

AVON PRODUCTS, INC.

A Case Narrative in
Company Relations with
Customers and Suppliers

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Introduction

The Avon Company can make strong claims to being unique—in several respects—among American companies: (1) the establishment of the selling method preceded the development of the product; (2) Avon has always stressed the quality of the cosmetics, toiletries, and fragrances it sells at moderate prices, though traditionally “quality” in such items means high prices; (3) the company has built its reputation upon close and continuing salesperson-customer relationships (lack of such continuing contact is a frequent complaint in door-to-door selling situations); (4) though no technical or scientific expertise is required to sell the company’s products, Avon makes a substantial and ongoing effort to assist its salespersons merchandising abilities; and (5) the Avon return-and-refund guarantee is absolutely un conditional.

These five considerations have proved to be an interactive force through out the company’s history and growth. The single most significant outcome of the interaction has proved to be the ever greater recognition of the importance of customer satisfaction—which has in turn brought the company to a very significant level of financial success.

It is in this aspect of Avon’s corporate performance—relations with customers—that the company has proven itself to be outstanding among American corporations.

Avon has also achieved a distinguished track record in its purchasing program for minority suppliers. The company has in fact generated a great degree of trust and respect among minority business leaders as having an outstanding program. Not only has Avon steadily increased its own purchasing commitment, but has provided positive assistance to other companies about to implement similar programs. Avon has chosen to make its expertise available to other corporations in order to advance the development of black entrepreneurship.

The development of these policies concerning customer and supplier relationships—is of particular interest. The case that follows is a narrative rather than a case study: it does not reflect the decision-making process whereby Avon planned these policies; rather, it reflects the *evolutionary process* of their growth and the effects they have had on company operating results. The narrative demonstrates the significant and pervasive social awareness—whether focused upon the satisfaction of customers or upon the more equitable availability of opportunity among suppliers—bringing financial rewards in addition to creating an improved operating climate.

The narrative has been designed to serve the purpose of assessment of the various elements in a policy consideration of options and alternatives, and for adoption of similar policies by other corporations.

“Customer Satisfaction”: The Adoption and Development of a Key Policy

David H. McConnell, founder of the California Perfume Company (renamed Avon in 1933), began his business career in 1878 as a book agent. After extended travel throughout the United States, canvassing, hiring and training agents, he purchased the book business and managed it himself for a number of years. He soon realized that books were permanent items: though new and different titles might be sought by a customer, no reader would—in the normal course of events—buy additional copies of any particular title. McConnell realized the potential in manufacturing a line of consumable goods that could be sold by canvassing agents, directly from factory to consumer. Thus the *selling method* was already established; the next step was the selection of a suitable product. Regardless of what the product was to be, its quality would have to be superior and the relationship between salesperson and customer would have to be continuing and positive. Failure in either regard would simply mean that one-time sales, rather than repeat sales, would constitute the company’s record.

McConnell decided after investigating many lines of business that “the perfume business in its different branches afforded the very best possible opportunity to build up a permanent and well-established trade.” In 1886, the California Perfume Company came into being. Its first five fragrances were distinct and simply named: Violet, White Rose, Heliotrope, Lily of the Valley, and Hyacinth. Today, Avon markets some 700 products.

From its inception, the California Perfume Company implemented McConnell’s personal merchandising philosophy: “the proper and most advantageous way of selling goods is to be able to submit the goods themselves to the people.” For McConnell the mere submission of the goods to the people was not enough. They had to be submitted in the right way, and the customer had to have the means to make her views known to the company. To ensure that these criteria would be met, McConnell recruited a proven saleslady from his bookselling days, a Mrs. Albee, who was to recruit, train, and direct his salesforce. In addition, McConnell determined that his Correspondence Department would be properly staffed, active and effective. The salesforce—if it was to build positive relationships with customers—had to have confidence that any problems or complaints would be dealt with promptly. McConnell stated that “If any department is to be neglected, it must not be our Correspondence Department. Our aim is to keep in the closest possible touch with you.”

