L'ORÉAL'S ECONOMIC FOOTPRINT IN UNITED KINGDOM: MORE THAN 33 000 JOBS

ASTERÈS
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EXECUTIVE SUMMARY

According to the modelization conducted by Asterès, the total footprint of L'Oréal in the British economy reaches 33,467 full-time equivalent jobs (FTEs), equal to all the jobs in a city like Hinckley.

This total footprint is divided in:

- 2,691 direct jobs FTEs (people directly employed by L'Oréal in United Kingdom)
- 30,776 jobs FTEs generated in the British economy by the cascading effects of L'Oréal (of which 7,469 jobs generated by the spending of the company and 23,307 jobs generated by the selling of its products).

As a consequence, 1 job directly created by L'Oréal United Kingdom generates 11.4 additional jobs in the rest of the British economy.

Moreover, the total footprint of L'Oreal in the British economy (direct activity of L'Oréal and cascading effects for other businesses in the country) represents around 5.3 billion pounds in sales and 894 million pounds in taxes and social revenues. The cascading effects of L'Oréal in terms of value added amounts to around 1.8 billion pounds for other businesses in the British economy. These cascading effects benefits mostly the trade (wholesale and retail) and the "other service" sector (due to the importance of sales by professional hairdressers) and the publishing, audiovisual and broadcasting (due to expenditures in advertising) sectors.

Only in the high streets, the selling of L'Oréal products generates a footprint of more than 5,600 FTE.

GLOSSARY

GENERAL ECONOMIC VOCABULARY

Intermediate consumptions: purchases of goods and services used in the production process (e.g., raw materials, components, outsourced services like accounting or IT).

Investment: purchase of goods and services used durably in the production process.

Taxes and social revenues: total mandatory levies paid by an economic agent.

Turnover (or sales revenue): total sales of a company (without value added taxes in the present modelisation).

Value added: value created by the company during its production process. It corresponds to the difference between sales and intermediate consumption. The sum of the value added by businesses and administrations in a country corresponds to the Gross Domestic Product (GDP).

VOCABULARY SPECIFIC TO ASTERÈS MODELING

Direct effect: activity of a given company, represented by its sales revenue, value added, number of employees, taxes and social contributions paid.

Indirect effect: activity generated in the rest of the economy by the intermediate consumption and investments of a company that stimulate the activity of other external stakeholders, solely due to the initial impulse (level 1).

Induced effect: activity generated in the rest of the economy by the consumption and investment of a company's employees (e.g., daily shopping, vacations, housing), solely due to the initial impulse (level 1).

