MARY KAY COSMETICS, INC.:
Corporate Planning In An Era Of Uncertainty

Mary Kay Cosmetics, Inc. of Dallas, Texas, is an international manufacturer and distributor of skin care products, makeup items, toiletry items, accessories and hair care products. Founded in 1963 by Mary Kay Ash, a highly motivated entrepreneur, the firm experienced spectacular sales growth in its early years. As a direct selling organization, much of its success was based on motivating and constantly replenishing its over 170,000 member sales force. Mary Kay had planned to become "the finest and largest skin care teaching organization in the world."

Senior management recognized in early 1989 that the firm was suffering from some of the same problems which were affecting the whole direct-sales industry. The company was suddenly having problems attracting new recruits who would become "Beauty Consultants" and "Sales Directors" as well as consumers of the firm's product line. Management was evaluating a corporate strategy which had been developed by the firm's founder. The organization was repositioning itself for future growth. The question was now, "What do we need to do to get us where we want to go, to reach the kind of customer we want to reach, to recruit the kind of consultant we want to recruit?"

BACKGROUND INFORMATION

Mary Kay Cosmetics was founded on September 13, 1963 in Dallas, Texas, by Mary Kay (now Mary Kay Ash). The company had an initial working capital of $5,000, the right to use a skin care formula that had been created by a hide tanner, and nine saleswomen. The first headquarters was a five-hundred-square-foot storefront in Exchange Park, a large bank and office-building complex in Dallas.

The first basic line of cosmetics was manufactured to specification under the label of "Beauty by Mary Kay" by another firm. It included what was called the "Basic Skin Care Set." It consisted of a limited number of basic items which when used as the company suggested provided a balanced program of skin care. The firm also sold custom wigs. Wigs ware styled at the headquarters location and at skin care shows and were originally used as a traffic generator. They were discontinued in 1965. Management believed that it could achieve corporate success in direct sales by establishing a "dream company" which would be based on the personal philosophies of the founder.

This case was prepared by James W. Camerius of Northern Michigan University and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Presented to the Midwest Society for Case Research Workshop, 989.

The Mary Kay philosophy suggested that every person associated with the company, from the Chairman of the Board to the newest recruit, live by the golden rule, “Do unto others as you would have them do unto you,” and the priorities of God first, family second and career third.

Initial corporate strategies included heavy, emphasis on personal relationships, opportunities for women to fully utilize their skills and talents, no geographical restrictions on sales territories, and a sales presentation in the home for no more than five or six women. Merchandise was available for immediate delivery from stock. All products were sold on a cash basis. Every Mary Kay representative was considered an independent businessperson to be remunerated in the form of commission. Pink was selected as the corporate color.

By 1989, Mary Kay Cosmetics, Inc. had again become a private corporation after going public in 1968. It had sales in 1988 of $405,730,000, a sales staff of 170,000 Beauty Consultants and Sales Directors, a compensation structure to allow women to earn commensurate with their Individual abilities and efforts, and total brand awareness of 90% of all women. Mary Kay was ranked by the Wall Street Journal as an industry leader in basic skin care research and in product development. The company had a new production facility, a new warehouse, and a new corporate headquarters in Dallas, all of which were internally financed. The product line was distributed throughout the United States and through wholly owned subsidiaries in Australia, Canada, Argentina, and West Germany. The average number of Beauty Consultants, their average productivity and net sales for the years 1984-1988 are shown in Figure 1.

FIGURE 1

Analysis of Mary Kay
Independent Beauty Consultants
1984-1988

Year	Average Number of Consultants	Average Productivity	Net Sales ($000)
1988	170,316	$2,382	$405,730
1987	148,080	$2,199	$325,647
1986	141,113	$1,807	$255,016
1985	145,493	$1,711	$248,970
1984	173,101	$1,603	$277,500

THE MARY KAY MYSTIQUE

Much of the initial and continuing success of the firm was attributed to the entrepreneurial spirit of its founder and chairman emeritus, Mary Kay Ash. Mary Kay traced her strong-willed, competitive spirit to the constant, positive reinforcement her mother gave her while growing up in Texas. “I was taught to put my best effort into everything I did, and I can honestly say that I’ve always done that,” Mary Kay said. “I competed with myself and strove to excel.” Her “you can do it” philosophy guided the company through the challenges and setbacks of its early years.

Mary Kay spent 13 years of her professional direct sales career with Stanley Home Products, Inc. She became one of the firm’s leading sales persons and was promoted to management. She also worked for another 11 years in a similar position with a company in Houston called World Gift. After becoming its national training director for 43 states, she left the organization. Later upon deciding that retirement did not satisfy her, she developed a strategy and philosophy that was to become Mary Kay Cosmetics. She became its first president. A son, Richard Rogers, joined her upon the death of her second husband. Another son, Ben, and a daughter, Marilyn, eventually became part of the organization.

As president, Mary Kay became a walking showcase for the company’s products. Her values and motivational incentives became the basis for the firm’s marketing program. Her definitions of happiness brought women to the firm as beauty consultants, sales directors and users of the product line. “Under her ‘frills and lace’ is a high-powered businesswoman who has built a skin care empire, and in a pioneering style,” suggested Marketing and Media Decisions, a trade magazine. The color pink, her “favorite” color, was found in her attire, her office, her home and every facet of corporate life.

A unique and idealistic individual, Mary Kay Ash was called “one of the most influential and respected personalities in business and philanthropic circles” by Executive Female, a respected magazine among entrepreneurs. She also received many of the most distinguished cosmetic, direct sales and professional awards, including “Cosmetic Career Woman of the Year,” “Direct Selling Hall of Fame,” and the 1978 “Horatio Alger Award.” She was the cover feature on several magazines, including the Saturday Evening Post; Business Week named her one of America’s top corporate women, and Time cited her in its economy and business section. She also appeared on such television shows as “Sixty Minutes,” “Phil Donahue,” and “Good Morning America.”

“Far from being an employer,” indicated Nicole Woolsey Biggart in a recent book on direct selling organization leadership, “Mary Kay Ash... is mother, sister, guardian angel, and patron saint to the women who sell her products.” In this context a national sales Director maintained, “We don’t adore Mary Kay, we admire her, and we would want to emulate her.” In the belief that “adore” versus “admire” was a good distinction, management felt that Mary Kay had positioned the company for the day when “she no longer would be here.” As president, Mary Kay had maintained, “Although Mary Kay Cosmetics was created as the dream of one woman, it has long since achieved independent existence.

