland	Scheduled	Inflight	CHF	15
EL AL	Israel	Scheduled	Inflight	USD	44
EMIRATES	Dubai	Scheduled	Inflight	USD	60
ETHIOPIAN AIRLINES	Ethiopia	Scheduled	Inflight	USD	9
EUROCYPRIA	Cyprus	Scheduled	Inflight	EUR	66
EVA AIR	Taiwan	Scheduled	Inflight	USD	2
EXCEL AIRWAYS	United Kingdom	Low Cost	Inflight	GBP	43
FINNAIR Inflight	Finland	Scheduled	Inflight	EUR	31
FINNAIR Pre Order	Finland	Scheduled	Inflight	EUR	218
FLYBE	United Kingdom	Low Cost	Inflight	GBP	55
FlyDBA	Germany	Low Cost	Inflight	EUR	54
FLYME	Sweden	Low Cost	Inflight	SEK	16
GERMANIA EXPRESS	Germany	Low Cost	Inflight	EUR	54
GULF AIR	Bahrain	Scheduled	Inflight	USD	31
HAPAG FLY.COM	Germany	Low Cost	Inflight	EUR	78
HARMONY AIRWAYS	Canada	Low Cost	Inflight	USD	6
IBERIA	Spain	Scheduled	Inflight	EUR	51
ICELANDAIR	Iceland	Scheduled	Inflight	EUR	142
ICELAND EXPRESS	Iceland	Low Cost	Inflight	GBP	44
JAL	Japan	Scheduled	Inflight	JPY	22
JAT AIRWAYS	Serbia	Scheduled	Inflight	EUR	58
Jet2.com	United Kingdom	Low Cost	Inflight	GBP	31
JET AIRWAYS	India	Scheduled	Inflight	USD	19
KENYA AIRWAYS	Kenya	Scheduled	Inflight	USD	27
KLM	Netherlands	Scheduled	Inflight	EUR	64
KOREAN AIR	South Korea	Scheduled	Inflight	USD	109
KUWAIT AIRWAYS	Kuwait	Scheduled	Inflight	USD	83
LAB	Bolivia	Scheduled	Inflight	USD	42
LANCHILE	Chile	Scheduled	Inflight	USD	64
LAUDA AIR	Austria	Scheduled	Inflight	EUR	35
LOT	Poland	Scheduled	Inflight	EUR	104
LUFTHANSA	Germany	Scheduled	Inflight	EUR	45
MALAYSIA AIRLINES	Malaysia	Scheduled	Inflight	USD	79
MALMO AVIATION	Norway	Low Cost	Pre Order	EUR	296
MARTINAIR	Netherlands	Low Cost	Inflight	EUR	31
MEA	Lebanon	Scheduled	Inflight	USD	71

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MONARCH AIRLINES	United Kingdom	Low Cost	Inflight	GBP	45
MY TRAVEL AIRWAYS Pre Order	Denmark	Low Cost	Pre Order	GBP	341
MYTRAVEL LITE	United Kingdom	Low Cost	Inflight	GBP	57
NORDIC LEISURE	Sweden	Low Cost	Pre Order	SEK	296
NORTHWEST AIRLINES	Usa	Scheduled	Inflight	USD	37
NOUVELAIR	Tunisia	Low Cost	Inflight	EUR	78
NOVAIR Sweden Pre Order	Sweden	Low Cost	Pre Order	SEK	296
PIA	Pakistan	Scheduled	Inflight	USD	15
QANTAS	Australia	Scheduled	Inflight	AUD	53
QATAR AIRWAYS	Qatar	Scheduled	Inflight	USD	97
ROYAL AIR MAROC	France	Scheduled	Inflight	EUR	65
ROYAL JORDANIAN	Jordania	Scheduled	Inflight	USD	53
RYANAIR	Ireland	Low Cost	Inflight	GBP	35
SAS	Denmark	Scheduled	Inflight	DKK	26
SAS CHARTER Sweden Pre Order	Sweden	Low Cost	Pre Order	SEK	296
SAUDI ARABIAN AIRLINES	Saudi Arabia	Scheduled	Inflight	SAR	51
SETUR	Turkey	Low Cost	Inflight	EUR	61
SINGAPORE AIRLINES	Singapore	Scheduled	Inflight	USD	68
SKY SERVICE Pre Order	Canada	Low Cost	Pre Order	CAD	35
SOUTH AFRICAN AIRWAYS	South Africa	Scheduled	Inflight	USD	53
SPANAIR Europe	Spain	Low Cost	Inflight	EUR	53
SPANAIR Finland	Finland	Low Cost	Inflight	EUR	98
SRILANKAN AIRLINES Pre Order	Sri Lanka	Scheduled	Pre Order	USD	60
STERLING Inflight	Denmark	Low Cost	Inflight	EUR	13
STERLING Pre Order	Denmark	Low Cost	Pre Order	DKK	361
SUN EXPRESS	Turkey	Low Cost	Inflight	EUR	47
SWISS	Switzerland	Scheduled	Inflight	CHF	24
TAM	Brazil	Scheduled	Inflight	USD	64
TAP AIR PORTUGAL	Portugal	Scheduled	Inflight	EUR	58
TAROM	Romania	Scheduled	Inflight	EUR	25
THAI AIRWAYS	Thailand	Scheduled	Inflight	USD	58
THOMAS COOK AIRLINES	United Kingdom	Low Cost	Inflight	GBP	9
THOMSONFLY	United Kingdom	Low Cost	Inflight	GBP	30
TNT	Belgium	Low Cost	Inflight	EUR	55
TRANSASIA AIRWAYS	Taiwan	Scheduled	Inflight	EUR	63
TRANSAVIA	Netherlands	Low Cost	Inflight	EUR	16
TUI FLY	Sweden	Low Cost	Pre Order	SEK	296
TUNISAIR	Tunisia	Scheduled	Inflight	EUR	56
TURKISH AIRLINES	Turkey	Scheduled	Inflight	EUR	62
UNITED AIRLINES	Usa	Scheduled	Inflight	USD	41
US AIRWAYS	Usa	Scheduled	Inflight	USD	44
VARIG	Brazil	Scheduled	Inflight	USD	51
VIETNAM AIRLINES	Vietnam	Scheduled	Inflight	USD	63
VIRGIN ATLANTICS	United Kingdom	Low Cost	Inflight	GBP	16
YEMENIA	Yemen	Scheduled	Inflight	USD	50

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APPENDIX A-4:
The Business Traveller UK
2005 Annual Consumer Poll

Source: TheMoodieReport.com

AIRLINES

Best Airline

1. British Airways
2. Singapore Airlines
3. Virgin Atlantic

Best Short Haul Airline

1. British Airways
2. bmi
3. Swiss

Best Long Haul Airline

1. Singapore Airlines
2. British Airways
3. Cathay Pacific

Best Frequent Flyer Programme

1. British Airways
2. Virgin Atlantic
3. KLM

Best First Class

1. British Airways
2. Singapore Airlines
3. Cathay Pacific

Best Business Class

1. British Airways
2. Virgin Atlantic
3. Singapore Airlines

Best Premium Economy Class

1. Virgin Atlantic
2. British Airways
3. SAS

Best Economy Class

1. British Airways
2. Singapore Airlines
3. Virgin Atlantic

Best North American Airline

1. American Airlines
2. United Airlines
3. Continental Airlines

Best Eastern European Airline

1. LOT Polish Airlines
2. CSA Czech Airlines
3. Malev Hungarian Airlines

Best Cabin Staff

1. Singapore Airlines
2. British Airways
3. Cathay Pacific

Best Airline Alliance

1. oneworld
2. Star Alliance
3. Sky Team

Best Low Cost Airline

1. easyJet
2. Ryanair
3. bmi baby

Best Asian Airline

1. Singapore Airlines
2. Cathay Pacific
3. Thai Airways

Best Middle Eastern Airline

1. Emirates
2. Gulf Air
3. Qatar Airways

AIRPORTS

Best Airport in the World

1. Singapore Changi
2. Hong Kong Chek Lap Kok
3. Dubai

Best Airport for Duty Free Shopping

1. Dubai
2. Singapore Changi
3. London Heathrow

Best Airport in Europe

1. Amsterdam Schiphol
2. London Heathrow
3. Copenhagen

CAR RENTAL

Best Car Rental Company Worldwide

1. Avis
2. Hertz
3. Budget

Best Car Rental Company in Europe

1. Avis
2. Hertz
3. Europcar

Best Car Rental Company in North America

1. Hertz
2. Avis
3. Alamo

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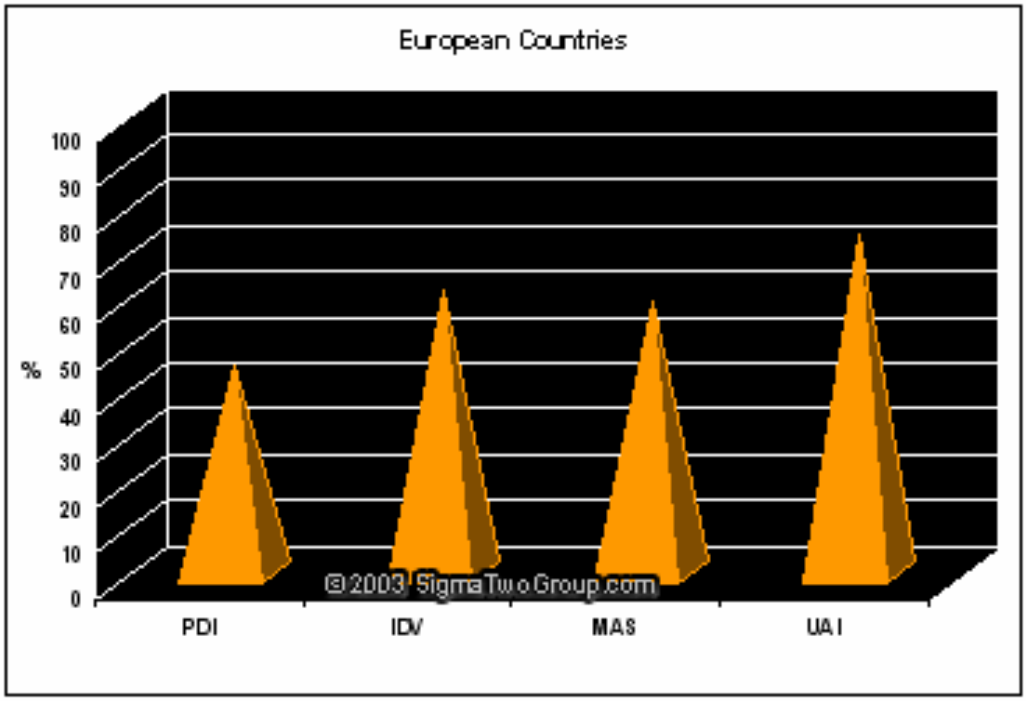
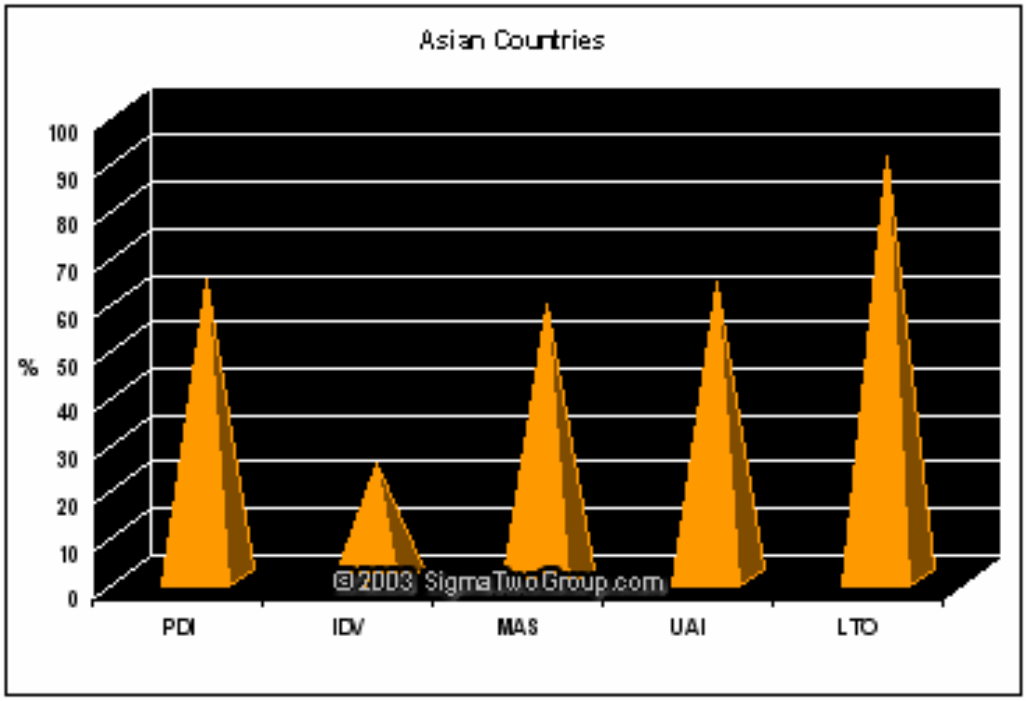
APPENDIX A-5:
Geert Hofstede's Indexes

