

Revlon, Inc., 2015

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Headquartered in New York City, Revlon is a large beauty and personal care products company and is a subsidiary of MacAndrews & Forbes Holding Inc. Popular Revlon products include lipsticks, skin care products, deodorant, blush, makeup, hair and nail products, and much more, marketed under such brands as Almay, SinfulColors, Pure Ice, Revlon ColorSilk, Charlie, Jean Naté, Mitchum, Gatineau, and Ultima II. Revlon sells products worldwide through its sales force, sales representatives, and independent distributors, and licenses its trademarks to select manufacturers for complementary beauty-related products and accessories. For the quarter that ended June 30, 2015, Revlon's revenues were \$482 million, up from \$438 million the prior quarter, and the company's net income was \$26 million, up from a negative \$900,000 the prior quarter. Also during Q2 of 2015, Revlon completed its acquisition of the CBBeauty Group and exited business operations in Venezuela, moving to a distributor model in that country. Revlon's sales for Q3 of 2015 were \$471.5 million, about the same as the prior year Q3, but the company's Q3 2015 net income was \$6.2 million, down from \$14.6 million the prior year Q3. The company's stock price declined 12 percent in 2015 through November. Thus, investors are concerned about Revlon's strategic plan and performance.

Revlon hired a new CEO in 2014, Lorenzo Delpani. He needs a clear strategic plan going forward, as rivals such as Avon, L'Oreal, Mary Kay Cosmetics, and Estee Lauder compete for market share in the industry.

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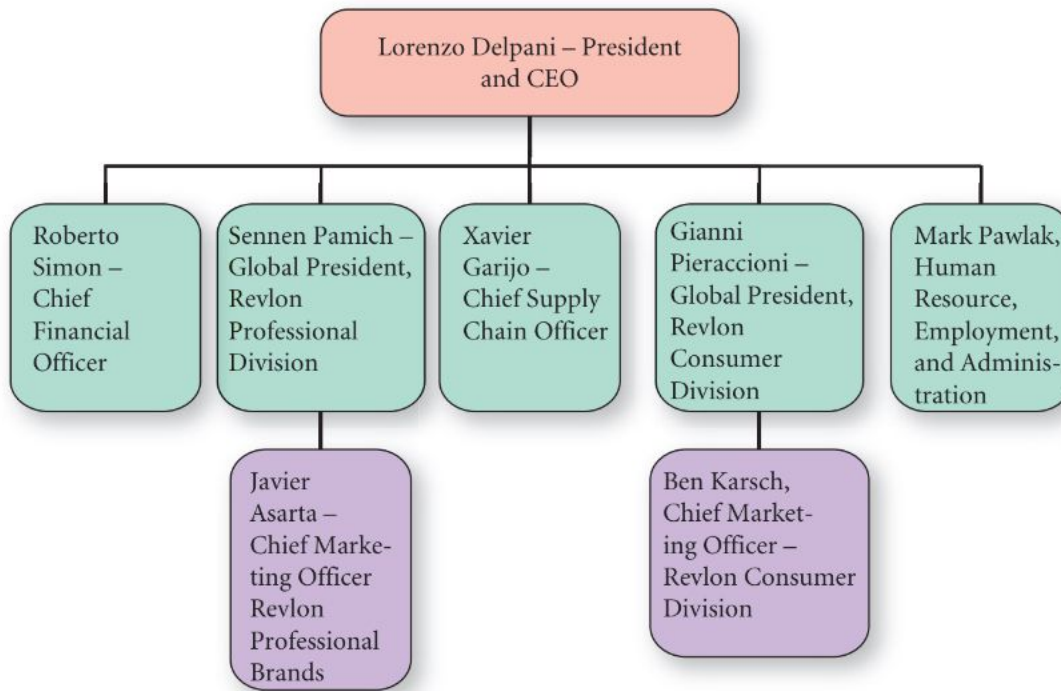
History