And because our company is grounded in a solid foundation of specific values and principles, its continuance no longer depends upon any single person."

A number of programs were in place to cushion the eventual departure of Mary Kay from active management. Initially, her philosophy was captured on film, in books, and in articles written about her. Also a national sales director program, made up of the firm's top saleswomen, was established to emphasize continuing the Mary Kay spirit in the company. Mary Kay was developed as an entity as opposed to an individual by perpetuating all of the ideas that she felt should be part of her "dream company." "This is important," indicated Richard C. Bartlett, the current president in an interview, "here we are talking about philosophical beliefs which traditionally, in business and religion and other organizations, do continue on if the organization is imbued with them."

On November 10, 1987, Mary Kay Ash was named chairman emeritus. Richard R. Rogers, her son, was named chairman. Richard C. Bartlett, whose initial experience in direct selling was with Tupperware and later as Vice President of Marketing at Mary Kay, was named president and chief operating officer. "I plan to remain active in the firm on a continuing basis, working with salespeople," indicated Mary Kay. "Our sales force now consists of tens of thousands of skilled sales professionals, and they are supported by an experienced management.

THE CORPORATE CONCEPT

The original corporate strategy of the firm was based on the "Mary Kay Marketing Plan." In the plan the sales force or "Beauty Consultants" sold the company's skin care products at home demonstration shows. They ware supervised and motivated by "Sales Directors" who also were responsible for replenishing the sales force on a continuing basis with new recruits. The plan was a corporate strategy designed to include the best features and avoid the mistakes Mary Kay had previously encountered in her twenty years with direct selling companies.

As a part of the plan, the marketing program was intended to foster retail sales to ultimate consumers. Commissions were earned by Beauty Consultants on products sold at retail prices to ultimate consumers. All products were purchased directly from the company and were based on the same discount schedule. All Sales Directors were once Beauty Consultants, thus avoiding the multilevel practice of selling franchises or distributorships.

In the plan there were no territories to limit where Consultants could sell or recruit. The Consultant was required to purchase a "showcase" of basic products and carry an inventory. Consultants were encouraged to sell only Mary Kay products during their skin care classes to avoid creating trademark confusion and divided effort.

Consultants were considered to be self-employed. The marketing plan was intended to support the independent contractor status. At the corporate level, management was expected to manufacture quality cosmetics, plan product and market development, provide for discounts and commissions, advertise, plan for working capital for corporate growth, and offer incentive awards and prizes for Beauty Consultants who excelled in sales, recruiting or leadership.
One of the most unique aspects of the marketing plan was the use of national and regional seminars, career conferences, and management conferences which individuals could attend on a voluntary basis for inspiration, training, and general professional upgrading. At the national

level, this strategy manifested itself annually in what the company called “Seminar.” Seminar was an elaborately produced series of four consecutive three-day sessions which attracted a total of 24,000 sales participants to the Dallas Convention Center.

The highly motivational event had a tradition of recognition, education and entertainment. It included hours of classes on product knowledge, marketing and sales techniques, and other business management topics. It culminated in an awards night in which thousands of glamorous, elegantly dressed, bejeweled women received extravagant recognition as achievers in the organization. Mary Kay traditionally presided over the event. She appeared on stage, sometimes emerging at the top of a series of lighted stairs, sometimes arriving in a carriage drawn by white horses and surrounded by footmen.

Typically, participants would proceed to the stage to claim expensive prizes such as mink coats, gold and diamond jewelry, trips to places like Acapulco, and use of new pale-pink Cadillacs, Buicks, and Oldsmobiles. “So In our company, we eliminated practical gifts,” indicated Mary Kay, “I would try to choose prizes that would excite and thrill the recipient. I thought that the best prizes were things a woman wanted but probably wouldn’t buy for herself.” The legendary pink Cadillac, for many, became a symbol of Mary Kay Cosmetics and its incentive programs.

THE CHANGING EXTERNAL ENVIRONMENT

All of the firm products were sold on the principal bases of price and quality in highly competitive markets. On the basis of information available to it from industry sources, management believed there were some 13 companies (including both direct sales and manufacturing companies) that had products that competed with Mary Kay. The firm competed directly with direct sales companies in sales of cosmetics products and indirectly with firms which manufactured cosmetics and toiletry items which were sold in retail or department stores. It also competed in the recruiting of independent sales persons from other direct selling organizations whose product lines may or may not have competed with those of Mary Kay. The direct selling industry consisted of a few well-established companies and many smaller firms which sold about every product imaginable including toys, animal food, plant care products, clothing, computer software, and financial services. Among the dominant companies were Avon (cosmetics), Amway Corp. (home cleaning products), Shaklee Corp. (vitamins and health foods), Encyclopedia Britannica, Tupperware (plastic dishes and food containers), Consolidated Electrolux (vacuum cleaners), and the Fuller Brush Co. (household products). Avon Products, Inc., was substantially larger than Mary Kay in terms of total independent sales people, sales volume and resources. Several other competitors such as Revlon, Inc., a firm that sold cosmetics primarily through retail stores, were larger than Mary Kay in terms of sales and had more resources.

By the late 1980’s corporate management at Nary Kay considered the direct selling industry and the cosmetics industry to be at maturity.

The spectacular sales growth characteristic of the 1960's and 1970's had given way to a pattern of stagnant revenue and profit growth. The industry was having difficulty attracting new sales people who generated much of its sales growth and provided a return to sales directors. Competition for the customer was great as there were not as many users coming into the market. Industry problems were blamed on a number of factors: the increasing number of working women, which cut into both the number of available recruits and sales targets; the improvement in the economy, which encouraged women to avoid involvement in part-time sales and to shop for more expensive beauty products; shorter product life cycles, which forced new products, new innovations and twists of existing products which were getting old; and the growing competition from firms selling similar products. There were also hostile takeovers, such as the 1989 bid of Amway Corporation for Avon Products, Inc., and leveraged buyouts, such as the December 1985, LBO of Mary Kay by its founders. According to President Bartlett, senior management would have to "react by being much more flexible, by being able to come out with new products, by introducing new innovations, and by developing new strategies for existing products that were getting old."

