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B O N U S F E A T U R E

Avon Gets Its (Supply Chain) Makeover

Running a global cosmetics business involves much more than just marketing and makeup. In a new book, two experts describe how Avon rebuilt its manufacturing and transportation infrastructure from top to bottom—and how much that paid off.

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What do you do when you have an enormous growth opportunity but can't capitalize on it because your supply chain is in the way? If you're Avon, you embark on a radical transformation—a high-risk venture with no guaranteed returns.

Avon is the world's leading direct seller of beauty products, with \$6.8 billion in annual revenues. In addition to cosmetics, skin-care products, fragrances, and personal-care products, the company offers a wide range of gift items, including jewelry, lingerie, and fashion accessories. Avon sells to customers in 145 countries through 3.9 million independent sales representatives. More than \$1.2 billion of Avon's sales come from its Europe region, which serves 32 countries in Europe, the Middle East, and Africa with more than one million sales reps. But in the 1990s the region's strong growth threatened to overwhelm its supply chain organization.

With its primary focus on marketing and sales, Avon had neglected its supply chain for years. Back in the 1980s, Avon Europe had branches in only six countries, each with a separate factory and warehouse supplying the local market. The branches operated independently, with separate information systems, no overall planning, and no shared manufacturing, marketing, or distribution.

On a small scale, this worked quite well. Each entity could be very responsive to local needs. But in the early 1990s the company began globalizing its key brands and modernizing its image through the launch of new products, packaging, and ad campaigns aimed at younger consumers. Avon planned to double sales revenue in the Europe region from \$500 million in 1996 to \$1 billion in 2001. The company realized that replicating its country-based supply chain model in every new market would be expensive and unwieldy. Explains executive vice president Bob Toth:

“Ten years ago we operated country to country, with a very decentralized model. You just can’t compete that way now.”

The first problem was a fundamental mismatch between the company’s selling cycle and its supply chain. In most European markets, Avon begins a new sales campaign—complete with a new brochure, fresh product offerings, and promotions—every three weeks. This short selling cycle is a cornerstone of Avon’s direct-sales model. By regularly offering new products and promotions, the company gives its sales representatives a reason to call on customers often, strengthening relationships and driving sales.

A short selling cycle demands a flexible, responsive supply chain. There Avon fell short. Its factories manufactured everything to forecast and then shipped inventory to the country warehouses before the start of each three-week selling campaign. Inevitably, certain products would be big hits, and the branches would rush orders back to the factories. However, it took an average of 12 weeks for products to cycle through Avon’s supply chain from sourcing to manufacturing to distribution.

The timing mismatch led to on-the-fly solutions and enormous inefficiencies during the course of each sales campaign. Avon relied on the heroics of employees to meet customer needs—regardless of cost. But as the business grew, keeping up with different markets and accurately forecasting demand for individual products became increasingly difficult, especially since Avon was entering new markets at a rate of two or three per year.

The rush orders destroyed manufacturing efficiency too. Since 40% to 50% of the items sold more than expected, the factories were constantly interrupting their schedules to switch from one product to another. Changeover costs were high—especially because the factories were set up for high-volume production. Slow-selling products also were costly. In every selling cycle some products would sell less than forecast, so Avon had a growing amount of unsold merchandise. Inventory levels ran as high as 150 days.

Language posed another problem. Avon bought preprinted containers from its suppliers. With new markets came new languages and a growing number of print variants. Given its manufacture-to-forecast approach and the suppliers’ lead times, Avon had to order a wide range of preprinted containers before it knew what its sales volumes actually would be in the different markets. Avon often would have demand that couldn’t be filled because the only containers on hand were printed in another language.

Fixing those problems and transforming the supply chain would be an enormous undertaking, one that needed support and a big financial commitment from top management. It required a lengthy, detailed analysis to prove that Avon’s supply chain wasn’t capable of handling the projected growth of the business. Even then, it took 18 months to build a business case and get executive backing. Persuading the organization to invest money that wouldn’t be

When bottles were needed, Avon flew them in from Mexico, **a costly solution.**

recouped until the later years of the transformation was a tough sell. In fact, the first two years would result in a net loss. “It was very difficult getting that initial momentum going,” says Michael Watson, director of Avon’s supply chain transformation.

