

Cause-Related Marketing: An In-Depth Analysis

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Marketing is viewed by some individuals as a deceptive practice. However, corporations can use marketing in ways that benefit society and can also help their bottom-line. Cause-related marketing (CRM) refers to an affiliation between a for-profit corporation and a non-profit organization, through which proceeds linked with particular products are donated to a cause on a short-term or ongoing basis. Today's marketplace illustrates an increasing number of corporations strategically investing their marketing dollars on CRM. Why is this? Research shows that properly executed CRM campaigns can provide many benefits to corporations, causes, and consumers. This capstone will discuss the background of CRM, explain the importance of fit when companies align themselves with social causes, describe possible reasons for consumer skepticism, illustrate lessons learned from case histories of brands that have utilized CRM, offer implications for managers to consider, and provide an in-depth analysis of Avon Products, Inc. and recommendations for future growth utilizing cause-related marketing.

BACKGROUND

Philanthropy has increasingly been used by U.S. corporations as a strategic move to not only benefit a social cause but also to benefit their bottom-line.¹ Social marketing falls under the umbrella of strategic philanthropy and is broadly defined as a firm's initiatives to benefit a cause that may produce an association between the cause and the firm in a consumer's mind.² One of the earliest and fastest developing trends of social marketing that businesses are employing is cause-related marketing (CRM).³ Although CRM still only makes up a small portion of total

¹ Porter, Michael E.; Kramer, Mark M. "The Competitive Advantage of Corporate Philanthropy." Harvard Business Review. December 2002.

² Bloom, Paul, N.; Hoeffler, Steve; Basurto Meza, Carols E.; Keller, Kevin Lane. "How Social-Cause Marketing Affects Consumer Perceptions." Harvard Business Review. January, 2006.

³ Stole, Inger L. "Philanthropy as Public Relations: A Critical Perspective on Cause Marketing." International Journal of Communication 2, p. 20-40. 2008.

charitable expenditures made by corporations, U.S. corporate spending on CRM increased dramatically from \$125 million in the early 1990s to over \$1.4 billion in 2007.⁴

There are many forms of cause-related marketing, however the most common form is “purchase-triggered” donations, where the corporation will donate a percentage of profits generated from specific products to a social cause.⁵ Companies are now more frequently investing in CRM “affinity” marketing as a part of their strategy, as these programs “are designed to achieve objectives such as improving overall corporate reputation, differentiating a brand, attracting the interest of targeted consumers, stimulating brand preference and loyalty, attracting loyal employees and ultimately increasing profits and stock prices.”⁶

Cause-related marketing can be traced back to the early 1980s to a campaign started by American Express to assist in the restoration of the Statue of Liberty and Ellis Island.⁷ American Express committed to contribute one dollar for each new credit card issued and one cent for each credit card transaction in the last quarter of 1983 to this cause.⁸ The result was \$1.7 million donated towards the restoration efforts, along with copious amounts of publicity for American Express that produced a 28% increase in the use of their credit cards.⁹ Other corporations caught on to this strategy and applied it in various ways, and thus cause-related marketing was born.

BRANDING

⁴ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008.

⁵ Ibid.

⁶ Bloom, Paul, N.; Hoeffler, Steve.; Basurto Meza, Carols E.; Keller. Kevin Lane. “How Social-Cause Marketing Affects Consumer Perceptions.” *Harvard Business Review*, January 2006.

⁷ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008.

⁸ Ibid.

⁹ Ibid.

Cause-related marketing can create positive impacts for a corporate brand. Not only can it be viewed as a tool for giving non-profit organizations and causes much-needed funds, but it can also help increase awareness of the brand as well as strengthen the brand image in the minds of consumers. Many marketing experts accept that in order to effectively “leverage” brands, the brands must represent much more than simply a physical product.¹⁰ This is where branding comes in; branding seeks to create positive thoughts, feelings, and actions for consumers with respect to the brand.¹¹ If correctly executed, the task of learning about consumers and what is important to them could “bolster a brand’s equity and provide an opening through which the consumer/brand relationship might deepen.”¹² Therefore, marketing campaigns that incorporate a social cause into the brand identity are becoming more popular as businesses are striving to strengthen their brand equity.¹³ To support this, research indicates that 84% of Americans agreed that they “would be likely to switch brands to one associated with a good cause, if price and quality are similar.”¹⁴

FIT AND IMPORTANCE OF THE BRAND/CAUSE ALLIANCE

¹⁰ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008.

¹¹ Kotler, Philip; Lee, Nancy R. “Social Marketing: Influencing Behaviors for Good,” 3rd edition. Sage Publications, 2008.

¹² Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008.

¹³ Ibid.

¹⁴ Bloom, Paul, N.; Hoeffler, Steve.; Basurto Meza, Carols E.; Keller. Kevin Lane. “How Social-Cause Marketing Affects Consumer Perceptions.” *Harvard Business Review*, January 2006.

The term “fit” as it relates to CRM describes the extent to which a company’s goals and its partnering non-profit’s mission and goals are aligned.¹⁵ Fit is also regarded as “initiatives in which the logic behind the brand’s affiliation can be easily recognized by most consumers.”¹⁶

Cause-related marketing campaigns that have a high degree of fit with a brand or corporation generally create a more positive brand image and affect towards the brand than campaigns with a “weaker” fit.¹⁷ However, when a corporation chooses a high-fit initiative for a CRM campaign, consumers may view this as “opportunistic” and exploiting social causes to fulfill business objectives (i.e. commercial gain).¹⁸ Additionally, the “lack of surprise or uniqueness” in high-fit CRM affiliations will most likely diminish the effectiveness among certain other consumers.

For some brands, aligning with a low-fit social cause (one that does not seem clearly connected to a brand’s mission or product offerings) might be an effective way to shock consumers into noticing their brand.¹⁹ Although this may help to differentiate the brand, it may also lead to skepticism if the alliance seems too far-fetched. Although such conflicting partnerships are not advised, more research is needed as it is “unclear whether a promotional initiative that highlights affiliation with a social cause will be more or less effective when there is a high versus low degree of fit between the brand and the cause.”²⁰

Research also indicates that a consumer’s familiarity of a brand has a greater impact in terms of attitude towards the brand and purchase intent than that of the consumer’s perceived importance

¹⁵ Adler, Stephen M. “Cause for Concern: Results-Oriented Cause Marketing.” Thomson, 2006.

¹⁶ Bloom, Paul, N.; Hoeffler, Steve.; Basurto Meza, Carols E.; Keller. Kevin Lane. “How Social-Cause Marketing Affects Consumer Perceptions.” Harvard Business Review, January 2006.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Bloom, Paul, N.; Hoeffler, Steve.; Basurto Meza, Carols E.; Keller. Kevin Lane. “How Social-Cause Marketing Affects Consumer Perceptions.” Harvard Business Review, January 2006.

²⁰ Ibid.

of a social cause.²¹ However, the affiliation with a “more important” social cause positively can impact a brand that is not as familiar for consumers, which puts the less familiar brand “on par with the more familiar brand in terms of attitudes and purchase intent” due to cause-related marketing.²² Counter-intuitively, research shows that “familiar” brands that are aligned with “more important” causes actually create a minor decline in attitudes and purchase intentions when compared to aligning with a “less important” cause.²³ Thus, although most managers believe that fit is extremely important when creating alliances, it is also important to assess how relevant fit is compared to cause importance, particularly for a more familiar brand.²⁴ Marketers can create more effective partnerships for CRM campaigns by knowing that “cause importance is more influential than fit under certain circumstances, such as for an unfamiliar brand, but fit is more relevant for a familiar brand.”²⁵

WIN/WIN PHILOSOPHY FOR CRM PARTNERSHIPS²⁶

Stephen M. Adler gives his recipe for a perfect CRM relationship as the following:

1. “Determine if the corporation’s and non-profit’s cultures are aligned.”²⁷
2. “Identify differences between the corporation’s and nonprofit’s culture.”²⁸
3. “Get to know each other.”²⁹
4. “Set clear expectations.”³⁰
5. “Create an internal team.”³¹

²¹ Lafferty, Barbara A. “Selecting the Right Cause Partners for the Right Reasons: The Role of Importance and Fit in Cause-Brand Alliances.” *Psychology & Marketing*, Vol. 26 (4): p. 359-382. April 2009.

²² Ibid.

²³ Ibid.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Adler, Stephen M. “Cause for Concern: Results-Oriented Cause Marketing.” Thomson, 2006.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Adler, Stephen M. “Cause for Concern: Results-Oriented Cause Marketing.” Thomson, 2006.

³⁰ Ibid.