Industry research had identified Avon, a direct competitor, as having products which were used by older people who wanted a less expensive product. Noxell, the manufacturer of Cover Girl products, was viewed as the creator of a moderately upscale product line that appealed to a younger market. Estee Lauder was a product line that was a more upscale and appealed to an older market segment. In product image, Estee Lauder had been historically in an envious position. The firm cultivated this in all of its literature, all of its packaging, and in all of its product formulas. Revlon, whose image varied by product line, was sold through department stores and mass merchandisers. It built a multi-billion dollar business by buying out old established lines like Max Factor, Charles of the Ritz, Germain Monte, Diane Von Furstenberg, and Almay.

Although maturity was sometimes looked on with disfavor, Mary Kay executives felt that this did not mean a lack of opportunity for increased profitability or lack of opportunity to increase sales. The changing nature of competition in the cosmetics market was identified as one of the strategic concerns in the design of the Mary Kay product line. Both the mass market and upscale segments of the skin care marketplace were perceived to be changing rapidly. In both cases a plethora of new entries emerged, some from well-established American firms such as Estee Lauder, some from innovative American firms such as S.C. Johnson, and some from European or Japanese firms. One example was an entry from L'Oreal, a European firm. The skin care line, Plentitude, was sold through mass-market outlets. An example of a Japanese firm was the Kao Safina line which was introduced through Kao's American acquisition, Jergens Skin Care.

The changing nature of science and technology was also identified as a strategic concern in an analysis of the external environment. Management felt that the period of the late 1980's and the early 1990's would see the debut of several new "cosmeceuticals;" products marketed as drugs and capable of making drug claims, but with wide impact on the pharmaceutical and cosmetics markets. Upjohn's Rogaine and Ortho Laboratories' Retin-A, treatments for Acne which doubled as anti-wrinkle creams, were predicted to become over-the-counter drugs within the next two to three years. New drug applications for six to eight other retinoids were known to be under way with anti-aging claims.

At the same time, greater understanding of skin physiology enabled the development of more advanced traditional skin care products, including those which could legitimately make counter-irritant claims and those which could protect users from environmental damage, such as from the sun.

The decade also saw a proliferation of regulatory activity affecting the cosmetics industry. In the United States such activity was seen from the Food and Drug Administration (FDA), the Federal Trade Commission (FTC), Congress end various state legislatures. At the same time, cosmetics regulations were changing in the European Economic Community (EEC) countries and, Argentina, Canada, and Australia. Prospects for expansion into Mexico and Thailand presented the challenge of learning to deal with regulations in markets that ware new to Mary Kay. It was clear that a new wave of regulatory activity affecting the industry had commenced. Ingredients claims, packaging, testing, advertising and other activities of the cosmetics industry were being closely scrutinized by regulators and legislators with a view toward regulatory control. A series of hearings held by Congressman Ron Wyden, D-OR, during 1988 were predicted to produce new cosmetics legislation in Congress.

Corporate research revealed that the Mary Kay customer was primarily identified by its beauty consultants. The company did very little direct customer prospecting. Beauty consultants found their customers one by one or in small groups through referrals, and through holding skin care classes where they might know one person but not the other members of the group. The typical Mary Kay customer was a female, in her late thirties, married, and caucasian. Geographically, she lived in all fifty states as well as in those countries where Mary Kay had operations. Most customers were rural and suburban as opposed to urban. The Mary Kay method of selling was perceived by management to be more disposed to the woman who might not have easy access to a store and also appeared to lend itself on the supply side to mobility by automobile. By occupation, customers were “white collar,” and professional with moderate incomes and a high school education with some college. In practice, the upper and lower ends of a market segmented by social stratification variables tended to be neglected. Consultants were perceived to be slightly more upscale than their typical customer and customarily sold down to lower levels of social stratification.

The senior vice president of Mary Kay, Ms. Barbara Beasley, had hoped to expand the customer base through greater penetration in three key segments: blacks, hispanics, and mature woman. In a corporate analysis of the changing consumer, she concluded that because of greater education and disposable income, many more women were becoming regular users of product lines used previously by only a few consumers. Increased consumer sophistication meant that high performance products would be required that had claims that were meaningful and would fit within the Mary Kay context of a teaching orientation. The market was identified as becoming increasingly segmented by usage as consumers gravitated toward brand positions such as those formulated for sensitive skin, for contact lens wearers, for mature skin, and for ethnic consumers.

MARKETING STRATIGIES

Several marketing strategies emerged as the result of an overall reexamination of existing corporate strategies. The area receiving initial attention was the product line.

The lines, as reviewed in figure 2, consisted of skin care products for women and for men, glamour items, toiletry items for women and for men, accessories and hair care products. Skin care products, in various formulas related to skin type, included cleansers, skin fresheners, facial moisturizers and foundation makeup, and were sold in sets as a five-step beauty program. Glamour items or cosmetics included lip and eye colors, mascaras, blushers, eyeliners, face powder and lip-gloss. Toiletry items included hand and body lotions, bath products, and colognes. Hair care products consisted of shampoo, conditioners and hair spray. Accessories such as samples, makeup mirrors, cosmetics bags and travel kits were sold primarily as hostess gifts, business supplies or sales aids.

THE PRODUCT LINES

There had been no significant additions to the product line in the first thirteen years of the company. Mary Kay had purchased the rights to a line that she had been using personally for about ten years. Initially, the line consisted of only ten products focused on skin care. Although management evaluated the product line on an ongoing basis, adjustments were kept to a minimum. Corporate policy had been to purposely limit the line to a minimum number of essential skin care and glamour items. Each company consultant was encouraged to carry a basic inventory. With a product line of no more than fifty items, inventory could be kept at a manageable level, products could be delivered immediately and product information could be kept at a manageable level.

FIGURE 2

Product Line by Sales Percentage

	Year Ended December 31,			
	1988	1987	1986	1985
Skin Care Products for Women	38%	40%	46%	41%
Skin Care Products for Men….	1	2	1	1
Glamour Items………………..	28	32	24	31
Nail Care Products……………	7	-	-	-
Toiletry Items for Women……	13	13	15	13
Toiletry Items for Men……….	3	3	3	2
Hair Care Products…………...	1	1	2	2
Accessories…………………..	9	9	9	9
Total……………….…	100%	100%	100%	100%

The Mary Kay product strategy was to offer “preeminent” products to customers. According to management definition, each product sold was “to be outstanding; to stand above others; to have paramount rank, dignity or importance.” This was to mean products would be of excellent quality, be competitively priced, and be safe to use. As the product line was limited, compared to competition, each individual product had to appeal to a reasonably large segment of consumers. New product introductions were made in the cosmetics, skin care, fragrances, and toiletries markets. The five year product plan was to focus on three major areas: 1) update, enhance and improve current product lines, formulation, and packaging; 2) introduce significant new products in the treatment/skin cares category; and 3) introduce a completely updated glamour line which would include a new system for recommending and using color, new product formulations, new packaging, and updated shades. The value-added provided by the Consultant would be enhanced by offering consumer-oriented videos, brochures, profiles, packaging inserts, and other educational material.

