

## Avon case study in strategic management (SCM)

### **Executive Summary:**

Avon Products, Inc. (Avon) is based in New York. The firm engages in the manufacture and marketing of beauty and complimentary products primarily in North America, Latin America, Europe, and Asia Pacific. Avon's products are classified into three product categories: Beauty, Beauty Plus, and Beyond Beauty. The Beauty category consists of cosmetics, fragrances, skin care, and toiletries; Beauty Plus includes fashion jewelry, watches, apparel, and accessories; and Beyond Beauty comprises home products, gift and decorative products, candles, and toys. The company sells and markets its products through a combination of direct selling, marketing by independent Avon representatives, and via its consumer Web site, avon.com.

Avon was one of the prominent direct sales companies in the beauty products industry. Started in the late 1800s by David McConnell, the company sold a wide variety of beauty-related products to homemakers through its direct sales agents. However, by the 1980s, the company had lost its luster and performance began to falter. A failed diversification strategy made it the target of several takeover attempts. Turnaround efforts were initiated in the 1990s under then CEO James Preston and continued by his successor Charles Perrin, however, they failed to make a significant impact. Performance began to improve only after Andrea Jung became the CEO of the company in 1999.

Andrea Jung became president and CEO of Avon in 1999 and has totally revamped the company. Under her leadership, the company has updated its product line, launched new advertising, and created a new image. Avon's sales have increased by 30 %, profits 40%, and the stock price has dramatically improved. Jung's has been able to align the firm's core capabilities with its strategic targets which has led to phenomenal results. It appears that Jung has been able to establish a clear vision for the firm that has been incorporated in every aspect of the firm's operating system. This vision is shared by all employees and representatives of Avon priming the company for continued success.

Other strategies of Jung include cost cutting by reducing number of raw material suppliers, shifting production from smaller plants to larger ones, moving manufacturing from high cost nations like Great Britain to lower cost countries such as Poland. As mentioned in the Avon case study, the e-representative initiative also has helped Avon cut costs. The direct sellers are asked to fill in the order online.

Avon's brand has definitely resonated for women through the years. During the 1980s, the company began to diversify by investing in retirement properties and healthcare products, and launching catalogs for men and children. During the initial stages of this strategy, Avon started to remove itself from its core market of selling to women. The results were downward revenue trends and slow growth throughout the 1990's which resulted in several takeover bids.

Unfortunately, Sears Roebuck and JC Penny do not really resonate well with being a carrier of women's beauty supplies. The name "Sears" have been associated with appliance and not beauty products. The move of aligning with this companies and trying to sell higher end beauty products will only push Avon in the opposite direction that it should be heading, which is to move back towards tailoring to women domestically and globally.

Over the years, Avon has experienced several problems leveraging its brand in many of its product lines. As a result, positive net sales and earnings growth for the past five years have been in single digits and steadily declining year after year. Specific problem areas are stagnated sales, slow earnings growth, limited distribution capabilities and shift in personal care preferences and spending habits.

Andrea Jung's proposal to expand into certain retail markets will only perpetuate Avon's trend of declining net sales. The proposed plan will indeed create an additional distribution outlet and cater to this market segment. However, the question to examine is at what expense or cost will Avon endure making this decision? Avon has faced tremendous pitfalls marketing its product lines to effectively increase brand loyalty and recognition. Examples of this include the hair care product line. Avon did not effectively develop products for ethnic hair types. Additionally, Avon did not have a hair coloring product line. As a result, Avon suffered in building brand awareness and loyalty with the younger generation as well as the older generation that also demanded this product.

Avon has lost loyalty and brand recognition as a result of its decision to diversify into different industries and different product lines. This has resulted in a loss of market share drastically affecting annual profit margins. To examine the previous question of what cost will Avon endure deciding to move into the retail markets? It is clear and evident; the

cost will be a further extension of the existing internal problems that Avon faces. Deciding to move into the retail market to create a store inside a store is not in Avon's best interest. This move would be a further expansion of Avon's previous decisions to diversify into markets that do not have synergy and thus will hurt the overall branding of the company. Finally, implementing Andrea Jung's proposal to enter the retail market would be detrimental to the already fragile state of Avon's brand awareness, recognition and loyalty.

