AVON PRODUCTS, INC.:
DEVELOPING A GLOBAL PERSPECTIVE

INTRODUCTION

“When the history of this organization is written,” noted James E. Preston, chairman and chief executive officer of Avon Products, Inc., in February, 1993, “a meeting last June in Florida of 60 managers from around the world may turn out to have been a watershed event. Our four days of brainstorming, debate and discussion brought to an end two years of research and examination of our basic businesses, and launched us on a new way of thinking about and managing those businesses.”

Preston was excited about the new direction taking shape at Avon. The past several years had been difficult for the organization. Hostile takeover attempts plagued the firm during the 1980s. Avon sales volume in the United States and international markets showed little or no growth. Profit margins on many products declined due to price discounting by competitors. Turnover rates of sales representatives had increased. The corporate debt was referred to as “staggering” at $1.13 billion or 82.5% of total capital in 1988 (See Appendices A, B, and C). Preston was confident, however, that 1993 would be a year of improvement for the company, both in financial performance and in the progress made “repositioning ourselves as the woman’s company for the Nineties and beyond.”

Avon’s research department informed management that corporate problems centered around image and market access. That shaped the agenda of the June, 1992, meeting in Florida: How to protect the firm’s dominant Latin American and Pacific Rim positions against increasingly stiff competition, how to establish a growth track in established markets, and how to pay for it all. Out of the discussions emerged a new vision of the firm, a new marketing orientation, and a new approach to strategic development.

This case was prepared by James W. Camerius of Northern Michigan University and James W. Clinton of the University of Northern Colorado and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Case content is derived primarily from interviews with corporate executives on February 5, 1993.

Management developed the Avon vision statement to inspire this new direction: "To be the company that best understands and satisfies the product, service and self-fulfillment needs of women, globally." As Preston noted:

> We are, uniquely among major corporations, a woman's company. We sell our products to, for and through women. We understand their needs and preferences better than most. This understanding should guide our basic business and influence our choice of new business opportunities. We need to become, and are becoming, more customer-oriented and more market- driven.
>
> I can't think of a better definition of a women's company. And that has a lot of implications for us. If we are really going to be a preeminent company for women around the world, it requires that we have on a market by market basis, a very good understanding of where women are; what their needs, wants, and aspirations are; what the issues are; and what the trends are regarding women, segment by segment.
>
> Each one of the 18 words in the vision statement has considerable meaning. The three most important elements, however, are the focus on women, on being global, and on the additional opportunities for Avon in self-fulfillment.

THE COMPANY AND ITS PRODUCTS

Avon Products, Inc., was the world's largest direct selling organization and merchandiser of beauty and beauty related products. From corporate offices in New York City, Avon marketed product lines to women in 112 countries through 1.6 million independent sales representatives who sold primarily on a "door-to-door" basis. Total sales in 1992 were $3.8 billion. The company work force of 29,900 employees staffed divisions of product management, manufacturing, and sales and service, worldwide.

Avon's product line included skin care items, makeup, perfume fragrances for men and women, and toiletries for bath, hair care, personal care, hand and body care and sun care. Recognizable brand names included Skin-So-Soft, a product in the bath products area, which benefited from wide publicity concerning alternative uses; Moisture Therapy; and Imari fragrance. Newer products included "Avon Color," an entirely new line of more than 350 shades of lip, eye, face, and nail colors. The product line would assure customers that Avon had just the right shade for them and that their total "look" could be coordinated. "Anew Perfecting Complex for Face," another new product, was judged the most successful skin care product in Avon history.

Internationally, the company's product line was marketed primarily at moderate price points. The marketing strategy emphasized department store quality at discount store prices.
Avon was the world's largest manufacturer and distributor of fashion jewelry, and marketed an extensive line of gifts and collectibles. A separate division, Giorgio Beverly Hills, manufactured and sold prestige fragrances.

These brand name products were sold through major retail department stores, in boutiques, by mail order catalog and by other means.

THE EARLY YEARS

In the late 1800s, David McConnell, a door-to-door book salesman, had an idea he believed would encourage women to buy his books. Following a common trade practice of the period, he gave prospective customers a gift of perfume to arouse their interest. Before long, he discovered that the perfume was more popular than the books. He formed a new firm, which he called the California Perfume Company. "I started in a space scarcely larger than an ordinary kitchen pantry," David McConnell noted in 1900. "My ambition was to manufacture a line of goods superior to any other and take those goods through canvassing agents directly from the laboratory to the consumer." McConnell based his business upon: 1) consumable products sold directly to the consumer, 2) an image of the company that captured the beauty and excitement of the state of California, and 3) a national network of sales agents he had organized during his years as a bookseller.

Preston felt that the spirit of the founder continued to influence decision making in the organization. A series of corporate principles, developed by McConnell, provided direction for the company throughout its history. These principles are shown in Exhibit 1.

A PERIOD OF GROWTH

As the firm grew, so did the product line. In 1920, the company introduced a line of products called Avon that consisted of a toothbrush, cleanser, and vanity set. The Avon name was inspired by the area about the company's laboratory at Suffern, New York, which Mr. McConnell thought resembled the countryside of William Shakespeare's home, Stratford-on-Avon, England. The name of the line became so popular that in 1929, the company officially became Avon. By 1929, the company was selling low-cost home care and beauty products, door-to-door and through catalogues in all 48 states.

EXHIBIT 1

The Principles That Guide Avon

1. To provide individuals an opportunity to earn in support of their well-being and happiness;

2. To serve families throughout the world with products of the highest quality backed by a guarantee of satisfaction;

3. To render a service to customers that is outstanding in its helpfulness and courtesy;

4. To give full recognition to employees and Representatives, on whose contributions Avon depends;

5. To share with others the rewards of growth and success;

6. To meet fully the obligations of corporate citizenship by contributing to the well-being of society and the environment in which its functions; and

7. To maintain and cherish the friendly spirit of Avon.

Source: Avon Representative Success Book

In the early 1950's, the sales representatives' territories were reduced in size, a strategy which led to quadrupling the sales force and increasing sales six-fold over the next 12 years. Avon advertisements appeared on television for the first time during this period. The famous slogan, "Ding Dong, Avon Calling," was first televised in 1954.