Thus, in its first year of operation, the California Perfume Company had adopted the distinct modus operandi retained to this day: direct selling, a strong concern for positive salesforce-customer relationships, and a willingness to handle all salesforce or customer problems promptly.

Lack of space in this narrative precludes any description of the steady growth of Avon (to adopt the post 1933 name, from the early years to the present.) Growth clearly demonstrates that the quality of the product line was maintained.

McConnell did make one early and major adjustment to his personal philosophy of business. He described his objective as follows: “to manufacture a line of goods superior to any other, to put the moneyed value into the goods themselves, and just enough money into the packaging to make them respectable, and take these goods through canvassing agents directly from the laboratory to the consumer.” McConnell did not, at the time he made this statement realize one key aspect of female psychology: namely, that the style, the aura, the mystique that surrounds an item for strictly personal use may be as important as the item itself. A woman does not want to be told that she has a cash saving because her fragrance comes in a plain rectangular bottle with one-color, standard typography label. She is prepared to pay for an elegance which she believes reflects her own, which reflects her taste, her style and her individuality. McConnell, realizing that he was not fully meeting his customer’s needs, gave a free hand to designers. As a result attractive bottles— today collector’s items—were produced and the problem resolved.

Though McConnell flowed with the tide on the design question, he did not do so when a second and more significant shift occurred in merchandising methods. In turn-of-the-century America, before the advent of automobiles, mass distribution of goods, shopping centers, and media advertising, the traveling salesman was enormously important in the retailing of goods. As the new century advanced and these developments began to occur, manufacturers gave greater consideration to the cost-effectiveness of various selling methods. In addition, as discretionary income began to increase, rural and small town residents looked forward to leaving their homes and visiting the local or county towns. The opportunity to see more goods, to compare quality, style and price was welcomed; the convenience of having goods brought to the home was no longer important.

Avon did not change its traditional way of doing business; it did not become a huge mail order house like Sears Roebuck, nor did it rent counter space in local pharmacies and notion stores. Obviously, the quality of the salesperson-customer relationship ensured its successful continuation. Avon management believed that salespersons drawn from the community, selling quality goods to their friends and neighbors, coupled with an unconditional money-back guarantee, was a tested recipe for commercial success. What is of interest here is how the company promoted and protected this recipe in the post World War II period, in which the company grew to world-wide leadership in sales volume, despite the rapid growth of the competition and despite the intensive use of other selling methods.

The Contemporary Customer: Identification, Service and Satisfaction

Since virtually all women buy cosmetics, America offers a market of toward 100 million purchasers. No market of this size is monolithic; in fact, among markets, that for fragrances, cosmetics and toiletries has proven to be both highly segmented and significantly volatile. New introductions, especially fragrances, may do extremely well; they may not, however, do extremely well for very long. Older, less glamorous fragrances and cosmetic lines may demonstrate enormous staying power. Many new products simply do not make it, despite seemingly positive test market results and massive pro motions.

Women do not in general give lifelong loyalty to a single fragrance or cosmetic. Age is only one of many factors that govern choice; occasion, mood, current fashion, and the style and importance of accessories also play important roles in the choices that women make about fragrances and cosmetics, as does male opinion about the appeal of a fragrance or the effectiveness of a cosmetic.

Like any other major consumer goods company, Avon has gone to considerable lengths to analyze and periodically update its analyses of the makeup of its market, especially the structure of its strongest market segments.

Avon's market research has determined that about 42 percent of its customers in the U.S. are working women, about the same percentage as this group constitutes in the population as a whole. However, this 42 percent accounts for 50 percent of Avon's U.S. sales. As a result, the company makes determined efforts to increase its effectiveness in reaching them. To this end, making appropriate products readily available to working women has become an important priority at Avon.