Source: SigmaTwoGroup.com





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APPENDIX A-6:
List of products concerned by PAO

Source: Guerlain

Kind of products	Nb of months
Eye contour care	6
Face care	12
OTC face care	9
Body care	18
OTC body care	12
Emulsion make-up for the eyes (mascara, eye-liner)	6
Eye make-up not containing water (poured products, khol pencils, eye-liner pencils)	No PAO
Complexion make-up (emulsions, poured products)	12
OTC complexion products (emulsions, poured products)	12
Make-up products not containing water (nail varnish / powders / lipsticks)	No PAO
OTC make-up products not containing water (powders / lipsticks)	24
Perfumes / EDT/ stick deodorant containing alcohol	No PAO
Stick deodorant without alcohol	No PAO
Aerosols	No PAO
Soaps	No PAO
Face sun lotions	9
Body sun lotions	9
Sun oils	24
Samples	No PAO

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APPENDIX A-7:
Components to be written on the packaging

Source: Guerlain

ALPHA-ISOMETHYL IONONE
AMYL CINNAMAL
AMYL CINNAMAL ALCOHOL
ANISE ALCOHOL
BENZYL ALCOHOL
BENZYL BENZOATE
BENZYL CINNAMATE
BENZYL SALICYLATE
BUTYLPHENYL METHYLPIONAL
CINNAMAL
CINNAMYL ALCOHOL
CITRAL
CITRONELLOL
COUMARIN
EUGENOL
EVERNIA PRUNASTRI
EVERNIA FURFURACEA
FARNESOL
GERANIOL
HEXYL CINNAMAL
HYDROXYCITRONELLAL
HYDROXYISOHEXYL 3-CYCLOHEXENE CARBOXALDEHYDE
ISOEUGENOL
LIMONENE
LINALOOL
METHYL 2-OCTYNOATE

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APPENDIX A-8:
Colour Codes

Source: Mr Nestorovic's lesson

Color	Western Europe & USA	China	Japan	Middle East
	Danger, Anger, Stop	**Joy, Festive Occasions**	**Anger, Danger**	**Danger, Evil**
	Caution, Cowardice	**Honour, Royalty**	**Grace, Nobility, Childish, Gaiety**	**Happiness, Prosperity**
	Sexual Arousal, Safe, Sour, Go	**Youth, Growth**	**Future, Youth, Energy**	**Fertility, Strength**
	Purity, Virtue	**Mourning, Humility**	**Death, Mourning**	**Purity, Mourning**
	Masculinity, Calm, Authority	**Strength, Power**	**Villainy**	
	Death, Evil	**Evil**	**Evil**	**Mystery, Evil**

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APPENDIX B-1:
History of the Terracotta TR Sets since 2005

Ø Guerlain offer in 2005: 3 products

PRICING STRATEGY: PRICE OF THE 2 PRODUCTS - 15%

§ Terracotta Moisturizing Bronzing Powder # 2
§ Terracotta Retractable Make-up Brush

TR EUROPE suggested DF price: 39.00 €

PRICING STRATEGY: PRICE OF THE 3 PRODUCTS - 15%

§ Terracotta Gloss & Shine #1 Terre des Sables
§ Terracotta Gloss & Shine #3 Terre de Sienne
§ Terracotta Gloss & Shine #7 Terre d'Or

TR EUROPE suggested DF price: 40.00 €

§ Moisturizing Bronzing Powder # 2
§ Duo Matt & Shine
§ Duo Gloss & Shine

TR EUROPE suggested DF price: 58.00 €

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Ø Guerlain offer in 2006: 4 products

- Moisturizing Bronzing Powder # 2
- Duo Matt & Shine
- Duo Gloss & Shine

TR EUROPE suggested DF price: 59.00 €

PRICING STRATEGY: PRICE OF THE 3 PRODUCTS - 12%

§Terracotta Healthy Glow Gloss Amber Sun #70
§ Terracotta Healthy Glow Gloss Beige Sun #52
§ Terracotta Healthy Glow Gloss Nude Sun #10
TR EUROPE suggested DF price: 45.00 €

PRICING STRATEGY: PRICE OF THE 2 PRODUCTS - 15%

§ Terracotta Bronzing Powder #3
§ Terracotta Healthy Glow Gloss Nude Sun #10

TR EUROPE suggested DF price: 39.00 €

PRICING STRATEGY: PRICE OF THE 2 PRODUCTS - 15%

§ Moisturizing Bronzing Powder # 2
§ Retractable Make-up Brush

TR EUROPE suggested DF price: 41.00 €

PDF créé avec la version d'essai pdfFactory www.gs2i.fr/fineprint/pdffactory.htm

Ø Guerlain offer in 2007: 4 products

§ Terracotta Gloss and Shine Nude Sun #10

§ Terracotta Gloss and Shine Beige Sun #52

§ Moisturizing Bronzing Powder #2
§ Retractable Make-up Brush

§ Terracotta Powder #2
§ Sublime Sun Pearl

TR EUROPE suggested DF price: 66 €

§ 3 Terracotta Mini Bronzing powders (2 shade #2 & 1 blush)
§ Make-up Brush

TR EUROPE suggested DF price: 62 €

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APPENDIX B-2:
List of some Ingredients used in Guerlain skincare products

BLUE GOLD
- ***Midnight Star - Midnight Secret – Secret Divin – Intenserum:***
- **Pure gold: improves skin radiance.**
- **Marine abyssales Algae (Chrysophytes family): improves and preserves the skin quality.**

CALMITINE S
- *In all the products of the « Cleansing » range + SOS Serum:*
- Flower extracts of Artemisia Capillaris (Asian plant): play an anti-inflammatory role and inhibits the formation of toxic molecules produced because of pollution.
- Hydrolysed brown linen seeds: filmogen, softening and anti-irritant. Fight against the cutaneous reactivity and the penetration of potential irritant agents.
- Phenol acids of chelactyl: anti-free radicals. Imprisoning steal, real catalyst of free radicals reactions, it detoxifies the skin and slows down its cutaneous ageing.
- Leaves extract of Aloe vera (Aloe Barbadensis): calming and anti-irritant.
- Bio saccharides: hydratating and filmogen. They diminish risks of allergy and reinforce the skin's defenses.
- Elements obtained by biotechnology (yeast polysaccharides): stimulate the skin self-defense system.

CALMOSENSINE
- *Happylogy Night:*
- Dipeptide: stimulates the release of a soothing neuromediator, capable of modulating the unpleasant perceptions of temperature and roughness. The skin feels a well-being and soothing sensation. It is relaxed.

COCKTAIL OF 3 MOLECULES
- *Happylogy Eye :*
- Lipopeptide: anti-inflammatory.
- Flavonoïde: anti-puffiness with a decongesting effect. Diminishes the permeability of the blood capillary vessels in order to diminish the volume of existing puffiness.
- Dinentide: draining anti-puffiness. Ensures a better lymphatic draining action to prevent the formation of new puffiness.

COLLAGENO-STIMULINE
- *Superaquaserum Body/Hands:*
- Bio lipopetides: stimulate the synthesis of collagen and GAG (deep water captors in charge of hydrating the dermis matrix). Reduce and prevent the formation of wrinkles and whither state. Help to correct the ageing process.

UGL COMPLEX, EXFOLIATING AND REGENERATING
- *Successlaser3 Night care:*
- Algae extract: exfoliates softly the skin and improves the penetration of the active ingredients. The skin texture is refined, the skin is smoothed.
- Yeast extract: stimulates the cellular oxygenation, leading to an additional production of energy. Gives tonus and vitality to the skin.

UNIFIYING COMPLEX
- *Substantific Serum/Neck & décolleté, Superaquaserum Body/Hands:*
- Rumex extract (polygonacea): diminishes the activity of the tyrosinase, enzyme responsible of the formation of the melanin pigment which, with age and under the accumulation of environment stress can present an exacerbate activity. This active ingredient diminishes one of the first step of the melanin formation, it means the passage of Dopa in Dopaquinone. It prevents the appearance of dark spots pigmentation. Unifies the pigmentation of the skin. Existing dark spots are less visible.
- Vitamin C: lightening active ingredient of the pigmentation dark spots flaw. The skin is more luminous. The complexion is evened out.

ESUP
- *Successlaser3 range Concentrate/Day care/Night care:*
- Esup (peptide composed of 6 amino acids): diminishes the release of neuromediators, responsible of the muscular contraction at the origin of lines of expression. Esup: Excitation Secretion Uncoupling Peptide, which means, it diminishes the release of neuromediators and therefore the excitation/the contractility of muscle.

H-CAPTINE, Guerlain patent
- *Hydramythic Fluid/Creme/Stick- Serenissima – Supreme Body Lotion – Blue Exfoliating Scrub – Moisturizing Mallow toner – Moisturizing Invigorating Mask:*
- D-Xylose (natural sugar obtained from the wood cellulose): stimulates the synthesis of hydric captors and increases the production of Vital Water (linked water) in the epidermis in order to establish a good cellular hydration.
- Wheat peptides: help to retain the moisture within the corneum stratum improving its barrier function thanks to a composition similar to NMF.

