NASHTON PARTNERS AND ITS SEARCH FUND PROCESS

Closing case - Chapter 4
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Avon history

- Founded in 1886 by David H. McConnell
- Female customers more interested in perfumes
- Women sellers approach more easily other women.
- Power of the product and the people

All success lies in one’s self and not in external conditions

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Mrs. P.F. Albee, first "Avon Lady"
Avon now: Anathomy of a leading global beauty company

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## The VRIO Framework Applied to Avon

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Questions</th>
<th>Reputation</th>
<th>Products</th>
<th>Ethics</th>
<th>Sales Representatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value creating</td>
<td>Does the resource add value?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Rarity</td>
<td>How rare is the resource?</td>
<td>-</td>
<td>No</td>
<td>Yes</td>
<td>-</td>
</tr>
<tr>
<td>Imitability</td>
<td>How difficult is it for others to imitate the resource?</td>
<td>-</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Organization</td>
<td>Are other policies and procedures organized to support the exploitation of this resource?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Competitive implications**

- Competitive advantage
- Temporary advantage
- Competitive advantage
How sustainable is Avon's success in long run?

• Improving R&D: for new natural and cruelty free products, environmental sustainability.
• New targets: children.
• New challenges: franchising small shops (as Yves Rocher did).

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Why was Avon doing relatively well during the global recession of 2008/2009?

- The "lipstick effect": increase of cosmetics sales during recession periods. Low cost products are an affordable "pleasure".

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- Avon restructuring program:
  - new products ("In Bloom" fragrance, sponsored by Reese Whiterspoon)
  - new strategies: different pricing politics, investments in the brand and direct selling channel (more than 200,000 representatives hired in the USA)
THE CHINA CASE

Problem: Avon had more losses than revenues from distributing and selling its products in Beauty Boutiques (decrease of the 40%)!


Solution: Direct selling as important channel in China:

Active Representatives rose 52% year over year and units sold were 32% higher versus the prior year. China had operating profit of $7 million in the quarter compared with a loss of $8 million in the 2008 quarter, primarily due to lower advertising expense and higher sales.


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THANKS FOR THE ATTENTION!

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