

# Avon Calls on Foreign Markets

Avon Calls on Foreign Markets Avon, founded in 1886, is one of the world's oldest and largest manufacturers and marketers of beauty and related products. Many are most familiar with Avon through its long-standing ad, 'Ding dong, Avon calling', but the company has recently switched to 'Hello Tomorrow' to change its image and better reflect the company's new marketing approaches.

## Where Opportunity Currently Knocks

Avon is headquartered in the United States, but over three-quarters of its sales and employees are outside its North American division. It seems to be selling everywhere from moisturizer to Inuits above the Arctic Circle and makeup delivered by canoe to residents of Brazil's Amazon region. It has its own sales operations in 66 countries and territories, and it distributes to another 44. Altogether, there are about 5.8 million independent representatives selling Avon products. However, Avon was 28 years old (an adult by human standards) before it ever ventured abroad, and then only to nearby Canada. Forty years later, a geriatric in human terms, it moved into its second foreign market, Venezuela. Map 16.1 shows how Avon now divides the world regionally and the portion of its business in each region.

## Why Avon Went Global

So why has Avon put so much emphasis on international expansion in recent years? First, Avon forecast a slow growth potential in the U. S. market, because there is virtually no remaining untapped market for cosmetics, fragrances, and toiletries. To grow rapidly in the United States would mean taking sales from competitors, and the U. S. beauty market is very competitive. If you doubt this, just try weaving through a large U. S. department store without being accosted and sprayed on. Avon has preferred to put emphasis on less-competitive markets, and its latest annual report even states that it expects U. S. growth to be in line with that of the overall beauty market - which means its domestic sales will depend primarily on the population growth of women in the cosmetics-using age group. Even if there were a considerable untapped U. S. market, less than 5 percent of the world's population lives in the United States. Second, you need to understand Avon's distribution system to appreciate why Avon worried about U. S. sales in the latter part of the twentieth century. Avon has always depended on direct selling by contracted independent salespersons (almost always women working part time and known as 'Avon ladies' or 'Avon representatives'), who sell to households by demonstrating products and giving beauty advice. These reps place sales orders with Avon and deliver orders to the customers once they receive them. Historically, these direct sales have been the backbone of Avon's success. To begin with, direct selling offers Avon a cost-savings advantage by enabling the company to maintain a smaller number of employees, keep its advertising budget low (the Avon ladies do much of the promotion), and avoid having to pay for

shelf space in stores. The lower costs have facilitated Avon's maintenance of generally lower prices than those that competitors charge in department stores. Thus Avon has consistently maintained an image of good value for the money. Direct selling also offers additional marketing advantages, because word-of-mouth customers tend to be quite loyal to the Avon ladies they befriend. However, in the late twentieth century, the outlook for U. S. direct sales of any kind of product looked bleak. Drove of U. S. women were entering the workforce full time, which made them less receptive to door-to-door salespersons and less willing to spend time on makeup demonstrations and the arrangements for a later receipt of their purchases. Because of working full time, the pool of women seeking part-time employment also seemed to be drying up. Meanwhile, back in the Home Market In an effort to combat the problem of house-to-house sales, Avon has allowed reps to open retail outlets, which are usually small kiosks in shopping malls. Further, Avon ladies have pretty much given up their old 'ding dong' routines by selling instead to friends and family, to colleagues at work, and through ads on their own Web sites. In the meantime, the prediction that the pool of part-time job seekers would dry up proved wrong. Between 1996 and 2007, the number of direct sellers in the United States for all companies increased from 8.5 million to 15 million, and sales value has increased proportionately. The global recession has since increased the availability of people to sell independently. When the U. S. outlook looked gloomy, the outlook in foreign markets looked bright. For example, the lack of developed infrastructure in the rural areas of such countries as Brazil and the Philippines deters women from leaving their homes to shop for cosmetics. But in these countries, Avon ladies reach consumers in some of the most remote areas, because there are ample numbers of potential Avon ladies. For instance, Avon has 800,000 representatives in Brazil alone. In transitional economies, Avon's market entry coincided with pent-up demand from the period of centrally planned economic policies. In rapid-growth economies, such as Chile and Malaysia, Avon taps a growing middle-class market that can afford its products.

The International Strategy Global Products As Avon moved internationally, it pretty much allowed its country managers to decide what products would sell in their markets. Either Avon's R& D unit in the United States or a local R& D unit would then develop them. These were largely produced within the country selling them and included such products as a combination skin cream (moisturizer, sunscreen, and insect repellent) in Brazil, skin-lightening creams in parts of Asia, long-lasting citrus fragrances in Mediterranean countries, technology-driven skin products in Japan, health and wellness products in Argentina, and bigger bottles of personal-care products in Spain. Once products are developed, Avon disseminates the information to its facilities else-where. For example, Avon-Japan developed emulsion technologies to produce lotions and creams with lighter textures and higher hydration levels, and many Avon operations in other countries now use the process. Some Pitfalls of Product Proliferation On the one hand, this decentralization to fit the wants of local consumers has undoubtedly given consumers the products they want. On the other hand, it has come with costs. To begin with, the resultant product proliferation has increased manufacturing costs, which threatens Avon's strategy of maintaining a good profit margin while simultaneously offering customers a good value for their money.

Next, Avon has depended primarily on its catalogs to promote its products. For instance, it distributes catalogs every two weeks in the United States and every four weeks abroad. Its circulation dwarfs that of any other commercial publication. However,

as its product line grew to '13,000 products for the Mexican market alone' the catalogs became too bulky, and the Avon ladies could not possibly know enough about the line to sell effectively. In 2006, Avon cut its product line by 25 percent, and it plans to cut the line even more. It is also moving toward more large-scale centralized production to save on manufacturing costs. Although Avon is paring its product line, this does not imply a cutback in new products, which are important in the industry. In fact, Avon has signed exclusive agreements with several universities worldwide (such as in Australia, China, Japan, and Thailand) to help develop new products.