6. "Develop communication strategies."³²
7. "Set benchmarks."³³

CAUSE MARKETING & PUBLIC RELATIONS

For almost 100 years, public relations has served as an important tool for American corporations as they use PR to "defuse, impress, or evade critics in order to create a business-friendly atmosphere."³⁴ Corporations involved in cause-related marketing also rely on PR to bring awareness to their efforts and to create a sense of goodwill for their brands.³⁵ Although results are not usually quantified, corporations can greatly benefit through CRM specifically because they can improve the awareness and reputation of their brand image, and even increase profits and sales.³⁶ This is achieved through the great amount of PR received as a result of cause-related marketing campaigns. However, self-serving goals cannot be revealed to the public in order for a PR campaign to be successful, thus corporations are usually shown as fulfilling a more "altruistic objective."³⁷ This exclusion of information in PR can lead to consumer skepticism.

CONSUMER SKEPTICISM

³¹ Ibid.

³² Ibid.

³³ Ibid.

³⁴ Stole, Inger L. "Philanthropy as Public Relations: A Critical Perspective on Cause Marketing." *International Journal of Communication* 2, p. 20-40. 2008.

³⁵ Porter, Michael E.; Kramer, Mark M. "The Competitive Advantage of Corporate Philanthropy." *Harvard Business Review*. December 2002.

³⁶ Stole, Inger L. "Philanthropy as Public Relations: A Critical Perspective on Cause Marketing." *International Journal of Communication* 2, p. 20-40. 2008.

³⁷ Ibid.

A concern in the area of cause-related marketing is that many campaigns may heavily emphasize the associated social cause and “downplay the business objective,” thus raising the issue of deception and consumer skepticism.³⁸ Prior research suggests that skepticism is a “trait that predisposes individuals to doubt the veracity of marketing communication, including advertising and public relations.”³⁹ Generally, consumers may perceive corporations to have “altruistic motives” for engaging in CRM campaigns,⁴⁰ however consumers may have suspicions when corporations “profess purely public-serving motives” because they may perceive that these corporations have “ulterior motives such as profit or image management.”⁴¹ However, the public may not just be skeptical because they believe cause-related marketing campaigns to be self-serving for the corporations, but may have doubts because they perceive the corporations are being misleading about their true motives.⁴²

Cause-related marketing can provide benefits for the corporation as well as for society; however many corporations exclusively promote their partnerships with non-profits as benefiting a particular cause, and tend to leave out the fact that this relationship is mutually beneficial.⁴³ The question is whether or not corporations should publicly acknowledge their “self-serving motives” along with their “public-serving motives,” or if this acknowledgment will distract consumers from the positive impacts of their campaign.⁴⁴ Forehand and Grier suggest that corporations can

³⁸ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008.

³⁹ Forehand, Mark R. Grier, Sonya. “When is Honesty the Best Policy? The Effect of Stated Company Intent on Consumer Skepticism.” *Journal of Consumer Psychology* (13) 3, pp. 349-356. 2003.

⁴⁰ Folse, Judith A.; Niedrich, Ronald W.; Grau Stacy L. “Cause-Related Marketing: The Effects of Purchase Quantity and Firm Donation Amount on Consumer Inferences and Participation Intentions.” *Journal of Retailing*, New York University. February 2010.

⁴¹ Ibid.

⁴² Ibid.

⁴³ Forehand, Mark R. Grier, Sonya. “When is Honesty the Best Policy? The Effect of Stated Company Intent on Consumer Skepticism.” *Journal of Consumer Psychology* (13) 3, pp. 349-356. 2003.

⁴⁴ Forehand, Mark R. Grier, Sonya. “When is Honesty the Best Policy? The Effect of Stated Company Intent on Consumer Skepticism.” *Journal of Consumer Psychology* (13) 3, pp. 349-356. 2003.

“insulate themselves from the negative effects of consumer skepticism by being forthright about their motives.”⁴⁵

On the other hand, poorly executed and seemingly hypocritical CRM campaigns may also create consumer skepticism.⁴⁶ Consumers may not believe that a firm is genuinely interested in helping a cause (such as giving aid to terminally sick children, supporting cancer research, or fighting hunger and AIDS in Africa), but is instead using the cause as just another way to sell their products (fast food, shoes, diapers, clothing). Research shows that only 12% of survey takers found “corporate donation claims to be completely credible,” while 17% of survey takers did not believe these claims at all.⁴⁷ Public skepticism has intensified to an even greater degree in the aftermath of the numerous U.S. corporate scandals.⁴⁸ Thus, only those corporations that can establish their significant impact on a social cause will be granted more credibility than firms who are simply considered “big givers.”⁴⁹

Watchdog organizations, such as the Breast Cancer Action advocacy group (BAC), promote this skepticism and “encourage consumers to ask critical questions about campaign tactics,” including the reasonability of the required purchase quantity versus donation to the cause.⁵⁰ For instance, BAC recently created the “Think Before You Pink” campaign to “question the involvement of corporate America in the fight against breast cancer.”⁵¹ BAC noticed many

⁴⁵ Ibid.

⁴⁶ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008

⁴⁷ Ibid.

⁴⁸ Porter, Michael E.; Kramer, Mark M. “The Competitive Advantage of Corporate Philanthropy.” *Harvard Business Review*. December 2002.

⁴⁹ Ibid.

⁵⁰ Folse, Judith A.; Niedrich, Ronald W.; Grau Stacy L. “Cause-Related Marketing: The Effects of Purchase Quantity and Firm Donation Amount on Consumer Inferences and Participation Intentions.” *Journal of Retailing*, New York University. February 2010.

⁵¹ Kedrowski, Karen M.; Sarow, Marilyn S. “Cancer Activism: Gender, Media, and Public Policy.” University of Illinois Press. 2007.

companies were simply slapping pink ribbons onto their products, which are often seen as the symbol for the breast cancer movement, and calling themselves supporters of breast cancer.⁵² The number of corporations that are employing the pink ribbon is rising, and so is consumer skepticism of the sincerity of their involvement.

CASE HISTORIES

Susan G. Komen & Multiple Brands

This Susan G. Komen Breast Cancer Foundation was founded in 1982 with the mission to “eradicate breast cancer as a life-threatening disease,” and has become “one of the most visible fundraising organizations for cancer research as well as a favorite charity for cause marketers.”⁵³ This non-profit organization has been “successful in building relationships with a variety of industries that target women consumers.”⁵⁴ Many of the Komen Foundation’s CRM alliances are high-fit, however Komen is also involved in low-fit affiliations with multiple corporations.

A successful, long-term affiliation includes Yoplait, which donates 10 cents per each of the first 30 million returned yogurt lids to the Komen Foundation in the last few months of each year.⁵⁵ With Yoplait largely targeting female consumers in advertising and promotional strategies, this well-conceived campaign hit on an issue that is relevant to many women. It also provided a potential intrinsic reward for consumers by making them active participants in donation efforts by simply having them return part of the packaging of the yogurt they already purchased.

⁵² Ibid.

⁵³ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008

⁵⁴ Kedrowski, Karen M.; Sarow, Marilyn S. “Cancer Activism: Gender, Media, and Public Policy.” University of Illinois Press. 2007.

⁵⁵ Ibid.

A low-fit affiliation is that of BMW and Komen, which has had both short-term and long-term campaigns. BMW's short-term CRM campaign called "Ultimate Drive" committed to donate one dollar for each mile of test-driving done during a particular period of time.⁵⁶ BMW also participates in ongoing CRM efforts by donating 80% of profits from sales of their "BMW Pink Ribbon Collection" apparel.⁵⁷

A current example of a highly criticized low-fit CRM alliance is Kentucky Fried Chicken's affiliation with the Komen Foundation in a campaign called "Buckets for the Cure," where KFC will donate 50 cents for each pink bucket of chicken purchased.⁵⁸ This alliance has led to a great skepticism from consumers because of the extremely low-fit and almost conflicting partnership between KFC and Komen. Although there is no direct connection between eating fried chicken and getting breast cancer, "according to medical experts, there is an established connection between eating fatty, high caloric food and the risk for breast cancer."⁵⁹ Since KFC sells fatty foods, many feel that it is hypocritical that they are now also donating the profits of their fatty food to fund breast cancer prevention and awareness efforts.⁶⁰ This campaign sends "mixed-messages,"⁶¹ and that is not beneficial for the corporation or the cause.

IKEA and UNICEF

⁵⁶ Stole, Inger L. "Philanthropy as Public Relations: A Critical Perspective on Cause Marketing." *International Journal of Communication* 2, p. 20-40. 2008

⁵⁷ Ibid.

⁵⁸ Hutchison, Courtney. "Fried Chicken for the Cure? Skepticism Plagues KFC's Pink Bucket Breast Cancer Campaign." *ABC News/Health*. 24 April 2010.

⁵⁹ Hutchison, Courtney. "Fried Chicken for the Cure? Skepticism Plagues KFC's Pink Bucket Breast Cancer Campaign." *ABC News/Health*. 24 April 2010.

⁶⁰ Ibid.

⁶¹ Ibid.

