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CASES IN MARKETING MANAGMENT: Issues for the 1980s

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CASE 26

MARY KAY COSMETICS, INC.

BACKGROUND OF THE COMPANY

A proliferation of products and a change of partners that might dazzle a square dance caller have characterized the cosmetics industry in the late 1970s and the 1980s. Witness Eli Lilly's purchase of Elizabeth Arden, Squibb's acquisition of Lanvin-Charles of Ritz, Pfizer's take-over of Coty, Norton Simon's of Max Factor, Colgate-Palmolive's of Helena Rubenstein, not to mention British-American Tobacco's gobbling up Germaine Monteil.

Accompanying the change of corporate identities there has been a distinct shift in management styles as practiced in cosmetics concerns. The "flair and flamboyance" of the old school cosmetics moguls—the Revsons, Rubensteins, and Ardens of the industry—has been replaced by a new breed of management types. Charisma has given way to pragmatism. The new styles are diverse, however—as urbane, cool, and international as ITT-trained Revlon's chief executive, the Frenchman Michel Bergerac, or as fundamentalist, *nouveaux riches*, and Texas-grown as Mary Kay Ash, founder and driving force behind Mary Kay Cosmetics, Inc., whose pink Cadillac incentive plan for sales agents and skyrocketing corporate profits have made Mary Kay a legend in the highly competitive American cosmetics business.

In 1963 Mary Kay Ash, a much decorated veteran of in-home sales (Child Psychology Bookshelf, Stanley Home Products, World Gift) founded Mary Kay Cosmetics, Inc., on \$5,000 for product formulas, containers, and secondhand office equipment and on the belief that women could be sold on using a proven skin care regimen through an educational approach. Mary Kay Ash's expertise in the area of human motivation and in direct sales combined with son Richard Rogers's wizardry in finance and marketing catapulted the company from its humble Dallas beginnings to a major national cosmetics corporation. Exhibit 1 charts this growth pattern. By August 1976 Mary Kay Cosmetics was listed on the New York Stock Exchange.

Mary Kay Cosmetics consists of "a scientifically formulated line of skin products" that is presented to the user programmatically during home beauty shows with emphasis on Mary Kay's Five Steps to Beauty (Exhibit 2). Over 50 percent of the company's sales are derived from the basic skin care line. Skin, body, arid hair care products in addition to cosmetics, toiletries, and fragrances compose the remainder of the relatively small Mary Kay line (Exhibit 3).

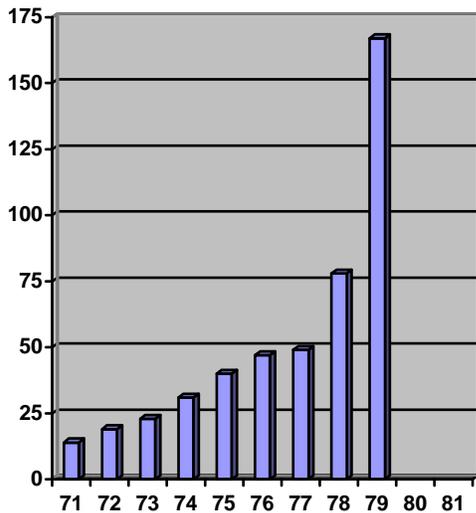
The company uses self-employed women billed as Beauty Consultants to introduce the products to customers in the home where customers sample the products and are instructed in their use. This deceptively simple format has resulted in dramatic growth in the company's sales and sales force since the beginning, when Mary Kay Cosmetics had only nine consultants. By 1981 net sales were \$235.3 million, and about 150,000 consultants were selling the products (and one presumes faithfully using them). Exhibit 4 analyzes the productivity of the Mary Kay sales people. Major distribution centers in the United States assure rapid delivery of the products to the consultants who are able to provide the customers with their products without delay at the beauty show. Thus, there should never be a gap between ordering and receiving the product as there is in Avon's distribution method.

An oft-quoted management truism in the cosmetics industry is Michel Bergerac's conclusion that "every management mistake ends up in inventory." Mary Kay has addressed this concern and has avoided the pitfall through its unique distribution and operations systems. Charged with the task of instantaneously providing each consultant with the inventory she requires at the moment she requires it, Mary Kay has developed five domestic regional distribution centers, located in Atlanta; Chicago; Los Angeles; Piscataway, New Jersey; and the corporate warehouse in Dallas. Dallas is mission control for the company, where the products are manufactured and the orders received. The Marketing Department has instant access via computer to individual and unit sales. Manufacturing uses the data bank at Dallas to control inventory by forecasting and planning products' runs. On the microlevel, directors of sales units are only a toll-free call away from comprehensive information about the performance of their unit or of specific individuals.

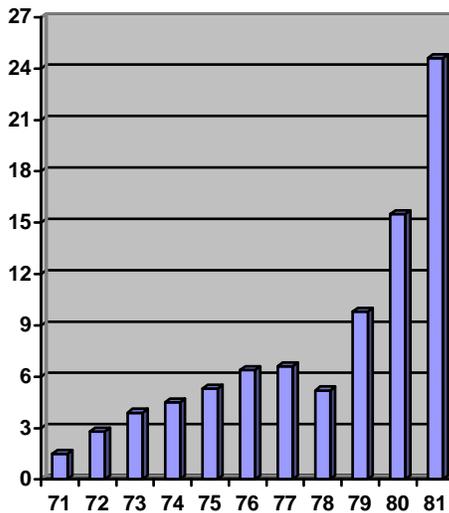
In 1978 Mary Kay Cosmetics formed a sister company in Toronto that has evolved into one of Canada's largest cosmetic enterprises. As of 1971 and 1980, respectively, separate operations were launched in Australia and Argentina.

Exhibit 1
MARY KAY GROWTH, 1971-1981

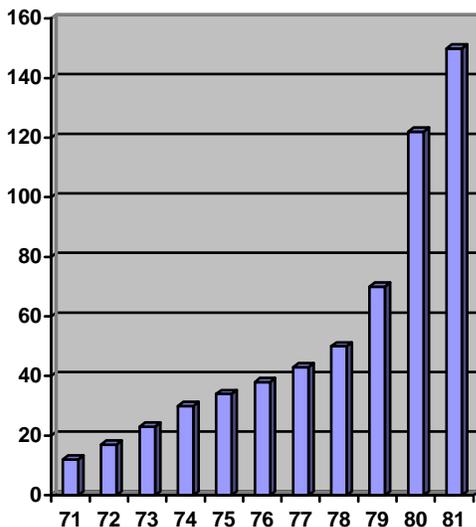
NET SALES
in millions



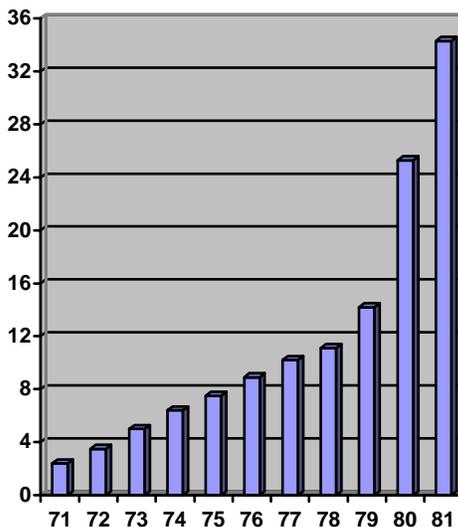
NET INCOME
in millions



BEAUTY CONSULTANT GROWTH
in thousands



SALES DIRECTOR GROWTH
in hundreds



Source: Mary Kay Cosmetics, Inc., 1981 Annual Report, p. 20.

Exhibit 2

THE FIVE STEPS TO BEAUTY

THE FIVE STEPS TO BEAUTY



MOVEMENT OF APPLICATION

Follow this movement of application when applying Cleansing Cream, Cleanser, Magic Masque, Skin Freshener, Night Cream or Moisturizer:
 Always apply with the tips of the fingers. Beginning with the neckline, apply with upward and outward motion. Be sure to use the ring finger when working around the delicate tissue near the eyes. Remember to stroke delicately – don't massage.

1 CLEANSE

All of the Mary Kay cleansing products cleanse the skin deeply, thoroughly and gently, penetrating and loosening impurities and softening the skin.

Cleansing Cream Formula 1 and Formula 2 – Smooth on face and throat. Follow movement of application. Remove with warm, wet facial cloth.

Cleanser Formula 3 – Shake well. Apply thoroughly to face and throat. Lightly pat water on top of cleanser and follow movement of application, working cleanser into a foam. Splash skin with warm water and remove remainder with warm, wet facial cloth.



2 CLEANSE

Mary Kay Magic Masque © stimulates circulation, removes impurities and dead surface cells. Also brightens, refines and freshens the skin.

Magic masque Formula 1 and Formula 2 – After cleansing, smooth on face and throat, avoiding eyes and mouth. Let dry for approximately 10 minutes. Soften and gently remove with warm, wet facial cloth. Apply Skin Freshener and allow to dry naturally. Use Magic Masque twice a week.