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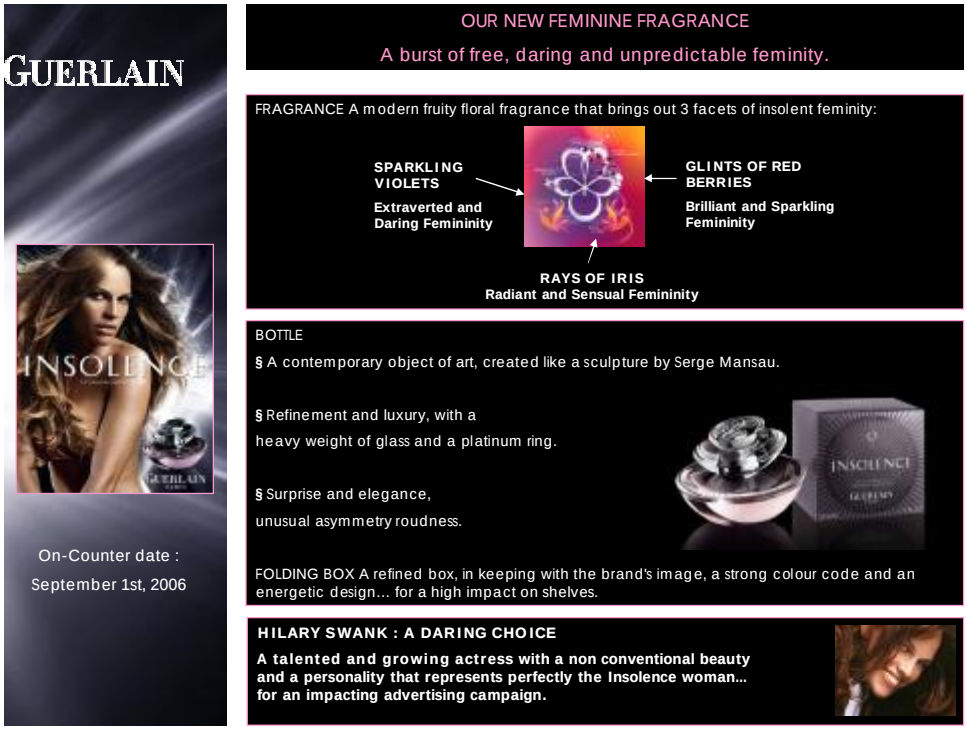
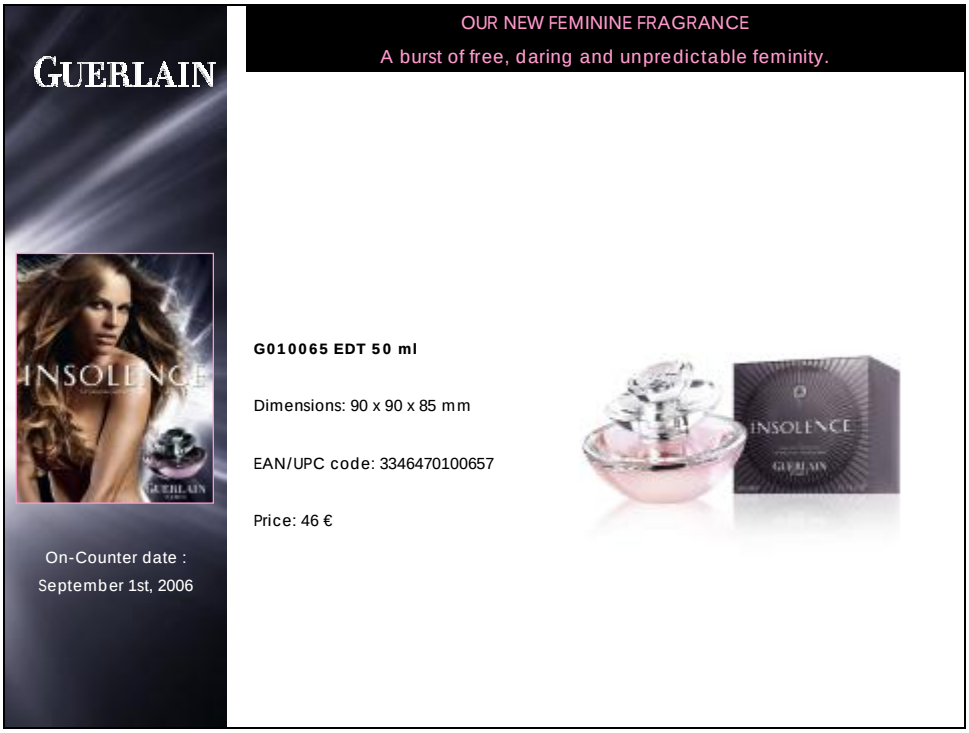
APPENDIX B-3:
Example of a listing proposal for Aeroflot

Ø Marketing File



Ø Proposal



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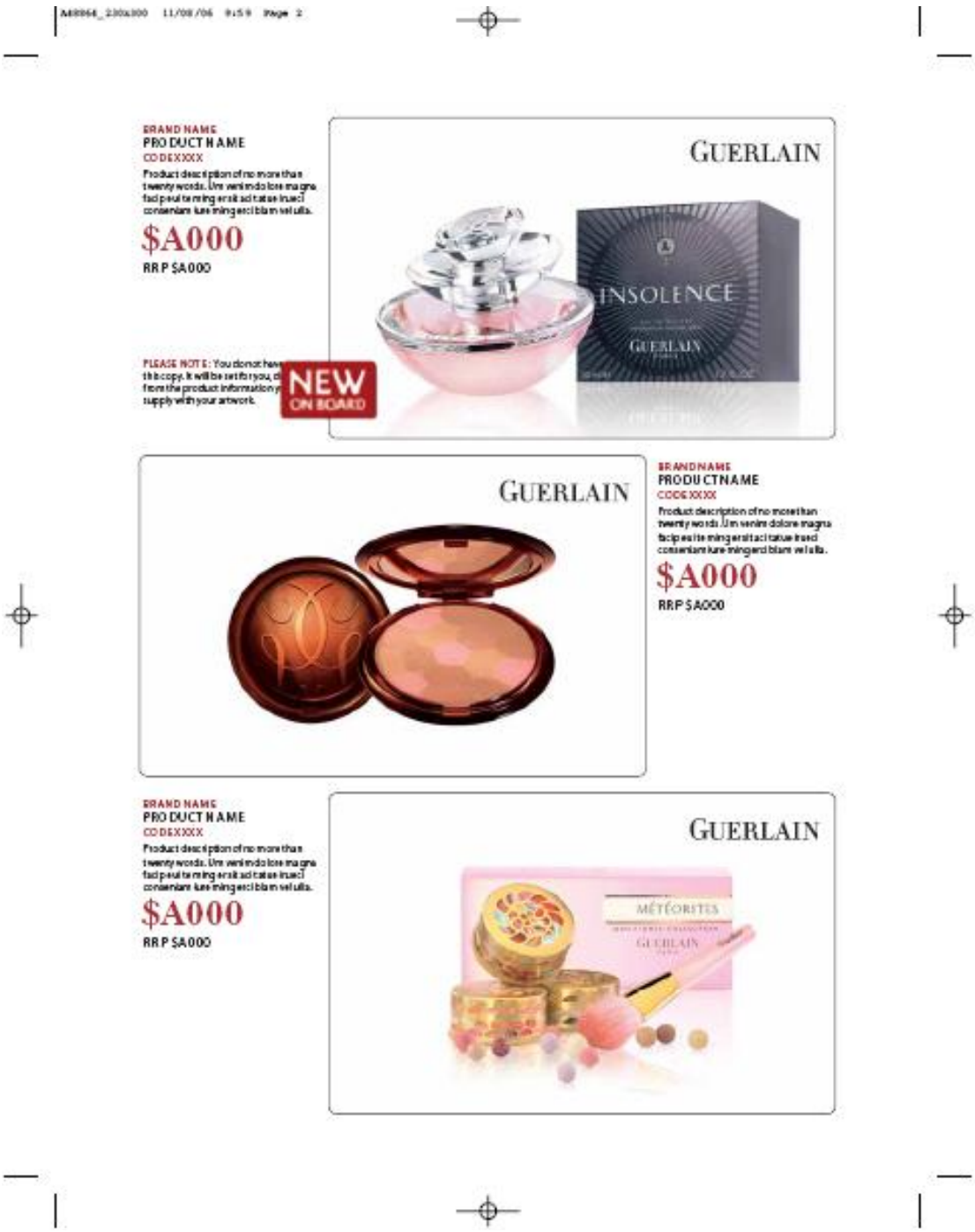
APPENDIX B-4:
Proposal on layout for Qantas Inflight Magazine



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APPENDIX B-5:
Air France Scratch and Win Contest in 2006
For Insolence launch

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APPENDIX C-1:
The Segmentation Mincer Test

The Segmentation Mincer	*Column A Score*	*Column B Score*
1. Are the competitors in the two products or areas the same? ***Yes : Column A / No : Column B***	-30	+30
2. Are the Relative Market Share (RMS) of our firm and the leading competitors roughly the same in the two products or areas? ***RMS similar : Column A / RMS different : Column B***	-50	+50
3. Are the customers the same in the two products or areas? ***Yes : Column A / No : Column B***	-20	+20
4. Are the customers' main purchase criteria and their order of importance roughly the same in the two products or areas? ***Yes : Column A / No : Column B***	-30	+30
5. Are the two products substitutes for each other? ***Yes : Column A / No : Column B***	-10	+10
6. Are the prices of the two products (for equivalent quality) or in the two areas roughly the same? ***Yes : Column A / No : Column B***	-20	+20
7. Is our firm's profitability roughly the same in the two products or areas? ***Yes : Column A / No : Column B***	-40	+40
8. Do the two products or areas have approximately the same need for capital per dollar of sales, i.e. similar capital intensity? ***Yes : Column A / No : Column B***	-10	+10
9. Are the cost structures in the two products or areas similar (that is, roughly the same proportion of cost in raw materials, in manufacturing, in marketing and selling, and so on)? ***Yes : Column A / No : Column B***	-10	+10
10. Do the products or areas share at least half of their costs, that is, the use of common labour, machines, premises and management resources for at least half of their total costs? ***Yes : Column A / No : Column B***	-30	+30
11. Are there logistical, practical or technological barriers between the two products or areas that only some competitors can surmount? ***Yes : Column A / No : Column B***	-20	+20
12. Is it possible to gain an economical advantage by specialising in one of the products/areas by gaining lower costs or higher process in that product/area as a result of focusing on it ? ***Yes : Column A / No : Column B***	-30	+30
You now add the scores together to produce the result. If the result is a positive number, you should treat the two products or areas as separate business segments, and devise strategy for each of them separately. If the result is negative, they are currently the same business segment and should be lumped together, at least initially, in developing their strategy. The further away from zero the answer is, whether positive or negative, the more certain the result.		