IKEA, a worldwide manufacturer and retailer of home furniture, has formed a successful long-term partnership with UNICEF.⁶² Both IKEA and UNICEF have a common commitment to social responsibility and thus their partnership creates mutual benefits.⁶³ In 2003, IKEA created a CRM campaign that goes beyond its commitment of cash and in-kind donations; IKEA promised to donate a portion of profits from every “soft toy” sold during the holiday season to UNICEF.⁶⁴ This campaign has generated \$14 million in support over the past 5 years for UNICEF, which has helped to provide better and more hopeful futures for children worldwide.⁶⁵ IKEA does not spend very much of its marketing dollars highlighting its social marketing efforts with UNICEF, which may increase credibility among consumers.

(RED) Campaign

In 2006, multiple large corporate brands banded together under the (RED) campaign to raise money for the Global Fund, which focused on the issue of AIDS in Africa.⁶⁶ The brands involved in the campaign included the Gap, Converse, Apple, American Express, Armani, and Motorola.⁶⁷ Although these brands and their associated (RED) products and services were not necessarily relevant to the social cause, their branding helped bring awareness to the cause.⁶⁸ Each manufacturer committed to donate an average of 50% of their profits towards the cause, however donations varied by corporation. For instance, Motorola donated 8-10% of profits from

⁶² Adler, Stephen M. “Cause for Concern: Results-Oriented Cause Marketing.” Thomson, 2006.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ “International Partners: IKEA.” UNICEF. http://www.unicef.org/corporate_partners/index_25092.html

⁶⁶ Smith, N. Craig. “Bounded Goodness: Marketing Implications of Drucker on Corporate Responsibility.” *Journal of the Academy of Marketing Science*, 37: 73-84. 2008.

⁶⁷ Ibid.

⁶⁸ Ibid.

the sale of its (RED) MotoRazr phone, then priced at \$165 while Converse donated 10-15% of profits from its (RED) shoes and apparel.⁶⁹

(RED) was an extremely visible CRM campaign, and it did attract some criticism. Much of this was due to the fact that while the campaign raised approximately \$18 million for the Global Fund and the AIDS cause, the brands involved had collectively spent an estimated \$100 million to “publicize their participation in the campaign.”⁷⁰

MANAGERIAL IMPLICATIONS

Research done through “Business in Community” indicates the following statistics:⁷¹

- “96% of Marketing Directors have said they appreciate the benefits of CRM in address both business and social issues.”⁷²
- “77% of Chief Executives and Marketing Directors believe CRM can enhance corporate or brand reputation.”⁷³
- “98% of consumers in the UK and U.S.A. are now aware of at least one CRM” initiative.⁷⁴
- “73% of U.S. customers have participated in at least one CRM campaign.”⁷⁵
- “48% showed an actual change in behavior, reporting that they switched brands, increased usage, or tried or enquired about new products.”⁷⁶

Cause-related marketing can be a valuable instrument in not only helping a cause, but also in improving consumer perceptions of a company or brand.⁷⁷ The lesson for managers is that although they may be looking to improve their bottom-line, corporations should not align

⁶⁹ Stole, Inger L. “Philanthropy as Public Relations: A Critical Perspective on Cause Marketing.” *International Journal of Communication* 2, p. 20-40. 2008

⁷⁰ Ibid.

⁷¹ Adkins, Sue. “Cause Related Marketing: Who Cares Wins.” *Business in the Community*, 2004.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Adkins, Sue. “Cause Related Marketing: Who Cares Wins.” *Business in the Community*, 2004.

⁷⁵ Ibid.

⁷⁶ Ibid.

⁷⁷ Folse, Judith A.; Niedrich, Ronald W.; Grau Stacy L. “Cause-Related Marketing: The Effects of Purchase Quantity and Firm Donation Amount on Consumer Inferences and Participation Intentions.” *Journal of Retailing*, New York University. February 2010.

themselves with non-profit organizations when their products or services conflict with the cause that they stand for.⁷⁸ They should also make efforts to decrease consumer skepticism and increase the credibility of their affiliations. Although assessments of the importance of high-fit versus low-fit will differ across brands, a hypocritical affiliation will most likely cause negative publicity rather than positive awareness.

Managers should also understand that successful relationships between corporations and non-profit organizations for CRM campaigns require time to develop and cultivate.⁷⁹ Additionally, managers should recognize that CRM campaigns may not initially produce substantial results for their brand.⁸⁰ It is also important for brand managers to evaluate the target markets for their given brand in order to assess the extent to which their companies should be involved in CRM.

Paul Bloom et al. suggest asking the following questions:⁸¹

1. “Are there a sufficient number of consumers in the brand’s desired target market who have a strong affinity for the social cause under consideration for affiliation?”⁸²
2. “Will consumers from desired target markets find it credible that this brand is affiliated with this social cause, or will they view such support with suspicion?”⁸³
3. “Does the brand differentiate itself from its competitors in the eyes of desired target markets through supporting this affiliate, or does the brand look like a copycat?”⁸⁴

⁷⁸ Kedrowski, Karen M.; Sarow, Marilyn S. “Cancer Activism: Gender, Media, and Public Policy.” University of Illinois Press. 2007.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Bloom, Paul, N.; Hoeffler, Steve.; Basurto Meza, Carols E.; Keller, Kevin Lane. “How Social-Cause Marketing Affects Consumer Perceptions.” Harvard Business Review, January 2006.

⁸² Ibid.

⁸³ Ibid.

⁸⁴ Ibid.

Bloom et al. explain that if any of these questions had negative answers, then the CRM partnership under consideration should not be a central part of the brand's marketing and promotional strategies.⁸⁵ Additionally, brand managers should test the effectiveness that the CRM campaign could have on desired target markets by conducting studies using conjoint analysis, which is a valuable marketing tool that could help corporations forecast which CRM affiliations could offer the best return on investment.⁸⁶ When doing this evaluation, managers must be careful not to upset the public as ethical concerns may be raised. For instance, a firm may encounter negative publicity if it has been found to select a cause not on the "basis of the potential good that can be achieved but, rather, on the free publicity and increased sales that particular affiliation might bring to the company."⁸⁷

Managers can also use research findings to ascertain the "effects of purchase quantity and firm donation on consumer inferences and participation intentions."⁸⁸ Research suggests that when corporations increase the amount of donation towards a cause through CRM, this promotes consumer perception of the firm having "altruistic motives" and corporate social responsibility.⁸⁹ However, when the amount that is required of consumers to purchase in a CRM campaign is larger than expected, there may be negative effects and perceptions of the firm involved.⁹⁰ Thus, campaigns should be kept relatively simple and the "expected consumer contribution" through

⁸⁵ Bloom, Paul, N.; Hoeffler, Steve.; Basurto Meza, Carols E.; Keller, Kevin Lane. "How Social-Cause Marketing Affects Consumer Perceptions." *Harvard Business Review*, January 2006.

⁸⁶ Ibid.

⁸⁷ Stole, Inger L. "Philanthropy as Public Relations: A Critical Perspective on Cause Marketing." *International Journal of Communication* 2, p. 20-40. 2008.

⁸⁸ Folse, Judith A.; Niedrich, Ronald W.; Grau Stacy L. "Cause-Related Marketing: The Effects of Purchase Quantity and Firm Donation Amount on Consumer Inferences and Participation Intentions." *Journal of Retailing*, New York University. February 2010.

⁸⁹ Ibid.

⁹⁰ Ibid.

purchase should also be kept minimal.⁹¹ It is important that corporations not ask consumers to purchase more than expected as these campaigns are generally disregarded.⁹² If corporations have lower consumer purchase requirements, their motives are more likely to be perceived as genuine and consumer “attitudes towards their promoted brand will improve.”⁹³ Additionally, managers should avoid combining cause-related marketing with sales promotion tactics because while CRM produces mainly intrinsic rewards for consumers (i.e. feel good), sales promotional tactics such as coupons, loyalty programs, and rebates produce both intrinsic and extrinsic rewards (i.e. feel good and save money).⁹⁴

For managers looking at the big picture and taking the aerial perspective across all business functions, the following analysis of Avon Products, Inc. may prove relevant as it illustrates cause-related marketing as a part of the overall business strategy. Avon Foundation is the non-profit philanthropic branch of Avon Products, Inc., and its mission is to serve the causes of women on a global level.⁹⁵ Avon is not just a “check writing philanthropy”; they go out and create programs together with existing programs in those communities.⁹⁶ Currently Avon Foundation is working to increase awareness and generate fundraising for causes such as breast cancer (Breast Cancer Crusade) and stopping the cycle of domestic violence (Speak Out Against Domestic Violence) by engaging in CRM with proceeds donated from particular products to these causes.⁹⁷ Fighting breast cancer and stopping the cycle of domestic violence are causes that

⁹¹ Folse, Judith A.; Niedrich, Ronald W.; Grau Stacy L. “Cause-Related Marketing: The Effects of Purchase Quantity and Firm Donation Amount on Consumer Inferences and Participation Intentions.” *Journal of Retailing*, New York University. February 2010.