3 FRESHEN

Mary Kay Skin Freshener further stimulates circulation, makes pores appear smaller and removes any residue of previous products.

Skin Freshener Formula 1 and Formula 2 – Apply a few drops to clean cotton pad and gently smooth on face and throat. Avoid use in the immediate area of the eye. Allow to dry naturally. Always use Skin Freshener after Magic Masque.



4 LUBRICATE/MOISTURIZE

All of the Mary Kay moisturizing products help to smooth and condition the skin, working as a preventive measure against dryness.

Night Cream Formula 1 – After cleansing and freshening, moisten face and throat with warm water and gently apply a very small amount of Night Cream and leave over night.

Night Cream Formula 2 – After cleansing and freshening, gently smooth a small amount of Night Cream over face and throat, leave over night.

Moisturizer – After cleansing and freshening, gently smooth a thin film on the dry areas of the face.



5 PROTECT

Mary Kay's Day Radiance © provides daytime protection for the skin with a subtle tint of color that covers minor imperfections and gives a smooth, even toned finish to your complexion. Day Radiance is available in perfectly blended shades, ranging in color from the lightest to the darkest skin tones, including white and yellow shades for highlighting and correcting.

Day Radiance Formula 1 – Provides an emollient moisture base and luminous powder finish. Using fingertips, apply a thin film to a moistened face. When using Moisturizer under Day Radiance, do not moisten face.

Day Radiance Formula 2 – Water based product that provides a fresh sheen without shine. Shake well. Using fingertips, blend over a dry face with outward sweeping strokes.



Each morning, freshen and pat. Each Evening, cleanse, freshen and lubricate/moisturize. Twice a week, stimulate.

Source: Mary Kay, Inc., promotional literature

*Exhibit 3***ANALYSIS OF SALES PRODUCTS, 1977-1981**

	1977	1978	1979	1980	1981
Skin care products for women	48%	50%	49%	52%	49%
Skin care products for men	2	1	1	2	1
Makeup items	21	21	26	22	26
Toiletry items for women	13	12	10	10	10
Toiletry items for men	2	3	2	2	2
Hair care	4	3	2	2	2
Accessories	10	10	10	10	10
Total	100%	100%	100%	100%	100%

Source: Mary Kay, Inc., 1981 Annual Report, p. 21.

*Exhibit 4***MARY KAY COSMETICS SALES ANALYSIS, 1970-1982E**

YEAR	SALES (000)	NUMBER OF BEAUTY CONSULTANTS AND SALES DIRECTORS AT YEAR END	AVG. NO. OF BEAUTY CONSULTANTS AND SALES DIRECTORS	SALES BEAUTY CONSULTANT AND SALES DIRECTOR (Productivity)	YEAR-TO-YEAR INCREASES IN PRODUCTIVITY
1982E	\$346,000	190,000	175,000	\$1,980.0	3.4%
1981E	\$242,000	150,000	140,072	1,915.0	9.0
1980	166,938	120,145	94,982	1,757.6	11.5
1979	91,400	69,820	57,989	1,576.2	26.9
1978	53,746	46,158	43,282	1,241.7	0.7
1977	47,856	40,407	38,818	1,232.8	-3.4
1976	44,871	37,229	35,176	1,275.6	13.3
1975	34,947	33,123	31,042	1,125.8	-6.0
1974	30,215	28,961	25,234	1,197.4	1.4
1973	22,199	21,508	18,805	1,180.5	-3.1
1972	17,232	16,103	14,142	1,218.5	1.5
1971	12,367	12,181	10,299	1,200.7	7.2
1970	8,091	8,418	7,224	1,120.0	-6.3
<i>Average annual growth</i>					
1975-1980	36.7%	29.4%	25.1%	9.3%	
1970-1975	34.0	31.5	33.9	0.1	

Source: Mary Kay, Inc., data.

The Argentine Mary Kay undertaking has run into difficulties because of international problems. During May 1982, in the midst of the dispute between Argentina and Britain over the Falkland Islands with sky-high inflation in Argentina, Mary Kay was forced to write off \$1.5 million there in a reassessment of the value of the company's marketing unit in Argentina.

MARY KAY ASH'S PERSONAL STORY

Mary Kay Ash's personal story is a rags-to-riches success saga in the great American tradition, and it mirrors the stories of many of the company's beauty consultants. In her autobiography, the best selling *Mary Kay*, "the success story of America's most dynamic businesswoman," published by Harper & Row in 1981, Mary Kay tells of her life. In the company literature, this simple story is told and retold, and the lesson of self-discipline is underscored (Exhibit 5). Mary Kay Ash received the Horatio Alger Award from Dr. Norman Vincent Peale in 1978, and the company refers to Mrs. Ash's story as "a Horatio Alger Story."

THE BEAUTY CONSULTANT AND THE BEAUTY SHOW

The lifeblood of the Mary Kay organization is the beauty consultant and director force who have generated Mary Kay's phenomenal sales and following. Independent beauty consultants, who buy their own sample case and products, are organized into sales units led by a sales director. Mary Kay Ash believes the cash system has assured the health of the company. "At Mary Kay, our consultants and directors pay in advance for their merchandise with a cashier's check or money order—no personal checks."

It's impossible for a Consultant to run up a debt with the company. Therefore, we have few accounts receivable. We don't have the expense of collecting bad debts, and we pass the savings on in the form of higher commissions. This way, everyone benefits. Most financial people just marvel at it—it's unheard of for a company of our size.¹

Richard Rogers sums up the distribution plan this way: "Each Mary Kay consultant is an independent contractor. They are not employees of the company. Mary Kay serves as a wholesale house—freight in, freight out. The consultant buys directly from the company at wholesale prices and sells at retail prices. The difference is her profit."

¹ Mary Kay Ash, *Mary Kay* (New York: Harper & Row, 1981), p. 29.

Exhibit 5

MARY KAY—A HORATIO ALGER STORY

A CHILDHOOD FILLED WITH CHALLENGE

From a small Texas town to national prominence was not an easy journey. Mary Kay's success can largely be attributed to the discipline and independence she learned in her childhood.

The youngest of four children, she was born in the small town of Hot Wells, Texas, where her parents owned a hotel. When her father's health deteriorated and he became an invalid, the family moved to Houston so Mary Kay's mother could find work.

While her mother worked 14-hour days managing a restaurant, seven-year-old Mary Kay stayed home cleaning, cooking, and caring for her father.

Throughout those early years, Mary Kay's mother strongly influenced her daughter by encouraging her to excel in everything she did and told her over and over again, "You can do it." Whether in school or at home, Mary Kay wanted to be the best. Another lasting influence on her life has been her Christian faith. Her sincere convictions enabled her to express her love and affection toward those around her, and her faith has also been the cornerstone of her business success. Her basic philosophies are "God first, family second, career third," and the Golden Rule.

YOUNG ADULTHOOD

After finishing high school, Mary Kay married and had three children. Her husband was soon called away for World War II active duty, leaving Mary Kay with mounting financial problems. She worked as a secretary at a Baptist Church to help support the overwhelming cost of raising three children.

A postwar divorce left Mary Kay the lone support of her young family. With the same determination that brought her through her earlier years, Mary Kay became a dealer for Stanley Home Products, a direct sales party plan company. This job enabled her to earn a living and still spend time with her children.

After three weeks of work and average sales of only \$7 worth of products per party, Mary Kay attended a sales convention. She sat in the back row and decided that she would one day be crowned "Queen of Sales." Upon sharing her goal with the president of the company, Frank Stanley Beveredge, he replied, "Somehow. I think you will."

Exhibit 5 (Cont.)

Mary Kay triumphantly won the crown the following year and eventually moved to Dallas where she continued her 13-year career with Stanley Home Products. But this was only the beginning of Mary Kay's rise to success.

Later, upon joining World Gift, a company that sold decorative accessories, she quickly became National Training Director. In 1962, though, she experienced a personal ordeal that threatened her health and her career. She suffered from a rare form of paralysis on one side of her face, but after surgery and several months of hospitalization, she recovered completely.

THE COMPANY BEGINS

Upon her recovery and after her retirement from World Gift, Mary Kay remarried and began to think about starting her own direct sales company. She planned to run the sales division, while her husband acted as administrator. One month prior to the launching of the company, her husband had a heart attack and died. Mary Kay's three children joined their mother in the early days of the new venture. Today, Richard Rogers, her youngest son, is the president of Mary Kay Cosmetics, Inc.

Source: Mary Kay, Inc., promotional literature, 1981.

Although the beauty consultant is in business for herself—the point is stressed in the corporate literature that “she is not by herself.” The director is available as a consultant and teacher to the beauty consultant to help her successfully present the all-important beauty show. An effective director, according to the company, can handle in embryo the problems of poor consultant performance and thus control turnover in the ranks.