The company recognized that because the working woman is out in public daily, her appearance is important to her. Because time is precious, the working woman appreciates the time-saving convenience of shopping the Avon way. Avon Representatives call on working women—and on others— during evenings or weekends. Many are reached at their place of work through co-workers who sell Avon products. The company encourages people with full-time jobs to be Avon Representatives, stressing the benefits of selling to a close-knit group of purchasers whose needs can be easily ascertained and who can be contacted whenever need arises. The Avon customer approach method has an enviable end result: in a few minutes of spare time on the job or at home, a working woman can select fragrances, cosmetics and toiletries that might take hours to find in crowded stores.

Of significance too, is Avon's continuing awareness of the need to do more for its customers than merely keep on conveniently providing already accepted goods. In keeping with developing fashion trends in the woman's work place, the company introduced new and more tailored lines in jewelry, marked by a restraint that made them eminently suited to the somewhat conservative tastes of a still largely male-dominated area.

Despite the strength of its customer-based, direct sales marketing methods, Avon naturally runs into the same problem as any other mass- marketing organization: how to reach the not-normally-reachable, the not-at- homes and those whose work place is not served by an on-premises Avon Representative. The company has never given up on this category of potential customer. Management obviously attaches great importance to McConnell's 1903 statement that "The millions and millions of people in this country of ours today who are not using (Avon) products are the losers. It is our place and purpose to see that at least they must be made acquainted with the merits of the goods, the honesty with which they are made and delivered directly from the laboratory to the consumer." Today the Avon Representative leaves specially designed sales aids and promotional pieces for not-at-homes, as well as making a gift of makeup and fragrance samples. This policy, coupled with call-backs, has proven very successful.

Sustaining the Vital Link: Company Policy Toward the Avon Representative

Since the most significant strength of Avon's door-to-door, direct-selling strategy is that the salesperson is known and welcomed, it is of importance that the salesforce be stable and not subject to excessive turnover. Women will not be prepared to discuss the details of personal care aims, outcomes and problems with a succession of strangers. Customer satisfaction and good company-customer relations are obviously a function of positive and stable relationships between the company and its salesforce. Avon has done much to ensure that such satisfactory relationships remain in force.

The number of Avon Representatives in the United States rose by 40,000 between 1976 and 1977, from 305,000 to 345,000. This increase was in part due to a highly successful series of advertisements in leading women's magazines. Each advertisement featured an Avon Representative telling—in her own words—why she enjoyed selling Avon products. Thousands of readers responded by becoming Avon Representatives themselves.

In 1977 the company devoted a continuing effort and substantial resources to better preparing and motivating Representatives, recognizing their achievements and fostering a warmer, more personal relationship between them and Avon. Greater care was taken with all aspects of preparing Representatives to introduce new products and to deal with the wide range of questions customers could be expected to ask. Since total company sales rose by \$214 million in 1977, or by more than \$69 million over any other annual increase, this policy could be termed successful. Customers showed their responsiveness through higher purchasing levels.

A second important development in 1977 was the restructuring of Representatives' territories. These were reduced in size from 200 to 150 homes. Two outcomes followed: (1) Representatives were able to serve a larger percentage of the homes in their territories, and (2) 100,000 new territories could be established within two years. From the Representatives' viewpoint there was a tradeoff between fewer homes but easier and fuller servicing of them; from Avon's viewpoint, a greater total number of homes would be served as new territories were established. The company pointed out that one more woman contacted and one more sale made by each Representative in each sales campaign would amount to an additional \$55 million in company revenues. The 1977 increase in revenues (\$214 million) indicates that the company's aims in restructuring territories and in devoting additional funds to training Representatives paid off handsomely. Not only had the total number of Representatives risen by 13 percent, but an increase in the actual number of customers served per territory led to enhanced sales.

Product Quality: The Guarantee that Wins the Customer

Avon could not hope to retain customers or maintain outstandingly good relations with them unless it were able to guarantee the quality of the fragrances, cosmetics, and toiletries its Representatives sold. Since all products are unconditionally guaranteed, Avon's manufacturing and testing processes must be superlatively thorough and extensively monitored.