But by the time Avon started the project, management had committed an extraordinary amount of resources. Says Watson: “We took 45 of our best people in Europe out of their positions and put them into the project full-time for 18 months.” Removing those people from day-to-day operations was painful, costly, and risky, but it was absolutely critical to success. Adds Watson: “If we had tried to do this on the side with a small project team, it would never have worked—and we’d never be seeing the benefits we are now.”

Avon began by creating a centralized planning function—a critical priority. Explains John Kitchener, head of the supply chain in Europe: “There was no way Avon would achieve its growth targets without a centralized planning group that could see demand and inventory levels across the region and react quickly.” First, Avon had to create a common database. The team spent many months putting in place standardized product codes, descriptions, and other information so that all the countries were speaking the same language. The database gave Avon visibility into sales trends and inventory so that managers could look across the region and view both supply and demand. The company also installed a supply chain and scheduling system to support planning and coordination across the region. To manage the growing complexity of the business, it put in place a regional planning group to make decisions about service levels, inventory, and costs based on a bird’s-eye view of the whole supply chain.

The next critical step was to redesign the supply chain in a way that made sense operationally. Avon kept a manufacturing plant in Germany but consolidated other production at its plant in Poland. That expanded manufacturing capability in the heart of Avon’s emerging markets. And it delivered major cost efficiencies, mainly because of the lower cost of labor. Avon also created a centralized inventory hub in Poland—near the production facility—to serve the company’s European branches.

Once Avon was able to see the supply chain as a whole, decisions that hadn’t seemed to make sense from a purely functional standpoint suddenly were shown to deliver substantial—and often unexpected—benefits. For instance, Avon had considered the idea of labeling bottles itself instead of relying on suppliers, so that it could delay final decisions about what language to put on a product until sales trends became clear. For years marketing had resisted the idea, convinced that the look of the products would suffer. Nor did the strategy make sense

from a financial standpoint. The added equipment and labor involved in making labels and affixing them to bottles likely would offset any savings. “All the accountants were telling us it was the wrong thing to do,” says Watson.

It was only when Avon stepped back and looked at the supply chain as an end-to-end process that the true benefits became clear. Avon would have to buy only one plain bottle for shampoo or lotion instead of five or six language variations. Plants could make one long production run without repeatedly switching bottle stock. And customer service would improve because branches could be more responsive to changes in demand. Now, when inventory runs out in a given market, the warehouse can respond quickly by labeling products in the right language and loading up a truck.

Very closely linked was a new inventory hub system. Avon’s two manufacturing plants supply a single centralized warehouse in Poland, which labels the products and puts together loads for distribution to different regions. Under the old system, Avon pushed products out to country warehouses in different markets before knowing what demand actually was. Now it holds them back in the centralized hub and diverts them to the markets that need them once sales trends become clear.

Avon is also working to standardize its containers to cut costs and increase efficiency. Once convinced that every product should have a distinct bottle and shape, the company now realizes that cap, color, and labeling can be sources of differentiation too. Manufacturing can be more flexible because changeover time is often zero. Suppliers can now run Avon’s containers down more efficient high-speed lines. And product costs are lower.

Avon’s new end-to-end view also changed how the company works with suppliers. The company used to seek out the least expensive materials and buy in large volumes to keep costs low. But it began to see that the lowest price doesn’t necessarily equal the lowest total cost. For instance, Avon found a supplier of inexpensive glass bottles in Mexico, but the delivery time from Mexico to Europe was long—eight to 12 weeks by boat. When product demand was high and bottles were needed, Avon would fly them in, a costly stopgap. Today Avon buys most of its inventory from suppliers close to its factories in Poland and Germany. Although the company may pay a slightly higher price on a per-unit basis, managing fewer relationships with more flexible, responsive suppliers resulted in a lower total cost.

Dealing with a smaller number of suppliers delivered other dividends as well. For example, in the process of standardizing bottles, Avon asked the suppliers for help designing new ones in the most cost-effective way. In many cases Avon had to adjust its own approach so that suppliers could manufacture its products more cost-effectively. For instance, the company agreed to change its order patterns to reduce the suppliers’ manufacturing

setup costs. With some suppliers, Avon has stopped placing orders entirely. Instead it gives them access to production information on a web-based system.