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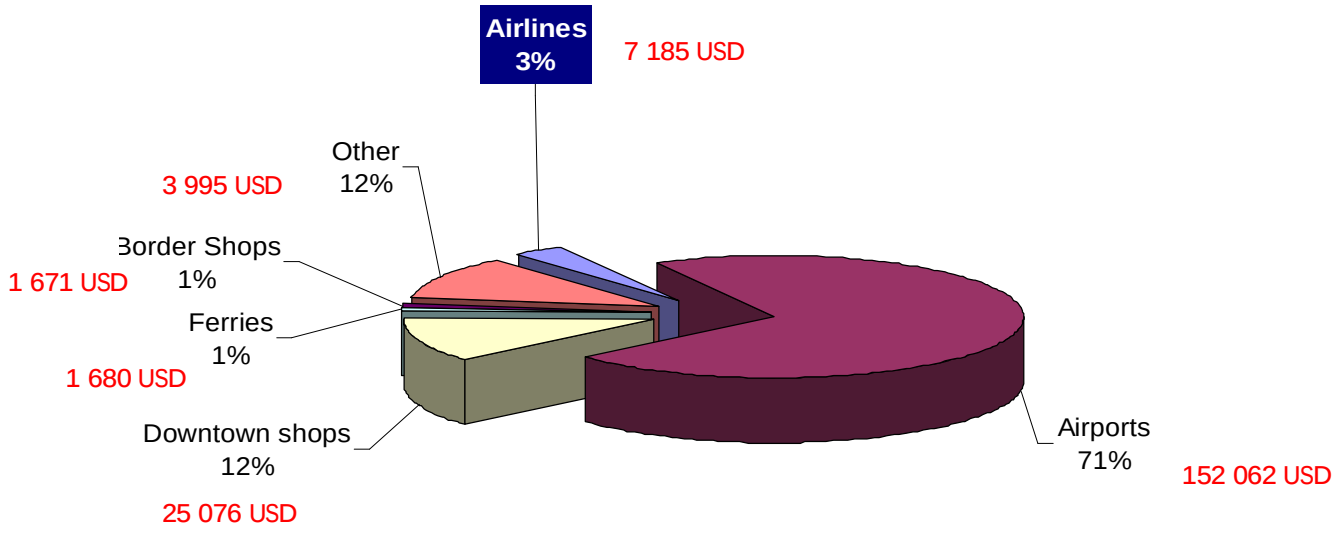
APPENDIX C-2:
2005 TR WW GUERLAIN Turnover
Channel Breakdown

Source: Generation



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APPENDIX C-3:
GUERLAIN LISTING IN 2005

Source: DRP

AEGEAN AIRLINES
AEROFLOT
AIR FINLAND
AIR FRANCE
AIR HORIZONS
AIR MAURITIUS
AIR SEYCHELLES
ALITALIA
ANA
ASIANA AIRLINES
ATLAS BLUE.COM
AUSTRIAN AIRLINES
BRAATHENS Inflight
BRITANNIA SWEDEN Pre Order
BRITANNIA UK Pre Order
CATHAY PACIFIC
CHINA AIRLINES
CHINA EASTERN
CORSAIR
CSA
CYPRUS AIRWAYS
DRAGONAIR
EL AL
FINNAIR Inflight
FLYME
IBERIA
ICELAND EXPRESS
ICELANDAIR
JET AIRWAYS
KOREAN AIR
LOT
MALMO AVIATION
MEA
MY TRAVEL AIRWAYS Pre Order
NORDIC LEISURE
NOUVELAIR
NOVAIR Sweden Pre Order
QANTAS
QATAR AIRWAYS
ROYAL AIR MAROC
SAS
SAUDI ARABIAN AIRLINES
SETUR
SINGAPORE AIRLINES
TAP AIR PORTUGAL
TAROM
TRANSASIA AIRWAYS
TUI FLY
TUNISAIR
TURKISH AIRLINES
UNITED AIRLINES
YEMENIA

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APPENDIX C-4:
Rule of Thumb
Concerning RMS position

RMS position	Name	Rule of Thumb
4.0x or greater	Dominance	Extremely strong position
1.5x to 3.9x	Clear leadership	Very strong position
1.0x to 1.49x	Narrow leadership	Strong position
0.7x to 0.99x	Strong follower	Fairly strong position
0.3x to 0.69x	Follower	Moderate position
Less than 0.3x	Marginal Player	Weak position

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APPENDIX C-5:
Brands' Ranking for
TR Worldwide in 2005

Source: Generation

Ø The Make-up BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: All
Categories: Make-up Eyes Regular, Make-up Face Regular, Make-up Lipsticks Regular, Make-up Nails Regular
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
528	760	851	12.0%	61.0%	10.1%	46.8%

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales change % 05vs04 USD	Sales change % 05vs04 LCU	Sales change % 05vs03 USD	Sales change % 05vs03 LCU
1	1	CHANEL	95,088	134,158	149,310	18.00%	17.66%	17.55%	11.3%	9.4%	57.0%	43.2%
2	2	LANCÔME	102,200	128,099	135,546	19.35%	16.86%	15.94%	5.8%	4.0%	32.6%	20.9%
3	3	DIOR	61,714	118,177	103,160	11.68%	15.56%	12.13%	-12.7%	-14.2%	67.2%	52.4%
4	4	CLINIQUE	46,033	57,860	65,286	8.72%	7.62%	7.68%	12.8%	10.9%	41.8%	29.3%
5	7	YSL	32,610	42,064	65,220	6.17%	5.54%	7.67%	55.0%	52.4%	100.0%	82.3%
6	5	ESTÉE LAUDER	38,914	51,891	60,863	7.37%	6.83%	7.16%	17.3%	15.3%	56.4%	42.6%
7	6	GUERLAIN	24,211	47,599	49,849	4.58%	6.27%	5.86%	4.7%	3.0%	105.9%	87.7%
8	8	M.A.C	14,285	24,285	37,642	2.70%	3.20%	4.43%	55.0%	52.4%	163.5%	140.2%
9	9	L'ORÉAL PARIS	11,905	19,764	24,021	2.25%	2.60%	2.82%	21.5%	19.5%	101.8%	83.9%
10	10	SHISEIDO	3,926	16,488	19,192	0.74%	2.17%	2.26%	16.4%	14.4%	NM	NM
11	11	HELENA RUBINSTEIN	13,450	16,127	17,254	2.55%	2.12%	2.03%	7.0%	5.2%	28.3%	16.9%
12	12	CLARINS	8,675	9,336	10,826	1.64%	1.23%	1.27%	16.0%	14.0%	24.8%	13.8%
13	13	GIVENCHY	1,718	6,616	9,035	0.33%	0.87%	1.06%	36.6%	34.2%	NM	NM
14	15	BOBBI BROWN	1,111	3,578	6,477	0.21%	0.47%	0.76%	81.0%	78.0%	NM	NM
15	17	SHU UEMURA	2,211	2,930	5,051	0.42%	0.39%	0.59%	72.4%	69.4%	128.4%	108.2%
16	14	ELIZABETH ARDEN	4,805	3,744	3,552	0.91%	0.49%	0.42%	-5.1%	-6.7%	-26.1%	-32.6%
17	19	BIOTHERM	2,323	1,557	3,021	0.44%	0.20%	0.36%	94.0%	90.7%	30.0%	18.5%
18	18	STILA	2,341	2,760	2,684	0.44%	0.36%	0.32%	-2.8%	-4.4%	14.7%	4.5%
19	21	GIORGIO ARMANI	981	1,048	1,434	0.19%	0.14%	0.17%	36.9%	34.6%	46.1%	33.2%
20	16	NINA RICCI	4,698	3,400	1,398	0.89%	0.45%	0.16%	-58.9%	-59.6%	-70.3%	-72.9%
21	23	LANCASTER	657	435	370	0.12%	0.06%	0.04%	-15.1%	-16.5%	-43.7%	-48.7%
22	22	ORIGINS	751	813	326	0.14%	0.11%	0.04%	-59.9%	-60.6%	-56.6%	-60.4%
		ELIZABETH TAYLOR	4			0.00%					-100.0%	-100.0%
	20	ANNA SUI	7,091	1,396		1.34%	0.18%		-100.0%	-100.0%	-100.0%	-100.0%
		OTHER	46,478	65,515	79,046	8.80%	8.62%	9.29%	20.7%	18.6%	70.1%	55.0%
		TOTAL	528,151	759,640	850,562	100%	100%	100%	12.0%	10.1%	61.0%	46.8%

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Ø The Skincare BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: All
Categories: Skin Care Body, Skin Care Face, Skin Care Hair, Skin Care Men, Skin Care Sun, Skin Care Whitening Products
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
952	1,231	1,429	16.1%	50.1%	14.2%	36.8%

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales Change % 05vs04 USD	Sales Change % 05vs04 LCU	Sales Change % 05vs03 USD	Sales Change % 05vs03 LCU
1	1	LANCÔME	190,431	224,789	244,142	20.00%	18.27%	17.09%	8.6%	6.8%	28.2%	16.9%
2	2	ESTÉE LAUDER	151,064	166,641	185,241	15.86%	13.54%	12.96%	11.2%	9.3%	22.6%	11.8%
3	3	CLARINS	102,881	131,190	151,440	10.80%	10.66%	10.60%	15.4%	13.5%	47.2%	34.2%
4	4	CLINIQUE	109,954	130,343	148,243	11.55%	10.59%	10.37%	13.7%	11.8%	34.8%	22.9%
5	5	BIOTHERM	71,575	95,831	118,122	7.52%	7.79%	8.27%	23.3%	21.2%	65.0%	50.5%
6	6	DIOR	53,584	77,414	73,762	5.63%	6.29%	5.16%	-4.7%	-6.3%	37.7%	25.5%
7	7	SHISEIDO	10,968	51,327	69,263	1.15%	4.17%	4.85%	34.9%	32.7%	NM	NM
8	9	CHANEL	27,353	39,248	53,673	2.87%	3.19%	3.76%	36.8%	34.4%	96.2%	78.9%
9	8	ELIZABETH ARDEN	38,148	45,092	50,499	4.01%	3.66%	3.53%	12.0%	10.1%	32.4%	20.7%
10	11	GUERLAIN	24,929	31,822	45,274	2.62%	2.59%	3.17%	42.3%	39.9%	81.6%	65.6%
11	10	L'ORÉAL PARIS	24,595	31,962	38,663	2.58%	2.60%	2.71%	21.0%	18.9%	57.2%	43.3%
12	13	CRÈME DE LA MER	6,130	18,652	27,014	0.64%	1.52%	1.89%	44.8%	42.4%	NM	NM
13	12	HELENA RUBINSTEIN	24,886	26,724	26,331	2.61%	2.17%	1.84%	-1.5%	-3.1%	5.8%	-3.5%
14	14	LANCASTER	11,372	14,636	14,260	1.19%	1.19%	1.00%	-2.6%	-4.2%	25.4%	14.3%
15	16	SHU UEMURA	3,656	6,402	10,805	0.38%	0.52%	0.76%	68.8%	65.9%	195.5%	169.4%
16	15	YSL	6,493	9,289	8,109	0.68%	0.75%	0.57%	-12.7%	-14.2%	24.9%	13.9%
17	17	ORIGINS	4,721	5,708	7,557	0.50%	0.46%	0.53%	32.4%	30.1%	60.1%	45.9%
18	20	KENZO	460	2,184	4,298	0.05%	0.18%	0.30%	96.8%	93.5%	NM	NM
19	18	ARAMIS	1,722	3,153	3,798	0.18%	0.26%	0.27%	20.5%	18.4%	120.6%	101.1%
20	19	GIVENCHY	1,929	2,199	2,524	0.20%	0.18%	0.18%	14.8%	12.9%	30.8%	19.3%
21	21	M.A.C	777	1,143	2,041	0.08%	0.09%	0.14%	78.6%	75.6%	162.8%	139.5%
22	22	ROGER & GALLET	960	1,057	806	0.10%	0.09%	0.06%	-23.7%	-25.0%	-16.0%	-23.4%
23	25	BOBBI BROWN	105	220	720	0.01%	0.02%	0.05%	NM	NM	NM	NM
24	23	JENNIFER LOPEZ		1,034	492		0.08%	0.03%	-52.4%	-53.2%		
25		BOSS			410			0.03%				
26	24	NINA RICCI	748	463	274	0.08%	0.04%	0.02%	-40.7%	-41.7%	-63.3%	-66.5%
27	26	STILA	3	25	16	0.00%	0.00%	0.00%	-38.1%	-39.1%	NM	NM
		ANNA SUI	3			0.00%					-100.0%	-100.0%
		OTHER	82,812	112,067	141,188	8.70%	9.11%	9.88%	26.0%	23.9%	70.5%	55.4%
		TOTAL	952,258	1,230,614	1,428,905	100%	100%	100%	16.1%	14.2%	50.1%	36.8%