Because the beauty consultant is not a cosmetologist, federal and state laws prohibit her from applying cosmetics to the faces of the five or six participants at each show. Rather, her task is to assist each woman who attends the session, usually held at the home of a voluntary hostess, to determine her skin type and to answer questions about the five steps of beauty process. “This is an effective teaching method. We don't sell—we teach!” emphasizes Mary Kay. “Polite persuasion” is the Mary Kay euphemism for selling. The hard sell is avoided, according to the literature.

In its 1981 Annual Report, Mary Kay Cosmetics, Inc., shared with readers the philosophy of the beauty show.

The Beauty Show is our primary marketplace. Its importance cannot be overstated. Here the Consultant has undivided attention as she presents the entire line. She has ample time to give each guest personal attention. The customer learns valuable tips on skin care and grooming and, because she receives her order at the Show, puts the lessons into practice immediately.

During the course of the two-hour beauty show, the consultant demonstrates, presents, persuades, collects, and delivers. (Exhibit 6 is the price list for Mary Kay products demonstrated in the beauty show). In addition to the sales activities implicit in the show, a consultant may recruit other consultants and arrange bookings for future shows at the demonstration. The person who agrees to host a show at her home “earns” Mary Kay products. Often if the consultant notes a potential customer’s reluctance to purchase because of the cost, she may suggest that the woman earn products by hosting.

Exhibit 6

1982 MARY KAY PRICE LIST

ITEM	PRICE		ITEM	PRICE		ITEM	PRICE	
Complete Collection (as shown)	\$71.00	4	Eyebrow Pencil	\$3.00	4	BODY CARE		4
Basic Skin Care	39.00		<input type="checkbox"/> Black <input type="checkbox"/> Brown <input type="checkbox"/> Auburn			Cleansing Gel, 8 oz.	\$7.00	
CLEANSE			<input type="checkbox"/> Charcoal <input type="checkbox"/> Light Brown <input type="checkbox"/> Blonde			Buffing Cream, 6 Oz.	7.50	
Cleansing Cream Formula, 1.4 oz.	6.50		Mascara	5.50		Moisturizing Lotion, 8 oz.	6.50	
Cleansing Cream Formula, 2.4 oz.	6.50		<input type="checkbox"/> Black <input type="checkbox"/> Brown			Sun Screening Lotion, 6 oz.	8.50	
Cleanser Formula 3, 3.75 oz.	6.50		Lip and Eye Palette (Complete with 2 brushes)	14.50		BASIC CARE		
STIMULATE			Lip Palette	12.50		Shampoo for Normal/Dry Hair, 8 oz.	4.50	
Magic Masque Formula 1, .3 oz.	7.50		(Complete with lip brush)			Shampoo for Oily Hair, 8 oz.	4.50	
Magic Masque Formula 2, .3 oz.	7.50		Eye Palette	12.50		Protein Conditioner, 8 oz.	6.00	
FRESHEN			(Complete with eye brush)			Intense Conditioner, 3 oz.	7.00	
Skin Freshener Formula 1, 5.75 oz.	7.50		Retractable Lip or Eye Brush	2.00		Non-Aerosol Hair Spray, 8 oz.	4.50	
Skin Freshener Formula 2, 5.75 oz.	7.50		Lip or Eye Palette Refill	4.00		FRAGRANCE BOUTIQUE		
LUBRICATE/MOISTURIZE			Great Fashion Lip Color Shade Selections			Avenir Spray Cologne, 2 oz.	15.00	
Night Cream Formula 1, 4 oz.	12.00		<input type="checkbox"/> Pink <input type="checkbox"/> Plums <input type="checkbox"/> Russets			Intrigue Spray Cologne, 1.75 oz	10.00	
Night Cream Formula 2, 4 oz.	12.00		<input type="checkbox"/> Reds <input type="checkbox"/> Corals <input type="checkbox"/> Spices			Facets Spray Cologne, 2 oz.	11.00	
Moisturizer, 2.8 oz.	12.00		Great Fashion Eye Shadow Shade Selections			Facets Cologne, 1 oz.	6.50	
PROTECT			<input type="checkbox"/> Blues <input type="checkbox"/> Greens			Angelfire Spray Cologne, 1.75 oz.	12.00	
Day Radiance Formula 1, 5 oz.	5.50		<input type="checkbox"/> Browns <input type="checkbox"/> Plums			MEN'S PRODUCTS		
Day Radiance Formula 2, 1 oz.	5.50		Blusher	8.50		Mr. K Skin Care System	34.50	
<input type="checkbox"/> Ivory Beige <input type="checkbox"/> Toasted Tan			<input type="checkbox"/> Soft Pink/Soft Peach			Cleanser, 2.7 oz.	4.50	
<input type="checkbox"/> Light Beige <input type="checkbox"/> Cinnamon			<input type="checkbox"/> Tawny Rose/Tawny Amber			Mask, 2.6 oz.	6.50	
<input type="checkbox"/> Medium Beige <input type="checkbox"/> Chestnut			<input type="checkbox"/> Cinnamon/Mahogany			Toner, 2.6 oz.	4.50	
<input type="checkbox"/> Warm Beige <input type="checkbox"/> Coffee			Lip Liner Pencils	6.50		Moisture Balm, 2.5 oz.	12.00	
<input type="checkbox"/> Suntan Beige <input type="checkbox"/> White			<input type="checkbox"/> Raisin/Ripe Cherry			Sun Screen, 2.7 oz.	7.00	
<input type="checkbox"/> Suntan <input type="checkbox"/> Yellow			Lip Gloss	4.50		Mr. K Cologne, 3.75 oz.	9.50	
<input type="checkbox"/> Honey Tan			SPECIALIZED SKIN CARE			Mr. K Lotion, 3.4 oz.	4.50	
GLAMOUR COLLECTION			Moisturizer, 2.8 oz.	12.00		ReVeur After Shave Cologne, 3.75 oz.	10.00	
Blush Rouge	4.00		Facial/Under Makeup Sun Screen, 2.7 oz.	7.00				
Eyeliners	5.00		Hand Cream, 2.8 oz.	5.50				
<input type="checkbox"/> Black <input type="checkbox"/> Brown								

Source: Mary Kay, Inc., price list for beauty consultants.

To become a consultant a woman submits a signed beauty consultant agreement with a cashier’s check or money order to Mary Kay Cosmetics. The pink beauty showcase is then shipped immediately to her from Dallas. Before she is a full-fledged consultant, a recruit must attend three beauty shows with an experienced consultant, book five beauty shows for her first week’s activity, and attend training classes conducted by a director in her area. Because each Mary Kay show provides yet another opportunity to recruit beauty consultants into the company, to book future shows, and to establish reorder business, Mary Kay puts a premium on running a smooth and professional show. Mary Kay consultants are expected to present a well-groomed, Mary Kay—cosmeticized image and to dress in a manner consistent with Mary Kay Ash’s personal philosophy of feminine attractiveness.

Mary Kay annual reports feature attractive models representing the consultants on their appointed rounds, dressed in tailored suits, tastefully manicured, coiffured, and made up, usually wearing soft, pastel blouses and Mary Kay jewelry (golden bumblebees and Mary Kay pins are sought-after prizes in the company). The ideal image of the consultant is that of the “dressed-for-success” career woman.

A career woman should dress in a businesslike manner. Personally, I'm opposed to wearing pants on the job. In fact, that's a company policy at Mary Kay (except in the manufacturing area). After all, we are in the business of helping women look more feminine and beautiful, so we feel very strongly that our Beauty Consultants should dress accordingly. We suggest they always wear dresses to Shows, rather than pants, and we emphasize well-groomed hair and nails. After all, can you imagine a woman with her hair up in curlers, wearing jeans, calling herself a Beauty Consultant—and trying to tell other women what they should be doing to look good? We're really selling femininity, so our dress code has to be ultra -feminine.²

MOTIVATION—MARY KAY STYLE

Within the honeycomb of the sales unit—the basic organizational entity in Mary Kay, though it is not included in the company organization chart—the consultant receives weekly sales training and encouragement, sings Mary Kay booster songs, and applauds the successes of others. Personal vignettes are as legitimate in this revival-style gathering as is instruction in specific sales techniques. The professionalization program at Mary Kay also includes regional workshops, Jamborees (conducted by national sales directors), leader's conferences, and seminars. “The Seminar” is the “multimillion-dollar extravaganza” staged each year at the Dallas Convention Center where thousands of Mary Kay consultants and directors converge for inspiration, entertainment, and education—Mary Kay style. It is in this immense convention forum that Mary Kay leaders are recognized publicly, where they share their own sagas of success with the audience. Here the Cadillacs, mink coats, diamond bumblebees, and other coveted Mary Kay status symbols are meted out to the deserving ones; and here women aspire to these material rewards by goal-setting activities for the coming year. Seminar classes, conducted by successful Mary Kay directors, teach the intricacies of sales technique, bookkeeping, leadership, customer service, and other skills necessary for Mary Kay entrepreneurship. In 1980 the special effects staff for the seminar arranged for the pink Buicks and Cadillacs to “float” phantomlike through mist onstage via a remote control process much to the delight of the assembled. Seminar showmanship has proven effective in creating the Mary Kay myths.

