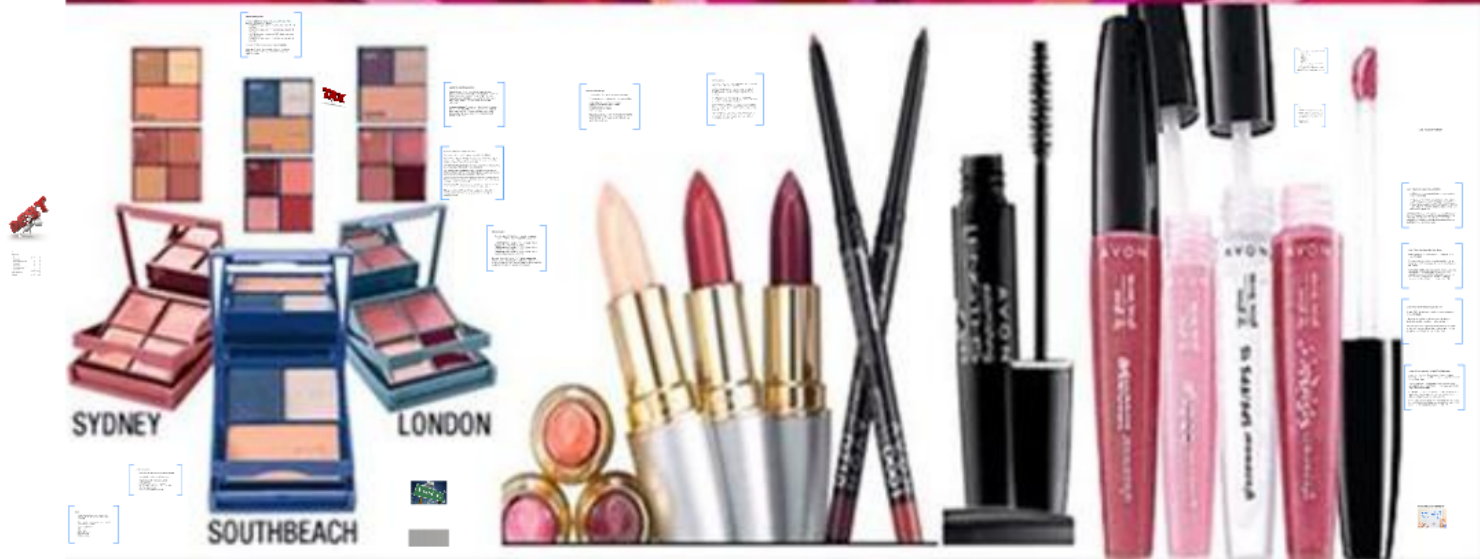




AVON

Avon Company Financials
Statement Analysis Harvard
Case Solution & Analysis

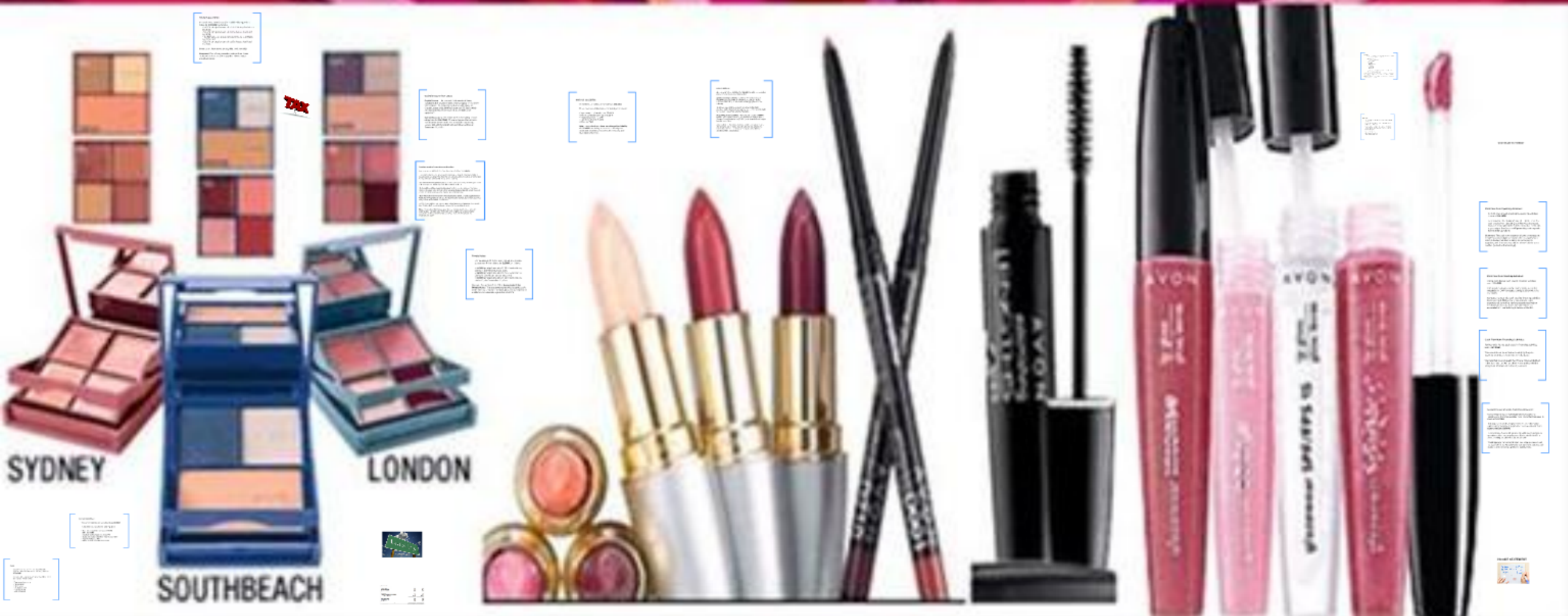
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AVON