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Avon Philanthropy. <http://www.avoncompany.com/women/>

⁹⁶ Klepacki, Laura. “Avon: Building the World’s Premier Company for Women.” John Wiley & Sons, Inc. 2005.

⁹⁷ Avon Philanthropy. <http://www.avoncompany.com/women/>

are very meaningful to Avon's target market of female consumers,⁹⁸ and thus their cause-related marketing campaigns have been successful in raising funds as well as in creating a positive brand image for Avon.

The following strategic analysis gives a background of Avon's business functions and offers recommendations for how Avon can further utilize cause-related marketing to grow its Mark brand and eventually expand sales and profits for Avon.

⁹⁸ Kedrowski, Karen M.; Sarow, Marilyn S. "Cancer Activism: Gender, Media, and Public Policy." University of Illinois Press. 2007.



Corporate Headquarters
1345 Ave of the Americas,
New York, NY 10105
www.avon.com

MEMORANDUM

To: Andrea Jung, Chairman & CEO of Avon Products, Inc.

From: Aditi Jhaveri, Consultant

Date: 4/21/2010

Re: Strategic plan for Mark brand expansion

EXECUTIVE SUMMARY

Avon is a multinational, multi-billion dollar direct-selling beauty brand.⁹⁹ With a sales force of 500,000 women in the U.S. and 6 million sales representatives worldwide in 100 countries as well as increased marketing efforts in recent years, Avon is a well-known and successful brand that has customer contact and touchpoints virtually everywhere.¹⁰⁰ Mark, Avon's beauty line for young women, has enjoyed moderate success since its launch in 2003. However Mark's revenues account for under 1% of Avon's total revenues and is not as well known by consumers as the Avon brand. In the long term, Avon can do more to expand the Mark brand in order to generate an increase in overall sales and revenue for Avon Products, Inc. by the recommendations in this memo.

⁹⁹ IBISWorld. "US Direct Selling Companies Industry Market Research Report. 2009.

¹⁰⁰ Avon Products, Inc. 2009 Annual Report.

COMPANY OVERVIEW¹⁰¹

Avon Products, Inc. is a 125-year-old global manufacturer and distributor of beauty related products. Sales operations currently exist in 65 countries and territories including the U.S., and distribution of products in 40 more (See Figure in Appendix). Avon's sales force and consumer base are 99% comprised of women, and thus it is fittingly considered "the company for women."

Avon Brand

Avon is an emotional brand that is linked with the global community of women. The core values of the company are trust, belief, respect, humility, and integrity¹⁰² (See Figure in Appendix).

Avon has always been a brand associated with low-cost products, however in recent years, Avon has made a move to build prestige for their brands.¹⁰³ They have partnered with a diverse array of celebrity spokespersons including: Reese Witherspoon, Fergie, Zoe Saldana, Patrick Dempsey, makeup artist Jillian Dempsey, Derek Jeter; Jennifer Hudson, and Salma Hayek. Avon's designer alliances have included Cynthia Rowley, Christian Lacroix and Emanuel Ungaro, and marimekko.

Direct Sales Model

David McConnell, Avon's founder, saw a business advantage in the woman-to-woman sales model because it added a dimension of personal understanding and touch to the business

¹⁰¹ Avon Products, Inc. 2009 Annual Report.

¹⁰² www.Avon.com

¹⁰³ Prior, Molly. "Fergie Adds Sparkle to Avon's Celebrity Portfolio." WWDBeauty. October 16, 2009.

exchange.¹⁰⁴ The sales representatives, along with the Avon brochure, represent Avon's "store," and are thus a vital part of the company.¹⁰⁵

The representative contacts the consumer directly, takes their order, and forwards this to the main offices using phone, Internet, fax, or mail. The cost of sending a form online is \$.30 while the paper form is \$1.50.¹⁰⁶ The order is then processed, assembled at a distribution center, and mailed directly to the representative. The representative generally delivers the product to the consumer in a face-to-face meeting and collects payment. Sales representatives do not pay Avon until they receive payment from consumers, and they are also safeguarded by a return sales provision that allows representatives to return items unwanted by consumers. Returns for 2009 accounted for 3.5% of total revenue and bad debt accumulated over the past 3 years (as a result of sales representatives failing to pay the company for products) has accounted for 2% of the total revenue.¹⁰⁷

As a result of the direct sales model, Avon is bigger than retail competitors such as Estee Lauder.¹⁰⁸ This is because although Avon must pay the sales representatives a commission and invest in incentive programs for them, Avon is still saving money with its low overhead (no store space), reserves to spend on research to launching groundbreaking products, and employees who set their own targets that reflect success.¹⁰⁹

¹⁰⁴ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹⁰⁵ Avon Products, Inc. 2009 Annual Report.

¹⁰⁶ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹⁰⁷ Avon Products, Inc. 2009 Annual Report.

¹⁰⁸ Aidin, Beatrice. "Avon calling the shots; Direct sales companies are enjoying unprecedented success in the recession." London (UK). July 4, 2009.

¹⁰⁹ Aidin, Beatrice. "Avon calling the shots; Direct sales companies are enjoying unprecedented success in the recession." London (UK). July 4, 2009.

Avon's Performance in Recession

While the economy has faced a downturn in recent years, direct-sales companies such as Avon have aggressively expanded their market share.¹¹⁰ Avon has taken advantage of low barriers to entry in order to establish a new business, and has encouraged women to join their sales team to supplement their income, make great money, and be their own boss in the struggling times. Avon worked to capitalize on the trend of “smart value” during the recession by encouraging consumers to do some brand switching between their more expensive retail competition and convert to Avon, which provides comparable products at a much lower price. (See Figure in Appendix). Avon cut prices and distributed a “Beauty on a Budget” brochure as well. Avon has also benefited from the recession in that they have been able to hire more sales representatives even as world unemployment is still high.¹¹¹ Although revenues in 2008 were about \$10.7 billion, the continued recession has led revenues to drop 3% to \$10.4 billion in 2009.

Sales Management structure¹¹²

The 1400 district sales managers → report to 80 divisional sales managers → report to 7 regional sales directors → report to 3 regional Vice Presidents → report to Angie Rossie (Avon's group VP of sales and customer care).

District sales managers and zone managers are responsible for recruiting and training new sales representatives.

¹¹⁰ IBISWorld. “US Direct Selling Companies Industry Market Research Report. 2009.

¹¹¹ Marcial, Gene. “Avon: Calling more sales reps.” BusinessWeek. New York. July 6, 2009.

¹¹² Klepacki, Laura. “Avon: Building the World's Premier Company for Women.” John Wiley & Sons, Inc. 2005.

Human Resources

Avon saw a 9% growth in recruitment of sales representatives in 2009, and has about 6 million sales representatives selling their products worldwide.¹¹³ These representatives are independent contractors and not employees, however Avon's success is very much dependent on "recruiting, retaining, and servicing" their representatives.¹¹⁴ In order to counter the high turnover that is in the nature of the direct sales industry, Avon offers the Sales Leadership Program that offers incentives and bonuses to sales representatives who sell a specified amount per campaign and have recruited additional representatives.¹¹⁵ Avon believes that they provide women with an opportunity for earning and financial independence (See Figure in Appendix). Working for Avon can be more than a way of just earning an income; for many women, it is a tool for personal development and a way to craft an identity as an entrepreneur.¹¹⁶ Avon also has around 42,000 employees, of which 6,000 are employed in the U.S. and the remaining are employed in other countries around the world.¹¹⁷

Finance

Although revenues increased during 2008's recession, they decreased by 3% in 2009 at approximately \$10.4 billion.¹¹⁸ As 75% of Avon's revenues are generated outside North America, the decrease in revenue was impacted by the continued depressed economy and unfavorable foreign exchange rates.¹¹⁹ Avon has operated nearly debt free throughout its

¹¹³ Avon Products, Inc. 2009 Annual Report.

¹¹⁴ Avon Products, Inc. 2009 Annual Report.

¹¹⁵ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹¹⁶ Dailey, Kate. The "Tupperware Effect: Can Direct Sales Help Women Living in Poverty Throughout the World?" Newsweek. March 2, 2010.

¹¹⁷ Avon Products, Inc. 2009 Annual Report.

¹¹⁸ Avon Products, Inc. 2009 Consolidated Financial Statements. Securities and Exchange Commission.

¹¹⁹ Avon Products, Inc. 2009 Annual Report.

history.¹²⁰ However, Avon is now carrying a debt load of about \$2.4 billion. Selling, general, and administrative costs increased to be 52.7% of total revenue (up from 50.5% in 2008) as a result of restructuring initiatives.¹²¹

Avon continues with robust operating cash flow. While a number of companies cut their dividends throughout 2009, Avon increased its dividend a year ago by 5% and maintained that payment through the year. Avon (AVP) has been trading between \$20.75 and \$36.39 during the past 52 weeks¹²² (See Figure in Appendix).