Another factor for the underperformance of Avon in the late 1990s is its failure to develop the online business. For the fear of alienating its labor force, Avon downplayed the importance of developing the e-business. A company cannot ignore the environment and expect to be successful in the long run. Due to its internal struggle with the internet strategy, Avon fell behind other less established companies in taking advantage of the explosive growth of the internet

Avon's approach should build on original direction and implementations however expanding as necessary to fit current trends and environmental assessments. The focus should be on existing internal structures to build, create and advance current product lines. Avon's focus should also exist in the field of technology to increase online selling opportunities, update internet technology and to re-brand themselves to be a leader of online sells. To accomplish this, strategy should focus on expanding kiosks globally and domestically. The expansion will leverage Avon by appealing to the market segment requesting additional distribution channels. This strategy will allow for trained beauty consultants to offer advice, education and samples thus increasing brand awareness and loyalty. Kiosks will have minimal start up cost and lower overheads. Focusing on product lines and catering to the needs and wants of each demographic group will prevent the previous pitfalls of lack of integration and decreased brand awareness and loyalty.

Keeping Avon's product offering separate and distinct will help existing challenges of branding. Focusing on technology improvements and online sales, Avon will have an opportunity to emerge as a leader in this area, thus adding additional channels of distribution and appealing to the overwhelming need.

Under Andrea Jung's leadership, Avon has faced a number of challenges. Some of these challenges were addressed successfully and others were not. In the early part of 2000, the management team had the daunting task of choosing an appropriate strategy for the immediate and long-term future for the company. One setback was a decrease in the firm's growth rate to single digits and stagnated earnings. Avon's CEO, Andrea Jung, was presented with a multitude of options that ranged from distributing through other departments stores, establishing kiosks, to overhauling the firm's e-business. Jung was right in acknowledging that Avon's core competency is direct selling and its major strength is its brand name. By refocusing on the core competency, improving efficiencies, and adapting to the environment with new initiatives, Avon could overcome the hurdles of the past and turn the company in the new direction.

**Assessment** of Andrea Jung's performance as chief strategists at Avon products is that she has done excellent job. Her first task was to hit the streets of her neighborhood, ringing doorbells, to better understand the desires of customers and needs of sales agents. She pushed for the addition of attractive new products to Avon and its sales representatives. Andrea listened to the customers and grew global beauty category sales by new product development, sampling and more up-to-date advertising.

The company was in serious trouble with annual sale growth of less than 1.5 percent and a crashing stock price during the general economic boom in history. Jung took the role of Avon lady to better understand what customers thought about company's product and within field of direct sales model.

Avon's grand strategy under the leadership of Andrea Jung has its merits and is the grand strategy is properly focused and directed. Andrea Jung has clearly directed the successful transformation of Avon Products Inc. by defining its vision as the company for women. With grand strategies in-place she is revitalizing Avon's reputation as the world's foremost direct seller of beauty products while leading the company into exciting new lines of businesses, launching a series of bold and image enhancing initiatives, and expanding career opportunities for people around the world. The strategic plan in place has its merits and the grand strategy is properly focused and directed. Currently, Avon is the world's leading direct seller of beauty and related products, with \$7.7 billion in annual revenues. Avon markets to women around the world through 4.9 million independent sales representatives.

The evidence shows that Jung's grand strategies were sound. The argument that the grand strategies were not optimal and needed to be refocused was weak due to the overall improvement of company performance and increase in shareholder wealth. Andrea Jung's charismatic communication skills and management direction has catapulted Avon as a leader in the global beauty and cosmetic market.

I would like to give Andrea Jung an "A" for the job as she has done her job well as CEO. She developed great strategy for Avon that helped to increase in sales. Andrea Jung outlined new vision and strategic plan for Avon that call for highly innovative new products, build new line of business, critical link as internet in direct selling model and update its direct sales model to better fit 21<sup>st</sup> century. At age 40 Jung become CEO and in 2001, at age 42 she listed fourth on Fortune's ranking of the 50 most powerful Women in American Business.

Andrea Jung's strategic vision for Avon was for them to be the company that understands and satisfies the product, service and self fulfillment needs for woman globally. I think their new strategic direction made sense. She knew products had to be made to fill the needs of different age group and races. It was time for Avon to become more modern and up-to-date.

Jung's view of new Avon was that of a company beyond selling cosmetics as trusted product which is needed by any women. She was in customer convenient strategy in beauty and financial services. She insisted that supporting women touches not only beauty, but health, fitness, self empowerment and most important financial independence.

Yes, Avon's new strategic direction would launch an entirely new line of business, the development of innovative products, new packaging, new channels to the distribution, a new approach to supply chain management, new sales models and new approaches to image building.

