

## **Beleza Natural Case Study**

Beleza Natural was created by two courageous women who ended up revolutionizing the Brazilian beauty market. Zika Assis and Leila Velez grew frustrated by the fact that nearly all hairstyling products on the market catered to people with straight hair and there were no affordable alternatives to serve people with textured hair. Realizing that there might be a business opportunity given that half the population of Brazil is of African ancestry, Assis and Velez set out to find a solution that would bring out the beauty of textured hair. Since neither woman had formal training in developing hair-care products, they developed their formula by trial and error, studying the formulation of existing products and mixing various ingredients in the hope of creating a superior product. They realized that they were on the right track when women began stopping them on the streets to ask how they got their curls so well defined. Convinced that they had found a solution to an acute problem faced by many women, they used all of their savings, including the money from selling Assis's husband's cab, to launch their first hair salon in Rio de Janeiro, called Instituto Beleza Natural: the Institute for Natural Beauty. Over the next decades, Beleza Natural grew from a single store to a national chain of 33 institutes with over 4,000 employees serving 160,000 customers per month. The proprietary hair treatment formula was not the only ingredient in their success. Both Assis and Velez came from favelas, extremely poor neighborhoods in Rio, and they designed their salons to serve women from the lowest social class in Brazil, many of whom worked as maids for wealthy families. For many of Beleza's customers, the entire experience of being served by someone who came from the same background and could empathize with them was transformational, empowering them and giving them a sense of dignity and self-esteem. Beleza's deep understanding of the needs of its customers and the importance of providing them with experiences that transform not only how they look but also how they feel about themselves is a clear example of combining social purpose with business success at the bottom of the socioeconomic pyramid. Based on the advice Velez had received from some of the investors, she was contemplating several possible courses of action:

**Question** Introduce franchising as an alternative to the company-owned institutes. The franchising strategy would ensure much faster growth than Beleza Natural would be able to achieve by establishing its own institutes. This option appealed to Velez because franchising was one of the keys to McDonald's success

**Answer** Franchising offers an alternative plan to grow in comparison to company owned business model. The franchising model appealed the owners of Beleza Natural as they were employees of McDonald in the past.

Franchisee option reduced the financial burden on the parent company and offers the much needed capital & deep market penetration to open new salon. Franchisees being local entrepreneurs understand the local market and customers better than the owner company. This can reduce the competitors from entering the market.

Franchisee options can reduce the profit margin of the parent company in the long run. The quality of the services could also be diluted

Beleza Natural should take inspiration from the three legged stool model of McDonald. They must ensure intensive training to the employees to make sure that the customers feel the same experience across all the franchisee outlets.

Beleza Natural however decided to go against the franchisee model. They redesigned the salon's infrastructure which cost less than three times than the existing cost. This allowed the salon to grow using the accumulated funds. Beleza Natural has been inspired by the fast food assembly line of McDonald where each staff is specialized for a specific task. This standardization of the service allowed the customer to experience the same experience across all the salons. Each store is a factory on their own producing the maintenance products in huge quantity, which allowed them to market the products across the retail stores as high margin low cost vertical integration model.