Company sales continued to grow dramatically throughout the 1960s. In 1960, total sales were \$1.5 million, an 18% increase over the previous year; international sales were \$8.2 million; and the company consisted of 6,800 employees and 125,000 sales representatives. By 1969, total sales had grown to \$558.6 million; international sales were \$193.1 million, and the firm had 20,800 employees and over 400,000 sales representatives. Manufacturing plants, distribution centers and sales branches were opened throughout the world as part of an expansion program.

DIVERSIFICATION THROUGH ACQUISITION

In 1979, Avon purchased Tiffany & Company, a prestigious jeweler, for \$104 million. The Tiffany purchase set the tone for the next decade: diversification through acquisition. This included an ill-fated billion-dollar plunge into the home health-care industry and a later entry into the prestige-fragrance industry through the 1987 acquisition of Giorgio, Inc. of Beverly Hills (California). Several attempts by other firms, such as Amway Corporation and Mary Kay Cosmetics, Inc., during the 1980s, to take over Avon, however, interfered with management's ability to effectively plan for the future. Although Avon's chairman in 1985, Hicks Waldron, had a five-year plan to restore profit growth to the firm's basic businesses, Avon corporate earnings continued to stagnate. Tiffany & Company was sold in 1984 to an investment group led by Tiffany management.

A CHANGING, MORE COMPETITIVE ENVIRONMENT

The 1970s presented Avon management with some of its greatest challenges. The strength of the U.S. dollar reduced the company's international profits; recession and inflation affected sales of some products; in 1975, some 25,000 Avon sales representatives quit due to decreased earning opportunities. Avon products were outpaced by retail cosmetic firms offering "jazzier" products to women whose new attitudes favored more exciting product lines. The traditional direct sales approach was nearly toppled during this period by social changes management had not anticipated, such as the growth in the number of working women. Direct sales firms were hurt in two ways: fewer women were at home for door-to-door salespeople to call on; and fewer women wanted to make money in their spare time selling cosmetics to their neighbors.

These trends continued throughout the 1980s.

Competition in the direct selling industry consisted of a few large, well-established firms and many small organizations which sold about every product imaginable, including toys, animal food, collectibles, plant care products, clothing, computer software, and financial services. In addition to Avon, the dominant companies included Mary Kay (cosmetics), Amway (home maintenance products), Shaklee Corporation (vitamins and health foods), Encyclopedia Britannica (reference books and learning systems), Tupperware (plastic dishes and food containers), Electrolux (vacuum cleaners), and Fuller (brushes and household products). Avon was substantially larger in terms of sales representatives, sales volume and resources than Mary Kay Cosmetics, Inc., its nearest direct competitor. In 1991, Mary Kay had sales of $511 million, 220,000 sales representatives, and interests in 15 foreign countries.

Several other firms, such as Procter & Gamble Co., Unilever NV, and Revlon, Inc., which sold cosmetics and personal care products primarily through retail stores, were considered important competitors in the marketplace.

INTERNATIONAL MARKETING AND EXPANSION

Avon entered the international marketplace in the 1950s. In 1954, Avon opened sales offices in Venezuela and Puerto Rico to cultivate the Latin American market. Avon expanded into the European market in 1957 through its United Kingdom subsidiary, Avon Cosmetics, Ltd. The company entered the Asian market in 1969, by way of Japan. In 1990, it became the first major cosmetics company to manufacture and sell products in China. That same year, Avon became the first American beauty company to enter East Germany. Sales of Avon International, in 1992, were $2.25 billion, compared to Avon U.S. sales of $1.41 billion. More than three-fifths of the firm's direct selling sales and earnings came from outside the United States and the proportion was growing.

Avon divided the world into four geographical divisions: (1) The United States, (2) Europe, (3) The Pacific, and (4) The Americas. In most cases, the primary operating arrangement in each of these divisions was direct ownership by Avon of the foreign country subsidiary. Joint ventures with foreign firms were used when the culture and the ways of doing business were significantly unfamiliar to Avon management.

By 1991, Avon management felt that it was time to re-evaluate and map out the long-term future of the firm's beauty businesses on a global level. Senior management knew that the traditional Avon system of door-to-door house calls worked "wonderfully" in developing nations. "We entered new markets, we added new products, and we saw developing nations grow to 27 percent of our sales volume," noted Chairman Preston.

From a global perspective, three avenues of growth were identified by Avon management: (1) geographic growth, (2) leveraging distribution channels in emerging and developing markets, and (3) marketing in developed industrial areas.

Geographic Growth

The first area was geographic growth. Enormous growth opportunities existed in countries with huge populations such as China, Indonesia and India. In Eastern Europe, management was excited about the potential in Poland, Czechoslovakia, Hungary. In the Pacific Rim area, countries like Vietnam, Cambodia, and Laos were targeted as market opportunities.

Emerging And Developing Markets

The second area of growth was to continue to emphasize direct selling in the emerging and developing markets of Latin America, the Pacific Rim, and other areas. In those markets, the retail infrastructure was undeveloped, especially in the interiors of those countries. The Avon representative provided consumers with an opportunity to buy a wide range of quality products at acceptable prices. In some developing markets, where access to quality goods was particularly prized, Avon's direct selling method opened up unprecedented prospects for women. In China, for example, women were so eager for Avon products that a projected six-month inventory of lotion sold out in only two weeks. Keen demand for Avon products also presented an extraordinary earnings opportunity for Avon representatives. Similarly, in Poland, Avon offered customers access to cosmetics and personal care items never before available to them. In one corporate study, it was determined that Avon products were satisfying such a pent-up demand that Polish women were willing to spend a considerable portion of their discretionary income on Avon products.

