

Estée Lauder: Where to Place the Next Commercial Investment?

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Decision scope: Hypothetical allocation of the next increment of commercial resources across regions and channels

Case convention: The allocation decision is constructed for teaching. The company had disclosed several investment priorities, but had not announced a budget choice between Asia travel retail and other regions or channels.

An uneven reopening

At 5:00 p.m. Eastern Time on February 2, 2023, The Estée Lauder Companies (EL) had just reported its fiscal second-quarter results. Sales had fallen sharply, and management had moved its expected return to growth in Asia travel retail and Mainland China from the third quarter to the fourth quarter. It attributed the delay to COVID restrictions, travel disruption, store closures, and retailers tightening inventory after placing orders in anticipation of a recovery that came later than expected. Management still expected travel-retail consumer sales to accelerate as Chinese outbound travel resumed. [P1] [P2]

Assume you are part of a hypothetical EL regional resource-allocation team. Your task is to recommend where the company should place its next increment of commercial resources over the coming planning period. Should the team maintain priority for Asia travel retail in anticipation of a rebound, shift more of the marginal investment to local-market and other-channel opportunities, or use explicit evidence gates to rebalance as conditions change?

The decision is not whether EL should abandon travel retail or China. Management said it would continue investing in advertising, innovation, China and Japan capabilities, productive distribution, and entry into new countries for some brands. The company had not disclosed channel-by-channel budgets or announced a cut, increase, or reallocation between travel retail and other channels. The question is how to prioritize the next increment under uncertainty, while keeping strategic reach and near-term execution in view. [P1]

Separate markets and channels

“China” and “travel retail” do not describe a single source of demand. Mainland China brick-and-mortar stores faced reduced traffic under COVID restrictions. Hainan offshore duty-free shopping followed a distinct policy: eligible shoppers included domestic and foreign travelers, including Hainan residents, departing Hainan without leaving China. Hainan shopping therefore differs from international outbound travel retail. Asia travel retail also includes Korea and other locations; global travel retail includes operations in EMEA and the Americas as well as Asia. [P2] [P6]

EL's fiscal 2022 Form 10-K reported that Mainland China and travel-retail-location sales together represented approximately 34% of consolidated sales in FY2022. The 34% is a combined exposure; the filing does not disclose a separate share for Mainland China or travel retail within that figure. Korea, including travel-retail locations, was reported separately at approximately 11% of FY2022 sales; do not add this to the 34% as if the categories were non-overlapping. [P5]

Management's Q2 discussion also distinguished these exposures. EL attributed Asia travel-retail pressure especially to Hainan, where restrictions, curtailed travel and store closures, staffing disruption, and retailer inventory normalization affected shipments. It separately described limited Mainland China retail traffic. The company did not quantitatively separate final consumer demand, retailer inventory, and EL's shipments by market. Its reported sales are company shipments, not direct retail sell-through. [P1] [P2]

The latest operating picture

EL reported Q2 FY2023 net sales of \$4.620 billion, down 17% from the year-earlier quarter; organic sales declined 11%. First-half sales of \$8.55 billion were down 14% reported and 8% organic. Organic sales is a company-defined non-GAAP measure, and sales measure EL's shipments to customers rather than final consumer purchases. Q2 skin-care sales fell 25% reported and 20% organic; makeup fell 9% and 3%; fragrance fell 3% reported but increased 12% organically, with license terminations reducing reported growth by about nine percentage points; hair-care sales increased 1% reported and 4% organically. Category trends differ, but the filing does not disclose category economics by channel. [P1] [P2]

Exhibit 1. Q2 FY2023 reported sales signals

Measure	Q2 FY2023 position	Basis/limit
Net sales	\$4.620 billion; –17%	Reported company shipments
Organic net sales	–11%	Company-defined non-GAAP measure
Skin care	–25% reported; –20% organic	No channel-level split disclosed
Makeup	–9% reported; –3% organic	No channel-level split disclosed
Fragrance	–3% reported; +12% organic	License terminations reduced reported growth by about 9 percentage points
Hair care	+1% reported; +4% organic	No channel-level split disclosed

Source: EL fiscal 2023 Q2 release, printed pp. 1, 3-5 [P1]. Organic sales excludes specified currency, restructuring, and portfolio effects as described by the company. These figures are not a measure of retail sell-through or channel profitability.

