



possible and adaptation to local conditions will be essential.

Exercise 2

A. T. Kearney publishes an annual study to help retailers prioritize their global development strategies by ranking

the retail expansion attractiveness of emerging countries based on a particular set of criteria. Find the latest version of this *Global Retail Development Index*. What criteria are used to identify the attractiveness of the retail environment in emerging countries? Categorize the top 10 countries by world region. Are there any of these countries that surprise you? Why (or why not)?

CLOSING CASE

Avon Products

For six years after Andrea Jung became CEO of Avon Products in 1999, revenues for the beauty products company famous for its direct-sales model grew in excess of 10 percent a year. Profits tripled, making Jung a Wall Street favorite. Then in 2005, the success story started to turn ugly. Avon, which derives as much as 70 percent of its revenues from international markets, mostly in developing nations, suddenly began losing sales across the globe. A ban on direct sales had hurt its business in China (the Chinese government had accused companies that used a direct-sales model of engaging in pyramid schemes and of creating "cults"). To compound matters, economic weakness in eastern Europe, Russia, and Mexico, all drivers of Avon's success, stalled growth further. The dramatic turn of events took investors by surprise. In May 2005 Jung had told investors that Avon would exceed Wall Street's targets for the year. By September she was rapidly backpedaling, and the stock fell 45 percent.

With her job on the line, Jung began to reevaluate Avon's global strategy. Until this point, the company had expanded primarily by replicating its U.S. strategy and organization in other countries. When it entered a nation, it gave country managers considerable autonomy. All used the Avon brand name and adopted the direct-sales model that has been the company's hallmark. The result was an army of 5 million Avon representatives around the world, all independent contractors, who sold the company's skin care and makeup products. However, many country managers also set up their own local manufacturing operations

and supply chains, were responsible for local marketing, and developed their own new products. In Jung's words, "they were the king or queen of every decision." The result was a lack of consistency in marketing strategy from nation to nation, extensive duplication of manufacturing operations and supply chains, and a profusion of new products, many of which were not profitable. In Mexico, for example, the roster of products for sale had ballooned to 13,000. The company had 15 layers of management, making accountability and communication problematic. There was also a distinct lack of data-driven analysis of new-product opportunities, with country managers often making decisions based on their intuition or gut feelings.



Avon employees at work in China.

Jung's turnaround strategy involved several elements. To help transform Avon, she hired seasoned managers from well-known global consumer products companies such as Procter & Gamble and Unilever. She flattened the organization to improve communication, performance visibility, and accountability, reducing the number of management layers to just eight and laying off 30 percent of managers. Manufacturing was consolidated in a number of regional centers, and supply chains were rationalized, eliminating duplication and reducing costs by more than \$1 billion a year. Rigorous return on investment criteria were introduced to evaluate product profitability. As a consequence, 25 percent of Avon's products were discontinued. New-product decisions were centralized at Avon's headquarters. Jung also invested in centralized product development. The goal was to develop and introduce blockbuster new products that could be positioned as global brands. And Jung pushed the company to emphasize its value proposition in every national market, which could be characterized as high quality at a low price.

By 2007 this strategy was starting to yield dividends. The company's performance improved and growth resumed. It didn't hurt that Jung, a Chinese-American who speaks Mandarin, was instrumental in persuading Chinese authorities to rescind the ban on direct sales, allowing Avon to recruit 400,000 new representatives in China. Then in 2008 and 2009 the global financial crisis hit. Jung's reaction: This was an opportunity for Avon to expand its business. In 2009, Avon ran ads around the world aimed at recruiting sales representatives. In the ads, female sales representatives talked about working for Avon. "I can't get laid off, I can't get fired," is what one said. Phones started to ring off the hook, and Avon was quickly able to expand its global sales force. Jung also instituted an aggressive pricing strategy, while packaging was redesigned for a more elegant look at no additional cost. The idea was to emphasize the "value for money" that Avon products represented. Media stars

were used in ads to help market the company's products, and Avon pushed its representatives to use online social networking sites as a medium for marketing themselves.

The result of all this was initially good: In the difficult years of 2008 and 2009, Avon gained global market share and its financial performance improved. However, the company started to stumble again in 2010 and 2011. The reasons were complex. In many of Avon's important emerging markets, the company found itself increasingly on the defensive against rivals such as Procter & Gamble that were building a strong retail presence there. Meanwhile, sales in developed markets spluttered in the face of persistently slow economic growth. To complicate matters, there were reports of numerous operational mistakes—problems with implementing information systems, for example—that were costly for the company. Avon also came under fire for a possible violation of the Foreign Corrupt Practices Act when it was revealed that some executives in China had been paying bribes to local government officials. Under pressure from investors, in December 2011 Andrea Jung relinquished her CEO role, although she will stay on as chairwoman until at least 2014.³⁵

Case Discussion Questions

1. What strategy was Avon pursuing until the mid-2000s? What were the advantages of this strategy? What were the disadvantages?
2. What changes did Andrea Jung make in Avon's strategy after 2005? What were the benefits of these changes? Can you see any drawbacks?
3. In terms of the framework introduced in this chapter, what strategy was Avon pursuing by the late 2000s?
4. Do you think that Avon's problems in 2010 and 2011 were a result of the changes in its strategy, or were there other reasons for this?

Endnotes

1. M. Ramsey, "Ford SUV Marks New World Car Strategy," *The Wall Street Journal*, November 16, 2011; B. Vlasic, "Ford Strategy Will Call for Stepping Up Expansion, Especially in Asia," *The New York Times*, June 7, 2011; and "Global Manufacturing Strategy Gives Ford Competitive Advantage," Ford Motor Company, http://media.ford.com/article_display.cfm?article_id=13633.
2. More formally, $ROIC = \text{net profit after tax} \div \text{capital}$, where capital includes the sum of the firm's equity and debt. This way of calculating profitability is highly correlated with return on assets.
3. T. Copeland, T. Koller, and J. Murrin, *Valuation: Measuring and Managing the Value of Companies* (New York: John Wiley & Sons, 2000).