



CEO Spotlight:

Staying Relevant in an Age of Transformation

Large, established corporations often have trouble staying relevant over time. Not so for Estée Lauder. CEO Fabrizio Freda explains.

Interview by Karen Christensen

When you joined the Estée Lauder Companies, its market cap was \$6 billion; today, it is \$35 billion. How did you accomplish this feat?

First of all, it was a team effort. When I arrived in 2009, **William Lauder** said to me, “Don’t give me any solutions right away; just listen, understand — and then create.” The fact is, he set me up for success. He designed this corporation so that each of our brands is run independently, with each brand president responsible for his or her brand, P&L and strategy. We don’t have a central CMO making decisions for multiple brands, and in my view, that kind of focus provides a competitive advantage.

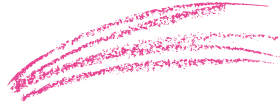
Prestige beauty — and our company, in particular — is closely connected to fashion and the arts. I recognized right away that there were a lot of really creative people here. I quickly decided that I would focus on their strengths and leverage their creativity.

Early on, I felt we needed to diversify our revenue and create multiple new ‘engines of growth’, meaning diversification in brands, categories, geographies and channels. I asked our leaders to think about the typical consumer’s bathroom and

makeup bag, and what products were in there. The fact is, prestige beauty consumers no longer buy a whole regime and stick to it forever; in the beauty business — even if consumers love your product — trying new things is part of the fun. People might be loyal to a few core brands, but today’s consumer has, on average, 12 to 15 beauty products in her life at any one time. Strategically, I knew that if we had a portfolio of multiple brand offerings, there was a good chance that one-third to half of those products could be *our* brands.

Geographically, you also diversified and focused on places that most companies were ignoring, like Eastern Europe, Latin America and Turkey. Why did you choose this approach?

A key aspect of our strategy has been to focus on ‘the travelling consumer’. We studied where people were going, why they were going there, and how they were spending their money. We found, for example, that the Chinese travelling consumer wants to go to Paris to buy her luxury handbag as a status symbol; so, we ensured that some of the same beauty products she would see at home were available in Parisian stores and airport retail



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stores. The results have been impressive. We have also targeted Brazilian tourists, who often travel to Miami and New York. Brazilians love colour in their cosmetics, so they are huge fans of **M·A·C Cosmetics**. At our Times Square M·A·C store, they make up over half of the sales volume. This strategy has been one of our engines of growth.

We also focus on innovating for our most discerning customers, because when you do that, there are often ripple effects. For example, in Russia, one of the most important things to a female beauty consumer is her eyelashes. If you want to win the hearts of the Russian consumer, you must offer a black mascara that thickens and lengthens lashes so that they stand out as the most prominent feature. So, we created a mascara that accomplished all of that. Of course, Russian consumers aren't the only ones who want a great mascara — so we leveraged that innovation and sold it around the world.

We were also pioneers in online beauty. Under William Lauder's leadership — and ahead of the industry curve — the company launched its first e-commerce sites for **Clinique** and **Bobbi Brown** in 1996, and William created the ELC Online division for all of our brands in 1999. Because his ideas were so future-oriented, he encountered some initial resistance. The general feedback went along the lines of: 'Women want to smell fragrances in the air and have their make-up done by professionals; they don't want to buy it online!' When I joined, I recognized that we were at the forefront of beauty e-commerce, but we needed to roll it out globally. Today, online is our fastest growing channel: E-commerce and mobile commerce generate sales of more than \$1 billion a year and are growing 25 per cent, with strong gains across brand, retailer and third-party sites.

Of course, change never stops, so we are now actively pivoting our distribution to the fastest-growing channels worldwide, to reach consumers where they are shopping today. For example, **Ulta** is a speciality multi-retailer in the U.S., and for the first time ever, M·A·C products are being sold there. 'Specialty-multi' is one of the channels favoured by younger customers, and we are reaching these new consumers and sourcing from mass beauty by introducing more of our prestige brands with the appropriate retailers to capture more of this important demographic. We design products, packaging, visual merchandising and education in unique ways to help young consumers navigate these locations.