Management expected a return to growth in Asia travel retail and Mainland China in Q4 after moving its forecast from Q3. It cited Hainan disruption, retailer inventory normalization, possible changes in Korean duty-free support, and slower Mainland China store traffic. It also expected stronger travel-retail consumer sales as Chinese outbound travel resumed. This forecast depended on consumer travel and retailer ordering conditions that could change independently. [P1] [P2]

Other evidence complicated a simple Asia recovery story. Global travel-retail sales fell by double digits, but EL said travel-retail sales grew in EMEA and the Americas as professional and

personal travel increased. Asia/Pacific organic sales were down 7% in Q2, with EL linking the decline to Greater China and Dr.Jart+ Korea travel retail; Japan, Australia, Malaysia, and the Philippines grew. Thus the geographic and channel signals differed within the same quarter. [P1] [P2]

Profitability was also pressured, but did not isolate channel performance. Q2 operating income declined 61% reported; constant-currency adjusted operating income fell 42%. Q2 included \$207 million of other intangible impairments, including \$100 million related to Dr.Jart+, plus restructuring charges. First-half operating cash flow was \$0.75 billion versus \$1.85 billion a year earlier, reflecting lower pretax earnings and working-capital timing; capital expenditures were \$419 million versus \$459 million. Those company-wide measures do not show travel-retail margins or establish that channel inventory alone drove cash flow. [P1] [P2]

Exhibit 2. Where the reported evidence points-and where it stops

Evidence	What it suggests	What it does not establish
FY2022 Mainland China plus travel-retail locations: approximately 34% of consolidated sales	These combined exposures are material to EL	The separate Mainland China and travel-retail shares, their overlap, or channel margins
Hainan travel/staffing disruption and retailer inventory normalization	Travel-retail shipments may reflect both consumer access and retailer ordering	Final demand or inventory by retailer and market
Mainland China store traffic remained slower	Local-store conditions differed from travel-retail conditions	Mainland e-commerce demand or future local growth
Travel retail grew in EMEA and the Americas even as global travel-retail sales declined double digits	Travel-retail conditions were regionally uneven	A comparable profit or sales forecast for any EL region
Japan, Australia, Malaysia and Philippines grew in Asia/Pacific in Q2	Asia/Pacific was not uniformly weak	How much to invest in any one market or brand

Sources: EL Q2 release and 10-Q [P1] [P2]; FY2022 10-K [P5].

Channel strategy and brand value

EL sold across department stores, specialty-multi retailers, perfumeries, pharmacies, prestige salons and spas, freestanding stores, e-commerce, and travel retail. In its FY2022 10-K, management described travel retail as a long-term brand-building opportunity while also citing travel and currency exposure. The company did not provide comparable channel contribution margins or a budget allocation that would settle the present choice. [P5]

Competitor results suggested that local and travel-dependent retail could diverge. LVMH reported record Sephora sales and earnings in 2022, with growth across several regions, while its DFS business remained affected by China's health situation and limited Hong Kong and Macau tourism. L'Oréal reported North Asia Q3 growth of 0.3% like-for-like and described Mainland China sell-out, e-commerce, and share gains despite restrictions. It also disclosed that relocating Asian Travel Retail led to €90 million of anticipated invoicing in June, shifting reported sales between quarters. These peers have different brand mixes, formats, and operating models; their results offer context, not an EL forecast. [P3] [P4]

Academic research offers two useful but bounded lenses. A survey of 475 South Korean consumers aged 19-39 found perceived brand-value scores varied across luxury-fashion distribution mixes. Stated brand-loyalty scores did not differ significantly across the channel-mix cases in the survey. It measured consumer evaluations, not EL cosmetics purchases or channel economics. A theoretical model of luxury brands selling into separate markets suggests that simultaneous, sequential, or selective market entry may each be preferable depending on status-value differences, gray-market discounts, and consumer patience. It is a model, not empirical evidence about EL, and only the abstract and indexed public text were consulted. Neither study supplies a transferable allocation percentage or sales elasticity. [A1] [A2]