The company's product line now totals some 700 items and, in addition to women's fragrances, cosmetics, and toiletries, includes: men's colognes, talc, and after-shave preparations; cosmetic and toiletry items for general family use, for children and teens; and costume and fine jewelry. Housewares and men's and women's apparel are marketed by separate divisions of Avon. The traditional major lines for women account for 36 percent of all sales. Currently Avon produces 2 million items every working day for its 80 million customers.

The development of a product takes from 2 to 5 years, about half of which will be devoted to testing ingredients. These are tested individually, and in some cases, 50 variations of the basic formula are tested in order to assess the stability and interactive aspects of the ingredients.

For each product the tests and test cycles are tailor-made to insure a safe product.

Once a new product has passed Avon's initial testing process, it is distributed to volunteers for personal use and home testing. They report their results to the Avon Product Testing Center. These volunteers (and many are regular Avon customers) do some 13,000 at-home tests annually. Not only do they report on the objective qualities of the product, but also on their own subjective and emotional responses.

Avon's sales volume necessitates manufacture of the same items at different locations. To ensure absolute fidelity to ingredients, process, and packaging—to ensure consistency of product—detailed manufacturing manuals are written.

Responsiveness to the Customer: The Avon Unconditional Guarantee

An absolute, money-back guarantee wins customer confidence; there is nothing to lose—and perhaps a lot to win. Avon, as the California Perfume Company, fully expressed its guarantee policy in 1906:

The facts (pertaining to quality and satisfaction) are guaranteed to the purchaser, not only by the ordinary kind of guarantee, which is practically worthless, but by a guarantee which means and agrees to instantly refunding the money in case of any purchase which is not found exactly as represented. It goes even further. We will refund the full price paid by the purchaser of any article which is not found satisfactory for any reason whatsoever. This is the strongest guarantee that could possibly be given by any manufacturer and it is a significant fact that no other manufacturer of toilet articles offers its customers a guarantee like this.

It is still in effect today!

In its recent experience, Avon has found that the most typical reason for an exchange or refund of a product is not that it is defective, but that the customer has decided that she “doesn't like” the shade, color, or fragrance of the product.

In honoring these requests, Avon is maintaining the original, indulgent guarantee. In the event of any physical or chemical defect in a product, it is returned to Suffern, New York, for examination in the Product Testing Center.

Answering the Customer's Questions: The Value of Enquiries

Avon has gone far beyond simple willingness to make exchanges or issue refunds upon request: the company actively cultivates its customers, projecting a "we are here when you need us, we're ready to help you" image. In 1970, the company established its *Consumer Affairs Department*, set up anticipate customer needs and concerns and to respond to them quickly and efficiently. Feedback from this department is of value in product and marketing planning, and provides a means of reading the overall mood of the major sub-populations within the customer universe.

In the same year, Avon established its *Consumer Information Center*. The Center provides information requested by consumers, Representatives, students, teachers, etc. Four correspondents are employed to respond to the 25,000+ letters received each year, and the 150+ telephone enquiries received each month. Enquiries range from the artistic (the history of an Avon decanter) to the strictly practical (the function of a particular ingredient listed on a product label). An analysis (made monthly) is passed on to Avon's president; executive vice president; group vice president, product management; and to the following executives and departments:

Treasurer	Community Affairs
Personnel	Purchasing and Packaging
Marketing	Purchasing and Packaging
Product and Package Design	General Counsel
District Management Operations	Sales Promotion
Advertising	Marketing Research
Investor Relations	Merchandising
Product Research & Development	Product Planning
New Product Marketing	Branch Operations
Field Support	Representative Support

Avon can confidently claim that consumer concerns are reviewed at the highest levels in all departments of the company. Avon would not remain the leader in the field unless it acted positively and effectively upon these concerns.