In summary, our success is powered by a strategy that is rooted in multiple engines of growth across all aspects of our business — brands, categories, geographies and channels. We are not over-reliant on any one category, channel or country, which has protected us from regional economic slowdowns and political strife.

Tell us about your growing focus on Millennial consumers.

In past generations, younger consumers learned about beauty products from their mothers, who would take them to the nearest department store to invest in their first skincare regime. But today, the consumptive patterns of Millennials are having an influence on all generations' buying habits.

As consumers embraced shopping online, their activity moved from computers to tablets to smartphones. Millennials began to spend a lot of time watching beauty tutorials on **YouTube**, so by the time they arrived at a store, they knew what they wanted. This changed the way we thought about marketing: Instead of listening exclusively to popular magazines, Millennial consumers themselves were looking to be the influencers for their peers. We had come to a place where the future could not be informed by the past, and we realized that to thrive in this environment, we would have to learn from consumers and give them a 'share of voice'.

About three-and-a-half years ago, we formed a group of high-potential Millennial employees and paired them up with our executive team. One by one, these Millennials took executives shopping. Many of our executives were not as savvy as they are today with social media, and this experience allowed them to see first-hand how this important demographic uses social media, and how smartphones impact a typical shopping excursion.

It was clear to me that we needed to make this 'reverse mentoring' scenario permanent, so we set up our first Millennial Advisory Board. Right now, Clinique has a collaboration with designer **Jonathan Adler**, and before the collection was launched, we put it in front of the Clinique Millennial Advisory Board and said, 'Would you buy this?' They loved it! Today, we have 40 Millennial Advisory Boards across the globe. Most of our brands and regions have them, and some of our different functions. We're about to set one up for packaging, because that can be such a key part of what makes for an 'Instagramable' moment.

Every regional president and their leadership team is now partnered up with a Millennial reverse mentor, and they go on experiential retail excursions at least twice per year to stay current. Our lead Millennial is my personal mentor, and she prepares a bi-monthly report on the most compelling retail, social media and experiential retail activities across the fashion and beauty industries. Our reverse mentors have their own online brainstorming portal, called Dreamspace, where they post everything they feel is compelling and share why they like it. We select the ‘best of the best’ and send out a bi-monthly newsflash to all of our practitioners in the consumer-engagement space and to our executive leadership team. Our Millennials are truly influencing and educating us; it’s been incredibly valuable.

How do you select these young mentors and Advisory Board members?

All of our reverse mentors and Millennial Advisory Board members are employees of our company, so they know about the program and they usually raise their hand to become part of it. They recognize that it requires a real commitment on their part, because this is all done on top of their day-to-day job. But three benefits come from it: First, their participation in the program gets noted in their annual performance review, where it is made clear that they are ‘leading and innovating from their chair’. Second, it hones their leadership skills, because in order to be a mentor to an executive, you have to have emotional intelligence and a knowledge base to present yourself in an influential way. Last but not least, it increases employee engagement, because Millennial employees are connected in a community globally related to something that they’re all passionate about — and that they know is sponsored by the CEO. It’s been a great retention strategy for our high-potential employees.

You have called yourself a ‘structured creative’. What does that mean?

When I joined Estée Lauder, I wanted to define what leadership means at this company, so I wrote down what I believed to be the nine most important leadership competencies, and categorized them under three headings: leading yourself, leading others and leading the organization. One of those competencies is ‘fostering and leading creativity and innovation’.

I had studied some interesting research showing that there are two types of employees: ‘structured’ creatives and ‘blue-sky’ creatives. There is even a ranking scale, so you can see where you fall on the spectrum. Structured creatives (like me) take existing knowledge and connect the dots in new ways to come up with something new; while blue-sky creatives come up with brand new ideas and then have to figure out how to make them come to life. Given that everyone falls somewhere on this spectrum, I really believe in fostering creativity from every single chair in our organization.

We make this happen by promoting a ‘test and learn’ mentality. If someone has an idea, they are encouraged to build a business case, test it, learn from it and share the learnings. Sometimes they will only learn what *doesn’t* work; but more often than not, they find the kernel of a great idea.