Revlon was founded in 1932 when brothers Charles and Joseph Revson, and chemist C. R. Lachman, launched a new product—a nail enamel that came in colors other than red. Somewhat bizarre, but interestingly, the name Revlon comes from replacing the *s* in *Revson* with the *L* from *Lachman*. One of Charles Revson's most famous quotes to describe his business was "in the factory we make cosmetics, in the drug store we sell hope." Being the only provider of different color nail polishes, Revlon had a large leg up on competition, and within 6 years the firm was a multimillion dollar organization. By the early 1940s, Revlon had expanded its product line to include many other beauty products, including lipstick, which it remains famous for today. Revlon went public in 1955 and saw its stock price increase over 200 percent in the first two months of trading. In the 1960s, Revlon restructured into six different business units based on target customer. Throughout the next 20 years, Revlon acquired many different cosmetic-related firms to expand its product offerings, but in the 1980s, it was still losing ground to major competitors Estee Lauder, Cover Girl, Procter & Gamble, and others. Thus, in 1985, Revlon was sold to Pantry Pride and left department stores to become a mass-market beauty brand. The firm hired Claudia Schiffer, Cindy Crawford, and Christy Turlington to model its products during the 1980s. In the 1990s, Revlon introduced its Color Stay line and hired model Halle Berry to promote the products. Revlon acquired Mirage Cosmetics in 2011 and Colomer Group in 2013 and hired both Emma Stone and Olivia Wilde to promote its products. Revlon divested all of its Chinese operations in 2014.

Internal Issues

Vision/Mission

Revlon has one statement as follows on the corporate website related to vision/mission: "Revlon is a global color cosmetics, hair color, beauty tools, fragrances, skincare, anti-perspirant deodorants and beauty care products company whose vision is Glamour, Excitement and Innovation through high-quality products at affordable prices."

EXHIBIT 1 Revlon's Organizational Structure

Source: Based on company documents.

Organizational Structure

Like about half of the Fortune 500 companies, Revlon does not have an executive with the title COO among its top management team. As depicted in Exhibit 1, the company has two primary divisions: Professional and Consumer. The two divisions focus on selling products to (1) beauty salons (Professional Segment) and (2) individuals (Consumer Segment), respectively. The current structure was finalized in October 2013 with the acquisition of the Colomer Group for \$664 million in cash. The Colomer business comprises 100 percent of Revlon's professional segment. Let's presume that the two divisional presidents report to the CAO because sometimes that is another name for the COO position.

Marketing and R&D

Revlon uses sales representatives and independent distributors primarily in marketing. In 2013, 56 percent of all Revlon sales in the United States were derived from mass merchandisers. Revlon's largest customers in this country are Walmart, CVS, Walgreens, Boot Alliance, and Target. In November 2014, Revlon launched its "Love is On" marketing campaign in all markets globally—the firm's first global marketing campaign in over 10 years. CEO Delpani suggested the new slogan because he says love is a "universally applicable theme that has no boundaries." Audio and video of related marketing ads are played to the classic song "Addicted to Love" and feature Halle Berry, Emma Stone, and Olivia Wilde.

Revlon spent \$32 million on R&D in 2014 and employs 200 people in its R&D locations in New Jersey, Florida, and California. The bulk of Revlon's products are produced at its own factories in North Carolina and in South Africa. The firm produces products for its professional segment in Florida, Spain, Italy, and Mexico, as well as through various third-party contractors.

Strategy

One of CEO Delpani's first decisions after taking over in 2014 was to divest the firm's Chinese business, which accounted for only 2 percent of total sales. Delpani also cut 15 percent, or approximately 5,000, Revlon employees. The decision to exit China came on the heels of rival Avon reporting a 67 percent decline in Chinese sales in 2013, and rival L'Oreal reporting slowing sales in China, despite the market being worth an estimated \$20 billion.