The company believes that tangible symbols of success motivate the Mary Kay women and serve to fuel the belief “that if they work hard enough—if they give of themselves—that they will be successful, personally and professionally.” Vacation trips, prizes, contests, photographs of Mary Kay with members of the sales force, and constant praise are among the motivators the company has used with great success. In 1980, 311 sales directors earned more than \$30,000; 98 earned more than \$50,000. Almost 500 are designated as “Cadillac-status” directors.

²Ibid., p. 10.

The highest-paid Mary Kay saleswomen are the national sales directors, a group of more than 39 women who began as consultants. They average more than \$150,000 annually. Mary Kay Cosmetics gives a great deal of publicity to these star earners, for example, Helen McVoy who started back in the humbler days of the company and now earns \$300,000 a year.

EARNINGS

A consultant is in business for herself and therefore her earnings are determined by her sales at retail. She purchases products from the company at a discount (up to 50 percent) from retail and her gross profit is the difference between her purchase price and the retail selling price that she herself determines.

In 1981 Mary Kay Cosmetics raised prices 16 percent and simultaneously upped the commission thresholds to increase productivity on a sustained basis. If the consultant wants to qualify for a 50 percent discount, she must order \$1,000 of products at the suggested retail price. Previously an \$800 order qualified her for a 50 percent discount. Selling \$800 of merchandise currently entitles her to \$360. Price hikes and the revised commission thresholds allow the consultant to increase her earnings if she manages to maintain her customer base. But there is no time to rest on her laurels, because the Mary Kay system is geared toward the sales woman who aggressively builds her business.

While it is relatively easy to become a Mary Kay consultant, the company demands considerably more of those women who wish to qualify as sales directors. The labor of the sales director is sweetened by the possibility of substantially increased financial rewards over the consultant status, however. Like the consultant, the sales director is self-employed. As the resident advisor for her unit, she supplies her people with inspiration, positive suggestions for improving sales performance, and business advice of all kinds. A carefully orchestrated program for the directors and a rigorous screening process that admits only those women who have met stringent performance standards in terms of volume sales and number of recruits assures that the directors will be an experienced, aggressive sales group. In 1982 the company numbered 3,500 directors. The director-in-qualification travels to Dallas (at her own expense, as is the case of travel arrangements for the entire Mary Kay sales force) to receive training in management of a sales unit.

The directors' commissions were revised upward in 1981 along with the consultants'. To receive the pink Cadillac ("those little pink jars mean little pink cars"), the director must maintain a wholesale volume of \$12,000 per month. Under the previous commission scheme, the director earned 12 per cent if her unit volume topped \$6,000. After the revision, her unit needed to "politely persuade" customers to buy from \$8,000 to \$12,000 to receive 11 percent. Although the director currently gets only 11 percent on unit volume between \$5,000 and \$8,000, a 13 percent commission is now possible for the director on volume over \$12,000. The director must maintain the momentum of her unit if she is to succeed. Simply put, success for consultants spells success for directors, and vice versa.

GROWTH OF THE COMPANY

Inside and outside of Mary Kay, declining recruitment of consultants was expected in the early 1980s, and the 50 percent growth rate experienced up until 1980 was considered unsustainable. Anxiety that the company might reach an early saturation point due to its rapid growth has proved to be groundless, however, with 180,000 consultants projected by December 1982.

Cosmetics, along with beer and cigarettes, have generally been ear marked “recession-proof.” Yet cosmetics unit sales in late 1981 and 1982 for Mary Kay and other companies did falter as disposable incomes declined in a recessionary environment. During this period Mary Kay Ash’s autobiography went on sale. Her promotional tour to major U.S. cities to discuss her life, career, and company on television and radio provided unprecedented visibility for the Mary Kay message and gave recruitment a shot in the arm. The company spent an estimated \$450,000 in television and other advertisements during this period (Exhibit 7).

THE MARY KAY PHILOSOPHY

At Mary Kay, attention to the family unit is central to company ideology. Mary Kay Ash often states the formula, “God first, family second, career third.” Since most Mary Kay consultants have families, the organization realizes that enlisting family cooperation makes for happier, more successful Mary Kay salespersons. A husband who is unfavorably disposed to his wife’s Mary Kay career, “who gets upset when she comes home an hour late from an evening beauty show” may be “disastrous” to the business. So Mary Kay consultants are urged early on to enlist the cooperation of husbands with tact and caring. At the seminar in Dallas each year, husbands participate in workshops led by experienced Mary Kay husbands designed to imbue them with “that Mary Kay enthusiasm” at best or at least to help them handle issues that sometimes arise in a Mary Kay household: ego crises that occur when a wife brings in more income than her spouse, household crises when a woman may not be on hand to perform all the “wifely” functions to which the family has become accustomed, readjustment problems for the family when the wife and mother maybe away from home attending Mary Kay functions. To cheer those husbands left at home when wives are in Dallas, training to be directors, letters are dispatched to them from Mary Kay headquarters thanking them for the support they are giving to their wives’ careers.

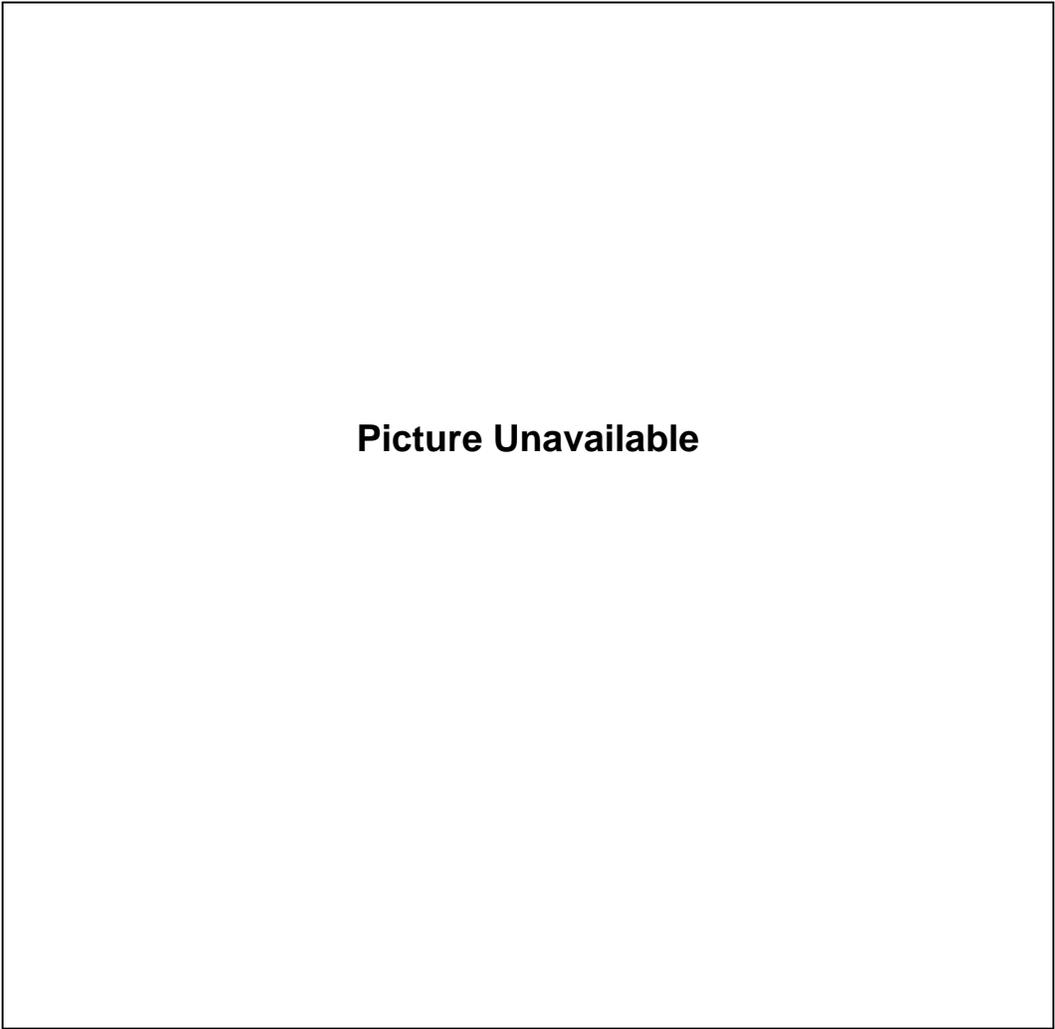
If you are a working woman, getting your husband involved is so important! It’s always been my observation that people will support that which they help to create. When a woman goes to work, she must not only sell her husband on her career, but if she’s wise, she’ll find ways to get him involved. Once he’s involved, she’ll get his support. One area where many of our Beauty Consultants have gotten their husbands involved is in the bookkeeping and record-keeping that goes with any business. Many sales-oriented women don’t especially like record keeping, so they welcome their husband’s help in this area, and it’s been our experience that most husbands enjoy keeping their wives’ records.³

³ Ibid., p. 72.