Standard & Poor's Ratings Services downgraded Avon Products Inc. (AVP) from an A to an A- rating because Avon's credit metrics remain weaker than expected despite a 16% sales improvement in overseas markets and improved margins.¹²³ However, the rating also "reflects Avon's brand strength, strong product position in the cosmetics industry and its broad international presence." The ratings outlook is stable.

Research & Development

Avon spends nearly \$50 million on R&D annually, and uses their own labs and chemists to devise formulations for their beauty products.¹²⁴ This company continues launch innovative, first-to-market products using Avon-patented technology.¹²⁵

¹²⁰ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹²¹ Avon Products, Inc. 2009 Annual Report.

¹²² Google Finance.

¹²³ Kells, John. "S&P Lowers Avon's Ratings Despite Improved 4Q Results >AVP." Dow Jones Newswire, Wall Street Journal. February 11, 2010.

¹²⁴ Associated Press. "Avon Products to open new facility in Shanghai." BusinessWeek. March 18, 2010.

¹²⁵ Jung, Andrea. "CEO's Message." Avon Company. <http://www.avoncompany.com/about/>

In 2005, Avon invested \$100 million in the new state-of-the-art R&D facility in Suffern, NY.¹²⁶

Avon also has R&D facilities around the world in Argentina, Brazil, China, Japan, Mexico, Poland, and South Africa, and plans to open another in Shanghai, China.

Production & Operations¹²⁷

Avon manufactures and packages almost all of their beauty products, for which they purchase raw materials from various suppliers.¹²⁸ They purchase all of their fashion and home products from outside suppliers as well.

In 2004, Avon completely redesigned their global supply chain model to have a smaller supplier base, local sourcing strategy, supplier partnerships, and collaboration. Doing this as well as streamlining processes for Avon Europe (to make it Avon's most established and centralized global supply chain hub) will save Avon about \$50 million annually.¹²⁹

Avon has recently implemented an enterprise resource planning (ERP) system, which is expected to improve the efficiency of their supply chain and financial transaction processes. This implementation has already occurred in specific markets of significance and will occur over the next several years¹³⁰

Avon uses just in time inventory to accommodate their direct selling model. Each order is processed and packaged at the respective distribution center servicing the representative's region. Currently, there is a high cost of distribution since small, individual boxes are sent to many

¹²⁶ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹²⁷ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹²⁸ Avon Products, Inc. 2009 Annual Report.

¹²⁹ Cohen, Shoshana; Roussel, Joseph. "Avon Gets Its (Supply Chain) Makeover. Fortune. November 1, 2004.

¹³⁰ Avon Annual Report 2008.

people. There are approximately 450,000-500,000 orders going out of 4 shipping centers every 2 weeks. Thus, Avon boasts a 97-98% order accuracy while the industry average is 92-93%.¹³¹

Marketing

Sales Forecasting¹³²

Forecasting sales is a very important part of Avon's success, and thus a lot of emphasis is placed on it to make sure that representative's order can be fulfilled when it comes in. To get an accurate idea of quantity each distribution center will need, Avon draws from its records of relative historical sales data for all items and combines this with trend information to forecast future purchase rates.

Product¹³³

Avon has broad and differentiated products in their beauty, fashion, and home categories of products. Avon's beauty category consists of color cosmetics, fragrances, personal care, and skin care. Their fashion category consists of apparel, jewelry, accessories, watches, and footwear. Avon's home category consists of decorative products, house wares, entertainment, leisure, nutritional items, and children's products. Their key brands are Anew skin care (anti-aging line), Skin-so-soft (bath oils and bug guard), Avon Color, AdvanceTechniques hair care, and Avon Wellness. (See Figure in Appendix)

¹³¹ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹³² Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹³³ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

Avon focuses on launching a breakthrough product every two years and has recently turned to focus more on innovative and attractive packaging.¹³⁴ Examples of this can be seen with Reese Witherspoon's perfume, In Bloom (See Figure in Appendix).

Avon's beauty products are generally made to be consumed globally, so Avon tries to meet everyone's needs in one formula. However, there are exceptions based on consumer preferences in certain geographic areas. For instance, Avon created a different skin care regimen for Japanese consumers as they prefer to have oily skin and do not like fragrances in their skin care products.

Price

Avon offers competitive pricing on its wide range of products. To attract more consumers, Avon has used their pricing structure as a way to encourage brand switching in the down economy.¹³⁵ Products are deliberately priced to undercut competition.

Distribution¹³⁶

Product information can be found through convenient and easy to access online and through catalogues, and can place orders through online at www.avon.com, or through calling or e-mailing representatives. Some representatives have licensed retail stores around the company, but there are not many besides the flagship retail store in New York, New York. Distribution is done through the manufacturing plants sending products directly to the sales representatives and then the sales reps distribute to the end-consumer (See Direct Sales Model section).

¹³⁴ Moen, Tejal J. Personal Interview. March 27, 2010.

¹³⁵ Avon Products, Inc. 2009 Annual Report.

¹³⁶ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

Promotion

Avon focuses on two types of promotions: One is to encourage consumers buy to their products and the other is to bring awareness to the great economic empowerment opportunity an individual can have by joining Avon's sales team. Sales representatives themselves are a method of promotion for the latter method. Avon uses a multilevel marketing strategy, through which consumers can become sales representatives and can benefit from also recruiting other customers to become saleswomen.¹³⁷

In 2009, Avon spent \$352.7 million on advertising globally.¹³⁸ Although Avon has increased spending in advertising over the past 3 years, they decreased ad spend of products by 10% in 2009 based on improved productivity. However, Avon has almost doubled the amount of television and print advertisements primarily for promotions of cause-related marketing campaigns and recruiting sales representatives.¹³⁹

Of its direct-selling beauty firm competitors (See Figure in Appendix), Avon is the only one that consistently advertises in print or broadcast media. However, Avon spends much less advertising than its retail competitors such as Cover Girl and Maybelline.¹⁴⁰ The company also supports its promotional activities with a heavy presence online, using paid search marketing, a newly designed website with a user-friendly interface, and its own YouTube channel and Facebook page.¹⁴¹

¹³⁷ Packaged Facts. "Teen & Tween Grooming Products: U.S. Market." MarketResearch.com. December 1, 2007.

¹³⁸ Avon Products, Inc. 2009 Annual Report.

¹³⁹ Avon Products, Inc. 2009 Annual Report.

¹⁴⁰ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹⁴¹ Anonymous. "Avon calling for a new generation." Marketing Week. London. May 21, 2009.

Additionally, Avon uses sales promotions to develop sales tools for its representatives including the Avon brochure, demonstration pieces, and samples.¹⁴² The Avon catalogue has been one of the main sales tools throughout Avon's history. 17 million brochures go out every 2 weeks and they produce around 800 million each year.¹⁴³

Avon Foundation

Avon Foundation is the non-profit philanthropic branch of Avon Products, Inc. Its mission is to serve the causes of women on a global level. Currently Avon Foundation is working to increase awareness and generate fundraising for causes such as breast cancer (Breast Cancer Crusade), stopping the cycle of domestic violence (Speak Out Against Domestic Violence), disaster relief (in Haiti, China, New Orleans, etc.), and environmental concerns such as planting one million trees in South America's Atlantic Rainforest (Hello Green Tomorrow).¹⁴⁴ They engage in cause-related marketing for the Breast Cancer Crusade and Speak Out Against Domestic Violence by donating proceeds from particular products to the cause and the representatives forgo their commission on these products (See Figures in Appendix).

According to a company spokeswoman, while it may be possible to quantify awareness levels for Avon's program, business generated as a result of charity work is not measured.¹⁴⁵ However, being aligned with a cause is another reason sales representatives can engage in dialogue with customers and increases loyalty to company.¹⁴⁶ From a consumer standpoint, the cause-related marketing as well as philanthropic donations to various causes can increase a positive perception

¹⁴² Avon Products, Inc. 2009 Annual Report.

¹⁴³ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹⁴⁴ Avon Philanthropy. <http://www.avoncompany.com/women/>

¹⁴⁵ Klepacki, Laura. "Avon: Building the World's Premier Company for Women." John Wiley & Sons, Inc. 2005.

¹⁴⁶ Anonymous. "Avon calling for a new generation." Marketing Week. London. May 21, 2009.

of the Avon brand.¹⁴⁷ This may encourage consumers to purchase more products from Avon. However, Avon is not just a “check writing philanthropy”; they go out and create programs together with existing programs in those communities.¹⁴⁸

Mark brand¹⁴⁹

The Mark beauty line was launched in 2003 that included products for young women aged 16 to 24. The brand’s name is derived from the idea of young women making their mark on the world.