When Andrea Jung became Avon's new CEO in November 1999, the company's annual sales growth had slowed to less than 1.5 percent and its stock price had fallen from a high of \$55 to a three year low \$25. The strategies initiated by Charles Perrin had resulted in some improvement in 1998 with modest sales growth, but in late 1999 Avon was in need of bold direction. When Perrin resigned because of his lack in direct sales limitation, Andrea Jung need a fundamental change in direction.

Jung understood the desires of customers and needs of sales agents. She heard the customer grips over product colors, mishandled orders, unattractive packaging, lack of innovative products and confusing promotions. Ultimately she discovered the structural obstacles to achieve in success. Policies for placing orders made difficult for sales agents to increase sales volume and commissions.

When Andrea Jung stepped in as CEO of Avon, she brought with her many new, fresh ideas that helped make Avon what it is today. Her strategy didn't agree with what consultants thought, but she willingly took risks to enforce what she believed to be the best strategy for Avon. We believe that her strategy was good, solid foundation that will continue to keep Avon at the top as America's number one selling Cosmetic and Beauty Company.

Several things happened once Andrea Jung was named CEO of Avon. First, she decided to reverse the current trend of losing sales. She did this by creating a strategy that would turn the company around.

Jung's suggested strategy to partner with Sears and JC Penney department stores was an idea that would help to promote the strategy she had come up with. It would introduce a new, upscale product line, thus increasing profits, sales and nationwide exposure to the baby boomer segment. Retail selling increased with in-store customer traffic and expected growth of spending power to 16 percent within five years. Face-to-face selling comprised 79.7 percent of direct selling, preferred among senior citizens. The marketing budget would be increased to target customer traffic at Sears and JC Penney. Investment costs were limited to \$15 - 20 million to launch retail products, with a bulk of expenses being absorbed by the department store.

Avon's strengths would help increase global recognition of brand name and image. Jung suggested promoting certified Beauty Advisors in department stores and increased incentives for sales representatives. In addition, having department stores sell via the Internet would increase the channels of distribution, thus increasing consumer loyalty.

Reduce inventory level while improving service to representatives which increase the forecasting accuracy and order fill rate in supply chain management. Strategy provides opportunity for sales representatives to increase their income and greater career opportunities through sales leadership. Develop E-commerce opportunity for Avon and sales

representatives, improving operating margins 50-100 basis points through business process redesign. Another strategy is growing global beauty category sales through in new product development, advertising and sampling.

All these factors would affect Avon's long-term goals by forcing Jung to find new, creative ways to stay fresh in the market. Jung had created a strategic plan that met the vision of Avon; she had created goals that were measurable and geared toward future company growth. The goals seemed to be obtainable in the current business market. In addition, Jung's idea that technology may be the answer was in response to a changing business environment which included movement toward e-business. This ideal would be synergistic and build upon their present success.

It is too little stretch because the objectives were not set boldly and aggressively high. These goals were not impossible targets.

Key elements to Avon's strategy under previous CEO were set to sell directly to consumers via independent sales representatives working on commission. Avon catered to mostly upper middle income females and focused almost exclusively on US cosmetic market.

Andrea Jung initiated expansion into markets outside US making Avon products available online, and began selling Avon products through retail channels. She also instituted a more upscale packaging to match the look of prestige cosmetic brands. She focused on a low cost/ low price strategy and focus to sale to low and middle income families. Andrea's new strategy was likely to improve Avon's financial performance and help build a competitive advantage. Her approach is sensible in light of what competitors are doing and the position they hold in the market place.

Avon is highly backward integrated, self-manufacturing many of the items that they sell. This causes the competitive pressures of suppliers to be weak. Avon can get supplies from many parts of the world because they have entered foreign markets and produce products in different countries. A lot of Avon's supplies such as packaging, may be easily substituted if a supplier raised prices.

Under Andrea Jung's direction, Avon is focusing on developing nations especially China. Many developing countries are more receptive to direct selling by women since jobs with Avon are opportunities for women who want to be independent in the male dominated cultures. Avon has also recognized that the demographics has changed and recruiting younger women to sell to the younger customer base.

Competitive pressures stemming from customer buying power is moderate because switching costs are low and customers have the ability to fulfill their needs by switching brands. Buyers tend to be well informed about Avon's product prices and costs largely due to the Internet and this put customers at a position of higher bargaining power. Customers do not pose a threat of integrating backwards, because it would not be easy for women to develop their own make-up, perfume or skin care products. Due to the direct selling business model, there is an extremely large number of buyers. Another Avon objective that aims to alleviate pressures coming from competing sellers includes consists of reinventing their antiquated image. Realizing this, Jung endorsed the Williams sisters. Venus and Serena Williams were popular teen icons that portrayed the image where Jung hoped to achieve for Avon; young, powerful, and ambitious.