To assist the woman in rendering the family the time that is theirs, and to Mary Kay Cosmetics its fair share, Mary Kay Ash advocates good time management. Since she has found that getting up at five in the morning gives her an additional workday each week, she urges consultants and directors to join her Five O'Clock Club: a routine of rising early each morning, using the early hours to dress, apply makeup, do household chores, and prepare to begin Mary Kay business-related activities by 8:30 A.M. The ideal consultant will stop for a half-hour lunch and stay with business until five in the evening. In the best of all possible Mary Kay worlds, a woman will earn enough to allow her to gate many household duties to a housekeeper, the better to perform her sales duties.

Exhibit 7

**ADVERTISING FOR THE MARY KAY
AUTOBIOGRAPHY IN PEOPLE MAGAZINE**



Picture Unavailable

Getting organized, however, is key to the success of the woman who cannot afford a housekeeper:

I know many women do manage to wear all those hats, but it can certainly take its toll. In order to be effective in their careers and still be good wives and mothers, they must be organized. As a general rule, I have found that getting organized is one of the biggest problems working women have. And if a woman is trying to wear a great many hats and she isn't organized, she's operating under a tremendous handicap.⁴

A unique feature of the company is the flexibility built in for working mothers. Inherent in the company philosophy is the notion that women working as a team can cover for each other in case of family emergency. The beauty show will go on, but perhaps another consultant will carry on when a woman needs to care for a sick child or spouse, a procedure called “the dovetail system.”

The Mary Kay organization becomes an extended family for its sales force, a bountiful maternal figure dispensing prizes of minks, diamonds, and Cadillacs to dutiful daughters. The nonhierarchical family atmosphere of the company promotes high morale, according to Mary Kay and upper-level staffers.

The personal touch—be it serving cookies mixed up by Mary Kay Ash with her own hands at company functions or sending Christmas, birthday, anniversary cards and condolence messages—underscores the familial concept of the organization and builds company loyalty. The allegiance of the sales force to the company, personified in Mary Kay Ash, surfaces in every aspect of the consultant's training. In problem solving, consultants are asked to think what Mary Kay herself “would do in your situation,” much as if Mary Kay Ash were an exemplary, albeit absent, mother. Adopting Mary Kay Ash's personal routine as their own in many cases, consultants and directors are attached to Mary Kay by an umbilical cord of personal habit and life-style. Many of the sales force display photographs of Mary Kay in their workspaces at home.

SKIN CARE PRODUCTS AND MARY KAY

Mary Kay Cosmetics in 1963 had bit upon an idea whose time had come with its introduction of skin care products, now the staple of almost every major cosmetics house. The basic five-step skin care process includes cleansing, stimulating, freshening, moisturizing, and protecting the skin. The company suggests that the basic set not be broken as it is the centerpiece of the Mary Kay concept, that is, to teach people how to care for their skin.

The best reason to start a new company is that there is a need for what you have to offer, or that you're better than what is being offered. When we began, no cosmetic company was actually teaching skin care. All of them were just selling rouge or lipstick or new eye colors. No company was teaching women how to care for their skin.

⁴ Ibid., pp. 169-170

*So we came into a market where there was a real need—and we filled it. Oddly enough, it's still true today that women are not knowledgeable about skin care, despite all the information on television, in magazines, and in newspapers. They buy a product here, there, and everywhere, but they don't have a coordinated program. We fill a void by helping women understand how to take care of their skin. So, if you want to start a successful business, you must offer something different or something better than what is available.*⁵

In what is being called a “cosmetic revolution” by some, major cosmetics firms in the 1980s are taking scientific approaches to beauty. While the promise of cosmetics before the 1980s was one of glamour, the present appeal is made to the customer’s consciousness that the scientific result of good skin care is healthy, younger-looking, cleaner skin. Advertising stresses the chemical properties of collagen, linoleic acid, and many more. Consumers are presumed, in such high-tech ads, to be conscientious about skin care and conversant with its sophisticated vocabulary replete with such terms as “cell renewal,” “exfoliation,” and “hydration.”

This scientific approach began in the 1960s when Dr. Erno Lazlo introduced his pathbreaking line of skin care products to an enthusiastic public. Worship at the altars of Revlon’s Eterna 27 and Clinique also began in the 1960s and has continued into the 1980s.

Scientific research in the 1950s set the stage for the cosmetic revolution, although Mary Kay Cosmetics maintains that the original recipe for its skin preparations emanated from a hide tanner in Texas.

From the 1950s to the 1970s, soluble collagen became available to cosmetic chemists at that time seeking a protein to be used in products to treat dry, flaking, aging skin.⁶ Marketing research had demonstrated (and continues to reveal) that approximately 90 percent of American women perceive their most serious skin problem to be dry skin.

According to scientist Bernard Idson of Hoffman-La Roche, when it was understood that it is not oil but water that causes skin to be soft and flexible, cosmetic marketing shifted emphasis from total emolliency to the moisturizing qualities of various products. Idson and other researchers found that a water level of less than 10 percent in an individual’s skin results in dried keratin, which causes lowered skin elasticity, a characteristic of sun-damaged, chapped, and aged skin.⁷

With over half its sales in the skin care area, Mary Kay finds itself in the 1980s heavily invested in the fastest-growing product category in cosmetics. Industry analysts project continued growth for skin care products, estimating in optimistic moments the general moisturizer market to number 100 million persons.

⁵ Ibid., p. 120.

⁶ See R. D. Todd and L. 1. Biol, “Soluble Collagen: New Protein for Cosmetics,” *Drug and Cosmetic Industry*, Vol. 117 (October 1975), pp. 50—52.

⁷ Bernard Idson, “Dry Skin Moisturizing and Emolliency,” *Drug and Cosmetic Industry*, Vol. 117 (October 1975), pp. 43—45.

**PSYCHOGRAPHICS, DEMOGRAPHICS,
AND MARY KAY**

Psychographic market segmentation stretches beyond the more traditional demographic and socioeconomic descriptors used to predict consumer behavior. Product psychographics are bound up with product promises, price-value perception, and the overall image of the product. Because of this relational posture, psychographic market segmentation is particularly applicable to the behavior of the cosmetics purchaser, who according to an old aphorism, is buying not only a product but hope. In a way, however, proponents of the scientific approach to marketing skin care are placing bets on a consumer's responding to demonstrations of empirical results and moving away from purchasing merely out of hopes that the product will deliver.

The last decade has seen a tremendous consumer responsiveness to computerized and education-oriented beauty programs (Clinique) and carefully orchestrated, scientific-based programs to control "age zones" (Charles of Ritz). According to those in the testing area at Ritz, their test methodology for the product Age-Zone Controller used 100 subjects and, according to Eileen Kregan, Director of Consumer Education for Charles of Ritz (1982), "consisted of making silicone skin replicas of the subject's outer eye area on the first, seventh, and fourteenth days of the test. To measure line reduction, light was passed through the positive skin replicas and a transparency was made, Direct measurements were then made of the transparencies to determine what changes occurred in the length and number of age lines over a 14-day period." Advertising for the product will reflect the scientific findings.

Exhibit 8

**U.S. POPULATION PROJECTIONS BY AGE GROUP (BOTH SEXES)
(in millions)**

Age Group							<u>COMPOUND % INCREASE (DECREASE)</u>			
	1970	1975	1980	1985	1990	1975 vs. 1970	1980 vs. 1975	1985 vs. 1980	1990 vs. 1985	
15—19	19.3	21.0	20.6	18.0	16.8	1.7%	(0.4)%	(2.7)%	(1.4)%	
20—24	17.2	19.2	20.9	20.5	18.0	2.3	1.7	(0.5)	(2.6)	
25—29	13.7	16.9	18.9	20.6	20.2	4.3	2.3	1.7	(0.4)	
30—34	11.6	14.0	17.2	19.3	20.9	3.8	4.2	2.3	1.6	
35—39	11.2	11.6	14.0	17.3	19.3	0.6	3.8	4.9	2.2	
40—44	12.0	11.2	11.7	14.1	17.3	(1.3)	0.9	3.8	4.1	
45—49	12.1	11.8	11.0	11.5	13.9	(0.7)	(1.4)	0.9	3.8	
50—54	11.2	12.0	11.7	10.9	11.4	1.4	1.4	(1.4)	0.9	
55—59	10.0	10.5	11.4	11.1	10.4	1.0	1.7	(0.5)	(1.3)	
60—64	8.7	9.2	9.8	10.6	10.4	1.1	1.3	1.6	(0.4)	

Source: U.S. Department of Commerce, Bureau of Census, 1970, 1980, Series P-25, *Population Estimates and Projections*.

Mary Kay relies much more heavily on the educational than on the high-tech approach with its customers. Quality control is a term that surfaces more often at Mary Kay than specific scientific terminology and vocabulary. The company envisions customers as interested more in the process of using the product than its specific theoretical underpinnings.