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Ø The Fragrances BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: All
Categories: Men's Fragrances Regular, Men's Fragrances Sensonal Fragrance, Women's Fragrances Regular, Women's Fragrances Sensonal Fragrance
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
3,153	3,708	4,017	8.3%	27.4%	6.5%	16.2%

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales Change % 05vs04 USD	Sales Change % 05vs04 LCU	Sales Change % 05vs03 USD	Sales Change % 05vs03 LCU
1	1	CHANEL	314,955	383,251	412,082	9.99%	10.34%	10.26%	7.5%	5.7%	30.8%	19.3%
2	3	GIORGIO ARMANI	189,581	221,857	256,282	6.01%	5.98%	6.38%	15.5%	13.6%	35.2%	23.2%
3	2	DIOR	198,316	237,802	253,306	6.29%	6.41%	6.31%	6.5%	4.7%	27.7%	16.4%
4	4	CALVIN KLEIN	168,252	179,294	181,606	5.34%	4.84%	4.52%	1.3%	-0.4%	7.9%	-1.6%
5	5	RALPH LAUREN	133,664	163,449	164,790	4.24%	4.41%	4.10%	0.8%	-0.9%	23.3%	12.4%
6	6	DAVIDOFF	112,372	144,974	141,611	3.56%	3.91%	3.53%	-2.3%	-4.0%	26.0%	14.9%
7	8	YSL	93,885	121,610	120,620	2.98%	3.28%	3.00%	-0.8%	-2.5%	28.5%	17.1%
8	9	LANCÔME	101,983	120,377	116,240	3.23%	3.25%	2.89%	-3.4%	-5.1%	14.0%	3.9%
9	10	JEAN PAUL GAULTIER	91,735	111,278	113,094	2.91%	3.00%	2.82%	1.6%	-0.1%	23.3%	12.4%
10	14	KENZO	85,691	94,578	109,495	2.72%	2.55%	2.73%	15.8%	13.8%	27.8%	16.5%
11	15	GIVENCHY	86,933	93,478	109,381	2.76%	2.52%	2.72%	17.0%	15.0%	25.8%	14.7%
12	13	BVLGARI	78,188	96,712	108,686	2.48%	2.61%	2.71%	12.4%	10.5%	39.0%	26.7%
13	11	ISSEY MIYAKE	88,056	105,703	106,551	2.79%	2.85%	2.65%	0.8%	-0.9%	21.0%	10.3%
14	7	ESTÉE LAUDER	104,800	123,441	105,100	3.32%	3.33%	2.62%	-14.9%	-16.3%	0.3%	-8.6%
15	16	BOSS	64,978	84,007	102,062	2.06%	2.27%	2.54%	21.5%	19.4%	57.1%	43.2%
16	12	GUCCI	80,576	101,870	99,138	2.56%	2.75%	2.47%	-2.7%	-4.3%	23.0%	12.2%
17	30	DONNA KARAN	32,150	30,529	82,897	1.02%	0.82%	2.06%	171.5%	166.9%	157.8%	135.1%
18	19	CAROLINA HERRERA	71,151	62,856	76,936	2.26%	1.70%	1.92%	22.4%	20.3%	8.1%	-1.4%
19	18	GUERLAIN	52,700	66,188	72,548	1.67%	1.79%	1.81%	9.6%	7.8%	37.7%	25.5%
20	20	HUGO	61,361	60,624	71,045	1.95%	1.64%	1.77%	17.2%	15.2%	15.8%	5.6%
21	17	CACHAREL	52,148	70,333	70,957	1.65%	1.90%	1.77%	0.9%	-0.8%	36.1%	24.0%
22	21	JENNIFER LOPEZ	51,521	56,554	65,831	1.63%	1.53%	1.64%	16.4%	14.4%	27.8%	16.5%
23	23	LACOSTE	21,123	48,035	63,939	0.67%	1.30%	1.59%	33.1%	30.9%	NM	176.0%
24	25	THIERRY MUGLER	34,449	44,204	53,189	1.09%	1.19%	1.32%	20.3%	18.3%	54.4%	40.8%
25	22	CLINIQUE	55,223	52,917	52,392	1.75%	1.43%	1.30%	-1.0%	-2.7%	-5.1%	-13.5%
26	24	PACO RABANNE	41,907	46,728	43,869	1.33%	1.26%	1.09%	-6.1%	-7.7%	4.7%	-4.6%
27	27	ESCADA	31,246	37,061	36,153	0.99%	1.00%	0.90%	-2.4%	-4.1%	15.7%	5.5%
28	26	ELIZABETH ARDEN	28,653	42,819	33,588	0.91%	1.15%	0.84%	-21.6%	-22.9%	17.2%	6.9%
29	28	TOMMY HILFIGER	39,875	36,655	33,425	1.26%	0.99%	0.83%	-8.8%	-10.4%	-16.2%	-23.6%
30	29	NINA RICCI	27,834	31,682	27,441	0.88%	0.85%	0.68%	-13.4%	-14.8%	-1.4%	-10.1%
31	33	PARFUMS JOOP!	23,991	20,222	26,139	0.76%	0.55%	0.65%	29.3%	27.1%	9.0%	-0.7%
32	36	KENNETH COLE	2,546	18,398	22,513	0.08%	0.50%	0.56%	22.4%	20.3%	NM	NM
33	60	ANNA SUI	8,405	3,323	21,328	0.27%	0.09%	0.53%	NM	NM	153.7%	131.3%
34	31	ARAMIS	24,192	29,697	20,997	0.77%	0.80%	0.52%	-29.3%	-30.5%	-13.2%	-20.9%
35	32	CERRUTI	16,727	20,508	20,561	0.53%	0.55%	0.51%	0.3%	-1.4%	22.9%	12.1%
36	37	BRITNEY SPEARS		3,874	19,652		0.10%	0.49%	NM	NM		
37	45	BALDESSARINI	12,635	10,219	19,570	0.40%	0.28%	0.49%	91.5%	88.3%	54.9%	41.2%
38	35	AZZARO	17,789	18,525	19,120	0.56%	0.50%	0.48%	3.2%	1.5%	7.5%	-2.0%
39	37	JIL SANDER	20,159	17,728	18,332	0.64%	0.48%	0.46%	3.4%	1.7%	-9.1%	-17.1%
40	34	MONTBLANC	16,449	19,520	16,717	0.52%	0.53%	0.42%	-14.4%	-15.8%	1.6%	-7.3%
41	38	LAURA BIAGIOTTI	13,900	17,084	14,078	0.44%	0.46%	0.35%	-17.6%	-19.0%	1.3%	-7.7%
42	39	BOUCHERON	10,753	14,698	12,961	0.34%	0.40%	0.32%	-11.8%	-13.3%	20.5%	9.9%
43	43	PALOMA PICASSO	11,564	11,697	12,605	0.37%	0.32%	0.31%	7.8%	5.9%	9.0%	-0.6%

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Ø The TR Sets & TR Exclusives BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: All
Categories: Coffrets, Make-up All Other Sets, Make-up Eyes Sets, Make-up Face Sets, Make-up Lipsticks Sets, Make-up Nails Sets, Men's Fragrances Travel Sets, Women's Fragrances Travel Sets
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
437	611	762	24.8%	74.6%	22.7%	59.1%