¹⁵⁰ The product portfolio is comprised of trendy products that fit within Avon’s beauty and fashion categories. Mark started off with a \$47 million in sales in 2004 and has enjoyed a \$70 million revenue in 2009. Mark sales reps earn a 40% commission on mark beauty items and 25% on all other items. Mark representatives have to pay for their goods up-front before receiving payment from customers, unlike Avon representatives.¹⁵¹ Mark has also offered their reps an opportunity to earn credit for college to be a sales representative by creating a customized program with University of Phoenix giving college-going students the opportunity for 12 credits in business training to better run their enterprises.¹⁵²

The M.powerment campaign is a cause-related marketing campaign for fundraising and donating 100% of proceeds from purchases of specific products, such as the \$5 “Empowerment Ring,” go

¹⁴⁷ Bloom, Paul, N.; Hoeffler, Steve; Basurto Meza, Carols E.; Keller, Kevin Lane. “How Social-Cause Marketing Affects Consumer Perceptions.” Harvard Business Review. January, 2006.

¹⁴⁸ Klepacki, Laura. “Avon: Building the World’s Premier Company for Women.” John Wiley & Sons, Inc. 2005.

¹⁴⁹ Klepacki, Laura. “Avon: Building the World’s Premier Company for Women.” John Wiley & Sons, Inc. 2005.

¹⁵⁰ Warner, Fara. The Power of the Purse. Pearson, Prentice Hall. 2006.

¹⁵¹ Moen, Tejal J. Personal Interview. March 27, 2010.

¹⁵² Klepacki, Laura. “Avon: Building the World’s Premier Company for Women.” John Wiley & Sons, Inc. 2005.

towards stopping the cycle of domestic violence.¹⁵³ Lauren Conrad is the celebrity spokesperson for this campaign.

Mark's Modern Direct Sales Approach

Sales representatives are encouraged to marry high touch with high tech to appeal to their younger target. Thus, the direct sales model has been modernized by younger sales representatives to better represent the digital era and reach younger consumers in higher volumes and in a more efficient way. Mark has introduced a new direct-sales widget for online social media through which representatives (generally high school and college-age girls) can sell through their “e-tail” Facebook online boutique.¹⁵⁴ Their Facebook page has a “shop” tab and customers can befriend sales reps in their area or register to become a Mark sales rep themselves. Mark has also introduced a free iPhone application to allow representatives to view products on their phones rather than page through a traditional paper catalog (See Figure in Appendix).

RECOMMENDATIONS

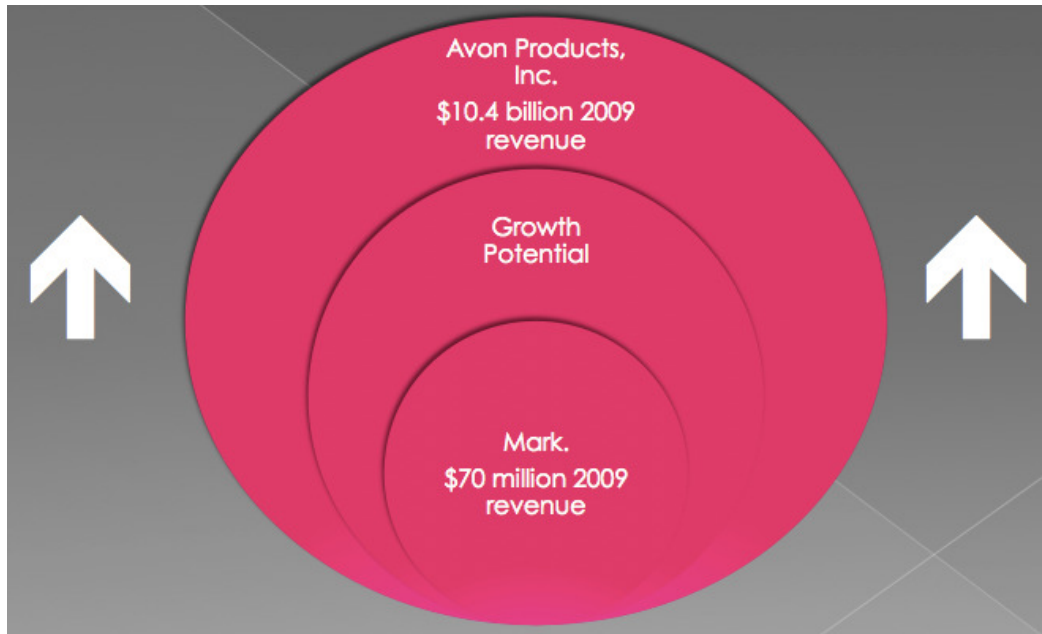
Mark is part of a long- term strategy designed to keep Avon at the forefront of a youthful image, and the rationale behind the launch was to create an opportunity for the next generation of Avon.

¹⁵⁵ However, Mark’s 2009 revenues only account for less than 1% (.067%) of Avon’s total revenue (\$10.4 billion).

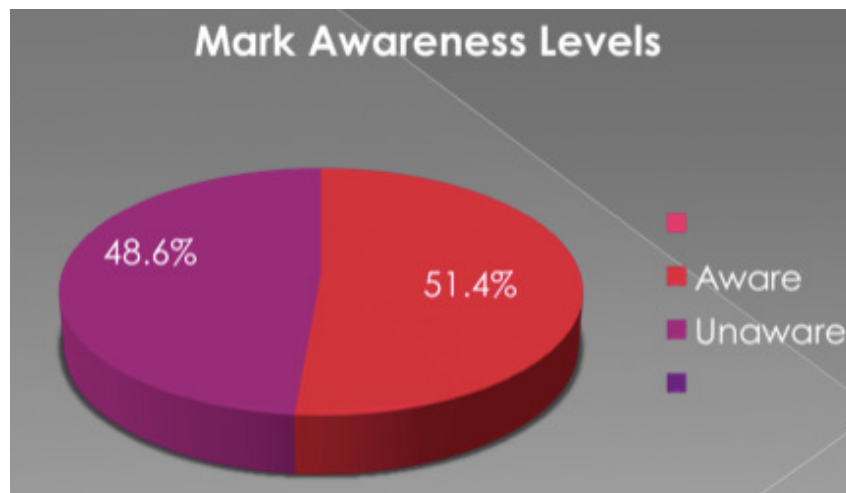
¹⁵³ Moen, Tejal J. Personal Interview. March 27, 2010.

¹⁵⁴ Sweeny, Camille. “Avon’s little sister is calling.” New York Times. March 26, 2010.

¹⁵⁵ Klepacki, Laura. “Avon: Building the World’s Premier Company for Women.” John Wiley & Sons, Inc. 2005.



Additionally, based on primary research, 89.5% of young women are aware of the Avon brand, while only 51.4% are aware of the Mark brand (See Appendix).



In order to increase sales and revenue and to capitalize on the purchasing power of young women, Avon should invest more in efforts to expand the Mark brand. They can take advantage of the power of the young women's market and reach out to them in new and innovative ways.

Specific suggestions are:

1. *Increase awareness of Mark brand by investing in more marketing and advertising expenditures specifically for Mark.*

As primary research indicates that nearly half of young women are not aware of the Mark brand, it is imperative that Avon address this issue by increasing awareness. Advertising is a key strategy for growth. In 2009, Avon spent \$352.7 million on advertising globally¹⁵⁶. Avon can apportion money from the advertising was directed towards recruitment in 2009 to invest in advertising Mark products in future years to see similar growth patterns.

Specifically, investments should be made in increasing awareness of the cause-related marketing done through the M.powerment campaign in order to increase a positive image of Mark in the minds of consumers. Through primary research, it was found that 81.1% of young women said they would be more likely to buy a Mark product if they knew that Mark was working to stop the cycle of domestic violence through fundraising and donating proceeds of particular products to the cause (See Figure in Appendix). As domestic violence is a sensitive subject, mass media advertisements may not be the best method of conveying cause-related marketing initiatives. An innovative and effective

¹⁵⁶ Avon Products, Inc. 2009 Annual Report.

way to do this is to integrate informational posters and brochures about the M.powerment campaign in college campuses and dorms to show support for young women.

2. *Increase customer base by increasing Mark sales representatives*

By pushing for an increase in Mark sales representatives, Mark will essentially be increasing the number of consumer touchpoints. This is because the number of social circles and networks will increase as sales reps generally start by selling products to their family, friends, and co-workers.

3. *Increase technology touchpoints for consumers*

Although iPhone applications already exist for Mark representatives, they do not currently exist for Mark consumers. Thus, an introduction of a new iPhone app for consumers would allow them to be able to have the Mark catalogue at their fingertips, which increases convenience and access and may increase purchasing behavior.

Additionally, this would cut production and distribution costs of catalogues, and also tie in with Avon's "Hello Green Tomorrow" initiative to help the United Nations plant one billion trees in South American rainforests.¹⁵⁷ Additionally, if consumers can tag items that they want to buy in wish lists so that sales reps can view these items and keep channels of communication open. This can also improve sales forecasting for Avon's sales, manufacturing and distribution processes.