The demographic trends as projected by U.S. Census figures indicate that Mary Kay will continue to find an increasing number of women customers in the 25- to 44-year age group, a group Mary Kay has already targeted as one vitally interested in skin care. Projections call for the 63 million persons in the 25- to 44-year age group in 1980 to increase to 80 million in 1990. Although the teenage and early-twenties market is dwindling, this should not be problematic for Mary Kay since its products presently do not get high visibility among this group due to the beauty show method of sales.

Mary Kay Cosmetics sees many positive signals in the 1980 Census data (Exhibit 8). Constructing “the woman of the ‘80s,” the company profiled a woman “in her mid-30s.”

Her husband has a good job, but they could use extra income. They have one child.

She has completed some college and would like to return, part-time, for more. She is highly inclined to a job or career—both from economic necessity and from a desire to experience something new and to test her abilities.

The woman of the ‘80s has a new awareness of political affairs but, at the same time, is keenly aware of improving herself, physically, intellectually and professionally.

She wants to live life on **her** terms. She is interested in acquiring things and achieving goals, but above these she places **experience**. She is not content to be a spectator. While she may admire the looks and figure of a fashion model, she would rather **be** one.

Even though she enjoys her homelife, she seeks to expand her world by finding a part-time job or full-time career. This new world makes her more aware of her appearance. She works hard to stay fit; she is nutrition-conscious; she cares deeply about how she looks—her wardrobe, her skin and her grooming.

To the ends of feeling and looking good, she has educated herself in the accoutrements of fitness and appearance. She is more conscious than her mother’s generation about matters of sophistication, taste in clothing and cosmetic fashions.

She eagerly searches for products and services that satisfy her powerful sense of self and her need for self-improvement.

She is a customer in the market for what Mary Kay has always offered. And now, more than ever, she is willing to try both our products and our career opportunity. The inevitable meeting of Mary Kay and the woman of the '80s usually takes place at a Mary Kay beauty show.⁸

As Mary Kay Cosmetics looks to the 1990s, it sees a population in which 60 percent of all women will be working. Women working outside the home have clearly demonstrated that they spend more on cosmetics than do their counterparts in the home. One-third of all households will be composed of single persons, people who have discretionary income to spend on their own needs. Mary Kay sees great opportunities to convert a "middle-aged" population to skin care products. On another level, there will be a large middle-aged working female population from which to recruit the corps of Mary Kay consultants. That the number of women entering the labor force is tapering off (in 1980, 50 percent of the female population between ages 18 and 65 were working) does not appear to be of major concern to the company.

MARY KAY AND THE FOOD AND DRUG ADMINISTRATION

Inquiries made to the Food and Drug Administration (FDA) regarding the claims made by cosmetics companies for their products is a major escalating problem at the agency, which is receiving less funding than it says it needs to investigate. The FDA sustains the burden of proof in establishing that the claims made by cosmetics companies are misleading to the consumer. Although cosmetics companies, including Mary Kay, express concern about a climate of increased regulation, the FDA complains that "we are not in any position to challenge the cosmetics industry. It is a \$12 billion industry being regulated by a handful of people at the FDA."

Until the 1970s, the government took a strong stance with regard to the regulation of cosmetics formulations. Consumer activism across the board in the 1970s resulted in more stringent regulation of the industry. The use of dyes, hexachlorophene, and mercury in cosmetics and toiletries sparked debates and engendered legislation on the appropriate labeling of cosmetics. Major regulatory requirements imposed on manufacturers included:

- Responsibility for the safety of the cosmetic being marketed
- Responsibility for required testing to determine toxicity, irritation, and/or sensitivity to the product
- Compliance should the FDA insist on further discretionary testing by an FDA-appointed, independent organization to verify the safety of ingredients
- Mandatory labeling of cosmetic packages or containers with specific ingredients in order of predominance, although flavor and fragrance need only be indicated by the words "flavor" and "fragrance"
- A waiting period of 20 days before the release of the new product after notification of the FDA

⁸ 1980 Annual Report, p. 5.

Reports of increased regulation hover over the industry, but the fact is, according to the *1982 U.S. Industrial Outlook*, that less than 1 percent of the FDA's budget goes toward regulation of the cosmetics industry. The FDA depends on voluntary programs for the reporting of product formulas and adverse effects, for example, the Cosmetic Ingredient Review (CIR), a screening and warning process to alert the industry to possible harmful effects of cosmetic ingredients.

Mary Kay's reaction to regulation has resulted in expansion of its laboratories, acquisition of capital equipment to support skin science, and development of contacts in the scientific fields of dermatology and skin science. "Regulatory agencies are responding to increased scientific information, ensuring a more complex environment in the '80s for our entire industry," the company reported to stockholders in 1981.

OF TOILETRIES AND COSMETICS

Increasingly the distinction drawn between toiletries and cosmetics is becoming a matter of semantics. Because they are higher priced, cosmetics theoretically are geared to the individual whereas toiletries at a lower unit price are targeted to the mass market. The mode of distribution of cosmetics—through department stores and drugstores on a franchise or semifranchise basis or through direct sales—differs from that of toiletries, which are found in mass marketing outlets. This distinction is beginning to blur as cosmetic houses begin limitedly to place lower-priced lines in grocery stores and discount houses, although it is doubtful that toothpaste will appear in department stores. More utilitarian in nature, toiletries, including shampoos, toothpastes, and deodorants because of their proletarian nature, occupy a more competitive marketing niche, one in which higher promotional advertising expenditures are the rule. Lipsticks, fragrance products, eye makeup, face makeup, and the treatment lines—the mainstays of cosmetics—tend to engender a strong brand-name loyalty if the product delivers, even though it may be less advertised than a toiletry. A satisfied Mary Kay customer, for instance, often will use no other brand of cosmetic, although she may use several brands of toothpaste. Mary Kay and other cosmetic companies are making strong bids to sell toiletries as cosmetics, especially in the hair care line, by marketing a cluster of such products as a hair care program with much the same educational approach found successful for the skin care line (Exhibit 9).

Exhibit 9

**TOTAL U.S. COSMETIC AND TOILETRY TRENDS IN MARY KAY'S
RELEVANT MARKETS, 1970-1980***

YEAR	SALES MANUFACTURING (millions) PRICES	REAL SALES (Increase)	PRICE INCREASE (Decrease)	U.S. FEMALE POPULATION	COSMETIC AND TOILETRY SALES PER WOMAN† (Mfg. Prices)	REAL COSMETIC USE INDEX‡ (Per Capita)
1980	\$3,950			113.6	\$29.55	1.33
1979	3,653			112.7	27.55	1.36
1978	3,317			111.8	25.18	1.32
1977	3,040	§	§	110.9	23.29	1.20
1976	2,816			110.1	21.71	1.25
1975	2,476			109.2	19.27	1.19
1974	2,275			108.5	17.84	1.16
1973	2,110			107.7	16.62	1.15
1972	1,980			106.9	15.74	1.10
1971	1,875			106.0	15.06	1.04
1970	1,735			104.9	14.08	1.00

% Increase (decrease)

1980—1979	8.1%	10.1%	(2.1)%	0.8%	7.3%	(2.8)%
1979—1978	10.1	6.0	4.1	0.8	9.4	3.4
1978—1977	9.1	4.0	5.1	0.8	8.1	4.1
1977—1976	8.0	4.0	4.0	0.7	7.3	3.3
1976—1975	13.7	7.2	6.5	0.8	12.7	5.5
1975—1974	8.8	4.6	4.2	0.6	8.0	3.4
1974—1973	7.8	6.4	1.4	0.7	7.3	0.9
1973—1972	6.7	0.0	6.7	0.8	5.6	5.6
1972—1971	5.4	(0.8)	6.2	0.9	4.5	5.1
1971—1970	8.1	2.5	5.6	1.0	6.9	4.4

Compound growth

1980 vs. 1970	9%			1%	8%	3%
1980 vs. 1975	10			1	9	3
1975 vs. 1970	7			1	6	3

* From sources believed reliable. Excludes toothpaste and other categories in which Mary Kay does not compete.

† Assumes 85% of U.S. cosmetics and toiletry industry sales of products Mary Kay sells are used by women.

‡ Cosmetic and toiletry sales per woman minus price increases; indexed to 1970.

§ Not available.

A common property to both cosmetics and toiletries is their appeal to the psyche of the user. No one would argue with the idea that people buy these products with the expectation that they will look and feel better after using them.

Analysts have concluded that one problem in capturing the potentially vast market for men's cosmetics is in breaking down the image that it is normal for a man to buy toiletries but somehow "abnormal" for him to purchase cosmetics. In recent years men appear to have been convinced that colognes are acceptable masculine cosmetic items. Mary Kay and other firms believe that growth in the men's cosmetic market will be slow and will probably begin with a skin care line accompanied by an educational process of some sort.

MARY KAY COSMETICS AND THE FUTURE

Returning to the familial theme at the end of her autobiography, Mary Kay reflects on the possibility of her retirement—if and when she can no longer present the glamorous, ageless public persona that people recognize through photographs such as the one taken by celebrity photographer Francesco Scavullo for the cover of her book. In passing she remarks that her mother's skin, even at age 87 "looked wonderful."