The Mary Kay Color Awareness program was introduced to update the glamour line. Its intent was to simplify the selection of glamour makeup shades by guiding women in their own color decisions and was based on three key principles: skin tone, personal preference and wardrobe. With the program, the sales force had the ability to help customers make color choices in these areas. A line of color-coordinated eye shadows, lip colors, and blushers was introduced to support the program.

A reformulated skin care line specifically designed for men was introduced in 1987 as part of the strategy to update the skin care line. It consisted of a cleansing bar, toner, facial conditioner and oil absorber, sunscreen, moisturizer and shave cream. It replaced a product the company called Mr. K skin care which was the women’s products repackaged in brown tubes. Management made its appeal to women who bought the product for men by saying, “Don’t you care about your husband’s skin? Look what it did for you. Look what it can do for him.” Management predicted that this would be a growth area as more and more men started to care about their skin.

A skin care program called “skin wellness” was introduced as an education program for consumers on awareness of the factors that would impact the skin, particularly what sunlight was going to do. It was considered a natural fit for Mary Kay because of the teaching orientation of the sales process. It educated the consumer on how to identify certain kinds of skin cancers in the early stages. It advised a monthly program of skin self-examination in which the consumer would literally look over her body from head to toes in a mirror. Irregularities would be checked again in a month to see if they had changed. There was no mention of Mary Kay products in the program. Although perceived as a consumer affairs, goodwill and trust building program, the consumer could buy products from Mary Kay which would help with protection from the sun.

<u>PAGKAGING</u>

Pink was selected as the corporate color because Mary Kay thought that attractive pink packages would be left out on display in the white bathrooms in vogue in 1963. The entire product line, however, had recently been repackaged.

Every item was changed to make graphics consistent, to be up to date, and to have individual identity but still look like it was part of the Mary Kay family of products. A new corporate logo, a mix of gold and hot yellow to symbolize the heat of the sun and its eclipse, was featured on the new packages. A new shade of pink, one which was more mauve and less yellow, was selected to compliment the logo. It was considered to be more subtle, more current, more upscale than the shade pink that had become the corporate color. It was part of the quality and value image that the company wanted to convey. The new pink would ultimately find its way onto company trucks, uniforms, promotional material and then ultimately the Cadillacs.

ADVERTISING AND PROMOTION

In the early 1980's, when the company was growing at a very fast rate, management experimented with consumer advertising. The program was initiated in the sales division, not marketing. The advertising campaign involved magazines as well as television advertisements. Although no great change in consumer demand was documented, the reaction from the sales force was very positive. Management had concluded that if it were to use advertising in the future, it would want to impart a message to the consumer that would improve the corporate image and support the field sales force in the form of recognition and compensation.

Management justified its lack of interest in consumer advertising by claiming that it spent what its competitors spent on advertising in compensating the sales force. About thirty-three percent of total dollar income of the firm was estimated to go back to the field sales force in terms of commission and rewards. Promotional efforts were concentrated on rewarding the field sales force for their accomplishments. In Seminar, for example, thousands of consultants and sales directors were presented with more than $5 million in selected prizes for their outstanding performance.

The firm had an active public relations and publicity program which centered on Mary Kay Ash, launching new products in fashion magazines, and publicizing the activities and accomplishments of the field sales force. Press releases in the form of corporate publicity and financial information were a part of this program.

DIRECT SUPPORT

A direct support program was introduced as part of program to "build a company of substance, to create a product line of high quality and to provide a service of value to the consumer." The program involved direct mail. Consultants sent the names of their customers to corporate headquarters. Management then did a mailing to the customer that appeared to come from the Beauty Consultant. An upscale, four-color brochure plus a personal letter was included that identified both the consultant and consumer by name. The beauty consultant would then follow up by telephone to the consumer to inquire if the information had been received. Initially, the program created some suspicion from the field sales force. Sales people thought that management was going to take these customer names and create a house account and service customers directly.

"So we worked on that for a while, contended Ms. Barbara Beasley, Senior Vice President Marketing, "and I think we were able to prove to them that our objective was not to bypass the consultant in starting up this direct mail program, but rather to support the consultant, which is why it's called direct support. The direct support program was based on the consultant's contacts. If the consultant did not make the follow-up telephone call, if the consultant didn't deliver the products to the consumer, than no sale was ever made. All products always were sold through the sales force.

Beauty Consultants were offered products at wholesale discounts from suggested retail prices, for resale to retail customers. At retail, the Mary Kay product line was priced competitively, just below brands which were distributed through department stores and generally well above direct retail store/mass distributed brands. Company literature included suggested retail prices, but the ultimate retail price was determined by the consultant who could charge less than the suggested retail by running her own promotions. "She can ultimately set the retail," said Ms. Curran Croskeys, Vice President of Product Marketing at Mary Kay, "She buys it at a discount off retail, so it's up to her as to how much profit she wants to make."

PLANNING IN A MARKETING ORIENTATED FIRM

Philosophically, corporate planning at Mary Kay Cosmetics was based on the golden rule, "Do unto others as you would have them do unto you," and the priorities of God first, family second, and career third. Mary Kay maintained, "I've found when you just let go and place yourself in God's hands, everything in your life goes right. I believe we have success because God has led us all the way." In this context she identified her son, Richard Rogers, Chairman of the Board and Chief Executive Officer, as a "brilliant administrator and outstanding corporate planner [who] is recognized as one of today's bright, young financial geniuses." "Yet," she noted, "not even he can look at computer printouts or market surveys and truly predict the future."