Developed Industrial Markets

The third area of international growth was marketing in the United States and other developed industrial areas like Canada, Western Europe, and Australia. It had become clear, however, that the old system wasn't going to prosper without major change. In established markets, the single most compelling issue management had identified was an erosion of the core customer base. The number of people buying from Avon in markets like the United States had been dwindling by 2-3% per year for about twelve years. "We applied all the tried-and-true stimuli to our direct-selling system: changes in recruiting, incentives, commissions, brochures, and more," suggested Preston. "We had some success. But we didn't stop the decline of customer purchasing activity." Management felt growth would come by updating the direct selling channel.

Customizing Marketing Internationally

Satisfying the subtleties and intricacies of customer demand around the world meant that the firm's business would vary from country to country and market to market. In the United States, for example, Avon developed Avon Select, a direct marketing program, to enable customers to buy Avon products in various settings. Customers could order products via any one of four methods: through their Avon representative, by mail though special Select catalogs, by the 1-800-FOR-AVON telephone, or by FAX. Similar opportunities were offered worldwide. In Taiwan, for instance, Avon products were sold by Avon representatives in some 2,000 storefront shops, where orders could be placed via fax for next-day delivery.

In all cases, new programs were designed to complement the existing network of sales representatives. The company also spent 2 to 3 percent of annual sales on image-enhancing advertising and promotion programs worldwide to make customers aware of Avon products and the purchase options available. Even retail stores were not ruled out by management as a viable alternative for the distribution of Avon products.

The Advantages Of Globalization

The move to become a global organization affected the firm in a number of different ways. The product line was rationalized by strengthening and developing a certain number of global brands that were important and sold on a worldwide basis. Sourcing of raw materials and the logistics system took advantage of Avon's strong presence in many markets in terms of efficiencies in the supply chain. A changing environment which encouraged lower duty rates suggested that it was no longer necessary to manufacture products in the countries where they were sold. Underutilized manufacturing plants, from a capacity of view, could now be consolidated with others plants.

MANAGEMENT AND ORGANIZATION

Organizational Alternatives

Management attending the June meeting in Florida discussed the major alternatives for organizing a firm in the international marketplace. Some said the activity of the firm could be organized primarily by functions such as product development. Individuals heading the functional areas would report directly to top-level management. Others suggested that organizing by product group would give the firm an opportunity to develop special marketing mixes for different categories of products. A third group maintained that organizing by geographic region would be best. This form of organization was thought to be especially effective when customer characteristics and needs varied markedly from one region to another. Several individuals suggested that management consider organizing by types of customers if research found that there were several types of customers whose needs and problems differed significantly.

Preston knew that the structure and relationships of a company, including lines of authority and responsibility that connected and coordinated individuals, strongly affected marketing activities. He felt that by using more than one type of organization, a more flexible marketing organization would result. It would be possible to develop and implement marketing plans to match customers' needs more precisely.

Office Of The Chairman

In the new market-driven structure at Avon, strategic leadership would come from a new Office of the Chairman. It was formed on November 16, 1992, in an attempt to realign the company to meet global initiatives.

Members were: James W. Preston, chairman and chief financial officer; Edward J. Robinson, vice chairman and chief financial and administrative officer; and Walker Lewis, executive vice president, North America division, and president, of Avon U.S. division. Preston indicated that the three members would work as a team.

James E. Preston was appointed chairman of the board of Avon at the age of 55 on January 3, 1989. He joined the firm in 1964 as a trainee, rising to president of direct-selling operations of the company in 1981, and president and CEO of the entire firm in 1988. During his tenure as head of the direct selling division, Preston was credited with turning the division around when many analysts thought such selling methods were outmoded. "Jim believes in the power of direct selling, and he has a great capacity to communicate that vision," said Phyllis Davis, an Avon vice president who ran the sales organization in 1985. "He drew ideas," she noted, "from Avon's top representatives, who were inspired to boost orders by 20% in half a year." Preston succeeded Chairman Hicks Waldron who was the force behind the diversification of Avon into health care and other areas in the late 1970s.

Edward J. Robinson was elected executive vice-president and chief financial officer of Avon in April, 1989. Immediately prior to joining Avon, he served as executive vice-president, finance, and chief financial officer, of RJR Nabisco from October 1987 to March 1989. Robinson was associated with RJR Nabisco and its predecessor companies, Nabisco Brands, Inc. and Standard Brands, Inc., in various positions, for 16 years. He started his career with an accounting degree, receiving his CPA license to practice in New York in 1968. Robinson was recruited specifically to aid and assist in reducing Avon debt.

Walker Lewis came to Avon in 1992 as president of Avon U.S. and later was appointed executive vice president of North American operations. After working as a management consultant with the Boston Consulting Group, he founded his own consulting firm in 1972. It served some 500 clients when it was sold to Marshall McKinnon 20 years later. "Avon had been a client of mine while I was a consultant," noted Lewis. "1 knew Avon was committed to a growth strategy in the U.S. market."

Organizational Relationships

The Office of the Chairman was to be responsible for identifying growth initiatives, integrating global strategies, and allocating resources to Avon units around the world. In addition, as part of the reorganization, the firm's three International Regional headquarters were to be phased out, replaced by nine streamlined business units covering sales, marketing and distribution around the world. Profit and loss accountability rested with them. Managers of these units would report directly to the Office of the Chairman (See Appendix D). By having the operating business units report directly to the Office of the Chairman, Preston felt that communication and decision-making would be more immediate and growth initiatives could be exchanged and implemented more rapidly.

Some operating business units represented one country, an individual market whose size and profit contribution required separate management attention. Other units included clusters of countries in areas where there were significant synergies and efficiencies in operating the countries as an integrated business organization. Members of the Office of the Chairman would divide responsibilities for the nine business units.

Divisions covering Northern Europe, Southern Europe, Asia/Pacific, United Kingdom, Japan and Mexico were to report to Preston. Robinson, in addition to his duties as chief financial and administrative officer would have responsibility for the Latin America-North and Latin America-South divisions. Lewis would lead not only the North American unit which consisted of the United States, Canada, and Puerto Rico, but also would continue as president of Avon U.S.