Looking toward the long term, Mary Kay Cosmetics purchased 176 acres of land in Dallas in June 1981 to pursue a major four-year expansion program to encompass production, distribution, and administrative facilities. Construction was set to start in October 1982 on the first of several manufacturing and distribution facilities.

We're also so fortunate to have as president my son, Richard, who has filled in for me on many occasions and won the hearts of our people. He, one day, will not only fill his job as chief executive but mine as well, as motivator of our people.

Exhibit 10 portrays the management team at Mary Kay Cosmetics. The development strategy to see the company through a lengthier expansion period will call for construction as needed to support sales, to be financed from retained earnings. The leased 300,000-square-foot manufacturing facility allows Mary Kay Cosmetics to support \$400 million in sales volume. The \$12 million site development project, underway in 1982, was capitalized and also financed by internal cash flow and limited bank borrowing—a conservative fiscal strategy consistent with Mary Kay Ash's personal philosophy of paying cash rather than incurring heavy, long-term debts.

⁹ Mary Kay, p. 205.

Exhibit 10

MARY KAY MANAGEMENT TEAM, 1982

Mary Kay Ash, Chairman of the Board

Richard Rogers, President. Co-founder of Mary Kay Cosmetics, Inc. Served as General Manager, Vice President, 1968 "Marketing Man of the Year" Award from North Texas Chapter of the American Marketing Association.

Gerald M. Allen, Vice President, Administration. Responsible for planning, organizing, and directing the delivery of administrative services to the beauty consultant and supervising a staff of sales promotion directors. Supervises company security, communications and word processing, sales administration and compensation programs. B.B.A., Arlington State College.

J. Eugene (Gene) Stubbs, Vice President, Finance, and Treasurer. Responsible for financial planning and accountable for company's financial assets and profitability objectives. Directs the treasury, controllership, and internal audit functions. Also responsible for all financial reporting. M.B.A., University of Texas; C.P.A.; B.B.A., Texas A & M University.

Richard C. Bartlett, Vice President, Marketing. Responsible for planning and implementing marketing strategy including incentive programs, education and development of consultants, special events and meetings, public relations, and market-related research. B.S., University of Florida.

Monty C. Barber, Vice President, Secretary, and General Counsel. Responsible for supervising activities prescribed by law and the company regulations, establishing legal policies, advising and rendering opinions, supervises the public affairs program. As corporate secretary, attends to administrative matters for the board, shareholder relations, consumer relations, and coordinates all contribution requests. J.D., University of Texas; B.B.A, University of Texas.

John Beasley, Group Vice President, Manufacturing. Responsible for planning, organizing, and evaluating all manufacturing decisions. Directs the development of the product line and ensures the quality of the products. B.A., Georgia Tech, Industrial Engineering National Merit Scholarship.

Phil Bostley, Vice President, Operations. Responsible for planning, directing, and coordinating the distribution of all Mary Kay cosmetics and sales aids through regional distribution centers. Also responsible for directing the forecasting of product mix, the maintenance of inventory levels and coordinating the company's data processing group. B.A., Penn State University, math and science.

Exhibit 10 (cont.)

Myra O. Barker, Ph.D., Vice President, Research and Product Development. Responsible for planning and directing skin technology, process technology, and product development. Directs regulatory and medical affairs and ensures product safety. Ph.D., Tulane University, biochemistry; B.S., University of Texas, chemistry.

Bruce C. Rudy, Ph.D., Vice President, Quality Assurance. Responsible for the procedures that assure the quality of raw materials in the product line. Controls the finished products certifying that they meet cosmetic, FDA and company standards. Plans and directs quality audits of all phases of product development, research, manufacture, and distribution. B.S., E. Stroudsburg State College; M.S., Clemson University; M.B.A, Columbia University; Ph.D. University of Georgia.

Pat Howard, Vice President, Manufacturing Operations. Responsible for manufacturing material control including purchasing, warehousing, production, planning, and international manufacturing. B.S., St. Mary's University; M.S., Texas A & M University.

Jack Dingler, Vice President, Controller. Responsible for all operating financial functions of the company, including expenditure review, to ensure the continuation of the company's sound financial position. B.B.A, University of Texas at Arlington, accounting; C.P.A.

William H. Randall, Director, Marketing Services. Responsible for marketing research, incentive program, visual communications, marketing publications, communications, and creative efforts. M.B.A. Harvard; B.A., Rutgers, economics.

Dean Meadors, Director, Public Relations. Responsible for all public relations activity. M.S., University of Illinois, advertising; B.S., University of Illinois, journalism.

Netta Jackson, Director, Product Service. Responsible for the marketing rationale for product development. Ensures that the company remains competitive in price and positioning. Active in sales force training. B.S.B.A. University of Arkansas, marketing.

Michael C. Lunceford, Director, Public Affairs. Responsible for monitoring of local, state, and federal laws and regulations; community liaison with emphasis on corporate philanthropy. Master's program, Southern Methodist University, business administration; M.S., Southern Methodist University, public administration; B.B.A., East Texas State University, business administration, finance/economics.

Richard Rogers has publicly set the goal of \$500 million in annual sales by 1990, emphasizing that 35 percent of the Mary Kay business is repeat sales to faithful customers. “As we grow, we’re bringing our customer base forward,” he states. His plan for growth reflects the guarded optimism of industry analysts. They predict that beauty products will rebound in the 1980s as the economy limps toward recovery. Most companies are placing their chips on moisturizing products, although many will continue diversification strategies, for example, Chesebrough-Ponds, a leader in the moisturizing business with Vaseline Intensive Care Lotion, but also a leader in spaghetti sauce, children’s clothing, and casual footwear with the Ragu, Health-tex, and C. H. Bass brands. Meanwhile, Avon, Mary Kay’s most look-alike competitor, continues to diversify. In 1982 Avon began peddling magazine subscriptions along with its vast cosmetic and costume jewelry lines. In a surprising 1979 move, Avon picked up Tiffany and Company, the preeminent jewelry concern.

Mary Kay intends to ride the moisturizing and skin care wave. Its Basic Skin Care Program will remain the staple product line. While other cosmetic companies (Avon and Bonne Bell, to name just two) are sponsoring women’s running, bowling, and tennis competitions, Mary Kay Cosmetics will channel its energies into support of women working—for Mary Kay. An Avon piece of advertising copy reads, “At Avon, sports, health and beauty go naturally together.” Mary Kay, however will continue to endorse a work and beauty ethic.

Introduced in 1982, the four-step Body Care Program seemed the next logical step for Mary Kay Cosmetics, a continuation of the company’s appeal to the 25- to 44-year-old segment. Other major product constellations for the 1980s include Specialized Skin Care products (sun screen and hand cream), the Glamour Collection (cosmetics), and the Beauty Boutique, an array of bath and after-bath products. In keeping with the programmatic presentation pioneered in the Skin Care System, the company has developed a Basic Hair Care System, including shampoos, conditioner, and hair spray. Mary Kay Cosmetics hopes to nurture the presently minuscule market for the Mr. K. line of men’s skin care products.

I’ve talked about how important it is for women to look good, but I think men care just as much about their appearance. However, unfortunately, often you’ll see a man dressed in beautiful clothes, with good-looking shoes, an expensive briefcase, well-groomed hair, and manicured nails— but whose face could look so much better with a little help! A woman wouldn’t look complete without her face made up. So why shouldn’t a man do the same thing?¹⁰

As the company feels its way through the 1980s, it will accentuate quality control aspects ensured by a vigilant R&D policy. John Beasley, vice president of manufacturing, addressed this major concern in an interview, which appears as Appendix A. Also, see Appendix B, an excerpt from *U.S. Industrial Outlook*.

¹⁰ Ibid., pp. 130-131.

Because of the style of life that Mary Kay is selling along with the product—that of the independent, well-compensated, career-woman beauty consultant—the company has not been altogether successful in translating the Mary Kay concept into other, non-English-speaking, more patriarchal cultures. Mary Kay Cosmetics internally appears sanguine that “the philosophy of Mary Kay Cosmetics has proven well suited for women everywhere,” but this remains a debatable area in places like Japan.

Mary Kay Ash has stated on many occasions that Mary Kay Cosmetics is “in the business of helping women create better self-images so that they will feel better about themselves.” Whether she is invoking Ralph Waldo Emerson’s “Nothing great was ever achieved without enthusiasm” or leading her devoted consultants and directors in a chorus of “That Mary Kay Enthusiasm,” Mary Kay Ash, genius of direct sales motivation, thinks and dreams enthusiasm: “My own dream,” she states in her autobiography, “is that Mary Kay Cosmetics will someday become the largest and best skin care company in the world.”

Your Task:

Mary Kay Cosmetics has hired you as a consultant to review their current marketing strategy and to advise the company today about the direction in which they should be moving during the late 1980s and 1990s. In your analysis take into account the philosophy of the company, its declared mission, U.S. demographic and social trends, and the overall picture of the U.S. cosmetics industry.