The team must decide how to learn as well as where to invest. An Asia travel-retail priority could maintain visibility and be ready for a rebound, but could concentrate marginal resources before sell-through and retailer inventories normalize. A shift toward local-market and other-channel activity could broaden consumer access while uncertainty remains, but could under-serve travel retail if demand returns quickly. A staged allocation could preserve options, but would require clear evidence and may leave some opportunities waiting. The company disclosures do not resolve the trade-off.

Decision assignment

Recommend how EL should allocate its next increment of commercial resources across Asia travel retail, Mainland China local retail, and other regions/channels. You may propose a portfolio or sequence rather than choosing a single market, but distinguish the three demand settings and explain how the combined 34% figure should and should not inform the decision.

Identify the evidence management should use to adjust the allocation: for example, consumer sell-through, retailer inventory, travel flows, store traffic, e-commerce trends, brand-level performance, and channel contribution. State the assumptions behind your approach and the conditions that would lead you to rebalance. Do not infer channel margins, consumer acquisition costs, or budget amounts from the public data.

Discussion questions

1. What does the 34% Mainland China plus travel-retail figure tell you about strategic exposure, and what does it not tell you?
2. How should EL distinguish Hainan offshore duty-free, Mainland China local retail, international outbound travel retail, and travel retail in other regions?
3. Which signals support maintaining Asia travel-retail investment, and which support placing more of the next increment elsewhere?
4. What evidence would distinguish consumer demand recovery from retailer inventory normalization or shipment timing?
5. Recommend an allocation process and specify the evidence that would cause EL to increase, hold, or redirect resources.

Sources and cutoff

This case uses information available by February 2, 2023, 5:00 p.m. ET. Exact locators, source versions, reading depth, and limitations are in the research source register and evidence extraction.

- **[P1]** The Estée Lauder Companies, “Reports Fiscal 2023 Second Quarter Results,” February 2, 2023, printed pp. 1-9. [SEC Exhibit 99.1](#)
- **[P2]** The Estée Lauder Companies, Form 10-Q, quarter ended December 31, 2022, filed February 2, 2023, MD&A, printed pp. 37, 41-47. [SEC filing](#)
- **[P3]** LVMH, “New record year for LVMH in 2022,” January 26, 2023, “Selective Retailing.” [Company release](#)
- **[P4]** L’Oréal, “Sales at 30 September 2022,” October 20, 2022, “Sales by Division and Geographic Zone,” “North Asia,” and travel-retail note. [Company release](#)
- **[P5]** The Estée Lauder Companies, FY2022 Form 10-K, filed August 24, 2022, Item 1, pp. 2-17; Item 7, pp. 31-32; Note 16, printed p. F-76. [SEC filing](#)
- **[P6]** China Ministry of Finance, General Administration of Customs, and State Taxation Administration, Hainan offshore duty-free shopping policy, Announcement 2020 No. 33, June 29, 2020, arts. 1-2. [English rendering](#)
- **[A1]** Kim, Mijeong, Sookhyun Kim, and Yuri Lee. 2010. “The Effect of Distribution Channel Diversification of Foreign Luxury Fashion Brands on Consumers’ Brand Value and Loyalty in the Korean Market.” *Journal of Retailing and Consumer Services* 17(4): 286-293, especially pp. 288-293. [Full article](#)
- **[A2]** Huang, Hongfu, Yong He, and Jing Chen. 2020. “Cross-market Selling Channel Strategies in an International Luxury Brand’s Supply Chain with Gray Markets.” *Transportation Research Part E* 144: 102157. Abstract and indexed text only consulted. [Publisher record](#)

All allocation options and the team decision are hypothetical. Later recovery, company outcomes, or policy developments are excluded.