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Introduction:

- Avon Products Inc., is a global manufacturer and marketer of beauty and related products.
- Avon commenced operations in 1886 and was incorporated in the State of New York on January 27, 1916.
- Avon conducts its business in the highly competitive beauty industry and compete against other consumer packaged goods ("CPG") and direct-selling companies to create, manufacture and market beauty and non-beauty-related products.
- Avon's product categories are:

Beauty (73% of 2013 revenues),
Fashion (17% of revenues), and
Home (10% of revenues)

Introduction:

- The Company uses more than 6 million Representatives who are hired as independent contractors and sell Avon products to end consumers.
- Avon's Board of Directors:
 - Douglas R. Conant Chairman □
 - Sheri McCoy (CEO)
 - W. Don Cornwell
 - V. Ann Hailey
 - Nancy Killefer
 - Maria Elena Lagomasino
 - Sara Mathew
 - Helen McCluskey
 - Charles H. Noski
 - Gary M. Rodkin
 - Paula Stern, Ph.D.
- Locations in over 100 countries. 88% of Avon's sales come from outside the U.S.
- Auditing firm: PricewaterhouseCoopers LLP

Acquisitions and divestitures: In 2013 Avon (AVP) sold its struggling Silpada Designs jewelry business for \$85M in cash. AVP bought the jewelry business in 2010 for \$650M, making it one of its largest acquisitions in years.

Lawsuits: Ongoing settlement discussions with the DOJ and the staff of the SEC related to their investigations of FCPA and related matters.

INCOME STATEMENT

A whiteboard with handwritten text in blue marker. The text is arranged in two columns. The left column contains the labels: 'Gross Revenue', 'Less: Cost of Goods Sold', and 'Gross Profit'. The right column contains the corresponding dollar amounts: '\$ 10,000', '\$ 3,000', and '\$ 7,000'. A horizontal line is drawn under the '\$ 3,000' amount. A hand is visible on the right side, holding a blue marker. Several small, semi-transparent icons are overlaid on the whiteboard: a pair of scissors with the word 'EXPENSE' in red, and a red arrow pointing upwards with the word 'SALES' in red. There are also several small, illegible text boxes scattered across the board.

Gross Revenue	\$ 10,000
Less: Cost of Goods Sold	\$ 3,000
Gross Profit	\$ 7,000

EXPENSE

SALES

wikiFlow



Revenue recognition policy

- In 2013, Avon had a Net Loss of **51.9MM**.
- Net sales primarily include sales generated as a result of “Representative” orders less any discounts, taxes, and other deductions.
- Avon recognizes revenue upon delivery, when both title and the risks and rewards of ownership pass to the independent representatives, who are the customers of Avon.
- Revenue is accumulated as orders are shipped to the Representatives. However, Avon uses allowances for: (i) orders shipped but not delivered; (ii) sales returns; and (iii) doubtful accounts.

-

Allowances for Sales Returns

- Avon allows an unlimited right of return. The provision for estimated sales returns is based on historical data.
- Over the past three years, the annual sales returns of Avon were \$340MM for 2013, \$386MM for 2012 and \$443MM for 2011, i.e. approximately **4% of the total revenue of Avon.**