¹⁵⁷ Avon Corporate Responsibility. <http://responsibility.avoncompany.com/page-45-Hello-Green-Tomorrow>

Consumers can also be encouraged to send facebook messages to sales reps receive a free sample. Research shows that young women prefer sampling and experimenting with products before purchasing them¹⁵⁸, and small sized samples would allow consumers a way to do that since Mark catalogues and online shopping don't allow for girls to interact with products.

4. Reduce high rate of turnover for sales representatives

Avon should create a transitional training program to retain Mark sales representatives with skills and knowledge to become Avon sales representatives. Avon sales reps can sell both Avon and Mark products, however Mark representatives can only sell Mark products. Thus, the transitional training program would essentially “graduate” sales staff into positions where they can earn greater commissions since they can sell a larger portfolio of products.

To reduce the high rate of turnover and associated loss of consumers and revenue, Avon can also focus on creating a more enticing incentive program for young women, such as winning tickets to concerts, winning a spring break cruise with a friend, etc.

¹⁵⁸ Packaged Facts. “Teen & Tween Grooming Products: U.S. Market.” MarketResearch.com. December 1, 2007.

APPENDIX

Avon Websites Worldwide

Avon is ready to speak your language in your corner of the globe. To buy or sell Avon products, please click on the names of our six geographic regions to view and then access Avon's web sites around the world.

Do you need to contact Avon?

Visit your local website, or [click here](#) for telephone and mail information.



Total Revenue by Major Country

Total Revenue by Major Country

	2009	2008	2007
U.S.	\$ 1,864.4	\$ 2,061.8	\$ 2,194.9
Brazil	1,817.1	1,674.3	1,352.0
All other	6,701.3	6,954.0	6,391.8
Total	<u>\$ 10,382.8</u>	<u>\$ 10,690.1</u>	<u>\$ 9,938.7</u>

Source: Sec.gov

Core Values

Trust means we want to live and work in an environment where communications are open—where people feel free to take risks, to share their points of view and to speak the truth as they see it. Trust people to do the right thing—and help them to understand your underlying reasoning and philosophy—and they won't disappoint.

Respect helps us to value differences, to appreciate each person for her or his unique qualities.

Through respect, we help bring out the full potential of each person.

Belief is the cornerstone of empowering associates to assume responsibilities and be the very best they can be. Believe in someone—and show it—and that person will move mountains to prove you're right.

Humility simply means we're not always right—we don't have all the answers—and we know it. We're no less human than the people who work for us, and we're not afraid to ask for help.

Integrity should be the hallmark of every Avon associate. In setting and observing the highest ethical standards and doing the right thing, we fulfill a duty of care, not only to our Representatives and customers in the communities we serve, but to our colleagues and ourselves.

Source: www.avon.com

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

Competition

Direct – Sales:
Mary Kay
Amway

Retail:
Estee Lauder - Mac
Cover Girl
Maybelline

4 Point Recession Strategy

- Attract new Representatives with the most massive recruiting campaign in Avon's history;
- Attract new consumers with the smart value of Avon's products;
- Take aggressive cost actions to counter significant negative currency headwinds; and
- Stay the course on the four-point sustainable profitable growth plan launched in 2005 which remains our long-term roadmap for the future.

Source: Avon Products, Inc. 2009 Annual Report

Avon Foundation Corporate Responsibility, Philanthropy, and Cause-related Marketing Campaigns



hello
green
tomorrow

Plant a tree with AVON

Avon is planting our first 1 Million trees in South America's Atlantic Rainforest. Help us plant millions more. 93% of the Atlantic Rainforest is gone, which has a devastating effect for everyone - everywhere.

Every \$1 contributed through the Hello Green Tomorrow program plants a new tree. Trees planted through this program will support the United Nations Environment Programme Billion Tree Campaign.

[Plant a Tree](#) [Frequently Asked Questions](#)



NEW
Empowerment Ring

\$5.00 ▶ 

Empowerment Products
100% of the net profits will be donated to the Avon Empowerment Fund to end violence. Purchase now



Finance – Stock price as of 10:55 am 4/20/10

Avon Products, Inc. (Public, NYSE:AVP) [Watch this stock](#)

33.94 +0.21 (0.62%) Range 33.56 - 34.10 Mkt cap 14.74B Shares 434.41M
52 week 20.75 - 36.39 P/E 23.57 Beta 1.48
Open 33.93 Div/yield 0.22/2.59 Inst. own 86%
Real-time: 10:55AM EDT Vol / Avg. 988,241.00/4.38M EPS 1.44
NYSE real-time data - [Disclaimer](#)



Source: Google Finance

AVON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

Years ended December 31	2009	2008	2007
Net sales	\$ 10,284.7	\$ 10,588.9	\$ 9,845.2
Other revenue	98.1	101.2	93.5
Total revenue	10,382.8	10,690.1	9,938.7
Costs, expenses and other:			
Cost of sales	3,888.3	3,949.1	3,941.2
Selling, general and administrative expenses	5,476.3	5,401.7	5,124.8
Operating profit	1,018.2	1,339.3	872.7
Interest expense	104.8	100.4	112.2
Interest income	(20.2)	(37.1)	(42.2)
Other expense, net	7.1	37.7	6.6
Total other expenses	91.7	101.0	76.6
Income before taxes	926.5	1,238.3	796.1
Income taxes	298.3	362.7	262.8
Net income	628.2	875.6	533.3
Net income attributable to noncontrolling interests	(2.4)	(.3)	(2.6)
Net income attributable to Avon	\$ 625.8	\$ 875.3	\$ 530.7
Earnings per share:			
Basic	\$ 1.45	\$ 2.04	\$ 1.22
Diluted	\$ 1.45	\$ 2.03	\$ 1.21
Weighted-average shares outstanding:			
Basic	426.90	426.36	433.47
Diluted	428.54	428.25	436.02

Source: Sec.gov

AVON PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS

(In millions, except per share data)
December 31

	2009	2008
Assets		
Current assets		
Cash, including cash equivalents of \$670.5 and \$704.8	\$ 1,311.6	\$ 1,104.7
Accounts receivable (less allowances of \$165.5 and \$127.9)	779.7	687.8
Inventories	1,067.5	1,007.9
Prepaid expenses and other	1,030.5	756.5
Total current assets	<u>4,189.3</u>	<u>3,556.9</u>
Property, plant and equipment, at cost		
Land	144.3	85.3
Buildings and improvements	1,048.1	1,008.1
Equipment	1,506.9	1,346.5
Less accumulated depreciation	(1,169.7)	(1,096.0)
Other assets	1,529.6	1,343.9
Total assets	<u>\$ 6,832.7</u>	<u>\$ 6,074.0</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Debt maturing within one year	\$ 138.1	\$ 1,031.4
Accounts payable	754.7	724.3
Accrued compensation	291.0	234.4
Other accrued liabilities	697.1	581.9
Sales and taxes other than income	259.2	212.2
Income taxes	134.7	128.0
Total current liabilities	<u>2,274.8</u>	<u>2,912.2</u>
Long-term debt	2,307.8	1,456.2
Employee benefit plans	588.9	665.4
Long-term income taxes	173.8	168.9
Other liabilities	174.8	159.0
Total liabilities	<u>\$ 5,520.1</u>	<u>\$ 5,361.7</u>
Commitments and contingencies (Notes 13 and 15)		
Shareholders' equity		
Common stock, par value \$.25 – authorized 1,500 shares; issued 740.9 and 739.4 shares	\$ 186.1	\$ 185.6
Additional paid-in capital	1,941.0	1,874.1
Retained earnings	4,383.9	4,118.9
Accumulated other comprehensive loss	(692.6)	(965.9)
Treasury stock, at cost (313.4 and 313.1 shares)	(4,545.8)	(4,537.8)
Total Avon shareholders' equity	<u>1,272.6</u>	<u>674.9</u>
Noncontrolling interest	40.0	37.4
Total shareholders' equity	<u>\$ 1,312.6</u>	<u>\$ 712.3</u>
Total liabilities and shareholders' equity	<u>\$ 6,832.7</u>	<u>\$ 6,074.0</u>