On a more operational basis, the management team was lead by Mr. Bartlett as President and Chief Operating Officer. The organization, in Mr. Bartlett's experience, was really focused on celebrating the achievements of the sales force. In a typical organization chart, he maintained, the board chairmen, the president, vice presidents and managers were ordered down to the sales organization. At Mary Kay the situation was thought of in the reverse. The sales force was perceived to be at the top. The president's a job was to support the executive team, who in turn supported other people, who in turn supported the sales force. "The program was based upon," as Mr. Bartlett suggested, "loyalty to the people involved, loyalty to the product, and loyalty to the plan." There was a loyalty to the people, such as the director who brought the consultant into the business. There was product brand loyalty built up because the company found that it's a rare woman who could effectively sell the company's products that didn't believe in them. And there was loyalty to the plan in the form of compensation, recognition, and incentive contests that recognized sales people as individuals for their achievements.

The mission statement of the firm, as illustrated in Figure 3, summarized the attitudes of management towards people in field sales as well as customers. It was considered an all-exclusive statement of what the company wanted to be.

As President Bartlett indicated, “We used to have financial goals as part of the mission statement, and we have gone away from that. That didn’t work as well for us.” Having a flexible, philosophically oriented statement yielded some clearly delineated objectives for the corporation. Division and department objectives supported the mission statement.

To emphasize the importance of the corporate mission statement, President Bartlett had it printed up on small tent cards. These were distributed to all of the employees to remind them of the fundamental social and economic purpose of the firm. On the other side of the tent card were three words: “listen, listen, listen.”

FIGURE 3

The Mary Kay Mission

To achieve preeminence in the manufacturing

and marketing of personal care

products by providing personalized service,

value and convenience to Mary Kay

customers through our independent sales force.

Richard C. Bartlett, President

Manufacturing was emphasized in the first statement of preeminence because management felt that consumer driven organizations needed to have competitive products and excellence in manufacturing to survive. As part of the changing focus at Mary Kay, the Senior Vice President of Research and Development/Quality Assurance reported directly to the president. Previously, the R & D and quality assurance programs had reported inside the manufacturing group. “I wanted, frankly,” indicated President Bartlett, “to draw the manufacturing group into this mission so that they ware not feeling separate from it they are a part of it.”

The use of the phrase personal care products in the mission statement was a revision of an older mission statement that included the phrase “being the leading teaching oriented skin care cosmetic company.” This was a narrow statement that tended to focus on skin care only. The personalized service phrase was a continuation of what the firm had done well at for twenty-five Years. Management did not want this area to be neglected by other changes in the mission. Convenience was included because the strength of the firm was thought to be in the consultant. When the customer lost the consultant it became inconvenient to buy Mary Kay products.

Included was the phrase, our independent sales force." The sales force was thought to "drive" the objectives of the company.

There was no formal planning department at Mary Kay Cosmetics. The emphasis was placed on having a corporate mission that would be flexible and could be looked back on from time to time, as opposed to a strategy that said the firm was expected to reach certain goals in a specific year. Management felt that, as a basic strategy, a team of flexible, hard-hitting, and adaptable executives would be better able to handle the major changes that were occurring in the external environment. A recant appointment of Dr. Myra Barker as Senior Vice President of Research & Development/Quality Assurance and Chief Scientific Officer reflected this strategy. "This reflects our concern for being in harmony with what might hit us scientifically in the cosmetic marketing world," indicated President Bartlett. "Good strategy is implementation strategy – where you don't get off with a planning group and say, 'This is where we're going to arrive at an X time in the future.' ...but you're flexible enough, and you have the intellectual muscle to adapt to change."

"I fear a rigidly in place plan" and "I fear formal planning departments" were responses of President Bartlett when asked in his Dallas office if Mary Kay Cosmetics had a formal plan for looking ahead. Bartlett had concluded that "we have a over-riding mission which we can look back on, and I'd rather view the mission we have, as opposed to a locked in concrete strategy that says we will come out at such and such a place in the year 2000." "While I say that, he maintained, "there is no way that we can really anticipate all the major changes coming at us now, the geometric progression of information, governmental interference, regulation and all the myriad of factors that we have to face."

Although there was not a formal strategic planning department at Mary Kay Cosmetics the product line was planned out five years. Each year key executives, such as the president, department heads, directors and all who might be involved in implementing the strategy, would meet to brainstorm sociological, consumer, industry and scientific trends. Out of this meeting would emerge a product plan. For three years out it was very detailed, showing what the firm was doing every month. President Bartlett felt that such planning was necessary to anticipate the changes that they knew were going to happen. "You gain flexibility by having this type of plan, suggested Ms. Curran Croskeys, Vice President of Product Marketing. "By having a track to follow you accomplish the plan in a routine way. You use brain power and other resources to change if you have to."

THE CONTEMPORARY CHALLENGE

One era ended and another began when Mary Kay Cosmetics experienced its first sales decline in 1984. The early era is a case study in entrepreneurship. The latter era is a study in the efforts of an established organization attempting to achieve its objectives in a changed business environment. Mary Kay's initial objective was, to establish a company that would give unlimited opportunity to women. In the late 1980's there was an increase in full-time job opportunities for women elsewhere. Not only were they not available to sell the product, but they were not at home to buy it.

Mary Kay Cosmetics, Inc. had for over twenty-five years focused on celebrating the achievements of its sales force. Much of the forward momentum in that sales force had come from the entrepreneurial spirit of Mary Kay Ash, the founder of the company. Mary Kay had been elevated to the position of Chairman Emeritus. A new management team was in place. The firm had repositioned itself to meet the challenges of a new decade. The question was now, could the firm accomplish its corporate mission and objectives in this changing environment?

DISCUSSION QUESTIONS

1. Evaluate and justify the personal selling strategy of Mary Kay Cosmetics. What factors should a manufacturer consider before choosing to include personal selling as a form of promotion in the marketing mix?

2. What evidence is there to conclude that the marketing concept is understood and applied by Mary Kay management?

3. Evaluate the strategies that Mary Kay management has introduced as part of its positioning strategy. How much impact will these strategies have in the competitive environment as the firm seeks profitable growth in the marketplace?

4. How important is a mission statement in giving direction to strategy development in a marketing orientated organization?

5. How much importance is placed on the planning function at Mary Kay Cosmetics?

6. What conclusions can you draw from a review of the financial performance of Mary Kay Cosmetics, Inc. from the years 1975-1985?

7. Discuss the importance of changes in the external environment. How much impact do they have on strategic planning in organizations like Mary Kay Cosmetics?