Andrea Jung's highly successful career would not be possible without effective and insightful management. "Throughout Jung's ambitious expansion, her management style was to emphasize open communication, goal orientation, and feedback from her sales force." Avon routinely brings in the top performing sales reps from across the globe to Avon's headquarters in New York City in order to gather first hand feedback from the employees in the field. Ms. Jung herself even attempted to sale Avon's products as a traditional Avon lady. An attempt she acknowledges was not one of her more successful endeavors. The attempt however, showed Ms. Jung's commitment to understanding all aspect's of the Avon business. A common theme in Ms. Jung's leadership speeches encourage women empowerment and promote a belief that more women will continue to hold key executive roles. Under Ms. Jung's leadership, Avon management supports flexible work schedules and encourages employees to create a healthy balance between work and family responsibilities.

There are a number of missteps that Avon has taken under Andrea Jung's leadership. They include partnering with companies that image does not adequately match Avon's and the company's problems with launching its online business segment. Recently, Avon announced plans to partner with Sears and JC Penney's. One of the potential negative

aspects for Avon partnering with JC Penny and Sears would be the possible lowering of brand name for Avon. The company ran the risk of possible further reduction of its brand name." Since its inception Avon has worked very hard in tailoring its niche market towards women.

Ms. Kropf's most recent responsibilities included certain global staff functions. She retained responsibility for global marketing as well as the companywide Business Process Redesign efforts that have freed up nearly \$400 million in the past three years for reinvestment in consumer brand building and other growth initiatives.

Yes, Susan Kropf was a good choice as a chief operating officer of Avon Products Inc. with full profit-and-loss responsibility for all of Avon's worldwide operations, including global marketing and supply chain. Susan has played a critical role in Avon's success by sharing her insights on Avon's rich history and the company's successful strategies for sustaining brand power for over a century. Susan Kropf reconfigured the value chain thereby cutting costs of non-value adding areas.

Andrea Jung represents a great strength to Avon Products Inc. Regardless of gender, any CEO who can take a company with a 50 percent drop in share price and raise company stock by 164 percent in five short years shows insightful leadership and effective management. In addition to the financial success, Ms. Jung has also played a vital role in Avon's public relations arena. She shows an amazing ability to connect with a variety of shareholders and the public. Her ability to communicate with all levels of an internationally diverse Avon staff and public contribute to Avon's ability to successfully implement strategic changes in direction.

Yes, Andrea Jung's vision of what she wanted to accomplish as CEO of Avon included a strategy to; improve brand image, introduce new products, increase use of the internet as a channel of distribution, provide greater incentives and opportunities for the sales force, reduce unnecessary costs in the value chain, and continue to expand into global markets.

Product innovation was a large part of Jung's strategy for Avon. In fact, in 1999 she challenged Avon's R&D team to develop a new product within two years. In less than one year Avon introduced Anew Retroactive, an anti-aging skin cream. It achieved record sales for Avon and led to the development of other successful lines of business. In less than one year Avon introduced Anew Retroactive, an anti-aging skin cream. It achieved record sales for Avon and led to the development of other successful lines of business. For example, Avon Wellness products exceeded sales estimates by 300%. One problem that Avon faces is the strong competition within fields they are trying to expand into. Avon is marketing a nutritional product line called Wellness, which includes vitamins, supplements, bars, etc. This market is competitively strong.

Being ahead of the industry in introducing new products combined with the company's already strong market position could further improve Avon's brand equity and therefore revenues. In particular, Avon should continue to integrate sales representative into all aspects of sales. This is Avon's own key success factor and what sets them apart from their competitors.

With the growing popularity of the internet as an outlet of commerce, Jung was compelled to implement internet sales into her strategy, realizing that the "Avon Lady" is the distinctive core competency for Avon in new projects.

Based on demographic data, China holds 20% of the world's population. This represents a vast market of which Avon has only begun to cover. Avon should continue to focus on the expansion of retail outlet sales in China. Also, because the only sales in China are generated through retail outlets, Avon should further develop their Beauty Advisors training.

Europe should also be a continued focus for Avon. Industry leader, L'Oreal's attributes 50% of their total sales to the European market. Avon had a successful growth rate in Europe but only 23% of the total 2003 sales came from Europe. There is still room to expand in this market.

Based on one of the industry's key success factors, product innovation, Avon should focus even more resources on R&D especially in the areas of anti-aging products and teen products. Because 23 million teenagers have an average weekly disposable income of \$85, Avon should continue with innovative teen marketing such as the current "mark" brand but also work on products for problem teen skin.