For example, Asia has long been a leader in herbal and therapeutic treatments. Avon's venture with Chiang Mai University in Thailand has produced one of Avon's latest products using this Asian expertise, Anew Alternative, which is purported to diminish fine lines and wrinkles.

### Global Branding

Avon now emphasizes global brands that include Anew, Rare Gold, be Coming, and Far Away fragrances. Through standardized branding, Avon creates a uniform global quality image while saving costs by using uniform ingredients and packaging. Global branding also helps inform consumers that the company is international. This helps sales in countries such as Thailand, where consumers prefer to buy beauty products made by foreign companies. Although Avon prominently displays its name on most of its products worldwide, some of its brand names differ among countries. For instance, when Avon has made foreign acquisitions, it has sometimes kept the successful brand name and goodwill it has acquired. For example, when Avon acquired Justine in South Africa, it kept the Justine name. The company prints instructions in local languages but may or may not put the brand names in that language.

It sometimes uses English or French brand names, because consumers consider the United States and France high-quality suppliers for beauty products. For example, Avon sells skin-care products called Rosa Mosqueta (in Spanish), Revival (in English), and Renaissance (in French) in Chile, Argentina, and Japan, respectively. In each case, the Avon logo appears prominently on the products' containers as well.

### Global Pricing

Each country operation sets its own prices to reflect local market conditions and strategic objectives. However, at times the price difference between neighboring countries has created demand for contraband shipments from the country with lower prices - such as has recently occurred between Colombia and Venezuela. The prices are subject to change for each sales campaign. Avon runs a new campaign with different special offers every two weeks in the United States and every four weeks abroad. The shortness of campaigns is helpful for adjusting prices in highly inflationary economies. Avon also has a strategy of introducing two-tiered products that sell at different prices. The aim is to capture more up market sales while maintaining the

existing clientele. For instance, it has contracted with Christian Lacroix to develop fragrances that will sell at a higher price than Avon's traditional ones.

### Global Promotion

Although Avon's promotion is primarily through its brochures and catalogs, it also advertises. It uses such media as broadcasts and billboards and has four primary objectives: 'To sell newly launched products'. To accelerate sales in some of its fastest-growing markets, such as Russia - To recruit reps in places like China - To use a campaign called 'Hello Tomorrow' to change the public perception of its products as unfashionable and outdated to stylish and modern 'Hello Tomorrow' This campaign is Avon's first global ad campaign aimed at the image of its overarching Avon brand. Its prior global campaigns aimed at selling specific products. Despite the global campaign, some of Avon's ads vary by country. For instance, it sponsors a British TV drama about footballers' wives and one in Russia that includes a character who sells Avon products. Avon is also using celebrities to help sell its products. The Mexican film star Salma Hayek is the face of Avon. Academy Award winning actress Jennifer Hudson is the spokesperson for Imari fragrance. Baseball player Derek Jeter (yes, Avon does have some products for men too) has his name on a collection of skin-care products. Meeting the Needs of Women Worldwide Perhaps Avon's most important campaign is to develop a global image as a company that supports women and their needs, a campaign that has generated favorable publicity in media reports. Building on this theme, Avon co-hosted a Global Summit for a Better Tomorrow at the United Nations during International Women's Day, and it gives annual Women of Enterprise Awards to leading women entrepreneurs. It also publicizes how being an Avon lady heightens the role of women, which has been particularly successful at attracting new reps in developing countries such as Malaysia and the Philippines. Undoubtedly, Avon's biggest social-responsibility projects are its work internationally in fighting breast cancer and domestic violence. Avon ladies disseminate information about breast cancer along with their promotion brochures and sell items to raise money for local needs. Avon is the largest corporate donor to breast cancer research. The fight against domestic violence is a newer Avon program. It is working through local organizations to pre-vent violence through education and to treat women who have been victims.

### Global Distribution

Avon basically duplicates its distribution method in foreign countries, which means that it sells to independent representatives who have taken orders from customers they have either communicated with or visited. However, there are some variations. We have already discussed some of the changes in the United States. In Japan, there is a substantial mail-order business. In Argentina, Avon has beauty centers. Probably the biggest deviation from direct selling occurred in China, the only single-country division in Avon's global network. In response to a 1998 Chinese law prohibiting house-to-house sales, Avon quickly opened about 6,000 beauty boutiques, lined up 9,000 independent stores to carry Avon, and opened 1,000 beauty counters. Thus Avon made its products available in virtually every corner of the country.

In 2005, the Chinese government loosened its house- to- house sales regulations but with many restrictions, such as capping the commission for salespeople and preventing them from recruiting others to work on a shared- commission plan. Avon seeks to transfer successful practices in one country to other countries. To encourage the transfer of know- how, Avon brings marketing personnel from different countries together to share what it calls ' best practices', and it passes on information from country to country. It also promotes competition among countries, such as awards for country- level initiatives to improve sales, quality, and efficiency.

### Looking toward the Future

Avon has several challenges for the future. Although its direct- sales method has been important in Avon's success, there are drawbacks to it. For one, customers cannot obtain a product whenever they want it. For another, reps report many returns because customers cannot always discern exact colors from catalogs. For another, it may be difficult for Avon to capture clientele in a higher- price category while maintaining the value- for- money clientele. Avon anticipates that international operations will account for the bulk of its growth in the foreseeable future. Its products are still not available to a large portion of the world's women. It is already operating in all four BRIC countries, however, and is the market leader in two of them (Brazil and Russia).