

JEAN-PAUL AGON

Chairman and CEO of L'Oréal

Thierry de Montbrial

We are going to do what we did last year, which is to be together, Jean-Paul Agon and me. Last year, the discussion focused basically on L'Oréal. It was very successful, but I don't think we will do that again. Today, and this is what was originally planned, we are going to look at how to deal with major changes in the world, which we already talked about at length this morning, and at how geopolitical and geo-economic turbulence affect the activities and industrial and operational strategy of L'Oréal, one of the world's leading multinational corporations. A third of humanity buys L'Oréal products, especially women but also men. We have seen, that, despite some geopolitical jolts, the international economy's fundamentals are quite sound. Political or geopolitical issues are what throw the system slightly off track. We'll talk about this particularly in the other sessions: the unravelling of multilateralism and the growing tendency to use economics as a political weapon. I think that will be a major topic of our conference this year, particularly the issue of international law and what is more or less rightly called extra-territoriality. All this is changing things very deeply. There is even talk of a deglobalization. That is what we are talking about. So I am going to ask Mr. Agon to quietly share his views on this issue from his perspective as head of one of the world's biggest and most famous companies. Then we will have a discussion with all the participants. Jean-Paul, you have the floor.

Jean-Paul Agon

Thank you, Thierry. Thanks for inviting me again this year.

This is a rather complex issue. It has several aspects. The first is that deglobalization must not be confused with a slowdown in global activity. For example, in our case, the global beauty market—cosmetics consumption—has never been better. It is growing at a brisk pace. In contrast with what we said this morning, the market is very strong. Falling international trade and GDP hasn't affected global cosmetics consumption. Declining activity doesn't affect completely global companies like ours. Our business depends on categories and markets. The automotive industry is different from cosmetics. Last year and the first half of this year were probably our best growth period in a very long time. Just because things are more complicated, doesn't mean they are impossible. That's an important idea. That is what you were saying: the two are not closely correlated.

L'Oréal posts 93% of its turnover outside France and practically 70% outside Europe with brands like Lancôme, L'Oréal, Vichy, etc., which are sold in almost 150 countries. When you are the head of a completely global company, navigating the world is much more complex today than it was 20 or even 10 years ago. As you said, and as I told you last year, the world has become very VUCA (Volatile, Uncertain, Complex and Ambiguous). It has been very hard to predict and see into the future. Moreover, there are many new and different phenomena. There are customs duties and tariffs that pose problems and a reduction of trade possibilities. We didn't mention it this morning, but parallel to this economic inward turn there has been a rising emphasis on identity, which means there is a growing preference in many countries for local or national brands.

All this means that things are more complex but, to be honest, they are also more interesting. In my opinion, being the head of a global company in this complex, quickly shifting environment is, in a way, more intellectually interesting than in the past. It requires being very flexible and multipolar, which means not having all the production concentrated in one place or in a few places. You have to be spread out as much as possible across the world, which makes sense. This means being very agile because things can change. You might have to shift production from one place to another, and not for economic reasons. For example, nothing is delocalized at L'Oréal. Our products are always made either near where they are bought or, in the case of the luxury brands, in France. Cutting costs is never the priority when localizing production is concerned. Changes in customs duties might compel you to modify your value chain in order to keep pace with a changing world. You've got to be very mobile, very agile and very adaptable. This means having new management methods that are more about flexibility, mobility and continuous adaptation than long-term foresight.

**Thierry de Montbrial**

Does the idea of significant risk have any meaning for you? I imagine it means more to some companies than others. For example, are there any kinds of risks at L'Oréal that might keep you up at night?

Jean-Paul Agon

Nothing keeps me up at night.

There are political risks, economic risks, risks of all kinds. At the end of the day, being completely global is the best way to protect yourself from spanners in the works. When you are completely global, if you hit a snag in one spot, you've still got the rest of the world. That's the case for a company like ours. We cover all countries, channels, price ranges and categories. When all is said and done, covering all your market's segments in every geographical area helps to protect you from the shifting fortunes of one place or another.

Thierry de Montbrial

Of course you have heavy investments in your industry, but not on the same scale as large plants and things that are hard to move. Your production centers span the globe, but they aren't anything on the same scale as, say, car plants or nuclear power stations. Does that make a difference?

Jean-Paul Agon

It does. A nuclear power station is local or regional by definition. It is not part of a globalized company. History is moving in the direction of lighter industries. But even in industries that are heavier than cosmetics, I think the future belongs to the light footprint, which means having a smaller presence with more mobile, more agile and more adaptable investments allowing you to shift your priorities and plans depending on which way the world is heading. This is really interesting because it is being driven by technological change. The 4.0 industry, for example, is moving in that direction. There are fewer huge, very heavy, immovable and inflexible investments. We have got to move towards as much mobility as possible. A few years ago, a Nobel Prize winner in physics said that the best solution in a world of chaos is to always keep all your options open. That sounds obvious but it is always in my mind. In today's unpredictable world, you always have to keep all your options open and be careful to avoid making irreversible choices.

Thierry de Montbrial

I'm going to tease you a little. I'm a Pisces. A Pisces always tries to keep a margin of freedom. But everybody knows that's not entirely possible. You can't always keep every choice open.

Jean-Paul Agon

No you can't, but since we're talking about what's new in today's world, if I had to put it simply I think I would say that what has changed the most compared to 10, 20 or 30 years ago—I should know, I've got 41 years at L'Oréal under my belt—is that we used to try to have the most predictive vision possible. At the end of the day, we try to see roughly where we are heading, but we always keep our options open to be able to bounce back, shift and move. Lightness and flexibility are fundamental.