Revlon's acquisition of Colomer Group bolstered the company's offerings to professional salon customers. This acquisition added the Creative Nail professional and Shellac Nail polishes to Revlon's portfolio, as well as American Crew men's hair care products. Rival cosmetics companies had recently added products and services aimed at salon customers, such as Unilever in 2011 buying Alberto-Culver for about \$3.7 billion, giving it the Nexxus haircare brand. P&G, the

EXHIBIT 2 Revlon's Revenues by Customer (in millions of USD)

Revenues	2014	2013	2012
Consumer	\$1,438	\$1,378	\$1,396
Professional	502	117	–
Total	\$1,941	\$1,495	\$1,396

Source: Based on Revlon's 2014 *Annual Report*, p. 30 and 2014 Q4 report.

world's largest consumer-products company, recently added salon brands such as Wella Illumina hair coloring. Colomer also gave Revlon some geographic diversity since Colomer obtained about half of its sales from Europe, the Middle East, and Africa, and about 40 percent from the United States, while Revlon obtains about 56 percent of its sales from the United States.

Segments

Revlon's Consumer segment, which accounts for about 74 percent of total revenues, focuses on cosmetics products for the face, lips, eyes, and nails. Top brand names include Revlon ColorStay, which provides women with a full range of products designed for all-day use without reapplication; Revlon PhotoReady, which include products for the face and eyes that Revlon markets as able to bend and reflect light to provide women flawless airbrushed appearance in any light condition; Revlon Age Defying products that are designed for women over age 35 to mask lines and wrinkles; and Revlon Super Lustrous, the flagship wax-based lipcolor, and possibly the product the company is best known for, offered in many different colors and shades of both lipstick and lip gloss. Other products include Revlon ColorBurst, Revlon Grow Luscious, and Almay. ColorBurst focuses on lip glosses in high-shine style, opposite of the matte Super Lustrous products. Revlon's Grow Luscious and Almay are designed mostly for improving the eyelashes and hypo-allergenic products, respectively. In fact, Almay has a full line of products all centered on hypo-allergenic products. Other key products included in the consumer division include hair color products under the name ColorSilk, various beauty tools for use on the nails and eye, fragrances such as Charlie and Jean Naté, deodorants under the name Mitchum, and skin care products under brands Gatineau and Ultima II. Revlon reported profits of \$347 million from its Consumer division in 2013 down from \$363 million the previous year.

Revlon's Professional division accounts for about 26 percent of revenues as indicated in Exhibit 2. This division is aimed at selling products directly to professional salons rather than the consumer at mass merchant and grocery stores. Notable brands include Revlonissimo NMT, Nutri Color Crème, Sensor Perm, and Revlon Professional Equave. American Crew is another product targeting men with shampoos, conditioners, gels, and other products. Revlon's CND brand offers popular nail color and treatments to professional salons in over 80 countries. Total profits for the newly acquired professional division were \$5.2 million in 2013.

Revlon's revenues by region are provided in Exhibit 3. Note that the United States contributes more than half of Revlon's revenues in 2013.

Exhibit 4 reveals Revlon's revenues by geographic region in 2014. Note that U.S. sales and international sales were both up substantially over 2013 numbers. Also note that U.S. and international revenues in Exhibit 4 do not perfectly match the data in Exhibit 3; however, total revenues for 2013 *do* match, which reflects a slight reclassification of certain revenues by Revlon.