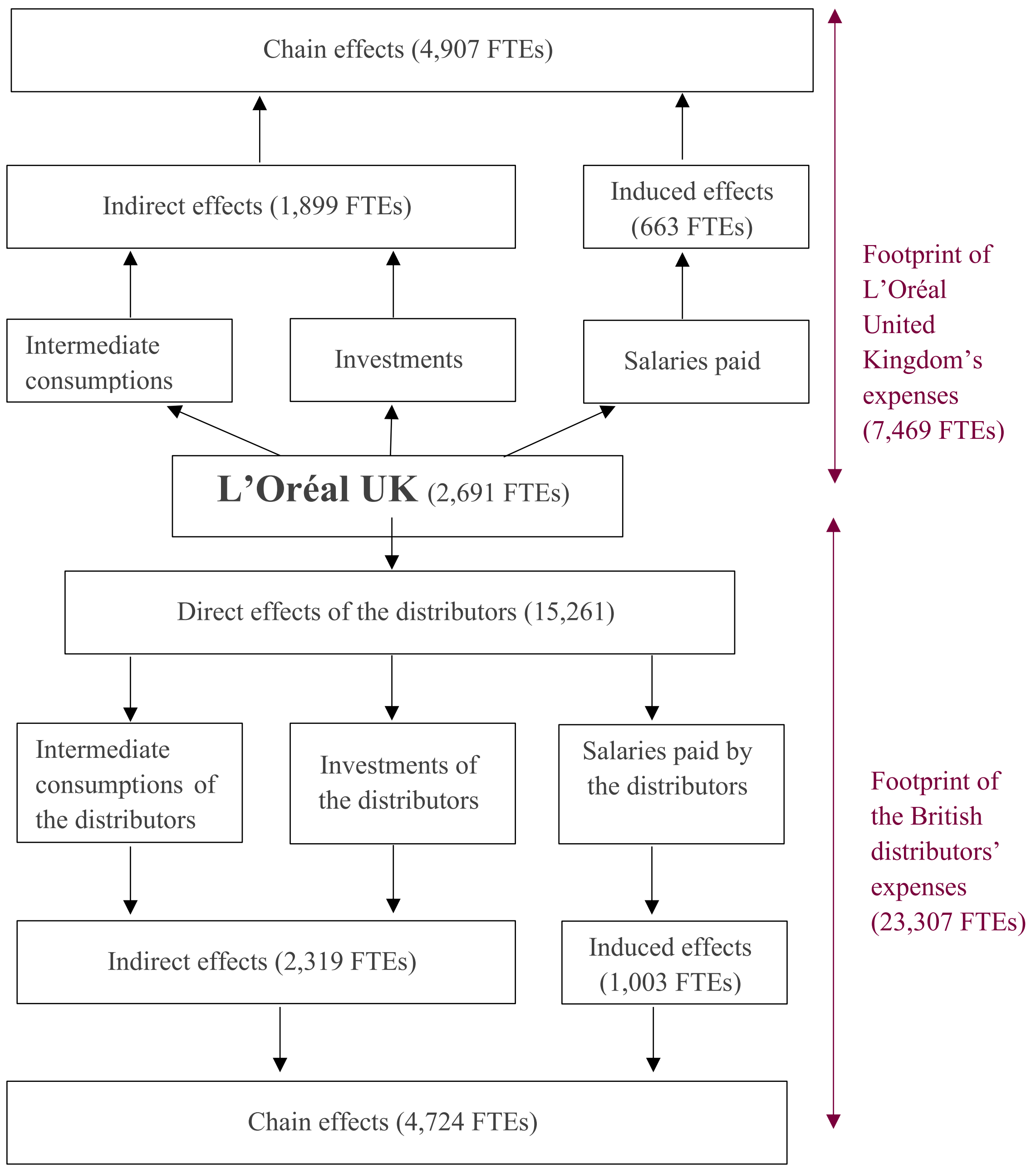
Chain effect: activity generated in the rest of the economy by the expenditures (purchases of intermediate consumption, investments, wages paid) of companies benefiting from the indirect and induced effects.

Cascading effect: sum of the indirect, induced, and ripple effects. They measure the additional activity generated by the company in the economy beyond its direct activity.

Economic footprint: sum of the direct, indirect, induced, and ripple effects.

Summary of the modelling carried-out with the results in term of jobs: a total footprint of 33,467 FTE

A company's economic footprint is not limited to its activity as such: through its intermediate consumption, investments, wages paid and the distribution of its products, a company supports an ecosystem of suppliers and distributors in the territories.



PREAMBLE

ASTERES was commissioned by L'ORÉAL to estimate the company's economic footprint in United Kingdom.

ASTERES' economists have enjoyed complete independence in carrying out this study. The opinions expressed herein are the sole responsibility of ASTERES. This study was conducted and written by Sylvain Bersinger, Chief Economist at ASTERES and Saranath Rimlinger, Junior Economist (intern) at ASTERES.

TABLE OF CONTENTS

1. METHOD: MODELING THE CASCADING EFFECTS OF EXPENDITURES BY L'ORÉAL AND DISTRIBUTORS OF ITS PRODUCTS

1.1 PHILOSOPHY: A COMPANY SUPPORTS ALL ITS STAKEHOLDERS

Modeling a company's footprint is based on a general philosophy: economic players are part of long chains of dependencies, and therefore generate value from both their suppliers and their distributors. A company's total footprint is generated both by its own activity (direct effet), its expenditure (intermediate consumption, investments, wages paid) and by the activity and expenditure of the distributors of its products. Traditional accounting considers only what is directly generated by an economic player, its "direct effect". However, companies also give work to suppliers through the purchase of their intermediate consumption: this is the "indirect effect". At the same time, companies pay their employees, who consume and thus employ other companies - this is the "induced effect". The indirect effect and the chain effect then have their own repercussions through the increased demand they generate for other companies, the "chain effect". The total economic footprint of a company can thus be divided between its direct effect (its own activity) and its cascading effects (the activity generated for other businesses).