Also reporting to Preston were five global staff departments: Finance/legal Affairs, Human Resources, Corporate Affairs and Communications, Planning and Business Development, and a new department – Global Product Management. Each department would assume worldwide responsibility for its function.

The Global Product Management Group

The new multinational Global Product Management Group was an essential factor in the new organization. The group would support the entire company with "Centers of Excellence" to increase Avon's competitive advantage in the marketplace. With a global scope and multinational staffs, the centers would be located around the world, wherever the appropriate expertise existed. The Global Product Management group would be responsible for product management, global brands, global sourcing (raw materials) and logistics, worldwide manufacturing, product research and development and certain global aspects of sales and customer service support.

The Global Planning And Development

In addition to the above, the responsibilities of the Global Planning and Development group were expanded to include new business development. The group would manage Avon's emerging market ventures in China, Eastern Europe, Russia, and other parts of the former Soviet Union, as well as other new market ventures.

Advantages Of A Global Organization

In reference to the organizational realignment when it was completed in early 1993, Chairman Preston noted:

> The new slimmed-down global organization will make us more responsive to local markets while providing economies in such areas as global manufacturing, purchasing and research and development. We will also be able to better exchange best practices, growth initiatives and competitive information more rapidly from market to market. We want to become the embodiment of the phrase, "Think global, act local."

The new market-oriented organization was expected to speed decision-making, eliminate unnecessary levels of management, allow sharing of successful business practices by previously autonomous divisions, and reduce overhead by centralizing such functions as purchasing and manufacturing. It would concentrate on discovering what buyers wanted in each individual market and provide consumers with products in a way that would enable Avon to achieve its long run growth objectives.

A NEW DIRECTION

Preston formed ten task forces to engage the entire company in becoming more customer-oriented and more market driven. The task forces established the following targets to guide management in objective setting and strategy development:

1. Improve consumer attitudes toward the attractiveness and accessibility of Avon and its products, and begin to develop a global image for the company;

2. Improve the quality of the product line, in bringing new products to market and in weeding out weaker or inappropriate items;

3. Introduce global product planning and the extension of global sourcing (finding the most appropriate source of raw materials);

4. Improve customer database management and market segmentation; and

5. Establish new ways for customers to shop Avon, and improve in the speed at which customers and sales representatives could order and receive products.

Having implemented a regimen of operating strategies, financial controls, organizational changes, innovative leadership, and market-based targets over the past four years, Preston felt that the company was now favorably positioned to enjoy a period of growth. In a worldwide corporate climate of abrupt changes and discontinuities, of newly emerging forces and dangers, and of unforeseen influences at home and abroad, Avon's leadership could well ask the unanswered question, "Will the internal organizational and other changes that have been made reposition Avon so that it can compete successfully in the 1990s in the global marketplace?"

APPENDIX A

Avon Products, Inc.

Financial Performance 1992-1982

In millions, except per share and employee data	1992	1991	1990	1989	1988	1987
Income data						
Net sales	$3,809.9	$3,593.3	$3,453.8	$3,299.6	$3,063.0	$2,595.4
Interest expense	44.0	76.1	77.9	120.5	113.2	77.6
Income from continuing operations before taxes, minority interest and cumulative effect of accounting change	311.7	364.3	339.2	289.0	226.5	368.5
Income from continuing operations before minority interest and cumulative effect of accounting change	180.2	215.2	201.5	159.9	129.9	229.2
Income from continuing operations	175.0	210.7	195.3	152.4	141.1	227.2
Income (loss) from discontinued operations, net		(75.0)		(97.8)	(545.6)	(68.1)
Net income (loss)	175.0	135.7	195.3	54.6	(404.5)	159.1
Income (loss) per share of common stock-assuming full dilution						
Continuing operations	$ 2.43	$ 2.94	$ 2.60	$ 2.10	$ 1.98	$ 3.22
Discontinued operations		(1.05)		(1.76)	(8.77)	(.96)
Net income (loss)	2.43	1.89	2.60	.34	(6.79)	2.26
Cash dividends per share						
Common	$ 1.50	$ 4.40	$ 1.00	$ 1.00	$ 1.50	$ 2.00
Preferred		1.011	2.00	2.00	1.00	
Balance sheet data						
Working capital	$ (99.0)	$ (135.3)	$ 71.7	$ 56.3	$ 81.5	$ 146.4
Capital expenditures	63.4	64.8	38.1	37.1	48.1	46.5
Property, plant and equipment, net	482.3	475.3	472.1	486.3	540.7	571.7
Total assets	1,735.7	1,728.5	2,059.2	2,098.0	2,460.4	2,499.7
Debt maturing within one year	37.3	144.0	207.1	164.0	208.0	65.4
Long-term debt	177.7	208.1	334.8	674.1	918.7	804.3
Total debt	215.0	352.1	541.9	838.1	1,126.7	869.7
Shareholder's equity	310.5	251.6	393.4	228.3	239.3	758.6
Number of employees						
United States	9,000	9,600	10,000	10,200	10,400	10,500
International	20,700	20,900	20,300	19,900	18,400	18,100
Total employees	29,700	30,500	30,300	30,100	28,800	28,600