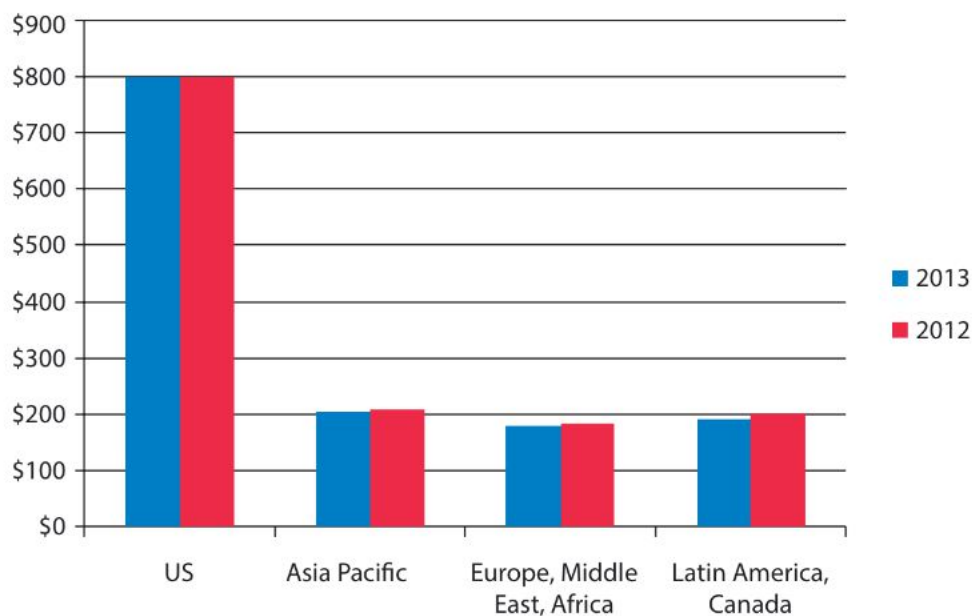
Finance

Revlon's recent income statement and balance sheet are provided in Exhibits 5 and 6, respectively. On the balance sheet, notice the negative retained earnings because the company has been incurring losses, although for 2014 there was a positive net income of \$41 million.

Competitors

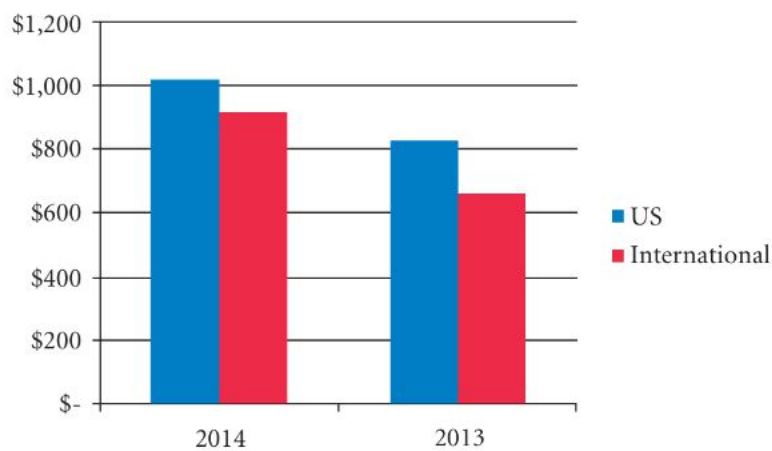
The beauty products business contains over 3,000 different competitors with top companies being Procter & Gamble, Unilever, L'Oreal, Estee Lauder, Mary Kay, Avon, Helen of Troy, Coty, Ultra Salons, and Revlon. The industry is comprised of many different classes of competitors

EXHIBIT 3 Revlon's Revenues by Region for Consumer Division (in millions of USD)



Source: Adapted from Revlon's 2013 Annual Report, p. 30.

EXHIBIT 4 Revlon's 2014 Revenues by Geographic Region (in millions of USD)



Source: Adapted from Revlon's 2014 Annual Report.

EXHIBIT 5 Revlon's Income Statement (in millions of USD)

Report Date	December 31, 2014	December 31, 2013
Revenues	\$1,941	\$1,494
Cost of revenue	668	544
Gross profit	1,273	950
Operating expenses	1,037	761
EBIT	236	189
Interest and other	118	118
EBT	118	71
Tax	78	46
EAT	40	25
Income from continuing operations	1	(30)
Net income	41	(5)

Source: Based on Revlon's company documents.

EXHIBIT 6 Revlon's Balance Sheet (in millions of USD)

Report Date	December 31, 2014	December 31, 2013
Assets		
Cash and equivalents	\$275	\$244
Accounts receivable	239	254
Inventories	157	175
Other current assets	103	126
Total current assets	774	799
Property, plant & equipment	212	196
Goodwill	464	472
Intangibles	328	360
Other assets	166	190
Total assets	1,944	2,017
Liabilities		
Accounts payable	154	166
Other current liabilities	311	387
Total current liabilities	465	553
Long-term debt	1,832	1,862
Other liabilities	291	198
Total liabilities	2,588	2,613
Common stock	0	0
Retained earnings	(1,411)	(1,452)
Treasury stock	(10)	(10)
Paid in capital & other	777	866
Total equity	(644)	(596)
Total liabilities & equity	1,944	2,017