A company's footprint encompasses both economic and social, fiscal and even societal dimensions. A company's impact on a region can be assessed in terms of activity and added value - purely economic criteria - but also in terms of employment, social and tax revenues. Items such as the effect on training, inclusion, the environment or gender inequality can sometimes be added to the models.

1.2 SCOPE: MODELING THE ECONOMIC FOOTPRINT OF L'ORÉAL'S EXPENDITURES AND THAT OF ITS PRODUCT DISTRIBUTORS

L'Oréal's economic footprint can be broken down into the footprint corresponding to the company's expenditure and that generated by the distributors of its products. The footprint generated by L'Oréal's expenditure corresponds to the activity generated by its intermediate consumption, investments and salaries paid, while the footprint of its product distributors corresponds to their direct activity as well as the activity generated by their expenditure.

- **L'Oréal's expenditure footprint corresponds to the sums required for the company's production.** In order to carry out its production, L'Oréal purchases intermediate consumption, makes investments and pays salaries. All these expenditures generate demand for other companies, which in turn spend money to stimulate other companies' production, and so on. This footprint only takes into account the impact of L'Oréal's expenditures and not its activity as such (the direct effect), so as to measure the activity that the company generates "in addition" in the economy.
- **L'Oréal's product distributors are responsible for selling the company's products.** L'Oréal does not manage sales to the final consumer, which are handled by stores (supermarkets, specialized boutiques, pharmacies) or by salons. These companies carry out a

sales activity that requires expenditure (intermediate consumption, investment and salary payments), which in turn generates activity for other companies, in the same way as L'Oréal's expenditure. In this case, we take into account the activity of distributors as such (the direct effect) and the economic impact of their expenditures, in order to capture the entire footprint generated by distributors of L'Oréal products. Schematically, the footprint of distributors of L'Oréal products is equivalent to what L'Oréal's footprint on distribution would be if the company itself carried out the sale to the end consumer.

1.3 MODELING: ESTIMATING THE IMPACT OF AN EXPENSE ON THE REST OF THE ECONOMY

The modeling of L'Oréal's footprint in United Kingdom is based on the flows of activity generated by the company and its distributors, which are then translated into added value, employment and taxation, in United Kingdom. This monitoring of flows, and their translation into economic quantities, is based on public data, notably the OECD input-output tables and sector average data. The Asterès Impact Model (MIA) was developed several years ago to track the impact of these flows on four types of effect (direct, indirect, induced and chain) and on four economic quantities (sales, value added, employment and taxation).

- **The modeling of the footprint of L'Oréal's expenditures and that of the distributors of its products is based on activity flows which are evaluated by sector.** The direct effect represents the activity of companies as such (the activity of distributors alone in this study, since L'Oréal's direct effect is not taken into account, so as to measure only its economic footprint generated "in addition" to its activity). The indirect effect models activity at British suppliers, directly linked to investments and intermediate consumption by L'Oréal and distributors of its products. The induced effect models the activity of companies that benefit from the consumption of employees (of L'Oréal or its distributors), after deducting taxes and savings. Chain effects model all the economic effects resulting from indirect and induced effects. At each turn, part of the initial impulse is removed from the model by imports, social and fiscal levies and savings. After four years, due to these "leakages", it is assumed that the chain effects become zero.

- **Activity flows are then translated into jobs, sales, added value and tax and social receipts.** Value added and sales (estimated in the model on the basis of production) are the two key variables. They are then used to estimate the impact in terms of employment and taxation (taxes and social contributions), based on sector averages and ratios calculated for the British economy as a whole.