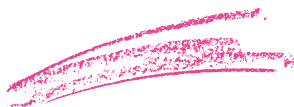
I visited the Rotman School of Management last year and saw a presentation by **Mark Leung** [director of **Rotman DesignWorks**] and **Sarah Kaplan** [Professor of Strategic Management] that really impressed me. We had hired one of your 2016 graduates, **Kaylee Stewart**, who spent half of her time at Rotman in our design lab with **Mark Polson**, our Vice President, Global Learning & Development. In addition to her day job in social media, Kaylee and our Canadian GM will be rolling out our first design thinking test-and-learn approach to our Canadian affiliates, as we continue to embed this approach throughout the organization.

You have spoken of the importance of being mindful about the ‘roots’ and ‘anchors’ in an organization. Please explain.

The art of leading change is about two things: Knowing *what needs to be preserved* (the ‘roots’) and what needs to be changed (the ‘anchors’ that are weighing you down). When I first joined Estée Lauder, I asked myself, ‘What do I need to preserve and what do I need to change?’ As indicated, I realized that I needed to accelerate and fully leverage the creative strengths of the talent that was already here.

What are the pros and cons of working for a family-owned firm?

I feel honoured to be working with such an amazing family. In my career, I’ve had the experience of working for a number of



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blue-chip companies, and I believe, frankly, that family businesses are the best. They bring an authenticity that can’t be matched, and they are invested in the future.

William Lauder broke the mould for the prestige industry in so many ways. In addition to being one of the first in our industry on the e-commerce wave, in the 1990s, he realized that we needed to go into emerging markets — at a time when there weren’t many prestige beauty players there. He also recognized, early on, that we needed to express our brands in new store formats. When he created **Origins**, he launched it with a free-standing store model — at a time when there was no such thing in prestige beauty. When I came in, I was amazed — and I realized that my challenge was to take it all even further. Of course, our founder, **Estée Lauder** herself, was an entrepreneur as well as her son, our Chairman Emeritus, **Leonard Lauder**.

William likes to say, ‘Yes, we have to make our quarterly numbers; and yes, we have to deliver a profit in our top line growth. But we will never make a short-term decision detrimental to the long-term in order to deliver for the quarter’. That’s the best part of working for a family-owned firm: We make decisions with the long-term view in mind. William speaks about ‘patient capital’, meaning capital that is in it for the long-term. A good part of our success today reflects my team’s ability to fully leverage the innovative actions and investments that William had the foresight to make.

Managing that delicate balance with analysts is an art and a science, and as a result, it’s a challenge. But I also view it as a pro, because it forces us to be agile and to pivot sometimes. When something happens in the world, we have to think about, ‘What levers can we pull?’ Volatility and uncertainty have increased exponentially. It could be a change in consumer mindsets, a terrorist attack or a natural disaster; these things can happen at any moment, so it’s important to know how to pivot and where to move your resources.

I need to reiterate that, in joining this company, I was dealt a great hand: the best people, terrific brands, a history of creativity and innovation — and a great partner, in William. Together, we faced one of the most daunting recessions this world has ever seen and by partnering to lead change, we came out on top.

You believe the biggest risk for today’s leaders is not changing fast enough. How do you approach this challenge?

Like so many, our industry is changing profoundly, and that process will only continue. We aren’t simply moving from Point A to Point B. Change is fluid, like the currents of the ocean. As the speed of change continues to increase, what helps a lot is having an entrepreneurial mindset — both in our bigger brands, as well as in our smaller brands, like **BECCA**, which we recently acquired. Whenever we make an acquisition, we ask ourselves, ‘What can we learn from this company that might apply to all of our brands?’ For instance, with **Too Faced** and **BECCA**, we learned a lot from their amazing ability to leverage influencers and social media tactics, and we have the ability to apply these best practices company wide.

Lastly, as an organization, you always need to have a learning mentality. With technology, retail models, social media and analytics, we are going through a transformational moment right now. But the key ideas — quality products, creativity, valuing sustainability and respect for individuals — those things are never going to change. **RM**

Fabrizio Freda is President and Chief Executive Officer of The Estée Lauder Companies, based in New York City. He previously held executive positions at Procter & Gamble and Guccio Gucci S.p.A.