Avon plans to extend the concept of collaboration throughout the supply chain organization. The company recently conducted a collaborative design workshop that included suppliers, a design firm, and representatives from marketing and the supply chain—40 people in a room working to design a product. Within three days the team had created a package that was not only stunning from a marketing and design perspective but that also minimized costs at each step of the supply chain. For

The redesign **completely changed** the role of general managers across Europe.

instance, the right box and bottle designs can optimize the number of boxes in each pallet and the number of bottles in each box. If Avon could increase the number of bottle boxes on each truck by 20%, the company would save hundreds of thousands of dollars in transportation costs each year. Only the people who load the trucks every day know these things, but in the past those people’s knowledge wasn’t considered in the design process. Rather, product costs were locked in early on by someone making isolated decisions in the design studio.

Once its supply chain processes were redesigned, Avon turned its attention to its organization—and restructured it around four key processes: plan, source, make, and deliver. Now, instead of a large number of people from different functions and countries reporting to him, Kitchener has just four direct reports—the four process heads. “It is a far simpler model to manage,” says Kitchener. The redesign completely changed the roles and responsibilities of the general managers across Europe. They once managed the inventory in their own markets, but now that product labeling is postponed until shipment, it no longer makes sense for them to own inventory. Instead, Avon holds it further back in the supply chain to better allocate it where demand is greatest. In the new organization the general managers are responsible primarily for sales.

Avon did a lot of work to define primary and shared responsibilities and the supporting metrics. Many of the old metrics were backward-looking. Inventory days, for instance, are a good end-of-month measure, but they don’t help in day-to-day operations. Avon developed metrics that are more operationally focused. For example, the company broke down the key drivers of inventory levels. One was supplier lead time, which Avon has taken steps to shorten by giving certain suppliers access to production schedules and making them responsible for delivering materials on time. By clearly communicating the redesigned structure and defining new performance metrics, Avon began

to move the new supply chain organization forward.

Education and training were another critical piece of Avon's transformation. The company quickly saw that employees' skills had to be upgraded. It analyzed the critical jobs in the new supply chain and the competencies needed to do those jobs. To fill gaps, it partnered with Britain's Cranfield University, one of Europe's leading supply chain business schools, to develop a customized curriculum. Avon put 75 of its key supply chain associates through the program and offered a shorter version to senior executives who weren't involved in the redesign. To introduce new thinking, the program brought in experienced supply chain managers from leading companies in a range of industries. Avon plans to repeat the program every year with new groups of people to ensure that everyone in the organization understands what a world-class supply chain looks like.

The leaders of Avon's transformation believe that communication is perhaps the single most critical success factor—and the one they most underestimated. Everyone in the organization has to understand the change and his or her role in the new world. Even with the best-laid plans, though, changing a culture and long-held behaviors doesn't happen overnight. "You always read in books about how tough change management is, but the reality is that it's even harder," says Watson.

And what of Avon's supply chain information technology? The company was determined that its supply chain transformation be process-driven, not systems-driven. Instead of overhauling its computer systems, the company wanted to get its processes right

first. The leadership team felt that doing both at once would be unmanageable. Aside from creating the central data repository and the web-based system for suppliers, systems upgrades were put on hold—even though Avon's country-based entrepreneurial model had resulted in a jumble of systems.

This lack of integration is starting to cause problems. Given the growing complexity of the business and the need for greater speed and responsiveness, not having an integrated IT system in place is frustrating. Avon has begun designing a global platform to replace the existing system and support the new processes.

In the meantime, the company is savoring the results of its transformation. By rethinking the supply chain, increasing efficiency, and taking out costs, Avon will save about \$50 million annually—or two gross margin points. Almost half those benefits are a direct

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result of the company's new approach to working with suppliers: the smaller supplier base, local sourcing strategy, supplier partnerships, and collaboration. Just as important, Avon Europe is far easier to manage now that it has a streamlined organization, upgraded skills, simplified processes, and the right metrics. "This has been the most challenging, the most rewarding, and the most fun thing that I've ever done," says Kitchener, a 30-year veteran of the company. "The journey isn't over, though. It's never over." ■

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