An additional Avon innovation is worth brief mention. In 1977 the company published "The Avon Consumer Guide to Cosmetic Ingredients." This gave customers information about items listed on the labels attached to products and gave the information in usable form. Two examples will suffice:

Cetyltrimethylammonium bromide: an antimicrobial which helps destroy and prevent the growth of micro-organisms such as bacteria.

Amyl dimethyl PABA: a sunscreen whose function is to absorb ultraviolet light from the sun's rays to help prevent or lessen sunburn while allowing the skin to tan.

As a public service to consumer agencies and to interested individuals, Avon has distributed over 25,000 copies of the Guide. Since the Federal Drug Administration requires standardized terminology for all ingredient used in cosmetics, the Guide serves for any manufacturer's products. It is of interest that no real consumer or government interest in the ingredients of cosmetics was expressed until 1976, when closer scrutiny of ingredients and their characteristics was urged. Avon had done voluntarily in 1972 what became required in 1976; namely, to list ingredients on the packages.

Consumer Education

Avon maintains a Consumer Educational Services Department which prepares and distributes educational filmstrips, student booklets, teacher's guides, and products appropriate for distribution in secondary schools throughout the country. Last year Avon received over 50,000 requests for materials; the company estimates that this program reaches 3 million students each year. Though furthering the company's image and reputation, it also develops critical awareness in young consumers. Three current programs, "Looking Terrific Is Feeling Terrific" (grooming), "A Perfectly Beautiful Guide to Makeup" (makeup), and "The Career for People Who Like People" (sales) are highly successful. For women's clubs Avon offered "Time of Beauty," a program built around a makeup workshop. Through these and other educational programs, Avon builds acceptability and rapport with existing and potential customers.

A Concern for Good Merchandising Practices

To the extent that a corporation joins a professional group or association concerned with consumer-industry relations, that corporation is showing its willingness to put its own record on the line. Avon has shown such a willingness: company executives played a major role in the Direct Selling Educational Foundation's "The Conspicuous Consumer" program. This program sponsors a series of regional conferences which bring together business leaders, educators and government officials for discussion of consumer problems and issues. Avon executives are also active in the Society of Consumer Affairs Professionals. Through membership in the Cosmetic, Toiletry and Fragrance Association, Inc., Avon has taken a leadership role in voluntary industrywide compliance with stringent, self-imposed safety standards. All of these memberships and activities emphasize Avon's awareness of its responsibilities to its customers.

Avon's Minority Business Purchasing Program

Avon's dealings with suppliers, especially with minority suppliers (who are the focus of this section of the study), is very separate from the company's dealings with its customers.

However, dealings with suppliers illustrate a corporate philosophy and a code of ethics; dealings with minority suppliers illustrate an additional dimension, that of social responsibility. The sketch presented here of Avon's dealings with minority entrepreneurs is necessarily brief. It does, however, touch upon slightly more than the annual total of purchasing dollars directed to the minority business sector. Though such figures are important, equally important are the efforts a major corporation makes to assist minority businesses to develop increased capacity for competitive bidding and prompt processing of orders.

In 1972 Avon's Corporate Social Responsibility Committee initiated a Minority Purchasing Program, to be coordinated by Avon's purchasing manager. Avon's home office and seven branch laboratory locations set goals for purchasing from minority suppliers. These are reviewed by the home office, and are raised as the company's total purchasing expenditures increase. Key annual data are:

1972	purchases from 30 minority vendors for	\$272,000
1976	250	6 million
1977	300	7 million
1978	300+	8.5 million

As the program grew in size, the range of goods purchased became increasingly wide. Currently it includes: plastics, ballpoint pens, miscellaneous raw materials, etc. Some of the services purchased from minority vendors include trucking, advertising and insurance.

To develop and expand its minority purchasing program, Avon worked with a number of minority organizations and non-minority organizations devoted to the expansion of minority business within the American economic system. These included: The National Development Council; The National Minority Purchasing Council; the New York-New Jersey Minority Purchasing Council (among other regional councils); and a number of local groups. Avon also provided work for minority handicapped persons by contracting with the Association for the Blind for packaging services.

