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Beauty Competition in Central America: Zermat vs Avon¹

John Daniels and Joseph Ganitsky

In 2011, Avon commemorated its 125th anniversary, and Zermat de Centroamerica (Zermat) its 20th. Two out of five women in 113 countries bought Avon’s beauty and related products. More than 80% of its $10.7 billion in sales were outside its North American division. Meanwhile, Zermat sold $30+ million in four Central American countries. Avon was the world’s largest direct seller, with 6.5 million independent sales representatives (mostly female), while Zermat’s 40,000 reps sold its products through 70+ distribution centers. Direct selling offered cost savings (i.e., fewer direct employees, lower advertising budgets and skipping payments to retailers for shelf space) and marketing advantages (i.e., sales reps with the support of catalogs communicate, promote and earn the loyalty of their customers). These advantages have allowed direct sellers to charge lower prices than those of competitors selling through retailers, thus creating an image of good value.

As a result of the global financial crisis that began in 2008, the availability of people to sell independently increased. Yet Avon’s 2009 sales fell by 9% in North America and 1% in the rest of the world. This countered the company’s expectation that women would give up more expensive luxuries as opposed to cosmetics, and would shift from more expensive brands to Avon’s good-value-for-money products. In contrast, Zermat’s sales in Central America increased in 2009. During the following two years, both companies experienced healthy revenue growth but increased pressure on margins. Between 2007 and 2011, Avon’s gross margin peaked at 63.4% (most recently) and averaged 62.8%; Zermat’s operating margin peaked at 13.0% and averaged...
11.5% (10.3% most recently); and its net margin peaked at 8.3% and averaged 6.0% (4.5% most recently).2 As a result, the two firms’ leaders faced the same concern about whether to maintain or modify their strategies.

For some time the outlook for direct sales of any kind of product looked bleak in developed economies because women were entering the workforce full time and therefore were less receptive to door-to-door salespersons, to spend time on makeup demonstrations, and to await the later receipt of their purchases. In addition, the power and efficiency of mass merchandizers focusing on lower-end users, such as Wal-Mart, allowed them to offer cosmetics brands for less than the door-to-door prices. In contrast, the outlook in emerging economies seemed much brighter, as women discovered earning opportunities by selling directly to a rapidly growing middle class with enough disposable income to afford beauty products. In addition, the lack of developed infrastructure in the rural areas of such countries deters women from leaving their homes to shop for cosmetics. For instance, Avon has about 700,000 representatives in Brazil alone, a larger number than Brazil’s military. It also has about 150,000 in Central America.

Although Central America represented a tiny fraction of Avon’s sales,3 the emergence of Zermat and other competitors pursuing strategies that were more customized to local conditions called for a re-evaluation of Avon’s strategy in this and other emerging markets. At the same time, Zermat’s family management had to decide if it was time to diversify into other products, enter new markets, and/or change its practices and policies to strengthen its competitive position. The following sections describe the background and strategic considerations that the leaders of both companies were considering as they assessed their options. Their strategies had to be aggressive (by leveraging their distinct strengths to exploit their best opportunities) and transformative (by turning around those weaknesses impacted by their most serious threats).

**Avon’s background and strategy**

Avon Products Inc. was established in California in 1886 by David McConnell. While travelling the country to sell books, he realized that women were more interested in his free hand-made perfume