1.4 DATA: L'ORÉAL'S ACTIVITY, EXPENDITURE AND SALES IN UNITED KINGDOM

Once the model had been built, impulse data, linked to L'Oréal and its distributors' expenditures, had to be introduced. The data were collected in collaboration between Asterès and L'Oréal, then harmonized. These data differ for the direct effect of L'Oréal, the footprint of L'Oréal's expenditures and its distributors' expenditures, the former resulting from L'Oréal's production and the latter from the distribution of its products.

- **The data related to L'Oréal's direct effect represent the activity of the company in the UK.** The direct effect in terms of jobs represents the number of people (in FTE) directly employed by the company in the UK. The direct effect in terms of turnover (or sales) represents the production sold by L'Oréal entities in the UK (whether this production is exported or sold in the country), and the direct effect of L'Oréal in terms of taxes and social contribution represents all the compulsory public contributions payed by the company in the country.
- **The data related to L'Oréal's expenditure footprint are intermediate consumption, investments and salaries paid by L'Oréal's British entities.** These data were collected and categorized (according to OECD sectors) by L'Oréal United Kingdom for the year 2023. The share of imports in L'Oréal's purchases is supposed to be broadly similar to average imports in the British economy for identical sectors, so the average import rates in United Kingdom have been retained. The number of employees in United Kingdom and average gross salaries were provided to Asterès by L'Oréal. Total gross compensation was used as the basis for calculating the induced effect.
- **The data related to the footprint of distributors of L'Oréal products are direct activity, intermediate consumption, investments and salaries paid by companies selling L'Oréal products.** Six distribution channels were considered (supermarkets, perfumeries, pharmacies, hair salons, online and other distribution), for which L'Oréal communicated its sales figures to Asterès. It was assumed that L'Oréal's footprint for each sales channel is proportional to the share of sales of the company's products in the total turnover of each of the four distribution channels (on the assumption, in salons, that all L'Oréal sales are intended for resale[1]). The amounts of sales, value added, investment, employment and salaries paid by each of the six distribution channels were estimated using Nomis, a service provided by the Office for National Statistics (ONS) with official censuses and labor market statistics.

[1] Estimate based on Nomis data. The share of resale of L'Oréal products in the total activity of salons was based on the amount of the commercial margin achieved, which corresponds to the production of the resale activity, so as not to overestimate the share of sales linked to resale compared with that linked to hairdressing services.

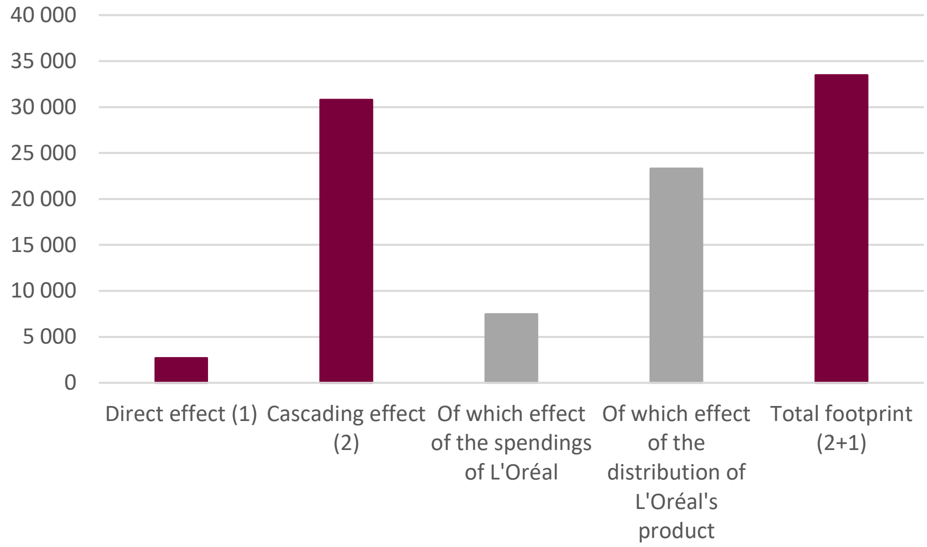
2. ECONOMIC FOOTPRINT OF L'ORÉAL IN UNITED KINGDOM: OVER 33 000 FTE JOBS

2.1 EMPLOYMENT: A TOTAL FOOTPRINT OF AROUND 33,400 FULL-TIME EQUIVALENT JOBS

The total economic footprint of L’Oréal in United Kingdom amounts to 33,467 full-time equivalents. In addition to the 2,691 full-time equivalent employees directly hired by L’Oréal in United Kingdom (direct effect), the company's activities in the country generate an additional economic cascading effect of 30,776 FTE jobs. Thus, one direct L’Oréal job in United Kingdom generates 11.4 additional jobs in the country. The total cascading effects are broken down into a cascading effect related to the company's expenditures and a cascading effect related to the distribution of L’Oréal products in the country.