Source: Based on Revlon's company documents.

with many different missions. Procter & Gamble and Unilever, for example, are the most diversified firms, selling many products not even classified as beauty related. Mary Kay and Avon both rely on direct (door-to-door) sales. Ultra Salons is fully vertically integrated, making its own products, selling them in its own stores, and even offering salons in its stores. A notable trend in the industry is less customer loyalty and increased commoditization. Many customers today are willing to mix and match and try various products based on attributes other than brand name. This bodes well for many firms, as customer spending has increased substantially as a result. However, R&D and marketing expenses are on the rise in the industry, as corporations try to attract buyers to their products by providing new and exciting selections. A comparative analysis of Revlon versus two rival firms is provided in Exhibit 7.

EXHIBIT 7 Revlon versus Avon and L'Oreal SA

	Revlon	Avon	L'Oreal SA
# Employees	6,900	36,700	77,452
\$ Net Income	28 M	(124) M	3,480 M
\$ Revenue	1.93 B	9.18 B	26.88 B
\$ Revenue/Employee	279,710	250,136	347,053
\$ EPS	0.10	(0.29)	1.16
\$ Market Cap.	1.72 B	3.25 B	94.14 B

Source: A variety of sources, all based on company documents.

Avon Products, Inc. (AVP)

Headquartered in New York City and founded in 1886 “to help women become independent,” Avon reported a net loss of \$124 million in 2014. The company sells a wide array of beauty products, including cosmetics, fragrances, skin care, hair care, and others. The firm also sells jewelry, watches, apparel, houseware products, nutritional products, and more. Similar to rival Mary Kay, Avon competes in direct sales and provides products to over 65 countries. Most of Revlon’s sales are generated in the United States, but over 85 percent of all sales of Avon are derived from foreign markets. Avon has been plagued with the stronger dollar in recent years. Approximately 30 percent of sales for Avon are derived from products other than cosmetics.

In late 2014, Avon and the U.S. government came to agreement on a fine totaling \$135 million concerning bribes to Chinese officials in return for better business opportunities for Avon. One contributing factor to the fine was a letter written by an Avon executive where the person suggested that “getting a little dirty when doing business in China is not our fault,” it is just how business is done in China. Rumors are that Avon is currently talking with private equity firm TPG Capital about being acquired.

Avon has not been performing well. From 2011 to 2015, the company witnessed a declining revenue trend in North America, especially in the United States, mainly due to a decrease in active representatives, partly offset by large average orders. Revenue from the United States has declined considerably from about \$2,293.4 million in 2009 to nearly \$1,458.2 million in 2013. Avon’s revenues from the United States declined another 16 percent in the third quarter of 2014.

L’Oreal SA (LRYCY)

Headquartered outside of Paris, France, and founded in 1909, L’Oreal is known worldwide for producing quality cosmetics. It is considered the world’s largest cosmetics company, selling cosmetics and hair color products in drugstores and mass merchandisers worldwide. In addition to the L’Oreal brand, other top brands include Garnier, Maybelline, Lancome, and The Body Shop. L’Oreal employs 72,000 worldwide and reported revenues in excess of \$26 billion in 2013. The firm receives approximately one quarter of its sales from North America, the same percent as sales derived from Europe. The weak euro and strong dollar lately has benefited L’Oreal. To better compete against rival Estee Lauder in the United States, L’Oreal acquired Los Angeles-based NYX Cosmetics in 2014. L’Oreal’s U.S. headquarters is in New York City. In June 2014, L’Oreal reached agreement with the U.S. Federal Trade Commission not to make claims about its anti-aging products, unless it had credible scientific evidence supporting the claims. The settlement followed an investigation by the commission into claims being made in relation to two products, which the commission described as “false and unsubstantiated.” In 2014, L’Oreal made the commitment to ensure that none of its products is linked to deforestation, and to source 100 percent renewable raw materials by 2020. L’Oreal was recently included in the Corporate Knights “Global 100” list of the 100 most sustainable companies.