Eleven year review continued

In millions, except per share and employee data	1986	1985	1984	1983	1982
Income data					
Net sales	$ 2,235.1	$ 2,003.7	$ 2,260.3	$ 2,336.6	$ 2,449.8
Interest expense	45.5	49.1	45.0	38.3	29.5
Income from continuing operations before taxes, minority interest and cumulative effect of accounting change	205.0	171.2	253.9	209.6	314.1
Income from continuing operations before minority interest and cumulative effect of accounting change	127.1	104.9	141.2	121.1	162.2
Income from continuing operations	126.7	105.0	141.4	121.8	161.9
Income (loss) from discontinued operations, net	32.0	(164.9)	40.3	51.1	24.7
Net income (loss)	158.7	(59.9)	181.7	172.9	186.6
Income (loss) per share of common stock-assuming full dilution					
Continuing operations	$ 1.78	$ 1.31	$ 1.68	$ 1.45	$ 2.11
Discontinued operations	.45	(2.07)	.48	.61	.32
Net income (loss)	2.23	(.76)	2.16	2.06	2.43
Cash dividends per share					
Common	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.50
Preferred					
Balance sheet data					
Working capital	$ 129.1	$ 186.6	$ 191.7	$ 307.6	$ 295.9
Capital expenditures	57.5	47.2	73.6	93.0	83.1
Property, plant and equipment, net	536.2	544.6	526.6	553.5	535.5
Total assets	2,143.0	2,188.0	2,188.7	2,198.2	2,146.4
Debt maturing within one year	104.6	54.5	56.8	61.3	63.9
Long-term debt	671.2	592.2	392.0	288.3	272.2
Total debt	775.8	646.7	448.8	349.6	336.6
Shareholder’s equity	681.3	926.4	1,157.1	1,273.1	1,245.1
Number of employees					
United States	10,800	10,000	11,400	13,700	14,200
International	17,700	18,200	18,300	19,100	18,800
Total employees	28,500	28,200	29,700	32,8100	33,000

APPENDIX B

Avon Products, Inc.

Consolidated Statements of Income 1992-1990

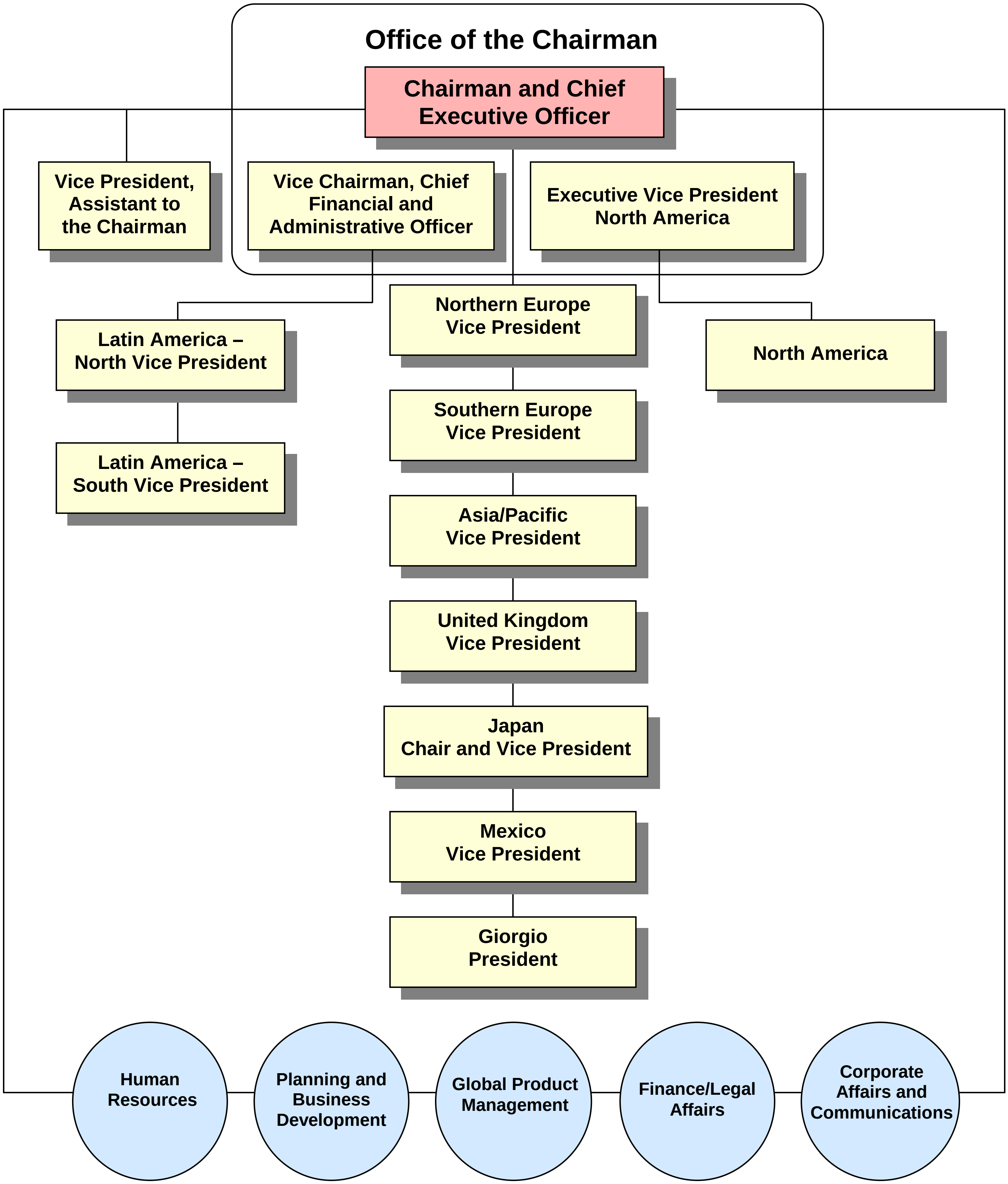
In millions, except per share data **Year ended December 31**	**1992**	**1991**	**1990**
Net Sales	$3,809.9	$3,593.3	$3,453.8
Costs, expenses and other cost of sales	1,487.5	1,400.0	1,328.4
Marketing, distribution and administrative expenses	1,863.8	1,746.1	1,682.9
Provision for restructuring costs	96.0		
Interest expense	44.0	76.1	77.9
Interest income	(37.7)	(62.6)	(55.0)
Other expenses, net	44.6	69.4	80.4
Total costs, expenses and other	3,498.2	3,229.0	3,114.6
Income from continuing operations before taxes and minority interest	311.7	364.3	339.2
Income taxes	131.5	149.1	137.7
Income from continuing operations before minority	180.2	215.2	201.5
Minority interest	(5.2)	(4.5)	(6.2)
Income from continuing operations	175.0	210.7	195.3
Discontinued operations, net		(75.0)	
Net income	175.0	135.7	195.3
Preferred dividends		(18.2)	(36.0)
Income applicable to common stock	$ 175.0	$ 117.5	$ 159.3
Income (loss) per share of common stock – assuming full dilution			
Continuing operations	$ 2.43	$ 1.89	$ 2.60
Discontinued operations		(1.05)	
Average shares outstanding			
Primary	71.99	66.00	56.75
Assuming full dilution	72.10	71.68	75.08

APPENDIX C

Avon Products, Inc.