In addition to its willingness to contract with minority suppliers, Avon has made significant efforts to help them enhance their business capabilities and meet the company's purchasing requirements. Avon has helped these suppliers to (1) select and secure appropriate raw materials, and (2) to use Avon's managerial expertise to undertake internal programs to raise productivity and lower operating costs. Avon makes a contribution by depositing monies in federal withholding tax and social security payments in 32 minority banks across the nation each year.

Avon monitors its highly successful minority purchasing program through its monthly Minority Business Development Report, completed by the minority purchasing program manager and sent by him to the company's president. This document reports the minority purchasing volume by location and by department for the month just passed. Year-to-date expenditures, percent-of-goal realized, and goal for the year are also reported.

The report is distributed to all relevant persons and to each member of the Corporate Responsibility Committee. As a result of this feedback, Avon's Sales Promotion; Advertising; Community Affairs, Transportation; Package Design; Corporate Personnel; Home Office Administration; etc., departments have found ways to direct purchasing dollars toward minority suppliers.

Since 1972, Avon, under the personal leadership of its chairman, David W. Mitchell, has made Avon's experience with its minority development program available to other companies. Their executives have been encouraged to join the Regional Minority Purchasing Council and create minority purchasing programs within their companies.

In summary, Avon sees its progress in terms of Franklin D. Roosevelt's famous words:

The test of our progress is not whether we add more to the abundance of those who have much; it is whether we do more for those who have little.

Though minorities comprise more than 20 percent of the nation's population, they account for only 10 percent of the nation's businesses. Avon has made a substantial and ongoing effort to help minorities overcome very real hardships and improve their showing.

Conclusion

Any final assessment of Avon's relationship with its customers has to take into account that a business which began with 5 products now has over 700—sold in precisely the same manner as the company's goods have been for 93 years, and in such volume as to make the company the world's largest in fragrances, cosmetics, toiletries, and costume jewelry.

Perhaps the single most significant explanatory factor is one implied rather than directly referenced in the preceding text. By limiting the size of its Representatives' territories, Avon has increased the level of direct contact between each Representative and her customers. At no time does Avon appear to have diluted the quality of this relationship.

The company has also seen that support for the Representatives (sales education, recognition, awards) also benefits the customer: she receives better service from a more knowledgeable salesperson.

The existence of positive and continuing relationships between customers and Representatives offers Avon another significant advantage: the means to conduct market research at a very low cost and over any combination of regional and local markets. New products are not competing for counter space or shelf space in crowded stores; they can be examined at leisure and thoughtfully appraised.

Perhaps the most fitting recognition of Avon's outstanding success is to note that company management has had the good sense to recognize a sound selling approach, to stay with it, and to sustain it by making the quality of the goods offered a paramount responsibility.

In terms of the second major concern addressed in this narrative—Avon's minority business purchasing program—not dissimilar approaches have been adopted. Avon management has decided that to offer opportunities to minority businesses is not enough: a relationship must be built through which those businesses can take advantage of that opportunity—which must be linked to Avon's growth and expanded as total purchasing expands.

This policy represents a natural extension of Avon's consistent "put people first" philosophy.

Questions for Discussion

1. Do any other companies use the Avon selling approach with the same degree of success as Avon?
2. What problems exist in applying the Avon selling approach to other product lines and other products?
3. Are emerging social trends or communications technologies likely to decrease the utility of the Avon selling approach?
4. What psychological insights underlie the Avon selling approach and “customer satisfaction” emphasis? Have they been maximized?
5. The Avon product line has risen from 5 to 700 items over 90 years. Given the company image of one-to-one selling relationships, are there practical limits to the extent of the product line?
6. In view of Avon’s size and revenues, is the company’s minority purchasing program of adequate size?
7. What practical obstacles preclude rapid expansion of the minority purchasing program? Could it be doubled within one year?
8. Can business as a whole benefit from the Avon approach and the Avon experience? Specify what segments, and how.