Source: Sec.gov

AVON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)			
Years ended December 31			
	2009	2008	2007
Cash Flows from Operating Activities			
Net income	\$ 628.2	\$ 875.6	\$ 533.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	133.0	141.9	128.9
Amortization	47.7	45.3	43.2
Provision for doubtful accounts	221.7	195.5	164.1
Provision for obsolescence	122.9	80.8	280.6
Share-based compensation	54.9	54.8	61.6
Foreign exchange losses (gains)	(1.4)	18.7	(2.5)
Deferred income taxes	(162.7)	(62.4)	(112.4)
Other	68.3	48.0	39.5
Changes in assets and liabilities:			
Accounts receivable	(261.0)	(174.6)	(236.6)
Inventories	(125.5)	(174.3)	(341.0)
Prepaid expenses and other	(72.9)	(153.3)	(49.1)
Accounts payable and accrued liabilities	126.2	(148.9)	169.9
Income and other taxes	16.0	47.5	61.6
Noncurrent assets and liabilities	(13.4)	(46.5)	(151.3)
Net cash provided by operating activities	782.0	748.1	589.8
Cash Flows from Investing Activities			
Capital expenditures	(296.9)	(380.5)	(278.5)
Disposal of assets	11.2	13.4	11.2
Purchases of investments	(.9)	(77.7)	(47.0)
Proceeds from sale of investments	61.9	41.4	46.1
Other investing activities	5.8	—	(19.0)
Net cash used by investing activities	(218.9)	(403.4)	(287.2)
Cash Flows from Financing Activities*			
Cash dividends	(364.8)	(347.7)	(325.7)
Debt, net (maturities of three months or less)	(508.1)	(216.9)	249.6
Proceeds from debt	957.7	572.6	58.7
Repayment of debt	(450.4)	(73.9)	(18.0)
Proceeds from exercise of stock options	13.1	81.4	85.5
Excess tax benefit realized from share-based compensation	(.7)	15.1	19.6
Repurchase of common stock	(8.6)	(172.1)	(666.8)
Net cash used by financing activities	(361.8)	(141.5)	(597.1)
Effect of exchange rate changes on cash and equivalents	5.6	(61.9)	59.0
Net change in cash and equivalents	206.9	141.3	(235.5)
Cash and equivalents at beginning of year	\$ 1,104.7	\$ 963.4	\$ 1,198.9
Cash and equivalents at end of year	\$ 1,311.6	\$ 1,104.7	\$ 963.4
Cash paid for:			
Interest, net of amounts capitalized	\$ 127.5	\$ 99.6	\$ 113.2
Income taxes, net of refunds received	\$ 380.4	\$ 388.7	\$ 396.7

Source: Sec.gov

AVON PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In millions, except per share data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Noncontrolling Interest	Total
	Shares	Amount				Shares	Amount		
Balances at December 31, 2006	732.74	\$ 183.5	\$ 1,549.8	\$ 3,396.8	\$ (656.3)	291.35	\$ (3,683.4)	\$ 37.0	\$ 827.4
Comprehensive income:									
Net income				530.7				2.6	533.3
Foreign currency translation adjustments					185.7			1.9	187.6
Changes in available-for-sale securities, net of taxes of \$0					.1				.1
Amortization of unrecognized actuarial losses, prior service credit, and transition obligation, net of taxes of \$14.2					27.6				27.6
Net actuarial gains and prior service cost arising during 2007, net of taxes of \$22.3					43.3				43.3
Net derivative losses on cash flow hedges, net of taxes of \$9.5					(17.4)				(17.4)
Total comprehensive income									774.5
Cumulative effect of accounting changes relating to taxes (Note 6)				(18.3)					(18.3)
Dividends - \$.74 per share				(322.7)					(322.7)
Exercise/vesting and expense of share-based compensation	3.52	1.2	143.4			(.10)	1.2		145.8
Repurchase of common stock			11.8			17.31	(685.0)		(673.2)
Purchases and sales of noncontrolling interest, net of dividends paid of \$3.1								(3.3)	(3.3)
Income tax benefits - stock transactions			19.6						19.6
Balances at December 31, 2007	736.26	\$ 184.7	\$ 1,724.6	\$ 3,586.5	\$ (417.0)	308.56	\$ (4,367.2)	\$ 38.2	\$ 749.8
Comprehensive income:									
Net income				875.3				.3	875.6
Foreign currency translation adjustments					(318.3)			6.0	(312.3)
Changes in available-for-sale securities, net of taxes of \$.3					(.7)				(.7)
Amortization of unrecognized actuarial losses and prior service credit, net of taxes of \$10.2					20.1				20.1
Net actuarial losses and prior service cost arising during 2008, net of taxes of \$119.4					(240.5)				(240.5)
Net derivative losses on cash flow hedges, net of taxes of \$5.1					(9.5)				(9.5)
Total comprehensive income									332.7
Dividends - \$.80 per share				(342.9)					(342.9)
Exercise/vesting and expense of share-based compensation	3.16	.9	134.4			(.10)	1.5		136.8
Repurchase of common stock						4.61	(172.1)		(172.1)
Purchases and sales of noncontrolling interest, net of dividends paid of \$7.1								(7.1)	(7.1)
Income tax benefits - stock transactions			15.1						15.1
Balances at December 31, 2008	739.42	\$ 185.6	\$ 1,874.1	\$ 4,118.9	\$ (965.9)	313.07	\$ (4,537.8)	\$ 37.4	\$ 712.3
Comprehensive income:									
Net income				625.8				2.4	628.2
Foreign currency translation adjustments					193.1			(.3)	192.8
Changes in available-for-sale securities, net of taxes of \$0.1					.3				.3
Amortization of unrecognized actuarial losses and prior service credit, net of taxes of \$12.2					30.4				30.4
Net actuarial losses and prior service cost arising during 2009, net of taxes of \$26.4					41.1				41.1
Net derivative losses on cash flow hedges, net of taxes of \$4.7					8.4				8.4
Total comprehensive income									901.2
Dividends - \$.84 per share				(360.8)					(360.8)
Exercise/vesting and expense of share-based compensation	1.48	.5	67.6			(.05)	.6		68.7
Repurchase of common stock						.40	(8.6)		(8.6)
Purchases and sales of noncontrolling interests, net of dividends paid of \$4.8								.5	.5
Income tax benefits - stock transactions			(.7)						(.7)
Balances at December 31, 2009	740.90	\$ 186.1	\$ 1,941.0	\$ 4,383.9	\$ (692.6)	313.42	\$ (4,545.8)	\$ 40.0	\$ 1,312.6

Source: Sec.gov

Packaging:

In Bloom, Reese Witherspoon's fragrance through Avon



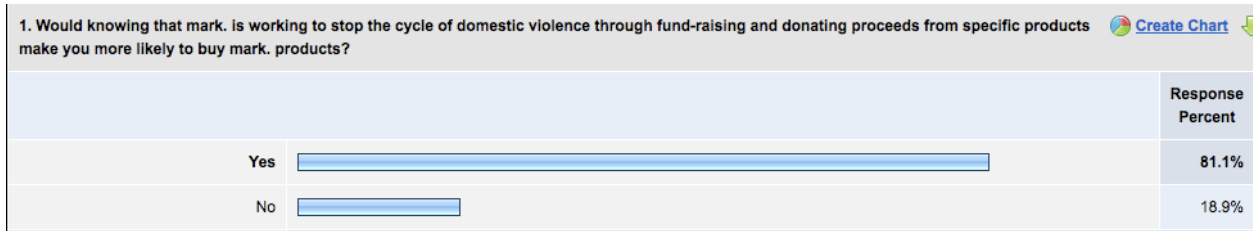
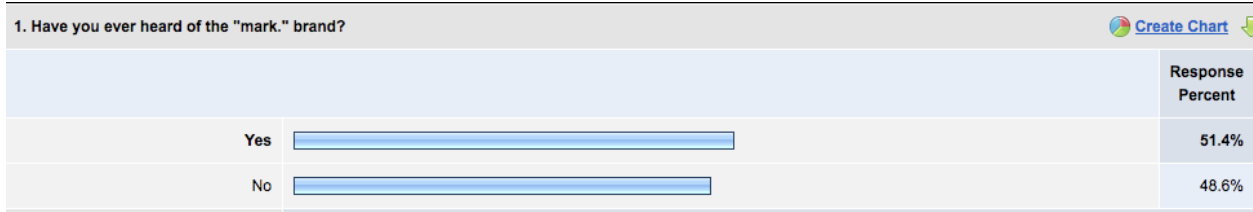
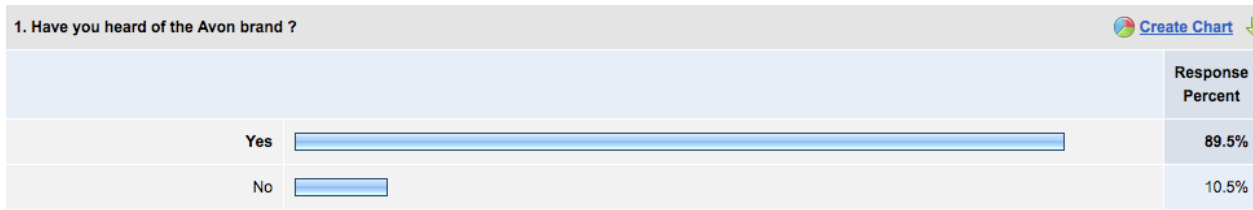
Avon Pro-to-Go Lipstick



Percentage of net sales by category

	2009	2008	2007
Beauty	72%	72%	70%
Fashion	17%	18%	18%
Home	11%	10%	12%

Primary Research: Survey of Young Women



Mark iPhone application