Consolidated Balance Sheet 1992-1991

In millions, except share data, December 31	**1992**	**1991**
Assets		
Current assets		
Cash, including cash equivalents of $95.9 and $72.2	$ 147.4	$ 116.4
Accounts receivable (less allowance for doubtful accounts of $23.5 and $30.8)	316.3	303.2
Inventories	332.2	365.5
Prepaid expenses and other	107.4	110.5
Total current assets	903.3	895.6
Property, plant and equipment, at cost		
Land	39.4	23.0
Buildings and improvements	478.9	489.4
Equipment	530.6	516.3
	1,048.9	1,028.7
Less accumulated depreciation	566.6	553.4
Long-term receivables and investments		
(less allowances of $33.1 in 1991)	30.8	31.0
Intangible assets (less accumulated amortization of $23.6 and $19.4)	144.8	145.2
Other assets	174.5	181.4
Total assets	$ 1,735.7	$ 1,728.5
Liabilities and Shareholders' Equity		
Current liabilities		
Debt maturing within one year	$ 37.3	$ 144.0
Accounts payable	365.2	315.9
Accrued compensation	62.0	71.6
Other accrued liabilities	247.7	217.9
Sales and other taxes	94.0	92.0
Income taxes	196.6	189.5
Total current liabilities	1,002.8	1,030.9
Long-term debt	177.7	208.1
Other liabilities (including minority interest of $36.9 and $42.1)	221.7	200.1
Deferred income taxes	23.0	37.8
Commitments and contingencies		
Shareholders' equity		
Preferred stock, par value $1.00 – authorized: 25,000,000 shares; issued and outstanding – none		
Common stock, par value $ .50 – authorized: 200,000,000 shares; issued – 86,445,682 and 86,168,007 shares	43.2	43.1
Additional paid-in capital	654.3	633.0
Retained earnings	126.5	59.0
Translation adjustments	(155.6)	(131.7)
Treasury stock, at cost – 14, 479, 431 and 14,388,330 shares	(357.9)	(351.8)
Total shareholders' equity	310.5	251.6
Total liabilities and shareholders' equity	$ 1,735.7	$1,728.5



Source: Outlook, Nov-Dec 1992

REFERENCES

"Avon Calling – For Help" Business Month April, 1988:73-74.

"Avon Calls – At 50 Times Earnings," Business Month November, 1987:91-92.

Avon Products, Inc., Annual Report, New York, N.Y., 1992.

"Avon Products, Inc." Standard and Poor's Register of Corporate Financial Records, December 31, 1991: 8824-8825.

Banks, Howard, "Calmness Itself," Forbes, March 21, 1988:39.

"Bound to Face – Lift Avon's Beauty Product Business," Chemical Week, November 2, 1983:37-38.

Conlon, Theresa, "Avon Products," Computer Decisions, 1990:56.

Duskin, Amy, "Big Names are Opening Doors for Avon," Business Week, June 1, 1987:96-97.

Evans, Philip B., Interview with Senior Vice President, Global Product Management; Avon Products, Inc., New York, N.Y. (February 5, 1993).

Hourigan, Terry, "Avon Tries New Formula to Restore its Glow," Business Week, July 2, 1984:46-47.

"How Avon Rings Their Chimes," Sales and Marketing Management, November, 1986:117-118.

Keeley, Carol B., "Avon Products, Inc.," International Directory of Company Histories, V. 3, 1991 edition:15-16.

Konrad, Walecia, "For Avon, Rodeo Drive is No Easy Street," Business Week, December 28, 1987:78.

Lewis, Walker, Interview with Executive Vice President, North America; President, Avon U.S.; Avon Products, Inc., New York, N.Y. (February 5, 1993).

Lusch, Robert F. and Lusch, Virginia, Principles of Marketing, (Boston: Kent Publishing Company) 1987: 712-714.

McCracken, Robert F., Interview with Senior Vice President, Corporate Strategy and Development; Avon Products, Inc., New York, N.Y. (February 5, 1993).

Marcial, Gene G., "Are Unwelcome Guests About to Call on Avon?" Business Week, October 29, 1992:92.

"The Marketing Whiz Who May Make Over Avon," Business Week, August 8, 1983:32.

Markovits, Paul, "Direct Selling is Alive and Well," Sales and Marketing Management, August, 1988:76-78.

Morgenson, Gretchen, "Anyhow, It Was Nice While It Lasted," Forbes, February 12, 1987: 50-52.

Nelton, Sharon, "Volunteering to Help Your Career," Nation's Business, April, 1992:58.

Preston, James E., Interview with Chairman of the Board and Chief Executive Officer; Avon Products, Inc., New York, N.Y. (February 5, 1993).

Pride, William M. and Ferrell, O.C. Marketing: Concepts and Strategies, (Boston: Houghton Mifflin Company) Eighth Edition, 1993.

Robinson, Edward J., Interview with Vice Chairman, Chief Financial and Administrative Officer; Avon Products, Inc., New York, N.Y. (February 5, 1993).

Rothman, Andrea, "For James Preston, It's Still Avon Calling, The Wall Street Journal, December 9, 1988:B13.

Sasseen, Jane, "Health Care Hasn't Improved Avon's Complexion," Business Week, August 5, 1985:78.

Sloan, Pat, "Avon Looks Beyond Direct Sales," Advertising Age, February 22, 1993:32.

Sloan, Pat, "Revlon Set to Jump Into Home Shopping," Advertising Age March 8, 1993:1-2.