- **L’Oréal’s expenditures in United Kingdom generate an impact of 7,469 jobs.** Due to the expenditures made by L’Oréal in United Kingdom (payment of employees, investment, purchase of intermediate goods such as raw materials or packaging), L’Oréal generates indirect, induced, and chain effects in the British economy. The 2,691 direct jobs of L’Oréal in the United Kingdom generate, due to the company’s expenditures, an additional 7,469 jobs, resulting in a multiplier of 1 direct job for 2.8 additional jobs generated by the company’s expenditures. On average, in the British economy, the ratio is 1 direct job for 1.3 additional jobs (the comparison can only be made for jobs generated by expenditures, as many assumptions would need to be built to estimate the average distribution methods of the British industry). On average, 1 job in the British trade sector generates 0.6 additional job in the economy, and 1 job in the advertising/publishing sector generates 3.0 additional jobs in the British economy.
- **The sale of L’Oréal products to the final consumer in United Kingdom generates a cascading effect of 23,307 jobs.** L’Oréal generally does not sell its products directly to the final consumer. However, this activity, though carried out by third-party companies, generates an economic impact in the country. The distribution channels with the largest economic impact, in descending order, are pharmacies, hairdressers, perfumeries, supermarkets, online and other distribution.

The total footprint of L'Oréal in terms of jobs in United Kingdom



2.2 SALES, VALUE ADDED AND PUBLIC REVENUES: AN IMPACT ON THE WHOLE BRITISH ECONOMY

L'Oréal's total economic footprint in the UK represents 5.3 billion pounds in sales and 1.8 billion pounds in taxes and public receipts. Due to its direct activity, its expenditures and the distribution of its products, L'Oréal generates economic activity in the UK, which translates into an impact on sales and public revenue for other businesses in the broader economy.

L'Oréal's cascading effect (only the additional activity generated for other businesses) in the UK in terms of value added amount to 1.8 billion pounds. This is divided into 517 million pounds generated by the company's expenditures in United Kingdom, and 1.3 billion pounds generated by the distribution of L'Oréal products in the country. It means that the cascading effects of L'Oréal represents 1.8 billion pounds of the British GDP (which is the total of value added).

2.3 SECTORAL IMPACT OF L'ORÉAL IN UNITED KINGDOM: MOSTLY IN SERVICES

Commerce (mainly retail trade), other service (due to the importance of hairdressers in the sales of L'Oréal's products) and publishing, audiovisual and broadcasting activities (due to expenditures in advertising) are the sectors with the most significant cascading effects from L'Oréal in the United Kingdom, generating respectively 19,463 full-time equivalent (FTE) jobs, 5,512 FTEs and 1,569 FTEs in the rest of the economy. Regarding only the distribution of the company's products in United Kingdom, the cascading effects are understandably high in commerce and other service activities such as professional hairdressers. The advertising sector can be estimated by the "publishing, audiovisual, broadcasting activities" sector. Thus, the total ripple effects of L'Oréal generate 1,569 jobs in the advertising sector (mainly through the company's advertising expenditures).