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales Change % 05vs04 USD	05vs04 LCU	05vs03 USD	05vs03 LCU
1	1	LANCÔME	102,572	142,014	173,435	23.49%	23.25%	22.75%	22.1%	20.1%	69.1%	54.1%
2	2	DIOR	93,292	112,013	173,137	21.36%	18.34%	22.71%	54.6%	52.0%	85.6%	69.2%
3	3	ESTÉE LAUDER	29,173	45,098	55,493	6.68%	7.38%	7.28%	23.1%	21.0%	90.2%	73.4%
4	4	CLINIQUE	19,404	35,705	41,844	4.44%	5.84%	5.49%	17.2%	15.2%	115.6%	96.6%
5	5	GIVENCHY	20,460	28,095	28,284	4.69%	4.60%	3.71%	0.7%	-1.0%	38.2%	26.0%
6	9	GUERLAIN	9,215	14,659	22,902	2.11%	2.40%	3.00%	56.2%	53.6%	148.5%	126.6%
7	13	ELIZABETH ARDEN	6,978	12,944	18,333	1.60%	2.12%	2.41%	41.6%	39.2%	162.7%	139.5%
8	7	RALPH LAUREN	10,813	15,024	18,181	2.48%	2.46%	2.39%	21.0%	19.0%	68.1%	53.3%
9	11	L'ORÉAL PARIS	8,467	13,625	17,548	1.94%	2.23%	2.30%	28.8%	26.6%	107.3%	89.0%
10	8	PRESTIGE & COLLECTIONS	13,506	14,910	14,670	3.09%	2.44%	1.92%	-1.6%	-3.3%	8.6%	-1.0%
11	12	TOMMY HILFIGER	3,606	13,461	13,580	0.83%	2.20%	1.78%	0.9%	-0.8%	NM	NM
12	10	CALVIN KLEIN	7,111	13,991	12,134	1.63%	2.29%	1.59%	-13.3%	-14.7%	70.6%	55.6%
13	6	YSL	19,915	16,611	10,443	4.56%	2.72%	1.37%	-37.1%	-38.2%	-47.6%	-52.2%
14	14	GIORGIO ARMANI	6,128	10,100	10,406	1.40%	1.65%	1.37%	3.0%	1.3%	69.8%	54.8%
15	16	BVLGARI	2,709	7,191	9,815	0.62%	1.18%	1.29%	36.5%	34.2%	NM	NM
16	24	JEAN PAUL GAULTIER	3,692	3,846	8,117	0.85%	0.63%	1.06%	111.0%	107.5%	119.9%	100.5%
17	25	DONNA KARAN	881	3,124	7,230	0.20%	0.51%	0.95%	131.4%	127.5%	NM	NM
18	19	BOBBI BROWN	3,386	5,332	6,349	0.78%	0.87%	0.83%	19.1%	17.1%	87.5%	71.0%
19	17	M.A.C	3,223	5,497	6,173	0.74%	0.90%	0.81%	12.3%	10.4%	91.5%	74.6%
20	22	CACHAREL	3,808	4,263	5,901	0.87%	0.70%	0.77%	38.4%	36.1%	54.9%	41.3%
21		ISSEY MIYAKE			5,501			0.72%				
22	20	HELENA RUBINSTEIN	2,230	4,987	5,359	0.51%	0.82%	0.70%	7.5%	5.6%	140.4%	119.1%
23	15	KENZO	6,050	7,923	3,793	1.39%	1.30%	0.50%	-52.1%	-52.9%	-37.3%	-42.8%
24	23	ARAMIS	250	3,989	3,393	0.06%	0.65%	0.45%	-15.0%	-16.4%	NM	NM
25	18	ANNA SUI	2,300	5,455	2,826	0.53%	0.89%	0.37%	-48.2%	-49.1%	22.9%	12.0%
26	26	CHANEL	8,175	2,949	2,598	1.87%	0.48%	0.34%	-11.9%	-13.4%	-68.2%	-71.0%
27	21	NINA RICCI	3,252	4,984	1,970	0.74%	0.82%	0.26%	-60.5%	-61.1%	-39.4%	-44.8%
28	28	AZZARO	137	1,348	1,764	0.03%	0.22%	0.23%	30.9%	28.7%	NM	NM
29	27	CLARINS	1,306	1,986	1,585	0.30%	0.33%	0.21%	-20.2%	-21.6%	21.4%	10.7%
30		BRITNEY SPEARS			1,164			0.15%				
31	30	SHU UEMURA	285	920	1,043	0.07%	0.15%	0.14%	13.4%	11.5%	NM	NM
32	36	MICHAEL KORS		275	565		0.05%	0.07%	105.1%	101.7%		
33	31	STILA	852	597	542	0.20%	0.10%	0.07%	-9.1%	-10.6%	-36.3%	-42.0%
34	34	ELIZABETH TAYLOR		334	416		0.05%	0.05%	24.7%	22.5%		
35	33	ORIGINS	623	396	389	0.14%	0.06%	0.05%	-1.8%	-3.5%	-37.6%	-43.1%
36	32	THIERRY MUGLER	322	501	320	0.07%	0.08%	0.04%	-36.2%	-37.3%	-0.8%	-9.6%
37	38	PALOMA PICASSO	184	201	273	0.04%	0.03%	0.04%	36.0%	33.7%	48.4%	35.3%
38	44	BOUCHERON		51	260		0.01%	0.03%	NM	NM		
39	41	CAROLINA HERRERA	145	125	257	0.03%	0.02%	0.03%	105.2%	101.7%	76.7%	61.1%
40	37	ESCADA	102	270	238	0.02%	0.04%	0.03%	-11.9%	-13.4%	134.3%	113.6%
41	43	EUROPEAN DESIGNER PERFUME	886	74	226	0.20%	0.01%	0.03%	NM	NM	-74.5%	-76.8%
42	35	BIOTHERM	20	318	222	0.00%	0.05%	0.03%	-30.0%	-31.2%	NM	NM
43	42	GUY LAROCHE	213	77	175	0.05%	0.01%	0.02%	126.8%	123.0%	-17.8%	-25.0%

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APPENDIX C-6:
Brands' Ranking for
The Airlines Business in 2005

Source: Generation

- The Make-up BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: Airlines
Categories: Make-up Eyes Regular, Make-up Face Regular, Make-up Lipsticks Regular, Make-up Nails Regular
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
31	**53**	**45**	**-15.9%**	**43.1%**	**-17.3%**	**30.5%**

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales change % 05vs04 USD	Sales change % 05vs04 LCU	Sales change % 05vs03 USD	Sales change % 05vs03 LCU
1	3	YSL	5,883	8,646	10,885	18.81%	16.24%	24.32%	25.9%	23.8%	85.0%	68.7%
2	2	CHANEL	3,624	10,715	8,058	11.59%	20.13%	18.00%	-24.8%	-26.1%	122.3%	102.7%
3	4	LANCÔME	5,219	7,056	6,310	16.68%	13.26%	14.10%	-10.6%	-12.1%	20.9%	10.2%
4	1	DIOR	3,333	11,774	3,752	10.66%	22.12%	8.38%	-68.1%	-68.7%	12.6%	2.6%
5	5	ESTÉE LAUDER	2,035	2,584	3,038	6.50%	4.85%	6.79%	17.6%	15.6%	49.3%	36.1%
6	10	GIVENCHY	73	619	1,832	0.23%	1.16%	4.09%	195.8%	190.8%	NM	NM
7	6	GUERLAIN	3,289	2,036	1,774	10.51%	3.83%	3.96%	-12.9%	-14.4%	-46.1%	-50.8%
8	7	BOBBI BROWN	54	1,250	1,572	0.17%	2.35%	3.51%	25.8%	23.6%	NM	NM
9	11	CLINIQUE	479	360	688	1.53%	0.68%	1.54%	91.3%	88.0%	43.7%	31.0%
10	9	L'ORÉAL PARIS	317	727	642	1.01%	1.37%	1.43%	-11.7%	-13.2%	102.7%	84.8%
11	12	HELENA RUBINSTEIN	636	343	520	2.03%	0.64%	1.16%	51.5%	49.0%	-18.2%	-25.4%
12	13	ELIZABETH ARDEN	714	278	213	2.28%	0.52%	0.48%	-23.6%	-24.9%	-70.2%	-72.8%
13	16	CLARINS	135	48	194	0.43%	0.09%	0.43%	NM	NM	43.4%	30.7%
14		SHU UEMURA			89			0.20%				
		ANNA SUI	1,336			4.27%					-100.0%	-100.0%
	15	STILA	153	109		0.49%	0.20%		-100.0%	-100.0%	-100.0%	-100.0%
	8	NINA RICCI	426	1,083		1.36%	2.03%		-100.0%	-100.0%	-100.0%	-100.0%
	14	ORIGINS		189			0.35%		-100.0%	-100.0%		
		OTHER	3,574	5,413	5,193	11.43%	10.17%	11.60%	-4.1%	-5.7%	45.3%	32.5%
		TOTAL	**31,279**	**53,251**	**44,759**	**100%**	**100%**	**100%**	**-15.9%**	**-17.3%**	**43.1%**	**30.5%**

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Ø The Skincare BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: Airlines
Categories: Skin Care Body, Skin Care Face, Skin Care Hair, Skin Care Men, Skin Care Sun, Skin Care Whitening Products
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
64	**87**	**99**	**14.3%**	**55.7%**	**12.4%**	**41.9%**

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales Change % 05vs04 USD	Sales Change % 05vs04 LCU	Sales Change % 05vs03 USD	Sales Change % 05vs03 LCU
1	1	LANCÔME	13,800	19,662	20,313	21.64%	22.64%	20.46%	3.3%	1.6%	47.2%	34.2%
2	2	ESTÉE LAUDER	11,578	13,351	16,462	18.15%	15.37%	16.58%	23.3%	21.2%	42.2%	29.6%
3	4	BIOTHERM	5,461	8,306	9,807	8.56%	9.56%	9.88%	18.1%	16.1%	79.6%	63.7%
4	3	DIOR	3,453	9,187	8,529	5.41%	10.58%	8.59%	-7.2%	-8.7%	147.0%	125.2%
5	5	ELIZABETH ARDEN	7,365	7,636	7,250	11.55%	8.79%	7.30%	-5.1%	-6.7%	-1.6%	-10.3%
6	6	CLINIQUE	4,310	3,879	5,271	6.76%	4.47%	5.31%	35.9%	33.6%	22.3%	11.5%
7	8	CLARINS	1,461	2,428	4,164	2.29%	2.80%	4.19%	71.5%	68.6%	185.1%	159.9%
8	12	SHU UEMURA	201	883	2,260	0.32%	1.02%	2.28%	155.9%	151.6%	NM	NM
9		SHISEIDO			2,215			2.23%				
10	7	LANCASTER	1,666	2,475	1,871	2.61%	2.85%	1.88%	-24.4%	-25.7%	12.3%	2.4%
11	9	HELENA RUBINSTEIN	1,989	2,352	1,722	3.12%	2.71%	1.73%	-26.8%	-28.0%	-13.4%	-21.1%
12	17	KENZO	196	427	1,428	0.31%	0.49%	1.44%	NM	NM	NM	NM
13		CHANEL			1,078			1.09%				
14	11	ARAMIS	347	931	996	0.54%	1.07%	1.00%	7.0%	5.2%	187.0%	161.7%
15	16	L'ORÉAL PARIS	327	657	765	0.51%	0.76%	0.77%	16.4%	14.4%	133.7%	113.1%
16	13	GUERLAIN	1,926	808	472	3.02%	0.93%	0.48%	-41.5%	-42.5%	-75.5%	-77.7%
17	15	JENNIFER LOPEZ		666	300		0.77%	0.30%	-55.0%	-55.8%		
18	14	ORIGINS	644	721	189	1.01%	0.83%	0.19%	-73.8%	-74.3%	-70.7%	-73.3%
19	10	YSL	760	1,275	186	1.19%	1.47%	0.19%	-85.4%	-85.7%	-75.5%	-77.7%
20	19	ROGER & GALLET	7	7	4	0.01%	0.01%	0.00%	-36.9%	-38.0%	-38.7%	-44.1%
21		BOSS			2			0.00%				
	18	GIVENCHY	77	40		0.12%	0.05%		-100.0%	-100.0%	-100.0%	-100.0%
		OTHER	8,211	11,152	13,992	12.87%	12.84%	14.09%	25.5%	23.3%	70.4%	55.4%
		TOTAL	**63,778**	**86,841**	**99,277**	**100%**	**100%**	**100%**	**14.3%**	**12.4%**	**55.7%**	**41.9%**

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Ø The Fragrances BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: Airlines
Categories: Men's Fragrances Regular, Men's Fragrances Seasonal Fragrance, Women's Fragrances Regular, Women's Fragrances Seasonal Fragrance
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
316	376	406	8.2%	28.7%	6.4%	17.4%