Smith, Geoffrey, "Avon Crawling," Forbes , April 21, 1986:72-74. Tanzer, Andrew, "Avon Falling," Forbes March 21, 1988:38.

Tanzer, Andrew, "Ding-Dong, Capitalism Calling," Forbes, October 14, 1991: 184-186.

Treece, James B., "A Takeover of Avon Could Mean a Makeover for Amway," Business Week, May 22, 1989:22,39.

Wilkinson, Sophie, "Industry Rehabilitates China," Chemical Week, February 14, 1990:21.

Zeilner, Wendy, "Despite the Face-Lift, Avon is Sagging," Business Week, December 2, 1991:101-102.

AVON PRODUCTS, INC.:
DEVELOPING A GLOBAL PERSPECTIVE

TEACHING NOTE

CASE OVERVIEW

Avon Products, Inc., in 1993, was the world's largest direct seller of beauty and beauty related products. From corporate offices in New York City, Avon marketed product lines to women in 112 countries through 1.6 million independent sales representatives.

Some industry analysts in the 1970s and 1980s had questioned the viability of the system of direct selling because of the number of social changes that were occurring in the marketplace. Fewer women were at home for door-to-door salespeople to call on; and fewer women want to make money in their spare time selling cosmetics to their neighbors. Research revealed to management that Avon's corporate problems centered around image and market access.

The past several years had been difficult for the organization. Hostile takeover attempts plagued the firm during the 1980s. Avon sales volume in the United States and international markets showed little or no growth. Profit margins on many products declined due to price discounting by competitors. Turnover rates of sales representatives had increased. Corporate debt, although recently reduced, was perceived as "staggering."

A new vision of the firm, a new marketing orientation, and a new approach to strategic development had emerged from a 1992 corporate meeting in Florida. James E. Preston, chairman and chief executive officer of Avon, was confident that such measures would result in improvement for the company, both in financial performance and in the progress made "repositioning ourselves as the women's company for the nineties and beyond." Management believed that the new approach would position Avon in the international marketplace as a company which would become the embodiment of the phase, "Think global, act local." Focus in the case is on organizing marketing activities to develop a global perspective.

TEACHING OBJECTIVES

1. To discuss centralization versus decentralization in organizing marketing activities;

2. To discuss the major alternatives for organizing the marketing unit in an international environment;

3. To show the role marketing leadership plays in establishing direction in a given corporate culture;

4. To compare and contrast direct selling with alternative marketing strategies;

5. To review the financial performance of a marketing orientated organization;

6. To discuss the characteristics of a global marketing strategy.

TEACHING SUGGESTIONS

The case could be used in a principles course either in management or marketing. It could also be used in upper division courses in channels of distribution, retailing, international business, international marketing, or marketing strategy.

In a library research project, students could be instructed to review the direct selling competitive environment. The project could include a study of how the Avon marketing mix compares with the marketing mix of Mary Kay (cosmetics), Amway Corporation (home cleaning products), Shaklee Corporation (vitamins and health foods, Encyclopedia Britannica, Tupperware (plastic dishes and food containers), Electrolux (vacuum cleaners), Fuller Brush (household products) or any other direct selling organization.

Students could be asked to discuss the strengths and weaknesses of direct selling as compared to other alternative channels used to reach the consumer, such as different types of retail stores, catalogues, home shopping networks and 1-800 numbers.

The professor may wish to introduce the concept of leadership and "organization culture" by discussing or assigning a library research project on the corporate/leadership styles of individuals such as: Henry Ford, Frank Woolworth, Marshall Field, and Richard W. Sears. More recent examples could include, Mary Kay Ash (Mary Kay Cosmetics), Eugene Ferkauf (E. J. Korvette discount stores), Forrest Shaklee (Shaklee Products), Richard M. Devos and Jay Van Andel (Amway) and Sam Walton (Wal-Mart). A comparison and contrast could be made with James Preston and the team approach used at Avon to develop a global perspective.

DISCUSSION QUESTIONS

1. Review the organizational structure of Avon Products, Inc. What can management expect to gain by changing from the previous organizational structure? How will the reorganization correct previous problems? What is the reorganization expected to achieve, other than resolving a previous deficiency?

   The case notes that Preston was aware that "the structure and relationships of a company, including line of authority and responsibility that connect and coordinate individuals, strongly affect marketing activities." Basic decisions, in this area, were related to how various participants in the company worked together to create corporate strategies and coordinate lower levels.

   The previous organizational structure of Avon had decentralized characteristics.

In the previous organization, decision-making was delegated as far down in the organization as possible. Top management lacked the control needed to avoid confusion in the organization, vagueness in marketing strategy, and autonomous decision-making in the various divisions of the firm.

Under the new organization structure, Avon became more centralized by consolidating functions and eliminating divisional vice presidents. The new organization was expected also to speed decision marking, promote sharing of successful business practices among previously autonomous divisions, and reduce overhead by centralizing such functions as purchasing, manufacturing, and research and development.

Avon management anticipated, in the long run, that the new slimmed-down global organization would make Avon more responsive to local markets by sharing the most successful marketing practices. With a "think global, act local" orientation management would concentrate on discovering what buyers wanted in each individual market and provide those products in a way that would let Avon achieve its long run growth objectives.

Finding the right degree of centralization for an organization is a difficult balancing act. Overly centralized companies often depend to heavily on top management and respond to slowly to solve problems or seize new opportunities in the marketplace.

2. Compare and contrast direct selling with other marketing strategies used or considered by Avon management.

   The case notes that "satisfying the subtleties and intricacies of customer demand around the would mean that the firm's business would vary from country to country, market to market. In the United States, Avon developed Avon Select, a direct marketing program to enable customers to buy Avon products in various settings. On an international level, selling methods varied from country to country, and market to market.

   <u>Direct Selling</u> (Door-to-Door/House-to—House):

   Avon used a form of non-store marketing that made personal contacts and sales away from a fixed business location. Customer contact was traditionally in the home, but more recently was made increasingly in the workplace and in other convenient locations. As noted, "the traditional Avon system of door-to-door house calls worked 'wonderfully' in developing nations." In the United States and other industrialized nations fewer women were at home when door-to-door salespeople called; and fewer women wished to make money in their spare time selling cosmetics to their neighbors.