L'Oréal's cascading effects on different sectors of the British economy in terms of jobs (FTE)

Sector	Number of jobs
Trade	19,463
Other service activities	5,512
Publishing, audiovisual, broadcasting activities	1,569
Construction	849
Professional, technical, scientific activities	657
Administrative services	492
Other sectors	2,234
Total	**30,776**

Analysis with the British Beauty Council Report : two different approaches that makes comparisons difficult

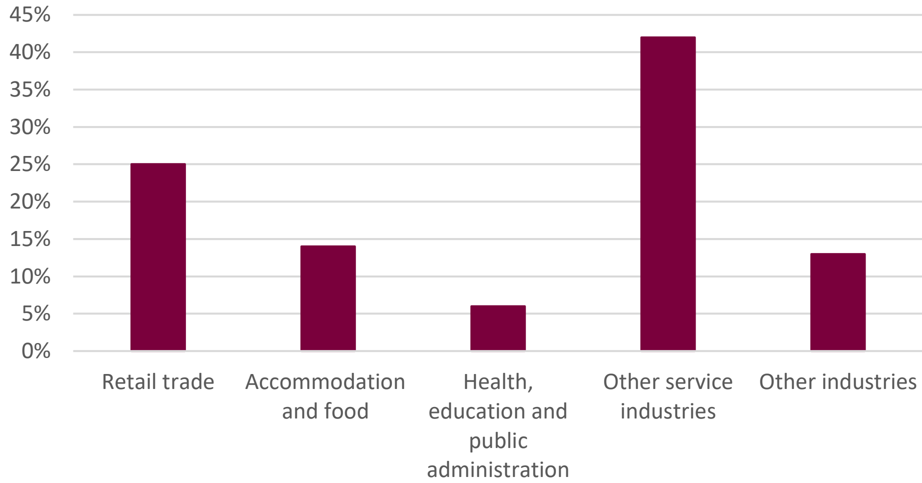
The British Beauty Council and Oxford Economics conducted a study on the economic footprint of the entire beauty sector in the United Kingdom, in contrast to the present study, which is limited to analyzing the economic footprint of L'Oréal. As a result, the figures are difficult to compare: for instance, the distribution of cosmetics is considered a direct effect when the entire sector is analyzed, which is not the case when the analysis is limited to a single company. Moreover, the present study does not consider L'Oréal's direct effects in terms of revenue, added value, and taxation, unlike the study by the British Beauty Council and Oxford Economics.

3. SALES OF L'ORÉAL IN HIGH STREETS : A FOOTPRINT OF MORE THAN 5,000 JOBS

3.1 HIGH STREETS: A SPECIFICITY OF RETAIL IN THE UNITED KINGDOM

High streets are a typically British concept whose activity goes beyond commerce. The 7,000 high streets[2] listed in the United Kingdom correspond to the shopping streets in city centers. This concept, which exists only in the United Kingdom, does not have a standardized definition. In this study, a high street is defined as a street whose main activities are mainly commercial and which includes at least 15 shops within less than 150 meters[3]. Although these streets are primarily dedicated to commercial activities, they also include restaurants, financial services, public services, and residential buildings. High streets are struggling, like downtown shops in other countries, due to competition from shopping malls and online sales[4].

Industry structure of high street business (ONS)



3.2 SALES OF L'ORÉAL: A STRONG ACTIVITY IN THE HIGH STREETS

L'Oréal's sales in the United Kingdom generate 5,600 jobs on high streets. For comparison, there are approximately 76,000 jobs in hair and beauty salons located on high streets, 52,000 in perfumeries, 212,000 in restaurants, and 38,000 in opticians[5]. According to estimates by Asterès, approximately 40% of L'Oréal's sales in the United Kingdom are made on high streets (38.2% in stores and 47% in hair and beauty salons). These sales generate activity in high streets[6] in terms of revenue, added value, public receipts and employment.

- The selling of L'Oréal's products in the United Kingdom generate a footprint of 496 million pounds in term of sales in the high streets.

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2 ONS, « High streets in Great Britain", 6 June 2019
3 ONS, « High streets in Great Britain", 6 June 2019
4 Deloitte, "What next for the high street ?", 10 December 2020
5 ONS for 2018
6 Only the direct sales of L'Oréal products in the high streets are taken into account.

- The selling of L’Oréal’s products in the United Kingdom generate a footprint of 248 million pounds in term of value added in the high streets.
- The selling of L’Oréal’s products in the United Kingdom generate a footprint of 140 million pounds in term of public receipts in the high streets.
- The selling of L’Oréal’s products in the United Kingdom generate a footprint of 5,600 FTE in the high streets.

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