Estee Lauder Companies, Inc. (EL)

Headquartered in New York City and founded in 1946, Estee Lauder is still controlled by the Lauder family. The firm does business worldwide with over 40,000 employees. As of June 30, 2014 (the end of the fiscal year), Estee Lauder Companies had sales of more than \$10.9 billion. The company is known for its skin care products, makeup, fragrances, hair care products, and many other beauty related products. Top brands include Clinique, Aveda, Bumble and Bumble, Bobbi Brown, Origins, and several others. As of 2014, the firm was aggressively expanding into the men’s skin care business. In general, Estee Lauder products are considered premium and of better quality than many rivals, including Revlon, Avon, and L’Oreal. Estee Lauder typically sells its products direct to consumers or through its own stores, boutiques, specialty salons, and upscale retailers. Approximately 10 percent of Estee Lauder’s total revenues are derived from Macy’s.

External Issues**Lipstick Industry**

The lipstick industry in the United States is valued around \$1.5 billion annually and is expected to grow at an annualized rate of nearly 6 percent through 2020. Key producers are Estee Lauder, Procter & Gamble, Revlon, and L’Oreal, representing 16, 10, 5, and 3 percent of the U.S. market

share, respectively. The lipstick industry has 60 manufacturers. Despite lipstick being one of the most visible cosmetic products, the industry revenue of \$1.5 billion pales in comparison to the over \$50 billion cosmetic product industry. The lipstick industry is much more resistant to economic downturns than many other industries, even other cosmetics products. Competitors are introducing many new styles and colors of lipstick as well, creating new sales. With the relatively cheap price of lipstick for the consumer, many women have different colors and styles for various occasions, and are willing to try new colors and products, as cost is generally not prohibitive. An area of concern for lipstick and cosmetic manufacturers generally is the increased sensitivity to possibly harsh metals, chemicals, or animal byproducts used in lipstick. The new sensitivity in the composition of lipsticks has many firms increasing their R&D and advertising budget to ensure consumers are provided the products they desire. In fact, R&D and marketing budgets now comprise 25 percent of total industry revenue. Also, there is much less brand loyalty now industry-wide, and many consumers are switching from brand to brand and even using multiple different lipstick or cosmetic brands simultaneously. In addition, celebrities are increasingly posting photos of themselves without makeup and adding hashtags and other messages.

Most lipstick is categorized into either sheer or matte. Sheer lipstick products contain more oil and must be applied more often to make lips look shiny. Matte lipstick is more robust and need to be applied much less frequently. Both types of lipsticks are equally popular, accounting for 85 percent of all lipstick sold. Lip stain, lip liner, and other lip products make up the remaining 15 percent of sales.

Lipstick is sold in many different mediums, with mass merchants such as cosmetic stores, grocery stores, Walmart, and drugstores accounting for nearly half of all sales. Department stores account for another 20 percent of sales and direct to the consumer accounts for 8 percent of sales. There are several companies that deal directly to the consumer, such as Mary Kay and Avon. Interestingly, despite having great global brands in the United States, only 15 percent of total revenues are obtained from outside the states. Wholesalers account for 10 percent of total sales, but are expected to increase their share moving forward as they have better bargaining power. Imports account for \$200 million of the \$1.5 billion U.S. lipstick industry, with a quarter of these coming from France, likely largely contributed by French-based L'Oreal.