Retail Stores:

Products of Giorgio Beverly Hills were sold through major department stores and boutiques. Retail stores were used in some countries and were being considered by management as an alternative form of distribution in the United States. Retail stores provide access for customers at a fixed location. This channel, however, offers the potential for conflict with the work of sales representatives.

Catalog:

Special select catalogs allowed customers the opportunity to review the Avon product line during their leisure time. Orders could be placed by mail, 1-800 telephone numbers, or by FAX. Catalogs provided the convenience of continuous access, but put less emphasis upon customer service.

Telephone Retailing:

Opportunities were offered in the United States and worldwide to contact Avon through the 1-800-FOR-AVON telephone number. The major reason for using telephone retailing is that it allows customers 24-hour access to the company. Customers order merchandise at their leisure from a catalog or sales brochure. Telephone retailing provides greater customer convenience, but places less emphasis on sales assisted service.

3. How effectively a firm's marketing management can plan and implement marketing strategies depends on how the marketing unit is organized. Discuss the characteristics of the alternative approaches to reorganization that were discussed by Avon management during the Florida meeting.

Organizing by Functions:

> In the functional organization, emphasis is upon tasks to be performed. Personnel who direct these functions typically report to the top marketing executive. Because tasks are fragmented and grouped under separate functional areas, coordination is crucial for effective operations.

Organizing by Products:

> Businesses that produce diverse products sometime organize marketing units according to product. Organizing by product group gives a firm the flexibility to develop special marketing mixes for different products in a diverse product line. The Avon product mix (beauty and beauty related products) was narrow and deep, and would have less to gain from such an organizational structure than a company with a more diverse product line.

Organizing by Regions:

A large company like Avon that markets products on an international level may organize marketing activities by geographic regions. Managers of functions for each regional would report to a regional executive who would eventually would report to a senior executive at the corporate level. This form of organization is especially effective for a firm whose customers' characteristics and needs vary greatly from one region to another.

Organizing by Types of Customers:

This form of organization works well for a firm that has several groups of customers whose needs and problems differ significantly. Avon management had defined its market in a focused sense, "We sell our products to, for, and through women." Recognizing that the approach to women may differ from country to country, the primary operating unit at the international level was direct ownership of the Avon subsidiary in a foreign country.

4. What evidence can you use to support the argument that Avon has developed a global perspective in the international marketplace?

Traditional, full-scale international marketing is a decentralized strategy customized to accommodate cultural, regional, and national differences. Marketing strategies are developed to serve specific target markets. In contrast, globalization involves developing marketing strategies as though the entire world (or regions) were a single entity; a globalized firm markets standardized products in the same way everywhere (Pride and Ferrell, 1993).

(1) The mission statement reflects a global perspective:
"To be the company that best understands and satisfies the product, service, and self—fulfillment needs of women, globally;"

(2) The firm primarily used the direct selling approach to reach the consumer on a worldwide basis;

(3) The Office of Chairman provided overall leadership of the company, including setting growth initiatives, integrating global strategy, and allocating resources to Avon units around the world.

(4) Global Product Management, a newly created staff group, was created to increase Avon's global competitive advantage. Adopting a global scope and utilizing multinational staffs, the "Centers of Excellence" were to be located "wherever the appropriate expertise exists throughout the world."

(5) Emphasis would be placed on developing global products, establishing commonality in supply and logistics systems, and combining manufacturing facilities.

5. What conclusions can be drawn from a review of Avon's financial performance over the 1982—1992 period? From this review, what can you conclude about the financial future of the firm?

   Data are available in the case for measurement of performance with respect to: (1) asset turnover (asset management), (2) profit margin (margin management), and financial leverage (debt management). Data in the case also are available to measure the liquidity of the organization.

   The Strategic Profit Model (SPM) shown in Exhibit TN 1 is a useful vehicle for analyzing the financial performance of firms such as Avon. The model dramatizes the defensible performance imperatives: return on assets (8-10%) and return on net worth (15-20%). Strategic profit model ratios for Avon Products, Inc., for the years, 1982-1992, are reviewed in Exhibit TN 2.

The financial measures show that Avon Products, Inc., is a high performance firm with a 1992 Return on Net Worth significantly greater than the distribution industry average and other normative figures. This figure is inflated because of the high leverage ratio. The strategic profit model analysis suggests that Return on Assets, a more meaningful figure in this case, is defensible.

The firm appears to be financially sound and positioned to enjoy a period of future growth.

EXHIBIT TN 1
Strategic Profit Model

Profit Margin		Asset Turnover		Return on Assets		Financial Leverage		Return on Net Worth
(3-5%)		(3-4 times)		(8-10%)		(1.5-2.5)		(15-20%)
Net Profit / Net Sales	X	Net Sales / Total Assets	=	Net Profit / Total Assets	X	Total Assets / Net Worth	=	Net Profit / Net Worth

Note: ( ) indicates industry averages for high performance firms.

Source: Lusch and Lusch (1987)

EXHIBIT TN 2
Avon Products, Inc.

Strategic Profit Model Ratios, 1982-1992

Year	Profit Margin	Asset Turnover	Return on Assets	Financial Leverage	Return on Net Worth
	(%)	(X)	(%)	(X)	(%)
1982	.076	1.14	.09	1.72	.15
1983	.074	1.06	.08	1.73	.13
1984	.080	1.03	.08	1.89	.16
1985	( )	.91	( )	2.36	( )
1986	.071	1.04	.07	3.11	.23
1987	.061	1.04	.06	3.29	.21
1988	( )	1.24	( )	10.28	( )
1989	.016	1.57	.03	9.19	.24
1990	.057	1.68	.09	5.23	.49
1991	3038	2.08	.08	6.87	.53
1992	.040	2.19	.10	5.59	.56

( ) indicates a negative figure/net loss in year.