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales change % 05vs04 USD	05vs04 LCU	05vs03 USD	05vs03 LCU
1	1	CHANEL	38,082	43,846	44,773	12.06%	11.67%	11.02%	2.1%	0.4%	17.6%	7.2%
2	2	DIOR	21,691	23,497	30,231	6.87%	6.26%	7.44%	28.7%	26.5%	39.4%	27.1%
3	3	GIORGIO ARMANI	19,707	21,294	26,804	6.24%	5.67%	6.59%	25.9%	23.7%	36.0%	24.0%
4	11	JENNIFER LOPEZ	10,908	11,842	21,438	3.45%	3.15%	5.27%	81.0%	78.0%	96.5%	79.2%
5	4	DAVIDOFF	15,333	21,138	19,592	4.86%	5.63%	4.82%	-7.3%	-8.9%	27.8%	16.5%
6	9	KENZO	11,684	13,304	16,774	3.70%	3.54%	4.13%	26.1%	24.0%	43.6%	30.9%
7	5	RALPH LAUREN	10,389	14,116	15,314	3.29%	3.76%	3.77%	8.5%	6.7%	47.4%	34.4%
8	23	DONNA KARAN	3,377	3,993	14,503	1.07%	1.06%	3.57%	NM	NM	NM	NM
9	10	CALVIN KLEIN	6,891	12,612	14,255	2.18%	3.36%	3.51%	13.0%	11.1%	106.9%	88.6%
10	6	BVLGARI	9,953	13,719	12,692	3.15%	3.65%	3.12%	-7.5%	-9.1%	27.5%	16.2%
11	12	JEAN PAUL GAULTIER	9,041	11,756	12,304	2.86%	3.13%	3.03%	4.7%	2.9%	36.1%	24.1%
12	8	ESTÉE LAUDER	9,113	13,364	11,527	2.89%	3.56%	2.84%	-13.7%	-15.2%	26.5%	15.3%
13	13	GIVENCHY	6,976	10,191	10,919	2.21%	2.71%	2.69%	7.1%	5.3%	56.5%	42.7%
14	14	LANCÔME	6,464	8,926	10,016	2.05%	2.38%	2.46%	12.2%	10.3%	54.9%	41.3%
15	15	YSL	9,384	8,700	9,656	2.97%	2.32%	2.38%	11.0%	9.1%	2.9%	-6.2%
16	16	ISSEY MIYAKE	8,830	8,607	9,055	2.80%	2.29%	2.23%	5.2%	3.4%	2.5%	-6.5%
17	7	GUCCI	8,143	13,387	7,504	2.58%	3.56%	1.85%	-43.9%	-44.9%	-7.9%	-16.0%
18	17	BOSS	5,913	6,726	7,476	1.87%	1.79%	1.84%	11.2%	9.3%	26.4%	15.3%
19	29	THIERRY MUGLER	1,600	2,864	4,598	0.51%	0.76%	1.13%	60.5%	57.8%	187.4%	162.0%
20	22	CACHAREL	2,620	4,190	4,574	0.83%	1.12%	1.13%	9.2%	7.3%	74.6%	59.2%
21	20	LACOSTE	2,169	4,420	4,524	0.69%	1.18%	1.11%	2.4%	0.6%	108.6%	90.2%
22	26	HUGO	5,449	3,648	4,207	1.73%	0.97%	1.03%	15.3%	13.4%	-22.8%	-29.6%
23	34	VERA WANG	85	1,986	3,779	0.03%	0.53%	0.93%	90.2%	87.0%	NM	NM
24	21	TOMMY HILFIGER	3,822	4,327	3,170	1.21%	1.15%	0.78%	-26.7%	-28.0%	-17.1%	-24.4%
25	18	ARAMIS	4,251	6,386	3,102	1.35%	1.70%	0.76%	-51.4%	-52.3%	-27.0%	-33.5%
26	28	GUERLAIN	3,122	3,391	3,072	0.99%	0.90%	0.76%	-9.4%	-10.9%	-1.6%	-10.3%
27	19	CLINIQUE	4,688	4,452	2,934	1.48%	1.19%	0.72%	-34.1%	-35.2%	-37.4%	-43.0%
28	24	ESCADA	3,108	3,925	2,742	0.98%	1.05%	0.67%	-30.1%	-31.3%	-11.8%	-19.6%
29		BRITNEY SPEARS			2,480			0.61%				
30	30	ELIZABETH ARDEN	2,317	2,489	2,273	0.73%	0.66%	0.56%	-8.7%	-10.2%	-1.9%	-10.5%
31	31	PACO RABANNE	3,360	2,403	2,233	1.06%	0.64%	0.55%	-7.1%	-8.7%	-33.5%	-39.4%
32	32	LAURA BIAGIOTTI	2,178	2,282	2,072	0.69%	0.61%	0.51%	-9.2%	-10.7%	-4.9%	-13.3%
33	33	JIL SANDER	4,778	2,092	1,813	1.51%	0.56%	0.45%	-13.3%	-14.8%	-62.1%	-65.4%
34	27	CAROLINA HERRERA	6,645	3,440	1,515	2.10%	0.92%	0.37%	-55.9%	-56.7%	-77.2%	-79.2%
35	40	NINA RICCI	1,940	1,152	1,402	0.61%	0.31%	0.34%	21.7%	19.7%	-27.7%	-34.1%
36	50	BALDESSARINI	1,249	316	1,289	0.40%	0.08%	0.32%	NM	NM	3.2%	-5.9%
37	36	ALFRED DUNHILL	692	1,432	1,161	0.22%	0.38%	0.29%	-18.9%	-20.3%	67.8%	52.9%
38	71	OSCAR DE LA RENTA	67	5	1,156	0.02%	0.00%	0.28%	NM	NM	NM	NM
39	42	MONTBLANC	786	1,001	1,095	0.25%	0.27%	0.27%	9.5%	7.6%	39.3%	27.0%
40	37	AZZARO	1,012	1,430	1,093	0.32%	0.38%	0.27%	-23.6%	-24.9%	8.0%	-1.5%
41	35	PARFUMS JOOP!	1,734	1,671	900	0.55%	0.44%	0.22%	-46.1%	-47.0%	-48.1%	-52.7%
42	57	PUMA		185	865		0.05%	0.21%	NM	NM		
43	43	KARL LAGERFELD	745	769	809	0.24%	0.20%	0.20%	5.2%	3.4%	8.5%	-1.1%

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Ø The TR Sets & TR Exclusives BS

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets: All
Channels: Airlines
Categories: Coffrets, Make-up All Other Sets, Make-up Eyes Sets, Make-up Face Sets, Make-up Lipsticks Sets, Make-up Nails Sets, Men's Fragrances Travel Sets, Women's Fragrances Travel Sets
Companies: All
Totals: TRPR

Sales USD Millions			Statistical Change Sales USD		Real Change Sales LCU / fixed USD rate 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
114	137	169	23.2%	48.6%	21.1%	35.4%

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	Sales USD 2003	Sales USD 2004	Sales USD 2005	Share % 2003	Share % 2004	Share % 2005	Sales Change % 05vs04 USD	05vs04 LCU	05vs03 USD	05vs03 LCU
1	1	LANCÔME	30,977	38,487	46,632	27.24%	28.07%	27.60%	21.2%	19.1%	50.5%	37.2%
2	2	DIOR	25,260	27,867	39,454	22.21%	20.32%	23.35%	41.6%	39.2%	56.2%	42.4%
3	4	CLINIQUE	6,915	8,813	11,567	6.08%	6.43%	6.85%	31.3%	29.0%	67.3%	52.5%
4	3	ESTÉE LAUDER	8,133	9,590	10,687	7.15%	6.99%	6.33%	11.4%	9.6%	31.4%	19.8%
5	5	GIVENCHY	4,111	6,485	8,689	3.62%	4.73%	5.14%	34.0%	31.7%	111.3%	92.7%
6	8	L'ORÉAL PARIS	2,764	3,886	5,234	2.43%	2.83%	3.10%	34.7%	32.4%	89.4%	72.7%
7	6	CALVIN KLEIN	668	4,884	5,054	0.59%	3.56%	2.99%	3.5%	1.7%	NM	NM
8	7	BOBBI BROWN	2,805	4,085	4,138	2.47%	2.98%	2.45%	1.3%	-0.4%	47.5%	34.5%
9	9	PRESTIGE & COLLECTIONS	3,601	3,662	3,797	3.17%	2.67%	2.25%	3.7%	1.9%	5.4%	-3.9%
10	13	BVLGARI	461	1,761	3,376	0.41%	1.28%	2.00%	91.7%	88.5%	NM	NM
11	14	GUERLAIN	1,992	1,565	1,867	1.75%	1.14%	1.10%	19.3%	17.3%	-6.3%	-14.6%
12	11	YSL	1,705	2,105	1,763	1.50%	1.53%	1.04%	-16.2%	-17.7%	3.4%	-5.8%
13	10	ELIZABETH ARDEN	1,134	2,348	1,465	1.00%	1.71%	0.87%	-37.6%	-38.7%	29.2%	17.8%
14	16	RALPH LAUREN	788	1,153	1,385	0.69%	0.84%	0.82%	20.1%	18.1%	75.8%	60.3%
15	20	JEAN PAUL GAULTIER	1,136	427	1,174	1.00%	0.31%	0.70%	175.3%	170.6%	3.4%	-5.8%
16	17	TOMMY HILFIGER		816	1,136		0.60%	0.67%	39.2%	36.8%		
17	12	CHANEL	6,998	1,914	1,069	6.15%	1.40%	0.63%	-44.2%	-45.1%	-84.7%	-86.1%
18	15	KENZO	1,246	1,232	520	1.10%	0.90%	0.31%	-57.8%	-58.5%	-58.3%	-61.9%
19	21	GIORGIO ARMANI	224	316	489	0.20%	0.23%	0.29%	54.8%	52.1%	118.0%	98.7%
20	19	SHU UEMURA		435	316		0.32%	0.19%	-27.2%	-28.5%		
21	31	DONNA KARAN		0	228		0.00%	0.13%	NM	NM		
22	26	CACHAREL	137	113	207	0.12%	0.08%	0.12%	82.6%	79.5%	51.2%	37.9%
23	22	HELENA RUBINSTEIN		274	205		0.20%	0.12%	-25.1%	-26.3%		
24	27	MICHAEL KORS		105	116		0.08%	0.07%	10.0%	8.1%		
25	25	CLARINS	115	127	107	0.10%	0.09%	0.06%	-15.5%	-17.0%	-6.3%	-14.6%
26	24	BIOTHERM		129	67		0.09%	0.04%	-48.2%	-49.0%		
27		ISSEY MIYAKE			60			0.04%				
28		ARAMIS			18			0.01%				
29	29	EUROPEAN DESIGNER PERFUME	136	3	10	0.12%	0.00%	0.01%	NM	NM	-92.3%	-93.0%
30		THIERRY MUGLER	3		9	0.00%		0.01%			199.0%	172.6%
31	18	NINA RICCI	358	461	3	0.31%	0.34%	0.00%	-99.3%	-99.3%	-99.1%	-99.2%
32		BRITNEY SPEARS			1			0.00%				
33		HUGO			0			0.00%				
		VAN CLEEF & ARPELS	26			0.02%					-100.0%	-100.0%
		AZZARO	5			0.00%					-100.0%	-100.0%
	23	JENNIFER LOPEZ		209			0.15%		-100.0%	-100.0%		
	32	GUY LAROCHE		0			0.00%		-100.0%	-100.0%		
		ORIGINS	36			0.03%					-100.0%	-100.0%
	28	STILA	60	77		0.05%	0.06%		-100.0%	-100.0%	-100.0%	-100.0%
		OSCAR DE LA RENTA	11			0.01%					-100.0%	-100.0%
	30	CAROLINA HERRERA	2	1		0.00%	0.00%		-100.0%	-100.0%	-100.0%	-100.0%