Hair Care, Skin Care, Cosmetics

The hair care, skin care, and cosmetic industry in the United States accounts for over \$55 billion in annual sales and has enjoyed a growth rate of nearly 6 percent from 2010 through 2014. Much like the lipstick market, consumers still purchased beauty products at high rates, even during the recession. Growth is projected to continue through 2020 at a rate of nearly 4 percent. Hair care and skin care products are the two largest revenue-producing contributions to the industry as a whole, with revenues each of approximately \$13 billion totaling just short of 50 percent of total revenues combined. Cosmetics, perfumes, and deodorants also contribute significantly to the industry, with total market shares of 15, 10, and 8 percent, respectively. Many of the same issues facing lipstick manufacturers are also faced in the marketing and producing of cosmetic-related products. Higher marketing and R&D expenses—along with a growing concern for reduced packaging, animal safety, and product safety—negatively impacted profits. Consumers also are quick to switch from brand to brand, and are showing less brand loyalty, presenting both threats and opportunities for producers. There is also a growing influx of imported products from around the world on all price points. Generally perceived higher-quality products are imported from Europe, whereas perceived lower-quality and lower-priced products are imported from Mexico and China. Currently, about 15 percent of revenues of U.S.-based producers are derived from overseas markets. Interestingly, overseas customers, even in Asia, tend to prefer higher-quality, more expensive products, and firms that have attempted to offer lower-quality, cheaper alternative products have not fared as well.

Hair care products, the largest segment by revenues, includes hair dye, bleaches, shampoos, conditions, hair sprays, gels, mousses, and all other products related to the hair. Shaving products are also included in this segment. Hair care products have not grown as a segment as rapidly as other products (e.g., skin care). There is growing research and marketing to suggest that expensive shampoos are not worth the money, thereby hurting this product class. In addition, many women are coloring their hair at home or going longer between visits to the salon for coloring, which hurts the industry. Also, there have been relatively few new products developed to entice

buyers. This is in stark contrast to other segments such as skin care, lipsticks, perfumes, and cosmetics that often introduce new products.

Skin care products continue to grow as a percent of total industry market share as more and more people are using these products, including men. In 2014, skin care products barely trailed hair care products in industrywide sales, but are expected to be the largest revenue-producing product category moving forward. Firms promote anti-aging treatments and wrinkle-reducing creams. Even creams promoted to remove back circles from under the eyes are available. Sunscreen is also in this category. Estee Lauder's CEO recently suggested that men's skin care products may outpace companywide growth at his firm moving forward.

Other products sold making up the other 50 percent of industrywide revenue include makeup, perfumes, and other products. Makeup has been a relatively slow-growing product line for firms, but with increased demand for products that are marketed as chemical free, there is room for some moderate growth. Interestingly enough, all products contain chemicals, but this is a possible area for growth moving forward. Perfumes, especially for women, have been stagnant; however, men's colognes have grown at moderated paces and are expected to continue.

No Makeup Trends

There is a growing trend promoted by many online articles, several from the *New York Times*, and from celebrities taking photos with hashtags "no makeup" that are encouraging women to be more natural in appearance. No clear data exist yet on how popular or enduring this trend may become, but it is worth noting, and possibly a factor cosmetic firms should be aware of moving forward. The growing population of women who endorse the natural look claim that "being comfortable in your own skin and low maintenance is the true beauty; to the extent you apply layers of makeup you only become more frivolous and superficial." Various theories on why the trend is developing include attractive women wanting everyone to know just how attractive they are without the use of makeup, a new fashion trend for everyone, or possibly just laziness. Whether or not the trend will be enduring, most experts agree, it is like underdressing for the job or not brushing your hair. Therefore the impact on cosmetic firms for *now* is probably limited, but it is certainly something worth monitoring.

Future

Ronald Perelman's New York City-based MacAndrews & Forbes Inc. owns about 78 percent of Revlon. Perelman is Revlon's chairman of the board. There are rumors that Perelman may want to sell Revlon. Analysts say Revlon's EBIT margins, on average, are good at 19 percent, but the company's market capitalization to EBIT ratio of just 9.6 is substantially below the 13.3 average ratio for eight of its global peers. Some analysts report that global consumer companies would be the most likely interested in buying Revlon, such as Procter & Gamble Co. and L'Oreal. Revlon would be complementary to P&G's CoverGirl business. Unilever NV and even Coty, Inc. are among others that could be interested in Revlon. For any firm to obtain the highest acquisition price for its shareholders, a clear strategic plan is needed, showing expected increases in both revenues and profits going forward. Help CEO Delpani develop an impressive strategic plan for Revlon.