Avon Products Inc under the leadership of CEO Andrea Jung is at a point where there are opportunities for growth for the organization. However Ms. Jung appears to be indisposed towards taking steps to take advantage of Avon's position. Also her approach is flawed. Let's take a look at her approach and then also look at viable alternatives.

Andrea advocates: partnering with Sears and JC Penny department stores so as to create a store-within-a-store, downsize direct selling

The review board criticized Andrea's approach and pointed out that:

- Brand name erosion and sending mixed messages to consumers is a risk when going into partnership with low-end department stores. If Avon goes retail then one might assume that retail products sold in stores being exclusive, then brochure products were of inferior quality.
- Sears and JC Penny stores have a low end image and are recognized as being on the weakest end of the retail market. These stores also lack cosmetic customers.
- The direct sales personnel would resent being transferred to retail sales positions and also would feel their job security threatened if Andrea's plan were implemented.

After the review, Andrea hired an outside consulting group to get up a strategic plan for Avon. These were their recommendations:

- Three-step retail approach
  - o Distribution of high end spa products in specialty stores.
  - o Sell a more affordable product line in discount stores
  - o Extend unique kiosks in the domestic market

This strategy said the consultants would benefit Avon by:

- Specialty stores are growing 4% per year and are attracting affluent baby-boomers which are ever growing segment of the population
- Full line discount stores have high customer traffic, pointing towards high volume sales of the more affordable Avon products.

Based on this, the board of directors felt that Jung's original options did not provide the same amount of increased sales and revenues, attraction to increased clientele base, motivation and acceptance by current sales representatives, or increase shareholder wealth as the consultant's options did. The consultant's options provided a means to Avon Products, Inc. to become a household name to those whom were not attracted by limited previous distribution channels, and Jung's choices of re-invigorating the brand, instituting beauty advisory training, expanding multilevel sales programs or partnering with department stores.

Kiosks were admittedly a risk. At \$6,000 per kiosk and lack of information on kiosk performance, Andrea indicated these would be too expensive. Perhaps a trial run of a low number of kiosks in the environment would settle this question.

In conclusion, the Avon CEO strategy did not impress as very well thought out and it was a good thing she went to the review board first.

Avon should stick with their bread and butter – the sales representatives as it is the channel where they were recognized and where they became one of the largest beauty products in the world. The website should be a complement to the services that Avon offers.

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### **Recommendations:**

For promoting direct-sales through consumer and the business; one is to offer incentives to its customers and second is to motivate the business to promoting its products by advertisements, establishing sales competition for employees, participating in conventions, and by endorsing franchise of its products to retail stores.

Promoting Avon's products and high chance of increasing direct-sales is to offer incentives to its consumers. Incentives provide a positive motivational influence to encourage and excite buyers to buy the products. Such incentives, appropriate for this situation, are coupons, rebates, product samples and awards. Coupons can be attached in mail, beauty magazines, newspapers, and advertisements on mail or on the internet company's official website. Rebates can be offered also to attract more buyers to buy the products. Rebates can be advertised also on coupons through mail or the internet. Another successful way of attracting consumers is by offering samples of Avon's cosmetic products, which can be done door-to-door or attached on an advertisement through mail. Finally, awards through prizes, contests or sweepstakes can offer consumers the chance to win something small or big like cash or free-trips. Also, prizes can be offering a free gift whenever a consumers purchase one of Avon's products. This last incentive option attracts more attention from consumers than the three other options.

Motivate the Avon business to reach its goals of promoting its products and gaining sales through advertisements, sales competition, participating in conventions and endorsing franchise. Advertising is the key to attracting consumers and the outcome is high sales. Such advertisement is done through media (television), mail, or the internet. The more awareness from the public of the company likely to attract more buyers and the outcome is high sales.

The next option is to encourage Avon's sales representatives with awards/prizes that reached their sales goals within a period of time. Another is participating in conventions and this is more likely to increase sales through direct contact with customers. Last is to endorse franchise of Avon's products with small and big cosmetic-related retail stores, such as Macy, JC Penny, etc. This option can be most likely increase sales and in turn profit which is any company's ultimate aim.

### **Questions:**

1. What is Andrea's Vision for Avon?? Do you approve of the company's new strategic direction and why did the company fundamentally change the direction?
2. What is your assessment to the financial and strategic objective of Avon? Do they contain too much stretch or too little Stretch?
3. What are different strategies Avon used? Advice on future strategies...
4. Explain what Value chain analysis with reference to Avon... Why is reconsideration of Value chain required in Avon's case??