**Chapter 13 The Strategy of International Business**

Avon Products

For six years after Andrea Jung became CEO of Avon Products in 1999,revenues for the beauty products company famous 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 driect sales had hurt its business in China(the Chinese government had accused companies that uesd a direct-sales model of engaging in pyramid schemes and of creating “cults”).To complicate 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 that Avon would exceed Wall Stree’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 theAvon 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 responsibel 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 andsupply 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 13000.The company had 15 layers of management,making accountability and communication problematic.There was also a distinct lack of data-driven analysis of nwe-product opportunities,with country managers often making decisions based on their intuition or gut feelings.

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,elminating 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 atAvon’s headquarters.Jung also invented 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 400000 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 cant’sget laid off,I can’t get fierd”,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:In the difficult years of 2008 and 2009,Avon gained global market share and its financial performance improved.