8. How much impact is the “retirement” of Mary Kay Ash likely to have on the forward momentum of the organization? What decisions and actions should be undertaken to continue Mary Kay Ash’s formula for success?

APPENDIX A

MARY KAY CORPORATION
CONS0LIDATED BALANCE SHEETS

December 31, 1988 and 1987

ASSETS

	1988	1987
Current assets:		
Cash and cash equivalents	$ 15,039,000	$ 11,500,000
Accounts receivable inventories:	5,345,000	3,330,000
Inventories:		
Raw materials	15,172,000	11,206,000
Finished goods	34,567,000	22,865,000
	49,739,000	34,071,000
Note receivable	-	17,267,000
Deferred income tax benefit	3,790,000	695,000
Other current assets	3,482,000	2,587,000
Total current assets	77,395,000	69,450,000
Property, plant and equipment, at cost:		
Land	4,932,000	2,950,000
Buildings and improvements	16,268,000	12,483,000
Furniture, fixtures and equip.	49,459,000	40,046,000
Construction in progress	3,385,000	605,000
	74,044,000	56,084,000
Less accumulated depreciation	28,296,000	16,878,000
	45,748,000	39,206,000
Assets held for sale	10,000,000	9,215,000
Identified intangible assets	103,820,000	108,558,000
Goodwill	31,205,000	32,624,000
Long-term investment at market	13,630,000	--
Other assets	7,245,000	2,515,000
	$289,043,000	$261,568,000

Source: Annual Report

APPENDIX A (continued)

CONS0LIDATED BALANCE SHEET

LIABILITES AND CAPITAL DEFICIENCY

Current liabilities:		
Accounts payable	$ 15,513,000	$ 12,529,000
Accrued liabilities	45,097,000	34,876,000
Deferred sales	7,685,000	4,567,000
Current port. of long-tm debt	18,000,000	31,000,000
Total current lib.	86,295,000	82,972,000
Long-term debt	81,035,000	75,000,000
Debentures	124,258,000	106,765,000
Other liabilities	73,231,000	73,231,000
Commitments		
Capital deficiency:		
$4.50 Class A noncumulative part.		
con. pref. stock, $1.00 per value	530,000	530,000
730,000 shares authorized, 529,945		
Shares issued and outstanding		
Common stock, $1.00 par value;	366,000	366,000
1,100,000 shares authorized,		
365,963 shares issued and outstanding		
Capital in excess of par value	5,335,000	5,335,000
Accumulated deficit	(36,902,000)	(28,380,000)
Investment valuation allowance	(1,911,000)	-
Less amount not “pushed down”	(68,175,000)	(68,175,000)
Equity of subsidiary		
Total capital deficiency	(100,757,000)	(90,324,000)
-	$289,043,000	$261,568,000

Source: Annual Report

APPENDIX A (continued)

CONS0LIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 1988 and 1987

	1988	1987
Net sales	$405,730,000	$325,647,000
Cost of sales	104,503,000	86,501,000
Selling, gen. And admin exp	262,797,000	207,359,000
Operating income	38,430,000	31,787,000
Insurance proceeds	-	-
Write down of assets	(11,000,000)	(4,696,000)
Interest and other income, net	3,137,000	3,884,000
Interest expense	(37,248,000)	(40,391,000)
Loss before income taxes and Extraordinary items	(6,681,000)	(9,416,000)
Provision for income txs	1,495,000	5,876,000
Loss before extraordinary Items	(8,176,000)	(15,292,000)
Extraordinary expenses, net of Related income tax benefit of $423,000 in 1988 and $5,327,000 1987	822,000	5,596,000
Net loss	$ (8,998,000)	$ (20,888,000)

APPENDIX A (continued)

CONS0LIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 1988 and 1987

	1988	1987
Cash flows from operating activities:		
Net loss…………………………………	$ (8,998,000)	$ (20,888,000)
Adjustments to reconcile net loss		
To net cash provided by operating activities:		
Depreciation…………………………….	8,288,000	9,180,000
Amortization…………………………....	6,410,000	7,052,000
Defined benefit retirement program expense…	3,598,000	-
Accretion expense……………………...	17,493,000	14,834,000
Deferred tax provision…………………	(7,522,000)	(106,000)
Write down of assets…………………...	11,000,000	4,696,000
Loss on disposition of assets…………...	27,000	325,000
Extraordinary expenses………………...	1,245,000	10,923,000
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable………	(1,806,000)	(125,000)
Inventories………………...	(15,870,000)	(12,767,000)
Income tax receivable…….	-	-
Other current assets……….	(895,000)	(464,000)
Goodwill…………………..	-	-
Other assets………………..	(392,000)	(195,000)
Increase (decrease) in:		
Accounts payable…………	2,984,000	589,000
Accrued liabilities…………	11,283,000	8,817,000
Deferred sales……………..	1,858,000	(1,996,000)
Other liabilities……………	(458,000)	(343,000)
Federal income tax refund………...	3,986,000	10,164,000
Other, net………………………….	729,000	754,000
Net cash provided by operating act.	32,962,000	36,656,000
Cash flows from investing activities:		
Purchase of investment……………	(15,541,000)	-
Capital expenditures………………	(6,025,000)	(2,576,000)
Proceeds from sales of assets……..	383,000	1,130,000
Net cash provided by (used in) investing activities…	(21,183,000)	(1,446,000)
Cash flows from financing activities:		
Principal payment of long-term debt…	(90,000,000)	(125,733,000)
Increase in long-term debt…………	(82,535,000)	(90,000,000)
Cost of refinancing debt……………	(1,569,000)	(8,596,000)

APPENDIX A (continued)

CONS0LIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 1988 and 1987

	1988	1987
Proceeds from loans from life insurance policies..	796,000	-
Net cash used in financing act……………………….	(8,238,000)	(44,329,000)
Net increase (decrease) in cash and cash equivalents..	3,539,000	(9,119,000)
Cash and cash equivalents at beginning of year……..	11,500,000	20,619,000
Cash and cash equivalents at end of year……………	$ 15,039,000	$ 11,500,000
Additional information:		
Cash payments (refunds) for:		
Interest (net of amounts capitalized)………	17,290,000	29,107,000
Income taxes……………………………….	4,755,000	(15,235,000)
Non-cash financing activities:		
Restructuring an existing note:		
Decrease in note receivable………………………	$17,267,000	-
Decrease in account receivable…………………..	1,000,000	-
Increase in note receivable……………………….	(11,000,000)	-
Increase in assets held for sale…………………...	(10,000,000)	-
Increase in deferred taxes………………………..	2,733,000	-
Restructuring an existing note payable:		
Decrease in long-term debt………………………	(16,000,000)	-
Decrease in accrued liabilities……………………	(862,000)	-
Increase in long-term debt………………………..	16,500,000	-
Increase in deferred taxes………………………...	362,000	-