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APPENDIX C-7:
Trend in Sales in the Airlines Business

Source: Generation

TRPR Generated Report for Anne-Flore Maman at Guerlain

Markets:	All
Channels:	Airlines
Categories:	All
Companies:	All
Totals:	TRPR

SALES USD MILLIONS			STATISTICAL CHANGE SALES USD		REAL CHANGE SALES LCU / FIXED USD RATE 2005	
2003	2004	2005	05vs04	05vs03	05vs04	05vs03
538	**666**	**736**	**10.6%**	**37.0%**	**8.7%**	**24.9%**

RSP in USD 000's

Top Brands

Rank 05	Rank 04	Brand	SALES USD 2003	SALES USD 2004	SALES USD 2005	SHARE % 2003	SHARE % 2004	SHARE % 2005	SALES CHANGE % 05vs04 USD	SALES CHANGE % 05vs04 LCU	SALES CHANGE % 05vs03 USD	SALES CHANGE % 05vs03 LCU
1	1	LANCÔME	59,517	77,924	88,313	11.07%	11.70%	11.99%	13.3%	11.4%	48.4%	35.3%
2	2	DIOR	54,211	72,351	82,083	10.08%	10.87%	11.15%	13.5%	11.5%	51.4%	38.0%
3	3	CHANEL	48,704	56,476	54,978	9.06%	8.48%	7.47%	-2.7%	-4.3%	12.9%	2.9%
4	4	ESTÉE LAUDER	30,978	40,141	43,181	5.76%	6.03%	5.86%	7.6%	5.8%	39.4%	27.1%
5	5	GIORGIO ARMANI	19,931	21,609	27,292	3.71%	3.25%	3.71%	26.3%	24.2%	36.9%	24.8%
6	8	CLINIQUE	19,829	19,695	22,883	3.69%	2.96%	3.11%	16.2%	14.2%	15.4%	5.2%
7	7	YSL	17,731	20,725	22,490	3.30%	3.11%	3.05%	8.5%	6.7%	26.8%	15.6%
8	16	JENNIFER LOPEZ	10,908	12,717	21,737	2.03%	1.91%	2.95%	70.9%	68.0%	99.3%	81.7%
9	10	GIVENCHY	11,239	17,335	21,440	2.09%	2.60%	2.91%	23.7%	21.6%	90.8%	73.9%
10	6	DAVIDOFF	15,333	21,138	19,592	2.85%	3.17%	2.66%	-7.3%	-8.9%	27.8%	16.5%
11	9	CALVIN KLEIN	7,559	17,496	19,309	1.41%	2.63%	2.62%	10.4%	8.5%	155.5%	132.9%
12	13	KENZO	13,125	14,963	18,722	2.44%	2.25%	2.54%	25.1%	23.0%	42.6%	30.0%
13	12	RALPH LAUREN	11,177	15,269	16,699	2.08%	2.29%	2.27%	9.4%	7.5%	49.4%	36.2%
14	11	BVLGARI	10,415	15,480	16,067	1.94%	2.32%	2.18%	3.8%	2.0%	54.3%	40.6%
15	28	DONNA KARAN	3,377	3,993	14,730	0.63%	0.60%	2.00%	NM	NM	NM	NM
16	17	JEAN PAUL GAULTIER	10,177	12,182	13,479	1.89%	1.83%	1.83%	10.6%	8.8%	32.4%	20.7%
17	18	BIOTHERM	6,923	9,802	11,331	1.29%	1.47%	1.54%	15.6%	13.7%	63.7%	49.2%
18	15	ELIZABETH ARDEN	11,529	12,768	11,227	2.14%	1.92%	1.52%	-12.1%	-13.6%	-2.6%	-11.2%
19	19	ISSEY MIYAKE	8,830	8,607	9,115	1.64%	1.29%	1.24%	5.9%	4.1%	3.2%	-5.9%
20	23	L'ORÉAL PARIS	4,979	6,655	9,059	0.93%	1.00%	1.23%	36.1%	33.8%	81.9%	65.9%
21	14	GUCCI	8,143	13,387	7,504	1.51%	2.01%	1.02%	-43.9%	-44.9%	-7.9%	-16.0%
22	22	BOSS	5,913	6,726	7,478	1.10%	1.01%	1.02%	11.2%	9.3%	26.5%	15.3%
23	20	GUERLAIN	10,597	7,799	7,185	1.97%	1.17%	0.98%	-7.9%	-9.4%	-32.2%	-38.2%
24	24	BOBBI BROWN	2,859	5,335	5,710	0.53%	0.80%	0.78%	7.0%	5.2%	99.7%	82.1%
25	36	CLARINS	2,014	2,724	5,562	0.37%	0.41%	0.76%	104.2%	100.7%	176.2%	151.8%
26	27	CACHAREL	2,757	4,303	4,782	0.51%	0.65%	0.65%	11.1%	9.2%	73.5%	58.1%
27	35	THIERRY MUGLER	1,603	2,864	4,607	0.30%	0.43%	0.63%	60.8%	58.1%	187.4%	162.0%
28	26	LACOSTE	2,169	4,420	4,524	0.40%	0.66%	0.61%	2.4%	0.6%	108.6%	90.2%
29	25	TOMMY HILFIGER	3,822	5,143	4,306	0.71%	0.77%	0.58%	-16.3%	-17.7%	12.7%	2.7%
30	32	HUGO	5,449	3,648	4,207	1.01%	0.55%	0.57%	15.3%	13.4%	-22.8%	-29.6%
31	21	ARAMIS	4,598	7,321	4,117	0.86%	1.10%	0.56%	-43.8%	-44.7%	-10.5%	-18.4%
32	31	PRESTIGE & COLLECTIONS	3,601	3,662	3,797	0.67%	0.55%	0.52%	3.7%	1.9%	5.4%	-3.9%
33	42	VERA WANG	85	1,986	3,779	0.02%	0.30%	0.51%	90.2%	87.0%	NM	NM
34	34	HELENA RUBINSTEIN	3,005	3,429	2,928	0.56%	0.51%	0.40%	-14.6%	-16.0%	-2.6%	-11.2%
35	29	ESCADA	3,108	3,925	2,742	0.58%	0.59%	0.37%	-30.1%	-31.3%	-11.8%	-19.6%
36	46	SHU UEMURA	201	1,318	2,665	0.04%	0.20%	0.36%	102.2%	98.8%	NM	NM
37		BRITNEY SPEARS			2,481			0.34%				
38	39	PACO RABANNE	3,360	2,403	2,233	0.62%	0.36%	0.30%	-7.1%	-8.7%	-33.5%	-39.4%
39		SHISEIDO			2,215			0.30%				
40	40	LAURA BIAGIOTTI	2,178	2,282	2,072	0.41%	0.34%	0.28%	-9.2%	-10.7%	-4.9%	-13.3%
41	38	LANCASTER	1,672	2,476	1,871	0.31%	0.37%	0.25%	-24.4%	-25.7%	11.9%	2.0%
42	41	JIL SANDER	4,778	2,092	1,813	0.89%	0.31%	0.25%	-13.3%	-14.8%	-62.1%	-65.4%
43	33	CAROLINA HERRERA	6,647	3,441	1,515	1.24%	0.52%	0.21%	-56.0%	-56.7%	-77.2%	-79.2%
44	37	NINA RICCI	2,723	2,696	1,405	0.51%	0.40%	0.19%	-47.9%	-48.8%	-48.4%	-53.0%

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APPENDIX C-8:
Industry Attractiveness Checklist

1. What is the weighted average ROCE (Return on Capital Employed) in your industry over the past five years?

Score: whatever the average ROCE is, with a minimum of 0 and up to a maximum of 40.

2. What is the trend in ROCE over the past five years?

Score : (a) falling – no points ; (b) erratic and no trend – 3 points ; (c) stable – 7 points ; (d) rising – 10 points.

3. How substantial are the barriers stopping new entrants to the industry?

Score: (a) few barriers – no points; (b) low barriers – 3 points; (c) fairly high barriers – 7 points; (d) very high barriers – 10 points.

4. What is your best estimate of the next five years' average annual market growth?

Score: (a) negative – no point; (b) 0-5 % - 3 points; (c) 5-10 % - 7 points; (d) over 10 % - 10 points.

5. What is the current balance in the industry between customer demand, and the total industry capacity?

Score: (a) there is serious industry overcapacity, and no plans to remove it – minus 20 points; (b) there is serious overcapacity, but plans are in place to remove the excess – minus 10 points; (c) there is minor excess capacity – minus 5 points; (d) supply is in line with demand – no point.

6. What is the threat from substituting products, services or technologies?

Score : (a) serious threat – minus 20 points ; (b) may be a serious threat but uncertain – minus 10 points ; (c) only minor threats expected – minus 3 points ; (d) threats do not appear to exist and unlikely – no points

7. What relative bargaining power do the industry's suppliers have?

Score: (a) the suppliers are more concentrated and can dictate terms to the industry – no points; (b) the suppliers are slightly more powerful and concentrated than the industry – 3 points; (c) the suppliers are slightly less powerful than the industry – 7 points; (d) the industry is more concentrated and more powerful than suppliers and can dictate terms to them – 10 points.

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8. What relative bargaining power do the industry's customers have?

Score: (a) the customers are more concentrated and powerful – no points; (b) the customers are slightly more powerful than the industry – 7 points; (c) there is a rough balance between the power and concentration of customers and the industry – 12 points; (d) the industry is more concentrated than the customers and has more collective bargaining power because there are few suppliers and little choice – 20 points.

Interpreting the scores

The scores will range between minus 40 and plus 100. Industry attractiveness can be interpreted as follows:

Negative score: try to get out of the industry. If you are still reporting profits or anyone is foolish enough to buy the business, sell.

Score of 0 to 25: this is an unattractive industry. If you are not the market leader, sell.

Score of 26 to 50: the industry is not very attractive, but it is possible for segment leaders and very well run firms to make a living.

Score of 51 to 60: the industry is neither attractive nor unattractive. Competitive position is all.

Score of 61 to 75: the industry is attractive. If you are in it, consolidate your position and gain or maintain leadership. If not, consider entry if it is adjacent to your business and you have the expertise or can share costs with your existing business.

Score of over 75: the industry is unusually attractive. If you are in it, invest heavily for leadership. If you are not in it, you may find it difficult to enter without acquisition, but if there is suitable way in, take it with both.

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