Appendix A

JOHN BEASLEY ON QUALITY CONTROL AND RELATED TOPICS*

Q: *How does the quality of Mary Kay products compare with others on the market?*

A: *We direct our research and development and all our efforts toward producing the finest products we can produce. We know what other companies are producing. We understand all major competitive concepts, formulas, and approaches. But our focus is on producing the best product for the Mary Kay system. You see, we have a different orientation from most cosmetic companies. We can't just produce a product for a particular market segment. Our skin care products are used in a teaching system, so we are systems oriented. Our products work together, they're modular, and there's a synergism between them.*

Q: *Wasn't Mary Kay a pioneer in teaching skin care?*

A: *Mary Kay, as a specialist in skin care, has set trends for the only product segment of the market that's really growing. In 1963, we began marketing a five-step program of skin care. In 1976, we started teaching the scientific basis of skin care to and through our beauty consultants who today number over 150,000. Now every major cosmetic company in the country is talking about the scientific basis of skin care.*

Q: *How did the new Body Care System happen?*

A: *We've always had products aimed at body skin. The idea evolved from what we had learned about facial skin care. Body skin is different from facial skin, yet there are functional needs that need to be addressed in a complementary way. Body care was a natural extension from the Mary Kay tradition of scientific skin care. Our Body Care products have been formulated according to the same high standards we use in skin care. We've tested them and used them ourselves. We've come up with a very, very high-quality system for an economical price.*

Q: *What standards do you use internally for making product decisions?*

A.: *We came up with four factors that have to be included in every decision that is made from every level. Since we are a participative management organization, everybody has to know what the rules are, exactly what is important. The first thing that has to be considered in every decision is quality... the impact on product quality. The second is service. Service to the beauty consultant and consumer. The third thing that everybody has to take into account is the flexibility of the decision. What range does it work in? The fourth is the actual cost of the decision: total cost of capital investment, impact on cost of goods, and cash flow.*

* The following is an interview with John Beasley, vice president, Manufacturing Group for Mary Kay Cosmetics, Inc. Mr. Beasley has been with Mary Kay since September 1975 and is currently responsible for planning, organizing, and evaluating all U.S. and international manufacturing decisions. A major portion of his responsibility is quality assurance. The interview was conducted in May 1982 at Mary Kay's corporate headquarters in Dallas.

Appendix A (cont.)

We teach all management and some hourly people to use the four criteria. I will not look at any proposal that doesn't address these four things—and the first thing I see has to be quality. Richard Rogers [president of Mary Kay] uses the saying "If it's worth doing, do it right." That is the kind of quality statement that underlines everything we do all day long. That's the way the company was founded.

Q: *You mentioned you are a "participative management organization. "How does this work at Mary Kay?*

A: *You cannot get quality by having only one part of your company responsible for quality. The assumption that the better traditional organizations have made is that if you want to get something accomplished, you have to focus on it through a special part of your organization.*

Our assumption here is much different. Everybody is in charge of quality. The Research and Development Department is in charge of quality. The Marketing Department is in charge of quality. The Material Control Department is in charge of quality. The actual "Quality Assurance" function serves as a measuring device. The quality audit measures how well we are matching our stated quality standards. These specifications are set in a type of committee process that starts in research and development and get approved right up through the CEO in final form. From there our job is to expand them backward, through all the maze of processing, all the way back to vendor level. It's very much like the idea behind the Japanese quality circles when you get everybody involved in focusing on quality. For example, in 1976 we gave everybody in the hourly (nonexempt) group an across-the-board pay increase, explaining that we were adding the quality inspection responsibility to their job. We said, 'Part of your job is to make sure we always produce Mary Kay quality.'

Q: *How did they respond to this?*

A: *Many of them consider quality to be the predominant part of their job. The people in the plant don't simply report a problem; they are actually the ones doing the rejecting. And most of them are very tough. They see things that you and I won't see because they have developed a whole different set of skills out there. We normally produce on only one shift, we hire special people, we evaluate them and reward them. Mary Kay was always, from the very beginning, attracted to people who are quality conscious. If you look around, you see a very consistent type of person in dress and quality standards. When new people come in from other companies, and we've had to do a good bit of recruiting because we've grown so fast, they usually come from companies that were more interested in cost as the first factor. Even top executives don't understand that quality is the first criterion. So we create a whole culture that reinforces our standards.*

Q: *How many of the products Mary Kay sells are made in your own facilities?*

A: We manufacture probably 99 percent of the products in house; and 100 percent is quality inspected here. The same quality standards apply internationally. In general, if they don't pass the same quality standards that we use here in the United States, they don't go to the consumer.

Q: How does your sales force respond to this?

A: The sales force is very, very conscious of the quality aspect. Sometimes there has been some disappointment when we've said, "We're sorry, we can't sell this product because it's not Mary Kay quality." But it's very important to the sales force that they be very proud of the products and systems they teach... and sell.

Q: What are your long-term goals for Mary Kay?

A: We want to be the finest teaching-oriented skin care company in the world with sales of \$500 million by 1990. That's our corporate objective. It has been stated in our annual report, and everybody around here can quote it.

Q: How do you begin to meet that goal?

A: Research and development is the leading edge. Since 1975, Research and Development has grown from 1 Ph.D. and a technician to a staff of 47. We recruited Dr. Myra Barker to be our vice president of research and development. We go after the top 10 percent of the people in the country who have the skills that we're looking for and personal integrity. They don't come necessarily from the cosmetic industry. Many have come from the drug industry because we see cosmetics, especially skin care products, more like drugs than traditional glamour products.

In addition, the Research and Development Department is in the forefront in developing new technology. We have a group that has been formed to do nothing but research how the skin relates to the rest of the body and how it relates to its environment. A very large part of the research and development budget, for example, is aimed at research all over the world. We're funding a research dermatologist in Wales who is doing research into skin attribute measurement. We have grants in England. When you came in, I was signing a purchase order that goes for a research grant to Southwestern Medical School.

Q: What types of tests are you doing?

A: There are many levels of testing and two major issues: one is safety, one is efficacy. We don't take risks with the consumer. Our products must meet acceptable levels in terms of oral toxicity... sensitization ... irritation. We are having to stretch current technology in establishing some new standards in the industry in the area of comedogenicity, the interaction of the new product, the environment, and the skin-causing comedones (acne). We screen raw materials at the vendor level. If you get something that's 99 percent pure, it means it's 1 percent impure. In our business we're interested in the 1 percent impure. We made substantial investments in computerized instrumentation so that we can screen raw materials routinely for impurities. Efficacy testing is also something that is fairly new.

Appendix A (cont.)

Cosmetic products used to be a cover-up, but now we're producing skin care products that are functional. We need to measure how a product actually performs, but we're having to develop the technology.

Q: *As vice president in charge of manufacturing, how do you challenge your departments?*

A: *We have no negatives in terms of product quality, number one. We can't afford any big savings in quality. We have to be consistently above the line in terms of the impact on the consumer. Consistently positive! Then what we try to do is to raise that line to the top of the industry. We establish a consistent quality level, and then we figure out how to make that better. That's our drive, our constant challenge. The quality standard has never, ever been stagnant. We always strive to be the best we can be.*

Appendix B

**SUMMARY OF COSMETICS PROSPECTS FOR 1982
AND THE LONG TERM**

Moderately priced products are expected to sell best, especially hair, skin, nail, and eye care products.

Fragrances will become more popular, especially among men, in the 1980s.

Ethnic cosmetic sales are expected to pick up.

Up to 45 percent of males in the population will use cosmetics by 1986.

Sun-screen agents that reportedly protect skin from damaging ultraviolet rays will be added to many skin care products to prevent premature aging, wrinkling, or cancer of the skin.

An estimated 65 percent of all cosmetics are purchased on impulse, although during recessionary periods consumers are most cost conscious.

The industry's principal target group of teenagers and young women is shrinking, although the "baby boom" generation is aging and is likely to spend money for beauty aids.

Among the present 20- to 35-year-old age group, there is a much larger lower-income sector.

Rising costs of raw materials and the high cost of research are the scourge of the cosmetics industry.

New products are essential for greater sales, yet new product introductions lag because of the decrease in research and development.

The skin care market, including moisturizers, sun-care creams, lotions, scrubs and cleansers, collagen and elastin protein rejuvenating agents, is growing and reached \$2.5 billion in 1981 because of increased concern among consumers over aging skin, personal cleanliness, and the damaging effects of ultraviolet rays.

Hypoallergenic and fragrance-free products have been demonstrated to be most successful in the skin care market.

The hair preparations market increased to \$2.2 billion in 1981 due to consumer interest in healthy looking hair and frequent shampoos by both men and women. Women frequently use cream rinse and hair conditioning products, although an untapped male market exists for such products. Hair spray remains popular with older women.

Industry shipments of cosmetics, toiletries, and fragrances were valued at \$9.9 billion in 1981, only a 0.6 percent increase from 1980, as opposed to a 2.6 average annual increase from 1972 through 1981.

Source: 1982 US. Industrial Outlook.