APPENDIX B

MARY KAY COSMETICS, INC., DALLAS, TEXAS

Financial Performance
1978-1988

Year	Net Sales	Net Profit	Total Assets	Net Worth
	(000)	(000)	(000)	(000)
1988	$405,730	$ (8,998)	$289,043	$(100,757)
1987	325,647	(20,888)	261,568	(90,324)
1986	255,016	(55,502)	284,180	(69,351)
1985 *	13,457	(1,306)	328,922	(13,647)
**	235,513	21,286	272,166	183,304
1984	277,500	33,781	217,554	163,746
1983	323,758	36,654	180,683	131,725
1982	304,275	35,372	152,457	95,316
1981	235,296	24,155	100,976	61,952
1980	166,938	15,135	74,431	38,633
1979	91,400	9,632	50,916	24,618
1978	53,746	4,873	36,305	25,947

Source: Company Annual Reports

* Period from December 5 to December 31, 1985.
**Period ended December 4, 1985.

APPENDIX E

SHAKLEE CORPORATION, SAN FRANCISCO, CA

Financial Performance
1978-1986

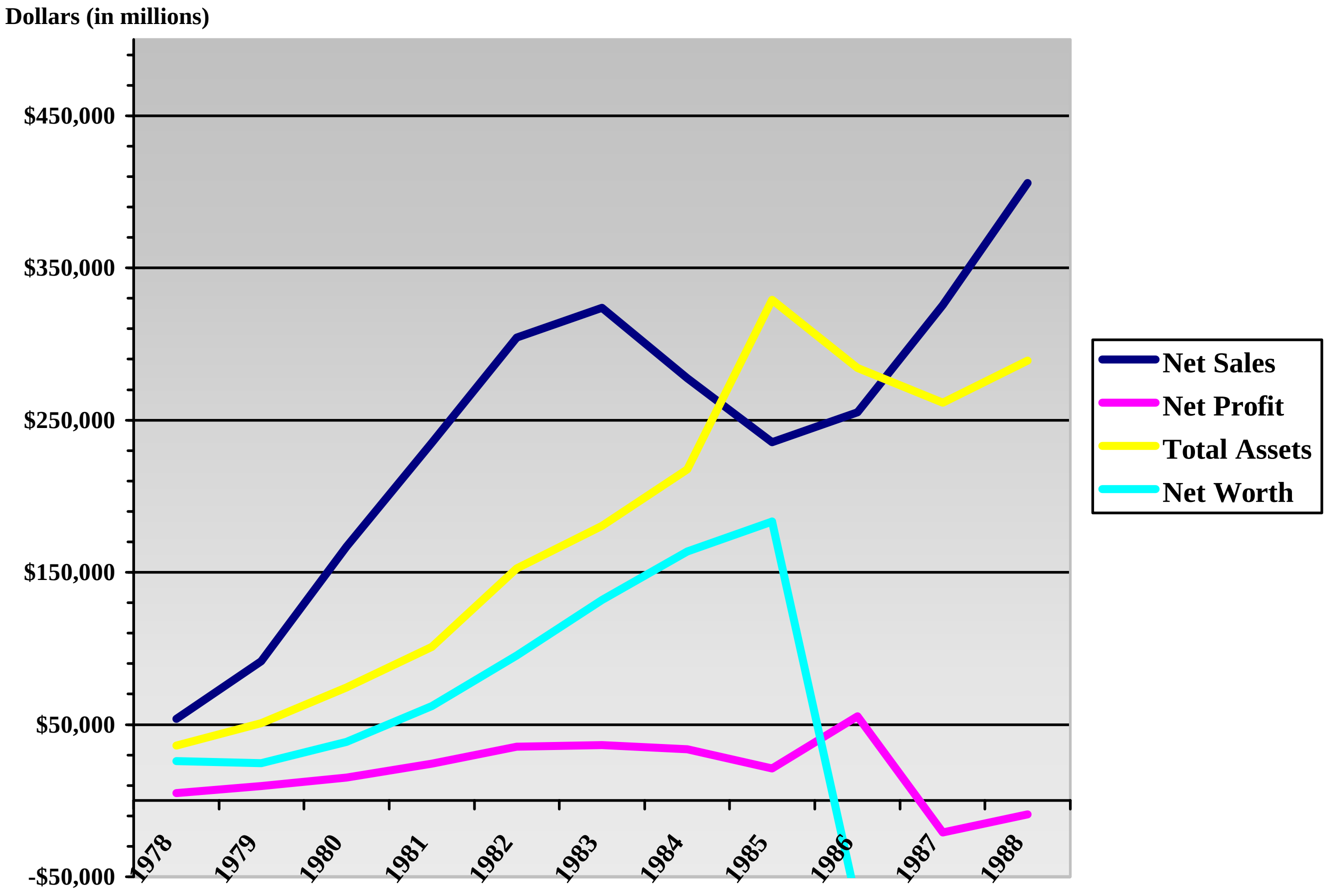
Year	Sales	Assets	Total Assets	Net Worth
	(000)	(000)	(000)	(000)
1986	$398,030	$59,123	$344,214	$233,904
1985	406,043	13,016	277,161	164,276
1984	459,115	13,207	260,660	154,451
1983	538,729	35,145	261,795	151,125
1982	471,876	24,008	222,074	120,758
1981	454,522	24,543	191,670	105,601
1980	411,331	12,071	173,191	86,979
1979	314,149	21,288	164,707	78,859
1978	275,369	19,294	112,991	61,691

Source: Company Annual Reports

APPENDIX C

MARY KAY COSMETICS, INC., DALLAS, TEXAS

Financial Performance



APPENDIX D

AVON PRODUCTS INC., NEW YORK

Financial Performance
1978-1986

Year	Net Sales (000)	Net Profit (000)	Total Assets (000)	Net Worth (000)
1986	$ 2,883.10	$ 158.70	$ 2,296.30	$ 681.30
1985	2,470.10	(59.90)	2,289.00	926.40
1984	2,605.30	181.70	2,287.50	1,157.10
1983	2,607.60	172.90	2,256.80	1,273.10
1982	2,710.10	186.60	2,227.60	1,245.10
1981	2,725.20	216.50	1,1611.90	930.50
1980	2,569.10	242.10	1,583.10	928.30
1979	2,377.50	244.00	1,417.00	866.30
1978	2,086.30	233.60	1,282.40	770.70

Source: Company Annual Reports

APPENDIX F

DIRECT SELLING INDUSTRY

1980-1988

Year	Retail Sales (000)	Salespeople (000)
1988	$9,695,556	$3,996,000
1987	8,789,415	3,614,000
1986	N/A	N/A
1985	8,360,000	5,129,994
1984	8,640,000	5,808,928
1983	8,575,000	4,933,413
1981	N/A	N/A
1980	7,500,000	4,908,947

Source: Direct Selling Association - 1988

REFERENCES

Ash, Mary Kay, Mary Kay, New York: Harper & Row, Revised Edition, 1986.

Ash, Mary Kay, Mary Kay on People Management, Warner Books, Inc., 1984.

Ballen Kate, “Get Ready for Shopping at Work,” Fortune (February 15, 1988) p. 95, 98.

Barker, Myra, (January 31, 1989), Interview with Senior Vice President of R&D/QA, Mary Kay Cosmetics, Inc., Dallas, Texas.

Barmash, Isadore, More Than They Bargained Fort The Rise and Pall of Korvettes, New American Library, 1981.

Bartlett, Richard C., (January 31, 1989), Interview with President, Mary Kay Cosmetics, Inc., Dallas, Texas.

Beasley, Ms. Barbara, (January 31, 1989), Interview with Senior Vice President of Marketing, Mary Kay Cosmetics, Inc., Dallas, Texas.

Biggart, Nicole Woolsey, Charismatic Capitalism: Direct Selling Organizations In America, University of Chicago Press, 1989.

Chase, Marilyn, “At the Shaklee. Corp. Selling Is Believing,” New York: Wall Street Journal (March 9, 1989) p. B8.

Chase, Marilyn, “Looking for Miracles, Young and Old Flock to Purchase Retin-A,” New York; Wall Street Journal (February 12, 1988) p. 1, 7.

Coughlin, Marilyn, “Making a Business of Belief: Sociologist Examines the Direct-Selling Industry in America,” The Chronicle of Higher Education (July 19, 1989) p. A5-A6.

Croskeys, Curran, (January 31, 1989), Interview with Vice President of Product Management, Mary Kay Cosmetics, Inc., Dallas, Texas.

“Direct Marketers Adapt to New Lifestyles,” by the Associated Press, Chicago: Marketing News (June 19, 1989) p. 7.

Direct Selling Association, A Statistical Study of the Direct Selling Industry in the United States: 1980-1985, A Report Prepared by the Direct Selling Association, Washington, D.C.: Direct Selling Association, July 1989.

Dolan, Carrie, “Entrepreneurs Often Fail as Managers,” New York: Wall Street Journal (May 15, 1989) p.Bl.

Dunkin, A. and Ducas, C., “How Cosmetics Makers Are Touching Up Their Strategies,” Business Week (September 23, 1985) p. 66-68, 73.

Fannin, Rebecca, “The Beauty of Being Mary Kay,” Marketing & Media Decisions (December, 1982) p. 58-61.

“Flight of the Bumblebee,” Forbes (August 12,1985) p. 12.

Hattwick, Richard E., “Mary Kay Ash,” The Journal of Business Leadership (Spring, 1988) p. 21-40.

Hilder, David B. and Trachtenberg, Jeffrey A., “Avon Stock Sags on Withdrawal of Amway Bid,” New York: Wall Street Journal (May 19, 1989) p. A4.

Kingan, Adele, “Entrepreneur’s Corner: Mary Kay Ash, Founder and Chairman of the Board, Mary Kay Cosmetics, Inc.,” Executive Female (November-December, 1982) p. 12-14.

“Mary Kay Board Approves New Bid by Firm’s Founder,” New York: Wall Street Journal (July 2, 1985) p. 16.

“Mary Kay Cosmetics, Inc. Business Brief,” New York: Wall Street Journal (February 11, 1985) p. 28.

“Mary Kay Cosmetics, Inc. Business Brief,” New York: Wall Street Journal (December 4, 1985) p. 59.

“Mary Kay Cosmetics Gets Buyout Offer From Managers, Valued at $280 Million,” New York: Wall Street Journal (May 31, 1985) p. 4.

“Mary Kay Cosmetics: Looking Beyond Direct Sales to Keep the Party Going,” Business Week (March 28, 1983) p. 130.

“Mary Kay Cosmetics Picks Rogers as Its Chairman,” New York: Wall Street Journal (November 10, 1987) p. 42.

“More than a Cosmetic Success, 1920,” New York: Wall Street Journal (March 28, 1989) p. B1.

Nissen, Beth, “Woman to Woman: Mary Kay Sales Agents Zero In On Prospects In Their Living Rooms, New York: Wall Street Journal (September 28, 1978) p. 1, 24.

Olive, David, “All the Way With Mary Kay,” Canadian Business (November, 1984) p. 77-81.

Rinefort, Foster, (July 31. 1989) Interview with management consultant, Eastern Illinois University, Charleston.

Rothbart, Dean and Cohen, Laurie P., “About Pace; The Party at Mary Kay Isn’t Quite So Lively, As Recruiting Falls Off,” New York: Wall Street Journal (October 28, 1983) p. 1, 12.

Rothman, Andrea, “For James Preston, It’s Still Avon Calling,” New York: Wall Street Journal (December 9, 1988) p. B13.

Schifrin, Matthew, “Peeking Inside LBO’s” Forbes (June 13, 1988) p. 66, 68.

Sloan, Pat, “Mary Kay, Jafra Show Dramatic Growth,” Advertising Age (August 23, 1982) p. 22.

Sloan, Stanley H., “Avon Calling: Cosmetics Firm Makes A Strong Comeback From a Recession Dip,” New York: Wall Street Journal (April 6, 1977) p. 1, 17.

Trachtenberg, Jeffrey A., “Sallie Cook is one a Million Reasons Amway Liked Avon,” New York: Wall Street Journal (May 19, 1989) p. Al, A4.